



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**  
1709 G STREET NW WASHINGTON DC 20552 (202) 414-3801

**OFFICE OF THE DIRECTOR**

February 23, 2007


Honorable Barney Frank  
Chairman  
Committee on Financial Services  
US House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515-6050

Dear Chairman Frank:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Performance Budget for FY 2007. In accordance with the Government Performance and Results Act of 1993, the annual performance plan outlines the targets and goals OFHEO is working to achieve this year in order to accomplish the long-term goals in the new Strategic Plan issued in September 2006. The annual performance plan also describes the strategies and actions that the agency will pursue to reach its performance targets. Although OFHEO's plan is based on a higher funding level than was subsequently appropriated, the agency will make its best efforts to achieve these targets.

The agency's annual performance plan will be available to the public on OFHEO's web site, [www.ofheo.gov/media/pdf/OFHEO07perfplanweb.pdf](http://www.ofheo.gov/media/pdf/OFHEO07perfplanweb.pdf) and printed copies will be available upon request. My staff and I continue to be available to talk with you if you have any questions. I am looking forward to working with you in the years ahead.

Sincerely,

  
James B. Lockhart III  
Director



# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

## OFFICE OF THE DIRECTOR

February 23, 2007

Honorable Paul E. Kanjorski  
Chairman  
Subcommittee on Capital Markets, Insurance, and  
Government Sponsored Enterprises  
Committee on Financial Services  
US House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515-4204

Dear Chairman Kanjorski:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Performance Budget for FY 2007. In accordance with the Government Performance and Results Act of 1993, the annual performance plan outlines the targets and goals OFHEO is working to achieve this year in order to accomplish the long-term goals in the new Strategic Plan issued in September 2006. The annual performance plan also describes the strategies and actions that the agency will pursue to reach its performance targets. Although OFHEO's plan is based on a higher funding level than was subsequently appropriated, the agency will make its best efforts to achieve these targets.

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Sincerely,

James B. Lockhart III  
Director



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

**OFFICE OF THE DIRECTOR**

February 23, 2007

Honorable Christopher Dodd  
Chairman  
Committee on Banking, Housing, and  
Urban Affairs  
US Senate  
534 Dirksen Senate Office Building  
Washington, DC 20510-6075

Dear Chairman Dodd:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Performance Budget for FY 2007. In accordance with the Government Performance and Results Act of 1993, the annual performance plan outlines the targets and goals OFHEO is working to achieve this year in order to accomplish the long-term goals in the new Strategic Plan issued in September 2006. The annual performance plan also describes the strategies and actions that the agency will pursue to reach its performance targets. Although OFHEO's plan is based on a higher funding level than was subsequently appropriated, the agency will make its best efforts to achieve these targets.

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Sincerely,

James B. Lockhart III  
Director



# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

## OFFICE OF THE DIRECTOR

February 23, 2007

Honorable Richard C. Shelby  
Ranking Minority Member  
Committee on Banking, Housing, and  
Urban Affairs  
US Senate  
534 Dirksen Senate Office Building  
Washington, DC 20510-6075

Dear Senator Shelby:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Performance Budget for FY 2007. In accordance with the Government Performance and Results Act of 1993, the annual performance plan outlines the targets and goals OFHEO is working to achieve this year in order to accomplish the long-term goals in the new Strategic Plan issued in September 2006. The annual performance plan also describes the strategies and actions that the agency will pursue to reach its performance targets. Although OFHEO's plan is based on a higher funding level than was subsequently appropriated, the agency will make its best efforts to achieve these targets.

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Sincerely,

James B. Lockhart III  
Director



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**  
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

**OFFICE OF THE DIRECTOR**

February 23, 2007

Honorable Christopher S. "Kit" Bond  
Ranking Minority Member  
Subcommittee on Transportation, Housing and Urban  
Development, and Related Agencies  
Committee on Appropriations  
US Senate  
130 Dirksen Senate Office Building  
Washington, DC 20510

Dear Senator Bond:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Performance Budget for FY 2007. In accordance with the Government Performance and Results Act of 1993, the annual performance plan outlines the targets and goals OFHEO is working to achieve this year in order to accomplish the long-term goals in the new Strategic Plan issued in September 2006. The annual performance plan also describes the strategies and actions that the agency will pursue to reach its performance targets. Although OFHEO's plan is based on a higher funding level than was subsequently appropriated, the agency will make its best efforts to achieve these targets.

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Sincerely,

James B. Lockhart III  
Director

# United States Senate

WASHINGTON, DC 20510

March 2, 2007

The Honorable Henry M. Paulson, Jr.  
Secretary  
U.S. Department of Treasury  
Washington, DC

The Honorable Rob J. Portman  
Director  
Office of Management and Budget  
Washington, DC

The Honorable Christopher Cox  
Chairman  
Securities and Exchange Commission  
Washington, DC

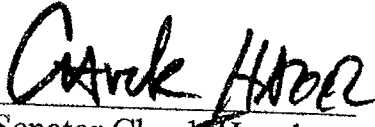
The Honorable James B. Lockhart III  
Director  
Office of Federal Housing Enterprise Oversight  
Washington, DC


Dear Sirs:

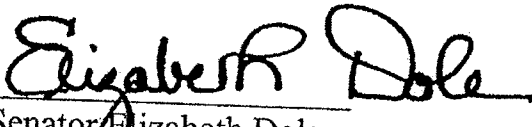
Enclosed is a letter we sent to Freddie Mac Chairman and Chief Executive Officer Richard Syron concerning Freddie Mac's continued non-compliance to register its common stock and file financial reports with the Securities and Exchange Commission. We would appreciate your responses to the concerns and questions addressed in the enclosed letter.

Thank you.

Sincerely,

  
Senator Chuck Hagel

  
Senator John Sununu

  
Senator Elizabeth Dole

  
Senator Mel Martinez

Enclosure

# United States Senate

WASHINGTON, DC 20510

March 2, 2007

Mr. Richard F. Syron  
Chairman and Chief Executive Officer  
Freddie Mac  
8200 Jones Branch Drive MS 204  
McLean, Virginia 22102

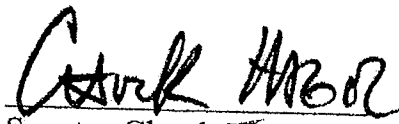
Dear Mr. Syron:

As you know, in July 2002, Freddie Mac reached an agreement with the U.S. Department of Treasury, the Office of Management and Budget (OMB), the Securities and Exchange Commission (SEC), and the Office of Federal Housing Enterprise Oversight (OFHEO) to register its common stock and start filing financial reports with the SEC. At the time, SEC Chairman Harvey Pitt said this agreement was "irrevocable without SEC approval."

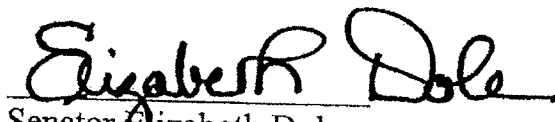
Despite the passage of almost five years and your repeated public promises, Freddie Mac has still not complied with this agreement. According to an August 2004 *USA Today* article, you promised that Freddie Mac would "begin filing shareholder reports to the SEC in early 2005." In an *American Banker* article that same month, you said, "We are talking about it being months before we get there, not years." In an April 2004 speech, you also said, "I want to see this job get done fast – and done right." All of these statements occurred after Freddie Mac's restatement in 2003. It is now 2007. What is the reason for this non-compliance?

We would appreciate your timely response to these concerns and questions. Thank you.

Sincerely,

  
Senator Chuck Hagel

  
Senator John Sununu

  
Senator Elizabeth Dole

  
Senator Mel Martinez

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U.S. House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

March 12, 2007

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The Honorable James B. Lockhart III  
Director  
Office of Federal Housing Enterprise Oversight  
1700 G Street, NW  
Washington, DC 20552

Dear Director Lockhart:

The House Committee on Financial Services will hold a hearing on "Legislative Proposals on GSE Reform" on Thursday, March 15, 2007, at 10.00 in room 2128 Rayburn House Office Building. I am writing to confirm your invitation to testify at this hearing.

We ask that you provide your views on H.R. 1427, the Federal Housing Finance Reform Act of 2007.

Please read the following material carefully. It is intended as a guide to your rights and obligations as a witness under the rules of the Committee on Financial Services.

**The Form of your Testimony.** Under rule 3(d)(2) of the Rules of the Committee on Financial Services, each witness who is to testify before the Committee or its subcommittees must file with the Clerk of the Committee a written statement of proposed testimony of any reasonable length. Please also include with the testimony a current resume summarizing education, experience and affiliations pertinent to the subject matter of the hearing. This must be filed at least two business days before your appearance. Please note that changes to the written statement will not be permitted after the hearing begins. Failure to comply with this requirement may result in the exclusion of your written testimony from the hearing record. Your oral testimony should not exceed five minutes and should summarize your written remarks. The Chair reserves the right to exclude from the printed hearing record any supplemental materials submitted with a written statement due to space limitations or printing expense.

**Submission of your Testimony.** Please submit at least 100 copies of your proposed written statement to the Clerk of the Committee not less than two business days in advance of your appearance. These copies should be delivered to: Clerk, Committee on Financial Services, 2129 Rayburn House Office Building, Washington, D.C. 20515.

Due to heightened security restrictions, many common forms of delivery experience significant delays in delivery to the Committee. This includes packages sent via the U.S. Postal Service, Federal Express, UPS, and other similar carriers, which typically arrive 3 to 5 days later than normal. The United States Capitol Police have specifically requested that the Committee refuse deliveries by courier. The best method for delivery of your testimony is to have an employee from your organization deliver your testimony in an unsealed package to the address



above. If you are unable to comply with this procedure, please contact the Committee to discuss alternative methods for delivery of your testimony.

The Rules of the Committee require, to the extent practicable, that you also submit your written testimony in electronic form. The preferred method of submission of testimony in electronic form is to send it via electronic mail to [fsctestimony@mail.house.gov](mailto:fsctestimony@mail.house.gov). The electronic copy of your testimony may be in any major file format, including WordPerfect, Microsoft Word, or ASCII text for either Windows or Macintosh. Your electronic mail message should specify in the subject line the date and the Committee or subcommittee before which you are scheduled to testify. You may also submit testimony in electronic form on a disk or CD-ROM at the time of delivery of the copies of your written testimony. Submission of testimony in electronic form facilitates the production of the printed hearing record and posting of your testimony on the Committee's Internet site.

***Your Rights as a Witness.*** Under clause 2(k) of rule XI of the Rules of the House, witnesses at hearings may be accompanied by their own counsel to advise them concerning their constitutional rights. I reserve the right to place any witness under oath. Finally, a witness may obtain a transcript copy of his testimony given in open, public session, or in a closed session only when authorized by the Committee or subcommittee. However, by appearing before the Committee or its subcommittees, you authorize the Committee to make technical, grammatical, and typographical corrections to the transcript in accordance with the rules of the Committee and the House.

The Rules of the Committee on Financial Services, and the applicable rules of the House, are available on the Committee's website at <http://financialservices.house.gov>. Copies can also be sent to you upon request.

The Committee on Financial Services endeavors to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, or have any questions regarding special accommodations generally, please contact the Committee in advance of the scheduled event (4 business days notice is requested) at (202) 225-4247; TTY: 202-226-1591; or write to the Committee at the address above.

Please note that space in the Committee's hearing room is extremely limited. Therefore, the Committee will only reserve 1 seat for staff accompanying you during your appearance (a total of 2 seats). In order to maintain our obligation under the Rules of the House to ensure that Committee hearings are open to the public, we cannot deviate from this policy.

Should you or your staff have any questions or need additional information, please contact Lawranne Stewart at (202) 225-4247.

Yours truly,

  
BARNEY FRANK  
Chairman

BF:ls

The Honorable James B. Lockhart III  
Page 3

cc: The Honorable Spencer Bachus

United States House of Representatives  
Committee on Financial Services

**“TRUTH IN TESTIMONY” DISCLOSURE FORM**

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

<b>1. Name:</b>	<b>2. Organization or organizations you are representing:</b>
<b>3. Business Address and telephone number:</b>	
<b>4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?</b>  <div style="text-align: center;"><input type="checkbox"/> Yes                      <input type="checkbox"/> No</div>	<b>5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?</b>  <div style="text-align: center;"><input type="checkbox"/> Yes                      <input type="checkbox"/> No</div>
<b>6. If you answered “yes” to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.</b>	
<b>7. Signature:</b>	

*Please attach a copy of this form to your written testimony.*

BARNEY FRANK, MA, CHAIRMAN

PAUL E. KANJORSKI, PA  
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BRAD MILLER, NC

JEANNE M. ROSLANOWICK  
STAFF DIRECTOR AND  
CHIEF COUNSEL

U.S. House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

March 21, 2007

SPENCER BACHUS, AL, RANKING MEMBER

RICHARD H. BAKER, LA  
DEBORAH PRYCE, OH  
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PETER J. ROSKAM, IL

The Honorable James B. Lockhart III  
Director  
Office of the Federal Housing Enterprise Oversight  
1700 G Street, NW  
Washington, D.C. 20552

Dear Director Lockhart:

I write to express my concern about one of your statements at the hearing the committee held last week on the GSE bill, H.R. 1427. While I was not in the room at the time, I understand that you stated on response to questioning that you regarded prevention of systemic risk is part of the role of the GSE regulator. I believed that we have been clear that the purpose of the bill is to create a strong regulator that will preserve the safety and soundness of the GSEs and ensure that they are fulfilling their mission under their charters.

I have yet to hear how the GSEs can present a threat to the financial system without creating a risk to their own safety and soundness, so a concern for systemic risk that does not involve an issue of safety or soundness for the GSEs sounds to me like part of broader objections to GSEs that I had thought we had agreed should not be part of the regulatory approach.

I believe that your statement means that we will have to refine the bill's language to make this clear.

  
BARNEY FRANK  
Chairman



## OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

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### OFFICE OF THE DIRECTOR

March 22, 2007

The Honorable Barney Frank  
Chairman  
Committee on Financial Services  
U.S. House Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515-6050

Dear Chairman Frank:

I am responding immediately to your March 21 letter to reaffirm my statements at the hearing last week, as well as our shared view that the purpose of the bill is "to create a sound regulator that will preserve the safety and soundness of the GSEs and ensure that they are fulfilling their mission under their charters." I believe H.R. 1427 is a well-balanced approach to achieving those twin requirements. I want to assure you that my views on this matter are fully in agreement with yours as set forth in your letter.

As you can read from the excerpted hearing transcript below, my response to Congresswoman Bean's question was answered completely from the safety and soundness standpoint.

*BEAN:*

*All right, and if I have a couple seconds, let me ask you a further question to both of you as well. In Chairman Frank's legislation, H.R. 1427, it charges the new director with developing standards by which the enterprises' portfolio holdings would be deemed to be consistent with their mission and safe and sound operations.*

*Is your reading such that systemic risk can be interpreted to be a factor or standard by which the portfolio can be reduced or capped?*

*LOCKHART:*

*My reading of systemic risk is it's part of a regulator's job; it's part of safety and soundness, that you have to make sure that they don't have a problem that could spread risk to the rest of the financial system.*

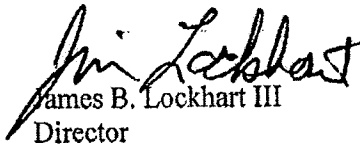
*And so, from that standpoint, yes, if they for some reason had some stuff in their portfolios that could cause them a dramatic problem that would spread to the rest of the financial system, it would have to be considered.*

If for any reason, the financial markets lose confidence in either Enterprise, it would be very hard for them to fulfill their critical mission.

You are correct. We did agree that systemic risk outside of safety and soundness should not be part of the regulatory approach. I believe that the present language in Section 113 reflects that agreement.

I look forward to our meeting on Monday, March 26 and Committee action on the bill on Wednesday.

