Fannie Mae Continues To Dominate Industry News

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It�s like an old joke.

The bad news? You�re fired. The good news? Fannie Mae fired you.

Among other Fannie Mae news stories the past few days is one about the compensation former CEO Franklin Raines and former CFO J. Timothy Howard will be receiving after they were forced out of their jobs last week by Fannie Mae�s Board of Directors under pressure from the Office of Federal Housing Enterprise Oversight (OFHEO).

Fannie Mae, in a Form 8-K filing with the Security and Exchange Commission on December 27, outlined the compensation packages to which the two are entitled. While referring to Mr. Raines� �retirement� the filing states that, should the company pay bonuses for 2004 under its Annual Incentive Plan, that Mr. Raines will be entitled to consideration for a pro-rata share. Mr. Howard will be entitled for consideration for both 2004 and 2005.

Mr. Raines will receive monthly payments of $114,393 from the corporation�s pension plan for the rest of his and his surviving spouse�s life and, if he is allowed to make his retirement effective in June, 2005 as he has requested rather than immediately, that pension amount would rise to $116,300. Mr. Howard will receive estimated monthly payments of $36,071 from the plan. In addition, both men will receive lifetime medical and dental coverage for themselves, their wives, and any dependents under age 21 and corporation paid premiums on substantial life insurance policies. Mr. Raines� medical insurance premiums will be paid; Mr. Howard will have to pay at the reduced rates provided to all retirees.

In addition, as of the date his resignation was requested, Mr. Raines held vested and exercisable options to purchase a total of 1,628,071 shares of Fannie Mae common stock. The option price was exceeded by actual stock value by $5,545,270. In addition, Mr. Raines� �retirement� triggered an addition package of options to purchase some 380,000 shares at varying prices. The options are vested and will expire between May 2008 and January 2014. He may also be entitled to receive additional shares under the corporation�s Performance Share Program but no firm value figures were available.

Mr. Howard holds vested options that, if exercised immediately, would reap $4,395,864. Because Mr. Howard resigned, he will receive no further options nor will any additional options he already holds vest after January 31, 2005.

Mr. Howard is contesting the definition of his resignation and if successful, will receive his salary through June 30, 2007. This would result in additional payments of $1.7 million and continued free medical and dental coverage.

OFHEO has announced that it is reviewing the severance packages awarded to the two executives and there is a possibility that they may seek to have them formally terminated. This would prevent them from collecting any severance payments at all.

It is also possible that ongoing Securities and Exchange Commission and Justice Department investigations could result in criminal charges against the two if there is evidence that they knowingly produced false accounts. The SEC could also change them with civil fraud which might subject them to fines and/or ban them from serving as officers or directors of publicly held corporations. They might even have to pay back their bonuses.

In other related news, Fannie Mae is reported to be scrambling to raise at least $3 billion but maybe as much as $12 billion (depending on which analyst is speaking) to meet the demands of regulators that it increase its capital by June 30. This is necessary to replace some $9 billion in earnings that will probably disappear when the corporation restates, as ordered, its earnings for 2001 to 2004.

Fannie will probably pursue several avenues in raising this additional capital. The most palatable will be selling more preferred stock, but dividends to shareholders might be reduced or suspended or the company might sell part of its huge portfolio of mortgages.

Analysts are also starting to admit that all of Fannie Mae�s problems could impact consumers, albeit only slightly. If the corporation has less money to lend, it could drive up mortgage rates slightly, but it might also encourage increased activity from its competition.

In the meantime, Daniel H. Mudd, who had been Chief Operating Officer, has become interim CEO while the corporation seeks a permanent replacement for Raines. Mr. Mudd, a decorated retired Marine officer, is the son of former network television anchor Roger Mudd.

Fannie Mae�s investors are still holding the line. The stock was at $68.55 at mid-day Wednesday, down $1.24 from the previous day, but still above its 52 week low of $62.95 on October 1, shortly after word of the accounting scandal began to emerge.

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