

FINANCIAL MARKETS AND COMMUNITY INVESTMENT

Rapid advancements in technology and the easy movement of intellectual and financial capital across borders have increased economic interdependence, which has important implications for the economic well-being of the American people. At the same time, healthy and vibrant communities are vital to the quality of life of our citizens and are dependent on sustainable economic growth. Financial Markets and Community Investment assists the Congress in finding ways to take advantage of the opportunities of these global market forces while mitigating the risks and the negative effects on certain communities and segments of the population.

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*Financial Markets and
Community Investment*

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DESCRIPTION OF

Our work covers the activities of the Securities and Exchange Commission (SEC), Federal Reserve, Commodity Futures Trading Commission, Small Business Administration (SBA), Federal Housing Administration (FHA), Department of Commerce, the regulators of depository institutions, government-sponsored enterprises, and other agencies involved in financial markets and community investment. We review the effectiveness and efficiency of agency operations and examine the extent to which they are achieving desired outcomes.

Our work includes

- assessing risks and benefits in federal mortgage assistance programs;
- developing a strong small business and community base; and
- assessing the financial services industry and its regulators from the perspective of efficiency, stability, and customer access and protection.

IMPACT OF

Our work helped the Congress craft portions of the Gramm-Leach-Bliley Act of 1999, which modernized the financial services industry by (1) facilitating affiliation among banks, securities firms, and insurance companies and (2) preserving important roles for the Federal Reserve and the Department of the Treasury in overseeing banking activities.

Our evaluations helped the Congress push the securities industry and its regulators to price and trade securities in dollars and cents rather than fractions. In addition, securities regulators (1) implemented our recommendations to provide investors information they need to understand the risks and rewards of day trading and online trading and (2) took steps that will improve the fairness of arbitration.

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IMPACT OF

OUR WORK

Our review of fair lending oversight resulted in improved coordination and communication among responsible federal agencies. For example, these agencies developed and adopted uniform fair lending examination procedures. Also, federal agencies established procedures to better ensure that fair lending issues are considered during mergers of large bank holding companies.

We identified challenges the SEC faced in combating securities fraud in Internet transactions. As a result, the SEC dedicated additional resources to upgrade its technical expertise to fight Internet-related crimes.

Our work has improved federal oversight of government-sponsored enterprises — such as Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, and the Farm Credit System — helping to ensure their safety and soundness and compliance with statutory missions.

Our analysis of an 8-year-long investment fraud and related regulatory weaknesses led to significant changes in the insurance regulatory system and increased coordination among federal agencies and state insurance regulators. In addition, several organizations have asked us to provide information to help ensure that a similar fraud is not repeated.

Our work on the Small Business Administration's 8(a) business development program provided the Congress and SBA with the first ever customer feedback on the program and insights into its information systems weaknesses. As a result of our work, SBA is making changes that will give it far better information on program performance and will allow SBA to better target business development and procurement assistance to the needs of individual 8(a) firms.

HIGHLIGHTS OF RECENT and

Financial Services

- Assess International Monetary Fund and World Bank roles in helping Russia reform its economy
- Review regulatory oversight of listing standards for "small cap" stocks
- Assess implications of investor confusion about insurance coverage provided by the Securities Investor Protection Corporation, the Federal Deposit Insurance Corporation, and state insurance guaranty funds
- Review efforts to facilitate equity capital formation of small businesses
- Identify challenges federal regulators faced in implementing risk-based examination programs for large, complex banks
- Evaluate the effectiveness of state insurance regulators in performing their role as the functional regulators of insurance activities in financial institutions

Housing Finance

- Evaluate changes to strengthen oversight of the Federal Home Loan Bank System
- Assess the adequacy of FHA's reserves in protecting its insurance fund against unexpected losses
- Improve oversight of Fannie Mae and Freddie Mac

Community Investment

- Identify similarities of federal economic development programs
- Examine the role of the Federal Reserve System's community reinvestment review in large bank holding company mergers

Small Business

- Review SBA's efforts to help 8(a) firms obtain contracts, track needs, and measure success
- Identify needed improvements in SBA's oversight of its loan guarantee lenders