

**Opening Statement**  
**Congressman Ed Royce (CA-40)**  
**9 March 2005**

**"GSE Reform and the Federal Home Loan Bank System"**

Thank you, Mr. Chairman, and thank you for holding this hearing on "GSE Reform and the Federal Home Loan Bank System." I would like to commend the Chairman for his continued leadership on GSE oversight and reform.

For some time I have been a strong advocate of regulatory reform for all three housing GSEs: Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. In the last Congress, I proposed legislation to create a single regulator for all three entities. In my view, this is the right policy because all three present similar risks to the financial system.

Since unveiling my legislation in June of 2003, there have been numerous headlines about problems at all three housing GSEs. The accounting troubles at Fannie and Freddie seem to have overshadowed the issues in the FHLB System. In the past two years **seven** of the **twelve** FHLBanks have been downgraded or put on negative watch by Standard & Poors (S&P). S&P took such steps because of the increased interest rate risk **and/or** decreased profitability at the seven banks.

The interest rate risk in the FHLB System has increased markedly as the individual banks have stepped-up their purchases of mortgage assets. If managed improperly, this risk could put the entire safety and soundness of the system in jeopardy. I was pleased to read Chairman Rosenfeld's prepared testimony in which he asserts that interest rate risk oversight is the Finance Board's top priority. I encourage the Finance Board to be vigilant in this undertaking.

In addition to our important oversight role in this Committee, I hope that we will move swiftly to create a new regulatory structure for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. There is a very

simple solution -- Congress must create a new regulator with powers at least equal to those of other financial regulators such as the OCC or the Federal Reserve. I hope this Committee will heed the advice of Chairman Greenspan and the entire Board of Governors, the Federal Reserve staff, the U.S. Treasury Department, the OECD, the IMF, and countless other who have urged Congress to act.

Mr. Chairman, thank you for your leadership. I yield back.