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SRC Insights

Federal Reserve Bank of Philadelphia

SVP Commentary on…

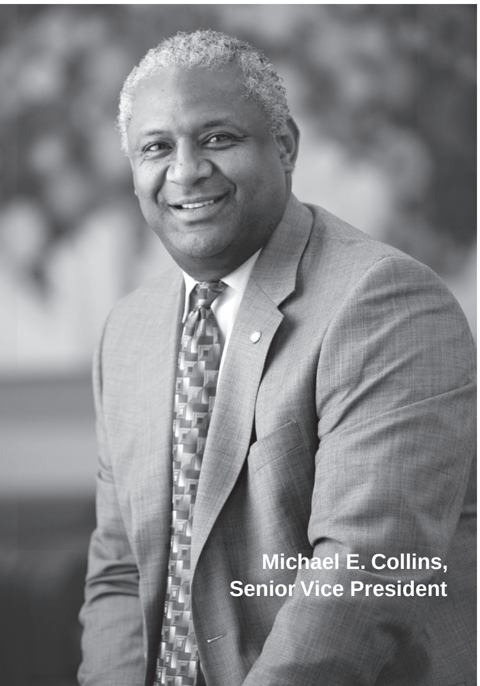
Efficient, Effective Regulation and Supervision of Financial Institutions

Banking organizations play an important role in the U.S. financial markets through their deposit-taking, lending, and other activities. Our banking system also plays a central role in allocating resources, pooling capital, and funding and fostering economic growth both in local markets and for the national economy. Banking organizations also enjoy special benefits, such as access to the discount window, payment systems, and deposit insurance protection, collectively referred to as the safety net.

Because of the importance of a well functioning banking system, it is imperative that there be prudent supervision and regulation of the industry. As regulators, we should continuously strive to ascertain which regulations and supervisory practices are associated with financial stability, economic growth, and better banking organization performance, and we should promote these regulations and practices to better the banking environment.

The purpose of bank regulation is to both protect the public and promote an efficient, competitive banking system. Bank regulators subject banks to certain requirements, restrictions, and guidelines with the goal of upholding the soundness and integrity of the banking system. However, bank regulation is often the subject of public policy debate and discussion around regulatory burden. It is critical that a balance be achieved so that regulation helps limit systemic risk for the banking system without stifling growth and innovation.

Historical approaches to bank regulation centered around capital ade-



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Federal Reserve Bank of Philadelphia

Effectively Managing a Business Disruption: The Importance of a Business Continuity Plan, Part I

by Becky Goodwin, Assistant Examiner

In the aftermath of hurricanes Katrina and Rita in 2005, businesses and financial institutions are now reassessing their business continuity plans. Business continuity planning is the process whereby financial institutions ensure the maintenance or recovery of operations, including services to customers, when confronted with adverse events such as natural disasters, technological failures, human error, or terrorism.[1] This article is the first of a two-part series on the topic of business continuity planning. Part I will outline the essential elements of the planning process. Part II will focus on best practices and lessons learned and will appear in the Third Quarter 2006 issue of *SRC Insights*.

Business continuity planning was formalized to obviate Y2K issues and further strengthened to counter any act of terrorism in the post-9/11 era. In fact, initial business continuity planning regulatory requirements helped financial institutions to circumvent even greater disruptions during the 2005 hurricane season, when hurricanes Katrina and Rita devastated the Gulf and disabled the infrastructure of the entire region. Consequently, the focus on effective business continuity planning has been renewed. Business continuity planning is of particularly great importance within the financial services industry, as the functions of financial institutions are critical to both the national and global economies, and the results of any disruption to business operations must be minimal in order to preserve public assurance in the U.S. financial system.