Sincerely,

  
James B. Lockhart III  
Director

Enclosure



## OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

### OFFICE OF THE DIRECTOR

March 26, 2007

The Honorable Chuck Hagel  
United States Senate  
SR-248 Russell Office Building  
Washington, DC 20510

The Honorable John E. Sununu  
United States Senate  
SR-111 Russell Office Building  
Washington, DC 20510

The Honorable Elizabeth H. Dole  
United States Senate  
SD-555 Dirksen Office Building  
Washington, DC 20510

The Honorable Mel R. Martinez  
United States Senate  
SH-317 Hart Office Building  
Washington, DC 20510

Dear Senators:

Thank you for letter of March 2 concerning Freddie Mac's failure to register its common stock with the Securities and Exchange Commission (SEC). As you aptly note, this was a commitment the company made almost 5 years ago. The crux of the matter is Freddie Mac's inability to file timely financial statements. The Enterprise currently lacks the systems and controls necessary to produce accurate, dependable financial statements within an acceptable time after the end of an accounting period. While the company continues to make progress in establishing such systems and controls, until this work is completed, it cannot register.

This is a very serious issue. Freddie Mac's inadequate systems and controls make it a significant supervisory concern. Furthermore, its lack of timely public disclosures deny market participants the essential financial information made available by all other publicly traded companies so that investors may make informed judgments.

OFHEO has taken significant supervisory actions in light of these continuing problems at Freddie Mac. In 2003, OFHEO entered into a consent order with the Enterprise, requiring a large number of remedial actions. In 2004, OFHEO started requiring an additional 30 percent in capital. Last year, at OFHEO's request, Freddie Mac declared that it would not let its mortgage asset portfolio increase more than 2 percent above its June 30, 2006 level.

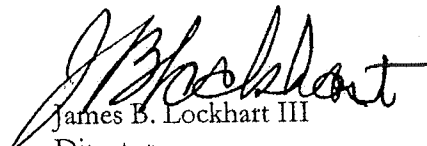
Despite the progress the company has made (including releasing its 2006 Annual Report last week), more remains to be done before Freddie Mac will be able to produce timely quarterly and annual financial statements that have a clean audit opinion based upon a controls-based audit.

I share your frustration with this delay. I assure you that OFHEO is engaging Freddie Mac on these issues, as part of on-going, focused remediation efforts, and we will continue to do so.

As a closing note, I would add that, although registered with the SEC, Fannie Mae still has not filed financial statements for 2005 and 2006 and thus, they are not timely filers either. OFHEO continues to oversee Fannie Mae's remediation efforts as well, including similar enforcement actions.

Thank you again for your commitment to these issues. I look forward to working with each of you as Congress considers legislation to reform and strengthen regulatory oversight of these companies. As each of you well know, that legislation would require each Enterprise to register its stock with the SEC while greatly strengthening the Federal government's safety and soundness oversight of these companies.

Sincerely,



James B. Lockhart III  
Director



BARNEY FRANK, MA, CHAIRMAN

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STAFF DIRECTOR AND  
CHIEF COUNSEL

U.S. House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

March 29, 2007

SPENCER BACHUS, AL, RANKING MEMBER

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WALTER B. JONES, JR., NC  
JUDY BIGGERT, IL  
CHRISTOPHER SHAYS, CT  
GARY G. MILLER, CA  
SHELLEY MOORE CAPITO, WV  
TOM FEENEY, FL

JEB HENSARLING, TX  
SCOTT GARRETT, NJ  
GINNY BROWN-WAITE, FL  
J. GRESHAM BARRETT, SC  
RICK RENZI, AZ  
JIM GERLACH, PA  
STEVAN PEARCE, NM  
RANDY NEUGEBAUER, TX  
TOM PRICE, GA  
GEOFF DAVIS, KY  
PATRICK T. McHENRY, NC  
JOHN CAMPBELL, CA  
ADAM PUTNAM, FL  
MARSHA BLACKBURN, TN  
MICHELE BACHMANN, MN  
PETER J. ROSKAM, IL

The Honorable James B. Lockhart III  
Director  
Office of Federal Housing Enterprise Oversight  
1700 G Street, NW  
Washington, DC 20552

Dear Director Lockhart:

Thank you for testifying at the March 15, 2007, Committee on Financial Services hearing entitled, "Legislative Proposals on GSE Reform."

A copy of your transcript has been provided should you wish to make any corrections. Please indicate these corrections directly on the transcript. **Due to the disruption of mail service to the House of Representatives we ask that you fax the transcript in lieu of mailing it. Please fax only the pages on which you have made corrections, within (15) business days upon receipt to:**

Committee on Financial Services  
ATTN: Terrie Allison  
Fax (202) 225-4254

Rule XI, clause 2(e)(1)(A) of the Rules of the House and Rule 8(a)(1) of the Rules of the Committee state that the transcript of any meeting or hearing shall be "a substantially verbatim account of the remarks actually made during the proceedings, subject only to technical, grammatical, and typographical corrections authorized by the person making the remarks involved." We therefore ask that you keep your corrections to a minimum.

Please contact Terrie Allison at (202) 225-4548 if there are no corrections to your transcript.

If during the hearing you: (1) offered to submit additional material; or (2) were requested to submit additional material; please submit this material via electronic mail by sending it to [fstestimony@mail.house.gov](mailto:fstestimony@mail.house.gov). If you are unable to submit the material electronically, please contact the Committee staff to arrange for submission.



Page 2

Thank you for your cooperation, and again for your testimony.

Yours truly,

A handwritten signature in cursive script that reads "Thomas G. Duncan".

Thomas G. Duncan  
General Counsel

A rectangular stamp with the word "received" in a bold, sans-serif font, rotated 90 degrees counter-clockwise. Below the word is a smaller box containing the text "TGD/ta". To the right of the main stamp is a small, square, illegible stamp.

Enclosures

1 Diversified Reporting Services, Inc.

2 HBA074000

3 HEARING ON LEGISLATIVE PROPOSALS ON  
4 GOVERNMENT-SPONSORED ENTERPRISE REFORM  
5 Thursday, March 15, 2007  
6 U.S. House of Representatives,  
7 Committee on Financial Services,  
8 Washington, D.C.

9 The committee met, pursuant to notice, at 10:04 a.m., in  
10 Room 2128, Rayburn House Office Building, Hon. Barney Frank  
11 [chairman of the committee], presiding.

12 Present: Representatives Frank, Bachus, Kanjorski,  
13 Waters, Maloney, Watt, Meeks, Moore of Kansas, Hinojosa,  
14 Clay, Lynch, Miller of North Carolina, Scott, Cleaver, Bean,  
15 Davis, Sires, Hodes, Ellison, Perlmutter, Murphy, Donnelly,  
16 Baker, Royce, Gillmor, Biggert, Shays, Miller of California,  
17 Hensarling, Garrett, Pearce, Neugebauer, Campbell, Bachmann,  
18 and Roskam.

975 STATEMENT OF JAMES B. LOCKHART III

976 Mr. LOCKHART. Chairman Frank, Ranking Member Bachus,  
977 members of the Committee, and certainly Congressman Shays,  
978 thank you for inviting me here today to discuss the very  
979 important issue of GSE reform and H.R. 1427.

980 I am grateful to you for your hard work in reaching what  
981 I believe is a balanced approach to needed reforms. It is  
982 time for action.

983 Housing and home ownership are critical components of  
984 the American dream and the American economy. Together, the  
985 12 Federal Home Loan Banks, Fannie Mae and Freddie Mac, are  
986 involved in 46 percent of the total mortgage debt outstanding  
987 in this country. Their total debt and guaranteed MBS of \$5.4  
988 trillion is larger than the public debt of the United States.

989 Like all financial institutions, the housing GSEs face a  
990 full range of risk, including market credit and operational  
991 risk, only on a larger and more concentrated scale.

992 Fannie Mae, Freddie Mac and several of the Federal Home  
993 Loan Banks have experienced serious difficulties handling  
994 those risks in the past.

995 Current remediation efforts will help reduce but not  
996 eliminate those risks. OFHEO will be making its annual  
997 report to Congress in early April. It will show that Fannie

998 Mae and Freddie Mac are making progress but still have many  
999 problems to correct.

1000 Their, and frankly OFHEO's performance, fell far short  
1001 of what Congress expected. In my view, the most important  
1002 lesson learned is the compelling need for legislation.

1003 The new regulator must ensure that the GSEs operate in a  
1004 safe and sound manner and support affordable housing and a  
1005 liquidity and a stability of the mortgage market.

1006 The new regulator must also understand the GSEs'  
1007 accountability to their shareholders to earn a fair return,  
1008 and that the GSEs are not subject to the normal market  
1009 disciplines.

1010 I am very pleased that there is a general consensus that  
1011 the new GSE regulator's authorities should be similar to  
1012 those of bank regulators. Reform must be built on this bank  
1013 regulator model.

1014 The new regulator must have regulatory, supervisory and  
1015 enforcement powers equivalent to the bank regulators,  
1016 including receivership powers. Receivership powers provide  
1017 one way to prevent problems in one financial institution from  
1018 spilling over to others, and might enhance market discipline.

1019 As Controller General David Walker said, and I quote,  
1020 "A single housing GSE regulator will be more objective,  
1021 efficient, effective, and prominent than the two separate  
1022 bodies."

1023       It is critical that the new regulator respect the  
1024 differences and the similarities of the enterprises and the  
1025 banks. Just like the bank regulators, the new GSE regulator  
1026 needs to have both safety and soundness powers, as well as  
1027 HUD's mission and new product authorities.

1028       It also needs independent litigating and budgeting  
1029 authority. OFHEO is the only safety and soundness regulator  
1030 that must be congressionally appropriated. Without relief  
1031 from the continuing resolution, planned resources and  
1032 critical supervisory areas will have to be cut this year.

1033       Minimum capital rules are lower than other financial  
1034 institutions, and the risk based capital rule must be  
1035 modernized. The regulator needs authority to adjust both the  
1036 minimum and risk based capital requirements through an open  
1037 rule making process, supplemented by the ability to respond  
1038 quickly to changing conditions.

1039       From 1990 to 2005, Fannie Mae's and Freddie Mac's  
1040 portfolio's grew out of control. They grew tenfold over \$1.4  
1041 trillion. Over half their portfolio's are invested in their  
1042 own MBS', and less than 30 percent meet HUD's affordability  
1043 housing goals.

1044       H.R. 1427 provides specific guidelines to the regulator  
1045 of using an open rule making process to better focus the  
1046 portfolio's on their missions while considering the risk.  
1047 This process needs to consider their ongoing support of the

1048 mortgage market.

1049 Last year, in 2006, despite the growth restrictions we  
1050 have on our portfolio's and stiff competition, their total  
1051 book of business including their unrestricted MBS issue, grew  
1052 eight percent.

1053 It is time to move forward on legislation to create a  
1054 new stronger GSE regulator, and assure the safety and  
1055 soundness of the housing GSEs and their full dedication to  
1056 their important mission of supporting the liquidity and  
1057 stability of the mortgage market and affordable housing.

1058 Thank you.

1059 [The statement of Mr. Lockhart follows:]

1060 \*\*\*\*\*INSERT\*\*\*\*\*

1061 The CHAIRMAN. Thank you, Mr. Lockhart.  
1062 The final witness from the administration is Carter  
1063 Cornick, who is the General Deputy Assistant Secretary from  
1064 the Department of Housing and Urban Development.  
1065 Mr. Cornick?



1066 STATEMENT OF L. CARTER CORNICK

1067 Mr. CORNICK. Thank you very much, Mr. Chairman. Chairman  
1068 Frank, Ranking Member Bachus, and distinguished members, I  
1069 ask that my written statement be accepted for the record.

1070 The CHAIRMAN. Without objection. Let me say that any  
1071 statements by any of the witnesses that they wish to insert  
1072 will be inserted.

1073 At this point, I would ask unanimous consent also to put  
1074 into the record the statement of the Consumer Mortgage  
1075 Coalition. In fact, I would ask unanimous consent that  
1076 members have general leave to insert matters they wish to  
1077 insert, assuming that no one would abuse the privilege.

1078 Please go ahead, Mr. Cornick.

1079 [The information follows:]

1080 \*\*\*\*\*COMMITTEE INSERT\*\*\*\*\*

1081 Mr. CORNICK. Yes, sir. Thank you for the opportunity to  
1082 speak today about H.R. 1427. This important regulatory  
1083 reform legislation is needed to strengthen the Federal  
1084 Government's oversight of Housing Government Sponsored  
1085 Enterprises, Fannie Mae, Freddie Mac, and the Federal Home  
1086 Loan Banks.

1087 The legislation improves the oversight of the GSEs by  
1088 creating a regulator on par with the existing financial  
1089 regulators. HUD fully endorses establishing a new regulator  
1090 for all three that would combine safety and soundness  
1091 authority with oversight of their respective housing  
1092 missions.

1093 HUD is especially interested in ensuring that the new  
1094 legislation continues to promote affordable housing, in part  
1095 because of the Department's well established role in ensuring  
1096 the nation's affordable housing needs are addressed by both  
1097 public and private initiatives, and in part because of a long  
1098 held responsibility to regulate Fannie Mae and Freddie Mac.

1099 The last ten years have been years of increased  
1100 affordable lending for low income and minority families in  
1101 the conventional mortgage market. The Home Mortgage  
1102 Disclosure Act data shows substantial growth in conventional  
1103 lending to low income and minority borrowers, and suggests  
1104 that new affordable lending initiatives have had a positive  
1105 measurable impact.

1106 Most agree that in addition to low interest rates,  
1107 economic expansion, enhanced regulation of CRA obligations,  
1108 and HUD's affordable housing goals, all have contributed to a  
1109 renewed emphasis on low income and minority lending in  
1110 conventional markets.

1111 Today is about how the GSEs will be regulated in the  
1112 future, and so how the government will measure GSE  
1113 performance in meeting the affordable housing objectives is  
1114 important.

1115 The affordable housing goals have been a key focus of  
1116 HUD's regulatory oversight work. In 1992, Congress expressed  
1117 concern about the GSEs' funding of affordable loans for low  
1118 income families, particularly those living in inner city  
1119 neighborhoods that had been redlined by primary market  
1120 lenders.

1121 Congress called for HUD to establish their annual goals.

1122 In carrying out its responsibilities to set, monitor and  
1123 enforce these goals, HUD established progressively higher  
1124 goal levels by regulation in 1995, 2000, and again in 2004.

1125 Since 1999, both GSEs have improved their performance  
1126 significantly and in many cases, now exceed the conventional  
1127 market for home purchase loans to very low and low and  
1128 moderate income borrowers.

1129 We believe it is important with respect to the  
1130 affordable housing goals in H.R. 1427 that the proposal

1131 retains the housing goals' structure as a means of measuring  
1132 GSE performance. In fact, there are some improvements over  
1133 the current statute, including, as the Chairman has pointed  
1134 out, the establishment of an 80 percent income ceiling for  
1135 defining under served Census tracts, and providing monetary  
1136 penalties for GSEs' failure to achieve a housing goal.

1137 We think the structure of the housing goals as set out  
1138 in the bill may not achieve the desired outcomes. I ask the  
1139 Committee to consider the following, starting with the single  
1140 family goals.

1141 The single family very low income goal is targeted to a  
1142 market that is very small. Currently, very low income  
1143 borrowers account for only six to seven percent of the  
1144 conventional conforming market. Small markets like this  
1145 provide very modest incentive for GSEs to develop products.

1146 As of 2005, GSEs already exceeded the conventional  
1147 market for loans at this income level.

1148 Another thought. New goals exclude an important  
1149 affordable housing market as we read it, the one to four unit  
1150 single family rental properties. Even though these rental  
1151 units are a very important source of affordable housing, in  
1152 2005, as many of you know, they accounted for 54 percent of  
1153 all occupied rental units and just under half of those were  
1154 affordable to very low income families.

1155 We hope your bill will encourage the GSEs to grow their

1156 single family rental business.

1157       Next, three separate multi-family goals will be  
1158 difficult to establish because market data is not readily  
1159 available. In the past, HUD has had to piece together  
1160 estimates of the multi-family market from different sources.

