

Opening Statement
Chairman Michael G. Oxley
House Financial Services Committee

**Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises**

“GSE Reform and the Federal Home Loan Bank System”
March 9, 2005

The Federal Home Loan Bank System has been critical in helping create a liquid residential mortgage market. The System also plays an important role in small business financing and funding of affordable housing programs. I want to welcome Chairman Rosenfeld to the Committee this morning. He comes to us with an impressive background working in both the private sector and the government. Chairman Rosenfeld assumes the leadership of the Federal Housing Finance Board at a time when Congress is going to be highly active in the oversight and operation of the System.

I want to thank Chairman Baker for holding this important hearing. The views expressed today will be valuable in guiding our decisions as we look to improve the supervision of all of the GSEs.

What a difference 3 years makes. Since 2002 we have learned about accounting irregularities and management reorganizations at Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. We are now preparing to consider legislation that will improve the oversight of the GSEs by, among other things, consolidating the supervision of these entities into one world-class regulator. Support for legislative action has come from the Administration, Council of Federal Home Loan Banks, the Homebuilders, the Banking trade associations, and the enterprises themselves. It is my hope that we can work together to craft a regulatory structure that ensures the safe and sound operation of these institutions.

The Federal Housing Finance Board recently entered into agreements with the Chicago and Seattle Banks to improve their accounting practices and reform their internal controls. The Seattle Bank has since decided to discontinue holding mortgages in its portfolio and return to the core business of providing advances to its members. I am interested to learn more about the Finance Board's role in this decision and what impact it will have on the Bank and on the System as a whole.

There has been a lot of discussion recently over the issue of allowing the Banks to securitize mortgages. Some believe that securitization will further increase liquidity in the mortgage market and will help reduce risk to the system. Others contend that securitization is too complex for the Banks to undertake and that it is outside of the core mission of the System. I believe that we need to discuss this issue thoroughly and determine what is the proper course of action to take on this issue.

Sound corporate governance is critical to the functioning of any enterprise. The essence of the Sarbanes-Oxley Act is to ensure that corporate governance is not an afterthought. That being the case, many Members of this Committee, including myself, are concerned that several of the Federal Home Loan Banks are not functioning with complete boards of directors. I would like to further understand why there has been a delay in appointing public interest directors and what reforms to this process Chairman Rosenfeld would support.

Finally, I would like to welcome Dave Hehman, President of the Cincinnati Federal Home Loan Bank to the second panel today. Dave has been a good leader in the System and I look forward to hearing his views on the GSE reform process.