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Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
Subcommittee on Capital Markets, Insurance and Government Sponsored
Enterprises

Review of the Office of Federal Housing Oversight and the Federal Housing
Finance Board

July 13, 2004

I want to thank Subcommittee Chairs Kelly and Baker for convening this hearing to review the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board. These agencies are critical to ensuring that our housing finance system remains strong and well-managed. I would also like to welcome Chairman Castaneda in her first appearance before this Committee.

Last year, serious accounting irregularities were discovered at Freddie Mac. As a result, several executives lost their positions and Freddie was forced to restate its books. OFHEO, initially caught flat-footed, launched a massive investigation which got to the bottom of the problems at Freddie.

OFHEO issued a comprehensive report, entered into a consent agreement with Freddie, and fined the GSE \$125 million. I want to commend Director Falcon for all the hard work he has done over the past year. I am encouraged to see a reinvigorated OFHEO and hope that the agency will continue to closely monitor the activities of the GSEs.

The Federal Home Loan Bank System had its own problems last year. Several banks experienced unexpected losses and were forced to make changes to the composition of their balance sheets. The Finance Board is becoming more aggressive in its oversight of the federal home loan bank system. Last month's decision to sanction one of the banks for inadequate risk management was a clear sign that the Finance Board is taking its safety and soundness role seriously.

I still believe that there can be improvements to the oversight of the GSEs. Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks issue trillions of dollars in debt. Market participants believe that they have the backing of the Federal government in the event of a failure; that means if there is a crisis at any of these enterprises the taxpayers will be on the hook for the losses. In fact, there is no government backing. The GSEs deny it in every of their securities issuance, and the Administration denies it in all of its public statements.

This Committee and the Senate Committee have worked hard to craft a new regulator for the GSEs that would have the powers and authorities vested in a world-class regulator. Unfortunately, neither the GSEs nor the Administration have been willing to agree to a compromise to improve oversight.

I am glad to see progress in the regulation of the GSEs, but I hope that all parties can come together and at some point and agree that better supervision is in the best interests of the housing market, the GSEs, and the U.S. taxpayers. I want to thank the witnesses for joining us today and I look forward to your testimony.

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