

Statement of Chairwoman Sue Kelly
Joint Hearing
Subcommittee on Oversight and Investigations
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
“Review of the Office of Federal Housing Enterprise Oversight and Federal Housing Finance Board”
July 13, 2004

This afternoon, the Financial Services Committee continues its series of oversight hearings on the Federal agencies within the committee’s jurisdiction by conducting a review of the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (FHFB).

OFHEO is an independent agency and the primary regulator for Fannie Mae and Freddie Mac, two of the world’s largest financial institutions. The agency’s primary mission is to ensure the capital adequacy and financial safety and soundness of the government sponsored enterprises (GSEs). The Federal Housing Finance Board is an independent agency that regulates the 12 Federal Home Loan Banks and also ensures that they operate in a safe and sound manner. Their roles are critically important to American taxpayers, homeowners and investors.

Fannie Mae, Freddie Mac and the Federal Home Loan Banks provide valuable services to homeowners by increasing liquidity in the home mortgage markets. Their significance to, and impact on, our economy cannot be overstated – spanning across the entire scope of the financial services sector from the bond markets, mutual funds, and pension funds to relationships with financial institutions, insurance companies, individual investors, central banks, and other institutions in foreign countries. We must ensure that they are functioning well and serving the needs that Congress intended.

Over the last few years, the government sponsored enterprises (GSEs) have been the focus of increased attention, and this Committee has a strong interest in overseeing their regulation. As we face a growing economy that has been fueled by the housing sector, Congress must ensure that these entities have effective and efficient oversight. And, since the housing sector continues to be the engine that drives our economy, our government must ensure that we do not disrupt the steady flow of low cost funds to homebuyers, while protecting taxpayers.

Today, the Committee welcomes the Director of the Office of Federal Housing Enterprise Oversight (OFHEO), Mr. Armando Falcon. We are very interested in OFHEO’s annual report to Congress, as well as the agency’s recent 2004 budget request for \$59.2 million. While this figure represents a significant increase for the agency, it is important that OFHEO be well funded and well staffed to oversee these extremely complicated institutions. The Committee supports OFHEO’s request and would like to hear more about how the agency plans to use these funds, including the creation of a new Office of Compliance and an Office of Chief Accountant.

The Committee is also pleased to welcome Chairman of the Federal Housing Finance Board, Ms. Alicia Castaneda. Today marks the Chairman Castaneda’s first appearance before the Financial Services Committee. We welcome your testimony on the state of Finance Board and the 12 Federal Home Loan Banks and look forward to hearing your vision for the future of the agency.

While we are pleased with the tremendous strides that OFHEO and the Finance Board have taken to strengthen their oversight role, the two agencies remain ill-equipped to handle oversight of the GSEs. In order to protect taxpayers, investors and homebuyers and restore confidence in the GSEs, these entities need a single, world-class regulator to oversee their operations and financial well being. I am hopeful that Congress and the Administration can reach a consensus for reform that strengthens oversight of GSEs and continues to encourage homeownership.

In the meantime, OFHEO and the Finance Board have been very active with a number of proposals aimed at strengthening the oversight and operations of the GSEs. The Committee is very interested in learning more about these reforms today, in addition to the nature and status of the accounting restatements and other supervisory actions.

Specifically, OFHEO and the Finance Board have been very active in the area of corporate governance. OFHEO recently circulated a rule that would, among other things, separate the CEO and Chairman functions and require periodic 'audit partner' and 'audit firm' rotation. Since its work on Sarbanes-Oxley, this committee has taken great interest in pursuing the highest levels of integrity in corporate governance, and we would like to hear your views on these issues. As you know, the General Accounting Office has found that mandatory audit firm rotation for publicly traded companies is inefficient and potentially disruptive. Given the consolidation in the accounting industry and the highly complex nature of the GSEs, the Committee would like hear more about this proposal and what precedent it sets for publicly traded companies.

Similarly, the Finance Board just voted unanimously to require the 12 Home Loan Banks to register with the SEC. While increased disclosure is generally preferable, we would like to know more about the significance of this requirement since the stock of the Home Loan Banks is not publicly traded like the other GSEs.

In the absence of reform legislation, the Committee is also interested in how the regulators intend to handle other issues, such as receivership. During the debate over regulatory restructuring there was considerable discussion about whether a new regulator should be vested with receivership powers similar to those held by other financial regulators. The Committee would like to know whether OFHEO plans to address this issue.

The issue of multi-district membership is also significant considering the recent acquisitions of several large Federal Home Loan Bank members, which have spurred petitions to the Finance Board to allow members of the System to maintain membership in more than one Federal Home Loan Bank. Since the issue has an impact on the way affordable housing contributions are measured among the Federal Home Loan Banks, it is important that we know how the Finance Board plans to address multi-district membership.

Finally, the Department of Housing and Urban Development has recently proposed increasing the housing goals of Fannie Mae and Freddie Mac. The proposal requires the firms to increase the percentage of mortgage loans they finance for low- and moderate-income borrowers from 50% to 57% by 2008. While this is not the role of OFHEO, nor the focus of today's hearing, the Committee does have an interest in determining the impact that this proposal could have on the safety and soundness of these entities. I hope that you can address this issue today.

I would like to thank my colleague and co-chair of today's hearing, Rep. Richard Baker. Chairman Baker's work on these issues has been crucial to reform efforts and has greatly benefited the American people.

The Subcommittees thank the witnesses for their testimony. The American people will undoubtedly benefit from your views and this important oversight.