



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

FOR IMMEDIATE RELEASE

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**STATEMENT OF ARMANDO FALCON, JR.
DIRECTOR
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

RE: Introduction of legislation to remove OFHEO from the Appropriations process

STATEMENT OF THE DIRECTOR

“I appreciate and fully support the efforts of these members to strengthen OFHEO's regulatory authority. This is an essential element of safety and soundness regulation and I urge its immediate passage.”

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BENEFITS OF PERMANENTLY FUNDING OFHEO

Taking OFHEO out of the annual appropriations process

Summary

FLEXIBILITY: Given the rapid growth in volume, complexity, and new activities of the enterprises, OFHEO needs to be able to obtain sufficient resources on a real time basis in order to best fulfill its mission. The current process does not allow OFHEO to quickly adapt to an Enterprise's changing risk profile.

PARITY: Every other financial safety and soundness regulator is wisely not subject to the appropriation process. OFHEO's lack of financial independence is an anomaly that must be corrected.

CONTINUED CONGRESSIONAL OVERSIGHT: The strong framework for Congressional oversight that is currently in place would continue.

STABILITY: OFHEO's authority to oversee the Enterprises expires with every fiscal year. When the Federal government is operating under a continuing resolution, OFHEO must curtail its operations until a full appropriation is enacted.

TAXPAYER PROTECTION: OFHEO's job is to ensure that Congress never has to consider using taxpayer funds to bail out an insolvent Enterprise. Financial independence through permanent funding is critical to the agency's long-term success.

NO BUDGET IMPACT: OFHEO'S operating costs would continue to be paid for via assessments from the institutions it regulates. There is no cost to the taxpayer.

Background

- 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, the Federal Deposit Insurance Corporation 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.

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.
- At year-end 1992, the Enterprises held 19% of their book of business in portfolio and guaranteed 81% in the form of mortgage-backed securities. By March 2002, they held 43% of their mortgages as assets. 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.

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 lack of financial independence is an anomaly that must be corrected.
- The current 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. OFHEO needs to be on par with the other financial safety and soundness regulators.
- If past history is any guide, as was the case with the prior safety and soundness regulator during the savings and loan crisis, 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.

Stability

- OFHEO's authority to oversee the Enterprises expires with every fiscal year. When the Federal government is operating under a continuing resolution, OFHEO must curtail its operations until a full appropriation is enacted.
- OFHEO must be able to operate on a real-time basis to address safety and soundness concerns as they arise. The other financial regulators currently have this capacity.
- The current process is also cumbersome for the Enterprises, which are subject to numerous billings in multiple CR scenarios.

Taxpayer Protection

- OFHEO's job - - like that of the other financial safety and soundness regulators - - is to ensure that Congress never has to consider using taxpayer funds to bail out an insolvent Enterprise. Financial independence through permanent funding is critical to the agency's long-term success.
- This was a well-learned lesson of the savings and loan crisis. And as a consequence, the regulatory environment was restructured to ensure that such an event would never happen again. In fact, OFHEO was created by Congress with this in mind shortly after that crisis and subsequent government bailout. Current events further illustrate the need for a financially independent safety and soundness regulator of two of the largest companies in the world.

No Budget Impact

- OFHEO's operating costs would continue to be paid for via assessments from the institutions it regulates. There is no cost to the taxpayer.
- The other financial safety and soundness regulators have similar systems of payment and are not subject to the appropriations process.