



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**  
1700 G STREET NW WASHINGTON, DC 20552 (202) 414-3801

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**OFFICE OF THE DIRECTOR**

February 25, 2005

The Honorable Christopher Bond  
Chairman  
Veterans Affairs, HUD and Independent  
Agencies Subcommittee  
United States Senate  
130 Dirksen Senate Office Building  
Washington, DC 20510-6032

Dear Chairman Bond:

In accordance with the Government Performance and Results Act, enclosed for your information is OFHEO's Fiscal Year 2004 Performance Report. Please do not hesitate to contact me should you have any questions about this report.

Sincerely,

Armando Falcon, Jr.  
Director

Enclosure



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

**OFFICE OF THE DIRECTOR**

February 25, 2005

The Honorable Richard Shelby  
Chairman  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate  
534 Dirksen Senate Office Building  
Washington, DC 20510-6075

Dear Chairman Shelby:

In accordance with the Government Performance and Results Act, enclosed for your information is OFHEO's Fiscal Year 2004 Performance Report. Please do not hesitate to contact me should you have any questions about this report.

Sincerely,

Armando Falcon, Jr.  
Director

Enclosure



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

**OFFICE OF THE DIRECTOR**

February 25, 2005

The Honorable Jack Reed  
Ranking Minority Member  
Subcommittee on Housing and Transportation  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate  
534 Dirksen Senate Office Building  
Washington, DC 20510-6075

Dear Senator Reed:

In accordance with the Government Performance and Results Act, enclosed for your information is OFHEO's Fiscal Year 2004 Performance Report. Please do not hesitate to contact me should you have any questions about this report.

Sincerely,

Armando Falcon, Jr.  
Director

Enclosure



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1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

**OFFICE OF THE DIRECTOR**

February 25, 2005

The Honorable Paul E. Kanjorski  
Ranking Minority Member  
Capital Markets, Insurance and Government  
Sponsored Enterprises Subcommittee  
U.S. House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515

Dear Congressman Kanjorski:

In accordance with the Government Performance and Results Act, enclosed for your information is OFHEO's Fiscal Year 2004 Performance Report. Please do not hesitate to contact me should you have any questions about this report.

Sincerely,

Armando Falcon, Jr.  
Director

Enclosure



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

**OFFICE OF THE DIRECTOR**

February 25, 2005

The Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
U.S. House of Representatives  
B-301C Rayburn House Office Building  
Washington, DC 20515-6050

Dear Congressman Frank:

In accordance with the Government Performance and Results Act, enclosed for your information is OFHEO's Fiscal Year 2004 Performance Report. Please do not hesitate to contact me should you have any questions about this report.

Sincerely,

Armando Falcon, Jr.  
Director

Enclosure



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

**OFFICE OF THE DIRECTOR**

March 31, 2005

Honorable Richard C. Shelby, Chairman  
Committee on Banking, Housing  
And Urban Affairs  
United States Senate  
Washington, DC 20510

**Re: Freddie Mac Capital Classification at December 31, 2004**

Dear Mr. Chairman:

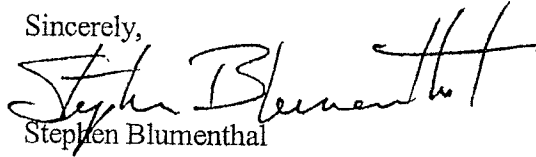
In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at December 31, 2004.

On March 10, 2005, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2004 and requesting that Freddie Mac notify OFHEO by March 25, 2005, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification. OFHEO was notified that the 2004 financial results would be published on March 31, 2005. OFHEO revised the preliminary classification letter on March 30, 2005 retaining the adequately capitalized status, but revising the numbers to reflect the certified and public financials. Freddie Mac agreed with the revised minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.129 billion, its critical capital level was \$12.307 billion, and its risk-based capital level was \$11.108 billion at December 31, 2004. Thus, Freddie Mac's core capital of \$34.899 billion on that date exceeded the minimum requirement by \$10.771 billion and the critical level by \$22.592 billion. Freddie Mac's total capital of \$34.691 billion on that date exceeded the risk-based capital requirement by \$23.582 billion. Further, Freddie Mac has continued to maintain a capital surplus in accordance with the capital directive issued January 28, 2004.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Blumenthal". The signature is fluid and cursive, with a large, stylized "H" at the end.

Stephen Blumenthal  
Deputy Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION  
Minimum Capital Level  
December 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	19,759
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,724
Commitments	437
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	96
Sold Portfolio Remittances Pending	13
Other Off-Balance Sheet Obligations	99
MINIMUM CAPITAL LEVEL	24,129
CORE CAPITAL	34,899
<b>SURPLUS/(DEFICIENCY)</b>	<b>10,771</b>

Note: Totals may not add due to rounding.



**FEDERAL HOME LOAN MORTGAGE CORPORATION**

**Critical Capital Level**

**December 31, 2004**

**SUMMARY**

**(Dollars in millions)**

<b>COMPONENTS OF THE CRITICAL CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>9,880</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	<b>2,428</b>
<b>CRITICAL CAPITAL LEVEL</b>	<b>12,307</b>
<b>CORE CAPITAL</b>	<b>34,899</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>22,592</b>

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Risk-Based Capital Level**  
**December 31, 2004**

**SUMMARY**

(Dollars in millions)

<b>STRESS TEST SCENARIO RESULTS</b>	
UP-RATE SCENARIO	11,108
DOWN-RATE SCENARIO	2,795
<b>RISK-BASED CAPITAL LEVEL</b>	<b>11,108</b>
<b>TOTAL CAPITAL</b>	<b>34,691</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>23,582</b>

Note: Totals may not add due to rounding.



## OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

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### OFFICE OF THE DIRECTOR

March 31, 2005

Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives  
Washington, DC 20515

#### Re: Freddie Mac Capital Classification at December 31, 2004

Dear Congressman Frank:


In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at December 31, 2004.

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Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

  
Stephen Blumenthal  
Deputy Director

Enclosures

**FEDERAL HOME LOAN MORTGAGE CORPORATION**

**Minimum Capital Level**

**December 31, 2004**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>19,759</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	3,724
Commitments	437
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Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Critical Capital Level**  
**December 31, 2004**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE CRITICAL CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>9,880</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	<b>2,428</b>
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Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Risk-Based Capital Level**  
**December 31, 2004**

**SUMMARY**

(Dollars in millions)

<b>STRESS TEST SCENARIO RESULTS</b>	
<b>UP-RATE SCENARIO</b>	<b>11,108</b>
<b>DOWN-RATE SCENARIO</b>	<b>2,795</b>
<b>RISK-BASED CAPITAL LEVEL</b>	<b>11,108</b>
<b>TOTAL CAPITAL</b>	<b>34,691</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>23,582</b>

Note: Totals may not add due to rounding.



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: **Honorable Richard J. Durbin**

Date: **April 7, 2005**

Office of: **U.S. Senate**

Time: **12:52 PM**

Facsimile Number: **(202) 228-0400**

From: **Armando Falcon, Jr.**

Telephone No.: **(202) 414-3801**

Office of: **OFHEO**

Page **1** of **2**

Notes/Comments:

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RICHARD J. DURBIN  
ILLINOIS

COMMITTEE ON APPROPRIATIONS

COMMITTEE ON THE JUDICIARY

COMMITTEE ON RULES  
AND ADMINISTRATION

ASSISTANT DEMOCRATIC  
LEADER

United States Senate  
Washington, DC 20510-1304

March 7, 2005

332 DIRKSEN SENATE OFFICE BUILDING  
WASHINGTON, DC 20510-1304  
(202) 224-2152  
TTY (202) 224-8180

230 SOUTH DEARBORN, 38TH FLOOR  
CHICAGO, IL 60604  
(312) 353-4952

525 SOUTH EIGHTH STREET  
SPRINGFIELD, IL 62703  
(217) 492-4062

701 NORTH COURT STREET  
MARION, IL 62959  
(618) 998-8812

durbin.senate.gov

Mr. Armando Falcon  
Director  
Office of Federal Housing Enterprise Oversight (OFHEO)  
1700 G Street, NW  
4th Floor  
Washington, DC 20552

Dear Mr. Falcon:

It has come to my attention that OFHEO is investigating possible accounting misconduct and the payment of executive bonuses at Fannie Mae. I am particularly concerned about accounting misconduct that may have resulted in executive bonuses that would otherwise not have been awarded.

I write to encourage you to vigorously pursue this investigation. Under the Sarbanes-Oxley Act, a company's Chief Executive Officer and Chief Financial Officer must repay bonuses from the previous year if the company is required to file an accounting restatement because of noncompliance with accounting standards due to misconduct. Fannie Mae's executives should be held to the same standard.

Thank you for your consideration of this matter.

Sincerely,



Richard J. Durbin  
United States Senator



## **OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

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### **OFFICE OF THE DIRECTOR**

April 7, 2005

Honorable Richard J. Durbin  
U.S. Senate  
322 Dirksen Senate Office Building  
Washington, DC 20510-1304

Dear Senator Durbin:

Thank you for your letter encouraging the Office of Federal Housing Enterprise Oversight (OFHEO) to continue investigating possible accounting misconduct at Fannie Mae. I appreciate your concern that accounting misconduct may have resulted in executive bonuses that may not have been otherwise awarded, and can assure you that OFHEO will take all actions appropriate to recapture excessive payments that OFHEO finds were based upon false or misleading financial information or are otherwise excessive.

On April 1, OFHEO sent to the *Federal Register* a final enhanced Corporate Governance regulation that addresses the operations, code of conduct and compensation of the management and Boards of Directors of the Enterprises. This regulation is part of our ongoing effort to ensure that Fannie Mae and Freddie Mac are held to the highest standards of business conduct. Among other matters, the rule requires:

- that compensation programs consider risk management, compliance with the law and operational stability in addition to earnings;
- reimbursements by a senior officer if an accounting restatement is required under certain circumstances;
- certification of financial disclosures by the CEO and CFO; and
- that Fannie Mae and Freddie Mac meet Sarbanes-Oxley standards even if they deregister or have not registered with the Securities and Exchange Commission (SEC).

As you may know, OFHEO's examination of the causes and the parties responsible for the improper accounting treatments used by Fannie Mae continues, and OFHEO will not hesitate to use the supervisory tools available in this regard. Fannie Mae may be directed to seek rescission of any applicable employment contracts and restitution or reimbursement of inappropriate payments. Further, if it becomes necessary, OFHEO

has the authority through its cease and desist powers, to seek restitution and reimbursement directly against any executive officer or director to the extent that person was unjustly enriched or engaged in serious misconduct. If the SEC determines that any of Fannie Mae's executive officers are required to forfeit bonuses or other compensation under Section 304 of the Sarbanes-Oxley Act, OFHEO will take appropriate enforcement actions, if necessary, against the company and those officers to ensure compliance.

Please contact me if you have any questions regarding these matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Armando Falcon, Jr.", written in a cursive style.

Armando Falcon, Jr.  
Director



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: **Janice Zanardi**

Date: **April 8, 2005**

Office of: **Committee on Financial Service**

Time: **3:39 PM**

Facsimile Number: **202.225.0659**

From: **Joanne Hanley**

Telephone No.: **202.414.3812**

Office of: **Congressional Affairs**

Page **1** of **6**

Notes/Comments:

**Statement of Alfred Pollard**

**If you have any questions please feel free to call me.**

The information contained in this facsimile message (and/or documents accompanying it) is intended for the use of the individual or entity named above and may contain information that is privileged, confidential, or otherwise protected from disclosure. If the reader of this message is not the intended recipient or is the employee, or agent responsible for delivering it to the intended recipient, the reader is hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this message in error, please notify us by telephone immediately and return the original message to us at the above address via the U.S. Postal Service. Thank you.

RICHARD EHELBY, ALABAMA, CHAIRMAN

ROBERT F. BENNETT, UTAH  
 WAYNE ALLARD, COLORADO  
 MICHAEL B. ENZI, WYOMING  
 DICK HAGEL, NEBRASKA  
 RICK SANTORUM, PENNSYLVANIA  
 JIM BUNNING, KENTUCKY  
 MICHAEL CRAPO, IDAHO  
 W. E. SUNUNU, NEW HAMPSHIRE  
 ABETH DOLE, NORTH CAROLINA  
 MEL MARTINEZ, FLORIDA

PAUL B. SARBANES, MARYLAND  
 CHRISTOPHER J. DODD, CONNECTICUT  
 TIM JOHNSON, SOUTH DAKOTA  
 JACK REED, RHODE ISLAND  
 CHARLES E. SCHUMER, NEW YORK  
 EVAN BAYH, INDIANA  
 THOMAS R. CARPER, DELAWARE  
 DEBBIE STABENOW, MICHIGAN  
 JON S. CORZINE, NEW JERSEY

KATHLEEN CASEY, STAFF DIRECTOR AND COUNSEL  
 STEVEN B. HARRIS, DEMOCRATIC STAFF DIRECTOR AND CHIEF COUNSEL

## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
 URBAN AFFAIRS

WASHINGTON, DC 20510-6075

April 15, 2005

Armando Falcon, Jr.  
 Director  
 Office of Federal Housing Enterprise Oversight  
 1700 G St, N.W.  
 Fourth Floor  
 Washington, D.C. 20552

Dear Director Falcon:

On behalf of the Committee on Banking, Housing, and Urban Affairs, I am writing to confirm your invitation to testify on proposals for improving the regulation of the housing government sponsored enterprises. The hearing will be on Thursday, April 21 at 10:00 a.m. in Room 538 of the Dirksen Senate Office Building.

Your testimony and written statement should address current regulatory issues and investigations concerning Fannie Mae and Freddie Mac, the scope and adequacy of OFHEO's current regulatory authorities and legislative recommendations regarding the creation of a new regulator for Fannie Mae, Freddie Mac and the Federal Home Loan Bank System. Specifically, your written testimony should address the following issues raised in various regulatory reform proposals:

- granting a new regulator discretion to establish capital requirements for Fannie and Freddie;
- moving the current program approval authority for Fannie and Freddie to a new regulator with general regulatory authority;
- the adequacy of current regulatory authority over program approval;
- the propriety of creating a "bright line" between primary and secondary mortgage market activities;
- limitations on the GSEs' mortgage portfolio holdings and a new regulator's authority to address ongoing mortgage portfolio activities;
- the new regulator's need for greater prompt corrective action powers and for receivership authority;
- the need for a new regulator to have specific authority over the GSEs' corporate governance and compensation programs;
- transparency of business practices concerning guarantee fees and a new regulator's authority to review these fees; and
- the purpose of non-mortgage assets held in portfolio and the appropriate level of oversight for these assets.

