



Written by [Brian Koenig](#) on November 9, 2011

Fannie Mae Seeks Another \$7.8 Billion in Federal Aid

Only days after Freddie Mac sought a \$6-billion cash lifeline from the Treasury Department, Fannie Mae is now chasing a \$7.8-billion check in federal aid. Attributing its steep \$5.1-billion third-quarter deficit to losses on derivatives and the persistent failings of the housing market, the government-controlled firm is furthering its heedless course to fiscal Armageddon — while draining the bank accounts of American taxpayers all along the way.

Fannie Mae and its cohort Freddie Mac were seized by the federal government during the financial crisis as company executives pleaded that severe losses on subprime mortgages were foreboding their insolvency. Considering their vast presence in housing finance, owning or guaranteeing roughly half of all outstanding mortgages (including other federal agencies, they have backed about 90 percent of new mortgages over the past year), the government has pledged an endless stream of funds to the two government-sponsored enterprises through the end of 2012, which has left taxpayers on the hook for a combined total of \$169 billion.

The general functions of Fannie and Freddie are to purchase home loans from banks and lenders, package the loans with bonds while guaranteeing them against default and sell them to investors inside and outside of the United States. But between 2005 and 2008, Fannie and Freddie carelessly [purchased](#) a heap of bad mortgages, which nearly buried the two companies into foreclosure themselves.

“There is certainly a lot of pre-2009 loans that we need to work through and that is certainly driving the credit losses you saw in this quarter and over the last several years,” said Fannie Mae chief financial officer Susan McFarland. Since its government takeover in 2008, Fannie Mae has reaped \$112.6 billion in bailout funds from the Treasury the most costly bailout of a single company and it has rebated \$17.2 billion back to taxpayers in the form of dividends.

Fannie Mae CEO Michael Williams seemed overly optimistic about the company's finances and standing in the marketplace, as he [asserted](#), “Despite these challenges, we are making progress [and] we are growing a strong new book of business that now accounts for nearly half of our single-family guaranty book of business.” Williams also proudly assured that Fannie was helping “homeowners to avoid





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foreclosure and provide liquidity to enable working families to buy a home or secure quality affordable rental housing.”

But despite the “challenges” Williams allegedly faces, the two mortgage giants were reportedly [approved](#) by the firms regulator, the Federal Housing Finance Agency (FHFA), for \$12.79 million in bonus pay for 10 executives. The move did not sit well with many House and Senate leaders, who are demanding a hearing on the measure, specifically asking FHFA director Edward DeMarco to testify on November 16.

“In order to properly examine these compensation packages,” Rep. Elijah Cummings (D-Md.) [wrote](#) Tuesday in a letter to House Oversight and Government Reform Committee Chairman Darrell Issa (R-Calif.), “the committee should hear from the official who approved them, Mr. DeMarco.”

Cummings also asked Issa to demand that the FHFA release copies of all compensation packages for the top executives of the two mortgage companies by November 14, stating,

Without testimony from the head of the agency responsible for approving executive compensation at Fannie Mae and Freddie Mac, and without copies of the compensation packages we are supposed to review at the hearing, the Committees oversight efforts will be inadequate and incomplete.

“Using taxpayer dollars to give out enormous bonuses at a troubled company just doesnt make any sense to me,” contended Sen. Joe Manchin (D-W.Va.), echoing similar sentiments as his colleagues. “And Im just as furious as the American people that their hard-earned tax dollars paid for extravagant bonuses at Fannie Mae and Freddie Mac.”

In addition to the November hearing, a bipartisan group of seven Senators said Wednesday they will propose an amendment this week that bars top executives at the two mortgage companies from collecting lucrative compensation packages as long as they remain in federal conservatorship. “Its outrageous that Fannie Mae and Freddie Mac executives would expect multimillion dollar bonuses after \$170 billion in taxpayer bailouts and one in every four homeowners mortgage underwater,” [charged](#) Sen. John McCain (R-Ariz.).

Earlier this year, the Obama administration rolled out a plan to gradually dissolve Fannie and Freddie, aiming to abridge the governments overbearing role in housing finance. The administration offered Congress three options, all of which seemed to relinquish greater control of the housing industry to the private sector. Details regarding the plan remain somewhat obscure, but the hope of many critics is that it will change the mortgage system into one that involves far more private financing and far less taxpayer backing.



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