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**Oral Statement of James B. Lockhart, III, Director,
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Before the Senate Committee on Banking, Housing, and Urban Affairs
On “Turmoil in the U.S. Credit Markets: Examining Recent
Regulatory Responses”
October 23, 2008**

Chairman Dodd, Senator Shelby, and members of the Committee, thank you for the opportunity to testify on the Federal Housing Finance Agency’s response to the turmoil in the credit markets. I will begin by talking about our activities, as the regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—including a discussion of how we are addressing the foreclosure crisis—and then turn to the Emergency Economic Stabilization Act.

There is no doubt that the mortgage market pendulum swung extremely widely toward easy credit, poor underwriting, risky mortgages and even fraud. The market had to correct, but now we need to prevent the pendulum from swinging too far in the other direction.

Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks have played a critical role in dampening that pendulum swing. In mid-2006, their market share of all new mortgage originations was less than 40%. With the demise of the private-label mortgage-backed securities (MBS) market, their share has doubled to 80%.

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorship. Market conditions, compounded by a weak regulatory capital structure, left them unable to fulfill their missions of providing liquidity, stability, and affordability to the housing market.

A critical component of the conservatorships was three Treasury Department financial facilities. The most important one is the Senior Preferred Agreement, which ensure that the Enterprises always will have a positive net worth. These facilities, at \$100 billion each, are well over three times the statutory minimum capital requirements and last until all liabilities are repaid. This could be seen as an effective government guarantee of Fannie Mae's and Freddie Mac's existing and future debt and MBS. Both can grow their portfolios by about \$100 billion, which will further support the mortgage market, as will Treasury's MBS purchase facility. Treasury also provided the Enterprises and the FHLBanks with credit facilities to provide any needed liquidity.

The Federal Home Loan Banks countercyclical capital structure has allowed them to play a critical role in supporting financial institutions and mortgage lending over the last year. Their secured advances to financial institutions just reached \$1 trillion, up 58 percent since June 30, 2007.

The new legislation added the Enterprises' affordable housing goals and mission enforcement to the responsibilities of FHFA as the safety and soundness regulator. I have instructed both new CEOs to examine underwriting standards and pricing. Earlier this month, Fannie Mae and Freddie Mac cancelled a planned doubling of an adverse market delivery fee. I expect future changes to reflect both safe and sound business strategy and attentiveness to the Enterprises' missions.

A critical component of stabilizing the mortgage market is assisting borrowers at risk of losing their homes by preventing foreclosures. Keeping people in their homes is critical, not only for their families and their neighborhoods, but also for the overall housing market.

Our analysis shows the Enterprises conducted 130,000 loss mitigation activities through August 2008, but they have to do more. A systematic approach to loan modification is essential. Well before the conservatorship action, we asked the Enterprises to accelerate their loan modifications by including other methods such as a principal write-down

or forbearance. We have encouraged them to join the FDIC's Indy Mac loan modification program. I expect loan modifications to be a priority, both as a matter of good business and of supporting the Enterprises' mission.

During this difficult time in our financial markets, FHFA has been working with Treasury, the Federal Reserve, the Securities and Exchange Commission, and the federal banking agencies to monitor market conditions and coordinate regulatory activities. We have been assisting the Treasury Department as it develops ideas for the Troubled Assets Relief Program, or TARP. I also serve as a director on the Financial Stability Oversight Board.

Foreclosure prevention is an important objective under the TARP program. The objective applies to all federal agencies that hold troubled assets, including FHFA as conservator of Fannie Mae and Freddie Mac. In support of TARP and as a federal property manager, FHFA will work to ensure the success of these foreclosure reduction programs.

In conclusion, FHFA and the housing-related government-sponsored enterprises have a critical role in returning the mortgage markets to stability and preventing foreclosure. It will take time, but I believe the many steps that have been taken will build a solid foundation for a stable future for the mortgage markets and most importantly, American homeowners, renters, workers, and investors.

I look forward to working with this Committee and all of Congress in achieving this goal. Thank you.