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Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations

**“Due Diligence in Mortgage Repurchases and Fannie Mae: The First
Beneficial Mortgage Case”
March 10, 2005**

Thank you, Chairwoman Kelly, for convening today’s oversight hearing to discuss the First Beneficial Mortgage case.

For some time now, this Committee and its Subcommittees have engaged in detailed and extensive examinations of the Fannie Mae and Freddie Mac.

The Oversight and Investigations Subcommittee’s exploration of the complex pattern of financial relationships between Fannie Mae, Ginnie Mae and the First Beneficial Mortgage Company of Charlotte, North Carolina, is a helpful contribution to that overall effort.

Fannie Mae and Freddie Mac have enjoyed advantages granted by Congress that are not shared by all in the marketplace. This was done so that they would enhance competition in that market and accelerate the growth of home ownership nationwide.

These unique organizations have had problems along the way, even as they met their stated goals. As a result, this Committee, the Congress as a whole, and the nation witnessed a parade of scandals and sad stories involving Fannie Mae and Freddie Mac over the past few years.

Today, however, we will look at one particularly troubling case, that of First Beneficial Mortgage.

Fannie Mae’s management stood by while Ginnie Mae, a true federal agency also in the secondary real estate loan market, absorbed the hit for a relatively marginal Fannie Mae business loss due to the frauds of Fannie-approved First Beneficial.

Fannie employees, although with no explicit requirement to advise Ginnie Mae of First Beneficial’s behavior, allowed the fraudulent sales to Ginnie take place.

First Beneficial then used the proceeds to reimburse Fannie, leaving Ginnie holding the bag. The result? The American taxpayer ultimately absorbed this loss.

The good news is that the architects and enablers of the First Beneficial scheme are in Federal prison with hefty sentences, and Fannie and Freddie have established anti-fraud policies to guide their employees. We will ask our witnesses whether those internal changes will do the job.

I am pleased that Mrs. Kelly has brought together four witnesses who can both help us understand what happened and also discuss how we can prevent a repeat of these frauds in the future.

I welcome the HUD Inspector General, the Honorable Kenneth Donohue, Fannie Mae Vice President Samuel Smith, III, Mr. John P. Kennedy, an Associate Attorney General from HUD, here to present the Ginnie Mae perspective, and the Honorable Alfred Pollard, General Counsel of the Office of Federal Housing Enterprise Oversight.

Again, my thanks to Chairwoman Kelly for convening this hearing. Thanks also to our witnesses for their willingness to explore this matter for the record. I look forward to an enlightening discussion.

I yield back the balance of my time.