1161       I also want to point out that H.R. 1427, as we read it,  
1162 does not include overall standards for evaluating GSE  
1163 performance in serving lower income families and their  
1164 neighborhoods.

1165       Our experience shows there are effective tools for  
1166 moving GSEs from sub-par to market performance across all  
1167 their books of business, and we would like to see overall  
1168 market based goals reinstated.

1169       We hope you will clarify the duty to serve provisions  
1170 and the written statement expands on this point.

1171       HUD's written comments for the record include additional  
1172 analysis and data. I would also like to draw your attention  
1173 to our written comments on the conforming loan limits.

1174       Before I close, I would like to comment on the  
1175 affordable housing fund. With respect to the affordable  
1176 housing fund, while HUD does not advocate for the creation of  
1177 a fund, we share the view that any such fund should have a  
1178 cap.

1179       We do think there are important improvements that need  
1180 to be noted. First, the fund managed by the director rather

1181 | than the GSEs and providing greater clarity for the  
1182 | recipients, and crafting a more precise sunset provision.

1183 |       Thank you for the opportunity to appear. I will be  
1184 | ready for questions.

1185 |       [The statement of Mr. Cornick follows:]

1186 | \*\*\*\*\*INSERT\*\*\*\*\*

1187           The CHAIRMAN. Thank you. Let me begin with Mr. Steel  
1188 and Mr. Lockhart. One of the debates we had was I think it  
1189 is generally agreed that there should be enhanced power on  
1190 the part of whoever the regulator is to compel changes in the  
1191 capital levels or in the portfolio from the standpoint of  
1192 safety and soundness, affected also, of course, by mission.

1193           There was a legitimate philosophical debate as to  
1194 whether, per se, the entities were too big. The question is  
1195 whether the legislation should or should not give that  
1196 authority.

1197           In the bill as introduced, at page 50, for later  
1198 reference, authority to establish additional capital and  
1199 reserve requirements. It says the director can establish  
1200 requirements with respect to any program or activity as he  
1201 considers appropriate to ensure that the regulated entity  
1202 operates in a safe and sound manner with sufficient capital  
1203 and reserves to support the risks that arise in the  
1204 operations and management of the regulated entity.

1205           There is a further paragraph on that. I read the one on  
1206 Federal Home Loan Banks. With the GSEs, similarly.

1207           Standards by which the portfolio holdings are rated and  
1208 growth of the portfolio holdings of the enterprises will be  
1209 deemed to be consistent with the mission and safe and sound  
1210 operations.

1211           It lists a number of factors. Liquidity needs,

1212 potential risk by the nature of the holding, and here is  
1213 where we get to some controversy because of the  
1214 interpretation, and I want to see if we can arrive at some  
1215 agreement on this.

1216 Factor seven, number seven. Any additional factors the  
1217 director determines appropriate except that the factor shall  
1218 be consistent with the purpose of this Act and any  
1219 authorizing sections.

1220 My understanding when we were working on this was that  
1221 those specific numbered provisions really relate back to A in  
1222 general. In general, shall by regulation establish standards  
1223 by which the portfolio holdings are rated and growth of the  
1224 portfolio holdings will be deemed to be consistent with the  
1225 mission and safe and sound operations of the enterprises.

1226 In developing such standards, the director shall  
1227 consider. The question was whether in referring to other  
1228 factors, that would go beyond what was just in the opening  
1229 paragraph.

1230 My intention was that those factors would be enumerated  
1231 with regard to that opening paragraph.

1232 Mr. Steel, does that conform to your understanding?

1233 Mr. STEEL. Mr. Chairman, thank you. I think in that  
1234 same paragraph, the duality of one mission, and two, safety  
1235 and soundness is declared.

1236 The CHAIRMAN. Yes.



1237 Mr. STEEL. Both. Then there is further articulation via  
1238 points one through seven, which you summarized. In addition,  
1239 there will be additionally up above referenced a transparent  
1240 process for development of guidance and rules and things like  
1241 that.

1242 It is our view that these articulations are the right  
1243 methodologies by which to empower the regulator.

1244 The CHAIRMAN. I understand that. When we talk about  
1245 additional factors, would that include a view that these are  
1246 just too large and they were interfering with  
1247 competitive--what bothers me is the interpretation by some  
1248 that additional factors could take you beyond safety and  
1249 soundness and mission.

1250 Mr. STEEL. I think mission and safety and soundness  
1251 capture everything.

1252 The CHAIRMAN. These articulations are in pursuit of the  
1253 mandate to do safety and soundness and mission?

1254 Mr. STEEL. Yes.

1255 The CHAIRMAN. That was our intention. I appreciate  
1256 that. Let me ask Mr. Cornick, and I appreciate your comments  
1257 on the goals. You talked about one exclusion from the goals,  
1258 on four unit, did I hear that right? I am inclined to agree  
1259 with what you said. Would you elaborate on that?

1260 Mr. CORNICK. Yes, sir. What we have found as we looked  
1261 through the legislation, and we are still going through it as

1262 much as we can, is that the goals are silent on the one to  
1263 four unit rental property.

1264 The CHAIRMAN. I think it is on page seven of the written  
1265 testimony; is that correct? I think we are in agreement here  
1266 and we would want to accommodate that proposal, particularly  
1267 my colleagues from Summerville and South Boston,  
1268 Massachusetts are not here, and if we did not do three  
1269 deckers, I could not go home.

1270 Mr. CORNICK. I think one of the things that happens here  
1271 is you have engaged in a deliberative process throughout.  
1272 Obviously, the spirit and point is that we are in dialogue  
1273 and working together and we just wanted to put that goal  
1274 forward.

1275 The CHAIRMAN. I appreciate that. We will be glad to  
1276 work with you on the goal. Again, there is a duality here.  
1277 There are goals which Fannie and Freddie can have to advance  
1278 by the loans they purchase. We believe there is a segment  
1279 that needs help that I was about to say no one is going to  
1280 lend to that segment, but actually, it turns out some people  
1281 were willing to lend to very poor people, and we are in big  
1282 trouble because of it. We do not want to start them buying  
1283 more sub-prime loans.

1284 I appreciate those. We will be glad to work with you,  
1285 Mr. Secretary.

1286 Mr. CORNICK. Absolutely.

1287       The CHAIRMAN. On making sure that we do the goals. I  
1288 know we will hear later from some of the people from the  
1289 various development communities, the affordable housing  
1290 lenders, again about the goals. They are separate from  
1291 although complimentary to the affordable housing fund.

1292       Thank you. The gentleman from Alabama.

1293       Mr. BACHUS. Thank you. I want to address one issue in  
1294 my questioning because of limitation of time. Let me just  
1295 read again what I said in my opening statement.

1296       I said many on our side of the aisle have serious  
1297 questions about the ability of state housing bureaucracies to  
1298 competitively and efficiently deliver and monitor upwards of  
1299 \$500 million per year.

1300       We are talking about the housing fund and the state  
1301 agencies distributing that.

1302       I am going to ask Under Secretary Steel and Assistant  
1303 Secretary Cornick, as drafted, the legislation says the  
1304 states will be allowed to decide which of its agencies should  
1305 administer the program and allocate the grants.

1306       Do you believe this is an appropriate distribution  
1307 mechanism for the fund if one is created, and are you  
1308 confident that state housing agencies are capable of  
1309 administering this new program in a way that ensures that  
1310 funds are distributed competitively to deserving recipients?

1311       If not, what changes would you make in the housing fund?

1312 Mr. STEEL. I will begin, sir. I think that if we talk  
1313 about first the housing fund at maybe a higher altitude and  
1314 then come down to your specific question.

1315 Mr. BACHUS. Sure. I guess my question could just be are  
1316 you comfortable with the housing fund. If not, how would you  
1317 change it?

1318 One thing you said was you both would like to cap it, I  
1319 understand.

1320 Mr. STEEL. Yes, sir. I think that when the history is  
1321 told, that the key issue for Treasury was to drive the  
1322 regulatory reform so as to have a strong regulator for the  
1323 housing GSEs.

1324 As part of that, some people saw that the appropriate  
1325 bridge in dealing with this issue for the GSEs should also  
1326 deal with another part of the housing finance area, and there  
1327 was birthed the affordable housing fund. That was as part of  
1328 the process.

1329 That was not the original ambition, but that has  
1330 developed. If that is going to be part of this, then the key  
1331 issues for the administration and for Treasury are that it  
1332 not be controlled by the GSEs, that it be temporary, that it  
1333 be capped, and not be part of a political process.

1334 If my memory is correct, it is Section 133, which lists  
1335 about seven or eight specific attributes of the way in which  
1336 the housing fund would be administered, and we are

1337 comfortable with that specificity so that we can be in favor  
1338 of this.

1339 Mr. BACHUS. Are there any that you would add to that  
1340 133?

1341 Mr. STEEL. I think the ones articulated seem like the  
1342 important ones to us.

1343 Mr. BACHUS. Mr. Cornick?

1344 Mr. CORNICK. Yes, sir. The first point is obviously the  
1345 cap. From our perspective, certainty and stability go with  
1346 such a feature for that fund.

1347 The second point that you raised, and it actually gets  
1348 at some of what Ms. Biggert also pointed to, we look at this  
1349 fund--the first thing is there is no daylight between anyone  
1350 in the administration. We are all supportive of the overall  
1351 goals and the work that is before you.

1352 It is important to note this fund is very distinct from  
1353 safety and soundness and all of the regulatory concerns. It  
1354 is a grant program. It is a grant program close to on the  
1355 scale of a \$2 billion home program, which we do run and I  
1356 think with some distinction.

1357 In the division of labor, we tend to believe at HUD that  
1358 we do a very good job running these sorts of things. We  
1359 understand that the proposal calls for the regulator and we  
1360 are going to be cooperative and working with people to share  
1361 the best of our knowledge.

1362 I think that one of the issues that you all speak to in  
1363 the work that you put forward is capacity and making sure  
1364 there is capacity and making sure that these funds are  
1365 properly distributed, and you properly pointed to  
1366 competitively. It is a very significant point.

1367 I think that is the best that I could offer at this  
1368 juncture.

1369 Mr. BACHUS. Just to clarify, you both said you would  
1370 like it to be temporary and capped. Would you elaborate on  
1371 that?

1372 Mr. CORNICK. Sir, from my perspective, certainty and  
1373 stability is what that introduces from our perspective. We  
1374 think you do not want to inadvertently submit the GSEs or the  
1375 fund to wild swings one way or another, depending on  
1376 different conditions.

1377 Mr. BACHUS. Do you have a number in mind or could you  
1378 come up with one? While you are thinking about that, I will  
1379 ask Under Secretary Steel.

1380 Mr. STEEL. I think with regard to sunset, again, if my  
1381 memory is correct, this expires as stipulated in 2012, if my  
1382 memory is correct. The second is that the methodology--there  
1383 was lots of discussion about the methodology of how to set  
1384 the size of this housing fund.

1385 After lots of back and forth and good discussion which  
1386 was helpful and educational, we basically drove it off the

1387 size of the portfolio's, which is a less volatile and more  
1388 predictable measure or metric.

1389 This is tied to something that is comfortable to us from  
1390 that perspective.

1391 Mr. BACHUS. You said you would like a cap.

1392 Mr. STEEL. I think it is capped by being tied to the  
1393 size of the portfolio.

1394 Mr. BACHUS. You are saying it is capped now?

1395 Mr. STEEL. It is capped by the arithmetic of the size of  
1396 the portfolio, which will be a function of risk based capital  
1397 and all the other aspects of the regulator, which makes us  
1398 comfortable that this is a good compromise by which to  
1399 determine a size.

1400 The CHAIRMAN. Before I recognize the gentleman, I am  
1401 going to take just 30 seconds..

1402 Mr. Cornick?

1403 Mr. CORNICK. Yes, sir. The number that we had in mind  
1404 that we have shared with the staff and talked with different  
1405 folk is somewhere on the order of 525 to 550.

1406 The CHAIRMAN. I thank you. When you said it would be  
1407 comparable to \$2 billion, you got my hopes up wildly.

1408 [Laughter.]

1409 Mr. CORNICK. I was adding.

1410 The CHAIRMAN. Comparable in that it is one quarter as  
1411 much. I suppose that is comparability.

1412 Mr. CORNICK. I was just adding years.

1413 The CHAIRMAN. Thank you. The only other thing I would  
1414 say this, and briefly, we had cited that according to some of  
1415 the critics, particularly of the GSEs, they receive an  
1416 implicit subsidy, albeit once we say it, it is no longer  
1417 implicit, but they receive a subsidy of \$12.8 billion per  
1418 year from the taxpayers.

1419 With \$500 million, we are asking for about four percent  
1420 of that. I think they are still getting off pretty good, and  
1421 those who worry that we are unduly impinging, it does not  
1422 seem to me you can complain they are getting a \$12.8 billion  
1423 subsidy from the taxpayers, and then begrudge \$500 million  
1424 for low income housing.

1425 The gentlewoman from California.

1426 Ms. WATERS. Thank you very much. I think that was a  
1427 good discussion of the housing trust fund and the goals that  
1428 have been set.

1429 While I had intended to talk a little bit more about  
1430 that, I think it is just safe to say that many of us, and I,  
1431 the chair of the Housing and Community Opportunity  
1432 Subcommittee of this committee, I am extremely excited about  
1433 the possibilities for this fund.

1434 I do believe that whatever needs to be done to work out  
1435 the management of it will be done, and this will go a long  
1436 way toward helping us all meet our goals.



1437 I wanted to take a minute, if I may, to ask a question  
1438 or two of Mr. Lockhart. I see that in your testimony, you  
1439 have indicated that the GSEs have made considerable progress  
1440 and you are pleased with the progress they have made.

1441 I think it said you saw no reason why that should not  
1442 continue. Is that true?

1443 Mr. LOCKHART. Yes, that is true. We are just finishing  
1444 our exams for the year end 2006. We will be publishing that  
1445 in the next three weeks or so.

1446 It will show that they have made progress. I think the  
1447 progress has been slower than we expected in the management  
1448 team, but they are making progress.

1449 Ms. WATERS. What did you do to contribute to that  
1450 progress?

1451 Mr. LOCKHART. Certainly, we have been very, very active  
1452 in the remediation process with the management teams, and our  
1453 examination teams have been in there pushing them forward,  
1454 basically.

1455 Ms. WATERS. Could you be specific about any remediation  
1456 that you have been involved in that has helped to improve the  
1457 performance of the GSEs?

1458 Mr. LOCKHART. Both GSEs have put together plans about  
1459 how to remediate their problems, and we have been very active  
1460 in looking at those plans and working with them on the plans,  
1461 and to the extent they are not performing against the plans,

1462 | we have certainly pointed that out to them.

1463 |       Ms. WATERS. Could you be specific about one of the  
1464 | remediation means or one area of remediation that you have  
1465 | been involved with that has changed the way they operate in  
1466 | any appreciable way?

1467 |       Mr. LOCKHART. We certainly have a whole series of  
1468 | different areas we have been involved with.

1469 |       Ms. WATERS. Just give me one.

1470 |       Mr. LOCKHART. Certainly the accounting, the risk  
1471 | management. They have hired new risk management teams. We  
1472 | have been working with the risk management teams, market  
1473 | credit and especially operational risk management teams, and  
1474 | working with them to improve.

1475 |       Ms. WATERS. Can you tell me why you think the way the  
1476 | Board is constructed for the GSEs needs to be changed?

1477 |       Mr. LOCKHART. At the moment, both Fannie and Freddie's  
1478 | Boards do not have any presidentially appointed directors.  
1479 | To me, the Boards are working very effectively at the moment.

1480 |       The process is that they have head hunters that go out  
1481 | and really get very high quality people. We vet them to make  
1482 | sure that we think they are acceptable, and then they are  
1483 | voted in by the shareholders.

1484 |       These Boards are working extremely hard at these two  
1485 | companies, given the amount of remediation to do, and we  
1486 | think it is an effective governance structure.

