# FANNIE MAE AND FREDDIE MAC: THE NEED FOR GSE REFORM NOW

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**December 12, 2007**

Thank you Peter for those very kind words. As you all know, Peter really wrote the book on GSE reform and I certainly read that book before I took this job. As it turned out, it didn't tell me about all the other things that were going to happen. Over the last action packed eighteen months my thoughts about reform have changed somewhat as I think Peter's have. The bottom line is still that we do strongly need reform and we need it now.

I was hoping when this speech was scheduled I could be telling you how we are going to implement the new law. Alas, it does not always work that way in Washington. As a veteran of the Social Security and PBGC struggles, I know that it does take time to get legislation through. Given, the almost six years of discussions, the operational and other problems the Enterprises have had and still have, and the present market conditions, I believe Congress needs to act soon.

Where I like to start is with our strategic goals at OFHEO (Slide 2). Needless to say, our first goal is the safety and soundness of the Enterprises (Fannie Mae and Freddie Mac) and making sure they are adequately capitalized. The second goal which I will be talking more about today is the need for statutory reforms. The third one is to promote the national policy of an efficient secondary mortgage market and the Enterprises role in providing stability and liquidity to that market. In normal times goals one and three work well together. These are not normal times and because we are missing the number two goal of legislative reforms, we are on a seesaw going back and forth between safety and soundness and market liquidity. It is one of the many reasons we need to get a stronger foundation so that safety and soundness and market liquidity can work together in the future.

Among the actions we have taken from a safety and soundness standpoint (Slide 3)are that three years ago we placed a 30% excess capital requirement on their statutory minimum capital requirement because of their operational problems. That means that capital has only gone from 2.5 percent to 3.25 for assets and on their guaranteed MBS book, which is about seventy percent of their total book, it has only gone from forty- five basis points to fifty-eight and a half basis points. Last year caps were imposed on the Enterprises' mortgage portfolios. In the case of Freddie Mac it was a voluntary agreement, and for Fannie Mae it was part of the consent agreement. However, we did not constrain their MBS issuance and that has been going gangbuster this year, almost $100 billion a month.

In September, we gave the Enterprises more flexibility on the portfolio caps. It was aimed at jumpstarting their efforts in subprime and affordable housing. Given this flexibility, if they had the capital, which they just raised, they could increase their portfolios quite significantly, somewhere around 7 percent or $80 to $100 billion on a combined basis. Their portfolios are not being constrained by OFHEO at the moment despite the common myth to the contrary.

As this slide (#4) shows, the housing GSEs are just huge. The left-hand column is the pubic debt of the United States. It is about $5 trillion, of which about $800 billion is owned by the Feds, so there is only about $4.2 trillion in public hands. The total of the Enterprises' debt and guaranteed MBS, their credit owned by the public, is $4.8 trillion. If you add on top of it the rapidly growing Federal Home Loan Banks'(FHLB) debt of about $1.1 trillion – you actually have six trillion dollars of housing GSE debt. I put the Federal Home Loan Banks on the bar graph because they are part of the GSE reform legislation. I will elaborate later on why it makes sense that the FHLB are part of comprehensive GSE reform.

The Enterprises, like every participant in the mortgage market, are facing growing risks (Slide 5). Three or four years ago their operational risk problems and mismanagement surfaced. They are making significant remedial progress. They hope to be current reporters with clean, audited accounts for year-end 2007. They have made significant improvements with internal controls and risk management, but more work needs to be done. However, operational risks are growing in this market – one in particular is model risk. A key contributor to today's market problems is bad models including banks' models, investors' models and certainly the rating agencies' models. They were based on incomplete data which did not anticipate what could go wrong in this marketplace. Fannie Mae and Freddie Mac have a heavy reliance on models going forward for pricing, for valuation, for accounting. The Enterprises like others in this market have growing books of real estate owned (REO), which are foreclosed properties. That will take a significant amount of management attention.

It's no surprise that credit risk is increasing rapidly. The 2006 books and the first half of 2007 books were not well written across the industry. It was not just subprime. Underwriting standards, unfortunately, were lowered because of the competition from Wall Street and that is showing up in credit losses and increases in reserves. For the last few years, Fannie and Freddie had one to two basis points in losses. This year it's going beyond the four to six that they call normal. They expect to see much higher losses next year.

Market risk is also more challenging than in previous years. In their portfolios they are seeing much more interest rate volatility as credit worries grow and the market reacts to the Federal Reserve actions and prepayment risk. There is also the volatility of mortgage to LIBOR spreads which can cause many hundreds of millions of dollars swings on a daily basis. They call this the risk option adjusted spread (OAS).

So, the bottom line is they are showing losses. In the third quarter, Freddie reported a loss of about $2 billion. In four of their last five quarters, they had losses. Fannie had a $1.4 billion dollar loss in the third quarter and they had two losses in the last five quarters. As both CEOs have said yesterday in a Wall Street conference, they are going to have very tough fourth quarters and 2008s.

Housing price decreases have been a key driver in this marketplace and they're certainly a key driver when it comes to the growth of credit risk. Slide 6 shows the changes in housing prices using three indices. We are seeing significant depreciation or at least a lack of appreciation. The dotted line is OFHEO's HPI and the blue line is the Case-Schiller Index and the green the National Association of Realtors index. They reflect one-year trailing growth. Case Schiller shows over a 4 percent fall and the Realtors' shows about a 2 percent fall over the last year. OFHEO's index shows a 1.8% growth. The HPI index reflects Fannie Mae and Freddie Mac mortgages. It therefore includes less subprime and no jumbos. So, it is not quite as volatile either on the upside or the downside as the other two. (Slide #).

However, this quarter (Slide #7) was the first loss in the HPI purchase only index in thirteen or fourteen years. We started in 1991 – and we had some volatility there in the early years. As you can see, we have fallen off a cliff recently.

The next chart shows (Slide #8) the local real estate aspect but the slowdown as you can see, is national. The bars reflect the annual growth through last year's third quarter annualized (blue) versus the annual growth through this year third quarter (red). You can see some very significant declines such as in the Pacific region. It was up almost six percent last third quarter – it is down almost three percent this third quarter. East North Central, the rust bucket, if you will, is down significantly. New England is actually showing a little improvement – it's down, but not quite as bad as it was the year before. Overall you're seeing that the decline in house prices appreciation is pretty wide spread at this point.

About six months ago, I did a presentation on subprime. The organizer's theme was you had to adopt a Broadway play. I was just giving a speech on Broadway yesterday, so it reminded me of the playbill (Slide #9) we did for that event.  Taking off from on *Spamalot*, it was *Subprimealot*.  We had the Mighty Python trying to swallow the subprime eggs, if you will, and having more and more indigestion. And the song we featured is "He's Not Dead Yet."  The subprime market is still not dead, but is certainly needs a serious revival.

A key (Slide #10) way to look at what's going on with the subprime market is the subprime delinquencies and foreclosures, which rose rapidly in the third quarter.  . Serious delinquencies, which are 90 days overdue, at 11.4 percent, are now approaching levels we saw in the recession of 2002.  And you are also seeing foreclosures rise rapidly up to 3.1 percent and they are starting to reach a new high for this period.  The trends unfortunately under most projections are that they are going to continue to move higher.

Another way to look at the subprime serious delinquencies, is a state by state basis (Slide #11).  The red states have over 14.6 percent delinquencies, and the orange is over the 11.4 percent national average rate, but below the red.  As you can see, the delinquencies are mainly concentrated in the Midwest, California, the South, and some of the Northeast. But even the light blue color is over eight percent, so there's a serious amount of delinquencies at this point.  One can argue what the normal number for delinquencies is, but certainly, in some areas it's climbing very high.

We are all hearing and certainly the books of the two Enterprises are showing that delinquencies are spreading to other parts of the real estate market.  This graph (Slide #12) shows not only the subprime (orange line) that I just mentioned, but also the prime delinquencies, (bottom blue line) and then the middle red line is the average of all loans.

The average includes not only the subprime and the prime, but some of the loans in between like Alt-A and other non-prime. As you can see there are significant increases in serious delinquencies in the non-subprime area.

So, what have the Enterprises been doing lately given these challenging market conditions? (Slide #13) Obviously, they've been fulfilling their mission and that has been very critical since early August. They have been providing liquidity to the conforming loan market. They have been securitizing almost a hundred billion dollars a month in mortgages. They have adopted the new bank regulators interagency guidances on non-traditional mortgages and subprime, which were implemented on September 13th. The guidances are not only for banks, but for any mortgage that the Enterprises buy including the underlying mortgages in private label securities. As part of the portfolio cap flexibility we gave them in September, they have enhanced their programs to support their twenty billion dollar subprime rescue commitment.

