



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 16, 2007
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 1427 – Federal Housing Finance Reform Act of 2007

(Rep. Frank (D) Massachusetts and 5 cosponsors)

The Administration supports legislation to create a stronger and more effective regulatory regime for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (“housing government-sponsored enterprises” or “housing GSEs”). Although the Administration objects to several provisions of H.R. 1427, the bill does include elements that are essential for proper regulatory oversight of the housing GSEs and for protecting the safety and soundness of the housing finance system and the broader financial system. As a result, the Administration supports House passage of H.R. 1427 as reported by the House Financial Services Committee, and looks forward to working with Congress to further strengthen the legislation.

The regulatory regime envisioned by H.R. 1427 is an improvement over current law. The bill enhances the regulatory oversight of the housing GSEs by establishing a new Federal Housing Finance Agency (FHFA) and providing this new housing GSE regulator with: (1) greater authority to set capital standards; (2) authority to place a troubled GSE into receivership (mandatory in some cases); and (3) authority to approve new activities and oversee mission compliance. In addition, H.R. 1427 grants the new housing GSE regulator specific authority to regulate the retained mortgage portfolios of Fannie Mae and Freddie Mac. This authority is grounded in considerations regarding the mission of and safe and sound operations of Fannie Mae and Freddie Mac, but would also authorize the new regulator to consider all potential risks posed by the portfolios. This provision helps to address the systemic risk that Fannie Mae and Freddie Mac pose to our financial system and ensures that they will better address their core affordable housing mission. Any efforts to weaken the existing portfolio language contained in H.R. 1427 will threaten the Administration’s support for this bill.

The Administration strongly believes that the housing GSEs should be focused on their core housing mission, particularly with respect to low-income and first-time homebuyers. The Administration opposes provisions that would increase the conforming loan limit, thus diluting the housing GSEs’ commitment to low-income homebuyers.

The Administration does not believe that the Federal government should appoint directors to the boards of the housing GSEs. The Administration opposes this requirement because it is inconsistent with current corporate governance standards and reinforces the misperception that the housing GSEs are backed by the Federal government. Also, the Administration believes that the Federal Housing Enterprise Board should be comprised only of the Secretary of the Treasury, the Secretary of Housing and Urban Development, and the FHFA Director. The purpose of the Board is to advise the FHFA Director with respect to overall strategies and policies in carrying out the Director’s duties; it is not intended to have any direct authority over the new regulator.

While the Administration strongly supports Federal assistance to families that lack the means to afford adequate housing, the Administration has concerns about section 139 of H.R. 1427. This section could create an undue and counterproductive reliance on Fannie Mae and Freddie Mac by tying the potentially unlimited growth of their affordable housing funds to the annual amount of their mortgage business. Moreover, the Administration remains concerned that the affordable housing funds not be susceptible to political influences that could compromise the goals of assisting as many low income families in need as possible. The Administration does not support any provisions that would divert the funds to a new, separate housing trust fund.

The Administration remains committed to bringing real reform to the housing GSEs and looks forward to continuing to work with Congress to ensure that the needed reforms are part of any final legislation.

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