

**GAO**

Report to the Chairman, Subcommittee  
on Capital Markets, Securities and  
Government-Sponsored Enterprises,  
Committee on Banking and Financial  
Services, House of Representatives

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July 1997

**GOVERNMENT-  
SPONSORED  
ENTERPRISES**

**Advantages and  
Disadvantages of Creating  
a Single Housing GSE  
Regulator**



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**General Government Division**

B-277390

July 9, 1997

The Honorable Richard H. Baker  
Chairman, Subcommittee on Capital Markets,  
Securities and Government-Sponsored Enterprises,  
Committee on Banking and Financial Services  
House of Representatives

Dear Mr. Chairman:

This report responds to your request for our analysis of the advantages and disadvantages of creating a single regulator for the three housing government-sponsored enterprises (GSE). You asked that we address the question of whether safety and soundness and mission oversight should be vested in the same regulatory body. On the basis of discussions with your office, we also agreed to address the regulatory agency structure that might best provide for protecting the government's interest by ensuring that the GSEs carry out their public purposes (mission) in a safe and sound manner. To do so, we considered whether the regulator should be an independent office within an agency, such as the Department of Housing and Urban Development (HUD) or the Department of the Treasury (Treasury), or a stand-alone, independent agency and whether it should be governed by a board or director. Finally, we briefly discuss other issues that are important in deciding how best to regulate the GSEs. The current regulatory arrangement for the housing GSEs involves three regulators. The Office of Federal Housing Enterprise Oversight (OFHEO) regulates the safety and soundness of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). HUD regulates Fannie Mae's and Freddie Mac's mission compliance and has general regulatory authority over matters not made exclusive to OFHEO by statute. The Federal Housing Finance Board (FHFB) regulates both the safety and soundness and mission compliance of the Federal Home Loan Bank System (FHLBank System).

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**Background**

Fannie Mae, Freddie Mac, and the FHLBank System are the GSEs Congress created to help make credit available to finance home purchases, because the private market was perceived as not effectively meeting credit needs. The GSEs' charters largely limit activities to their public missions, and they receive financial benefits from the government that help them carry out those public missions. For example, the three GSEs are exempt from Securities and Exchange Commission registration requirements, and they have conditional lines of credit with Treasury. They receive other benefits

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directly and indirectly related to their federal charters. Most importantly, although the government has no legal obligation to protect GSE creditors, federal ties with the GSEs have contributed to the perception by investors that the federal government would not allow any of the GSEs to default on their obligations.<sup>1</sup>

The mission of both Fannie Mae and Freddie Mac is to enhance the availability of mortgage credit by creating and maintaining a secondary market for residential mortgages. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the 1992 Act) required HUD to establish affordable housing goals directed at Fannie Mae's and Freddie Mac's efforts to finance housing for low- and moderate-income families and housing in central cities and other underserved areas.<sup>2</sup> Fannie Mae and Freddie Mac borrow funds in the capital markets and use the funds to purchase residential mortgages from lenders, such as banks and thrifts. Fannie Mae and Freddie Mac retain some mortgages in portfolio but pool a majority to create securities called mortgage-backed securities (MBS) that they sell to investors in the secondary mortgage market. As of December 31, 1996, Fannie Mae and Freddie Mac had total on balance sheet assets of \$351 billion and \$174 billion, respectively, not including MBS. Both GSEs are stockholder-owned corporations governed by boards of directors. Each board of directors includes 13 members elected by stockholders and 5 members appointed by the President of the United States.

The 1992 Act established OFHEO as an independent entity within HUD to oversee the safety and soundness of Fannie Mae and Freddie Mac. OFHEO is led by a director who is presidentially appointed for a 5-year term and confirmed by the Senate. Its statutory mission is to help ensure that Fannie Mae and Freddie Mac are adequately capitalized and operate in a safe and sound manner. OFHEO's 1996 budget was \$15 million; it had 72 full-time staff positions.

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<sup>1</sup>The federal government intervened when the Farm Credit System faced severe financial stress in the mid-1980s. Congress authorized up to \$4 billion in federal assistance and required extensive structural and operational reform. It also established the System's regulator as an arm's-length regulator and gave it new powers. See Farm Credit Amendments Act of 1985, Pub. L. No. 99-205 (Dec. 23, 1985); Farm Credit Act Amendments of 1986, Pub. L. No. 99-509, Title I, Subtitle D. The government provided less direct support to Fannie Mae in 1982 in the form of changes to its income tax treatment and regulatory forbearance of its troubled condition. See Farm Credit System: Repayment of Federal Assistance and Competitive Position (GAO/GGD-94-39, March 10, 1994); and Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GAO/GGD-91-90, May 22, 1991).

<sup>2</sup>Pub. L. No. 102-550, Title XIII, codified at 12 U.S.C. §§ 4501, et seq. The provisions of the act concerning HUD's establishment of the housing goals are codified at 12 U.S.C. §§ 4561-4564.

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Other than safety and soundness and certain other matters that the 1992 Act specifies as exclusive to OFHEO, the 1992 Act gives general regulatory power over Fannie Mae and Freddie Mac to the Secretary of HUD. This includes the power to make rules and regulations necessary to ensure that each GSE's mission is being accomplished, including setting, monitoring, and enforcing compliance with special housing goals.<sup>3</sup>

The FHLBank System comprises 12 district banks that extend mortgage credit by making loans (called advances) to member institutions (thrifts, commercial banks, and others), who in turn lend to home buyers for mortgages. The advances are secured by home mortgage loans or other collateral. Although the FHLBank System's charter contains no explicit statement of purpose, the history of the enabling legislation and subsequent statutory language identify that purpose as supporting housing finance. Each bank is governed by a board with at least 14 members, including at least 6 members who are appointed by FHFB.<sup>4</sup> The capital stock of each bank is owned by its member institutions. As of December 31, 1996, the FHLBank System had total assets of \$292 billion, with individual bank assets ranging from \$13 to \$52 billion.

FHFB was established in 1989 as the regulator of the FHLBank System and charged with supervising System banks to ensure first, that they operate in a safe and sound manner and also that they carry out their housing finance mission.<sup>5</sup> FHFB was authorized to issue consolidated obligations for the System; it delegated this duty to the Office of Finance, which FHFB established as a joint office of the System banks. In addition, Congress required FHFB to establish and regulate standards for community investment and an affordable housing program aimed at making credit available to people of limited income and to the commercial and economic development activities that benefit them.

