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CHAIRMAN JOHN KORSMO'S OPENING STATEMENT AT A PUBLIC HEARING ON FEDERAL HOME LOAN BANK DISCLOSURE

Good afternoon. I call this hearing to order.

On November 21, 2002, the Federal Housing Finance Board invited the Federal Home Loan Banks to testify at a public hearing on the topic of "Federal Home Loan Bank Views Concerning Registration of Federal Home Loan Bank Stock Under the Securities Exchange Act of 1934."

This hearing is a continuation of discussions between the Federal Home Loan Bank System and the Federal Housing Finance Board begun in August to identify questions and issues that would arise from applying to the Bank System the Securities and Exchange Commission's disclosure standards under the Securities Act of 1933 and its stock registration and disclosure requirements under the Securities Exchange Act of 1934.

This hearing comes in response to requests from representatives of the Banks to have an opportunity to speak directly to the three entities concerned with government-sponsored enterprise disclosure – the Finance Board, the SEC, and Treasury – about the Bank System's suggestions for a practical means of fulfilling its commitment to become a role model for corporate transparency and accountability. While today's session is a Finance Board hearing, all three agencies are present and listening today.

To focus these discussions, and in the interest of time, we are limiting oral testimony today to representatives of the Banks. That having been said, we certainly welcome submitted testimony from all interested parties, and I understand we have received some that, without objection, will be included in the record of today's proceedings.

Before we open the floor for testimony, let me provide some historical and philosophical context for the Finance Board's initiative to make the Federal Home Loan Bank System a role model for disclosure, and for today's hearing.

My colleagues and I on the Federal Housing Finance Board take seriously our roles as stewards of the taxpaying public. The Finance Board can best fulfill its role of ensuring the safety and soundness of the Federal Home Loan Bank System, not only through strengthening the supervision process – which we have made a priority – but also by improving corporate governance and all it entails, including strengthening the Banks' boards of directors and mandating enhanced transparency and accountability.

Since becoming chairman of the Finance Board nearly a year ago, I have consistently advocated open

processes for and enhanced public disclosure by the Bank System. Clearly, in the wake of recent high profile corporate scandals, improved disclosure has been a point of public debate at many levels, resulting this past year in several pieces of legislation being introduced into and passed by the U.S. Congress.

In July of this year, the Administration called on all government-sponsored enterprises to voluntarily register their stock with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Fannie Mae and Freddie Mac agreed to such disclosure soon after.

At the time of their proposal, the U.S. Department of Treasury and the White House were generally aware of the impact their proposal would have on Federal Home Loan Banks and, in fact, had discussed enhanced GSE disclosure with me in the months and weeks prior to the Fannie and Freddie announcement.

In anticipation of structuring a workable disclosure regime for the Bank System, a working group of Bank and Finance Board staff was organized last summer. In August, September, and October the working group, along with three law firms and a major accounting firm representing the System, devoted day-long meetings to identifying and exploring technical questions related to providing enhanced system disclosure.

No less than six hours of this process has been devoted exclusively to listening to the System's reasoned arguments in opposition to the concept of requiring filings with the SEC. I have met twice with the Bank presidents to hear the case for a custom-built disclosure regime.

During the working group process, it became clear that the System supports state-of-the-art disclosures for bonds or other products sold by Banks. I believe their testimony this afternoon will make just such a proposal, which will mesh well with my intention that we move ahead with a proposed regulation to cover just these areas, with disclosures required by the Securities Act of 1933, filed with and reviewed by the Finance Board, at the Board’s meeting this month, assuming the necessary staff preparation can be completed.

After today’s hearing, our staff will go back to work with the SEC staff and continue discussing and resolving problems regarding '34 Act registration of Federal Home Loan Bank stock. At some point, the SEC and the Finance Board will be in a position to determine the roles both agencies feel to be appropriate. At the end of the day, the SEC and the Finance Board will have to carefully consider whether the SEC can or cannot accept disclosure jurisdiction over the System without treading on the exclusive safety and soundness jurisdiction of the Finance Board. Then and only then will the Finance Board be ready to consider any proposed regulation dealing with '34 Act matters.

Clearly, our movement toward enhanced disclosure for the Federal Home Loan Banks has been conducted in a reasoned, measured manner. I believe it would be difficult to seriously suggest that this process has been rushed or undertaken without adequate consultation with the management of the Banks.

In fact, the past four months and the next month or two are simply preludes to the official public review and comment periods for any disclosure regulations and for the public debate to be held by the Finance Board.

