

The **GSE** REPORT™

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- FM Policy Focus says Freddie developments demonstrate that Fannie & Freddie's "regulatory framework is deeply and fundamentally flawed"
- OFHEO says regulatory system is working
- Freddie says no need for legislation

Rating agencies reaffirm Freddie's senior debt ratings, but may downgrade some of the company's ratings (p. 31)

- Moody's, S&P, and Fitch re-affirm Freddie's senior debt ratings, but Moody's and Fitch may downgrade some of Freddie's ratings
- Egan-Jones Ratings agency, which doesn't recognize the GSEs' implied government guarantee, puts Freddie's ratings on "developing watch"
- Egan-Jones suggests that other rating agencies' ratings are influenced by fees they receive from the GSEs

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- Four out of five major underwriters of Freddie's securities continue rating Freddie a "buy"
- Bear Stearns, Banc of America, Merrill Lynch, AG Edwards, US Bancorp Piper Jaffray, Wachovia Securities, and S&P's equity analysts downgrade their ratings of Freddie
- *Grant's Interest Rate Observer* says this could mean the end of Freddie's "imperial" phase

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Freddie announces major management shake-up amid an accounting review of its earnings

Freddie removes its management team amid accounting review of its earnings

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Were management changes in the works for the past year?

Freddie removes its management team

- Freddie's Board of Directors announced June 9 that President and Chief Operating Officer David Glenn was fired, while Chairman and CEO Leland Brendsel retired and Chief Financial Officer Vaughn Clarke resigned. Gregory J. Parseghian was named the Chief Executive Officer and President and Paul Peterson, Executive Vice President, as Chief Operating Officer. Martin F. Baumann, Executive Vice President-Finance has been appointed Chief Financial Officer and Shaun O'Malley was elected by the Board of Directors as non-executive Chairman of the Board. The company announced that it expected Brendsel to continue to serve as chair of the Freddie Mac Foundation. (*Freddie press release*, 6/9/03) Brendsel, however, announced his resignation June 13 from the Freddie Mac Foundation, saying he feared "unwanted attention" to the organization from his continued role as chairman that would interfere with its work. "I cannot allow that to happen," (*PR Newswire*, 6/13/03) As a non-employee chairman of the Foundation, Brendsel would have retained a minimal stipend of \$1,000 for each board meeting attended, a company spokesman said. (*Dow Jones Newswire*, Dawn Kopecki, 6/15/03)
- Although not specified in Freddie's original announcement of the management shake-up, Freddie later stated June 11 in a document outlining Brendsel's termination provisions that Brendsel resigned June 6 "at Freddie Mac's request." (*Dow Jones Newswire*, John Connor, 6/11/03)

Management shake-up comes amid accounting review of Freddie's earnings and alleged "employee misconduct"

- The management shake-up came after Freddie announced in January that it would delay the release of its 2002 financial statement and restate earnings for at least the previous two years (2000 and 2001), after its new auditor (PriceWaterhouseCoopers) recommended certain

changes to its accounting policies, in particular the way it treats derivatives. [Freddie's previous auditor was Arthur Anderson.] At the time, Freddie said it expected the restatements would likely "materially" increase its reported earnings for those prior periods, and re-iterated that view after its removal of top management.

Freddie's president, David Glenn, altered documents related to Freddie's restatement of its earnings for the past three years

- Freddie announced that it fired Glenn "because of serious questions as to the timeliness and completeness of his cooperation with the Board's Audit Committee counsel, retained in January 2003 to review the facts and circumstances surrounding the principal accounting errors identified during the restatement process." (*Freddie press release*, 6/9/03)
- In a conference call, Freddie said Glenn altered a diary he provided to the counsel for the audit committee. Freddie would not say why the diary was such an important item for the committee. "We have the diary. Some information was either missing or deleted. It was supposed to be handed over to the audit committee. It was not handed over in a timely manner. That behavior is not what we expect," Freddie's spokesman Douglas Robinson told *Reuters* June 9. "He [Glenn] was not timely and candid in the provision of the personal document that was asked for," Robinson said. In the conference call, Freddie executives said they did not have specific knowledge about the contents of the diary, but said it contained personal recollections and observations. Freddie executives said Glenn admitted that the diary had been altered and pages of it were missing. Freddie executives noted that this was a personal diary as opposed to books or records of the firm. (*Reuters*, Aleksandrs Rozens, 6/9/03)
- Colleagues said that Glenn for years has written notes about meetings and business issues in black-and-white covered composition books, often referring to them later to remind himself of unfinished tasks. Freddie officials claim they were not formal records of the company and had no impact on its books. Sources said a lobbyist from Freddie told members of Congress in briefings June 9 that it appears Glenn altered and deleted references to his dealings with the company's auditors and his role in setting company audit policy. He resisted giving the notes to investigators when first asked about them three weeks ago, the sources said. Glenn couldn't be reached and his attorney, Thomas Vartanian (Fried Frank Harris Shriver & Jacobson), declined to comment. (*Washington Post*, Carrie Johnson and Kathleen Day, 6/10/03)
- Brendsel has served as an executive at Freddie since 1982. Glenn joined Freddie in 1987, quickly becoming chief financial officer – handpicked by Brendsel, who was named the company's permanent chief executive that year. (*Washington Post*, Carrie Johnson and Kathleen Day, 6/10/03)

More firings and resignations expected to follow

- One consultant close to Freddie said he expects more firings and resignations in the weeks ahead. (*National Mortgage News Daily web site*, 6/9/03) One observer told *Dow Jones Newswire* that several of the company's accountants are also at risk of losing their jobs.

(Dow Jones Newswire, Dawn Kopecki, 6/16/03)

Were management changes in the works for the past year?

- Industry sources close to Freddie note that the chain of events resulting in Freddie's management shake-up actually began before June 9, reported *National Mortgage News Weekend edition*. About a year ago, Freddie's board requested that Brendsel create a succession plan because they wanted new blood in the company. Glenn apparently wanted the top position, but Brendsel and Glenn once considered close were no longer and Brendsel delayed creating the succession plan. Freddie's board (in particular former Treasury undersecretary George Gould) was upset at three things: Brendsel not picking a successor, Freddie not releasing first-quarter earnings; and losing market share to Fannie. "When it became apparent that Glenn was altering his diaries, the board used it as an excuse to clean house," reported the publication. (*National Mortgage News Weekend Edition*, June 14-15, 2003)
- *Barron's Online* also reported that Freddie's board members have been telling Bush Administration officials, members of Congress and others that they had planned to ease out both Brendsel and Clarke later this year in order to inject fresh blood into the company. *Barron's* reported that Glenn, who aspired to Freddie's chairmanship, "apparently was trying to burnish his image by covering up his role in some rather minor management decisions, according to someone briefed by the company." (*Barron's Online*, 6/16/03)
- Sources said the retirement of Brendsel and resignation of Clarke were already in the works, reflecting a judgment by board members that the two were ultimately responsible for the earlier accounting issues. (*Washington Post*, Carrie Johnson and Kathleen Day, 6/10/03)

Freddie further delays its earnings restatement

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- Freddie said it continues to expect that the likely cumulative effect of the earnings restatements will be to "materially" increase reported earnings for prior periods and "materially" increase the company's capital surplus under OFHEO's minimum capital

requirements as of the end of 2002. The company further expects significant volatility in reported quarterly earnings for those periods. The company also expects that adjustments affecting its income will relate substantially to changes in the timing of income recognition, and, as a result, cumulative increases related to the adjustments will have offsetting effects in future periods. In addition, the company expects increased volatility in future periods. (*Freddie press release, 6/9/03*)

- Freddie said the planned restatement of its earnings may be delayed until later in the third quarter. It previously said the restatement would be completed after the end of the second quarter of 2003. (*Freddie press release, 6/9/03*)
- Freddie officials are working closely with James R. Doty, a former SEC general counsel and now a lawyer at Baker Botts LLP, who is conducting an internal investigation for the audit committee of Freddie's board of directors. (*Washington Post, Jerry Markon and Carrie Johnson, 6/11/03*)

Freddie says it has uncovered no new accounting errors and no new fraud

- In a June 9 conference call on the management team shake-up, Freddie's new CEO and President Gregory Parseghian said the company had uncovered no new accounting problems and no new fraud or criminal acts have been identified. "There are no new accounting issues...Our priority is to have scrupulously accurate numbers...Job one is to get the numbers right...We know that investor patience is wearing thin." (*Reuters, Philip Klein, 6/9/03*)
- Parseghian pointed out that Freddie doesn't believe fraud or criminal misconduct were behind the accounting issues that resulted in Freddie's management shake-up. "We have not characterized anything that has occurred as fraud or criminal or any such legal designation," Parseghian told investors and analysts on a conference call. (*Dow Jones Newswire, Rob Wells, 6/9/03*)

Freddie considers releasing Glenn's altered diaries

- Freddie's management is considering publicly releasing some of Glenn's diaries, a source familiar with the matter told *MortgageWire* late June 11. "They're too concerned that everyone is making too much of the diaries," the source said. The source added that the diaries may show that in meetings, Glenn did not raise objections to the use of certain accounting techniques, but committed his concerns to paper only. (*National Mortgage News Daily web site, 6/12/03*)

Freddie defends its practices in ads

- Freddie defended its practices in full-page advertisements in major newspapers, saying "our business fundamentals are as powerful as ever" and assuring that the company is safe and sound and outlining actions it has taken in recent days. The ads were an open letter by Freddie's new chief executive Gregory Parseghian. The "skilled, energetic" new management team installed by the board of directors is working with outside auditors to quickly complete the company's restatement of financial results for 2000-2002, the ad said. (*Reuters, Mark Felsenthal, 6/12/03; Associated Press, Marcy Gordon, 6/13/03*)

OFHEO, SEC, and NYSE launch investigations

OFHEO launches investigation into Freddie's accounting practices and employee misconduct

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OFHEO and SEC are investigating whether Freddie's accounting errors were intentional – SEC also investigating whether Freddie may have violated the Sarbanes/Oxley law

NYSE also investigating Freddie

OFHEO says removing Freddie's entire management team is not enough – OFHEO is still concerned about Freddie's management practices and controls

- In a June 7 letter to Freddie's Board of Directors, OFHEO said removing the entire management team is not enough and "only goes part of the way toward correcting serious problems." OFHEO noted that it still had concerns surrounding "management practices" and "controls."
- OFHEO Director Armando Falcon wrote: "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." In a statement accompanying the OFHEO letter, OFHEO said Freddie's management had made "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."
- OFHEO said it was sending a special team to investigate Freddie's restatement process and possible employee misconduct. Stephen Blumenthal, Counsel to the Director, will head the team that will employ personnel from various OFHEO offices. OFHEO said Freddie's business fundamentals, asset quality, capital positions, and other safety and soundness measures remain strong, however, "conduct has occurred that is inconsistent with OFHEO's expectation of prudent management practices."
- OFHEO asked Freddie's Board of Directors to provide plans to reform its oversight of management supervision of accounting practices, make personnel and systems changes to implement accounting controls and implement a program for routine communications between the Board and OFHEO on the progress of the plans. OFHEO also requested that

Freddie hand over all communications to the Board and management regarding deficiencies and investigation of employee misconduct. OFHEO would also like an explanation from Freddie about the reasons for Brendsel, Clarke, and Glenn's separation packages. OFHEO said those deals are subject to OFHEO's approval. (*OFHEO Director Armando Falcon letter to Freddie's Board of Directors, 6/7/03; OFHEO Statement, 6/9/03*)

Cong. Baker wants OFHEO to forward all documents it has requested from Freddie for its investigation

- Congressman Baker asked OFHEO in a June 13 letter to forward to his office documents, e-mails and other communications between Freddie and its board of directors regarding OFHEO's investigation into Freddie's recent accounting problems. OFHEO told Freddie's board of directors June 7 that the company "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." Congressman Baker would like OFHEO to turn that information over to him as soon as it is received. (*Dow Jones Newswire, Dawn Kopecki, 6/13/03*) OFHEO declined to comment on whether it would agree to Congressman Baker's request. (*National Mortgage News Daily web site, 6/16/03*)

OFHEO expects to issue a report on its investigation in 30-60 days

- OFHEO hopes to make public in 30-60 days the findings of its investigation. "That's the goal of the [OFHEO] director," said OFHEO spokeswoman Stefanie Mullin. Mullin said OFHEO has been in touch with the SEC, Federal Reserve, Treasury, and HUD on the issue. (*Dow Jones Newswire, John Connor, 6/10/03*)

SEC launches formal investigation of Freddie

- Freddie confirmed that the SEC has begun a formal investigation into the company, allowing the agency to issue subpoenas for witnesses and documents. The SEC has been carrying out an informal investigation since January. Shaun O'Malley, Chairman of Freddie's Board of Directors, stated: "Since January of this year, the Board of Directors has ordered full cooperation with the SEC's informal inquiry. We will continue to cooperate in all respects as the investigation continues. The Board of Directors is continuing to supervise closely the company's evaluation of all matters related to the restatement. Our Audit Committee counsel's active review, as of this date [June 11], does not indicate that any employee of Freddie Mac other than Mr. Glenn has engaged in conduct of the kind we disclosed on Monday [June 9]. We can also confirm that the conduct we disclosed on Monday related to Mr. Glenn's diaries and not the company's accounting records." (*Freddie press release, 6/11/03*)
- The SEC is investigating whether Freddie has violated securities laws, a person close to the matter said. The *Wall Street Journal* reported that regulators will investigate whether Freddie may have deferred some income to smooth out results in future periods. The paper said the SEC would investigate whether Freddie's chief executive and chief financial officer may have violated the law by certifying financial statements, if such statements are deemed inaccurate. (*Reuters, Mark Felsenthal, 6/9/03*)

