

# DOWNLOAD PDF TREASURY, CBO, AND GAO REPORTS ON FNMA, FHLMC, AND THE FEDERAL HOME LOAN BANK SYSTEM

## Chapter 1 : Federal Home Loan Mortgage Corporation [WorldCat Identities]

*Treasury, CBO, and GAO reports on FNMA, FHLMC, and the Federal Home Loan Bank System: hearings before the Subcommittee on Housing and Community Development of the Committee on Banking, Finance, and Urban Affairs, House of Representatives, One Hundred Second Congress, first session, May 15, 29, Washington: U.S. G.P.O.*

History[ edit ] From to , the Federal National Mortgage Association Fannie Mae was the sole institution that bought mortgages from depository institutions, principally savings and loan associations, which encouraged more mortgage lending and effectively insured the value of mortgages by the US government. In , Fannie Mae split into a private corporation and a publicly financed institution. The private corporation was still called Fannie Mae and its charter continued to support the purchase of mortgages from savings and loan associations and other depository institutions, but without an explicit insurance policy that guaranteed the value of the mortgages. The publicly financed institution was named the Government National Mortgage Association Ginnie Mae and it explicitly guaranteed the repayments of securities backed by mortgages made to government employees or veterans the mortgages themselves were also guaranteed by other government organizations. To provide competition for the newly private Fannie Mae and to further increase the availability of funds to finance mortgages and home ownership, Congress then established the Federal Home Loan Mortgage Corporation Freddie Mac as a private corporation through the Emergency Home Finance Act of . A member board of directors for Freddie Mac was formed and subjected to oversight by the U. In , Freddie Mac began receiving affordable housing credit for buying subprime securities, and by , HUD suggested the company was lagging behind and should "do more. Federal government on Sunday, September 7, . Above the conforming loan limit, a mortgage is considered a jumbo loan. The conforming loan limit is 50 percent higher in such high-cost areas as Alaska , Hawaii , Guam and the US Virgin Islands , [13] and is also higher for 2-4 unit properties on a graduating scale. Modifications to these limits were made temporarily to respond to the housing crisis, see Jumbo loan for recent events. Guarantees and subsidies[ edit ] No actual guarantees[ edit ] The FHLMC states, "securities, including any interest, are not guaranteed by, and are not debts or obligations of, the United States or any agency or instrumentality of the United States other than Freddie Mac. FHLMC securities carry no government guarantee of being repaid. Assumed guarantees[ edit ] There is a widespread belief that FHLMC securities are backed by some sort of implied federal guarantee and a majority of investors believe that the government would prevent a disastrous default. Crippen, testified before Congress in , that the "debt and mortgage-backed securities of GSEs are more valuable to investors than similar private securities because of the perception of a government guarantee. However, the corporation and the securities it issues are thought to benefit from government subsidies. The Congressional Budget Office writes, "There have been no federal appropriations for cash payments or guarantee subsidies. But in the place of federal funds the government provides considerable unpriced benefits to the enterprises. Government-sponsored enterprises are costly to the government and taxpayers. Competition between the GSEs and private securitizers for loans further undermined GSEs power and strengthened mortgage originators. This contributed to a decline in underwriting standards and was a major cause of the financial crisis. Whereas the GSEs guaranteed the performance of their MBS, private securitizers generally did not, and might only retain a thin slice of risk. When interest rates eventually rose, financial institutions sought to maintain their elevated earnings levels with a shift toward riskier mortgages and private label MBS distribution. Earnings depended on volume, so maintaining elevated earnings levels necessitated expanding the borrower pool using lower underwriting standards and new products that the GSEs would not initially securitize. Thus, the shift away from GSE securitization to private-label securitization PLS also corresponded with a shift in mortgage product type, from traditional, amortizing, fixed-rate mortgages FRMs to nontraditional, structurally riskier, nonamortizing, adjustable-rate mortgages ARMs , and in the start of a sharp deterioration in mortgage underwriting standards. Shareholder pressure pushed the GSEs into competition with PLS for market share, and the GSEs loosened

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their guarantee business underwriting standards in order to compete. As a result, home prices declined as increasing foreclosures added to the already large inventory of homes and stricter lending standards made it more and more difficult for borrowers to get mortgages. This depreciation in home prices led to growing losses for the GSEs, which back the majority of US mortgages. In July , the government attempted to ease market fears by reiterating their view that "Fannie Mae and Freddie Mac play a central role in the US housing finance system".

