

Testimony of
Gerald M. Howard

On Behalf of:

The National Association of Home Builders

To The

United States Senate
Banking, Housing & Urban Affairs Committee

Hearing On

Reforming the Regulation of the
Government-Sponsored Enterprises

March 6, 2008

Introduction

On behalf of the almost 250,000 member firms of the National Association of Home Builders (NAHB), we appreciate the opportunity to participate in this Banking, Housing and Urban Affairs Committee hearing on legislation to overhaul the regulatory oversight of the housing Government Sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac and the Federal Home Loan Banks (FHLBanks). The GSEs are critical components of the nation's housing finance system, playing a vital role in maintaining mortgage market liquidity and stability and promoting affordable housing. It is important, therefore, that the GSEs remain financially safe and sound and focused on their Congressionally-chartered purposes. Legislation to put in place a strong and effective regulator for the GSEs is a priority for NAHB.

At the outset, NAHB would like to commend the Committee for holding this hearing at this critical moment in our nation's economic health. The GSEs offer tremendous potential to relieve the liquidity problems in the nation's mortgage market and bring immediate benefit to the overall economy. Indeed, all three GSEs have experienced sharp rises in credit demand during the 2007-2008 mortgage market turmoil. As other credit sources have dried up, the Federal Home Loan Banks have dramatically increased advances to their member institutions to help these commercial banks and thrifts fund mortgage originations for their portfolios. Fannie Mae and Freddie Mac (the Enterprises) have continued to provide liquidity for mortgage loans that fall below the conforming loan limit.

NAHB appreciates the Senate's action to include a temporary increase in Fannie Mae's and Freddie Mac's conforming loan limits in the recently enacted economic stimulus legislation. Expanding the dimensions of the conforming market is an important step toward restoring stability and liquidity in the broader mortgage markets. However, the severity of today's mortgage and housing market contagion, which is increasingly infecting the rest of the economy, requires more extensive and thorough treatment. Specifically, comprehensive GSE regulatory reform is needed to incent and oversee Fannie Mae's and Freddie Mac's mission pursuit within their expanded mortgage purchase authority.

Recent events continue to underscore the fact that the current bifurcated regulatory system for Fannie Mae and Freddie Mac, where the Department of Housing and Urban Development (HUD) oversees mission and the Office of Federal Housing Enterprise Oversight (OFHEO) regulates safety and soundness, simply is not working. It only provides a cloudy alphabet soup where major surgery is required. Until just last week, OFHEO maintained restrictive limits on Fannie Mae and Freddie Mac portfolio purchases, and OFHEO continues to impose a 30 percent capital surcharge on both companies. These restrictions have hamstrung the Enterprises at a time when their capacity was and is critically needed. NAHB also believes Fannie Mae and Freddie Mac have not accomplished as much as they are capable of, even within these constraints.

In addition, both companies are imposing higher fees that will raise mortgage borrowing costs for individuals and families who are most in need of the benefits that GSEs can inure. This paradox is reflective of poor or nonexistent coordination between OFHEO and HUD as well as weak mission oversight from HUD, which should be requiring more, not less, in the present dire

mortgage market circumstances. Reform of this flawed framework is long overdue and urgently needed.

To that end, NAHB appreciates your commitment to enacting legislation to improve and bolster the regulatory framework for the housing GSEs. NAHB supports the establishment of a regulatory structure that can ensure that the housing GSEs operate in a safe and sound manner while effectively and assertively pursuing their housing mission. NAHB believes that the housing GSEs are essential components of the nation's housing finance system and our foremost interest is that change in the regulatory regime should not, in any way, diminish the benefits that these entities provide to home buyers and renters.

Although there is a myriad array of factors and ingredients to consider in the reform debate, NAHB believes the optimal approach to GSE reform incorporates four guiding principles: First, the advantages available to the GSEs through the public/private partnership of the housing finance system should be retained. Second, reform measures should reinforce the obligation of the GSEs to channel those advantages to the nation's home buyers and renters. Third, the most efficient and demonstrable method of accomplishing this objective is through enhanced safety and soundness regulation and stronger GSE affordable housing requirements. Fourth, there must be a balance between safety and soundness oversight and mission regulation so as not to impede the GSEs' housing mission.

NAHB believes that H.R. 1427, the "Federal Housing Finance Reform Act of 2007," (the House Bill) which passed the House last May, makes significant progress in meeting these objectives.

