

Statement of Congressman Michael N. Castle

*Capital Markets Subcommittee Hearing on
"The OFHEO (Office of Federal Housing Enterprise Oversight) Report:
Allegations of Accounting and Management Failure at Fannie Mae"*

October 6, 2004

Thank you Chairman Baker and Ranking Member Kanjorski for holding this hearing before the Capital Markets Subcommittee today. The issue before us is an important one and one that concerns me greatly.

One issue that concerns me is what appears to be the multiple interpretations of Generally Accepted Accounting Principles (GAAP). In February 2004, OFEHO hired Deloitte and Touche LLP to examine the accounting policies at Fannie Mae. Specifically, OFHEO's report finds fault with the company's accounting treatment of (1) the amortization of premiums, discounts, and fees related to the purchase of mortgages and mortgage-backed assets [under Statement of Financial Accounting Standards (SFAS) 91], and (2) financial derivative contracts (under SFAS 133). KPMG LLP, Fannie Mae's auditor has stated it "stands behind" its audit work. Fannie Mae has also stated they believe they were following Generally Accepted Accounting Principles (GAAP).

I am concerned that two different auditors would have different interpretations of SFAS 91 and SFAS 133. Therefore, I have sent a letter to Robert Herz, Chairman of the Financial Accounting Standards Board (FASB), for their comments on SFAS 91 and 133 and whether these standards need to be readdressed or remove any gray areas that may exist.

If improper accounting has occurred, I question how these accounting practices were allowed to occur and what was managements knowledge of these actions. It bothers me greatly to hear the allegation that "accounting tricks" were used to meet specific earnings per share (EPS) targets that resulted in vast amounts of executive compensation to be paid.

I thank all of our witnesses for appearing before us today, and I hope we will have an exchange on the merits of what has occurred and what needs to occur in the future. I welcomed the news that OFHEO and Fannie Mae reached an agreement to address the improper accounting and internal controls within Fannie Mae. I strongly believe, however, that like the reforms achieved in the passage of the historic Sarbanes-Oxley Act we must again be prepared to act.

Mr. Chairman, I would like to insert the text of my letter to Chairman Herz for the record, and with that I yield back the balance of my time.