OFHEO and SEC are investigating whether Freddie's accounting errors were intentional – SEC also investigating whether Freddie may have violated the Sarbanes/Oxley law

- OFHEO and the SEC are investigating whether several Freddie executives and auditors at Arthur Anderson knowingly misused certain accounting rules to reduce volatility in the company's earnings, people familiar with the matter said. Freddie announced in January that it would have to restate up to three years of earnings due to an accounting error in calculating the value of some of its derivatives transactions. The change was prompted when Freddie replaced Arthur Anderson with Pricewaterhouse Coopers last year. The new auditor questioned the way Freddie recorded income for certain types of hedging instruments and insisted on re-auditing up to three years of Freddie's earnings. Freddie's accounting for certain derivatives transactions resulted in less volatile earnings results. "The effect of the transaction was to spread out earnings over several periods, rather than recognize them in a particular quarter," OFHEO Director Armando Falcon said in an interview. "Why they did it and whether it was appropriate or not is something this review will look at." Freddie officials said they thought Freddie was properly following generally accepted accounting principles as advised by its auditor. "Arthur Anderson signed off on the treatment. We applied principles we believe to be consistent with GAAP," said Freddie's spokesman Douglas Robinson. "Subsequent to retaining new outside auditing, it was determined that the GAAP treatment we chose and thought was correct was incorrect." (*Dow Jones Newswire*, Dawn Kopecki, 6/9/03, 6/10/03)
- Deferring gains to future quarters in a bid to keep revenue and earnings growth steady – sometimes known as "cookie jar" accounting – has been used by companies that are experiencing strong earnings but want to defer gains to a later date, when earnings may be weak. The SEC has been trying to crack down on companies that use such techniques. It settled cases with Microsoft Corp. and Xerox, which were accused of setting up improper reserves. Freddie officials have said that they weren't trying to smooth out earnings and that they believed they were following generally accepted accounting practices at the time. (*Wall Street Journal*, Patrick Barta, Greg Ip and John McKinnon, 6/10/03) "The idea behind income smoothing, whether through setting up exaggerated restructuring reserves or using fancier derivatives, is simple: Stash away profits in good times and reach for them in leaner times to prop up results." (*Reuters*, Deepa Babington, 6/13/03)
- The SEC is also investigating Freddie to see whether Brendsel and Clarke violated a provision in the Sarbanes/Oxley law that requires executives to certify that their financial statements are true, according to people familiar with the matter. Last August, the two executives filed a signed certification with the SEC attesting to the accuracy of Freddie's financial statements. Under Sarbanes/Oxley, the SEC could bring civil charges against the executives if those financial statements weren't accurate. (*Wall Street Journal*, Patrick Barta, Greg Ip and John McKinnon, 6/10/03)

NYSE also investigating

- Freddie said it informed OFHEO, SEC, and the NYSE about the matter and is cooperating with these groups during their investigations. (*Freddie press release*, 6/9/03)

Federal prosecutors launch criminal investigation – Freddie is also the target of several class action shareholder lawsuits

Federal prosecutors open criminal investigation into Freddie

- Federal prosecutors have launched a criminal investigation of Freddie, the US Attorney in Virginia said on June 11. Paul McNulty, U.S. Attorney for the Eastern District of Virginia, said June 11 that an investigation involving Freddie has been initiated but declined further comment. (*Reuters*, 6/11/03) The *Washington Post* reported that prosecutors were looking into alleged irregularities at Freddie. The article cited one official who said the investigation focused on possible violations of federal securities fraud. (*Washington Post*, Jerry Markon and Carrie Johnson, 6/11/03)
- Freddie's spokesman David Palombi, said June 11 that the company has not yet received any formal or informal communication by the US attorney. The company plans "to cooperate in all respects with any such investigation." (*Freddie Advisory*, 6/11/03)

Freddie is target of several class action shareholder lawsuits

- The law firm, Milberg Weiss Bershad Hynes & Lerach LLP, filed a class action shareholder lawsuit June 9 against Freddie, on behalf of purchasers of Freddie's securities between January 27, 2003 and June 9, 2003. A copy of the complaint can be viewed on Milberg Weiss' web site at: <http://www.milberg.com/freddiemac/> (*Milberg Weiss press release*, 6/9/03)
- The action, numbered 03-CV-4170, is pending in the United States District Court for the Southern District of New York against defendants Freddie Mac, David Glenn (COO until June 9, 2003), Vaughn Clarke (CFO until June 9, 2003) and Leland C. Brendsel (CEO and Chairman until June 9, 2003). John E. Sprizzo is the presiding judge. (*Milberg Weiss press release*, 6/9/03)
- The complaint charges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by issuing a series of materially false and misleading statements to the market between January 27, 2003 and June 9, 2003. According to the complaint, the Company's Class Period earnings announcement was materially false and misleading because it failed to disclose that the Company lacked adequate internal accounting controls and personnel expertise, failed to follow accounting rules that require derivative securities to be marked to market, "smoothed out its earnings" using accounting techniques to lower results in good times and lift results when business conditions deteriorated and provided investigators with doctored records to conceal their improper accounting techniques. (*Milberg Weiss press release*, 6/9/03)

- The following law firms also filed class action shareholder lawsuits against Freddie, on behalf of purchasers of Freddie’s securities:
 - Abbey Gardy, LLP
 - Bernard M. Gross, PC
 - Brian Felgoise, PC
 - Cauley Geller Bowman & Rudman, LLP
 - Charles J. Piven, PA
 - Chitwood & Harley, LLP
 - Cohen, Milstein, Hausfeld & Toll, PLLC
 - Faruqi & Faruqi, LLP
 - Schiffrin & Barroway, LLP
 - Shepherd, Finkelman, Miller & Shah, LLC
 - Weiss & Yourman
 - Wolf Haldenstein Adler Freeman and Herz LLP (*PRIMEZONE*, 6/9/03, 6/11/03, 6/17/03; *PR Newswire*, 6/11/03, 6/12/03, 6/17/03; *Business Wire*, 6/11/03)

Federal Reserve, Treasury, and HUD are all monitoring the situation

Federal Reserve Board Chairman Alan Greenspan says Fannie & Freddie should be subject to SEC regulation

Treasury says GSEs should be subject to greater transparency, greater disclosure, and effective oversight – Treasury begins discussions on strengthening oversight of GSEs

Federal Reserve Board Governor Susan Bies says no signs of short-term economic impact from the accounting issues surrounding Freddie

HUD says it is closely monitoring the investigations into Freddie

Federal Reserve Board Chairman Alan Greenspan says Fannie & Freddie should be subject to SEC regulation

- In response to a question by Congressman Ed Markey (D-MA) at an unrelated House Energy and Commerce Committee hearing, Federal Reserve Board Chairman Alan Greenspan said Fannie and Freddie should register their securities with the SEC, like other companies. Congressman Markey is co-sponsoring a bill with Congressman Chris Shays (R-CT) that would remove Fannie and Freddie’s exemption from SEC regulations, which apply to all other publicly traded companies.
- Congressman Markey questioned Greenspan: “There’s the wave of accounting scandals now

hitting Freddie Mac – and they are exempt from having to register their securities with the Securities and Exchange Commission – in your opinion, is it wise for that exemption to be allowed to continue? Or would it be better to have both of these companies have to register their securities with the Securities and Exchange Commission like every other major company in the United States?”

- Chairman Greenspan responded: “I believe in past questions I’ve agreed with your general point of view. In other words, I do think that – there is no reason to differentiate Fannie and Freddie from the rest of the securities industry as far as I’m concerned.” (*House Energy and Commerce Committee hearing on Natural Gas Supply and Demand Issues, Federal News Service transcript, 6/10/03*)
- In an interview after Greenspan’s comments, Congressman Markey stated, “Alan Greenspan is a financial deity... When he speaks to Congress on issues of financial soundness, the Congress sits up and pays attention. Enron and WorldCom and other scandals were enough to spur passage of reform in accounting. This scandal at Freddie Mac has the potential of leading to legislative reform.” (*New York Times, John Tierney, 6/11/03*)

Treasury says GSEs should be subject to greater transparency, greater disclosure, and effective oversight – Treasury begins discussions on strengthening oversight of GSEs

- “These are huge entities making huge markets, so we better make sure we have the appropriate level of oversight and disclosure,” Treasury Secretary Snow told reporters traveling with him in Mexico City. “I would like to make sure that the oversight authority is commensurate with the importance of these institutions and appropriate to the circumstances they find themselves in.” (*Bloomberg, 6/12/03*) “We’ve taken the view that greater transparency and openness would be a good thing for the GSEs...and more effective oversight too,” saying that the key to better oversight would be disclosure. Snow said the department, guided by Undersecretary for Domestic Finance Peter Fisher, was looking closely into the Freddie affair to find out “what are the facts and what are the implications for the financial system, if any.” Snow said he had “touched base” with Federal Reserve Board Chairman Alan Greenspan on the issues surrounding Freddie but did not have an in-depth discussion on the matter. Snow added that it is hard to get at all the facts of the situation, in part because a criminal investigation is now underway. (*Reuters, Glenn Somerville, 6/12/03*)
- While Snow predicted that the investigations into Freddie would “give rise” to more congressional inquiries, he said Treasury wouldn’t rush out new laws. “We would not want to sign-off on any legislative solution until we have had the chance to work with Congress and review it and to think about it and work on the details,” he said. “This may end up being a relatively minor thing or it may end up being far more serious,” Snow said. The stock and bond market reaction has been “fairly orderly.” Snow added, “Clearly these are extraordinarily important institutions in the financial structure of the country,” Snow said. “They play a critically important role in the mortgage markets.” (*Bloomberg, 6/12/03*)
- Treasury Secretary Snow reiterated June 17 that Fannie and Freddie need to be regulated in a manner in which financial markets can adequately assess risks associated with their

operations. The GSEs “should be subject to greater transparency, greater disclosure and effective oversight.” Snow said during a question-and-answer session after a Money Magazine summit in New York. The accounting issues surrounding Freddie is “an issue that needs to be looked at and is being looked at.” (*Dow Jones Newswire*, Agnes T. Crane, 6/17/03)

- Treasury spokeswoman Betsy Holahan said Snow had not deviated from the Treasury Department’s usual policy on GSE issues. “Secretary Snow today was reiterating views previously expressed by the Treasury Department about the importance of transparency, disclosure and oversight,” she said. (*Dow Jones Newswire*, Dawn Kopecki, 6/12/03)
- Treasury Undersecretary Peter Fisher phoned Congressman Richard Baker (R-LA) and had a “substantive, constructive discussion on working together toward the goal of strengthening regulatory oversight” of Fannie and Freddie, according to Congressman Baker’s spokesman Michael DiResto. (*Associated Press Online*, Marcy Gordon, 6/12/03)

Federal Reserve Board Governor Susan Bies says no signs of short-term economic impact from the accounting issues surrounding Freddie

- Federal Reserve Board Governor Susan Bies said June 11 that she was “not too concerned right now” about Freddie, though she was “waiting to see what really plays out.” Bies stated, “It looks like the mortgage securities are still trading fairly well,” she said. “All the regulators talk to each other but we’re appropriately letting the right regulators go ahead and talk about this at the appropriate time,” Bies said. “Obviously Freddie stock got hit but the securities which would affect home buyers seem to still be very liquid and we know the housing market is still very strong.” Bies stated, “I haven’t seen any sign that there will be a short-run impact and we’ll just have to wait and see what happens long-term.” (*Reuters*, Mark Felsenthal, 6/11/03; *Reuters*, 6/11/03)
- She added that it was not the Fed’s job to investigate Freddie but that it would watch the process. “We’re obviously interested in what they find because a lot of banks in the country hold paper and securities from Freddie, so we do want to understand what has happened,” she added. She said it was too early to say whether Freddie should be regulated differently. “I’m still waiting to get all the information. We know they were already undergoing some accounting changes at Freddie. Some of those were announced last year, so until I get all the facts it’s hard to tell exactly what occurred and how the regulator that they have has responded and I’m going to reserve judgment until I get more of the facts.” (*Reuters*, Mark Felsenthal, 6/11/03; *Reuters*, 6/11/03)

St. Louis Federal Reserve Bank President William Poole says the impact on the economy so far has been limited

- Poole, who in the past has warned that a financial shock at either Fannie or Freddie could hurt the economy, said the fallout from Freddie’s recent troubles so far has been limited. “The magnitude of the effects that are in the market today seem to me to be...very small relative to every thing else that is going on in the mortgage market and the economy generally,” he said. “I have not seen any reports that suggest to me that there is a spreading

problem as a consequence at this time,” he said. Still, he said it was the type of unforeseen event he had warned about. “I said that the history of these things is that something comes out of left field that was not predictable, and I certainly did not predict this,” he said. “On the other hand, that’s exactly the sort of thing that I was talking about.” (*Reuters*, Tim Ahmann, 6/11/03)