NAHB's views on the current GSE regulatory reform discussions can be effectively distilled down to six key components: (1) regulatory structure; (2) program oversight; (3) conforming loan limits; (4) affordable housing requirements; (5) capital requirements; and, (6) portfolio limits. The remainder of NAHB's statement addresses these components.

Regulatory Structure

An overriding issue in the GSE regulatory reform discussion is achieving the appropriate balance between safety and soundness and mission oversight in the structure and governance regime of the regulator. It is a priority for NAHB that Congress establishes a strong system for regulating the safety and soundness of the GSEs without displacing the focus on the housing mission of the GSEs.

As mentioned, the Department of Housing and Urban Development (HUD) currently oversees the mission of Fannie Mae and Freddie Mac, including approving new programs and establishing and enforcing affordable housing goals (annual mortgage purchase targets that Fannie Mae and Freddie Mac must reach). The Office of Federal Housing Enterprise Oversight (OFHEO), an independent agency within HUD, oversees the financial safety and soundness of Fannie Mae and Freddie Mac. For the FHLBanks, another independent agency, the Federal Housing Finance Board (FHFB) regulates both mission and financial safety and soundness.

Several questions have been raised as to how to better configure this oversight system. One area of inquiry with bearing on the mission/safety and soundness balance is the location and independence of the GSE regulator. NAHB believes the regulator should be an independent entity outside the control of any cabinet department or regulatory agency. The agency must have independence or autonomy in pursuing its regulatory duties.

Perhaps the greatest concern for NAHB in this area is the governance of a new GSE regulatory agency. Ideally, NAHB believes the new regulator should be governed by a board modeled on the Federal Deposit Insurance Corporation (FDIC), where the board seats are divided between government representatives and private individuals with appropriate regulatory expertise. In the case of the GSE regulator, the board would be made up of the Secretaries of HUD and Treasury and three private individuals, one of whom would serve as the board chair. The goal is to infuse additional expertise in and concern for housing and housing finance through the appointment of individuals with such credentials.

As an additional counterbalance between mission and safety and soundness regulatory objectives, NAHB supports the creation of deputy director positions to oversee the various regulatory elements. In this regard, NAHB supports separate regulatory divisions for oversight of safety and soundness and for regulation of housing mission. NAHB encourages the Committee to ensure that the FHLBank mission and safety and soundness oversight reflects the unique mission, operating structure and charters of the FHLBank System.

Program Approval

An important part of the mission oversight responsibilities of a GSE regulator is the review of activities to ensure conformance with a GSE's charter and public purpose. In addition to providing liquidity and lowering borrowing costs in the housing finance system, the housing-related GSEs support innovation in mortgage products and programs as well as technological improvements that address housing needs. In considering a new GSE regulatory regime, a key challenge involves developing a program review and approval process that is sufficiently rigorous to ensure charter compliance, support for achievement of affordable housing goals, and safety and soundness while facilitating the GSEs' ability to continue to engage in program, product and technological innovation to address market needs in a timely manner.

NAHB supports a program approval process for the Enterprises that ensures they are operating within their charters and undertaking activities in a safe and sound manner. The program approval process should also accommodate innovation and prompt responses to market needs. To accomplish that, program oversight should focus on broad categories of programs and should not involve micromanagement of individual activities within an approved program area.

Prior approval should only be required for new "programs" that represent broad areas of "products" and/or "activities" that are significantly different from those previously undertaken. New activities under previously approved programs should not require prior approval. However, the regulator should be notified in advance before a new activity under an approved program is undertaken. Review of previously approved programs and activities should occur only as a part

of safety and soundness supervision. The regulator should be granted a reasonable, but limited period of time for review of new programs submitted for prior approval.

The key criteria in the program approval process should be whether a program is permitted under a GSE's charter and needed to facilitate achievement of mission, including affordable housing goals. Safety and soundness of new activities should be a factor only if it is determined that the nature or scope of the activity cannot be adequately addressed through risk-based capital requirements and that the proposed activity poses a significant threat to the financial health of the GSE.

Conforming Loan Limits

By their charters, Fannie Mae and Freddie Mac are restricted to purchasing mortgages with loan amounts at or below their statutory loan purchase limit, referred to as the "conforming" loan limit. The conforming loan limit is increased annually on the basis of the annual percent change in the average home price index computed by the Federal Housing Finance Board (FHFB). The loan limit ceiling is 50 percent higher in Alaska, Hawaii, Guam and the U.S. Virgin Islands to account for higher housing costs in these areas.

