

Dissenting Views on H.R. 1427, "Federal Housing Finance Reform Act of 2007"

H.R. 1427 includes a number of important reforms which, if enacted, would significantly enhance the safety and soundness regulation of the housing Government Sponsored Enterprises (GSEs). The legislation also provides for the creation of an Affordable Housing Fund to be financed by Fannie Mae and Freddie Mac and distributed largely by state housing agencies. During the Committee's consideration of H.R. 1427, Republicans offered a number of amendments to address deficiencies in the current construction of the affordable Housing Fund. These amendments were designed to ensure that the funds were delivered more efficiently and effectively to their intended beneficiaries--extremely low-income Americans in desperate need of decent affordable housing options. By failing to adopt these amendments, the Committee missed an opportunity to build a broader bipartisan consensus for GSE reform as this legislation heads to the House floor and an uncertain future in the Senate.

There is general consensus on the Committee that serious affordable housing needs in our nation are going unmet. The disagreement arises over whether legislation designed to enhance regulatory oversight of the housing GSEs is a proper vehicle for a massive new government program that is extraneous to the bill's underlying purpose. Of equal concern is what effect assessing Fannie Mae and Freddie Mac over \$500 million annually for the next five years will have on those Americans seeking to purchase a home or refinance an existing mortgage. As publicly traded companies accountable to their shareholders, Fannie Mae and Freddie Mac will inevitably seek to pass along these new assessments to their customers, resulting in what amounts to a middle-class mortgage tax on homeowners across America.

We are also concerned that, as presently constituted, the Affordable Housing Fund contains insufficient safeguards to ensure that grants will be distributed through a process that is objective, cost effective, competitive and fully transparent. Although the bill prohibits the use of funds for political purposes, political considerations could enter into the grant process administered by the States, with the potential to turn the program into a 'slush fund' for influential politicians and advocacy groups. To address these concerns, we offered two amendments at the Committee markup of H.R. 1427.

The Bachus amendment would have redirected the proceeds from the Fund to the Affordable Housing Program administered by the Federal Home Loan Bank System. The amendment provided for the affordable housing funds to be allocated by the newly created GSE regulator among the twelve Federal Home Loan Banks, with all of the funds in the first year going to areas affected by Hurricane Katrina, as in the underlying legislation.

Established by statute in 1989, the Affordable Housing Program requires the Federal Home Loan Banks to direct 10 percent of their profits to affordable housing projects. Universally considered a success, the program features a locally-based, competitively-awarded--and most importantly, proven--delivery system. Indeed, in her testimony at the March 15 Full Committee hearing on GSE reform, Sheila Crowley of the National Low Income Housing Coalition praised the Affordable Housing Program as 'highly successful' and a 'conceptual cousin' of what the fund in H.R. 1427 hopes to accomplish.

In the Home Loan Bank program, member financial institutions propose projects to be supported by the fund as part of their own community outreach programs, in cooperation with nonprofit partners of their choice. The twelve individual Home Loan Banks fund and administer these grant projects in their respective regions.

This regionally based delivery system allows the funds to be tailored to localized housing and community development needs. In fact, local input is often cited as one of the most important reasons for the success of the Affordable Housing Program. There is just enough centralization in the program to maintain an organized structure, with rigorous checks and balances. Indeed, in its 16-year history, the Affordable Housing Program has distributed \$2.3 billion in housing assistance grants with not one question raised as to the effectiveness and the integrity of the grant process. Moreover, the local public-private partnerships represent a common-sense way to utilize funding in a way that delivery directly to the states never could.

The Home Loan Banks already have the personnel, systems, and regulatory oversight in place to effectively implement a program that the Congressional Budget Office estimates will result in the distribution of \$3 billion over the period 2008-2011. The Banks' Affordable Housing Program has a time-tested track record and enjoys the confidence of the affordable housing sector and financial services industry alike. This is truly an instance in which there is no need to 'reinvent the wheel.'

Like the Bachus amendment, the Biggert amendment sought to establish a more effective delivery mechanism for the new affordable housing funds, by redirecting the GSEs' contributions to a competitive grant program administered by the Department of Housing and Urban Development (HUD) and modeled after the Federal Home Loan Bank Affordable Housing Program. To ensure timely disbursement of the funds, the amendment directed HUD to structure the grant program based on HUD's HOME program formula and criteria. In addition, the amendment capped the Fund at the lesser of 1.2 basis points of the GSEs' average total mortgage portfolios or \$520 million per year, and set a cap on administrative fees of no more than 10 percent of Affordable Housing Fund dollars. Finally, the amendment created a level playing field for both non-profits and for-profits to apply for grants, and added a sixth criterion for selection of applications that included the ability to leverage the grants through use of other funding sources.

Like the Federal Home Loan Bank System, HUD has long experience in administering grant programs of the kind envisioned by H.R. 1427. HUD administers over one hundred housing programs aimed at increasing homeownership, supporting community development, and increasing access to affordable housing. Among HUD's many housing programs is the HOME program, which Congress created in 1990 and today is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households, allocating approximately \$2 billion annually among the States and hundreds of localities nationwide.

Unlike the new GSE regulator, which will have only one national office, HUD has a national headquarters, 10 regional offices, and 81 field offices. HUD's regional and field offices are primarily responsible for administering HUD's programs and act as the primary HUD point of contact for States, local public housing authorities, communities, organizations, and individuals. More importantly, HUD's regional and field offices have a firsthand understanding of the needs of local communities across the country and provide regional and local oversight of federally operated and funded housing programs.

In sum, adoption of either of the alternatives we offered in Committee would have significantly improved the underlying legislation, by establishing a more reliable, objective, and competitive system for funding affordable housing priorities. While we continue to oppose inclusion of an Affordable Housing Fund in H.R. 1427, if the provisions are to remain in the bill, we intend to work to ensure that this new \$3 billion program is used not to subsidize the activities of political advocacy groups, but rather to address the very affordable housing needs that exist in our country.

Spencer Bachus.

Judy Biggert.