



# EXCHANGE

## Subcommittee on Capital Markets

**Richard H. Baker, Chairman**  
Securities, Insurance, Government-Sponsored Enterprises

**The News from U.S. Rep. Richard H. Baker**  
**Sixth District, Louisiana**

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### Opening Statement

The Honorable Richard H. Baker, Capital Markets Subcommittee Chairman  
Capital Markets Subcommittee Hearing  
February 9, 2005  
Accounting Irregularities at Fannie Mae

The subcommittee on capital markets convenes today for the first time in this the 109<sup>th</sup> congress. I wish to extend welcome to the new members of the majority. I leave the pleasure of making introductions to the new members of the minority to the gentleman from PA, Mr. Kanjorski.

The subcommittee also convenes today for another important purpose. Although not a pleasant task, it is an essential one. What now seems a very long time ago, the Office of Federal Housing Enterprise Oversight, known as OFHEO, engaged an audit firm to conduct what is known as a forensic accounting audit of Fannie Mae. The audit, which is not yet complete, resulted in the production of an interim report which was reviewed by officials of OFEHO and found to be of sufficient concern to result in a report to this committee of those concerns. The principle concerns centered on the manner by which the enterprise reported its financial condition and the risk exposure of its derivative portfolio. When the committee last met, the Director of OFHEO, Mr. Armando Falcon, was verbally assaulted by members of the committee, on both sides, for his irresponsible conduct, or perhaps even worse, pursuit of some undisclosed political or business agenda. It was the view of some that on procedural appeal to the SEC these accusations would be found to have no merit and be swept aside.

Since the time of that hearing, the criticism of the agency, and the attacks on a congressionally created federal regulator, the agency and Mr. Falcon have been more than just vindicated. The unfortunate finding of the SEC is that the accounting practices of Fannie Mae were not just an exercise of bad judgment, or a one time aberrant act, but a consistent misapplication, at best, or at the worst, an intentional act of accounting misrepresentation.

We will receive a report from the Chief Accountant of SEC today, whom I publicly commend for his professional ability to first examine and then reach a very difficult decision. The review of the facts in this matter is not without great consequence. Fannie Mae was and remains a political institution of great persuasion. They have, for many years, been able to bully their way through myriad regulatory processes and political engagements unscathed. This time the outcome was different because of the professionalism of OFHEO and the SEC. This time there cannot be more excuses. The facts are what they are.

Officials at Fannie Mae have stepped down in the wake of the disclosures. The board has promised to change the culture of mismanagement at the institution. And there is more to come. I remind the members that the

report that initiated this controversy was only an interim report. The work of the auditor is not yet complete, and neither is the work of the SEC or the Justice Dept. We will all await the results of these examinations for a full and complete assessment. In the course of questioning the SEC official today, members should remember that the answers to many questions may not yet be appropriate to disclose, because of the pending inquiry. Legal council will advise the committee as to the appropriateness of responses of witnesses.

I should also note, that in press reports as of this morning, benefits, bonuses and more have been initiated for the executives who recently left the company before a finding of fact as to responsibility of the disclosed deficiencies. The regulator does not have the authority to unilaterally act on behalf of taxpayers or anyone else. Litigation will be required after the fact to reclaim, if possible, any ill-gotten gains.

It is unfortunate that such significant adverse events were necessary to bring us to this day, but perhaps finally, the committee will produce legislation responsive to what is now a fact, and that is that Fannie Mae was not and is not the institution that we had all hoped. They were subject to the same pernicious forces that affected others in the pursuit of profit. Financial manipulation, perhaps even for the personal gain of executives, undermined the responsibility of their important charter mandates. It is now our task to return them to their principle task, to pave the way to home ownership for all Americans, but with emphasis on those who have never had the opportunity to own their own home. It is also necessary to insure that their risk taking does not put at risk hardworking taxpayers of this country. The enterprises can accomplish both; they just need vigilant oversight to insure their success. It is my intention to see this happen during this session of Congress.

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