

Statement of James B. Lockhart III
Nominee for Director, Office of Federal Housing Enterprise Oversight
Before the Senate Committee on Banking, Housing and Urban Affairs

June 8, 2006

Chairman Shelby, Ranking Member Sarbanes, members of the Committee, it is an honor to appear before you today as President Bush's nominee for Director of the Office of Federal Housing Enterprise Oversight (OFHEO).

This would be my fourth opportunity for public service. The first was as a Naval officer on a nuclear submarine, the USS George Washington Carver. The boat's motto was "Strengthen through knowledge," which has been good guidance throughout my career.

My second government experience was as Executive Director of the Pension Benefit Guaranty Corporation (PBGC) from 1989 to 1993, and during the last four years as the Deputy Commissioner and Chief Operating Officer of the Social Security Administration. In addition, I have been serving as OFHEO's Acting Director for the past month.

Despite my time in government, I have spent most of my working career in the private sector in financial services. As such I have extensive experience with many of the issues that the Enterprises – Fannie Mae and Freddie Mac -- face including internal controls, risk management, systems development, investments including asset-backed securities, guarantees, and capital management.

Before going further, I would like to introduce my wife, Cricket, who has supported me throughout these many experiences while being a very active community volunteer.

A secure retirement and homeownership are key components of the American dream. In many ways, trying to make those dreams come true has been the missions and goals of all three agencies for which I have worked. The three also all share a need for strengthening. At PBGC, I was charged with shoring up the agency so that it could better fulfill its mission of protecting the private sector pensions of Americans. To support Social Security's mission of "ensuring the economic security of the nation's people," we are working to improve service, strengthen stewardship and ensure sustainable solvency for future generations.

OFHEO is a much smaller agency than Social Security and just last week had only its thirteenth anniversary, but it has a very important and compelling mission "to promote housing by ensuring the safety and soundness of Fannie Mae and Freddie Mac and to strengthen the nation's housing finance system." These two companies own or guarantee 41 percent of residential mortgages in the U.S. and are among the largest guarantors and borrowers in the world.

There are four key goals that OFHEO needs to accomplish to fulfill our mission. First and foremost is ensuring the safety and soundness of the Enterprises.

My first challenge at OFHEO was to complete the Special Examination Report of Fannie Mae and negotiate a settlement agreement. The work on the report was almost done and we were able to issue it and the agreement on May 23, 2006. I look forward to having an opportunity to testify before this Committee on the report and the settlement agreement. We must continue to monitor both Fannie Mae's and Freddie Mac's compliance and progress with their agreements. As the CEOs of both companies have told me, it will take them several years of hard work to change the corporate culture and to strengthen internal controls, risk management and accounting systems to acceptable levels.

The next two goals are from the Fannie Mae Special Examination's recommendations.

They are:

- OFHEO should continue to strengthen its regulatory infrastructure.
- OFHEO should continue to support legislation to provide the powers essential to meeting its mission of assuring safe and sound operations at the Enterprises.

I have been very impressed with the team OFHEO has been building, but we must continue to make progress. The agency needs better tools to get its job done. Legislation to reform the current government-sponsored regulatory regime is critical. The agency must have powers on par with the other financial regulators, which includes budget flexibility. OFHEO also needs safety and soundness powers equivalent to the banking regulators, such as flexible capital standards and strong receivership powers.

The fourth goal is to promote efficient financial markets to support homeownership through educational efforts in conjunction with other agencies and interested parties. Over the years great progress has been made with homeownership, which at 69 percent is near an all-time high. A key role that OFHEO can play with your help is to ensure that Fannie Mae and Freddie Mac, which have been an important element of this growth, are restored to full health and are properly focused on their core mission.

I look forward to working closely with the members of this Committee and the professional and highly dedicated OFHEO team to address these challenges so that our Nation's housing finance system continues to be vibrant, safe and sound.

Thank you, and I will be happy to answer questions.