

Statement of John A. Courson

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on behalf of the

Mortgage Bankers Association of America

before the

U.S. House of Representatives

Financial Services Committee

Hearing on

**Secondary Mortgage Market Enterprises Regulatory Improvement Act
&
the Administration's Proposals on GSE Regulation**

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Chairman Oxley, Ranking Member Frank, distinguished Committee members, good morning. I am John Courson, President and CEO of Central Pacific Mortgage Company, and Chairman of the Mortgage Bankers Association of America (MBA or the Mortgage Bankers). MBA is the national association representing the real estate finance industry. We have approximately 2,600 members that are engaged in every aspect of real estate finance. MBA members originate loans in the primary mortgage market that Fannie Mae and Freddie Mac purchase. MBA, therefore, has a keen interest in maintaining the safety and soundness of our country's real estate finance system.

Thank you for inviting the Mortgage Bankers to speak at this very important hearing

concerning the regulation of the Government-Sponsored Enterprises (GSEs), the biggest participants in our country's secondary mortgage market. Fannie Mae and Freddie Mac play two important roles in the American home finance system. First, they provide market liquidity, which is critical to enabling mortgage loans to be originated, and which allows the American housing market to grow as our country's population and housing needs grow. Second, they buy affordable housing loans from lenders so that lower-income Americans and those living in underserved areas can get access to housing credit. These two roles – supporting the mortgage market and supporting affordable housing – play an important part in this country's housing finance system. The American housing finance system is the envy of the world.

Today, just over 68 percent of all Americans own their own homes, the highest rate in history. More minorities own homes now than ever. Purchasing a home is the largest investment that most Americans will ever make and it likely will become their largest asset. Close to 75 percent of all American homeowners borrow money to purchase their homes. Members of the Mortgage Bankers originate about 70% of residential loans in this country.

Homeownership benefits our citizens and our economy. The real estate sector employs 1.37 million individuals, a record level in U.S. history. The mortgage banking and brokerage industry has added almost 150,000 jobs since January 2001, bringing our total share to over 400,000 employees. Home sales stimulate additional, downstream economic activity. Home sales will add an estimated \$25 billion in housing-related expenditures to the economy in 2003. States and localities benefit from homeownership also—property taxes contributed approximately \$285 billion to state

and local budgets in 2002.

To maintain the vitality and stability of our housing finance system and of our financial markets in general, it is imperative to have effective oversight of the GSEs. Recently, we have seen examples in other industries of what can happen without effective oversight, and the Mortgage Bankers applaud this Committee's efforts to prevent future problems from arising in our housing finance system.

The Mortgage Bankers endorse the principles for GSE regulation laid out by the Secretary of the Treasury John Snow and the Secretary of Housing and Urban Development (HUD) Mel Martinez before this Committee earlier this month. Further, the Mortgage Bankers support certain core principles for effective regulation of Fannie Mae and Freddie Mac.

First, effective safety and soundness oversight, the reason all of us are here today, is necessary. The Treasury Department successfully regulates both national banks and federal thrifts, and has successfully demonstrated its ability to fulfill the role of a financial safety and soundness regulator. The Mortgage Bankers support establishing Treasury as the safety and soundness regulator for Fannie Mae and Freddie Mac.

Second, the GSE regulators, both within Treasury and HUD, need to have adequate funding if they are to live up to their important duties. That funding should not be subject to either annual or permanent Congressional appropriations, so the regulators will be equipped to fulfill their missions, even in cases like the current one, where a major problem arises very suddenly. Such a funding arrangement has worked well for

OTS. Changing the current annual appropriation to a permanent appropriation will not strengthen the regulators, that is, it will not meet Congress's current goal of strengthening GSE regulation. The Mortgage Bankers urge this Committee to look to the OTS funding arrangement in drafting legislation.

Third, the safety and soundness regulator needs flexibility in setting capital standards. MBA does not mean to imply that today's capital requirements are inappropriate or inadequate in any way. Rather, MBA believes that the regulator needs the tools to respond to changing marketplace conditions – capital standards are the fundamental tool in this regard. A statute should not unduly tie a regulator's hands.

Fourth, a regulator needs adequate enforcement authority to correct any problems that may arise, and, more importantly, to deter problems in the first place. The Mortgage Bankers believe that the enforcement tools that the banking agencies share have proven their effectiveness over the years, and supports including such tools for the GSE regulator.

Within these four core principles, one issue stands out to MBA as the most fundamentally important for the mortgage industry – the safety and soundness of GSE programs and activities. The programs in which GSEs engage, that is, what the GSEs do every day, is the basic determinant of their safety and soundness. When they implement a new program, when they purchase mortgage-backed securities, when they try a new way to hedge their interest rate risk, when they find a new source of debt, when they do the things day in and day out as a normal part of their business operations, they put their safety and soundness at issue.

Fannie Mae and Freddie Mac are so large that when they undertake some activity, it has ramifications throughout the American mortgage market and, indeed, throughout domestic and international economies. The GSEs' risks are more than a mere question of housing, their risks are of central concern to financial regulators around the world. Because the GSEs' actions sway our economy, it is imperative that their activities be conducted safely and soundly. We certainly do not believe that any GSE would intentionally risk harming their financial standing or the state of the economy. Yet, the fact is that the GSEs are so large that they do affect our economy. For these reasons, their activities must be safe and sound – all of their activities, not just some. Congress cannot give the GSEs or their safety and soundness regulator an exemption from their obligation to ensure that new programs are consistent with prudent financial management and sound business operations. We believe that the approval of new programs and activities is intrinsically linked to financial safety and soundness.

The safety and soundness regulator, for these reasons, is in the best position to evaluate the appropriateness of new or proposed GSE programs. The regulatory approval system should be robust, and should have a clear definition of what requires prior regulatory review. Congress should draw a clear line between the primary and secondary mortgage markets -- in no event should the GSEs be permitted to encroach upon the mortgage origination process. In no event should the GSEs be permitted to use their government-sponsored benefits to distort the competitive landscape of the primary mortgage market.

The Mortgage Bankers also believe that it is important that the regulator not

micromanage the GSEs, and that it not unduly constrain the GSEs' ability to respond in a timely manner to marketplace needs. Regulatory approval for new programs must come in a timely manner, and should be based on a clear and well-defined criteria.

Fannie Mae and Freddie Mac enjoy the benefits of government sponsorship so they can assist Americans with their housing needs. MBA very strongly supports the affordable housing goals for Fannie Mae and Freddie Mac because the goals require the GSEs to focus their activities on lower income Americans and those living in underserved areas. MBA endorses HUD's role in setting and enforcing those goals because HUD has extensive experience in this area. The goals are set based on extensive and complex research and analysis. The Mortgage Bankers support giving HUD flexible authority to set and enforce appropriate affordable housing goals for Fannie Mae and Freddie Mac.

The Mortgage Bankers strongly urge Congress to reform the oversight of Fannie Mae and Freddie Mac in this manner so that they can continue their role in supporting housing, especially affordable housing, in this country.

Thank you for asking the Mortgage Bankers to testify today on these important issues. We would be happy to supply you with any additional information you wish. I am happy to answer any questions the distinguished members of this Committee may have.