**SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES**
**U.S. HOUSE OF REPRESENTATIVES**

# STATEMENT OF ARMANDO FALCON, JR.
# DIRECTOR, OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
# ON
# "REVIEW OF OFHEO'S SUPPLEMENTAL AGREEMENT WITH FANNIE MAE"

**April 6, 2005**

Chairman Baker, Ranking Member Kanjorski and members of the Subcommittee, I am pleased to appear before you today to address OFHEO's supplemental agreement with Fannie Mae, and the issues that gave rise to the agreement.

We have two objectives in our ongoing special examination of Fannie Mae. First, we must identify all the problems, and then fix them. As my testimony today indicates, that task is not yet complete. Second, we must institute a comprehensive reform program to prevent problems from recurring. That program will include far stronger internal controls and corporate governance measures; an adequate investment in systems, processes and personnel; and the establishment of a corporate culture fully dedicated to compliance with the law, with GAAP and with all relevant rules and regulations.

With the continued cooperation of the Board and management, we expect that Fannie Mae will ultimately emerge from its troubles as a healthy, well-managed enterprise, properly focused on fulfilling its public mission. That is the ultimate goal of the supervisory actions we have taken. I believe it is a goal now shared by Fannie Mae's Board and its interim leadership as well.

## Fannie Mae

### *Special Examination and the September 2004 Agreement*

Our special examination of Fannie Mae continues. As you are aware, last September we entered into an agreement with the Board of Directors that set forth a series of matters requiring immediate attention, particularly in the area of accounting. The agreement also outlined longer-term remedial steps, such as changes in the company's compensation program and corporate structure. In addition, we required that the company maintain a 30 percent minimum capital surplus in order to address safety and soundness concerns.

### *Supplemental Agreement*

More recently, we entered into a supplemental agreement with Fannie's Board to address additional problems found by OFHEO. The agreement requires additional remedial steps in accounting policy and accounting management, and expands on reforms in controls and corporate governance. Significant among the corporate governance reforms was the requirement that Fannie Mae separate the Chief Executive Officer and Chairman of the Board positions. We also required the company to report weekly to OFHEO on its efforts to meet capital requirements, including any corporate decisions on dividend payments or other matters that would affect the company's capital position.

***Compliance with the Agreements***

In general, Fannie Mae has moved forward in addressing matters set forth in our agreements. Experts have been engaged, studies undertaken, certain personnel changes have been made and the company has formulated preliminary plans for new organizational structures and reporting lines.

***New Matters in the Special Examination: Accounting***

OFHEO's special examination of Fannie Mae has revealed a number of significant new accounting problems at the Enterprise. As with previous accounting problems we have uncovered, they reflect Fannie Mae's tendency toward overly aggressive interpretation of GAAP, or in certain instances -- when compliance with GAAP would negatively affect the company -- a willful disregard of accounting rules. They also reflect situations where Fannie Mae's accounting policies actually do comply with GAAP, but Enterprise personnel have failed to follow those policies.

***SFAS 65***

The first new accounting problem OFHEO has found involves Fannie Mae's application of SFAS 65, "Accounting for Certain Mortgage Banking Activities." According to SFAS 65, held-for-sale (HFS) mortgage loans should be reported at the lower of cost or market value (LOCOM). If the market value falls below the cost, a valuation allowance is created to record the decrease in the market price. Held-for-investment (HFI) loans should be reported at amortized cost. SFAS 65 states that loans should be designated as HFI only if the entity has the intent and the ability to hold the loans for the foreseeable future or until maturity.

Fannie Mae was not applying its own policies on ensuring that the classification and sale of loans met the internally-developed policies for such transactions. In addition, it seems that Fannie Mae did not put in place controls and processes to help the company identify loans intended to be held-for-sale (HFS) within the poolable loan portfolio.

When Fannie Mae purchases mortgage loans from lenders, it either securitizes the loans or retains them in its mortgage portfolio. According to Fannie Mae policy, the loans the Enterprise retains in its mortgage portfolio are classified as HFI. The Enterprise uses the pooled mortgage loans to create securities that it either sells to a third party or holds in its portfolio.

At the time of acquisition of mortgage loans, the trading desk identifies the loans that will be used for pooling. At the end of the month of acquisition, Fannie Mae classifies these loans as HFI or HFS depending on what the Enterprise intends to do with the securities created. Fannie Mae's policy states that a loan designated as HFI can be sold or transferred to HFS only with the approval of the Enterprise's Controller.

