



MEDIA MYTH

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BILLION-DOLLAR BOONDOGGLE

Networks ignore taxpayer impact, years of news;
Wall Street Journal scores in Fannie/Freddie fiasco

BY DAN GAINOR

Congress has passed at least a \$25-billion bailout of mortgage firms Fannie Mae and Freddie Mac and President Bush has said he will sign it. But the story within the story is how network news ignored six years of concerns about the two companies including billions of dollars in accounting errors, billions more in stock losses and high-profile Democrats deeply involved. According to The Washington Post, "there is an outside chance the companies could call upon Treasury for more than \$100 billion."

Through it all, network news

"If the word "Enron" has formed in your mind, you'd be close, but wrong. Welcome to Fannie Mae, the nation's second-largest financial company."

-- Business & Media Institute
April 4, 2005

shows relied on the collapse of Enron as the top choice to highlight business incompetence or a cozy relationship with government. But these two Government-Sponsored Enterprises (GSEs) are far worse financially than anything Enron ever managed. The combination

of stock losses, government fines and proposed bailout comes close to \$150 billion. It's a huge story largely ignored by network news until a taxpayer bailout was almost guaranteed.

They could simply have turned to The Wall Street Journal. As far back as February 2002, the Journal cautioned about the potential disaster looming with the GSEs. An editorial labeled "Fannie Mae Enron?" was a major warning sign. A 2004 editorial in the Journal by the same name said "the company was cooking the books. Big time."

"Well, Fannie Mae is a very politically corrupt – it may be politically corrupt, but it's a politically correct company. ... And so right now, beating up on Fannie Mae is kind of politically incorrect."

-- Newsweek's Charles Gasparino
Dec. 28, 2004, CNN's "Newsnight
With Aaron Brown"

"Fannie Mae and Freddie Mac are unique in their thugery, and their response to critics may help readers appreciate why taxpayers are now explicitly on the hook to rescue companies that some of us have spent years warning about."

-- Paul A. Gigot
July 23, 2008, Wall Street Journal

"Fan and Fred also couldn't prosper for as long as they have without the support of the political left... This includes Mr. [Rep. Barney] Frank and Sen. Chuck Schumer (D., N.Y.) on Capitol Hill, as well as Mr. [Paul] Krugman and the Washington Post's Steven Pearlstein in the press."

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Abuse of power

Fannie Mae and Freddie Mac spent millions of dollars lobbying the very Congress that had control of their purse strings.

According to the July 16, 2008, Politico newspaper, Fannie and Freddie have spent \$170 million on lobbying since 1998, and \$19.3 million in campaign contributions to well-known Democrats and Republicans since 1990.

"Political influence" was also cited by The Wall Street Journal in 2002.

"During the 1999-2000 election cycle, Fan spread around \$1.6 million and Fred \$2.4 million, giving to both parties about equally. The total of \$4 million is almost double what Enron spent."

A January 24, 2005, Fortune magazine story told how far Fannie Mae would go:

"And then there was the TV ad Fannie ran on March 31, 2004--the day before the Senate Banking Committee was scheduled to work on its bill. The ad featured a worried-looking Hispanic couple:

Man: "Uh-oh."

Woman: "What?"

Man: "It looks like Congress is talking about new regulations for Fannie Mae."

Woman: "Will that keep us from getting that lower mortgage rate?"

Man: "Some economists say rates may go up."

Woman: "But that could mean we won't be able to afford the new house."

Man: "I know."

Even longtime Fannie watchers were stunned. "Here is an organization that was created by the Congress ... spending money questioning the Congress's right to take a serious look at oversight ..." sputtered Sen. Chuck Hagel (R-Neb.) during the hearing that day.

"I find it astounding. Astounding!"

In six years, Journal staffers detailed mismanagement and political ties that kept problems from being fixed – despite pleas from public policy experts, politicians and even Federal Reserve Chairman Alan Greenspan. The Journal was criticized and bullied, as were other critics of the mortgage giants.

Journal Editorial Page Editor Paul A. Gigot described the situation in a July 23, 2008, op-ed. "Fannie Mae and Freddie Mac are unique in their thuggery, and their response to critics may help readers appreciate why taxpayers are now explicitly on the hook to rescue companies that some of us have spent years warning about."

The op-ed went on to describe the amount of political pressure Fannie especially could bring to bear. Intimidation of politicians was just one of the issues. He described how Wisconsin Republican Rep. Paul Ryan was attacked by Fannie Mae and "stalked" by a Fannie lobbyist because he "decided in the 1990s that Fan and Fred needed more supervision."

The Business & Media Institute warned about problems at Fannie Mae in 2005. It pointed out in a Special Report, "Government-Sponsored Enron," that print outlets had done a good job on the story and networks very little. While that report cited the Journal, Washington Post and New York Times, the Journal deserves the lion's share of the credit.

All that reporting was essentially ignored on the networks. At the peak of the scandals of Enron and Fannie Mae, network news shows only focused on Enron. A search at the height of those scandals for "Enron" yielded 3,017 hits in LexisNexis, compared to a meager 37 hits for "Fannie Mae." That search included ABC, CBS, NBC and CNN.

