

United States House of Representatives  
Committee on Financial Services  
Washington, D.C. 20515

November 2, 2011

Mr. Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency  
1700 G Street, NW - 4th Floor  
Washington, DC 20552

Dear Mr. DeMarco:

After reviewing reports that detail the "general" and "administrative" expenses of Fannie Mae and Freddie Mac by account, I am concerned that Fannie and Freddie are spending money in ways and at levels that do not further the purposes of their conservatorships. For instance, I was troubled to learn that the Federal Housing Finance Agency (FHFA) recently approved \$12.79 million in bonus pay for just ten Freddie and Fannie executives after they met reportedly "modest" performance targets.

This letter is to inquire about pay-related and other expenditures made by Fannie Mae during the period of time after it entered conservatorship in 2008. I will write separately on the subject of Freddie's expenses. I respectfully request that you answer the following questions within 14 days from the date of this letter:

- (1) Fannie Mae's account records show that Fannie pays a base salary, variable compensation, and corporate incentive pay. What is corporate incentive pay? Is it awarded when pre-defined goals are met? And in any event, why does Fannie continue to award corporate incentive pay now that it is in conservatorship? Please also provide a complete accounting of variable compensation and corporate incentive pay for all Fannie executives, at and above the level of Executive Vice President, for 2009, 2010 and 2011.
- (2) Please provide a full accounting of the amount of pensions and health benefits paid by Fannie in support of all former Fannie executives who, at the time of their departure, were at or above the level of Executive Vice President, for 2009, 2010 and 2011.
- (3) What rules or other policies has FHFA established, pursuant to its statutory authority as both regulator and conservator, which govern the compensation of executives, employees and former employees of Fannie?
- (4) Fannie plans to spend almost \$1.3 billion to pay full time equivalent employees, according to its August 2011 expenses report. At the same time, it will spend about \$796 million on contractors, or nearly half the sum it spends on employees. How has the ratio between full time equivalent employees and contractors changed since Fannie entered conservatorship? In other words, is Fannie spending more on contractors in the near term so that it can wind down its total employment force in the medium to long term? Or is it simply the case that Fannie is continuing to spend significant sums on both employees and contractors, without any plan to ultimately cut down on either? How does the size of Fannie's contractor work force compare to those of financial services firms of like size? Lastly, how has Fannie's full time equivalent employee count changed since the beginning of the conservatorship?

- (5) Looking at the "Salaries and Employee Benefits" category in the "Year-to-Date Actuals" expenses spreadsheet that FHFA provided to the Committee, Fannie spent \$735,237,320 by YTD August 2009 and then \$841,688,230 by YTD August 2011 on salaries and employee benefits. Why did Fannie spend over \$106,000,000 more in salaries and employee benefits in 2011 than in 2009?
- (6) In each year of the conservatorship, how many employees have left Fannie and then been "re-employed" as contractors?
- (7) The relative sizes of Fannie's line item for "Recruitment and Moving Expenses" as compared to its line item for "Severance Pay" suggests that Fannie is spending about as much money on hiring new employees as it is on terminations. How has the overall size of Fannie's workforce changed since the beginning of the conservatorship? Please provide a full accounting of the funds disbursed for severance pay, moving relocation, and recruitment fees/expenses year-to-date. Why does Fannie Mae, and FHFA for that matter, feel it is necessary to spend nearly \$6.5 million on recruiting new employees?
- (8) Freddie Mac reportedly does not pay severance to its employees. Why does Fannie continue to pay severance?
- (9) Fannie's 2011 expense report does not indicate whether it includes expenses for its five "operations centers" in Dallas, TX, Pasadena, CA, Chicago, IL, Herndon, VA and Philadelphia, PA. Does the report in fact include these expenses? If so, where are they reflected? Please provide a full accounting of expenses incurred by Fannie in connection with these centers. In addition, please explain why these centers are necessary to Fannie's operations. In particular, please detail whether and why FHFA believes that the centers further the purposes of the conservatorship.
- (10) The 2011 expense report indicates that Fannie plans to pay about \$1,600,000 in tuition assistance. Why does FHFA allow Fannie to pay for tuition assistance at a time when it relies on taxpayer-provided support to remain solvent? Is tuition assistance really necessary to retain highly skilled staff, or does it benefit mostly junior-level employees? Please detail the particular programs, whether degree-granting or otherwise, as to which Fannie has disbursed funds pursuant to its tuition assistance program in each year of the conservatorship.
- (11) Fannie expects to make \$20.5 million in corporate contributions in 2011. How do these contributions further the purpose of the conservatorship? Are they necessary in order to return Fannie to a sound financial position? Please provide a full accounting of these expenditures, which at a minimum should detail the corporations or other entities to which Fannie has made a corporate contribution in each year of the conservatorship.
- (12) Fannie has spent almost \$200,000 so far this year on non-charitable sponsored events, when its budgetary allotment for such expenditures in 2011 was zero. What caused Fannie to make these unplanned expenditures? Is spending this money necessary to return Fannie to a sound financial position? Please provide a full accounting as to the non-charitable expenditures that Fannie has made in each year of the conservatorship.
- (13) Fannie plans to spend about \$6,000,000 in advertising in 2011. Is advertising—to this extent—required in order to return Fannie to a sound financial position? Please

provide a full accounting of the advertising that Fannie has purchased in each year of the conservatorship.

- (14) According to its expenses report, Fannie intended to spend \$2,550,000 in "Directors Fees and Expenses" in 2011. Please give a full accounting of these fees and expenses for each year of the conservatorship.
- (15) Fannie planned to spend \$27.7 million in "Travel and Entertainment" expenses in 2011, including \$1,630,975 in "Catered and Social Activit[ies]," even though Fannie is dependent on taxpayer support to remain solvent. Please give a full accounting for these expenses for each year of the conservatorship.
- (16) The 2011 expenses report does not appear to explicitly state the amount of money that Fannie spent on public relations and on government relations. Under what items are these expenses accounted for in the 2011 expenses report? Please provide a detailed accounting of Fannie's expenditures on public and government relations in each year of the conservatorship.
- (17) Fannie plans to spend \$66.8 million in "Miscellaneous Expenses" in 2011, according to its expenses statement. What kinds of expenses are included within the "miscellaneous" category? Note that elsewhere in Fannie's expenses statement, Fannie breaks out its various expenses in granular detail—e.g., "Print Shop Copier Supplies," "Moving Relocation Pay," "Automobile Repairs," and "Promotional Items"—and in dollar amounts as low as \$8,000. Why did Fannie choose to classify over \$66 million in a generic "miscellaneous" account? Please set forth with particularity the expenses that Fannie has included in the "Miscellaneous Expenses" line item.
- (18) The expenses statement reflects only Fannie's general and administrative expenses. What are Fannie's views on credit losses, mark-to-market losses, fair value losses, portfolio gains/losses, and interest rate spreads?

Fannie previously has relied on American taxpayers to meet its ongoing obligations, and it is likely to rely on them again in the future. Despite this, Fannie's expense statements reveal that the Enterprise is functioning with a "business as usual" mentality, as though it were a highly profitable corporation accountable only to its private shareholders. I believe that such a mentality is inconsistent with the letter and spirit of the conservatorship, and that FHFA can best discharge its statutory mission by making sure that Fannie's yearly expenditures are rigorously justified and as lean as possible. I look forward to your response.

Sincerely,



RANDY NEUGEBAUER

Chairman

Subcommittee on Oversight and Investigations

Cc: The Honorable Spencer Bachus  
The Honorable Scott Garrett