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## Chapter 2 : Archives | Financial Services Committee | U.S. House of Representatives

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As a GSE, the Banks have special ties to the federal government that accord them "agency" status and lead investors in capital markets to infer that the government would step in to make good any failure in the debt of the Banks. Originally begun in as lenders to the savings and loan associations that were the primary lenders for home mortgages, the Banks have undergone several changes since the savings and loan crisis of the s. Membership in the Banks has changed, today encompassing more commercial banks than savings associations and including credit unions, insurance companies, and some associated housing providers. Purposes of lending—while still primarily housing-related—now include agricultural and small business lending. The changes have also resulted in special mission set-asides for low- and moderate-income housing and special programs for community development. Differences between FHFBS and OFHEO, including capital and ownership standards, requirements for the housing mission, and regulatory powers, complicate regulatory consolidation. In the th Congress, two major bills would merge regulation for the housing-related GSEs. The measures have several important differences. The slowdown in housing markets and rise in foreclosures have led to concerns about the health of the FHLBs. Some large non-member lenders have affiliates that are members of a regional FHLB. These affiliates could draw on FHLB resources to move some troubled loans onto System balance sheets. This is a concern because some believe that the government would not let the FHLB System fail, and that such affiliate actions could raise the potential risk and cost to taxpayers. Possible mergers of FHLBs is another issue. The potential merger would be the first of its kind and raises several oversight issues, including FHFBS approval powers and System organization. This report will be updated as events warrant. Federal Home Loan Bank System: Still a lender to lenders primarily for housing, the Banks can now lend for many other purposes as well, and have special responsibilities for low- and moderate-income housing, for debts incurred by the federal government in handling deposit insurance crises of the s, and for some community development projects. The system as a whole has also grown to become essentially the same size as the other two housing-related GSEs, Fannie Mae and Freddie Mac. Congressional discussions surrounding Fannie Mae and Freddie Mac and their regulators now include the Banks and could fold their overseer into a new single regulator for all three GSEs. This report gives a short history and basic description of the Federal Home Loan Bank System, its responsibilities, and its ties to the government. It comprised 12 regional, member-owned and federally chartered Banks, each with its own individual board of directors. The purpose of the Banks was to provide liquidity for the main mortgage lenders of the time, the savings and loan associations. Home mortgage lending was often hampered—never more so than in the —because savings associations lacked consistent access to capital markets to replace deposits whenever large numbers of depositors withdrew their money, as would happen during periods of high unemployment. The Banks corrected this by making loans "advances" to the federally chartered savings associations which banking law required to be members of the Banks. The Banks secured the advances by placing liens on home mortgages held by the lenders, assuring the funds were used for housing finance. The FHFBS maintained supervision of the 12 Banks, but had neither regulatory nor deposit insurance functions over the remaining savings associations, which Congress delegated to a new Office of Thrift Supervision and the Federal Deposit Insurance Corporation, respectively. The act also opened membership in the Banks to all depository institutions, so long as they engaged in significant mortgage lending, 7 and set up two requirements for the System: The Federal Home Loan Bank System Modernization Act of , Title VI of the Gramm-Leach-Bliley Act, 8 subsequently broadened membership qualifications in the Banks by dropping minimum mortgage asset requirements, and making membership voluntary for all members, including federally chartered savings