The March 2003 Federal Financial Institutions Examination Council's (FFIEC) *Information Technology Examination Handbook* includes a separate section on business continuity planning. During the planning process, financial institutions should utilize an enterprisewide process that addresses all critical business functions and includes plans to handle all types of disruptions. In addition, a financial institution's business continuity plan (BCP) should correspond with its role in the support of critical markets, such as foreign exchange; federal funds; commercial paper; and government, corporate, and mortgage-backed securities. Lessons learned from 9/11 reinforce that a business continu-

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[1] The March 2003 Federal Financial Institutions Examination Council's (FFIEC) *Information Technology Examination Handbook - Business Continuity Planning* booklet is available online at <ww.ffiec.gov/ffiecinfobase/index.html>.

ity plan should not be limited to the recovery of data, but should also include people, technology, and the structures which house such resources.

The FFIEC guidance stresses that the responsibility of business continuity planning lies with senior management and the board of directors, who are ultimately accountable for identifying, assessing, prioritizing, managing, and controlling risk. More specifically, the board of directors and senior management are responsible for the following:

- Establishing a policy that determines how the institution will manage and control identified risk
- Allocating adequate resources and qualified personnel to develop the BCP
- Reviewing the BCP test results
- Approving the BCP annually
- Maintaining a current or updated BCP
- Training employees and increasing awareness

Furthermore, financial institutions are encouraged to adhere to a process-driven methodology, which includes the following four components:

1. Business Impact Analysis
2. Risk Assessment
3. Risk Management
4. Risk Monitoring

The foundation of a strong business continuity planning process is the completion of a business impact analysis (BIA) and a risk assessment. The effectiveness of a BCP must be validated through testing, and the results must be subject to an independent audit, as well as a review by the board of directors. The BCP must be updated periodically to accurately reflect changes related to functions, systems, personnel, and service providers. The BCP must be approved annually by the board of directors.

Business Impact Analysis

The BIA should reflect the complexity and volume of the institution's activities and is considered the first step in developing a BCP. During this phase of development, the potential impact of nonspecific, uncontrolled events or risks is identified, and the estimated downtime is calculated along with the cost of that downtime. Furthermore, recovery priorities should be established, and the necessary resources, technology, systems, pertinent records, and data should be identified properly. Moreover, the effect of legal and regulatory requirements should be addressed during the BIA phase of development.

Risk Assessment

The risk assessment is vital to the business continuity planning process, and efforts should be made to ensure that threat scenarios are not unreasonably limited, which could undermine the overall adequacy of the BCP. Assumptions formed during the BIA phase must be stress tested according to various scenarios. The results will further determine which business processes will produce intended results and which processes will require additional development and resources. Threats should be realistic; emphasis should be placed on the overall impact to the institution and the likelihood of occurrence instead of the nature of the threat.

A gap analysis, which measures the necessary requirements to maintain or recover operations in comparison to what the current BCP provides, should be performed. Any noted deficiencies represent risk and therefore should be addressed by management and the board of directors in the development of the BCP.

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Government Sponsored Enterprises: Status of Legislative Reform Efforts

by Jennifer Salutric, Examiner

The corporate governance and accounting problems experienced by the housing-related government sponsored enterprises (GSEs) over the past several years have been well documented. This article discusses the evolution of, recent problems facing, and systemic risks associated with these GSEs and the latest efforts by Congress to reform the GSEs in order to protect the long-term stability of the financial markets and realign their activities with their public interest mission.

History of GSEs

Congress chartered the housing-related GSEs for the purpose of enhancing the availability of mortgage credit and maintaining a well established secondary market for residential mortgages in order to promote homeownership. The housing related GSEs include the Federal Home Loan Bank System (FHLB), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac).

The FHLB consists of 12 regional banks and is supervised by the Federal Housing Finance Board (FHFB). Each regional bank is a private cooperative enterprise that is owned by member depository institutions within its respective region, and the stock of the regional banks is held only by its members and is not publicly traded.

