



Fannie Mae Sues KPMG

Both the mortgage company and its ex-auditor the targets of a shareholder suit in U.S. District Court, where KPMG now intends to sue Fannie.

[Stephen Taub](#), CFO.com

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Fannie Mae has sued its former auditor, KPMG, for negligence and breach of contract.

Filed Tuesday with the Superior Court of the District of Columbia, the complaint accuses the Big Four accounting firm of failing to serve its role as an independent watchdog and prevent \$6.3 billion in accounting errors, according to Bloomberg.

Fannie claims it suffered \$2 billion in damages as a result of the errors, including \$1 billion in costs to restate earnings, according to the report. KPMG was fired by Fannie's board in December 2004 after the Securities and Exchange Commission accused Fannie executives of using improper reserves in an effort to smooth earnings and hit bonus targets, according to the news service.

Both Fannie Mae and KPMG are defendants in a class-action suit pending in the U.S. District Court for the District of Columbia. "The issues involved in the lawsuit filed today by Fannie Mae are already pending in federal court in Washington DC. Accordingly, we removed this suit to that same federal court, where we intend to pursue our own claims against Fannie Mae," Tom Fitzgerald, a KPMG spokesman, told CFO.com.

The Washington-based mortgage company reportedly blamed KPMG for failing to identify the problems. "Fannie Mae has determined that at least 30 accounting policies and practices approved by KPMG were not consistent with generally accepted accounting principles," the company said in its court filing, according to Bloomberg. "It is difficult to imagine a clearer case of accounting malpractice."

In a statement issued Tuesday, James Lockhart, director of the Office of Federal Housing Enterprise Oversight (OFHEO), said that Fannie Mae's filing against KPMG "is appropriate and consistent with the findings of OFHEO's Special Examination reports."

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