A five-member Board of Directors governs FHFB, which is an independent agency in the executive branch. Four full-time members are appointed by the president with the advice and consent of the Senate for 7-year terms; the president designates one of the four as Chair. The Secretary of HUD is

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<sup>3</sup>For discussion of HUD's promulgation of regulations setting annual goals for each enterprise, see *Housing Enterprises: Potential Impacts of Severing Government Sponsorship* (GAO/GGD-96-120, May 30, 1996), pp. 80-84.

<sup>4</sup>FHFB can authorize a board of more than 14 members (8 elected) for districts that include 5 or more states.

<sup>5</sup>Congress created FHFB as the successor to the Federal Home Loan Bank Board, with respect to the Federal Home Loan Banks, in Title VII of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Pub. L. 101-73 § 702, 12 U.S.C. § 1422a.

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the fifth member. At least one member is to be chosen from an organization representing consumer or community interests in banking services, credit needs, housing, or financial consumer protection. FHFB's 1996 budget was \$16.1 million; it had a staff of about 120.

In our 1991 and 1993 reports on GSEs we identified five criteria that a GSE regulatory agency structure should meet to facilitate effective oversight.<sup>6</sup> The criteria specify that a GSE regulatory agency's structure should provide for (1) objectivity and arm's-length status from the GSE, (2) prominence in government, (3) economy and efficiency, (4) consistency in regulation of similar markets, and (5) separation of primary and secondary market regulation. We developed these criteria on the basis of our own knowledge and experience in reviewing federal financial institution regulation; our review of related literature and regulatory law; the then-current arrangement and operations of the GSEs; and discussions with the GSEs, federal regulators, and other experts. On the basis of these criteria, we stated in 1991 that regulation of a GSE's mission-related activities cannot be effectively separated from oversight of safety and soundness. In 1993, again on the basis of these criteria, we recommended merging the safety and soundness functions of the housing GSE regulators.

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## Results in Brief

Our ongoing work has strengthened our belief that the housing GSE regulators would be more effective if combined and authorized to oversee both safety and soundness and mission compliance. Nothing we have observed has caused us to modify our criteria for an appropriate regulatory structure. Although there have been changes in the regulatory oversight of the housing GSEs since we first established these criteria, neither OFHEO, HUD, nor FHFB meets all five criteria. In particular, we note that FHFB is not an arm's-length regulator, and it is still involved in governance of the FHLBank System. In addition, regulation of Fannie Mae's and Freddie Mac's mission compliance and safety and soundness is the responsibility of HUD and OFHEO, respectively.

Combining oversight into one agency would have several advantages. Such an agency could be more independent and objective than the separate regulatory bodies and could be more prominent than either one alone. Although the GSEs operate differently, the risks they manage and their missions are similar. The regulators' expertise in evaluating GSE risk management could be shared more easily within one agency. In addition, a

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<sup>6</sup>GAO/GGD-91-90 and Federal Home Loan Bank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness (GAO/GGD-94-38, Dec. 8, 1993).

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single regulator would be better positioned to be cognizant of specific mission requirements, such as special housing goals and new programs or initiatives any of the GSEs might undertake, and should be better able to assess their competitive effect on all three housing GSEs and better ensure consistency of regulation for GSEs that operate in similar markets. Coordination and sharing of expertise among staff responsible for safety and soundness and mission compliance should be facilitated by having all staff in one regulatory agency. The primary disadvantage to combining oversight into one agency would be whatever short-term disruption reorganization might cause to the ongoing operations of the regulators.

Our analysis of different regulatory structures indicates that an independent, arm's-length, stand-alone regulatory body headed by a board would best fit our criteria for an effective regulatory agency structure for the housing GSEs. An independent regulatory body, as opposed to one within an executive branch department, should be better positioned to achieve the autonomy and prominence necessary to oversee the large and influential housing GSEs. Using a board to govern the independent regulatory agency would enable Congress to provide for representation that could help ensure the regulator's independence and provide appropriate balance and expertise in the regulators' deliberations of both safety and soundness and mission-related issues. Having an independent board would allow it to be structured to provide equal links to HUD, due to its role in housing policy, and Treasury, due to its roles in finance and financial institution oversight. Having a single director, rather than a board, as head of the regulatory agency might provide for management efficiencies and clearer accountability. However, such an arrangement would sacrifice the advantages of having the different perspectives, expertise, prestige, and stability a board could provide.

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## Scope and Methodology

Because we had done a substantial amount of work on these GSEs in the past, we relied heavily upon that work. However, we reviewed our historical positions in light of the current regulatory structure and GSE activities. In addition to reviewing our past and ongoing work related to these GSEs and their regulators and consistent with our methodology in our earlier work, we solicited views of housing, GSE, and regulatory officials. They included officials from OFHEO, FHFB, Fannie Mae, Freddie Mac, the FHLBank System, HUD, and Treasury.

We requested oral comments on a draft of this report from the Chief Executive Officers, or their designees, of Fannie Mae, Freddie Mac, the

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Council of the FHLBanks of which 9 of the 12 FHLBanks are members, and the FHLBanks of New York and Chicago;<sup>7</sup> and the heads, or their designees, of OFHEO, FHFB, HUD, and Treasury. Their comments are discussed at the end of this report.

We did our work in Washington, D.C., between May and June 1997 in accordance with generally accepted government auditing standards.

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## We Continue to Support a Single Housing GSE Regulator

In our 1991 report on GSEs, we recommended that Congress create a single regulator for all GSEs. We determined that a single regulatory body could best fit our criteria of being (1) independent and objective, (2) prominent in government, (3) able to achieve economy and efficiency, and (4) able to provide consistency in regulation. We also maintained that regulation of primary and secondary markets could be separated within a single regulator to avoid potential conflicts. In that report we discussed an option that involved regulation of the GSEs according to the markets they serve, such as housing. In our subsequent 1993 report on the FHLBank System, we recommended that a single regulator be created for the three housing GSEs that would assume the duties of OFHEO and FHFB. In that report, we concluded that the new regulator would have the following attributes.