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associations who were the originally mandated members of the System. The law also required new, permanent capital standards for the Banks, and expanded the mission by allowing the Banks to make advances secured by assets other than housing loans—mainly agricultural and small business loans. Each Bank has its own board of directors, varying in size from 14 to 19 persons. Membership System membership is limited to regulated depositories, insurance companies engaged in housing finance, and certain governmental housing finance bodies. Each member must own capital stock in its district Bank. Each Bank is thus privately owned with its own board of directors, management, and employees. Members receive dividends on their shares of capital stock from the earnings of their respective Bank. Commercial banks dominate System membership, and account for the largest share of borrowing. As of June 30, , System membership totaled 8, institutions, with 5, commercial banks, 1, thrifts, credit unions, and insurance companies. Banks largely fund their activity through System "consolidated obligations" publicly traded bonds , which are the joint and several liabilities of all the Banks and are issued through the Office of Finance. Consolidated obligations are neither obligations of, nor guaranteed by, the United States. As with other GSEs, however, financial markets infer that the federal government would back these obligations if necessary to prevent default, an inference widely referred to as an "implied guarantee. On-budget but self-supporting, the FHFBS is not subject to the congressional appropriations process. Much of the debt is short-term, which requires that each year the total rollover of debt be several times system assets. Individual Banks may have lower credit ratings, however. Whole first mortgage loans and mortgage-backed securities generally collateralize advances, although other assets also qualify. Under the Modernization Act, community financial institutions may receive advances supporting their loans to small businesses, small farms, and small agribusinesses. Government-Sponsored Enterprise Privileges As with all GSEs, Congress has given the System a series of special privileges and exemptions to help them in addressing their mission. Treasury for the System as a whole ; 11 eligibility of debt for Federal Reserve open market purchases, unlimited investment by commercial banks and thrifts, 12 and collateralizing public deposits; 13 priority on collateral claims on member institutions, over any and all other creditors the "super lien" ; 14 the use of Federal Reserve Banks as fiscal agents; 15 exemption of earnings from federal, state, and local income tax; 16 exemption of interest paid to investors from state income tax; 17 and status of debt issues as government securities for purposes of the securities laws. The Banks do borrow money at rates near to those of comparable-maturity Treasury issues. Although Bank debt does not carry the full-faith-and-credit backing of the federal government, investors generally believe that the federal government, which chartered them for their public policy mission, would not allow any Bank or its obligations to fail. For purposes of meeting those missions, each Bank develops its own strategies. The first mission is to provide liquidity to members. They do this with advances, including member-callable and convertible advances, letters of credit, and acquisition of member assets mortgages and mortgage-backed securities. Under this small program, a member of a Bank may sell eligible mortgage loans anywhere in the System to an institution that is a member of the Chicago Bank. The latter member then sells the loans to a trust that issues structured securities to the member for the loans, with Chicago acquiring the senior securities. Sales of all the securities are limited to Banks or members within the System, a restriction that limits direct competition with Fannie Mae or Freddie Mac. The second mission is for housing and community investment. The third temporary mission is to repay debts incurred for the deposit insurance losses due to failures of savings and loan associations in the s and their cleanup in the s. At the most recent reporting, the debt set-aside is sufficient to last through January It is associated with, but not controlled by, HUD. The Board has five members. The President appoints four with the advice and consent of the Senate for seven-year terms. Not more than three members may be of the same political party. One represents consumer or community financial interests. One is designated as chairperson. The Secretary of HUD is the remaining director. Its operations are not subject to the congressional appropriations process. The Board has broad statutory powers over the Banks. It uses these powers to ensure the safety and soundness of the Banks and to see that they carry out their public purpose of providing home finance. Individual Banks may carry out their mission activities subject only to the approval of the Finance Board. The statute gives the Board