HUD says it is closely monitoring the investigations into Freddie

- The *American Banker* reported that during an appearance before the Senate Banking Committee, HUD Secretary Mel Martinez was asked about the harm that multiple federal investigations into Freddie’s accounting practices might bring. He “noted that he had been in contact with OFHEO’s director, Mr. Falcon, and he said he came away from that conversation with no concerns about Freddie’s financial stability.” (*American Banker*, Rob Garver, 6/13/03)

Capitol Hill calls for hearings – Draft bill expected

House Energy and Commerce Committee likely to hold a hearing

House Banking Committee Chairman Michael Oxley (R-OH) and Capital Markets Subcommittee Chairman Richard Baker (R-LA) call for hearings to examine Freddie’s accounting issues and regulatory oversight over the GSEs

Cong. Baker plans June 25 hearing and expects draft bill June 20 strengthening Fannie & Freddie’s oversight

Senate Banking Committee may hold hearing

Freddie cancels Oxley, Shelby fundraisers

House Energy and Commerce Committee likely to hold a hearing

- The House Energy and Commerce Committee is likely to investigate the accounting issues surrounding Freddie, a congressional aide noted. “There’s a very good possibility that we will hold a hearing to examine Freddie Mac’s derivative accounting,” Ken Johnson, a spokesman for the panel, told *Reuters*. (*Reuters*, 6/12/03)
- House Energy and Commerce Committee Chairman W.J. “Billy” Tauzin (R-LA) is considering a hearing on Freddie’s situation and will decide after receiving a briefing on the issue, said spokesman Ken Johnson. (*Washington Post*, Charles Babcock, 6/11/03)
Congressman Cliff Stearns (R-FL) said his staff members would determine whether there were accounting issues in need of investigation. (*New York Times*, John Tierney, 6/11/03)
- Congressman Ed Markey (D-MA) on June 9 urged the House Energy and Commerce

Committee to hold a hearing on Freddie's situation. "These revelations are deeply disturbing, and raise serious questions about exactly what is going on inside of this company, which plays such an important role in the housing-finance market," Congressman Markey wrote in a letter to Commerce, Trade and Consumer Protection Subcommittee Chairman Cliff Stearns. "As a result, I believe that the Subcommittee should immediately commence an investigation into this matter and hold hearings to examine the facts and circumstances relating to Freddie Mac's compliance with FASB accounting standards related to derivative financial instruments." Noting his co-sponsorship of legislation with Congressman Shays to repeal Fannie and Freddie's SEC exemption, Congressman Markey stated, "Since the accounting problems that have apparently occurred appear to relate to the companies use of financial derivatives, they could materially effect the prices of their mortgage-backed securities. I would therefore urge that the Subcommittee also examine the issue of whether registration of such securities might be needed to ensure the companies' full compliance with FASB accounting standards, and its future executives recognition of their public responsibilities to ensure such compliance." (*Cong. Markey letter to Cong. Stearns, 6/9/03*)

Cong. Baker plans June 25 hearing and expects draft bill June 20 strengthening Fannie & Freddie's oversight

- Congressman Baker told *Reuters* he plans to introduce a bill that would increase OFHEO's funding and that he aims to hold hearings on June 25 on strengthening oversight of Fannie and Freddie. "We have a rare political opportunity that's been opened" to pass legislation strengthening oversight of Fannie and Freddie. Congressman Baker said he has discussed with Treasury changes to the way Fannie and Freddie are regulated. If OFHEO were funded the same way bank regulators are, it would have a budget of around \$70 million, more than double its current budget, he said. "There is a clinical mismatch between the resources of OFHEO and the structure and complexity of Fannie and Freddie," he said. Congressman Baker said OFHEO should also be removed from the appropriations process. (*Reuters, 6/13/03*)
- Cong. Baker expects a draft proposal for changing the way Fannie and Freddie are regulated by June 20. (*CQToday, Siobhan Hughes, 6/13/03*) Congressman Baker said he wants to establish a regulatory agency with a new name, greater powers and better funding within a different agency – perhaps the OTS, Treasury, or the Federal Reserve. (*Wall Street Journal, John McKinnon, 6/13/03*) Congressman Baker spokesman Michael DiResto said, "What he [Congressman Baker] would like to do is take all of the personnel in OFHEO and move them somewhere credible." (*Reuters, Mark Felsenthal, 6/13/03*) Another possibility Congressman Baker is considering is requiring Fannie and Freddie to register all their mortgage-backed securities with the SEC. (*Wall Street Journal, John McKinnon, 6/13/03*)

House Banking Committee Chairman Michael Oxley (R-OH) and Capital Markets Subcommittee Chairman Richard Baker (R-LA) call for hearings to examine Freddie's accounting issues and regulatory oversight over the GSEs

- Congressmen Oxley and Baker announced that the Capital Markets Subcommittee of the House Financial Services Committee plans to hold one or more hearings to examine the accounting issues of Freddie, and the regulatory oversight of the GSEs. Dates and witnesses will be announced at a later date. (*House Financial Services Committee press release, 6/10/03*)
- A press release announcing the hearings noted that in OFHEO's annual report to Congress, released June 4, OFHEO wrote that "we remain satisfied that the board of directors and executive management are taking the appropriate action" with regards to the earnings restatement." However, "[j]ust three days later, in a letter dated June 7 and released June 9, OFHEO Director Armando Falcon told Freddie's board that "the removal of the management team only goes a part of the way toward correcting serious problems - concerns surrounding management practices and controls remain." (*House Financial Services Committee press release, 6/10/03*)
- "Congress needs to get the true story about what was happening at Freddie Mac and what top management was really doing to resolve questions about the company's books. But we should be just as concerned to find out what regulators knew -- or didn't know -- about what was going on there, why they didn't know, and what they were doing about it since January," Congressman Baker said. "These housing GSEs are too important and have too great a role in financial markets for Congress not to make sure adequate and effective oversight is in place to protect investors, homebuyers, and taxpayers from missteps like this ever happening again." (*House Financial Services Committee press release, 6/10/03*)
- Congressman Baker called Freddie's news "extremely troubling." He added, "If there is fraud, we will ferret it out...but if there are further problems with management practices and controls, we must address them as well" (*Associated Press, Marcy Gordon, 6/9/03*) He noted that regulatory oversight of the GSEs need to be examined. (*Reuters, 6/9/03*) The new revelations "might have systemic implications and touch even the smallest and most innocent participants in the housing market," said Congressman Baker. (*Associated Press, Marcy Gordon, 6/10/03*) "I had always thought if the GSEs were to suffer any adverse consequences it would likely be because of interest rate risk as opposed to managerial risk," said Congressman Baker. "It was disturbing." (*CBS MarketWatch-AFX News, 6/11/03*)

Senate Banking Committee may hold hearing

- Senate Banking Committee Chairman Richard Shelby (R-AL) said his panel would be monitoring the investigation of Freddie. "We will be working with the regulators," he said. "We would expect at the proper time to hold a hearing on their findings." (*New York Times, John Tierney, 6/11/03*)

Freddie cancels Oxley, Shelby fundraisers

- The *Wall Street Journal* reports in its “Washington Wire” column, that there has been a “fundraising fallout” from Freddie’s alleged fraud. Freddie’s lobbyist, Mitch Delk, abruptly canceled fundraisers for House Financial Services Committee Michael Oxley (R-OH) and Senate Banking Committee Chairman Richard Shelby (R-AL) “now that both will hold hearings on the company’s accounting problems.” (*Wall Street Journal*, Jackie Calmes, 6/13/03)

Other Congressional comments

- Senator Wayne Allard (R-CO), Chair of the Senate Banking housing panel, said he thought Freddie’s problems were confined to Glenn’s alleged misconduct. “I don’t think it reflects anything about the financial situation, I think it’s more a matter of personality,” he told *Reuters*. (*Reuters*, 6/10/03)
- Senator Bob Bennett (R-UT) said a congressional investigation is unnecessary “unless there’s any indication of safety and soundness issues, and I have heard no one make those allegations. Let’s leave it to the regulators.” (*The Hill*, Michael S. Gerber and Sarita Chourey, 6/17/03)
- “There’s already going to be a rush of [investigations],” said Senator Christopher Dodd (D-CT). “Before deciding what to do, we have to know what happened first. I applaud the examination and from that we ought to decide whether or not...new procedures should be in place to regulate Freddie Mac more closely...I’ve been supporting Freddie Mac and Fannie Mae...I think they’ve done a good job.” (*The Hill*, Michael S. Gerber and Sarita Chourey, 6/17/03)
- Senator Tim Johnson (D-SD) and Senator Debbie Stabenow (D-MI) said Congress needed to keep an eye on the investigations but expressed support for Fannie and Freddie. “It’s important to use our rules to ask questions like we would to any other entity. But I think [they] are absolutely an important part of our housing system,” Senator Stabenow said. Senator Johnson dismissed the need yet for a full-fledged congressional inquiry. He stated, “We should be certain [Freddie Mac’s financial statements] are up to date and have a familiarity with the problems that exist.” (*The Hill*, Michael S. Gerber and Sarita Chourey, 6/17/03)
- “This news may drive home the point that there’s no federal guarantee,” said Congressman Barney Frank (D-MA), senior Democrat on the House Financial Services Committee. (*Associated Press*, Marcy Gordon, 6/10/03)
- Congressman Paul Kanjorski (D-PA), the ranking minority member of the House Capital Markets Subcommittee said “Freddie Mac’s revelations raise serious issues that merit careful attention and examination.” He added, “However, we will need more time and information to evaluate the complete implications of this news” and that Congress should “move deliberately and judiciously in conducting its oversight responsibilities.” (*Statement by Cong. Kanjorski*, 6/10/03)

- “It’s obviously apparent that there’s going to be mandatory registration at the SEC,” said Congressman Donald Manzullo (R-IL). “It’s too much money to be unaccounted for formally.” (*CQToday*, 6/11/03)
- The negative publicity surrounding Freddie has opened renewed interest on Capitol Hill to take a closer look at Fannie and Freddie. “I would imagine it needs further scrutiny,” said Congressman Michael Castle (R-DE). (*CQ Today*, 6/13/03)
- “Fannie Mae and Freddie Mac have successfully lowered the cost of home ownership for all Americans, and we don’t want to throw the baby out with the bath water,” said Congressman Spencer Bachus (R-AL). (*CQ Today*, 6/11/03) “Richard Baker had been warning us for months that there was a lack of oversight structure,” said Congressman Bachus. “If anything, this is an affirmation of much of his concerns.” (*CQToday*, 7/13/03)
- The resignations and dismissal show that Freddie can regulate itself, said Congresswoman Stephanie Tubbs Jones (D-OH), who opposes further legislation. “It signals to me a company that knows it is time to make a change,” she said. “I continue to believe that further regulation is not necessary.” (*Bloomberg*, 6/10/03)

OFHEO criticized for its weak regulation of Fannie & Freddie

Disclosure of accounting problems at Freddie came just days after OFHEO gave the company a clean bill of health regarding its earnings restatement

White House speeds up new OFHEO Director nomination

OFHEO criticized for its weak regulation of Fannie & Freddie

- “Although OFHEO has taken steps to strengthen its oversight of Fannie and Freddie in recent years, it has long been the butt of jokes in Washington, where critics view the agency as underfunded and lacking the will to crack down on either of the two companies...the decade-old agency didn’t take its first regulatory action against Fannie or Freddie until last year, and it didn’t know about the latest issue with Mr. Glenn until it was informed of them by the company,” reported the *Wall Street Journal*. An OFHEO spokeswoman said its staff has been “intimately involved” in the continuing restatement process since January. (*Wall Street Journal*, Patrick Barta, Greg Ip and John McKinnon, 6/10/03)
- Sources said that OFHEO was not aware that the three top Freddie executives were leaving the company until all of them were out the door. OFHEO scrambled over the weekend to produce a response, firing off a letter to the board on June 7 outlining additional changes it would like to see. (*American Banker*, Rob Garver, 6/10/03)

Disclosure of accounting problems at Freddie came just days after OFHEO gave the company a clean bill of health regarding its earnings restatement

- OFHEO June 4 released its 2003 annual report to Congress on its examination of Fannie and Freddie – the day Freddie’s alleged employee misconduct came to light. (*Reuters*, Mark Felsenthal, 6/9/03) OFHEO said it was “satisfied” that Freddie’s Board of Directors and management are “taking the appropriate action” in its restatement of earnings for the past three years. OFHEO’s annual report noted that Freddie’s “reaudit and delay in 2002’s statements is prudent and appropriate under the circumstances. In addition, management and its Board of Directors initiated efforts in 2002 to enhance the expertise and controls in the area of financial accounting and operational control.” OFHEO said its examiners evaluated Freddie’s management and the Board of Director’s actions and found these to be “enhancements.” OFHEO concluded, “We remain satisfied that the Board of Directors and executive management are taking the appropriate action.” (*OFHEO annual report to Congress*, June 2003, page 38) A copy of the complete report can be found on OFHEO’s web site at: www.ofheo.gov (*OFHEO press release*, 6/4/03)
- Falcon said the references in the annual report weren’t meant to address results of the company’s forensic investigation into the accounting problems; that investigation was still going on at the time. But Falcon declined to answer about when OFHEO learned of the problems, saying that was inappropriate. (*Wall Street Journal*, John McKinnon and Michael Schroeder, 6/11/03)