- The regulator would be more independent and objective than separate regulatory bodies can be. Because the operations and interests of the FHLBank System, Fannie Mae, and Freddie Mac do not align precisely, there should be a healthy tension in the oversight of the entities that could help prevent the regulator from being “captured” by the GSEs.
- The regulator would be more prominent in government than either OFHEO or FHFB can be individually.
- The regulator would create some economies and efficiencies. Staff could share expertise in such areas as examinations, credit and interest rate risk monitoring, financial analysis, and economic research. Administrative support functions could be combined.
- The regulator would provide consistent regulation for GSEs serving the same economic sector and sharing the public purpose of providing credit for housing. Although the System, Fannie Mae, and Freddie Mac do not directly compete in all of their activities, they are all participants in the residential mortgage market. Consolidating their regulation would enable a regulator to take into account the competitive effects that regulatory

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<sup>7</sup>The FHLBank of Dallas declined to comment on the draft.



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decisions made concerning Fannie Mae and Freddie Mac would have on the FHLBank System, and vice versa.

The criterion of separating primary and secondary market regulation would not be violated, because the new regulatory entity would not be responsible for overseeing other regulated entities that are counterparties (customers) of the three GSES, such as banks and thrifts.

Since we did our work in 1991 and 1993, we have continued to monitor and evaluate the GSES and their regulators. We have found no evidence that would cause us to alter our previous positions. Rather, our ongoing work has strengthened our belief that OFHEO and FHFB would be more effective if combined. A single, more prominent regulatory agency could help attract and retain staff with the special mix of expertise and experience needed to examine and monitor these sophisticated GSES. Our 1995 report and preliminary information from ongoing reviews of OFHEO operations show that hiring and retaining expert staff has been an ongoing concern for OFHEO.<sup>8</sup> In our ongoing work, OFHEO officials told us that because there are a limited number of individuals with the particular skills and experience that OFHEO needs, it must compete with other financial regulators as well as private firms for staff. Although a new regulator may have to compete with private firms and banking regulators for staff and would be somewhat new and unknown, the new entity should be able to provide greater opportunities for staff growth and advancement than either OFHEO or FHFB separately.

Several officials we spoke with believed that establishing a single regulator for the housing GSES to assume the responsibilities of OFHEO and FHFB would create valuable synergies among regulatory staff. We concur with this view. Although the GSES operate differently, the risks they manage are similar. OFHEO must evaluate its GSES' management of credit risk associated with mortgages they purchase and management of interest rate and other risks associated with the portfolio operations. Similarly, FHFB must evaluate the credit risk of mortgages FHLBanks receive from members as collateral for advances. FHFB must also oversee FHLBank management of interest rate and other risks.

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<sup>8</sup>See Government-Sponsored Enterprises: Development of the Federal Housing Enterprise Financial Regulator (GAO/GGD-95-123, May 30, 1995), a study required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. In addition, Section 430 of the Department of Veterans Affairs/Department of Housing and Urban Development Appropriations Act of 1997 required us to assess OFHEO's operations and determine whether its resources are adequate and being used appropriately to fulfill its critical safety and soundness mission. This work is ongoing.

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In addition, OFHEO's current work in setting capital standards and developing a stress test for its GSEs could be useful in government oversight of the FHLBank System. In our 1991 report, we recommended that adequate capital standards be set for all housing GSEs based on the risks they undertake.<sup>9</sup> OFHEO is developing what is to be a comprehensive financial modeling capability to determine how much capital Fannie Mae and Freddie Mac are required to hold to withstand a variety of credit and interest rate scenarios. The results of this work may be helpful in evaluating the risks to the FHLBank System and the adequacy of its capital.

Further, certain GSE programs could foster competition among the three GSEs, and a single regulator could provide consistent rules and interpretations more easily than three different regulators. Under the existing regulatory structure, there would be no provision for the regulator to consider how such programs would affect enterprises it did not regulate. For example, in 1996 and 1997, FHFB approved three FHLBank pilot programs that involved services Fannie Mae or Freddie Mac could have or already did provide. One bank is to purchase senior interests in certain whole mortgages and other related loans. The loans would be acquired from both member and nonmember institutions and would include loans members have made to low- and moderate-income borrowers. Another FHLBank is to fund and hold mortgages originated by its member institutions. FHFB found that this pilot program would provide member institutions a way to move mortgages off their books without having to pay fees associated with selling mortgages to Fannie Mae or Freddie Mac or to other secondary market participants. According to OFHEO officials, they independently assessed the competitive impact of these programs on Fannie Mae and Freddie Mac. However, had a single regulator been responsible for all three GSEs, a single assessment could have combined consideration of all competitive effects and ensured regulatory consistency of oversight. Such an assessment could be difficult, however, because of possible conflicting interests of the housing GSEs in pursuing their lines of business and missions.

According to some officials with whom we met, the primary disadvantage of creating a single regulator for these GSEs is the short-term disruption that would come with any type of change. Combining staffs and creating a single system for administrative matters, such as personnel, contracting, and budgeting, could be time consuming and potentially disruptive at the time. Establishing procedures for decisionmaking and working toward

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<sup>9</sup>GAO/GGD-91-90.

consistency in regulation and examination, where appropriate, would be a challenge. Important work at both OFHEO and FHFB could be disrupted. For example, OFHEO's efforts to develop a stress test necessary for setting capital standards for Fannie Mae and Freddie Mac could be delayed if key staff left or their time was directed to other work. On the other hand, these effects should be short term.

## Regulation of Mission and Safety and Soundness Would Be More Effective If Combined

In our May 1991 report on GSEs, we stated that regulation of a GSE's mission cannot be effectively separated from safety and soundness, and we still support this position.<sup>10</sup> A regulator that performs both roles, however, must be fully independent and at arm's length from the GSEs it regulates to ensure its objectivity. As we noted in 1991, there is a distinction between a safety and soundness regulator that confirms a GSE's compliance with its statutory purposes and one that participates in the corporate governance of a GSE. Currently, OFHEO does neither and FHFB does both. Our past work on GSEs suggests that one regulator could oversee both compliance with the statutory purposes and the financial health of a GSE, provided that the regulator has no other responsibilities, such as corporate governance, that could create a conflict of interest in its oversight of the GSE. Our 1991 report on GSEs, which discussed the thrift crisis of the late 1980s and the thrift regulator at that time, showed that a regulator responsible for mission-related and safety and soundness oversight should not participate in the promotion or corporate governance of the entities being regulated.<sup>11</sup>

In the 1992 Act, Congress separated responsibility for mission regulation (in HUD) from safety and soundness (in OFHEO). There was no conference report explaining the rationale for the separation. Therefore, we reviewed House and Senate Committee reports on their respective bills that culminated in the final legislation. Although these reports differed in details, they generally indicated that the regulatory structure for OFHEO was designed to provide for effective supervision and oversight by a safety and soundness regulator sensitive to the GSEs' critical housing missions.<sup>12</sup>

<sup>10</sup>GAO/GGD-91-90, pages 29-31. In commenting on the 1991 report, Fannie Mae, Freddie Mac, and FHFB all agreed with our position that safety and soundness could not be effectively separated from statutory activities (mission). HUD took no position.

