CONSUMER MORTGAGE COALITION

Testimony Submitted for the Record

Committee on Financial Services
United States House of Representatives

Regarding Legislative Proposals on
Government-Sponsored Enterprise Reform

March 15, 2007

The Consumer Mortgage Coalition ("CMC") is pleased to submit testimony for the record regarding legislative proposals on Government-Sponsored Enterprise ("GSE") reform. The Consumer Mortgage Coalition is a trade association of national mortgage lenders, servicers, and service providers committed to expanding homeownership and providing access to affordable housing to all Americans.

The CMC has been a long-time proponent of legislation to reform the regulation of the housing GSEs. We commend the efforts of this Committee to create a strong, reliable, and coherent regulatory structure for the housing GSEs by enhancing the mandate, capacity, and statutory authority of the regulator of these GSEs. We are very appreciative of the Committee's focus and efforts on this critically important legislative initiative. Our comments in the testimony we are submitting today are focused on the aspects of the GSE reform proposals that would affect Fannie Mae and Freddie Mac ("GSEs").

Background

When Congress chartered Fannie Mae as a GSE in 1968, it stated that the purpose of the company was to "provide *supplementary assistance* [emphasis added] to the secondary market for mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing."[1]

In the process of addressing the savings and loan debacle, Congress expanded that statement of public purpose in 1989, to provide, among other purposes, that Fannie Mae and Freddie Mac were to "provide stability in the secondary market for residential mortgages." In the 1992 reform legislation, both Fannie Mae and Freddie Mac were given an expanded affordable housing mission, as well.

The GSEs have grown dramatically since Congress made those changes. Their market share grew from 25% of total mortgage debt in 1990 to 47% in 2003 when their accounting difficulties were uncovered and they were forced to curtail their portfolios. Today, Fannie Mae and Freddie Mac fund just under 40%[2] of all mortgage debt outstanding, and approximately 70%[3] of the conforming mortgage market. Today, despite Congressional intent that the GSEs supplement and/or stabilize the mortgage market, the GSEs now dominate the mortgage market.

In 1989, the two GSEs together held $129 billion in mortgages and securitized another $489 billion. Ten years later, in 1999, the two GSEs held almost a trillion dollars in mortgages and securitized another $1.2 trillion. Although the GSEs have not been able to prepare timely audited financial statements for some years, the Office of Federal Housing Enterprise Oversight (OFHEO) estimates that in the third quarter 2006 the two GSEs held or securitized approximately $4.3 trillion in mortgages.

The growth of the GSEs is fueled by their special federal benefits

- The GSEs have lower capital requirements than other financial institutions, thereby allowing the GSEs to maximize their use of leverage.
- The GSEs have lower borrowing costs, either through direct access to the Treasury, or in the debt markets, where the GSEs are perceived to have implied government backing. The "implied federal guarantee" of their debt allows the GSEs to issue bonds whenever they seek funding, regardless of market conditions, at interest rates lower than those granted to the best fully private companies.
- Federal support also allows the GSEs to increase their financial flexibility by issuing callable long-term debt.
- With an "implied federal guarantee" of GSE debt, investors do not judge them with the same risk standard as applied to other companies, providing a benefit to both their debt and their stock. The high leverage they employ gives the GSEs exceptional returns on equity.

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[1] Fannie Mae Charter Act, Section 301(a) 12 U.S.C. Section 1716(a).
[2] Office of Federal Housing Enterprise Oversight, "Total Mortgage Held or Securitized by Fannie Mae and Freddie Mac as a Percentage of Residential Mortgage Debt Outstanding, 1990-2006Q3" available at www.ofheo.gov.
[3] Testimony presented by the Mortgage Bankers Association to the Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises, Committee on Financial Services, U.S. House of Representatives, hearing on "Legislative Proposals on GSE Reform," March 12, 2007.

- The GSEs' debt securities are eligible for open-market transactions by the Federal Reserve, and for investment, without limit, by insured banks and thrifts.
- The GSEs' debt securities are eligible for collateral for the federal government's deposits of tax revenues in banks.
- The GSEs' securities held by banks and thrifts require only a 20-percent risk weighting, as compared to the 50-percent risk weighting assigned to prudently underwritten private MBS under the Basel Accord.
- The Secretary of the Treasury is authorized to purchase up to $2.25 billion of their securities, effectively providing each GSE a $2.25 billion line of credit to the U.S. Treasury.
- The GSEs are exempt from state and local taxes.
- The GSEs are exempt from filing with the SEC, saving both the expense of filing and the time needed to compile and write SEC disclosures.[4] The SEC exemption gives the GSEs the advantage of not having to properly disclose financial data on at timely basis, and exempts them from provisions in other laws, such as the Foreign Corrupt Practices Act.
- The GSEs' exclusive charters ensure their shared-monopoly (or duopoly) status.