The FHLB was established in 1932 to make advances to thrifts in order to revive the housing market after the Great Depression. The operation and function of the FHLB changed little in the decades following its creation until the 1980s. The economic recession and thrift crisis of the 1980s caused a contraction in FHLB business and resulted in an overhaul of the FHLB membership, regulation, and mission requirements. Membership was opened to commercial banks and credit unions in 1989. Consequently, membership jumped from 2,855 to over 8,000 financial institutions as of 2004. Likewise, total assets of the FHLB soared from $165 billion to $934 billion.

As a result of legislative changes in recent years, the scope of the FHLB has expanded to include providing liquidity for small business, community and rural development, and agricultural purposes. Starting in 1997, the FHLB initiated programs to purchase mortgages directly from member financial institutions. This activity has increased the risk profile of the FHLB, since sophisticated risk management techniques, including financial derivatives, must be employed to manage the associated interest rate risk.

> The scope of the FHLB has expanded to include providing liquidity for small business, community and rural development, and agricultural purposes.

Many of the FHLB regional banks had to restate earnings over the past few years due to the misapplication of accounting standard SFAS 133, *Accounting for Derivative Instruments and Hedging Activities.* Increased interest rate risk and decreased profitability caused credit downgrades for several banks. In addition, the FHFB entered into written agreements with two of the regional FHLB banks in 2004 to address weaknesses in governance, risk management, capital management, financial performance, internal audit, accounting, and financial record keeping.

Fannie Mae was originally chartered in 1938 to create a secondary market for mortgages by purchasing government insured or guaranteed mortgages. The 1968 Charter Act transformed Fannie Mae into

a privately owned, publicly traded GSE that could buy most insured and conventional mortgages. The Emergency Home Finance Act of 1970 created Freddie Mac to provide a secondary market for conventional mortgage loans written by savings and loan providers, other lenders, and brokers. At its inception, Freddie Mac was capitalized and owned by the FHLB. However, starting in 1989, stock of Freddie Mac began to be publicly traded.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 charged the Office of Federal Housing Enterprise Oversight (OFHEO), which is part of the Department of Housing and Urban Development, with supervisory authority over both Fannie Mae and Freddie Mac.

Recent Problems

Fannie Mae and Freddie Mac provide liquidity to the mortgage market in two ways: by purchasing mortgages from lenders and holding them or by securitizing these mortgages into marketable securities, which they sell in the capital markets to obtain funding. These GSEs are highly leveraged, with total equity that is less than four percent of total assets. Although securities issued by Fannie Mae and Freddie Mac are not guaranteed by the federal government, investors believe that the government would provide backing in times of financial distress and, therefore, are willing to allow these two GSEs to borrow at a discount. Empirical studies suggest that they benefit from a 35-40 basis point funding advantage. This ability to borrow at below market rates, combined with the relatively low capital requirement, has fueled the rapid asset growth of these two GSEs and has enabled them to earn returns on equity that far exceed those of similar financial institutions.

In the last ten years, the combined total assets of Fannie Mae and Freddie Mac surged 450 percent to approximately $1.8 trillion. They have become the largest providers of funds for home mortgages by owning or guarantying about 50 percent of mortgages in the United States. Based on asset size, Fannie Mae is the second largest financial corporation in the United States, surpassed only by Citigroup.

The rapid asset growth can be attributed to the dramatic increase in their retained investment portfolios. Over the past ten years, the combined retained investment portfolios of Fannie Mae and Freddie Mac increased tenfold to approximately $1.5 trillion, due to purchasing their own or each others' mortgage-backed securities. Unlike the purchase and securitization of mortgages, the retained investment portfolios do not enhance the availability of mortgage funding for households. A study conducted by Federal Reserve staff found no correlation between the size of the GSEs' retained investment portfolios and mortgage rates.[1] Therefore, the dramatic buildup of the investment portfolios for the purpose of earning higher returns illustrates how these two GSEs have shifted away from their primary mission to one more focused on generating returns and increasing shareholder value.