The Enterprises play a role in the foreclosure prevention initiative that was talked about last week by Treasury Secretary Paulson and President Bush. They are the key buyers of the refinanced subprime loans made to people with better quality credit that are now getting out of subprime. The Enterprises also just raised a total of thirteen – almost fourteen billion dollars in preferred stock-and reduced dividends as a necessary way to conserve capital. And just in the last week or so you've seen they have been increasing their pricing. Previously they increased their risk premiums on guarantee fees and now they are raising fees across the board. Price increases take a while to implement and some of them will not happen for another six months.

I made the point that they are providing liquidity to this market and they have done it in a big way. (Slide #14) The green areas are their retained portfolios which have been very flat at about $1.4 trillion dollars because of the portfolio cap and also most recently because of their capital restraints. They changed their portfolio asset mix as they have reduced holdings of their own MBS, but it is still about half their portfolios. The other half is mortgages assets and private label MBS. Their guaranteed MBS outstanding (blue part) of $3.3 trillion is growing very rapidly, especially this year. The next chart (Slide #15) is a depiction of their market share. Last year their market share had fallen to less than forty percent of all new mortgage originations from the peak of the refinance boom of 2003 of about 57 percent. What we are seeing this year is a dramatic turnaround in that market share to over 60 percent in the third quarter. That is a result of a combination of their competitors, the Wall Street private-label securities, withdrawing from the marketplace and the need for banks and other lenders to shed assets to strengthen their balance sheets. All signs are that market share will continue to grow.

Another indication of this year's changes in the mortgage market is the MBS market (Slide #16). The green bars are the private label MBS. They grew very rapidly over the last three or four years. But then with all the problems, especially with the lower quality tranches of those securities early this year, issuance has dried up. What is still being issued to some extent is AAA tranches, the really high quality, MBS. In fact, the two Enterprises were very active buyers of these securities over the last two and three years. They, at their peak, had about $270 billion, of AAA private-label securities of which $170 billion were subprime. But now that demand for private label MBS has dried up, it is back to Fannie Mae, Freddie Mac, and to a lesser than Ginnie Mae, which are all growing market share.

With all that's going in mortgage markets there has been a significant higher credit leverage at these two companies. This bar chart (Slide #17) has two sets of columns – the blue is from year-end 2006 and then the orange is the third quarter of 2007, their last public numbers. And what we show is their total mortgage book – the total mortgage credit they are exposed to which is a combination of their retained portfolios and their MBSs. It depicts two different capital measures. The first is core capital which is the one specified in the law which is shareholders equity less something called Accumulated Other Comprehensive Income (AOCI), which reflects the losses from marking their available for sale portfolios to market. That actually is a pretty big exclusion especially in the case of Freddie Mac. As, you can see, Fannie Mae was about sixty times core capital nine months ago and now it's sixty-six times. Freddie Mac is slightly less times core capital, but almost sixty times at the end of the third quarter.

The second capital measure is fair value which values their assets, liabilities, derivatives, and mortgage-backed securities to market. Both of the Enterprises have had fair value losses of over $8 billion this year – almost twenty percent of their capital. As a result their leverage based on fair value has grown dramatically to over 80 times. If you flip this and look at it as capital to mortgage exposure it is about 1.2 percent. That is a highly leveraged situation. Therefore it is very important to make sure we have a very strong safety and soundness regime given this leverage.

So, why do I say legislation is needed now? (Slide #18) First, liquidity is important to this market and they're providing that liquidity to the market. Another very important thing going forward is the need to restore confidence in the mortgage market. I think creating a stronger regulator for all the housing GSEs, both Fannie Mae and Freddie Mac and the Federal Home Loan Banks, will be an important step in making sure everybody understands that they will remain strong. And that they will not need a U.S. taxpayers bailout, as Peter has said. We need to create a stronger regulator with the full range of authorities that the other federal financial regulators have. It's even more important with these entities because they do not have any significant debt market discipline.

When a normal financial institution gets into trouble the rating agencies downgrade them, and their cost of debt goes up. Even during the periods when the Enterprises could not put out financial statements for several years they were rated AAA. In fact their debt is selling better than AAA paper. Without debt market discipline there is limited offset to the pressures of shareholders to grow. At normal financial institutions, you have the debt markets discipline to help make sure that growth is safe. What certainly happened in the past was that things got out of whack because the debt market discipline was not there and the discipline from the regulator was not strong enough to balance the pressure for profits. We need a stronger regulator as substitute for that lack of debt market discipline.

What we need to do is ensure Fannie Mae and Freddie Mac, and the twelve Federal Home Loan Banks will continue to provide liquidity and stability in the mortgage market. That is critical. They need to provide that liquidity not only today; but, as this is going to take a year or so by most estimates to work its way through, they have to continue to be there for the market. That is why it was very important that the Enterprises did raise the capital as I mentioned earlier. Obviously, they have to operate in a safe and sound manner; but, just as importantly, they should continue to try to support their public purpose of supporting affordable housing. That's one of the key reasons they were created and obviously subprime rescue mortgages are a part of that. It is a function that they need to continue to do.

Now, I understand rescue mortgages may increase the Enterprises risk levels, but it is the kind of trade-off that must be made. Given their public mission it is important that the regulator is strong enough to ensure they continue to be safe and sound in fulfilling their mission.

As you all know, the House passed a bill in May, and I agree with Peter – it's a strong, reasonably balanced bill. Like everything else, there are a few tweaks one would like to make and hopefully, we will be involved in those tweaks at some point. It is my belief that it's time for the Senate to act. I hope that they are going to start picking the ball up soon.

Let me just briefly talk about the key aspects of the bill.(Slide #19) I've already said we need more bank-like regulatory powers and one of those is receivership. The bank regulators have that. We have something called conservatorship which is not nearly as strong as receivership. After many years OFHEO is about ready to put out a draft of a conservatorship regulation. When you look at it and compare it to a bank regulator's receivership powers it is not as strong. Why is that important? It helps with market discipline if the market knows that if things go wrong the Enterprises can be put into receivership. Another bank regulator-like power we need is the authority to address misconduct by officers, employees and directors, given the history of these two companies.

I believe that it is very critical to combine the GSE regulators. We really need one single regulator. There's a lot of synergies between OFHEO and the FHFB and a lot of reasons to combine them. They are both very important in this marketplace today. I love to quote Comptroller General David Walker, who had a good quote on this a while ago, especially as he is also a fellow veteran of mine at the PBGC and Social Security wars. I think highly of him. His quote is "…A single housing GSE regulator could be more independent, objective, efficient and effective than separate regulatory bodies and could be more prominent than either one. We believe that valuable synergies could be achieved and expertise in evaluating GSE risk management could be shared more easily within one agency". I agree that that is very important. We have been trying to work closer with the Federal Housing Finance Board especially on supervision, but obviously it is harder when you are separate agencies. I think it is important for all those reasons, including as David mentioned becoming more prominent. Housing is so critical in this economy at this point that there should be a strong regulator at the regulators' table when they are discussing housing.

The next issue is the transfer of mission and new product authority from HUD. Unlike any other financial regulator OFHEO is missing those key authorities – mission and new product. That can lead to problems. I think it is sub-optimal. There is often a trade-off, as I was talking about before, between mission and safety and soundness. Mission can push you too far to take too many risks and safety and soundness can pull you back. What needs to be done is that new products and programs need to be evaluated all at one time before they are being launched.

The fourth key component out of six, is stronger independence and that means independent litigation and budget authority. OFHEO, unlike the bank regulators, does not have independence from the Justice Department. Since we are very actively engaged in litigation in the federal courts related to, in particular Fannie Mae's past problems – it makes for a very cumbersome process. Because now that the bank regulators have their own independent litigating authority, the Justice Department has lost some of the expertise in that area. So, we need that capability – even at the PBGC we had that capability.

And then we have this strange budget mixture where we are funded by Freddie and Fannie just like the bank regulators are by the banks but yet we are appropriated. That means Congress has to tell us how much we can spend each year. For only two of our fifteen years we have known how much money we had to spend when the year started and this year is just the same. We are in December and are now actually frozen at budget levels of two years ago. OFHEO has about thirty-five vacant positions at the moment out of a staff of about 240. It's a big problem when you are trying to regulate these companies that are spending billions of dollars to fix their problems, not to have the resources required. Last year we got half way through the year before we got the money we needed and that had to come in the Iraqi supplement bill. That uncertain funding level is not the way to run a regulator.

OFHEO needs the flexibility to adjust capital requirements. I talked about that a little earlier, but these companies that have historically grew extremely rapidly with their low capital requirements and the lack of debt market discipline. For 15 years - Up to 2005 they grew fifteen-fold while the marketplace only grew three- fold. The capital requirements are too low at the moment at two and half percent. I do not know if the thirty percent is right or wrong but I know we need flexibility in different market conditions to look at minimum capital. I also know our risk-based capital (RBC) is just not working, and in particular we have seen in the second quarter Fannie's risk capital number goes down by about fifty percent from $20 billion to $10 billion just as the marketplace was getting more and more risky. The problem was that this RBC was pretty well specified in law which doesn't really give us the kind of flexibility we need to create what I would call a modern economic capital framework. That would be extremely important going forward.