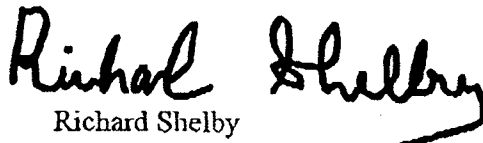
# United States Senate

WASHINGTON, DC 20510

Under the Committee's rules, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. These are due to the Committee no later than 24 hours prior to the hearing. Statements should be delivered to the Committee in Room 534 of the Dirksen Office Building, Washington, D.C. 20510. For purposes of the Committee Record and printing, your written statement must be e-mailed to [liz\\_hackett@banking.senate.gov](mailto:liz_hackett@banking.senate.gov) (or submitted on an IBM compatible 3.5-inch diskette).

If you have any questions regarding this hearing, please have your staff contact Doug Nappi at 202 224-7391.

Sincerely,

A handwritten signature in black ink that reads "Richard Shelby". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Richard Shelby  
Chairman

1 FEDERAL DOCUMENT CLEARING HOUSE

2 HEARING ON DUE DILIGENCE IN MORTGAGE REPURCHASES  
3 AND FANNIE MAE: THE FIRST BENEFICIAL MORTGAGE CASE  
4 Thursday, March 10, 2005  
5 House of Representatives,  
6 Subcommittee on Oversight and Investigations,  
7 Committee on Financial Services,  
8 Washington, D.C.

9 The subcommittee met, pursuant to call, at 10:03 a.m., in  
10 Room 2128, Rayburn House Office Building, Hon. Sue Kelly  
11 [chairwoman of the subcommittee] presiding.

12 Present: Representatives Kelly, Kennedy, Garrett,  
13 Fitzpatrick, Davis of Kentucky, Oxley, Baker, Gutierrez,  
14 Moore of Kansas, Maloney, Cleaver, and Moore of Wisconsin.

495 STATEMENT OF ALFRED POLLARD

496 Mr. POLLARD. Madam Chair, Ranking Member Gutierrez, and  
497 members of the subcommittee, I am pleased to represent the  
498 Office of Federal Housing Enterprise oversight as you conduct  
499 these hearings. Director Falcon has given clear instructions  
500 to the staff, the General Counsel's office and our examiners,  
501 to deploy the needed resources to address matters relating to  
502 mortgage fraud involving Fannie Mae and Freddie Mac,  
503 including any misconduct by employees.

504 OFHEO as a safety and soundness regulator does not  
505 enforce criminal laws. OFHEO refers violation of criminal  
506 laws to federal or state agencies with appropriate  
507 jurisdiction for their review and action. Like bank  
508 regulators, however, OFHEO does inquire into the conduct of  
509 business operations, particularly to assure safe and sound  
510 practices. Criminal conduct by or against an enterprise  
511 clearly is a threat to safe and sound operations.

512 OFHEO has been fortunate to be one of the agencies to be  
513 made a member of the President's Task Force on Corporate  
514 Fraud led by Deputy Attorney General James Comey. This  
515 includes the Justice Department, U.S. Attorneys, the SEC,  
516 CFTC, IRS and others. We have learned much about fraud  
517 remediation and that inures to our benefit in seeking to  
518 enhance our efforts at fraud prevention. In other words,



519 | fraud prosecution has relevance for fraud prevention.

520 |       OFHEO has been active in working on mortgage fraud. In  
521 | the past, we have sponsored seminars on mortgage fraud that  
522 | included some of our colleagues at the table today, and has  
523 | even provided a training program for the FBI at their  
524 | Quantico facility. Now, OFHEO has undertaken initiatives to  
525 | improve mortgage fraud reporting and to address deficiencies  
526 | that exist in enterprise operations and systems.

527 |       OFHEO has proposed, for public comment, a rule that will  
528 | require the enterprises to report on possible or actual  
529 | mortgage fraud, to do so in a timely manner and to create the  
530 | training programs and operating systems necessary to meet  
531 | those obligations.

532 |       The finalization of a rule on reporting mortgage fraud  
533 | and the implementation of a reporting regime should improve  
534 | overall reporting, lead to earlier intervention to avoid  
535 | fraud, and permit OFHEO to expeditiously introduce needed  
536 | changes to enterprise operations.

537 |       I would note that we are well aware of the challenges in  
538 | implementing a rule that provides OFHEO the information  
539 | needed to do its job, while being operationally smooth at the  
540 | enterprises and permitting them to meet their mission. I do  
541 | not see any obstacles to addressing and meeting those  
542 | challenges and we will work with the enterprises, as well as  
543 | with regulators and law enforcement personnel.

544 | As the public comment period is open on the rule, I will  
545 | not discuss the rule in any greater detail as we must await  
546 | those comments and give them due consideration prior to  
547 | issuance of a final rule and implementing the formal  
548 | reporting.

549 | As this subcommittee well knows, the enactment of the  
550 | Bank Secrecy Act and the use of suspicious activities reports  
551 | have important elements in law enforcement, likewise for  
552 | regulators. Banks today have SAR forms and supporting  
553 | instructions on a wide range of consumer and business fraud.  
554 | The instructions highlight key forms of practices that should  
555 | raise concerns. The enterprises, engaging in a narrower <sup>BAND</sup> ~~bank~~  
556 | of business activities, will require the creation of forms  
557 | and instructions by OFHEO tailored to their businesses and at  
558 | the same time generating information needed by us and by law  
559 | enforcement.

560 | It is my hope that the enterprises will respond  
561 | favorably to the mortgage fraud proposal, and I believe we  
562 | can work to achieve a goal of moving as close as possible to  
563 | a fraud free zone at the GSEs. Realistically, this  
564 | subcommittee knows full well that fraud may be deterred, but  
565 | not fully prevented. We are committed to making sure the  
566 | deterrence is as strong as possible.

567 | You have heard comments on the Bank Secrecy Act, on the  
568 | need for safe harbor and other provisions. OFHEO believes

569 | that would be useful. The General Counsel's office is  
570 | looking in to a procedure where OFHEO would share information  
571 | it develops on mortgage fraud with other government agencies.

572 | I would note we have benefited greatly from the expertise,  
573 | information and views provided by the Treasury Department,  
574 | Financial Crimes Enforcement Network, Federal Bureau of  
575 | Investigation, and the U.S. Attorney. Coming from the  
576 | private sector and hearing of jurisdictional squabbles, I can  
577 | report in this instance strong cooperation among agencies,  
578 | and I am pleased to have the commitment of these experts as  
579 | we move forward toward a final rule <sup>AND</sup> ~~ON~~ implementation.

580 | On First Beneficial, I will note in my remaining 20  
581 | seconds, that we are currently reviewing changes that Fannie  
582 | Mae has undertaken to determine if those changes are  
583 | adequate, but as well to see if enhancements are needed. In  
584 | particular, we believe that a strong set of guidance  
585 | documents, backed by a strong and centralized compliance  
586 | regime, is essential regardless of whether a business model  
587 | provides for centralized or decentralized operations.

588 | In sum, both enterprises should strive for best  
589 | practices in seeking to avoid mortgage fraud and a strong,  
590 | aggressive program aimed at prevention and detection is  
591 | imperative for safe and sound operations.

592 | Again, I appreciate the opportunity to appear before  
593 | you.

1369 Mr. POLLARD. Mr. Cleaver, you addressed that to me. I  
1370 will be happy to answer.

1371 First, we believe there is an obligation to report  
1372 fraud, known fraud, to government officials at the time it  
1373 happens. Secondly, and this is where people try and  
1374 distinguish, is the concern about suspicion of fraud, that I  
1375 might have a suspicion of fraud and be sued under the Fourth  
1376 Amendment for liability. I do not want to take off my OPHEO  
1377 <sup>hat</sup> had, but if I can I will comment a bit on the Bank Secrecy  
1378 Act.

1379 First, before the Bank Secrecy Act was enacted in 1970,  
1380 there was an exception called the bank records exception that  
1381 gave certain comfort to institutions that if they provided  
1382 information to a government inquiry, they would be protected,  
1383 particularly if a criminal investigation is involved. That  
1384 line of cases ended with that sort of statement in the  
1385 Donaldson case, because ~~we then passed~~ the Bank Secrecy Act. WAS PASSED.  
1386 In this committee, the Annunzio-Wylie bill added that  
1387 protection, that safe harbor that parties have mentioned to  
1388 you, that if you turn in someone on a suspicion and it turns  
1389 out not to be correct, that you are given a safe harbor. You  
1390 cannot be sued. Okay?

1391 So I think almost everyone that has commented to the  
1392 committee has said indeed that the Bank Secrecy Act should be  
1393 revised to include Fannie and Freddie. But what I would note

1394 | is that OFHEO in its current actions, and I will put back on  
1395 | that hat, is looking to see what we can do to share  
1396 | information within the parameters of the law that would not  
1397 | raise liability for the enterprise. That is what I mentioned  
1398 | in my testimony that my office is looking into right now. So  
1399 | we are trying to see if the very concerns that are there can  
1400 | be alleviated through practices or procedures by the  
1401 | regulator as opposed to the company.

1402 |         Mr. CLEAVER. Thank you, Mr. Pollard.

1403 |         Thank you, Madam Chair.

1404 |         Mrs. KELLY. Thank you very much.

1405 |         Mr. Baker?

1406 |         Mr. BAKER. Thank you, Madam Chair.

1407 |         I just had one quick question to Mr. Pollard, in the  
1408 | light of the Inspector's comments. In your capacity as  
1409 | general counsel for OFHEO, do you view the matters relating  
1410 | to these circumstances now to be a closed case from your  
1411 | perspective?

1412 |         Mr. POLLARD. No, sir.

1413 |         Mr. BAKER. Great. And other than the revisions to the  
1414 | Bank Secrecy Act which you have just spoken to, are there  
1415 | other factors in statute which you think should be addressed  
1416 | in the current GSE regulatory reform act?

1417 |         Mr. POLLARD. Our director has endorsed those  
1418 | legislative changes that you have put in, Mr. Chairman. I

1419 | think in terms of other matters for us, I have in my written  
1420 | testimony something that goes a little beyond our  
1421 | jurisdiction, but I would simply mention that there may be  
1422 | additional items that will help the U.S. Attorney and the  
1423 | Justice Department. Of course, their expertise is what is  
1424 | important here, not mine.

1425 |         Right now, the banks have a wide panoply of provisions  
1426 | that facilitate pursuit of those fraudulent parties. I think  
1427 | our goal, as someone said, I forget which, one of the  
1428 | committee members said or someone, is will people just move.  
1429 | There is always going to be fraud, but we need them to move,  
1430 | move out of any enterprises. I believe some of those  
1431 | provisions on Bank Fraud Act Section 311, some of the ones on  
1432 | fraudulent transactions in mortgages that HUD has, for  
1433 | example, that if you engage in fraudulent transactions with  
1434 | them, that is a crime. That would be helpful.

1435 |         I want to be very cautious, Mr. Chairman. I would say  
1436 | that is sort of my opinion today, that it should be looked  
1437 | into. Your expertise and the Justice Department would be the  
1438 | critical players to me.

1439 |         Mr. BAKER. I understand, you cannot enforce someone  
1440 | else's rules and regulations, whether it is Section 404 of  
1441 | the SEC Act, if it is the Department of Justice.

1442 |         Mr. POLLARD. But we can sanction violations of those  
1443 | acts, however, if they occur. We have a proposed rule on

1444 corporate governance that will incorporate by reference  
1445 provisions of the Sarbanes-Oxley law. I was asked why, and I  
1446 said, to make very clear that once the SEC should determine  
1447 this type of violation, that we too will have sanctions, and  
1448 more importantly, we too will seek remedial steps within the  
1449 enterprise, not merely to sanction them to penalize them.  
1450 The SEC might do that. We also look to structural changes.

1451 Mr. BAKER. I will formally follow up with a specific  
1452 set of facts which I hope that your good office will examine  
1453 and at the appropriate time report back.

1454 Madam Chair, did you wish me to yield to you?

1455 Mrs. KELLY. Mr. Chairman, you are out of time.

1456 Mr. BAKER. Thank you.

1457 Mrs. KELLY. Thank you.

1458 We turn to Ms. Maloney.

1459 Mrs. MALONEY. Thank you.

1460 Mr. Pollard, I am interested in your proposed rule on  
1461 mortgage fraud. Can you explain how you plan to handle the  
1462 information you receive from the GSEs under that proposed  
1463 rule?

1464 Mr. POLLARD. First, we will be working with them in  
1465 terms of the actual implementation of the rule, trying to  
1466 develop both the information systems, the forms, the  
1467 instructions which are very important in these cases, telling  
1468 people what you want, and to be candid, what you do not want,

1469 | letting them know that people's names <sup>MMY</sup> have to ~~maybe~~ be taken  
1470 | off at a certain point, ensuring that the information goes to  
1471 | elements of suspicious activities and the information  
1472 | received is in such a manner that may be useful to law  
1473 | enforcement.

1474 |       So all, of that ~~requires being~~ <sup>NEED TO BE</sup> worked out. I think we  
1475 | are benefited by what has already taken place in the Bank  
1476 | Secrecy ~~A~~ Act and with FinCEN, some of the lessons they have  
1477 | learned, the difficulties they have faced. Coming from the  
1478 | banking industry myself, at one point having viewed their  
1479 | side of it, I think we can work with them and with law  
1480 | enforcement to come up with a management of information that  
1481 | will run very smoothly.

1482 |       Mrs. MALONEY. And how will you coordinate that  
1483 | information with that which you currently receive through the  
1484 | SARs mechanism?

1485 |       Mr. POLLARD. We will not have a SARs. We will develop  
1486 | our own form. With the help of some of the folks I mentioned  
1487 | before you came in, Ms. Maloney, relating to the law  
1488 | enforcement personnel. We hope to develop a form that will  
1489 | be very useful to everyone, including enterprises in the long  
1490 | run.

1491 |       What I would note is our rule includes a provision that  
1492 | should another agency, ~~F~~ Treasury or someone else, or the  
1493 | Congress passes Bank Secrecy Act reforms that requires



1494 | another form, OFHEO will look at that form, and if it works  
1495 | we will accept that form.

1496 |         Mrs. MALONEY. Do you believe that the procedures that  
1497 | Fannie has put in place internally will be more effective in  
1498 | detecting mortgage fraud in the future?

1499 |         Mr. POLLARD. I would have to tell you that right now  
1500 | that is under our examination staff. We are reviewing them  
1501 | to determine if, first, they have fixed the problems of the  
1502 | past, and second, whether they should be enhanced. So I  
1503 | would not want to give you an answer to that today.

