THE REPUBLICAN STUDY COMMITTEE

Financial Services Working Group

Congressman Jim Jordan (R-OH), RSC Chairman
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WEEKLY UPDATE

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In This Newsletter:
- The House is scheduled to Consider Conference Report for H.R. 2112 which Includes Extension of FHA Conforming Loan Limits
- Financial Services Committee Votes to Stop Future Bonuses for Fannie and Freddie
- Repealing Dodd-Frank Provisions that Hurt Businesses

The House is scheduled to Consider Conference Report for H.R. 2112 which Includes Extension of FHA Conforming Loan Limits

On November 17, 2011 the House will consider the conference report to H.R. 2112. The Conference report will extend the maximum loan limit rules, which expired six weeks ago, that had been in place under the American Recovery and Reinvestment Act of 2009 (ARRA) and it will reinstate the loan limits from the date of enactment through December 31, 2013. The reinstated formula would allow the maximum loan limit for all FHA loans (excluding Home Equity Conversion Mortgage reverse mortgages) be the greater of either:

- the Economic Stimulus Act (ESA) limit
  - the *lesser* of 125 percent of Area Median Home Price (AMHP) for that year or $729,750, provided that amount is not less than $271,050,
- the Housing and Economic Recovery Act (HERA) limit
  - the *lesser* of 115 percent of AMHP for that year or $625,500, provided that amount is not less than $271,050.

FHA was created in 1934 (and became a part of the Department of Housing and Urban Development—HUD—in 1965) to provide mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA mortgage insurance provides lenders with protection against losses as the result of homeowners defaulting on their mortgage loans. The lenders bear less risk because FHA will pay **100 PERCENT of** a claim to the lender in the event of a homeowner's default. Loans must meet certain requirements established by FHA to qualify for insurance. These loan requirements are known as **conforming mortgages** or mortgages that meet their underwriting standards. The FHA insures mortgages on single family, multifamily, and manufactured homes and hospitals. The FHA is reportedly the largest insurer of mortgages in the world, having insured over 40 million properties since its inception.

Those who support the policy claim that restoring the mortgage loan limits help stabilize the mortgage markets and restoring the loan limits will provide consumers in all markets access to safe, affordable mortgage financing. Many conservatives are concerned that the FHA is significantly undercapitalized and reinstating the conforming loans limits will put taxpayers at risk of having to bail out FHA if the housing market continues to negatively grow. FHA recently released reports stating that the Agency only has a 0.24% capital reserve – resulting in a leverage ratio of 422-to-1 – and estimates that "the chance that future net losses on the current, outstanding portfolio could exceed current capital resources is close to 50 percent."

Financial Services Committee Votes to Stop Future Bonuses for Fannie and Freddie

On November 15, 2011, the House Financial Services Committee overwhelmingly approved H.R. 1221 by a vote of 52-4. The legislation would suspend the pay packages for executives of Fannie Mae and Freddie Mac and transfer the executives and the employees of the GSEs to the Federal pay scale. According to the Financial Services Committee, recently:

> "the Federal Housing Finance Agency announced the CEO of Fannie Mae received $5.6 million in compensation and the CEO of Freddie Mac received $5.4 million. Since their bailout Fannie and Freddie have received approximately $170 billion in taxpayer dollars. While the GSEs have continued to report losses and receive additional bailout money, the executives of the companies have received millions in compensation and bonuses. On Christmas Eve 2009, Treasury and FHFA ratified $42 million worth of Wall Street-style pay packages for the GSEs' 12 top executives. In 2010, FHFA approved similar pay packages. According to its SEC 10-K filings, Fannie Mae paid its top six executives $15.4 million in salaries and bonuses. Fannie Mae CEO Michael Williams earned $5.6 million. Freddie Mac paid its top five executives nearly $18.5 million. Freddie Mac CEO Charles E. Haldeman, Jr. was paid $5.4 million. Earlier this month it was revealed that Fannie and Freddie would award $12.8 million in bonuses to the top executives."

Repealing Dodd-Frank Provisions that Hurt Businesses

The Dodd-Frank Act implemented 400 new rules that Democrats argued would strengthen the economy, stabilize the housing market, and streamline the regulatory process. Over one year later, it has become evident that some of the rules have further hurt small business growth and contributed to a slow economic recovery. RSC Members like Reps. Hurt (R-VA) and Grimm (R-NY) have proposed bills to help businesses by repealing some of the Dodd-Franks provisions that have been costly for businesses and have prevented businesses from creating jobs. Below is a summary of two good pieces of legislation that help businesses.

Dodd-Frank Provision:
The Dodd-Frank Act directs the SEC to reward whistleblowers between 10 and 30 percent of the monetary sanctions imposed. Prior to the Dodd-Frank Act, the SEC could reward whistleblowers but was not obligated to.

Whistleblower Improvement Act of 2011 (Rep. Grimm, R-NY)
H.R.2483 would make the whistleblower award discretionary instead of mandatory, and it repeals the minimum award requirement. The legislation also amends the Securities Exchange Act of 1934 and the Commodity Exchange Act to require a whistleblower employee, as a prerequisite to eligibility for a whistleblower award, to: (1) first report information relating to misconduct to his or her employer before reporting it to the Securities and Exchange Commission (SEC), and (2) report such information to the SEC within 180 days after reporting it to the employer.

Dodd-Frank Provision:
According to the Committee Report, Title IV of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) (Public Law 111-203) requires most advisers to private investment funds--including advisers to private equity funds--to register with the U.S. Securities and Exchange Commission (SEC). Private equity funds, however, neither caused nor contributed to the financial crisis, and requiring advisers to these funds to register with the SEC--at an estimated cost of $500,000 per fund--needlessly diverts capital, time, and effort from investment activities that could be creating jobs. Rather than using these resources to create jobs, private equity funds will use them to comply with these new regulatory mandates that impose costs without reducing systemic risk.

Small Business Capital Access and Job Preservation Act (Rep. Hurt, R-VA)
H.R. 1082 Small Business Capital Access and Job Preservation Act amends the Investment Advisers Act of 1940 to exempt private equity fund investment advisers from its registration and reporting requirements, provided that each private equity fund has not borrowed and does not have outstanding a principal amount exceeding twice its invested capital commitments. The legislation directs the Securities and Exchange Commission (SEC) to promulgate final rules that: (1) require such investment advisers to maintain records the SEC determines necessary, taking into account fund size, governance, investment strategy, and risk; and (2) define the term "private equity fund" for purposes of this Act.

Question or comments regarding RSC Financial Services Working Group items can be directed to Ja'Ron K. Smith, Ja'Ron.Smith@mail.house.gov.