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### **Garrett Opening Statement for Fannie/Freddie Hearing**

(Washington, DC)– **Rep. Scott Garrett (R-NJ)** released the following opening statement for today’s House Financial Services Subcommittee on Capital Markets hearing entitled “The Present Condition and Future Status of Fannie Mae and Freddie Mac”:

“Thank you, Mr. Chairman, for holding this important hearing today. I also want to thank the Chairman for his comments about being open to all the different options and I promise to keep an open mind as well as we discuss different ways to restructure our mortgage finance system. I think one thing we can definitely agree on is that doing nothing and keeping the status quo is unacceptable.

“Fannie Mae and Freddie Mac played leading roles in adding fuel to the mortgage finance fire that burned down a good portion of our financial system and economy as a whole. By financing roughly 36% of the subprime housing market and increasing their leverage to 100-to-1, they abused their governmentally granted advantages in the marketplace and have run up a bill with the taxpayers to the tune of \$85 billion and counting.

“The total bailout costs of Fannie and Freddie are expected to climb much higher. When the Housing and Economic Recovery Act was passed, an arm-twisted CBO scored the GSE titles of the bill at \$25 billion and said there was less than a 50% chance that the bailout authority would ever be used and less than a 5% chance that the costs would ever run over \$100 billion. The Chairman of the committee, Chairman Frank chastised Republicans on the floor who said that the costs would likely go well over the CBO estimate saying, “It is the most inflationary arithmetic I ever heard.” Of higher cost estimates being used by Republicans he stated, “these numbers that are being thrown around are simply inaccurate and misleading.”

“Well, speaking of inaccurate and misleading, the CBO recently updated their scoring of those titles and the cost estimates increased by over 1,500%.

“As we begin this month with a more formal debate over regulatory restructuring and providing the government with explicit “bailout authority,” I think it is essential that any conversation begin and end with the GSEs. Any regulatory reform that does not reform the GSEs is not true reform.

“Fannie and Freddie were a large part of the problem, and reforming them should be a large part of the solution.

“Also, I am very worried that proposals being discussed by the administration and this committee to create a so-called Systemic Risk Regulator will actually create what amounts to another new set of government sponsored entities. By creating a new Systemic Risk Regulator we could essentially establish a dozen new Fannie and Freddie’s that will be “too big to fail” and have the inherent market advantages that will come with that distinction. As our distinguished Ranking Member from Alabama points out, privatizing profits and socializing risk is a bad business model and we should learn from our past mistakes, not repeat them.

“Going forward, I do believe it is very important that we have a viable and liquid secondary mortgage market to help provide additional funding so that more people can experience the American dream of owning their own home. One tool that I believe offers a significant amount of promise to meet that goal is covered bonds.

“Covered bonds are debt instruments offered by a financial institution and backed by a collateralized pool of mortgages. Investors purchase these bonds and the pool of mortgages is treated as secured collateral and the investors also continue to have full recourse on the institution in case of a failure. This type of securitization is widely used in Europe to provide liquidity to their mortgage markets and I believe they could be very effective in increasing mortgage funding in the U.S. I thank Chairman Frank for his commitment to hold a hearing on this important topic and look forward to working with all of my colleagues to continue to move this forward.

“I want to thank all of the witnesses for coming today, especially Director Lockhart, and I look forward to the testimony.”

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