1504 |         Mrs. MALONEY. Okay. Also, representing OFHEO, given  
1505 | the facts that were available at the time of this  
1506 | investigation with Beneficial, do you believe that Fannie Mae  
1507 | should have concluded that First Beneficial was engaged in  
1508 | deliberate fraud, and should that suspicion have been  
1509 | reported to you?

1510 |         Mr. POLLARD. I think our major concerns were, in  
1511 | learning of this, was first, what were Fannie Mae's decisions  
1512 | about what constituted fraud or suspicious activities. I  
1513 | have heard a lot about ineligible loans. If you are passing  
1514 | all of your transactions through a sieve of is it ineligible  
1515 | under our standards, and not also passing them through is  
1516 | there suspicious activity, then they may not have considered  
1517 | them suspicious.

1518 |         In terms of reporting to us, we had a rather informal

1519 | system of expecting major items to be reported to us. We are  
1520 | still investigating whether, and as Mr. Smith admitted, the  
1521 | regional office was so isolated and decentralized that they  
1522 | would have not reported to the Washington office, the  
1523 | headquarters, with whom we normally deal. So I guess my  
1524 | answer to your question is we are still investigating to get  
1525 | a solid answer to that.

1526 |         Mrs. MALONEY. Okay. Who is representing Ginnie Mae?  
1527 | Anybody? Okay.

1528 |         Did the North Carolina authorities that contacted Fannie  
1529 | also contact you about their concerns?

1530 |         Mr. KENNEDY. No, not at that time.

1531 |         Mrs. MALONEY. They did not contact you?

1532 |         Mr. KENNEDY. Not at the time that the case first was  
1533 | initiated.

1534 |         Mrs. MALONEY. Okay. And what new procedures have you  
1535 | put in place to prevent the purchase of fraudulent loans, to  
1536 | prevent this happening in the future?

1537 |         Mr. KENNEDY. Almost immediately after the case was  
1538 | referred to the U.S. Attorney's office in North Carolina,  
1539 | Ginnie Mae instituted an expedited process whereby instead of  
1540 | waiting, the previous policy that required a look at an issue  
1541 | within a year to see whether or not the documents were in the  
1542 | file, Ginnie Mae what we call a profile. The profile looked  
1543 | at each and every Ginnie Mae issuer to determine whether or

1594 | Mr. Pollard, in your statement on the very last page of  
1595 | your testimony for us today, you indicate that you were  
1596 | looking at Fannie Mae's operations to examine whether or not  
1597 | they were excessively decentralized and uncontrolled, lacked  
1598 | adequate reporting and quality control, failed to distinguish  
1599 | functions between business development and problem workouts,  
1600 | and generally did not hold regional offices sufficiently  
1601 | accountable, that they did not take effective action to  
1602 | remedy deficiencies that they discovered, or to act in a  
1603 | timely manner to end their relationship with entities.

1604 | I would like you to elaborate on what you found if you  
1605 | can go beyond just those words.

1606 | Mr. POLLARD. I really have to leave it at that point  
1607 | based on my job and what the examiners do at our agency.  
1608 | What I would tell you is these subjects and some that have  
1609 | been provided to the committee in the letters from Fannie Mae  
1610 | and even in Mr. Smith's statement today, we are trying to go  
1611 | a bit deeper, a bit further in the operational side. For  
1612 | example, one of the things we mentioned today is whether  
1613 | individuals who are in charge of making loans or making  
1614 | business arrangements in this case are also the same ones who  
1615 | are supposed to fix them. In the banking industry, if you  
1616 | make a loan and it does not go well, that is okay, but you  
1617 | have a workout team that takes it up and tries to clean it up  
1618 | and maybe recover some of the money ~~and do that~~. They have

v

1619 additional obligations.

1620 So if you would bear with me today, I would simply say  
1621 that I feel our exam, these are the topics that we are  
1622 looking into, but since that is ongoing and we are  
1623 interviewing people, I have to leave it at that point today.

1624 Mrs. KELLY. I would hope that you would get back to  
1625 this committee when you discover an end-point in your  
1626 investigations.

1627 OFHEO recently entered into an agreement with the Fannie  
1628 Mae board of directors, and then the board I believe agreed  
1629 to make significant improvements to the internal controls of  
1630 the company. Is the activity that has been discussed before  
1631 the committee this morning representative of the lack of  
1632 internal controls that OFHEO has found?

1633 Mr. POLLARD. First, I may comment that we have directed  
1634 the board not only to undertake fixing internal controls, but  
1635 to get outside help along with whatever help OFHEO will  
1636 afford in this instance. So while we are looking at it  
1637 ourselves, they do have additional parties. Our focus was on  
1638 accounting. It is quite clear that controls of a general  
1639 nature may affect what was going on in accounting. So we  
1640 have, yes, identified all controls. Is this another example,  
1641 a decentralization, a lack of control, even a lack of support  
1642 for regional offices, as well as a lack of quality control  
1643 emblematic of that? Yes, I believe so.

1644 Mrs. KELLY. Does anyone on this panel know, Mr. Smith,  
1645 Mr. Donohue, Mr. Pollard, Mr. Kennedy, can you tell me  
1646 whether or not Fannie Mae still is, among its 40 goals as Mr.  
1647 Smith testified his bonus was tied to, is that still one of  
1648 the 40 goals of Fannie Mae, making sure that Fannie Mae does  
1649 well so that they get more money as a bonus?

1650 I will take an answer from anyone.

1651 Mr. POLLARD. I will answer in saying that it is a  
1652 subject of our investigation, the level, is there a tie. But  
1653 additionally, if an individual, as I said, is incented to  
1654 make loans and to work them out, that may have a perverse  
1655 incentive, without being specific that you should not have  
1656 bad loans. It simply creates a situation where the two are  
1657 sort of impossible to untangle. So we will be looking at  
1658 compensation in this particular matter, and again that is the  
1659 topic heading that we are following right now.

1660 Mrs. KELLY. Thank you.

1661 Anyone want to add to that?

1662 Mr. SMITH. Well, certainly at Fannie Mae from my  
1663 aspect, it is an important part of my job to ensure that we  
1664 properly manage Fannie Mae's credit losses. The repurchase  
1665 of ineligible loans is just a small piece of that. We also  
1666 for any loan that goes toward foreclosure, goes seriously  
1667 delinquent, we put forth great effort to work with the  
1668 individual homeowner in loss mitigation efforts so that not

1694 | that the loans were not in fact FHA-insured. They have to be  
1695 | under the law to be in the Ginnie Mae pool.

1696 |         Mrs. KELLY. Thank you.

1697 |         I have one final question for you, Mr. Pollard. With  
1698 | regard to your proposed rule, will Fannie and Freddie be  
1699 | obligated to inform law enforcement agencies or other  
1700 | governmental organizations when fraud is discovered? Or is  
1701 | this just going to be a mere notice? Will there be a  
1702 | rational reason for the law enforcement people to follow up?

1703 |         Mr. POLLARD. First, the rule does not provide for that.  
1704 | However, we are looking and working through what will be  
1705 | required in the instructions and to whom notice should be  
1706 | provided. First will be providing notice to us. As I  
1707 | mentioned, we are looking at what we can do to smoothly and  
1708 | at the same time afford protections to the enterprises and  
1709 | transfer that information. But we believe that when a fraud  
1710 | has been identified, there should be no inhibition on going  
1711 | to a state, federal, almost anybody you can contact in law  
1712 | enforcement and tell them there is a fraud.

1713 |         In this area of suspicious activities, that makes it a  
1714 | bit difficult, but again I believe that we will work through  
1715 | to some processes that may make that more doable. That is  
1716 | the best I can tell you at this time.

1717 |         Mrs. KELLY. I thank you.

1718 |         I think that what has occurred here this morning has

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## United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, DC 20510-6025

<http://appropriations.senate.gov>

J. KEITH KENNEDY, STAFF DIRECTOR  
 TERRENCE E. SAUVAIN, MINORITY STAFF DIRECTOR

April 13, 2005

Honorable Joshua B. Bolten  
 Director  
 Office of Management and Budget  
 725 17<sup>th</sup> Street, NW  
 Washington, D.C. 20503

Dear Director Bolten:

It has come to our attention that the Office of Federal Housing Enterprise Oversight (OFHEO) may have concerns over whether the agency has sufficient funding to meet all of its oversight responsibilities for the remainder of this fiscal year.

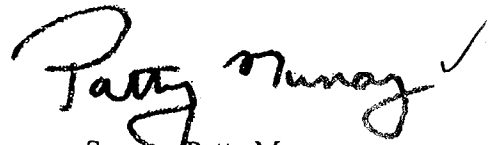
As you know, the Senate is currently debating the Supplemental Appropriations bill for the current year. As such, the opportunity for our Subcommittee to act on any supplemental funding request is running short. We are sensitive to the risks of a potential funding shortfall, and are willing to consider additional funding if such a need exists.

Please advise us as soon as possible of any concerns the Administration may have regarding OFHEO's funding needs for this fiscal year, including back-up information documenting these concerns. Please direct this information by fax (202-224-4344) to the attention of the Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies, SD-130, Washington D.C. 20510.

Sincerely,



Senator Christopher S. Bond



Senator Patty Murray

cc: Armando Falcon, Jr.  
 Director, OFHEO  
 Steve McMillan  
 Associate Director for General Government Programs, OMB

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## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
 URBAN AFFAIRS

WASHINGTON, DC 20510-6075

April 15, 2005

Armando Falcon, Jr.  
 Director  
 Office of Federal Housing Enterprise Oversight  
 1700 G St, N.W.  
 Fourth Floor  
 Washington, D.C. 20552

Dear Director Falcon:

On behalf of the Committee on Banking, Housing, and Urban Affairs, I am writing to confirm your invitation to testify on proposals for improving the regulation of the housing government sponsored enterprises. The hearing will be on Thursday, April 21 at 10:00 a.m. in Room 538 of the Dirksen Senate Office Building.

Your testimony and written statement should address current regulatory issues and investigations concerning Fannie Mae and Freddie Mac, the scope and adequacy of OFHEO's current regulatory authorities and legislative recommendations regarding the creation of a new regulator for Fannie Mae, Freddie Mac and the Federal Home Loan Bank System. Specifically, your written testimony should address the following issues raised in various regulatory reform proposals:

- granting a new regulator discretion to establish capital requirements for Fannie and Freddie;
- moving the current program approval authority for Fannie and Freddie to a new regulator with general regulatory authority;
- the adequacy of current regulatory authority over program approval;
- the propriety of creating a "bright line" between primary and secondary mortgage market activities;
- limitations on the GSEs' mortgage portfolio holdings and a new regulator's authority to address ongoing mortgage portfolio activities;
- the new regulator's need for greater prompt corrective action powers and for receivership authority;
- the need for a new regulator to have specific authority over the GSEs' corporate governance and compensation programs;
- transparency of business practices concerning guarantee fees and a new regulator's authority to review these fees; and
- the purpose of non-mortgage assets held in portfolio and the appropriate level of oversight for these assets.



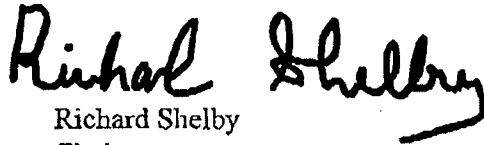
# United States Senate

WASHINGTON, DC 20510

Under the Committee's rules, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. These are due to the Committee no later than 24 hours prior to the hearing. Statements should be delivered to the Committee in Room 534 of the Dirksen Office Building, Washington, D.C. 20510. For purposes of the Committee Record and printing, your written statement must be e-mailed to [liz\\_hackett@banking.senate.gov](mailto:liz_hackett@banking.senate.gov) (or submitted on an IBM compatible 3.5-inch diskette).

If you have any questions regarding this hearing, please have your staff contact Doug Nappi at 202 224-7391.

Sincerely,

A handwritten signature in black ink that reads "Richard Shelby". The signature is written in a cursive, slightly slanted style.

Richard Shelby  
Chairman



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: <b>George Whittle</b>	Date: <b>May 9, 2005</b>
Office of: <b>Comm on Banking, Housing &amp; Urb</b>	Time: <b>4:03 PM</b>
Facsimile Number: <b>202.228.0017</b>	
From: <b>Joanne Hanley</b>	Telephone No.: <b>202.414.3812</b>
Office of: <b>External Relations</b>	Page <b>1</b> of <b>15</b>
Notes/Comments:	

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**AM**

**United States Senate**  
*Committee on Banking, Housing, and Urban Affairs*

*Fed Housing  
Enterprise  
Overflight*

**April 21, 2005**

**Dear Mr./Mrs./Ms. Falcon:**

Attached is a transcript of your remarks given before this Committee. You may make changes for the purpose of correcting grammatical errors, obvious errors of fact, and errors of transcription. Please read over and correct your *oral statement very carefully, including any answers* you may have given the Senator. Please do this for clarification purposes as we try to avoid second-guessing any errors which may have occurred because of the court reporter. Clarifying changes will be accepted if they *do not materially change the original content* of the statement.

Please make all corrections in *red or another contrasting color* directly onto the transcript

If you *choose to make no changes*, and wish to have your testimony printed *as received from the court reporter*, please sign on the line below, and return **ONLY** this page.

\_\_\_\_\_

Return the hearing transcript by **May 16, 2005**

***If the edited transcript is NOT returned to the Editor, the Committee will assume no corrections are necessary to your testimony and will prepare the hearing for press AS STATED WITH NO CORRECTIONS.***

If during your testimony you:

- 1. Offered to submit additional material --
- 2. ~~Were requested to submit additional material --~~
- 3. Were requested to respond to written questions from the Committee --

Return the above with this sheet and only the corrected pages to:

George E. Whittle, Editor  
 Senate Committee on Banking, Housing, and Urban Affairs  
 Room SD 534, Dirksen Senate Office Building  
 Washington, D.C. 20510  
 Phone (202) 224-1578  
 Fax : (202) 228-0017  
 E-mail: george\_whittle@banking.senate.gov

APRIL 21, 2005

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REGULATORY REFORM OF THE HOUSING

2

GOVERNMENT-SPONSORED ENTERPRISES

3

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THURSDAY, APRIL 21, 2005

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United States Senate,

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Committee on Banking, Housing, and Urban Affairs,

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Washington, D.C.

8

The Committee met, pursuant to notice, at 10:13 a.m.,

9

in room SD-538, Dirksen Senate Office Building, Senator

10

Richard Shelby (Chairman of the Committee) presiding.

11

Present: Senators Shelby, Hagel, Martinez, Sarbanes,

12

and Carper.