Systemic Risk

There is concern that the enormity of Fannie Mae and Freddie Mac, their explosive growth, and their dominance in the mortgage market add substantial

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[1] Andreas Lehart, Wayne Passmaore, Shane Sherlund, *GSEs Mortgage Rates, and Secondary Market Activities*, Board of Governors of the Federal Reserve, Finance and Economic Discussion Series 2005-7, January 2005.

Interagency Advisory on External Auditor Engagement Letters Issued

On February 9, 2006, the federal banking regulatory agencies (the agencies) issued a final advisory (advisory) to alert financial institutions' boards of directors, audit committees, management, and external auditors to the safety and soundness implications of certain audit engagement letter provisions that limit external auditors' liability.[1]

To be effective, external auditors must be independent in both fact and appearance, and they must perform the necessary procedures to comply with auditing and attestation standards. An external auditor's objectivity, impartiality, and performance may be compromised if an agreement exists to limit the external auditor's liability. In conducting examinations of financial institutions, the agencies rely on audit results in making their assessments of safety and soundness, and audit results may be less useful when said agreements are in place.

External auditors must be independent in both fact and appearance, and they must perform the necessary procedures to comply with auditing and attestation standards.

The advisory applies to engagement letters executed for the following audits:

- Audits of financial statements
- Audits of internal control over financial reporting
- Attestations on management's assessment of internal control over financial reporting

The engagement letter provisions that the agencies deem unsafe and unsound generally consist of agreements between a financial institution and its external auditor to accomplish the following:

- Indemnify the external auditor against claims made by third parties
- Hold harmless or release the external auditor from liability for claims or potential claims that might be asserted by the client financial institution, other than claims for punitive damages
- Limit the remedies available to the financial institution, other than punitive damages

Appendix A of the advisory contains several examples of unsafe and unsound limitation of liability provisions.

Under the advisory, provisions that waive the right of financial institutions to seek punitive damages from their external auditor are not considered to be unsafe and unsound. It should be noted that a provision that indemnifies an external auditor against third party claims, including punitive damages, would be considered unsafe and unsound under the advisory. Institutions that agree to waive claims for punitive damages may want to consider disclosing that arrangement in a proxy statement and other public reports.

The advisory is effective for audit engagement letters executed on or after February 9, 2006; it does not apply to previously executed engagement letters. □

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[1] The full text of the advisory, *Interagency Advisory on the Unsafe and Unsound Use of Liability Provisions in External Audit Engagement Letters*, is available on the Board of Governors' website at <www.federalreserve.gov/boarddocs/srletters/2006/SR0604a1.pdf>.

SVP Commentary on…

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quacy. Capital serves as a buffer against losses and impacts the risk appetite of banking organizations. Together with other elements of the safety net, capital aligns the incentives of bank owners with depositors and other creditors. Recent efforts related to capital adequacy are designed to more closely align bank performance and risk taking with market interests.

While capital remains at the core of bank supervision, the rapid evolution of the banking industry, new technologies, and changing business processes are placing a premium on effective risk management practices. In recent years, financial innovations have occurred at an accelerated pace, new financial products and services are continually being introduced, and banking organizations are expanding their roles in the financial markets. Interdependencies in the marketplace and the increased scale and scope of banking operations require effective and flexible frameworks in which banks can operate.

At the same time, in the aftermath of corporate scandals, the need to restore investor confidence in the financial markets has resulted in very detailed regulation and placed a premium on corporate governance. The need to eliminate terrorist and illicit financing of activities has also resulted in detailed legislation. This combination has had a significant impact on smaller banking organizations in particular.

> Periods of fraud and abuse typically result in the creation of specific regulations in response to specific problems.

History provides us with many examples where some banks have taken imprudent risks in fulfilling their responsibilities, resulting in adverse impacts on the economy. Periods of fraud and abuse, together with technological and societal change, typically result in the creation of specific regulations in response to specific problems.

So what is the best way to proceed in responding to ongoing industry innovation and diversification and potential future negative events? Some would say the best way is to have a limited response, letting market participants provide the necessary stability and efficiency. On the opposite end of the spectrum is a response of strict regulation and supervisory oversight that could potentially curtail, even silence, industry innovations and limit growth and expansion.

