August 24, 2000

The Honorable Richard H. Baker
Chairman, House Banking and Financial Services Subcommittee
on Capital Markets, Securities and Government-Sponsored Enterprises
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515-6050

Dear Chairman Baker:

The NATIONAL ASSOCIATION OF REALTORS® appreciates the opportunity to respond to the Subcommittee's call for a roundtable discussion regarding H.R. 3703, the "Housing Finance Regulatory Improvement Act." The comments we make here supplement our testimony offered to the Subcommittee during the hearing on July 20, 2000.

Fundamental forces are transforming the U.S. housing finance system, with implications for the primary and secondary mortgage markets, the capital markets, the financial system, homebuyers, Congress, and the GSEs' regulators. Traditional mortgage lenders and mortgage lending relationships are changing and creating significant uncertainty among competitors. The largest financial institutions are positioning to take advantage of the sweeping changes in the nation's banking laws to become financial services providers just as several of these financial conglomerates, once based in mortgage lending, consider themselves in competition with Fannie Mae and Freddie Mac. All of these changes are occurring during the longest sustained economic expansion in U.S. history.

This current economic expansion heightens competition and consolidation among mortgage lenders and banking institutions. Traditional mortgage lenders and mortgage lending relationships are changing and creating significant uncertainty among competitors. The largest financial institutions are positioning to take advantage of the sweeping changes in the nation's banking laws to become financial services providers. Several of these financial conglomerates, once based in mortgage lending, consider themselves in competition with Fannie Mae and Freddie Mac.

Congress created the Fannie Mae and Freddie Mac to promote the nation's homeownership policy by borrowing funds or issuing mortgage-backed securities and using the funds derived from the process to purchase home mortgages from banks, thrifts, mortgage bankers, and other mortgage lenders. In turn, the financial institutions recycle the funds to homebuyers. The process smoothes capital shortages and introduces more predictability into the mortgage lending transactions with reliable funding at lower costs. The hybrid corporate structure of Fannie Mae, Freddie Mac, and the Home Loan Bank System and the resulting housing finance system are a unique creation -- the government-sponsored enterprises -- that is becoming a model that housing finance advocates abroad want to emulate and reproduce.

The NATIONAL ASSOCIATION OF REALTORS® supports the Subcommittee's evaluation of the housing GSEs activities against their congressional mandates. The Subcommittee's review comes at a particularly good time given the nation's economic current prosperity and implementation of the Gramm-Leach-Bliley Act, which fundamentally revises the national banking and financial services laws.

H.R. 3703 proposes consolidating regulation of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks under a five-member oversight board composed of three presidential appointees and the secretaries of the departments of Housing and Urban Development and Treasury and establishing a public review and approval process for the enterprises' new activities. The bill also proposes repealing the never-used GSE lines of credit to the Treasury and eliminating the super-lien authority for Federal Home Loan Banks. The bill authorizes a study of the effects that a GSE failure may have on depository institutions.

The NATIONAL ASSOCIATION OF REALTORS® cannot support eliminating the GSE lines of credit, removing the super-lien authority of the Federal Home Loan Banks, or other diminution of the federal ties to the housing GSEs.

Arguably, strengthening GSE regulation is always a worthy consideration, though we have reservations about whether a fundamental revision in the regulatory framework for the housing GSEs is necessary. As proposed in H.R. 3703, approval of new GSE activities approval could well expose the enterprises' business and strategic plans to long, cumbersome review. While there can be argument that the Department of Housing and Urban Development has not been as aggressive as some would want, HUD did oppose proposed mortgage insurance initiatives and other activities proposed by Fannie Mae and Freddie Mac. Most recently, HUD developed aggressive affordable housing goals for Fannie Mae and Freddie Mac, even pushing the enterprises to purchase more subprime mortgages.

If devising a new regulatory scheme for the housing GSEs becomes a principal focus of proposed GSE reforms, there are some concerns that REALTORS® believe should be addressed. First, the significant corporate and charter differences between the FHLBanks and Fannie Mae and Freddie Mac must be resolved. The housing GSEs operate differently because of specific charter requirements and corporate organization imposed by Congress, which are only heightened by the capital and mission revisions the Gramm-Leach-Bliley Act imposes on the Federal Home Loan Banks. Second, regulatory reform should not result in a structure that leaves the GSEs vulnerable to cumbersome or burdensome oversight that stifles competition in the marketplace, reduces their effectiveness as mortgage investors, or makes them vulnerable to changes in the financial markets.

Congress deliberately charged Fannie Mae and Freddie Mac, as a matter of national public policy, with the mission to facilitate a secondary market in conforming mortgages by purchasing investment quality loans. These two enterprises created the pass-through mortgage-backed security and its variants to attract investors in the full knowledge of the risks associated with tying up capital in long-term fixed rate instruments. This financial innovation created and maintained liquidity in the otherwise illiquid mortgage investment market. When Congress chartered Fannie Mae and Freddie Mac, the intention was to eliminate interest rate differences between regions of the country and to promote a national mortgage market. The mortgage-backed security and debt offerings of the GSEs effectively linked Wall Street to Main Street. Over time geographic shortages of mortgage funds and the cyclical availability of mortgage credit were minimized.

There can be no denial that the GSEs benefit from their federal charter and associated benefits, but so do American homeowner and those lenders and others in the housing finance and real estate industries that support homeownership. Analysts estimate that mortgage interest rates are lower by between one and one half percent because of the secondary mortgage market. Homeowners benefit directly, which is reflected in historically high homeownership level.

Homeownership costs are lower and access to mortgage credit -- even for borrowers with blemished credit -- is easier and more equitable. Two primary obstacles remain as barriers to homeownership in this country, however -- the mortgage loan downpayment and costs associated with closing and settling the mortgage. Much of what Fannie Mae and Freddie Mac are doing in the current mortgage finance environment relates to lowering the costs of homeownership. REALTORS® essentially believe that the status quo should prevail regarding the regulation and federal ties of the Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. We would be open to dialogue on strengthening regulation of the housing GSEs, though we have reservations about the need for fundamental regulatory revisions as proposed by H.R. 3703. We look forward to working with the Subcommittee on the issue.

Sincerely,

Dennis R. Cronk, President
National Association of REALTORS®