

STATEMENT OF THE HONORABLE WM. LACY CLAY

Before the

Subcommittee on Capital markets, Insurance, and Government Sponsored Enterprises
“The OFHEO (Office of Federal Housing Enterprise Oversight) Report: Allegations of
Accounting and Management Failure at Fannie Mae”

Mr. Chairman, We are rushing to judgment today. OFHEO has released a preliminary report which has not been proven, but leaked to the press. During the course of the examination, Fannie Mae was not given the chance to respond to OFHEO findings. Informal communications, which are at the core of the GSE’s oversight statute, were essentially ignored. At least one former examiner at OFHEO questioned the political motivations behind OFHEO’s rush to judgment.

Mr. Chairman, we do not normally hold hearings on matters before other investigations are complete. Internal findings are normally discussed informally and remedies proposed. There are other stages of this process that take place before judgment is rendered. Why circumvent the process? Why this hearing? If I were a member of Fannie’s Mae’s board, I would find the environment very intimidating. Mr. Chairman, why is Senator Shelby not holding a hearing on this preliminary report? After all, the Senate Banking Committee reported out legislation on the GSEs. Maybe this hearing agenda is about something more than the accounting procedures at Fannie Mae.

As you know, Fannie Mae recently entered into an agreement with OFHEO in which they focused on accounting, internal control, and capital. Fannie Mae has agreed to increase additional capital by 30 percent – I’m not sure how the new requirement promotes affordable housing – within 45 days, OFHEO and Fannie Mae will implement additional internal controls.

The Securities and Exchange Commission (SEC), as is intended, should be the final arbiter of GAAP. Why can’t we let the SEC decide this issue? Why must we rush past them?

This hearing is about the political lynching of Franklin Raines. We have seen this happen too many times before. We are to go out of session and the deed is to be done before the election. Why can’t we just say that this is the agenda? Let us debate that issue on its own merit. Better still, let due process take its course and let the chips then fall where they may. That is, unless this is truly a witch-hunt.

We are having a trial by OFHEO leaks; trial by newspaper articles; and trial without due process. In this case the Senate has it right!