



1120 Connecticut Avenue, NW
Washington, DC 20036

1-800-BANKERS
www.aba.com

Memo

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Date: May 15, 2007

To: Members of the House of Representatives

From: Floyd E. Stoner
Executive Director, Congressional Relations and Public Policy

Re: Support for H.R. 1427, the Federal Housing Finance Reform Act

On behalf of the members of the American Bankers Association, I am writing to express our support for H.R. 1427, the Federal Housing Finance Reform Act, which is scheduled for consideration on the House floor this week. The ABA has long supported reforming the regulation of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. We appreciate the efforts of Financial Services Committee Chairman Barney Frank and the House leadership in bringing this legislation to the floor.

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks combined have approximately \$2.6 trillion in debt. This compares to \$5.4 trillion in total corporate debt in the U.S. economy and approximately \$4.3 trillion in Treasury debt. The banking industry holds a significant amount of government-sponsored enterprise (GSE) debt. Combined GSE debt and GSE-sponsored mortgage backed securities held by the banking industry represent 11.26 percent of total assets of the industry. Significantly, combined GSE debt held by the banking industry equals 141 percent of the tier one capital held by the entire industry. Because GSE debt represents such a large component of the nation's economy, and such a large portion of bank holdings, strong, reliable, and coherent supervision of the GSEs is vital.

ABA developed a number of principles which we believe should guide any reform of GSE regulation. We are pleased that these principles have been incorporated into this legislation. They are:

- Any new GSE regulatory agency should be an independent agency within the Treasury Department. The agency should be modeled on other Treasury regulatory agencies, and should not be reliant upon the appropriations process for funding.
- Any new agency with oversight of Fannie Mae and Freddie Mac should have authority to regulate mission adherence, product approval, and safety and soundness of these enterprises. Establishment and review of specialized

affordable housing goals should be done in consultation with the Department of Housing and Urban Development.

- The new agency should not impede the enterprises' access to the capital markets beyond the current authority of the Treasury Department to regulate "traffic flow" to the markets.
- Any new agency must take into consideration the considerable differences among the GSEs, and particularly with regard to the Federal Home Loan Banks, that there are significant differences between the FHLBs and Fannie and Freddie with regard to their missions, their lines of business, and the customers they serve. These differences must be reflected in the organizational structure and the regulatory agenda of the new agency.

H.R. 1427 creates a strong, reliable, and coherent supervisory structure for these GSEs, and we urge your support for the bill.