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## U.S. BUSINESS NEWS

# Builders Contest Plan for Oversight Of Freddie, Fannie

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Homebuilders are turning into vociferous critics of the Bush Administration's plan to increase oversight of **Freddie Mac** and **Fannie Mae**, the government-sponsored, companies that buy mortgages from lenders to boost the efficiency of the U.S. mortgage market.

Two weeks ago, the president of the National Association of Homebuilders issued a statement accusing "antihousing" factions in the administration of exploiting Freddie Mac's woes in a "brazen attempt to divert capital from housing to other sectors of the economy." A White House spokeswoman says the administration's record shows that it is dedicated to increasing homeownership for low and moderate-income families.

The feud arises from the administration's push to move most oversight of the government-sponsored mortgage entities, Fannie Mae and Freddie Mac, from the Department of Housing and Urban Development to the Treasury Department, where they would likely face tougher scrutiny. Freddie Mac has been caught up in an accounting scandal and Fannie Mae reported a [\\$1.3 billion accounting error](#)<sup>1</sup> last week.

Certainly homebuilders aren't the only group opposing the administration's plans. Executives at both Fannie Mae and Freddie Mac have expressed concern that Treasury Department officials could limit their ability to release new mortgage products. But the homebuilders have inserted a tone of vehemence into the debate that is curious given the administration's defense of homebuilders on such critical issues as environmental regulations.

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- [IRS Probes Tax Issues Raised at Freddie Mac](#)<sup>4</sup>  
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The Treasury's "institutional bias" against housing will effectively shut off the pipeline for new mortgage products that have increased homeownership to historic levels, argues the association's chief executive officer, Jerry Howard.

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Critics say that homebuilders, in tandem with Freddie Mac and Fannie Mae, have created programs that divert funding to their coffers in ways that don't always benefit first-time home buyers. For instance, the homebuilders won HUD approval last summer to create a \$500 million Fannie-run secondary market for construction loans taken out by builders.

Such programs aren't "about putting people into homes, [they are] about profits for Fannie, Freddie and the homebuilders," says Mike House, executive director of FM Policy Focus, a Washington lobbying group funded by competitors of Fannie Mae and Freddie Mac.

The homebuilders' association says the program falls within the companies' mission to create a secondary market for housing finance because, the argument runs, it lowers the builders' overall cost of financing.

The homebuilders' fear that Fannie Mae and Freddie Mac will come under the thumb of the Treasury also highlights the importance that relatively new mortgage products -- such as interest-only loans and no down-payment loans -- will play as interest rates rise.

"Interest rates and new mortgage products introduced by Fannie and Freddie have fueled the resiliency of the housing market," says Ivy Zelman, an analyst at Credit Suisse First Boston. "If they tighten underwriting standards, it could affect all of the parts of the housing pyramid."

The administration's proposal, floated in September, is to create a federal agency, likely at the Treasury Department, to regulate and supervise the financial activities of Freddie and Fannie. The Treasury would also have authority to set policy for the companies.

The homebuilders support a previous plan that would empower the Treasury to regulate their financial activities but keep all policy-making authority within HUD. They say the agency has a better understanding of housing issues.

Part of the homebuilders' suspicions of Treasury is related to a seven-year standoff with the agency over the Mortgage Revenue Bond Program. Under the Treasury-run program, states issue bonds to fund mortgages for first-time homebuyers. The bonds are tax exempt and states pass on the savings to homebuyers in the form of below-market interest rates.

To qualify for the program, a home must fall below the average price of a given area. But despite persistent lobbying by the homebuilders' association, the Treasury hasn't adjusted the average home price for nearly a decade. States can adjust the price but the current process is costly and time-consuming. More than 40 states have price limits that fall short of the current average price for a new home.

The homebuilders' association says that over the years, the Treasury has also lobbied against efforts to pass

legislation that would simplify the process for states.

"After watching how the Treasury has handled this housing program, which is only a small piece of the housing market, the administration wants to give them responsibility over Freddie and Fannie?" asks Mr. Howard. "I don't think so."

A Treasury Department official says it began an effort to update the prices early this year and it hopes to complete the exercise in early 2004. The official also denies claims that the Treasury lobbied against legislative efforts to make the Mortgage Revenue Bond Program more accessible.

"The housing-finance system is a critical component of the economy," says a Treasury spokeswoman. She adds that the proposal to strengthen oversight over Freddie Mac and Fannie Mae "demonstrates our commitment to the health of that system."

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