White House speeds up new OFHEO Director nomination

- After months of delay, the White House hurried to the US Senate June 12 the formal nomination of former JP Morgan vice president Mark Brickell to be the new director of OFHEO, according to one Washington insider. Hill aides said they expect to receive the paperwork necessary to process Brickell’s nomination, which was made in February, as early as this week. (*Dow Jones Newswire*, Dawn Kopecki, 6/12/03) “We hope that the Senate acts quickly on his nomination,” an administration official said. (*Reuters*, 6/12/03) Senate Banking Committee spokesman Andrew Gray said Senate Banking Committee Chairman Richard Shelby (R-AL) will schedule the nomination hearing as soon as Brickell completes a committee questionnaire and some other related materials. “When they have their paperwork completed with the committee, we move expeditiously to process nominees,” Gray said, adding that a hearing could be scheduled within the month. (*Dow Jones Newswire*, Dawn Kopecki, 6/12/03) Administration officials in February asked for the resignation of the current Clinton appointee OFHEO Director Armando Falcon, who had more than a year remaining in his term. (*Associated Press Online*, Marcy Gordon, 6/12/03)

Freddie's generous compensation packages for departing officials questioned

Brendsel and Glenn to receive multi-million packages; Freddie will not reveal Clarke's package

Freddie releases only a portion of its employee compensation information

OFHEO says it must first approve the compensation packages

Freddie prohibits Brendsel & Glenn from selling their restricted stock or exercising options and prevents the vesting of certain options and restricted stock

Freddie's actions taken at the request of OFHEO and concerns raised by the SEC

Brendsel disputes OFHEO's authority to block his pay

Congressmen Baker and Ose urge OFHEO not to approve the packages until investigations are complete and request a list of officers at Freddie and Fannie that are subject to OFHEO's review

Timing of Glenn's firing raises questions

Brendsel and Glenn to receive multi-million packages; Freddie will not reveal Clarke's package

- Freddie had earlier refused to divulge details about its former executives' compensation packages. Under pressure from lawmakers and regulators, Freddie posted on its Web site June 10 some compensation details for Brendsel and Glenn, but not the complete terms of its executives' employment agreements. (*Associated Press*, Marcy Gordon, 6/12/03) A company official said Parseghian wanted to meet in person with OFHEO to present the numbers before releasing them to the public. (*Wall Street Journal*, Patrick Barta, 6/12/03)
- Freddie disclosed that Brendsel will receive a severance package valued at \$24 million – despite being asked to resign. In addition, Brendsel will be able to exercise vested stock options valued at \$14.2 million. Glenn, who was fired from the company, will be able to exercise vested stock options at \$5.3 million. Those options also have dividends of \$2.1 million and \$862,000 respectively. The company said it did not reveal Clarke's package because he wasn't one of the five most highly paid executives and therefore wasn't subject to disclosure rules. (*Wall Street Journal*, Patrick Barta, 6/12/03)
- Brendsel will receive two years of salary totaling \$2.36 million, plus a pro rated bonus for part of the year in the amount of \$860,417. Brendsel was also allowed to accelerate the vesting on thousands of shares of restricted stocks and options, valued at about \$21.1 million, on top of the \$14.2 million of vested, but unexercised stock options. Brendsel won't receive a bonus for 2002, but that was by his own order. Earlier this year, Brendsel announced that senior executives at the company would have their 2002 bonuses held in abeyance until the

company's accounting problems were resolved. Brendsel will receive health care and life insurance for five years. (*Wall Street Journal*, Patrick Barta, 6/12/03)

- Glenn will not get severance pay because of his termination, but he will have the opportunity to earn \$6 million by exercising his stock options. Because he was fired, he forfeited stock grants that the company valued at \$11 million. (*Washington Post*, Carrie Johnson, 6/12/03) He also forfeited a severance package that would have included salary for two years as well as a pro rated bonus for the portion of 2003 that he was employed. (*Wall Street Journal*, Patrick Barta, 6/12/03) It was unclear whether Freddie also reduced Glenn's retirement in connection with his termination. If not, Glenn will likely get an annual pension of between \$187,500 and \$225,000 based on the company's proxy statement. (*Dow Jones Newswire*, Dawn Kopecki, 6/11/03)
- Freddie's spokesman David Palombi declined to put a price on health and life insurance coverage both Brendsel and Glenn will receive. Because Brendsel retired, he will also collect annual pension payments of hundreds of thousands of dollars, according to Freddie's most recent proxy statement. (*Washington Post*, Carrie Johnson, 6/12/03)
- Freddie did not disclose the terms of Clarke's package, who resigned as chief financial officer, making matters worse in the eye of some governance specialists. "It is the sin of omission," said Ric Marshall, chief executive of the Corporate Library, a firm that rates governance. "In the current environment, they must come forth, and they must do it quickly." He added, "proper conduct would be to disclose everything that could possibly be disclosed." (*Reuters*, Brendan Intindola, 6/12/03)

Freddie releases only a portion of its employee compensation information

- Under pressure from lawmakers and regulators, Freddie posted on its Web site June 10 some compensation details for Brendsel and Glenn, but not the complete terms of its executives' employment agreements. At a time when lavish executive pay is under scrutiny in the aftermath of corporate scandals, Brendsel – despite his forced resignation - will receive a multi- million compensation package. (*Associated Press*, Marcy Gordon, 6/12/03)

OFHEO must first approve the compensation packages

- OFHEO reminded Freddie that it must still approve the deals. "Please be reminded that these benefits are not to be provided until we have completed our review and a determination is provided to you," said OFHEO Director Armando Falcon in a letter to Freddie. (*OFHEO Director Armando Falcon letter to Freddie*, 6/12/03)
- Freddie's spokesman David Palombi said Freddie will comply with OFHEO "in all respects," but added that the pay arrangements are not special packages, but part of contracts negotiated with the company. "The options and restricted stock in question were earned by the executives during their long tenure at Freddie Mac pursuant to contracts signed in 1990. They are not in any way severance agreements or gold parachutes," he said. (*Reuters*, Brendan Intindola, 6/12/03)

- OFHEO has the power to approve severance payments, but the executives signed contracts in September 1990, before Congress chartered OFHEO, so the regulators' authority is somewhat unclear. (*Washington Post*, Carrie Johnson and Kathleen Day, 6/10/03) Some experts said they doubt OFHEO has much real authority to overturn compensation arrangements. But in a telephone interview, Falcon insisted that OFHEO has clear powers to block excessive termination payments. "Whatever they're leaving with we have to approve," he said. (*Wall Street Journal*, Patrick Barta, Greg Ip and John McKinnon, 6/10/03) "We have the authority to review, approve or reject all three termination packages," OFHEO spokeswoman Stefanie Mullin said. (*Dow Jones Newswire*, Dawn Kopecki, 6/12/03)
- A spokeswoman for OFHEO said the agency was "in the process of reviewing" the packages and couldn't comment on whether it would challenge the numbers. (*Wall Street Journal*, Patrick Barta, 6/12/03)

Freddie prohibits Brendsel & Glenn from selling their restricted stock or exercising options and prevents the vesting of certain options and restricted stock

- Freddie announced June 16 that in response to direction from OFHEO and concerns raised by the SEC, the company has "taken steps" to prohibit any trading in restricted stock or the exercise of stock options owned by Brendsel or Glenn "while the OFHEO review of the employment agreements is completed and the SEC's concerns are satisfied." In addition, Freddie has also "taken steps" to prevent "any of their unvested stock options, restricted stock and restricted stock units from vesting." (*Freddie press release*, 6/16/03) Freddie did not say if it would cut off Brendsel's two years of salary totaling \$2.36 million. (*CBS MarketWatch*, 6/16/03)
- Freddie issued a statement clarifying that the company did not provide additional stock or cash to Brendsel or Glenn. "There were no additional grants upon their departure; these are not golden parachutes," stated Mike Hager, Freddie's Senior Vice President of Human Resources. "The options and restricted stock in question were earned by the executives during their long tenure at Freddie Mac pursuant to contracts signed in 1990... These executives will not get a nickel more than their 1990 agreements provide. OFHEO will decide if they get a nickel less," said Hager. (*Freddie press release*, 6/16/03)
- Freddie defended the generous compensation by noting that the "significant value" of Brendsel's stock options and restricted stock "reflects the fact that he was an employee for 21 years. Freddie Mac's stock value has increased over 1,500 percent during the 13 years we have been a public company." The company also cited a review by an independent human resources consulting firm, Hewitt Associates, which found that the packages were "well within the range of current market practice and comparable to arrangements for senior officers at other major financial institutions." (*Freddie press release*, 6/16/03)
- Freddie actually froze the assets of the three former Freddie executives last week, according to Freddie's spokesman David Palombi, but issued a press release detailing its actions to provide "clarifying information" after criticism from members of Congress and others about the severance pay. (*Washington Post*, Kathleen Day, 6/17/03)

Brendsel disputes OFHEO's authority to block his pay

- Brendsel, disputing OFHEO's authority to block his pay, hired high-profile criminal defense attorney John Dowd (heads the criminal litigation group for Akin Gump Strauss Hauer & Feld LLP), to represent him in several ongoing investigations. In a letter sent to Freddie June 16, Dowd argued that OFHEO "is utterly without legal authority" and that "Mr. Brendsel's agreement is not subject" to OFHEO's "review or approval." Dowd wrote, "Accordingly, we expect you and your colleagues and your company will comply with your obligations." Brendsel spokesman Robert Bork said OFHEO doesn't have the legal authority to block the packages since it was created in 1992, two years after the original employment agreements were signed in 1990. (*Dow Jones Newswire*, Dawn Kopecki, 6/16/03; *Wall Street Journal*, Patrick Barta, 6/17/03)

OFHEO disputes Brendsel's claim

- OFHEO Counsel Stephen Blumenthal disagreed with Brendsel's claim. "We respectfully disagree" and "if necessary, at the appropriate time and forum, we will debate the issue," he said. (*Dow Jones Newswire*, Dawn Kopecki, 6/16/03)

Congressmen Baker and Ose urge OFHEO not to approve the packages until investigations are complete and request a list of officers at Freddie and Fannie that are subject to OFHEO's review

- In a June 12 joint letter to OFHEO, Congressman Baker and Congressman Doug Ose (R-CA) "strongly advised" OFHEO to prevent the packages from being disbursed until all investigations are complete and requested that OFHEO provide a written response by June 18 describing the actions OFHEO has taken. (*American Banker*, Rob Garver, 6/13/03) "We are deeply concerned that these individuals would be granted these types of severance packages before their roles in the current troubles of Freddie Mac are clearly understood." (*Associated Press*, Marcy Gordon, 6/13/03; *CBS Market Watch*, David Weidner, 6/12/03)
- In a June 17 follow-up letter to OFHEO, Congressman Baker and Ose expressed concern that Brendsel is challenging OFHEO's authority to review his compensation package and requested that OFHEO provide them with a list of officers at Fannie and Freddie that are subject to OFHEO's disclosure regulations. The lawmakers wrote, "We are troubled that OFHEO's authority to review termination packages is now in question. OFHEO's regulation authorizing review of termination packages may serve as an incentive for best practices at the enterprises by those individuals subject to such regulation." The lawmakers requested that OFHEO "review employment status of all officers – both of Freddie Mac and Fannie Mae – subject to termination package review by the agency to determine the viability of this deterrent to poor management practices." The lawmakers would like a list of these officers no later than June 20, 2003. "Finally, we reiterate our request that no termination package (or any portion thereof) be disbursed prior to the completion of a full investigation by all relevant federal government entities, including the Securities and Exchange Commission and the US Attorney's Office." (*Joint letter by Congressmen Baker and Ose to OFHEO Director Armando Falcon*, 6/17/03)

Timing of Glenn's firing raises questions

- “Looks like David Glenn...got fired at the right time,” reported Matthew Goldstein with *The Street.com*. Just days before Glenn was fired his rights to 13,130 shares of restricted company stock had vested. In Glenn's case, the vesting period for the restricted shares occurred on June 5, one day after Freddie officials discovered he allegedly altered pages and in several personal diaries – the event which led to his firing. A Freddie official said Glenn got the 13,130 shares as part of a routine stock-vesting program for top corporate executives. Of the 13,130 shares that vested, 4,228 were sold back to the company by Glenn to pay the taxes associated with the vesting process, which left him with a total of 8,802 shares. In total, Glenn potentially leaves Freddie with 259,599 shares of Freddie's stock, some of which includes a mixture of both restricted and nonrestricted shares.
- An official from Freddie said Glenn sold the 4,228 shares back to Freddie's treasury department, as part of a routine procedure that the other company officials follow to pay taxes associated with registering restricted stock. The official noted that at least six other Freddie officials had similar tax-related sales on June 5, when their restricted stocks vested. “However, if Glenn had been fired on June 4 – when the diary alterations were first discovered – he probably wouldn't have been entitled to any of the vested shares,” reported Goldstein.
- A person familiar with stock sales by corporate insiders said it was not uncommon for executives to sell stock back to a company to cover the tax burden associated with either registering stock, or exercising an option to buy stock. “But the timing of the stock sale could create a problem for Freddie officials because it came a day after the company determined that Glenn was not fully cooperating with its internal investigation.” (*The Street.com*, Matthew Goldstein, 6/10/03)