The implied guarantee provides an immensely valuable benefit to the GSEs – an essentially "free" federal credit enhancement that the Congressional Budget Office estimated to be worth over $23 billion in 2003.[5] The implied guarantee provides them with a significantly lower cost of borrowing than private companies, giving the GSEs the ability to earn profits above competitive levels even while undercutting the pricing of the private sector.[6] The federal subsidies afforded the GSEs make it impossible for non-subsidized market participants to compete effectively against the GSEs in any line of business or transaction the GSEs decide to enter.

The Federal Reserve Board estimates that only 5% of the GSEs' subsidies flow through to consumers in the form of lower mortgage interest rates. This implies that mortgage interest rates dropped by less two basis points in recent years as a result of the GSEs involvement.[7]

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[4] Under an agreement reached with the Department of the Treasury and the Securities and Exchange Commission, both Fannie Mae and Freddie Mac agreed to register their companies with the SEC under the 1934 Act. They did not agree to register their securities under the 1933 Act. Fannie Mae filed initially, but then because of its accounting irregularities has been unable to file audited financial statements on a timely basis. Freddie Mac has not yet complied with its commitment to register with the SEC because it too has been unable to file audited financial statements on a timely basis.

[5] Statement given by CBO Director Douglas Holtz-Eakin, "Aligning the Costs and Benefits of the Housing Government-Sponsored Enterprises," Senate Committee on Banking, Housing, and Urban Affairs, April 21, 2005. The $23 billion estimated federal subsidy in 2003 included Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

[6] Barbara Miles, "*Government-Sponsored Enterprises: The Issue of Expansion into Mission-Related Business*," Congressional Research Service Report for Congress, January 1999.

[7] Wayne Passmore, Gillian Burgess, Diana Hancock, Andreas Lehnert, and Shane M. Sherlund, "Federal Reserve Research on Government-Sponsored Enterprises," presentation at the Federal Reserve Bank of Chicago Bank Structure Conference, May 18, 2006.

The GSEs' unique structure invites conflict because it combines the advantages of government sponsorship with a shareholder-owned organization. The GSEs dramatic growth combined with failures of internal controls and management at both of these companies have demonstrated that the need for a strong, independent and well-funded regulator with the resources and expertise needed to evaluate the GSEs has never been greater.

The new regulator must have the tools necessary to evaluate the GSEs' performance, both as financial institutions and as public purpose entities. As a financial institutions regulator, the new regulator must be able to ensure that the GSEs are operating in a safe and sound manner and are not a catalyst for systemic risk that might spread to the rest of the housing market and financial services industry. As a regulator that oversees the GSEs' public purposes, the regulator needs to ensure that the GSEs are not displacing available private sector capital and expertise, but are instead adding value, and that they are creating liquidity in the affordable housing – or "CRA" market segment.

Principles for GSE Reform

- The proper regulatory approach to Fannie Mae and Freddie Mac must recognize that (1) effective regulation is essential for the health of our mortgage market and financial system, and (2) the GSEs should be required to focus on the highest priority public purposes.
- The new regulator should have the statutory mandate, institutional capacity, and authority that are at least as strong as those of the federal bank regulators, including analogous enforcement, cease and desist, and receivership powers, the ability to set appropriate minimum, critical, and risk-based capital requirements, and all other regulatory tools available to the federal banking regulators.
  - *With respect to the mandate, capacity, and statutory authority that should be available to the GSE regulator, the structure of federal bank supervision provides a good benchmark. Even the best-managed banks are subject to rigorous oversight by their regulators. Both federally regulated and non-federally regulated financial institutions are also subject to thorough review by the rating agencies and the discipline of the market itself -- a review and discipline that Fannie Mae and Freddie Mac, as GSEs, largely escape because of their implied government backing.*
- The new regulator should be funded by assessments paid by the GSEs that are not subject to the Congressional appropriations process.
- The new regulator should have the authority to review both ongoing and new programs, products and activities – i.e., any undertaking -- to ensure that the GSEs are acting consistently with their secondary market purposes; do not encroach into the primary market but, instead, assist primary market lenders; are safe and sound; are acting in the public interest; and that their undertakings are authorized and do not distort the competitive mortgage market by displacing available private sector capital and resources.
  - *By giving clear direction to review all of the GSEs undertakings and establishing standards for that review, the new regulator could assure*

improved competition in both the primary and secondary markets while allowing the GSEs to innovate and carry out their mission in a timely manner.