NAHB supports the current statutory procedure for adjusting the conforming loan limit, which only allows for percentage increases in the limit that correspond to increases in the underlying index. NAHB opposes measures that would permit the conforming loan limit to decrease in proportion to a year-to-year decline in the statutory home price index. A decrease in the conforming loan limit would disrupt mortgage markets and, considering the length of the mortgage process, would be a source of apprehension among borrowers. The conforming loan limit has been held at the previous year's level in those years when the index has declined and these decreases have been netted out of increases in subsequent years. This system has worked well and has provided stability in times when the home price index has increased, as well as when it has decreased.

The current statutory system, however, inhibits origination of conforming loans in states where typical home prices exceed the conforming loan limit. Thus, borrowers in these states cannot benefit from lower rates on conforming loans. The interest rate disadvantage faced by mortgage borrowers in higher-cost states has increased tremendously during the mortgage market turmoil of the past seven months. To rectify this situation, NAHB supports the establishment of a high-cost area exception that would allow the conforming loan limit in high cost areas to reflect the higher home price distribution, subject to an overall cap.

As mentioned, NAHB appreciates the action of the Senate to include a temporary increase in Fannie Mae's and Freddie Mac's conforming loan limits in the recently enacted economic stimulus legislation. The Stimulus Act raises the loan amount the GSEs can purchase up to the greater of the current national conforming loan limit of \$417,000 or 125% of the local median home price. The limit is capped at \$729,750 and is available for loans originated between July 1, 2007 and December 31, 2008. This provision is a step toward increasing the availability of mortgage money in higher-cost areas and resolving some of the serious dislocations that have occurred in specific market segments. However, NAHB believes comprehensive reform of GSE

regulation is a prerequisite for effective and sufficient mission accomplishment by Fannie Mae and Freddie Mac through use of the expanded loan caps. Without coordinated and balanced oversight of mission and safety and soundness of Fannie Mae and Freddie Mac, the results of the loan limit increase will continue to be retarded by inappropriate regulatory impediments and insufficient mission motivation on the part of the Enterprises. This fact lies at the heart of NAHB's belief in the importance of prompt completion of work on a full GSE reform bill. The legislation should extend the conforming limit increase to two years to allow sufficient time for implementation and results.

NAHB has reservations about restricting activity under increased conforming loan limits to mortgages that are securitized and sold. Such a limitation unnecessarily restricts Fannie Mae's and Freddie Mac's operational flexibility and could undercut the benefits of the limit increase. Ultimately, borrowers are unaware of the workings of the secondary market for mortgage loans. These borrowers should not be affected differently if a loan is targeted to be held in a GSE's portfolio or if a loan will be used as collateral for a mortgage-related security.

Affordable Housing Requirements

NAHB believes the housing GSEs can and should do more to accomplish their affordable housing mission. The affordable housing requirements for Fannie Mae, Freddie Mac and the FHLBanks should be strengthened to ensure a more effective and targeted transfer of GSE benefits to the housing marketplace. Such changes, however, should not be undertaken in a manner that impairs the GSEs' ability to achieve their mission of providing liquidity to the mortgage markets.

Presently, Fannie Mae and Freddie Mac are required by law to meet annual housing goals established by the Department of Housing and Urban Development (HUD). The housing goals track Fannie Mae's and Freddie Mac's purchases of mortgages for low- and moderate-income people (the low/mod goal); loans in underserved geographically targeted areas (the underserved areas goal); and, mortgages for very-low income people and neighborhoods (the special affordable goal). Each of the 12 FHLBanks is required by law to contribute at least 10 percent of its annual net earnings to an Affordable Housing Program (AHP). The AHP subsidizes the cost of housing for very-low-income and low- or moderate-income owner-occupied and rental housing. The subsidy may be in the form of a grant ("direct subsidy") or a below-market interest rate on an advance (loan) from the FHLBank to a member lender.

Affordable Housing Goals for Fannie Mae and Freddie Mac

Housing goals levels should continue to be established through regulations that incorporate general statutory criteria. NAHB recommends that the legislation should specify that the goals levels should be calibrated to the midpoint of the regulator's market estimates. NAHB believes setting the goals levels at the midpoint of the market estimates minimizes the risk that the goals are unfeasible simply because they do not reflect current market conditions. In this scenario, NAHB believes that the GSEs would be well-positioned to make immediate enhancements to their affordable housing initiatives.

