# H.R. 1427, FEDERAL HOUSING FINANCE REFORM/ AFFORDABLE HOUSING FUND

**Key Points:**

- **In recent years, there have been high-profile accounting scandals at both the Fannie Mae and Freddie Mac mortgage-funding enterprises.**
- **As part of the efforts of the new Democratic-led Congress to restore accountability and change how business is done in Washington, this bill includes key provisions to substantially strengthen federal oversight of Fannie Mae and Freddie Mac.**
- **The bill creates a strong, independent regulator of Fannie Mae and Freddie Mac, with broad powers comparable to those of federal bank regulators.**
- **The bill also creates a non-taxpayer-financed Affordable Housing Fund – to be financed by required contributions from Fannie Mae and Freddie Mac, which will help meet the critical shortage of affordable housing across the country.**
- **The measure is a bipartisan bill, which has the support of the Bush Administration and of a wide cross-section of financial institutions, lenders, housing industry participants, and housing groups.**

Today, the House will consider H.R. 1427, Federal Housing Finance Reform Act/Affordable Housing Fund. This bill would substantially strengthen the oversight of Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks, collectively referred to as the housing government-sponsored enterprises (GSEs). The bill would also establish a new Affordable Housing Fund to be supported by required contributions from Fannie Mae and Freddie Mac. Members are urged to vote YES on the bill.

**There have been high-profile accounting scandals at Freddie Mac and Fannie Mae in recent years.** In January 2003, Freddie Mac accountants discovered that the company had accounting problems and the company eventually had to reduce their declared earnings by $5 billion. In June 2003, the top three executives at Freddie Mac were dismissed. Similarly, in 2005, accounting irregularities at Fannie Mae came to light. Fannie Mae ended up having to restate some $12 billion in past earnings. In the wake of the news, both the CEO and CFO of Fannie Mae were removed.

**In response to these scandals, this bill is another step in the efforts of the new Democratic-led Congress to restore accountability.** Over the past few months, the Congress has passed a series of measures to reform Washington and restore accountability – including the Accountability in Contracting Act, Small Business Contracting Reform Act, Whistleblower Protections Act, Strengthening the Freedom of Information Act, and strong accountability provisions in such bills as the Head Start Authorization, the Department of Homeland Security Authorization, and the Intelligence Authorization. This bill to strengthen federal oversight of Fannie Mae and Freddie Mac is another in this series of measures to restore accountability.

**This bill creates a strong, independent regulator of Fannie Mae, Freddie Mac, and Federal Home Loan Banks.** To guard against the kinds of financial reporting and management problems experienced by the housing GSEs in recent years, the bill creates a new independent agency – the Federal Housing Finance Agency – to regulate Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. This new agency unifies supervision of the housing GSEs in a single agency that will oversee their safe and sound operations as well as their mission functions. The new regulator will have broad safety and soundness authority and powers comparable to those of federal bank regulators. The bill gives the regulator critical safety and soundness oversight powers, including enhanced authority with respect to capital, portfolio review, and new products.

**The bill enhances the housing mission of Fannie Mae, Freddie Mac, and Federal Home Loan Banks.** The bill enhances the ability of the GSEs to achieve their housing mission, by raising single family loan limits in high cost areas, improving the income targeting of affordable housing goals, and establishing a duty to serve underserved markets which include manufactured housing, housing preservation, and rural housing.

**The bill establishes a non-taxpayer-financed Affordable Housing Fund.** The bill creates a non-taxpayer-financed Affordable Housing Fund, to be financed by required contributions from Fannie Mae and Freddie Mac. The fund is estimated to be about $500 million a year. Under the bill, Fannie Mae and Freddie Mac are required to contribute 1.2% of their total outstanding mortgages each year. <u>This fund will be able to dedicate hundreds of millions of dollars for the construction, maintenance and preservation of affordable housing nationwide over the next five years.</u> In the first year, grants from the fund would go the Katrina-stricken areas of Louisiana and Mississippi. In the following four years, grants would be allocated by formula to states, with 100% of the funds to be used for the benefit of very low-income families.

**This measure is a bipartisan bill, with support from the Bush Administration and a long list of financial institutions and housing groups.** This bill was reported by the Financial Services Committee by a bipartisan vote of 45 to 19 (with 13 Republicans joining 32 Democrats to report the bill). In addition, Chairman Barney Frank worked closely with the Treasury Department in drafting the bill. The “Statement of Administration Policy” states that “the Administration supports House passage of H.R. 1427,” while it raises concerns with certain provisions. The bill also has the support of a wide cross-section of financial institutions, lenders, housing industry participants, housing groups and other service providers.