

**OPENING STATEMENT OF
CHAIRMAN PAUL E. KANJORSKI**
**SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES**
**HEARING ON LEGISLATIVE PROPOSALS ON
GOVERNMENT SPONSORED ENTERPRISE REFORM**
MONDAY, MARCH 12, 2007

We meet this afternoon to examine once again how best to regulate the housing government sponsored enterprises, or GSEs. The debates on GSE regulatory reform began 7 years ago this month in 2000 when we held a hearing on H.R. 3703, the Housing Finance Regulatory Improvement Act.

In every session of Congress since then, the House has had at least one regulatory reform bill under consideration. The Financial Services Committee has also held dozens of hearings on these matters over the years, and we have heard from scores of witnesses. These hearings, as well as external events like the financial reporting problems at the GSEs, have led us to develop a growing consensus on GSE regulatory reform.

In the last Congress, we considered H.R. 1461, the Federal Housing Finance Reform Act, on the House floor and approved it by a vote of 330 to 91. Because that bill did not become law, we are returning to these important matters today.

The housing GSEs play vitally important roles in our nation's housing finance system. Fannie Mae and Freddie Mac presently guarantee about \$3 trillion in mortgage-backed securities. The Federal Home Loan Banks also have more than 8,100 members, possess in excess of \$1 trillion in assets, and hold about \$100 billion in mortgage loans.

As I have long said, we need to have strong, independent, and world-class GSE regulation to oversee these sizable institutions. Such a regulatory system will promote confidence in the GSEs, protect the continued viability of our capital markets, insure taxpayers against systemic risk, and expand housing opportunities.

An appropriate regulatory system, like the bill we passed in the 109th Congress, should adhere to several key principles. For example, the regulator must have a funding stream separate and apart from the annual appropriations process.

In order to be credible and effective, the regulator must additionally have genuine independence from the political system. Such independence must consist of complete autonomy from the enterprises, include sufficient protection from outside special interests, and provide substantial insulation from political interference.

A strong regulator must further have robust supervisory and enforcement powers. In this regard, many have suggested that we should model GSE safety-and-soundness regulation on that of other financial institutions. I agree with this sensible concept.

In fact, the general goal of our long-standing regulatory reform debates has been to make GSE supervision more bank-like. Any safety-and-soundness regulator for the housing GSEs needs to have enforcement powers on par with other federal banking regulators.

As we proceed in the coming weeks, I also hope that we all will continue to remember why we created these public-private entities. We created GSEs to help make credit available to finance home purchases, because the private market was not effectively meeting credit needs.

Beyond ensuring that the GSEs can continue to fulfill their missions, we must maintain a public voice on their boards. Public participation on these boards helps to focus the GSEs on their missions.

Beyond working to improve GSE regulatory oversight, we should also look at the upcoming legislative debates as an opportunity to update the statutory mission of the Federal Home Loan Bank System to reflect what it actually now does. In 1999, I worked with then-Chairman Baker to allow the Federal Home Loan Banks to provide liquidity to community financial institutions for the purposes of serving small farm, small business, and small agri-business customers.

In its bill in the last Congress, the Senate Banking Committee had language that would have explicitly added such economic development activities to the mission of the Federal Home Loan Banks. This idea has merit, and we ought to consider it in this chamber.

Before I close, I would be remiss if I failed to welcome Deborah Pryce as the Capital Markets Subcommittee's most senior Republican. I look forward to working with her in the 110th Congress to reach a bipartisan consensus on the matters under our jurisdiction.

In sum, in developing any enhanced GSE regulatory system, we should perform deliberate surgery. We should abstain from considering radical proposals that would undermine their charters. We also should take appropriate steps to improve their mission and performance, in addition to providing for strong, independent and world-class GSE regulation.
