

**OPENING STATEMENT OF  
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI  
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,  
AND GOVERNMENT SPONSORED ENTERPRISES  
BRIEFING ON THE OFFICE OF FEDERAL HOUSING ENTERPRISE  
OVERSIGHT'S FINAL RISK-BASED CAPITAL RULE  
WEDNESDAY, AUGUST 1, 2001**

---

Mr. Chairman, thank you for the opportunity to comment before we begin our hearing to review the final risk-based capital standard recently released by the Office of Federal Housing Enterprise Oversight, otherwise known as OFHEO. Because our Committee will hear from just one witness, we should probably frame today's hearing instead as a briefing. This briefing will help us to better understand the contents of the risk-based capital rule, the process of its development, and the procedures for implementing it.

OFHEO is the safety and soundness regulator for Fannie Mae and Freddie Mac, the nation's two largest housing government sponsored enterprises or GSEs, and two of the country's largest financial institutions. Since its creation nearly a decade ago, OFHEO has developed and implemented a robust and continuous examination program that works to protect taxpayers from risk. Each quarter, for example, OFHEO's examination teams review more than 150 separate components of safety and soundness to develop a comprehensive account of each GSE's financial condition.

With the release of this stress test, which the agency spent nearly seven years drafting, OFHEO supplements its existing capital standards and complements its already tough examination program. Implemented properly, this rule will ensure that the two GSEs remain at the forefront of financial regulation. Furthermore, the implementation of this regulation will, in my opinion, enhance the ability of Fannie Mae and Freddie Mac to achieve their mission of helping low- and middle-income families to own homes.

More specifically, this new standard calculates how much capital Fannie Mae and Freddie Mac need to hold to withstand a 10-year period of economic stress. Relying on the parameters contained in the 1992 GSE law, OFHEO's stress test simulates dramatic changes in interest rates and the highest historical declines in property values to determine these capital requirements. Notably, OFHEO believes its regulation "will more accurately tie capital to risk than any other current or proposed standard" for any financial institution.

As you know, Mr. Chairman, our Committee has closely followed the development and issuance of this innovative rule, holding numerous hearings on the subject and GSE regulation in general since 1997. Although some have expressed impatience at the amount of time OFHEO has taken to develop this standard, the relatively quick approval by the Office of Management and Budget of this complicated regulation demonstrates its confidence in OFHEO's competency, reliability, and credibility.

OFHEO's dedicated experts additionally deserve congratulations for their hard work in finalizing this intricate rule. In particular, OFHEO Director Armando Falcon has demonstrated leadership in successfully guiding this complex standard through the regulatory process. I look

forward to learning of his thoughts later today during our briefing. It is also, in my opinion, especially important that OFHEO maintain continuity in its leadership in the months and years ahead as it works to implement this rule.

Anticipating the complexity of the GSE stress test, Congress further authorized a one-year transition period following to the final rule's publication in the *Federal Register*. This interlude will allow OFHEO and the affected parties to work through any concerns and address the procedural issues likely to arise as the rule becomes operational. Consistent with the requirements of the 1992 GSE law and the Administrative Procedures Act, our Committee should support these consultations and reasonable technical modifications.

As they have done in recent weeks, I also hope that all of the involved parties will work constructively with one another to implement this rule efficiently. I am also confident that the management teams of both Freddie Mac and Fannie Mae will swiftly address any changes required by this regulation. Finally, I hope that my colleagues will work with me to ensure that OFHEO receives the resources it needs to get the job done and consider removing the agency from the annual appropriations process as we have done with the other financial regulators.

In closing, Mr. Chairman, I continue to share your desire to conduct effective oversight over the housing GSEs and to ensure that we maintain an appropriate and sufficiently strong supervisory system for them. The implementation of this risk-based capital regulation will provide more immediate protection for taxpayers, investors, and homeowners than any legislation that we could pursue in the 107<sup>th</sup> Congress. I consequently look forward to not only our briefing today, but also to working with you to put this long-awaited rule into practice.

---