SFC Structured Finance Coalition

Congressional Insiders Club

MEMBER SPOTLIGHT

Rep. French Hill (R, AR-2)

Congressman French Hill represents Arkansas' 2nd Congressional District, which covers the central part of the state. Before being elected to Congress in 2014, he was actively engaged in the Arkansas business community for two decades as a commercial banker and investment manager. He was founder, chairman, and chief executive officer of Delta Trust & Banking Corp., which was headquartered in Little Rock and recently merged with Arkansas-based Simmons First National Corp. Prior to his community banking work in Arkansas, Rep. Hill served as Deputy Assistant Secretary of the Treasury for Corporate Finance and Executive Secretary to the President's Economic Policy Council in the administration of President George H.W. Bush. After the fall of the Berlin Wall, Rep. Hill led the design of U.S. technical assistance to the emerging economies of eastern and central Europe in the areas of banking and securities.

In Congress, Rep. Hill serves on the House Financial Services Committee ("HFSC") where he works on two Subcommittees: Investor Protection, Entrepreneurship and Capital Markets and National Security, International Development and Monetary Policy. Rep. Hill is also the Ranking Member of the newly formed HFSC Task Forces on Financial Technology and Artificial Intelligence.

What role should the Federal government play in housing finance, specifically as it relates to the Government Sponsored Enterprises (Fannie Mae and Freddie Mac)?
In 1938, the original mission of Fannie Mae, and later Freddie Mac, was to provide liquidity in the mortgage market and promote investment in residential construction. At the time of Freddie Mac's creation in 1970, former Federal Reserve Chair Arthur Burns, expressed concern about creating another federal entity to deal in "conventional mortgages" organized by members of the Home Loan Banks. He questioned whether or not the "public benefits" would "outweigh the costs." Chairman Burns prescient concerns proved true. Poor management of the GSEs has led to conservatorship in order to prevent their failure from the housing market implosion. The conservatorship marked the beginning of a government bailout that cost taxpayers billions of dollars. American taxpayers should not be on the hook for these bailouts. Many agree that the current government dominated system of mortgage finance is not sustainable.

Now that Fannie Mae and Freddie Mac are in their 10th year of Conservatorship, what is Congress' role in determining their future, and how does that interact with the role currently being played by regulatory agencies like the FHFA?
Almost 30 years ago, I wrote an op-ed in *The Dallas Morning News*, criticizing GSEs for straying away from their original affordable housing mission. In that piece, I called on the 100th Congress to "re-evaluate the need to expand the role of these federally sponsored housing agencies." And here we are, three decades later, still having the same conversation. Fannie Mae and Freddie Mac have pushed the boundaries of their charter at the expense of

the taxpayer which hurts the American people and stymies the private sector. The GSEs have ventured into new activities and product offerings that have raised questions and concerns regarding their proper role in the market. Examples include the unfair access to pilot programs, lines of credit to nonbanks, and lobbying members of Congress. They don't just provide secondary market liquidity to the mortgage market. They dominate the market. Congress must ensure the GSEs are executing their mission within the confines of their charter.

Where do rules, regulations, and regulatory oversight in the housing finance market need to be strengthened? Where should they be pared back or right-sized?
I applaud the credit risk transfer program that Fannie Mae and Freddie Mac have been implementing. However, that program is only used for a small portion of the GSEs' obligations. When Director Watt addressed the American Mortgage Conference in 2017 he stated that the that the GSEs "have transferred a meaningful portion of credit losses on a combined $1.4 trillion in mortgages, with a risk in force of about $49 billion." That all sounds great until you realize that the $49 billion in credit risk that the GSEs have successfully transferred is only equal to approximately 1.2 percent of the GSEs overall portfolios as outlined in the chart. The GSEs should continue to increase their portion of risk transferred. Further, one must also exercise caution on the optimistic moniker "risk transfer." Rules on the use should result in real measurable risk removed from the backs of taxpayers in a material way.

How do we encourage the flow of private capital within the housing finance market so that, in the event of an economic downturn, taxpayers are not on the hook for future losses?
In his first public policy discussion as director of the Federal Housing Finance Agency, Mark Calabria argued that a strong capital position will determine the future for Fannie Mae and Freddie Mac, eventually helping to lead them out of conservatorship. Additionally, the White House memorandum on reforming the U.S. housing finance system rightly focuses on, "reducing taxpayer risks, expanding the private sector's role, modernizing government housing programs, and making sustainable home ownership for American families our benchmark of success." Ultimately, the failed GSEs require a complete restructuring, private sector enhancement, and more secondary market competition to evade the current oligarchy which can limit options available to homeowners. These actions are essential to protecting taxpayers and ensuring they are not on the hook from future losses.

What role should the legislative branch play in ensuring healthy and robust capital markets for American families and businesses?
The lighter the touch the better. History has proven that Congressional action usually consists of looking back at the most recent problem while attempting to appear proactive in preventing the next problem. I believe strongly in a well-capitalized private market subjected to rigorous, functional, regulatory oversight. America's greatest contribution to the economic well-being of its own citizens, and of much of the rest of the world, has been the development of efficient, diverse capital markets. They have been the very engine that drives economic growth, innovation, and prosperity. Instead of enacting wide-ranging, one-size-fits-all mandates, Congress should listen to industry stakeholders and enact targeted regulations only when necessary.

What do you think are the most important aspects of the recently passed financial regulatory reform package, from the perspectives of economic growth and US consumers' access to credit?
The Dodd-Frank Act placed undue burdens on consumers, entrepreneurs, small businesses, and our community banks. I witnessed the pernicious effects of this law firsthand as the chief executive of a locally-owned community bank in Little Rock, Arkansas. The regulatory

requirements for smaller financial institutions created unreasonable burdens making it exceptionally difficult for them to provide consumers and small businesses with competitive services and access to credit. Due to the Dodd-Frank Act's over correction of the market, the U.S. witnessed some of the lowest business formation rates since the Carter Administration. For commerce to grow and thrive, our capital markets and commercial banking system must be treated as our first Treasury Secretary, Alexander Hamilton, described as "nurseries of national wealth" instead of government-directed utilities. I was pleased with many of the additional reforms created by S. 2155 which better directed parts of the Dodd-Frank Act while keeping the portions that were working effectively. It proposed reducing moral hazard by requiring high levels of tier-one leverage capital, while giving community banks the regulatory flexibility they need. Additionally, it excluded banks with less than $10 billion in assets from the Volcker Rule.

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