During the nine-month time period studied, Enron disclosed that it had overstated its earnings by \$567 million. Several key figures at the embattled company testified before Congress under subpoena.

A Billion Here, A Billion There...

The collapse of Fannie Mae and Freddie Mac has cost more than \$100 billion. While it is fair to say that many of these losses might be built into the loss in overall institutional value, here is the current tally:

Fannie Mae	
Executive fines	\$46,975,000
Corporate fines	\$400,000,000
Misstated Earnings	\$6,300,000,000
Lost market value	\$71,400,012,000
Total	\$74,937,888,100
Freddie Mac	
Executive fines	\$16,400,000
Corporate fines	\$175,000,000
Misstated Earnings	\$5,000,000,000
Lost market value	\$37,031,187,200
Total	\$43,263,806,400
Both	
Estimated Bailout	\$25,000,000,000
Overall total	\$143,201,694,500
Sources: Associated Press, Washington Post	

In a similar time period, Fannie Mae was asked by its regulator to revamp its accounting, key executives resigned, and about \$11 billion in accounting errors was revealed. CBS's "Early Show" did admit events at Fannie Mae were "an accounting scandal" in its Dec. 28, 2004, report. The problem was that was one of only five references at the network. The words "Fannie Mae" didn't show up once for ABC, while CNN registered only 31 hits – less than 3 percent of the coverage it gave Enron over a similar time period.

Nothing changed in three years. Even in 2008, as the housing market was grinding to a halt, "Enron" was still the business scandal of the day. In the first six months of the year, ABC, CBS and NBC mentioned Enron 18 times and either Fannie Mae or Freddie Mac just seven.

Between Jan. 1, 2008, and July 14, 2008, only four network news stories have included any criticism of Fannie and Freddie. Even the flood of reports since July 8, when concerns began to surface that the two organizations might have to raise more capital, has provided little historical context for the situation.

Books can and likely will be written about the role of Fannie and Freddie in the housing collapse. But what has gotten little attention is the failure of network news reports to warn viewers of a huge potential financial problem – courtesy of political connections and government incompetence.

Well-connected on the left

Fannie Mae and Freddie Mac were linked to powerful politicians in both parties. According to the July 16 Politico newspaper, Fannie and Freddie have spent \$170 million on lobbying since 1998, and \$19.3 million in campaign contributions to well-known Democrats and Republicans since 1990.

But Fannie had several prominent liberal connections. "Fan and Fred also couldn't prosper for as long as they have without the support of the political left, both in Congress and the intellectual class. This includes Mr. [Rep. Barney] Frank and Sen. Chuck Schumer (D., N.Y.) on Capitol Hill, as well as Mr. [Paul] Krugman and the Washington Post's Steven Pearlstein in the press. Their claim is that the companies are essential for homeownership," explained Paul A. Gigot in a Wall Street Journal op-ed July 23. Other connections on the left include:

Franklin Raines – Former Fannie CEO Franklin Raines was Bill Clinton's director of the Office of Management and Budget and a possible choice for Secretary of the Treasury had Kerry won election. The July 16 Washington Post also linked Raines to Barack Obama's campaign. It said Raines has recently "taken calls from Barack Obama's presidential campaign seeking his advice on mortgage and housing policy matters." Raines was "accused in a civil lawsuit in December 2006 of manipulating earnings over a six-year period at the company, the largest American financier and guarantor of home mortgages," according to the April 19, 2008, Associated Press. Raines "has agreed to pay \$24.7 million, including a \$2 million fine" and "will also give up company stock options valued at \$15.6 million," AP said.

Jamie Gorelick – Gorelick, a former vice chairman at Fannie Mae, was Deputy Attorney General under Clinton. Gorelick is also "rumored to be a possible attorney general in an Obama administration," according to Politico.

James A. Johnson – Johnson was the chairman and chief executive of Fannie Mae. That's the same "consummate Washington player" Obama "tapped" to lead his vice presidential search, according to the June 11, 2008, ABC "World News with Charles Gibson." After taking heat related to Countrywide loans, Johnson resigned from Obama's campaign.

This isn't an example of market failure, according to Investor's Business Daily and The Wall Street Journal. The Journal said both GSEs are examples of socialism in disguise.

"We haven't suddenly become socialists. What taxpayers need to understand is that Fannie and Freddie already practice socialism, albeit of the dishonest kind. Their profit is privatized but their risk is socialized," said the July 12 editorial.

The media are at the heart of the problem. Newsweek's Charles

Gasparino explained how in a Dec. 28, 2004, appearance on CNN's "Newsnight With Aaron Brown." "Well, Fannie Mae is a very politically corrupt – it may be politically corrupt, but it's a politically correct company. I mean, they do all the things that, let's face it, liberal journalists like, like put home mortgages out there for poor people. And so right now, beating up on Fannie Mae is kind of politically incorrect."

Gigot put the blame squarely on liberal politicians and the press.