

U.S. Congresswoman

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House Committee on Financial Services Hearing on GSE Conservatorship September 25, 2008 Statement for the Record

Thank you for holding this hearing, Mister Chairman.

A little over two months ago, Treasury Secretary Henry Paulson came to this committee and asked for the authority to place Fannie Mae and Freddie Mac into a government conservatorship should the market deteriorate further. At the time, he told us it was very unlikely that Treasury would ever exercise this authority.

Congress duly granted Treasury the authority Paulson requested, and also created the Federal Housing Finance Agency as the new regulator of the two government sponsored entities.

We were quite mindful of Secretary Paulson's warning of an impending crisis, but we took him at his word when he said any action was unlikely. Yet less than two months later, Secretary Paulson announced that the Federal Housing Finance Agency would be taking legal control over Fannie Mae and Freddie Mac.

The aim was to improve the availability of mortgage credit and bring stability to the markets. As we now know, this did not happen.

Let me be clear: I do not doubt that a conservatorship is necessary. Fannie Mae and Freddie Mac were government sponsored entities with an implicit backing from the American taxpayer. However, I doubt the candor of the administration on this matter and I have significant concerns.

Nearly one-quarter of US banks hold preferred stock of Fannie Mae and Freddie Mac. This stock was considered a relatively safe investment, but their value is now almost entirely wiped out.

The resulting loss in equity has deeply affected community banks. Thus, they now face write-downs and the need to raise capital at a time when many are already struggling to remain solvent.

Since these banks are on Main Street and not Wall Street, the federal government considers them to be too small to save. But something must be done to help these community banks, who, unlike Wall Street, have acted responsibly over the last few years.

Lastly, this crisis began with the federal government forcing Fannie and Freddie to take out sub-prime mortgage loans in a bid to boost homeownership. This process began under the Carter administration and accelerated under Clinton.

Moreover, Fannie and Freddie were allowed to hold just 2.5% of capital to back their investments versus 10% for banks. Looking forward, changes will have to be made to the way Fannie and Freddie issue loans.

Mister Chairman, thank you again for holding this hearing and I look forward to hearing from the witnesses before the committee today.