

May 15, 2014

The Honorable Timothy Johnson
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Michael Crapo
Ranking Minority Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Re: S. 1217, the Housing Finance Reform and Taxpayer Protection Act of 2014

Dear Chairman Johnson and Ranking Minority Member Crapo:

I am writing on behalf of the Investment Company Institute* to express support for your efforts to reform and update our nation's housing finance system. ICI continues to support Congressional efforts to reform housing finance in a manner that protects the mortgage-backed securities (MBS) markets and those that invest in MBS, including registered investment companies. Registered funds, including mutual funds, are one of America's primary savings and investment vehicles for middle-income Americans, which they rely upon to save for college and retirement and meet other important financial goals. As of December 31, 2013, registered funds held approximately 13 percent of the outstanding agency and agency-backed MBS in the market, much of which are MBS guaranteed by, and debt securities issued by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the GSEs).

We commend you for working to protect the interests of existing GSE debt holders. S. 1217, the Housing Finance Reform and Taxpayer Protection Act of 2014 (Senate Bill) provides that existing debt obligations issued or guaranteed by the GSEs would be backed with the full faith and credit of the United States throughout the contemplated wind-down of the GSEs. Current investors, including registered funds, hold these debt securities with the understanding that they are backed by the U.S. government and that housing finance reform will not affect the terms of currently outstanding securities. Interfering with these expectations would introduce significant uncertainty into the market and would likely result in declines in the market values of these securities, which would be borne by, among others, millions of Americans who invest in these securities through mutual funds. It is imperative that any final legislation passed by Congress continue to uphold this important principle.

* The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$16.8 trillion and serve more than 90 million shareholders.

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We also strongly support the provisions in the Senate Bill that promote the issuance of standardized MBS, backed by mortgage loans that must satisfy certain requirements. Establishing and maintaining MBS standardization is critical to ensuring liquidity, transparency and confidence in the MBS markets. Moreover, MBS standardization promotes the efficient operation of the to-be-announced (TBA) market, which is a key component of a properly functioning housing finance market.

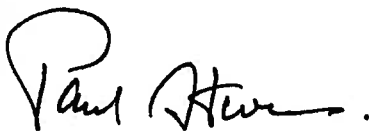
An additional issue we would like to highlight that is not addressed in the Senate Bill relates to eminent domain. We are greatly concerned by proposals being considered in certain parts of the country whereby municipalities would use their eminent domain powers to seize mortgage loans with values in excess of the properties that secure them and refinance the loans through federal programs, resulting in losses for the holders of the seized mortgage loans. While we support a broad range of programs to help struggling homeowners, we believe that using eminent domain in this way would create considerable legal and financial uncertainty, adversely affect values of MBS, disrupt MBS markets, and ultimately harm the housing markets and the communities that such proposals are ostensibly designed to help.

If the contractual agreements between borrowers and lenders can be so easily abrogated by local governments, lenders and investors will be reluctant to provide future funding to the housing markets. We note that H.R. 2767, the Protecting American Taxpayers and Homeowners Act of 2013, contains provisions designed to prevent the GSEs from purchasing or guaranteeing mortgage loans originated in municipalities where such eminent domain practices have been employed. We encourage the Committee to consider similar measures that would protect the mortgage and housing markets from this use of eminent domain.

We appreciate the Committee's work on these matters, and we look forward to working with the Committee to achieve these objectives.

With very best regards.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Schott Stevens". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul Schott Stevens
President and CEO
Investment Company Institute

cc: Members of the Senate Banking Committee