Obviously, capital requirements are somewhat controversial and then the sixth one is probably a little more controversial and that's the clear guidance to regulate the portfolios. What we have now as you all know is a problem as these portfolios did grow out of control and as they grew out of control we weren't able to control their growth in any way regulating their capitals – regulating the portfolios and we do need that clear guidance.

As I said before, half their portfolios are invested in their own securities and you wonder if they really need that much to provide that liquidity and stability – it's almost twenty percent of the outstanding mortgage-backed that they issued. Obviously, if they drew down their portfolios somewhat they could free up capital and as you saw by those numbers they can do about five times as much on the MBS side as they can do on the portfolio side. That is what one of things they've been doing this year actually in the particular case of Freddie, is reducing their portfolios so they can do more on the MBS. What we need is the ability to put out a regulation as in the House bill that specifies the mission and risk to be taken into consideration and we're going to do that in the House bill and hopefully when the Senate creates a bill we'll have that power as well.

So, in summary we need in particular the bank regulator powers, the combining of the GSE regulators, new product authority from HUD and stronger independence. We need that flexibility in the capital going forward. Banks are sitting at well over six percent capital. UBS yesterday talked about restoring capital to a ten percent number and yet by law the minimum capital required for Fannie Mae and Freddie Mac is two and a half percent. The Federal Home Loan Banks are at four percent. We really need the ability to promulgate regulations on capital and portfolios.

Just last week there were a lot of comments on the need for GSE reform, as well as FHA reform as part of the activities related to loan modifications that the Treasury Secretary put forward. President Bush (Slide #20) talked about the vital importance of these programs and the vital importance of operating safely and soundly. He called on Congress yet again to pass the GSE reform bill. He hoped the Senate would act soon. Secretary Paulson last Monday, in a conference, talked about the need to create a strong, independent regulator for Fannie Mae and Freddie Mac. They have obviously extremely important roles in making mortgages available and affordable and they do need appropriate regulatory oversight. Chairman Frank, in a hearing last week, talked again about the need for FHA and GSE reform and he said that there's a big, strong bipartisan consensus in the House and that he was hoping the Senate would act soon.

So, in conclusion, my view and hopefully many other people's views, certainly many of the staff and members of Congress we talked to believe it is time to act. We all know that housing is the key component to the U.S. economy, but at the moment it is a very troubled component. The GSEs have been very, very helpful over the last four months providing stability and liquidity to that marketplace and the conforming market segment, but they are stretched. We need a stronger, new regulator now to help restore the confidence I talked about and ensuring the ongoing liquidity. We need to put those three regulatory functions together and create a really stronger regulator to support the housing finance system.

Thank you.

# FANNIE MAE AND FREDDIE MAC: THE NEED FOR GSE REFORM NOW

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**Washington, DC**

**December 12, 2007**

# OFHEO's Strategic Goals

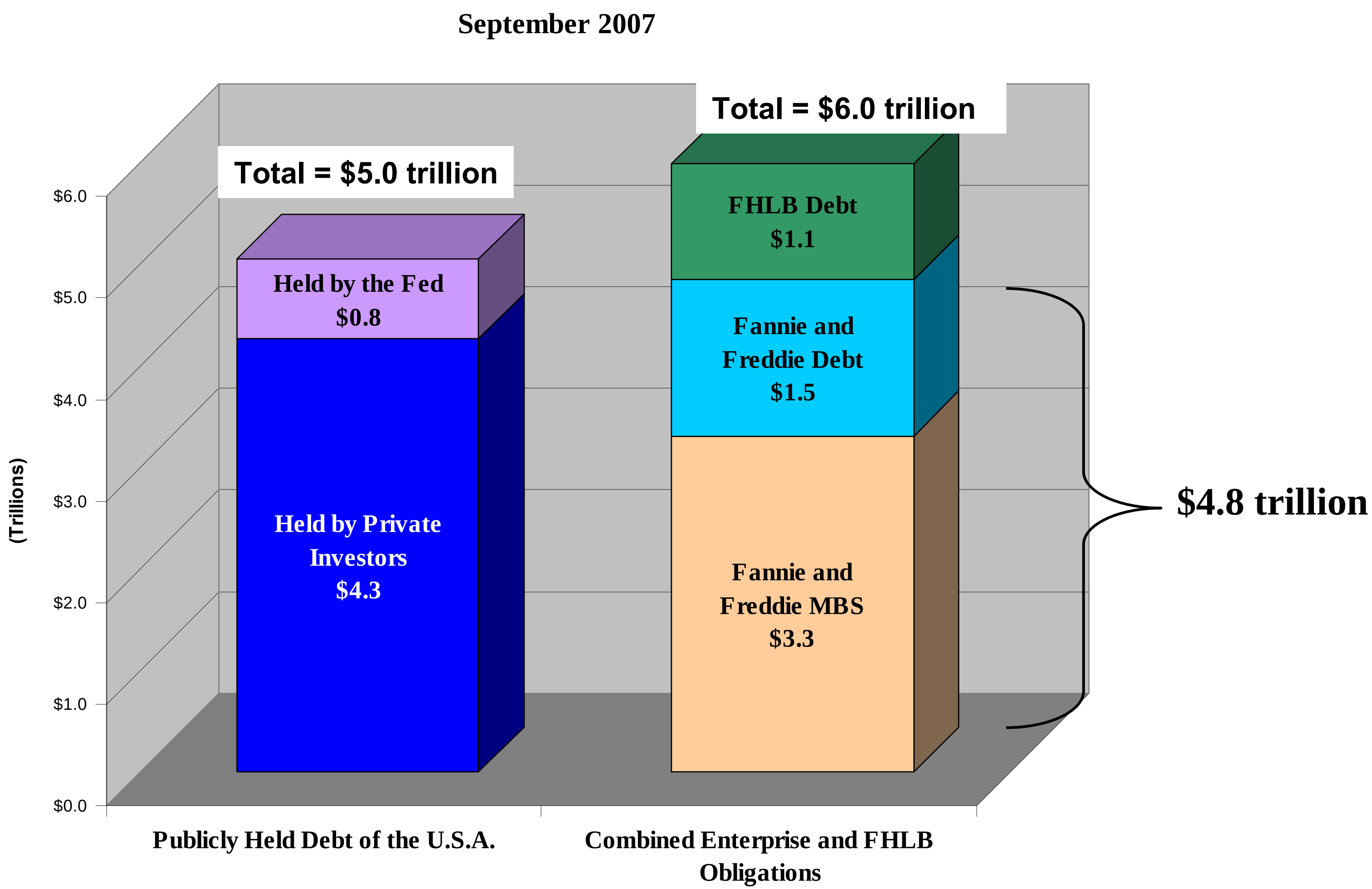
1. Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements.
2. Provide support for statutory reforms to strengthen our regulatory powers.
3. Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

# OFHEO's Safety and Soundness Consent Order Actions

- Due to operational risk issues, OFHEO imposed 3 years ago a 30% increase in minimum capital
  - Assets: 2.50% → 3.25%
  - Guarantees: .45% → .585%
- Last year caps were imposed on mortgage portfolios given their risks, but MBS issuance unconstrained
- In September OFHEO gave more flexibility to portfolio caps to focus on subprime and affordable multi-family housing
  - With capital, they could increase portfolios $80 to $100 billion