1487 Ms. WATERS. You think that for the future, the Boards  
1488 should have and keep the presidential appointees?

1489 Mr. LOCKHART. I do not think it is necessary and there  
1490 are some conflicts of interest with presidential appointees,  
1491 and effectively, to me, the more reasonable structure is to  
1492 have directors elected by the shareholders.

1493 Ms. WATERS. Can you tell me why you believe that you  
1494 need not to be reviewed and come under the appropriations  
1495 process?

1496 Mr. LOCKHART. The appropriations process is a very  
1497 cumbersome process for an agency that has to respond quickly  
1498 to problems. We have been in existence for about 15 years,  
1499 13 of them, we have had a continuing resolution. That makes  
1500 it very hard to plan.

1501 At the moment, we are in last year's budgeted amount of  
1502 \$60 million. We asked for \$67.5 million. Most of that is  
1503 going to the litigation that we really have no control over,  
1504 but we have to respond to the judges.

1505 Ms. WATERS. Is that not true of all the agencies of  
1506 government that have to go through the appropriations  
1507 process?

1508 Mr. LOCKHART. Many of them have similar issues, but I do  
1509 not think the same. I think the better analogy is to all the  
1510 bank and financial regulators, which do not have to go  
1511 through the appropriations process.

1512 One of the reasons they do not is they are funded by the  
1513 institutions that are regulated, and they do not have an  
1514 impact on the budget, and neither do we.

1515 Ms. WATERS. Do you think you should have a Board of  
1516 Directors?

1517 Mr. LOCKHART. Yes, I think we should have a Board of  
1518 Directors.

1519 Ms. WATERS. Have you recommended that?

1520 Mr. LOCKHART. Yes, I have. As Congressman Shays  
1521 mentioned, I ran the Pension Benefit Guarantee Corporation,  
1522 and during that period, we had a Board of Directors composed  
1523 of three Cabinet secretaries, including the Secretary of  
1524 Treasury.

1525 Ms. WATERS. If I may, Mr. Chairman, I know my time is  
1526 up, but what have you done about diversity at OFHEO?

1527 Mr. LOCKHART. First of all, I think diversity is  
1528 extremely important. I came from the most diverse government  
1529 agency, Social Security. We are working in our recruiting  
1530 efforts and our training efforts to promote a more diverse  
1531 workforce.

1532 Ms. WATERS. How long have you been working on it?

1533 Mr. LOCKHART. I have been there nine months.

1534 Ms. WATERS. You have not been able to find anybody in  
1535 nine months?

1536 Mr. LOCKHART. We have been promoting people. In fact, I

1537 think you made a statement that we did not have an African  
1538 American in management. We actually do.

1539 Ms. WATERS. You found one?

1540 Mr. LOCKHART. She is very, very talented, came off Wall  
1541 Street.

1542 Ms. WATERS. I know, I just said you found one. You have  
1543 one? O-n-e.

1544 Mr. LOCKHART. One; yes.

1545 Ms. WATERS. Thank you.

1546 The CHAIRMAN. The gentlewoman from Illinois.

1547 Mrs. BIGGERT. Thank you, Mr. Chairman. I would like to  
1548 go back to the affordable housing fund section of the bill.

1549 As I said in my opening statement that HUD has the  
1550 responsibility of establishing a formula to allocate funds to  
1551 the states and to the tribes. And then they would determine  
1552 which organizations receive the funds. Mr. Cornick, the  
1553 funds then go to the states, what normally would the states  
1554 do if that is the administration that goes to--the funds  
1555 would go to the states?

1556 Mr. CORNICK. Right, but under the Home Program, under  
1557 the Home Program--well, we have a couple. The Home Program  
1558 works off of participating jurisdictions. The CDBG program  
1559 works off of states as well as off entitlement communities,  
1560 et cetera. And so we have a couple of different methods that  
1561 substantial sums of HUD money are funneled out to the

1562 communities of state and local governments. We also work  
1563 very closely with state housing finance agencies.

1564 As all of this relates though to the Affordable Housing  
1565 Fund, one of the things that we are grappling with, we just  
1566 had but a couple of days to go through the legislation  
1567 ourselves, and what we wanted to do was just put forward some  
1568 big picture points. I cannot speak exactly with precision  
1569 about where and how this thing is working because our folks  
1570 are still working hard to be sure that we understand all of  
1571 the dynamics that are in play. But if you are willing, we  
1572 would love--we are already working very closely with the  
1573 chairman on a number of things that we discussed, we would  
1574 just like to continue. We have got some follow-up from  
1575 yesterday with you as well.

1576 The CHAIRMAN. Would the gentlewoman yield?

1577 Mrs. BIGGERT. Yes.

1578 The CHAIRMAN. We are marking up--well, we are not  
1579 marking this up, I take it back. We are not marking this up  
1580 until the 28th so there is plenty of time.

1581 Mr. CORNICK. Okay.

1582 The CHAIRMAN. And we will be open to this. The 28th is  
1583 the day of the markup for this and that gives us plenty of  
1584 time.

1585 Mr. CORNICK. That is very helpful.

1586 The CHAIRMAN. And I think all of us on both sides will

1587 be very receptive to specifics between now and then.

1588 Mrs. BIGGERT. Yes, I would appreciate that.

1589 Mr. CORNICK. Yes, ma'am.

1590 Mrs. BIGGERT. But just in general, do you think that  
1591 this is the best delivery method so far?

1592 Mr. CORNICK. Well, I have betrayed a certain prejudice  
1593 in that we are very proud of the work that we do, and we  
1594 think that we have a pretty good system, set of systems that  
1595 work well. By the same token, we are very respectful of the  
1596 fact that what is proposed has some substantial support. And  
1597 what we want to do is be productive. I have betrayed the  
1598 fact that we feel that we could responsibly and efficiently  
1599 produce some division of labor gains by using a system in a  
1600 network that is very successful. But it is just for  
1601 consideration.

1602 Mrs. BIGGERT. Well, do you think maybe then that you  
1603 should have a more expanded role?

1604 Mr. CORNICK. We certainly would not be shy about it were  
1605 it something that the Congress felt comfortable with.

1606 Mrs. BIGGERT. And what about modeling it after the  
1607 Affordable Housing Program that the Federal Home Loan Banks  
1608 administer, is that a possibility?

1609 Mr. CORNICK. I would have to get back with you on that  
1610 because the truth is I am not smart enough how they do their  
1611 work.

1612 Mrs. BIGGERT. Okay. I am concerned about the delivery  
1613 just because we have seen what has happened in Louisiana  
1614 particularly, that the money has gone down there and it has  
1615 not been given out yet and has not started to be useful as it  
1616 should be.

1617 Mr. CORNICK. Yes, ma'am. It is something that we have  
1618 been working--you and the Secretary have talked about this  
1619 very--we have been working very hard with them, and we have  
1620 just got some substantial challenges and we are just getting  
1621 through them.

1622 Mrs. BIGGERT. Okay, then, Mr. Steel, would you have any  
1623 comment on this from the point of view of the Treasury about  
1624 using something like the Federal Home Loan Banks as  
1625 administrators?

1626 Mr. STEEL. Thank you very much for the question. I think  
1627 that there are several different ways we could go about this  
1628 and discuss it. We are not opposed to that idea but the way  
1629 as promulgated in the bill as written today is fine also.  
1630 And the key issue were the caveats that I described and we  
1631 walked through earlier and this delivery mechanism as  
1632 described by the states is fine with us. But if others are  
1633 to be considered, that is fine too.

1634 Mrs. BIGGERT. Thank you. I yield back.

1635 The CHAIRMAN. I thank the gentlewoman. The gentleman  
1636 from North Carolina.



1637 Mr. WATT. Thank you, Mr. Chairman, and thank you for--

1638 The CHAIRMAN. Gentlemen, just for a second, this is a  
1639 very important piece of legislation. We have a long day of  
1640 hearings, this is a very big committee, and unfortunately too  
1641 many of the members pay attention so we have long hearings  
1642 and there is nothing I can do about that. I just want to  
1643 tell people for the convenience of the members and witnesses,  
1644 I plan to stay here all day and finish this. There is no  
1645 need to take a lunch break, because it is not a markup  
1646 situation, members can come and go. I say that for the  
1647 benefit of the later witnesses, if they want to feel free to  
1648 come and go, but it is--we are going to finish this hearing  
1649 today, and people can adjust their lives accordingly.

1650 The gentleman from North Carolina.

1651 Mr. WATT. Can I steal that part of my time back from  
1652 you?

1653 The CHAIRMAN. We just started now.

1654 Mr. WATT. Thank you, sir. Let me thank the chairman for  
1655 convening the hearing. It is an extremely important hearing  
1656 and an extremely important piece of legislation. I am a very  
1657 hardy supporter of a stronger and independent, more  
1658 independent regulator. And I want to ask some questions in  
1659 two areas related to the independence and the strong because  
1660 some responsibilities go with being a stronger regulator.  
1661 And I have some concerns about the level of independence that

1662 I want to get on to the record here if I can.

1663 First of all, Mr. Lockhart, you are familiar with  
1664 something called Operation Noriega, have you ever heard that  
1665 term before?

1666 Mr. LOCKHART. No, I am not sure I have.

1667 Mr. WATT. Okay. There were reports circulated that  
1668 somebody in the White House had more than a passing interest  
1669 in how this new regulatory framework got formulated and may  
1670 have had pretty aggressive interest in the reports that were  
1671 done evaluating the GSEs performance. I also serve on  
1672 Judiciary, and we have seen over the last couple of weeks  
1673 revelations about the administration being engaged in things,  
1674 I mean the White House itself being engaged in things we  
1675 thought were in many respects much, much more independent.  
1676 Can each of the three witnesses give me assurances today that  
1677 there is not emails, paper trails, interference from the  
1678 White House, either in the reports that OFHEO has issued up  
1679 to this point, the financial evaluations or reports, or in  
1680 the shaping of reactions to the legislation here or  
1681 legislation in general? Mr. Lockhart first.

1682 Mr. LOCKHART. Certainly, I am an independent regulator.  
1683 In fact, I have been an independent regulator in three jobs  
1684 in the government so I understand independence of the PBGC  
1685 and Social Security, and I think it is very important to  
1686 have--

1687 Mr. WATT. You agree with me then that it would be  
1688 inappropriate for somebody in the White House to be  
1689 interfering in an independent regulator's evaluation of  
1690 conduct?

1691 Mr. LOCKHART. I agree with that and certainly in my nine  
1692 months there, there has not even been a hint of that.

1693 Mr. WATT. I think this would go back prior to your nine  
1694 months there so I am seeking your assurance that that kind of  
1695 inappropriate activity has not taken place to your knowledge  
1696 prior to your nine months there, I want you to speak beyond  
1697 your nine months there, Mr. Lockhart?

1698 Mr. LOCKHART. Well, again, I can tell you the most  
1699 important report we put out since I have been there is the  
1700 special examination of Fannie Mae.

1701 Mr. WATT. I am talking about conduct that may have  
1702 occurred prior to your being there, Mr. Lockhart. You are  
1703 here on behalf of the agency, I am asking you about whether  
1704 you have any knowledge of any emails, any correspondence  
1705 whatsoever that may have even come close to the line about  
1706 shaping the reports that OFHEO has issued?

1707 Mr. LOCKHART. No, I am not.

1708 Mr. WATT. Okay. And, Mr. Steel, Mr. Cornick, do you  
1709 have any?

1710 Mr. STEEL. No, sir.

1711 Mr. CORNICK. Absolutely not.

1712 Mr. WATT. Now the second part of this inquiry that I  
1713 want to be clear on is there are some responsibilities other  
1714 than independence that go with a strong regulator and there  
1715 is some concern that some people have raised that in the  
1716 conduct of OFHEO's activities, it has released information,  
1717 financial information publicly and prematurely. I concede at  
1718 some point all of this financial information must come out  
1719 and be evaluated by the public, these are public  
1720 corporations. My question to you I assume you believe, Mr.  
1721 Lockhart, that OFHEO is governed by those privacy provisions,  
1722 non-disclosure provisions under 18 U.S.C., Section 1905?

1723 Mr. LOCKHART. I am not sure of the cite, but I do  
1724 believe that we are covered by privacy, yes, and we do keep  
1725 the information private. A lot of our information is insider  
1726 information and there are a whole series of rules around that  
1727 as well.

1728 Mr. WATT. And to your knowledge has OFHEO at any point  
1729 prematurely and in violation of any of this statute, or any  
1730 other statute that you are aware of, released any information  
1731 that it should not have, either before you got there or  
1732 within the nine months that you have been there?

1733 Mr. LOCKHART. I really unfortunately cannot speak before  
1734 I got there on that kind of issue, but I can tell you what we  
1735 have done while I have been there is we protected the inside  
1736 information. We do publish information about these two

1737 companies, we put out a quarterly capital report, which has  
1738 information on them, and we are required by law to put this  
1739 annual report to Congress that has information on it, which  
1740 is somewhat different than the other regulators.

1741 Mr. WATT. And can I get your commitment to go back and  
1742 review those prior disclosures so that we can be assured that  
1743 this independence and this stronger regulation is accompanied  
1744 by responsibility that is transparent also?

1745 Mr. LOCKHART. I certainly believe in that, and we will  
1746 certainly look at that. I think it is very, very important  
1747 for a regulator not to be political.

1748 Mr. WATT. Can I just ask him to do one other thing, I  
1749 want to ask him a question, to take a closer look at the  
1750 provisions of 18 U.S.C., Section 1905 and see whether there  
1751 might need to be some clarification in this bill that we are  
1752 considering that makes those responsibilities of OFHEO more  
1753 concrete and transparent so the public has confidence not  
1754 only in what the GSEs are doing but in what this stronger,  
1755 more independent, more public and powerful regulator is  
1756 doing?

1757 Mr. LOCKHART. I certainly will look at that. I have  
1758 just been told that is the Trade Secrets Act you are talking  
1759 about, that cite there, and certainly we will look at it.

1760 Mr. WATT. I think this goes well beyond trade secrets  
1761 the way I read this.

1762 Mr. LOCKHART. We will certainly look at it.

1763 Mr. WATT. I thank the chairman for his generosity.

1764 The CHAIRMAN. The gentleman from Connecticut.

1765 Mr. SHAYS. Thank you, Mr. Chairman. Mr. Cornick, as you  
1766 reviewed the law, is it your interpretation that the  
1767 legislation would transfer fair housing enforcement away from  
1768 HUD or are you concerned about it?

1769 Mr. CORNICK. Our attorneys recognize that we are just  
1770 going over this and continue to do it. But currently the way  
1771 we are reading 1427, there is a transfer of HUD's fair  
1772 lending, fair housing GSE oversight authority to a new  
1773 regulator.

1774 Mr. SHAYS. And you would be opposed to that?

1775 Mr. CORNICK. Well, we would offer for consideration that  
1776 we have a very established record in working that. We have  
1777 been very successful enforcing the nation's fair housing and  
1778 fair lending laws.

1779 Mr. SHAYS. So the answer is you would be concerned?

1780 Mr. CORNICK. Yes.

1781 Mr. SHAYS. Okay.

1782 The CHAIRMAN. Would the gentleman yield? Could we get  
1783 the cite to that because we share that concern? Do you have  
1784 the textual cite to that?

1785 Mr. CORNICK. Let me see, sir.

1786 The CHAIRMAN. If you do not, we will try--

1787 Mr. CORNICK. But I appreciate the question because it is  
1788 important.

1789 Mr. SHAYS. Right, I think the committee will be  
1790 concerned about that as well. Mr. Steel, if you would,  
1791 Section 115 of the bill requires Fannie and Freddie to  
1792 register one class of stock under the 34 Act, why only the 34  
1793 Act and why only one class of securities?

1794 Mr. STEEL. Thank you. The rules are specific that these  
1795 institutions were exempt from the 33 and 34 Act, that is  
1796 going back historically. They have chosen to voluntarily  
1797 comply with the 34 Act. This is the current situation. It  
1798 is not--and it is not something that we feel is required but  
1799 should it be something that develops in the course of the  
1800 bill, we would not be against it.

