

Statement of Steve Bartlett  
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Before the  
Committee on Financial Services  
Of the U.S. House of Representatives  
on  
H.R. 2575, the Secondary Mortgage Market Regulatory Improvement  
Act and the Administration's Proposal on GSE Regulation

September 25, 2003

Mr. Chairman, Ranking Member Frank, and members of the Committee on Financial Services, I am Steve Bartlett, President and CEO of The Financial Services Roundtable, and it is my pleasure to appear before the Committee on behalf of the Roundtable and its newly formed Housing Policy Council on the regulation of the housing GSEs.

The members of the Roundtable and the Housing Policy Council originate approximately 70 percent of the residential mortgages in the United States; our members strongly support the goal of homeownership for all Americans and help meet it everyday. Our members thoroughly understand the functions and operations of both the primary and secondary mortgage markets. The Housing Policy Council was formed to address the regulatory and legislative framework for housing finance.

Sound regulation of the housing GSEs is a priority issue for the Housing Policy Council. Toward that end, the Council has adopted five principles that we believe should guide the Committee as it considers a new regulatory structure for the housing GSEs. I am pleased to say that those principles are consistent with the proposal that Secretaries Snow and Martinez presented to this Committee in early September. The principles adopted by the Council are as follows:

- The regulatory agency should be independent and housed with Treasury, much as the OCC and OTS are structured and operate within Treasury.
- The agency should be funded by non-appropriated funds.
- All supervision and regulation should be in one agency, not divided among two or more Federal Government entities.
- The agency should have an abundance of staff qualified to understand, analyze and supervise the quality and quantity of assets and liabilities of Fannie Mae and Freddie Mac, the risks of the business in which the enterprises engage, and the level of capital appropriate for them.
- The enterprises should be required to provide disclosures and to participate in the registration requirements applicable to all other publicly traded companies.

Last week, the Council added a sixth principle to this list: the new bureau within the Treasury also should have regulatory and supervisory responsibility over the Federal Home Loan Banks.

The Council strongly supports the Administration's position. The Council members believe there should be an independent regulator in Treasury, the regulator should be free from the appropriation process, the President should not appoint board members to the boards of the GSEs, the safety and soundness regulation which includes the authority to review and approve new GSE activities should be transferred to the new bureau, existing restrictions on the authority of the bureau to establish capital standards should be lifted, and the enforcement capabilities of the agency should be as strong as that of the banking regulators. The Council, like Secretaries

Snow and Martinez, believes that the Treasury Department is the most appropriate cabinet agency to supervise and regulate the housing GSEs. Treasury has general authority over the state of the economy and our nation's financial markets, and the operations of the GSEs, including the Federal Home Loan Banks, have reached a level where their role and financial stability is of importance not only to housing and financial markets, but also to the economy as a whole. Moreover, Treasury has experience in managing two other safety and soundness regulators, the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

We believe that the new bureau within the Treasury should have responsibility for the safety and soundness of the housing GSEs and the Federal Home Loan Banks. Safety and soundness, of course, includes the authority to review and approve new activities contemplated by the supervised entities – they are not separate functions. With supervisory and regulatory responsibility for all aspects of the operations of these entities, the bureau would be properly suited to make decisions about the individual elements of their businesses. Divided supervisory authority seldom works efficiently, and no other major financial institutions are subject to divided supervision.

The OCC, for example, has the authority to supervise all aspects of a national bank's operations, including the review of new activities. It has fashioned over the years a system of product approval that both efficiently encourages innovation and effectively manages risk. New product approval procedures of the new regulator should be patterned after those procedures applicable to national banks and federal thrifts. There is no need to invent a new procedure.

Currently, the Office of Federal Housing Enterprise Oversight is subject to the annual federal appropriations process, even though its operating funds come from assessments imposed on the housing GSEs. Removing the new bureau from this process will free the bureau from the time-consuming appropriations process and will insulate it from undue political pressures. All other federal financial regulatory agencies, including the OCC and OTS, are exempt from the appropriations process.

The housing GSEs are also exempt from the requirements of the federal securities laws enacted in 1933 and 1934. As a result, they are not required to register under those laws or make the same types of disclosures imposed on all other public companies. Voluntary adherence to some or all of the parts of these laws is not the same as mandatory adherence. Thus, the exemptions for the housing GSEs should be removed.

Finally, the member companies of the Council have been in the forefront of providing affordable housing for low and moderate income citizens for years, and the Council heartily supports the intention of the Administration to continue to require the GSEs to expand their activities in this area. The mortgage originators throughout the country as well as the Home Loan Banks have been active participants and will continue to be under the new program outlined by the Administration. To that end, the Council supports the retention of the affordable housing goals by the Department of Housing and Urban Affairs, and we believe that if the transfer of mission authority from HUD to the new bureau is structured properly, there will be no diminution of those goals.

The Council in no way intends to criticize the dedicated personnel at OFHEO or FHFB. They have been trying to do their regulatory and supervisory jobs under very difficult conditions and without a statutory scheme that will permit them to be effective. The Council feels that under the new proposals, they will have an opportunity to do a first class job.

In conclusion, Mr. Chairman, the members of the Housing Policy Council of the Roundtable believe in our system of housing finance and want to strengthen it. We recognize that the housing GSEs have an important role to play, but there is no question that the system of housing finance would benefit from a strong, independent regulator to insure the continued health and strength of this system.

Thank you for the opportunity to testify, and I would be pleased to respond to any questions.