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NEWS RELEASE

FOR IMMEDIATE RELEASE

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**OFHEO FILES NOTICE OF CHARGES AGAINST FORMER FANNIE MAE
EXECUTIVES FRANKLIN RAINES, TIMOTHY HOWARD AND
LEANNE SPENCER**

Charges Seek Restitution, Civil Money Penalties

Washington, D.C. – The Office of Federal Housing Enterprise Oversight (OFHEO) has filed a Notice of Charges against three former Fannie Mae executives, former Chairman and CEO Franklin D. Raines, former Vice Chairman and Chief Financial Officer J. Timothy Howard, and former Senior Vice President and Controller Leanne G. Spencer. OFHEO's Office of General Counsel continues its review of the conduct of other Fannie Mae personnel mentioned in OFHEO's Special Examination.

OFHEO Director James B. Lockhart determined that the Notice of Charges was appropriate based on the findings of the special examination of Fannie Mae conducted in 2004-2006 and additional review by OFHEO's Office of the General Counsel and the Office of Compliance.

"The Notice of Charges details the harm to Fannie Mae resulting from the conduct of these individuals from 1998 to 2004," said Director Lockhart. "The 101 charges reveal how the individuals improperly manipulated earnings to maximize their bonuses, while knowingly neglecting accounting systems and internal controls, misapplying over twenty accounting principles and misleading the regulator and the public. The Notice explains how they submitted six years of misleading and inaccurate accounting statements and inaccurate capital reports that enabled them to grow Fannie Mae in an unsafe and unsound manner. The misconduct cost the Enterprise and shareholders many billions of dollars and damaged the public trust," Lockhart said.

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The Notice of Charges alleges the “violations and conduct (a) resulted from a pattern of malfeasance, misfeasance, nonfeasance and misconduct; (b) involved recklessness; (c) was knowing and intentional conduct; and (d) resulted in unjust enrichment.”

The matter will be referred to an Administrative Law Judge (ALJ). Remedies sought include civil money penalties that could exceed \$100 million, disgorgement of bonuses totaling over \$115 million, loss of indemnification, and debarment from participating in Enterprise affairs.

The following is a summary of the Notice of Charges by OFHEO’s Office of General Counsel:

Summary of Notice of Charges

I. Charges

The Notice of Charges alleges that Mr. Raines, Mr. Howard and Ms. Spencer knowingly and/or recklessly engaged in misconduct and safety and soundness violations that caused substantial and/or material harm and loss to the Enterprise. Such harm was the result of a pattern of misconduct, encompassing both the individual and collective action of these individuals. They operated Fannie Mae in an unsafe and unsound manner, facilitating excessive growth and unjustified bonuses.

Specific violations and areas of misconduct include—

Inappropriate earnings management and manipulation;

Deliberately misleading financial reporting and disclosures;

Failure to establish a sound internal controls process, resulting in defective accounting policies and practices, conflicts of interest, incompetent personnel, key person dependencies and failure to segregate duties;

Misleading and deficient reporting from the important Internal Audit function;
and,

Permitting known deficient systems to continue to operate while recognizing that such systems facilitated the ongoing manipulations sought by the individuals charged.

The Notice of Charges makes 101 claims for relief for specific violations of law and regulation for conduct and misconduct recounted in the Notice. These detail the specific actions in individual charges, such as individually and collectively causing inaccurate and misleading disclosures regarding GAAP compliance.

Of the charges filed, 79 include Mr. Raines, 89 include Mr. Howard and 73 include Ms. Spencer.

II. Remedies Sought

OFHEO seeks the imposition of civil money penalties, to be determined in the course of the administrative law proceeding. OFHEO would propose such financial penalties in light of the multi-billion dollar harm caused to the Enterprises. Such penalties, which could total in excess of \$100 million are assessed employing calculations provided under OFHEO's enforcement regulations. For example, five years of misconduct could be assessed as Tier 3 knowing violations at a rate of \$100,000 a day.

OFHEO also seeks cease and desist orders which would require the restitution of monies Fannie Mae paid these individuals, reimbursement of monies paid by Fannie Mae to remedy the consequences of the conduct alleged in the Notice of Charges and the return to Fannie Mae of amounts advanced for legal fees under indemnification agreements. The cease and desist orders also would bar participation by these individuals in the business of Fannie Mae or Freddie Mac and require disclosure of orders issued in this matter prior to the individuals being employed or otherwise engaged by a regulated financial institution (such as a bank, savings and loan, credit union) to such institution and its regulator.

OFHEO also asks for Mr. Raines, Mr. Howard and Ms. Spencer to remit monies by which they were unjustly enriched under annual and long-term incentive plans and challenge grants during the period 1998-2003. The table below highlights some of the benefits that would be considered for the named individuals; the totals, excluding salaries, could be in excess of \$115 million. OFHEO's request includes future payments, if any, under Fannie Mae's long-term incentive plan.

