

**Statement of Melvin L. Watt**  
**Director, Federal Housing Finance Agency**

Before the U.S. House of Representatives Committee on Financial Services

**Oversight of the Financial Stability Oversight Council**

December 8, 2015

Chairman Hensarling, Ranking Member Waters, and members of the Committee, thank you for the opportunity to testify today about the Financial Stability Oversight Council (FSOC).

Next month will mark the two year anniversary of my participation in FSOC. During that time, FSOC has designated one nonbank financial company for supervision by the Board of Governors of the Federal Reserve System subject to enhanced prudential standards, supplemented its designation procedures, launched a comprehensive analysis of the asset management industry, revised its transparency policy, and released two annual reports. I have found that FSOC is an important forum for consultation, information sharing, and decision-making related to risk in the financial system and its impact on U.S. financial stability.

As an independent regulator, FHFA is responsible for supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. In addition, since 2008 FHFA has served as conservator of Fannie Mae and Freddie Mac. FHFA's housing finance market expertise contributes to FSOC's ability to understand and better assess broad systemic risks. Through FHFA's active participation in all FSOC committees, including the Deputies Committee and all standing committees, FHFA engages regularly with other members on information sharing, policy matters and risk assessments of the entities subject to FSOC jurisdiction and the markets in which they operate.

Participation in FSOC provides FHFA and other regulators with opportunities to raise and discuss potential issues that are broader than the horizons and jurisdictions of individual members. This forum for raising issues serves as a valuable tool for improving coordination among regulators and eliminating duplications, as well as identifying and addressing regulatory and oversight gaps.

FHFA's engagement with FSOC enhances the Agency's ability to carry out its mission by providing another venue for consulting with other regulators. On FSOC committees, members of FHFA's staff work closely with the staffs of other members and gather information that strengthens FHFA as the regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Through its annual report, FSOC has also supported several of FHFA's regulatory initiatives and has identified and discussed important issues that affect the mortgage and housing

finance markets in the United States that are beyond FHFA's jurisdiction to regulate directly. FHFA appreciates the support of FSOC members in some of its most important initiatives, including development of a Single Security, credit risk transfer transactions undertaken by Fannie Mae and Freddie Mac, reform of their representations and warranties framework, and development of standards for their non-bank mortgage servicers. FSOC has also supported granting FHFA express authority to examine and, where appropriate, exercise enforcement authority over Enterprise contractual counterparties.

Beyond these regulatory coordination roles, the evaluation of whether to designate nonbank financial companies for supervision by the Board of Governors of the Federal Reserve System and subject them to enhanced prudential standards continues to be a significant and important FSOC function. A vote to designate a nonbank financial company for supervision by the Board of Governors of the Federal Reserve System subject to enhanced prudential standards is a decision that I take seriously. A designation has many consequences for each such financial company, and each decision is arrived at only after extensive engagement with the company, a thorough analysis of the facts, and careful deliberation.

Transparency in the designations process and in FSOC's other work is crucial to the Council's ability to maintain the public's trust. On the other hand, much of the information we consider in making the assessments FSOC is required by statute to make is sensitive, nonpublic information. We spend a lot of time considering how to appropriately balance these interests. FSOC has enhanced its official transparency policies, increased the information shared through meeting minutes, hosted public outreach meetings on the nonbank designations process, and solicited public comment on the asset management industry.

I look forward to continuing to engage with my fellow FSOC members to meet our duties and responsibilities in a manner that fosters transparency, is fair and analytical, and contributes to appropriate risk management and risk reduction.

Thank you, and I look forward to answering your questions.