The most effective response is probably somewhere in between, and there are things that regulators can do to achieve a balance and to help prevent increased regulatory burden. Understanding and evaluating industry innovation—new products and services, technological advances, and market expansions—will help regulators determine whether a new policy is warranted or whether changes to an existing policy may be needed. In addition, the acquired knowledge can be shared with banking organizations to assist them with understanding and managing any potential risks.

An effective policy response also involves ensuring that there are proper incentives surrounding ongoing industry innovation and that banking organizations acquire sufficient information and research before embarking on any new strategic initiatives. The board of directors and management should be fully aware of the risks from new initiatives, and there should be effective risk management policies and practices in place to monitor and manage the risks.

If there is strong evidence that the risks are effectively managed in such cases, regulators may not need to create any significant new regulation, but instead they may stress the application of existing supervisory guidance. This was the case with the home equity lending guidance that was issued in May 2005 and the current proposed guidance for both commercial real estate concentrations and nontraditional mortgage loan products.

Ongoing dialogue between regulators and banking organizations is also very important. Regular interaction will help to promote a cooperative effort among bankers and their supervisors. Regulators will be better able to identify any emerging risks, and bankers will be provided an outlet to express their views on bank regulation and supervisory oversight. Here in the Third District, we sponsor several Bankers' Forums each year to share information and to provide the institutions we supervise with an opportunity to voice their concerns. We can then factor this information into our comments on proposed regulatory policies and also share the information with staff from the Board of Governors in Washington.

Finally, ongoing monitoring of emerging risks in the banking systems and of industry innovation is important for efficient, effective supervision and regulation. Identifying and responding to emerging risks on an ongoing basis helps to limit potential systemic risk and potential bank failures. Industry innovation can lead to revised or new regulation. The advancement of banks' ability to measure and manage their risks has resulted in a proposed new capital framework. The proposed Basel II capital framework provides for greater risk sensitivity than its predecessor and is intended to allow capital regulation to better reflect continued industry innovation.

It is clear that we need a supervisory and regulatory scheme to ensure both public confidence and financial stability. The goal of regulators should be to construct and operate under supervisory and regulatory policies that are economically efficient and that will lead to economic growth. There is also an ongoing need to evaluate the cost, benefit, and impact of regulatory policies and compliance on banking organizations. The debate over the benefits versus the costs of banking regulation is ongoing, and regulatory burden relief efforts continue. Currently, there are efforts underway in Congress to pass a regulatory relief bill this year.

Whatever the outcome of the regulatory relief efforts, a continued focus must remain on the basic objectives of bank regulation, on managing systemic risk while promoting industry growth and innovation, and on determining how existing and proposed regulations will affect the financial system in the future. □

Is Something Missing?

With each issue of *SRC Insights* and *Compliance Corner*, we aim to highlight the supervisory, regulatory, and consumer compliance issues that affect you and your banking institution the most. But we recognize that your institution may be interested in topics that we have not covered, and we want to ensure that your voice is heard. What issues arise in your daily operations? What questions concern you in the course of business? What else would you like to see in an upcoming issue of *SRC Insights* and *Compliance Corner*?

We encourage you to contact us with any topic ideas, concerns, or questions. Please direct any comments and suggestions to Cynthia L. Course (cynthia.course@phil.frb.org) at 215-574-3760 or Joanne Branigan (joanne.branigan@phil.frb.org) at 215-574-3769.

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The risk assessment should also include all of the financial institution's or service provider's locations and facilities. Worst-case scenarios, such as destruction of the facilities and loss of life, should also be addressed during the risk assessment phase of development.

