



Congressman
PAUL GILLMOR

Ohio's Fifth Congressional District

February 9, 2005

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
Hearing entitled, "Accounting Irregularities at Fannie Mae and the Impact on Investors"

Thank you, Mr. Chairman, for calling this hearing and for your continued leadership on this important issue.

On September 17, 2004 the Office of Federal Housing Enterprise Oversight (OFEHO) released a report of its findings from their special examination of Fannie Mae. The report determined that Fannie Mae applied accounting methods and practices that did not comply with certain Generally Accepted Accounting Principles (GAAP) or GAAP rules, did not have proper corporate governance controls in place, and utilized an improper "cookie jar" reserve system while deferring expenses reportedly to meet compensation targets.

On October 6, 2004 our subcommittee heard testimony from OFEHO Director Armando Falcon, then Fannie Mae President/CEO Franklin Raines, then Fannie Mae CFO Tim Howard, and Fannie Mae Presiding Board Member Ann Korologos addressing the OFEHO report's findings.

At that time, I made abundantly clear my concerns regarding Fannie Mae's reported actions in my opening statement and would like to reiterate again today that if the information we received is accurate, it appears that management "cooked the books" to enrich themselves by unjustified bonuses at the expense of shareholders and borrowers. For such actions to take place at a company endowed with the public trust in unconscionable.

A little over two months later on December 15, 2004, Donald Nicolaisen Chief Accountant for the Securities and Exchange Commission (SEC) stated that from 2001 to mid-2004 Fannie Mae's accounting practices did not comply in material respects with the accounting requirements of FAS 91 and FAS 133 of GAAP.

I look forward to learning more from Donald Nicolaisen, this morning, on the Office of the Chief Accountant's (OFA) evaluation of the OFEHO report and the steps they are taking to work with Fannie Mae to restate its financial statements eliminate the use of hedge accounting and to reevaluate its accounting under FAS 91. Fannie Mae's investors and the American public need to know its true financial position and be assured that the future information they receive from Fannie Mae will accurately reflect GAAP standards.

I hope today's hearing is the first step toward a full discussion by this Committee on the continued need for stronger supervision through a new regulator for these Government Sponsored Enterprises (GSEs) that will result in legislation being sent to the President's desk. The housing GSEs were created to fulfill a public mission and support our housing market. Fannie Mae alone has almost \$1 trillion in debt tied to taxpayers and we can no longer ignore the serious threats to their safety and soundness that have been uncovered but were not prevented by a strong regulator.

Thank you again, Mr. Chairman, for scheduling this hearing and I look forward to an informative session.

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