

OPENING
STATEMENT

**OFHEO Risk-Based
Capital Rule**

Rep. Stephanie Tubbs Jones

Good Morning, Chairman Baker, Ranking Member Kanjorski and Members of this Committee. Mr. Chairman, I ask unanimous consent that my full statement be included in the Record.

Mr. Chairman, we are here this morning to consider the Office of Federal Housing Enterprise Oversight (OFHEO) rule that develops a risk-based capital standard for government-sponsored enterprises, Fannie Mae and Freddie Mac. I, along with many of my colleagues, am pleased with the fact that we now have a rule and a better system by which OFHEO can do the job it was created to do. I commend you, Mr. Chairman, for calling this hearing giving this subcommittee the opportunity to hear directly from OFHEO's Director, Armando Falcon.

Safety and soundness, relative to the GSEs, are critical. Thus, the risk capital rule will go a long way in solidifying the stability of these enterprises. I believe it is important, now, more than ever before, to be flexible and allow the regulator to accomplish this complex task. With about 600 pages and a complex housing finance market, I hope this committee encourages OFHEO to make the necessary technical changes to improve the regulation, to ensure this regulation conforms to the 1992 Act and appropriately aligns capital to risk. As a matter of fact, one of my questions to Director Falcon will deal with whether he has ample authority to make such changes.

I believe we are moving in the right direction with this rule. As the safety and soundness regulator, OFHEO, indeed has a tough job. Their work includes evaluations and assessments dealing with over 150 features relative to safety and soundness. Moreover, they evaluate various components of risk, controls, auditing systems, management processes and governance. OFHEO examiners work to complete on-site exams as well as off-site monitoring. This intense analytical work is critical to the proper functioning and monitoring of both Fannie and Freddie.

Director Falcon and OFHEO should be complimented on their completion of the rule. I acknowledge this accomplishment in light of the fact that he has been on the job for only 18 months.

I also encourage Director Falcon to work with Fannie and Freddie. A regulator does not have to become the adversary of the entities it regulates. As important as both Fannie and Freddie are to the secondary mortgage markets and our overall economy, constant review and innovation will be needed to deal with and address changes.

I support the work of both Fannie Mae and Freddie Mac. Thus, I support to work of their regulator in ensuring that these enterprises are safe and can continue to make homeownership and affordable housing available across this nation.

Previously, I have come out against altering the regulatory regimes of these enterprises. Today, OFHEO, with this rule, has come forth with the appropriate tools to work with. I believe they are quite capable of doing the work they are charged to do.

I also want to salute the GSEs. We must remember that the GSEs functioned for about eight years without the benefit of this rule and, by all accounts, have been very successful.

In closing, let the rule work. This rule should be flexible enough so as to not hinder Director Falcon's ability to regulate and the GSEs ability to make homeownership a reality.

This rule serves as the fruit of the labors from our previous meetings in which we examined, with great detail, Fannie Mae and Freddie Mac. From those hearings, we examined safety and soundness and culminated with six Voluntary Commitments by Fannie and Freddie.

Mr. Chairman, I believe in the importance of safety and soundness, disclosure and market discipline. I believe the GSEs have met this challenge. Now, we have a rule and a regulator ready to do its job. We can move forward with OFHEO and be assured that our enterprises, as well as the housing finance market, continues to be the envy of the world.

Thank you, Mr. Chairman, for the opportunity to present my remarks. I look forward to this hearing.