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COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515–6143

MAJORITY (202) 225–5074
FACSIMILE (202) 225–3974
MINORITY (202) 225–5051

http://oversight.house.gov

Opening Statement
Rep. Elijah E. Cummings, Ranking Member

Committee on Oversight and Government Reform
Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs
Hearing on: "Transparency as an Alternative to the Federal Government's Regulation of Risk Retention"

May 11, 2011

I thank Chairman McHenry for calling today's hearing, and I also thank our witnesses for being with us today.

Despite some complex financial terminology, this hearing is really about examining the steps we have taken to prevent the problems that caused the 2008 financial crisis – a crisis that continues to harm families and communities across the country.

Two significant factors contributed to the financial meltdown: an imbalance in risk exposure and a lack of transparency in the credit securitization market.

Today's hearing is entitled, "Transparency as an Alternative to the Federal Government's Regulation of Risk Retention." This suggests the two policy solutions are mutually exclusive, but I firmly believe they can go hand-in-hand. Increased transparency alone is insufficient to prevent a future financial crisis.

According to the FDIC:

> Misaligned economic incentives within mortgage securitization transactions ... play[ed] a key role in driving the precipitous decline in the housing market and the financial crisis. [T]he originators and securitizers seldom retained "skin in the game." [Instead, they received] immediate profits with each deal while secure in the knowledge that they faced little or no risk of loss if the loans defaulted. As a result, securitizers had very little incentive to maintain adequate lending and servicing standards.

The issue of risk retention was a focal point of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 941 of the Act requires securitizers to retain some of the risk in the mortgages they sell.

The concept of risk retention is not a partisan issue. The Chairman of the House Financial Services Committee, Congressman Spencer Bachus, recently said this:

> While securitization has been instrumental in creating liquidity and fostering growth in the past, securitization can also create moral hazards by allowing the originators and securitizers of assets to pass all of the risks of the underlying assets onto investors. Requiring securitizers to retain some "skin in the game," will hopefully encourage them to take more care in selecting high quality assets.

While transparency is a vital element to any functioning mortgage market, risk retention is also essential. As the FDIC has stated: "Without the [risk retention] framework, we will repeat the same mistakes that resulted in disastrous consequences to our economy."

So I hope the purpose of today's hearing is not to argue for the wholesale repeal of the risk retention provisions of Dodd-Frank before those new protections are even put into effect. Rather, how these risk retention provisions are put into effect is something we should discuss today. Some believe the recently proposed rule under Section 941 could go further than it does. Concerns have been expressed about the definition of "Qualified Residential Mortgage," for example, as well as the treatment of the GSEs.

I look forward to hearing from our witnesses about these and other important issues.

Contact: Ashley Etienne, Communications Director, (202) 225-5051.