FEDERAL HOUSING FINANCE AGENCY

NEWS RELEASE

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Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

Fannie Mae, Freddie Mac Executive Compensation Significantly Reduced from Pre-Conservatorship Levels

Washington, DC – FHFA Acting Director Edward J. DeMarco today detailed new executive management compensation programs for top executives at Fannie Mae and Freddie Mac. The programs were adopted by the Boards of Directors of Fannie Mae and Freddie Mac and approved by FHFA, in consultation with the Department of the Treasury as required by the Senior Preferred Stock Purchase Agreements.

The plans, announced in the Enterprises' 8-K filings today, significantly reduce compensation from the levels in place prior to conservatorship. On average, total compensation for executive officers at the two Enterprises for 2009 is down 40 percent from pre-conservatorship levels.

"Today Fannie Mae and Freddie Mac play a role in funding three-fourths of all new residential mortgages," said DeMarco. "Their ability to do so is the direct result of the actions taken by FHFA, placing the Enterprises into conservatorships, and the Treasury, providing ongoing financial support. Policymakers ultimately will need to determine the future of the Enterprises and the future structure of our housing finance system. As this debate progresses, it will be essential that the Enterprises continue to perform their current role. The Enterprises must attract and retain the talent needed to accomplish these objectives. We have worked with the Enterprises' boards and sought the guidance of the Special Master of TARP Executive Compensation, to develop competitive compensation packages that benefit from the structural standards created for the TARP-assisted firms," DeMarco said.

Since shortly before the conservatorships were put in place, eight of the then-top 11 executives at Fannie Mae have left the company, as have all of the four highest paid executives at Freddie Mac.

The new compensation packages utilize the same general structure of packages approved by the Special Master for TARP Executive Compensation for top executives at financial institutions that received exceptional TARP assistance. Executive compensation will consist of three elements: base salary; a performance-based incentive opportunity, and deferred salary.

> **Base Salary:** Salary scales were sharply reduced at both Enterprises in 2009. Beginning Jan. 1, 2010, further reductions will be made so that base salary for executive officers will not exceed $500,000 per year, except for five positions approved by FHFA. The exceptions are the Enterprises' CEOs and CFOs, and the COO of Freddie Mac (Fannie Mae has no COO). In contrast, before the conservatorships in 2008, the Enterprises had 16 officers with salaries above $500,000.

<u>Incentive Pay Based on Performance:</u> To the extent that performance measures are achieved, each executive may receive incentive payments targeted at one-third of the officer's total compensation.

<u>Deferred Salary:</u> To align the executives' interests with long-term value creation and financial stability, any remaining component of compensation will be paid over time in the form of deferred salary. Going forward, a portion of the deferred salary will be payable only if the Enterprise meets performance metrics, as determined by the Enterprise's Board, subject to FHFA's review. Deferred salary will generally not be paid to any executive officer who does not continue to work for the Enterprise. Exceptions to this rule will require approval by FHFA in consultation with the Treasury.

Deferred salary is designed to replicate the "stock salary" the Special Master has approved for executives at firms receiving exceptional TARP assistance. Because of the Enterprises' unique circumstances -- they are prohibited from providing corporate shares to employees – salary amounts payable over time will be denominated in cash.

The compensation plans restructure and take into account existing arrangements. Going forward, any amounts payable under existing "retention" agreements will only be paid on the basis of performance. In addition, the "deferred salary" component will generally not be payable unless the employee continues to perform in his or her role. In this way, the ongoing value of previously existing arrangements has been taken into account in determining the pay structures for 2009 and 2010 at the Enterprises.

The new structures provide immediate reform of pay practices not aligned with taxpayer interests. The new pay structures also adopt or expand on compensation reforms advanced by the Special Master for firms receiving exceptional TARP assistance.

- In 2010, no executive officers will receive perquisites exceeding $25,000 without FHFA approval (in consultation with the Treasury).
- No retirement plans for executive officers will be continued that use more generous formulas for such officers than plans for lower ranking employees.
- No expense reimbursements to executives will provide so-called "tax gross-ups" that reimburse executives not only for the expenses they paid but also for the taxes they must pay on the reimbursements themselves.
- Deferred and incentive pay for all executive officers will be subject to clawbacks by the company in the event of gross misconduct, gross negligence, conviction of a felony, or erroneous performance metrics.

Links to 8-K filings:
Fannie Mae:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000310522&type=&dateb=&owner=include&count=40

Freddie Mac:
http://sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001026214&owner=exclude&count=40

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The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than $6.3 trillion in funding for the U.S. mortgage markets and financial institutions.