

**OPENING STATEMENT OF  
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI  
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,  
AND GOVERNMENT SPONSORED ENTERPRISES  
HEARING ON REGULATORY REFORM  
AND THE FEDERAL HOME LOAN BANK SYSTEM  
WEDNESDAY, MARCH 9, 2005**

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We meet today to discuss the regulation of the Federal Home Loan Banks. As you know, Mr. Chairman, I share your deep interest in these important financial institutions. After all, we worked closely together for several years to include language to reform the Federal Home Loan Banks during our deliberations over the 1999 law to modernize the financial services industry.

Among other things, these reforms strengthened the corporate governance of the Federal Home Loan Banks, updated their capital structure, and established voluntary membership on equal terms and conditions for all eligible institutions. They also expanded access to the system for small community financial institutions. The changes additionally have helped to pave the way for enhanced targeted economic development lending.

Although some of my colleagues may think the issue is a new one, we have debated how to best regulate the Federal Home Loan Banks for a number of years. Like the regulation of Fannie Mae and Freddie Mac, my goal has been to ensure that we have strong, world-class and independent regulation for the Federal Home Loan Banks.

The current safety and soundness regulation of the Federal Home Loan Banks is actually better than that of the other government-sponsored enterprises. The Federal Housing Finance Board, unlike the Office of Federal Housing Enterprise Oversight, is funded outside of the congressional appropriations process. In addition, a previous survey by the Government Accountability Office determined that the Finance Board has powers that are substantially better than OFHEO's authorities because these authorities more closely align with those of the banking regulators.

Because the Finance Board already has many of the powers that it needs and because the structure of the Federal Home Loan Banks is significantly different from the other housing GSEs, my preference continues to be to consider regulatory changes for these institutions on separate tracks from any regulatory reform bill for Fannie Mae and Freddie Mac. With its increased emphasis on safety and soundness supervision in recent years, the Finance Board has become increasingly more effective in monitoring the Federal Home Loan Banks.

That said, I recognize that there will be a strong push by some to incorporate the Federal Home Loan Banks into any forthcoming GSE reform bill. If we therefore do include the system in the regulatory overhaul, we need to ensure that such legislation will protect the unique nature of the Federal Home Loan Banks and not negatively affect the cost of funds. I also want to ensure that the system can continue to build on its community and economic development initiatives that we authorized six years ago.

Another important concern for me is the need to ensure that an independent voice continues to be heard on the boards of the Federal Home Loan Banks. Public interest directors

have an important role to play in corporate governance. Some of the reforms that we have enacted in recent years have gone too far in limiting the compensation that they can receive for their services. We need to increase the pay of directors, in order to ensure that we can attract quality directors to serve on boards and effectively monitor sophisticated financial products and strategies. We ought to also increase the length of the term of all directors. Finally, we should ensure that directors are appointed in a timely manner.

One final issue that I hope we will address today concerns registration with the Securities and Exchange Commission. Last year, the Finance Board approved a rule to require the banks to register their stock with the Commission, even though such stock is not publicly traded. The banks are now working toward implementing that plan. I do, however, have concerns about how such registration will interplay with the joint-and-several liability of the system. I therefore hope that our witnesses today will address this issue.

In closing, Mr. Chairman, I commend you for your sustained leadership in these matters and look forward to hearing from our witnesses today.

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