13

OPENING STATEMENT OF CHAIRMAN RICHARD SHELBY

14

Chairman Shelby. The Committee will come to order.

15

This morning the Committee concludes its series of

16

hearings on reforming the regulatory system for Fannie Mae,

17

Freddie Mac and the Federal Home Loan Bank System.

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The Committee has conducted a comprehensive set of

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hearings on the housing GSEs and we have heard testimony

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from a range of witnesses representing different

21

perspectives in the housing GSE reform debate.

22

Since this Committee began considering this issue in

23

the fall of 2003, I have clearly stated my intention to

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ensure the safe and sound operation of the GSEs by creating

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a world-class regulator with certain core powers.

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While advocating the need for a strong and credible regulator, I have acknowledged the unique attributes of the GSEs and reiterated my belief that the GSEs play a critical role in the housing markets. I believe that the safe and sound operation of the GSEs is a necessary precondition to the fulfillment of the GSEs' housing mission.

In light of the ongoing financial restatement processes at both Fannie Mae and Freddie Mac, I firmly believe that a strong and credible regulator will help facilitate the GSEs' housing mission by ensuring that the GSEs are vibrant and healthy.

Our witnesses this morning are well positioned to discuss the regulatory environment surrounding the housing GSEs and how Congress can create a strong and credible regulator that will enable the housing GSEs to fulfill their housing mission.

This morning we will first hear from the Honorable David Walker, Comptroller General of the United States, and Mr. Douglas Holtz-Eakin, Director of the Congressional Budget Office.

I thank both of you for being here, and I thank you for your time and appreciate your willingness to appear before the Committee.

On the second panel we will hear from Director Armando Falcon, Sr. of the Office of Federal Housing Enterprise



sm

*Oversight*

1 ~~Supervision~~, and Chairman Ronald Rosenfeld of the Federal  
 2 Housing Finance Board. This would be Chairman Rosenfeld's  
 3 first appearance before this Committee since his  
 4 confirmation.

5 And it is Director Falcon's last appearance. After  
 6 nearly six years of admirable public service Director Falcon  
 7 has announced his resignation. Director Falcon has led the  
 8 Agency through a difficult period and has worked diligently  
 9 to clean up operations of Fannie Mae and Freddie Mac. I  
 10 want to thank him for his service and wish him the best in  
 11 his future endeavors.

12 Following today's hearing the Committee will begin to  
 13 consider legislation to create a new regulatory structure  
 14 for the housing GSEs. As evidenced by the hearings, there  
 15 are a number of difficult issues to confront and to resolve.  
 16 I am hopeful that consensus will develop. With cooperation  
 17 and consensus, I am hopeful that this Committee can pass a  
 18 meaningful bill, and I am only interested in producing  
 19 meaningful regulatory reform.

20 I thank again each of our witnesses for appearing  
 21 before the Committee and look forward to their testimony.

22 Senator Hagel.

23 STATEMENT OF SENATOR CHUCK HAGEL

24 Senator Hagel. No comment.

— 25 Chairman Shelby. Senator Martinez?

1 STATEMENT OF ARMANDO FALCON, JR., DIRECTOR, OFFICE  
2 OF FEDERAL HOUSING ENTERPRISE OVERSIGHT,  
3 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

4 Mr. Falcon. Thank you, Mr. Chairman. I am very  
5 grateful for your comments. Let me say, Mr. Chairman,  
6 Ranking Member Sarbanes, and Members of the Committee, it is  
7 an honor to appear before you today.

8 As you said, Mr. Chairman, this will likely be my last  
9 appearance before Congress as Director of OFHEO, and it has  
10 been a pleasure to work with the Committee over ~~the years~~  
11 ~~for~~ the past six years, as together we have worked to  
12 strengthen the oversight of Fannie Mae and Freddie Mac.

13 More recently, we have shown that the regulatory  
14 process can work. OFHEO has successfully tackled some very  
15 serious issues, at first <sup>with</sup> Freddie Mac and now Fannie Mae.  
16 But much more work needs to be done, and that is why OFHEO  
17 is devoting its full energy to finding and fixing all of the  
18 problems at both enterprises, and we are doing so with the  
19 cooperation of the ~~Board~~ and the management of both  
20 enterprises.

21 OFHEO has made great strides in carrying out its  
22 responsibilities. We have done so through the efforts of a  
23 world-class staff, and despite being deprived of world-class  
24 powers. That is why your work, Mr. Chairman, and this  
25 Committee's on new legislation is so crucial. OFHEO or any

1 authority, enhanced hiring authority, and the full range of  
2 enforcement powers provided to all other financial  
3 regulators. Also <sup>2</sup> legislation should provide the regulator  
4 with the power to place an enterprise into receivership in  
5 the unfortunate event <sup>†</sup> that becomes necessary.

6 Fourth, the regulator must have the full discretion to  
7 set minimum and risk-based capital standards. The regulator  
8 should have broad discretion to exercise its judgment <sup>x</sup> to  
9 determine prudential capital adjustments <sup>s</sup>. Again, all other  
10 safety and soundness regulators have such authority.

11 Fifth, the regulator's mandate should be enhanced. The  
12 safety and soundness regulation and charter compliance  
13 should be placed together under one roof. In fact, I think  
14 we should go a step further and charge the regulator with  
15 responsibility for monitoring and analyzing our Nation's  
16 housing finance system. Ultimately <sup>3</sup> we should view the  
17 Agency not just as a regulator of the enterprises, but as a  
18 monitor of the health of our Nation's housing finance  
19 system. I am not suggesting that the Agency have any  
20 additional regulatory authority over other parts of the  
21 mortgage industry, but I do think that it should have a  
22 responsibility and a mandate to research, assess and monitor  
23 this critical segment of our economy.

24 Sixth, new legislation should build on the progress we  
25 have already made over the last 12 years. Regulating Fannie



1 Mae and Freddie Mac requires a specialized set of skills<sup>o</sup> ✓  
2 ~~and the~~ expertise on how Fannie Mae and Freddie Mac can ✓  
3 manage credit and interest rate risk, including through ✓  
4 their wide use of derivatives and callable debt<sup>o</sup> is vital for ✓  
5 effective regulation. A new regulator should build on that  
6 expertise rather than trying to develop it from scratch. ✓

7 Mr. Chairman, beyond these principles<sup>o</sup> I would like to ✓  
8 comment briefly on the enterprises' portfolios. I think the  
9 most prudent course of action would be for Congress to give  
10 the regulator explicit authority to regulate the size of the  
11 enterprises' portfolios. This should be accompanied by  
12 specific statutory guidance on how the exercise of that  
13 authority should be carried out. Fixing specific limits  
14 could easily prove counterproductive if market conditions  
15 suddenly dictated necessary flexibility.

16 I believe it would be best to rely on the regulator's  
17 judgment in carrying out Congress's decisions on portfolio  
18 holdings. Of course the guidance Congress provided would  
19 thus become crucial. Guidance strictly limiting portfolios  
20 to amounts needed to provide the mortgage market with  
21 adequate liquidity, for example, would produce a much  
22 different outcome than guidance that simply linked portfolio  
23 size to an enterprise's ability to manage the associated  
24 risk. The latter standard in fact comes quite close to the  
25 current state of regulation on portfolios.

1           Once Congress has made the fundamental policy decisions,  
2           the regulator would conduct any necessary analysis, seek  
3           input from interested parties, determine the appropriate  
4           levels, and ensure the orderly implementation of any  
5           necessary changes.

6           Mr. Chairman, Ranking Member Sarbanes and Members of  
7           the Committee, let me close by saying I am proud of what  
8           OFHEO has accomplished during my tenure. Despite the  
9           obstacles we have faced, despite the constraints under which  
10          we operate, OFHEO has fulfilled its mission.

11          As you move forward on legislation, I urge you to keep  
12          the principles I have outlined in mind. I hope they will  
13          assist you in forging a consensus, if not on the details, at  
14          least on the broad purposes of your crucial work in this  
15          area. ✓

16          Thank you and I would look forward to answering any  
17          questions the Committee may have.

3    18          [The prepared statement of Mr. Falcon follows:]

1 Chairman Shelby. I thank you both.

2 The GSE reform debate, as all of us are aware, has  
3 centered on creating a world-class regulator that has the  
4 full complement of regulatory tools, such as discretion over  
5 capital levels and receivership authority, among others. I  
6 believe anything less than that would not be viewed as  
7 credible.

8 From your perspective, Mr. Falcon, we will start with  
9 you, what are the core powers that a world-class regulator  
10 for the GSE must possess?

11 Mr. Falcon. First of all, adequate ability to make  
12 sure that it can properly oversee the activities of the  
13 companies that it regulates. And then in the second  
14 category, I would place the authorities to deal with any  
15 problems that it might find. In the first category it means  
16 adequate resources, an adequate staff and expertise, <sup>and</sup>  
17 adequate authorities to obtain information from the  
18 enterprises that it regulates and adequate tools--

19 Chairman Shelby. What about risk-based and minimum-  
20 based capital?

21 Mr. Falcon. Mr. Chairman, I believe both standards are  
22 essential as a tool to maintaining the safety and soundness  
23 of the enterprises.

24 Chairman Shelby. Mr. Rosenfeld?

25 Mr. Rosenfeld. I would concur certainly with Director

sm

1 Falcon. I believe that literally all of the powers you  
2 indicated, Mr. Chairman, are required. You simply cannot  
3 have less and have a world-class regulator. If it is less  
4 than world class, it cannot do what needs to be done.

5 Chairman Shelby. Guaranty fees. Mr. Falcon, you have  
6 been reviewing the guaranty fees that the GSEs charge to  
7 mortgage lenders. These fees have been a source of  
8 controversy as they have remained relatively constant over  
9 time even as credit losses and loan loss reserves have  
10 declined. Some of us are concerned about the competitive  
11 effect here. Smaller lenders believe that larger lenders  
12 are charged lower guaranty fees for mortgages with similar  
13 credit risk, the GSEs, thereby promoting consolidation in  
14 the lending industry, and of course lack of competition.

15 Can you give us today some insight, some indication of  
16 the range of guaranty fees? Do the GSEs in fact charge  
17 larger lenders lower fees and what type of authority should  
18 a new regulator have to effectively monitor these type fees?

19 Mr. Falcon. I do not have specific information with me  
20 about ~~perhaps~~ the range of guaranty fees. As we are looking  
21 at ~~it~~, it is not quite so simple to compare guaranty fees  
22 with different types of services. These packages are  
23 structured in different ways with different types of  
24 provisions which might have some quantifiable impact on the  
25 guaranty fee.

1 lenders were responsible for 77 percent of single-family  
2 mortgage originated in 2003, up from 74 percent in 2002.  
3 The top 10 originators accounted for 61 percent of single-  
4 family loans made in 2003," top 10, 61 percent compared to  
5 57 percent in the previous year.

6 Now, we heard testimony earlier this week from both the  
7 Independent Community Bankers Association and the mortgage  
8 brokers that they are very concerned about the large  
9 mortgage lenders, both bank and non-bank, that serve as  
10 mortgage intermediaries for them, while at the same time  
11 being in direct competition with them. For example, a large  
12 lender can compete with a small community bank for the  
13 refinancing of a loan which the GSEs cannot do, as I  
14 understand it. Does this kind of concentration worry you?

15 Mr. Falcon. Senator, we are always concerned about  
16 issues of concentration risk, whether it comes up among<sup>st</sup> the  
17 seller servicers, among counter-parties like derivatives  
18 counter-parties or in the mortgage insurance area.  
19 Concentration risk is something that we do look at and<sup>we</sup> try  
20 to think of ways to minimize concentration risks and the  
21 possibility that if there <sup>is</sup> ~~was~~ any failure in an area where  
22 there is concentration risk, how would we mitigate the  
23 fall<sup>l</sup>out from that 10

24 Senator Sarbanes. Let me ask you this question.  
25 Several economists have argued, including Richard Roll at

1 UCLA, that debt financing for Fannie and Freddie is an  
2 efficient way to bring capital from abroad to the American  
3 mortgage market, where it then becomes of course available  
4 to U.S. homeowners, buyers and multi-family developers. Dr.  
5 Roll argues that debt is efficient because it allows  
6 investors that do not want to handle the interests rate and  
7 prepayment risk to nonetheless invest in our housing market.  
8 In other words, the debt financing of the retained  
9 portfolios brings additional capital to our housing markets  
10 that would otherwise not be available.

11 I am interested in the view of the panelists on this  
12 argument or this line of reasoning.

13 Mr. Falcon. As I have talked to foreign investors in  
14 Fannie/Freddie debt, I think it is clear to me that they  
15 invest in Fannie and Freddie debt ~~in~~, not mortgage-backed  
16 securities, per se, but more the bullet debt that they issue  
17 because they view it as an attractive investment because  
18 they <sup>perceive</sup> view it as the equivalent of a Treasury, but one that  
19 pays a higher rate of interest. Investors overseas who  
20 invest in Fannie/Freddie debt are very risk averse. If they  
21 weren't buying Fannie and Freddie debt, they might be buying  
22 Treasury debt, or they might possibly be buying more of  
23 their <sup>own</sup> mortgage-backed securities.

24 They are not buying the debt because they view it as a  
25 way to channel their money into promoting homeownership in

1 the United States. It is more because of their own risk  
2 management considerations and policies that they have for  
3 managing their portfolios.

4 I think much of what Fannie's core business is about,  
5 guaranteed risk, buying mortgages, providing ~~with~~ liquidity  
6 to the primary mortgage market, ~~it~~ is done for the guaranty  
7 business. Would the guaranty business suffer if the  
8 enterprises were forced to hold a smaller portfolio? I  
9 think as long as the core purposes of their portfolio were  
10 maintained, I do not think it would suffer. The portfolios  
11 are an important means by which the enterprises, ~~one~~  
12 address ~~the~~ liquidity needs, and they do in fact maintain a  
13 separate liquidity investment portfolio for liquidity  
14 purposes. Now, the retained mortgage portfolio is important  
15 to both companies for purposes of holding mortgages that  
16 they buy for the liquidity function in their portfolio  
17 because ~~it may not be~~ they may not lend themselves readily  
18 to securitization.

19 In addition, another purpose is to at times serve as  
20 <sup>a</sup> ~~some~~ market stabilization function. Certainly having the  
21 regulator with the flexibility to determine when the  
22 portfolio should be allowed to adjust from whatever level it  
23 might be set up <sup>o</sup> for purposes of providing some stabilization <sup>o</sup>  
24 would be appropriate and I think very prudent.

