

June 25, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing entitled, "GSE Oversight: The Need for Reform and Modernization"

Thank you, Mr. Chairman, for holding this important and timely hearing to evaluate the current regulatory structure for Government Sponsored Enterprises (GSEs). I appreciate your strong leadership on this issue.

Late last year, in the wake of the Enron scandal and subsequent revelations of widespread problems in the accounting industry, the Federal Home Loan Mortgage Company (Freddie Mac) announced that it would have to restate its earnings after it fired its former auditor, Arthur Anderson, and hired Price Waterhouse Coopers.

This reevaluation kept Freddie Mac from upholding their voluntary agreement to file with the Securities and Exchange Commission (SEC) as the Federal National Mortgage Association (Fannie Mae) did in April of 2003. Two months later the Office of Federal Housing Enterprise Oversight (OFHEO) released its annual report to Congress addressing the upcoming earnings restatement by Freddie Mac, while expressing satisfaction with the independence of their internal and external audits and confidence in the actions of Freddie Mac's Board of Directors.

Only three days later, Freddie Mac announced the termination of its President and Chief Operating Officer, David Glenn, the retirement of its Chief Executive Officer, Leland Brendsel, and the resignation of Vaughan Clark, their Chief Financial Officer. The Board of Freddie Mac revealed that Mr. Glenn was terminated for failing to cooperate with their internal investigation following the restatement of earnings.

It concerns me greatly that the responsible federal regulator, OFHEO, was clearly unaware of these problems inside the management of Freddie Mac and was previously unaware of their need for an earnings restatement. Clearly, OFHEO was not doing its job.

I am happy to be an original cosponsor of Chairman Baker's legislation moving Fannie Mae and Freddie Mac under the supervision of the Office of Thrift Supervision (OTS). Today, I look forward to learning more specifics regarding Freddie Mac's accounting problems and to address the current nature of these large GSEs and the privileges appropriate given their standing in the secondary market.

Thank you again, Mr. Chairman, for calling this important hearing and I look forward to future discussions on this issue.