

TESTIMONY OF

ALLEN J. FISHBEIN  
DIRECTOR FOR HOUSING AND CREDIT POLICY  
CONSUMER FEDERATION OF AMERICA

On Behalf Of:  
CONSUMER FEDERATION OF AMERICA  
NATIONAL ASSOCIATION OF CONSUMER ADVOCATES  
NATIONAL COMMUNITY REINVESTMENT COALITION  
NATIONAL CONGRESS FOR COMMUNITY ECONOMIC DEVELOPMENT  
NATIONAL FAIR HOUSING ALLIANCE

BEFORE THE  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE

REGARDING  
PROPOSALS FOR IMPROVING THE REGULATION OF GOVERNMENT  
SPONSORED ENTITIES

OCTOBER 23, 2003

WASHINGTON, D.C.

Good morning, Chairman Shelby, Senator Sarbanes, and members of the committee. My name is Allen J. Fishbein, and I am the Director of Housing and Credit Policy for the Consumer Federation of America. I appreciate the opportunity to testify on proposals for improving the regulation of the Government Sponsored Housing Enterprises (GSEs). My written testimony today is also on behalf of the National Association of Consumer Advocates, National Community Reinvestment Coalition, National Congress for Community Economic Development, and the National Fair Housing Alliance.

CFA is a non-profit association of 300 pro-consumer organizations, with a combined membership of 50 million, founded in 1968 to advance the consumer interest through education and advocacy. My own background in the area of GSE regulation includes my tenure at HUD, where I served as Senior Advisor for GSE Oversight. My responsibilities at HUD included assisting with the supervision of the rulemaking that resulted in establishment of the present affordable housing goals for Fannie Mae and Freddie Mae, along with the management of other areas of the department's GSE regulatory oversight.

As national consumer, community, and civil rights organizations committed to the promotion of fair and affordable housing for all of America's citizens, we watch with considerable interest the ongoing debate about possible changes to the regulatory structure for Fannie Mae and Freddie Mac and wanted to share a few of our observations.

We appreciate those in Congress who desire to assure the adequacy of safety and soundness and mission-related requirements for the Government Sponsored Housing Enterprises – Fannie Mae and Freddie Mac (GSEs). We also urge that Congress be very careful in tinkering with the GSEs' basic overall regulatory structure. At a minimum, such changes to the regulatory structure should do no harm to the GSEs' housing mission. However, we also believe that the current debate provides an important opportunity to clarify those areas of the GSEs' affordable housing mission that should be expanded. Fannie Mae and Freddie Mac have fulfilled an important part of their mission by providing affordable housing capital for low- and moderate-income and minority households. Yet much remains for the GSEs to accomplish in expanding fair and affordable housing opportunities for the residents of our nation's underserved communities, such as providing greater assistance to first-time minority, and low-income homeowners and securitizing multi-family rental mortgage products. Similarly, while the GSEs have been industry leaders in adopting policies to combat a number of predatory lending practices, such as their repudiation of the purchase of loans that included single premium credit insurance (SPCI), they have yet to address certain other egregious lending practices.

More specifically, we believe that important improvements to the present affordable housing goals requirement are desirable. Clearly the establishment of these goals has served an important function, encouraging the GSEs to better serve the needs of underserved areas and low- and moderate-income housing households. In fact, both enterprises have consistently met or exceeded the goal levels set for them. Nonetheless,

the three broad statutory goals in place do not permit HUD to focus sufficient GSE attention to addressing some of the neediest segments of the mortgage market, such as low income, minority, and other underserved homebuyers, or certain rental and rural housing finance needs. Establishing an additional GSE home purchase goal, and providing HUD with supplemental authority to set subgoals for GSE activity for particularly pressing needs within the overall statutory goals, while not diminishing the ability of the GSEs to serve the needs of all consumers refinancing loans, would enhance the overall effectiveness of this important mandate.

Also, reform of the GSE housing goals should include provisions to expand opportunities for public input into this important area of regulation. We favor improvements to the GSE public use data base presently maintained by HUD to make the information available fully comparable with data reported by mortgage lenders under the Home Mortgage Disclosure Act. Opportunities for public comment should also be provided in the event that a GSE did not meet its annual performance requirement and HUD as a result required the GSE to submit a remedial plan.

Our strong interest in affordable housing extends to other aspects of regulatory restructuring as well. We are particularly concerned that proposals to shift general charter oversight and new program approval authority away from HUD to the Treasury Department will detract from the regulatory focus on GSE performance of their housing mission. At the same time, funding the reasonable costs of this regulation through direct assessments of the GSEs, and not through the appropriations process, would go a long way to strengthening oversight capacity.

We are also concerned with the deliberations around two regulatory areas, capital requirements and the program approval process. First, the GSEs' capital requirement is one of the most critical and sensitive issues. We recognize that the establishment of appropriate capital requirements may at time involve tradeoffs, but we fear that unnecessary increases in capital requirements, particularly the minimum requirement, could result in higher costs to homebuyers. Simply, we should not make it harder for minority and low-wealth families to be able to afford to become homeowners.

Second, in evaluating any changes to the current program approval process, a delicate balance is required between a careful examination of whether a new GSE product serves its important public mission and the need to not over-burden these organizations' innovative efforts to provide new lending opportunities in the most difficult to serve communities. While there may be a need to improve the current approval process, we urge you to proceed cautiously, and resist efforts to over-encumber this process.

While this testimony focuses mainly on regulatory oversight of Fannie Mae and Freddie Mac, we also offer the following comments on regulation of the other housing GSE, the Federal Home Loan Bank System (FHLB System). We believe the FHLB System as it has evolved must also have clear and specific housing goals that challenge the lenders to better serve underserved populations. Should Congress decide to abolish

the Federal Housing Finance Board, the system's regulator, and transfer authority to another agency, we strongly prefer that mission oversight be transferred to HUD, and that the department also be provided with authority to establish new affordable housing requirements to ensure that activities undertaken by the FHLBanks are targeted to low- and moderate- income housing and other underserved community needs. These new requirements should build on the existing Affordable Housing and Community Investment Programs (AHP & CIP) and also work to increase FHLB member support for these and other affordable housing and economic development initiatives.

In closing, we thank you for your work in attempting to strengthen the effectiveness of the GSEs to serve the housing needs of America's underserved populations. We urge that you support provisions to strengthen the housing goals requirement, but also proceed with caution and resist the urge to make changes to their status or their charter that might result in fewer affordable housing opportunities.

Thank you again, Mr. Chairman, for the opportunity to offer our views on this important topic. I am happy to answer any questions that either you or other members of the committee may have.