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authority to suspend or remove officers and directors for cause. It can also issue supervisory letters, supervisory and capital directives, and can restrict dividends. The Board claims implicit authority to issue temporary and permanent cease and desist orders. The Board has the power to approve new and existing activities. It can limit indirectly other activities through approval of the individual Bank budgets. The Board has broad powers to liquidate and reorganize individual Banks, within a statutory framework that mandates that there be at least eight, but not more than 12, Banks. The Board may liquidate or reorganize a Bank whenever it finds such action will aid the efficient and economical accomplishment of the Bank Act. Issues Facing the Bank System Some Bank assets, such as derivatives and manufactured housing loans, have resulted in losses, in the same manner if not scale as Fannie Mae and Freddie Mac. The Banks have, in some cases, had to restate earnings, cut dividends, alter their capital structures, and change managements as a result. Most problems have related to accounting for derivatives generally used to hedge against interest rate movements that could erode the value of Bank holdings of mortgages or liens on member mortgage portfolios and have had little cumulative effect. In , the FHFBB required all the Banks to register at least one class of equity member stock with the SEC, thus giving up their charter exemptions from registration. Because of their cooperative and collective structure, SEC registration looks somewhat different from that of publicly held companies, but triggers the same disclosures as to the risks and financial details of the Banks. Now that the Banks have registered under the voluntary procedures, they are not permitted to de-register, and must file all appropriate disclosures and reports required by the SEC. They are also subject to fines and penalties for inaccurate or incomplete reporting under the securities laws, including the Sarbanes-Oxley Act. Two other issues discussed among policy analysts concern risks attendant to joint and several liability, and the super lien. Joint and several liability is a large part of why the Banks are usually considered a single, collective GSE rather than a collection of separate companies. It also, however, creates some "moral hazard" in that any one Bank may be encouraged to take risks that might have to be paid for in part by other Banks—even though other Banks may be unaware of any irregularity. The super lien allows the Banks to step into a failed member institution and claim assets to make itself whole before any other creditor, including the FDIC. The Banks have not historically had to specify assets used as collateral until after a failure, leading to the opportunity to "cherry pick" the best assets remaining in a failed member institution and raising the costs to the FDIC of resolving a failed bank or thrift. A continuing issue affecting all GSEs concerns the possibilities of systemic risk that arise from the circumstance of having all Bank debt treated by the financial markets as if it were federal agency debt. Because depository institutions, for which the federal government has clear safety responsibility, can hold agency debt without regard to limits on loans to a single lender, the possibility exists that a failure of the Banks could trigger failures of commercial banks, savings associations, and credit unions that were overexposed to System debt. The limit on excess stock, also known as voluntary stock, is meant to ensure that the banks remain appropriately capitalized, retain access to capital markets, and preserve safety and soundness. Because of the market perception that GSEs are too important for the government to allow any of them to fail, the GSEs have an incentive to take on greater risks, or to expand into areas that allow them to grow their businesses at the expense of companies not so favored. This not only creates problems of competitiveness, but it also creates a macroeconomic problem of over-allocation of capital market credit into housing markets. The allocation, intended for housing, is problematic in that it is an indirect way to provide shelter. Not only can part of the implied subsidy be retained by the GSEs, what they pass through can be wasted in the sense that lower prices for mortgages may be lost in higher prices for housing. The slowdown in the housing market could negatively affect the FHLBs. In addition to any delinquent loans that may be in the FHLB System, a general decline in house prices would reduce the value of the collateral that backs the banks making up the system. Declining collateral value hurts bank balance sheets even while the loans perform. Estimating the likely effect on the FHLB System is difficult because there has not been a national decline in house prices since the System was created, although regional house prices have declined. Refinancing represents another channel through which troubles in mortgage markets could affect the FHLBs.

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### Chapter 3 : Federal Home Loan Bank System: Policy Issues - calendrierdelascience.com

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GAO determined that the housing GSE regulators would be more effective if the regulatory function was combined and one regulator was authorized to oversee both safety and soundness and mission compliance. A single housing GSE regulatory agency could be more independent and objective than separate regulatory bodies and could be more prominent than any one alone. Although the GSEs operate differently, the risks they manage and their missions are similar. A single regulator should be better able to assess the competitive effect of specific mission requirements, such as special housing goals, and new programs or initiatives on all three housing GSEs and better ensure consistency of regulation for GSEs that operate in similar markets. Chairman and Members of the Subcommittee: Second, I will discuss the question whether both safety and soundness and mission oversight should be vested in that regulator. Third, I will discuss several possible regulatory structures. Finally, I will briefly mention one other issue that is important in considering how best to regulate the housing GSEs. As you know, the current regulatory arrangement for the housing GSEs involves three regulators. In our and reports on GSEs, we identified criteria that a GSE regulatory agency structure should meet in our view to facilitate effective oversight. On the basis of work we have done subsequently, we believe those criteria remain sound. In addition to reviewing our past work in light of the current regulatory structure and GSE activities, as well as ongoing work related to these GSEs and their regulators,<sup>5</sup> we solicited views of housing, GSE, and regulatory officials. Our ongoing work has strengthened our belief that the housing GSE regulators would be more effective if combined and authorized to oversee both safety and soundness and mission compliance. Although we recognize that the housing GSEs operate and are structured differently, the risks they manage are similar. We believe valuable synergies could be achieved and expertise could be shared. We also believe that a single housing GSE regulator could foster competition among the three GSEs while providing consistent rules and interpretations. However, had a single regulator been responsible for all three GSEs, a single assessment could have combined consideration of all competitive effects and better ensured consistency of regulatory oversight. We recognize that because of possible conflicting interests of the housing GSEs in pursuing their lines of business and missions, such an assessment could be difficult. However, we believe the process could be handled more effectively and efficiently within one regulatory body. The most often identified disadvantage of creating a single housing GSE regulator is the potential disruption in operations of the existing regulatory agencies, especially for a relatively new agency like OFHEO. On the other hand, these effects should be short term and the outcome should result in more effective regulation in the long run. We strongly believe that the independence this would provide is imperative to ensure objectivity. As you know, FHFB still participates in FHLBank System business, which we have stated in previous work and continue to believe is inappropriate for a regulator and presents potential for conflict. Some critics of combining mission and safety and soundness have voiced concerns that doing so could create regulatory conflict for the regulator. It seems to us, however, that the tension caused by having both private and public characteristics could be best understood and accounted for by having a single regulator that has complete knowledge of financial condition, regulates the mission goals Congress sets, and assesses efforts to fulfill them. Given the current financial strength of Fannie Mae, Freddie Mac, the FHLBank System and the overall economic environment, we determined that, for now, there would be little tension between mission compliance and safety and soundness concerns. However, should economic conditions change for the worse, more tension could be created as the GSEs try to provide acceptable returns to their owners while continuing to comply with their special mission requirements. In this situation, we believe it is important that a regulator be responsible for both to help ensure adequate balance is maintained. In our report, we also point out that combining mission and safety and soundness regulation would facilitate assessing Fannie Mae and Freddie