# The Housing GSEs are Huge

OFHEO



# The Enterprises Face Growing Risks

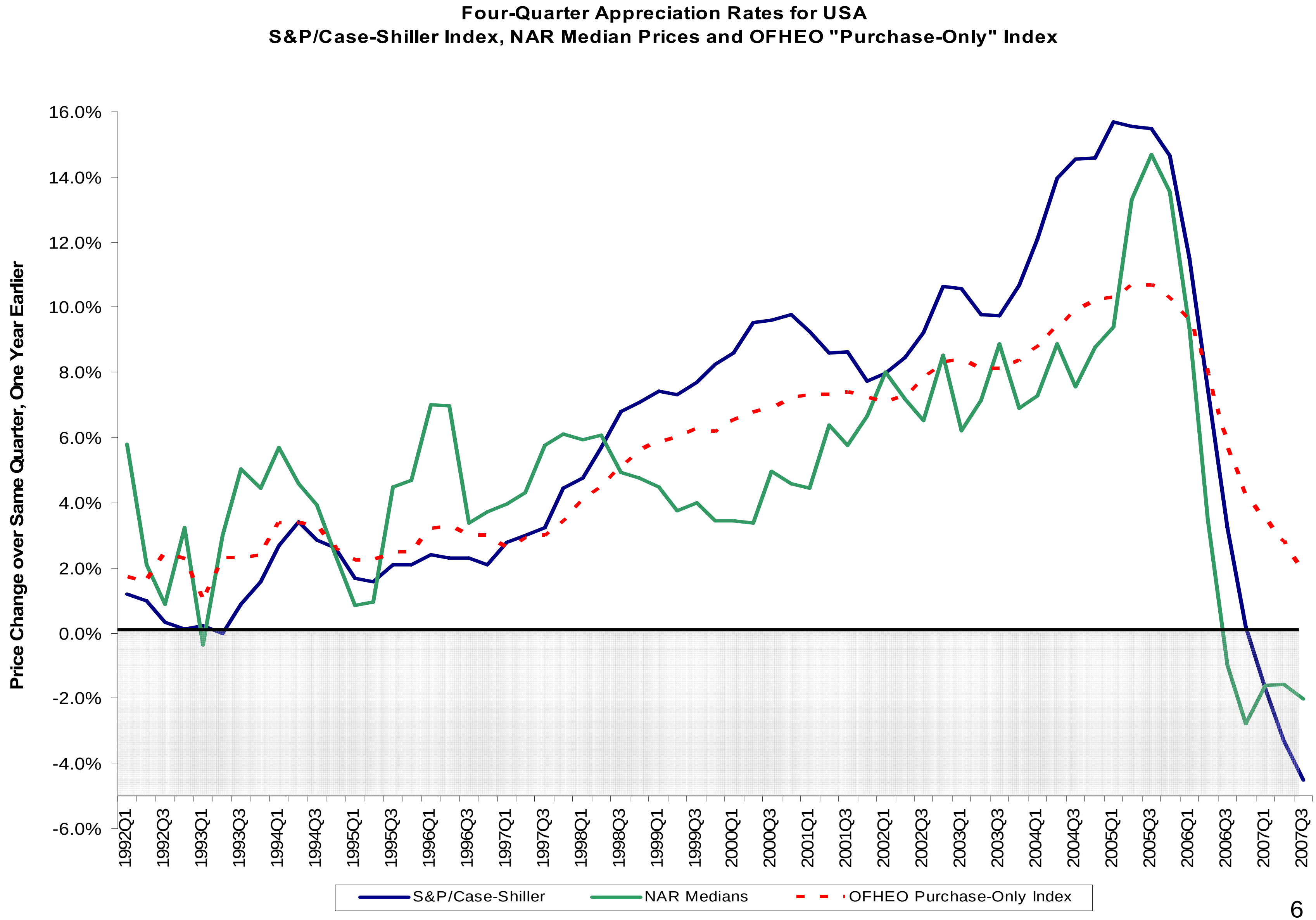
- Operational Risk Remains High
  - Significant Progress on Financial Reporting, Internal Controls and Risk Management, but more needs to be done
  - Heavy Reliance on Models for pricing, valuation and forecasting
  - Increased REO with Declining Home Prices

- Credit Risk is Increasing Rapidly
  - 2006 and first half of 2007 Book is lower quality
  - Credit losses will go from recent 1 to 2 b.p. through “normal” 4 to 6 b.p. to above that level

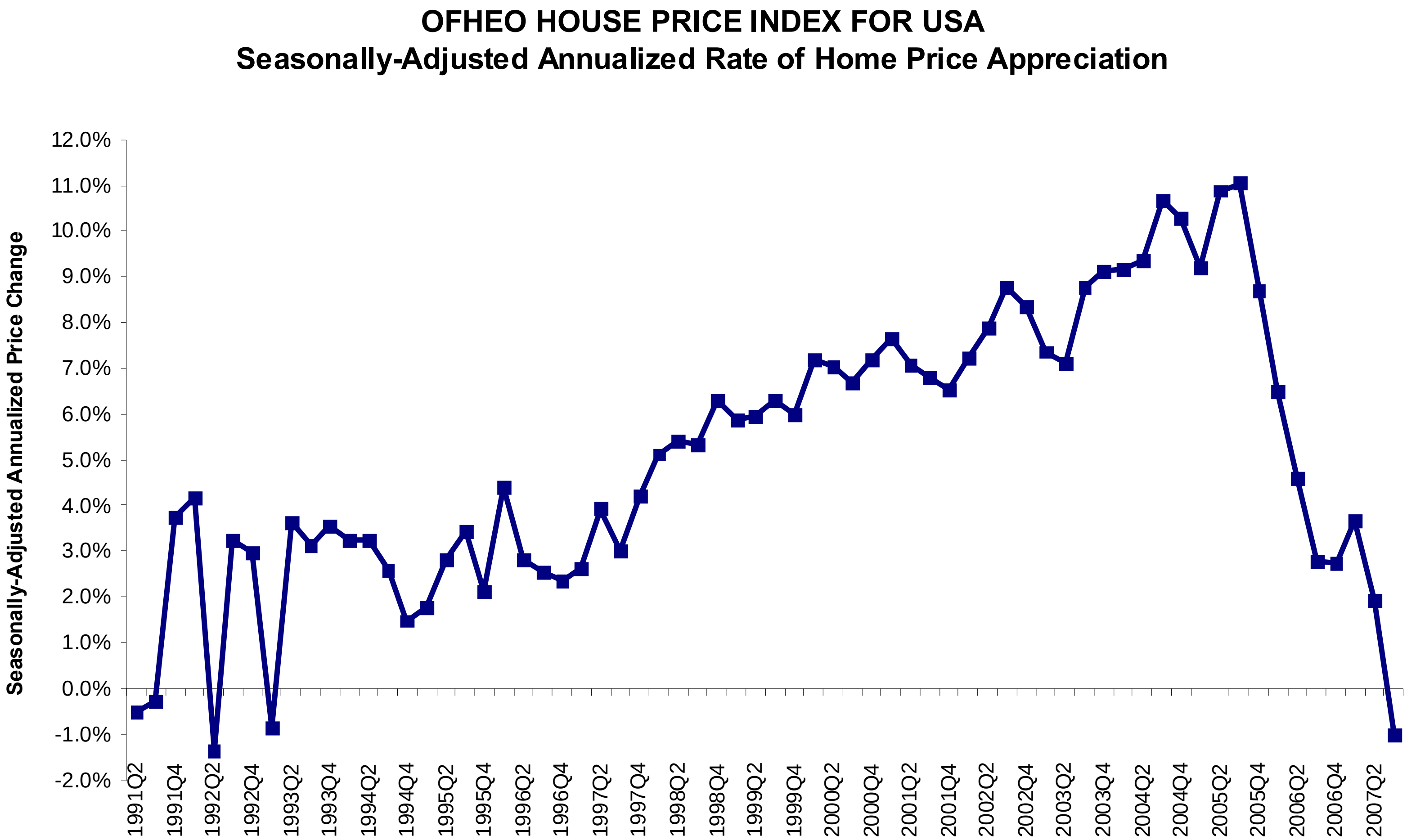
- Market Risk is More Challenging
  - Interest Rate Volatility – Convexity
  - Mortgage to LIBOR spreads (OAS) Volatility

- Losses Growing
  - $2.0 Billion in 3Q 2007 – FRE 4 Quarterly Losses in Last 5 Quarters
  - $1.4 Billion in 3Q 2007 – FNM 2 Quarterly Losses in Last 5 Quarters
  - Both are expecting tough 4Q and 2008