NAHB believes that the current statutory income definitions in the affordable housing goals are too generous. Each income level should be lowered to focus Fannie Mae and Freddie Mac more directly on lower-income populations. NAHB believes that more narrowly tailored income definitions will result in more concentrated efforts by the GSEs and expand homeownership and economic opportunities to people and areas most in need.

Further, we believe the housing goals provisions should specify in legislation that single family refinancing activity should be eliminated from the market size estimates and goals calculations. The volatility of refinancing activity has a significant impact on market size estimates and on the ability of the enterprises to meet the housing goals without disrupting the secondary market. Refinancing volume is driven by interest rate fluctuations, not by enterprise outreach activities. Removing single family refinance transactions from the market estimates and goals calculations would eliminate these negative effects and would focus Fannie Mae's and Freddie Mac's activities directly on supporting affordable housing home purchase transactions.

In the multifamily area, NAHB supports the expansion of the current statutory definition to include dwelling units assisted by the low-income housing tax credit as well as credit for units financed by Housing Finance Agency (HFA) bonds. These changes address serious shortcomings in the present housing goal statute which does not permit such investments to be counted as goals-qualifying activities. These instruments finance much of the newly built multifamily rental housing that is affordable to households with low- and moderate-incomes. Thus, the Enterprises should get goals credit for purchases of mortgages on properties that were financed with these instruments.

Further, NAHB strongly supports additional requirements for smaller projects, particularly for projects of 5 to 50 units. These units are key sources of affordable housing for large numbers of low- and moderate-income households, first-time homebuyers and minorities. NAHB has long supported improved financing mechanisms for small projects. Financing for small projects often is difficult to obtain and relatively expensive compared to financing costs for larger projects. Small project loans are generally made by portfolio lenders who hold the loans in portfolio. Given the importance of small projects in providing affordable housing, HUD provided bonus points for the GSEs' purchase of such loans in its 2001-2003 Housing Goals rule. The bonus points system worked as the GSEs doubled their purchases of small multifamily loans during this time. Unfortunately, HUD eliminated the bonus point system in the current housing goals rule and the GSEs' focus on smaller properties has waned. Establishing small projects requirements will re-focus the GSEs on this important source of affordable housing.

Duty to Serve Underserved Markets

NAHB supports establishing a duty for the Enterprises to serve underserved markets. Such a provision would direct the Enterprises to develop products and engage in activities to reach the most difficult underserved housing markets, including manufactured housing, affordable housing preservation, rural and other underserved markets. NAHB notes that such a provision would encourage the Enterprises to expand beyond better-served markets, similar to the bonus point system under HUD's 2001-2003 housing goals rule. NAHB believes that an underserved markets requirement would work in a similar way as a means to direct GSE purchases toward

specific market segments. NAHB recommends that the list of underserved markets should include very low-, low- and moderate-income first-time and minority home buyers.

Affordable Housing Fund for Fannie Mae and Freddie Mac

NAHB strongly supports the creation of an affordable housing fund established through annual contributions by Fannie Mae and Freddie Mac and modeled on the statutorily prescribed Affordable Housing Program (AHP) of the Federal Home Loan Bank System. Such a fund would, in combination with more challenging housing goals standards, raise the bar for Fannie Mae's and Freddie Mac's mission activities to more effectively channel benefits of their GSE charters to serve housing needs that are currently unmet. The goal of the fund is to support activities that cannot be undertaken as part of Fannie Mae's and Freddie Mac's traditional lending and investment business.

The focus of this fund would be to increase affordable homeownership and rental opportunities for very-low and extremely-low income households, increase and preserve the supply of housing for such households and support infrastructure development in connection with housing. In addition, the fund should seek to leverage investments from other sources to support development financed by fund grants.

It is important to provide for a fair allocation of the funds. Allocation of grants should be based on the qualities of proposed housing rather than the characteristics of the sponsor as a basis for awarding grants. In addition, there should be standards for applicants to demonstrate both the experience and capacity to successfully and efficiently employ funds. This would ensure that funds are put to the most effective use.