Renewed calls for GSE reform

Support grows for efforts to strengthen oversight of Fannie & Freddie

Support grows for Shays-Markey bill that would remove Fannie & Freddie's SEC exemption

AEI's Peter Wallison suggests Fannie & Freddie should be privatized and broken into smaller companies to compete against each other

CBA supports reform of Fannie & Freddie

CAGW calls for greater regulation over the GSEs and removing Fannie & Freddie's SEC exemption

Futures Industry Association says Freddie developments highlight need for derivatives watchdog

FM Policy Focus says Freddie developments demonstrate that Fannie & Freddie's "regulatory framework is deeply and fundamentally flawed"

OFHEO says regulatory system is working

Freddie says no need for legislation

Freddie's news could increase support for calls to strengthen oversight of Fannie & Freddie

- Freddie's news could increase support for moving OFHEO under the Treasury Department with enhanced powers and budgetary treatment similar to those enjoyed by other federal financial regulators. (*Dow Jones Newswire*, John Connor, 6/10/03) Congressman Baker said the latest problems at Freddie are further evidence that OFHEO is overmatched by Fannie and Freddie. The Congressman wants to establish a regulatory agency with a new name, greater powers, and better funding within a different agency – perhaps the OTS, Treasury Department, or HUD. (*Wall Street Journal*, John McKinnon, 6/13/03)

Freddie's news could increase support for Shays-Markey bill

- As a GSE, Fannie and Freddie are exempt from SEC regulations that apply to all other publicly traded companies. Freddie's management shakeup amid an accounting review of Freddie's earnings has prompted renewed calls for legislation sponsored by Congressman Chris Shays (R-CT) and Ed Markey (D-MA) that would remove Fannie and Freddie's exemption from SEC regulations, that apply to all other publicly traded companies.
- "This news clearly demonstrated OFHEO's failure as a regulator and the need to get Freddie Mac and Fannie Mae to fully register with the Securities and Exchange Commission," said Congressman Shays. "For the sake of investor confidence, it is critical to get these two publicly-traded companies to comply with the same securities laws as every other publicly-traded company in the country." (*Congressman Shays press release*, 6/11/03)

- The Shays/Markey bill – the “Leave No Securities Behind Act” (HR 2022) – would hold Fannie and Freddie to the same federal securities registration and disclosure requirements as all other publicly traded companies. The bill is similar to a bill (HR 4071) that the Congressmen introduced in the 107th Congress.
- Although HR 4071 did not become law, it was widely credited with stimulating debate on the issue that ultimately led to an agreement reached last July by the SEC, OFHEO, and Treasury in which Fannie and Freddie agreed to voluntarily register their common stock and file quarterly annual reports with the SEC (in compliance with the Securities Exchange Act of 1934), while remaining exempt from registering their debt and MBS with the SEC under the 1933 Securities Act. Fannie filed for the first time its Form 10 registration statement and initial Form 10-K annual report with the SEC in March 2003, providing its audited financial statements for 2002. Freddie has yet to file registration statements with the SEC. It had planned to do so in June when it finished restating earnings from previous years, but now says the earnings restatements may be delayed until later in the third quarter.
- Observers say, “the turmoil surrounding Freddie Mac has increased the likelihood that it and Fannie Mae will be forced to reveal more about their mortgage-backed securities,” reported the *American Banker*. Fannie late June 12 began to give investors the same six pieces of information on outstanding mortgage securities that it began making available in April for new loan pools. A week earlier Freddie began offering the same information on new and existing issues. The information, however, is only available for entire pools or big slices of them. Some investors would like loan-level information, data on borrower demographics, points paid at origination, how much documentation borrowers submitted, and debt-to-income ratios. Aides to Congressman Shays and Markey dismissed arguments made by Fannie and Freddie and others that the new data or any delays in issuance caused by new registration requirements could harm liquidity and increase mortgage interest rates. (*American Banker*, Jody Shenn, 6/16/03)
- In a June 10 “Dear Colleague” letter, Congressman Shays and Markey noted, “This week’s news clearly demonstrates the harm in exempting Freddie Mac and Fannie Mae from the federal securities laws. It also illustrates why voluntary disclosure, of the type preferred by these two companies, is meaningless.” (*Dear Colleague letter by Congressman Shays and Markey*, 6/10/03)
- Betsy Hawkings, Congressman Shays’ chief of staff, said: The fact that the second and fourth largest [financial services companies] are unregulated is receiving publicity. If that issue is being publicized, the more likely it is that the bill will receive support.” She added, “I do think the shake-up has renewed calls for legislation.” (*The Hill*, Michael S. Gerber and Sarita Chourey, 6/17/03)

Freddie’s news could create more support for Cong. Stark’s bill to repeal Fannie & Freddie’s state and local income tax exemption

- Congressman Pete Stark (D-CA) introduced legislation in May seeking to repeal Fannie and

Freddie's state and local income tax exemption. In an interview with the *Washington Post*, Congressman Stark said he was motivated to introduce the legislation by the Shays-Markey bill. "Somebody once said that these companies are tremendously arrogant, and I think it's true," he said. "I think there may be some legislation to bring these guys to heel, and I'm hoping to piggyback on that." Fannie and Freddie's tax exemption saved Fannie and Freddie an estimated \$1.2 billion in 2000, according to a CBO study. (*Washington Post*, Carrie Johnson and Charles Duhigg, 6/14/03)

AEI's Peter Wallison suggests Fannie & Freddie should be privatized and broken into smaller companies to compete against each other

- "I think everyone, even within Freddie was surprised," said Peter Wallison, resident fellow at the American Enterprise Institute. "This doesn't sound like your usual difference of principle, this sounds like the possibility of manipulation." Wallison said Freddie's problems could shake the confidence of the housing market if they are deeper than what has already been reported. "We are in a situation where a serious crisis of confidence could have a major systemic impact," he said. (*The Baltimore Sun*, Bill Atkinson, 6/10/03) Wallison said the time has come to consider a radical change. He suggested cutting Freddie's ties with the government, ending its special privileges, and breaking it up into five or six companies that would compete with each other to offer the same services. (*MSNBC*, Martin Wolk, 6/11/03)
- In a June 16 commentary in *The Financial Times*, Wallison believes Freddie needs more competition. "The stunning news that Freddie Mac...has dismissed its top three officers should alert all of us to the fact that the health of the US economy is hostage to the decisions of only two corporate managements [Fannie and Freddie]." Citing the immense size of Fannie and Freddie and their dominant position in the housing market (owning or guaranteeing almost half of all US mortgages), he noted, "If either of them were unable to buy mortgages from banks or other loan originators, and thus keep money flowing to the residential mortgage market, the housing market would be seriously disrupted - and with it the entire US economy." He noted, "Thus, the shake-up at Freddie raises the question of whether these two giant mortgage companies could create what regulators call 'systemic risk' - the risk that a problem in one area will spread to and adversely affect the economy as a whole."
- "Needless to say, this would not be a problem if the secondary market for conventional conforming mortgages - the middle-class mortgages Fannie and Freddie alone are able to buy and sell - consisted of more than two gigantic companies."
- Wallison believes it is "unrealistic" to strengthen regulation over the GSEs. "As we saw in the savings and loan crisis of the early 1990s, efforts by a regulatory agency to limit an industry's growth are often met by congressional opposition if it will adversely affect consumers' housing costs. If OFHEO, or any other future 'tougher' regulator, finding risky activities at Fannie and Freddie, tried to restrict their growth, it would be strongly opposed both by the two companies themselves and by those in Congress who might fear the resulting rise in home mortgage rates. This is opposition that no regulator is able to resist. The likelihood, then, is that Fannie and Freddie will be allowed to continue their risky course - as

were the savings and loans - because Congress does not want to face the short-term result of a regulatory crackdown.”

- “In the end, the only protection against the systemic risk associated with Fannie and Freddie is their full privatisation - their complete separation from their many government benefits - so that a fully competitive and diversified secondary mortgage market will develop in the US. But since they will still be too big to fail, privatisation must be accompanied by their break-up into five or six smaller mortgage groups. In that way, if one or more of them encounters financial difficulties there will be no collapse in residential lending and no systemic effect on the general economy.” (*Financial Times Commentary*, Peter Wallison, 6/16/03)

CBA supports reform of Fannie & Freddie

- The Consumer Bankers Association (CBA) supports reform. The group does not have specific proposals but wants the issue revisited. “We’re looking at tighter regulation – regulation aimed at keeping them on their fundamental mission of being a secondary market without expanding into the extraneous areas that they have shown a desire to do,” said Fritz Elmendorf, a CBA spokesman. He said that there’s a conflict between the public policy mission and a GSE’s responsibility to shareholders. (*CBS Market Watch*, David Weidner, 6/12/03)

CAGW calls for greater regulation over the GSEs and removing Fannie & Freddie’s SEC exemption

- Citizens Against Government Waste (CAGW) reacted strongly to Freddie’s situation. Freddie’s announcement illustrates a need for more oversight and disclosure from the GSEs. The accounting scandals at Enron and Worldcom have shown that no financial institution is immune to financial volatility. “Freddie Mac, and its sister company Fannie Mae are much larger [than Enron and Worldcom] and their activities are more systematically integrated into our economy,” CAGW Special Projects Director Leslie K. Paige said. “However, government sponsored enterprises (GSEs) are still exempt from Securities and Exchange Commission (SEC) registration and disclosure rules and therefore are exempt from the kind of transparency that is crucial to maintaining confidence in our capital markets,” she said. “Enron and WorldCom could end up looking like a cakewalk if there is more trouble ahead.”
- “Fannie Mae and Freddie Mac are just too big to be outside of the standard disclosure regime and maybe these events will galvanize attention to the issue,” Paige continued. Paige called on Congressional Members to support the Shays-Markey bill (HR 2022), that would require full GSE disclosure to the SEC. “Every member of Congress who cares about accountability in corporate governance, economic prosperity and minimizing the potential for a bailout of either GSE ought to be getting on board with H.R. 2022,” she said. “It is only a first line of defense, but it is still essential for homeowners, taxpayers and shareholders. The recent internal problems might only be the tip of the iceberg; without full disclosure, we will never know the true state of the GSE’s finances.” (*CAGW press release*, 6/9/03)

Futures Industry Association says Freddie developments highlight need for derivatives watchdog

- Freddie’s management shake-up over the way it accounted for derivatives, highlights the

need for a watchdog for the entire futures and options industry, John Damgard, President of the Futures Industry Association told *Reuters*. Damgard recommended better cooperation between regulators to ensure that the reputation of derivatives was protected. “If derivatives are proved to be part of the problem at Freddie Mac at all, then they are to do with accounting and disclosure, not likely the instruments themselves,” he said. “We need a regulator that covers the entire industry. Despite better regulation in recent years, there remains a need for more effective regulation.” (*Reuters*, George Matlock, 6/10/03)

FM Policy Focus says Freddie developments demonstrate that Fannie & Freddie’s “regulatory framework is deeply and fundamentally flawed”

- In response to comments about recent Freddie developments, FM Policy Focus Chairman J.C. Watts declared “the entire regulatory framework of Fannie Mae and Freddie Mac is deeply and fundamentally flawed. The situation must be changed before there are further surprises.”
- "The fact is, in addition to enjoying massive government subsidies, Fannie Mae and Freddie Mac have never been subject to the regulatory requirements of private companies. Their regulatory agency, OFHEO, has been ineffective.”
- Watts recommended the following: (1) a strong single regulator; (2) new OFHEO director; (3) Shays-Markey legislation; and (4) Congressional hearings on the regulatory structure of the GSEs, including capital adequacy, mission compliance and systemic risk. (*FM Policy Focus press release*, 6/9/03)
- “If the GSEs were unimpeded, they would take over every kind of financial services product available to consumers and there would be no private enterprise competition,” said Gerald Friedman, founding chairman of FM Watch [now FM Policy Focus]. However, investment bankers’ interests differed sharply from their usual allies in the corporate elite. “The investment bankers always sat on the sidelines,” he said. “Fannie and Freddie are some of their most important customers. They felt they would be penalized.” (*Financial Times*, Gary Silverman and David Wells, 6/11/03)

Other comments

- Financial consultant, Bert Ely, said, “The problem is we don’t know how bad it is...We know lots of heads rolled, which says it’s serious, but because we haven’t seen the restatement of any results or those for 2003, we don’t know how serious it is.” (*Financial Times (London)*, Peronet Despeignes and Gary Silverman, 6/10/03) “I think this has to add to the impetus for Shays-Markey...It certainly improves its outlook, without a question,” said Ely. (*Dow Jones Newswire*, Dawn Kopecki, 6/9/03)
- Jeff Lebowitz, a former director of strategic planning for Fannie, is not concerned about the leadership changes. “Freddie Mac periodically goes through a cleansing, not always in the management, but every six or seven years something major happens,” said Lebowitz, who now heads Morteck, a firm that analyzes market and business trends. “I think that’s what going on here.” He saw little to no consumer impact. (*Chicago Tribune – Reuters*, Philip

