

Fannie Mae regulator to sue former executives

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By Patrick Rucker

WASHINGTON, Dec 7 (Reuters) - Fannie Mae's top regulator said on Thursday it plans to file a lawsuit by year-end against former executives of the nation's largest mortgage finance funder in connection with a massive accounting scandal.

The Office of Federal Housing Enterprise Oversight had previously said it was preparing to sue former Fannie chief executive Franklin Raines and other top officials.

An OFHEO spokeswoman said on Thursday the regulator would act by the end of the year. James Lockhart, the OFHEO chief, has said the executives should return compensation that was tied to hitting earnings targets.

Also on Thursday, a former Fannie employee claimed the company ignored improper bookkeeping as it restated years of flawed earning.

Thomas Inman, who worked on Fannie's accounting team, said the company mishandled a \$50 million accounting error he identified early this year.

"I was uncovering things that were totally unexpected to management," Inman said. "They did not want to know and I'm not sure if they were taking (these issues) to OFHEO."

Inman has filed a complaint with the Labor Department under a whistle-blower provision of the Sarbanes-Oxley law, said his attorney Michael Kohn.

In a statement on Thursday, Fannie Mae said the accounting flaws Inman discovered were all handled properly and that he was terminated last spring due to "poor performance."

On Wednesday, Fannie Mae reported a smaller-than-expected \$7.9 billion in losses on investments held through the end of 2004. Regulators had demanded that Fannie perform the restatement after discovering gross accounting errors.

The company at one time expected those losses would top \$10.5 billion, and Fannie said Thursday Inman's claims "in no way impact" the soundness of the restatement.

Inman reported his experiences to OFHEO in the last two weeks, his attorney said. A spokeswoman for OFHEO said the regulator "takes seriously" any allegations against the company but could not comment on "confidential meetings."

Raines and other executives like Timothy Howard, the former chief financial officer, wrongly massaged earnings for years in order to trigger bonuses, OFHEO said in a special examination finished in May.

According to the OFHEO report, of Raines' \$90 million compensation between 1998 and 2003, over \$52 million was tied to earnings per share targets.

The report said that of Howard's \$30 million compensation in those years, over \$16.5 million was tied to those targets.

The regulator also said chief business officer Robert Levin, current CEO Daniel Mudd, and former vice-chair Jamie Gorelick had pay tied to flawed earnings and accounting.

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