During a system upgrade in 2004, the Enterprise discovered a major programming error: all loans acquired during a given month intended for pooling had been recorded as HFI at the end of the month, regardless of whether the loans were initially marked as HFS or HFI. In subsequent months, upon securitization and sale of the mortgage securities, the underlying loans were taken off the books, and gains or losses were booked. Since the program with this error had been created in 1983, but was not detected and corrected until 2004, faulty re-designations of loans continued for 21 years.

The fact that Fannie Mae operated a faulty and inaccurate system for more than two decades reveals serious system weaknesses. To properly report past financial results, OFHEO has asked Fannie Mae to identify and record HFS loans at LOCOM, and to properly calculate the gains and losses on sales. If past HFS loans cannot be identified and properly recorded, then doubts are raised about management's intent and ability to hold similar loans in HFI in the future.

***SFAS 115***

In the accounting area involving Fannie Mae's initial designation and possible transfer of securities within SFAS 115 categories, we believe that Fannie Mae has failed to comply with GAAP.

According to SFAS 115, the intent to classify securities should be determined at the time of acquisition of the security. Any subsequent re-designations should be accounted for as a transfer from one class to another at Fair Value.

At Fannie Mae, however, at the time of trade, the trader purchases and records each commitment as either HTM or available for sale (AFS), so that securities delivered on these commitments may be held in the appropriate account at the Federal Reserve Bank. Fannie Mae's accounting policy, however, allows the trader to re-designate the securities in the portfolio for accounting purposes at the end of the month in which the trade settles.

This process, called Intra-Month Re-Designation (IMRD), provides management with flexibility not allowed under GAAP. It permits Fannie Mae to wait until the end of the month in which a trade settles to make a decision on whether to sell or hold. Such decisions on SFAS 115 designations could be based upon gains or losses accrued after the trade date, or upon further analysis of the collateral underlying the mortgage-backed securities.

Prior to November 2003, Fannie Mae was performing a sorting and sifting process involving actual scoring of trades that allowed the Enterprise to retain high quality loans for its portfolio, while fulfilling matched buy and sell (MTBS) trades using lower quality collateral. The Enterprise referred to this process internally as “keep the best; sell the rest.”

As mentioned, SFAS 115 requires that the intent for classification of securities be determined at the time of acquisition. Fannie Mae’s IMRD process, however, has allowed the Enterprise to change its intent for classification at the end of the month of settlement -- even though its intent was previously specified at trade date.

OFHEO believes Fannie Mae’s policy to designate securities at the end of the month of settlement violates GAAP. Any transfer of securities from HTM to AFS raises questions about management’s intent and ability to hold similar securities in its HTM portfolio.

This practice appears to stand in stark contrast to the company’s denials of engaging in “cherry picking” when the matter was reviewed by a 2003 Task Force on Mortgage Backed Securities Disclosure.

The next two accounting issues provide examples of Fannie Mae not applying its own internally-developed policies. Moreover, OFHEO questions whether the internally-developed policies in these areas are in compliance with GAAP.

***SFAS 140 (Dollar Rolls)***

The first issue involves SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” Fannie Mae enters into sales of securities from its HTM portfolio under agreements to repurchase the same or substantially similar securities at a later date. These are called dollar-roll repurchase agreements, or simply dollar rolls. Fannie Mae accounts for these transactions as financings rather than sales of securities. The transaction is not considered a sale if the Enterprise is entitled and obligated to repurchase the same or substantially similar securities before the securities mature, and the company effectively retains control of the transferred securities.

It appears, however, that Fannie Mae is not applying its own policies regarding the return of securities for such transactions. In addition, Fannie Mae also seems to have failed to develop policies to monitor adequate collateral.

Fannie Mae’s practices may fail to meet the requirements of SFAS 140, which states that dollar roll transactions should be accounted for as secured lending transactions if they meet the conditions set forth in paragraph 47 of this particular Statement of Financial Accounting Standards**.** Failure to comply with any of the conditions would result in recording of the dollar roll transaction as a sale of a security.