Klien and Mary Umberger, 6/10/03)

- The management shake-up has seriously damaged the company's credibility, said J. Edward Ketz, associate professor at accounting at Pennsylvania State University. In the accounting scandals the last few years, "any time someone's been ousted, it's always been a problem sign." (*New York Times*, Alex Berenson, 6/10/03)

OFHEO says regulatory system is working

- OFHEO's spokeswoman Stefanie Mullin, said the swift action by OFHEO "demonstrates that the system is working the way it should." (*Washington Post*, Carrie Johnson and Kathleen Day, 6/10/03)

Freddie says no need for legislation

- Freddie's new CEO and President, Gregory Parseghian, says Freddie can reform itself, warning that changes in GSE legislation or regulation could harm US homebuyers. (*Financial Times (London)*, Peronet Despeignes and Gary Silverman, 6/10/03)
- One Freddie lobbyist said the companies were not worried about any legislative fallout from Freddie's recent actions. "We feel good about these hearings because this is a great story to tell – the restatements [of earnings] are going to be up, not down," the lobbyist said. "There was one guy that did some bad stuff, and the board was very aggressive in handling that the way Congress envisioned boards doing when it passed Sarbanes-Oxley – this was an example of the way things should work." (*The Hill*, Michael S. Gerber and Sarita Chourey, 6/17/03)

Rating agencies reaffirm Freddie's senior debt ratings, but may downgrade some of the company's ratings

Moody's, S&P, and Fitch re-affirm Freddie's senior debt ratings, but Moody's and Fitch may downgrade some of Freddie's ratings

Egan-Jones Ratings agency, which doesn't recognize the GSEs' implied government guarantee, puts Freddie's ratings on "developing watch"

Egan-Jones suggests that other rating agencies' ratings are influenced by fees they receive from the GSEs

Moody's, S&P, and Fitch re-affirm Freddie's senior debt ratings, but Moody's and Fitch may downgrade some of Freddie's ratings

- Moody's and Fitch may downgrade some of Freddie's ratings. Moody's Investors Service said it may downgrade Freddie's A-minus financial strength rating, which represents the rating agencies' opinion of intrinsic safety and soundness. Fitch Ratings said it may downgrade Freddie's AA subordinated debt and preferred stock ratings. Moody's, Fitch, and

S&P all affirmed Freddie's top investment grade long-term and short-term senior ratings. (Reuters, Lynn Adler, 6/9/03)

- Standard & Poor's June 9 affirmed Freddie's top-investment grade ratings of AAA and A1-plus on its unsecured senior debt. S&P noted in a statement, "In and of itself, the management change is not a material rating factor given the experience of the newly appointed executives." (Reuters, 6/9/03)
- Moody's Investors Service June 9 said it is reviewing Freddie's A- financial strength rating for potential downgrade. Moody's, however, affirmed Freddie's AAA senior debt, Aa2 subordinated debt, Aa3 preferred stock and Prime-1 short-term ratings. Moody's affirmations reflect, in part, Freddie's GSE status. "Freddie Mac's status as a US Government-Sponsored Enterprise (GSE) in the economically and politically important housing finance business is also an enduring and positive creditworthiness factor." Moody's "does not believe that Freddie Mac's fundamental credit strengths have been impaired by the firm's recent management changes, and related accounting and control matters. According to Moody's the review of Freddie Mac's A-minus financial strength rating reflects the potential uncertainty regarding potential regulatory actions related to internal controls and governance-related matters." Moody's noted that "in the absence of any unanticipated or material disclosures, Moody's believes it is likely that Freddie Mac's A- financial strength rating...will be confirmed." Moody's anticipates concluding its review before the end of 2003. (Moody's statement, 6/9/03)
- Fitch Ratings affirmed Freddie's long-term senior debt rating of AAA and short-term rating of F1+. However, Fitch has placed the subordinated debt of AA and preferred stock rating of AA on Rating Watch Negative. "Central to Fitch's ratings assessment of Freddie Mac's senior debt and short-term ratings is its US Government charter and GSE status, exceptionally strong operating platform, and leading position within the domestic housing finance system. Fitch expects the US government's commitment to the residential housing system to remain intact in the future, thereby solidifying the implied support of the GSEs." Fitch believes that Freddie's new management "has the commitment and ability to complete the process of confronting the firm's accounting and internal control weaknesses. However, the continuing uncertainty could raise additional issues in the future." (Business Wire, 6/9/03)

Egan-Jones Ratings agency, which doesn't recognize the GSEs' implied government guarantee, puts Freddie's ratings on "developing watch"

- Investor-compensated rating agency Egan-Jones Ratings released a statement affirming its single-A rating on Freddie but put Freddie's ratings on "developing watch." Unlike the three major rating agencies, Egan-Jones does not recognize the GSEs' implied government guarantee and therefore does not assign the company its top rating. "Freddie Mac is not triple-A credit and is under increasing pressure because of its high leverage," Egan-Jones said in a written statement. "The replacement of its top three officers and restating its financials are not comforting." Egan-Jones noted that many investors assume the government will back Freddie's debt, even though Freddie's prospectuses state otherwise. "Most financial failures

start with a false assumption,” Egan-Jones said in a written statement. “In the case of FRE [Freddie Mac], the assumption is that the federal government will support FRE if it gets into trouble.” (*Dow Jones Newswire*, Michael Mackenzie and Christine Richard, 6/9/03)

Egan-Jones suggests that other rating agencies’ ratings are influenced by fees they receive from the GSEs

- Sean Egan, the head of Egan-Jones Ratings Co, said “Freddie Mac itself has no clear idea if the accounting is appropriate. “The fact that the rating agencies could come out just a few hours with their affirmations is somewhat surprising.” Egan suggested that S&P’s fast action is tied to fees that all issuers pay S&P every time their debt gets rated. Egan’s firm, by contrast, is paid by investors. Over the years, S&P and Moody’s have rated more than \$500 billion in Freddie’s debt and earned tens of millions of dollars in fees. S&P and Moody’s don’t disclose individual fees. “Freddie’s status as a government-sponsored enterprise has considerable influence on our rating,” said Lesia Bates Moss, a senior vice president at Moody’s who covers Freddie. The rating agencies dismiss suggestions that their ratings are influenced by the fees. (*Wall Street Journal*, Robert Frank, Randall Smith, Deborah Solomon and John Wilke, 6/12/03)

Market reaction is mixed

Four out of five major underwriters of Freddie’s securities continue rating Freddie a “buy”

Bear Stearns, Banc of America, Merrill Lynch, AG Edwards, US Bancorp Piper Jaffray, Wachovia Securities, and S&P’s equity analysts downgrade their ratings of Freddie

Grant’s Interest Rate Observer says this could mean the end of Freddie’s “imperial” phase

Market reaction

- Freddie’s management shake-up helped tumble the stock market and push the yield of Treasury bonds to near 45-year lows, as investors fled mortgage-backed securities. Fannie and Freddie stocks fell sharply. Shares of other mortgage lenders and housing stocks also fell, and the dollar weakened. (*Reuters*, Philip Klein, 6/9/03)
- US stocks fell June 9, putting the brakes on a three-month rally after Freddie’s management shake-up sent shivers across financial markets. Freddie’s news fueled fears about its stability and a housing market that has propped up the US economy. A profit warning from Motorola, hurt technology stocks as it reminded investors corporate earnings have not yet bounced back. Freddie and Motorola were down 16 percent and 2.3 percent, respectively on June 9. The Dow Jones Industrial Average (DJI) fell 82.79 points, or 0.91 percent, to 8,980 on June 9. The Standard & Poor’s 500 Index (SPX) slipped 11.83 points, or 1.20 percent, to 975.93. The Nasdaq Composite Index (IXIC) shed 23.45 points, or 1.44 percent, to end at 1,603.97. Two stocks fell for each one that rose on the NYSE and Nasdaq. Volume was active, with 1.30 billion shares traded on the Big Board and about 1.85 billion on the Nasdaq. (*Reuters*, Haitham Haddadin, 6/9/03)

- Shares in Freddie fell June 9 \$9.61 (16 percent) to \$50.26 (from June 6's close of \$59.87), ranking as the NYSE's most-active issue and its biggest percentage loser. Fannie's lost \$3.63 or 4.8 percent to \$71.31. (*Reuters*, Haitham Haddadin, 6/9/03) Freddie's stock price closed at \$50.47 on June 13. (*Wall Street Journal*, Dawn Kopecki, 6/15/03)
- On June 9, US Treasurys yields slid close to the 45-year lows touched last month in the wake of Freddie's actions. The benchmark 10-year note climbed 20/32 to 102-29/32 from a yield of 3.28 percent, down from 3.35 percent on June 6. The 30-year bond rose 31/21 to 116-16/32 for a yield of 4.35 percent, down from 4.40 percent on June 6. (*Reuters*, Mike Miller, 6/9/03)
- Freddie's announcement drove the US dollar down June 9 against the euro and Japan's yen. The euro ended June 9 near \$1.1713, up from its June 6 close of \$1.1697. The dollar bought 118.18 yen, down from 118.62 in late June 6 trading. Gold prices initially rose with the euro and concern about Freddie, but eventually succumbed to profit-taking. (*Reuters*, Mike Miller, 6/9/03)
- A plunge in Freddie's stock on June 9 hit big mutual funds that hold large stakes in Freddie. The \$58.7 billion Fidelity Magellan fund and the \$20 billion Putnam Fund for Growth and Income are among the top mutual fund owners of Freddie, according to the fund's most recent portfolios. Another big shareholder is the \$4.3 billion Clipper Fund which ranked Freddie as its biggest holding at the end of the first quarter. Several fund managers who hold Freddie's stock told *Reuters* they want more information about the shake-up but said they were somewhat reassured that Freddie still appears likely to revise its prior earnings upward. Freddie's stock is a popular holding in large-company US value and blend funds, appearing in about half of the roughly 935 of these portfolios, according to financial research provider Morningstar. (*Reuters*, Martha Graybow, 6/9/03)
- Freddie's news caused widespread selling on June 9, which widened agency yield spreads dramatically over Treasurys. Yield spreads widened from some of the tightest levels in at least six years. Freddie's debt underperformed Fannie's debt on June 10. Freddie's 10-year reference notes widened six basis points to yield about 33 basis points more than Treasurys, while Fannie notes of that maturity widened about three basis points, traders said. June 9 was one of the biggest daily yield swings in government agency debt since Treasury Under Secretary Gary Gensler in 2000 suggesting removing the GSEs' line of credit to the Treasury. (*Reuters*, Lynn Adler, 6/9/03)
- Because agency debt, such as Fannie and Freddie's debt, is a mainstay of US assets held by foreigners, market observers say any new scandal could prompt investors to take flight from US financial instruments, weighing further on an already beleaguered US currency. Freddie Mac's issues are "not causing earthquakes in the foreign exchange market, but it's definitely drawing some notice," said Andrew Delano, a currency strategist at research firm IdeaGlobal in New York. (*Chicago Tribune – Reuters*, Philip Klien and Mary Umberger, 6/10/03)

- The “nightmare scenario” for the “wobbly” US dollar, “is if the chaos deepens at Freddie Mac, spooking global investors into offloading their monstrous holdings of high-yielding agency debt.” Demand, dominated by Asia, for these fixed-income instruments stands for a substantial portion of portfolio flows into the US. In the first three months of this year, agency debt made up 36 percent of the \$135 billion in foreign money headed for US assets and markets, according to Westpac’s research. Asia bought more than \$32 billion of agency debt, which offers a higher yield than Treasuries. Purchasers of agencies made up 58 percent of total European money flows into the US in the year to April, compared with 26 percent of the UK’s total, 5 percent of Japan’s, and 53 percent of non-Japan Asia’s. (*Australian Financial Review*, Corinne Lim, 6/11/03) Federal Reserve custody holdings of US agency debt for foreign central banks increased to an all-time high of \$188 billion on June 4. Other foreign investors bought about \$49 billion of agency debt in the first quarter of 2003, a 46 percent increase from the same period last year, according to the Treasury Department. Last year, foreigners bought \$192 billion of agencies, far overshadowing the \$83 billion of US government debt purchased. (*Reuters*, Lynn Adler and John Parry, 6/9/03)
- *Reuters* reported that US mortgage rates so far have been unaffected by the news at Freddie. “I have seen no indication there is an interruption (to the mortgage-lending process). At the moment there is non discernible change to the guy on the street,” said Keith Gumbinger, HSH Associates, a firm which surveys mortgage lenders. *Reuters* also reported that Freddie’s news has not hurt the refinancing wave and that mortgage rates have continued to dropped to new lows. (*Reuters*, Aleksandrs Rozens, 6/11/03, 6/14/03)
- Stock investors, unnerved by news of Freddie’s management shake-up amid an accounting investigation, bailed out of Freddie shares amid earnings worries and fears of more embarrassing revelations ahead. Stock investors are concerned the news could give government regulators reason to rein in Fannie and Freddie’s growth, which could reduce the GSEs’ earnings and make profits more volatile. There is also a concern that the GSEs could be in a weaker position to fend off any intrusions by regulators. However, bond investors mostly believe that Freddie will emerge little damaged and much more conservative in its operations, making the company’s bonds a safer bet. Reflecting the guarded optimism among bondholders, Freddie’s bond prices fell, though not as steeply as the company’s shares did. And traders in the mortgage-backed securities market also seemed to take the news in stride. (*Wall Street Journal*, Gregory Zuckerman and Aaron Lucchetti, 6/10/03) While Freddie’s shares plunged nearly 20 percent in the week to Thursday (June 12) – before rebounding over 7 percent Friday (June 13), Freddie’s bellweather bonds hardly buckled. On June 12, Freddie’s 4 ½ senior debt due January 2013 traded at 36 basis points over comparable Treasuries, up from 32 basis points on June 6 and 27 basis points the previous Friday (June 6). No effect was seen in the mortgage-backed securities issued by both Fannie and Freddie. (*Barron’s Online*, Jennifer Ablan, 6/16/03)
- The Freddie issue could not have come at a worse time and could prove embarrassing for Chancellor Gordon Brown, who has been advocating US-style mortgages introduced in the UK. (*The Daily Telegraph (London)*, Simon English, 6/10/03; *The Times (London)*, 6/10/03)

Freddie completes record two-day debt buyback – Fannie & Freddie buy back record amounts

- Fannie and Freddie are buying record amounts of their own debt to balance their books and, in Freddie's case, to signal its willingness to pump money into the vulnerable market. Fannie and Freddie together will repurchase up to nearly \$13 billion of their agency debt this week. "We're going to provide a backstop bid," said Ray Powers, senior director of global funding at Freddie. "We believe in the product, we believe in the levels and we stand as a ready buyer at these levels." Freddie completed a two-day debt buyback, worth a record \$9.8 billion, and dwarfing Freddie's prior record buyback of \$3.2 billion in March. Fannie announced June 11 that it bought back \$2.76 billion of its securities, its fourth repurchase this year and a record amount for the agency. (*Reuters*, Lynn Adler, 6/12/03)
- Freddie also proceeded with a planned \$1 billion sale in 5-year notes, its first deal in the wake of the investigation.