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Mac for the cost of overseeing their compliance with housing goals. In addition, of course, oversight by one regulator could facilitate congressional monitoring of the housing GSEs. A single regulator for housing GSEs could be a stand-alone agency or an independent office within an executive branch agency, such as HUD or Treasury. The agency could be led by a board or a single director. What is important in our view, is to ensure that it has the independence and prominence that would allow it to act independently of the influence of the housing GSEs, which are large and politically influential institutions. One of the primary advantages of creating a stand-alone agency, rather than an independent agency within a department, is that it should be better able to establish independence and be further removed from the potential political influence of a cabinet-level department and from the specific interests of its parent organization. In addition, a stand-alone agency, because it would not be affiliated with a government department that has a particular focus, may be in a better position to ensure that safety and soundness and mission are equitably overseen. The advantages and disadvantages of having a new regulator that is set up as an independent office within an executive branch agency would depend on the agency. HUD and Treasury would be the most appropriate agencies because of their roles in housing and finance. We found that the board structure best fits our criteria for an effective regulator for many of the same reasons that a stand-alone agency is preferable to an executive branch agency. Both HUD and Treasury could be represented on a board, providing a structure where any potential conflicts could be addressed. A disadvantage of a board structure is that it may make determining individual accountability for actions difficult. This potential inefficiency could be addressed by placing a presidentially appointed chair or chief executive officer in charge of daily operations. Among the financial regulators, we could not find any examples of stand-alone agencies that were not headed by boards or commissions or independent offices that were not headed by single directors. It seems there are good reasons for these structures being linked. Chairman, I want to mention one additional issue that may need to be addressed in your deliberations. If a single regulator for the housing GSEs were created, you may want to consider whether it should be included or excluded from the appropriations process. Thus, they are not funded from tax revenues and typically are not subject to appropriations. OFHEO, however, is subject to the appropriations process and has less control than some other regulators over its resources. On the other hand, we recognize that the appropriations process does provide an additional mechanism for congressional oversight. This work is ongoing. In commenting on the report, Fannie Mae, Freddie Mac, and FHFB all agreed with our position that safety and soundness could not be effectively separated from statutory activities mission. HUD took no position. On March 8, , however, Treasury eliminated its scheduling procedures for GSE securities offerings. My colleagues and I would be pleased to answer any questions.

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### Chapter 4 : SCENARIOS--Reshaping Fannie Mae and Freddie Mac | Reuters