# House Appreciation Falling Fast

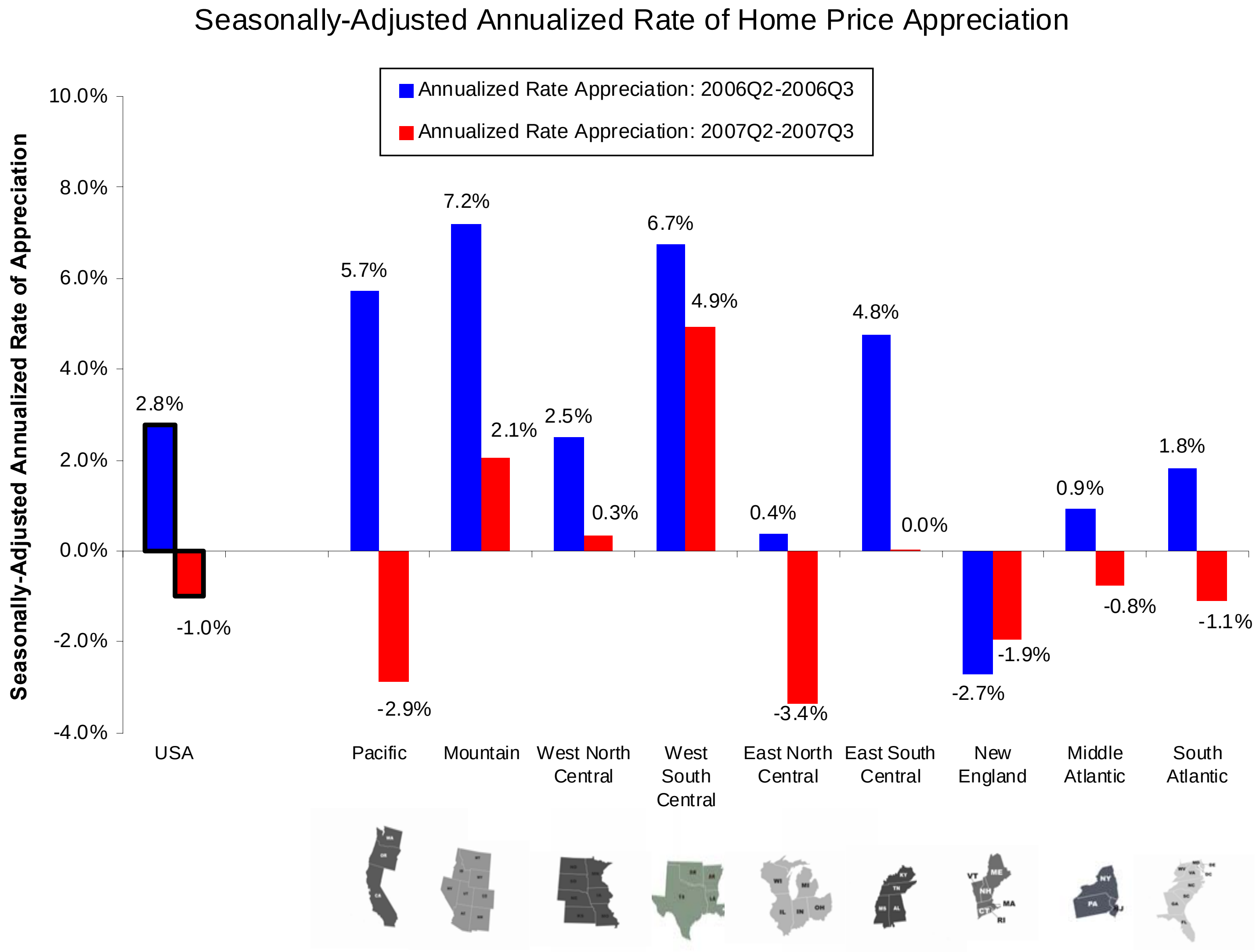


# On Quarterly Basis HPI Turned Negative

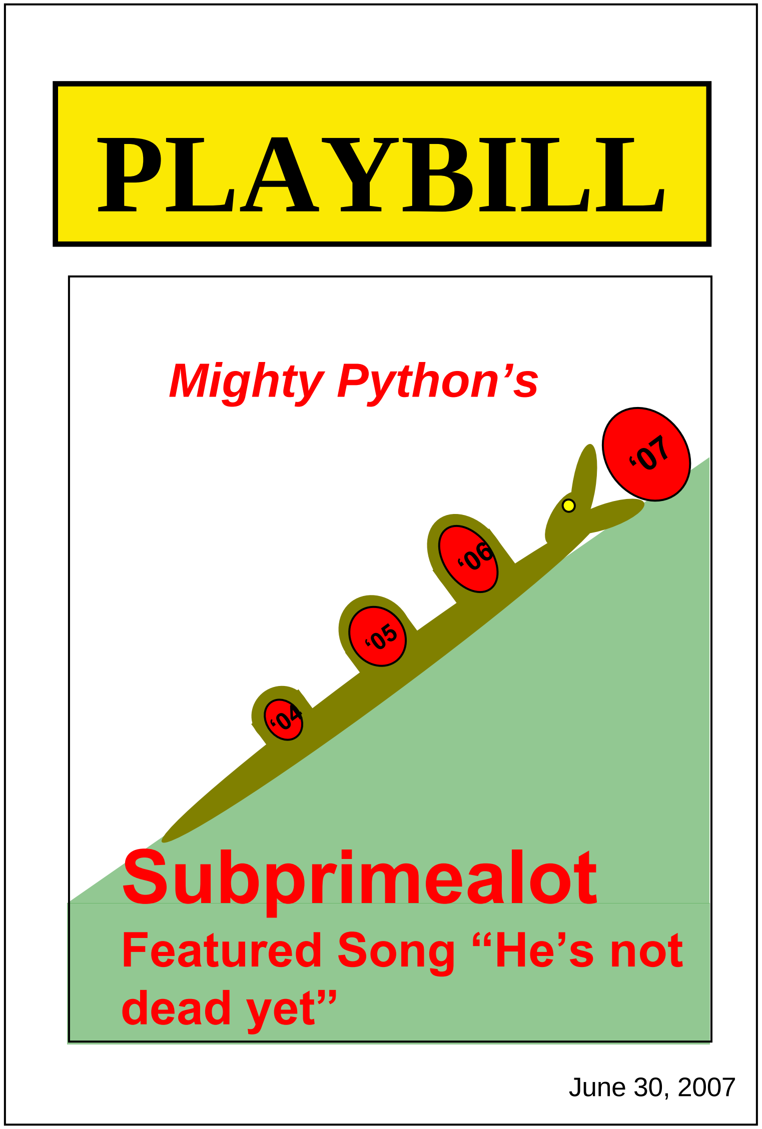



Note: Estimates are produced using OFHEO's "purchase-only" house price index. That index is estimated using sales price data (appraisal valuations are not used in estimation).

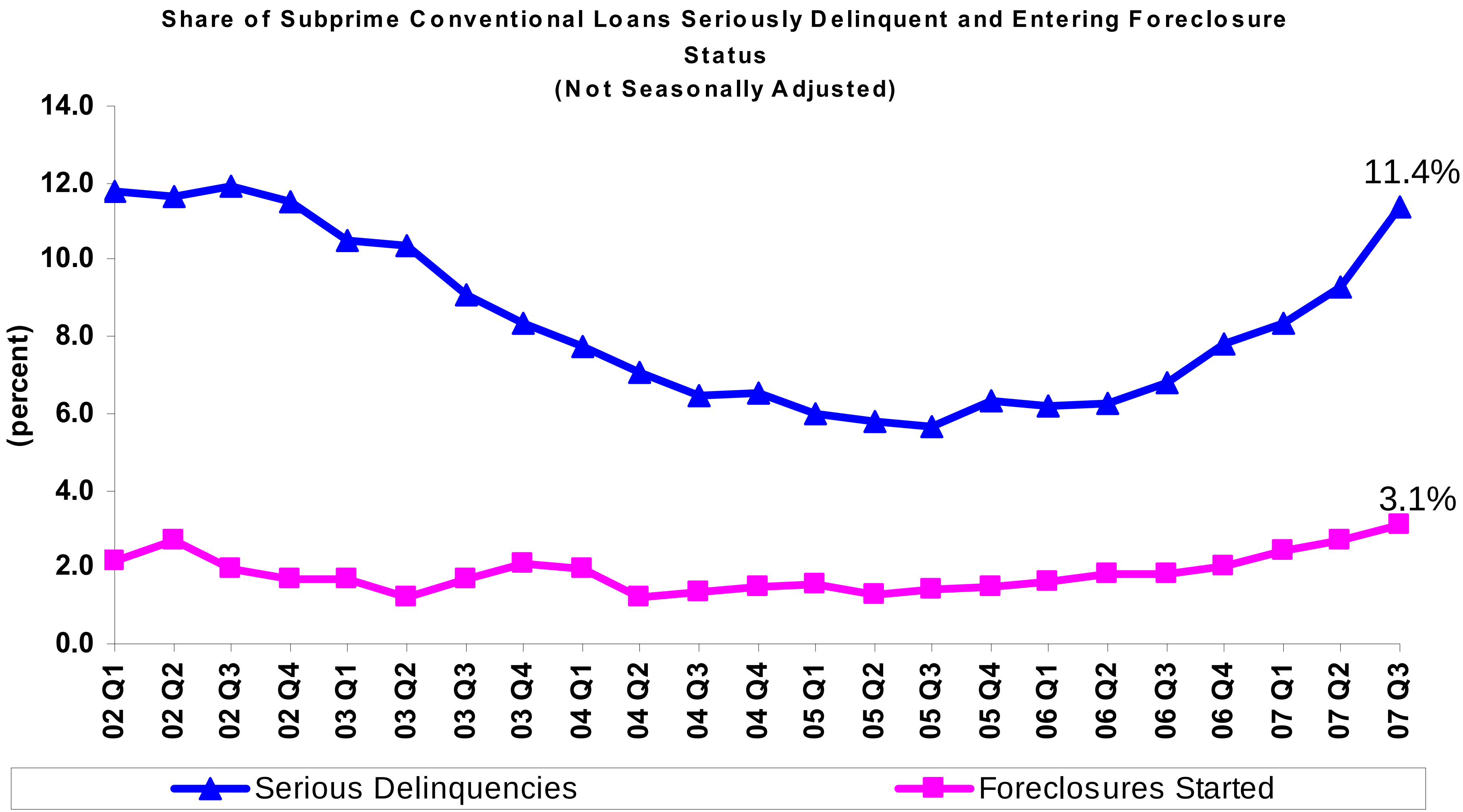
# Real Estate Still Local, but slowdown is national



