EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 26, 2005
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 1461 – Federal Housing Finance Reform Act of 2005
(Rep. Baker (R) Louisiana and 19 cosponsors)

The Administration has long called for legislation to create a stronger, more effective regulatory regime to improve oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks ("housing government-sponsored enterprises" or "housing GSEs") and appreciates the considerable efforts of Chairman Oxley and Chairman Baker in crafting H.R. 1461. However, H.R. 1461 fails to include key elements that are essential to protect the safety and soundness of the housing finance system and the broader financial system at large. As a result, the Administration opposes the bill.

The regulatory regime envisioned by H.R. 1461 is considerably weaker than that which governs other large, complex financial institutions. This regime is of particular concern given that Fannie Mae and Freddie Mac currently hold only about half of the capital of comparable financial institutions. In order for a financial regulator to be respected and credible, it must have the authority and ability to adjust capital requirements of the institutions it oversees as circumstances dictate to ensure prudential operations. An effective oversight regime must also provide for clear review of business activities to ensure the integrity of the housing finance system and consistency with the GSEs' housing mission. The Administration does not believe that the housing GSEs should be exempt from these important standards of world-class regulation.

The dramatic growth of the housing GSEs over the last decade, as well as recent accounting and operational problems, underscore the importance of protecting the broader financial markets from systemic risks caused by their actions. The housing GSEs' outstanding debt is approximately $2.5 trillion, and they provide credit guarantees on another $2.4 trillion of mortgages. By comparison, the privately held debt of the Federal government is $4.1 trillion. Housing GSE debt is issued largely to support sizable portfolio investments that are unnecessary to fulfill the GSEs' housing mission. Given the size and importance of the GSEs, Congress must ensure that their large mortgage portfolios do not place the U.S. financial system at risk. H.R. 1461 fails to provide critical policy guidance in this area.

The Administration strongly believes that the housing GSEs should be focused on their core housing mission, particularly with respect to low-income Americans and first-time homebuyers. Instead, provisions of H.R. 1461 that expand mortgage purchasing authority would lessen the housing GSEs' commitment to low-income homebuyers. Likewise, provisions that divert profits will lead to increased risk-taking and decreased market discipline, while exacerbating systemic risk.

The Administration remains committed to bringing real reform to the housing GSEs and looks forward to continuing to work with Congress to ensure that the needed reforms are part of any final legislation.

Budget Estimates and Enforcement

This bill would affect direct spending and receipts. To sustain the economy's expansion, it is critical to exercise responsible restraint over Federal spending. The Budget Enforcement Act's pay-as-you-go requirements and discretionary-spending caps expired on September 30, 2002. The President's FY 2006 Budget includes a proposal to extend the discretionary caps through 2010; a pay-as-you-go requirement for direct spending; and a new mechanism to control the expansion of long-term unfunded obligations. OMB's cost estimate of this bill is currently under development.

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