

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON REGULATORY REFORM FOR THE
HOUSING GOVERNMENT SPONSORED ENTERPRISES
WEDNESDAY, JULY 11, 2001**

Mr. Chairman, since we began our extensive examinations into government-sponsored enterprises, or GSEs, sixteen months ago, we have met nine times to discuss these matters. I suspect that very few other entities have received such scrutiny in either the 106th Congress or the 107th Congress, particularly without corresponding legislative action. During our numerous hearings, although I have consistently sought to identify the problems posed by GSE performance and regulation, I have so far concluded that no compelling reason exists for pursuing any legislation affecting them at this time.

Nevertheless, our inquiry today will focus on two issues. First, we will again discuss the study compiled by the experts at the Congressional Budget Office on GSE subsidies. As we learned in May, Fannie Mae and Freddie Mac pass on about two-thirds of their federal subsidies to homebuyers in the form of lower mortgage prices, and this report confirms that the GSEs are performing a function that Congress wants them to perform. Namely, they are working to help lower homeownership costs at no real cost for the federal government. In return, the GSEs' stakeholders receive a share of the federal subsidy to provide a financial reward for their efforts.

Our second topic concerns H.R. 1409, the Secondary Mortgage Market Enterprises Regulatory Improvement Act. This bill would dramatically restructure the current regulatory system for Fannie Mae and Freddie Mac. In my opinion, it also represents a solution in search of a problem. Nearly a decade ago, Congress created a rational, reasonable, and responsive system for supervising GSE activities, and that system with two regulators is operating increasingly effectively. H.R. 1409 would unfortunately interrupt this continual progress.

Yet, some have continued to suggest that in order to avert another savings and loan crisis we must act now to change the GSEs' regulatory structure. In studying H.R. 1409, we should therefore review the lessons learned from that debacle. This examination will help to ensure that we do not create another troubling situation requiring bailout legislation.

Before FIRREA we had a federal board concurrently serving as the chartering authority for some depository institutions and as their chief regulator. This same board also served as the operating head of a depository insurance program and supervised the activities of some housing GSEs. During our extensive deliberations over FIRREA, we determined that this concentration of powers contributed significantly to the savings and loan crisis. Consequently, we separated these overlapping regulatory functions when restructuring the industry.

However, by moving the supervisory responsibility over the GSEs to the Federal Reserve, H.R. 1409 would again concentrate regulatory power in one entity and ignore an important lesson of the thrift crisis. After all, the Federal Reserve, like the old Bank Board, already has chartering and regulatory authority over depository institutions. In addition, it

develops and oversees many of our nation's consumer laws, and it received significant new responsibilities in the financial modernization law.

Further, although it does not oversee deposit insurance, the central bank does manage our nation's monetary policy. As a result, in times of hardship the Federal Reserve might turn to GSE securities to help it manage interest rates and the money supply. That combination of conflicting duties could prove very dangerous, and Congress should avoid creating it. In other words, we should not follow the same legal recipe that led to the thrift crisis.

That said, Mr. Chairman, I am pleased that we worked together to put forward a balanced panel for today's hearing. Fannie Mae and Freddie Mac will have an opportunity to educate us about their concerns related to the CBO study and H.R. 1409. We will also -- for the first time -- finally hear from an individual representing FM Watch, which was noticeably absent from last year's GSE roundtable. I additionally look forward to hearing the opinions of Martin Edwards with the National Association of Realtors and James Miller who headed the Office of Management and Budget during the Reagan Administration.

Several others also wanted to participate in today's hearing, but could not do so. The National Association of Homebuilders, for example, supports a strong GSE regulatory system that balances safety and soundness concerns with mission fulfillment. Like me, it believes that the separation of powers among two regulators in the current system meets these objectives. The Homebuilders have expressed additional dismay that H.R. 1409 "ignores the extensive hearing record of the past year" and that it "exacerbates" the concerns that the group articulated about H.R. 3703 in the 106th Congress. AARP, a number of mayors, and others have also contacted me to express apprehensions about H.R. 1409. To ensure that our hearing reflects these views, I ask unanimous request, Mr. Chairman, to submit these materials into the record.

In closing, Mr. Chairman, I share your desire to conduct effective oversight over the housing GSEs and to ensure that we maintain an appropriate and sufficiently strong supervisory system. If we decide to continue to pursue GSE reform in the 107th Congress, I also hope that we will follow a prudent course. Perhaps we could again use a roundtable discussion to identify the problems among the affected parties, reach consensus about a suitable course of action, and then, only if necessary, work to write legislation.
