U.S. Securities and Exchange Commission

Freddie Mac, Four Former Executives Settle SEC Action Relating to Multi-Billion Dollar Accounting Fraud

Freddie Mac Agrees to Pay $50 Million Penalty

FOR IMMEDIATE RELEASE
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Washington, D.C., Sept. 27, 2007 — The Securities and Exchange Commission today charged the Federal Home Loan Mortgage Corporation (Freddie Mac) with securities fraud in connection with improper earnings management beginning as early as 1998 and lasting into 2002. To settle the SEC's charges, Freddie Mac agreed to pay a $50 million penalty, which is expected to be distributed to injured investors through a Fair Fund.

The SEC's complaint alleges that Freddie Mac engaged in a fraudulent scheme that deceived investors about its true performance, profitability, and growth trends. According to the complaint, Freddie Mac misreported its net income in 2000, 2001 and 2002 by 30.5 percent, 23.9 percent and 42.9 percent, respectively. Furthermore, Freddie Mac's senior management exerted consistent pressure to have the company report smooth and dependable earnings growth in order to present investors with the image of a company that would continue to generate predictable and growing earnings.

"As has been seen in so many cases, Freddie Mac's departure from proper accounting practices was the result of a corporate culture that sought stable earnings growth at any cost," said Linda Chatman Thomsen, the SEC's Director of Enforcement. "Investors do not benefit when good corporate governance takes a back seat to a single-minded drive to achieve earnings targets."

The charged former Freddie Mac executives are David W. Glenn (president, chief operating officer, and vice chairman of the board); Vaughn A. Clarke (chief financial officer); and former senior vice presidents Robert C. Dean and Nazir G. Dossani.

According to the Commission's complaint, Freddie Mac's violations were the direct result of a corporate culture that placed great emphasis on steady earnings, and a senior management that fostered a corporate image that was touted as "Steady Freddie" to the marketplace. Among the violations alleged in the complaint is the use of certain transactions to nullify the transitional effects of the company's implementation of accounting standard SFAS 133 (which relates to accounting for derivative instruments and hedging activities); the improper change in valuing the company's "swaptions" portfolio at year-end 2000; the improper use of derivatives to shift earnings between periods; the improper use of a reserve in connection with the company's application of SFAS 91 (which relates to accounting for loan origination costs); the use of certain transactions to nullify the effects of an accounting pronouncement known as Emerging Issues Task Force Issue 99-20; and the maintenance and reporting of a reserves for losses on loans materially in excess of probable losses.

The four former executives, who were charged with negligent conduct, agreed to settle the case without admitting or denying the allegations. Glenn agreed to pay a $250,000 civil penalty and $150,000 in disgorgement. Clarke agreed to pay a $125,000 civil penalty and $29,227 in disgorgement. Dossani agreed to pay a $75,000 civil penalty and $61,663 in disgorgement. Dean agreed to pay a $65,000 civil penalty and $34,658 in disgorgement.

In its settlement with the Commission, the company agreed, without admitting or denying the allegations, to the entry of a final judgment that permanently enjoins the company from violations of the anti-fraud provisions of the federal securities laws. Without admitting or denying the allegations in the Commission's complaint, Glenn, Clarke, and Dossani agreed to the entry of a final judgment that permanently enjoins them from violating Sections 17(a)(2) and (3) of the Securities Act. In a separate proceeding, Dean consented to the entry of a Commission Order requiring him to cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act.

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Additional materials: Litigation Release No. 20304; Administrative Proceeding 33-8850

http://www.sec.gov/news/press/2007/2007-205.htm