

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON ACCOUNTING IRREGULARITIES AT
FANNIE MAE AND THE EFFECT ON INVESTORS
WEDNESDAY, FEBRUARY 9, 2005**

Mr. Chairman, before we begin today's session, I must note that this hearing is the first meeting of our panel in the 109th Congress. Over the last decade, you and I have forged a close and productive relationship as the Chair and Ranking Member of the Capital Markets Subcommittee, and I look forward to working with you once again in this Congress.

Four months ago, we convened our last hearing of the 108th Congress to discuss the special examination of Fannie Mae by the Office of Federal Housing Enterprise Oversight. It therefore seems fitting that we will begin our hearings this year with an examination of the recent decisions by the Chief Accountant of the Securities and Exchange Commission related to Fannie Mae's practices for the accounting of derivatives contracts and the amortization of discounts, premiums and fees involved in the purchase of home mortgages.

Prior to the Chief Accountant's decisions, Fannie Mae's board had already agreed to adopt a number of reforms based on an initial report by the Office of Federal Housing Enterprise Oversight. Afterwards, Fannie Mae put in place additional changes, including removing its leadership team and hiring a new auditor. The company continues to make modifications.

At our last hearing into these matters, I sought to determine whether the accounting problems at Fannie Mae constituted some form of systemic risk for our economy. I was assured by all of those who participated at the hearing that these problems did not pose a systemic risk.

Similarly, my primary focus at today's hearing will be to determine whether other public entities that use derivatives could also have difficulty in accounting for these complex financial instruments. Although derivatives serve a useful purpose in spreading risk, I am concerned that if Fannie Mae encountered difficulties in accounting for these contracts, then other financial services providers may also have comparable problems that could cause difficulties for our economy. I hope that the Chief Accountant, who is the sole witness appearing before us today, will offer me his candid assessment of these matters.

As we proceed today, I also suspect that some of my colleagues will return to the question of how best to modify the regulation of government-sponsored enterprises. As you know, Mr. Chairman, I am also one of the few remaining Members of this Committee who participated in the entire congressional battle to resolve the savings and loan crisis. I am therefore acutely aware of the need to protect taxpayers from risk.

It is in the public's interest that we ensure that Fannie Mae and Freddie Mac continue to operate safely and soundly. We must further ensure that these public-private entities achieve their public responsibilities for advancing homeownership opportunities.

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In fact, as I said at our very first hearing on the oversight of government- sponsored enterprises in March 2000, “we need to have strong, independent regulators that have the resources they need to get the job done.” I can assure everyone that I continue to support strong, world-class and independent regulation for Fannie Mae and Freddie Mac.

A strong, world-class and independent regulator will protect the continued viability of our capital markets and promote confidence in Fannie Mae and Freddie Mac. It will also insure taxpayers against systemic risk and expand housing opportunities for all Americans.

Like many of my colleagues, I was greatly disappointed in the last Congress when the Bush Administration rejected our bipartisan efforts to create an independent regulator. Politics, in my view, should play no role in financial regulation.

It is therefore my hope that when we revisit this issue in the 109th Congress we will continue to remain resolute and unwavering in our bipartisan efforts to create a strong, independent and world-class regulator with appropriately robust powers and sufficiently adequate resources. As we proceed, it is also my hope that we will develop a balanced, deliberate and bipartisan plan of action for addressing these matters.

In closing, Mr. Chairman, I commend you for your sustained leadership in these matters. Government-sponsored enterprises with their public responsibilities and private capital have a special obligation to operate fairly, safely and soundly. Your work, without question, has highlighted these issues for all Americans.
