

Statement of Senator Jack Reed on the Federal Housing Finance Regulatory Reform Act of 2008

We are at a critical moment here. The number of foreclosures continues to mount, and according to a recent survey of economists, a majority now believe we are in or entering a recession.

Fannie Mae and Freddie Mac are now the largest players in the secondary housing market. They are at a critical juncture, and we need to make sure they are regulated by a strong and powerful regulator.

Finally, we continue to have an affordable housing crisis. As the most recent report by the National Low Income Housing Coalition shows, there is no place in the country where a family earning minimum wage can afford the rent for a two-bedroom apartment.

That is why I am very pleased that Senators Dodd, Shelby and I were able to reach agreement on a way to move some very important pieces of legislation forward.

We have agreed on language for the Federal Housing Finance Regulatory Reform Act of 2008, which will allow us to create a world-class regulator for Fannie Mae and Freddie Mac; the Hope for Homeowners Act, which will allow families to refinance into 30 year fixed rate, affordable mortgages with FHA mortgage insurance; and my GSE Mission Improvement Act, which will dramatically enhance Fannie and Freddie's affordable housing mission by providing funding for the production and preservation of affordable housing and strengthening their commitment to buying affordable mortgages.

As many of you know, I had a similar affordable housing amendment unanimously accepted by the Committee in 2004. These provisions were subsequently incorporated in the House bill that year. In 2005, my affordable housing provisions were made part of the Democratic substitute amendment to S. 190, and again were incorporated into the House bill. This Congress, the House has passed a GSE bill with an affordable housing fund similar to ours and language strengthening the Fannie Mae and Freddie Mac's affordable housing goals.

First and foremost, the affordable housing section of the Federal Housing Finance Regulatory Reform Act of 2008 will require Fannie Mae and Freddie Mac to set aside less than half a cent on each dollar of unpaid principle balance of each enterprises' total new business purchases. Eventually, seventy-five percent of the funds collected will be used for affordable housing and twenty-five percent will be allocated for the payment of HOPE Bonds, to keep the bill deficit neutral.

However, during the first year of the program, 100% of the money will be set aside to help pay for any subsidy amounts needed for loan guarantees under the HOPE for Homeowners Program. During the second year, 50% will be set aside for subsidy amounts needed for loan guarantees, and during the third year, 25%. If these set aside funds are not need to help pay for the HOPE program, then they will eventually go back the affordable housing funds set up by this legislation for the production and preservation of low-income housing.

Of the money set aside for affordable housing, sixty-five percent will be used to create a Housing Trust Fund. This Housing Trust Fund will be managed by the Secretary of

Housing and Urban Development, distributed to the states via a formula, allow other contributions to be made to it, and targeted to extremely low-income families.

Thirty-five percent of the affordable housing funds will be allocated to a Capital Magnet Fund and will be used by the Secretary of the Treasury to run a competitive grant program to attract private capital for, and increase investment in affordable housing.

According to a rough calculation, the Senate bill as we expect it to pass today will provide about 50% more in funding than the House bill over the next 10 years to the Housing Trust Fund alone, not including the Capital Magnet Fund, which also provides money for housing. This calculation includes the diversion to help pay for the HOPE program.

The Mission Improvement Section of the bill also strengthens Fannie and Freddie's Affordable Housing Goals. In particular, it would align their goals regarding the purchase of affordable mortgages with current Community Reinvestment Act income targeting definitions. I believe these changes will help the lower part of the mortgage market become more liquid.

Finally, similar to provisions I offered last Congress, the bill creates a new statutory duty for Fannie and Freddie to serve "underserved markets" that lack adequate credit through conventional lending sources such as Manufactured Housing; Affordable Housing Preservation; Subprime Borrowers; Community Development Financial Institutions; and Rural Housing. I give teeth to this provision by making compliance with this duty subject to Section 1336 enforcement provisions.

All of these affordable housing provisions are premised on the fact that with Fannie and Freddie's government benefits come many important responsibilities.

I want to thank the Chairman and Senator Shelby for working with me to include these provisions in the Committee bill before us today, and I am pleased that we are going to be able to move forward some very important pieces of legislation on a bipartisan basis.