

Opening Remarks of the Honorable Maxine Waters

Hearing: “Legislative Proposals on GSE Reform”

Committee on Financial Services

2128 Rayburn House Office Building

March 15, 2007

Good morning ladies and gentlemen. I want to thank Chairman Frank and Ranking Member Baucus for holding this hearing on Legislative Proposals on GSE Reform. Mr. Kanjorski should also be applauded for his work on this issue. I want to thank the staff for its hard work as well.

Just last week we were greeted by Chairman Frank’s bill, H.R.1427. Since that time and before, the bill has generated a great deal of interest among Members of

Congress and the public. As many of you know, the House passed a GSE reform bill during the last session of Congress, but only to see it languish in the Senate. From all indications we are likely to see a bill pass both Houses of Congress this year.

This has not been any easy issue because Members have a passion about GSEs and their role in the housing markets as well as their initiatives in communities across this country related to affordable housing and community development. The Affordable Housing Program (AHP) of the Federal Home Loan Banks is one example. I believe that balancing effective regulation with continued innovation is critical to making GSE reform work. I am one who would like to see GSEs continue to play a major role

in these activities without being constrained unnecessarily by a new regulator.

Let me outline several concerns that I have related to GSE reform. I believe that there is ample room for compromise on these issues.

(1).The establishment of an Affordable Housing Fund within the GSEs is absolutely essential to their mission and to their ability to meet affordable housing goals.

However, the bill does not contain a leveraging mechanism tied to the AFH. The leveraging mechanism had been part of the House passed bill.

(2).The Federal Housing Finance Agency (FHFA) Director or regulator should have the authority to limit the size or growth of a GSE's portfolio as it relates to safety and soundness issues. However, I believe that

any arbitrary limit needs to be lifted once safety and soundness requirements are met by the GSEs.

(3) The FHFA Director or the regulator should be allowed to increase required capital levels of a GSE to meet a safety or soundness issues. Minimum capital should be allowed to return to the statutory level once safety and soundness concerns are met.

(4) The governance model for the Federal Housing Finance Agency (FHFA) includes the Federal Housing Enterprise Board (the Board). The Board would be made up of the Secretary of HUD, Treasury and the Director of FHFA. These individuals are nominated by the President and confirmed by Congress. This governance structure does not provide for independent voting on the Board to perform oversight of the GSEs and the FHLBs. For example, adding the head of the

Federal Financial Examination Council to the Board might create a more independent entity.

(5) The early GSE legislation included language to promote the role of minorities and women in the investment activities of the GSEs, although the GSEs have not established solid measures to achieve the goal of minority inclusion. I believe that the GSE bill needs to address this issue.

(6) Current measures of housing affordability are not uniform and data about the number of affordable housing units nationwide are not readily available. For the AHF to work, it would be useful to know the level of the affordable housing stock on an annual basis.

New construction or filtering are the primary ways to add affordable housing stock, and the housing stock is reduced by abandonment and demolition. Perhaps,

these parameters can provide the basis for the appropriate data set to be required as part of the bill, which will allow for measuring performance and outcomes related to the affordable housing goals in the bill.

(7) Each Federal Home Loan Bank has 14 directors, 6 are appointed by the Board and 8 elected by the institutions. GSE bills have differed on the governance issue related to the Banks. My major concern is whether having public interest directors selected by the industry directors makes good sense. Diversity and the reduction in the number of public interest directors from 5 to 6 could be hampered under this approach.

Mr. Chairman, I am still reviewing the bill and would be happy to share my insights with you as we move

forward. If we can begin to address these types of concerns, I believe that the debate on GSE reform will be an extremely productive one. Today's witnesses represent the regulators and the regulated GSEs. Earlier this week we heard from the industry witnesses. We must hear from all sides of this debate before we consider the most sweeping GSE reform legislation in several years. Thank you.