

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

The Administration's Perspective on GSE Reform
Wednesday, April 13, 2005

I want to welcome Secretary Snow and Secretary Jackson back to the Committee this morning. I am looking forward to your views on H.R. 1461 the Federal Housing Finance Reform Act of 2005 and the Administration's perspectives on GSE reform in general.

We have been working on this issue for a long time. Since the 106th Congress, this Committee has held 22 hearings and has heard from 101 witnesses on GSE-related matters. Chairman Baker should be commended for his hard work in monitoring the GSEs over the years, and I am proud to be a cosponsor of the legislation he introduced to create a new GSE regulatory agency. This legislation will foster confidence by granting the agency the necessary powers to ensure the safe and sound operations of these complex enterprises. I would encourage my colleagues to join in support of this legislation.

At this time in 2003, we were all led to believe that the GSEs were running smoothly with only a routine accounting restatement in progress at Freddie Mac. What we have learned since then is that these enterprises were involved in revenue smoothing, the misapplication of accounting standards, and irresponsible corporate governance. The Federal Home Loan Bank System has also had its share of problems over the years with accounting problems and inadequate management. The governance situation in Seattle seems to be particularly troubling.

It is time for a new oversight structure for the GSEs that will give the regulator the tools it needs to prevent these problems from developing and permit swift action when problems do arise. We have learned in our hearings that the current regulator – OFHEO – lacks the critical tools needed to supervise these enterprises. It is our duty to structure a strong regulator to ensure that the housing market, the taxpayers, and the financial system as a whole remain safe.

H.R. 1461 strikes the right balance of strong regulation that is not overly burdensome. Authority over minimum capital, program approval, and receivership are all concepts that this Committee has discussed over the years. This regulator is independent from the political process. That means there is no influence on safety and soundness or on mission compliance. Some argue that HUD has the expertise in housing mission; however, I would contend that it is not HUD that has this expertise, but rather it is the people at HUD who have this expertise. These people can move to the new regulator and make decisions that are independent and in the best interest of the U.S. housing market.

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H.R. 1461 also grants the regulator the authority to adjust the portfolios of the enterprises. This is an important power, in that it will ensure that the enterprises do not hold portfolios that are unsafe and unsound or are in violation of their mission. In a similar manner, Banks are forced to keep their portfolios in check through capital levels mandated by the Basel accords. This structure encourages the holding of a diverse portfolio of assets since the holding of too much of a particular asset or a risky asset results in a higher capital charge.

We have heard from some that Congress should be cautious in its efforts to create a new regulator and that we need to be mindful not to harm the housing market. In truth, the housing markets are being threatened now by the various accounting and regulatory problems at the GSEs and by the lack of a regulatory agency with real power and real authority. A regulator with enhanced powers will ensure that our housing finance system recovers and becomes stronger and more resilient in the future. The goal of this bill is to create a credible GSE regulator, nothing more and nothing less.

I also want to remind Members of the Committee that both Secretary Jackson and Secretary Snow have been generous with their time. Last week Secretary Jackson appeared before us, and next week Secretary Snow will be back to discuss international financial issues. I would urge Members to keep their statements and questions focused GSE related issues this morning so that we can have a productive session.

Thank you both for appearing today and I look forward to your testimony.

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