

**Opening Statement**  
**Chairman Michael G. Oxley**  
**Committee on Financial Services**

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

**January 21, 2004**

**“Hearing on the Report of the Special Examination of Freddie Mac”**

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I want to thank Subcommittee Chairman Baker for convening this important hearing on the recent report issued by the Office of Federal Housing Enterprise Oversight. This report details the causes of Freddie Mac’s restatement and the management reorganization that followed. This is a comprehensive report that highlights many of the concerns we have heard about the operations and the oversight of the GSEs. As a result of this investigation, OFHEO and Freddie Mac have entered into a consent agreement in which Freddie Mac agreed to pay \$125 million in fines and make several significant changes to its corporate governance. I appreciate all the hard work Director Falcon and his staff have done on this report.

Freddie Mac accounts for billions of dollars of mortgage backed securities and currently has debts outstanding in the trillions of dollars. There is no argument that this company is critical to the housing market. Freddie supplies liquidity to institutions so they can provide loans to consumers seeking to purchase homes. However, with this important mission comes an equally important mandate to protect the taxpayers and to be honest with investors. As the OFHEO report demonstrates, Freddie Mac’s senior management misled its investors, its board of directors, and the U.S. taxpayers. I am, however, encouraged by the remediation efforts underway at Freddie Mac. Mr. Baumann and his team have worked hard through difficult times to formulate a plan to return Freddie Mac to financial stability and they should be commended. I believe that with continued diligence and real reforms confidence can be restored in the operations of this important company.

Director Falcon has presented an in-depth review of Freddie Mac, but the question remains – where was OFHEO when these improper trades were taking place? This investigation was not commenced when Freddie Mac announced its restatement, rather it began after the Chairman and CEO, along with two other senior executives were released from the company. In fact, if Arthur Andersen had not been removed as the auditor for Freddie Mac, there is no guarantee that the

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earnings management and improper trading practices would not still be going on today. I believe that OFHEO is under-funded and lacks many of the necessary powers to adequately oversee both Freddie Mac and Fannie Mae. I support additional funding for OFHEO so that it can fully examine the GSEs and hire a sufficient number of examiners to monitor these complex financial institutions.

The report we consider today makes several important recommendations for changes both at Freddie Mac and at OFHEO. These recommendations are well thought out, and many of them should be implemented. I look forward to the testimony of Director Falcon and Mr. Baumann and hope that this hearing will shed some light into what went wrong at Freddie Mac, what steps are being taken to remedy the situation, as well as what changes should be made to ensure that both Freddie Mac and Fannie Mae are properly regulated.

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