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## Fannie Mae to Restate Results by \$6.3 Billion Because of Accounting



Ken Cedeno/Bloomberg News

Franklin D. Raines, left, and J. Timothy Howard in 2004.

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**NOTES OF SCANDAL**

By [ERIC DASH](#)

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**Fannie Mae**, the largest buyer of American mortgages, said yesterday that it would reduce its earnings by \$6.3 billion to correct several years of accounting problems in one of the nation's biggest financial scandals.

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Linda Spillers for The New York Times

Daniel Mudd, Fannie Mae's chief, in his Washington office last winter.

Federal regulators, meanwhile, said they planned to file a lawsuit before the end of the year in an effort to recover millions of dollars from Fannie Mae's former top two executives, whose bonuses were tied to the manipulated earnings. Franklin D. Raines, the former chairman and chief executive, and J. Timothy Howard, who had been chief financial officer, were ousted from the company in December 2004, and investigators have laid much of the blame on their shoulders.

"We will file charges within the next couple of weeks," James B. Lockhart III, director of the Office of Housing and Enterprise Oversight, said in a brief interview yesterday. "Unfortunately, the legal process is very cumbersome."

A lawyer for Mr. Raines declined to comment, and a lawyer representing Mr. Howard did not return phone calls yesterday. A Fannie Mae spokesman also declined to comment.

The two moves are significant steps in the effort to clean up Fannie Mae — formally, the [Federal National Mortgage Association](#) — a company whose influence once reverberated through the corridors of Washington and Wall Street. Over the last two years, though, the company has been mired in scandal.

Federal investigators have searched through the company's records, leading the Securities and Exchange Commission and the Office of Housing and Enterprise Oversight, or Ofheo, to exact a \$400 million civil penalty in May. Members of Congress have jostled over the need for a more powerful regulator and for limits on the size of its mortgage portfolio, although a bill may not be passed until at least early in the new year.

"We continue to move ahead," Daniel H. Mudd, who succeeded Mr. Raines as Fannie Mae's chief executive in 2004, said in a statement.

In a filing with the S.E.C. late yesterday, Fannie said that errors related to the way it accounted for complex derivatives resulted in a \$7.9 billion loss after taxes — or about \$2.9 billion less than what the company had previously estimated. But Fannie Mae said it misstated earnings by \$6.3 billion when it worked through the financial statements from 2001 through the first two quarters of 2004, the last time it filed official results. Fannie Mae is still updating its financial statements from then — a process that Wall Street analysts and its regulator anticipate could take at least a year more.

The restatement is among the biggest for an American company, although it falls short of the \$11 billion correction taken by WorldCom when it wiped out its phony profits.

Mr. Lockhart said that Fannie was “making great progress.” Still, he noted that there was a long way to go. “They are putting a lot of hard work on getting the numbers out, but they show significant errors and do not even agree with their estimates.”

Analysts said, though, that the actual numbers were less important than the message they sent.

“It gives investors some confidence they are getting their act together from a financial perspective,” said Robert Napoli, an analyst with Piper Jaffray.

Ofheo may be facing a more difficult task than Fannie Mae as it prepares to try to recoup the many millions of dollars Mr. Raines and Mr. Howard received as a result of the improper accounting. Regulators have said that of the \$90 million paid to Mr. Raines from 1998 to 2003 at least \$52 million — more than half — was tied to bonus targets that were reached by manipulating accounting.

Ofheo is already trying to recover several million dollars in compensation from the former chief executive of a smaller government-connected lender, [Freddie Mac](#), which was involved in similar accounting improprieties. That case has been in legal gridlock for nearly three years.

“We are making progress, but it is taking very long,” Mr. Lockhart said yesterday.

Last month, Fannie Mae said it would pay Mr. Raines \$2.6 million in “deferred compensation” and other amounts to partly resolve a dispute that it violated his employment contract when he was ousted.

It is likely that both Mr. Raines and Mr. Howard will vigorously contest attempts to make them repay money, especially since Fannie Mae is footing their legal bills.

As for Fannie Mae, Ofheo has required the company to increase its capital reserves and limit its asset growth until it can certify that its financial statements are current. That strict oversight has hindered its ability to use its capital, such as paying its dividend or buying back shares.

Some lawmakers are seeking greater oversight. Congress has been locked in a debate over new legislation that would give Fannie Mae and Freddie Mac — the Federal Home Loan Mortgage Corporation — a more powerful regulator.

Yesterday, Representative Barney Frank, Democrat of Massachusetts, who is expected to head the House Financial Services Committee, said he thought that lawmakers could pass a bill “fairly early next year,” according to Bloomberg News. Others, including some House Republican aides, said they considered that overly optimistic.

The restatement was announced after the market closed yesterday. Earlier, shares of Fannie Mae rose 57 cents, or nearly 1 percent, to \$58.50. The stock once traded above \$77 before the scandal was disclosed in the fall of 2004.

Michael J. de la Merced contributed reporting.

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