

**Opening Statement**  
**Congressman Ed Royce (CA-40)**  
**25 June 2003**

**"GSE Oversight: The Need for Reform and Modernization"**

Thank you, Mr. Chairman, and thank you for holding this hearing on "GSE Oversight: The Need for Reform and Modernization." I would like to commend the chairman for his unwavering commitment to the topic of GSE regulatory reform. I also greatly look forward to hearing what today's witnesses have to contribute to the ongoing discussion initiated by this subcommittee on this topic.

Government Sponsored Enterprises ("GSEs") focused on home ownership have been in existence since 1934. And, since that time, GSEs have played an important role in developing the secondary mortgage market in the United States. Fannie Mae and Freddie Mac buy mortgages from originators in order to provide liquidity in the market, and the Federal Home Loan Bank System provides advances to banks and thrifts so that those organizations can offer mortgage products to their customers.

Like the rest of corporate America, overtime the GSEs have developed comprehensive business models to achieve their mission and to get results for their shareholders. As a result, the housing GSEs have become three of the most sophisticated financial institutions in the world. In total, the three GSEs have over \$2 trillion in debt, and a derivative portfolio with a notional amount totaling over \$1.9 trillion. As a result of their evolving business models, the three housing GSEs now must protect their balance sheets not only from credit risk but also from interest rate risk. With these facts in mind, I think that it is crucial that these organizations are subject to competent regulation.

I regret to say that I do not have enough confidence in The Office of Federal Housing Enterprise Oversight ("OFHEO"), which regulates Fannie Mae and Freddie Mac, or in The Federal Housing Finance Board, which regulates the Federal Home Loan Bank System. I believe that we need to fold these two regulatory bodies into a new agency under the umbrella of the Treasury Department. In my view, such a regulatory institution will have better direction through its association with the Treasury and its sister regulators the OCC and the OTS. The new regulator will also have the ability to achieve "best practices" of regulation because it will have a broader scope than either OFHEO or the FHFB has today -- and -- it will be focused on protecting the taxpayer from like types of systemic risk.

I think that it is important for this Committee to act on this matter. Through perception, reality, or both, all three housing GSEs are inadequately regulated. I look forward to working with my colleagues to create a new, more effective regulatory structure for Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. I would like to thank our witnesses here today, and would once again like to thank Chairman Baker for his longstanding interest in this issue. I yield back.