



Written by [Raven Clabough](#) on March 16, 2011

SEC Investigating Fannie and Freddie

The *New York Times* [writes](#):

The executive, Richard F. Syron, a former president of the American Stock Exchange and now an adjunct professor and trustee at Boston College, has received a so-called Wells notice from the Securities and Exchange Commission, an indication the agency is considering an enforcement action against him.



Syron is the latest executive being called up by the SEC in the investigation of the two government-controlled companies. In addition to Syron, Daniel H. Mudd, another former chief executive of Freddie Mac, has received a notice, as well as a former Fannie Mae executive.

The *New York Times* explains:

The S.E.C.'s long-running investigation is now zeroing in on how Freddie and Fannie publicly disclosed their exposure to risky loans and whether those depictions were too rosy, according to the people briefed on the investigation who spoke on the condition of anonymity because the inquiry was still under way.

As the SEC continues to investigate the people and companies involved in the mortgage and financial crisis, its prime focus is whether Freddie Mac and Fannie Mae sufficiently reported their ownership of subprime loans and mortgages, particularly between the years 2006 and 2008.

Filings reveal that the companies did in fact disclose to investors breakdowns of their loan portfolios by arranging data by credit scores and equity.

Politico [writes](#), however, that the filings do not absolve the two companies of guilt:

Fannie and Freddie own or guarantee almost half of the country's \$12 trillion in mortgage debt. Over the past few months, their shares of the housing market have grown as private companies curtailed their mortgage lending in the wake of massive subprime-related losses.

Critics have long argued that both Fannie and Freddie operated with too small a capital cushion to adequately offset financial risk. But the mortgage giants have consistently beaten back congressional efforts to increase oversight, even after a major accounting scandal in 2003 resulted in a \$400 million fine for Fannie.

Likewise, much of the guilt rests with the federal government. In July 2008, conservative pundit Glenn Beck [noted](#) the following on his radio program:

Fannie and Freddie get together. Let me see if I can find the date here. On February 28 I said that \$3.6 billion was the loss announced by Fannie Mae. That's the country's largest backer of home



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loans yesterday, but instead of outrage, our government responded as it always does with a bailout.

Almost exactly at the same time that Fannie Mae was revealing their billions in losses and saying there's more on the horizon, our government was announcing that they wanted to lift the cap on how many loans Fannie Mae could fund. Let's take on even more risk at your expense, said Washington. You're on the hook for America and it's going to get much worse. That's February 28.

"Oh, Glenn, stop being such a pessimist. Look, everything's being..." here it is. These two mortgage institutions run — I'm sorry, run by private industry but consulted by the federal government, hold 50 percent of the mortgages in this country, 50 percent — \$11 trillion. By the way, federal deficit — \$9 trillion. The federal government yesterday made it official. They are going to back all of these loans. "You can trust with the full faith and credit of the United States." I don't have much more faith and credit in the United States! Wait a minute. You're — oh, you're backing it up with U.S. Treasury dollars? Oh, well, those are hard to come by unless you happen to be standing by the printing machine that's printing 24/7. My gosh! Oh, with the full faith and credit, you can trust that our dollar is worth a lot.

Likewise, prior to the mortgage crisis and financial collapse, the White House had been [warned](#) of impending financial turmoil resulting from a number of factors, including the growth of both Fannie Mae and Freddie Mac — warnings which went virtually unheeded.

Nevertheless, most of the orchestrators of the housing and financial crisis have emerged unscathed.

Politico contends that the two mortgage giants managed to fend off scandal and crisis in 2008 by spending nearly \$200 million on lobbying and campaign contributions:

They've stacked their payrolls with top Washington power brokers of all political stripes, including Republican John McCain's presidential campaign manager, Rick Davis; Democrat Barack Obama's original vice presidential vetter, Jim Johnson; and scores of others now working for the two rivals for the White House.

The Justice Department has investigated both companies since then but, not surprisingly, has brought no charges.

Like the Justice Department, the SEC has brought up few cases from the financial crisis, drawing its own criticism.

The SEC's current investigation of Fannie Mae and Freddie Mac may not result in the filing of suits, however, because those who receive Wells notices can challenge allegations and head off any civil action. For example, after receiving his Wells notice in mid-January, Syron issued a rebuttal on February 22. Syron's lawyer, Mark Hopson, noted, "We have made submission to the commission, which demonstrates that Mr. Syron, as C.E.O., oversaw a very rigorous and fulsome disclosure process and that the company's disclosures were in fact wholly accurate and compete. Any proposed charges against our client are completely without merit."

Likewise, Mudd, who currently serves as chief executive for the Fortress Investment Group, has contested the allegations, as have Freddie Mac Executive Vice President Donald Bisenius and former Freddie Mac chief financial officer Anthony Pizsel.

At the behest of lawmakers and lenders, Fannie Mae and Freddie Mac were urged to "delve deeper into the risky subprime markets, to enhance business and offer the chance of homeownership to a segment



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of the population often ignored by lenders,” explains the *New York Times*.

The risky mortgages acquired during the real estate bubble ultimately destroyed the finance companies, which required the rescue efforts of the federal government. Thus far, the two companies have received more than \$100 billion from the government in relief funds, and Fannie Mae has asked for an additional \$2.6 billion from the Treasury Department. Freddie Mac has requested \$500 million.

Photo of Richard Syron: AP Images



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