



EXCHANGE

Subcommittee on Capital Markets

Richard H. Baker, Chairman
Securities, Insurance, Government-Sponsored Enterprises

The News from U.S. Rep. Richard H. Baker
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FOR IMMEDIATE RELEASE: May 23, 2001

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Opening Statement

The Honorable Richard H. Baker
Chairman, House Financial Services Subcommittee on
Capital Markets, Insurance and Government Sponsored Enterprises
May 23, 2001
Capital Markets Subcommittee Hearing
“CBO Study on Housing GSEs and Federal Subsidies”

I want to begin by drawing the subcommittee’s attention to an article published just five days ago by the Associated Press (copies of which my staff has distributed to you all) on the record federal government surplus reported for the month of April. Members might find of particular interest, with respect to today’s proceedings, the fourth paragraph, which I have highlighted, reading: *“Last month’s surplus was bigger than the \$180 billion many analysts projected but matched predictions made by the Congressional Budget Office.”*

Ordinarily I would not deem it necessary even to make reference to the reliability of the economic analyses that the Congressional Budget Office (CBO) has historically provided Congress. However, in light of an unseemly effort by some over the past week to publicly discredit the integrity and ability of the CBO, I find myself compelled to dwell on this subject for some time at the start.

Through the years, both Democrat- and Republican-majority congresses (and split ones too) have rightly relied on the expertise and non-partisanship of the CBO to inform our public policy efforts. So my main point in quoting the AP story is to suggest that if CBO can, time and time again, accurately assimilate the complex and myriad economic factors that make up a budget surplus forecast, then surely it possesses the wherewithal to get a GSE subsidy estimate right.

And certainly, as the quote indicates, with a degree of accuracy and objectivity surpassing that of other so-called “analysts,” who on the subject we take up today perhaps find their own interests clouding an unbiased assessment. But I’ll return to them later.

Some months back I too thought to criticize CBO out of frustration and impatience for the release of this report which I requested a year ago and expected in half that time. But I have since learned the delay was due to the extraordinarily studied approach CBO adopted precisely for the sake of getting the numbers right and clearing away any doubt about the methodology it used to reach them.

This approach, I know now, also included consultation from accountants and economists representing respected federal government institutions, among others: the Treasury Department, the Federal Reserve

Board, the Federal Reserve Bank of Minneapolis, the General Accounting Office, and the Congressional Research Service. CBO then raised my anticipation more by subjecting the study to a lengthy and rigorous academic-style peer-review process.

I point all this out for two reasons. First, I want to personally thank CBO's director, Mr. Dan Crippen, for taking such care to craft this report. Congress indeed owes a debt of gratitude for all the hard work both you and your staff do in the service of the American people. Consequently, you can expect that members of this subcommittee will give your testimony the fair and open-minded hearing you so clearly deserve.

But more importantly, I wish to expose the folly of a handful of people who have already publicly attacked this CBO study, including those who, more incredibly still, maintain that the housing GSEs receive no subsidy at all. To those with the temerity to attack CBO's credibility and to quibble with the subsidy's very existence, I would say consider and take heed. You place your own credibility at odds with no less an authority than Fed Chairman Alan Greenspan, who first suggested CBO update its subsidy estimate. And you compromise your own integrity by indirectly attacking that of each institution with whom CBO consulted to reach its conclusions -- again, the Treasury, the Federal Reserve Board, the Federal Reserve Bank of Minneapolis, the General Accounting Office, and the Congressional Research Service.

Make no mistake; the facts are what they are. The subsidy is real, it's large, and has far-reaching implications.

Nevertheless, a more significant matter than the subsidy's size to focus on today is what the CBO study tells us about how effectively the subsidy is being used to benefit its intended recipients -- America's homebuyers. As Chairman Greenspan stated last year, the housing GSEs "alter the housing finance markets only to the degree that they pass through to homebuyers part of their government subsidy." And, "to the extent that the subsidy is not fully passed on in lower mortgage rates, GSE profits rise and shareholders benefit."

In other words, if Congress chartered these institutions "to promote access to mortgage credit for low- and moderate-income families in underserved areas," then we now have tangible evidence of what it's costing the American people. But better still, we can now put our finger on figures that tell us if we're in fact getting what we pay for.

Put another way, as a Fed report to Congress stated last July: "Both the Treasury and the Federal Reserve have suggested that it would be appropriate for the Congress to consider whether the special standing of these institutions continues to promote the public interest." My initial review of CBO's findings indicates that there's certainly room for improvement.

Is it not eye-opening to discover that \$3.9 billion, or about 37 percent, of Fannie's and Freddie's \$10.6 billion annual federal subsidy provides "liquidity" to no one but themselves and their investors? Surely members of this subcommittee from both sides of the aisle can make use of CBO's findings and come together to determine ways to better direct the entire \$10.6 billion sum to African-American, Hispanic, and all lower-income communities who most need our help to close the "American Dream Gap."

There are other, no less crucial questions raised by CBO's report that deserve our attention and should be returned to in subsequent hearings:

- For instance, having focused our attention on the relative "efficiency" of the "retained" portion of the subsidy, we should also closely examine the portion that does pass through, to see whether it's actually reaching precisely those homebuyers whom we intend and profess to be helping.
- Having balanced the benefits of the subsidy versus the costs, we should also see whether they are outweighed when we add the potential risks GSEs pose to taxpayers to the other side of the scale.

- For that matter, how do the subsidy and the implicit guarantee that underlies it increase taxpayer risk?
- Now that we know the subsidy's size, how do we precisely measure what Chairman Greenspan has referred to as its "consequences for the structure and efficiency of the financial markets and the productive allocation of real resources"?
- We will need to hear from all who are concerned with affordable housing – the regulators, the GSEs themselves, community development groups, and others, to account for the proper allocation of benefits we've entrusted the GSEs with the responsibility to bestow upon the American people.
- And last but not least, I'd like to hear from certain market analysts about just how they came to criticize the CBO report before it was even presented to Congress.

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