



REGULATION OF GSEs

The California Bankers Association (CBA) believes that recent events have raised serious questions about the structure and quality of the regulation of government sponsored enterprises (GSEs) dedicated to housing – Fannie Mae, Freddie Mac and the Federal Home Loan Banks. CBA wishes to underscore that these GSEs play an indispensable role in providing stability and liquidity to the capital markets that in turn support our nation’s mortgage finance system. These GSEs have more than \$2 trillion in combined assets and, as such, they are among the largest financial institutions in the world. Their operations are critical not only to the smooth functioning of our mortgage markets, but to the national economy as well. The mere perception that their current regulation and oversight is inadequate is an issue that needs to be addressed.

CBA supports the current efforts by Congress and the Administration to improve the regulatory oversight of these GSEs and to make certain that these enterprises maintain sound operations while serving their respective housing missions. CBA believes that the following principles should govern any proposed structural changes to the regulation and mission oversight of all of these entities:

The regulatory oversight of housing GSEs should not only insure the safe and sound operations of these GSEs and the fulfillment of their housing missions, but also should have complete credibility in the eyes of the capital markets;

The regulatory function for Fannie Mae, Freddie Mac and the Federal Home Loan Banks should be placed in a strong, independent regulator. At the same time, it is important that individual differences in the role and purpose of these enterprises be respected and preserved. There must be appropriate recognition of the unique nature of the Home Loan Banks as cooperatives, owned exclusively by their members as empowered by statute, as opposed to Fannie Mae and Freddie Mac, which are publicly traded companies; and

The cost of this regulation should be funded through user fees, just as the costs of operating other bank regulatory agencies under the Treasury are funded. The process of funding actual costs through user fees should not be subject to the appropriations process.

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