- The GSEs' affordable housing goals should be refocused to mirror Community Reinvestment Act ("CRA") requirements imposed on federally-regulated financial institutions, and thereby facilitate liquidity in that important market segment. The GSE affordable housing goals should be designed to match the size of the CRA market.
    - *The GSE conforming loan limit should not be raised to cover the so-called "high-cost" areas. High income borrowers do not need the benefit of the two-basis point subsidy the Federal Reserve Board has estimated the GSEs provide homebuyers. This proposal would benefit only a very narrow segment of wealthy borrowers and have a negative impact on affordability for the low- and moderate-income consumers.*
- If an Affordable Housing Fund is established, it should be designed so that it is not a tax on consumers or lenders. The assessment should be levied on nonmortgage investments, as well as other assets, or it will give the GSEs an incentive to increase nonmortgage investments. In addition, the new regulator should be empowered to assure the proper use and administration of the funds. Finally, an advisory board of industry practitioners should be established to ensure that funds are distributed appropriately.
- The new regulator should have the authority to set limits on the size of the GSEs' portfolios for both safety and soundness purposes and to prevent systemic risk.
- The new regulator should require the GSEs to comply with the full range of SEC requirements (including the 1933 and 1934 Acts) to which other federally regulated financial institutions are subject.
    - *Transparency has always improved market performance, not hindered it.*

It is in the interests of the GSEs, the industry, the consumers, communities, the taxpayers and the economy, more generally, to ensure that the GSEs are properly focused and regulated. With improved regulation of the GSEs, the GSEs and the industry can together ensure that competitive financing opportunities are available to homebuyers and to those involved in providing affordable rental opportunities across this country.

Specific Policy Issues:

H.R. 1427 makes some significant improvements to the supervisory framework of the GSEs, but does need to be strengthened in several important respects. We understand that Chairman Frank intends to introduce further changes to the legislation and appreciate the opportunity to comment now.

- ***Funding the Regulator***

H.R. 1427 would fund the new regulator (The Federal Housing Finance Agency or "Agency") through assessments on the GSEs without regard to the Congressional appropriations process. However, the Agency's authority to obtain prompt payment of assessments needed for effective supervision of a GSE is much more constrained than the authority of the federal bank regulators. It would be advisable to compare the broad language of 12 U.S.C. Sections 1817 (g) and (h) with the confining language of sections 106 and 164 of H.R. 1427. For example, the Agency lacks express authority to go to court to enforce an order that the GSEs make timely payments. Given the public reports that GSEs have used the appropriations process in the past to pressure their regulator, the Agency need to have express authority to issue an order for payment and then enforce it.

- ***New Program Approval***

An effective process of new program approval is needed to assure that the GSEs use their government subsidies to focus on their core missions without being diverted to activities that may be more profitable but are of less public value or that might displace available private sector capital and resources.

Currently, Fannie Mae and Freddie Mac may not undertake a new program without obtaining the prior approval of HUD. The statutory framework has a number of shortcomings: (1) the regulator must disapprove the new program within 30 days (plus a possible 15 day extension), or the program is deemed to have been approved, (2) HUD's prior approval authority is limited to new *programs*, which are defined in the 1992 Act to mean mortgage programs, (3) the GSEs often contend that new activities do not constitute new programs subject to the prior approval requirement, and (4) the GSEs are not required to submit complete information before the 30-day clock begins to run.

H.R. 1427 would require that the GSEs submit a written request for approval of a *product*.[8] The request must describe the product in such form as the Agency requires. The Agency must publish notice and invite public comment regarding the proposed new product. If the Agency has not approved the new product within 30 days after the close of the 30-day comment period, the product will be deemed to be approved.

If a GSE determines that any new activity, service, undertaking, or offering is not a product, it is required to provide notice to the Agency before commencing. The Agency must determine immediately whether the new activity, service, undertaking or offering relates to or involves a product. If the Agency notifies the GSE that it does involve a product, then the GSE must withdraw its request or submit a request for approval of the new product. The Agency may impose conditions in connection with the approval of any product.

