

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Rudman Report on Fannie Mae
Tuesday, March 14, 2006

In early 2003, we were led to believe that the GSEs were running smoothly with only a routine accounting restatement in progress at Freddie Mac. What we have learned since then is that Freddie Mac and Fannie Mae were involved in large-scale misapplication of accounting standards and irresponsible corporate governance.

OFHEO, Congress, and the American people were misled by the former leadership of these enterprises. The Federal Home Loan Bank System has had its own share of accounting and management problems.

In 2004, Fannie Mae's board turned for help to Senator Warren Rudman, who, with his team of legal and accounting experts, has given us a report of both great quantity and quality. He has verified much of what OFHEO eventually uncovered and the SEC subsequently confirmed, providing an in-depth understanding of the intent and motive behind the transactions reviewed.

This voluminous report details widespread departures by senior management from GAAP accounting, largely to minimize earnings volatility and meet forecasts, and in 1998 to trigger maximum executive bonuses. Accounting systems were grossly inadequate and employees were unqualified.

Senator Rudman found that management "paid lip service to a culture of openness, intellectual honesty, and transparency...and discouraged dissenting views, criticism, and bad news." Arrogance is a descriptive term used more than once. There was clear disdain for OFHEO.

Fannie Mae claimed to be in line with state-of-the-art corporate governance, when in reality such standards were not being practiced. Failure to comply with Sarbanes-Oxley requirements of internal control over financial reporting is not an insignificant matter.

This report is costing between \$60 and \$70 million, on top of the \$500 million Fannie Mae spent last year on its financial restatement work, a job that is far from done. Fannie Mae must also pay the legal expenses of its former Chairman/CEO and CFO.

The encouraging news, according to the Rudman report, is that Fannie Mae has undergone an extensive transformation in personnel and structure. There has been a dramatic shift in the tone at the top. The company has not waited until issuance of this report to begin making necessary changes. I welcome the effort that Chairman Steve Ashley and CEO Dan Mudd are making in this regard.

What Senator Rudman and others have shown us occurred at the GSEs over several years. While those responsible have left, it's taking the GSEs years to make corrections. We look forward to OFHEO's final report on their special exam of Fannie Mae. We must learn from this experience.

The Rudman report underscores that it's time for a new, combined regulator for the GSEs, with the tools and funding needed to prevent abuses from developing and permit swift enforcement action if they do. H.R. 1461 provides strong, bank regulator-like powers in the vital areas of capital, portfolios, product approval, and receivership, commensurate with the task of overseeing these large and complicated companies.

H.R. 1461 passed the House overwhelmingly last October. I urge the Senate to act, so that Congress can pass overdue GSE regulatory reform this year.

Senator Rudman, we appreciate your work on this report and your appearance here today.

###