



Written by [Michael Tennant](#) on April 4, 2011

Fannie, Freddie, and the Feds' Double Standard on Executive Pay

On February 4, 2009, President Barack Obama signed legislation establishing a \$500,000 limit on executive compensation at firms receiving federal aid through the Troubled Asset Relief Program. "In order to restore trust" to our financial system, Obama said during the signing ceremony, "we've got to make certain that taxpayer funds are not subsidizing excessive compensation packages on Wall Street. He referred to these "lavish bonuses" for executives at failing firms as "the height of irresponsibility" and "shameful" — "exactly the kind of disregard for the costs and consequences of their actions that brought about this crisis."



Apparently the rules are different for executives at government-sponsored enterprises, however. In September 2008 Fannie Mae and Freddie Mac, the epicenter of the entire mortgage fiasco, were taken over fully by the federal government, which had been "sponsoring" them with generous infusions of taxpayer dollars for decades. Whereas private firms getting federal bailouts were forced to obey strict rules regarding executive pay, Fannie and Freddie went merrily on their way, paying their chief executives a combined \$17 million in 2009 and 2010 and their top six executives a combined \$35.4 million, according to a March 31 report by the inspector general of the Federal Housing Finance Agency, which now oversees the two companies.

Meanwhile, since the feds' takeover of Fannie and Freddie, "the companies' mounting mortgage losses have required a \$153 billion infusion from taxpayers," [according to the New York Times](#). "Total losses may reach \$363 billion through 2013, according to government estimates."

In his 2009 remarks Obama said that he would "not tolerate" these kinds of shenanigans at private companies getting TARP funds. "We're going to be demanding some restraint in exchange for federal aid," he added, "so that when firms seek new federal dollars, we won't find them up to the same old tricks." Yet that is precisely what has happened at Fannie and Freddie over the past two years: The companies have continued to receive taxpayer bailouts while diverting tens of millions of those dollars, intended to help shore up the companies, into the bank accounts of their executives.

Similarly, Obama said, "Companies receiving federal aid are going to have to disclose publicly all the perks and luxuries bestowed upon senior executives and provide an explanation to the taxpayers and to shareholders as to why these expenses are justified." But the inspector general's report noted that "FHFA ... does not provide sufficient transparency to the public of [Fannie and Freddie's] executive compensation programs."

The *Times* summarized the report's explanation of how such excessive executive pay came about:



Written by [Michael Tennant](#) on April 4, 2011

The report cited a “lack of standardized evaluation criteria, documentation of management procedures and internal controls” at the oversight agency, missing steps that may have led to overpayments.

For example, the inspector general said that taxpayer support of the companies may have made performance benchmarks easier to meet for executives. In 2009, Fannie Mae issued 47 percent of new mortgage-backed securities, far exceeding its goal of 37.5 percent. But, as the report noted, this hurdle was almost certainly cleared because the Federal Reserve purchased almost all the mortgage securities issued by Fannie and Freddie in 2009.

In other words, the government, through the Fed, practically guaranteed that Fannie and Freddie would perform well enough to justify paying their executives these exorbitant sums — one of the benefits of having friends in high places. The Fed, of course, purchased those securities with newly minted cash, the results of which we are now witnessing in the form of rising prices.

“Agency officials,” wrote the *Times*, “say the salaries and deferred compensation awarded to executives at Fannie and Freddie are necessary if they are to attract and keep talent required to run those operations effectively.” Such logic carried little weight with the government when it came to cracking down on executive pay at private firms, but it seems to have much more heft when applied to government-owned companies.

That “deferred compensation,” by the way, is hardly deferred at all, as Brian Foley, a White Plains, New York, compensation consultant told the *Times*: “One hundred percent of the compensation is paid for two-year performance and a fair portion of that is without regard to performance.”

In response to the inspector general’s report, FHFA, naturally, promised to clean up its act — an old, well-worn response to government’s reports on its own agencies, and one that almost invariably fails to be upheld.

The solution to the problem of taxpayer bailouts of Fannie and Freddie and the misuse of that money lies not in getting FHFA to live up to its word but in abolishing FHFA, Fannie, Freddie, and the myriad other unconstitutional federal housing agencies. Republicans have [introduced legislation](#) in both houses of Congress to end taxpayer bailouts of Fannie and Freddie and to revoke their government charters, forcing them into the private sector. Should this legislation become law, it would, as John Birch Society President John F. Manus [remarked](#), “be a wonderful beginning, but only a beginning.”

Photo: Fannie Mae headquarters in Washington, D.C.



Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.

Subscribe