Statement of
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Thank you, Chairman Waxman, Ranking Member Davis, and members of the Committee. Good morning. I appreciate the opportunity to testify today and address your issues of concern in light of the current financial crisis. As you know, I served as CEO of Freddie Mac from 2004 to September of this year.

Let me start with a very basic proposition: Freddie Mac was, is, and—by law—must be, a non-diversified financial services company, limited to the business of residential mortgages. Given the recent severe, nationwide downturn in the housing market—the only nationwide decline in home values since the Great Depression—any company limited exclusively to that line of business alone would be severely impacted. As Treasury Secretary Paulson recently noted, given that the GSEs were "solely involved in housing," and given the "magnitude of the housing correction we've had," the losses by the GSEs should come as no surprise to anyone.

With respect to the housing market, the prolonged glut of credit certainly was one factor that contributed to the housing bubble and its subsequent collapse. Another important factor was the shift from a system in which the mortgage originators held loans to maturity, to a system in which mortgage originators immediately sold or securitized a loan and retained no risk. In more recent years, increasingly complex financial techniques were also applied to this process with the objective of minimizing, shifting, or—as some believed—virtually eliminating risk. We all recognize that homeownership provides benefits that generate substantial social advantages beyond just shelter. We have learned the hard way, however, that rapid expansion of homeownership is not without risk and, ultimately, not without cost if the choices made by individual homeowners are unaffordable.

What was the role of Fannie Mae and Freddie Mac in the credit crisis? These institutions were established by Congress to promote liquidity, affordability and stability in housing finance. They do so primarily by guaranteeing the timely payment of principal and interest on mortgages originated by banks in order to facilitate the purchase of those mortgages by institutional investors, thereby enabling banks to make new loans. Congress has reaffirmed this role for Fannie and Freddie many times, including quite recently. When the dramatic and widespread downturn in housing prices occurred, the pressures on Freddie Mac and Fannie Mae were enormous. The GSEs are in a non-diversified business focused solely on residential housing lending in the United States. As the guarantor of almost half the home mortgages in the country, it is not at all surprising that these two firms would get hit hard by the biggest housing collapse in 75 years. This lack of diversification was extremely challenging for the GSEs, even though their credit standards were tighter than other lenders.

There has been a lot of attention in the media and elsewhere to problems associated with the non-traditional or “subprime” market. And, there is no question that Freddie Mac has incurred losses associated with non-traditional loans. But, it is important to remember that Freddie, and its sister institution, Fannie Mae, did not create the subprime market. Freddie was in fact a late entrant into non-traditional (i.e., non-30-year fixed interest/traditional underwriting) markets, such as Alt-A. The subprime market was developed largely by private label participants, as were most non-traditional mortgage products. Freddie Mac entered the non-traditional slice of the market because, as the private lending sector shifted toward those types of loans, Freddie needed to participate in order to carry out its public mission of promoting affordability, liquidity and stability in housing finance. In addition, if it had not done so, it could not have remained competitive or even relevant in the residential mortgage market we were designed to serve. Moreover, if you are going to take the mission of promoting low-income lending seriously, then you are, by definition, going to take on a somewhat greater level of risk.

Freddie’s delinquency rates and default rates, both overall and for each type of loan, were much lower than those of the market overall and were especially lower than for mortgages underwritten by purely private institutions—many of which were severely impaired for some of the same reasons as Fannie and Freddie. Every institution with significant exposure to residential mortgages has been negatively impacted by the generally unforeseen magnitude and rapidity in the collapse of housing prices.

Before I conclude, I just want to take a moment to recall the public mission of the GSEs. As everyone is aware, Freddie Mac is a shareholder-owned corporation, chartered for the public purpose of supporting America's mortgage finance markets, and operating under government mandates. We had obligations to Congress and to the public to promote our chartered purposes of increasing affordability, liquidity and stability in housing finance, which included some very specific low-income housing goals. We also had obligations to our regulator to pursue our goals in a manner that was prudent and reasonable. And, at the same time, we had fiduciary obligations to our shareholders that were the same as any other publicly traded company. Freddie Mac always worked hard to balance these multiple obligations, and for decades the company was effective.

There is much to be said about the successes of the GSE model, and those successes should not be overlooked because of the current crises. As Congress looks to the future of residential housing finance, the GSEs can and should play an important role. I would be pleased to answer your questions about my time at Freddie Mac and any lessons that might be learned.

Thank you.