Four out of five major underwriters of Freddie's securities continue rating Freddie a "buy"

- Four out of five major underwriters of Freddie's securities continue rating the company a "buy." Of the five Wall Street firms that cover Freddie and received the biggest piece of its mortgage-backed securities business in 2002 and 2003, only one firm downgraded the stock this week. UBS, Credit Suisse Group's CSFB, Citigroup, and Lehman Brothers all reiterated their ratings for Freddie. Bear Stearns, which ranked second in mortgage-backed securities business with Freddie, lowered its stock rating for Freddie to "peer perform" from "outperform." (*Wall Street Journal*, Robert Frank, Randall Smith, Deborah Solomon and John Wilke, 6/12/03)
- The bullish analyst reports highlight a lucrative relationship between Freddie and the major Wall Street firms that issue research on the company. Freddie is one of the largest payers of fees to Wall Street, selling more than \$435 billion in mortgage-backed securities and \$109 billion of credit agency debt since January of 2002, according to Thomson Financial. (*Wall Street Journal*, Robert Frank, Randall Smith, Deborah Solomon and John Wilke, 6/12/03)
- UBS, which ranked number one in underwriting Freddie's mortgage-backed securities over the past year and a half, reiterated its "buy" position on Freddie. While fees for such issues aren't disclosed, UBS was the lead manager on \$84 billion of Freddie's mortgage securities in 2002 and 2003, according to Thomson Financial. UBS also ranked number one in fees paid for Freddie's agency debt since January 2002, according to Thomson Financial. (*Wall Street Journal*, Robert Frank, Randall Smith, Deborah Solomon and John Wilke, 6/12/03) Gary Gordon, an analyst at UBS, called Freddie's management changes "a positive." "Greg Parseghian is the key employee at the company, and certainly one of the best interest-rate risk managers in the country," Gordon said. "We would be surprised if this view isn't shared by [Wall] Street and by most knowledgeable investors." (*Associated Press*, 6/9/03)
- Citigroup, another top underwriter of Freddie's mortgage-backed securities, maintained in its June 9 research report its "outperform" rating on Freddie but raised its risk rating on the stock to high from medium and lowered its price target to \$65 a share from \$70. (*Wall Street Journal*, Robert Frank, Randall Smith, Deborah Solomon and John Wilke, 6/12/03)

- Lehman Brothers analyst Bruce Harting, another top underwriter, reiterated his “1-Overweight” rating on Freddie’s stock, advising investors “not to over-react” to the news and “this is NOT” putting Freddie into the same downward spiral as other troubled companies over the past two years. (*Wall Street Journal*, Robert Frank, Randall Smith, Deborah Solomon and John Wilke, 6/12/03) “The business model is still intact,” Harting said. “This is a lag to the real issue and the real issue was announced six months ago.” Harting said that while the restatement involves the way Freddie accounted for derivatives, it does not mean that its risk-hedging strategy itself was ineffective. (*Reuters*, Philip Klein, 6/9/03) “I think the market is understandably upset with the news today, but I think stepping back a bit we see an overreaction here,” he said. “I think once the reaudit is completed and we know what the income-statement readjustment will be, the stock will go back to the \$60 level,” he said. Lehman is maintaining its buy rating on Freddie, and its projection of earnings per share of \$5.80 for the year. Harting said the management changes are for the better. However, one outgrowth of the issues surrounding Freddie is likely to be calls for more scrutiny of Fannie and Freddie. (*Dow Jones Newswire*, Frank Byrt, 6/9/03)
- Bear Stearns, a large underwriter of Freddie’s MBS, downgraded Freddie on June 9 to “peer perform” from “outperform,” citing concerns over “the board’s indications that there were very serious problems uncovered during the reaudit process,” and it said that uncertainty over earnings and accounting issues remains. (*Dow Jones Newswire*, Frank Byrt, 6/9/03)

Bear Stearns, Banc of America, Merrill Lynch, AG Edwards, US Bancorp Piper Jaffray, Wachovia Securities, and S&P’s equity analysts downgrade their ratings of Freddie

- Banc of America securities on June 9 downgraded its investment rating of Freddie to “neutral” from “buy,” citing the removal of Freddie’s top executives. “Until there is some clarity on the issues surrounding FRE, we believe the stock will stay under pressure,” said analyst Caren Mayer in a research note. (*Reuters*, 6/9/03)
- Merrill Lynch downgraded its investment rating of Freddie to “neutral” from “buy,” citing concerns about Freddie’s internal audit being delayed and a possible impact on the volume of banks’ sales of mortgages to Freddie. (*Associated Press*, Marcy Gordon, 6/10/03) Merrill Lynch analyst Michael Hughes said the delay in the company’s issuing of restated results was also a “clear negative.” Hughes said, however, that the replacements are an improvement, and should be viewed “positively” by Wall Street. (*CBS Market Watch*, 6/9/03) Hughes stated, “Issues surrounding the re-audit have gotten worse. There is still one key unknown – what was altered or missing from Mr. Glenn’s personal records.” (*The Daily Telegraph (London)*, Simon English, 6/10/03)
- Standard & Poor’s equity analysts downgraded Freddie’s stock to “avoid” from “hold.” “We are downgrading the shares of Freddie Mac...based on recent events that give us cause for concern,” said Erik Eisenstein, Mortgage Companies, Thrifts, and GSEs’ Equity Analyst, Standard & Poor’s. “We believe the company has been less than forthright in giving investors adequate information regarding recent investigations. Only yesterday, the company

disclosed that an SEC inquiry had been in effect since January. We are concerned about the magnitude of the investigation and its potential political fallout.” (*PR Newswire*, 6/12/03)

- AG Edwards’ Jeff Hopson downgraded Freddie’s investment rating to “hold” from “buy.” (*CBS Market Watch*, 6/9/03)
- US Bancorp Piper Jaffray cut their buy recommendation on Freddie’s stock. (*Dow Jones Newswire*, Dawn Kopecki, 6/9/03)
- Wachovia Securities analyst Joel Houck June 12 lowered his rating on Fannie and Freddie to “market perform” from “outperform” on a higher chance that regulators will increase the amount of capital the companies are required to hold against their liabilities. Their government charters allow Fannie and Freddie to hold less in reserves than commercial banks. (*Bloomberg*, 6/12/03)

Other comments

- “The accounting restatement does not alter the economics nor our long-term view of [Freddie Mac], and we continue to rate the stock ‘outperform’ based on long-term fundamentals,” Sanford Bernstein analyst Kevin St. Pierre told clients in a June 12 research report. (*Chicago Tribune/Reuters*, 6/11/03)
- “There’s a huge question mark as to what’s in the diary,” said Bill Rubin, an analyst at Dreyfus Corp., which owns Freddie shares. “You have the company saying there’s no further accounting issues, then the top three executives are let go? So it’s got to be serious as to what’s in the diary, yet not related to accounting.” (*Bloomberg*, 6/9/03) “Investor confidence is being further rattled by the degree of uncertainty about the political risks inherent in Freddie Mac’s situation after the management changes and ongoing audit,” said Rubin. (*Reuters*, 6/12/03)
- “The fallout to the consumer is unknown at this point, but there could be some,” said James Bianco, president of Bianco Research in Chicago. In a worst-case scenario, there’s the potential for a government bailout, Bianco said. Another possibility might be higher mortgage rates. “We’re not talking a lot...maybe a quarter of a percent. To be fair, nobody knows what is really going on yet,” he said. Bianco said he is concerned that as the earnings restatement continues to be postponed, more questions will arise. “This meaningless little squabble among accountants is starting to turn into something more meaningful.” (*Chicago Tribune – Reuters*, Philip Klien and Mary Umberger, 6/10/03) “Freddie Mac was telling us consistently that [the restatement] was just a technical argument among accountants,” said Bianco. “But there are a lot of investigations going on for something that they tell us isn’t that serious.” (*Financial Times (London)*, Peronet Despeignes and Gary Silverman, 6/10/03)
- “This is bad,” said Paul Miller, an analyst at Friedman, Billings, Ramsey. “We’ve always felt there was more here [restatement of earnings] than met the eye, and it turns out that’s exactly what it is.” (*Reuters*, Philip Klein, 6/9/03) “Freddie Mac has always sold themselves as being the most conservative company, and this is an embarrassment,” said Miller. “You

don't know what's going on in there.” (*Bloomberg*, 6/9/03) “You do not want to have a credibility issue in today's environment,” said Miller. Because Freddie uses complex derivatives to manage its mortgage portfolios, Freddie Mac is difficult for investors and analysts to understand, so the honesty of management is crucial, he said. “There's a lot going on with the company that you cannot evaluate,” Miller said, calling Freddie a “black box” for investors. (*New York Times*, Alex Berenson, 6/10/03) The management shake-up doesn't change Freddie or the mortgage underwriting industry's solid fundamentals, but there are near-term concerns about accounting issues, said Miller. He hasn't changed his outperform rating on Freddie as he expects the company will have an earnings-growth rate of about 15 percent longer-term. For now, however, there are concerns about the clarity of financials given Freddie's statements about its review of several accounting issues. He is advising clients “to be careful” and is suggesting that the time to buy is after the audit is completed and the earnings restated. Miller said he doesn't own shares of Freddie and his firm doesn't provide it with financial services. (*Dow Jones Newswire*, Frank Byrt, 6/9/03)

- “Sell agencies now,” said Andy Brenner, head of institutional fixed income at Investec Ernst & Co. “We are seeing huge buying in Treasuries as customers are selling agencies and buying Treasuries in wholesale amounts,” he said. “The brewing scandal at Freddie Mac with the CEO and CFO resigning, no one knows the degree of the scandal...but look for things to get worse before they get better.” (*Reuters*, Lynn Adler, 6/9/03)
- “Freddie Mac is raising a confidence issue. Having the management team of a company that's been a good performer leave over questions of accounting opens up old wounds over corporate governance and accounting,” said John Caldwell, chief equity strategist at McDonald Financial Corp., part of KeyCorp of Cleveland. “This is an ongoing overhang on the market.” (*Reuters*, 6/9/03)
- “The ripple effects could be pretty big,” said Peter Boockvar, strategist at Miller Tabak & Co. “It is shaking up some confidence in the financials since it's a stock that had a good reputation for its finances and its conservatism.” (*Reuters*, Haitham Hadadin, 6/9/03)
- “Given that the top three officers were fired in the midst of an audit, the likelihood something is amiss is greater than not,” said W. Shannon Reid, who manages the \$1 billion Evergreen Strategic Growth Fund. The fund sold its 267,721 shares of Freddie in the first quarter, according to Bloomberg data. (*Bloomberg*, 6/11/03)
- “I don't think there is fundamentally a basis for a systemic risk event. But perceptions or fear could mimic such an event,” said Sadakichi Robbins, global head of fixed-income trading at Bank Julius Baer. (*Reuters*, 6/11/03)
- Fannie and Freddie are “so politically well-connected and so powerful they've been able to resist change,” said Henry Cavanna, president of Cavanna Capital Management in Stamford, CT. “Now that they've tripped, they're very vulnerable.” (*Bloomberg*, 6/10/03)
- Keefe Bruyette and Woods analyst Vincent Daniel told clients in a research report, “Without

question [June 9] was one of the most bizarre days in my career as a sell-side analyst.” However, he added, “Despite the plethora of issues, we believe this is a solid time to either increase or start building a position in Freddie Mac’s stock.” Reasons Daniel cited for bullishness include a strong new CEO, Greg Parseghian; the fact that recent announcements don’t affect the firm’s economics; and “on every valuation metric,” Daniel emphasized, “the stock is dirt cheap.” (*CBS Market Watch*, Greg Morcroft, 6/10/03)

