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No 'Golden Parachutes' for Fannie, Freddie's Ex-Chiefs

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The government yesterday said it would not allow Fannie Mae and Freddie Mac to pay their departing chief executives the separation payments, known as "golden parachutes," outlined in their contracts.

The Federal Housing Finance Agency (FHFA), the regulator that seized control of the mortgage giants last weekend and removed their chief executives, declined yesterday to specify what the executives would lose. Former Fannie Mae chief executive Daniel Mudd and former Freddie Mac chief executive Richard Syron together were eligible to receive as much as \$25 million, according to outside compensation consultants who last week reviewed the companies' financial disclosures.

"The Federal Housing Finance Agency notified [Mudd and Syron] that 'golden parachute' payments contemplated under their contracts would not be paid," the agency said in a statement.

A spokesman for Syron declined to comment, and the Washington lawyer representing Mudd, Robert B. Barnett, did not return a phone call or e-mail.

A law passed by Congress this summer granted the director of FHFA, James B. Lockhart III, the power to limit severance payments made to departing executives. But the law is untested and it is unclear whether Mudd and Syron will contest the decision.

Lockhart has been under political pressure to curb Mudd and Syron's compensation. Sens. John McCain (R-Ariz.) and Barack Obama (D-Ill.), the major-party presidential candidates, have called on Lockhart to limit payments, as have other prominent lawmakers.

"This is exactly why Congress gave Mr. Lockhart this authority. It would have been unconscionable to award these inflated salaries," Sen. Charles E. Schumer (D-N.Y.) said yesterday in a statement.

On Friday evening, FHFA took a step toward limiting the severance payments when it issued a regulation spelling out the conditions under which it could seek to block payments.

They include "whether there is reasonable basis to believe" that the executive "is substantially responsible for . . . the appointment of a conservator or receiver for the regulated entity." Fannie Mae and Freddie Mac were put under conservatorship last weekend.

Mudd, a longtime business executive and former Marine who joined Fannie Mae in 2000, and Syron, a former Federal Reserve official who joined Freddie Mac in 2003, oversaw the companies as they bought pools of subprime loans and guaranteed other risky loans. As the mortgage market collapsed, the companies suffered billions of dollars in losses.

Mudd and Syron said their companies could weather the downturn, but recently the government, reviewing the companies' books, disagreed. Last weekend, Lockhart and Treasury Secretary Henry M. Paulson Jr. seized Fannie Mae and Freddie Mac and named new chief executives.

Mudd and Syron agreed to stay on for a transition period. The government said the new executives, Herbert Allison at Fannie Mae and Daniel Moffett at Freddie Mac, would receive far less compensation than Mudd and Syron.

In his announcement last weekend, Paulson said he attributed the need for the government takeover to the flawed business model of the companies and the housing correction. The companies' "managements and their boards are responsible for neither," he said at the time.

Mudd's compensation last year totaled \$11.6 million, and Syron's came to \$18.3 million, as measured in the companies' annual pay disclosures. However, the near-evaporation of the companies' share prices has diminished the value of the executives' stock awards, a major component of compensation and potential severance.

The parts of Mudd and Syron's compensation that might be blocked depend on what provisions of their employment contracts are considered part of the "golden parachute."

The severance packages could be worth as much as \$14.9 million for Syron and \$9.8 million for Mudd. In a report to shareholders this year, Freddie Mac said it had guaranteed Syron a payment of a \$8.8 million in equity, an award that may be considered part of the "golden parachute."

Mudd and Syron's employment contracts specify varying severance payments depending on whether the executives were terminated with or without "cause." It is unknown whether FHFA intends to block all compensation and benefits due Mudd and Syron, or only part of them.

Staff writer David S. Hilzenrath contributed to this report.

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