



**RICHARD CORDRAY**  
OHIO ATTORNEY GENERAL

August 25, 2010

Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency  
1700 G Street, N.W.  
Washington, D.C. 20552-0003

Alfred M. Pollard  
General Counsel  
Attn: Comments/RIN 2590-AA23  
Federal Housing Finance Agency  
Fourth Floor  
1700 G. Street, N.W.  
Washington DC 20552

Re: Proposed Regulation RIN 2590-AA23

Dear Acting Director DeMarco and Mr. Pollard:

I write on behalf of the class members, including Ohio institutions and citizens, that invested in Fannie Mae and Freddie Mac prior to the conservatorship, to express my objections to the Federal Housing Finance Agency's (FHFA) proposed regulation RIN 2590-AA23.<sup>1</sup> This proposed rule would have serious, adverse effects on the ability of over 30 million pensioners and hundreds of thousands of other investors throughout the United States from prosecuting their currently pending securities fraud claims against Fannie Mae and Freddie Mac and their former officers. By relegating securities fraud claims to the lowest priority in receivership, the proposed rule would effectively insulate Fannie Mae and Freddie Mac from accountability for their past fraud. Further, the proposed rule would prohibit Fannie Mae and Freddie Mac from paying securities litigation claims while they are in conservatorship, unless specifically permitted by the Director of FHFA. I find this result to be completely unacceptable.

On behalf of the Court-Appointed Lead Plaintiffs Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio and the Class in the currently pending Fannie Mae securities class action securities fraud litigation that was filed in November 2004, counsel has been retained to represent the Lead Plaintiffs and the Class with respect to the proposed rule. That counsel has submitted a separate comment letter describing how the proposed rule exceeds FHFA's statutory authority and is otherwise unconstitutional.

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<sup>1</sup> RIN 2590-AA23, Conservatorship and Receivership, 75 Fed. Reg. 39462 (July 9, 2010).

Furthermore, this proposed rule would have a devastating impact on millions of beneficiaries of public, union and private pension plans and taxpayers in Ohio and other states who suffered substantial damages as a result of the fraud at Fannie Mae and Freddie Mac. Participants in these pension funds include millions of active and retired firefighters, police officers, teachers, health care providers, transportation workers, and other public service employees. Prior to the conservatorship, numerous pension funds and individuals invested heavily in Fannie Mae and Freddie Mac because those companies and their senior officers falsely assured class members that the investments were safe, had little risk, and had steady earnings.

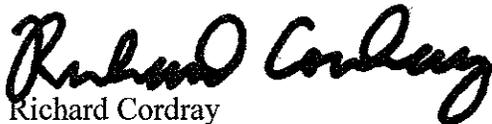
FHFA is well aware of the fraud that occurred at Fannie Mae prior to conservatorship. Indeed, FHFA (through its predecessor OFHEO) investigated Fannie Mae and its former senior officers and issued two reports in September 2004 and May 2006 that detailed egregious misconduct. FHFA then entered into consent orders requiring Fannie Mae to fix its accounting and other inappropriate policies and conduct. FHFA also filed notices of charges against Franklin Raines, Timothy Howard and Leanne Spencer – the same individuals who are defendants in the currently pending class action. Ultimately, Fannie Mae filed a financial restatement in December 2006, wiping out over \$10 billion in previously-reported earnings and admitting to accounting violations in at least 30 areas – almost every accounting rule applicable to Fannie Mae. It took Fannie Mae over two years and \$2 billion to fix its improper accounting practices and policies and to prepare the restatement.

In May 2006, FHFA entered into a settlement agreement in which Fannie Mae paid FHFA a civil money penalty of \$50 million and agreed to make specific remedial changes with respect to accounting, internal controls, governance, and other matters. In April 2008 – less than 5 months prior to the conservatorship – FHFA entered into settlements with Raines, Howard and Spencer, pursuant to which those individuals paid settlements funds to FHFA purportedly valued at over \$31 million, paid in large part by insurance owned and paid for by Fannie Mae.

Given FHFA's prior settlements with Fannie Mae, I am disappointed that FHFA's proposed rule would now try to severely limit the securities claims of millions of investors who suffered billions of dollars in damages as a result of the same fraud. Just as FHFA did, millions of aggrieved pensioners and taxpayers deserve to have their day in court, and the ability to collect on any judgments issued by the courts.

Thank you for your attention to this matter. Please feel free to contact me if you have any questions or concerns.

Sincerely,



Richard Cordray  
Ohio Attorney General