

Opening Statement
Congressman Richard Baker
Chairman, Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises

**“The OFHEO (Office of Federal Housing Enterprise Oversight) Report:
Allegations of accounting and Management Failure at Fannie Mae”**

October 6, 2004

The Capital Markets Subcommittee meets today for the purpose of receipt of a report from the Office of Federal Housing Enterprise Oversight. It is indeed a very troubling report. But it is a report of extraordinary importance, to those who wish to own a home, as well as the taxpayers of this country who would pay the cost of cleanup. Although not intended to fuel the effort to bring about regulatory reform, the analysis makes clear that more resources must be brought to bear to insure the highest standards of conduct are not only required, but more importantly, actually met.

For the record, I am not pleased and certainly not happy about these revelations. I am saddened by the disclosures. In all my years of inquiry in this matter, I was only in pursuit of appropriate oversight. Never did I question whether the GSEs were professionally managed to the highest standards of business conduct. Now I do. The culture of mismanagement described in the report must be eliminated and assurances gained that the highest standards of conduct will be consistently practiced.

I know there will be those who will still cling to the belief that the issues raised are minor, or that opinions may differ on technical accounting standards. Some may still think this is all a plot by the big banks to preserve market share. The content of this report cannot be legitimately questioned. Utilizing the firm of Deloitte & Touche, and the staff of OFHEO, the Director's report is delivered after review of over 200,000 documents and e-mails, as well as hundreds of interviews or depositions of current and former staff of Fannie Mae. The statement made in the first page of the Executive Summary unfortunately sums up the circumstance, “The matters detailed in this report are serious and raise concerns regarding the validity of previously reported financial results, the adequacy of regulatory capital, the quality of management supervision, and the overall safety and soundness of the Enterprise.”

This finding makes committee action essential.

For the record, I should also note that the resistance the GSEs have expressed toward enhanced housing goals, in light of these revelations, now makes more sense than ever. Should the proposals considered in this committee to focus clearly on the needs of first time homebuyers actually become law, the Enterprise would have to allocate resources to those goals at the expense of reducing earnings. A reduction in earnings would reduce the likelihood of paying out bonuses to executives.

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This same observation holds true as to the Regulator's decision to increase capital,

and Fannie's strong objections to such a requirement. We all know that the Enterprise is very thinly capitalized, but the potential effect of requiring a responsible capital level would be to adversely affect earnings per share, and consequently make the payment of bonuses much less likely.

I also wish to inform members of the Committee of another troubling incident, which I now choose to make public. About a year ago, I corresponded with the Director's office making inquiry about the levels of executive compensation at the enterprise for the top twenty executives. This is information that had not been made public previously. In a matter of days, Fannie Mae had engaged the services of Mr. Ken Starr for the purpose of informing my staff and committee council of the potential consequences of making that information public. It was made clear that civil legal actions would be filed if the information were to be released. At that time, I made the decision not to release the data since there was no clear relevance to the reform effort underway, not out of concern for any litigation that might be filed. The realization that the disclosure of this information was so sensitive to the Enterprise never fully impacted me, until I read the Director's report. Now I understand why the Enterprise was so anxious not to have public disclosure of compensation of an entity that was created by the Congress, and supported by the taxpayer.

Circumstances have now changed. As a direct result of abhorrent accounting practices, executives have been able to award themselves bonuses they did not earn and did not deserve. For that reason alone, disclosure of where the money went is highly appropriate.

At the conclusion of this hearing, I will release the compensation information obtained from OFHEO and further, I will forward a letter to the regulator requesting that all compensation information for both enterprises be provided for the last ten years for all executives that shared in bonus distributions. This is now essential, in that OFHEO has indicated that accounting manipulation has impacted the financials on more than one occasion, therefore placing the payment of all bonuses in question.

This is very troublesome business. Much is at stake. The ability of this committee and this Congress to act will be called into question. Notwithstanding the ultimate outcome, the facts will remain, and our duty never made more clear.