



Highlights of [GAO-08-563T](#), a testimony before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

The housing government-sponsored enterprises (GSEs)—Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLBank System), play a critical role in the nation's housing finance system. However, concerns exist that the fragmented federal oversight structure for the GSEs is not well positioned to help ensure that they operate in a safe and sound manner and fulfill their housing missions.

This testimony provides information on the GSEs' missions and risks, the current regulatory structure, and proposed regulatory reforms.

To prepare this testimony, GAO relied on a substantial body of previous work and updated its analysis in light of recent events.

What GAO Recommends

GAO recommends that Congress establish a single regulator that is equipped with adequate authorities to fully oversee GSE activities and governed by a board or hybrid board structure.

HOUSING GOVERNMENT-SPONSORED ENTERPRISES

A Single Regulator Will Better Ensure Safety and Soundness and Mission Achievement

What GAO Found

While the GSEs provide certain public benefits, they also pose potential risks. Fannie Mae and Freddie Mac's primary activity involves purchasing mortgages from lenders and issuing mortgage-backed securities that are either sold to investors or held in the GSEs' retained portfolio. The 12 FHLBanks traditionally made loans to their members and more recently instituted programs to purchase mortgages from their members and hold such mortgages in their portfolios. While not obligated to do so, the federal government could provide financial assistance to the GSEs, if one or more experienced financial difficulties, that could result in significant costs to taxpayers. Due to the GSEs' large size, the potential also exists that financial problems at one or more of the GSEs could have destabilizing effects on financial markets.

The current housing GSE regulatory structure is fragmented and not well equipped to oversee their financial soundness or housing mission achievement. The Office of Federal Housing Enterprise Oversight (OFHEO) is responsible for safety and soundness oversight of Fannie Mae and Freddie Mac while the Federal Housing Finance Board (FHFB) is responsible for safety and soundness and mission oversight of the FHLBank System. Both regulators lack key statutory authorities to fulfill their safety and soundness responsibilities as compared to the authorities available to federal bank regulators. For example, OFHEO and FHFB are not authorized to limit the asset growth of housing GSEs if capital falls below predetermined levels. Moreover, the Department of Housing and Urban Development (HUD), which has housing mission oversight responsibility for Fannie Mae and Freddie Mac, faces a number of challenges in carrying out its responsibilities. In particular, HUD may not have sufficient resources and technical expertise to review sophisticated financial products and issues.

Creating a single housing GSE regulator could better ensure consistency of regulation among the GSEs. With safety and soundness and mission oversight combined, a single regulator would be better positioned to consider potential trade-offs between these sometimes competing objectives. To be effective, the single regulator must have all the regulatory oversight and enforcement powers necessary to address unsafe and unsound practices, respond to financial emergencies, assess the extent to which the GSEs' activities benefit home buyers and mortgage markets, and otherwise ensure that the GSEs comply with their public missions. To ensure the independence and prominence of the regulator and allow it to act independently of the influence of the housing GSEs, this new GSE regulator should be governed by a board or hybrid board structure.