# Subprime Digestion Problems Were First



# Subprime Delinquencies and Foreclosures

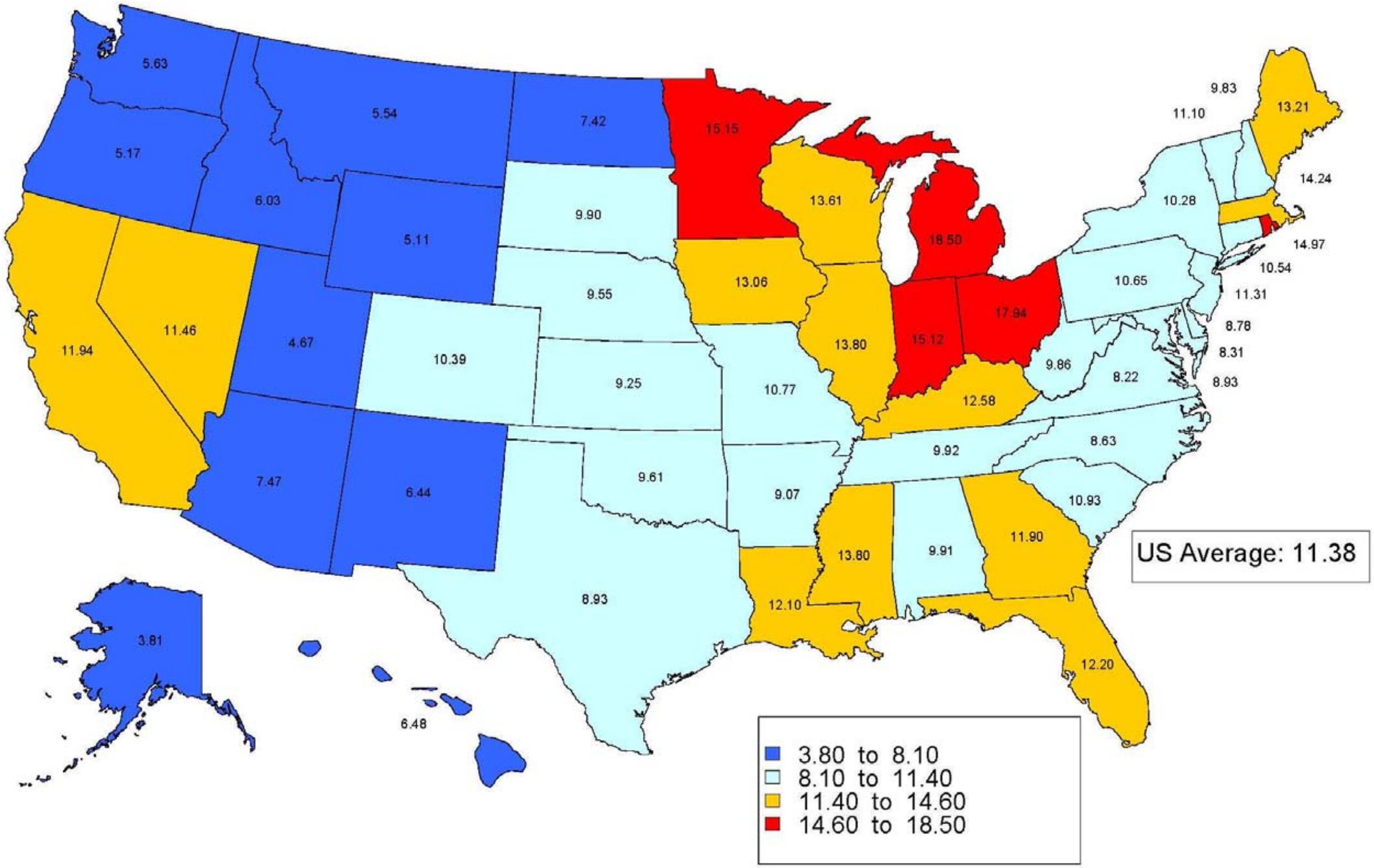



Note: Seriously delinquent loans are 90 or more days delinquent or in foreclosure processing.

Source: MBA National Mortgage Delinquency Survey.

