

## THIS IS A TEST - WHO IS FHFA?

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The Federal Housing Finance Agency (FHFA) has recently begun operations. [FHFA](#) was created as part of the Federal Housing Finance Regulatory Reform Act of 2008. The Agency combines and succeeds to the authority of the Federal Housing Finance Board and the Office of Federal Housing Enterprise Oversight (OFHEO). Essentially, FHFA establishes a single regulator for government-sponsored enterprises (GSEs) and the Federal Home Loan Banks. The most important GSEs in terms of CAI's membership are Freddie Mac and Fannie Mae.

While not a direct part of this discussion, the Regulatory Reform Act of 2008 also requires loan originators to participate in a Nationwide Mortgage Licensing System and Registry (NMLSR) that would be administered by either a nonfederal entity or the Department of Housing and Urban Development (HUD) in coordination with the federal banking regulatory agencies. It is important to remember that, depending on geographical location, mortgage brokers caused between 60-80% of all loan originations and they have caused over 70% of sub-prime mortgage originations.

### **FHFA Highlights**

1. **Governance:** FHFA is headed by a Director, appointed by the President and confirmed by the Senate for a 5-year term. There are Deputy Directors for Divisions of Enterprise Regulation, Federal Home Loan Bank Regulation, and Housing.
2. **Oversight:** A Housing Finance Oversight Board advises the Agency on overall strategies and policies, but has no executive authority. The Board is comprised of the Secretaries of the Treasury and Housing and Urban Development and the Director as Chairperson.
3. **Funding and Standards:** FHFA assesses the agencies it regulates. FHFA issues and enforces prudential management and operations standards for the regulated entities, including credit, interest rate, and market risks, internal controls, liquidity, and investments. The enterprises are required to comply with several provisions of the Sarbanes-Oxley Act regardless of their registration status with the SEC. Previously, the GSEs did not have to comply.
4. **FFIEC:** The Agency is made a member of the Federal Financial Institutions Examination Council (FFIEC). The Government Accountability Office (GAO), in consultation with the agency and federal banking regulators, must report to Congress on guarantee fees and analogous practices.

5. **Freddie Mac & Fannie Mae:** FHFA succeeds to OFHEO in regulating these two prominent government sponsored enterprises (GSEs).

5.1 **Product Approvals:** An enterprise may not offer a new product before obtaining FHFA approval. Presumably, this is designed to prevent the re-appearance of "NINJA Mortgage Loans" --- loans that were underwritten based on "no assets, no income and no jobs." The legislation sets the conforming loan limits and requires the agency to adjust the conforming loan limit according to the annual housing price index maintained by the agency. See #5.5 below

5.2 **High Cost Areas:** An additional high-cost area limit is established for areas where the median home price exceeds the general conforming loan limit, up to the lower of 150 per cent of the conforming loan limit or the median cost in that area.

5.3 **Securitization:** Loans in high cost areas above the general conforming loan limit must be securitized. The regulator will conduct a study of whether the securitization requirement raises the cost of high-cost area loans, and may terminate the requirement if it is found to raise costs.

5.4 **Housing Goals:** The Agency establishes housing goals and an annual home purchase goal for the enterprises. The Agency may take enforcement action against an enterprise for failure to meet the housing goals.

5.5 **Conforming Loan Limits:** FHFA drops the highest level of mortgage backing that Fannie Mae and Freddie Mac can loan or guarantee to \$625, 500, which is down from \$729,750 (the temporary ceiling that was put in place).

6. **Affordable Housing Fund:** The legislation creating FHFA also creates an "Affordable Housing Fund," to be managed by FHFA. Funds are derived through contributions by Fannie Mae and Freddie Mac in amounts equal to 1.2 basis points on each GSE's total outstanding mortgages (including both those held in portfolio and those securitized) each year from 2007 through 2011. Seventy five percent of these funds are used for affordable housing fund purposes, and 25% are allocated to the federal government, to keep the bill deficit neutral.

The Agency's first major action just happened this past weekend when Freddie Mac and Fannie Mae were placed in conservatorship by the U.S. government and under the control of the Agency. This bail-out of the two government sponsored enterprises (GSEs) will certainly make the role of the FHFA even more important in U.S. housing in general and in U.S. community associations in particular.

Statement of FHFA Director James B. Lockhart

<http://www.ofheo.gov/media/statements/FHFASStatement9708.pdf>

Fact Sheet on Conservatorship

<http://www.ofheo.gov/media/pdf/FHFACONSERVQA.pdf>

[Federal Register Notice](#) of "Establishment of a New Independent Agency"

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