<sup>11</sup>GAO/GGD-91-90.

<sup>12</sup>See S. Rep. No. 102-282 at 12-14 (1992) (to accompany S. 2733, the "Federal Housing Enterprises Regulatory Reform Act of 1992"); H.R. Rep. No. 102-206 at 51-52 (1991) (to accompany H.R. 2900, the "Government-Sponsored Housing Enterprises Financial Safety and Soundness Act of 1991"). Congress did not hold a formal conference to reconcile these bills. The compromise resulting in the 1992 Act was added as Title XIII to the Housing and Community Development Act of 1992, Pub. L. No. 102-550, 103 Stat. 3672 (1992).

The reports indicated that Congress gave OFHEO exclusive authority over safety and soundness matters to ensure that the agency would have sufficient independence to develop and maintain a primary focus on GSE financial health and safety. The reports noted that GSE financial regulation would thus be immune from political pressures and programs competing for agency resources. On the other hand, the reports indicate that Congress realized the importance of maintaining a link between OFHEO and HUD to ensure that safety and soundness regulation would not undermine the integrity of the GSEs' programmatic missions. Accordingly, Congress established OFHEO as an office within HUD, and HUD retained general regulatory authority over the housing GSEs as well as specific authority over their housing goals requirements. The existing regulatory structure is one way to accomplish the objectives of maintaining a link with HUD and also having a safety and soundness regulator with sufficient independence. In addition, we discuss other options in the following sections.

### Combining Mission and Safety and Soundness Regulation Can Be Done Without Creating Conflicts of Interest

In the past, conflicts arose when the Federal Home Loan Bank Board, the FHFB's predecessor agency, functioned as the promoter and regulator for the thrift industry. Although Congress responded, in part, by enhancing the independence of the System's regulator, FHFB still participates in System business, which we have stated in previous work is inappropriate for a regulator and presents potential for conflict.<sup>13</sup> For example, FHFB is required to appoint six directors to each bank's board and approve applications for the Affordable Housing Program.<sup>14</sup>

FHFB has delegated some duties related to System business. However, the Chair of FHFB told us FHFB cannot fully delegate some of these duties, because they are assigned to FHFB in statute. For example, the law provides for banks to set bank directors' compensation subject to FHFB's approval.<sup>15</sup> Effective September 20, 1996, FHFB gave the banks authority to set bank directors' compensation but within certain reasonable limits.<sup>16</sup> Some FHLBank officials told us they disagree with the FHFB

<sup>13</sup>GAO/GGD-91-90 and GAO/GGD-94-38.

<sup>14</sup>The Affordable Housing Program Regulations are set forth at 12 C.F.R. Part 960. The Board's approval procedures are contained in 12 C.F.R. § 960.5. On June 25, 1997, FHFB delegated authority to approve Affordable Housing Program applications, within stated guidelines, to the FHLBanks effective January 1, 1998.

<sup>15</sup>12 U.S.C. § 1427(i).

<sup>16</sup>12 C.F.R. § 932.27. FHFB also has approval authority over the compensation of each bank president and sets salary ranges for bank officers. See 12 C.F.R. § 932.41.

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implementation of the statutes on some of these issues and believe these business matters should be fully delegated to the banks.

We found no reason to expect that combining mission and safety and soundness regulation in one arm's-length, independent regulator would necessarily create conflicts. Rather, our analysis indicates that a healthy tension should be created with the potential for balanced oversight. In addition, oversight by one regulator could facilitate congressional monitoring of the housing GSEs. Congress has an interest in monitoring the benefits taxpayers derive in exchange for the benefits granted to the GSEs.<sup>17</sup> According to some regulatory officials we spoke with, the tension caused by having both private and public characteristics would be best understood and accounted for by having a single regulator that has complete knowledge of financial condition, regulates the mission goals Congress sets, and assesses efforts to fulfill them in the context of the GSEs' financial health. This arrangement assumes a governing structure for the regulatory agency that includes people with expertise in safety and soundness and mission. We discuss different governing structures in subsequent sections of this report.

Further, the GSEs' charters provide some safeguards to help ensure proper balance in oversight. GSE charters acknowledge that economic considerations of the activities undertaken cannot be ignored, especially where special mission requirements are addressed. For example, Fannie Mae's and Freddie Mac's charters specify that as part of their purpose, they will provide "ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low-and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities)....[emphasis added]"<sup>18</sup> Similarly, the Federal Home Loan Bank Act (Bank Act) requires each bank to establish a program to fund members' community development lending and stipulates that advances for these programs "be priced at the cost of consolidated Federal Home Loan Bank obligations of comparable maturities, taking into account reasonable administrative costs. [emphasis added]"<sup>19</sup> The Bank Act is even

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<sup>17</sup>We estimated that the value of the federal sponsorship to Fannie Mae and Freddie Mac in 1995 ranged from about \$2.2 billion to \$8.3 billion on a before-tax basis and from about \$1.6 billion to \$5.9 billion on an after-tax basis. See [GAO/GGD-96-120](#), p. 6. Freddie Mac officials stated that they continue to believe, as mentioned in our 1996 report, that our estimates of the benefits associated with government sponsorship are overstated.

<sup>18</sup>12 U.S.C. §§ 1451 note, 1716.

<sup>19</sup>12 U.S.C. § 1430(i).

