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## **OFHEO, SEC REACH SETTLEMENT WITH FANNIE MAE; PENALTY IMPOSED**

**Washington, DC** – James B. Lockhart, Acting Director of the Office of Federal Housing Enterprise Oversight (OFHEO), today announced that Fannie Mae has agreed to implement corrective measures and pay a collective penalty of \$400 million dollars as part of settlements with OFHEO and the Securities and Exchange Commission (SEC). The agreements come as OFHEO released its Report of the Special Examination of Fannie Mae. The report details an unethical corporate culture where Fannie Mae employees manipulated accounting and earnings to trigger bonuses for senior executives from 1998 to 2004. ([To view release and report](#))

OFHEO entered into the agreement in lieu of pursuing administrative or enforcement actions and to expedite movement toward reforms at the Enterprise.

“The penalty and settlements represent a major step in correcting a dangerous course that had been followed by one of the largest financial institutions in the world,” said Lockhart. “Unprincipled corporate behavior and inadequate controls will simply not be tolerated,” said Lockhart.

The settlement reached today addresses the findings of the special examination report and aims to remedy past practices, prevent future occurrences and put the Enterprise on a safe and sound course for the future. Key aspects of the settlement include:

*Growth Limit.* OFHEO has directed that Fannie Mae limit growth of its portfolio mortgage assets to the level of December 31, 2005. OFHEO’s action is based on the ongoing internal controls, risk management and accounting deficiencies and the need for the Enterprise to provide OFHEO an acceptable business plan for managing its market activities. Guidance is provided on matters that could be submitted to OFHEO demonstrating progress in remediating these issues. Procedures are in place for the Acting Director to modify the limit or lift the limit based on his assessment of plans and progress. The existing capital requirements and capital planning along with limits on corporate actions such as dividend payments under OFHEO supervision remain in effect.

*Penalty.* OFHEO has directed Fannie Mae to pay a \$400 million penalty to the government. This level of penalty signals that unsafe and unsound conditions cannot be tolerated at firms that have a public mission and enjoy public benefits.

*Corporate Governance and Controls.* OFHEO has directed Fannie Mae to undertake a comprehensive reform program aimed at top-to-bottom change, from corporate culture and tone to specific changes in journal entries, accounting procedures, briefings of the Board and officers on legal responsibilities, operational risk, reorganization of internal audit and other control functions. Strong emphasis will be placed on implementation of those plans with dates certain.

*Personnel.* OFHEO has directed Fannie Mae to undertake a review of current and separated employees for remedial actions. At the same time, Fannie Mae is directed to put in place qualified individuals with appropriate skills and adequate resources, and to provide a strong training program.

“We have had a good working relationship with the SEC and other agencies during this examination and in bringing together a settlement today,” Lockhart said.

“As the OFHEO report shows, the image of Fannie Mae as one of the lowest-risk and ‘best in class’ institutions was a façade. In fact, it was just the opposite. They promoted unconstrained growth while undermining proper internal controls by under investing in systems, risk management and staff,” Lockhart said. “Our examination found an environment where the ends justified the means. There was a systematic effort by senior management to manipulate accounting, reap financial rewards, and prevent the rest of the world from knowing about it,” said Lockhart.

[\(To see full text of Stipulation and Consent Order\)](#)

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