OPENING STATEMENT OF
CHAIRMAN PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON THE FUTURE OF HOUSING FINANCE: A PROGRESS UPDATE ON THE GSEs

SEPTEMBER 15, 2010

Good morning. We meet today to focus on the many strategies that Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the Treasury Department have employed to limit capital infusions into the two housing enterprises. This hearing is also the sixth in a series that we have so far convened this Congress to examine the future of housing finance.

Two years have now passed since the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship under the procedures of the Housing and Economic Recovery Act of 2008. At the request of then-Treasury Secretary Henry Paulson, this law also provided the Treasury Department with emergency liquidity powers to support the enterprises.

To stabilize the U.S. housing markets, the Treasury Department has to date purchased or announced plans to buy just under $150 billion in the senior preferred stock of the enterprises combined. Moreover, according to a June report issued by the Federal Housing Finance Agency, the Treasury Department and the Federal Reserve have together purchased $1.36 trillion in the mortgage-backed securities of the two institutions.

At this hearing, we will explore the many approaches used to protect taxpayers and limit the losses of Fannie Mae and Freddie Mac. For example, in July the Federal Housing Finance Agency issued 64 subpoenas seeking documents related to private-label securities in which the two enterprises invested to determine if issuers of these securities are liable for enterprise losses.

Fannie Mae and Freddie Mac have also begun forcing underwriters of delinquent mortgages purchased or guaranteed by the enterprises to buy back the faulty loans if the loans violated the representations and warranties provided at the time of sale. As a result, the four largest commercial banks have already incurred losses of $9.8 billion on the loans they have repurchased or expect to repurchase from Fannie Mae and Freddie Mac.

During the height of the housing bubble, many players in our financial markets trusted what they bought, but they did not verify that the loans lived up to the promises contained in representations and warranties. During the height of the Cold War, however, Ronald Reagan taught us better. For the housing finance system to regain its footing, we need the players in the market not only to trust, but also to verify. Any new housing finance system must do both.

While the enterprises, their regulator, and the Treasury Department have acted to limit the losses of Fannie Mae and Freddie Mac in the aforementioned ways and through several other methods, we must also consider what more can and should be done to protect taxpayers both now and going forward. In particular, we must begin to think about approaches for recouping the taxpayers' money in the long run. We found a way to pay for the savings-and-loan crisis, and we can surely find a way to recover the costs associated with this crisis.

Some of my colleagues may try to use today's hearing as an opportunity for political grandstanding. They, however, need to remember that people who live in glass houses should not cast stones. Under the leadership of former Chairman Mike Oxley, we tried for several years to enact bipartisan legislation to improve the regulation and activities of Fannie Mae and Freddie Mac. Unfortunately, many Republicans in Congress and officials in the Bush Administration blocked these efforts. Their delays allowed the housing crisis to fester into an ulcer.

As we now consider the future of housing finance, we have a chance to proceed differently. The Dodd-Frank Wall Street Reform and Consumer Protection Act has already laid the foundation for change by adjusting securitization rules, better regulating rating agencies, modifying appraisal practices, and standardizing mortgage underwriting. The adoption of these "process" reforms should simplify the debates about altering the housing finance system.

In sum, today's hearing brings us one step closer to figuring out what needs to be done to improve our housing finance system. As I have previously said, my goals in these debates are to limit taxpayer risk and establish a more stable, long-term funding source to help hardworking, responsible middle class American families to buy a home with an affordable mortgage. I look forward to hearing the perspectives of our distinguished witnesses on these matters.