



Statement of Robert M. Couch
Chairman of the
Mortgage Bankers Association
before the
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
Hearing on
Proposals for Improving the Regulation of the Housing GSEs
October 23, 2003

Mr. Chairman and members of the Senate Banking Committee, the Mortgage Bankers Association appreciates this opportunity to express our views on the important issues surrounding improving the regulation of the housing government-sponsored enterprises (GSEs). The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry. We have approximately 2,700 member companies engaged in every aspect of real estate finance. MBA members originate loans in the primary mortgage market that Fannie Mae and Freddie Mac purchase. MBA, therefore, has a keen interest in maintaining the safety and soundness of our country's real estate finance system.

Fannie Mae and Freddie Mac are the biggest participants in our country's secondary mortgage market. Their regulation has come under scrutiny lately, with many calls for improvement.

Treasury Secretary John Snow and Housing and Urban Development (HUD) Secretary Mel Martinez presented the Administration's proposal for GSE regulatory reform in testimony before the House Financial Services Committee on September 10, 2003, and before the Senate Banking, Housing, and Urban Affairs Committee on October 16, 2003. The two Secretaries proposed to move safety and soundness regulation of Fannie Mae and Freddie Mac to a new agency within the Treasury Department. They further proposed to task the safety and soundness regulator with approving new and ongoing programs and activities, in consultation with HUD. And they proposed to strengthen the regulators' authority and funding.

MBA reiterates its support of the Administration's proposals. MBA has long advocated strong and effective oversight of the GSEs. We believe effective safety and soundness regulation is critical because of Fannie Mae's and Freddie Mac's size and because of their importance to the housing finance system. MBA is pleased to see that the Administration and members of Congress support strengthening the regulation of Fannie Mae and Freddie Mac.

MBA supports the Administration's proposal to improve and strengthen the general regulatory, supervisory and enforcement powers with respect to the GSEs. Further, MBA endorses giving the safety and soundness regulator appropriate flexibility in setting capital standards, instead of relying on a rigid, statutory stress test that does not allow the regulator to react adequately to changes in the financial marketplace. MBA also supports the Administration's proposal to fund GSE regulation independently, through assessments on Fannie Mae and Freddie Mac outside of the congressional appropriations process.

MBA also endorses the Administration's proposal on one of the most important aspects of safety and soundness, that is, program oversight. The GSEs' programs are a key determinant of their safety and soundness, and it is imperative that the programs be conducted safely and soundly. Only financially healthy, safe and sound GSEs can contribute to their housing mission. If, for example, a GSE were to embark on a program of purchasing especially risky loans, the GSE's safety and soundness would

likewise be at risk. Or, if a GSE were to engage in a high-volume program that entails liquidity risks or systemic risks, the safety and soundness of such a program would be of critical concern to our housing and financial markets, and to a safety and soundness regulator. GSE programs and activities are intrinsically linked to safety and soundness.

The safety and soundness regulator, for these reasons, is in the best position to evaluate the appropriateness of GSE programs. The regulatory approval system should be robust, and should have a clear definition of what requires regulatory review. Congress should draw a clear line between the primary and secondary mortgage markets. In no event should the GSEs be permitted to encroach upon the mortgage origination process. In no event should the GSEs be permitted to use their government-sponsored benefits to distort the competitive landscape of the primary mortgage market.

MBA also believes that it is important that the regulator not micromanage the GSEs, and that it not unduly constrain the GSEs' ability to innovate in a timely manner in response to marketplace needs. Regulatory approval for new programs must come in a timely manner, and should be based on clear and well-defined criteria.

In exchange for the benefits of government sponsorship, Fannie Mae and Freddie Mac have an affirmative obligation to meet certain housing goals. MBA very strongly supports the affordable housing goals for Fannie Mae and Freddie Mac because the goals require the GSEs to focus some of their activities on lower-income Americans and those living in underserved areas. MBA agrees that HUD is the appropriate agency to

set and enforce the housing goals for Fannie Mae and Freddie Mac.

The Mortgage Bankers Association strongly urges Congress to reform the oversight of Fannie Mae and Freddie Mac in this manner so that they can continue their role in supporting housing, especially affordable housing, in this country.

The Mortgage Bankers Association appreciates the opportunity to present its views on these important issues. We would be happy to answer any questions the Committee may have.