

**Opening Statement
For
Congressman Rubén Hinojosa (TX-15)**

**Committee On Financial Services
Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises**

**Hearing on “Mutual Fund Industry Practices and
Their Effective on Individual Investors”**

March 12, 2003

Mr. Chairman and Mr. Ranking Member,

I want to thank you for calling this important hearing on the mutual fund industry. In the last two decades, mutual funds have brought our nation’s capital markets to the American people. Presently, most working Americans participate in mutual funds as part of their retirement and savings plans. In fact, 95 million Americans now own shares in mutual funds.

For this reason, I feel that Congress must look into the practices of the mutual fund industry and ensure that American consumers are protected. Specifically, we must examine the soundness and practicality of fees charged to mutual fund shareholders. With the mutual fund industry surpassing the U.S. banking system in the number and volume of consumer deposits, now is an ideal time to take up this discussion. We must ensure that consumers get what they are paying for and that deceptive practices are not used to hide excess charges on these financial products.

Congress has a responsibility to look at mutual fund shareholder fees and annual operating expenses otherwise known as “12b-1” fees that make up fund expense ratios. I find it hard to believe that in most mutual funds a consumer could hypothetically invest \$10,000 over 30 years in a fund that achieves gross returns of 11 percent, yield a return of \$149,967, and have to pay \$78,956 of this return in expense fees. That charge is extreme.

These charges are even more disconcerting when one realizes that consumers would probably make more money simply investing in index funds, mutual funds that do not have a specialized fund manager and simply index to the market. In the coming days, I hope that we have some serious discussions about this industry and how to achieve accountability and transparent disclosures.

However, I do commend the mutual fund industry for working to make our capital markets more accessible, and I look forward to today’s testimony. I also look forward to the release of the GAO report Chairman Oxley and Chairman Baker have commissioned. Thank you Mr. Chairman. I yield back my time.