Revisions to the FHLBank Affordable Housing Program

NAHB recommends revising the statute for the Federal Home Loan Bank Affordable Housing Program (AHP) in order to remove the current statutory priority for allocations to nonprofit sponsors in the competitive selection criteria. This part of the law has impeded participation by NAHB's members in the AHP. The exclusion of capable and experienced for-profit housing producers needlessly works against the goal of providing housing most efficiently in areas where it is needed most.

Capital Requirements

Capital requirements for financial institutions establish the level of reserves that these organizations must maintain to protect against their exposure to various types of risks, including credit risk of loans and guarantees, interest rate risk of the balance sheet, and management and other operational risk. Capital requirements also limit the degree to which financial institutions can leverage their sources of funds in pursuing business opportunities. Generally, financial institutions are held to two separate capital standards: a risk-based requirement that is driven by the composition of an institution's loan and investment portfolio and other operating characteristics, and a minimum capital requirement that ensures some capital cushion regardless

of the outcome of the risk-based standard. This is the case for Fannie Mae, Freddie Mac and the FHLBanks, where risk-based and minimum capital requirements are established by law.

The Committee should be mindful that changes in the GSEs' capital requirements have a direct impact on the availability and cost of mortgages in the housing finance system. Higher capital requirements limit GSE activity, reduce the range of GSE products and programs (impairing the ability to serve low- and moderate-income borrowers) and increase the cost of mortgage borrowing. Capital requirements that exceed those dictated by the risk of GSE activities and operations unnecessarily reduce the flow of capital to the housing finance system and add unnecessarily to the cost of those funds. The result would be a significant setback to current efforts to expand affordable homeownership and rental housing opportunities.

There is fairly widespread agreement that the new GSE regulator must have much greater authority to adjust capital requirements than the current regulators possess. Concepts and systems for determining risk-based capital requirements have evolved significantly since statutory requirements for Fannie Mae and Freddie Mac were established and it is argued that the current specificity of the statute in this area makes it difficult, if not impossible, for the regulator to adopt and maintain a state-of-the-art risk-based capital framework.

NAHB agrees that the GSE regulator should have full authority to establish and adjust the risk-based capital system as the state of the art evolves. NAHB supports the removal of the current statutory criteria governing risk-based capital requirements for Fannie Mae and Freddie Mac to allow the new regulator full freedom to establish and adjust such standards through regulation. Comparable authority should be granted to the regulator with regard to the risk-based capital requirements of the FHLBanks.

With regard to minimum capital, the most debated policy questions appear to be whether the minimum capital requirements should remain unchanged in statute and what degree of authority should be granted the new regulator to adjust the minimum requirements. Minimum capital requirements are intended to function as a backstop to risk-based systems and NAHB believes the minimum standard for the GSEs should continue to serve that purpose. NAHB supports maintaining the current statutory minimum capital requirements. Further, NAHB believes that the GSE capital requirements should address only risks that are internal to the GSEs, not external risks such as systemic risk in the financial sector. To that end, we support authority for the GSE regulator to adjust minimum capital requirements, as long as such adjustments are justified by changes in actual or perceived risk to a GSE and do not unnecessarily impair the GSEs' ability to achieve their mission. NAHB believes that criteria for temporary increases in minimum capital should be focused on the safety and soundness of the GSEs, but should also address concerns about the possible impact of capital provisions on mission by providing for a process where temporary capital increases would be regularly reviewed and returned to the statutory level once the "triggering" issue or issues are resolved.

NAHB supports the fundamental principle that adjustments to minimum capital requirements must be temporary and that the regulator should deal with longer-term risks through the risk-based system. In addition, all changes to GSE capital – risk-based and minimum – should be undertaken through proposed regulation that provides public notice and comment, except in

emergency situations, where increases could be instituted and then reevaluated in a subsequent review and comment protocol.

Portfolio Limits

Proposals to arbitrarily limit or reduce the portfolios of Fannie Mae and Freddie Mac are misguided and would have significant adverse effects on the housing finance system. Both Fannie Mae and Freddie Mac hold sizeable portfolios of mortgages and mortgage-backed securities, which play an important role in stabilizing the supply and reducing the cost of housing credit.

First, the portfolios support the provision of mortgage credit through instruments, such as multifamily mortgages and various homeownership loans designed for lower-income borrowers that are not attractive to secondary market investors and, therefore, cannot be packaged and sold in mortgage-backed securities. Such products are expanding as more focus and requirements are placed on the GSEs to address the housing finance needs of more difficult to reach segments of the population.