— 25 ~~But~~ that is what I think is probably the most candid

1 Given that the GSEs' ability to access the debt markets  
2 seems to be fairly easy even during periods of financial  
3 crisis, is a liquidity requirement necessary? Should a new  
4 regulator have specific authority to monitor the GSE's  
5 non-mortgage investments?

6 Mr. Falcon. I think what we do currently, Mr.  
7 Chairman, in this area is we have prescribed, through an  
8 examination guidance, direction to the companies about the  
9 credit quality of the investments that are held in their  
10 non-mortgage liquidity portfolios to make sure that they are  
11 strong investments so that they are there to serve their  
12 purpose of providing liquidity in times of need.

13 Now the debt might be able to substitute as a means of  
14 liquidity, but in times of stress or difficult conditions  
15 for the companies it might come at a premium <sup>Also,</sup> ~~as well as~~ it  
16 would require other secondary measures to ensure that debt  
17 that they issued to meet some liquidity purposes <sup>is</sup> does not  
18 adversely impact their duration between their assets and  
19 their liabilities, which we watch very closely. We do think  
20 it is prudent to have some type of non-mortgage liquidity  
21 portfolio to certainly fund cash flow differences in their  
22 guarantee business. Now <sup>is</sup> certainly the safer, the better.  
23 If it was Treasuries that would provide very much an  
24 adequate type of liquidity portfolio.

25 We have not taken the step to date of restricting the



1 types of assets that could be held in this portfolio. At  
2 one point that was under consideration by the Department of  
3 Housing and Urban Development. We looked at it from a  
4 safety and soundness standpoint and just prescribed the  
5 credit quality of this portfolio and left it to HUD, since  
6 they were taking ~~it~~ up ~~about~~ the type of assets they could  
7 hold. So we did not take a role in addressing the types of  
8 assets because we viewed that ~~was~~ HUD's role at the time as  
9 a mission issue.

10 Chairman Shelby. Gentlemen, we appreciate your  
11 participation here today and also your written testimony,  
12 and your candid answers. We might be calling on you as we  
13 try to write this legislation.

14 Mr. Falcon?

15 Mr. Falcon. May I say one more thing, Mr. Chairman?

16 At very difficult times in the past two years this Committee  
17 has demonstrated great patience with the regulatory process  
18 and conducted itself in a manner that fully enabled this  
19 agency to do its job. It was that patience that this  
20 Committee showed towards the regulatory process that let  
21 that process work and I think it had a large role in  
22 contributing to the successful manner in which we have  
23 resolved problems at these two companies. So I just wanted  
24 to mention that and thank you, Mr. Chairman, and Senator  
25 Sarbanes and this Committee for what it has done to make



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Notes/Comments:

**Transcript changes for Armando Falcon, Jr.**

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146 STATEMENT OF HON. ARMANDO FALCON,<sup>32</sup> DIRECTOR, OFFICE OF FEDERAL  
147 HOUSING ENTERPRISE OVERSIGHT

148 Mr. FALCON. Thank you, Mr. Chairman.

149 I will give a summary of my written testimony.

150 First of all, may I say thank you for your comments  
151 about the agency and my tenure there.

152 You, Mr. Chairman, and Mr. Kanjorski have been steadfast  
153 supporters of strong safety and soundness regulation and the  
154 agency<sup>P</sup> and I appreciate that very much on behalf of the  
155 agency.

156 I am pleased to appear before you today to discuss  
157 OFHEO's supplemental agreement with Fannie Mae and the issues  
158 that gave rise to the agreement.

159 We have two objectives in our ongoing special  
160 examination of Fannie Mae. First, we must identify all the  
161 problems and fix them. As my testimony today indicates, that  
162 task is not yet complete. Second, we must institute a  
163 comprehensive reform program to prevent problems from  
164 recurring. This program will include far stronger internal  
165 controls and corporate governance measures; an adequate  
166 investment in systems, processes and personnel; and the  
167 establishment of a corporate culture fully dedicated to  
168 compliance with the law, with GAAP and all relevant rules and  
169 regulations.

220 | were valid and appropriate; a failure to require that journal  
221 | entries include supporting documentation; a lack of  
222 | independent review of journal entries; and an absence of  
223 | written policy guidance concerning journal entry procedures.

224 |       My written testimony describes the intent of our review  
225 | in this area and, because it is a matter under  
226 | investigation, I cannot go into further detail beyond what is  
227 | contained in my written statement.

228 |       As the scope of the Fannie Mae special examination has  
229 | proceeded well beyond our expectations, we will need  
230 | additional funds this year. Accordingly, we have used our  
231 | special assessment authority to assess Fannie Mae an  
232 | additional \$5 million. However, while we have collected the  
233 | funds, OMB has opined that due to a technical deficiency in  
234 | the statute we may not spend the funds. While we do not  
235 | agree with OMB's interpretation, we are bound by it.

236 |       I think this provides yet another example of why  
237 | Congress must enact legislation to give the regulator the  
238 | full authority it needs to do its job. Until then, I would  
239 | ask the committee's assistance in resolving this funding  
240 | matter.

241 |       Finally, Mr. Chairman, I would like to also end on a  
242 | personal note, if I may. As you mentioned, my 5-year term as  
243 | director of OFHEO expired last October, but I have remained  
244 | in the office to guide the agency through a very challenging

245 | period. With the most critical and pressing issues at the  
246 | enterprises now addressed, I have decided to step down from  
247 | my position next month.

248 | I am proud of OFHEO's achievements during my tenure.  
249 | The agency has successfully dealt with very serious problems  
250 | at two of the largest financial institutions in the world,  
251 | and we have done so without disrupting our financial markets,  
252 | while allowing both enterprises to continue fulfilling their  
253 | vital mission of making home ownership more affordable.

254 | I am particularly proud of the efforts of OFHEO's  
255 | employees and our conduct <sup>during</sup> ~~of~~ the special examinations.  
256 | Seldom does a safety and soundness regulator identify  
257 | improper actions, with potentially billions of dollars of  
258 | adverse impact, before they manifest themselves in a way that  
259 | does permanent harm to the company.

260 | It has been a privilege to serve the public as the  
261 | director of OFHEO, and I want to thank this committee for its  
262 | support over the years.

263 | Thank you, Mr. Baker. I would be happy to answer any  
264 | questions the committee may have.

265 | [The statement of Mr. Falcon follows:]

266 | \*\*\*\*\* INSERT \*\*\*\*\*

267 Mr. BAKER. Thank you very much.

268 I do not know that your position would require you to  
269 make an assessment as to systemic risk potential, but, given  
270 the knowledge you have now gained pursuant to these  
271 inquiries, given the time it appears that the management  
272 lapse allowed practices inconsistent with GAAP to be engaged  
273 in, if unchecked, would you have had some concern about some  
274 potential future day when the numbers would not add up, the  
275 capital would have been inadequate and a systemic risk  
276 potential having been created?

277 Mr. FALCON. I would be concerned that, at some point in  
278 time, the problems we found in the company would manifest  
279 themselves some way. Fortunately, we did find them before  
280 that occurred, but the practices of the company in terms of  
281 its approach towards compliance with regulations, be they  
282 accounting or internal controls or best practices in risk  
283 management, ~~they~~ were not healthy. ✓

284 Mr. BAKER. And had been engaged in on more than just,  
285 say, a single reporting quarter. This was year-over-year  
286 activity, not merely an aberrant activity.

287 Mr. FALCON. Yes.

288 Mr. BAKER. Do you have any window yet as to when Fannie  
289 would be in a position to give us certified or accurate  
290 financials?

291 Mr. FALCON. We cannot say with any degree of certainty

317 Mr. FALCON. There is still a great deal of work before  
318 the agency and Fannie Mae. That is absolutely the case.

319 Mr. BAKER. I do not know that you would have had time,  
320 given your preparation for your appearance here today, to be  
321 familiar at all with the provisions of the bill now  
322 introduced relative to the creation of an enhanced regulator.

323 Do you have any comment to make about the provisions that  
324 are included in the bill generally, or is there a specific  
325 area of concern you would like to bring to the committee's  
326 attention you do not feel is addressed by the bill?

327 Mr. FALCON. As you said, I have not had a chance to go  
328 through much of the details of the bill, but I think the  
329 intent of the legislation to provide the regulator with  
330 authorities on par with every other safety and soundness  
331 regulator is progress. Anything which fills the gaps in the  
332 regulator's authority to do its job would be a positive step  
333 forward. Beyond that, the details of any particular  
334 <sup>provisions</sup> revision, I have not had a chance to review them.

335 Mr. BAKER. There has been some discussion primarily led  
336 by Chairman Greenspan as to the advisability of limiting the  
337 growth or even further reducing the size of the existing  
338 investment portfolio, as it is his view, according to press  
339 reports, that it does not have a correlation to housing  
340 function. He had suggested even a hard-dollar limit of some  
341 \$200 billion down from the \$1.6 trillion currently engaged.

342 | Do you have any opinion as to whether it is advisable or not  
343 | to have further restrictions on growth at the least or to  
344 | pursue the reductions over time, in your view?

345 |       Mr. FALCON. The company does need to retain a portfolio  
346 | of some amount towards liquidity needs. I think that is very  
347 | evident. What that amount is I could not tell you where any  
348 | cap should stand.

349 |       Mr. BAKER. But \$1.6 trillion is more than adequate.

350 |       Mr. FALCON: Yes. It is clear, I think, that the  
351 | current levels are more than adequate to provide for their  
352 | legitimate safety and soundness needs for their risk  
353 | management purposes. How much below the current levels would  
354 | be necessary and then how much beyond that simply for other  
355 | purposes would require some study.

356 |       Mr. BAKER. And it would be your concern, I presume,  
357 | that if they were precipitously lowered over too short a  
358 | period of time, that could have adverse consequences for the  
359 | enterprises?

360 |       Mr. FALCON. Yes ~~yes~~.

361 |       Mr. BAKER. Mr. Kanjorkski?

362 |       Mr. KANJORSKI. Thank you, Mr. Chairman.

363 |       On the insufficient internal controls and improper  
364 | application of accounting standards to meet adequate  
365 | corporate governance, what did your final examination show,  
366 | how long a period that existed--just in the last year, the



367 | last 2 years, the last 5 years, the last 10 years--or has it  
368 | been endemic to the organization?

369 |       Mr. FALCON. It varies by issue, Congressman. There was  
370 | one lapse in their systems that dated back 21 years, other  
371 | matters may have taken place in the last 1 or 2 years, but,  
372 | generally, I would say that they fall within the last 4 years  
373 | or so.

374 |       Mr. KANJORSKI. I am concerned about, first of all, are  
375 | these lapses. Are they of huge significance where they could  
376 | put at risk the safety and soundness of the organization, or  
377 | are they not that significant?

378 |       Mr. FALCON. I view the weaknesses in internal controls  
379 | as very significant. As you know, there are many examples in  
380 | history where lapses in internal controls have brought down  
381 | large old financial institutions almost overnight. Barings  
382 | Bank is one example of how internal controls can ~~just~~ bring  
383 | down ~~the~~ company, even a well-capitalized company. So lapses  
384 | in internal controls, even though we often speak of them  
385 | after the accounting issues, I think, are just as, if not  
386 | more, serious than the accounting problems.

387 |       Mr. KANJORSKI. Were these lack of internal controls you  
388 | found really substantial, though, in this particular  
389 | instance?

390 |       Mr. FALCON. I think they were substantial. I do think  
391 | they were because there were almost no controls in some

417 It is the need to do things with adequate depth. When I  
418 took over the agency, we had 30 examiners, and I had our  
419 examination staff do a review, a benchmarking study,  
420 comparing our program to other regulators and how many  
421 examiners ~~would~~ <sup>they</sup> have on staff to supervise two companies  
422 of this size.

423 This benchmarking study showed that on average another  
424 regulator might have 60 or so examiners per institution. We  
425 were working with 15 examiners per institution, which is why  
426 we have moved over the last 5 years to try to increase our  
427 resources. I wish I had the number of examiners that I have  
428 today back then, <sup>perhaps</sup> ~~that maybe~~ we would have had the ability to  
429 catch many of these problems.

430 Mr. KANJORSKI. But why didn't we catch some of them? I  
431 have been under the impression that over the years both  
432 Freddie Mac and Fannie Mae were fairly well-run  
433 organizations, and, every time we have had hearings over the  
434 last 5 years on this subject, that is what we were led to  
435 believe by both the regulators and by the company.

436 Now maybe some of the people that were testifying on  
437 behalf of the company did not even know these problems--is  
438 that your testimony--or their absence of knowledge is in  
439 itself a governance problem?

440 Mr. FALCON. I think many of these internal control  
441 problems revolve around accounting procedures and the

442 recordkeeping activities of the company, and this is an area  
443 we have not looked at traditionally. Safety and soundness  
444 regulators rely on the outside audit function to do its job  
445 properly.

446 We have never second-guessed the external auditors to  
447 make sure that the company's statements are compliant with  
448 GAAP. That is the role of the external auditor, and only  
449 after the accounting problems were uncovered did it become  
450 very apparent that controls around the accounting activities  
451 of the company and its financial systems were inadequate.

452 Mr. KANJORSKI. So what you are telling us now is not  
453 only the internal accounting, it is also their external  
454 auditor that participated in this misrepresentation, either  
455 by omission or commission, and I would like you to sort of  
456 specify. Do you think it was by omission, or were they  
457 participants in it?

458 Mr. FALCON. Well, it is clear that the external  
459 auditor--in this case, KPMG--certified financial statements  
460 as compliant with GAAP that we<sup>now</sup> know, obviously, were not  
461 compliant with GAAP. We are examining the question of <sup>whether</sup> ~~was~~  
462 that <sup>was</sup> just the result of inadequate work done by the auditor  
463 or was it the result of some complicity on the part of the  
464 auditor.

465 Mr. KANJORSKI. You have not determined that?

466 Mr. FALCON. No, Congressman.

467 | Mr. KANJORSKI. Under present law, does the regulator  
468 | have authority to not only punish the corporation or extract  
469 | some fine or fee from the corporation but also from the other  
470 | contracted parties, like the auditor, if errors like this are  
471 | made? In other words, can you assess that auditor some  
472 | penalty?

473 | Mr. FALCON. We do not have that explicit authority.  
474 | What we could possibly do is limit the company's ability to  
475 | do business with certain counterparties.

476 | Mr. KANJORSKI. What risk does the accounting firm run  
477 | if they do not come forth with accounting principles that are  
478 | according to GAAP? If they miss those either by omission or  
479 | commission, are they at any risk or is that part of the game,  
480 | do it so that you have a client and satisfy the client's  
481 | needs?

482 | Mr. FALCON. I think that spreads more to the  
483 | responsibility of the PCAOB to examine whether or not the  
484 | auditor in this instance properly did its job, and they are  
485 | involved in <sup>that type of</sup> ~~this~~ review.