1801 Mr. SHAYS. Well, let me ask you a question, the 1933 and  
1802 1934 Act have very real purposes, correct?

1803 Mr. STEEL. Yes.

1804 Mr. SHAYS. Fannie and Freddie are publicly traded,  
1805 correct?

1806 Mr. STEEL. Yes.

1807 Mr. SHAYS. So isn't there an argument that could  
1808 strongly be made at the very least that they should comply  
1809 like any other company that is traded publicly?

1810 Mr. STEEL. Yes, that argument could be made.

1811 Mr. SHAYS. But the administration is remaining neutral

1812 on it?

1813 Mr. STEEL. We are comfortable with the way it is  
1814 described now.

1815 Mr. SHAYS. Yes, unfortunately, before your time folks  
1816 were comfortable not having them under the law at all. And  
1817 until we frankly forced them to have to disclose under the 34  
1818 Act, and they said voluntarily they were doing it, like we  
1819 did not have a right to make them, that is when we learned  
1820 about all the problems. And it seems to me, and I will just  
1821 publicly lobby you, I hope the administration pro-actively  
1822 engages in this and says, listen, let's treat them like any  
1823 other company.

1824 Mr. STEEL. Great.

1825 Mr. SHAYS. Let's make sure they are under all the  
1826 requirements that any other company would be. Mr. Lockhart,  
1827 I would love to know about, GSEs are exempt from the privacy  
1828 protection law enacted by Congress for other financial  
1829 service firms in the Gramm-Leach-Bliley. Has OFHEO issued  
1830 anything like the banking agency guidance or does this need  
1831 to be addressed in our bill?

1832 Mr. LOCKHART. I really don't know that and I will have  
1833 to get back to you on that.

1834 Mr. SHAYS. Okay.

1835 Mr. LOCKHART. But if we need to get it in the bill, I  
1836 know we put out guidances around privacy, whether they are



1837 exactly like the bank I am not sure.

1838 Mr. SHAYS. But do you think this is an issue that should  
1839 be addressed?

1840 Mr. LOCKHART. Certainly, and we look at it.

1841 Mr. SHAYS. Mr. Steel, I am sorry.

1842 Mr. STEEL. I think this is somewhat similar to the  
1843 previous point that there has been exemption but it is  
1844 certainly something to be considered, and we are glad to  
1845 study and have conversations as things move ahead.

1846 Mr. LOCKHART. Could I make one point on the  
1847 registration?

1848 Mr. SHAYS. Sure.

1849 Mr. LOCKHART. Actually, Freddie is not registered yet.  
1850 By the time they were going to register with the SEC, their  
1851 financials--

1852 Mr. SHAYS. They could not comply.

1853 Mr. LOCKHART. They could not comply.

1854 Mr. SHAYS. Yes.

1855 Mr. LOCKHART. So once they get their financials in good  
1856 shape, they are going to register.

1857 Mr. SHAYS. And that is a good qualification but it does  
1858 not argue not for them to be--

1859 Mr. LOCKHART. Right.

1860 Mr. SHAYS. Okay. One last point, and it is to you Mr.  
1861 Lockhart, OFHEO, everyone agrees that it is doing a much job

1862 | under your management and significant changes, and I am not  
1863 | just saying that because you happen to be a constituent. I am  
1864 | not, that is the consensus. But what powers right now do you  
1865 | lack that you think you should have regardless of this bill  
1866 | that we are considering? What is the biggest area of  
1867 | weakness in your authority?

1868 |         Mr. LOCKHART. Well, we really don't have the powers of a  
1869 | bank regulator and that is a whole series of powers,  
1870 | receivership, portfolio, capital.

1871 |         Mr. SHAYS. So there is a whole host of issues?

1872 |         Mr. LOCKHART. It is a very long list of issues and  
1873 | really has led to a weak regulator and so we have to sort of  
1874 | pick ourselves up by the bootstrap, if you will.

1875 |         Mr. SHAYS. The thing that concerns me is, as hard as we  
1876 | may work on this committee to get the job done, we cannot be  
1877 | certain what the Senate will do, and I think we are going to  
1878 | get out a good bill. So I am just interested in that. My  
1879 | time is up. Thank you very much.

1880 |         The CHAIRMAN. I would just point out by odd coincidence  
1881 | the chairman of the Senate Committee is from guess where? He  
1882 | is from Connecticut. Once again, maybe you can work with  
1883 | him.

1884 |         Mr. SHAYS. You know sometimes, Mr. Cornick, your  
1885 | Massachusetts accent I do not always understand. That is my  
1886 | problem.

1887       The CHAIRMAN. The gentleman from New York, which is  
1888 where my accent is really from.

1889       Mr. MEEKS. Thank you, Mr. Chairman, thank you for  
1890 holding this important hearing. I have got some interest,  
1891 and let me address my first question to Mr. Steel. In  
1892 dealing with the Federal Home Loan Bank and the appointment  
1893 of these independent public interest directors, and I am  
1894 concerned about their independence. And I know that two  
1895 years had gone by and these positions had not been, only 40  
1896 percent of the director positions were vacant. No one was  
1897 appointed to them. And then after a rule, and I think the  
1898 rule was this past January, they came out with criteria that  
1899 in the case that the candidate should include familiarity  
1900 with financial and accounting matters.

1901       Now these are supposed to be public interest directors,  
1902 and it seems to me if in fact you just specify you must have  
1903 that particular background, are not we eliminating some of  
1904 the independence? Because it seems to me then that the  
1905 individuals can hire for the directors their cronies, the  
1906 individuals that they know, either from the member banks, et  
1907 cetera. Should there be another criterion in which we could  
1908 also utilize individuals who will be appointed because of the  
1909 public interest on the Federal Home Loan directorships?

1910       Mr. STEEL. Thank you. I think that the way I would  
1911 answer your question is you would hope they are complementary

1912 skills, that in addition to the financial tools to be able to  
1913 monitor the activities, that having people that have the  
1914 public interest in their mind and things like that is an  
1915 additional attribute that you would hope would be the case.  
1916 But I think the idea that there should be people that do not  
1917 have these other financial skills is a track I would not want  
1918 to go down.

1919 Mr. MEEKS. Do you think that these directors should be  
1920 confirmed by the Senate?

1921 Mr. STEEL. Confirmed by the Senate?

1922 Mr. MEEKS. By the Senate?

1923 Mr. STEEL. I am sorry, by the?

1924 Mr. MEEKS. By the Senate?

1925 Mr. STEEL. I think that the best protocol is that they  
1926 should come through the normal process and Senate  
1927 confirmation is fine.

1928 Mr. MEEKS. Let me further ask Mr. Steel on the other  
1929 matter of which--

1930 Mr. STEEL. I am sorry, I think I mis-spoke. They should  
1931 not be confirmed by the Senate but instead come through and  
1932 approved by the board. And this gets into this issue, sir,  
1933 that really Mr. Lockhart spoke about, which is complex, and  
1934 that is these organizations, as the chairman said in his  
1935 opening comments, are hybrids. They basically have private  
1936 market and public policy ambitions too. But I think that the

1937 key issue here is that, as we have described, we need to  
1938 continue to communicate that they are separate from the  
1939 government and from a governance perspective so as to make  
1940 clear that the financial tie, as described in the preferred  
1941 cost of capital, is as clear as it can be, that is not the  
1942 case.

1943 Mr. MEEKS. My concern just is that there is some  
1944 independence and that we just do not have individuals  
1945 deciding to elect individuals to the board who are just from  
1946 those same circles because that is what becomes--that is who  
1947 you know and there is no outreach to have some real  
1948 independence of individuals who will be there specifically  
1949 for the public interest. And I just think that we have got  
1950 to make sure that there is independence there.

1951 Let me just ask you, Mr. Steel, I know that last week  
1952 Moody's upgraded the rating from the nation's largest--for  
1953 the nation's largest banks based upon the high potential of a  
1954 government bail out. And the Treasury has justified limiting  
1955 the portfolio of the GSEs due to a lack of market discipline  
1956 based upon a perceived government bailout. My question is  
1957 should the same kind of restraints be placed upon the big  
1958 banks?

1959 Mr. STEEL. Well, I think that there is a distinct  
1960 difference, and it is a question I look forward to answering.  
1961 The reality is that the cost of capital for other

1962 institutions in the financial marketplace goes up and down  
1963 and their costs of borrowing go up and down. And they are  
1964 set by the marketplace, and they are not linked in the same  
1965 way to the interest rate of the government.

1966 When you look at the cost of borrowing for the housing  
1967 GSEs, it clearly does not represent the cost that it would be  
1968 if there was not this determined link, this assigned link to  
1969 the government. When you look at other large financial  
1970 institutions, their costs go up and down depending on whether  
1971 people perceive them as more risky, less risky, and they  
1972 really are subject to market type checks and balances.

1973 Mr. MEEKS. They are both regulated, I heard what you  
1974 said, the difference, they are both being regulated.

1975 Mr. STEEL. Yes.

1976 Mr. MEEKS. Different agencies, both the industries and  
1977 it seems like large sums of money but one you are saying is  
1978 regulated closer or restricted more than the other?

1979 Mr. STEEL. The marketplace believes, and as I said in my  
1980 opening comments and it was also referenced by others, the  
1981 marketplace assigns a borrowing rate to the housing GSEs that  
1982 is tied and infers a government backstop. I have declared  
1983 that is not the case but that is the way it works so there is  
1984 not the market check and balance that you would normally have  
1985 when people tend to change their business model.

1986 Mr. MEEKS. I see my time is up. Thank you, Mr.

1987 Chairman.

1988 The CHAIRMAN. The gentleman from California.

1989 Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. I  
1990 rather enjoy these hearings we have and the testimony from  
1991 individuals from Washington, D.C. It reminds me of why I fly  
1992 home every week because I do not want to develop a Washington  
1993 mentality. And some of the testimony, Under Secretary Steel,  
1994 you gave today, what would you consider affordable housing?

1995 Mr. STEEL. Well, I think that Chairman Frank gave some  
1996 descriptions earlier.

1997 Mr. MILLER OF CALIFORNIA. But what do you consider  
1998 affordable housing? I know what he thinks. I heard your  
1999 testimony, I want to know what you think, what do you think  
2000 affordable housing is?

2001 Mr. STEEL. I think that when you look at the median  
2002 price, and we basically go through the arithmetic and  
2003 conforming loan limits and things like that, we have  
2004 basically seen how it works out.

2005 Mr. MILLER OF CALIFORNIA. So you believe that median is  
2006 some part of the definition of affordable housing, then why  
2007 do you discriminate against areas like California in your  
2008 comments? You do not have a problem with Guam. You do not  
2009 have a problem with Alaska. You do not have a problem with  
2010 Hawaii and these areas that are afforded a higher rate to  
2011 fall under GSEs, you do not have problem with that but when I

2012 | look at this chart that shows the states that are in trouble  
2013 | with foreclosure, California, but your comments actually  
2014 | discriminated against my state of California when we are  
2015 | trying to raise conforming loan rates in California.

2016 |       And all you have to do look at OFHEO's chart to realize  
2017 | there is a huge need, and I think you need to read this chart  
2018 | before you testify and make these comments again. If you look  
2019 | at the underwriting standards of the private sectors, they  
2020 | are not as rigorous as Freddie and Fannie are because Freddie  
2021 | and Fannie, 82 percent of their loans are fixed rate loans,  
2022 | 18.1 percent of the other marketplace is fixed rate loans and  
2023 | because of these loans that are being made out there in the  
2024 | private sector, people are in real trouble today.

2025 |       And yet your testimony, you said, let me read it.  
2026 |       "There does not appear to be a problem in the provisions of  
2027 | mortgage credit in these areas and it could be a distraction  
2028 | from the affordable housing efforts of Freddie and Fannie."  
2029 | What do you consider affordable housing? I was born in  
2030 | Huntsville, Arkansas, Madison County. My district is Orange  
2031 | County, California. Are you trying to tell me that  
2032 | affordable housing in Madison County, Arkansas is the same as  
2033 | affordable housing in Orange County, California? That is a  
2034 | question.

2035 |       Mr. STEEL. No, sir.

2036 |       Mr. MILLER OF CALIFORNIA. Then how can you make a



2037 generic statement, as you did, that there does not appear to  
2038 be a need or there is no apparent reason to stop  
2039 discriminating against high-cost parts of this country and  
2040 affording them the same opportunity as Madison County,  
2041 Arkansas and other places that they can get an affordable  
2042 house and they can go through Freddie and Fannie at a better  
2043 rate. And if you look at historically, your problem loans,  
2044 they have never been as problematic as what I am facing in  
2045 California today with the jumbo market, even at Freddie and  
2046 Fannie's worst.

2047 So your comments to me, as I see it, you have a program  
2048 that I fully support, that I believe works, and you are  
2049 telling me that I am not as good as Guam, as Alaska, and  
2050 Hawaii? How can you say that? And that is what you said?  
2051 How can you say that?

2052 I want you to justify that on TV to the people I  
2053 represent and other high-costs parts of this country that  
2054 they are not as good as people in those areas and they should  
2055 be discriminated against and not offered a loan that the  
2056 Federal Government basically backs up and guarantees because  
2057 we do, and the same taxpayers in my district are the same  
2058 taxpayers in Alaska and Hawaii, why they are not qualified  
2059 for the same kind?

2060 I am really upset about this, because we make these  
2061 stupid--excuse me, we make these unacceptable Washington

2062 statements with a Washington perspective, that is why I think  
2063 local housing authorities need more control and more leeway  
2064 in determining the needs of the local people. We make  
2065 statements like this, that there does not appear to be a need  
2066 and you look at the charts, and the need is absolutely beyond  
2067 question and the crisis is beyond question. These are not  
2068 the crises and the defaults today, these areas are the  
2069 crisis. The only red on this entire map of the United States  
2070 is California and most of this country has availability of  
2071 GSE loans, we do not.

2072         So you cannot tell me that an affordable house in  
2073 Arkansas or maybe some parts of Oregon that my family live  
2074 are the same as an affordable home in California. I cannot  
2075 buy a \$300,000 house in my district hardly. If you can, it  
2076 is in such disrepair it is illegal to move into. You would  
2077 have to go revamp it. So we have been fighting for years,  
2078 and I commend the chairman for this, his efforts in this,  
2079 too, to try to create some type of a system that is fair and  
2080 equitable throughout this country but the concept that I have  
2081 got school teachers and firefighters and police officers  
2082 driving two hours back and forth to work each day because  
2083 they cannot afford to buy a house in the community within  
2084 which they live, yet if they get FHA availability and some  
2085 GSE availability, you would move more people into homes with  
2086 a safer, less risky loan.

2087 I apologize, I do not mean to offend you, but when you  
2088 make statements like this, that somebody probably wrote and  
2089 typed for you and you read in a meeting like this, and you  
2090 tell me my people are not good enough, they are the same  
2091 taxpayers as anybody else in this country because they happen  
2092 to live in a high-cost area. You need to think about what we  
2093 are trying to do in this country and that is provide  
2094 liquidity in the housing market, and we are discriminating  
2095 against most of the housing market in high-cost areas.

2096 And I am a little fired up, I know, Mr. Chairman, I do  
2097 not want you to get too much exercise with your gavel there,  
2098 but I would like you to re-think that. That is just not fair  
2099 and it is just not equitable, especially when you are not the  
2100 problem.

2101 The CHAIRMAN. Mr. Steel, I would not want to deprive you  
2102 of a chance to respond if you are eager to do so.

2103 Mr. MILLER OF CALIFORNIA. I would love you to, please.

2104 Mr. STEEL. Well, I am happy to respond. First of all, I  
2105 appreciate the perspective, and it will certainly be  
2106 considered, and we will come back. I think though that the  
2107 only thing I would challenge, sir, with all due respect, is  
2108 it is not a question of being good. That is not the right  
2109 way it was described. We are trying to develop a system for  
2110 allocating and it is not a matter of assigning value to  
2111 people or things like that.

