

The main problem with the GSEs is the special privileges the Federal Government gives the GSEs. According to the Congressional Budget Office, the housing-related GSEs received almost 20 billion dollars worth of indirect Federal subsidies in fiscal year 2004 alone, while Wayne Passmore of the Federal Reserve estimates the value of the GSE's Federal subsidies to be between \$122 and \$182 billion dollars.

One of the major privileges the Federal Government grants to the GSEs is a line of credit from the United States Treasury. According to some estimates, the line of credit may be worth over 2 billion dollars. GSEs also benefit from an explicit grant of legal authority given to the Federal Reserve to purchase the debt of the GSEs. GSEs are the only institutions besides the United States Treasury granted explicit statutory authority to monetize their debt through the Federal Reserve. This provision gives the GSEs a source of liquidity unavailable to their competitors.

This implicit promise by the Government to bail out the GSEs in times of economic difficulty helps the GSEs attract investors who are willing to settle for lower yields than they would demand in the absence of the subsidy. Thus, the line of credit distorts the allocation of capital. More importantly, the line of credit is a promise on behalf of the Government to engage in a massive unconstitutional and immoral income transfer from working Americans to holders of GSE debt.

The connection between the GSEs and the Government helps isolate the GSEs' managements from market discipline. This isolation from market discipline is the root cause of the mismanagement occurring at Fannie and Freddie. After all, if investors did not believe that the Federal Government would bail out Fannie and Freddie if the GSEs faced financial crises, then investors would have forced the GSEs to provide assurances that the GSEs are following accepted management and accounting practices before investors would consider Fannie and Freddie to be good investments.

Federal Reserve Chairman Alan Greenspan has expressed concern that the government subsidies provided to the GSEs makes investors underestimate the risk of investing in Fannie Mae and Freddie Mac. Although he has endorsed many of the regulatory "solutions" being considered here today, Chairman Greenspan has implicitly admitted the subsidies are the true source of the problems with Fannie and Freddie.

Mr. Chairman, H.R. 1427 compounds these problems by further insulating the GSEs from market discipline. By creating a "world-class" regulator, Congress would send a signal to investors that investors need not concern themselves with investigating the financial health and stability of Fannie and Freddie since a "world-class" regulator is performing that function.

However, one of the forgotten lessons of the financial scandals of a few years ago is that the market is superior at discovering and punishing fraud and other misbehavior than are government regulators. After all, the market discovered, and began to punish, the accounting irregularities of Enron before the government regulators did.

Concerns have been raised about the new regulator's independence from the Treasury Department. This is more than a bureaucratic

"turf battle" as there are legitimate worries that isolating the regulator from Treasury oversight may lead to regulatory capture. Regulatory capture occurs when regulators serve the interests of the businesses they are supposed to be regulating instead of the public interest. While H.R. 1427 does have some provisions that claim to minimize the risk of regulatory capture, regulatory capture is always a threat where regulators have significant control over the operations of an industry. After all, the industry obviously has a greater incentive than any other stakeholder to influence the behavior of the regulator.

The flip side of regulatory capture is that managers and owners of highly subsidized and regulated industries are more concerned with pleasing the regulators than with pleasing consumers or investors, since the industries know that investors will believe all is well if the regulator is happy. Thus, the regulator and the regulated industry may form a symbiosis where each looks out for the other's interests while ignoring the concerns of investors.

Furthermore, my colleagues should consider the constitutionality of an "independent regulator." The Founders provided for three branches of government—an executive, a judiciary, and a legislature. Each branch was created as sovereign in its sphere, and there were to be clear lines of accountability for each branch. However, independent regulators do not fit comfortably within the three branches; nor are they totally accountable to any branch. Regulators at these independent agencies often make judicial-like decisions, but they are not part of the judiciary. They often make rules, similar to the ones regarding capital requirements, that have the force of law, but independent regulators are not legislative. And, of course, independent regulators enforce the laws in the same way, as do other parts of the executive branch; yet independent regulators lack the day-to-day accountability to the executive that provides a check on other regulators.

Thus, these independent regulators have a concentration of powers of all three branches and lack direct accountability to any of the democratically chosen branches of government. This flies in the face of the Founders' opposition to concentrations of power and government bureaucracies that lack accountability. These concerns are especially relevant considering the remarkable degree of power and autonomy this bill gives to the regulator. For example, in the scheme established by H.R. 1427 the regulator's budget is not subject to appropriations. This removes a powerful mechanism for holding the regulator accountable to Congress. While the regulator is accountable to a board of directors, this board may conduct all deliberations in private because it is not subject to the Sunshine Act.

Ironically, by transferring the risk of widespread mortgage defaults to the taxpayers through Government subsidies and convincing investors that all is well because a "world-class" regulator is ensuring the GSEs' soundness, the Government increases the likelihood of a painful crash in the housing market. This is because the special privileges of Fannie and Freddie have distorted the housing market by allowing Fannie and Freddie to attract capital they could not attract under pure market conditions. As a result, capital is diverted from its most productive uses into housing. This reduces the efficacy of the entire market and

thus reduces the standard of living of all Americans.