486 | Mr. KANJORSKI. Okay.

487 | Thank you, Mr. Chairman.

488 | Mr. BAKER. As much as is practicable, given our  
489 | potential 11 o'clock recess, I am going to try to stick to  
490 | the 5-minute rule pretty strictly to give as many members as  
491 | possible a chance to be heard.

492 Mr. Shays?

493 Mr. SHAYS. Thank you.

494 Mr. Falcon, I wish you well in whatever you do in the  
495 future, and I thank you for your service to your country and  
496 in this capacity.

497 Having said that, I wish you were as good as you have  
498 been in the last few years earlier.

499 I want to understand why OFHEO became more aggressive.  
500 I felt like--and I will just say this--you basically were  
501 almost created by Fannie Mae and Freddie Mac in that you were  
502 doing what they wanted rather than what Congress needed until  
503 the last year or two. What explains, though, the difference  
504 in approach that you have had?

505 Mr. FALCON. With the resources available to us in more  
506 recent years, it allowed us more flexibility to cover more  
507 areas and, certainly, when the problems of Freddie Mac  
508 became apparent, it did illustrate a particular area where we  
509 ~~did~~ need<sup>ed</sup> to focus more of our attention, as traditionally we  
510 had not. So really, with the additional resources, it  
511 provided us with the means to become more thorough in how we  
512 went about examining the two institutions.

513 Mr. SHAYS. Well, I believe if you had done what you  
514 have done in the last year, we would not even be talking  
515 about a new regulator, and that is the sad part of this  
516 because we had Mr. Raines come before us, challenge your last

517 | findings, almost arrogantly dismissed it, and I thought you  
518 | were very forceful and, frankly, somewhat courageous, and the  
519 | SEC backed what you all had determined.

520 |         So I think you are going out in a way that is important,  
521 | but it is sad that we never got a handle on Fannie Mae and  
522 | Freddie Mac sooner. That is what is sad.

523 |         I would like to just ask you in regards to the illegal  
524 | entries, the forged entries, what is the significance of it?  
525 | I mean, I know they were illegal. Whose signatures were  
526 | forged? And what is the significance of that? What does it  
527 | mean? I want to understand what it means. I know it was  
528 | illegal, but what does it mean in terms of its impact on the  
529 | accounting?

530 |         Mr. FALCON. ~~Well~~ There was a breakdown in the  
531 | integrity of the process by which financial statements are  
532 | produced. The financial statements are produced from the  
533 | ledgers of the company, and the ledgers' data is entered  
534 | through preparers who will--

535 |         Mr. SHAYS. Well, was it false information besides  
536 | forged signatures?

537 |         Mr. FALCON. ~~Well~~ This was related to the amortization  
538 | entries. In our September report, we referred to some FAS 91  
539 | accounting.

540 |         Mr. SHAYS. Can you answer the question, though? I  
541 | mean, were the amounts inaccurate?

542 Mr. FALCON. Yes, the amounts were improper under  
543 accounting rules. These were the so-called catch-up amounts  
544 that were adjustments.

545 Mr. SHAYS. Do we know how high it goes up in the  
546 organization?

547 Mr. FALCON. We do not at this time, but we are looking  
548 into that.

549 Mr. SHAYS. Yes. Is your statement as comprehensive as  
550 your knowledge of this, or are you saying less in your  
551 statement than you know?

552 Mr. FALCON. We are doing much more work in this area  
553 and, because of the sensitivity of it, we have only said what  
554 we thought might be appropriate to provide the committee with  
555 ~~information~~<sup>and</sup> not do anything which might undermine our  
556 efforts.

557 Mr. SHAYS. So there is more to this story that you know  
558 that you are not really feeling comfortable to disclose.

559 Thank you, Mr. Chairman.

560 Mr. BAKER. I thank the gentleman.

561 Mr. Davis?

562 Mr. DAVIS OF KENTUCKY. Thank you, Mr. Chairman.

563 Mr. Falcon, I certainly wish you well as you move into  
564 another phase of your career.

565 Let me bring up a subject that, frankly, we have not  
566 talked about a lot this morning. As you know, there was an

592 I could not tell you all the details of it.

593 Mr. DAVIS OF KENTUCKY. So is that a pretty fair  
594 characterization, that the report critiqued OFHEO for not  
595 being a disinterested regulator?

596 Mr. FALCON. I think it was, yes.

597 Mr. DAVIS OF KENTUCKY. Well, obviously, OFHEO was still  
598 in existence, and so we do our task of creating a new  
599 regulator, which I think there is wide consensus that we  
600 will. Obviously, I presume that that report has some  
601 relevance to you in the last weeks of your tenure. I am a  
602 little bit concerned about the fact that you have not  
603 reviewed it in a while.

604 More importantly, can you tell me what steps, if any,  
605 OFHEO has taken to respond to any of the criticisms  
606 identified in the inspector general's report?

607 Mr. FALCON. I am not sure that any response was  
608 warranted.

609 Mr. DAVIS OF KENTUCKY. Was there any corrective action?

610 Mr. FALCON. The Justice Department<sup>and</sup> the Department of  
611 HUD determined that we had done nothing improper, and so that  
612 was the end of it.

613 Mr. DAVIS OF KENTUCKY. Did you make your own  
614 independent assessment of the report and its accuracy?

615 Mr. FALCON. I did.

616 Mr. DAVIS OF KENTUCKY. And what were your conclusions?



617 Mr. FALCON. I disagreed with the criticisms.

618 Mr. DAVIS OF KENTUCKY. I do not mean this pejoratively  
619 towards you, but I am having a mental picture in my mind that  
620 when you all came up with your report on Fannie Mae, Mr.  
621 Raines and Mr. Howard, I think, sat there, and they said  
622 fairly forcefully that they disagreed with your conclusions.

623 What suggestion would you offer us, Mr. Falcon, as to  
624 what you think this committee or this Congress should be  
625 doing to look at that report and to learn from it, because,  
626 obviously, as we create a new regulator, we are going to try  
627 to make sure they do a better job, frankly, than you all did.

628 I would think that it is relevant what is contained in that  
629 report. What would you suggest Congress do, or do you think  
630 it would be appropriate, for example, if Congress had a  
631 hearing on that report?

632 Mr. FALCON. I think you should use the report as you  
633 would like, Congressman, but, as I said, the matters were  
634 reviewed by agencies outside my own and <sup>they</sup> determined there were  
635 no rules or laws broken, and that was the end of it.

636 Mr. DAVIS OF KENTUCKY. What about the portion of the  
637 report that said that there was contact between OFHEO and  
638 between some news organizations? Do you recall that part of  
639 the report?

640 Mr. FALCON. Vaguely.

641 Mr. DAVIS OF KENTUCKY. Well, now you say you recall it

692 | discovered, but the practice had been ongoing for over 20  
693 | years.

694 |         So how can Fannie be unaware that they were in breach  
695 | for over 20 years and, indeed, how was it that, over a  
696 | 20-year period, OFHEO did not discover this breach?

697 |         Mr. FALCON. It was just an error in their systems,  
698 | which was not uncovered until the systems were upgraded in  
699 | 2004. It was ~~just~~ such a precise error in, I <sup>believe,</sup> ~~am not sure~~ what  
700 | ~~part of the systems,~~ but it was such a drill-down type issue <sup>that</sup>  
701 | ~~is~~ was not the type of thing that we caught.

702 |         Mr. HENSARLING. It is my understanding that when OFHEO  
703 | discovered accounting problems at Freddie Mac that the  
704 | executives of Fannie stated that they had reviewed all of  
705 | their internal accounting practices and policies and that  
706 | they had found no violations. We have since, obviously,  
707 | learned, according to you, according to the SEC, that there  
708 | have been a number of GAAP violations. So do you believe  
709 | that OFHEO and this committee was purposely misled by  
710 | executives at Fannie?

711 |         Mr. FALCON. I think that is certainly something that we  
712 | are reviewing in the course of our special examination.  
713 | While we do believe in certain instances there were willful  
714 | violations of accounting principles, whether or not that was  
715 | hidden from us <sup>or</sup> from the Congress is something we are still  
716 | determining.

717 Mr. HENSARLING. Could it be said if de facto Fannie had  
718 the ability to designate their securities for accounting  
719 purposes as either held for investment or held for sale that  
720 that would give them an advantage over their competitors in  
721 the marketplace?

722 Mr. FALCON. It would ~~certainly~~ provide certain  
723 accounting benefits if they were to classify <sup>some</sup> ~~certain~~ assets  
724 as held to maturity versus available for trading. Then they  
725 would not have to recognize any loss in market value in those  
726 assets. That is certainly the case.

727 Mr. HENSARLING. I think also in your testimony you  
728 indicated that, although a number of Fannie's policies were  
729 not GAAP compliant, that, obviously, a number of them were,  
730 but that Fannie personnel failed to follow through on these  
731 policies. So are there particular individuals who are being  
732 investigated for knowingly violating these GAAP principles?

733 Mr. FALCON. We are looking at the role that various  
734 employees of the company had in both the promulgation of the  
735 accounting policies as well as the role in the implementation  
736 of the policies. So you cover both ends. One, how is the  
737 improper policy formulated and adopted? And, secondly, if it  
738 was crafted properly why wasn't it followed? That is the  
739 subject of further review by us.

740 Mr. HENSARLING. To speak somewhat prospectively in the  
741 limited amount time I have left, as you know, our Chairman

742 Baker has introduced a comprehensive piece of legislation  
743 dealing with a new regulator for the GSEs, and I know that  
744 you have not had an opportunity to examine the particulars of  
745 that piece of legislation, but, conceptually, do you think  
746 that the GSE safety and soundness regulator should also have  
747 the authority of new programs and new activity review from  
748 your experience? If so, why?

749 Mr. FALCON. I think it should. The safety and  
750 soundness regulator is going to learn about these new  
751 activities anyway. We have to assign capital to them. We  
752 have to make sure that the risk of any new activities are  
753 properly managed. ~~So~~ So we will be intimately familiar with how  
754 those activities will impact the company.

755 Every other safety and soundness regulator also has a  
756 responsibility, when it conducts that review, to make sure  
757 that the activity is consistent with the terms of the charter  
758 of the entity. Compliance with laws, rules and regulations  
759 does also rise to a safety and soundness issue, so it is just  
760 a natural fit that both happen at the same place.

761 Mr. BAKER. The gentleman's time has expired.

762 Mr. Watt?

763 Mr. WATT. Thank you, Mr. Chairman.

764 Mr. Falcon, thank you for being here.

765 I want to change the focus from what we have been  
766 talking about to something else. I really have no interest

792 | But what impact, if any, can you tell us this has had on  
793 | aggressive pursuit of the housing mission and, more  
794 | importantly, how can we more aggressively pursue that housing  
795 | mission either through Fannie and Freddie or otherwise as we  
796 | go forward in the structure of the regulatory institutions we  
797 | put in place?

798 | Give us whatever suggestions, as you have experienced  
799 | this, both on the staff, in your regulatory position. What  
800 | suggestions do you have for us about how we can more  
801 | aggressively pursue the housing mission?

802 | Mr. FALCON. I think the~~x~~ guaranteed side of their  
803 | business where they purchase qualifying affordable housing  
804 | goal type mortgages, that does continue, and it is proceeding  
805 | at a healthy pace. Despite the problems the company has with  
806 | their accounting issues and internal control problems, that  
807 | side of the business remains sound.

808 | So I can give you some comfort there, that while we are  
809 | having to take some supervisory actions with the company to  
810 | make sure that they continue to be as aggressive in  
811 | fulfilling their mission as possible, when we get these other  
812 | issues addressed properly over time, it will not deter <sup>them</sup> ~~from~~  
813 | ~~them~~ continuing their guarantee side of their business.

814 | I have always looked at our responsibility at OFHEO as  
815 | part housing mission. A company that is experiencing severe  
816 | financial difficulties is going to constrain the amount of

817 work it can do in fulfilling its mission, and so the greater  
818 extent to which we can make sure that the company does not  
819 get into any kind of trouble makes sure that there is no  
820 interruption in their ability to continue to fulfill the  
821 mission and innovate.

822 ~~So I think~~ <sup>= true would be</sup> with a fully authorized, well-resourced  
823 regulator, I think ~~that is~~ a good safeguard to make sure that  
824 there are not unnecessary interruptions in the company's  
825 business as a result of safety and soundness problems. The  
826 sooner we can get in there and identify and fix problems  
827 before they manifest themselves in the form of larger  
828 problems, I think, is only a benefit to the company's  
829 mission. ~~So I think~~ <sup>A</sup> strong safety and soundness regulator  
830 is part of that.

831 Mr. BAKER. The gentleman's time has expired.

832 Just by way of notice to members who have--

833 I am sorry, Mr. Watt.

834 Mr. WATT. Mr. Chairman, could I have him address the  
835 prospective suggestions?

836 Mr. BAKER. Sir, please. That is all right. Okay.

837 Mr. FALCON. Prospectively, I think you could look at  
838 other examples of what has been done at other agencies. The  
839 AHP program of the federal <sup>home</sup> loan bank system is one  
840 possibility where you have some ~~satisfied~~, dedicated amount  
841 of funds that are used towards ~~the~~ affordable ~~housing~~ and

867 Mr. FALCON. I think it is an important addition to our  
868 corporate governance measure~~s~~ that we have taken at the  
869 agency. It does include more guidance to the company in  
870 regards to the board of directors, the activity of the board,  
871 and it works to ensure that there is strong oversight  
872 exercised by the board. We think it is a good addition to a  
873 corporate governance rule that we already had out there.

874 Mr. NEY. Also, Fannie was given until September of this  
875 year, and that was to meet the 30 percent capital, and I  
876 think that was an extension. It was a 90 more days'  
877 extension.

878 Mr. FALCON. Originally, it was the end of June.

879 Mr. NEY. Do you believe they will be able to reach that  
880 goal?

881 Mr. FALCON. We monitor it very closely, and the plan  
882 that they have submitted to us does indicate that if  
883 everything happens as planned that they will meet the goal.  
884 If at any point between now and the end of September it looks  
885 like there are problems, then we will work with the company  
886 to make adjustments in the plan so that they can meet it by  
887 the end of September.

888 Mr. NEY. If they do not meet it, what happens?

889 Mr. FALCON. If they do not meet it, we will have to  
890 determine what additional remedial steps might be necessary  
891 in order to make sure that they can come into compliance with

892 | it as soon as possible.