2112 Mr. MILLER OF CALIFORNIA. Mr. Chairman, five seconds,  
2113 please? If you can allocate it to Hawaii and Alaska and  
2114 Guam, it should also be allocated to my part of California  
2115 and over all of California.

2116 The CHAIRMAN. I would just say, if the gentleman would  
2117 yield, I would just add to this and that allocation I think  
2118 is not the right word. I do not see this as in any way zero  
2119 sum, that is it is not the case that doing the high-end loans  
2120 in any way detracts, and indeed if we are looking at the  
2121 goals, which are a percentage of overall loans, if we look at  
2122 the Affordable Housing Fund, which is going to be fueled if  
2123 we are successful by the portfolio, to some extent, the more  
2124 loans they make in these high-cost areas, the more will be  
2125 generated. So no one should see this as zero sum. The  
2126 gentleman from Kansas?

2127 Mr. MOORE OF KANSAS. Thank you, Mr. Chairman. And, Mr.  
2128 Chairman, I want to commend you for this legislation, which I  
2129 believe represents an important bipartisan compromise. H.R.  
2130 1427 creates a strong new regulator for government-sponsored  
2131 enterprises that will ensure the safety and soundness of  
2132 these entities in our housing marketplace while also helping  
2133 them fulfill their role in providing affordable housing  
2134 opportunities for families all across our country. I hope  
2135 this committee will be able to move forward after this  
2136 hearing in marking up this legislation and moving it on its

2137 way to becoming law.

2138       The question I have for Mr. Lockhart is the legislation  
2139 we are considering today, sir, charges the new director with  
2140 developing standards by which the enterprises' portfolio  
2141 holdings ''will be deemed to be consistent with'' their  
2142 mission and safe and sound operations, as you read this  
2143 language, do you believe it would permit the director to set  
2144 quantitative standards, that is standards to prescribe a  
2145 specific level or range for the portfolio holdings or does it  
2146 contemplate standards that are more qualitative in nature?  
2147 What sort of considerations should the director take into  
2148 account in assuring the safety and soundness of the GSEs?

2149       Mr. LOCKHART. I think the legislation could set  
2150 quantitative, or at least ranges, as well as qualitative  
2151 standards. Certainly, I think the legislation, it gives very  
2152 good guidance to the regulator in that it should be looking  
2153 at the liquidity of the market and the entities, it should be  
2154 looking at the stability of the marketplace, it should make  
2155 sure that they are able to securitize securities, which is  
2156 their biggest business, and also they should consider the  
2157 risk and very importantly affordable housing. And so I think  
2158 what would happen is it is asked that the regulator has to  
2159 put the regulation out in about 180 days, I would hope that  
2160 it could even be done quicker, and that there could be a  
2161 really good dialogue about the various factors going forward.

2162 Mr. MOORE OF KANSAS. Thank you, sir. Thank you, Mr.  
2163 Chairman.

2164 The CHAIRMAN. The gentleman from New Jersey.

2165 Mr. GARRETT. Thank you, Mr. Chairman. Thank you again,  
2166 panel. First, dealing with the issue of the so-called  
2167 housing program or as some of us call it a mortgage tax  
2168 increase because in essence it is a tax on the GSEs and hence  
2169 down the line to the eventual consumers. Maybe Mr. Cornick  
2170 or maybe other members of the panel can answer this question,  
2171 I am not talking about the programs that you run with regard  
2172 to housing, but we have heard other testimony already with  
2173 regard to the GSEs and that the private market basically is  
2174 doing a better job when it comes to providing affordable  
2175 housing than what the GSEs have already done so isn't it  
2176 implicit in this legislation that where it is saying that we  
2177 are going to be adding on this housing program, isn't it  
2178 implicit in the legislation that we are saying that the GSEs  
2179 have failed and we are trying to come with another solution  
2180 since they did not do their job in the first place?

2181 Mr. CORNICK. Personally, I would not draw that  
2182 conclusion. One of the things that we have found through our  
2183 own goals--

2184 Mr. GARRETT. Well, if they were doing the job and they  
2185 were providing it, they would be doing better than in the  
2186 private market and we would not be looking to add another--

2187 Mr. CORNICK. That is where we are trying to get them and  
2188 they are not currently there, that is true.

2189 Mr. GARRETT. Again with regard to this program, Mr.  
2190 Steel, you were saying I think, maybe Mr. Lockhart you said  
2191 this as well, I am not sure, that with regard to this  
2192 program, it should be a temporary program, is that correct?

2193 Mr. STEEL. Yes.

2194 Mr. GARRETT. I have only been here in Washington for  
2195 four years, maybe you can give me some examples other than  
2196 tax cuts, which are set to expire and there is always an  
2197 argument that they should be temporary by some sides of the  
2198 aisle, can you give me some examples of other government  
2199 programs that we have set up that have been temporary  
2200 programs that actually are temporary? I am thinking of TRIO  
2201 right now, which was supposed to be a temporary program, and  
2202 we are seeing that going to continue on, but are there other  
2203 programs that are truly established as temporary and then at  
2204 the end they go away or do not they always just sort of stay  
2205 around for good because once they leave, they begin a  
2206 constituency for it?

2207 Mr. LOCKHART. I am newer than you and I do not have  
2208 examples.

2209 Mr. GARRETT. Okay. Can anyone else give me examples so  
2210 I can go home and say that yes--

2211 Mr. CORNICK. Yes, sir, I can give you one.

2212 Mr. GARRETT. Okay.

2213 Mr. CORNICK. Moving to Work at HUD, that is a  
2214 demonstration program that I believe has a 10 year history.

2215 Mr. GARRETT. And then expired and did not morph into  
2216 something else?

2217 Mr. CORNICK. It continues to be reauthorized or  
2218 authorized through the appropriations process.

2219 Mr. GARRETT. Okay, so that is an example where we had a  
2220 temporary program, it was supposed to be temporary--

2221 Mr. CORNICK. Actually, it has always been a  
2222 demonstration, it has never grown into a full-fledged  
2223 authorized stand-alone program.

2224 Mr. GARRETT. So maybe I should have some concern that  
2225 even though both sides here believe that it should be  
2226 temporary, it may not be.

2227 Mr. LOCKHART. One example would be the Resolution Trust,  
2228 which was winding up the S&Ls. I think if you look at the  
2229 President's proposals, one of the proposals is actually to  
2230 put forward a sunset commission to oversee these kinds of  
2231 things to make sure that programs that are no longer  
2232 necessary, are no longer working, are being shut down and  
2233 they are being in this government.

2234 Mr. GARRETT. That is something that I would totally  
2235 agree with and if we have the authority in this committee, I  
2236 would encourage the chairman--I do not think we do--to try to



2237 | look into sun-setting a number of programs. Going over to a  
2238 | second area and that is the portfolios. Back in 1990, the  
2239 | portfolio amounts for Fannie and Freddie was \$136 billion.  
2240 | By 2003, they were up to \$1.6 trillion.

2241 |         And the reason I give 2003 data is because that is what  
2242 | I have in front of me because I understand that for both of  
2243 | those funds, we do not have total financials until 2004 and  
2244 | 2005.

2245 |         So my two questions for you are this, will shrinking  
2246 | their portfolios reduce systemic risk, (a)? And (b) can you  
2247 | really answer any of these questions when it comes to  
2248 | systemic risks and the size of their portfolio since we still  
2249 | do not even have data that is less than three years old? And  
2250 | how do we move forward on any of this until we actually have  
2251 | that data?

2252 |         Mr. LOCKHART. Well, as the regulator, we do have the  
2253 | data, some of it may be still estimates but we do have the  
2254 | data, and we are certainly using that from a regulatory  
2255 | standpoint. The report portfolios have come down about \$200  
2256 | billion since then and that is because the regulator took  
2257 | action and asked them to put up more capital and the response  
2258 | was to draw down their portfolios somewhat. Certainly, one  
2259 | has to consider the size of the portfolios as part of safety  
2260 | and soundness, and I think it is an important issue.

2261 |         The other thing about the portfolios, it is just one of

2262 | their two businesses, and I think this is important to  
2263 | remember and it is about only a third of their total book of  
2264 | business and how they help the mortgage market. The other  
2265 | two-thirds is their guaranteeing of MBS's and those  
2266 | guarantees have credit risks, just like their portfolio, but  
2267 | a lot less interest rate risk and operational risk.

2268 |       Mr. GARRETT. And I think I have time for just more  
2269 | question. Mr. Steel, you have not suggested any limit on the  
2270 | amount of the GSE obligations that a bank may hold, that was  
2271 | an idea proposed by the Clinton Treasury Department I believe  
2272 | and included in some prior versions of this legislation. Do  
2273 | you support such?

2274 |       Mr. STEEL. I think the key push for us has been, and  
2275 | will be, to have a strong regulator. And if we make the GSEs  
2276 | to be subject to good regulation with the right balance of  
2277 | both the size and the capital required, then that is the  
2278 | right anecdote for dealing with all the issues.

2279 |       Mr. GARRETT. Okay, thank you.

2280 |       The CHAIRMAN. The gentleman from Texas.

2281 |       Mr. HINOJOSA. Thank you, Mr. Chairman. I want to thank  
2282 | you and Ranking Member Bachus for bringing this important  
2283 | issue for us to have this hearing on your bill. The outcome  
2284 | after this important hearing on reform of enterprises and  
2285 | Federal Home Loan Banks is very important to my congressional  
2286 | district, as well as to my state of Texas. I wish to ask my

2287 question, to address to the Honorable Robert Steel and also  
2288 get the input from The Honorable James Lockhart.

2289       Gentlemen, as you know, Chairman Frank's legislation,  
2290 H.R. 1427, proposes a product review process for Fannie Mae  
2291 and Freddie Mac that goes far beyond the bank regulatory  
2292 model. National banks are not required by OCC rules to  
2293 obtain prior approval for every new product that they  
2294 introduce. Do you support this section of the H.R. 1427  
2295 bill? And, in your view, what justifies imposing a stricter  
2296 regime on Fannie Mae and Freddie Mac?

2297       Mr. STEEL. Thank you. I think that the way I would  
2298 think about this is really in the context of some of the  
2299 earlier conversations. The housing GSEs are hybrid  
2300 institutions and they have unusual characteristics. They are  
2301 part private and part public in terms of the policy  
2302 ambitions. And therefore we have said all along from the  
2303 Treasury perspective that we think of the tools needed as in  
2304 two parts.

2305       The first part are tools that are consistent with a  
2306 strong bank-like regulator. But, secondly, there are  
2307 additional tools needed because of the special nature of GSEs  
2308 and this product review is part of the special nature that we  
2309 think is appropriate given this hybrid construct. Let me  
2310 again reiterate that the development of rules in the open and  
2311 transparent system will be a way for Congress to comment and

2312 have input on this and then the strong regulator will apply  
2313 them over time. And that seems like the right prescription  
2314 to go with this situation.

2315 Mr. HINOJOSA. Well, I am concerned that if you go too  
2316 far that the low-income families in regions like the one I  
2317 represent, where over 40 percent are below the national  
2318 poverty level, would never be able to own their dream home.  
2319 And so I am concerned that you folks just might go a little  
2320 bit too far to the right. And I would ask The Honorable  
2321 Lockhart would you give me your views?

2322 Mr. LOCKHART. Well, first of all, I think regulatory  
2323 review of new products is not unusual, either in the banking  
2324 or in the industry. I am more familiar with the insurance  
2325 industry. What is maybe a little different here is the more  
2326 public nature of the reviews, but the regulator will put out  
2327 a regulation, and certainly if there are private parts that  
2328 should not be exposed to the public, that will not be  
2329 exposed.

2330 But my view, again, is innovation is critical for these  
2331 companies, and I think we have to encourage that. At the  
2332 moment, unfortunately because of their problems, they are not  
2333 really capable of innovating and so what we need to do  
2334 actually is help get them fixed. And then I think this would  
2335 be a very good process going forward to look at major new  
2336 products.

2337 Mr. HINOJOSA. Well, I believe that to close that gap  
2338 that has existed for far too long, we are going to have to be  
2339 creative and innovative and be able to regulate them but, as  
2340 I said earlier, not to go too far and not let them work and  
2341 help us reach that goal.

2342 I want to continue and say that it seems to me that a  
2343 financially healthy national bank does not have to obtain the  
2344 approval of the controller of the currency or formally notify  
2345 the controller before offering a type of mortgage that it had  
2346 not offered before nor would a healthy bank need permission  
2347 to start offering auto loans even though it had not done so  
2348 before. I am concerned about an overly-bureaucratic bill  
2349 approval process that might stifle innovation or harm the  
2350 very reason we created Fannie Mae and Freddie Mac. So why  
2351 treat Fannie and Freddie differently, and I address that to  
2352 Mr. Lockhart?

2353 Mr. LOCKHART. Well, as Mr. Steel said, these are hybrid  
2354 organizations, they have a very important public mission, and  
2355 they have a very big role in the U.S. economy so we have to  
2356 make sure, as part of regulatory review, that their new  
2357 products are safe and sound. That is not meant to stifle  
2358 innovation, it is just meant to make sure that they do not  
2359 have safety and soundness problems. And I think, hopefully,  
2360 a regulator can and has been able, will be able to work the  
2361 balance between safety and soundness and innovation.

2362 Mr. HINOJOSA. Thank you for your response. I have  
2363 already gone beyond my limit, and I yield back.

2364 The CHAIRMAN. I thank the gentleman. The gentleman from  
2365 New Mexico.

2366 Mr. PEARCE. I thank the chairman for the hearing. I  
2367 think my question, Mr. Steel, would be that how do you  
2368 perceive the secondary market in the reform bill, the bill  
2369 that we have got due, are GSEs going to stay involved in the  
2370 secondary market? What are the applications that we need to  
2371 face there, I think would be my question?

2372 Mr. STEEL. Well, I think that the clear issue here is  
2373 that this proposal focuses on the issue of mission and the  
2374 issue of safety and soundness. And the mission is clearly  
2375 stipulated to be focused on extending credit for housing and  
2376 so this does not limit their involvement in the secondary  
2377 market. And that could continue but it will be up to the  
2378 regulator to balance the business model with the appropriate  
2379 risk-based capital and give him guidance and provide the  
2380 right perspective so as to protect those twin, dual aspects.

2381 Mr. PEARCE. And you would see that flexibility to stay  
2382 in or get out as being an appropriate flexibility, you think  
2383 that flexibility is appropriately given?

2384 Mr. STEEL. Yes.

2385 Mr. PEARCE. Okay. Any other comments on the panel on  
2386 this particular issue because I suspect we are going to hear

2387 | more about this as we move forward because if see enough of  
2388 | it in the evening news, sometimes it percolates to a hearing,  
2389 | you never can tell?

2390 |       Mr. LOCKHART. Well, I certainly think that they have  
2391 | extremely important role in the secondary market and this  
2392 | legislation that is proposed I think will only strengthen  
2393 | that role. They not only have a portfolio but, as I said  
2394 | earlier, they also are the major providers of securitized  
2395 | MBS's that back up the mortgage market. So I think this bill  
2396 | will only strengthen them and strengthen their capability.

2397 |       Mr. PEARCE. Mr. Cornick, any comments?

2398 |       Mr. CORNICK. No, sir.

2399 |       Mr. PEARCE. If we could go just a little bit further and  
2400 | assess the strength--not just the strength of the market but  
2401 | the activity that goes into the secondary market? I come  
2402 | from a very poor district, probably \$22,000 to \$25,000 is our  
2403 | average income and so secondary markets frankly play a very  
2404 | large role in seeing that people in New Mexico get access, so  
2405 | what happens if we constrict the secondary markets  
2406 | unnecessarily? Are there elements of the business world that  
2407 | are going to pick up those loans?

