

Ethics Matters

How Fannie, Freddie Won Congressional Support

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Author's note: *This article is the first in a four- part series on Fannie Mae and Freddie Mac's financial crisis. This article explains how the companies gained Congressional allies. The second article explains how those allies stopped proposed reforms of the companies. Articles three and four explain the companies' unethical business practices.*

Fannie Mae and Freddie Mac are the common names for the Federal Mortgage Association and the Federal Home Loan Corporation. Both are federal government sponsored companies. Neither company makes loans. They buy mortgages from banks and savings and loans companies to enable those companies to give loans to low-income home buyers. Fannie and Freddie hold some of the mortgages they buy and others they bundle and sell to investors as securities.

For years, Fannie and Freddie bought risky subprime and Alt-A loans. Borrowers with bad credit got subprime loans and borrowers without income verification got Alt-A loans. The companies spent billions buying high risk loans and guaranteeing repayment of loans sold as securities.

Influencing Politicians

Fannie and Freddie cultivated friendships with important members of Congress, such as Senators Christopher Dodd (D-Conn.), Chairperson of the powerful Banking Committee; Robert Bennett (R-Ut.); and House Representatives Barney Frank (D-Mass.) and Maxine Waters (D-Ca.). They convinced them, and many others in Congress, that the companies' success and homeownership for low-income buyers were inseparable.

Campaign Contributions

According to the Center for Responsive Politics, between 1989 and 2007 Fannie and Freddie donated \$4.8 million to key Congressional members, with Senator Dodd receiving more of the donations than any other member of Congress. In the 2008 election cycle, Fannie and Freddie found the money to donate to their favorite politicians, even with the companies' troubled finances. Fannie gave \$726,650 to federal candidates, with 55% of it going to Democrats. Freddie gave \$220,497 and split the money equally between Democratic and Republican candidates.

In 2006, Freddie's contributions to politicians got the company in trouble with the Federal Election Commission. Freddie paid a fine of \$3.8 million, the largest civil fine ever paid to the Commission, to settle charges that Freddie used corporate resources to raise \$1.7 million for politicians.

Advertising and Lobbying

To further influence politicians, Fannie and Freddie spent tens of millions on advertising. They sought to make the Fannie and Freddie brands synonymous with homeownership. By publicly supporting Fannie and Freddie, politicians impressed voters with their support for expanding homeownership to low-income home buyers. The companies always shared credit with politicians for investments in their communities.

The companies sponsored high profile political events, parties, conventions and golf outings, especially those honoring members of Congress. For example, Fannie was one of six sponsors of the golf charity event "First Tee" that honored former House Whip James E. Clyburn (D-SC) and Senator Saxby Chambliss (R-Ga.)

Representative James Leach (R-Ia.) once remarked about Fannie and Freddie, "They have always done everything in their power to massage Congress".

Fannie and Freddie also skillfully lobbied Congress and federal agencies. According to lobbying records, over a 10-year period, Fannie spent \$79.5 million and Freddie \$94.8 million to lobby Congress and federal agencies.

Intimidation

When necessary, Fannie and Freddie intimidated members of Congress. In 2003, Richard H. Baker (R-La.) chaired the House Financial Services Subcommittee, which had oversight of Fannie and Freddie. Baker got information from the Office of Federal Housing Enterprise Oversight (OFHEO) on the salaries of the companies' executives. A Fannie spokesperson told Baker that Fannie would sue him if he publicly released the salary information. Fearing a costly lawsuit, Baker withheld the information. After retiring from public office, Baker remarked that in his 21 years in office he never saw any other private entities with the same arrogance and political power of Fannie and Freddie.

Costly Influence

Former Fannie CEO Franklin Raines boasted in a 1999 investors meeting, "We manage our political risks with the same intensity that we manage our credit and interest rate risks." In fact, both Fannie and Freddie managed their political risks much better than their financial risks.

Political influence, however, came at a high price. Fannie and Freddie's friends in Congress constantly demanded the companies buy more and more of the risky loans of low-income borrowers. Years of reckless business practices brought the companies to the brink of financial ruin by 2008.