As described, we initiated a process that ensures Banks the opportunity to make known their concerns and to have them heard before we determine policy specifics to be considered by the Finance Board –

and, importantly, before our staff engaged in substantive talks with the SEC.

This process, I believe, has served all parties well. It was designed to be transparent and open, it has been transparent and open, and it will continue to be transparent and open.

That having been said, I must add that we are still a long way away from knowing precisely what any regulation will require. Yet in reading through the prepared testimony, I see predictions – already – of regulatory failure. I see implications that the Finance Board has not benefited from the knowledge gained in the working group, and will not strive to maintain its safety and soundness prerogatives.

Neither is the case, I assure you. Under no circumstances, let me say that again, under no circumstances will the Finance Board surrender its regulatory oversight of Bank System safety and soundness.

Predictions of failure – worst-case scenarios, really – are predicated on any number of what I consider to be implausible developments: That our staff rejects or misunderstands all it has heard from the Banks over the past four months; that we fail to convince the SEC that these cooperatives present unique questions; that the SEC refuses to honor choices made by Congress and this agency in establishing and regulating the System; and that the SEC will push aside 70 years of safety and soundness jurisdiction established by this regulator and asserts power over the Banks, power that it has never claimed over any other federally-regulated financial enterprise filing under the '33 or '34 Acts.

While I appreciate the concerns, I have to say, I consider them unwarranted by the facts.

Let me reiterate the very reason this Board is pursuing enhanced disclosure. I don't want this point overlooked today. The underlying, the fundamental, reason for enhanced disclosure is to fully maintain, to protect, a government-sponsored enterprise's obligation to the taxpayers of this nation, to the public.

Since becoming Chairman almost a year ago, and especially since beginning a dialogue on enhanced disclosure with the Banks, I have taken pains to make it known to all that this Board exists to serve the interest of the public in the safe, sound, and effective operation of the Federal Home Loan Banks. I certainly understand the interests of the System's specific stakeholders in these questions.

But, we must not ignore the investment made by the taxpayers in the Federal Home Loan Bank System, the liability the taxpayers face from the implied guarantee, and the advantages and value bestowed on the Banks and their owners by the public.

That - as I have stated repeatedly, clearly, and consistently - is why I seek superior disclosures of finances and governance by these GSEs. I am not convinced by the argument that only institutional bond buyers and sophisticated bankers need to understand the Federal Home Loan Banks. Simply because those parties have not complained does not mean the current practice is fine.

Those who lend to the System and borrow from the Banks have a choice. The taxpayers, however, have no choice and no voice in the risks taken by the Banks, despite the fact they may someday be presented with the bill if the worst were ever to come to pass. No voice, that is, except the voice given them by this and other agencies, including the SEC and Treasury, empowered to watch out for their best interest.

And as chairman of the Federal Housing Finance Board, I can assure you I have NO intention of ever testing whether the members' capital and collateral are sufficient to repay the System's obligations.

So we seek to enlist the light-of-day as an ally of the public in ensuring safety and soundness of the

Bank System.

As of today ALL the System's peers and competitors are under SEC jurisdiction for disclosure purposes and under the jurisdiction of other federal regulators for safety and soundness purposes. I am speaking, of course, of both housing GSEs – Fannie Mae and Freddie Mac—as well as financial services holding companies.

The Banks have certain unique characteristics, to be sure. They are very clearly different creatures than Fannie and Freddie. These characteristics are not all foreign to the SEC, however; for example, other cooperatives file with the SEC. In addition, many public companies have credit guarantees outstanding to joint venture partners, suppliers, customers, or affiliates; so joint and several liability is a familiar concept to the SEC, as well.

But the critical common characteristic shared by each of the housing GSEs is that each is a public trust and each owes the public superior disclosures.

Fannie Mae, Freddie Mac, and the Home Loan Banks raise equity in different ways. But all three incur debt - many hundreds of billions of dollars of debt - in precisely the same way: by relying on the public endowment of GSE status and the public's implied guaranty. This fact, alone, makes a powerful case for disclosing the common risk to the taxpayers posed by the housing GSEs in a uniform way.

And that’s why we’re here today, not to hear all the reasons why any enhanced disclosure regime for the Federal Home Loan Bank System is doomed to failure, but to discuss how all of us, working together in a deliberate, informed and careful manner, can craft an enhanced disclosure regime for the Federal Home Loan Bank System that will work.

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