

The Fannie-Freddie Takeover: New CEOs Are Untainted By Credit Woes

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Abstract: The two men handed the task of restoring the credibility and financial strength of Fannie Mae and Freddie Mac have long careers in financial services, but have never led major organizations through periods of extensive turmoil.

Full text: The two men handed the task of restoring the credibility and financial strength of Fannie Mae and Freddie Mac have long careers in financial services, but have never led major organizations through periods of extensive turmoil. Nor have the two executives led mortgage companies -- a gap perhaps but one that also helps distance them from the industry's recent woes.

Herbert M. Allison Jr. and David Moffett were on a short list of financial-services executives untarnished by the credit-market troubles. The choice shows the government is more interested in executives with strong operating experience than high-profile leaders.

Mr. Allison, 65 years old, who becomes chief executive of Fannie Mae, spent most of his career at Merrill Lynch & Co. He later served five years as head of a teachers retirement system.

Mr. Moffett, 56, who becomes chief executive of Freddie Mac, comes from banking, where he worked since 1993 as a top deputy to former U.S. Bancorp chief Jerry Grundhofer. Mr. Moffett stepped down as U.S. Bancorp finance chief and vice chairman last year.

Without any current, direct ties to the mortgage business, Messrs. Allison and Moffett can devote their time to figuring out "how can we get out of this hole," rather than defending past mistakes, said Robert S. "Steve" Miller, a corporate turnaround specialist.

Mr. Allison declined to comment, except to say: "It is going to be a 24/7 thing for me from here on in." Mr. Moffett was unable to be reached for comment.

At Merrill, Mr. Allison first made his mark in such jobs as treasurer, human-resources head and chief financial officer. Bonuses he devised tied to return on equity were even nicknamed "Herbies" when they were initially awarded in a sub-par year. After Merrill's results improved and their value picked up, Mr. Allison's star rose. He became head of investment banking in 1993, added capital-markets oversight in 1995 and gained Merrill's presidency in 1997. But he quit in July 1999. He had been told he wouldn't be elevated to the top job following a few missteps, including across-the-board job cuts in 1998 that were soon reversed when markets rebounded. Mr. Allison "is a very meticulous guy. He sends memos back if there are typos," said Gary Goldstein, a Wall Street recruiter who has known him since his Merrill Lynch days.

His career got a second wind in 2002 when he became head of TIAA-CREF, a retirement-fund manager for college employees. He held the job until April. He'd tried to transform the organization into a more diverse, full-service financial-services provider. He expanded the fund line-up, hired more advisers, and added client centers. He cut 8% of the work force and raised fees on some funds.

In 2003, Mr. Allison was a New York Stock Exchange director when controversy erupted over the pay package of then NYSE CEO Dick Grasso, who was eventually ousted. Mr. Allison voted to ask for Mr. Grasso's resignation and was on the short list to chair the exchange after Mr. Grasso's departure, but rebuffed approaches to do so, according to a person familiar with the matter.

Mr. Miller, who has known Mr. Allison since his Merrill Lynch days, says the new Fannie Mae boss "has a lot of respect in the financial community and that will be important in restoring investor confidence."

Mr. Moffett is a 30-year banking veteran with a taste for big deals and cost-cutting as finance chief. In 1989, he joined Los Angeles-based Security Pacific National Bank, where he met Mr. Grundhofer.

When Mr. Grundhofer was named CEO of Star Banc Corp. of Cincinnati in 1993, he reached out to Mr. Moffett.

The pair, together with Security Bank alumnus Richard Davis, pursued a rash of deal-making during a particularly heady period of banking mergers.

In 1998, they acquired FirstStar Corp. of Milwaukee, then U.S. Bancorp of Minneapolis three years later. Mr. Moffett retired as finance chief from U.S. Bancorp in 2007, shortly after Mr. Grundhofer passed the torch to Mr. Davis.

Mr. Moffett was in the finance chief job at a time of enormous growth for U.S. Bancorp, now the sixth-largest commercial bank in the country with \$247 billion. The bank has suffered far fewer problems than many of its rivals.

Susanne Craig contributed to this article.

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