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2012 Conservatorship Scorecard

United States: Federal Housing Finance Agency (FHFA)

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2012 Conservatorship Scorecard

| Objectives | Weighting | Targets/Measures |
|---|------------------------------|--|
| <p>1. Build a New Infrastructure</p> <ul style="list-style-type: none"> • <u>Continued progress on, or completion of, mortgage market enhancement activities already underway</u> <ul style="list-style-type: none"> ○ Loan-level disclosure in mortgage-backed security ○ Uniform Mortgage Data Program ○ Seller-servicer contract harmonization | <p>30%</p> <p>15%</p> | <ul style="list-style-type: none"> • Develop template for enhanced loan-level disclosures for single-family mortgage-backed security (MBS) that incorporates market standards and is consistent with maintaining liquidity in the to-be-announced market. Template to be submitted to Federal Housing Finance Agency (FHFA) by June 30, 2012. • Meet articulated Uniform Mortgage Data Program timetables as follows: <ul style="list-style-type: none"> ○ Uniform Collateral Data Portal electronic appraisal submission requirement by March 19, 2012. ○ Uniform Loan Delivery Data format loan delivery data by July 23, 2012. ○ Deliver new ULDD data point in compliance with SEC Rule 15Ga-1 by November 30, 2012. ○ Notify market of optional ULDD data points, including those necessary to improve disclosure and for other business uses in 2012. • Notify market of servicing data standard, including data necessary to improve disclosure, and agree on timetable for data collection to begin in 2013 by December 31, 2012. • Develop plans that leverage uniform appraisal data and ULDD for enhanced risk management by December 31, 2012. • Cooperate with FHFA implementation of portal to accept electronic appraisals. • Appropriate resource allocation to seller-servicer contract harmonization and commitment to targeted timetables as outlined in FHFA directive. |

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| <ul style="list-style-type: none"> • <u>Securitization platform</u> • <u>Pooling and servicing agreements</u> | <p>10%</p> <p>5%</p> | <ul style="list-style-type: none"> • In collaboration with FHFA and the other Enterprise, develop and finalize a plan by December 31, 2012, for the design and build of a single securitization platform that can serve both Enterprises and a post-conservatorship market with multiple future issuers. • Propose a model pooling and servicing agreement, collaborate with other Enterprise and FHFA on a specific proposal, seek public comment, and produce final recommendations for standard Enterprise trust documentation by December 31, 2012. |
| <p>2. Contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking certain operations.</p> <ul style="list-style-type: none"> • <u>Work with FHFA to evaluate options for meeting conservatorship goals, including shifting mortgage credit risk to private investors via assessment of:</u> <ul style="list-style-type: none"> ○ Multifamily line of business ○ Investment assets and nonperforming loans • <u>Risk sharing</u> | <p>30%</p> <p>10%</p> <p>10%</p> | <ul style="list-style-type: none"> • Undertake a market analysis by December 31, 2012, of the viability of multifamily business operations without government guarantees. Review the likely viability of these models operating on a stand-alone basis after attracting private capital and adjusting pricing if needed. • Perform analysis of investments portfolio as described in the strategic plan by the fourth quarter of 2012 and make preparations for the competitive disposition of a pool of nonperforming assets by September 30, 2012. • Review options with board of directors and FHFA and make appropriate recommendations for future actions. • Implement plan agreed to by board and FHFA. • Initiate risk sharing transactions by September 30, 2012. • Execute new risk sharing transactions beyond the traditional charter required mortgage insurance coverage. • Propose timeline for continued growth in risk sharing through 2013. |

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| <ul style="list-style-type: none"> • <u>Pricing</u> <ul style="list-style-type: none"> ○ Single-family guarantee fee pricing increases ○ Set plan to price for state law effects on mortgage credit losses given default | 10% | <ul style="list-style-type: none"> • Develop and begin implementing plan to increase guarantee fee pricing to more closely approximate the private sector. • Set uniform pricing across loan sellers to extent practicable. • Work with FHFA to develop appropriate risk-based pricing by state. State-level pricing grid to be completed by August 31, 2012. |
| 3. <u>Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.</u> | | |
| <ul style="list-style-type: none"> • <u>Loss mitigation through continued implementation and enhancement of Servicer Alignment Initiative</u> • <u>Short sales</u> • <u>Deeds in lieu and deeds-for-lease</u> | 10% | <ul style="list-style-type: none"> • Enhance transparency of servicer requirements around foreclosure timelines and compensatory fees and publish applicable announcements by September 30, 2012. • Enhance short sales programs that include efforts to identify program obstacles that impact utilization by June 30, 2012. Applicable lender announcements to foreclosure alternatives by September 30, 2012. • Design, develop, or enhance deed in lieu and deed-for-lease programs that include efforts to identify and resolve program obstacles that impact utilization by September 30, 2012. Applicable lender announcements to foreclosure alternatives by December 31, 2012. |
| <ul style="list-style-type: none"> • <u>Real estate owned sales</u> | 10% | <ul style="list-style-type: none"> • Implement, as needed, loans to facilitate real estate owned (REO) sales program by June 30, 2012. • Expand financing for small investors in REO properties by June 30, 2012. • Initiate disposition pilot, either through financing or bulk sales, by September 30, 2012. • Expand pilot programs and establish ongoing sales program, as agreed to with FHFA, during 2012. |
| 4. <u>Manage efficiently in support of conservatorship goals</u> | | |
| <ul style="list-style-type: none"> • <u>Conservatorship / board priorities</u> | 20% | <ul style="list-style-type: none"> • Work closely with FHFA toward concluding litigation associated with private-label securities and whole loan repurchase claims, as appropriate. • Prioritize and manage Enterprise operations in support of conservatorship goals and board directions. • Adapt to evolving conservatorship requirements. |

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| | | <ul style="list-style-type: none"> • Collaborate fully with FHFA and when requested, the other Enterprise. • Actively seek and consider public input on conservatorship-related projects, as requested. • Effectively identify, communicate, and remediate situations that create risk for the conservatorships or avoidable taxpayer losses. • Ensure corporate governance procedures are maintained, including timely reporting to the board and adhering to board mandates and expectations. • Take steps to mitigate key person dependencies and maintain appropriate internal controls and risk management governance. • Achieve milestones agreed to within the year with regard to accounting alignment. |
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Notes:

- Scoring will be based not only on ultimate accomplishment of results but cooperation, relative contribution, and collaboration with the board, FHFA, the other Enterprise, and market participants, as appropriate to the particular measure.
- FHFA will consider the Enterprise's creativity, collaboration, effectiveness, and commitment to the particular matter.
- Most goals have a target date of completion of December 31, 2012. However, if an Enterprise is able to accomplish the goal earlier in the year, that will be taken into consideration in the scoring to offset shortfalls elsewhere.

Fannie Mae and Freddie Mac Executive Compensation

Overview

The 2012 Executive Compensation Program, which is included in Fannie Mae's 10-K/A and Freddie Mac's 10-K filings also released today, further reduces pay from levels preceding the conservatorship and eliminates bonuses from the Enterprise executive compensation program. Combined with plans to hire new CEOs at sharply reduced compensation, the latest reductions will result in total reductions during the conservatorships of roughly 75 percent in the pay of the top five positions at each Enterprise, with none of the top 10 compensated positions at either Enterprise filled with pre-conservatorship incumbents. The compensation for each of the top five executives at both Fannie Mae and Freddie Mac is, in the aggregate, more than 30 percent below the 50th percentile (market median) for comparable positions, and will be more than 50 percent below the median with the anticipated, \$500,000 per year compensation, planned for the new CEOs.

In addition, the Enterprises have reduced the number of senior executives at each of the firms by roughly one-fourth from a pre-conservatorship level of 91 to the current level of 70, with more than 80 percent at both Enterprises now paid less than the market median. The total target pay for the top 15 executives at each Enterprise will drop 63 percent in 2012 from the total pay received prior to conservatorship.

To put the new 2012 compensation in further context, when FHFA first established an executive compensation program for the Enterprises in 2009, we reduced senior executive pay by an aggregate 40 percent. Since then, further reductions including those anticipated for CEO pay and others announced today, have lowered executive compensation at the two Enterprises by an additional 40 percent from the 2009 level.

Cost reductions have also been realized through attrition and reductions in force. Mid-level managers and rank-and-file staff have been held to a pay freeze the past two years, and unlike the freeze for federal employees, there are no within-grade step increases. In addition to the reduction in senior managers at both companies since conservatorship, overall staff levels have been held in check, despite the market's increased reliance on the Enterprises. Increases in staff counts generally have been in two areas, each critical to the success of the conservatorships: loss mitigation and support for the Home Affordable Modification Program (HAMP) (and those positions are funded by Treasury under a contract with the Enterprises).

The 2012 Executive Compensation Program for the Enterprises continues the following features from earlier programs:

- Base salaries are capped at \$500,000 per year, except for the Chief Financial Officers, which is more restrictive than any of the financial institutions that received exceptional Troubled Asset Relief Program (TARP) assistance.
- No retirement plans for executive officers use more generous formulas than plans for lower-ranking officers.
- No expense reimbursements include tax gross-ups.
- Deferred salary can be clawed back for gross misconduct, gross negligence, conviction of a felony, or erroneous performance metrics.

In setting this new compensation framework, FHFA concluded that further material reductions or uncertainty around compensation would heighten safety and soundness concerns. An effect of the fragile nature of staffing can be found in Freddie Mac's 10-K issued today.

2012 Executive Compensation Plan

The new plan includes a retention feature and reductions for missed performance, and it eliminates the incentive plans that have been in place for the past three years. Moreover, the new plan provides a further lowering of Enterprise pay while keeping it somewhat competitive. The new structure consists of cash base salary, paid biweekly or semi-monthly, and deferred salary paid after a one-year deferral.

1. Executive Total Direct Compensation is being reduced by 10 percent, with a few exceptions for executives already positioned at a low percentile of the market data for comparable firms or in some cases for recent hires and promotions. The program includes no bonuses; all pay is either base salary paid semi-monthly/biweekly, or deferred salary. Deferred salary is payable in quarterly payments at quarter-ends, after a one-year deferral.
2. Deferred salary that is subject to performance-based reduction is equal to 30 percent of total salary. One-half of this amount is subject to a reduction based on the Enterprise's performance against the Conservatorship Scorecard as determined by FHFA, and the remaining half is subject to a reduction based on individual performance as evaluated by the CEO and the Enterprise Board of Directors.
3. The remaining, fixed portion of deferred salary is paid in full to all executives still employed at the Enterprise when the payment is due. However, if the executive leaves the Enterprise prior to any scheduled payment, the earned amount paid to the executive is reduced by 2 percent for each full or partial month that the termination date precedes January 31, 2014.

2012 Executive Compensation

| | Total Direct Compensation | Salary Paid Biweekly/Semimonthly | Deferred Salary Subject to Conservatorship Performance Reduction | Deferred Salary Subject to Personal Performance Reduction | Deferred Salary Subject to Retention Reduction |
|---------------------------------------|---------------------------|----------------------------------|--|---|--|
| Freddie Mac | | | | | |
| Charles E. Haldeman, Jr. ¹ | \$ 5,400,000 | \$ 900,000 | \$ 810,000 | \$ 810,000 | \$ 2,880,000 |
| Ross Kari | \$ 3,150,000 | \$ 675,000 | \$ 472,500 | \$ 472,500 | \$ 1,530,000 |
| Anthony Renzi | \$ 2,475,000 | \$ 500,000 | \$ 371,250 | \$ 371,250 | \$ 1,232,500 |
| Jerry Weiss | \$ 1,980,000 | \$ 495,000 | \$ 297,000 | \$ 297,000 | \$ 891,000 |
| Paige Wisdom | \$ 1,750,000 | \$ 467,500 | \$ 262,500 | \$ 262,500 | \$ 757,500 |

| | Total Direct Compensation | Salary Paid Biweekly/Semimonthly | Deferred Salary Subject to Conservatorship Performance Reduction | Deferred Salary Subject to Personal Performance Reduction | Deferred Salary Subject to Retention Reduction |
|----------------------------------|---------------------------|----------------------------------|--|---|--|
| Fannie Mae | | | | | |
| Michael J. Williams ¹ | \$ 5,400,000 | \$ 900,000 | \$ 810,000 | \$ 810,000 | \$ 2,880,000 |
| Susan R. McFarland | \$ 2,880,000 | \$ 600,000 | \$ 432,000 | \$ 432,000 | \$ 1,416,000 |
| David C. Benson | \$ 2,520,000 | \$ 500,000 | \$ 378,000 | \$ 378,000 | \$ 1,264,000 |
| Terence W. Edwards | \$ 2,520,000 | \$ 500,000 | \$ 378,000 | \$ 378,000 | \$ 1,264,000 |
| Timothy J. Mayopoulos | \$ 2,655,000 | \$ 500,000 | \$ 398,250 | \$ 398,250 | \$ 1,358,500 |

¹ CEOs Haldeman and Williams have announced their departures pending hiring of their replacements.

2011 Payments in Fulfillment of the Previous Plans

Successful adoption of the new plan cannot occur without meeting our responsibilities under the previous plan. In consideration of the need for the government to live up to its promises, the legal rights of executives, and the performances of each Enterprise and its executives in meeting most of the goals and standards required of them, FHFA has approved payments to the most senior executives at the Enterprises, as follows:

2011 Executive Compensation

| Freddie Mac | Actual Total Direct Compensation | Target Total Direct Compensation | Salary Paid Biweekly/Semimonthly | Deferred Salary Fixed | Deferred Salary Performance Based | 2011 Long Term Incentive | 2010 Long Term Incentive 2nd Installment |
|---------------------------------------|---|---|---|------------------------------|--|---------------------------------|---|
| Charles E. Haldeman, Jr. ² | \$ 3,798,500 | \$ 6,000,000 | \$ 900,000 | \$ 1,550,000 | \$ 1,348,500 | \$ - | \$ - |
| Ross Kari | \$ 3,214,313 | \$ 3,500,000 | \$ 675,000 | \$ 829,167 | \$ 721,375 | \$ 480,125 | \$ 508,646 |
| Anthony Renzi* | \$ 2,029,075 | \$ 2,750,000 | \$ 473,864 | \$ 592,614 | \$ 515,574 | \$ 308,416 | \$ 138,807 |
| Jerry Weiss | \$ 2,019,315 | \$ 2,200,000 | \$ 450,000 | \$ 508,334 | \$ 442,249 | \$ 316,367 | \$ 302,365 |
| Paige Wisdom | \$ 1,602,681 | \$ 1,750,000 | \$ 425,000 | \$ 370,834 | \$ 322,624 | \$ 251,656 | \$ 232,567 |

² The Board of Directors of Freddie Mac intended to approve Mr. Haldeman for incentive payments of \$743,577 for the 2011 Long Term Incentive and \$788,064 for the 2010 Long Term Incentive 2nd Installment, consistent with the Enterprise's performance, but Mr. Haldeman asked not to be included prior to any approval being issued.

*Actuals prorated based on date in position.

| Fannie Mae | Actual Total Direct Compensation | Target Total Direct Compensation | Salary Paid Biweekly/Semimonthly | Deferred Salary Fixed | Deferred Salary Performance Based | 2011 Long Term Incentive | 2010 Long Term Incentive 2nd Installment |
|---------------------------------|---|---|---|------------------------------|--|---------------------------------|---|
| Michael J. Williams | \$ 5,258,500 | \$ 6,000,000 | \$ 900,000 | \$ 1,550,000 | \$ 1,317,500 | \$ 714,000 | \$ 777,000 |
| Susan R. McFarland ³ | \$ 2,237,239 | \$ 2,387,580 | \$ 600,000 | \$ 766,667 | \$ 651,666 | \$ 218,906 | \$ - |
| David Hisey ³ | \$ 1,889,850 | \$ 2,200,000 | \$ 425,000 | \$ 522,500 | \$ 444,125 | \$ 229,950 | \$ 268,275 |
| David C. Benson | \$ 2,587,495 | \$ 2,800,000 | \$ 500,000 | \$ 684,834 | \$ 582,108 | \$ 410,276 | \$ 410,277 |
| Terence W. Edwards | \$ 2,621,686 | \$ 2,800,000 | \$ 500,000 | \$ 684,834 | \$ 582,108 | \$ 439,582 | \$ 415,162 |
| Timothy J. Mayopoulos | \$ 2,811,591 | \$ 2,950,000 | \$ 500,000 | \$ 734,834 | \$ 624,608 | \$ 483,794 | \$ 468,355 |

³ Susan McFarland the current Chief Financial Officer replaced David Hisey, Acting Chief Financial Officer, in July 2011.

As shown above, actual compensation was less than target compensation. That reflects scores of less than 100 percent for each Enterprise on each of the Enterprise Scorecards used to determine a portion of deferred salary, the 2011 long-term incentive pool, and the 2010 long-term incentive pool. For Freddie Mac, the respective scores that were approved by FHFA acting as conservator were 87 percent, 79 percent, and 84 percent. For Fannie Mae, the scores were 85 percent for each purpose. Individual results for the long-term incentive awards also reflect personal performance of the individual executives. Details of the accomplishments and scoring considerations behind those scores can be found in the Enterprises' filings today and will be placed on FHFA's website on release. The deferred salary is not a bonus, but rather was designed to mimic in part the deferred salary paid by firms receiving special assistance from TARP, which is paid in the form of company stock. Because that was not feasible for Enterprise employees, part of their deferred salary was tied to Enterprise goals, the closest approximation possible. Further detail can be found in our announcement made December 24, 2009:

http://www.fhfa.gov/webfiles/15332/Exec_Comp_12_24_09%5b1%5d.pdf

The amounts paid in February 2012 in fulfillment of the Target Incentive Opportunities component of compensation from pre-2012 compensation packages for the named executive officers at the two Enterprises, who are listed on the previous page, totaled \$7.37 million, down 33 percent from the total amounts paid to the named officers a year ago.

Impact of Reductions

Impact of reductions on the overall average of Fannie Mae and Freddie Mac's total direct compensation (TDC) for named executive officers (NEOs), the top 15 most highly compensated officers and CEOs.*

- NEOs: 2008 to 2012 Target TDC (Total Direct Compensation) will be down 74%
- NEOs: 2011 to 2012 Target TDC will be down 37%
- Top 15: 2008 to 2012 Target TDC will be down 64%
- Top 15: 2011 to 2012 Target TDC will be down 24%
- CEO: 2008 to 2012 Target TDC will be down 95%
- CEO: 2011 to 2012 Target TDC will be down 92%

Impact of reductions on Fannie Mae*

- NEOs: 2008 to 2012 Target TDC will be down 77%
- NEOs: 2011 to 2012 Target TDC will be down 35%
- Top 15: 2008 to 2012 Target TDC will be down 64%
- Top 15: 2011 to 2012 Target TDC will be down 22%
- CEO: 2008 to 2012 Target TDC will be down 93%
- CEO: 2011 to 2012 Target TDC will be down 92%

Impact of reductions on Freddie Mac*

- NEOs: 2008 to 2012 Target TDC will be down 69%
- NEOs: 2011 to 2012 Target TDC will be down 39%
- Top 15: 2008 to 2012 Target TDC will be down 64%
- Top 15: 2011 to 2012 Target TDC will be down 26%
- CEO: 2008 to 2012 Target TDC will be down 97%
- CEO: 2011 to 2012 Target TDC will be down 92%

*After planned hiring of new CEOs at \$500,000 each.