The GSEs would be able to continue to offer their automated underwriting systems (AUS) in existence on the enactment date of the legislation, including any upgrade to the technology, operating system, or software to operate the underwriting system. While this does not affect the Agency's authority to review products or activities for safety and soundness, and consistency with the GSE's statutory mission, it does greatly limit prior approval authority for mission-related reasons.

[8] The term "product" in H.R. 1427 would seem to be narrower than the current prior approval of a GSE "program." For example, the provision states that changes to mortgage terms and conditions are not included in the definition of "product" (except for changes that would increase the risk borne by the GSE).

As noted in our principles above, our view is that Congress should ensure that the Agency fully understands the distinction between the primary and secondary markets, and that the Agency should be given clear direction to review all GSE programs, products and activities – i.e., all undertakings, not just "products" – to ensure that the GSEs are acting consistently with their secondary market purposes; do not encroach into the primary market but, instead, assist primary market lenders; are safe and sound; are acting in the public interest; and are authorized and do not distort the competitive mortgage market by displacing available private sector capital and resources.

By giving clear direction to review all of the GSEs undertakings and establishing standards for that review, the Agency could assure improved competition in both the primary and secondary markets while allowing the GSEs to innovate and carry out their mission in a timely manner.

- ***The Regulator's Principal Duties***

H.R. 1427 provides that a principal duty of the Agency shall be, among other duties, "to ensure that …the operations and activities of each regulated entity foster…national housing finance markets that minimize the cost of housing finance…"

Since Fannie Mae and Freddie Mac operate with substantial government subsidies, their activities usually lower the cost of any housing finance activity in which they engage. That means that H.R. 1427 arguably places the Agency in a position of being required to encourage the expansion of the GSEs. This creates untenable pressure on the Agency's safety and soundness and mission oversight responsibilities. The Committee's 2005 report language attempted to mitigate the impact of this language, but did not fully do so.

We urge that the words "that minimize the cost of housing finance" be removed from H.R. 1427. The bank regulators do not have any comparable duty with regard to the entities they regulate.

- ***Enforcement Authority of the Regulator***

H.R. 1427 does improve the enforcement powers in current law. However, the bill continues to be significantly weaker than the statutory authority granted by law to the federal bank regulators. Of most importance, both H.R. 1427 and S. 190 would leave in place the limitations that currently apply to OFHEO in subtitle B of the 1992 Act, but not currently to the Federal Housing Finance Board or to the federal bank regulators. These limitations generally preclude OFHEO from requiring important corrective actions except if a GSE is undercapitalized. Capital is a lagging indicator; significant damage can occur before a GSE restates its books to account for the loss of capital.

In addition, Section 164 of H.R. 1427 does not allow the Agency to go directly to court to enforce orders issued under subtitle A of the 1992 Act. This needs to be corrected since H.R. 1427 itself requires or authorizes the Agency to issue orders with respect to correcting deficiencies in prudential management and operations standards (Section 102), corporate governance (Section 114), or prior approval (Section 122). In addition, Section 164 fails to authorize the Agency to go directly to court to enforce an order under a GSE charter act, even though Section 123 of H.R. 1427 would amend the Fannie Mae and Freddie Mac charter acts and authorize the regulator to issue orders with respect to high-cost areas.

Other important areas where the Agency might issue orders include with respect to assessments to fund supervision (Section 106) and requirements that the GSEs register a class of securities with the SEC (Section 115). While it may be possible to work-around some of these deficiencies, the negative inference created by excluding enforcement of orders under Subtitle A will deprive the Agency of needed enforcement tools.

H.R. 1427 contains a number of other technical drafting issues that do not agree with the statutory framework of the federal bank regulators, which is far superior. The enforcement language in S. 190 is more closely aligned with the enforcement authority afforded the bank regulators. If the Committee does not choose to adopt the language included in S. 190 from the last Congress, but does want to provide the Agency with bank-like enforcement powers, we recommend an alternative approach that Congress used when giving the Federal Housing Finance Board enforcement authority. Very simply, we urge the Committee to add the enforcement language of the Federal Deposit Insurance Act, 12 U.S.C. 1818 (b) (6) and (7), that also applies currently to the Federal Housing Finance Board, through 12 U.S.C. Section 1422b (a)(5),[9] to the cease-and desist provisions (Section 161) of H.R. 1427. The new language would read as follows:

> *(b) Affirmative action to correct conditions resulting from violations or practices. - The authority to issue an order under this section and section 1372 of this Act which requires a regulated entity or any related entity-affiliated party to take affirmative action to correct or remedy any conditions resulting from any violation or practice with respect to which such order is issued includes the authority to require such regulated entity or such party to -*
>
> *(A) make restitution or provide reimbursement, indemnification, or guarantee against loss if -*
>
> *(i) such regulated entity or such party was unjustly enriched in connection with such violation or practice; or*
>
> *(ii) the violation or practice involved a reckless disregard for the law or any applicable regulations or prior order of the Director;*
>
> *(B) restrict the growth of the regulated entity;*
>
> *(C) dispose of any loan or asset involved;*
>
> *(D) rescind agreements or contracts; and*
>
> *(E) employ qualified officers or employees (who may be subject to approval by the Director at the discretion of the Director); and*
>
> *(F) take such other action as the Director determines to*

[9] H.R. 1427 would change this so that those sections no longer apply directly to the Federal Home Loan Banks.

be appropriate.

(c) Authority to limit activities. - The authority to issue an order under this subsection or subsection (c) of this section includes the authority to place limitations on the activities or functions of a regulated entity or any regulated entity-affiliated party.

(d) This authority is in addition to any other authority that the Director may have under this Act or any other law.

This language is taken directly from the relevant language that applies to the federal bank regulators. Subsection (d) is needed to remove any negative inference from the capital-based enforcement provisions of the 1992 Act that would remain after the enactment of H.R. 1427.

1. We urge the Committee to add the term "order," to Section 161 after "rule" (p. 251, at line 24).

2. We also urge the Committee to substitute the words "Act or any other law" in Section 164 for the words "subtitle or subtitle B" (p. 257, line 12).

- ***Conforming Loan Limits for "High-Cost Areas"***

H.R. 1427 would allow the conforming loan limit to increase for so-called high cost areas, where the median house price exceeds the median house price used in the index. The conforming limit for such areas would become the lesser of (1) the median house price, or (2) 150 percent of the conforming loan limit that otherwise would apply.

The conforming loan limit determines the maximum mortgage loan size that can be purchased by Fannie Mae or Freddie Mac. Under current law, the conforming loan limit in 2007 would be $417,000, but an increase proposed in H.R. 1427 would allow Fannie and Freddie to purchase loans up to $625,000. A calculation of the minimum household income required to qualify for these loans clearly shows that this increase would benefit only wealthy borrowers with annual incomes between $130,000[10] and $180,000[11]. The ***low*** end of that range reflects households making 281 percent of the U.S. median household income; clearly not the low- and moderate-income consumers who might benefit from the taxpayer-subsidized assistance provided by the GSEs. Moreover, loans between $417,000 and $625,000 make up only 6 percent of the market, according to data filed for 2005 by lenders under the Home Mortgage Disclosure Act.

[10] Assumes a 30-year, fixed-rate, mortgage of $417,000, representing a 95% loan-to-value, $5,000 annual real estate taxes, $800 annual homeowners insurance and a monthly payment of $167 for private mortgage insurance.

[11] Assumes a 30-year fixed-rate, first mortgage of $625,000, representing a 95% loan-to-value, $6,000 annual real estate taxes, $800 annual homeowners insurance and a monthly payment of $252 for private mortgage insurance.

Giving Fannie Mae and Freddie Mac the authority to purchase these higher-dollar loans will necessarily require the GSEs to devote resources to this segment of the market and away from the affordable housing segments. This will hinder their efforts to serve these markets and will likely make it more difficult for Fannie and Freddie to achieve their affordable housing goals. The higher dollar loans will add to the total of loans purchased by the GSEs but very few will be counted toward their affordable housing goals. Since both GSEs have achieved their goals by only small margins in the past—and Fannie Mae actually failed to meet two affordable housing subgoals for 2005—even a slight increase in overall loan purchase volume without a corresponding increase in affordable loan activity could cause them to fail to meet their affordable housing objectives.

Another element to consider is that the cost of housing in so-called high-cost areas already is factored into the nationwide conforming loan limit and without those areas the limit for the rest of the country would be well below the current level. This means that higher income borrowers making up to $130,000 in areas where housing is significantly more affordable already benefit disproportionately from the government subsidized GSE benefits. As a result, increasing the limit in the high cost areas would only further skew the subsidies to the benefit of wealthier borrowers and away from low- and moderate-income Americans.

