

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES**

**HEARING ON THE REPORT OF THE
SPECIAL EXAMINATION OF FREDDIE MAC**

WEDNESDAY, JANUARY 21, 2004

Mr. Chairman, we meet for the first time this year for the purpose of reviewing the special examination report issued and the consent agreement reached in December by the Office of Federal Housing Enterprise Oversight regarding Freddie Mac's financial restatement of more than \$5 billion. The report makes serious revelations about how insufficient accounting, audit and internal controls and a troubling culture nurtured by top managers resulted in an environment that led to significant earnings management at Freddie Mac. The consent decree also requires Freddie Mac to adopt numerous remedial reforms to prevent a similar situation in the future.

One year ago, Freddie Mac first revealed that it would delay the release of its 2002 accounting reports pending the completion of a restatement of its financial records for earlier years. This announcement raised considerable concerns for those who monitor GSEs. It also began a period of intense scrutiny of the company by its regulators, lawmakers, and the press.

Six months later, Freddie Mac's board announced an unexpected management shakeup. This change in corporate leadership produced even greater concerns among those with knowledge of GSEs. For example, I observed that government-sponsored enterprises "with their public responsibilities and private capital have a special obligation to operate fairly, safely and soundly." I continue to believe that today. The management at these entities must ensure that they produce accounting statements that reflect their real financial condition.

At the time, I also said that Freddie Mac must "maintain sufficient capital reserves, adopt prudent management reforms, expedite completion of its earnings restatements, and employ appropriate accounting techniques" to prevent similar problems in the future. I suspect that before we complete today's hearing we will discuss each of these issues in great depth. We have a responsibility to study these matters and ensure that the company follows its statutory mandate to operate in a safe and sound manner.

Additionally, the financial reporting problems at Freddie Mac renewed efforts by some to modify GSE regulation. As I said at our very first hearing on the oversight of government-sponsored enterprises in March 2000, "we need to have strong, independent regulators that have the resources they need to get the job done." I continue to support strong GSE regulation. A strong regulator will protect the continued viability of our capital markets and promote confidence in Freddie Mac and Fannie Mae. It will also insure taxpayers against systemic risk and expand housing opportunities for all Americans.

Today, more than 68 percent of Americans own the homes in which they live. Government-sponsored enterprises have contributed greatly to this accomplishment. Because our housing marketplace is one of the most important sectors in our persistently struggling economy, we must also tread carefully in our forthcoming debates over any legislation to modify the regulation of GSEs.

In closing, Mr. Chairman, I commend you for your sustained leadership in these matters and for convening this timely hearing. OFHEO's report and consent agreement merit our full attention. Hence, I urge my colleagues to give these matters the careful study that they deserve.