Fannie Mae, uses securities classified as HTM for its dollar roll transactions. If the dollar roll transactions do not meet the criteria for a secured financing, the sale of an

HTM security will have occurred. If there is a recurring practice of selling securities out of the HTM portfolio as a result of a dollar roll failure, then the HTM portfolio could well be tainted, which in turn would require that Fannie Mae classify all HTM securities as AFS.

Statement of Position (SOP) Number 90-3 states that to consider redelivered securities as substantially similar, the underlying collateral for the MBS needs to have similar remaining weighted average maturities (WAM) that result in approximately the same market yield. Fannie Mae's accounting policy for dollar rolls considers securities within a WAM of plus or minus 24 months, and a yield of plus or minus ten basis points as substantially similar securities. Fannie Mae's accounting policy states that WAM and yield tolerance levels should be calculated as a weighted-average on the overall trades rather than on the individual securities.

It should be noted that while this was a long-standing policy of the Enterprise, Fannie Mae did not perform calculations until 2003, and even then only conducted the WAM test. Fannie Mae made the assumption that if the WAM test was met, then the yield test was met automatically.

Operational issues have also been identified in the review of these transactions. According to the Emerging Issues Task Force (EITF) Topic D 65, an entity is required to monitor the adequacy of the collateral received under a repurchase agreement or similar transaction. Yet we found no evidence that Fannie Mae monitors collateral for adequacy. Further, Fannie Mae does not appear to have policies and procedures in place to assure that sufficient cash and collateral is available during the term of its dollar roll transactions, in order to substantially fund the cost of purchasing replacement assets.

In sum, Fannie Mae neither applied its own policies for dollar rolls, nor did it develop procedures for monitoring collateral adequacy.

***SFAS 149***

SFAS 149 amended SFAS 133, effective July 2003. SFAS 149 requires that Fannie Mae account for certain purchase and sale commitments of mortgage-related assets as derivatives. Prior to the promulgation of SFAS 149, these instruments were not covered by SFAS 133. At Fannie Mae, such instruments include mandatory commitments to purchase or sell securities or loans into and out of the Enterprise's portfolio, as well as matched buy and sell trades.

Since the inception of SFAS 149, it appears that Fannie Mae has applied cash flow hedge accounting to certain transactions that it may have inappropriately deemed as being probable of occurring, had insufficient documentation in place for many transactions, inappropriately assumed perfect effectiveness in fair value hedges with non-zero fair values and inconsistently accounted for certain transactions.

To be exempt from derivatives accounting, SFAS 149 requires, among other things, that an entity document the basis for concluding that it is probable that a contract will not settle net, and will result in physical delivery. Fannie Mae's SFAS 149 policy document states that the Enterprise has elected not to put such documentation in place. Therefore, it treats these securities as derivatives.
However, in order to qualify for cash flow hedge accounting, SFAS 133 requires that the hedged forecasted transaction be probable of occurring. Fannie Mae's commitments to purchase and sell mortgage assets frequently do not result in delivery of the security. In order to establish that its forecasted transactions are probable of occurring for cash flow hedging qualification purposes, Fannie Mae developed a rolling twelve-month probability threshold, indicating the percentage of time all transactions accounted for using cash flow hedge accounting actually occurred. They appear to have applied this statistic in the aggregate rather than by product, channel or transaction type.

Fannie Mae's policy states that if its forecasted transactions occur at least 75 percent of the time, then they are probable of occurring as defined by SFAS 133. We understand that as long as this threshold is maintained in the aggregate, Fannie Mae continues to apply cash flow hedge accounting to 100 percent of its purchases and sales commitments.

In OFHEO's view, Fannie Mae's SFAS 149 policy represents circular reasoning in concluding that the Enterprise's transactions qualify for hedge accounting. Fannie Mae has indicated that it will not produce documentation outlining the basis for concluding that the transactions are probable of occurring for purposes of qualifying for when-issued securities for the scope exception. However, the Enterprise has stated that its transactions qualify for hedge accounting, which requires that the forecasted transaction being hedged is probable of occurring.

