

Statement by Rep. Michele Bachmann
House Financial Services Committee
Hearing on Regulatory Restructuring and Reform of the Financial System
Tuesday, October 21, 2008

Thank you, Mr. Chairman, for holding this important hearing on regulatory reform of our nation's financial system.

As we all know, America has experienced incredible turmoil in its financial markets over the last six months. It is important that we quickly review the history of how we got here.

Lenders made risky loans to less creditworthy borrowers with Congress' encouragement and with the confidence of Fannie Mae and Freddie Mac's taxpayer-guaranteed shoulders to lean on. Investors in the secondary mortgage market made risky, overconfident decisions to fuel this behavior and purchased mortgage-backed securities they believed were backed by the U.S. taxpayer, again through Fannie and Freddie. Senior executives at Fannie and Freddie continued to push for larger portfolios, and thus more risk for the taxpayers, and Congress did nothing to slow the growth of these government sponsored enterprises (GSEs). In fact, Congress encouraged further growth.

As a result, the American taxpayer bailed out bad decision-makers from all parties to the tune of more than a trillion dollars: \$29 billion for Bear Stearns, \$200 billion for Fannie and Freddie, \$300 billion to expand the Federal Housing Administration (FHA), \$85 billion for AIG, and of course, \$700 billion for the giant Paulson Plan -- plus \$110 billion in sweeteners to pass that plan.

Congress could have taken steps before the September adjournment to make sure both American taxpayers and the integrity of our financial markets would be protected in the future. Rather than taking a mere short term glance at today's market problems, it could have stayed in town a bit longer and hashed out more long-term solutions to these issues. It is unfortunate that this was not accomplished.

Our Committee must move forward and take a serious look at where to go from here. And the first place we should look is at the heart of this debacle: Fannie Mae and Freddie Mac. Fannie and Freddie must be reformed so that taxpayers do not continue to fuel their risky, unrestrained growth. Congress's failure to address that root cause will likely lead us right back to this point again in the future.

Our Committee should consider proposals like the *Government Sponsored Enterprises Free Market Reform Act*, introduced by our colleague, Rep. Jeb Hensarling. This legislation would put Fannie and Freddie on the road to becoming free market, healthy competitors in the secondary mortgage market instead of the government-run, taxpayer-backed giants they are today.

Our Committee should also exercise its oversight authority to shed light on the management decisions made by former executives who were in charge of Fannie and

Freddie during this period of unrestrained growth. The American people deserve to have full transparency about their decisions which have burdened taxpayers by the trillions.

Mr. Chairman, I hope you will reconsider our request, led by Ranking Member Bachus, to hold Committee hearings that examine why Fannie and Freddie rapidly expanded their purchasing and securitization of subprime mortgages from 2005-2007. We should hold former executives of the GSEs accountable and ask them the same questions our constituents are asking us about their management practices.

Again, I thank the Chairman for holding this important hearing.