March 8, 2007

The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Paul Kanjorski
Chairman
Subcommittee on Capital Markets,
Insurance, and Government-
Sponsored Enterprises
2129 Rayburn House Office Bldg.
Washington, DC 20510

Dear Mr. Chairmen:

The undersigned national organizations of local elected officials and housing and community development practitioners write to you in connection with the Subcommittee on Capital Markets' March 12, 2007 hearing on legislative proposals for reforming the Government-Sponsored Enterprises. At the outset, we wish to express our support for legislation creating a new regulatory regime for the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. That is why we strongly supported H.R. 1461, which passed the House last year.

There are two areas of concern with any new legislation reforming the GSEs.

Affordable Housing Fund

We strongly support provisions that would divert a portion of the after tax profits of the GSEs into an affordable housing fund. We believe such a fund would be an important new resource for building critically needed affordable housing, initially in the gulf coast areas devastated by Hurricane Katrina and other storms, and thereafter, in communities throughout the country. However, we are strongly *opposed* to administration of such a fund by state housing agencies or the Department of Housing and Urban Development. Instead such a fund should be administered by the GSEs themselves so that it can leverage the GSEs other affordable housing activities. For instance, in 2004, the GSEs constituted 36 percent of the market for tax-exempt housing bonds, and they are the largest corporate investors in Low-Income Housing Tax Credits. Their management of the fund would enable them to leverage these and other investments. In addition, GSE administration of the affordable housing fund should be modeled after the highly successful Federal Home Loan Bank Affordable Housing Fund. That fund is structured in such a way as to be insulated from political influence. By modeling after the FHLB program there would be consistency among all of the GSE funds. Spreading the fund, estimated to be between $400 million and $500 million, among the 50 states would dilute its impact.

Portfolio/Safety and Soundness

We strongly oppose any provisions that would impair the ability of the GSEs to fully utilize their portfolios in a safe and sound manner. Last year's Financial Services

Committee- approved bill, H. R. 1461, mandated safe and sound operations, and would permit the regulator to force asset sales if the GSEs encounter any safety and soundness problems. We believe creating a new "systemic risk" test as has been proposed could lead to the regulator forcing a GSE to divest its portfolio even when the institution is adequately capitalized. As we have seen in the aftermath of Katrina, the GSE portfolio does serve important functions in the housing market, such as helping homeowners with forbearance relief and increasing the supply of affordable mortgages through its purchase of tax-exempt Mortgage Revenue Bonds (MRBs). For example, Freddie Mac announced in 2005 that it would purchase $1 billion in MRBs issued by local and state housing finance agencies in areas ravished by Hurricane Katrina. This would not be possible if its portfolio were to shrink.

We would appreciate your making this letter a part of the record.

Respectfully,

U.S. Conference of Mayors
National Association of Counties
National Association of Local Housing Finance Agencies
National Association for County Community and Economic Development
National Community Development Association