Despite the long-term damage to the economy inflicted by the Government's interference in the housing market, the Government's policy of diverting capital into housing creates a short-term boom in housing. Like all artificially created bubbles, the boom in housing prices cannot last forever. When housing prices fall, homeowners will experience difficulty as their equity is wiped out. Furthermore, the holders of the mortgage debt will also have a loss. These losses will be greater than they would have been had government policy not actively encouraged overinvestment in housing.

H.R. 1427 further distorts the housing market by artificially inflating the demand for housing through the creation of a national housing trust fund. This fund further diverts capital to housing that, absent Government intervention, would be put to a use more closely matching the demands of consumers. Thus, this new housing program will reduce efficacy and create yet another unconstitutional redistribution program.

Perhaps the Federal Reserve can stave off the day of reckoning by purchasing the GSEs' debt and pumping liquidity into the housing market, but this cannot hold off the inevitable drop in the housing market forever. In fact, postponing the necessary and painful market corrections will only deepen the inevitable fall. The more people are invested in the market, the greater the effects across the economy when the bubble bursts.

Instead of addressing Government policies encouraging the misallocation of resources to the housing market, H.R. 1427 further introduces distortion into the housing market by expanding the authority of Federal regulators to approve the introduction of new products by the GSEs. Such regulation inevitability delays the introduction of new innovations to the market, or even prevents some potentially valuable products from making it to the market. Of course, these new regulations are justified in part by the GSEs' government subsidies. We once again see how one bad intervention in the market (the GSEs' government subsidies) leads to another (the new regulations).

In conclusion, H.R. 1427 compounds the problems with the GSEs and may increase the damage that will be inflicted by a bursting of the housing bubble. This is because this bill creates a new unaccountable regulator and introduces further distortions into the housing market via increased regulatory power. H.R. 1427 also violates the Constitution by creating yet another unaccountable regulator with quasi-executive, judicial, and legislative powers. Instead of expanding unconstitutional and market distorting government bureaucracies, Congress should act to remove taxpayer support from the housing GSEs before the bubble bursts and taxpayers are once again forced to bailout investors who were misled by foolish Government interference in the market.

PERSONAL EXPLANATION

HON. JEFF FORTENBERRY

OF NEBRASKA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 22, 2007

Mr. FORTENBERRY. Madam Speaker, on Monday, May 21, 2007, I was unavoidably detained and thus I missed rollcall votes Nos.

384 and 385. Had I been present, I would have voted "aye" on both votes.

CONGRATULATING THE
UNIVERSITY OF FLORIDA GATORS

HON. DEBBIE WASSERMAN SCHULTZ

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 22, 2007

Ms. WASSERMAN SCHULTZ. Madam Speaker, I rise to congratulate the University of Florida Gators for winning the 2007 men's basketball NCAA championship title.

After a hard fought season and tournament, the Florida Gator men's basketball team proved victorious, on April 2, 2007, with a dazzling 84-75 triumph over the Ohio State University Buckeyes.

I want to extend special congratulations to Florida's head coach, Billy Donovan, who trained this team to be the best in the country. All of the athletes are shining stars for the university and deserve our highest praise.

This year, the men's basketball team made history by becoming the first school to win back to back championships since 1992. The Florida Gators also maintain a record as the only university in history to win simultaneous championships in both men's basketball and football.

Florida's academic reputation is stellar, our sports teams are number one and our fans are like none other.

Madam Speaker, it is great to be a Florida Gator! Congratulations to the students, faculty, alumni, and friends of the University of Florida. Go Gators!

TRIBUTE TO MR. JAY EAGEN

HON. JOHN A. BOEHNER

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 22, 2007

Mr. BOEHNER. Madam Speaker, I rise to honor Jay Eagen, this body's Chief Administrative Officer, upon his retirement. Mr. Eagen has served with distinction in this executive capacity since July 31, 1997, and has been in continual service to the House since 1982. As Chief Administrative Officer, Mr. Eagen was responsible for managing this body's support services, finances, procurement, and information technology.

Mr. Eagen faced head-on the rapid rise of computer technology in the 1990s that forever changed the worlds of business and government. Through Mr. Eagen's persistence the House's information systems were modernized and placed at the cutting edge of public sector information services.

Mr. Eagen's efforts to modernize the House also extended to financial accounting and auditing. Before his tenure as CAO, the House's accounting systems were found to be byzantine and indecipherable. During Mr. Eagen's tenure, the House has received eight consecutive "clean opinions" on its financial statements.

Madam Speaker, I ask that my colleagues join me in honoring Mr. Eagen, a dedicated public servant who always operated with the highest standards of professionalism and re-

spect for this House. His commitment to improving this institution's services have made a critical difference as we meet the demands of a changing marketplace and in meeting the American public's desire for information and transparency. This body will miss Mr. Eagen's fairness and bipartisanship as well as his spirit of innovation.

