

**OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON CAPITAL MARKETS
“ACCOUNTING IRREGULARITIES AT FANNIE MAE AND THE IMPACT ON
INVESTORS”
FEBRUARY 9, 2005**

Chairman Baker and Ranking Member Kanjorski,

I want to express my sincerest appreciation to you and Ranking Member Kanjorski for holding this important hearing today. I also want to welcome our witness today, Mr. Donald T. Nicolaisen, the Securities and Exchange Commission's Chief Accountant. I look forward to his testimony.

Over the past two years, we have been witness to several developments in the Government Sponsored Enterprises that have been less than pleasant. I am not going to go into them in great detail except to say that they have resulted in the need for Fannie Mae and for Freddie Mac to restate their earnings and take other corrective actions.

In December, the Securities and Exchange Commission, or rather Mr. Nicolaisen, its chief accountant, determined that Fannie Mae's accounting was not consistent with Generally Accepted Accounting Practices. This determination allowed OFHEO to formally classify Fannie Mae as "significantly undercapitalized" and to require Fannie Mae to take prompt corrective actions to recapitalize.

Although the accounting restatement amounts to approximately 9 billion dollars, Fannie Mae has taken certain actions to recapitalize and to increase its capitalization with further actions likely in the near future to meet OFHEO's requirements, with negotiations ongoing.

Mr. Chairman, this hearing will play an important role in determining the type of legislation, if any, Congress will introduce and consider this Congress to reform the Government Sponsored Enterprises system.

Senator Chuck Hagel has already introduced legislation that would consolidate oversight of Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks under a single and new regulator with the power to set minimum capital requirements and to put Fannie Mae and Freddie Mac into receivership. I have also noticed that the legislation would greatly expand the regulator's ability to limit benefits and bonuses within severance packages paid to GSE executives who leave the entities. That component of Senator Hagel's bill is very important to me and to many of my colleagues in Congress!

It will be interesting to see if legislation will be introduced in the House to reform the Government Sponsored Enterprises and, if so, what it will contain, how the Committee will proceed with consideration and what ultimately will be the outcome of any and all actions taken by Congress.

It seems to me that whatever actions Congress takes, we need to ensure that Fannie Mae and Freddie Mac continue to meet their primary mission of providing affordable housing.

Mr. Chairman, we need to also ensure that whatever actions we take do not harm the housing industry, which has been the foundation for the nation's economy since the market declined in the year 2000.

With that Mr. Chairman, I yield back the remainder of my time.