OFHEO further believes that the documentation Fannie Mae maintains for its portfolio commitments, which its treats as cash flow hedges, is insufficient. SFAS 133 requires an entity to have certain documentation in place, specifically regarding cash flow hedges. It states that the documentation at the inception of the hedge regarding identification of the forecasted transaction must have "sufficient specificity so that when a transaction occurs, it is clear whether that transaction is or is not the hedged transaction." Upon the adoption of SFAS 149, hedge documentation was expected to reflect the total purchase and sale commitments in the aggregate rather than by individual transaction, as required by SFAS 133**.**

Paragraph 65 of SFAS 133 requires that a hedging instrument must have a fair value equal to zero in order to apply matched terms and expect a perfect offset. When the MTBS sale is designated as a fair value hedge of the as-soon-as-pooled (ASAP) loans, it will have already been outstanding and will therefore not have a zero value. The practice of hedging the fair value of loans was discontinued in the first quarter of 2004 because Fannie Mae decided to begin accounting for the loans received under MTBS ASAP sales and held until settlement of the forward sale, as trading securities under SFAS 115. However, Fannie Mae treated the change as an accounting error because they deemed the early-funded loans to have become securities on the day of early funding rather than when they were securitized upon settlement. Yet Fannie Mae did not restate past periods because it believed the change effectively resulted in the same earnings effect. OFHEO believes that Fannie Mae did not qualify for matched-terms accounting under SFAS 133 for 2003, and that a restatement of past periods was and is required.

Fannie Mae's accounting for forward commitments under SFAS 149 does not appear to have been followed consistently since the adoption of the amendment on July 1, 2003. Fannie Mae apparently was unable to fully implement SFAS 149 in the allotted time frame, which resulted in its accounting for transactions subject to SFAS 149 to evolve subsequent to adoption.

In sum, in certain instances Fannie Mae's FAS 149 accounting policies did not comply with GAAP, its internally developed policies were not followed and control weaknesses in key accounting areas were not addressed.

***FIN 46***

Fannie Mae has also created an accounting policy related to its MBS pool activities, which appears to have as a primary purpose the avoidance of consolidation under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," also known as FIN 46. OFHEO believes that in this area, the Enterprise has not complied with FIN 46. As part of its policy, Fannie Mae transferred securities between SFAS 115 categories, yet did not provide the required documentation to describe the rationale for the transfers.

Fannie Mae engages in purchases of loans and offerings of MBS. In certain instances, the Enterprise obtains 100 percent of the MBS issued in an offering. In addition, Fannie Mae may end up owning 100 percent of a particular MBS through purchases in the secondary market. Fannie Mae states that it uses Qualified Special Purpose Entities (QSPEs) to issue these MBS. QSPEs are exempt from FIN 46 consolidation unless the company has the unilateral ability to liquidate or change the QSPE.

In February 2003, Fannie Mae adopted an accounting policy that defined a unilateral ability to liquidate as equivalent to owning 100 percent of a pool. This policy allowed the company to improperly avoid consolidation in three ways. The first was to effect a transfer of wholly-owned pools of securities from AFS to HTM; second, sell one percent of the wholly-owned pool to a third party; and third, create "mega pools," the collateral of which was comprised of multiple wholly-owned pools. The Enterprise took this step so that the sale of one percent of a "mega pool" would render the consolidation issue moot.

As discussed, FIN 46 exempts QSPEs from consolidation, unless the company has the unilateral ability to liquidate or change the QSPE. FIN 46 does not give a definition of unilateral ability to liquidate. However, in reviewing the relevant literature, it appears that the sale of at least ten percent interest in a pool precludes the unilateral ability to liquidate. A minority holding below the ten percent threshold would necessitate an analysis of facts and circumstances. Moreover, a clearly insignificant minority interest could result in a presumption that the majority holder has the unilateral ability to liquidate. Fannie Mae's policy provides no facts or circumstances to support its decision to use a one percent threshold. We do not believe that Fannie Mae's actions constitute a sufficient relinquishment of ownership to counter the presumption that it retains the unilateral ability to liquidate, and therefore must consolidate under FIN 46.

Fannie Mae developed a policy of transferring wholly-owned MBS pools to the HTM category. Its rationale for development of this policy was that accounting for HTM investment under FAS 115 and accounting for HFI loans under FAS 65 were similar. While OFHEO agrees that some of the accounting is similar, there remain a number of significant differences.

Investments of loans and securities represent separate accounts on the balance sheet. In addition, the impairment model for HTM securities under SFAS 115 may or may not recognize impairments for the same amounts or in the same periods as credit losses would be recognized for whole loans under SFAS 5 and SFAS 114. We question whether the transfer of wholly-owned pools to HTM precludes consolidation of these assets under FIN 46, and whether there is a valid business purpose for such transfers. Moreover, transfers of securities between categories should have supporting documentation that describes the rationale for the transfer.