Risk Management

A written BCP should be prepared following the completion of the BIA and the risk assessment, wherein plans and methodology to maintain, resume, and recover critical and noncritical business processes, functions, and services should be documented. Interdependencies and related risk should be carefully identified, and processes for eliminating identified risks should be detailed accordingly. The BCP should outline and specify some of the events that might lead to an activated BCP phase. Appointed personnel, procedures, and responsibilities should be identified and documented clearly, for the purpose of timely execution.

All banking organizations and other financial market participants are encouraged to consider the implementation of the sound practices highlighted in *The Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System*,[2] which was written in response to 9/11. This paper describes practices that are designed to improve the resiliency of the clearing and settlement infrastructure and to facilitate the sound operation of the financial system in the event of a wide scale disruption.

Risk Monitoring

Risk monitoring helps to ensure that a BCP is reliable. Risk monitoring includes annual testing, ongoing updates, and independent reviews. Based upon the importance of the specific business operation and the overall operating environment, management may opt to conduct recovery testing more frequently within specific operational areas, but overall testing should be completed at least annually. Strategies should be developed based on recovery needs and not based on an assumption of decreased demand for services. Evaluations of interdependencies, service providers, and recovery of backup data should be assessed properly to determine overall reliability and accuracy. Throughout the monitoring and testing phase, security measures should be taken to ensure that secure copies of the backup media remain available in the event of a problem during the testing phase.

FFIEC guidelines detail specific types of testing, including the following:

- Orientation/walk-through, which is the most basic of testing methods, ensures that critical personnel are familiar with the BCP.
- Tabletop/mini-drill testing is more involved, as the participants are given a specific event scenario to which the BCP is applied.
- Functional testing actually requires mobilizing

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[2] *Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System*, May 2003, is available online at <fedweb.frb.gov/fedweb/bsr/srltrs/SR0309.htm>.

personnel at other sites and establishing communication and coordination.
- Full-scale is the most comprehensive testing method, which requires that the institution implement all or portions of the BCP through processing data and transactions using backup media at the recovery site.

In order to ensure that the objectives of business continuity planning are met, as established by the board of directors, audit or an independent party should assess the efficiency and effectiveness of the process in its entirety and identify and report any weaknesses or recommendations to the board accordingly.

The importance of business continuity planning cannot be understated. The role of financial institutions is critical to the national and global economies, and in a time of misfortune or crisis, financial institutions help to provide a sound infrastructure and sustain consumer confidence. No one can predict with certainty the events of tomorrow; however, an effective, comprehensive, continuously updated, and tested business continuity plan can help to ensure an effective response and to facilitate the stabilization of local, regional, and global economies when the unexpected occurs. ☐

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risk to the financial system. As the size of these portfolios grows, so does the level of interest rate risk. In his testimony before the Committee on Banking, Housing, and Urban Affairs on April 6, 2005, former Federal Reserve Chairman Alan Greenspan warned of the "growth and magnitude of the portfolios of the GSEs, which concentrate interest rate risk and prepayment risk at these two institutions and make our financial system dependent on their ability to manage these risks." The fact that six out of ten institutions in the banking industry hold GSE debt in excess of 50 percent of their capital compounds this risk. Holdings of GSE debt by commercial banks in the Third District mirror the national trend.

In response to heightened concern that any financial shock to Fannie Mae and Freddie Mac could cause substantial damage to the economy and reveal significant accounting irregularities, the OFHEO conducted special investigations of Freddie Mac and Fannie Mae in 2003 and 2004, respectively. The OFHEO determined that management of both organizations had disregarded accounting rules, internal controls, and disclosure standards to smooth the volatility of their earnings in order to meet market expectations and earnings targets.

The OFHEO's investigation found that compensation packages that tied bonuses to earnings performance provided motivation for management to strive to report consistent earnings. Freddie Mac understated earnings by approximately $5 billion from 2000 through 2003. Meanwhile, Fannie Mae is required to restate earnings back to 2001, which will force it to recognize almost $11 billion in losses. Fannie Mae has yet to file the required earnings reports with the SEC, and additional accounting errors have been disclosed as recently as March 13, 2006.

