

Opening Statement of Rep. Ed Royce (CA-40)
25 September 2003
"GSE Oversight"

Mr. Chairman, thank you for holding this hearing on GSE Oversight. I commend you and Chairman Baker for your leadership on this topic. I look forward to hearing the testimony from our witnesses today. And, I would especially like to welcome a fellow Californian Mr. Dean Schultz, the President of the Home Loan Bank of San Francisco.

This Committee must include the Federal Home Loan Bank System in any legislation that would create a new regulatory body for housing Government Sponsored Enterprises (GSEs). Today I would once again like to publicly raise my own concerns with the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (Finance Board).

The arguments to include the FHLBanks in a better, stronger regulatory framework are consistent with the arguments to include Fannie Mae and Freddie Mac. The FHLBanks have debt outstanding and a derivatives portfolio comparable in size to both Fannie Mae and Freddie Mac. Additionally, the FHLBanks are changing the risk profile of the System through their rapidly growing mortgage assets. The Finance Board has neither the depth nor experience to oversee these risks.

All three GSEs need to hedge their portfolios against movement of interest rates. For this reason, Chairman Greenspan and Secretary Snow both make a compelling public policy case to create one regulator for all three GSEs. I believe that there is a political consensus building to act on the FHLBanks. However, at the end of the day if this Committee must choose between sound public policy and political consensus, the Committee should pick good public policy.

In my view, the benefits of better regulation would accrue not only to the taxpayer and financial system at-large but also to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The regulator must see the whole scope of risks in GSE housing finance to perform its duties well. Including the FHLBanks will allow Congress to construct the proper foundation for oversight.

I look forward to working with my colleagues from both sides of the aisle to create legislation that includes all three GSEs. I believe that legislation should adhere to the following principles:

- 1) The regulator should be independent just like the OCC and OTS,
- 2) The regulator should be independently funded outside of the Congressional appropriations process,
- 3) The regulator should recognize distinctions in the business models between Fannie Mae and Freddie Mac and the FHLBanks, and
- 4) With the exception of affordable housing goals, mission regulation should move to the new regulator.

Mr. Chairman, I commend your steadfast leadership on these issues. I yield back the balance of my time.