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more specific in providing that bank-required participation in the Affordable Housing Program should not contribute to financial instability.<sup>20</sup> It specifies grounds for suspending a bank's required contributions and requires FHFBS to notify Congress of such a suspension.<sup>21</sup>

Given the current financial strength of Fannie Mae and Freddie Mac and the overall economic environment, we determined that there should be little tension between mission compliance and safety and soundness concerns. At year-end 1996, Fannie Mae and Freddie Mac reported that they both complied with the affordable housing goals established by HUD and had return on equity of 24.4 and 22 percent, respectively. However, should economic conditions change for the worse, more tension could be created between mission-related compliance and safety and soundness as Fannie Mae and Freddie Mac try to provide acceptable returns to their shareholders while continuing to comply with HUD's goals. At year-end 1996, the FHLBank System reported return on equity of 8.3 percent and accrued \$120 million to help finance special housing needs for 1997 under its Affordable Housing Program.

When mission and safety and soundness regulation are performed by different regulators, even if activities are coordinated, there is the potential for the GSEs to try to pit the regulators against each other, according to some regulatory officials. In addition, possible conflicts between rulings on safety and soundness and mission, such as whether a GSE is financially able to meet certain special housing goals, could be better prevented with one regulatory body as decisionmaker. It seems that coordination between regulatory staff responsible for safety and soundness and those responsible for setting, monitoring, and enforcing compliance with the housing mission and special goals could be facilitated if staff were in the same agency. Also, having only one regulator to report to should simplify the GSEs' reporting. Finally, having one regulator responsible for safety and soundness and mission should preclude most misunderstandings about, or conflicts in, regulatory rulings.

For example, any review or approval of new activities or programs would involve only one GSE regulator. Currently, OFHEO has responsibility to determine the effect on safety and soundness of any new program

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<sup>20</sup>Congress required the FHLBank System to establish an Affordable Housing Program to help finance housing for households with very low, low, and moderate incomes. Each bank is required to contribute a set amount to the program annually. Beginning in 1995 and subsequent years, the amount is 10 percent of the preceding year's net income, or a prorated amount so that the aggregate contribution of the banks totals not less than \$100 million. 12 U.S.C. § 1430(j)(5).

<sup>21</sup>12 U.S.C. § 1430(j)(6).

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introduced by Fannie Mae or Freddie Mac.<sup>22</sup> HUD is responsible for approving new programs concerning conventional mortgages based on whether such programs are authorized by certain provisions of those GSEs' respective charter acts.<sup>23</sup> Pursuant to this responsibility, HUD and OFHEO have recently reviewed and did not object to a Fannie Mae proposal—a mortgage protection plan that includes an investment in cash value life insurance.<sup>24</sup>

Other financial institution regulators oversee both mission compliance and safety and soundness. For example, banks and thrifts have special mission-related obligations under the Community Reinvestment Act and a variety of consumer-oriented laws and regulations. Their respective regulators, the Office of the Comptroller of the Currency (OCC), the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (OTS), oversee performance in both mission and financial condition. So, too, does the Farm Credit Administration (FCA), regulator of the Farm Credit System—the GSE that provides credit to the agricultural sector of the economy.<sup>25</sup> According to some FHLBank System officials, because they believe their mission is adequately stated in statute, Congress is the appropriate entity to directly oversee compliance with their mission. This would not seem to us to be a practical alternative given Congress' many duties. In addition, Congress has indicated a preference for entrusting similar oversight responsibilities to other GSE and financial institution regulators.

Finally, combining mission and safety and soundness regulation would facilitate assessing Fannie Mae and Freddie Mac for the cost of overseeing their compliance with housing goals. In our previous reports on GSE oversight, we recommended that GSE regulators have authority to assess the GSEs for the costs of federal oversight. This practice would help ensure that the costs of regulation are borne by the GSEs that benefit from ties to the government. Further, imposing assessments helps ensure that funding for oversight is not constrained by competing federal responsibilities. Currently, the cost of Fannie Mae's and Freddie Mac's mission oversight is

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<sup>22</sup>Currently, OFHEO has explicit authority to determine whether a new program would risk significant deterioration of the GSE's financial condition. This authority expires 12 months after the effective date of the risk-based capital test OFHEO must promulgate as required by the 1992 Act. 12 U.S.C. § 4542(b)(2).

<sup>23</sup>HUD's approval authority for new programs is set forth at 12 U.S.C. § 4542.

<sup>24</sup>We addressed issues related to the mortgage protection plan and HUD's and OFHEO's responsibilities as part of an interim letter on our review of nonmortgage investment practices at Freddie Mac and Fannie Mae. See *Housing Enterprises: Investment Authority, Policies, and Practices* (GAO/GGD-97-137R, June 27, 1997).

<sup>25</sup>In a study completed in 1994, we found FCA to be an effective regulator. See *Farm Credit System: Farm Credit Administration Effectively Addresses Identified Problems* (GAO/GGD-94-14, Jan. 7, 1994).

borne by the taxpayer as part of HUD's budget. The cost of OFHEO's oversight is paid by Fannie Mae and Freddie Mac through annual assessments. The FHLBank System is assessed by FHFB for both safety and soundness and mission oversight.

## Advantages and Disadvantages of Having a Stand-Alone Independent Agency or an Independent Office Within an Executive Branch Agency

A single independent regulator for housing GSEs could be a stand-alone agency or an office within an executive branch agency, such as HUD or Treasury. Existing structures for financial regulators illustrate that either arrangement is plausible;<sup>26</sup> each has its advantages and disadvantages. One of the most important considerations in establishing a single housing GSE regulator would be to ensure that it has the independence and prominence that would allow it to act independently of the influence of the housing GSEs, which are large and politically influential institutions. If a GSE had more political clout and prominence than its regulator, it would be that much more difficult for the regulator to implement corrective action. We believe a stand-alone agency would best meet the criteria, which we established in past GSE reports, of independence and prominence in government.<sup>27</sup>

One of the primary advantages of creating a stand-alone agency, rather than an independent agency within a department, is that it should be better able to establish independence and be further removed from the potential political influence of a cabinet-level department. A stand-alone agency should also be in a better position to avoid potential conflicts in ensuring that regulation is carried out at arm's length, because it would not have a parent organization with its own particular interests. In addition, a stand-alone agency may be in a better position to ensure that safety and soundness and mission are more equitably overseen, because it would not be affiliated with a government department that has another focus, such as HUD.<sup>28</sup>

One disadvantage of having a stand-alone agency is that the administration may not be able to exercise direct control as easily over the agency even if there were a perceived need to do so in the public interest. A stand-alone agency would not have a formal relationship with a potentially powerful ally, such as a cabinet-level department, that could facilitate seeking

<sup>26</sup>Most regulators of financial institutions are stand-alone agencies; however, a few are independent offices within executive branch agencies.