2408 |       I think that loan pool right now is about \$700  
2409 | million--\$700 billion, excuse me, it is almost a trillion  
2410 | dollars to low-incomers and yet you can see it coming from  
2411 | the evening news, they think we ought to squeeze that down

2412 and shut it off, but it is going to affect people in the poor  
2413 districts. And so what options do we have going into the  
2414 future? What potential, what risks are out there in the  
2415 market if we over-regulate and then what are the effects, if  
2416 I could get some comment?

2417 Mr. LOCKHART. I think you have a very reasonable  
2418 concern, that we do not want to over-regulate and we have to  
2419 be cautious about what is happening out in the marketplace  
2420 today. Freddie and Fannie are big players in the secondary  
2421 mortgage market, including the kinds of securities you are  
2422 talking about which are private label securities issued by  
2423 issuers including Wall Street banks and other firms. They  
2424 have been reasonably big buyers in that and they have  
2425 actually been only playing at the very top level, the triple  
2426 A tranche, but they do have between them probably \$300  
2427 billion of private label securities and there is nothing in  
2428 this bill that would not allow them to continue to do that.  
2429 And then hopefully over time, they can develop capabilities  
2430 to do even more.

2431 Mr. PEARCE. Mr. Steel, any comment?

2432 Mr. STEEL. I would agree.

2433 Mr. PEARCE. Okay, thank you, Mr. Chairman. I see my  
2434 time is about gone.

2435 The CHAIRMAN. I thank the gentleman. The gentleman from  
2436 Missouri.



2437 Mr. CLAY. Thank you, Mr. Chairman. Thank you for  
2438 holding this hearing. Mr. Lockhart, Chairman Frank's  
2439 legislation, H.R. 1427, would set the capital levels for  
2440 Fannie Mae and Freddie Mac. Congress set the capital levels  
2441 in the 1992 legislation as well. While I support giving you  
2442 bank-like authority to increase the capital levels when there  
2443 is a serious safety and soundness condition, I am very  
2444 concerned that you might over-interpret this authority to be  
2445 broader and more than we in the Congress intend.

2446 What can you tell the committee today to give us  
2447 assurances that we are all on the same page as to what  
2448 authority we are giving to the new regulator and how you  
2449 would use that authority if you were the new regulator?

2450 Mr. LOCKHART. The legislation gives the regulator,  
2451 through an open rule-making process again, the ability to  
2452 look at not only the minimum capital rules but also the  
2453 risk-based capital rules. On the risk-based side, the  
2454 present rules, which were in that 1992 legislation, and the  
2455 model that is built out of it is not very effective and we  
2456 will definitely be looking to make it more effective.

2457 On the minimum capital side, there is no doubt that  
2458 there are limits in place. They are much smaller than any  
2459 other financial institution but there is reason for that.  
2460 And there are some other reasons that they may potentially  
2461 should be higher. As you probably know, at the present time,

2462 we have a 30 percent add-on to that given the regulatory  
2463 risk, which makes instead of 2.5 percent, 3.25 percent. And  
2464 certainly that is a number that we are more comfortable with  
2465 at the moment considering the situation.

2466 Mr. CLAY. Let me get some clarification from you, Mr.  
2467 Lockhart. On January 19th, the Wall Street Journal Financial  
2468 Services Brief read, and I quote, "Fannie Mae OFHEO director  
2469 reveals a net loss at Fannie Mae." Did you announce Fannie  
2470 Mae's third quarter financial results in mid-January 2007  
2471 before Fannie Mae released them to the public and did Fannie  
2472 Mae approve your release of this confidential information?

2473 Mr. LOCKHART. We released that information when we put  
2474 out the capital report, which is a public document which is  
2475 information given to us from Fannie Mae that we are required  
2476 to put out quarterly. So we released that in late December.  
2477 And through those numbers it showed that Fannie Mae had a  
2478 loss for the third quarter. We will be capital numbers out  
2479 again at the end of this month.

2480 Mr. CLAY. And you are aware of 18 U.S. Code 1905 as far  
2481 as not being able to reveal statements of Fannie Mae?

2482 Mr. LOCKHART. I think it was mentioned to me earlier.

2483 Mr. CLAY. Okay, and your response earlier, I may not  
2484 have been here?

2485 Mr. LOCKHART. My response is that the information you  
2486 are talking about was already out in the public sphere

2487 | because of the capital report that we put out.

2488 |       Mr. CLAY. Okay, thank you for that response. Mr. Steel,  
2489 | we are discussing GSE legislation that may lead to limits on  
2490 | GSE portfolios and activities. Fannie Mae and Freddie Mac  
2491 | may have used the wrong accounting treatment but they seem to  
2492 | be on the right path now. In a mortgage market downturn when  
2493 | many lenders will exit the market but the GSEs remain, why  
2494 | are considering proposals to limit GSE growth? What do you  
2495 | think the effect of these limits will be on the mortgage  
2496 | market and on borrowers?

2497 |       Mr. STEEL. I think the key issue that I would want to  
2498 | highlight is this is not an effort to limit the growth of  
2499 | participation. This is an effort to establish the right  
2500 | capital regimen and the right regulatory regimen and those  
2501 | twin things will make these GSEs stronger so that they can do  
2502 | their job better. And if you really are concerned for the  
2503 | longer term, intermediate to longer term, about their ability  
2504 | to be effective, step one is to have a strong regulator that  
2505 | applies the right capital regimen so people have confidence  
2506 | they can do their job.

2507 |       Mr. CLAY. And that still enables them to accomplish  
2508 | their mission of providing affordable housing to Americans?

2509 |       Mr. LOCKHART. Even more so to my mind.

2510 |       Mr. CLAY. Even more so?

2511 |       Mr. LOCKHART. Yes.

2512 Mr. CLAY. Because of the strong regulation?

2513 Mr. LOCKHART. Because of strong regulation and  
2514 appropriate capital and the right presentation to the  
2515 marketplace.

2516 Mr. CLAY. Thank you for that response. I yield back,  
2517 Mr. Chairman. Thank you.

2518 The CHAIRMAN. The gentleman from Louisiana.

2519 Mr. BAKER. I thank the Chair. Just to quickly  
2520 summarize, and I apologize for my absence, believe me I do  
2521 not miss GSE hearings. I was over in Transportation on some  
2522 Katrina related matters and it required my attention. But to  
2523 summarize, we have enterprises that were created by acts of  
2524 Congress who were given a privileged place in the market and,  
2525 as a result, the market used these enterprises as low risk  
2526 because there is the prospect the United States  
2527 government/taxpayer would step in in the event of an adverse  
2528 economic outcome and assume obligations of the enterprise,  
2529 while at the same time, should the enterprises remain  
2530 profitable, the shareholders of that enterprise enjoy those  
2531 profits.

2532 So we have a unique business model in which it is a  
2533 joining of public resources which generate profit for  
2534 shareholders. That type of entity requires since the  
2535 Congress, in my opinion, requires us to act carefully because  
2536 we are the ones who by statute created these two or three

2537 particular activities. The Federal Home Loan Bank of course,  
2538 for the record, is not a shareholder-driven institution, it  
2539 is even more unique.

2540       However, given that prospect and the changing nature of  
2541 the business practice over the life of these enterprises has  
2542 necessitated a change in the proper regulatory oversight. For  
2543 example, in the years in which MBS did not exist and the  
2544 enterprises did not buy their own, the risk profile of those  
2545 entities in that day, in my view, was a great deal less  
2546 volatile than it would be if considered today as enterprises  
2547 buy more and more of their own MBS, bringing that risk on to  
2548 the books, which they previously did not enjoy.

2549       And the reason why they do so of course is enhance  
2550 profitability. That has nothing to do, nothing to do with  
2551 the provision of housing to low-income people. In fact, when  
2552 you go through a portfolio analysis and look at the numbers  
2553 of mortgages held, which are 5 percent or less down payment,  
2554 which I have drawn the conclusion that generally poor people  
2555 do not have money, it is just me, that is where I wind up,  
2556 and that means at the down payment level, they are going to  
2557 have less involved in the deal than the person who is selling  
2558 a home, capturing a profit and rolling that into the next  
2559 one. But when you analyze the portfolio, and I will ask,  
2560 Director, if you have a number that you could share with us,  
2561 you would find the typical home mortgage value in that

2562 | portfolio to be about what?

2563 |       Mr. LOCKHART. I think the overall home mortgage values  
2564 | in sort of the averages is like \$130,000 to \$150,000.

2565 |       Mr. BAKER. In most cases that represents a LTV of 70  
2566 | percent or less by my calculation?

2567 |       Mr. LOCKHART. That is correct.

2568 |       Mr. BAKER. Which means if it is \$150,000 and the person  
2569 | has \$50,000 equity, that is a \$200,000 house securing an  
2570 | \$150,000 loan kind of average. So it is not the customary  
2571 | first-time home buyer that one might assume that these  
2572 | enterprises are principally engaged in. They are funding  
2573 | middle America's home ownership opportunities. And when you  
2574 | look at their ability to meet the needs of low-income,  
2575 | minorities, first-time home buyers, however we choose to  
2576 | characterize it, in your view have they met or exceeded the  
2577 | traditional market performance or have they lagged behind the  
2578 | market?

2579 |       Mr. LOCKHART. It is a tough issue to say whether they  
2580 | have met the market performance. I think it is an issue that  
2581 | it is hard for them to reach some of the really low income  
2582 | affordability.

2583 |       Mr. BAKER. And that goes to the risk requirement because  
2584 | when they buy sub-primes, they only take Class A's, they do  
2585 | not take the higher risk/lower credit score stuff in order to  
2586 | minimize their risk so their shareholders know their profit

2587 is not at risk and there is the inherent conflict as to why  
2588 we need this regulatory change. Taxpayers and the Congress  
2589 gave them this authority but required them the obligation,  
2590 because of this privilege, to meet certain credit extensions  
2591 that otherwise might not be met.

2592 But when we look at what they hold in their portfolio,  
2593 it is not typically what we would expect if they were  
2594 intending to meet only the low-income, first-time home  
2595 buyers' needs. In fact, 60 percent of the mortgages held in  
2596 the country are held by folks other than Fannie and Freddie  
2597 so that credit needs are now being met in a variety of new  
2598 ways that are alternatives that did not 10 years perhaps  
2599 exist.

2600 One last thing, Mr. Steel, with regard to the minimum  
2601 capital suggestion, some have argued that we need to consider  
2602 alternative assets being placed in the pot that counts toward  
2603 your Tier I capital requirements, such as subordinated debt.  
2604 Some people call that "funny money." What I want to know is  
2605 what is the position, what is your view of the current  
2606 construct of the Tier I capital requirement, minimum capital  
2607 requirement as it is now envisioned in the legislation? And  
2608 should we consider the addition of "funny money" to meet  
2609 those goals?

2610 Mr. STEEL. Well, I think that it is pretty clear in bank  
2611 capital that subordinated debt would not be part of Tier I

2612 and so that should not be included as part of the Tier I  
2613 capital.

2614 Mr. BAKER. So you feel the current construct of the  
2615 minimum capital requirement is sufficient?

2616 Mr. STEEL. Yes.

2617 Mr. BAKER. Thank you very much. I yield back, Mr.  
2618 Chairman. Let me also thank the chairman for his leadership.

2619 The CHAIRMAN. I thank the gentleman as the first one who  
2620 got us started in this area, and we appreciate the  
2621 cooperation. The gentleman from Georgia.

2622 Mr. SCOTT. Thank you, Mr. Chairman. I too want to  
2623 commend you, Mr. Chairman, for your leadership on this issue.  
2624 It is very important. Mr. Steel, let me ask you this, why  
2625 must the Federal Home Loan Banks be under this new regulator?  
2626 There is clearly a difference here, the Home Loan Banks  
2627 operate under a totally different business model, they are  
2628 not as risk prone. It just seems to me that that is not the  
2629 way to go, why are you persistent in wanting them under this  
2630 new regulator?

2631 Mr. STEEL. Good, I will start and maybe Mr. Lockhart  
2632 will comment additionally, but I think that from my  
2633 perspective that this is the right umbrella regulator to get  
2634 the housing GSEs and the Federal Home Loan Banks under this,  
2635 that enough of the same characteristics are existing between  
2636 all three of these, that this is the best tool for that task.



2637 There are differences and several have commented, and that  
2638 the two, Fannie and Freddie are more similar, but the Federal  
2639 Home Loan Banks are sufficiently like this that we think this  
2640 is the right way to approach it.

2641 Mr. SCOTT. But do not the Federal Home Loan Banks  
2642 basically just primarily make secured loans to their member  
2643 institutions who are involved in this as opposed to Freddie  
2644 and Fannie who are involved in a myriad of things that  
2645 pertain to much greater risk? And do not we run the risk of  
2646 putting these two basically apples and oranges together, do  
2647 not we run the risk of this not operating in the best  
2648 interest of our consumers?

2649 Mr. STEEL. I think the real issue here, sir, is that the  
2650 regulator will be able to adapt the rules and apply them to  
2651 each of the entities so that they are in the right form.

2652 Mr. SCOTT. Well, tell me this, Mr. Steel, what is wrong  
2653 with their current regulator? I would think that they are  
2654 doing the job, there are not the same complaints that we get  
2655 with Freddie and Fannie?

2656 Mr. STEEL. I think that the same rudiments of why we  
2657 believe that we need a bank-like regulator with all the  
2658 appropriate tools, and we have walked through the half a  
2659 dozen characteristics, really apply here to the Federal Home  
2660 Loan Banks also.

2661 Mr. SCOTT. Well, tell me this then, what regulatory

2662 authority that they do not know have that this legislation  
2663 would provide?

2664 Mr. LOCKHART. Well, I think the legislation really does  
2665 make a lot of sense because they do have a lot of the same  
2666 similarities. They in fact have portfolios. In fact, they  
2667 had portfolios and two of them got in very big trouble with  
2668 the risk management around those portfolios. So they do have  
2669 some of the very similar type issues going forward. They are  
2670 all housing GSEs, they are all in the marketplace, and it  
2671 really makes a lot of sense to me to have one regulator, as  
2672 Controller General Walker said, that oversees all the housing  
2673 GSEs to try to bring more prominence to the issue and also to  
2674 bring more efficiency and more effective regulating?

2675 Mr. SCOTT. Well, how do you see this benefitting the  
2676 marketplace?

2677 Mr. LOCKHART. Well, I think a more efficient regulator  
2678 will benefit the marketplace. I think going forward that  
2679 Federal Home Loan Banks understand that having a stronger  
2680 regulator will help them retain their shareholders and their  
2681 business.

2682 Mr. SCOTT. But is not the current regulator doing the  
2683 job now? Where are they failing? I do not see where this  
2684 problem is that it is necessary to take the Federal Home Loan  
2685 folks and put them into this. If there was a problem with  
2686 the current regulator, then I could see that but nowhere has

2687 that been pointed out.

2688 Mr. LOCKHART. Well, there are certainly issues going on  
2689 at the moment around the capital and especially the risk  
2690 related to the capital of the Federal Home Loan Banks. And,  
2691 as I said, there were certainly several that had some  
2692 significant problems.

2693 Mr. SCOTT. All right, well, let me go to another  
2694 question I wanted to ask Secretary Steel. We have been on  
2695 this issue of GSE reform and last year the reform legislation  
2696 died in the final hours of the session. And my question is  
2697 is this administration committed, really committed to  
2698 negotiating in good faith to quickly finish action on GSE  
2699 reform?

2700 Mr. STEEL. I am quite appreciative of that question. I  
2701 pledge to you that Treasury, of which I am affiliated, is  
2702 committed to that and would like--and is here today in  
2703 support of the bill. And I believe, and you can--really in  
2704 some ways the question might be better answered by Chairman  
2705 Frank as to the commitment and seriousness of intent. And I  
2706 pledge to you that is exactly why we are here and that we  
2707 have worked hard to get to this place and look forward, as  
2708 the expression was used I think the chairman, to getting the  
2709 ball over the goal line.

2710 Mr. SCOTT. Well, are there areas that this committee is  
2711 considering in this legislation that the administration will

2712 definitely oppose?

