

Consumer Federation of America  
National Association of Consumer Advocates  
National Community Reinvestment Coalition  
National Congress for Community Economic Development  
National Fair Housing Alliance  
National Low Income Housing Coalition

The Honorable Michael G. Oxley  
Chairman  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20510

May 20, 2005

BY POST AND FACIMILE: (202) 226-0682

Dear Chairman Oxley:

As national low-income housing, civil rights, consumer, and community economic development organizations committed to the promotion of fair and affordable housing for all of America's citizens, we believe that all consumers and communities have an important stake in the outcome of legislation to revamp the regulatory structure for the three government-sponsored housing enterprises (GSEs) – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBs). Strengthening regulatory oversight to ensure the GSEs' safe and sound operation is a worthwhile public policy objective, as is enhancing the public purposes mandates of these entities. The undersigned organizations believe that such legislation can and must be achieved in a manner consistent with these entities congressionally chartered status, their mission and public purpose activities, and urge the Committee to pursue this course.

The GSEs are valuable to the nation's housing finance system and make important contributions toward expanding opportunities for homeownership and affordable rental housing. Although all three GSEs operate as for-profit entities, it is their housing mission and other public purpose obligations, including community economic development for the FHLBs, that make them unique and which ultimately justifies their government chartered status. Reaffirming and strengthening requirements to ensure that the GSEs serve their public purpose should also be central for any new regulatory structure created. The pending consideration of GSE legislation provides an important opportunity to expand and refocus these three entities' existing affordable housing and other public purpose obligations.

In this regard, we urge that the Committee include explicit provisions to GSE legislation

that expand affordable housing responsibilities for Fannie Mae and Freddie Mac. We urge that these provisions include the following:

- Establish an Underserved Market and Direct Investment fund that requires Fannie Mae and Freddie Mac to set aside 5 percent of their pre-tax profits to support financing and funding pressing underserved housing finance needs not served by the private mortgage market. The Direct Investment portion of these funds should be used to support the production, preservation, and rehabilitation of housing that benefits and is affordable for households with incomes at or below 30% of the area median or at or below the federal poverty level adjusted for family size, whichever is higher.
- Improved income targeting and enforcement of Fannie Mae's and Freddie Mac's three affordable housing goals (Low- and Moderate-Income Goal, Special Affordable Goal, and the Underserved Areas Goal) to bring these requirements into greater alignment with CRA income requirements and to encourage increased mortgage purchase activity for underserved segments of the affordable housing market. We also support the addition of a full-fledged multi-family rental mortgage subgoal and providing the new regulator with clear authority for subgoal enforcement.
- Codification of Fannie Mae's and Freddie Mac's ongoing responsibilities to provide financing for designated underserved markets that lack adequate housing credit for low- and moderate-income families through conventional lending sources. Compliance with this responsibility would be through monitoring and reporting provisions such as those used for their affordable housing goals.

Similarly, we also believe that the FHLBs present affordable housing and community economic development financing requirements should be strengthened and expanded upon. To the extent feasible such provisions should be comparable to the congressionally mandated standards for Fannie Mae and Freddie Mac. Accordingly, we urge that the GSE legislation require a new regulator to establish public purpose performance goals to encompass the core business activities of the FHLB system. The new regulator also should be directed to establish a public use database that discloses loan level data comparable to the Home Mortgage Disclosure Act reporting by lenders. We also favor the retention of the current standard requiring that at least 40 percent of the board of directors' seats for each HLBank be comprised of Public Interest Director including two specifically for Community Interest Directors.

Also, we are mindful that the Baker-Oxley bill (HR 1461) includes provisions that require the new regulator to develop market definitions of "primary mortgage market" and "secondary mortgage market" (*see* Section 122). We are concerned that establishing such "bright line" standards would lead to the dramatic re-altering of Fannie Mae's and Freddie Mac's role in the housing market in a manner that would not be beneficial to consumers. Such a standard could result in prohibiting a range of very valuable activities the GSEs presently provide with non-profit and for-profit organizations to promote

greater consumer education, enhance local affordable housing capacity, and provide protections consumers and best practices standards in the marketplace. The GSEs' existing charters already limit their activities to secondary market functions and provide their regulator with authority to enforce this standard. Thus, we believe that such "bright line" definitions are unnecessary and are likely to lead to undesirable consequences.

Section 122 of the bill also revises the program review procedures and requires prior approval process for new GSE business programs and activities. We urge that the new program procedures be established in a manner that provided additional flexibility to the regulator and not over-burden the GSEs' abilities to bring innovative products to market that help provide new lending opportunities to consumers, nor interfere with the GSEs' ability to proceed without prior approval with much needed consumer education and consumer protection initiatives. Accordingly, we urge that the Committee proceed with caution in this area. Mortgage products, and related underwriting factors should remain outside of a prior review process. And so should GSE consumer education and consumer protection initiatives. Regulator flexibility to permit new GSE pilot activities to proceed should also be addressed in the bill.

We thank you and your colleagues for your work in attempting to strengthen safety and soundness oversight for the GSEs. We strongly urge that you resist efforts to make changes to the GSEs' status or charters that would result in fewer affordable housing opportunities for consumers.

Sincerely,

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c.c. Representative Barney Frank