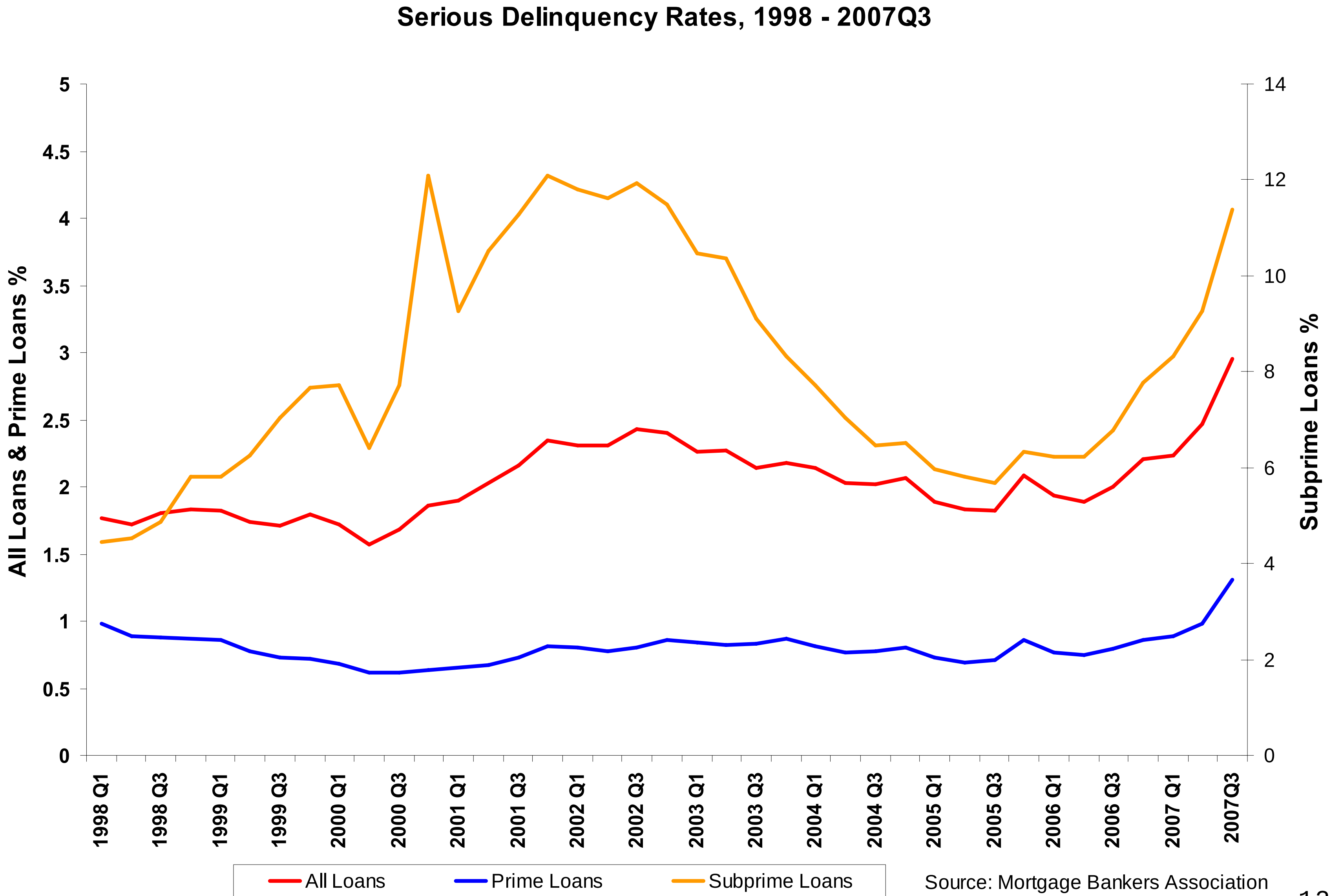
# Subprime Serious Delinquencies

Third Quarter 2007




Source: Mortgage Bankers Association

# Delinquencies Rising in Other Areas

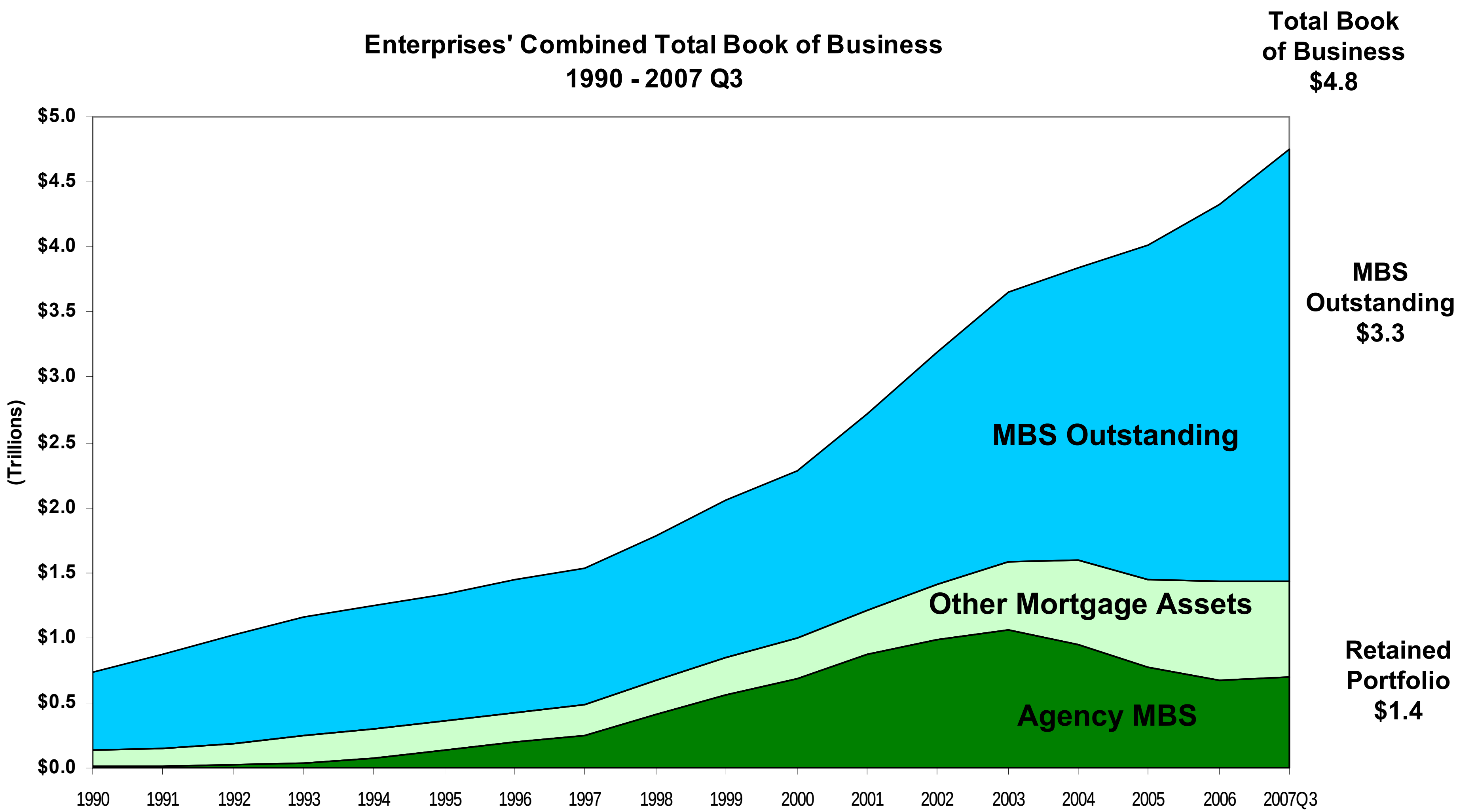



Source: Mortgage Bankers Association

# Enterprises' Recent Actions

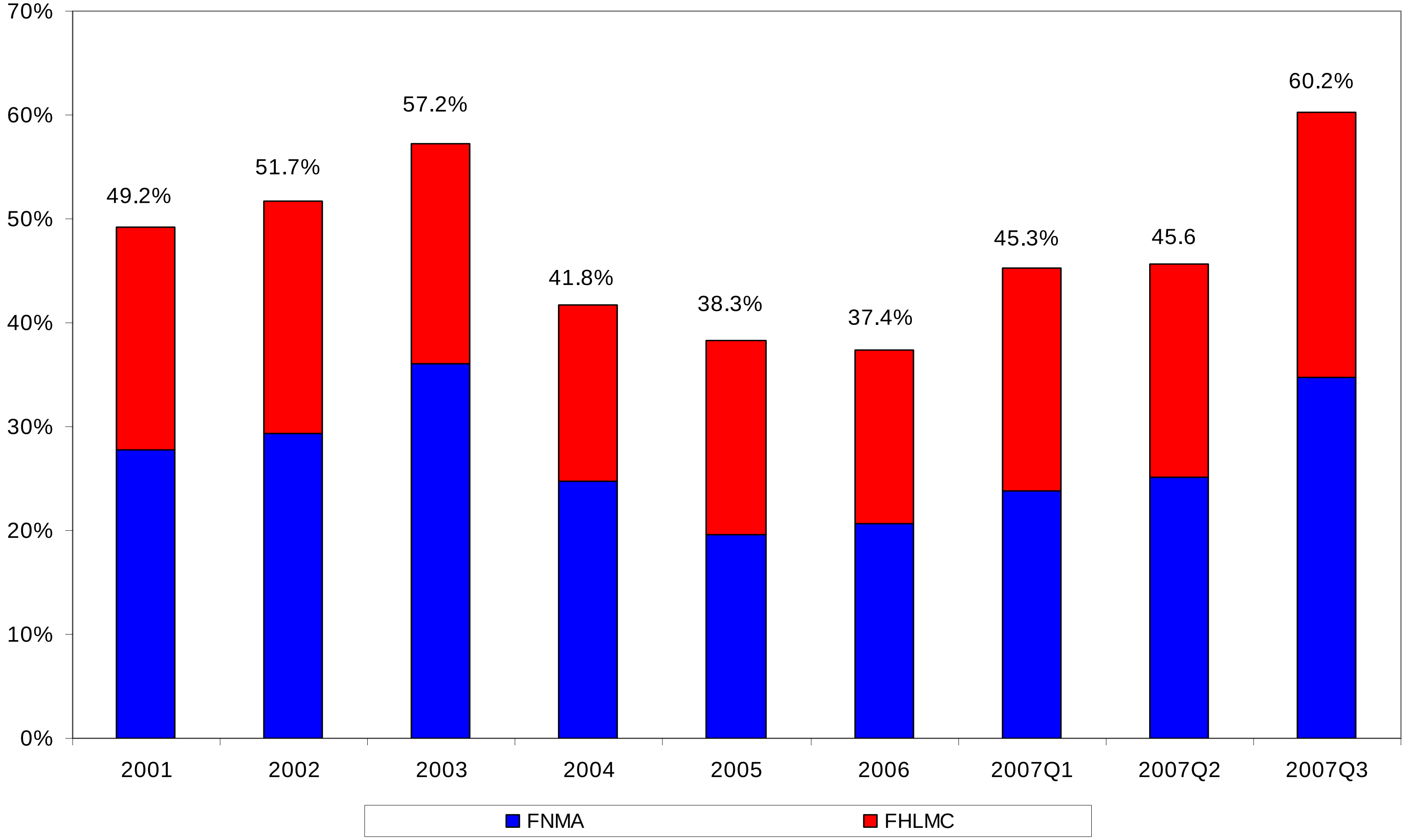
- Provided liquidity and forward commitments to help with dislocation in the mortgage markets since early August.
- Adopted the Interagency guidelines on NTM and subprime.
- Enhanced programs to support $20 billion subprime rescue mortgage commitment in conjunction with portfolio cap flexibility.
- Raised $13 billion in preferred stock and reduced dividends.
- Increased risk related pricing.