<sup>27</sup>GAO/GGD-91-90 and GAO/GGD-94-38.

<sup>28</sup>Congress removed FCA from the Department of Agriculture in 1953 and established it as an independent agency to insulate it from political influence. See GAO/GGD-91-90.



assistance or other support. Further, a new stand-alone agency would probably be relatively small with no track record other than that of the predecessor agencies to rely upon and lend credibility to its actions. Although it would be larger than FHFB and OFHEO are individually, it might not immediately acquire the level of government prominence needed for overseeing Fannie Mae, Freddie Mac, and the FHLBank System. Nonetheless, a stand-alone agency structure for a combined regulator would probably have greater prominence than either FHFB or OFHEO individually.

The advantages and disadvantages of having a new regulator that is set up as an independent office within an executive branch agency would vary depending on the agency. HUD and Treasury would be the most appropriate agencies to be considered because of their roles in housing and finance. These roles are the basis for some advantages but also create the potential for conflicts. HUD is the principal federal department responsible for programs dealing with housing, community development, and fair housing opportunities. HUD's public policy focus on housing could serve to help ensure that the GSEs fulfilled their mission of supporting housing. Further, HUD has knowledge about the housing finance system that would be useful. Although OFHEO has functioned independently within HUD, establishing a new housing GSE regulator within HUD could create the potential for conflict with HUD's role as a housing promoter, unless the new regulatory office had at least the same level of independence as OFHEO. Having an office within HUD responsible for safety and soundness supervision may conflict with some partnership arrangements HUD has initiated with Fannie Mae, Freddie Mac, and other HUD-affiliated agencies, such as the Federal Housing Administration and the Government National Mortgage Association.<sup>29</sup> Finally, HUD's history of operational weaknesses and inefficiencies could taint the reputation and hamper the effectiveness of any office within it.<sup>30</sup> However, we have not reviewed OFHEO's relationship with HUD or potential impacts this arrangement may have on OFHEO's operations.

<sup>29</sup>The Federal Housing Administration is a federally sponsored agency that insures lenders against loss on residential mortgages.

The Government National Mortgage Association is a government-owned corporation within HUD that establishes secondary market facilities for residential mortgages, guarantees mortgage-backed securities composed of FHA-insured loans that are issued by private lenders, and increases the overall supply of credit available for housing by providing a vehicle for channeling funds from the securities market into the mortgage market.

<sup>30</sup>For additional information on our concerns with HUD's management and operations and HUD's ongoing plans for improvement, see High-Risk Series: Department of Housing and Urban Development (HR-97-12, Feb. 1997). On June 26, 1997, HUD announced a management reform plan—called HUD 2020—to stamp out fraud, waste, and abuse and improve performance.

If the office were created within Treasury, it could benefit from Treasury's financial expertise and prominence. A Treasury affiliation could also create more opportunities for coordination with OTS and OCC, both of which are independent offices within Treasury. OTS and OCC examiners and other staff could share expertise with the GSE regulator's staff. Currently, OFHEO supplements its examination staff with examiners from OCC. Finally, this affiliation would also reinforce the importance of safety and soundness oversight as the regulator's top priority to protect the government from risk should any GSE fail and would ensure that the GSEs remain strong enough to carry out their missions.

Having an office within Treasury also has several disadvantages. GSEs could be viewed as a Treasury competitor because they issue what could be viewed as competing debt, and Treasury could become a GSE creditor. Under these circumstances, its objectivity and arm's-length status could be questioned. This potential conflict stems from Treasury having two specific responsibilities relating to GSEs. First, Treasury is authorized to approve or disapprove the timing and terms of new GSE debt issuances.<sup>31</sup> Because GSE debt is part of the U.S. agency debt market, these issuances could compete in some way with Treasury's own debt securities. Second, Treasury is authorized to extend credit to the housing GSEs, among others. Specifically, the FHLBank System has a \$4 billion line of credit with Treasury, while Fannie Mae and Freddie Mac each have a \$2.25 billion line of credit. Use of the lines of credit is subject to Treasury's discretion, and, according to Treasury officials, there are no rules or guidelines governing situations when such credit may be granted. An additional disadvantage of establishing an independent office within Treasury is that this could strengthen the belief among GSE investors that their obligations have an implicit government backing.

## Board Versus Directorship

We considered both a board and a single director structure for governing a single regulatory agency and found that the board structure best fits our criteria for an effective regulator for many of the same reasons that a stand-alone agency is preferable to an executive branch agency. In fact, the stand-alone independent financial regulatory agencies—the Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, National Credit Union Administration, Securities and Exchange

<sup>31</sup>For years, Treasury scheduled GSE offerings to prevent timing conflicts among the GSEs that might prove to be disruptive to the government securities market. On March 8, 1996, however, Treasury eliminated its scheduling procedures for GSE securities offerings. GSEs have developed a voluntary, cooperative scheduling system that eliminated the need for Treasury's queuing process. Treasury's statutory authority to approve the timing and terms of GSE securities has not changed.

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Commission, and Commodity Futures Trading Commission—have boards or commissions. Among stand-alone GSE regulators, both FCA and FHFB are led by boards. In contrast, financial regulators, such as OCC, OTS, and, among the GSEs, OFHEO, which are executive branch agencies, are led by individual directors. Both structures have advantages and disadvantages, and their strengths can also be weaknesses depending on the context.

We believe one advantage would be that a new regulator led by a board would best be able to establish the requisite independence in government and would also allow Congress to provide balance for the regulator's decisionmaking body. For example, Treasury and HUD could be permanently represented on the board. Another advantage would be that the Secretaries, or their designees, would provide valuable experience in safety and soundness oversight, finance, and housing policy. They would also provide important links to the two government departments most affected by the GSEs' performance while affording a structure where any potential conflicts could be addressed. A chair could be appointed by the president with the advice and consent of Congress. A larger board could include a person with expertise in the low- and moderate-income housing fields. To help provide stability and political balance, terms could exceed 4 years and be staggered.

