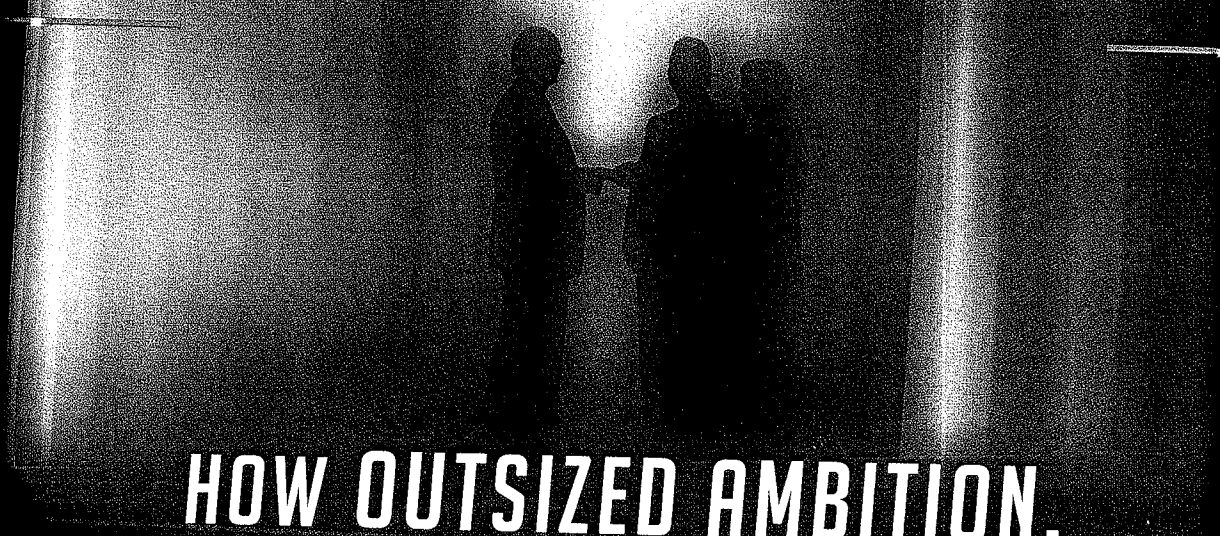
GRETCHEN MORGENSON
AND JOSHUA ROSNER

RECKLESS ENDANGERMENT



HOW OUTSIZED AMBITION, GREED, AND CORRUPTION LED TO ECONOMIC ARMAGEDDON

The company did not hesitate to marshal these troops when it felt threatened. And that is just what it did in 1995 when one of the company's lucrative perquisites, related to its quasi-government status, came under fire.

Under its charter, Fannie was exempt from paying income taxes to the District of Columbia, where it is headquartered. With the city's budget deficit ballooning, some local officials, such as D.C. council member William P. Lightfoot, suggested that Fannie Mae, an enormously profitable company, start paying local income taxes. One year of taxes, according to an estimate based on Fannie Mae's profits, would bring $300 million to the District, eliminating the entire D.C. budget deficit.

But making such tax payments would also diminish Fannie Mae's earnings and those of its executives. So the company sprang into action, calling in chits from community organizers in the District with whom it had worked in the past.

One was Lloyd Smith, head of the Marshall Heights Community Development Organization, a group devoted to helping residents of a blighted area in Washington, D.C.'s 7th Ward. A neighborhood that was 97 percent black and where one third of its children were living in poverty, the 7th Ward needed all the help it could get.

Well before Fannie Mae's tax fight began, Smith's organization had received affordable housing funds from the company. So when it asked Smith for help in battling the tax issue, he was happy to oblige. He told the *Washington Post* that he telephoned council members and wrote to them, urging that the idea of levying a local income tax on Fannie be junked.

Fannie Mae had provided affordable housing and scholarships to local high school students, Smith argued. If the company was forced to pay income taxes, it might leave the district and take its programs with it.

Other community leaders joined forces with Smith, at the urging of two Fannie Mae lobbyists, Fred Cooke and David Wilmot. A tidal wave of letters arguing against the tax swamped the offices of

D.C. council members. Cooke, whose wife worked at Fannie Mae, met with each member of the city council, requesting that they give up on the proposal.

Barbara Lett Simmons, a local talk show host and former D.C. school board member, also got in on the act. She invited students from 7th Ward schools to appear on her radio and cable television programs to describe assistance they had received from Fannie Mae. "I started having people on my show to help get the word out," she told the *Washington Post*. "We have got to support our friends." Simmons's husband, Pat, sat on the board of the Fannie Mae Foundation, the company's charitable giving organization.

During the summer of 1995, Representative Pete Stark, a California Democrat, tried to schedule a hearing of the House District Committee on the Washington, D.C., budget problems. He had drafted a legislative proposal that would allow the District to tax Fannie Mae, but when it came time to find witnesses willing to support his plan, everyone he contacted ran for cover.

"The committee staff attempted to get a lot of witnesses to testify about this issue of Fannie Mae," Broderick Johnson, the staffer who worked on the hearing, told a reporter from the *Washington Post*. "Many of them quite frankly told us that they could not do it because of philanthropic relationships they have with Fannie Mae."

In the face of this pressure, the tax idea died. The $300 million in potential taxes that Fannie Mae might have been forced to pay each year remained safe and sound in its own coffers.

In November 1995, Fannie Mae increased its funding to Smith's Marshall Heights organization, pledging $650,000 in grants and loans to the community. Some of the money was earmarked for new housing construction. "This will enable us to double our production of affordable housing of various types for Ward 7 residents," Smith said upon receiving the check from Fannie Mae in a public ceremony.

Lightfoot, the council member who had tried to get Fannie to pay taxes to the District, recalled the fight years later. "I knew I

was taking on the behemoth, but it seemed only fair that they should pay a tax to the government that allowed them to operate, generating such profits," Mr. Lightfoot said. "Their argument was they donated millions of dollars a year in charitable work to D.C. and that that should be counted in lieu of taxes."

Mr. Lightfoot and two other local representatives traveled to Texas to make their case before shareholders and directors attending Fannie Mae's annual stockholders' meeting. "They allowed us to stand up and make our arguments and there was no response and we left," he recalled. "It was like talking to the wall but the wall did let us talk to it."

It would take another decade before HUD, Fannie's "mission regulator," would investigate the use of Fannie's fifty-five partnership offices and conclude that their activities "were not confined to affordable housing initiatives, rather, a central purpose of the Partnership Offices was to engage in activities that were primarily designed to obtain access to or influence members of Congress."

Taxpayers still don't know how much money was involved in the influence peddling done through these offices because HUD refused to release the full report. But, back in 1995, there were many happy beneficiaries of the Fannie Mae hustle.

It appears that Fannie Mae was highly creative when it came to "encouraging" its higher-level executives to donate to political campaigns.

A major recipient of Fannie Mae's largesse, albeit indirectly, was Barney Frank, the combative Democrat from Massachusetts. He was a member, and later the chairman, of the House Financial Services Committee, one of the most powerful on the Hill, charged with oversight of "all components of the nation's housing and financial services sectors." The committee also watched over regulators such as HUD, the Federal Reserve, and the Federal Deposit Insurance Corporation.

Fannie Mae was one of the committee's top priorities. As such,