PREAKNESS DELIVERS THREE
FLORIDA CHAMPIONS

HON. CLIFF STEARNS

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 22, 2007

Mr. STEARNS. Madam Speaker, I am thrilled to announce that the winner of the recent Preakness Stakes, along with those horses that placed and showed (came in second and third, respectively), all have strong ties to stables in my district.

Street Sense and Hard Spun, who placed second and third respectively, were both broken and received elementary training at Ocala training centers. As if this were not enough cause for celebration, Curlin, the victor of the Preakness Stakes, is partially owned by Padua Stable, also in Ocala. Satish Sanan, a computer CEO, founded Padua Stable in 1997, choosing the Ocala location for its pristine pastures and renowned reputation among horse enthusiasts.

Curlin's story is especially unique. Though entering the competition for the Kentucky Derby after only three career starts, Curlin was an unlikely early favorite due to his victory in the Arkansas Derby in which he crushed eight foes and won by 10½ lengths.

Shirley Cunningham, Jr., a lawyer hailing from Georgetown, is one of Curlin's former owners, and it is from his family history that the horse's name is derived. Cunningham's great-grandfather, Charlie Curlin, is a legend in the area in and around Trigg County, Kentucky due to his service on behalf of the U.S. Colored Troops battalion of the Union Army in 1864. Curlin, a freed slave, represented the hallmark American ideal of service to one's country, fighting nobly to make freedom a reality for all United States citizens. Thus, in winning the Preakness Stakes, and putting forth a gallant effort in the Kentucky Derby, Curlin the horse is carrying the family history, serving as a reminder to all of the benefits of perseverance and faith in one's cause.

Though Curlin, Street Sense, and Hard Spun are more prominent examples of success derived from Ocala stables, the city's strong reputation in equine breeding and training is by no means new or rare. Ocala, within Marion County, is considered the "Horse Capital of the World" by the Florida Thoroughbred Breeders' and Owners' Association. In 1995, Ocala was named an All-America-City winner, due largely in part to its reputation for expansive and well-kept pastureland. More than 450 farms and training centers in the Marion County area are devoted to breeding, training, and showing breeds such as the thoroughbred, Arabian, quarter horses, and even draft horses. The USDA's Census of Agriculture reported that Marion led all U.S. counties in total number of horses and ponies in residence in 1997, cut-off year for the 5-year census. Furthermore, the county ranked third nationally

(behind two counties in Kentucky) in total value of horses sold. Horses are big business in Marion County. Between 45 and 50 different breeds are represented in the area. Nearly 29,000 residents are employed in the county's thoroughbred industry alone. Florida thoroughbreds finish first in 20 percent of the foremost stakes races in the U.S. and are counted among Triple Crown, Breeders' Cup, Belmont Stakes, Preakness and Kentucky Derby winners. The thoroughbred industry's economic impact on the state is considered to be in excess of \$1 billion dollars annually, and the exciting horse sales at the Ocala Breeder's Sales Complex run into the millions.

One cannot visit Marion County without becoming immediately aware of the impact the horse industry has on the area. This is currently evidenced by the enthusiasm exhibited by many of my constituents in having not one, but three horses sweep the top spots in the Preakness Stakes. I believe that this much-celebrated victory will serve to further illustrate the excellence of stables and breeders in Marion County and Ocala, and encourage others in the industry to consider the area as a future home for both their horses and their families.

Finally, I am honored to be the new cochair of the Congressional Horse Caucus, and I look forward to cochairing with Representative BEN CHANDLER of Kentucky. Many may not realize the magnitude of the equine industry and its importance to our national, state and local economies. It is a diverse industry, involving business, agriculture, sport, entertainment, gaming and recreation, and we hope Members will join the Caucus.

By the way: I have stood on this House Floor three times in the past year to herald national victories from the University of Florida in my district—twice for Men's Basketball championships, and January for the 2006 Bowl Championship in football. I suspect my colleagues will begin to find me immodest if I keep bragging and offering resolutions on my winning constituent athletes, both human and equine.

IN HONOR OF THE STUDENT
GRADUATES OF WOODCLIFF
LAKE'S D.A.R.E. PROGRAM

HON. SCOTT GARRETT

OF NEW JERSEY

IN THE HOUSE OF REPRESENTATIVES

Tuesday, May 22, 2007

Mr. GARRETT of New Jersey. Madam Speaker, today, the Woodcliff Lake Police Department will hold its D.A.R.E. graduation ceremony with the students of Dorchester School. More than 100 students are participating in this important program that gives young people the support they need to say no to drugs, underage drinking, and gang violence.

Drug Abuse Resistance Education, or D.A.R.E., began as a small program in Los Angeles in 1983. Today, it is implemented in more than 75 percent of our Nation's school districts and in more than 43 other nations. It uses positive peer pressure to help children defeat the negative cultural influences that bombard them daily.

I am proud of the young boys and girls who participated in this program in Woodcliff Lake, and I would like to recognize them all for taking this step toward positive citizenship: