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For the United States House of Representatives Committee on Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises Hearing on "The OHFEO Report: Allegations of Accounting and Management Failure at Fannie Mae"

October 6, 2004

I wish to thank the members of the United States House of Representatives Committee on Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises ("the Subcommittee") for providing me with the invitation and opportunity to submit this written testimony.[*] I use the word "opportunity" deliberately because this Committee is perhaps the only venue for me to speak out publicly about my personal experiences at Fannie Mae after I brought important issues of corporate impropriety to light. Likewise, I believe this statement is an important opportunity for the Members of this Subcommittee to learn about the corporate culture at Fannie Mae. Although Fannie Mae is a Company that receives accolades for providing a diverse and positive work environment, it is also plagued by a corporate culture that uses threats, intimidation, and reprisal, to create an atmosphere where even those employees with great integrity B employees who rightfully feel duty-bound to report improprieties and irregularities B cannot risk doing so, fearing the retaliation that they know will follow.

I suppose it would be easy for us to be satisfied with the Office of Federal Housing Enterprise Oversight's rigorous investigation of Fannie Mae's amortization and other accounting practices that do not comply with GAAP. Indeed, I commend OFHEO's examination as well as its ultimate conclusions. What the report does not address, however, is the punishment I and others like me have been subjected to by Fannie Mae management for calling attention to the very problems OFHEO investigated. I believe it to be my duty to tell the story of what happened

[*] To the best of my recollection, the dates recounted herein are accurate. However, because the relevant documents are in Fannie Mae's possession, I have been unable to confirm these dates in drafting this testimony.

to me when I spoke up so that this Subcommittee can better understand the necessity of acting to protect individuals at Fannie Mae, like myself, who step forward and speak up when they observe improprieties. Without such protections I fear that few people at Fannie Mae will report future irregularities or improprieties that they observe. And why should they? They observed that Fannie Mae promoted literally every employee who was involved in or assisted the effort to suppress the truth about the accounting and financial irregularities I reported, and which OFHEO confirmed. More importantly, they also watched while I was stripped of my duties, excluded from meetings, downgraded in my performance reviews, denied appropriate promotions, had my abilities denigrated and my motives questioned, and was ultimately forced from the Company.

Fannie Mae espouses a policy of adherence to good corporate governance, emphasizing the importance of integrity. The company professes to maintain policies to ensure proper and fair treatment of employees. The reality, however, is far different. I am telling my story today, fearing that I will suffer further retaliation as a result, because I believe that doing so is in the best interests of the investing public and the Company's current employees. The atmosphere and culture, particularly within the Controller's Division, is one of intimidation, restraint of dissenting opinions, and pressure to be part of the "Team," giving Chairman Franklin Raines and Vice Chairman Tim Howard the numbers the Office of the Chairman desired to please the markets. Employees like myself who refused to go along with this agenda were ostracized and subjected to retaliation. In fact, the straw that broke the camel's back for me occurred when I was deliberately excluded from assisting in the Company's preparation for the Office of Federal Housing Enterprise Oversight's ("OFHEO") review of Fannie Mae's accounting policies,

practices, and internal controls, despite the fact that OFHEO's review concerned my very area of expertise, and the precise issues that I had been raising.

From 1998 to October 2003, I was employed by Fannie Mae as Manager of Financial Accounting, Deferred Assets, in the Company's Controller Division. I was one of the few employees within the Controller's Division who was both a certified public accountant and had an MBA. Beginning in 1999, and continuing each year thereafter, I repeatedly alerted Fannie Mae management to improper accounting practices, including the fact that the Company's Amortization Integrated Modeling System ("AIMS") used inaccurate methods that violated Generally Accepted Accounting Principles ("GAAP"), in particular Financial Accounting Standard ("FAS") 91. I also repeatedly advised management that it appeared that AIMS had been designed and employed to manipulate the level of income reported by Fannie Mae in its earnings statement and other public filings, which would constitute fraudulent conduct that violates federal law.

I communicated my concerns about AIMS' design and use to the managers in my direct line of supervision in the Controller's Division on a number of occasions, beginning in 1999 and continuing through 2003. In September 2002, I formally raised my concerns in an intraoffice memorandum to Franklin Raines, Fannie Mae's Chief Executive Officer ("CEO") and Tim Howard, the Company's Chief Financial Officer ("CFO"). When no corrective action was taken by either executive management or by the managers in the Controller's Division, I reported my concerns to the Company's Internal Audit division in July of 2003 and provided a wealth of materials documenting the pervasive and systematic nature of the accounting abuses about which I had repeatedly complained. The response from the Audit division, as detailed by OFHEO in its

September 17, 2004 "Report of Findings to Date: Special Examination of Fannie Mae" was incomplete, perfunctory, and ineffective. Unfortunately, this was not surprising given the climate at Fannie Mae -- a climate in which inquiries by the Audit division were stonewalled and drowned out by the convoluted and deceptive explanations of managers who were determined to meet executive management's goal to depict stable and growing earnings regardless of the economic realities.

It was also not surprising, given the years of reprisal that I had suffered in trying to raise these concerns, that after I provided explicit and detailed evidence to the Office of Auditing, which demonstrated that the amortization accounting procedures used by Fannie Mae served to improperly manage income in violation of GAAP, Fannie Mae management escalated its retaliation against me ultimately forcing me from my employment.

Following is an account of what I endured in attempting to get Fannie Mae management to pay attention to the serious issues that the Committee is addressing today.

I began my employment with Fannie Mae in 1992 with the highest possible enthusiasm and the expectation that I would serve the corporate mission, benefit the United States housing market, and advance my own professional career. I began working in the Controller's division in 1994 as a Senior Financial Analyst, where I had responsibility for recording and analyzing monthly amortization income during monthly general ledger closings, coordinating and recording Fannie Mae's transactional activities with other business units, and reconciling the general ledger accounts. I also developed a deferred asset system, the Purchase Discount Integration ("PDI") system, which kept track of existing inventory, new acquisitions, monthly

sales and adjustments of purchase discount and premium, deferred guaranty fees, and recorded amortization income and expenses.

In the first five years of my employment in Fannie Mae's Controller's division, I received excellent performance evaluations and was given increasingly greater levels of responsibility. In 1998, Fannie Mae promoted me to Manager of Financial Accounting, Deferred Assets. I maintained my Analyst responsibilities, and continued to manage PDI, but also took on additional duties, such as new product development, working with the tax department to resolve problems, and expanded corporate analysis for management's use.

In 1999, Fannie Mae began development of a new program to determine the rate at which to amortize Fannie Mae's assets. The Amortization Integration Modeling System ("AIMS"), was intended to serve as a modeling program to determine the cash flows and income generated by Fannie Mae's deferrals on mortgage and mortgage backed securities ("MBS") products. Jeffrey Juliane, another Manager in the Controller's division, led the development of AIMS. The collective management of the Controller's division, including me, were involved in and frequently discussed the development of the system.

From the outset of the development of AIMS, I expressed doubts about its validity and propriety during meetings and in conversations with my managers in the Controller's Division. The response from management was dismissive. On June 15, 1999, for example, Mr. Juliane had distributed a memorandum in which he stated that the purpose of the new amortization system would be to "manage the recognition of income and expense" more effectively than the programs in use at the time. During a meeting with Mary Lewers (Fannie Mae Director of Financial Accounting, and my direct supervisor) and Mr. Juliane, I indicated that Mr. Juliane's

use of the term "manage" was problematic. It suggested, I observed, that the system would be used to manipulate the reporting of income and expenses, rather than for legitimate accounting purposes, in violation of GAAP, in particular FAS 91. I also expressed concern that use of the system in that manner could cause Fannie Mae to issue materially inaccurate financial statements. Janet Pennewell, the Senior Vice President for the Company's Controller's division, joined the meeting as I was relaying this concern. She had no substantive response to my observation. Instead, she interrupted me, told me that modeling was Mr. Juliane's area, and that I should focus on PDI. This response was to become management's mantra over the next few years, as I continued to try to present my concerns to Fannie Mae management about the system's improper design and use.

Fannie Mae implemented the AIMS system in 2000. Thereafter, I became increasingly concerned about serious flaws in the program, and several of the Controller's division's processes related to amortization. I raised these concerns with Mr. Juliane and with our joint superiors. For example, I raised questions about repeated retroactive factor changes. I also questioned why the system employed factors that resulted in negative amortization, or in amortization that exceeded 100%, and why AIMS was designed and employed to not retain as audit trails each modeling sensitivity run that was executed. Ms. Pennewell, Ms. Lewers, and Mr. Juliane dismissed my concerns outright and denigrated my abilities. They told me that I did not understand the field well enough to offer an opinion. They also told me that they were working to accomplish the objective set by Leanne Spencer, Senior Vice President and Controller for Fannie Mae, and Tim Howard, Fannie Mae's Chief Financial Officer ("CFO"), which was to reduce the Company's earnings volatility.

On January 4, 2001, I participated in a meeting with Ms. Lewers, Richard Stawarz, Director of Financial Reporting, and Mr. Juliane, to discuss the effects of a recent cut in interest rates by the Federal Reserve. During the discussion, Mr. Juliane indicated that the rapid fall of rates had led senior management to consider adjusting the "on-tops" -- a term the Controller's division used to refer to manual journal entries that could be used to adjust arbitrarily the Company's income as the books were closed each month. Senior management had stated that "on-tops" could be used to reflect a desired amount of income for December 2000, which would maintain margin and net interest income levels. Mr. Juliane added that if the Company decided not to make "on tops" adjustments, he would produce modeling runs to support the desired income results. Mr. Juliane indicated that he was prepared to generate any results desired by Ms. Spencer and Mr. Howard through the modeling process. I was extremely troubled by what was clearly improper income management and asked Mr. Juliane if management agreed with this approach, which seemed to violate GAAP. Mr. Juliane told me that the Company's management embraced this approach.

On January 10, 2001, I alerted Ms. Lewers to a problem that arose when Mr. Juliane processed a factor change in December 2000, which included several errors. Specifically, the AIMS system had applied a set of factors to the wrong inventory, thereby placing into questions the AIMS system's reliability. When I voiced my opinion that the AIMS system might be inherently flawed, Ms. Lewers dismissed my concerns, again stating that modeling was Mr. Juliane's concern.

On February 1, 2001, Mr. Juliane sent an e-mail to several Controller's division

employees, updating them on the incorporation of new factors into AIMS. Mr. Juliane stated that he had adjusted the net interest income factors "to evenly recognize $75 million of additional income in 2001, which [was] $50 million less than was originally forecasted in the plan." Mr. Juliane also stated that he had adjusted the guaranty fee factors to make the Company's actual reported income comport with "the plan"-- i.e., management's statement of income goals for amortization purposes. The guaranty fee factor adjustment resulted in a $57 million adjustment for 2001. Troubled by the fact that Mr. Juliane's use of "the plan" seemed arbitrary, and the adjustments Mr. Juliane made appeared to be based on desired income results instead of loan prepayments, I told Ms. Lewers that I believed Fannie Mae was improperly engaging in income management. Ms. Lewers did not respond. However, later that same month, Ms. Pennewell threatened to transfer my responsibilities to Mr. Juliane and promote him to Director, making it clear to me that I would suffer adverse employment actions because of the issues I had raised. Only after I vigorously protested this decision did Ms. Pennewell refrain from removing my responsibilities.

On June 12, 2001, I discovered that during the closing of the Fannie Mae books for May 2001, the Company's management had posted a $10 million "on tops" entry in order to increase Fannie Mae's reported income. When I questioned Mr. Stawarz about this entry, he admitted that senior management made the "on tops" adjustment so that it could report more than Fannie Mae's actual income for the month, in order to support what management had previously set as earnings goals and margins. Thus, even if the Company did not actually meet the goals set by management, the use of the "on tops" adjustments allowed Fannie Mae to make it appear that it had met those goals in the relevant time period.

As I repeatedly asked questions and raised concerns about Fannie Mae's apparent income management through the use of modeling and last minute manual entries to the Company's books, as well as retroactive factor changes that were applied to previously closed accounting periods, Ms. Spencer, Ms. Pennewell, and Ms. Lewers increasingly excluded me from meetings, communications, and discussions regarding Fannie Mae's modeling and amortization processes. They also sought to remove my responsibilities, thus ensuring that I did not have access to information regarding Fannie Mae's improper accounting practices.

Thus, on July 11, 2001, Mr. Juliane told me that Ms. Pennewell and Ms. Spencer wanted to transfer my responsibilities to him. Further, on July 20, 2001, the Controller's division management asked me to participate in a discussion of an Internal Audit division report, but failed to provide me with a copy of the report, which had been provided to all other Controller's division personnel participating in the meeting, including Mr. Juliane. By withholding this information from me in advance of the meeting, I was hindered in my ability to participate in a meaningful manner.

On August 10, 2001, I discussed my concerns regarding the Company's accounting practices with Richard Stawarz, Director. The discussions concerned Fannie Mae's use of factor changes and "on-top" adjustments to manipulate the amount of income the company reported each month, all of which I believed violated GAAP. Mr. Stawarz agreed with me that management often decided how much income they wanted to reflect before ensuring that such results could be achieved properly. He too expressed frustration and concern about this approach. However, Mr. Stawarz took no steps to rectify these problems.

On November 6, 2001, an amortization factor change requested by management

resulted in a $100 million increase to the Company's interest income. I recognized this increase as concrete evidence that the AIMS system, as developed and used by the Company, produced grossly inaccurate and unreliable results when calculating Fannie Mae's income and expenses. On November 7, 2001, I informed Ms. Lewers that the integrity of the AIMS system was seriously compromised, as evidenced by the $100 million increase to the Company's interest income. My concerns included that fact that the AIMS system was designed not to retain audit trails, making it impossible to accurately review the basis used to support the factors generated. Instead of investigating the issue or taking steps to address the problems I identified, Ms. Lewers told me that Mr. Juliane should provide an explanation for the factor change and its results. Management then approved the factor change.

During 2002, I continued to be concerned about serious flaws in AIMS and several of the Controller's division's amortization processes. I became aware that Fannie Mae was routinely using negative factors for discount and premium in order to revise current period net income. This use of negative factors allowed management to incorrectly report income by incorporating it into the balance sheet through accumulated amortization, thereby removing or adding income or expenses from the Company's income statement, even if those amounts had already been amortized. In May 2002, I informed Ms. Lewers that Fannie Mae's use of retroactive and negative factors had caused improper changes to the Company's reported income. As usual, Ms. Lewers dismissed my concerns and reiterated that this was Mr. Juliane's area, and not mine.

On June 13, 2002, after I realized Fannie Mae's use of negative factors had caused some of the Company's mortgage and MBS related assets to appreciate rather than to depreciate -- a result completely inconsistent with GAAP and economic realities -- I again raised concerns

about the use of negative factors to Ms. Lewers and Mr. Stawarz. Ms. Lewers instructed me to speak with Mr. Juliane about the issue. When Mr. Juliane denied that there was any problem with the use of these factors, Ms. Lewers agreed and took no action to address the concerns I had raised.

By September 23, 2002, it was clear to me that management in the Controller's division had no intention of responding to my disclosures of accounting impropriety. Indeed, the culture in the Controller's division was such that many employees knew or suspected that the Company was regularly engaging in improper income management, and it became a joke that the Controller's division could produce any income statement that the Company wanted. I therefore sent a memorandum to Franklin Raines, Fannie Mae's Chairman, and to Mr. Howard, the Chief Financial Officer, regarding the serious financial improprieties I had repeatedly brought to the attention of my managers. Specifically, I highlighted the following: that reconciliation differences from systems were being input as future deferrals instead of the current period's income and expenses; that the Controller's division was intentionally limiting the AIMS system capabilities so that it would not provide audit trails for modeling; that the division had a practice of using negative factors in amortization and allowed amortization to exceed 100%; that the division routinely understated and overstated income; that the division managed income to meet the Company's desired objectives; that the division used On Top entries in order to manage income and margin calculations; and that the Company was using a miscellaneous balance sheet account in order to manage reporting of some income in periods other than when it was received. I also noted that there were serious problems with the amortization of purchased discount and premium, and that "the possible impact reaches hundreds of millions of dollars and possibly

affects the integrity of the current financial statements and those we will issue after beginning compliance with SEC reporting in 2003." I urged Mr. Raines and Mr. Howard to investigate the issues identified.

Neither Mr. Raines nor Mr. Howard, nor anyone from their staffs, investigated these concerns or took corrective action. Thus, the practices I had identified continued, and I faced continuing reprisal for raising concerns about these issues.

Although I had sent the memorandum to Messrs. Raines and Howard as a "Finance Division Manager," without providing my name, the information I provided was easily traceable to me because I was one of only a handful of Managers who possessed any detailed information about Fannie Mae's amortization processes. Further, as noted, I had been raising similar concerns with my managers over the preceding several years.

Having seen no corrective action by Mr. Raines or Mr. Howard, at the beginning of October 2002, in a meeting of the Controller's division management, I asked questions regarding a number of the Company's accounting practices, including the practice of manipulating factors to generate desired levels of income, factor generation resulting in over 100% amortization of assets, the use of negative factors in amortization, use of "on-top" adjustments to manage income, and the Company's deliberate development of AIMS so that it would not retain audit trails of modeling runs generated and characteristics used, except those that the Company desired.

Instead of addressing the substance of my disclosures or correcting the serious problems I had identified, management escalated its retaliation against me. In November 2002, Fannie Mae took further steps to exclude me from discussions and meetings regarding all processes about

which I had raised concerns, and also attempted to curtail my ability to raise concerns with Controller's division management. For example, Ms. Pennewell and Ms. Lewers eliminated the weekly individual meetings they usually had with me, and Ms. Lewers agreed to regularly meet with me only in the presence of my staff. In the meantime, Ms. Pennewell and Ms. Lewers continued to regularly meet on an individual basis with other Managers who had not raised concerns about Fannie Mae's financial and accounting practices.

On November 22, 2002, when the Controller's division announced the recipients of the quarterly "Cool Rewards," I did not receive this monetary award for the work my staff and I had done on several large projects. Instead, Fannie Mae rewarded numerous other Managers and employees for their work on the very same projects, even though in some cases my staff and I had contributed more than the employees who actually received the awards. Disappointed and confused by the Company's blatant disregard for my efforts, I sent Ms. Pennewell and Ms. Lewers a memorandum requesting a meeting to discuss the program results. Neither manager responded to my memorandum. When I asked Ms. Lewers why neither she nor Ms. Pennewell had responded, she simply ignored the question.

On January 2, 2003, Ms. Lewers informed me that Ms. Spencer and Ms. Pennewell had decided that a more than $20 million correction to Fannie Mae's income would not be posted because of a concern that the correction would be noticed and questioned by the Company's Internal Audit division. Ms. Lewers indicated that the Internal Audit division might disagree with the Controller's division's use of "on-top" adjustments, but that the division would wait to see if Internal Audit raised questions before modifying this practice. In an effort to control the information conveyed to the internal auditors about the Company's use of "on-top" accounts, Ms.

Lewers instructed me not to volunteer any information about these adjustments, and not to discuss the "on-top" account unless specifically asked. Ms. Lewers also reminded me of Ms. Spencer's standing instruction that lower-level staff were not to speak with the Internal Audit division under any circumstances.

A few months earlier, in November 2002, I had applied for the Director of Finance in Securities Tracking Operations ("STO") position, which had been posted as a vacancy. After 10 years at Fannie Mae, combined with my previous experience, I was highly qualified for the position. However, after I filed my application in November, weeks passed and the Company made no mention of my application while it interviewed at least one outside candidate. Finally, three months after I submitted my application, Ms. Lewers informed me that she would interview me for the position. On January 28, 2003, the date of the interview, Ms. Lewers canceled, telling me that she had "other priorities [she wanted] to attend to." When the interview finally took place the next day, on January 29, 2003, Ms. Lewers arrived late even though she had been in her office shortly before the interview was to begin. Ms. Lewers did not have my resume, although I had submitted it with my application. She failed to take any notes during the interview, and spent most of the interview discussing her own experiences. Ms. Lewers made clear that the Company had no intention of actually considering me for the position and continued her practice, with the support and assistance of Ms. Pennewell, of excluding me from meetings and refusing to allow me to serve as an authority or leader on projects.

When employees asked questions of Ms. Pennewell or Ms. Lewers related to an area within my expertise, they instructed these employees to bypass me and to contact Mr. Juliane. Further, the Company failed to identify me on organizational documents, substituting Ms.

Lewers as the lead on the PDI project even though, at the same time, it was all too willing to use my picture on its website and in its promotional materials, to tout the company's racially diverse workforce. Although Mr. Juliane was only a Manager and also reported to Ms. Lewers, the Company consistently identified him in internal documents as the lead on the AIMS project. Fannie Mae also assigned several new projects to another Manager, Mary Trzeciak, even though I had expressed my desire to take on new projects, was more familiar with the project subjects than Ms. Trzeciak, and in some circumstances had to devote my own staff to assist Ms. Trzeciak in the performance of these duties.

The Company also began to undermine my authority by, for the first time, disagreeing with my positive assessments of the performance of my own employees. On February 25, 2003, Ms. Lewers and I met to discuss the performance reviews of my staff. Although I was a direct supervisor and had worked closely with my subordinates, Ms. Lewers disagreed with the ratings I recommended, demanding that I lower the ratings of two of my staff and raise the rating of my other staff member. Indeed, Fannie Mae's retaliatory treatment of me was now so blatant that my staff had earlier expressed concerns that the Company would downgrade their performance because I was their supervisor, thus seriously undermining my authority.

In March 2003, Fannie Mae hired Ilene Topper, an external candidate, into the Director of Finance in STO position for which I had applied in November 2002. I possessed many more years of experience within the industry and had more managerial experience than Ms. Topper, and was more qualified for the position.

In March 2003, when I received my performance evaluation for calendar year 2002, my managers lowered my summary rating a full level from "Fully Exceeds Expectations," the

highest performance rating, to "Consistently Exceeds Expectations." For the first time, my evaluation contained negative comments about my "communication" and other interpersonal skills -- completely subjective criticisms that were inconsistent with all of the Company's prior evaluations of my abilities. These retaliatory criticisms were intended to silence me from speaking out further about my concerns.

In April 2003, I again spoke with Mr. Stawarz about my concerns regarding Fannie Mae's amortization accounting practices. I told Mr. Stawarz that I felt that it might be necessary to make the Company's management aware that several of the amortization accounting policies and procedures were not in compliance with GAAP, and affected the accuracy of Fannie Mae's financial reporting. Mr. Stawarz agreed that there were significant problems, but told me that in Fannie Mae's corporate climate B a climate in which employees actually joked about improper income management because it was such a regular occurrence, and a climate in which employee morale suffered because management offered promotions, bonuses, and perks only to employees who supported management's improper goals B I should not raise my concerns. As a result of this discussion, I decided to undertake a detailed study of Fannie Mae's amortization accounting and other areas in which I had noticed irregularities, in order to document the seriousness and prevalence of these irregularities.

I began a detailed study of the unamortized balances I had come across as part of my responsibility for 400 general ledger accounts. Over a period of weeks, I painstakingly reviewed the Company's amortization transactions and found abundant evidence of the same kinds of problematic and unlawful financial practices I had identified in my September 23, 2002 memorandum to Mr. Raines and Mr. Howard.

In May 2003, I offered substantial assistance to members of the Internal Audit division who were conducting a routine audit. I attempted to discreetly alert the internal auditors to the serious problems I had identified to my managers and was discovering through my own reserach. The auditors failed to investigate the concerns I raised. On May 28, 2003, in a meeting of the Financial Accounting and Internal Audit divisions, the auditors nonetheless openly praised me for the time I devoted to assisting them and for my "openness." This praise provoked visible displeasure on the part of Ms. Lewers.

Only a few weeks later, Fannie Mae initiated the Portfolio Investment Business Strategy project, which was to be a large and highly visible project within the Controller's Division, requiring significant contributions from the PDI unit. Ms. Pennewell selected Mr. Juliane to participate in the project rather than me, even though I was the Manager responsible for PDI. Mr. Juliane was assigned to represent my unit in addition to his own, notwithstanding the fact that he knew virtually nothing about PDI. Indeed, in the weeks that followed, Mr. Juliane found it necessary to consult with me on a regular basis regarding PDI.

On July 23, 2003, I completed my research regarding Fannie Mae's unamortized balances. Over the past months I had confirmed and documented my earlier suspicions that Fannie Mae's general ledger accounts reflected a large number of irregular unamortized balances, that there were numerous amortization factor errors produced by the modeling system, and that the amortization speeds employed by the Company frequently conflicted with GAAP and economic realities. Upon completing my research and confirming that there were significant problems with Fannie Mae's amortization accounting, I attempted to set up a meeting with Sam Rajappa, the head of the Internal Audit division.

On July 28, 2003, I alerted Ms. Lewers to a major problem with a July 2003 factor change. This factor change produced an unusually large number of factor errors, resulting in approximately 40 pages of errors. As I had done on numerous prior occasions, I again told Ms. Lewers that there were serious problems with the AIMS system and how it was being used by Fannie Mae. I also expressed concern to Ms. Lewers regarding Mr. Juliane's request that I provide him with expected PDI results before corrections were made. I told Ms. Lewers that I thought these requests were a clear sign that the Company intended to intentionally misstate income, and informed Ms. Lewers that Mr. Juliane's requests were a clear red flag of improper practices. Ms. Lewers made no comment and took no action to address the concerns I had raised. She appeared visibly displeased with me for continuing to raise these issues.

Judging from Ms. Lewer's response to my concerns and management's dismissive attitude, I feared that my managers would ignore the results of my study and engage in further acts of retaliation against me. Accordingly, on July 29, 2003, I again attempted to set up a meeting with Mr. Rajappa, this time by e-mail. I wrote Mr. Rajappa, "it is necessary that I schedule an important meeting with you regarding analysis and research I have been conducting for a number of weeks," and I informed him that he might wish to invite other members of his staff -- Ann Eilers, Paul Jackson, and/or Joyce Philip -- who were familiar with the subject matter I needed to discuss.

Later on the same day that I e-mailed Mr. Rajappa alerting him to my concerns, Ms. Pennewell informed me that the Company had promoted Mr. Juliane to Director, and that I would report to him. When I asked why Fannie Mae had not selected me for promotion, Ms. Pennewell told me that I needed to have more responsibilities before I would be promoted, and

that I needed to show a willingness to accept more responsibility and to make sacrifices. I was obviously displeased with this blatantly retaliatory decision by Fannie Mae to pass me over for promotion, yet again. I explained to Ms. Pennewell that it violated internal controls for me to report to Mr. Juliane, since he would then be responsible for both the AIMS and PDI systems, and would be in charge of both the accounting and estimating sides of amortization accounting. Ms. Pennewell told me that she would convey my concerns to Ms. Spencer, but that the change had already been made.

When I spoke with Ms. Lewers about the decision to promote Mr. Juliane and the internal control problems presented by my reporting to Mr. Juliane, Ms. Lewers informed me that she and Ms. Spencer had supported the decision, and that, in order to be promoted, I needed to "communicate differently by pausing, listening, and interpreting the signals from [my] audience."

These explanations for my non-promotion were clearly pretextual and were further evidence of the Company's determination to marginalize me as punishment for my refusal to stop questioning Fannie Mae's improper accounting practices. During my entire tenure with the Controller's division, I always volunteered to take on additional responsibilities, and indeed had more responsibilities than Mr. Juliane. Further, until my performance review for 2002, which occurred after my disclosures, my supervisors had always rated my interpersonal skills very highly, and the Company had even selected me to provide Continuing Professional Education training to other employees. Indeed, when I pressed Ms. Lewers for an explanation of her suggestion that I communicate differently, she was unable to provide a coherent response. In addition, Ms. Pennewell told me that the Company wanted me to help Mr. Juliane and wanted to

"leverage" my knowledge, people skills, and project management skills to help make Mr. Juliane successful. Ms. Pennewell also threatened me that, "if you're smart and you know what's good for your career, you'll get behind this decision."

I was far more qualified than Mr. Juliane for the Director position. Mr. Juliane is not a CPA and had little accounting background, yet the Director position required that Mr. Juliane supervise several accounting functions. However, unlike me, Mr. Juliane had not raised concerns about the improper use of the AIMS system, and, in fact, was instrumental in developing the system in such a way that it produced results inconsistent with GAAP. When Ms. Pennewell announced Mr. Juliane's promotion to the Cash Control and Amortization business units I supervised, several of my employees asked me why I had not been promoted, much to my embarrassment and humiliation.

During the meeting on July 29, 2003, Ms. Pennewell also informed me that the Company had promoted a new manager, Jennifer Wall, to the position of Director of Financial Reporting. This position was never posted, and the Company apparently never considered me for it even though I had more experience than Ms. Wall within the Controller's division, at Fannie Mae, in the industry, and as a manager.

On August 1, 2003, Mr. Juliane requested yet another factor change that I found extremely disturbing. During the July 2003 closing, the Controller's office management indicated, during routine meetings related to the monthly closing, that Fannie Mae's net interest income for the month would be approximately $6.5 million less than management had projected. My group's preliminary amortization had already been completed. However, on August 1, 2003, Mr. Juliane told me that there was a single factor error in one FAS91 type that needed to

be corrected. When I asked Mr. Juliane for documentation to support the factor change and to create an audit trail, he was unable to provide any at the time. Only later did Rene LeRouzes, a member of Mr. Juliane's staff, produce data in an e-mail memorandum that represented the factor. When I processed the new factor change, I was shocked to realize that the impact of the new factor change turned out to be an increase in income of $6.5 million. Given the exact match between the results of the factor change and the income shortfall management had commented on only a few days earlier, I strongly suspected that management was preparing to intentionally misstate income to achieve its desired result of creating a picture of stable earnings.

On August 4, 2003, I met with Mr. Rajappa and Ms. Eilers of the Internal Audit division. I gave them a memorandum titled "Unamortized Balances And Factor Analysis" that summarized the findings of my substantial research of the previous months. The memorandum raised several concerns regarding Fannie Mae's accounting practices, including: the inadequacy of controls and review of accounting processes; the AIMS system's failure to retain audit trails; the lack of correlation between factors and loan prepayments; the inaccuracy of Fannie Mae's financial statements as a result of the arbitrary selection of factors; the lack of adequate checks and balances for the PDI and AIMS systems; the problem of on top adjustments; the problem of deferred assets being amortized in excess of 100% or in reverse; and the fact that improper amortization speeds were being used. All of the practices I highlighted were ones that caused Fannie Mae to not be in compliance with GAAP.

In addition, I provided Mr. Rajappa and Ms. Eilers with approximately 60 examples of factor errors and other analyses that I had completed relevant to the issues I raised. These 60 examples were all taken from the period ending June 30, 2003. I also alerted Mr. Rajappa and

Ms. Eilers to the most recent $6.5 million factor change, which I believed was an example of intentional misstatement of income. I told Mr. Rajappa and Ms. Eilers that, based on my research, I believed that Fannie Mae's amortization accounting was not in compliance with GAAP, and that the Company was manipulating and managing income in order to create a picture of artificially stable earnings.

On August 5, 2003, I gave Ms. Spencer, Ms. Pennewell, Ms. Lewers, and Messrs. Stawarz and Juliane a copy of what I had provided to the Internal Audit division, including documentation reflecting the over 60 factor errors I had discovered for the period ending June 30, 2003. That same day, Ms. Spencer, Ms. Pennewell, Ms. Lewers, and Mr. Juliane convened a meeting to discuss my disclosures. During that meeting, Ms. Spencer, Ms. Pennewell, and Ms. Lewers expressed their anger that I had taken my concerns to the Internal Audit division, criticized the language I had used in describing the problems, and faulted me for allegedly "overstating the case." None of the managers even raised the idea that a review of the amortization accounting processes should be initiated. Instead, they criticized me for informing Internal Audit of my concerns, and Ms. Pennewell shouted at me and interrupted me when I attempted to speak. However, Mr. Juliane admitted that my data and research were accurate, and that there were issues regarding modeling that his team had been struggling with. When Ms. Spencer, Ms. Pennewell, and Ms. Lewers nodded in agreement, it was clear that they each already knew that there were major problems with the modeling performed by the AIMS system. However, they had all failed to take steps to correct the problems, and instead allowed factors generated by AIMS to be used in amortization processing.

On August 8, 2003, Mr. Rajappa convened a meeting of the Controller's Office managers, including, among others, me, Jonathan Boyles of the Financial Standards division, Ms. Eilers, Ms. Philip, Paul Jackson, and Gunes Kulaligil of the Internal Audit division, Deborah House from the Office of Corporate Justice, and two representatives from KPMG, Fannie Mae's external auditors. Although I had hoped that the purpose of the meeting would be to discuss how to rectify the problems I had identified, it quickly became clear that the purpose of the meeting was to determine how to justify the improper practices I had identified so that Mr. Raines could certify Fannie Mae's financial statements by an August 15, 2003 deadline.

Initially, representatives from the various departments all blamed each other for the problems, and the atmosphere was extremely tense. Eventually, however, Mr. Juliane gave a complex explanation for the accounting issues I had raised. Although these answers did not justify Fannie Mae's non-compliance with GAAP, and were in several instances contradictory, Mr. Rajappa appeared eager to accept Mr. Juliane's explanations. Ms. Spencer and Ms. Pennewell also concurred with Mr. Juliane's explanations and the KPMG representatives stated that GAAP was being followed, although they cautioned that they had not conducted a formal audit. Mr. Boyles and Mr. Rajappa then both stated that the amortization process was in accordance with Fannie Mae policy and GAAP. Although it was not possible for the Internal Audit division to have investigated fully the concerns I raised in the short period of time that had passed since I first provided them with details of my concerns, no further action was recommended to investigate or truly resolve the serious concerns I had raised.

When Ms. House questioned the $6.5 million factor correction adjustment to income during this meeting, I stated my concerns that the factor correction deliberately made PDI

comport with management objectives. Ms. Pennewell responded that AIMS, the modeling and forecasting system, was the source system instead of PDI, the production system, and that PDI should produce the results projected by AIMS. This explanation of the two systems was inaccurate and endorsed a process of amortization accounting that fundamentally violates GAAP. However, no one at the meeting, including those with accounting expertise, corrected Ms. Pennewell.

As a Manager, I was the lowest-ranked employee at the meeting, and I felt enormous pressure to agree with the other Directors, Vice Presidents, and Senior Vice Presidents, in their attempts to explain away the concerns I had raised with the explicit purpose of allowing Mr. Raines to certify the June 2003 financial statements. When Mr. Rajappa stated that the amortization process was in accordance with Fannie Mae policy and GAAP, he asked if anyone disagreed with that conclusion. Faced with enormous pressure from my superiors, and fully aware that no one at the meeting appeared interested in fixing the problems, I did not voice my disagreement. However, on October 2, 2003, I sent an e-mail to Mr. Jackson indicating that I did not endorse the investigation completed by the Internal Audit division.

After I disclosed my findings to the Internal Audit division, Fannie Mae excluded me from all meaningful participation in the Controller's division processes. Ms. Spencer, Ms. Pennewell, and Ms. Lewers no longer informed me of meetings of the Controller's division management, even when my areas of responsibility were directly involved. Further, Mr. Juliane, who was now my supervisor, maintained only minimal contact with me.

Further, Fannie Mae excluded me from almost all discussions of the improper financial and accounting practices I identified, and made efforts to conceal my disclosures from relevant

authorities. For example, even though I had formally placed the Company on notice of flaws in Controller's division processes that resulted in the understatement and overstatement of income, on August 14, 2003, Mr. Raines did certify financial statements, which contained information generated by the Controller's division's processes that I had repeatedly questioned.

Further, Fannie Mae deliberately excluded me from assisting in the Company's preparation for OFHEO's review of Fannie Mae's accounting policies, practices, and internal controls. On October 3, 2003, the Company sent an e-mail to its financial management, including employees at or below my Manager level, regarding the need to retain documents pertinent to OFHEO's investigation. However, Fannie Mae did not send the e-mail to me, even though I had direct knowledge and involvement in the areas OFHEO planned to investigate, and despite the fact that other Managers were included in the e-mail. In fact, Fannie Mae had failed to even inform me that OFHEO was planning a review of the Company's accounting policies, which certainly included my areas of responsibility.

As a result of Fannie Mae's refusals to take the concerns I had raised about financial and accounting practices seriously, and the retaliation I faced for raising these concerns, I had no choice but to separate from the Company in October 2003.

CONCLUSION

Again, I want to thank the members of the Subcommittee for taking the time to review my testimony. The story I have related is, obviously, important to me personally. I have presented it to you in the hopes that by sharing my experiences, I will have conveyed the importance of protecting individuals who step forward and report improprieties and irregularities they observe at Fannie Mae.