893 |       Mr. NEY. People have raised today the issue with  
894 | whether it was 20 years gone undetected or 5, you know, and  
895 | that has been raised several times, and Fannie had brought  
896 | this out to the attention of OFHEO actually about this  
897 | problem that had been over a 20-year period.

898 |       I guess the question I have is: How did they not know  
899 | and how did OFHEO, though, not know or, you know, over a  
900 | certain period of time, you know, that they were operating in  
901 | a faulty and inaccurate way?:

902 |       Mr. FALCON. This was a very technical problem in their  
903 | accounting systems. Assets that were being classified as  
904 | either available for sale or held to maturity were properly  
905 | designated by the company at the time of purchase. However,  
906 | the system itself categorized everything as held to maturity,  
907 | and that was just not uncovered until 21 years later.

908 |       Mr. NEY. So it was more of a technical problem than  
909 | something that was conspired to do this and not be found for  
910 | 20 years.

911 |       Mr. FALCON. Yes. That is what we expect by that.

912 |       Mr. NEY. Can we expect another capital assessment of  
913 | Fannie by OFHEO?

914 |       Mr. FALCON. Capital assessment? ~~Oh~~, yes, Congressman. ✓

915 |       Mr. NEY. Or capital adequacy to report under.

916 |       Mr. FALCON. Yes.



917 Mr. NEY. The GSEs, I should say, not just Fannie Mae.

918 Mr. FALCON. Yes. We typically classify the enterprises  
919 at the end of every quarter for the previous quarter~~✓~~ and, at  
920 the end of March, we would typically classify both. We only  
921 classified Freddie Mac. We are continuing to have  
922 discussions with Fannie Mae about their capital  
923 classification.

924 Under the terms of our regulation governing this, they  
925 have 30 days to comment on our proposed classification, and  
926 that is where this currently stands. When they give us their  
927 comments, we will take them into consideration and then  
928 determine what the proper classification will be.

929 Mr. NEY. Okay. Good luck with your ventures down the  
930 road.

931 I want to thank Chairman Baker for having this hearing.  
932 Thank you.

933 Mr. BAKER. I thank the gentleman.

934 Mr. Baca?

935 Mr. BACA. Thank you very much, Mr. Chairman.

936 Mr. Falcon, thank you very much for being here today.

937 As you know, I support a strong well-funded regulator,  
938 and I also support the work of Fannie Mae in providing--I say  
939 in providing--housing to the underserved. Do you believe you  
940 have the necessary expertise within your agency to regulate  
941 GSE in a productive manner in an ever-growing complex market?

942 Mr. FALCON. I do, Congressman. I am very proud of the  
943 talented people we have at the agency.

944 Mr. BACA. When do you believe this process will be over  
945 because, in your report, you indicate that you have two  
946 objectives in an ongoing special examination of Fannie Mae.  
947 The first was to identify all the problems and fix it. In  
948 your testimony, you indicate that you have not completed  
949 that. There is also the second portion: Does the  
950 comprehensive reform program provide problems with recurring?

951 Mr. FALCON. Well, we would like to get it done as soon  
952 as possible. It is in our interest, the company's interest,  
953 and I know you would like to see it done as soon as possible.

954 I hesitate to give you a specific timeframe because just  
955 the new re-audit of the company by the new external auditor  
956 may possibly continue to uncover issues, even if we feel like  
957 our review is close to being brought to a conclusion. So we  
958 really need to work closely with them as they do their review  
959 accounting as well as ours. ✓

960 I know that is not a good answer, but it is hard for me  
961 to pinpoint it. Our goal is to try to get it done as soon as  
962 possible.


963 Mr. BACA. Given the importance of the entity to home  
964 ownership, how will you know when you have fulfilled your  
965 obligation as a regulator thoroughly and fairly--and I say  
966 thoroughly and fairly--so that Fannie Mae can continue to

967 further its home ownership in the country in a manner that is  
968 safe and sound?

969 Mr. FALCON. I think when the company has addressed the  
970 issues related to proper accounting policies, adequate  
971 internal controls and any additional remedial actions that  
972 have taken place, when the company is able to submit timely  
973 financial statements to the SEC, I think when all that comes  
974 together, we will feel comfortable that the company has put  
975 itself back on a solid footing, and that is the time that we  
976 would begin to consider lifting some of these supervisory  
977 steps that we have taken, like the 30 percent capital  
978 surcharge.

979 Mr. BACA. Are you providing guidance or assistance or  
980 training at this point to make sure that there is adequate  
981 accounting that is done, because that is part of the process  
982 and part of your auditing report, and that was the problem, I  
983 believe, that Davis asked originally when it was leaked out  
984 to the media without allowing them to correct their own  
985 particular problems before it went out. So are you now then  
986 providing the guidance, the training to assure that the  
987 proper accounting is done, the procedures and policies are  
988 followed?

989 Mr. FALCON. We are, and the board is also very actively  
990 engaged in this also. The company is working to retain many  
991 qualified individuals in this ~~the~~ accounting field so that the



992 | company can begin to develop proper accounting policies, but <sup>and</sup>  
993 | we are working with them very closely. ✓

994 |       Mr. BACA. Can you clarify the views of the amount of  
995 | capital that Fannie Mae should have and how you arrive at  
996 | that number? That is question number one.

997 |       And two is: Can you give a sense of under what  
998 | condition you would be satisfied with remediation procedures  
999 | not required to excess capital?

1000 |       Mr. FALCON. Well, current capital levels are contained  
1001 | in the statute, 2-1/2 percent for on-balance sheet assets and ✓  
1002 | 45 basis points for off-balance sheet. When we see safety ✓  
1003 | and soundness concerns at either company, we exercise our  
1004 | discretion to require additional capital, but just for the  
1005 | time period where we see problems at each company.

1006 |       Whether or not a permanent minimum capital level should  
1007 | be higher than 2-1/2 percent, we would have to study that  
1008 | issue a little more closely.

1009 |       Mr. BACA. Okay. We know that Fannie Mae has taken a  
1010 | number of steps to address the problems that are very  
1011 | positive, even the change in its leadership right now because  
1012 | of its services. My question and final question would be:  
1013 | You indicated in your statement that OFHEO became more  
1014 | aggressive as resources became available. Who went after the  
1015 | resources, and why did they go after the resources to make  
1016 | sure that they were more aggressive?

1017 Mr. FALCON. We have been pursuing additional resources  
1018 since I first got to the agency. As I said earlier, it  
1019 became very evident to me when I assumed my position that we  
1020 just did not have adequate resources to properly fulfill our  
1021 mission at OFHEO~~y~~ and, ~~so~~ from the very beginning, I have  
1022 been seeking to increase the agency's budget, and we have had  
1023 much success in that. With the committee's support, our  
1024 resources have increased.

1025 Mr. BAKER. The gentleman's time has expired.

1026 Mr. BACA. Hopefully, you will apply the same standard  
1027 to other entities to as well have the same standards, same  
1028 policies, same procedures and same aggressiveness in holding  
1029 everybody else accountable as well.

1030 Thank you.

1031 Mr. BAKER. I thank the gentleman.

1032 Chairman Oxley?

1033 Mr. OXLEY. Thank you, Mr. Chairman.

1034 Mr. Falcon, it is good to have you back, and, based on  
1035 your announcement yesterday, I want to wish you Godspeed and  
1036 success in whatever you do. You have led the OFHEO folks at  
1037 a very difficult time and have done remarkable work, and our  
1038 sincere congratulations and best wishes to you.

1039 Let me ask you. The last time that OFHEO discovered  
1040 accounting problems at Fannie, the SEC was engaged to  
1041 determine whether Fannie needed to restate earnings. Based

1042 | on your testimony and the recent discovery, will that process  
1043 | be followed as well, or has the SEC already made a  
1044 | determination in terms of whether Fannie Mae was GAAP  
1045 | compliant?

1046 |       Mr. FALCON. The process that was followed previously,  
1047 | Mr. Chairman--~~by the way~~, thank you for your comments--was an ✓  
1048 | extraordinary set of circumstances. Typically, the process  
1049 | involves the regulator working with the company and the  
1050 | company's external auditor on resolving any accounting issues  
1051 | that arise~~x~~ and, with the issues related to <sup>FAS</sup> 133 and 91, ✓  
1052 | Fannie Mae decided to seek the input of the SEC on those  
1053 | accounting issues. So the SEC did provide guidance on them.

1054 |       In this case, that has not happened. We are working  
1055 | with the company. We have met with the SEC to review these  
1056 | additional issues with them and <sup>have</sup> kept them fully apprised of ✓  
1057 | what we are finding and answering any questions they may  
1058 | have, but the SEC is working with us under the standard  
1059 | process for these types of matters, and they have not been  
1060 | asked to intervene with a formal interpretation or answer  
1061 | like they were previously.

1062 |       Mr. OXLEY. That could happen at some point, but it just  
1063 | depends on how the negotiations go with the private entity?

1064 |       Mr. FALCON. It could, Mr. Chairman.

1065 |       Mr. OXLEY. Okay.

1066 |       Your testimony raised some concerns about internal

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COMMITTEE ON  
FINANCIAL SERVICES

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# Congress of the United States

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SUBCOMMITTEE ON HIGHWAYS  
TRANSIT AND PIPELINES

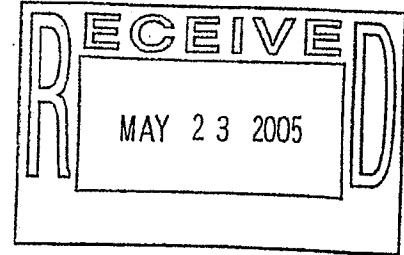
SUBCOMMITTEE ON AVIATION

SUBCOMMITTEE ON  
WATER RESOURCES AND ENVIRONMENT

COMMITTEE ON  
VETERANS' AFFAIRS  
SUBCOMMITTEE ON HEALTH

SUBCOMMITTEE ON  
ECONOMIC OPPORTUNITY

Mr. Alfred M. Pollard  
General Counsel  
Office Of Federal Housing Enterprise Oversight  
1700 G Street, NW  
Washington, DC 20552



Dear Mr. Pollard:


I am writing to make further inquiry subsequent to your appearance as a witness before the House Financial Services Subcommittee on Oversight and Investigations on Tuesday, March 10, 2005.

During your colloquy before the subcommittee, I inquired if your office considered the investigation into Fannie Mae's response to the First Beneficial matter closed. Your direct response was that the matter was not deemed closed.

Accordingly, I request that you provide my office an update of the Agency's work on this matter including but not limited to findings and remedies relating to (1) internal controls at the enterprise to detect and report instances of suspected mortgage fraud; (2) the adequacy of the enterprise's disciplinary action of enterprise employees involved in the matter; (3) the impact of the mortgage fraud on the enterprise's earnings and subsequent impact on executive compensation and bonus awards in 1998; and (4) if the Agency now considers the First Beneficial matter closed.

I look forward to your prompt response to my inquiry. Should you have questions pertaining to this request, please contact Scott Canady of my staff at (202) 225-3901.

Sincerely,

  
Richard H. Baker  
Member of Congress

RHB/csc

341 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515-1806  
(202) 225-3901  
(202) 225-7313 (FAX)

5555 HILTON AVENUE  
SUITE 100  
BATON ROUGE, LA 70808  
(225) 929-7711  
(225) 929-7688 (FAX)  
1-800-892-1253 (LA ONLY)



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: **Honorable Barney Frank**

Date: **May 19, 2005**

Office of: **Comm on Financial Services**

Time: **10:26 AM**

Facsimile Number: **202.225.9004**

From: **Armando Falcon**

Telephone No.: **202.414.3801**

Office of: **the Director**

Page **1** of **6**

Notes/Comments:

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# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

---

## OFFICE OF THE DIRECTOR

May 19, 2005

Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives  
Washington, D.C. 20515-6050

**Re: Fannie Mae Capital Classification  
at December 31, 2004 & March 31, 2005**

Dear Congressman Frank:

In accordance with section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and section 1777.21(a) of title 12 of the Code of Federal Regulations, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. Consistent with 12 CFR § 1777.21(a)(3), OFHEO hereby provides this notice of final capital classification classifying Fannie Mae as significantly undercapitalized at December 31, 2004 and adequately capitalized at March 31, 2005. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The capital classifications utilize the current best estimates as certified and represented by Fannie Mae management and reviewed by OFHEO of its financial condition, including adjustments for additional accounting errors. The outcome of OFHEO's review of Fannie Mae's financial condition and accounting policies may result in revision of the related capital classification.

Both the release for the December 31, 2004, and the early release for the March 31, 2005, capital classifications are a result of the circumstances surrounding the review of Fannie Mae's accounting policies and practices. As a result of a March 11, 2005, preliminary classification of "significantly undercapitalized", Fannie Mae responded to OFHEO on April 11, 2005, and provided management estimates of the additional accounting adjustments that impact capital at year-end 2004. Further, as a result of ongoing monitoring of Fannie Mae's capital position and the filing of the March 31, 2005, capital position by Fannie Mae, a more current assessment of capital adequacy can now be made. OFHEO issued the March 31, 2005 preliminary capital classification of "adequately capitalized" to Fannie Mae on May 16, 2005, receiving notice that no additional information was forthcoming from Fannie Mae.

### **December 31, 2004 Classification**

As of December 31, 2004, a small projected surplus over the minimum capital requirement exists following adjustments for management estimates of the capital impact of the known accounting discrepancies. However, given the significant control weaknesses and the remaining uncertainties associated with the ongoing review of the enterprise's financial controls and accounting policies, a significant risk remains that accounting adjustments could rapidly deplete Fannie Mae's core capital to an amount below the required minimum for this time period. Accordingly, due to the thin margin for error at year-end, the significantly undercapitalized classification remains.

The attached enclosures illustrate Fannie Mae's estimated position as of December 31, 2004. In particular, Fannie Mae's estimated minimum capital requirement was \$32.17 billion, its estimated critical capital level was \$16.46 billion, and its estimated risk-based capital level was \$10.04 billion at December 31, 2004. Thus, Fannie Mae's estimated core capital – after adjustment for the estimated accounting impacts – was \$32.64 billion on that date reflecting an estimated surplus of \$475 million from the minimum requirement and estimated excess of \$16.19 billion over the critical level. Fannie Mae's total capital of \$35.88 billion on that date exceeded the risk-based capital requirement by \$25.84 billion. These estimates are based on unaudited information currently certified by Fannie Mae management and are subject to revision based on the outcome of ongoing reviews of Fannie Mae's accounting, internal controls and policies and procedures.

