

Opening Statement of Congressman Christopher Shays

Capital Markets, Insurance, and GSE Subcommittee

“GSE Oversight: The Need for Reform and Modernization”

June 25, 2003

I want to thank Chairman Baker for holding what I hope will be the first in a series of hearings on the need to strengthen the regulation of Fannie Mae and Freddie Mac. These hearings are a continuation of our subcommittee’s, and especially our chairman’s, excellent work in examining the safety and soundness of these two government-sponsored enterprises (GSEs).

A funny thing happened on the way to the forum. On June 9, mortgage giant Freddie Mac announced that its three top executives were leaving the company and that there would be a further delay in the long-promised restatement of its financial results for not one, not two, but three years.

These announcements came less than a week after Freddie Mac’s *alleged* regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), gave Freddie Mac a clean bill of health, stating it “remain[s] satisfied that the Board of Directors and executive management are taking the appropriate action.”

Freddie Mac is the fourth largest financial services company in the United States, yet its regulator had no idea what was happening within the company’s walls. Freddie Mac is restating its earnings and endlessly delaying release of that restatement, yet the securities laws can barely touch it. The Securities and Exchange Commission (SEC) has a panoply of powers to regulate every other publicly traded company in the country, but has little authority over Freddie Mac and its sibling, Fannie Mae.

Equally troubling is a recent statement in the congressional newspaper, *The Hill*, by a Freddie Mac lobbyist who said, “We feel good about these hearings because this is a great story to tell – the restatements [of earnings] are going to be up, not down.” This comment is designed for financial dummies. Systematic accounting fraud may have been committed – but it’s a “great story” because earnings are higher?

What's more, we now know that just two business days before Freddie Mac's stock plummeted by 21 percent, five top company officials, including fired President David Glenn, sold over half a million dollars worth of company stock. While there may be a perfectly innocent explanation for these insider stock sales, such as a pre-arranged selling plan, the fact they occurred when these company insiders were likely to have been in possession of material non-public information – information whose disclosure could reasonably be expected to, and ultimately did, have a material impact on Freddie Mac's stock – raises very serious questions regarding whether possibly illegal insider trading may have occurred.

All of this brings us to today's hearing, which I hope will lead to the enactment of legislation that reforms these two enormous and important financial institutions.

Yesterday, Chairman Baker introduced legislation that abolishes OFHEO and creates a new safety and soundness regulator within the Department of the Treasury. This new, independently-funded regulator will have real authority to open up Fannie and Freddie's books and protect the interests of taxpayers and investors.

But establishing a new safety and soundness regulator, which I wholeheartedly support, is only part of the solution. We also need to strengthen the oversight of Fannie and Freddie's securities.

Fortunately, a strong regulator already exists. It's called the Securities and Exchange Commission, and it's been successfully regulating every publicly-traded company for seven decades. Well, *almost* every company.

When it comes to securities disclosure, the problem isn't a weak regulator. Quite the contrary. The problem is the exemption enjoyed by Fannie Mae and Freddie Mac from the federal securities laws.

When Chairman Baker's legislation is considered by this subcommittee – and I hope it's considered soon – I intend to offer an amendment to strengthen the regulation of Fannie Mae and Freddie Mac by repealing their special exemption from the Securities Act of 1933 and the Securities Exchange Act of 1934. The result will be a bill that provides for a strong safety and soundness regulator and equally strong securities disclosure.

Mr. Chairman, I thank you for calling this hearing and look forward to hearing from our distinguished panel of witnesses.