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The subcommittee met, pursuant to call, at Baker, [chairman of the subcommittee], presiding. I would like to call this hearing of the Subcommittee on Capital Markets to order. This morning, our purpose will not be to review the operations of any of the GSEs currently authorized and operating, but simply to recognize that between all the housing-related GSEs, approximately 12 percent of all the outstanding credit in the United States is now issued by these GSEs. In short, ensuring that the public interest is fully protected is a most important obligation of this subcommittee and the Congress, and therefore we are interested in learning more whether the appropriate regulators are responding to their responsibilities in this regard. It is apparent that there has not been success in meeting specific obligations over time, and the report this morning, I believe, will further outline concerns that the subcommittee should address. I have a formal statement which I will submit for the record, and I recognize Mr. Thank you very much, Mr. Chairman, first of all, I would like to thank the GAO for a very thoughtful report. The most important thing we can do today is reiterate the importance of strong independent regulators with resources they need to get their jobs done. There is some logic behind the concept of merging regulators, but at this point in time I would be opposed to a merger, because I think it would distract the attention of the Congress from determining what the mission is of the GSEs and just how we are going to proceed along that line; and I think, further, it may block the modernization bill that you and I have developed for the Federal Home Loan Bank System. It is difficult to anticipate what ultimately would happen, but I would hope that the regulators would direct their attention to determining the mission of GSEs and how they can more effectively operate. I, for one, do not think the total mission of regulators is safety and soundness, but also that they should guide the GSEs in their mission, for if they have no mission, then we probably have no need for a Federal charter. At this time, I think that I would join most of the people involved with housing GSEs to say that we have a mission to define, we have an effort to get there, and we have sound institutions that afford us the opportunity to do so at no cost to the taxpayers. So I look forward to this hearing, but I think that considering a merger at this point is untimely. But, I think we as a committee have to be concerned with regulatory oversight which, in terms of mission, I think, has been more absent than present. And the issue is not whether the various GSEs do a generally good job, because to some degree they certainly do, but whether there are points of mission that have been exceeded and points of abuse of their privileges that have also occurred. I think that is a subject that the Congress should expect very professional oversight concerning whether it is done in a new way, which I am rather sympathetic to, or perhaps in the current legislative setting. I think it is obviously an interesting hearing this morning with regard to creating a single regulator for the GSEs. You know, as someone who was involved in writing the laws that set up both of these new regulator entities, I mean, the Federal Housing Finance Board is more in an evolutionary nature than the establishment of OFHEO, which really grew out of a lot of concerns that we have had, and I think, frankly, that they are beginning to crystallize. Obviously, we would always, at least from my perspective, want to see things move more quickly than they do. And I think that we have opted against actually moving it into more of an oversight role with housing or with banking type of roles, because we think that the housing focus is the proper one within HUD, and the types of goals and mission established is unique with regard to these federally-chartered GSEs. I certainly have a lot of questions. I mean, obviously, anything can be done. I think that both of these regulators are moving in a way that has been competent. Obviously, as I said previously, you might want more speed with regard to some aspects, but I think it takes a while in order to develop a proper foundation to, in fact, put in motion an entirely new role in terms of a regulator such as OFHEO. I think that you need to find a mission. And I think this would simply complicate the issue and

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confuse the issue where today there is an element of clarity. And I, for one, at this point would prefer to keep the missions separate and provide that focus to the association with housing through the Housing and Urban Development Department. So in any case, I look forward to the hearing and a more careful study of the GAO report to us. It is a pleasure to have you here this morning. Thank you very much. I prefer to summarize my written statement, if that is all right, and have the written statement be entered in the record. Chairman and Members of the subcommittee, appearing with me today are two assistant directors who have been involved with most of our recent GSE work: We are pleased to be here today to discuss our recent report on creating a single regulator for the three housing GSEs: Our work has focused on three issues: First, the advantages and disadvantages of creating a single GSE regulator; second, whether safety and soundness and mission oversight should be vested in that regulator; and third, several possible structures for such a regulator. As we testified last week before a joint hearing of this subcommittee and a subcommittee of the Government Reform and Oversight Committee, the outstanding volume of federally-assisted GSE credit is large and rapidly increasing. In our and reports on GSEs, we identified criteria that a GSE regulatory agency should meet to facilitate effective regulation. First, objectivity and independence from the enterprise; second, prominence in Government, so that if it spoke, someone would listen; third, ability to achieve economy and efficiency; fourth, ability to achieve consistency and regulation; and fifth, separation of primary and secondary market regulation. On the basis of our subsequent work, however, we believe that the criteria that we laid out then remain sound. None of the current regulators meet all of our criteria, and they are unlikely to do so unless combined in some form. We believe that a single regulator could meet our criteria, and we continue to support the creation of a single housing GSE regulator. We recognize that the housing GSEs operate and are structured differently and have different constituencies. They do have a lot in common, however. The risks they manage are similar, if in different proportions. They all have an interest in residential housing and in the housing credit markets. We think that valuable synergies could be achieved and expertise shared both in the evaluation of how the enterprises manage credit, interest rate, and other risks and also in assessing the adequacy of capital. We also believe that a single housing GSE regulator could foster competition among the three GSEs while providing some consistency in the rules and regulations. Both the Finance Board and OFHEO had to assess the competitive impacts of these programs, but neither one had the full information that might have been available to a single regulator. Had a single regulator been responsible for all three, a single assessment could have been made that could have combined consideration of competitive effects and also tried to ensure consistency of oversight. Making judgments about competitive issues would be difficult because of the competing interests. Part of the benefit of a single regulator, however, would be that it should not be dominated by any one interest and thus, with complete information, would be in a position to make a more balanced judgment than any one regulator alone could make. These effects are real, but they should be short-term, and the outcome in the long run should result in more effective regulation. As to combining regulation of mission compliance and safety and soundness, our ongoing work has strengthened our belief that the housing GSE regulators would be more effective if combined into a new entity that oversaw both functions. We have been supporting this position since with the important caveat that any such entity must be fully independent from the GSEs that it regulates. As we have noted, there is a difference between a safety and soundness regulator that confirms a GSEs compliance with its statutory purposes, as articulated by Congress, and one like the Finance Board that participates in the corporate governance and the promotion of the GSE. Some critics of combining the functions have voiced concerns that the regulator would be subject to inherent conflict in making decisions. We think that the tension that is caused by having both private and public characteristics could be best understood and accounted for by having a single regulator with full knowledge of the financial condition of the enterprises, who regulates the goals that Congress sets and assesses the efforts to fulfill them. As you are aware, the link between mission and safety and soundness is established in the housing GSEs charters, each of which acknowledges that economic considerations of the activities undertaken cannot be ignored. In more troubled times, however, it would be important that one regulator be responsible for both

