

Fannie Mae, Freddie Mac executives to receive millions in bonuses

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Fannie Mae and Freddie Mac, the mortgage lending giants currently under federal conservatorship, will pay out \$210 million in retention bonuses over the course of 18 months, a recent letter by the companies' federal regulator, James Lockhart, states.

The Obama administration is tacitly backing the payouts, since it has kept Lockhart, a Bush appointee, as the head of the federal agency that regulates the two mortgage finance companies.

Some \$51 million in bonuses was paid late in 2008. The remainder will be released in 2009 and early in 2010, according to the letter, sent Friday to Iowa Republican Senator Charles Grassley.

Two hundred and thirteen executives and employees at the two firms will each take home more than \$100,000 in 2009 bonuses. Two high-level executives will each be awarded more than \$700,000.

Last year, Fannie paid out \$4.4 million in bonuses to its top four executives.

In the letter, Lockhart defended the bonuses as necessary to retain talent at Fannie and Freddie. "It is not realistic to expect that experienced and highly skilled employees will indefinitely continue to work as hard as they have if we do not provide reasonable incentives to perform," Lockhart wrote.

"If the bonuses are rescinded, it sends the exact opposite signal, and it would be extremely dangerous for the American economy to lose these workers at this point," he added.

The two companies lost \$108 billion in 2008 and have survived only because of two government infusions of cash and loans totaling \$400 billion.

The plan to pay bonuses to executives at Fannie and Freddie provoked public outrage when it became known on March 18. Amidst the scandal concerning

bonuses paid to executives and traders at the bailed-out insurance firm American International Group (AIG), politicians of both parties railed against executive bonuses awarded by firms receiving taxpayer bailouts. However, under pressure from the Obama administration, Senate Democrats have waylaid legislation that would heavily tax bonuses at AIG and other firms.

Now, Fannie and Freddie have announced a new round of executive bonuses. Implicitly acknowledging growing public anger, Lockhart's letter does not disclose the executives' names "for personal privacy and safety reasons."

The plan to carry forward executive bonuses at Fannie, Freddie, AIG and other bailed-out firms has the support of the Obama administration. During the AIG scandal, Obama initially declared he was "outraged" that AIG, which has received some \$180 billion in government funds, was rewarding some of the very executives and traders whose risky bets on credit default swaps and other derivatives had led the company to ruin and helped bring the US and global financial system to the point of collapse. In the face of a furious counterattack by Wall Street firms and much of the media, following passage of a bill by the House of Representatives imposing a 90 percent surtax on some AIG bonuses, Obama quickly shifted gears and mounted a public campaign opposing congressional efforts to tax the bonuses.

Significantly, Obama has kept Lockhart, who was appointed by President George W. Bush, as the head of the agency tasked with overseeing Fannie and Freddie, the Federal Housing Finance Agency. According to the *New York Times*, "The law creating Mr. Lockhart's office...established him as the lead regulator until his successor is named by the president and confirmed by

Congress.”

“This is a de facto White House endorsement of these payments,” Karen Shaw Petrou, partner at Federal Financial Analytics, told the *Times*. Petrou called Obama’s stance “a little odd considering that everyone spent days talking about how they were shocked by the bonuses given to AIG.”

Fannie and Freddie are the two largest mortgage lending firms in the US. Together, they underwrite more than half the nation’s mortgages.

A rising tide of delinquencies and defaults on mortgage payments led to the government rescue of Fannie and Freddie in September 2008. The two government-sponsored enterprises, or GSEs, have combined obligations in debts and mortgage-backed securities of more than \$5 trillion.

Fannie Mae and Freddie Mac buy mortgages, repackage them and resell them as mortgage-backed securities to banks and investors. Fannie Mae (Federal National Mortgage Association) was created in 1938 during the Great Depression as a New Deal reform to create lending liquidity in the housing market. It was privatized in 1968 in order to remove its debt obligations from the federal balance sheet.

Freddie Mac (Federal Home Loan Mortgage Corporation) was created as a government-sponsored but privately owned firm to further expand the secondary market for mortgages in 1970.

The Obama administration’s role in backing the firms’ bonuses underscores its preoccupation with protecting the wealth and power of the American financial elite.



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