



*OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT*

# ***NEWS RELEASE***

**FOR IMMEDIATE RELEASE**  
Monday, February 4, 2002

**Contact: Stefanie Mullin**  
202.414.6921  
[www.ofheo.gov](http://www.ofheo.gov)

**STATEMENT OF  
OFHEO DIRECTOR ARMANDO FALCON, JR.  
REGARDING THE PRESIDENT'S BUDGET  
RECOMMENDATION TO REMOVE OFHEO  
FROM THE APPROPRIATIONS PROCESS**

"I appreciate and support the Administration's sound recommendation that OFHEO be directly funded outside the Congressional appropriations process. As the FY 2003 budget states, OFHEO should be treated similarly to other financial safety and soundness regulators. This will ensure OFHEO has the flexibility to act quickly with the necessary resources to ensure the safety and soundness of the Enterprises. I look forward to working with the Administration and the Congress on this very important recommendation."

###

## **BACKGROUND**

### **OFHEO NEEDS FLEXIBILITY AND PARITY**

- The Office of Federal Housing Enterprise Oversight (OFHEO) is the financial safety and soundness regulator of Fannie Mae and Freddie Mac (the Enterprises). These Enterprises are two of the largest non-bank financial companies in the world. As the safety and soundness regulator, OFHEO has parallel responsibilities to the other financial regulators. These are to ensure the regulated entities are adequately capitalized; are subject to ongoing examination; and to conduct necessary research and analysis.
- OFHEO's budget is currently paid for by the Enterprises through semi-annual assessments. Therefore, there is no taxpayer cost. Congress approves the overall amount as part of its consideration of the VA-HUD appropriations measure each fiscal year. OFHEO's current budget is \$27 million. The fiscal year 2003 budget request is \$30 million.
- The President's fiscal year 2003 budget includes an administrative provision that removes OFHEO from the appropriations process. This provision puts OFHEO on par with other financial safety and soundness regulators such as the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Housing Finance Board, the Federal Reserve Board and the National Credit Union Administration.
- As recommended by the President, OFHEO should be removed from the appropriations process so that it has the flexibility to set resources in response to any rapid changes in the financial condition of the Enterprises or in the markets in which they operate. Moreover, OFHEO should be removed from the appropriations process so that it is on par with the other financial regulators, who share similar functions and are also funded by assessments. However, OFHEO would - - as with the other financial regulators - - continue to be subject to Congressional oversight.

### **OFHEO Needs Flexibility**

- The size, scope and complexity of the Enterprises' activities continue to expand dramatically, as has the range of risks embedded in those activities. The Enterprises are utilizing technology as a strategic resource in areas such as automated underwriting, cost control tools for seller/servicers and communication and product delivery channels, with emphasis on the Internet. The Enterprises continue to expand business products with increasing sophistication and complexity and are funding these products with novel debt instruments. OFHEO must be able to ensure the safety and soundness of these developments on a real-time basis.

- Since the creation of the Office in 1993, the Enterprises have more than doubled in size and have fundamentally shifted their business mix from guarantors of mortgage-backed securities to asset managers, and have correspondingly developed innovative mortgage, debt, and derivative products. This realignment in business strategy significantly changes the risk profiles of the Enterprises, shifting risk management from credit guarantee to both credit risk and interest rate risk management.
- In September 2001, the Enterprises had increased their combined portfolio holdings and guarantees to \$2.6 trillion, representing **43 percent** of the \$6.1 trillion in mortgage debt outstanding. As of year-end 1992, the Enterprises held in portfolio or guarantee \$1 trillion of mortgages representing **30 percent** of the \$3.3 trillion in U.S. residential mortgage debt outstanding. Given this tremendous level of growth, OFHEO must have flexibility to monitor and assess changes in this evolving environment. External and/or internal changes could have a dramatic impact not only on the viability of the Enterprises but on the U.S. housing system.
- One only needs to look at the 1980s for parallels. At that time, the then regulator of the savings and loan system was unable to respond with the flexibility it needed (e.g., to quickly hire examiners) to adapt to the downturn in the U.S. economy and the corresponding impact this had on the savings and loan system. That crisis ended up costing U.S. taxpayers billions of dollars.

