CBO FAULTS SUBSIDIES FOR 2 FINANCE FIRMS

By **Albert B. Crenshaw, Washington Post**

May 30, 1996

Fannie Mae and Freddie Mac, the two giant congressionally chartered housing finance companies, have accomplished much of the purpose for which they were created, and federal policymakers should consider severing the government's relationship with them, the Congressional Budget Office has concluded.

As now structured, the two companies receive implicit government subsidies valued at $6.5 billion a year, of which $4.4 billion reached the nation's home buyers, the CBO said.

"As a means of funneling federal subsidies to home buyers, therefore, the {two companies} are a spongy conduit -- soaking up nearly $1 for every $2 delivered," the congressional agency said in the report, released yesterday.

The CBO study is likely to further fuel the political turmoil swirling around the two highly profitable corporations. Both have come under attack from the left for not doing more for low-income families and, in the case of Fannie Mae, for the District of Columbia, and from the right for receiving implicit government insurance without paying for it.

The CBO, an agency that advises Congress on fiscal issues, concluded that the interests of company shareholders and management and those of the government do not always coincide and in fact create "at least the appearance of a conflict of interest."

It found that top executives at the two companies held stock options valued at $44 million for Fannie Mae and $15 million for Freddie Mac, which was formally known as the Federal Home Loan Mortgage Corp. While those are not unusual for a private company, "in the context of a government-sponsored enterprise, in which management controls taxpayer subsidies to a significant extent, those compensation agreements can be inconsistent with the interests of taxpayers and the government," it said.

The report also notes that the two firms employ 12 registered lobbyists and a number of political consultants and "Fannie Mae, in particular, makes no secret of its attempts to influence federal policy toward the {companies} as a means of controlling political risk."

Fannie Mae, which formerly was known as the Federal National Mortgage Association, and Freddie Mac are based in Washington and McLean, respectively. They were chartered by Congress to buy mortgages from private lenders to pump additional cash into the nation's housing markets.

They finance their operations by borrowing in the nation's capital markets -- which view their relationship with the government as an implied guarantee of repayment and thus grant the companies very favorable interest rates.

Officials of both companies were harshly critical of the CBO study yesterday, calling it unrealistic and not reflective of the way the nation's housing finance markets really work.

"This is a case of policy wonks piling their own prejudices on top of faulty analysis, and if these digit-heads could figure out a better way of delivering credit to millions of families with the use if private capital while paying the government billions of dollars in federal taxes, then they can get a real job in Washington," said Fannie Mae spokesman David Jeffers.

The report "has a clear political agenda," said Freddie Mac's Ann Schnare. ". . . They have no understanding of the market imperfections we were created to address {and} they are either indifferent or impervious to the effects" privatization would have on consumers.

The CBO study is one of a series commissioned by Congress in 1992 to examine the question of making the companies fully private. A House banking subcommittee plans hearings on the issue next month.

The General Accounting Office, in a report earlier this month, put the before-tax value of the firms' federal connection at from $2.2 billion to $8.3 billion last year, and concluded that privatizing them would raise mortgage interest rates by between one-eighth and one-third of a percentage point.

The Treasury Department has not completed its report. A draft prepared earlier this month was sharply criticized by Fannie Mae, and no final document has been issued.

Treasury officials attributed the delay to difficulties in obtaining and analyzing data, and rejected the suggestion that the report had been delayed or altered in response to arm-twisting by officials at Fannie Mae or Freddie Mac.

Some private analysts were divided on the report. Susan E. Woodward, former chief economist at the Department of Housing and Urban Development and now a consultant in Palo Alto, Calif., said the CBO greatly understated the efficiencies that the companies bring to the housing finance market, efficiencies that private competitors have not been able to replicate.

However, William Michael Cunningham, president of Creative Investment Research, a Washington firm that does socially responsible investment research, said, "I think the report is right on. . . . It seems their primary mission has been completed and completed successfully. Now it's time to look for a different mission," which could be mortgage money for lower-income parts of the District and housing the homeless. Staff writer Clay Chandler contributed to this report.