

Fannie Mae Inquiry Widens

By Stephen Schurr in New York - Financial Times

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Fannie Mae's compensation of top executives is drawing closer scrutiny from both regulators and lawmakers amid concerns that incentives may have encouraged overly aggressive bookkeeping.

The Office of Federal Housing Enterprise Oversight is examining the housing-finance company's "earnings per share challenge option grants" as part of a broader investigation of its accounting methods, according to people familiar with the matter.

Meanwhile, lawmakers in the House of Representatives have asked Ofheo for further information on the compensation received by high-ranking officials at Fannie Mae and Freddie Mac, its sibling government-sponsored entity.

Ofheo's investigation comes as Congress considers legislation to create a more powerful regulator for the GSEs. Legislation is unlikely this year, with Republicans and Democrats unable to agree on reforms.

Fannie Mae declined to comment on specific issues related to compensation. In reports to shareholders, Fannie Mae says its compensation philosophy is based on pay for meeting long-term performance goals and comparable compensation with similar businesses.

Armando Falcon Jr, the director of Ofheo, also declined to confirm any specific issues involved in the investigation. However, he noted that executive compensation was a central issue in Ofheo's separate investigation of Freddie Mac, a probe that resulted in a \$5bn earnings restatement and departure of the chief executive.

"A big part of our review of Freddie Mac involved incentives created by compensation structures. So, you can't conduct an investigation of a company and not look at that issue," Mr Falcon said.

In January 2000 all Fannie Mae employees received the challenge options grants, which were linked to the goal of doubling its per-share earnings by the end of 2003. Franklin Raines, chairman and chief executive, received 213,548 of the challenge options grants; four other top officials received more than 50,000 options.

Fannie Mae's 2003 earnings of \$7.29 a share handily exceeded the \$6.46 target for the EPS Challenge Options, which became exercisable in January. However, Ofheo has said its

investigation may potentially require Fannie Mae to restate earnings. An earnings restatement could require top executives to returning performance-based compensation based on revised numbers.

Separately, Cliff Stearns, a Florida Republican and chairman House sub-committee on commerce, trade and consumer protection, and Janice Schakowsky of Illinois, the ranking Democrat of the committee, wrote to Mr Falcon this month seeking more details on top officials at Fannie Mae and Freddie Mac.

Earlier this year, Ofheo provided the lawmakers with compensation data for 23 high-ranking Fannie Mae officials and 20 Freddie Mac executives. In the recent letter, Mr Stearns and Ms Schakowsky asked Mr Falcon to provide more information by June 4, including job titles and descriptions of these individuals.

"Without that information, we are unable in all cases to ascertain who had/has responsibility for the relevant management and accounting practices," the letter said. Ofheo said it would comply with the request.

A member of Ms Schakowsky staff said the lawmaker was examining whether Fannie and Freddie's compensation and bonuses were "directly tied to the value/performance of the stock and whether that influenced accounting practices".