



EXCHANGE

Subcommittee on Capital Markets

Richard H. Baker, Chairman
Securities, Insurance, Government-Sponsored Enterprises

The News from U.S. Rep. Richard H. Baker
Sixth District, Louisiana

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CONTACT: Michael DiResto, 225-929-7711

Opening Statement

The Honorable Richard H. Baker, Capital Markets Subcommittee Chairman
House Financial Services Committee
September 25, 2003

Hearing on Legislation to Reform Regulatory Structure of the Housing GSEs

Mr. Chairman, I want to commend you for your leadership role in addressing this vital issue to taxpayers and homeowners alike. This is not an issue that has convenient answers, but it is essential for this committee to provide leadership on this important matter.

Over the years, the committee has made various inquiries in this effort, from probing the enterprises to determine the adequacy of their efforts in meeting important housing goals, to the expressed concerns relative to regulatory oversight. But the questions have not been limited to just the obvious issues. Over the years questions concerning mortgage backed securities, leverage ratios, durations gap, bank investment concentration of GSE securities, and other unique issues have come before the committee. I am quite ready, in fact anxious, to turn the examination of these questions over to a fully funded, properly constructed, independent regulatory office to professionally respond to such questions. It is frankly not a business that members of Congress should routinely find themselves engaged. I am sure that many of my colleagues enthusiastically agree.

I also look forward to eliminating the political risk to the enterprises of threatening changes to their charter, almost as much as I look forward to absolute assurance that the taxpayers will never be called to pick up the tab for the failure of the system. Others may suggest a radical new capital regimen, comparable constraints on new products, or attacks on the basic structure of the charters—I will not go there. Responsible regulatory oversight is the goal and the closure that results from this effort will be beneficial to all concerned.

I do think it appropriate to make a clarifying statement concerning my opinion of the work of Mr. Falcon and the regulatory agency currently charged with the duty of regulatory oversight. I have certainly expressed frustration at times with the pace with which action has been taken by the agency. And on some occasions, I have disagreed with the recommended actions. But there is one clear observation I wish to make on behalf of all those who have given their best effort over the years, and that is you have made considerable effort with the limited resources and the constrained authority which you have been given, to discharge your responsibilities.

In fact, Mr. Falcon, your testimony today is one of the best statements by anyone as to the direction this Congress should take in providing adequacy of oversight. Your statement is concrete evidence of your leadership and your ability to give professional council. I highly commend you.

As to the current task, I am very pleased to have received excellent recommendations for the modification of HR 2575 from the Secretaries of the Treasury and HUD. All of the recommendations are suggestions with which I have previously agreed and do now fully support. In fact, there are few modifications required to HR 2575 to make the provisions wholly consistent with the Treasury testimony. As the Secretary has stated, Fannie and Freddie are world-class financial organizations that require a world-class regulator. Independently funded, with all appropriate authority, with the ability to make professional decisions absent political interference. That has been, and still remains my legislative goal. It is also evident that the protracted discussion of these concerns has had no adverse effect on home ownership opportunities. For those who continue to object to any structural change in regulatory oversight, just take a deep breath. We have enjoyed, and continue to enjoy the lowest mortgage interest rates in history. I suggest the Alan Greenspan effect is far more powerful than any action this committee might consider. In fact, this effort is only to insure secondary mortgage market stability, not to place constraints that will in any way adversely affect any individual's ability to own their own home.

Further, it is certainly appropriate to afford opportunity to all stakeholders in this process to give their perspective on this important decision. But it should be clear to all concerned, that if we are to construct an independent regulatory structure, the Congress should make the final policy decisions, in a manner which is independent from any single business perspective. The enterprises are creations of the Congress, created to meet the needs of all who seek the opportunity of home ownership. We must balance that responsibility with limiting risk to the taxpayer. That is and will remain a policy decision that only the Congress should make. Regardless of the final determinations of the committee as to the construction of HR 2575, I will respect the consensus opinion reached, and fully support the Chairman's effort to achieve this essential reform. But it is now time for decisions: no more inquiries, no more hearings, we have asked all the questions, and frankly heard all the various answers. It now is simply the time for decisions. I look forward to the completion of this work and consideration by the full House before the year is completed.

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