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Fannie Mae review finds more errors

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Associated Press

WASHINGTON — Still more errors have turned up in Fannie Mae's government-ordered review of its accounting, the mortgage giant disclosed Tuesday. It also said it doesn't expect the review to be finished before the second half of the year.

The government-sponsored company, which finances one of every five home loans in the United States, said it had found accounting errors in addition to those it disclosed on March 13. Fannie Mae said it will miss a regulatory deadline today for filing its financial report for the first quarter.

Federal regulators in 2004 accused Fannie Mae of serious accounting problems and earnings manipulation to meet Wall Street targets, and the Securities and Exchange Commission ordered the company to restate earnings back to 2001 — a correction expected to reach an estimated \$11 billion. The Justice Department is pursuing a criminal investigation.

The company also has said that it expects an upcoming internal report to show that its financial controls remained insufficient as recently as the end of last year.

"We have substantially completed a comprehensive review of

our accounting policies and practices in order to determine whether these policies and practices are consistent" with standard accounting principles, Fannie Mae said in its filing Tuesday with the SEC. "Restating our financial statements is requiring a substantial amount of time and resources because the restatement entails significant complexities."

The company's president and CEO, Daniel Mudd, said in a conference call with analysts: "We've made progress. We've got some more to do."

Mudd acknowledged that the \$800 million or so that Fannie Mae expects to spend this year on the massive reworking of its accounting was "quite frankly, higher than I can stomach."

Washington-based Fannie Mae said the newly disclosed accounting errors involve transactions in its business of buying home mortgages from banks and other lenders and bundling them into securities, and the guaranty fees it charges the banks and other lenders. The company said it could not yet determine the effect of the errors on its financial situation.

Similarly, Fannie Mae in March disclosed new accounting problems that had been uncovered in several areas, including loans, investment securities, houses

acquired through foreclosures, interest on delinquent home loans and reverse mortgages.

They all are in addition to the accounting-rule violations that came to light in September 2004 involving derivatives, the financial instruments Fannie Mae uses to hedge against swings in interest rates, and its mortgage commitments.

Fannie Mae, which is the second-largest U.S. financial institution after Citigroup Inc., also said Tuesday that it has reduced its estimate of the impact on the bottom line of the Gulf Coast hurricanes, to between \$170 million and \$280 million from the earlier estimated \$250 million to \$400 million.

The loss stems from Fannie Mae's guarantees of timely principal and interest payments on home loans and from its investment holdings of securities that are tied to mortgages in the areas affected by Hurricanes Katrina and Rita. Fannie Mae and its smaller government-sponsored sibling, Freddie Mac, suspended for several months foreclosures on homes in the hurricane disaster areas for mortgages they own.

Fannie Mae and Freddie Mac were created by Congress to pump money into the \$8 trillion home-mortgage market to keep interest rates low. ■