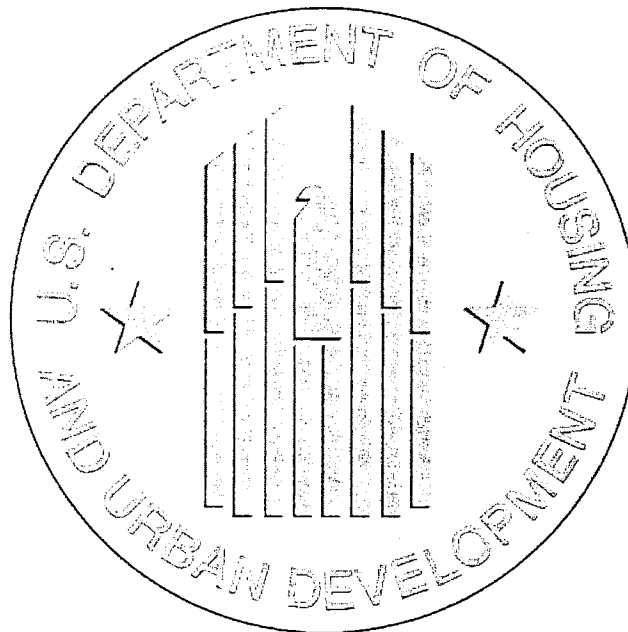


**STATEMENT OF MEL MARTINEZ
SECRETARY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**BEFORE THE
UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES**

SEPTEMBER 10, 2003

Chairman Oxley, Ranking Member Frank, Distinguished Members of the Committee:

I welcome the opportunity to join Secretary Snow in describing for the Committee the Administration's views on improving and reforming regulatory oversight of the housing government-sponsored enterprises.

Secretary Snow has outlined the principles and priorities the Administration supports. He and I are in full agreement; Congress and the Administration have an opportunity *and an obligation* to strengthen the regulatory structure of the GSEs. A strong regulator is in everyone's best interests – the Administration, Congress, Wall Street, investors worldwide, and most importantly, the American taxpayer.

The Administration has a dual goal. We must ensure that, through the GSEs, financing is available for low- and moderate-income families. And we must ensure that the GSEs are subject to rigorous oversight, so that they are serving their public purpose.

The housing sector directly accounts for about 14 percent of the nation's total Gross Domestic Product, and the housing market actively drives other closely related components of the economy as well. The GSEs play an integral role in our nation's housing finance system by expanding the availability of mortgage credit. The liquidity and stability they provide have helped buoy the nation's economy. Because of the housing GSEs' impact on the economy, it is critical that we ensure their safety and soundness.

The Office of Federal Housing Enterprise Oversight was established following the thrift crisis as an independent safety and soundness regulator, within HUD, for Fannie Mae and Freddie Mac. There is a misconception that HUD controls and has direct authority over OFHEO in the exercise of its safety and soundness duties. HUD does not. By statute, Congress has mandated that OFHEO's safety and soundness determinations must be made independently of HUD.

To ensure that the GSEs have appropriate financial oversight and are held accountable to their public mission, the Administration supports strengthening the powers of the GSEs' regulator. Doing so would make the regulator more comparable to the stature, powers, authority, and resources of other financial regulators charged with safety and soundness oversight. Such a concept has worked well for financial regulators in other instances, including the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

Currently, safety and soundness regulation is divided, with new program approval authority at HUD and financial oversight at OFHEO. It is the position of the Administration that both elements of safety and soundness regulation need to be consolidated in a single regulator.

As Secretary Snow noted, the Administration considers it appropriate to transfer authority over new program approval from HUD to a new, strengthened regulator. HUD supports transferring and strengthening such authority to include review of all activities, new and on going. Such changes will consolidate and enhance the regulator's oversight responsibility, and increase investor confidence in the GSEs.

As part of this transfer, the Administration is also proposing that the HUD Secretary continue to be consulted on new activities requested by the GSEs. Many new activities directly impact the mortgage and housing markets, where HUD has substantial expertise. This makes it essential that such consultation take place.

While safety and soundness regulation should be exercised by a single, independent regulator, the Administration strongly supports retaining another core element of the GSEs' charter – the housing goals – at HUD.

Congress established Fannie Mae and Freddie Mac to provide market liquidity and to facilitate the financing of affordable housing for low- and moderate-income families. Congress also mandated that the HUD Secretary set housing goals to ensure that those needs are met. The affordable housing goals were created to ensure the GSEs are serving individuals in those communities that are most in need.

These goals direct the GSEs to serve low- and moderate-income families and provide funding in underserved areas, such as central cities and rural areas. A third goal directs the GSEs to finance housing for very low and low-income families.

Today, the low- and moderate-income housing goal requires that at least half of all Fannie Mae and Freddie Mac mortgage purchases benefit families in this income bracket. As the President's budget noted in February, numerous HUD studies and independent analysis have shown that the GSEs have historically lagged the primary market, instead of led it, with respect to funding mortgage loans for low-income and minority homebuyers. The GSEs have also accounted for a relatively small share of first-time minority homebuyers.

HUD is the appropriate agency to develop and enforce the housing goals. Institutionally, our mission is devoted to furthering the goal of affordable housing and homeownership, and HUD has the most expertise in this area. Furthermore, the housing industry looks to HUD as the agency in which this authority should reside.

Therefore, to strengthen HUD's housing goal authority, the Administration considers it appropriate to:

Create a new GSE Housing Office within HUD, independently funded by the GSEs, to establish, maintain, and enforce the housing goals;

Grant HUD new administrative authority to enforce its housing goals;

Institute enhanced civil penalties for failure to meet housing goals;

Explicitly provide that the GSEs act to increase homeownership, and;

Expand authority to set housing goals and subgoals beyond the three currently established for moderate-income, geographic area, and special affordable housing.

Let me stress that we believe such a comprehensive change to the regulatory structure will strengthen the confidence of all GSE stakeholders. Investors will be better protected under a regulatory system that empowers the regulator to do the job we expect of them... and the American taxpayers will ultimately benefit.

Secretary Snow and I look forward to working with the Committee members to strengthen oversight of the housing GSEs – to ensure that they are in every way meeting their public purpose and that homeownership continues to be an affordable option for America’s families.