The former director of the OFHEO contends that the ability of the OFHEO to effectively supervise Fannie Mae and Freddie Mac was hindered by inadequate resources, a constraining funding mechanism, and powers that do not equal those of other regulators.

Legislative Response

To address the systemic risks posed by the three GSEs, the ineffective regulatory oversight, the lack of corporate governance, and the digression from their public interest mission, the House of Representatives passed H.R. 1461, The Federal Housing Reform Act of 2005, on October 28, 2005. On October 31, 2005, this bill was referred to the Senate's Committee on

Banking, Housing, and Urban Affairs. Likewise, the Senate Banking Committee passed S. 190, Federal Housing Enterprise Regulatory Reform Act of 2005, on July 28, 2005. However, this bill stalled before the full Senate due to the failure to reach a compromise on a key issue: how to limit the retained investment portfolios of Fannie Mae and Freddie Mac.

The two bills are similar in that they:

- Create an independent regulatory agency to oversee the safety and soundness of the three GSEs. This new agency would have a presidentially appointed director confirmed by the Senate. Three deputies would serve under the director: one responsible for Fannie Mae and Freddie Mac, one for the FHLB, and one to oversee the housing mission and goals of all regulated entities.
- Fund the new regulatory agency outside of the appropriations process.
- Create an oversight board, the Finance Oversight Board, to advise the director of the new regulatory agency.
- Add receivership powers with respect to Fannie Mae and Freddie Mac. Broad receivership authority already exists with respect to the FHLB.
- Grant the new regulatory agency greater discretion in raising capital standards to prevent insolvency and approval powers over new programs and activities proposed by a GSE.
- Require reviews of Fannie Mae's and Freddie Mac's affordable housing programs to ensure that these programs support the enterprises' public purpose.
- Authorize any two or more FHLB regional banks to establish a joint office for the purpose of performing functions for, or providing services to, the member banks on a common or collective basis.

While there is agreement that the vast investment portfolios held by Fannie Mae and Freddie Mac pose substantial systemic risk to the financial markets, the bills differ on how to limit the size of these portfolios.

H.R. 1461 permits the director to require a GSE to dispose of an asset or obligation based on safety and soundness considerations. In comparison, the Senate's bill allows the GSEs to keep only certain types of assets, which, as a result, would restrict the size of the portfolios and reduce their balance sheets. The new regulator would oversee a gradual sell-off of prohibited assets. The Bush Administration and the Federal Reserve favor the provision in the Senate's bill because it better ensures that the GSEs' portfolios are more in line with their primary purpose, and it reduces the risk associated with these portfolios.

In addition, H.R. 1461 also contains a controversial provision that is not included in the Senate's bill. H.R. 1461 requires Fannie Mae and Freddie Mac to fund separate affordable housing funds from a percentage of their profits. Each entity would control and manage its own fund and allocate funding according to regulations that the regulator would promulgate. Affordable housing advocates praised this initiative, but critics fear that, given the profit-driven cultures engrained at these two entities, these funds could be mismanaged.

While addressing GSE reform is a priority for Congress in 2006, a timetable for debates and votes has not yet been scheduled. The Senate is waiting to hear Federal Reserve Chairman Bernanke's views and to analyze two reports on Fannie Mae's accounting problems before bringing legislation to the Senate floor. One of these reports, *The Rudman Report*, which presents the findings of an independent investigation led by Senator Warren Rudman (R-NH), was issued on Thursday, February 23, 2006, and can be accessed at <http://download.fanniemae.com/execsum.pdf>. Congress met on March 14, 2006, to review this report. Supporters of the reform effort believe passage in some form is likely in 2006, given the support of the White House, Treasury Department, and Federal Reserve; the momentum created by H.R. 1461 and S. 190; and the growing intolerance of organizations, public or private, that violate the public trust.

The full text of these bills and their status in Congress are available on the Library of Congress website at <http://thomas.loc.gov/>. ☐

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