2713 Mr. STEEL. I think that we have tried to talk--the  
2714 things that are on the table today are things we have worked  
2715 on. There are still some open issues but there is nothing  
2716 that we see as being an issue that is discouraging to us to  
2717 want to proceed full speed ahead.

2718 Mr. SCOTT. Are there areas that the administration can  
2719 find that is not included now that you would desire to be  
2720 included?

2721 Mr. STEEL. Well, I think we specifically referred  
2722 earlier to the Federal Home Loan Bank directors being  
2723 appointed independently as opposed to from the government.  
2724 And I think that would be one. And there are other nuances  
2725 that we will discuss, but we have worked hard to get to this  
2726 point and feel comfortable with where we are.

2727 Mr. SCOTT. Thank you, sir. I yield back, Mr. Chairman.

2728 The CHAIRMAN. Before recognizing the gentlewoman from  
2729 Illinois, if I could respond. Yes, I would say to the  
2730 gentleman there have been very good faith negotiations that  
2731 have been very productive. I think the answer is that we are  
2732 within reach in all these things. Let me summarize it this  
2733 way, the experience I have had in a number of areas, but most  
2734 importantly here in negotiating this, is one of the reasons  
2735 why I am now convinced that having been involved in the  
2736 financial services industry is better preparation for being

2737 Secretary of the Treasury than either aluminum or railroads.

2738 [Laughter.]

2739 The CHAIRMAN. I would also, just if I could speak a  
2740 little further, say that as far as the Home Loan Banks are  
2741 concerned, several of us, the gentleman from Pennsylvania who  
2742 chairs the subcommittee now and myself, originally took the  
2743 position that the Home Loan Bank should not be included and  
2744 some of the Home Loan Banks came to us and said, ''But if you  
2745 set up a new structure and we are excluded, it will look  
2746 funny and people will wonder we are excluded.'' And there  
2747 were some, obviously not all, who feared that they would then  
2748 be at a disadvantage in the raising of capital because they  
2749 would not be under the same secure regulator.

2750 By the way, regarding Sarbanes/Oxley, et cetera, an  
2751 acknowledgment that being well-regulated is an advantage in  
2752 trying to raise capital because of the confidence it instills  
2753 in investors. So many of us wanted to keep the Home Loan  
2754 Banks out. Many of them came to us and said they wanted to  
2755 be in. Now, some of them say that they want to be out again  
2756 and there was a problem here, which is that legislating is  
2757 different than playing with a yo-yo and you have to accept  
2758 that some things only go one way.

2759 I would note, however, there is one very important  
2760 similarity between the Federal Home Loan Banks and the GSEs,  
2761 or at least I hope there will be at the end of this year, the

2762 Federal Home Loan Banks have had since the late 1980s or  
2763 early 1990s, thanks to Henry B. Gonzalez's leadership, an  
2764 Affordable Housing Program which comes from the profits of  
2765 private sector entities. It has been very well run. Many  
2766 people do not know about it because good news is not news and  
2767 there have not been scandals. And a significant of units  
2768 have been built. In my area, the Boston Home Loan Bank has  
2769 been a superb supporter of affordable housing.

2770 So when people talk about the Affordable Housing Fund to  
2771 Fannie and Freddie, this is not some new idea, it is  
2772 explicitly copied from the idea and the very good experience  
2773 of the Federal Home Loan Banks.

2774 The gentlewoman from Illinois.

2775 Mr. BAKER. I just want to make one little quick  
2776 observation, my experience on inclusion or not to include, I  
2777 was lobbied very strenuously not to include, we do not like  
2778 it, we do not want to be part of it, but if you are going to  
2779 do it, put us in it.

2780 The CHAIRMAN. The gentlewoman from Illinois.

2781 Ms. BEAN. Thank you, Mr. Chairman, for the hearing and  
2782 thank you to the panel for your testimony today. I have two  
2783 questions that I wanted to address to both Director Lockhart  
2784 and Secretary Steel.

2785 If I can ask them both and then you can each give your  
2786 response, that would be helpful. While it is understandable

2787 why an institution's capital requirements might be increased  
2788 to address specific concerns, maybe they are not current,  
2789 they need remediation, they lack appropriate controls, my  
2790 question is in those situations would you support returning  
2791 to the statutory minimum levels once those conditions have  
2792 passed?

2793 That is the first question. And the second is are there  
2794 any circumstances that you would by regulation permanently  
2795 increase capital levels above Congress' mandated statutory  
2796 minimum capital levels?

2797 Mr. LOCKHART. If you look at the minimum capital rules,  
2798 which were set 15 years ago, these companies have changed  
2799 pretty dramatically since then, and I think you have to  
2800 re-look at the minimum capital rules. I am not saying they  
2801 have to be increased but I think they need to be re-looked  
2802 at, and particularly I think the operational risk that they  
2803 have so manifest over the last three or four years may mean  
2804 that there may have to be some extra charge, it may not be  
2805 the 30 percent, it could be lower, but going forward I think  
2806 there is such a large operational risk component to these two  
2807 companies, and they are in the process of remediating it but  
2808 it will never go away, so I think it is important as we go  
2809 forward to just re-look at the minimum numbers.

2810 Ms. BEAN. Let me just come back before I go to Mr.  
2811 Steel. So you are basically not necessarily supporting going

2812 | back to the original levels once the conditions have been  
2813 | met?

2814 |       Mr. LOCKHART. I am not not supporting it at this point  
2815 | but I think it is certainly an issue that we have to look at  
2816 | given the large risk that these companies are taking.

2817 |       Ms. BEAN. Can you be more specific of what specific  
2818 | instance you would make those increased levels permanent?

2819 |       Mr. LOCKHART. Well, I think it would be done through, as  
2820 | the legislation talks about, through an open rulemaking  
2821 | process and there would be in that process obviously reasons  
2822 | for increasing it if that is what we thought was appropriate.

2823 |       And then we would go back and forth, and I think we could  
2824 | get a lot of input from a lot of different players.

2825 |       Ms. BEAN. Okay. Mr. Steel?

2826 |       Mr. STEEL. I think really that I approach it in a little  
2827 | bit of a different lens but I think maybe to an answer that  
2828 | will speak to the question. I think that the regulator  
2829 | should be given the right tools and then by dint of the  
2830 | transparent rulemaking process, a sense of how people would  
2831 | like those tools to be applied and then have the judgment of  
2832 | the regulator solve the puzzle. And proscribing in advance  
2833 | whether it should be permanent or not permanent, roll-back or  
2834 | not roll-back is the wrong strategy. The regulator, as  
2835 | developed by the bill, empowered and takes great advice from  
2836 | the transparent rulemaking process and then has the



2837 responsibility to apply the right capital relative in a  
2838 risk-based approach to the assets.

2839 Ms. BEAN. If I have a couple of seconds, let me ask a  
2840 further question to both of you as well. In Chairman Frank's  
2841 legislation, H.R. 1427, it charges the new director with  
2842 developing standards by which the enterprise's portfolio  
2843 holdings would be deemed to be consistent with their mission  
2844 and safe and sound operations. Is your reading such that  
2845 systemic risk can be interpreted to be a factor or standard  
2846 by which the portfolio can be reduced or capped?

2847 Mr. LOCKHART. My reading of systemic risk is it is part  
2848 of a regulator's job, it is party of safety and soundness,  
2849 that you have to make sure that they do not have a problem  
2850 that could spread risk to the rest of the financial system.  
2851 And so from that standpoint, yes, if they for some reason had  
2852 some stuff in their portfolios that could cause them a  
2853 dramatic problem that would spread to the rest of the  
2854 financial system, it would have to be considered.

2855 Mr. STEEL. Yes.

2856 Ms. BEAN. Thank you. I yield back.

2857 Mr. LYNCH. [Presiding] Thank you. Does the gentleman  
2858 from Colorado have a question?

2859 Mr. PERLMUTTER. Thanks, Mr. Chair. And I will get back  
2860 to systemic risk in a second. This is for all three of you,  
2861 what do you consider the role of the director to be with

2862 | respect to goals that are going to be established for  
2863 | low-income, moderate--low-income, moderate, four-plexes, all  
2864 | that sort of stuff? And I am going through this statute just  
2865 | as you all are and I am on about page 150, okay, what do you  
2866 | consider the role to be, what do you expect to do if we pass  
2867 | this legislation?

2868 |       Mr. LOCKHART. Well, first of all, it is a well-trodden  
2869 | path, if you will, HUD has looked and worked on that for many  
2870 | years, and I think they have developed a good program. That  
2871 | program would actually be brought over to their new  
2872 | regulator, it would be merged into the new regulator. But  
2873 | obviously the legislation has different rules and so working  
2874 | with the legislation, the new regulator would certainly be  
2875 | guided by the legislation and work towards making sure that  
2876 | the two enterprises get their affordable housing goals.

2877 |       Mr. PERLMUTTER. So on an annual basis you would  
2878 | establish goals?

2879 |       Mr. LOCKHART. We would establish goals in accordance  
2880 | with the proposed legislation, yes.

2881 |       Mr. PERLMUTTER. And if we added something about  
2882 | energy-efficient mortgages to this legislation, would you  
2883 | consider that as being a goal, if we added that as a goal?

2884 |       Mr. LOCKHART. I had not really thought about that, I  
2885 | would have to get back to you on that one.

2886 |       Mr. PERLMUTTER. Okay. There has been a lot of

2887 conversation about the--I think I come to this with some  
2888 skepticism, I have not been in the Congress before and I have  
2889 not heard all the "parade of horrors," I have our  
2890 briefing packet that says that Fannie Mae overstated its  
2891 earnings by \$5 or \$6 billion, and I am not quibbling, it is a  
2892 lot of money, but against \$1 trillion or \$2 trillion in  
2893 assets, it is like five/one-thousandths or something like  
2894 that. And that Freddie Mac, did it understate its earnings  
2895 by \$5 billion or \$6 billion, is that right?

2896 Mr. LOCKHART. Well, certainly both companies did not  
2897 comply with GAAP and misstated earnings. Yes, Freddie's was  
2898 more of an overstatement and Fannie's was an understatement.  
2899 The proper comparison to me is their capital and not their  
2900 assets and in both cases it was a major portion of their  
2901 capital. And the capital there is really what we are  
2902 protecting.

2903 Mr. PERLMUTTER. Okay, so let's talk about capital for a  
2904 second. As I understand it under this legislation there is  
2905 risk-based capital and then there is minimum capital, and I  
2906 am not quite sure--my experience has been more with credit  
2907 unions and banks where they I think--I do not know if it is  
2908 by regulation or by statute that they have to have like a 5  
2909 percent capital minimum. And then they, based on their board  
2910 of directors, can increase or lower it. If they go below 5  
2911 percent, then they are rated by their particular regulators.

2912 What is the minimum capital for Fannie Mae and Freddie Mac  
2913 today?

2914 Mr. LOCKHART. The minimum capital and assets, the one  
2915 comparable to your 5 percent, and many banks hold well over 6  
2916 percent, as you know, is 2.5 percent. They also have to hold  
2917 .45 percent or 45 basis points against their mortgage-backed  
2918 security guarantees.

2919 Mr. PERLMUTTER. And then I heard you say that right now  
2920 because of regulatory risks, you are 30 percent above that?

2921 Mr. LOCKHART. Right.

2922 Mr. PERLMUTTER. What is a regulatory risk and does that  
2923 have anything to do with a systemic risk?

2924 Mr. LOCKHART. The reason for putting on--it was actually  
2925 for operational risk, and it was related to the fact that  
2926 these companies could not produce financial statements, their  
2927 internal controls were not there, the risk management was not  
2928 there, their systems were not there, and they were high risk.

2929 And so that extra 30 percent was put on which makes, I think  
2930 I said earlier, 3.25 percent.

2931 Mr. PERLMUTTER. Do you think that the minimum capital  
2932 for these organizations needs to be increased or are you okay  
2933 with that 2.5 percent except for when there is this  
2934 regulatory risk factor?

2935 Mr. LOCKHART. I think it has to be looked at.

2936 Mr. PERLMUTTER. That is a good answer, it has to be

2937 | looked at, considered by you as the director or how will that  
2938 | minimum capital be determined?

2939 |       Mr. LOCKHART. Again, the way we would look at it is as  
2940 | we look at other financial institutions but we more  
2941 | particularly look at the risk inherent in these two  
2942 | companies, and we will go through that process. And if we  
2943 | think there needs to be a change, we would go through an open  
2944 | rulemaking process and there would be comments on that and  
2945 | then we would go through the normal process.

2946 |       Mr. PERLMUTTER. Okay. This gets more to the systemic  
2947 | risk, and I would like you all three to comment on it, but  
2948 | somebody said this is a huge problem, there is a systemic  
2949 | risk, and I can tell you walking the precincts of Arvada,  
2950 | Colorado, regulation, re-regulation of Fannie Mae did not  
2951 | come up once. I had a lot of other things that came up a  
2952 | number of times but not this. What difference does this bill  
2953 | make to a resident of Arvada, Colorado? How is it going to  
2954 | save them from something?

2955 |       Mr. STEEL. Well, I will start I think if that is okay.  
2956 | I think this is a good example, and I am sure you are right  
2957 | that this did not come up when you were walking among your  
2958 | constituents, but this is the right way of dealing with this  
2959 | before it is a problem. We can look at this and Federal  
2960 | Reserve chairmen, the last two, have come and talked in this  
2961 | group to you about this in the House, and we are completely

2962 consistent with their view that these are issues that need to  
2963 be dealt with before they are a problem.

2964 And there are two aspects to this, one is the systemic,  
2965 but, two, they will be better able to do their job over time  
2966 with the right capital and the right regulator, and we should  
2967 deal with it now before it is a problem and when your  
2968 constituents do not talk to you about it. And if your  
2969 constituents never talk to you about because the right moves  
2970 were made today, that would be a win.

2971 Mr. PERLMUTTER. Okay. Sorry, I was just going to ask  
2972 about systemic risks.

2973 Mr. CORNICK. Mr. Chairman, would I be able to respond  
2974 briefly?

2975 Mr. LYNCH. Very, very, very briefly, thank you, yes,  
2976 please?

2977 Mr. CORNICK. On the issue of the regulator set, monitor,  
2978 enforce, we would just offer that there is missing an overall  
2979 affordable housing goal that would apply broadly speaking, we  
2980 speak to it in the written testimony at length and hope you  
2981 would refer to that and would just echo what Treasury said,  
2982 the cost of not doing something is profound.

2983 Mr. LYNCH. Okay, I thank the gentleman. I thank the  
2984 gentleman from Colorado. I think this panel has suffered  
2985 enough, I think we should thank you for your attendance and  
2986 your willingness to work with the committee. This is an

2987 ongoing process. I am told by the Chair that we will  
2988 continue to reach out to you and ask for your advice and  
2989 recommendations with respect to this bill, and we look  
2990 forward to our working together on this. Thank you.

2991 Mr. CORNICK. Thank you very much. I just want to put  
2992 forward to your staff the Fair Lending cite, page 151 of the  
2993 bill, Section 131.

2994 Mr. LYNCH. Okay.

2995 Mr. CORNICK. Transferring authority for Fair Housing and  
2996 Fair Lending to the director from the Secretary.

2997 Mr. LYNCH. We will accept into the record without  
2998 objection.

2999 Mr. CORNICK. Thank you.

3000 Mr. LYNCH. Thank you. The next panel, The Honorable  
3001 John Dalton, president of the Housing Policy Council,  
3002 Financial Services Roundtable; Mr. Richard F. Syron, chairman  
3003 and chief executive officer of Freddie Mac; Mr. Daniel H.  
3004 Mudd, president and chief executive officer for Fannie Mae;  
3005 and Mr. Gerald M. Howard, executive vice president and chief  
3006 executive officer for the National Association of Home  
3007 Builders.

3008 First of all, let me welcome you to the committee. I am  
3009 told that we may have some votes on the floor in the near  
3010 term. However, in the interest of time, I would like to  
3011 offer a five minute opening statement to each of the