

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

APRIL 7, 2005

INTRODUCTORY COMMENTS

Chairman Shelby, Ranking Member Sarbanes, Distinguished Members of the Committee:

I welcome the opportunity to join Secretary Snow in discussing the Administration's views on how best to improve and reform regulatory oversight of the housing government-sponsored enterprises, or GSEs.

The President has set an ambitious goal: to build an ownership society where everyone has a chance to own a home and a retirement account or health care plan, and to gain a permanent stake in the American Dream. Ownership brings stability to our neighborhoods and security to our families. To build an ownership society, the President is committed to helping even more Americans buy homes. That commitment is embodied in the President's challenge to the housing industry to join with us in creating 5.5 million new minority homeowners by the end of this decade. It is embodied in the Blueprint for the American Dream Partnership, through which HUD has brought together the private sector, not-for-profits, and government agencies to meet the President's challenge.

This Administration has demonstrated a steadfast commitment to housing and homeownership through programs such as the American Dream Downpayment Initiative, the homeownership voucher, and the President's Blueprint for the American Dream Partnership. Our interest in regulatory reform builds on that commitment and is rooted in a responsibility to those whom the GSEs were established to serve: low- and moderate-income individuals who seek affordable homeownership opportunities.

Secretary Snow has outlined the core principles that the Administration believes should underlie any GSE regulatory reform. He and I are in full agreement. Congress and the Administration have an opportunity *and an obligation* to strengthen the regulatory structure of the GSEs. A strong regulator is in everyone's best interests – the Administration, the Congress, the housing industry, Wall Street, investors worldwide, and the American homebuyer.

The Administration has two goals in this process. First, we must ensure that the GSEs continue to fully carry out the mission granted to them by Congress of promoting affordable housing and homeownership. Second, we must ensure that the GSEs are subject to rigorous oversight, so that they serve their public purpose.

HOUSING AND THE ECONOMY

Housing and the housing industry have a direct and substantial impact on our nation's economy. The housing market continues to perform exceptionally well; single-family housing starts posted a new monthly record in February, while sales of new single-family homes rose to their fourth-highest level in 42 years. The sales of both new and existing homes set annual records in 2004.

Today the housing industry accounts for roughly 14 percent of the Nation's total Gross Domestic Product. The potential impact of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System upon the economy and housing programs makes it critical that we ensure their safety and soundness.

STRENGTHENING THE GSEs' REGULATOR

To ensure that the GSEs have appropriate financial oversight and are held accountable, the Administration supports strengthening the powers of the GSEs' regulator. Doing so would make the regulator more comparable in terms of stature, powers, authority, and resources to other financial regulators charged with safety and soundness oversight.

Seventeen months ago, in the wake of Freddie Mac's 2003 accounting scandal, Secretary Snow and then-Secretary Martinez came before this Committee to make the case for reform. As Secretary Snow has described in his testimony several other troubling problems impacting the safety and soundness of the GSEs have come to light. In addition:

- In July 2004, HUD reported that Fannie Mae and Freddie Mac continued to substantially lag the conventional market in serving first-time homebuyers, especially *minority* first-time homebuyers.
- In October 2004, HUD determined that Freddie Mac had overstated its 2002 performance under the Low- and Moderate Income and Underserved Areas housing goals by double counting 45,000 units.
- Recently, HUD determined that some of Fannie Mae's international activities may not be consistent with its charter purposes. Therefore, HUD has advised Fannie that it must obtain prior written approval from HUD before it engages in any international activity.
- Yesterday, HUD ordered Fannie Mae to cease and desist its third-party Real Estate Owned (REO) management and servicing activities. Again, this activity is inconsistent with its charter purposes.

The best way to prevent similar – or worse – problems in the future is through the oversight of a strong regulator, empowered to hold Fannie Mae and Freddie Mac accountable to the high standards their size and stature demand.

PROPOSED REFORMS

Secretary Snow has recommended that safety and soundness oversight of the housing GSEs be consolidated and strengthened in a single regulator, housed within the Treasury Department – and I agree. This regulator would also have enhanced authority to review and approve new programs and activities contemplated by the three housing GSEs, with a continued strong role for HUD in this process. Treasury has a long history of regulating safety and soundness matters throughout the financial system. Treasury also has an institutional structure already in place that would allow it to take on new responsibilities with minimal start-up time.

The Administration strongly supports retaining a core element of oversight of Fannie Mae and Freddie Mac – setting and enforcing the affordable housing goals – at HUD. Congress established the housing goals to ensure that these GSEs fulfill their mandate to provide leadership to the mortgage market. The goals direct Fannie Mae and Freddie Mac to serve low- and moderate-income families and provide

funding in underserved areas, such as central cities and rural areas. A third goal directs these GSEs to finance housing for very low and low-income families in low-income areas.

To better ensure these two GSEs' leadership in the mortgage market, HUD recently strengthened the affordable housing goals. By 2008, the new goals will require that the GSEs at least "meet the market" – in other words, their purchases of mortgages in each goal category must be proportional to the share of all mortgages in the conventional conforming market that fall within that category. In the past, HUD's goals have been set "below the market." Other conventional lenders – without the GSEs' Charter Act privileges – have served lower-income families and underserved areas better than the two GSEs have done. HUD believes the GSEs can do at least as well as other conventional lenders.

HUD's expertise in developing and enforcing the housing goals makes it appropriate that the Department retain this authority. Institutionally, our mission is devoted to furthering the goal of affordable housing and homeownership, and HUD has the most expertise in this area. The housing industry looks to HUD as the agency in which this authority should reside. And to transfer this role from HUD could delay for years the implementation of a new regulatory plan.

As Secretary Snow has mentioned, it is important to clarify the mission that the Federal Home Loan Banks play in supporting affordable housing.

We also consider it important that fair housing requirements and enforcement that pertain to the housing GSEs remain at HUD, given HUD's expertise in fighting housing discrimination. HUD should have full enforcement power for those authorities, in the same way it enforces the Fair Housing Act.

Secretary Snow testified about additional powers for the new regulator, and I would add one more - allowing the regulator to establish the conforming loan limits on a local basis each year, using the best available data, to more appropriately serve low- and moderate-income families.

Events at the housing GSEs during the past year have reinforced the Administration's commitment to additional reforms of the GSEs and their regulator. You have heard Secretary Snow and I testify about many of them. However, there are other possible reforms that would also advance our common interest in a strong and secure housing finance system. The Administration is open to considering additional ideas for reform.

CONCLUSION

Let me stress that we believe such a comprehensive change to the regulatory structure will boost the confidence of all GSE stakeholders. Investors will be better protected under a regulatory system that empowers the regulator to do the job we expect of them... and Americans will ultimately benefit. At the same time, we will strengthen the GSEs' ability to serve low- and moderate-income families pursuing affordable homeownership.

I join Secretary Snow in saying that I look forward to working with the Committee members as we move forward.