OFHEO has directed Fannie Mae to examine each of the above accounting policies and assure that they comply with GAAP currently, and did so in the past.

Mr. Chairman, the accounting issues I have just outlined, do not constitute an all-inclusive list. As OFHEO continues its special examination and Fannie Mae completes its restatement, we expect additional accounting issues to surface.

***Internal Control Issues: Journal Entry Controls***

During our special examination we have also identified several problems involving procedures for preparing, reviewing, validating, authorizing and recording journal entries relating to amortization adjustments. These issues include falsified signatures on journal entries; failure to require that journal entry preparers understand the purpose for which the journal entry was made, or that journal entry reviewers and approvers determined that entries were valid and appropriate; failure to require that journal entries include supporting documentation; lack of independent review of journal entries; and an absence of written policy guidance concerning journal entry procedures.

During our special examination, a Fannie Mae employee testified that from 1999 through 2002, journal entries related to amortization bearing the employee's name and signature were, in fact, not prepared by the employee. Those entries were created after the closing process, a time when journal entries require heightened scrutiny.

OFHEO has directed Fannie Mae to determine the full extent to which journal entries with falsified signatures took place, and the circumstances surrounding such entries. OFHEO has also directed Fannie Mae to determine who falsified the signatures on journal entries, and why the falsified journal entries were not detected at the time of entry or afterward.

In addition, OFHEO obtained testimony from an employee in the Controller's division indicating that the employee did not have an understanding of the purpose behind certain journal entries the employee made. The employee further stated a willingness to have prepared any entry asked of the employee – and, in fact, did prepare such entries. OFHEO has directed Fannie Mae to determine the full extent to which employees made journal entries without having an understanding of the purpose behind the entry.

Other testimony received during our special examination indicates that Fannie Mae maintains no written policies requiring journal entry reviewers and approvers to determine that an entry is a valid and appropriate entry, let alone one that complies with GAAP. Testimony also indicates that at least one employee who approved journal entries relating to amortization had no formal responsibilities relating to amortization. Instead, that employee was responsible for business planning and budgeting. OFHEO has directed Fannie Mae to determine the full extent of journal entries made where the reviewer and approver did not determine validity or appropriateness.

Further, documents and testimony indicate that certain amortization adjustments did not have adequate supporting documentation. Moreover, Fannie Mae does not appear to have formal written policies governing documentation requirements to support journal entries. OFHEO has directed Fannie Mae to determine the full extent of journal entries lacking proper documentation, who was aware of the fact that proper documentation was not prepared and maintained, and what action, if any, was taken.
OFHEO's special examination has also identified documents and obtained supporting testimony indicating instances where Fannie Mae did not independently review journal entries. For example, testimony from one Enterprise employee concerning amortization adjustments indicates that another employee approved journal entries that the first employee instructed the second to make. OFHEO has directed Fannie Mae to determine the full extent of journal entries that it did not independently review.
These issues remain under investigation as part of the special examination.

***Systems Limitations and Database Modifications***
Fannie Mae uses a wide variety of systems for accounting and financial reporting. During the course of OFHEO's special examination, it has become evident that the Enterprise was overly reliant on end-user applications -- such as spreadsheets -- and employed other practices inconsistent with principles of sound internal controls. Our findings in this regard are consistent with our earlier discoveries of errors in the Enterprise's SFAS 149 accounting.

OFHEO believes that Fannie Mae's portfolio accounting system, known as STATS, has significant limitations. Among the problems we noted are that STATS cannot estimate amortization of deferred price adjustments, pursuant to SFAS 91; mark the mortgage-backed securities portfolio to market; account for dollar roll transactions; account for mortgage revenue bonds; or account for interest-only strips pursuant to EITF Issue No. 99-20.

In short, the STATS system cannot perform any of the calculations fundamental to properly account for almost the entire portfolio held by the Enterprise without substantial support from other internally-developed systems or spreadsheets. OFHEO has directed Fannie Mae to determine its potential exposure from its use of systems for portfolio accounting that are ill-suited for their intended purposes.

