



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

March 20, 2009

The Honorable Barney Frank
Chairman
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I am writing in response to your March 19th letter concerning employee retention programs at Fannie Mae and Freddie Mac. FHFA initiated these programs prior to conservatorship as we and our advisors agreed that they were critical to a successful conservatorship. I still believe that.

As you know, Fannie Mae and Freddie Mac were placed into conservatorship to ensure they fulfill their extremely important mission of providing liquidity, stability and affordability to the very troubled mortgage market. They continue to serve this vital mission. As the private mortgage market began to freeze in 2007, Fannie Mae and Freddie Mac's market share grew rapidly to where they had a 73 percent market share of all mortgages originated in 2008. Now they are the central players in the President's Making Home Affordable plan. Given the current predominant role the GSEs play in the nation's mortgage market, it is imperative that FHFA ensure their continued functioning and safe and sound operations.

In September, when the conservatorships were established, I made clear to Congress that we had developed, with the new CEOs and with an outside pay consultant, employee retention programs. As required by HERA, we consulted with the Treasury Department. I stated then my view that it was very important to work with the current management teams and employees to encourage them to stay and to continue to make important improvements to the Enterprises.

In response, most have stayed. Indeed, I can attest that many employees at all levels at each company have been working far more hours, with far less compensation than they did prior to conservatorship. The success of the Administration's recently announced Making Home Affordable program, aimed at preventing foreclosures and stabilizing housing markets, depends on the continued efforts of these employees, both executives and staff. But I can also say that we run a great risk of these same employees deciding this is the last straw and walking away.

The loss of key personnel would be devastating to the companies and to the government's efforts to stabilize the housing system.

Retention payments are not a reward for the past. Unlike other financial institutions, I made the decision not to pay severance to the departing CEOs. All of the senior managers who made decisions that led to the current situation are gone. I might add that some of these senior managers for years stood in the way of the legislation that might have lessened the impact this housing market crash has had on their firms. Since last August, just before the appointment of the conservatorships, the four highest compensated executives at Freddie Mac and seven of the top eight at Fannie Mae have left and are not getting these retention payments.

If we don't provide the existing employees incentives to stay, we will have a serious problem. Remaining corporate executives are receiving much less in compensation than they received in recent years. They received no bonuses for their 2008 performance. The value of their stock holdings and options are worthless. We are taking actions to ensure that these retention payments are not excessive. The retention incentive payments that FHFA approved went to more than 5,000 employees at Fannie (average \$21,000, spread over the first year-and-a-half of the conservatorship) and 4,000 at Freddie (average \$19,000, also spread over the first year-and-a-half). They are going to employees at all levels, not just top executives. Of course, while it was necessary for certain top executives to leave, we very much wanted others to stay. Some are receiving significant retention payments, but their overall compensation still has declined considerably.

I have discussed your request with both the new Chief Executive Officers, who are not getting retention payments and I met with the new Board of Directors of one of the companies today. It is their strong belief that ending the retention program would be extremely detrimental to their ability to remediate these enterprises and fulfill their mission. We believe that FHFA would be violating its duties as conservator to end the retention plans and allow Fannie Mae and Freddie Mac to be hollowed out. There are no other financial institutions that can replace them in this critical time for the nation's economy.

We are preparing detailed information about these plans that we will forward to you next week. We are also working with the Boards of Directors on ongoing compensation issues. In this uncertain compensation environment, it is very difficult to hire people to fill vacancies of which there are a large number of senior ones at both companies, including the CEO, COO and CFO positions at Freddie Mac.

The retention programs at both companies are designed to pay for efforts that are underway to meet national goals. FHFA will continue to work with Congress as we ensure that Fannie Mae and Freddie Mac can fulfill their critical missions.

Sincerely

A handwritten signature in black ink that reads "James B. Lockhart III". The signature is written in a cursive style with a prominent "J" and "L".

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHF Oversight Board