

OPENING STATEMENT OF REP. ARTUR DAVIS

Hearing on Fannie Mae and Freddie Mac Regulation

Before the Committee on Financial Services

September 10, 2003

Mr. Chairman, Mr. Frank, members of the Committee on Financial Services, good morning and thank you for the opportunity to share my thoughts on the impact of reforming our system of regulating two of our Government Sponsored Entities (GSEs), Fannie Mae and Freddie Mac. These two entities combined owned or backed 45 percent of the \$7.1 trillion U.S. mortgage debt outstanding as of the end of March. Thus, any alteration in the regulation of these two entities will undoubtedly have an impact on the housing finance system and the housing market.

Our mortgage finance system, with its emphasis on homeownership, innovative uses of technology, and the proliferation of product choices is uniquely American. In many ways the Seventh District of Alabama – with its contrasting urban and rural constituencies, its range of wealthy and impoverished residents, and its diversity of population – represents the heart of the American Dream. It is in places like the Seventh District that the American Dream takes root and grows; where there is the most potential for people to raise themselves up through homeownership. Unfortunately, most traditional lending organizations have overlooked the people that live in the Seventh District. Thus, the efforts of Fannie Mae and Freddie Mac have made the dream of homeownership a greater reality for these residents.

This reality notwithstanding, there is another reality we must confront today – that serious irregularities occurred at Freddie Mac. The fact that one of the two primary GSEs was able to so under-report its revenue without its regulator (a regulator I note that only regulates two entities) noticing, is unacceptable. Change it seems is imminent.

As we begin our discussion of what kind of change needs to occur, we must keep two primary items in focus. First, we cannot alter the regulatory structure of Fannie Mae and Freddie Mac so drastically that we impede their affordable housing mission. This mission is simply too critical to the citizens of America, particularly those living in districts like mine. Second, we must focus our debate on problem areas and not create problems that do not exist. While there were lapses at Freddie Mac, at no time did these lapses relate to the performance of Freddie Mac's mission or the adequacy of its capital. It is extremely important that we remain mindful of this fact as we tighten their regulation.

Just this week, the Low Income Housing Coalition released its "Out of Reach 2003" report, which found that a worker must earn at least \$15.21 an hour to afford the average cost of \$791 per month for a typical two-bedroom apartment. In Alabama, a worker must earn \$9.33 per hour. The federal minimum wage, however, is only \$5.15 per hour. Thus, a worker in my home State needs to earn twice as much as the minimum wage in order to afford an apartment, let alone a home. With increasing housing prices, interest rates creeping up, and a greatly stressed economy, we cannot over reach here. We cannot impede the mission, market status, or Charter of Fannie Mae and Freddie Mac. Rather, we must act with precision, altering only those areas in need of adjustment and consequently leaving the American Dream in tact.