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to help ensure that balance is maintained. It would also, of course, facilitate congressional oversight. What is important, in our view, is to ensure that the entity has independence and prominence that would allow it to act independently of the influence of the housing GSEs, which are very large and politically influential institutions. The need for independence favors a stand-alone agency which should be more removed from the potential political influence of a Cabinet-level department and be in a better position to ensure that safety, soundness and mission are equitably overseen. The advantages and disadvantages of having the new regulator as an independent office within an Executive Branch agency would depend on that agency. HUD and Treasury would be the most appropriate agencies for such a situation. Each has something to offer, but each also involves potential conflicts. We also considered whether a new entity should have a single director or administrator, or whether it should have a board. We found that the board structure best fits our criteria for an effective regulator for many of the same reasons that a stand-alone agency may be preferable to an Executive Branch agency. One advantage of a board is that it would best be able to establish the requisite independence in government and would allow Congress to provide balance in decisionmaking. Both HUD and Treasury could be represented on a board, thus providing a structure where any potential conflicts could be addressed. In order to realize some of the benefits of a single director, the chair of the board could act as a chief executive officer in charge of the agency. Among the financial regulators, we could not find any examples of stand-alone agencies that were not headed by boards or of independent offices that were not headed by single directors. There are probably good reasons for those structures being linked. Chairman, I want to mention one additional issue that may need to be addressed in your deliberations, whether any new regulator for the housing GSEs should be included or excluded from the appropriations process. Most financial institution regulators assess the institutions they oversee for the cost of regulation and, thus, are typically not subject to the appropriations process. OFHEO, however, is subject to that process and has less control than some of the other regulators over its resources. This can subject the agency to budgetary pressures that may conflict with its needs as a safety and soundness regulator. We recognize, however, that the appropriations process does provide an additional mechanism for congressional oversight. This concludes my prepared statement. My colleagues and I would be pleased to try to answer any questions. Has there been any structural change, from your perspective, over the past 7 or 8 years that could lead us to question why we should proceed with a consolidated regulatory agency? Have the market conditions and the operations of the entities remained basically the same? As we have pointed out, there have been changes in the regulatory structure, but none of them are consistent with the changes that we recommended in to based on our criteria. The criteria that we set out then for independence and prominence in the Government for consistency and economy and efficiency remain, in our view, as valid today as they did then. One reason for asking that is, in , HUD issued an opinion which suggested that consolidation might be an advisable course to follow. With regard to the question of prominence, in looking at the relative staffing size budget of OFHEO and the Finance Board, as opposed to the similar regulatory entity within HUD, there appears to be a significant mismatch. In your view, is there any justification at this point for these budgets? There is a problem one way or the other; either we are spending too much with OFHEO and the Finance Board, or we are not spending enough with HUD if they are, in fact, engaging properly in their mission. Do you have any insight with regard to that imbalance? Or is that something else that is just another weight on the side of a consolidated regulator? My concern is with regard principally, to the mission compliance. It seems to me if mission compliance is an important element to HUD, that they are not, at least from that perspective, properly geared to respond to that requirement. With regard to independence, there is another issue in that, particularly regarding political independence, where a regulator in effect joins with one of the GSEs for a mission-related purpose, for example, multifamily risk-sharing programs, where the mission is basically something encouraged perhaps by HUD. The program is to address a legitimate public need. But one of the housing GSEs then is the consumer of the debt issues created as a result of that program. Would not that be an appropriate step for a regulator to take with regard to entry into new products? And we notice, with respect to new products, they just ruled on the mortgage protection program

