

# Discussion of Burgess, Passmore, & Sherlund “Government Agencies”

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<sup>1</sup>The views expressed here are not official positions of the Chicago Fed or the Federal Reserve System. This presentation contains no information on the current or future monetary policy of the Federal Reserve.

# Overall

## Overall:

- Very informative and comprehensive
- Many good pointers to areas for future research

## Comments:

- A few places where perhaps more detail/data could be provided
- A couple of bigger-picture issues

## More details

It would be good to have a few more facts about GSE operations and risks.

- A little more information on GNMA?
- Liquidity/balance-sheet structure
  - Asset-liability management
  - Participation in fed funds market
  - Warehousing risk
- Agency debt market
  - Seems important.
  - Not covered elsewhere in the Handbook.
- Credit risk transfers
  - How much of their portfolio is protected?
  - More market mechanics and statistics.
  - E.g., who's buying?

## Some bigger-picture questions

Do the GSEs accomplish anything useful?

- Given their size and the implicit subsidies, it's surprising that the answer isn't obvious!
- But chapter suggests the evidence is actually lukewarm:
  - "Some studies" show GSEs lower mortgage rates.
  - Rate differential between conforming and jumbo isn't clear.
  - One study shows an effect on housing market but not ownership rates.
  - "Removal of guarantees may have only limited effects on borrowers, homeownership, or mortgage rates."
- Why isn't this more clear-cut?
  - Are the rents all absorbed by shareholders?
  - Or are the GSEs just terribly inefficient?

## Some bigger-picture questions

Chapter spends a lot of time discussing optimal GSE structure and proposals for reform—But do we need GSEs at all?

- Policy objective is to support housing, but what are the market failures that require this support?
- Could it be done more easily with direct subsidies or guarantees?
  - Direct payments/tax subsidies to borrowers
  - Loan guarantees (like SBA)
  - MBS guarantees (like FHA/Ginnie Mae)
- Also intriguing:

*“Even though the expected credit losses can be distributed through the private market, the nature... of the tail risk in the mortgage market may be difficult for private markets to bear without charging very high risk premiums.”*

Suggests that the gov't shouldn't be insuring *individual* mortgages but rather removing risk of *systemic* events.

# Conclusion

- Nice paper.
- Thanks!