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Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

**Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises**

**Additional Accounting and Management Failures at Fannie Mae—
OFHEO's Efforts to Ensure Safe and Sound Operations
Wednesday, April 6, 2005**

I want to welcome Director Falcon back to the Committee this morning. Director Falcon, following your announcement yesterday, we want to wish you the best in your future endeavors, and we should note your good work at OFHEO under trying circumstances. For those members who may not be aware, Director Falcon is an alumnus of the old Banking Committee, and I know you all join me in wishing him well.

This morning, we plan to discuss the recent agreement between OFHEO and Fannie Mae's board of directors, as well as the regulatory reform of the GSEs. I am also interested in learning more about the recently approved corporate governance rule issued by OFHEO which embodies the principles of the Sarbanes-Oxley Act.

Since the 106th Congress this Committee has held 21 hearings and has heard from 100 witnesses on GSE related matters. Director Falcon you are the 101st witness to testify before the Committee on GSE issues. Chairman Baker should be commended for his hard work in monitoring the GSEs over the years, and I am proud to be a cosponsor of the legislation he introduced yesterday to create a new GSE regulatory agency. This legislation will grant the agency the necessary powers to ensure the safe and sound operations of these complex enterprises. I would encourage my colleagues to join in support of this legislation.

In April 2003, we were all 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 these enterprises were involved in revenue smoothing, the misapplication of accounting standards, and irresponsible corporate governance. The Federal Home Loan Bank System has also had its share of problems over the years with accounting problems and insufficient management. It is time for a new oversight structure for the GSEs that will give the regulator the tools it needs to prevent these problems from developing and permit swift action when problems do arise. It is our duty to structure a strong regulator to ensure that the housing market, the taxpayers and the financial system as a whole remain safe.

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I hope to learn more details of the recent OFHEO agreement and why the Director felt it necessary to mandate new controls for revising, validating, authorizing and recording journal entries in the general ledger at Fannie Mae. Did the OFHEO special investigation uncover fraudulent activity at the enterprise? Were executives making changes to the general ledger without documenting these changes? I am also interested in additional details of the extent of the accounting problems to date.

We have heard from some that Congress should be cautious in its efforts to create a new regulator and that we need to be mindful not to harm the housing market. In truth, the housing markets are being threatened now by all of the various accounting and regulatory problems at the GSEs and by the lack of a regulatory agency with real power and real authority. A regulator with enhanced powers will ensure that our housing finance system recovers and becomes stronger and more resilient in the future.

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