During the course of the special examination, Enterprise management informed us of numerous instances whereby technology applications support personnel, at the direction of management, would overwrite database records in order to make changes or corrections. The Enterprise, which referred to such database modifications as "DB mods," used them widely. Several Employees testified that DB mods could even be communicated via email.

The practice of allowing pervasive application of DB mods indicates a poor internal controls environment at the Enterprise. This environment is characterized by non-ledger based systems that are ill-equipped to support the accounting infrastructure; continuous access to production-level data by technology personnel, which can negate the positive effects of any other internal controls; and lack of specific records of the changes made through the DB mod process.

OFHEO has directed Fannie Mae to determine the extent to which the Enterprise employed DB mods and the affect on accuracy and reliability of financial statements.

***Manipulation of Amortization Factors***

SFAS 91 specifies requirements for calculating the amortization of premiums and discounts on securities. According to SFAS 91, it is possible to include forecasts of prepayments when determining the period of amortization for mortgage-backed securities. In the event that new information requires the period of amortization to change, a retrospective adjustment must be recorded currently into income. In addition, the prospective rate of amortization should be changed to reflect the new estimated life.

OFHEO's September 2004 report detailed a number of conclusions related to the Enterprise's practice of measuring and recording retrospective adjustments required by SFAS 91. Information received by OFHEO after the September report points to additional issues with the prospective amortization rates used by the Enterprise. Specifically, it appears that Fannie Mae employees made manual discretionary adjustments to future amortization rates in particular months. Such adjustments were made to particular factors in the future factor array through special functionality in Fannie Mae's amortization model.

OFHEO's examiners found that Fannie Mae staff made substantial adjustments to certain factors that were to be used in future periods. In some cases, over 40 percent of unamortized balances were amortized in a particular month, a rate that is extremely anomalous, given that the level yield method would typically result in amortization for conventional mortgage-backed securities in the range of one to three percent per month. Such adjustments are difficult to detect in a normal auditing process and can have material effects on amortization income or expense. OFHEO has directed Fannie Mae to examine this issue and determine if there is a record of factor change adjustments, who approved them, and the aggregate effect of these factor changes on prior period financial results.

**Funding**

As the scope of the Fannie Mae special examination has proceeded well beyond our original expectations, we will need additional funds this year. Accordingly, we have used our Special Assessment authority to assess Fannie Mae an additional five million dollars. However, while we have collected the funds, OMB has opined -- due to a technical deficiency in the statute -- that we may not spend the funds. We do not agree with OMB's interpretation, but are bound by it. This provides yet another example of why Congress must enact legislation to give the regulator the authority it needs to do its job. Until then, this funding issue will need to be addressed.

**Conclusion**

Mr. Chairman, I would like to end on a personal note, if I may. As you know, my five-year term as Director of the Office of Federal Housing Enterprise expired last October. But I have remained in office to guide the agency through a very challenging period. With your help, and with the help of your colleagues on the Senate side, the White House, the Department of Housing and Urban Development, the Department of Justice and the Securities and Exchange Commission, I believe the most critical and pressing issues at the Enterprises have been addressed. Barring extraordinary circumstances, I have, therefore, decided to step down from my position on May 20, 2005 to explore new opportunities.

I am proud of OFHEO's achievements during my tenure. The agency has successfully dealt with very serious problems at two of the largest financial institutions in the world. We have done so without disrupting our financial system, while allowing both Enterprises to continue fulfilling their vital mission of making home ownership more affordable. I am particularly proud of the efforts of OFHEO in our conduct of the Special Examination of Fannie Mae. Seldom does a safety and soundness regulator identify improper actions, with potentially billions of dollars of adverse impact, before they manifest themselves in a way that does permanent damage to the company. This was done at a time when the outside auditor, a Big Four internationally-recognized accounting firm, was certifying the financial statements as accurately reflecting the financial condition of the Enterprise.  OFHEO has raised the bar in terms of effective safety and soundness regulation, and I have been privileged to lead the agency during this period.

With the continued assistance of OFHEO's talented staff, I expect Fannie Mae and Freddie Mac will ultimately emerge as more effective Government-Sponsored Enterprises, to the benefit of the U.S. economy and to all Americans.

It has been a privilege to serve as Director of OFHEO, and an honor to serve this wonderful country.

Thank you Chairman Baker, Members of the Subcommittee, for this opportunity.  I will be pleased to answer any questions you may have.