**Compensation of Franklin Raines, Timothy Howard and Leanne Spencer,
including Salary, Bonus, Performance Share Plan (PSP) Payouts, Stock Options,
and Earnings per Share (EPS) Challenge Grant Awards
1998-2003^a**

	1998	1999	2000	2001	2002	2003	2004 ^d	Totals
Franklin Raines								
Salary	\$526,154	\$945,000	\$992,250	\$992,250	\$992,250	\$992,250	\$992,250 ^d	\$6,532,404
Bonus ^b	1,109,589	1,890,000	2,480,625	3,125,650	3,300,000	4,180,365		\$16,086,229
PSP ^b	794,873	1,329,448	4,588,616	6,803,068	7,233,679	11,621,280		\$32,270,964
Options	4,052,484	4,358,406	5,829,071	7,945,648	6,680,395	3,006,895		\$31,872,899
EPS Grant ^{b,c}						4,358,515		\$4,358,515
Total	\$6,483,100	\$8,522,854	\$13,890,562	\$18,866,616	\$18,206,324	\$24,159,305	\$992,250^d	\$91,121,011
Timothy Howard								
Salary	\$395,000	\$414,800	\$435,540	\$463,315	\$498,614	\$645,865	\$703,350 ^d	\$3,556,504
Bonus ^b	493,750	518,500	544,425	694,983	781,250	1,176,145		\$4,209,053
PSP ^b	909,196	860,464	2,088,542	1,987,119	1,947,368	3,470,578		\$11,263,267
Options	938,912	1,154,593	2,035,589	2,166,427	1,749,995	2,491,974		\$10,537,490
EPS Grant ^{b,c}						1,292,085		\$1,292,085
Total	\$2,736,858	\$2,948,357	\$5,104,096	\$5,311,844	\$4,977,227	\$9,046,647	\$703,350^d	\$30,858,379
Leanne Spencer								
Salary	\$159,000	\$195,000	\$205,000	\$216,000	\$260,000	\$275,210	\$361,000 ^d	\$1,671,210
Bonus ^b	85,518	120,500	178,863	185,000	330,000	383,200		\$1,283,081
PSP ^b	184,802	240,223	319,805	325,232	396,018	488,611		\$1,954,691
Options	184,946	259,967	320,051	359,844	396,005	488,749		\$2,009,562
EPS Grant ^{b,c}						374,993		\$374,993
Total	\$614,266	\$815,690	\$1,023,719	\$1,086,076	\$1,382,023	\$2,010,763	\$361,000^d	\$7,293,537

^aData for Mr. Raines and Mr. Howard as disclosed by Fannie in its Annual Proxy Statements for 1998-2003. Data for Ms. Spencer provided to OFHEO by Fannie Mae on December 14, 2006. Valuation of stock options is derived from a modified Black-Scholes pricing model, as disclosed by Fannie Mae in the "Option Grants Table" included in those statements. Those tables do not include the value of the Earnings Per Share Challenge Grants awarded, but the value of those awards are included in the "EPS Grant" portion of this table. PSP data reflects only stock awards actually paid out. In addition to these amounts, Ms. Spencer received a restricted stock grant valued at \$187,500 in 2000.

^bBonus, PSP, and EPS Challenge Grant components of compensation were tied to attaining EPS goals.

^cMost of the EPS Challenge Grants were granted on January 18, 2000, and all such grants vested on January 23, 2004. Here the value of those grants is included in 2003, the year the Challenge Grant EPS goal was attained. The value of the EPS Challenge Grants is the grant-date Black-Scholes value as estimated by Fannie Mae.

^d2004 Salary; other payments cancelled or deferred. Individuals received portions of salaries in 2005.

III. Procedures

The Notice of Charges has been transmitted to the named individuals and their counsel. The Notice was transmitted contemporaneously with a request to the Office of Personnel Management for assignment of a United States Administrative Law Judge (ALJ).

Steps in the administrative process include filing with the judge, presentation of motions and requests for rulings by the judge, requests for discovery of documents, conferences, orders and other matters.

A public hearing may be required, where published rules of procedure apply.

After a determination by the Administrative Law Judge on the facts in the case and the requested remedies, the ALJ provides a recommended decision to the Director of OFHEO for a final decision in light of all the evidence presented. The Director may accept, modify or set aside the ALJ's determination.

Should the individuals charged not agree with the Director's determination, they may appeal to a federal court for review, in much the same manner as a trial court decision may be appealed to a higher court. The time and conduct of the ALJ proceeding, the Director's determination and any judicial appeal are governed by law and regulation, requests by the parties and directions given by the ALJ, the Director or the federal court.

(Link to [Notice of Charges.](#))

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*OFHEO's mission is to promote housing and a strong national housing finance system
by ensuring the safety and soundness of Fannie Mae and Freddie Mac.*