Second, the GSE portfolios have served as an important shock absorber for housing borrowers in times of economic crisis. This is evidenced by the relative stability in mortgage availability and interest rates as other sectors of the financial markets were experiencing severe volatility in credit availability and cost during the 1998 international debt crisis and again following the 9/11 terrorist attacks in 2001. More recently, the portfolios of Fannie Mae and Freddie Mac allowed them to play a major role in efforts to rebuild housing and other pressing housing finance needs in the Gulf Coast areas that suffered hurricane devastation in 2005. Fannie Mae and Freddie Mac stepped up their portfolio purchases to stabilize the mortgage markets in all of these periods and mortgage credit remained available at affordable rates.

Third, the added demand from Fannie Mae's and Freddie Mac's portfolio purchases helps to lower yields on mortgage-backed securities which flow through to lower rates on the underlying mortgages. Some have argued that removing Fannie Mae and Freddie Mac as buyers in this market would have no impact on mortgage borrowing costs. NAHB believes that such a position ignores the basic economic principle of supply and demand. Cutting GSE portfolio holdings by more than a trillion dollars, as some have proposed, would certainly have a major adverse impact on mortgage rates, even if the reduction were phased in over a number of years.

Finally, GSE portfolio operations have facilitated an expansion of investors in the U.S. housing markets. Foreign investors have supplied increasing amounts of capital for residential mortgages in this country through purchases of GSE debt and currently account for a significant portion of such holdings. Some foreign investors are reluctant to invest in mortgage-backed securities, primarily due to unfamiliarity with fixed-rate, long-term mortgage collateral and concern over prepayment risk on such loans. The GSEs have successfully negotiated this obstacle by purchasing and holding mortgage-backed securities through funding provided by sales of their debt to foreign investors. GSE portfolio restrictions, therefore, would constitute a major setback to successful efforts to broaden the sources of capital for the U.S. housing markets.

NAHB recognizes that Fannie Mae and Freddie Mac also are able to generate profits through their portfolio operations by virtue of the spread between their advantaged borrowing costs and market yields on mortgage-backed securities. NAHB shares the concern that has been expressed that such profits have been directed too extensively to GSE shareholders and executives. However, NAHB believes the best way to address this is not through restricting and shrinking GSE portfolios. Such actions would undercut the GSEs' ability to continue the pursuit of the valuable results outlined above. Instead, NAHB believes that the recommendations contained elsewhere in this statement to toughen GSE affordable housing requirements, including mandating annual Fannie Mae and Freddie Mac contributions to an Affordable Housing Fund, would succeed in more effectively directing GSEs' portfolio profits to mission purposes.

With regard to safety and soundness, the new regulator should hold each GSE accountable to have the strategies, systems, personnel and capital that are adequate to fully mitigate any risk to the Enterprises associated with the holding of mortgages and mortgage-backed securities as well as other portfolio investments. This would include the establishment of risk-based capital requirements to provide appropriate capital coverage for all portfolio-related activities. In addition, review of portfolio functions and operations should be an integral part of the regular safety and soundness examinations conducted by the regulator. Specific limits on the GSEs' portfolios therefore are overreaching and unnecessary in addressing their safety and soundness.

Conclusion

NAHB appreciates the opportunity to submit our views on the regulation of Fannie Mae, Freddie Mac and the Federal Home Loan Banks, the housing GSEs. It goes without saying that the GSEs have been and continue to be critical components of the nation's housing finance system, a system without equal anywhere in the world and one that contributes so much to the national economy. For this reason, NAHB fully supports the Senate Banking, Housing and Urban Affairs Committee's consideration of regulatory reforms to these critical entities, and urges the committee to act promptly to advance bi-partisan legislation.

NAHB is pleased to be part of the process to improve a clearly lacking oversight system, establish a strong and effective regulator and ensure that the GSEs continue to expand housing opportunities for American families. We believe that this process can be a success without undercutting the GSEs' housing mission if the following areas are addressed: one, balance housing with safety and soundness concerns; two, maintain the GSEs' flexibility to respond promptly, within their charters, to market needs; three, extend the increase of conforming loan limits in high cost areas; four, focus and enhance GSE benefits to expand affordable housing opportunities; five, employ capital as a precise instrument of risk management; and, six, preserve GSE portfolios as tools for achieving liquidity and affordable housing mission.

NAHB looks forward to working with the Congress to use these principles to achieve our mutual goals as the legislative process moves forward.