

**OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA  
HOUSE COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON CAPITAL MARKETS  
“ADDITIONAL ACCOUNTING AND MANAGEMENT FAILURES AT  
FANNIE MAE – OFHEO’S EFFORTS TO ENSURE SAFE AND  
SOUND OPERATIONS”  
APRIL 6, 2005**

Chairman Baker and Ranking Member Kanjorski,

I want to express my sincere appreciation for you holding this hearing today, and I want to welcome Director Falcon back to our Subcommittee. I look forward to his testimony.

Yesterday, Full Committee Chairman Oxley and Subcommittee Chairman Baker introduced the "Federal Housing Finance Reform Act of 2005." According to the Dear Colleague I received, the legislation will create a new, independent regulatory agency headed by a Director with authority over safety and soundness, as well as mission supervision. The Agency will supervise Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. The Agency will have broad authority to regulate minimum and risk-based capital. The bill vests the Agency with the ability to approve new programs, and it establishes a structure to place a failed GSE into conservatorship or receivership.

I have not had time to review the bill because it was introduced only yesterday, but I intend to review it carefully and cautiously to determine whether to cosponsor it. As part of that process, I will compare it with its Senate counterpart introduced by Senators Hagel, Sununu and Dole. The Senate bill includes a very important provision on compensation at the GSEs.

As most of us are aware, OFHEO issued a report stating that Fannie Mae applied accounting methods that did not comply with Generally Accepted Accounting Principles (GAAP). On September 27, 2004, the Fannie Mae board of directors entered into an agreement with OFHEO to take actions in areas of capital, accounting, staffing, compensation, governance, and internal controls. Under this agreement, Fannie Mae was required to achieve a capital surplus equal to 30% of the enterprise's minimum capital requirement within 270 days. Fannie Mae must maintain this capital level until OFHEO's Director decides that the surplus requirement should be modified or ended. Fannie Mae also agreed to recalculate various accounting treatments over several years.

In December 2004, the SEC found that Fannie Mae's accounting for certain derivatives were not GAAP compliant and directed the enterprise to restate its previously reported financial statements, recognizing that Fannie Mae had overstated its earnings by an estimated \$9 billion in core capital. In response, OFHEO classified Fannie Mae as significantly undercapitalized.

Since that time, Fannie Mae has issued \$5 billion in preferred stock and cut its common stock dividend by 50%. Fannie Mae was given an additional 90 days, until September 30, 2005, to reach its targeted 30% capital surplus.

Having said that, I yield back the remainder of my time.