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# Pampered Life Is Fading for 2 Mortgage Giants

By JOHN TIERNEY

**W**ASHINGTON, June 16 — Until last week, most Americans familiar with [Freddie Mac](#) or [Fannie Mae](#) probably had a vague image of benevolent government agencies helping young couples get their first mortgages. But after Freddie Mac replaced its top management, it became clear from the severance pay that this was no ordinary government work. Bureaucrats do not receive \$24 million golden parachutes.

Freddie Mac and its big sister, Fannie Mae, are government-sponsored enterprises in Washington that have become two of the largest and most profitable companies on Wall Street. They say that their special privileges promote the American dream and that their profits reflect sound management. Their critics say the companies promote what is more like the Washington dream: private benefits for the well connected, and potentially enormous public costs for taxpayers if either company makes the wrong bets when buying and selling mortgages.

Now critics — from Alan Greenspan to Ralph Nader — see an opportunity to challenge two institutions that have long been virtually untouchable. After the shake-up at Freddie Mac, which came during an internal inquiry of its accounting practices, outside investigations were announced by federal prosecutors, regulators and lawmakers.

The Freddie Mac board fired David W. Glenn, the president, and forced Leland C. Brendsel, chairman and chief executive, and Vaughn A. Clarke, chief financial officer, to resign. Freddie Mac said today that it was preventing Mr. Brendsel and Mr. Glenn from selling restricted stock or exercising stock options until its regulator, the Office of Federal Housing Enterprise Oversight, reviews their compensation packages. It is also preventing their unvested options, restricted stock and restricted stock units from vesting.

The power of Freddie Mac and Fannie Mae on Capitol Hill has stemmed partly from their importance to homeowners and the housing industry. Because they own or guarantee more than a third of the home mortgages in America, any threat to their operations could raise the cost of mortgages and hurt well-organized constituencies in every Congressional district.

Their power also stems from their political operations. The profits from Wall Street are used to recruit politicians from both parties as executives and to hire lobbyists — 19 lobbying firms last year for Freddie Mac; 23 for Fannie Mae, according to PoliticalMoneyLine. Freddie Mac's chief internal lobbyist, Mitchell Delk, is known for having fund-raisers for members of Congress, though those are "personal activities" separate from the company, said Douglas Robinson, spokesman for Freddie Mac.

"The lobbying ability of Fannie and Freddie is second to none in Washington," said Representative Richard H. Baker, a Louisiana Republican who is chairman of the House subcommittee that oversees the companies. "They have not only unlimited financial resources but good personnel who maintain good relations with many members of Congress. When their interests are threatened, the response is almost armylike. They're tactical, and they're everywhere."

Besides helping the young couples in their advertisements pay for homes, Fannie Mae and Freddie Mac have also helped pay for the purchase, renovation and upkeep of the headquarters for the Democratic and Republican Parties in Washington. Since 1999, PoliticalMoneyLine says, Fannie Mae has contributed over \$2.5 million to house the parties' national and campaign committees, while Freddie Mac has contributed more than \$6 million.

Fannie Mae has a tradition of recruiting government veterans with nongovernment salaries. Its chief executive, Franklin D. Raines, who interrupted his career there to serve as director of the Office of Management and Budget under President Bill Clinton, received more than \$11 million in compensation last year, according to the company. The vice chairman of Fannie Mae's board, Jamie S. Gorelick, who was deputy attorney general until 1997, received more than \$4 million last year.

Officials at Freddie Mac and Fannie Mae have been frank about the need to manage what they call "political risk" just as much as they manage the financial risks of their portfolios. Chuck Greener, a former spokesman for the Republican National Committee who is a senior vice president at Fannie Mae, said: "We're passionate about our mission and the public role it fulfills. Consequently, we feel it's important to communicate with Congress and policy makers."

The public mission of Fannie Mae and Freddie Mac is to promote homeownership, especially among lower-income Americans. Although they do not directly write mortgages, they buy them from the primary lenders, sell them to other investors and guarantee them against default.

Supporting that mission poses no direct strain on the federal budget, another reason the companies are so popular on Capitol Hill. The support takes the form of indirect subsidies worth more than \$10 billion a year, according to a 2001 study by the Congressional Budget Office. Besides exemptions of \$1 billion worth of local taxes and securities fees, the budget office found, the companies save more than \$9 billion a year thanks to an "implicit subsidy": the ability to borrow money cheaply because of the widespread assumption that the federal government would cover any losses, even though it is not legally obligated to do so.

The budget office estimated that close to two-thirds of these annual subsidies were passed along to homeowners in the form of lower interest rates, but that still left nearly \$4 billion in federal largess to be divided among the shareholders and employees of Fannie Mae and Freddie Mac. Critics on both the right and left have called it corporate welfare.

"These are the most successful corporate hermaphrodites in world history," said Mr. Nader, the consumer advocate and former presidential candidate. "While there is a widespread need for affordable housing in America, Freddie Mac and Fannie Mae report massive profits, provide their top executives with huge compensation packages and laugh all the way to the bank with government guarantees. It's a paradigm of how to influence Washington."

The companies dispute the estimates of their subsidies and say that their advantages over rivals stem chiefly from better management. Freddie Mac cites a study it commissioned from James E. Pearce, a former Federal Reserve Bank economist, and James C. Miller III, former director of the Office of Management and Budget, which concludes that any subsidies to Fannie Mae and Freddie Mac are greatly exceeded by the benefits that consumers receive in the form of lower interest rates on mortgages.

The companies have many defenders. "America has the world's highest rate of homeownership because we're the only country that has a Fannie or Freddie," said Angelo R. Mozilo, the chairman of [Countrywide Financial](#), a large mortgage lender. "Nobody wins if they're damaged or impeded. Housing is the only thing driving the economy right now."

But there are also many critics, especially among their rivals. "Fannie and Freddie always say not to do anything to them because you'll upset the housing market and the economy," said Mike House, the executive director of FM Policy Focus, a coalition of companies in the mortgage and housing industries. "But the events of the past week show that not properly regulating them can cause more problems. Nobody knows the long-term implications of this."

Last week's shake-up at Freddie Mac came as its auditors were studying whether it had properly accounted for its portfolio of derivatives. The accounting questions could well turn out to be a short-lived problem, but critics fear the possibility that Freddie Mac is hiding some long-term weakness in its portfolio. Because the two companies have grown so huge, a failure by either could be cataclysmic for the economy and leave the federal government with the prospect of a bailout.

"We need to get a much stronger regulatory structure over Fannie and Freddie, and the reform efforts seem more likely than ever to succeed now," said Mr. Baker, who will hold House hearings into the companies. He said that Congress might create a new federal regulator to oversee the companies and that lawmakers might also start requiring the companies to follow the registration and disclosure rules of the Securities and Exchange Commission.

That does not satisfy Peter J. Wallison of the American Enterprise Institute, editor of "Serving Two Masters Yet Out of Control: Fannie Mae and Freddie Mac" (AEI Press). "Congress," he said, "should be

talking about privatization — removing their links to the government — and splitting them up so that the errors of one or more managements will not threaten the country's economic health."

For now, though, the most radical change that appears possible would be stricter oversight. "We've always said we favor a strong and well-funded regulator," said Mr. Greener of Fannie Mae. "But we do not believe Congress will take any action that in any way changes our status or impairs our mission."