

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

**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”**

October 6, 2004

I want to thank Chairman Baker for holding this hearing on the recently released report from OFHEO's special examination of Fannie Mae. He has followed these issues closely and should be commended for his diligent oversight of the GSEs. It is my hope that this hearing will highlight the concerns raised in the OFHEO report and will help Members get to the bottom of the accounting and corporate governance issues at Fannie Mae.

It's unfortunate that we are here today. After earnings smoothing at Freddie Mac was discovered, the public and the markets and the members of the Committee were assured that there were no similar issues at Fannie Mae. The findings in OFHEO's report, if accurate, are disturbing.

While we wait for OFHEO and the Justice Department and the Securities and Exchange Commission to complete their respective tasks, the management and board of directors at Fannie Mae must take real steps to address the issues and continue to cooperate with regulators. The agreement between Fannie Mae and OFHEO is a beginning of that process, but I seriously doubt it can be the end.

Since the enactment of Sarbanes-Oxley two years ago, corporate financial statements have become more transparent and more reliable. There is no question in my mind that the Act is at least partly responsible for this progress. The CEO and CFO certifications of financial statements have had a profound impact on the reporting process.

Other provisions are working, too, such as the Public Company Accounting Oversight Board's inspections regime, strengthened and independent audit committees, officer and director bars, the Fair Funds, expedited disclosures of insider transactions, and internal control requirements, to name just a few. That is not to say that we can legislate integrity in every case. But we do have a sensible framework of incentives and disincentives that will affect behavior.

The OFHEO report raises serious questions about whether Fannie Mae has adequate internal control procedures. The multiple and conflicting duties of the chief financial officer, who we will hear from this morning, calls into question whether there is adequate separation between the risk taking and control functions.

In my view, Section 404 is one of the most important parts of Sarbanes-Oxley. Internal control over financial reporting consists of company policies and procedures that are designed to provide reasonable assurance about the reliability of a company's financial reporting and the preparation of external financial statements in accordance with generally accepted accounting principles.

Failure to comply with its requirements is not an insignificant matter. I am eager to hear from the company's senior management officials on their adherence to this critical provision.

Fannie Mae enjoys certain advantages in the marketplace not afforded to other financial companies in order to serve a public purpose. We have recently learned that the corporate structure may have fostered an atmosphere in which senior management may have had undue influence over accounting policies and procedures, and that corporate earnings and management compensation may have been manipulated.

OFHEO has worked hard in conducting reviews of the GSEs. Director Falcon and his staff have been diligent in trying to ensure that the GSEs receive the appropriate oversight. The findings in this report, if correct, reinforce arguments for the creation of a GSE regulator with the powers and authorities granted to other financial regulators and commensurate with the task of overseeing these large and complicated companies. I was dismayed to learn that OFHEO was forced to resort to issuing subpoenas this past July in order to obtain cooperation with its investigation. It is my sense that if OFHEO had the tools possessed by other regulators this investigation would not have reach the subpoena stage. If we had a GSE regulator with the powers and authority of a world-class regulator, it is possible that these problems at Fannie Mae would have been remedied earlier and today's hearing would not be necessary.

The OFHEO report details problems ranging from possible earnings manipulation to management structures that may not have been in line with state-of-the-art corporate governance. I am very concerned about the possibility that Fannie Mae claims to have sound corporate governance standards, when in reality these standards are not in practice.

Fannie Mae's board did the right thing in entering into an agreement with OFHEO and beginning the process of remedying the problems highlighted in the report. The OFHEO report is not finished and it is my hope that Fannie Mae will cooperate with this investigation as well as the other investigations currently underway at the Securities and Exchange Commission and the Department of Justice. Furthermore, I hope that this situation does not devolve into a war among accountants arguing technical points that do not put to rest the issues raised in the OFHEO report. We owe it to the housing market and to the financial markets to quickly resolve all of the accounting and governance uncertainties.

I want to welcome all the witnesses appearing before the Subcommittee today. I look forward to your testimony.