### **March 31, 2005 Classification**

Additional information obtained by OFHEO through its weekly monitoring of compliance with the Capital Restoration Plan, including information regarding ongoing increases to capital through earnings generation and asset sales during 2005, provide additional assurance of improved capital strength. As of March 31, 2005, the estimated surplus of \$4 billion over the minimum requirement is considered sufficient to absorb uncertainties in the estimated impact to capital of the accounting errors based on current information. Accordingly, Fannie Mae is classified as adequately capitalized as of March 31, 2005. OFHEO is basing the capital classification on the March 31, 2005 minimum and risk-based capital position as submitted and certified by Fannie Mae. OFHEO has adjusted the minimum capital reports to reflect the estimates of accounting errors; Fannie Mae's risk-based capital reports reflect the adjustments.

The attached enclosures illustrate Fannie Mae's estimated position as of March 31, 2005. In particular, Fannie Mae's estimated minimum capital requirement was \$30.96 billion, and its estimated critical capital level was \$15.86 billion. Thus, Fannie Mae's estimated core capital – after adjustment for the estimated accounting impacts – was \$35.00 billion on that date reflecting an estimated surplus of \$4.04 billion from the minimum requirement and estimated excess of \$19.14 billion over the critical level. Fannie Mae's total capital of \$35.50 billion on that date exceeded the risk-based capital requirement by \$29.14 billion. Fannie Mae's risk-based capital results reflect adjustments made by Fannie Mae reflecting the estimated accounting errors. These estimates are based on unaudited information currently certified by Fannie Mae management and

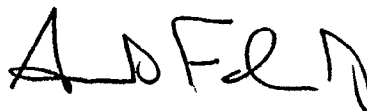
are subject to revision based on the outcome of ongoing reviews of Fannie Mae's accounting, internal controls and policies and procedures.

**Continuing Capital Restrictions**

While Fannie Mae's capital classification at March 31, 2005, is adequately capitalized, Fannie Mae remains subject to the requirements imposed in the Agreement dated September 27, 2004, and the supplement to that agreement dated March 7, 2005. Additionally, the Capital Restoration Plan approved February 10, 2005 remains in effect, which specifically requires Fannie Mae to achieve a 30% capital surplus over the minimum capital requirement by September 30, 2005. OFHEO continues to monitor compliance with the Capital Restoration Plan. At this time, incorporating estimated accounting impacts, Fannie Mae remains on target to and has adequate contingencies to achieve the required 30% surplus over minimum requirement by September 30, 2005.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Falcon, Jr.', with a stylized flourish at the end.

Armando Falcon, Jr.  
Director

Enclosures

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Minimum, Critical and Risk Based Capital Levels**  
**December 31, 2004**

**SUMMARY**

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	32,166
CORE CAPITAL - Adjusted	32,641
ESTIMATED SURPLUS/(DEFICIENCY)	475

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	16,455
CORE CAPITAL - Adjusted	32,641
ESTIMATED SURPLUS/(DEFICIENCY)	16,186

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	10,039
DOWN-RATE SCENARIO	6,582
RISK-BASED CAPITAL LEVEL	10,039
TOTAL CAPITAL	35,878
SURPLUS/(DEFICIENCY)	25,839

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Minimum, Critical and Risk Based Capital Levels**  
**March 31, 2005**

**SUMMARY**

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	30,959
CORE CAPITAL - Adjusted	34,998
<b>ESTIMATED SURPLUS/(DEFICIENCY)</b>	<b>4,039</b>

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,861
CORE CAPITAL - Adjusted	34,998
<b>ESTIMATED SURPLUS/(DEFICIENCY)</b>	<b>19,137</b>

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	6,355
DOWN-RATE SCENARIO	1,214
RISK-BASED CAPITAL LEVEL	6,355
TOTAL CAPITAL	35,495
<b>SURPLUS/(DEFICIENCY)</b>	<b>29,140</b>



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: **Honorable Michael Oxley**

Date: **May 19, 2005**

Office of: **Comm on Financial Services**

Time: **10:28 AM**

Facsimile Number: **202.226.4301**

From: **Armando Falcon**

Telephone No.: **202.414.3801**

Office of: **the Director**

Page **1** of **6**

Notes/Comments:

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**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**  
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

**OFFICE OF THE DIRECTOR**

May 19, 2005

Honorable Michael G. Oxley, Chairman  
Committee on Financial Services  
House of Representatives  
Washington, D.C. 20515

**Re: Fannie Mae Capital Classification  
at December 31, 2004 and March 31, 2005**

Dear Mr. Chairman:

In accordance with section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and section 1777.21(a) of title 12 of the Code of Federal Regulations, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. Consistent with 12 CFR § 1777.21(a)(3), OFHEO hereby provides this notice of final capital classification classifying Fannie Mae as significantly undercapitalized at December 31, 2004 and adequately capitalized at March 31, 2005. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The capital classifications utilize the current best estimates as certified and represented by Fannie Mae management and reviewed by OFHEO of its financial condition, including adjustments for additional accounting errors. The outcome of OFHEO's review of Fannie Mae's financial condition and accounting policies may result in revision of the related capital classification.

Both the release for the December 31, 2004, and the early release for the March 31, 2005, capital classifications are a result of the circumstances surrounding the review of Fannie Mae's accounting policies and practices. As a result of a March 11, 2005, preliminary classification of "significantly undercapitalized", Fannie Mae responded to OFHEO on April 11, 2005, and provided management estimates of the additional accounting adjustments that impact capital at year-end 2004. Further, as a result of ongoing monitoring of Fannie Mae's capital position and the filing of the March 31, 2005, capital position by Fannie Mae, a more current assessment of capital adequacy can now be made. OFHEO issued the March 31, 2005 preliminary capital classification of "adequately capitalized" to Fannie Mae on May 16, 2005, receiving notice that no additional information was forthcoming from Fannie Mae.

### **December 31, 2004 Classification**

As of December 31, 2004, a small projected surplus over the minimum capital requirement exists following adjustments for management estimates of the capital impact of the known accounting discrepancies. However, given the significant control weaknesses and the remaining uncertainties associated with the ongoing review of the enterprise's financial controls and accounting policies, a significant risk remains that accounting adjustments could rapidly deplete Fannie Mae's core capital to an amount below the required minimum for this time period. Accordingly, due to the thin margin for error at year-end, the significantly undercapitalized classification remains.

The attached enclosures illustrate Fannie Mae's estimated position as of December 31, 2004. In particular, Fannie Mae's estimated minimum capital requirement was \$32.17 billion, its estimated critical capital level was \$16.46 billion, and its estimated risk-based capital was level was \$10.04 billion at December 31, 2004. Thus, Fannie Mae's estimated core capital – after adjustment for the estimated accounting impacts – was \$32.64 billion on that date reflecting an estimated surplus of \$475 million from the minimum requirement and estimated excess of \$16.19 billion over the critical level. Fannie Mae's total capital of \$35.88 billion on that date exceeded the risk-based capital requirement by \$25.84 billion. These estimates are based on unaudited information currently certified by Fannie Mae management and are subject to revision based on the outcome of ongoing reviews of Fannie Mae's accounting, internal controls and policies and procedures.

### **March 31, 2005 Classification**

Additional information obtained by OFHEO through its weekly monitoring of compliance with the Capital Restoration Plan, including information regarding ongoing increases to capital through earnings generation and asset sales during 2005, provide additional assurance of improved capital strength. As of March 31, 2005, the estimated surplus of \$4 billion over the minimum requirement is considered sufficient to absorb uncertainties in the estimated impact to capital of the accounting errors based on current information. Accordingly, Fannie Mae is classified as adequately capitalized as of March 31, 2005. OFHEO is basing the capital classification on the March 31, 2005 minimum and risk-based capital position as submitted and certified by Fannie Mae. OFHEO has adjusted the minimum capital reports to reflect the estimates of accounting errors; Fannie Mae's risk-based capital reports reflect the adjustments.

The attached enclosures illustrate Fannie Mae's estimated position as of March 31, 2005. In particular, Fannie Mae's estimated minimum capital requirement was \$30.96 billion, and its estimated critical capital level was \$15.86 billion. Thus, Fannie Mae's estimated core capital – after adjustment for the estimated accounting impacts – was \$35.00 billion on that date reflecting an estimated surplus of \$4.04 billion from the minimum requirement and estimated excess of \$19.14 billion over the critical level. Fannie Mae's total capital of \$35.50 billion on that date exceeded the risk-based capital requirement by \$29.14 billion. Fannie Mae's risk-based capital results reflect adjustments made by Fannie Mae reflecting the estimated accounting errors. These estimates are based on unaudited information currently certified by Fannie Mae management and are subject to revision based on the outcome of ongoing reviews of Fannie Mae's accounting, internal controls and policies and procedures.



**Continuing Capital Restrictions**

While Fannie Mae's capital classification at March 31, 2005, is adequately capitalized, Fannie Mae remains subject to the requirements imposed in the Agreement dated September 27, 2004, and the supplement to that agreement dated March 7, 2005. Additionally, the Capital Restoration Plan approved February 10, 2005 remains in effect, which specifically requires Fannie Mae to achieve a 30% capital surplus over the minimum capital requirement by September 30, 2005. OFHEO continues to monitor compliance with the Capital Restoration Plan. At this time, incorporating estimated accounting impacts, Fannie Mae remains on target to and has adequate contingencies to achieve the required 30% surplus over minimum requirement by September 30, 2005.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Falcon, Jr.", with a stylized flourish at the end.

Armando Falcon, Jr.  
Director

Enclosures

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Minimum, Critical and Risk Based Capital Levels**  
**December 31, 2004**

**SUMMARY**

**(Dollars in millions)**

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
MINIMUM CAPITAL LEVEL - Adjusted	32,166
CORE CAPITAL - Adjusted	32,641
ESTIMATED SURPLUS/(DEFICIENCY)	475

<b>COMPONENTS OF THE CRITICAL CAPITAL LEVEL</b>	
CRITICAL CAPITAL LEVEL - Adjusted	16,455
CORE CAPITAL - Adjusted	32,641
ESTIMATED SURPLUS/(DEFICIENCY)	16,186

<b>STRESS TEST SCENARIO RESULTS</b>	
UP-RATE SCENARIO	10,039
DOWN-RATE SCENARIO	6,582
RISK-BASED CAPITAL LEVEL	10,039
TOTAL CAPITAL	35,878
SURPLUS/(DEFICIENCY)	25,839

FEDERAL NATIONAL MORTGAGE ASSOCIATION  
 Minimum, Critical and Risk Based Capital Levels  
 March 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	30,959
CORE CAPITAL - Adjusted	34,998
ESTIMATED SURPLUS/(DEFICIENCY)	4,039

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CORE CAPITAL - Adjusted	34,998
ESTIMATED SURPLUS/(DEFICIENCY)	19,137

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DOWN-RATE SCENARIO	1,214
RISK-BASED CAPITAL LEVEL	6,355
TOTAL CAPITAL	35,495
SURPLUS/(DEFICIENCY)	29,140



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: **Honorable Paul Sarbanes**

Date: **May 19, 2005**

Office of: **Comm on Banking, Housing &Urba**

Time: **10:25 AM**

Facsimile Number: **202.224.2080**

From: **Armando Falcon**

Telephone No.: **202.414.3801**

Office of: **the Director**

Page **1** of **6**

Notes/Comments:

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# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

## OFFICE OF THE DIRECTOR

May 19, 2005

Honorable Paul S. Sarbanes  
Ranking Minority Member  
Committee on Banking, Housing  
and Urban Affairs  
United States Senate  
Washington, D.C. 20510

### **Re: Fannie Mae Capital Classification at December 31, 2004 and March 31, 2005**

Dear Senator Sarbanes:

In accordance with section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and section 1777.21(a) of title 12 of the Code of Federal Regulations, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. Consistent with 12 CFR § 1777.21(a)(3), OFHEO hereby provides this notice of final capital classification classifying Fannie Mae as significantly undercapitalized at December 31, 2004 and adequately capitalized at March 31, 2005. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The capital classifications utilize the current best estimates as certified and represented by Fannie Mae management and reviewed by OFHEO of its financial condition, including adjustments for additional accounting errors. The outcome of OFHEO's review of Fannie Mae's financial condition and accounting policies may result in revision of the related capital classification.

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of "adequately capitalized" to Fannie Mae on May 16, 2005, receiving notice that no additional information was forthcoming from Fannie Mae.

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estimates are based on unaudited information currently certified by Fannie Mae management and are subject to revision based on the outcome of ongoing reviews of Fannie Mae's accounting, internal controls and policies and procedures.

**Continuing Capital Restrictions**

While Fannie Mae's capital classification at March 31, 2005, is adequately capitalized, Fannie Mae remains subject to the requirements imposed in the Agreement dated September 27, 2004, and the supplement to that agreement dated March 7, 2005. Additionally, the Capital Restoration Plan approved February 10, 2005 remains in effect, which specifically requires Fannie Mae to achieve a 30% capital surplus over the minimum capital requirement by September 30, 2005. OFHEO continues to monitor compliance with the Capital Restoration Plan. At this time, incorporating estimated accounting impacts, Fannie Mae remains on target to and has adequate contingencies to achieve the required 30% surplus over minimum requirement by September 30, 2005.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Armando Falcon, Jr.", written in a cursive style.

Armando Falcon, Jr.  
Director

Enclosures

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Minimum, Critical and Risk Based Capital Levels**  
**December 31, 2004**

**SUMMARY**

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	32,166
CORE CAPITAL - Adjusted	32,641
ESTIMATED SURPLUS/(DEFICIENCY)	475

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	16,455
CORE CAPITAL - Adjusted	32,641
ESTIMATED SURPLUS/(DEFICIENCY)	16,186

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	10,039
DOWN-RATE SCENARIO	6,582
RISK-BASED CAPITAL LEVEL	10,039
TOTAL CAPITAL	35,878
SURPLUS/(DEFICIENCY)	25,839



FEDERAL NATIONAL MORTGAGE ASSOCIATION  
 Minimum, Critical and Risk Based Capital Levels  
 March 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	30,959
CORE CAPITAL - Adjusted	34,998
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DOWN-RATE SCENARIO	1,214
RISK-BASED CAPITAL LEVEL	6,355
TOTAL CAPITAL	35,495
SURPLUS/(DEFICIENCY)	29,140



1700 G STREET, NW, WASHINGTON, DC 20552  
(202) 414-3800 FAX: (202) 414-3823

**\*FAX TRANSMITTAL\***

To: **Honorable Richard Shelby**

Date: **May 19, 2005**

Office of: **Comm on Banking, Housing &Urba**

Time: **10:23 AM**

Facsimile Number: *202.224.3416*

From: **Armando Falcon**

Telephone No.: **202.414.3801**

Office of: **the Director**

Page **1** of **6**

Notes/Comments:

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