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March 27, 2007

The Honorable Barney Frank
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank:

I am writing on behalf of the members of the American Bankers Association to express our support for H.R. 1427, the Federal Housing Finance Reform Act. We urge you to vote to advance this legislation, which reforms the regulation of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. These entities provide funding that is vital to banks of all sizes in meeting our nation's housing and community development needs. It is essential that Government Sponsored Enterprises (GSEs) be governed by a responsible, independent, and respected regulator.

H.R. 1427 incorporates principles ABA has endorsed on GSE reform, and we look forward to working with you to move this legislation forward. To that end, we include here the ABA principles on GSE reform.

Any new agency should be a fully independent agency – modeled on other regulatory agencies and without reliance upon the appropriations process.

The new agency should have authority to regulate mission adherence, product approval, and safety and soundness of the enterprises. With regard to Fannie Mae and Freddie Mac, establishment and review of specialized affordable housing goals should be done in consultation with the Department of Housing and Urban Development.

The new agency should not in any way impede the enterprises' access to the capital markets – beyond the current authority of the Treasury Department to regulate “traffic flow” to the markets. The new agency should have authority to oversee the portfolios of Fannie Mae and Freddie Mac like that given to the banking regulators to oversee the portfolios of their regulated entities, but there should not be statutory caps placed on those portfolios.

Additionally, the ABA believes that, with regard to including the Federal Home Loan Banks in regulatory restructuring, any new agency must take into consideration the differences among the GSEs, including their missions, their lines of business, and the customers they serve. These differences must be reflected in the organizational structure and the regulatory agenda of the new agency with a separate bureau established for the regulation of the Federal Home Loan Banks.

Recently, it has been suggested that the Federal Home Loan Banks should be required to meet certain affordable housing goals in their advance programs. We note that the Federal Home Loan Banks already contribute ten percent of their profits to the very successful Affordable Housing Program. Placing additional requirements on the advance products offered by the Banks would greatly complicate the ability of System members to use those advances for the vast array of housing, community and economic development activities that have been the hallmark of the advance business. Adding additional goals to these programs would almost certainly cause a reduction in the use of the programs – which would harm affordable housing and community development. We strongly urge you to reject such proposals.

Finally, ABA urges the Committee to use this opportunity to review the regulatory oversight of a GSE which all too frequently escapes serious regulatory scrutiny – the Farm Credit System (FCS). The FCS is a multi-billion dollar entity whose regulator lacks the financial expertise of the Treasury Department. It is notable that the FCS is the only GSE which has required federal intervention to prevent a financial default. Clearly it is an entity that would benefit from a regulator with greater expertise and supervisory powers.

We look forward to working with you and the Committee as you move forward with this important legislation. Thank you for considering our views.

Sincerely,

A handwritten signature in black ink that reads "Floyd E. Stoner". The signature is written in a cursive, flowing style.

Floyd E. Stoner
Executive Director