



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 30, 2004

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Shelby:

Thank you for allowing us to review a copy of your proposed legislation to improve regulatory oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Senate Banking Committee, under your leadership, deserves strong praise for the careful consideration it has given to the regulatory regime for these government-sponsored enterprises (GSEs). The success of your efforts, and those of your colleagues in the U.S. House of Representatives, is critical to enhance oversight of the GSEs, and to strengthen the long-term health of the U.S. housing finance and banking system.

The proposed legislation incorporates provisions that should make the GSEs' oversight more comparable to other financial regulators in terms of stature, powers and resources. The Administration strongly supports the inclusion of FDIC-like receivership powers. These receivership powers would give this new regulator authority comparable to other financial regulators, and would treat creditors consistent with other receiverships. This crucial provision is a core component of any credible legislative effort to establish a world class regulatory regime for the GSEs. The establishment of strong general regulatory authority, cease-and-desist power and independent litigating authority also represent important additions to the new regulator's tool kit. If the receivership powers or other reforms contained in the draft are weakened, however, as the proposed bill proceeds through the legislative process, the bill would be unworthy of the reform efforts you have championed.

For example, the Administration strongly supports efforts to enhance the GSEs' commitment to their unique housing missions, and will continue to push for the following reforms:

- A new first-time homebuyer goal should be instituted, requiring Fannie Mae and Freddie Mac to serve key housing policy objectives, particularly with respect to underserved populations;
- Meaningful sanctions and remedial action should be brought against a GSE if it fails to meet its housing goals; and

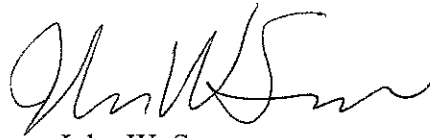
- Authority to establish and monitor such housing goals should remain at the Department of Housing and Urban Development working in cooperation with the new regulator.

As we have said, the Administration also believes strongly that further reforms should be incorporated in the bill to enhance the prudential supervision of the GSEs, several of which are highlighted here:

- New activities undertaken by the GSEs should be subject to clear, plenary review and disapproval, if appropriate;
- Changes in minimum capital requirements should be unencumbered by a lengthy regulatory process; and
- Regulatory oversight of the Federal Home Loan Banks should be made more comparable to Fannie Mae and Freddie Mac.

We continue to call for the key elements of credible regulation of GSEs, as we presented to the Committee last fall. We look forward to continuing to work with you, Senator Sarbanes, Chairman Oxley and Representative Frank as Congress continues its consideration of GSE reform, and we will continue to evaluate the overall package of reforms as the process moves forward.

Sincerely,

A handwritten signature in dark ink, appearing to read 'John W. Snow', with a stylized, cursive script.

John W. Snow

cc: The Honorable Paul S. Sarbanes
The Honorable Michael G. Oxley
The Honorable Barney Frank