THE REPUBLICAN STUDY COMMITTEE

Financial Services Working Group

Congressman Jim Jordan (R-OH), RSC Chairman
Congressman Randy Neugebauer (R-TX), FSWG Chairman

WEEKLY UPDATE

13 April 2011

The Financial Services Working Group (FSWG) is comprised of Randy Neugebauer, 19th, TX; Jim Renacci,16th, OH; Jeb Hensarling, 5th, TX; Sean Duffy, 7th, WI; Tim Scott, 1st, SC; Randy Hultgren, 14th, IL; Francisco Canseco, 23rd, TX; Joe Walsh, 8th, IL; Tim Griffin, 2nd, AR, Peter Roskam, 6th, IL; and Steve Stivers, 15th , OH. We look forward to providing RSC members updates on Financial Services issues and matters using this forum. We welcome your inputs.

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CFPB Audits/Study Provision in CR

The text of the proposed Continuing Resolution for FY 2011 (H.R. 1473) has now been posted on the Rules Committee website. The CFPB audit provision appears in the document at pp. 257-59 (section 1573). What follows is a short summary of the provision:

Section 1573 subjects the Consumer Financial Protection Bureau (CFPB) to two annual audits and an annual study. The first audit requires an annual independent review of the CFPB's operations and budget. The CFPB will choose the independent firm that conducts the study. The second annual audit requires the GAO to review the CFPB's financial statements to ensure compliance with generally accepted government accounting standards.

The annual study requires GAO to issue a report to Congress regarding the impact of regulation on the financial marketplace, including activities of the CFPB. This review includes studying the (1) effects on the safety and soundness of regulated entities, (2) cost and availability of credit, (3) savings realized by consumers, (4) reductions in consumer paperwork burden, (5) changes in personal and small business bankruptcy filings, (6) costs of compliance with rules, including whether relevant Federal agencies are applying sound cost-benefit analysis in promulgating rules, and (7) what efforts are being made to avoid duplicative or conflicting rulemakings, information requests, and examinations. Within thirty days of the study's completion, GAO must issue a report to Congress containing a detailed description of its findings, conclusions, and recommendations for legislative or administrative action.

The initial audits and study must be completed within 180 days of the enactment of the Continuing Resolution and annually thereafter.

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Bureau of Consumer Financial Protection Accountability and Transparency Act of 2011 (Rep. Neugebauer)

The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), which officially opens its doors this July, but has already begun playing an active role in regulating financial institutions. The CFPB, as envisioned by Rep. Barney Frank, is housed in, and is also funded by, the Federal Reserve. This effectively eliminates any opportunity for Congress to conduct any oversight what so ever of the CFPB and its actions. Congressman Neugebauer's bill would bring the CPFB out of the shadows of the Fed and move it inside the Department of the Treasury. This move would allow Congress to carry out its oversight responsibilities, and also would restore the "power of the purse" by bringing the CFPB into the regular appropriations process.

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The GSE Bailout Elimination and Taxpayer Protection Act (Rep. Hensarling)

- Legislation applies only to Fannie Mae and Freddie Mac (the "GSEs").
- Establishes a finite end to the GSEs' conservatorship 2 years from the date of enactment.
- Immediately implements several fundamental GSE reforms to protect taxpayers:
    - Repeals of the GSEs' misguided affordable housing goals mandate and the Affordable Housing Trust Fund;
    - Starts shrinking the size of the GSEs by capping their maximum portfolio size at $700 billion and gradually reducing that cap to $250 billion over five years;
    - Reduces the GSEs' market share by returning the conforming loan limit to its pre-housing crisis standard limit of $417,000;
    - Increased guarantee fees ('G-Fees'), to eliminate the GSEs' competitive advantage and bring more private capital into the market; and
    - A prohibition on any reduction to the senior preferred stock dividends the GSEs contractually agreed to pay taxpayers under their conservatorship.
- Upon the end of the conservatorship, the Federal Housing Finance Agency (FHFA) must evaluate the financial viability of each GSE. If it is determined *not* to be viable, the FHFA would follow the procedure laid out by the Housing and Economic Recovery Act of 2008 (P.L. 110-289) for placing that GSE into receivership.
- If determined to be viable, the GSE would be allowed to resume limited market operations under its own control for a maximum of three (3) years, with the following new rules:
    - Enhanced authority for FHFA to adjust the minimum capital requirements for the GSEs as appropriate, mirroring the existing capital adequacy requirements other regulators already have in place for banks (12 U.S.C. 3907);
    - A minimum down payment requirement of at least 5 percent for all new loans, increasing to 7.5 percent in the second year and 10 percent by the third year, to increase the quality of all loans touched by the GSEs;
    - Repeal of the GSEs' exemption from having to pay state and local taxes, to remove one of the distinct advantages of being a GSE; and
    - Repeal of the exemption allowing GSE securities to avoid full SEC registration.
- At the end of that 3 year period, each GSE's charter expires. At that point, Fannie and Freddie must conduct all new operations as fully private sector companies competing on a level playing field without any government advantages.
- Provides for the orderly wind down of any legacy business commitments post-charter expiration over a 10 year period following the model successfully used in the Sallie Mae transition from GSE to a private company (P.L. 104-208).

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