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Statement of the Shadow Financial Regulatory Committee

On

**The Registration of Mortgage Backed Securities of Fannie Mae and
Freddie Mac**

February 24, 2003

A recent report by a joint task force of the Treasury Department, the Office of Federal Housing Enterprises Oversight (OFHEO), and the Securities and Exchange Commission (SEC) recommended that the two housing Government Sponsored Enterprises (GSEs)—Fannie Mae and Freddie Mac—disclose more information about the composition of the mortgage pools that underlie their mortgage-backed securities (MBS). This additional information—which consists of more data about the mortgages in the pool—is similar to but not as extensive as the information required of non-GSE private issuers of MBS. The task force found that this disclosure, which was not provided in the past, would improve the efficiency of the markets by enabling investors to make more informed judgments about the risks of particular MBS.

In response to the recommendations of the task force, Fannie and Freddie have agreed to provide the suggested information voluntarily. The Shadow Committee views this as an important step forward, but the Committee believes that it does not go far enough. Last year, a bill introduced in Congress by Congressmen Shays and Markey would have repealed all of the GSEs' exemptions from the securities laws. In opposing this bill, Fannie and Freddie argued that requiring them to register their MBS with the SEC—and to make the disclosures that registration would require—would disrupt the markets and raise interest rates. The task force report rejects these arguments, and the GSEs now seem to have abandoned them. Therefore, the Committee believes that Congress should now proceed to reconsider the Shays-Markey bill.

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Requiring SEC registration would subject Fannie and Freddie to the same legal responsibilities required of other public companies. In particular, by subjecting them to the strict liability associated with issuing securities under the Securities Act of 1933, registration would assure investors as to the reliability of the information provided.