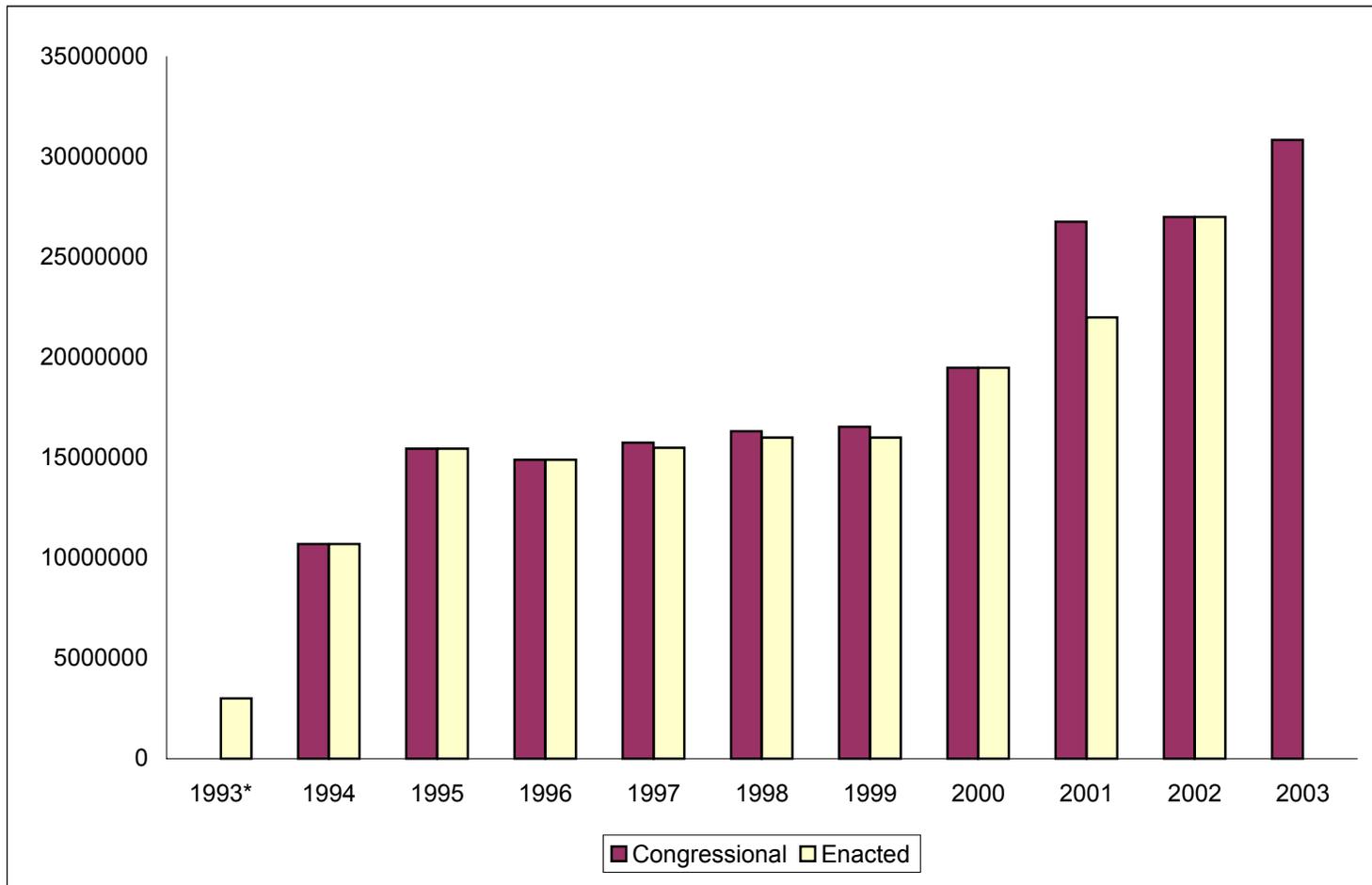
### **OFHEO Needs Parity**

- All the other financial safety and soundness regulators are able to fund their operations without Congressional approval. Only OFHEO has to obtain Congressional approval.
- This process prohibits OFHEO from having any meaningful long-term planning as the safety and soundness regulator of two of the most significant financial companies in the world. It also prohibits OFHEO from quickly responding to the rapidly growing and changing Enterprises and the mortgage markets in which they operate.
- If past history is any guide, OFHEO must have the flexibility to plan and respond to rapid, unforeseeable changes in economic or financial conditions that can significantly impact the Enterprises. OFHEO needs to be able to procure the necessary resources and quickly initiate actions that address safety and soundness concerns.

### **OFHEO Would Continue to be Subject to Congressional Oversight**

- Congress would continue to have oversight over OFHEO.

- OFHEO would continue to submit copies of its financial plans, forecasts, and reports of operations to the Secretary of HUD and to OMB. Also, OFHEO would continue to include its annual plans, forecasts, and reports in the budget of the United States in the appropriate form, as required by OFHEO's statute.
- OFHEO would continue to submit the Results and Conclusions of its Examinations to Congress each year.
- OFHEO would continue to report on all enforcement actions taken to Congress each year.
- The Comptroller General would continue to be authorized to audit the operations of OFHEO, as mandated under OFHEO's statute.
- OFHEO would continue to be required to submit strategic plans, annual performance plans, and annual program performance reports covering major agency functions and operations, as required by the Government Performance and Results Act of 1993.
- OFHEO would continue to be subject to GSA authorities.
- The change to nonappropriated status would not change OFHEO's submission of its regulatory actions to OMB, per E.O. 12866.
- OFHEO would continue to be subject to the statutory requirement that its final rules be sent to Congress, GAO, and OMB, as required by the Small Business Regulatory Enforcement Fairness Act of 1996.
- OFHEO would continue to comply with applicable regulatory oversight provisions, such as those contained in the Unfunded Mandates Act.
- Any determinations, actions, and functions of the Director not included under the Director's exclusive authorities would continue to be subject to the review and approval of the Secretary of HUD, as required by OFHEO's statute.



\* Authorizing statute provided \$3,000,000 in start-up funding.

### *OFHEO Budget History*

<b>Fiscal Year</b>	<b>Congressional Request</b>	<b>Enacted Budget</b>	<b>Shortfall</b>
1993*	NA	\$3,000,000	\$0
1994	<b><i>\$10,700,000</i></b>	<b><i>\$10,700,000</i></b>	\$0
1995	<b><i>\$15,451,000</i></b>	<b><i>\$15,451,000</i></b>	\$0
1996	<b><i>\$14,895,000</i></b>	<b><i>\$14,895,000</i></b>	\$0
1997	\$15,751,000	\$15,500,000	\$251,000
1998	\$16,312,000	\$16,000,000	\$312,000
1999	\$16,551,000	\$16,000,000	\$551,000
2000	<b><i>\$19,493,000</i></b>	<b><i>\$19,493,000</i></b>	\$0
2001	\$26,770,000	\$22,000,000	\$4,770,000
2002	<b><i>\$27,000,000</i></b>	<b><i>\$27,000,000</i></b>	\$0
2003	\$30,843,000	N/A	\$0
Total			\$5,884,000

\* Authorizing statute provided \$3,000,000 in start-up funding.