

**Statement for Banking Committee Hearing on
"Reforming the Regulation of the Government Sponsored Enterprises"
February 7, 2008 at 10:00 AM in SD 538**

Thank you, Chairman Dodd and Senator Shelby, for convening this important hearing.

As we know, the Government-Sponsored Enterprises (GSEs) are unique public-private partnerships. These counter-cyclical organizations, which were largely set up during the Great Depression to get the housing market going again, continue to prove their usefulness.

Whether through the recent advances or loans made by the Federal Home Loan Banks (FHLBs) to some of the country's biggest investors in subprime mortgages or the infusions of capital raised by Fannie Mae and Freddie Mac, which have helped keep the conventional mortgage market from grinding to a halt, the GSEs clearly still have a special role to play. Despite the seizing up of the subprime, Alt-A, and jumbo loan markets, investors continue to invest in mortgage-backed securities guaranteed by

the GSEs and Americans still can obtain mortgages that meet the conventional loan limits.

As Congress considers additional ways that the GSEs might help with the current credit crisis in the mortgage markets, I think it is incumbent upon us to make sure the GSEs truly have a world-class regulator. The whole world is looking to us to pull ourselves out of what increasingly looks like a self-inflicted crisis, and clearly we need to be thinking not only about how to strengthen

the regulation of the GSEs, but also about how to strengthen the regulation of many of the financial institutions and products that got us into this crisis in the first place.

In addition, as we consider giving Fannie Mae and Freddie Mac the ability to purchase certain jumbo mortgages to help re-liquify this part of the housing market it is incumbent upon us to make sure that Fannie Mae and Freddie Mac are not incentivized to cherry pick these larger mortgages at the expense of smaller

mortgages at the lower end of the mortgage market. We are giving them a whole new line of business and entry into a market they have never been in before, and now more than ever it needs to be clear that the GSEs have a robust affordable housing mission as well.

I introduced S. 2391, the GSE Mission Improvement Act, three months ago, to emphasize that with government benefits and guarantees come additional responsibilities. This legislation would

require Fannie Mae and Freddie Mac to set aside funds for an Affordable Housing Program.

Sixty-five percent of this set-aside would go towards an Affordable Housing Block Grant Program. This funding would be allocated to the states by formula grant to help address the current subprime mortgage crisis. These grants could be used to facilitate loan modification and refinance options for low- and moderate-income borrowers facing foreclosure. Some of the

funding could also be used to help low- and moderate income homebuyers purchase properties that have been foreclosed upon to help stabilize neighborhoods. Currently, the Federal Home Loan Bank of San Francisco has developed a pilot program to do something like I have suggested in this legislation--to use part of its affordable housing set-aside to refinance low- and moderate-income households with non-traditional or subprime mortgages into fixed-rate, fully-amortizing 30 year mortgage.

After 2008, this block grant funding would be distributed by formula to the states for the development, construction, and preservation of housing for very low- and extremely low-income families. This funding would complement other federal and state programs, such as the HOME Investment Partnerships and Low-Income Housing Tax Credit programs, to bring down costs enough to primarily target the income group most needing housing that is truly affordable to them, extremely low-income renters.

The other 35% of this funding would be allocated for a Capital Magnet Fund. This funding would go out through competitive grants for financial activities that leverage affordable housing development, construction, and preservation for low-, very low-, and extremely low-income families

S. 2391 also would strengthen Fannie and Freddie's Affordable Housing Goals. In particular, it would align their goals with current Community Reinvestment Act income targeting definitions, which I believe

should help the lower end of the conventional market become more liquid.

Finally, this legislation would create a new statutory duty for Fannie Mae and Freddie Mac 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.

I urge my colleagues to cosponsor this legislation and to help make it an integral part of any GSE reform that we move forward.

Again, I thank the Chairman and look forward to hearing from the witnesses.

