



**Office of Federal Housing Enterprise Oversight
(OFHEO)**

STATEMENT

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For Immediate Release

June 09, 2003

OFHEO Statement

Armando Falcon, Jr., Director of OFHEO, today released a letter to members of the Board of Directors of Freddie Mac outlining initial actions required of the Board related to the Company's restatement process. Director Falcon sent his letter as a result of management misjudgments that led to a misapplication of GAAP principles and disclosures of employee misconduct, specifically, altering and failing to supply documents relevant to the restatement process.

Director Falcon has tasked a special investigative team to assume the review of accounting practices relevant to the restatement process at Freddie Mac and, in addition, management's progress in implementing the action plan that OFHEO has directed the Board to provide. The team will also undertake an investigation of employee misconduct. The team is headed by Stephen Blumenthal, Counsel to the Director, and will employ personnel from various OFHEO offices, including the examination and legal staffs.

Freddie Mac's business fundamentals, asset quality, capital positions and other safety and soundness measures remain strong. OFHEO has had discussions with members of the Board of Directors and the new management team and has their commitment of full cooperation.

[A copy of the letter to members of the Board of Directors of Freddie Mac is attached.](#)

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.



2 pages by FAX

June 7, 2003

Members of the Board of Directors
Freddie Mac
8200 Jones Branch Road
McLean, Virginia 22101

Members of the Board:

OFHEO's review of the restatement process for Freddie Mac's financial statements is ongoing. During this review, I have become increasingly concerned about evidence that has come to light of weakness in controls and personnel expertise in accounting areas and the disclosure of misconduct on the part of Freddie Mac employees. The removal of members of the management team only goes a part of the way toward correcting serious problems-- concerns surrounding management practices and controls remain. I believe additional actions must be taken by the Board to address these matters.

While Freddie Mac's asset quality, capital positions and other safety and soundness measures remain strong, conduct has occurred that is inconsistent with OFHEO's expectation of prudent management practices.

In light of these developments, I am directing the following immediate actions:

1. The Board will provide OFHEO with plans to address reform of Board oversight of management's supervision of accounting practices; personnel and systems changes; for implementing accounting services quality controls; and, a program for routine communications by the Board with OFHEO on the progress of its remediation plan. The Board should provide its plan of remediation to OFHEO for review and approval expeditiously.
2. OFHEO is deploying a special team to investigate all aspects of the issues surrounding the review of the re-audit that revealed deficiencies in accounting practices and controls and the matter of employee misconduct discovered on June 4, 2003. I expect the Board and management's full cooperation with this initiative.
3. Freddie Mac will make available to OFHEO all communications to the Board and management regarding deficiencies in accounting practices and an investigation of employee misconduct that was discovered on June 4, 2003.

4. The Board will provide an explanation to OFHEO of its rationale for the termination packages for three individuals in light of the circumstances surrounding their departure from Freddie Mac-- Leland Brendsel, Vaughn A. Clarke and David W. Glenn. The Board and management will make clear to these individuals that their termination packages are subject to OFHEO approval.

In the case of personnel terminated for misconduct, OFHEO would object to any re-employment of such individuals. Also, in the case of personnel terminated for misconduct, they should be made aware that OFHEO may hold them liable for indemnification to Freddie Mac for losses that may have resulted from their conduct.

The Board shall designate members to oversee the actions directed in this letter. Freddie Mac management and Board members shall be available to meet with OFHEO as necessary and OFHEO may meet with the board at its discretion. Until the remediation plan is fully implemented, OFHEO's special team will expect regular reports on actions taken by the Board and management.

OFHEO will undertake such further actions as it deems appropriate.

Sincerely,

Armando Falcon, Jr.