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

OCTOBER 16, 2003

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

I welcome the opportunity to join Secretary Snow in outlining for the Committee the Administration's proposal for strengthening the regulatory structure of the GSEs, including Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

We believe that Congress and the Administration have an opportunity – in fact, an obligation – to reform our regulatory oversight.

Fannie Mae and Freddie Mac have a vital public role to play in providing homeownership opportunities to low- and moderate-income families. The fact that we are a Nation of homeowners reflects the beneficial impact that the role these companies were created to perform has on American life. The Bush Administration is committed to creating opportunities for homeownership in America, and that is why we believe it is important that these companies fulfill their mission. The best way to ensure that they do so is through real and lasting reform that enhances their financial regulation while preserving and expanding their commitment to affordable housing.

The Administration is committed to a society where every individual has the opportunity to gain the independence and dignity that come from homeownership. This commitment is embodied in the President's budget proposals, which have consistently increased funding for successful initiatives like the HOME Investment Partnerships program, housing counseling, and the Self-Help Homeownership Opportunity program. The 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, non-for-profits, and government agencies to meet the President's challenge.

Fannie Mae and Freddie Mac are founding members of the Blueprint Partnership, and we appreciate their pledge to invest billions of dollars to lift more families into homeownership.

The Administration's commitment to homeownership opportunities is not confined to our activities at HUD; it begins with the President and stretches across the whole of the Federal government. And our proposal today reaffirms that commitment.

Our reform proposal is consistent with the Administration's commitment to do everything necessary to foster a healthy and vibrant housing industry, which today accounts for roughly 14 percent of the Nation's total Gross Domestic Product. The potential impact of Fannie Mae and Freddie Mac upon the economy and housing programs makes it critical that we ensure their safety and soundness.

To be effective, a regulator charged with overseeing prudential operations, including safety and soundness, needs the proper tools to do its job. Currently, safety and soundness regulation is divided, with new program approval authority at HUD and financial oversight at the Office of Federal Housing Enterprise Oversight (OFHEO). It is clear to this Administration that both elements of safety and

soundness regulation need to be consolidated in a single regulator; splitting this regulation between two regulators weakens each one.

The decision on whether to approve or deny a new activity is based partly on its effect on the prudence of a company's operations. It makes little sense to have one entity deciding whether or not to approve a new activity, while another determines whether that activity meets the prudential operation test.

New activities oftentimes directly impact the housing and mortgage markets, and for that reason the Administration believes that HUD should retain a consultative role. Other new activities do not involve housing or mortgage market issues, and are therefore most appropriately addressed by a strengthened regulator. As part of its consultative role, HUD will provide the benefit of its regulatory experience on such issues. I do not see establishing a new and strong regulator, potentially at the Treasury Department, as something that will harm the housing market. I see the opposite result: a strengthened housing finance system continuing to provide homeownership opportunities for all Americans.

We are not proposing to alter the congressional charter of Fannie Mae and Freddie Mac, nor do we have any intention of stifling innovation in the marketplace. Just as other financial institutions are subject to new activity approval, yet have been leaders in mortgage innovation, so too can Fannie Mae and Freddie Mac thrive under the Administration's proposal. Any new business activity that Fannie Mae and Freddie Mac wish to undertake will be reviewed with respect to consistency with the charter act... with respect to whether it is in the public interest... and with respect to safety and soundness. The Federal Housing Enterprises Financial Safety and Soundness Act recognized the need to take all of these concerns into account in the review process.

While prudential operations regulation, including safety and soundness regulation, should be exercised by a single, independent regulator, the Administration strongly supports retaining and enhancing the housing goals at HUD.

Congress established Fannie Mae and Freddie Mac to provide market liquidity and to facilitate the financing of affordable housing for low- and moderate-income families. Congress also mandated that the HUD Secretary set housing goals to ensure that those needs are met.

The affordable housing goals require Fannie Mae and Freddie Mac to focus on individuals in those communities most in need. This includes very low-income families and low-income families in low-income areas... low- and moderate-income families... and underserved areas such as central cities and rural areas.

Today, the low- and moderate-income housing goal requires that at least half of all Fannie Mae and Freddie Mac mortgage purchases benefit families in this income bracket. As the President's budget noted in February, numerous HUD studies and independent analysis have shown that the GSEs have historically lagged the primary market, instead of led it, with respect to funding mortgage loans for low-income and minority homebuyers. The GSEs have also accounted for a relatively small share of first-time minority homebuyers.

The national home purchase goal we have proposed is a tool to specifically promote affordable homeownership. As the Members know, low interest rates in

recent years have led to a boom in refinancings. Although Fannie Mae and Freddie Mac provide liquidity in refinancing, the share of funding they provide for home purchases declines during years in which refinancings are high. Our intent is not to saddle Fannie Mae and Freddie Mac with a series of stifling mandates, as the opponents of reform have suggested, but to ensure – through a national home purchase goal – that they do not overlook those to whom they owe their primary devotion. This goal will certainly not unduly limit the ability of Fannie Mae and Freddie Mac to serve the refinance market or the multifamily market.

Allow me also to clarify this proposal for a new goal, as some confusion has arisen over it. HUD is not asking for the authority to set overall home purchase levels for Fannie Mae and Freddie Mac, but instead is asking for the authority to ensure that the home purchase activity that takes place be equitably distributed among central cities and rural areas, low- and moderate-income families, special affordable homebuyers, and first-time homebuyers, just as HUD does for the existing housing goals. That is why HUD has asked for the authority to establish home purchase subgoals corresponding to these four categories, similar to the subgoal authority it presently has under the three existing goals. HUD is *not* asking for the authority to set home purchase subgoals in individual metropolitan and regional markets. HUD seeks only to set national subgoals so that Fannie Mae's and Freddie Mac's home purchase efforts are fairly spread among these four categories. HUD also asks that these subgoals be enforceable.

HUD is the appropriate agency to develop and enforce the housing goals. Institutionally, our mission is devoted to furthering the goal of affordable housing and homeownership, and HUD has the most expertise of any Federal agency in this area. Furthermore, the housing industry looks to HUD as the agency in which this authority should reside.

In the Administration's proposal, HUD will not only retain authority to set meaningful housing goals, but will be better equipped to ensure that Fannie Mae and Freddie Mac meet them. There will be sufficient funding, more accountability for Fannie Mae and Freddie Mac, and strengthened housing goals.

One of the ways in which the Administration has proposed strengthening HUD's housing goal authority is by creating a new GSE Housing Office within HUD, funded by the GSEs, to establish, maintain, and enforce the housing goals. We also need to improve the Secretary's enforcement authorities with respect to the goals, and have proposed doing so.

It is also very important that fair housing requirements and enforcement that pertain to Fannie Mae and Freddie Mac remain at HUD, given HUD's expertise in fighting housing discrimination. HUD will have full enforcement power for those authorities, in the same way it enforces the Fair Housing Act.

A strengthened regulator is in everyone's best interests: the Administration, Congress, Wall Street, investors worldwide, and most importantly, the American homebuyer. The importance of Fannie Mae and Freddie Mac in the housing financial system is undeniable, and real reform is necessary to ensure the public of the ability of the two companies to make low-cost mortgage financing available to low- and moderate-income families.

Secretary Snow and I look forward to working with the Committee members to strengthen oversight of Fannie Mae and Freddie Mac. Real reform will provide market and consumer confidence in two companies that play a crucial role in providing affordable housing opportunities to millions of families.