- “There is likely to be some nervousness because of the several investigations being launched and some jockeying among agencies,” J.P. Morgan analyst Vivek Juneja wrote in a July 12 research note. “The risk would be if anything additional were found that would be embarrassing to the new management team.” Juneja, though, maintained his “overweight” rating on Freddie, citing valuation. (*Reuters*, Philip Klein, 6/12/03)
- “There’s been a lot of speculation that things at Freddie Mac were too good to be true. But we’re also concerned with the overall housing sector. Because it’s been so strong for the past three years, there’s going to be fear anytime something goes wrong with these [mortgage] companies,” said Brian Pears, head of equity trading at Victory Capital Management. (*Reuters*, Vivian Chu, 6/9/03)
- “It’s not going to change our current strategy at all,” said Laura Clark, portfolio strategist at Payden & Rygel, a Los Angeles investment firm that oversees about \$48 billion in assets. “We’re happy to sit tight and wait for more details, because if anything, this could present opportunities.” (*Reuters*, Lynn Adler, 6/9/03)
- “Anytime you have a management shake-up of this magnitude at the top level it’s disconcerting to the investor,” said Elisa Herr, agency strategist at HSBC. “At the same time, Greg Parseghian is well known and highly respected and known to be an individual of great integrity. And he comes from Wall Street,” she added. “That goes a long way to instill confidence, or recreate confidence and assuage worries.” Freddie’s shake-up is not going to be good in the days ahead, no matter what it is today [June 9],” said Herr. “But do I think it’s a reason to bail out of the debt? No. I think the company’s safe and sound, and I do trust that.” (*Reuters*, Lynn Adler, 6/9/03)
- In a *CNNFN* interview Greg Valliere, Charles Schwab Washington Research Group, called the Freddie issue potentially “very damaging.” He stated, “I think the headlines will be nasty. But the bottom line to us is this: Even though there’s headline risk, will this result in tougher legislation? Will it result in tougher regulations? The answer is probably no...Because I don’t see a mood on The Hill that, despite a lot of people who like to grandstand and get on TV, I don’t see a mood on The Hill that would really go after either of these GSEs in a punitive way. They provide a lot of liquidity, a lot of mortgages, and have tremendous political clout. Even the Bush Administration is quite positive towards them. So while “The Wall Street Journal” will have editorials, very critical, I don’t see legislation or regulation that could really hurt the company.” (*CNNFN: Market Call with Rhonda Schaffler*, CNNFN anchor, 6/10/03)

- The manager of the world’s biggest bond fund said he was not worried about the unfolding drama at Freddie. “Freddie Mac is a conservative agency relative to other agencies, perhaps the most conservative of them all,” said Bill Gross, who steers PIMCO’s (Pacific Management Co.) \$323 billion of bond assets, in an interview with *CNNfn*. “There’s no reason to panic in terms of Freddie Mac’s situation.” (*Reuters*, John Parry and Aleksandrs Rozens, 6/11/03) To be sure, Freddie has a problem in terms of restatement of its income, and perhaps there is more news to follow, but there certainly isn’t a “crisis of confidence,” he said. (*Dow Jones Newswire*, Benjamin Pedley, 6/11/03)
- Fears that a disruption at Freddie could stifle the home construction market by making primary mortgage lenders skittish about granting mortgages buckled the housing sector, analysts said. But others thought the fears were overblown and premature. “That’s going down a long, long road,” said Parker/Hunter Inc. analyst Lawrence Horan. “There’s probably some selling that could happen because of an accounting scandal. But the government, the Federal Reserve or the US Treasury would find something to replace it with and patch it over. This market is really quite robust in an otherwise struggling market.” (*Reuters*, 6/9/03)

Grant’s Interest Rate Observer says this could mean the end of Freddie’s “imperial” phase

- The market’s faith in the willingness of the government to bail out Freddie has grown with the size and complexity of the company and its associated risks. “It is too big to fail, and too big to even look like it could fail,” said James Grant, of *Grant’s Interest Rate Observer*, a Wall Street newsletter. Nonetheless, said Grant, this week’s news could mean the end of Freddie’s “imperial” phase. Inevitably, “it will be given less rope to hang itself and ourselves.” That means it will have to be absorbed back into the government, or, far more likely, be forced to operate more like an ordinary company. (*The Economist*, 6/14/03)

Fannie is forced to defend itself

Fannie urges caution in making changes to the regulation of the GSEs

Fannie defends its derivatives accounting

Fannie tells employees to not discuss issues Freddie’s accounting scandal

Fannie urges caution in making changes to the regulation of the GSEs

- “We are confident that any actions that policymakers consider would be undertaken with a desire to support the housing market...and the vital role Fannie Mae plays,” said Fannie’s senior vice president for communications Chuck Greener. He noted that changing Fannie or Freddie’s charters could destabilize the housing market. “We do not believe Congress will take action to change our status, or in any way impair our mission or operations in serving the US housing finance system,” he said. Greener noted that unlike Freddie, Fannie has begun

registering its common stock with the SEC. (*Reuters*, Mark Felsenthal, 6/13/03; *Associated Press*, Marcy Gordon, 6/13/03)

Fannie defends its derivatives accounting

- Fannie's Chairman Franklin Raines said he is confident his company has done its derivatives accounting properly, citing its registration with the SEC and the special attention and resources the firm devotes to the subject, reported *Dow Jones Newswire*. Raines pointed out that Freddie is the only housing-related GSE to have filed its fully audited and management certified financial statements with the SEC. Raines further provided a detailed explanation for the way Fannie accounts for its derivatives. The information was posted on Fannie's web site. (*Dow Jones Newswire*, John Connor, 6/13/03)

Fannie tells employees to not discuss issues Freddie's accounting scandal

- Fannie has told its employees to not discuss Freddie's accounting scandal and requested that its employees not send out any e-mail about the issue or discuss the issue with others outside the company. "We've told them not to speculate or discuss the issues," a Fannie spokeswoman said, adding, "We don't know what's going on, and we want to be very careful – for legal reasons." (*National Mortgage News Daily web site*, 6/16/03)

Bios of Freddie's new management & Freddie's Board of Directors

- The new CEO and President, Gregory Parseghian, 42, has been Executive Vice President—Chief Investment Officer for Freddie since June 2002. In that position, he was responsible for the firm's \$600 billion retained mortgage portfolio, debt and mortgage-backed securities issuance programs and asset/liability risk management strategies. Before his appointment to Executive Vice President, Parseghian was senior vice president and chief investment officer since 1996. Prior to joining Freddie, Parseghian was a managing director of Salomon Brothers, a partner of BlackRock Financial Management, and a managing director of First Boston Corporation. (*Freddie press release, 6/9/03*)
- The new Chief Operating Officer, Paul Peterson, 53, was previously Executive Vice President—Single Family, responsible for overseeing all Single Family division operations, a post to which he was appointed in December 1999. Peterson has been with Freddie for 14 years, and his previous posts include senior vice president of the Servicer division. Prior to joining Freddie, Peterson was president of Market Street Mortgage Corporation and chairman and CEO of CalAmerica Savings and Loan. (*Freddie press release, 6/9/03*)
- The new Chief Financial Officer, Martin Baumann, 55, was appointed Executive Vice President—Finance in March 2003. As EVP—Finance and Chief Financial Officer, Baumann is responsible for accounting, corporate planning, taxation, shareholder relations, and market and operating risk oversight. Prior to joining Freddie, Baumann served as partner, deputy chairman of the World Financial Services Practice, and as global banking leader for PricewaterhouseCoopers. (*Freddie press release, 6/9/03*)
- The new non-executive Chairman of the Board, Shaun O'Malley, 67, is the Retired Chairman of Price Waterhouse LLP, where he was Chairman and Senior Partner from 1988 to 1995. He was also President of the Financial Accounting Foundation from 1990 to 1992 and served as a Chair of the Accounting Profession's Public Oversight Board's Panel on Audit Effectiveness in 1999-2000. O'Malley has served on Freddie's Board since 2001 and is Chair of the Board's committee overseeing the restatement process. (*Freddie press release, 6/9/03*)

Freddie Mac Board of Directors
(As of June 9, 2003)

*Five of the 16 directors appointed by the President of the United States

Shaun O'Malley

Non-executive Chairman

Freddie Mac

Retired Chairman

Price Waterhouse, L.L.P.

An accounting and consulting firm

Philadelphia, Pennsylvania

Additional facts:

- Joined Freddie board in September 2001; named non-executive chairman June '03
- After retiring from PW in late 90s, was appointed to chair the Public Oversight Board's panel on Audit Effectiveness – testified several times before Congress on audits, both before and after Enron
- Member of the Accounting Hall of Fame

Cesar B. Cabrera*

President

Rocca Development Corporation

A residential and commercial development company

San Juan, Puerto Rico

Additional facts:

- Appointed to Freddie board by President Bush in 2001
- Serves as Real Estate representative on the Board

Michelle Engler*

First Lady

State of Michigan

Lansing, Michigan

Additional facts:

- Appointed to Freddie board by President Bush in 2001
- Husband John Engler was Governor of Michigan from 1991-2001
- Engler is an attorney who specialized in bankruptcy law at firms in TX and MI
- Serves as the Community Interest representative on the Board

George D. Gould

Vice Chairman

Klingenstein, Fields & Company, L.P.

An investment management firm

New York, New York

Additional facts:

- Former Under Secretary of Treasury, served from 1985-1989 (Reagan Administration)
- Has history in investment banking

David J. Gribbin III*

Managing Director

Clark & Weinstock

A lobbying firm

Washington, DC

Additional facts:

- Appointed to Freddie board by President Bush in 2001
- Long-time associate of Vice President Cheney – worked for him from 1978-89; served as the Assistant Secretary of Defense for Leg. Affairs from 1989-93; VP of Gov't Relations for Halliburton Oil 1996-2000
- Director of Congressional Relations for the Bush-Cheney transition
- Clark & Weinstock also represents Freddie as a public policy client
- Chairman of the Prosperity Project
- Serves as the Public representative on the Board

Thomas W. Jones

Chairman & Chief Executive Officer

Global Investment Management and Private Banking Group

A division of Citigroup, Inc.

New York, New York

Additional facts:

- Long career in investments and asset management at Citi, Travelers, Salomon Smith Barney, TIAA-CREF, John Hancock Mutual

Henry Kaufman

President

Henry Kaufman & Company, Inc.

An economic and financial consulting and investment management firm

New York, New York

Additional facts:

- Former managing director at Salomon Brothers
- Former economist at the Federal Reserve Bank of New York

Martin L. Leibowitz

Vice Chairman and Chief Investment Officer

TIAA-CREF

New York, New York

Additional facts:

- Joined Freddie board in December 2002
- Former executive at Salomon Brothers

John B. McCoy

Retired Chairman & Chief Executive Officer

BANK ONE CORPORATION

A financial institution

Columbus, Ohio

Additional facts:

- Left BankOne in December 1999

Ronald F. Poe

President

Ronald F. Poe & Associates

A mortgage banking company

White Plains, New York

Additional facts:

- Also on Board of Directors of the Freddie Mac Foundation
- Former Board Member of the Mortgage Bankers Association

William D. Powers*

Powers, Crane & Company, LLC

A lobbying and consulting company

Albany, New York

Additional facts:

- Appointed to Freddie board by President Bush in 2001
- Former Chair of the New York Republican State Committee
- Resigned from party position in 2001 and formed Powers, Crane & Co. which quickly became a lobbying force in NY politics
- Serves as the Mortgage Lending representative on the Board

Stephen A. Ross

Professor

Massachusetts Institute of Technology

Cambridge, Massachusetts

Additional facts:

- Joined Freddie board in December 1998
- Also principal of Roll & Ross Asset Management Corp.
- Written extensively on corporate finance
- Developed pricing models that have become standard at major security firms

Donald J. Schuenke

Retired Chairman

Northwestern Mutual Life Insurance

A life insurance company

Milwaukee, Wisconsin

Additional facts:

- Also serves on the Board of the Freddie Mac Foundation
- Former Chairman of Nortel Networks

Christina Seix

Chairman, Chief Executive Officer & Chief Investment Officer

Seix Investment Advisors, Inc.

An investment management firm

Woodcliff Lake, New Jersey

Additional facts:

- Joined Freddie board in 1990
- Started own firm in 1992 after years of working at Mackey's in Fixed Income

Catherine Stepp*

Vice President

First Stepp Builders, Inc.

A residential homebuilder

Racine, Wisconsin

Additional facts:

- Appointed to Freddie board by President Bush in 2001
- Elected to WI State Senate as a Republican in November 2002; serves on the Economic Development Committee and Housing Committee
- Serves as the Homebuilding representative on the Board

William J. Turner

Co-Manager

Signature Capital, Inc.

A venture capital investment firm

Winnetka, Illinois

Additional facts:

- Joined Freddie board in 1990
- Long history of working in venture capital

June 17, 2003

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