

STATEMENT OF THE HONORABLE WM. LACY CLAY
Before the
Subcommittee on Capital Markets, Insurance and Government
Sponsored Enterprises
“Regulatory Oversight of the Government Sponsored Enterprises
September 25, 2003

Good morning Chairman Oxley, Ranking Member Frank and Members of the committee and witnesses.

In 1992, after exhaustive study, this Committee made improvements to the charter for Fannie Mae and Freddie Mac. One improvement was intended to help close the housing gap, which still exists between minority and majority homeowners. While the gap remains at over 30 percentage points, I do not fault the GSEs for lack of trying.

They work on a daily basis to create innovative products and programs which meet the needs of those denied the American dream of homeownership. Fannie Mae and Freddie Mac help to bring the dream of homeownership to thousands of my constituents on a regular basis. I have serious concerns that as we ratify the problems at one GSE that Congress does not give in to the business opponents of these GSEs who profit from predatory and subprime lending at the expense of affordable housing. The minority homeownership achievements of these GSEs are on the right track.

I support the creation of a new bureau within Treasury with the resources necessary to oversee the safety and soundness of Fannie Mae and Freddie Mac. Establishing a world class regulator for the GSEs would be a landmark achievement for the Bush Administration and the 108th Congress. It would also be in the best interests of Fannie Mae and Freddie Mac investors, the housing finance sector and the housing mission that we are serving.

Fannie Mae and Freddie Mac play a critical role in a well functioning secondary market and I would be very concerned with any changes to their charter that would compromise their ability to deliver on their mission. I favor legislation that will strengthen the “safety and soundness” regulator for these GSEs without diminishing their mission emphasis or inhibiting their ability to expand homeownership.

I am in favor of a strong regulator for the companies and would support changes needed for stronger regulation, however, I will not support any wholesale change to their business model given the benefits they have yielded in promoting homeownership and affordable housing.

These companies are important to our economy and to St. Louis. Fannie Mae has been an active participant in our downtown renaissance. This is inclusive of innovative product and program offerings like the Downtown Employer Assisted Housing program that is administered by the Downtown St. Louis Partnership. Additionally, in February of this year, Saint Louis University held a press conference to introduce Hometown SLU, the University's new Employer Assisted Housing Initiative which includes a financial incentive for employees purchasing a home near the University campuses as well as a technology platform, the Home Buyer's Assistance Site, that is available to all University employees regardless of where they purchase a home.

Congress should act quickly, yet with care, so as to avoid harmful unintended consequences. Uncertainty about this issue creates negative volatility in the market. The legislation must recognize the importance of stability in the capital standards required of the GSEs. Fannie Mae's and Freddie Mac's capital structure does not need to be changed, as the Administration has made clear. Increasing the capital standards for the GSEs now could result in an increase in the cost of homeownership.

Fannie Mae and Freddie Mac have met their housing goals every year. It is critical that housing goals are not increased to the point that they threaten the safety and soundness and undermine the ability of the GSEs to serve a market that includes middle-class and low-income borrowers. Housing goals that segment their business could force the GSEs to stop expanding homeownership opportunities and focus primarily on allocation of their business among various populations. Numerous goals would fragment the market and lead to credit allocation.

Mr. Chairman, Franklin Raines must be applauded for the great job that he has done in leading Fannie Mae in its execution of the mission assigned to it by the Congress. The GSEs, of which Fannie Mae is the largest, have become the world leaders in the secondary mortgage markets. They were mandated by Congress to create a secondary trading market to improve the functioning of home mortgage markets. They exceeded expectations and have done so well that in excess of 60% of the growth in the US economy the past couple of years is attributed to housing. Where would the country be without that contribution? Franklin Raines is indeed one of the country's modern day "profiles in courage".

Mr. Chairman. I ask unanimous consent to submit my statement to the record.