

Summary of H.R. 1427, Federal Housing Finance Reform Act

Background

Fannie Mae and Freddie Mac were chartered by Congress to establish and maintain a secondary mortgage market for the U.S. housing finance system. These Government Sponsored Enterprises (GSEs) have been embroiled in major accounting irregularities in recent years. This has prompted calls for stronger regulatory oversight.

H.R. 1427, the Federal Housing Finance Reform Act of 2007, passed the Committee on March 29, 2007 by a vote of 45 to 19. The legislation would:

- Create a new, independent regulator - the Federal Housing Finance Agency - to oversee the GSEs, and give the Agency's director bank regulator-like power.
- Establish an "Affordable Housing Fund" for extremely low-and very low-income families.

With regard to the proposed fund, CBO estimates the GSEs will contribute a total of \$3 billion to the fund, which will be funded by a mechanism based on a percentage of all outstanding mortgages. Funds would be allocated to and distributed by the states, rather than the Enterprises, under a formula to be developed by HUD. First year contributions from the fund would be divided 75/25 between Louisiana and Mississippi to support affordable housing in areas affected by Hurricanes Katrina and Rita. The housing fund would sunset after 5 years.

Talking Points

While there is bipartisan consensus on the regulatory provisions contained in the legislation, the Affordable Housing Fund provision in HR 1427 remains a significant point of contention. Republicans have raised four basic objections to the proposed fund:

- First, this fund imposes a tax on lower and middle class homeowners to finance another government housing program, the need for which is debatable. While expanding our nation's affordable housing stock is a laudable goal, we should not expect low- and middle-income homebuyers - the kind of people served by GSEs - to pay for it.
- Second, creating such a fund invites further opportunities for misuse and abuse. Specifically, there are concerns that this fund could be used for reasons other than its stated purpose, such as to subsidize political activities by outside advocacy groups.
- Third, this proposed fund is entirely unrelated to the legislation's goal of improving how GSEs are regulated.

If majority Democrats support such a fund, they should bring it to the floor and debate it separately, rather than piggy-back it onto unrelated (and critically needed) legislation.

- Lastly,

it is disingenuous to say that creating a new, \$3 billion housing program is necessary to help the victims of Hurricane Katrina.

The House passed a Katrina-related housing bill back in March. Just last month, the White House announced that it will extend aid for more than 100,000 families through March 2009.

The Bottom Line

Inclusion of an Affordable Housing Fund in this legislation unnecessarily clouds the main objective of the bill: to implement a world-class regulator to increase oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

Strong bipartisan agreement exists around the issue of GSE reform. Congress should act swiftly on that issue, and then tackle the separate question of expanding our nation's affordable housing supply in a manner beneficial to the taxpayer and consistent with free market principles.