According to some officials with whom we spoke, one disadvantage in having a board is that it could be less efficient than a single director. Having a board necessarily involves consultation among its members directly or through staff. It is logical to assume that resulting inefficiencies would increase as board size increased. Thus, a small board can be more efficient than a large board. Unlike a directorship where there is a single person accountable, another disadvantage of a board structure is that it may make determining individual accountability for actions difficult. However, part of this potential inefficiency can be overcome by placing a presidentially appointed chair or chief executive officer in charge of daily operations of the agency and having other members of the board serve part time.<sup>32</sup> Another disadvantage of a small board structure is that it may face challenges in complying with the Government in the Sunshine Act, which generally requires meetings held by regulatory bodies to be public.<sup>33</sup> Because a meeting requires a quorum, the Government in the Sunshine Act

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<sup>32</sup>Whether board members should serve in a full- or part-time capacity is debatable. Opinions varied on whether part-time positions would attract more or less qualified candidates.

<sup>33</sup>See Pub. L. No. 94-409 (1976) 5 U.S.C. § 552b. The Government in the Sunshine Act requires that every agency meeting must be open to the public unless the meeting falls within a delineated exemption.

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can create a problem for three-member boards to the extent that discussions between two members could be subject to the Government in the Sunshine Act.

Other officials we spoke with view a directorship as a higher profile position than board membership and thought that this would be an advantage and make a director-led agency more prominent and ultimately lead to more qualified nominees for the position. Another advantage is that a director-led agency would establish a clear line of accountability. One possible disadvantage is that if the director were viewed as weak or inappropriately influenced by the regulatees, there is no means to bring balance to the oversight. Additionally, although vacancies on a board can impede oversight, a single-director structure has a more serious problem when the position is left vacant for long periods.<sup>34</sup>

Among the financial regulators, we could not find any examples of stand-alone agencies that were not headed by boards or commissions. It seems there are good reasons for these structures being linked. That is, although a stand-alone agency structure provides independence and prominence in government, the board structure has the advantages of allowing different perspectives, providing stability, and bringing prestige to the agency, as well as allowing Congress to provide balance for the regulator's decisionmaking body by requiring that members have certain expertise.

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## Other Issues

Creating a well-functioning regulator for housing GSEs cannot be achieved by simply merging the functions of OFHEO and FHFB, because regulatory issues would have to be addressed. In our 1991 report on GSEs, we identified the following issues as important. First, as mentioned in our discussion, if mission and safety and soundness oversight are vested in the same regulatory body, the regulator should not have a role, other than oversight, in the governance of corporate affairs of GSEs. Second, GSEs should be responsible for funding all of the costs associated with their federal oversight. Therefore, Fannie Mae and Freddie Mac should be paying for their mission-related oversight through assessments.

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<sup>34</sup>With respect to OFHEO, the 1992 Act provides that the Deputy Director shall serve as the acting Director in the event of the Director's death, resignation, sickness, or absence until the Director's return or the appointment of a successor by the president with the advice and consent of the Senate. 12 U.S.C. § 4512(e)(2). Statutory schemes also exist for filling vacancies and absences in other offices led by a Director. See 12 U.S.C. § 4 (OCC) and 12 U.S.C. § 1462a(c)(3) (OTS). Under the OCC provision, the First Deputy Comptroller would be first among the Deputy Comptrollers to succeed or act in the capacity of the Comptroller. Under the OTS provision, a vacancy is to be filled by presidential appointment, with the advice and consent of the Senate.

Third, the regulator should have all the powers and authorities granted other safety and soundness regulators. Specifically, it should have the authority to set rules that establish boundaries for safe GSE operations in order to protect the government's interest in achieving a GSE's public purpose. A regulator should also have the authority and responsibility to monitor and examine all GSE operations and have access to all GSE books and records. The purpose of this authority is to have an ongoing assessment of the financial health of each GSE and to ensure that its operations are advancing the purposes of its charter. The regulator needs the authority to establish capital standards to provide some assurance that an adequate buffer exists to absorb unforeseen losses and keep them from becoming taxpayer losses. Further, the regulator must have the authority to enforce regulations and capital requirements through enforcement actions. Finally, the regulator would need the authority to levy assessments to cover costs of supervision.

An additional issue that may need to be addressed is whether a new regulatory agency should be excluded from the appropriations process. Most financial institution regulators, including OFHEO and FHFB, assess the institutions they oversee for the cost of regulation. Thus, they are not funded from tax revenues and typically are not subject to appropriations. OFHEO, however, is subject to the appropriations process and, compared with other regulators, has less control over its resources. The appropriations process could subject the agency to budgetary pressures that could conflict with the agency's needs as a safety and soundness regulator. On the other hand, the appropriations process does provide an additional mechanism for Congressional oversight.

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## Agency Comments and Our Evaluation

On June 30 and July 1, 1997, we obtained oral comments on a draft of this report from senior officials responsible for GSE oversight at OFHEO, FHFB, HUD, and Treasury and from senior officials of Fannie Mae, Freddie Mac, and FHLBanks. Specifically, we met with OFHEO's Acting Director, Chief Economist, and Director of Congressional Relations; FHFB's Managing Director and Director of Congressional Relations; HUD's Director, Government-Sponsored Enterprises, Associate Deputy Assistant Secretary for Economic Affairs, Assistant General Council for GSES/RESPA Division, and Program Analyst; Treasury's Acting Director for the Office of Policy, Planning and Analysis and Economist from the Office of Financial Institutions; Fannie Mae's Director of Regulatory Policy; Freddie Mac's Director of Agency Relations, Director of Public Policy, Assistant General Council, and Vice President of Financial Research; Senior Vice Presidents

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from the FHLBanks of Atlanta, Boston, and San Francisco representing the Council of FHLBanks; FHLBank of Chicago's President and External Affairs Representative; and FHLBank of New York's President.