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and approved it, but yet we find that when it comes to nonmortgage investments, in entering into new activity, that OFHEO devotes more resources to looking at that activity as a safety and soundness regulator than the focus that HUD has had. Yet we have observed that their focus has been on the numeric goals and on fair lending issues.

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## Chapter 5 : GAO Report on the Merger of OFHEO and FHFB

*The GSEs have a line of credit from the Treasury that authorizes Treasury to purchase up to \$ billion of Fannie Mae's and Freddie Mac's obligations and up to \$4 billion of the Federal Home Loan Bank System's obligations.*

When he releases his fiscal budget proposal, likely early next month. The Treasury Department announced on Christmas eve it would allow the two firms, known as government-sponsored enterprises, to have unlimited losses until the end of 2011. The Treasury also said it was scrapping plans for the two agencies, which play a role in funding three-fourths of all U.S. mortgage-backed securities. The limits on their portfolios, in fact, would allow their investment holdings to grow. That timeline gives the Obama administration time to figure out what to do with the two entities since any changes are politically difficult and most analysts see the process taking years. Fannie was formed in the late 1930s in the wake of the Great Depression as a government agency and was chartered by Congress in 1938 as a private shareholder owned company in order to take it off the federal books. But their congressional charter provided an implicit guarantee from Uncle Sam. The government controls the companies. The Christmas eve announcement has caused some lawmakers on Capitol Hill to question the notion that the firms are not effectively nationalized already. Government Accountability Office last year found that the two GSEs have a mixed record in meeting their mission to foster affordable housing, and that both capital and risk management deficiencies had compromised their safety and soundness. Following are some scenarios, gleaned from comments by policy-makers, analysts and the GAO report. Before that, the companies were fully owned and guaranteed by Washington. Under the current conservatorship, Fannie Mae and Freddie Mac are effectively in government hands again. The government could decide to have the two so-called GSEs focus on buying qualifying mortgages and issuing mortgage-backed securities, and not allow them to hold mortgage debt in their own portfolios. The Federal Housing Administration, which insures mortgages for low-income and first-time borrowers, could assume more responsibility for promoting homeownership for targeted groups. But full nationalization could cause the U.S. government to charge the companies a fee to underwrite their debt and some of their mortgage securities as a way to nurture the housing finance sector without standing squarely behind the companies. In such a cooperative arrangement, Fannie and Freddie would focus on long-term, stable business rather than maximizing profits. The federal government might still offer to insure the companies against the most catastrophic losses. The companies would aim to turn a profit and would have no government backing, but a conservative board would set earnings payments and customer fees. The agencies could emerge as large mortgage finance companies that bundle home loans for investors and raise funds in the traditional capital markets. Without government ties, though, the companies would not have lower funding costs and so would not enjoy the competitive advantage they do now. The federal government would also lose one of its most powerful tools for helping low-income home buyers. GAO said privatizing or terminating Fannie Mae and Freddie Mac would disperse mortgage lending and risk management through the private sector. Unlike traditional mortgage-backed securities, which are frozen blocks of home loans, covered bonds allow banks to manage a dynamic pool of mortgages. This financing tool is popular in Europe but has a weak foothold in the United States because of regulatory constraints and the competitive advantages of Fannie Mae and Freddie Mac. The fate of those companies will have a direct impact on the future of covered bonds. Reporting by Corbett B.

## Chapter 6 : Freddie Mac - Wikipedia

*the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac in conservatorship out of concern that their deteriorating financial condition and potential default on \$ trillion in financial.*

## Chapter 7 : Home | Federal Housing Finance Agency

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*SHCD, a, "Treasury, CBO and GAO reports on FNMA, FHLMC and the Federal Home Loan Bank system", nd Congress, 1st Session, 15 May and 29 May, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, House of Representatives, US Congress (US Government Printing Office, Washington, DC) Google.*