

**OPENING STATEMENT  
CONGRESSMAN EMANUEL CLEAVER, II  
BEFORE THE  
FINANCIAL SERVICES COMMITTEE**

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**Markup of H.R. 1461, the “Federal Housing Finance Reform Act of  
2005”**

Thank you Mr. Chairman. I appreciate this opportunity to share my thoughts on H.R. 1461 with the Committee. As you are well aware, the issue of Government Sponsored Entity (GSE) reform has been the subject of much debate in this Committee and in Congress.

Today as we consider legislative solutions to GSE reform, I believe that we must keep in mind that this issue is not simply about Fannie Mae and Freddie Mac, but is one that concerns the nation’s economic health. Over the past four years, it has been widely reported that a significant percentage of the nation’s economic growth can be directly attributed to growth in the housing market. Thus, I believe that by protecting the housing market we are protecting our economy.

The high profile accounting problems at Fannie Mae and Freddie Mac have drawn significant publicity, as well as, attention to issues of safety and soundness of GSEs. However, I believe that as we consider measured steps to ensure the overall safety and soundness of GSEs we must not overlook or ignore the importance of maintaining their housing missions and goals. With regard to the current bill before the Committee, this delicate balance is the driving force behind both my praise and criticism of the proposal.

There is almost unanimous support for a “world-class” independent regulator to oversee the GSEs. H.R. 1461 would for the most part establish a regulator that would have the ability to ensure safety and soundness. However, of the proposed powers that would be conferred to the new regulator, I am most concerned about the so called “bright line test.” In light of the fact that the secondary market is a dynamic, fluid, and continually evolving environment, I cannot support the proposition of allowing a single regulator to unilaterally determine what products can or cannot be undertaken by the GSEs. Under current statute, the GSEs cannot originate loans and the current regulator has the authority to determine what activities are outside the scope of their charters. In addition, there is no link between safety and soundness and the creation of a “bright-line” test or definition of the mortgage market. This arbitrary and rigid line would impair the ability of both the regulator and market players to adapt to changing markets. In my view the “bright line test” is nothing more than a thinly veiled attempt by GSE competitors to capture additional market share and drive the GSEs out of business.

Despite this critical flaw, I understand that the Manager’s Amendment to H.R. 1461 will incorporate a provision to create an Affordable Housing Fund. The purpose of

the Fund is to increase homeownership for extremely low income and very low income individuals. The Fund would also increase investment in low income neighborhoods. As proposed, the Fund would be made up of 5% of the after tax revenues of Fannie Mae and Freddie Mac. This Fund will provide much needed grants that will compliment the loans made by way of GSEs affordable housing goals. Now while this fund is not perfect, I believe it is a step in the right direction. It is high time that we target and dedicate funds to Americans who have been able to keep pace with the booming housing market or would like to reinvigorate their neighborhoods.

Mr. Chairman it is my hope that we can come together today and amend H.R. 1461 so that we can achieve the delicate balance I spoke of earlier and with that, I yield back the balance of my time.