



August 28, 2000

The Honorable Richard Baker
Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises
434 Cannon House Office Building
Washington, DC 20515

Dear Chairman Baker:

Mr. Chairman, the members of the Homeowners Education Coalition (HomeEC) are grateful for the opportunity to participate in this Congressional Summit on Government-Sponsored Enterprises (GSEs). We commend you, Chairman Baker, for your tenacity and commitment to keeping this important issue on the front burner on behalf of taxpayers, who have much to gain or lose in this debate. Further constructive dialogue among the many stakeholders will serve to clarify areas where reform may move forward with the support of all participants.

It has been iterated throughout the series of hearings held by this subcommittee that any legislative reform initiatives for the GSEs must be undertaken with the utmost prudence. Members of HomeEC have taken that precaution into account when formulating our comments on H.R. 3703 and GSE reform in general. Though we agree that any steps taken must be crafted to minimize volatility to housing markets and maximize consumer protection, HomeEC is committed to the principle that this incremental approach must actively move the GSEs towards full privatization, shorn of their preferential ties to the federal government. HomeEC seeks a truly level playing field among all private firms, to promote competition, benefit consumers and protect taxpayers.

1. **Any reform framework must be comprehensive.** That is, it must address weaknesses and imbalances in *all three* of the nation's housing-related GSEs: Fannie Mae, Freddie Mac AND the Federal Home Loan Bank System (FHLB).
2. **The GSEs' line of credit from the Treasury Department must be eliminated.** Though the charters of Fannie Mae, Freddie Mac and the FHLB state unequivocally that their losses will not be underwritten by the taxpayers, past experience shows that the GSEs will turn to the federal government in times of financial crisis. In addition, investors in financial markets around the world perceive that line of credit to indicate taxpayer backing. The elimination of this symbol of government backing is crucial.
3. **Congress should eliminate the practice of presidential appointments to the GSEs' Boards of Directors.**
4. **The GSEs should no longer be exempt from Securities and Exchange Commission disclosure requirements and fees.**
5. **Until the GSEs achieve full privatization, management and employees' salaries should be**

- 7. Until they are fully privatized, Congress must exercise greater oversight over the GSEs.** The GSEs have been permitted to resist meaningful oversight by Congress and regulators in a number of ways. By claiming to be fully private, they have successfully shielded themselves from demands for a comprehensive accounting of their activities. Therefore, Congress must begin the reform process by obtaining accurate measurements of the GSEs' true impact on the financial markets via objective, periodic oversight.
- A. The Office of Federal Housing Enterprise Oversight (OFHEO) should be moved from the Department of Housing and Urban Development to the Department of the Treasury, either within or with equal status to the Office of the Comptroller of the Currency (OCC).
 - B. OFHEO should review and report annually to Congress on the size of the GSEs' debt and the composition of their portfolios, including the fraction of repurchased mortgage-backed securities, and the amount of debt which the GSEs issue expressly for such repurchases.
 - C. The Office of Management and Budget (OMB) should review the GSEs' activities and debt management practices and assess the financial risk (the conditional liability) to taxpayers as part of its annual budget analysis.
 - D. The OMB must conduct a study over the next two years and delineate a plan on how to proceed toward full privatization of all three GSEs.
- 8. The GSEs must not be allowed to stray even further from their charters.** Congress has permitted the GSEs to interpret their charters too loosely in the past, allowing them to define virtually any new financial activity as falling under their federal charters. Regulators often lack the relevant financial expertise needed to determine whether a proposed new activity is within the GSEs' charter. OFHEO should conduct a thorough review of the GSEs' current activities and provide recommendations to Congress on how to limit their activities.
- 9. Congress should limit the amount of GSE debt commercial banks may hold.** HomeEC shares the concerns raised by Chairman Baker, Treasury Undersecretary Gary Gensler, Federal Reserve Chairman Alan Greenspan, and others about the systemic risk the GSEs pose to the entire banking system.
- 10. The GSEs' debt must be capped.** Congress should establish a cap on the volume of the GSEs' debt securities. OFHEO should monitor the GSEs' debt issue to ensure that it stays within congressionally mandated limits. The cap could only be broken with explicit congressional approval.

Sincerely,

The Homeowners Education Coalition

Citizens Against Government Waste

Competitive Enterprise Institute

Small Business Survival Committee

Citizens For A Sound Economy

American Association of Small Property Owners

National Taxpayers Union

CapitolWatch

60 Plus