# Combined Book of Business Continues to Grow



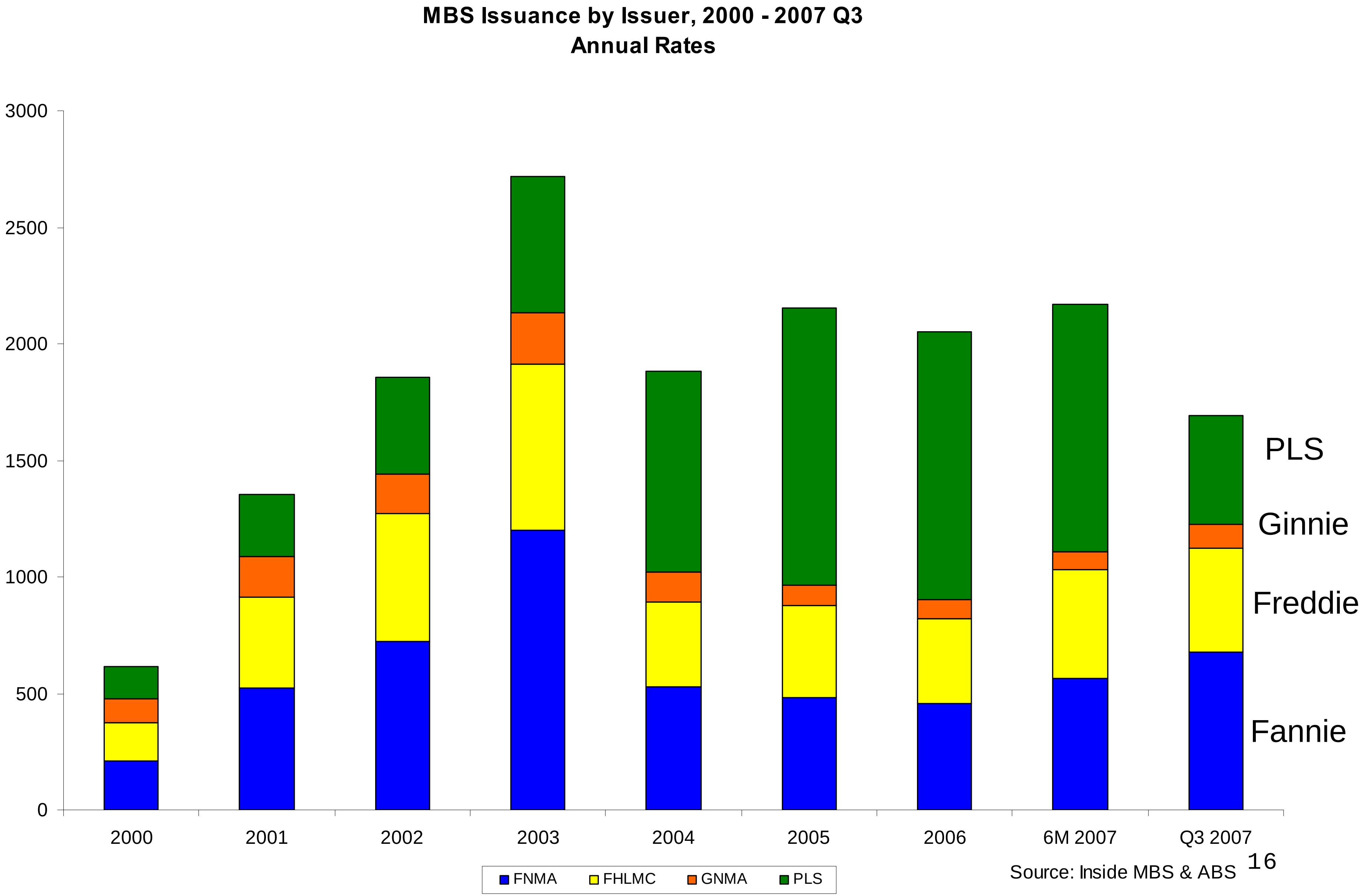
# Dramatic Increase in Share of Mortgage Originations

2001 – 2007 Q3



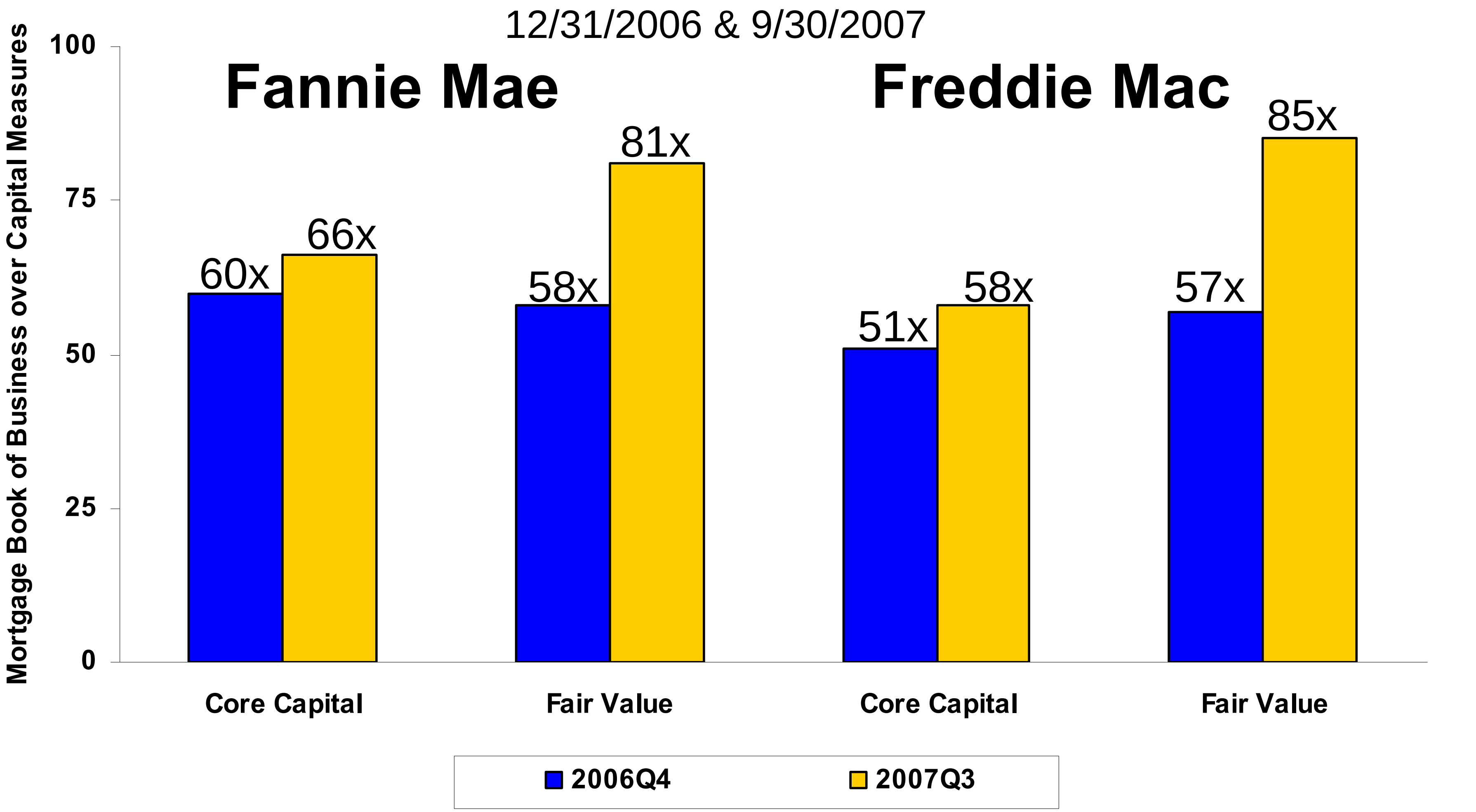

Source: Inside Mortgage Finance

# Private Label Shrinking, But Still There




Source: Inside MBS & ABS

# Very High Mortgage Credit Leverage




Since Quarter End, Fannie Mae has raised $7.9 billion and Freddie Mac $6 billion in preferred stock.

# Why is Legislation Needed Now?

OFHEO

- Increase confidence in mortgage market
- Create a stronger regulator of the housing GSEs, giving it the full range of authorities provided to other federal financial regulators.
  - Without credit market discipline that banks have, the regulator may need stronger powers in key areas
- Ensure that Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks will:
  - Provide liquidity and stability in all mortgage market conditions
  - Operate safely and soundly
  - Achieve their public purpose of supporting affordable housing, especially subprime rescue mortgages.
- House passed bi-partisan legislation by a wide margin on May 22, 2007. Market conditions prove it is time for the Senate to act.

# Key Components of Legislation

- More bank-regulator like powers receivership
- Strength through combining the GSE regulators (OFHEO and FHFB)
- Transfer mission and new product authority from HUD
- Stronger independence – litigation and budget
- Flexibility to adjust capital requirements
- Clear guidance to regulate portfolios

# LAST WEEK'S SUPPORT OF GSE REFORM NOW

OFHEO

## President Bush:

"*Congress needs to pass legislation to reform Government Sponsored Enterprises like Freddie Mac and Fannie Mae. These institutions provide liquidity in the mortgage market that benefits millions of homeowners, and it is vital they operate safely and operate soundly. So I've called on Congress to pass legislation that strengthens independent regulation of the GSEs – and ensures they focus on their important housing mission. The GSE reform bill passed by the House earlier this year is a good start. But the Senate has not acted. And the United States Senate needs to pass this legislation soon." December 6, 2007*

## Secretary Paulson:

*"Congress needs to complete its work and create a strong, independent regulator for Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have an important role to play in making mortgages available and affordable, and appropriate regulatory oversight is critical to their ability to serve their public policy purpose…Congress now needs to act." December 3, 2007*

## Chairman Frank:

*"[There is] a good deal of bipartisan support on core principles for having the FHA and Fannie Mae and Freddie Mac more able to [assist subprime borrowers]. I also hope that the Senate will act on the FHA, and Fannie-Freddie -- the GSE bills so we can move forward." December 6, 2007*

# It Is Time To Act

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• Housing is a key component of the U.S. economy, but troubled

• Housing GSEs have been key to the stability and liquidity of conforming loan market, but stretched

• A new, stronger GSE regulator is needed Now to help restore confidence and ensure ongoing liquidity

OFHEO + FHFB + HUD *mission compliance* = Stronger, safer U.S. Housing Finance System