

**OPENING STATEMENT OF  
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI  
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,  
AND GOVERNMENT SPONSORED ENTERPRISES  
HEARING ON THE REPORT AND FINDINGS TO DATE  
OF THE SPECIAL EXAMINATION OF FANNIE MAE  
WEDNESDAY, OCTOBER 6, 2004**

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Mr. Chairman, we meet today for what might well be our last hearing this year. At our first hearing in 2004, we reviewed the special examination of Freddie Mac by the Office of Federal Housing Enterprise Oversight. It therefore seems fitting that we will bookend our hearings this year with an evaluation of the findings to date of a similar examination of Fannie Mae's accounting policies and practices.

The recently released preliminary report by the Office of Federal Housing Enterprise Oversight includes a number of significant charges. The report concludes that Fannie Mae has failed to follow generally accepted accounting practices in two key areas. They are the accounting of derivatives contracts and the amortization of discounts, premiums and fees involved in the purchase of home mortgages.

The report also raises concerns about the company's organizational structure and its internal controls. These are serious matters that merit our careful attention, because government-sponsored enterprises with their public responsibilities and private capital have, in my view, a special obligation to operate fairly, safely and soundly.

As we proceed today, I must urge my colleagues on both sides of the aisle to demonstrate patience and caution when approaching these matters. We should not leap to immediate conclusions. The report on Fannie Mae is preliminary. It is part of an ongoing process.

We should not overanalyze these findings because we do not have all of the information. Fannie Mae's board, as I understand, has already agreed to adopt a number of reforms based on this initial report and it may ultimately implement more. The Office of Federal Housing Enterprise Oversight continues to examine the company's books. The Securities and Exchange Commission, the arbiter of accounting standards for Fannie Mae, is now studying these matters. In short, we need to let this process work itself out.

We should also refrain from hyping these initial findings in an effort to achieve some short-term political gain. As we well know from past experiences, our actions and statements on Capitol Hill have the potential to rile the capital markets. They could also raise the price of homeownership. We should therefore practice caution, prudence and discretion.

My primary focus at today's hearing will be to determine whether the issues raised in the preliminary report constitute some form of systemic risk for Fannie Mae. I therefore intend to ask each of the witnesses their perceptions regarding this issue. I expect them each to offer me their candid assessments 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 like Fannie Mae and Freddie Mac. 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 involved in these debates that I continue to support strong, world-class and independent GSE regulation.

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 last year 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 109<sup>th</sup> Congress we will continue to remain resolute and unwavering in our bipartisan efforts to create a strong, independent and world-class regulator with the powers and resources it needs to get the job done.

In closing, Mr. Chairman, I commend you for your sustained leadership in these matters and for convening this timely hearing. The preliminary report by the Office of Federal Housing Enterprise Oversight and its agreement with Fannie Mae deserve careful review and public scrutiny. I consequently look forward to hearing from our witnesses today.

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