

**OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON CAPITAL MARKETS
SEPTEMBER 7, 2006**

Chairman Baker and Ranking Member Kanjorski,

I want to express my sincere appreciation for you holding this hearing to review the status of the Federal Home Loan Banks and the activities of the Federal Housing Finance Board to date.

Originally begun in 1932, the Federal Home Loan Banks have undergone several changes, particularly since the cleanup of the savings and loan association failures of the 1980s. As a result, membership in the Banks has changed, today encompassing more commercial banks than savings associations and including credit unions, insurance companies, and some associated housing providers.

While the Banks' lending remains primarily housing-related, they now also include agricultural and small business lending, which are very important to my district in Texas. Thankfully, the changes have also resulted in special mission set-asides for low- and moderate-income housing, special programs for community development, and a continuing responsibility for paying off debt raised to fund deposit insurance payouts in the 1980s.

As we all know, the Federal Housing Finance Board (FHFB) regulates the System. The Board has broad statutory powers over the Banks. It uses these powers to ensure the safety and soundness of the Banks and to see that they carry out their public purpose of providing home finance. These powers enable the Finance Board to take preventive action to protect individual Banks.

To address the expanded size, scope and complexity of Federal Home Loan Banks, the Board has proposed requiring that all Federal Home Loan Banks increase their retained earnings. The stated goal of the proposal is to ensure that Federal Home Loan Banks have enough capital to redeem members' stock without creating a capital crunch or safety and soundness risk.

With the proposed rule in mind, I am concerned that the Finance Board may not have considered the impact the proposed capital regulation will have on the banks, thrifts, credit unions and others that depend on Federal Home Loan Banks for funding mortgages and to provide liquidity. I am also concerned about the impact the proposal might have on the Banks' ability to meet their three main missions.

Mr. Chairman, it is my hope that my concerns will be addressed during today's hearing.

Having said that, I yield back the remainder of my time.