OFHEO, HUD, FHFB, Fannie Mae, and Freddie Mac officials noted that the current oversight arrangement is working well and they saw no compelling reasons for change. OFHEO officials noted that although in theory there is merit in creating a single regulator for the housing GSEs and in combining safety and soundness regulation, the current arrangement appears to be working well. To date, they said, coordination with HUD in reviewing new GSE programs has worked well. HUD officials also said that the relationship with OFHEO has been working well and provides appropriate coordination for avoiding unnecessary duplication. FHFB officials added that if changes were to be made, they would prefer an oversight arrangement that combined safety and soundness with mission oversight in one independent regulatory body. We have not studied the regulatory effectiveness of FHFB, OFHEO, or HUD, or the effectiveness of coordination between OFHEO and HUD. Therefore, we have no position on the effectiveness of the current regulatory oversight of the housing GSEs. However, our experience in studying the regulation of financial institutions has shown that it is best to make improvements in regulatory oversight before crises occur and the government is forced to make quick and costly decisions.

FHFB, Fannie Mae, and Freddie Mac officials said they doubted that efficiencies or cost savings could be achieved by creating a single regulator. In addition, Fannie Mae and Freddie Mac officials said any change would be disruptive without providing the benefits contemplated. We do not claim that significant costs could be saved by creating a single regulator, although some costs could be saved by combining administrative functions. However, as we note in the report, the more important efficiencies to be attained relate to sharing of expertise and synergies that could be created among examinations staff and other technical experts.

OFHEO officials said they believe OFHEO has established a strong record as an independent regulator. They agreed with the report's observations on the appropriations process and expressed some concern that a GSE could attempt to use the appropriations process to change a regulator's budget or influence a regulatory decision. They noted, and we agree, that addressing this issue would not require making an organizational change in the housing GSE regulators.

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HUD officials criticized the report for not adequately reflecting regulatory changes made since the 1992 Act became effective or how well the current structure is working in regard to Fannie Mae and Freddie Mac. They felt that their efforts in establishing affordable housing goals were largely unacknowledged in the draft. The regulatory changes made since 1992 were described in the background section of the draft. We added a reference to some of our previous work that addressed HUD's efforts in establishing affordable housing goals (see pp. 2 and 3). We note that the current report was not intended to evaluate those efforts or HUD's performance.

In addition, HUD officials pointed out that their expertise goes beyond housing finance. They also questioned whether an independent regulator would have as much stature as a cabinet-level agency. We specifically noted that a board structure would provide the opportunity for HUD's expertise to be represented by including the Secretary of HUD. A board, we noted, would also provide different perspectives, prestige, and stability for a GSE regulator. We also pointed out that a potential disadvantage of an independent agency was that it lacks the backing of a cabinet-level agency.

Both Fannie Mae and Freddie Mac officials emphasized that they believe that the differences in the mission, structure, and operations of their businesses and the FHLBank System make the application of our principles regarding a single housing GSE regulator inappropriate. System officials had mixed views on this issue. As we noted in our draft, although the GSEs operate differently, there are similarities in the risks they manage and in their missions. We believe the housing GSE regulators would be more effective if combined and authorized to oversee both safety and soundness and mission compliance and that such a combined regulator could take into account differences in operations.

The Council did not have a position on creating a single housing GSE regulator or whether safety and soundness and mission compliance oversight should be vested in the same regulatory entity. It raised the issue of whether there should be an oversight mechanism for the regulator. We note that Congress performs a general oversight role and it typically has provided us the authority to audit and review GSE regulators in its behalf. Another vehicle for congressional oversight is inspectors general. The Chicago and New York bank officials generally agreed with our report.

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The Department of the Treasury does not have a position on whether a single housing GSE regulator should be created, according to officials with whom we spoke.

All officials provided some technical comments that we incorporated in the text as appropriate.

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As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 10 days after the date of this letter. At that time, we will distribute copies of the report to the Ranking Minority Member of your Subcommittee; the Chairman and Ranking Minority Member of the Subcommittee on Financial Institutions and Regulatory Relief, Senate Banking Committee; the Acting Director of OFHEO; the Chairman of FHFB; the Secretary of the Department of Housing and Urban Development; the Secretary of the Treasury; Fannie Mae; Freddie Mac; the FHLBanks; and other interested parties. Copies will also be made available to others upon request.

Major contributors to this report are listed in the appendix. If you have any questions about the report, please call me or M. Kay Harris on (202) 512-8678.

Sincerely yours,



Jean Gleason Stromberg  
Director, Financial Institutions  
and Markets Issues



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# Contents

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<b>Letter</b>	1
<b>Appendix Major Contributors to This Report</b>	26
<b>Related GAO Products</b>	28

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## Abbreviations

FCA	Farm Credit Administration
FHFB	Federal Housing Finance Board
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
GSE	government-sponsored enterprise
HUD	Department of Housing and Urban Development
MBS	mortgage-backed securities
OCC	Office of the Comptroller of the Currency
OFHEO	Office of Federal Housing Enterprise Oversight
OTS	Office of Thrift Supervision

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# Related GAO Products

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Housing Enterprises: Investment, Authority, Policies, and Practices ([GAO/GGD-97-137R](#), June 27, 1997).

Comments on “The Enterprise Resource Bank Act of 1996” ([GAO/GGD-96-104R](#), June 27, 1996).

Housing Enterprises: Potential Impacts of Severing Government Sponsorship ([GAO/GGD-96-120](#), May 13, 1996).

Letter from James L. Bothwell, Director, Financial Institutions and Markets Issues, GAO, to the Honorable James A. Leach, Chairman, Committee on Banking and Financial Services, U.S. House of Representatives, Re GAO views on the “Federal Home Loan Bank System Modernization Act of 1995” (B-260498, Oct. 11, 1995).

FHLBank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness, [GAO/T-GGD-95-244](#), Sept. 27, 1995.

Housing Finance: Improving the Federal Home Loan Bank System’s Affordable Housing Program ([GAO/RCED-95-82](#), June 9, 1995).

Government-Sponsored Enterprises: Development of the Federal Housing Enterprise Financial Regulator ([GAO/GGD-95-123](#), May 30, 1995).

Farm Credit System: Repayment of Federal Assistance and Competitive Position ([GAO/GGD-94-39](#), March 10, 1994).

Farm Credit System: Farm Credit Administration Effectively Addresses Identified Problems ([GAO/GGD-94-14](#), Jan. 7, 1994).

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Government-Sponsored Enterprises: A Framework for Limiting the Government’s Exposure to Risks ([GAO/GGD-91-90](#), May 22, 1991).

Government-Sponsored Enterprises: The Government’s Exposure to Risks ([GAO/GGD-90-97](#), Aug. 15, 1990).

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