One important issue that has not been addressed in the debate over raising the conforming loan limits is the fact that while it arguably would benefit a small subset of wealthy borrowers—those who can qualify for loans between $417,000 and $625,000—it almost certainly will raise costs for borrowers taking out smaller loans, who represent 91 percent of the total mortgage market, and for very wealthy borrowers taking out loans larger than $625,000. Larger loans have historically featured faster prepayment speeds than smaller loans because borrowers with larger payments obtain a greater benefit by refinancing when there are smaller movements in interest rates. Once purchased by the GSEs, however, these faster-paying, higher-dollar loans would be pooled with slower paying smaller loans, thereby increasing the average prepayment speeds of GSE loan pools and raising the cost to fund the smaller-dollar loans. At the same time, pools of larger loans would be stripped of their slower paying loans and prepayment speeds would increase beyond current levels.

Finally, when read together with the principal duty of the Agency to encourage expansion of the GSEs, discussed above, the regulator, under Section 102 will be under pressure to adopt a narrow definition of the ambiguous term “area” in this section of H.R. 1427 and serve high-income neighborhoods across the country. This provision is a classic example of the way that the GSEs seek to expand their activities to more profitable areas, in this case to serve a narrow segment of wealthy homebuyers at the expense of low- and moderate-income homebuyers.

We urge the Committee to delete subsections 123(a)(2), for Fannie Mae, and 123(b)(2), for Freddie Mac, of the House-passed bill (pp. 80-82).

- ***Strengthening Some Supervisory Powers***

The authority granted by the 1992 Act and H.R. 1427 remains far weaker than the authority of the federal bank regulators. In particular, many of the enforcement remedies granted to the federal bank regulators under 12 U.S.C. Section 1818 are tied by the 1992 Act, as amended by H.R. 1427, to whether a GSE is adequately capitalized. Since capital is a lagging indicator of problems, remedies need to be applied before rather than solely after a GSE's capital levels drop. H.R. 1427 does not expressly permit this.

- ***Affordable Housing Goals***

H.R. 1427 changes the definition of "very-low income" to 50 percent of the area median income. This helps to target GSE performance on a lower income category of borrower than under the current law and regulations. The bill also strengthens the Agency's enforcement powers with respect to the affordable housing goals. On the other hand, the expansive high-cost area provision of H.R. 1427 opens the doors to channel GSE resources into the higher end of the market at the expense of lower-income homebuyers.

- ***Authority over Capital Levels***

Section 111 is a significant improvement over current law with respect to the authority of the Agency to set risk-based capital standards. On the other hand, Section 112, while an improvement over current law, falls short of the authority provided to the bank regulators by 12 U.S.C. Section 3907.

- ***Mandatory Receivership***

H.R. 1427 would add language to the receivership provision and make it mandatory for the Agency to appoint a receiver under certain conditions.

- ***Structure of the Regulator***

H.R. 1427 improves the composition of the board of the Agency, compared to earlier versions of the legislation, and makes clear that, "The Board may not exercise any executive authority, and the Director may not delegate to the Board any of the functions, powers, or duties of the Director." This is beneficial. It creates accountability of the Secretaries of the Treasury and HUD to assure that the regulator has the capacity to do its job.

- ***Directors of Fannie Mae and Freddie Mac***

Late last year the Treasury Department proposed to strike the presidentially-appointed directors from the boards of Fannie Mae and Freddie Mac so that all directors are elected by shareholders. H.R. 1427 did not include this improvement. The anachronism of presidentially-appointed directors adds nothing to the quality of governance of Fannie Mae and Freddie Mac.

Conclusion

H.R. 1427 would make some improvements over current law, albeit without bringing the financial soundness or affordable housing/CRA provisions up to the standards of federal bank regulation. Some parts of H.R. 1427 remain far short of the supervisory framework that is needed for the GSEs today, particularly if they were to have financial or operational problems comparable to their internal control failures evidenced in recent years.

By incorporating our guiding principles and technical changes for reform, this Committee can be confident that it has indeed created a regulator that has a reasonable chance to protect the safety and soundness of the GSEs, the housing finance markets, and the larger financial system from harm and a regulator that can focus the GSEs on the mission they were initially created to fulfill.

We appreciate the opportunity to comment on reform proposals, and would be pleased to work with the Committee as the legislative process moves forward.

Thank you.

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