



# NEWS ANALYSIS

## A FREE MARKET PROJECT STUDY OF CURRENT MEDIA COVERAGE

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# Government-Sponsored Enron Billion-Dollar Scandal Not Ready for Prime Time

Accounting scandals have become bread-and-butter stories for journalists. But one of the biggest accounting debacles in recent history has gone virtually unnoticed by the TV news. Fannie Mae, the government-sponsored mortgage association, has accounting errors of about \$11 billion. That's more than 19 times larger than Enron's \$567 million error. Yet a Justice Department inquiry, SEC investigation, and Office of Federal Housing Enterprise complaint were not enough to get the attention of the networks that rarely mentioned the Fannie Mae scandal. Unlike Enron, Fannie Mae has strong governmental ties and is perceived as helping the poor. Are those reasons enough to merit a free pass from TV news? The major print media don't think so and they are correct.

The Media Research Center's Free Market Project compared LexisNexis results from ABC, CBS, NBC and CNN on the term "Enron" from Oct. 1, 2001, to July 1, 2002, with a similar search of the term "Fannie Mae" for those same media from June 1, 2004, to Feb. 1, 2005. Among the findings:

- **Broadcast News Loved Enron Story and Ignored Latest Scandal:** While broadcast news outlets ran the Enron story into the ground, they either ignored or barely mentioned Fannie Mae's similar fall from financial grace.
- **Good Marks for Print Reporting on Fannie Mae:** Print media such as The New York Times, The Washington Post, and The Wall Street Journal provided strong, detailed coverage of the Fannie Mae story.
- **Connections to Power Overlooked:** Broadcasters emphasized connections between the Bush administration and Enron executives; however, they failed to focus on ties between people at Fannie Mae and in the Clinton administration.

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It's a familiar story. An enormous company reveals its "accounting problems." The problems are found to be far worse than anyone realized. The CEO is forced to resign. Other high-ranking executives follow. The stock price begins to drop. Billions of dollars might be lost. The politically savvy CEO even has direct connections to a presidential administration.

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. Only Fannie Mae, officially known as the Federal National Mortgage Association, isn't like any standard Wall Street business. It was founded by Congress to increase the amount of capital available for the secondary mortgage market. Fannie Mae is a Government Sponsored Entity (GSE) and enjoys a congressional charter, limited oversight, and a strongly implied government commitment to cover any losses.

This billion-dollar scandal has highlighted questionable practices by the lender and the response from America's broadcast media has been almost complete silence.

The print media have done strong work on the story. Papers such as the The Wall Street Journal and The Washington Post deserve credit for alerting the public to the enormous problems at the mortgage giant. The New York Times also has done solid reporting on the Fannie Mae situation.

Look at how an Oct. 4, 2004, Wall Street Journal editorial referred to the crisis at Fannie Mae:

“For years, mortgage giant Fannie Mae has produced smoothly growing earnings. And for years, observers have wondered how Fannie could manage its inherently risky portfolio without a whiff of volatility. Now, thanks to Fannie's regulator, we know the answer. The company was cooking the books. Big time.”

Analysts are predicting that Fannie Mae will have to compensate for \$11 billion in accounting errors. To put this in perspective, Enron overstated its earnings by \$567 million: 5 percent of Fannie Mae's fiasco. Since February 2004, Fannie Mae's stock has plummeted from a high of about \$80 a share to roughly \$55 per share. That's a decline of 31 percent, or a loss of more than \$20 billion in value to stockholders. Despite these incredible losses and errors, as well as three separate investigations, the broadcast media have ignored Fannie's decline.

In a Dec. 23, 2004, news analysis, New York Times reporter Timothy L. O'Brien listed several problems that faced the company. They included: a Justice Department inquiry that might result in criminal charges; a Securities and Exchange Commission investigation; a complaint by the Office of Federal Housing Enterprise Oversight that claimed Fannie Mae was “undercapitalized by almost \$3 billion”; and criticism by Federal Reserve Chairman Alan Greenspan. According to O'Brien: “Now, amid the wreckage of Mr. [Franklin] Raines's tenure, the question is how well the company itself can weather the storm.”

Things have only gotten far worse since December. The company announced on March 17, 2005 that it would miss the deadline for filing its 2004 financial report. According to the Wall St. Journal, Fannie Mae still hasn't filed its third-quarter report, which was due in November. Now Greenspan is scheduled to testify on Fannie Mae and other GSEs on April 6 in front of the Senate Banking Committee.

Since Enron, this type of story has become all too familiar – except this time, the TV networks aren't interested in this key national scandal.

A LexisNexis search of ABC, CBS, NBC, and CNN on the term “Enron” from the nine months around when the story first broke – Oct. 1, 2001, to July 1, 2002, produced 3,017 hits. A search of CNN alone produced 1,385 hits. During that nine-month time period, Enron disclosed that it had overstated its earnings by \$567 million since 1997. Several key figures at the embattled company testified before Congress under subpoena.

A similar LexisNexis search was performed for the term “Fannie Mae” for those same media, from June 1, 2004, to March 1, 2005, again during the time the story was breaking. This search discovered a paltry 37 matches. Through those nine months, Fannie Mae was asked by its regulator to revamp its accounting, key executives resigned, and about \$11 billion in accounting errors were revealed. Yes, CBS's “Early Show” called events at Fannie Mae “an accounting scandal” in its Dec. 28, 2004 report. The problem is

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.

Even Fannie Mae’s announcement that it wouldn’t be able to deliver its 2004 financials and the subsequent 4 percent drop in its stock weren’t enough to push the story on to the TV news. But Enron remains a staple for the networks and an interview with former Enron CEO Ken Lay was on “60 Minutes” on March 13.

## **Bigger Numbers, Less Noise**

Enron’s collapse was a calamity for its employees and shareholders. In response, the media offered, in Peter Jennings’s words, “The Enron story for the day” for several months. And rightly so: Enron was a “debacle,” “disaster,” “scandal,” and according to a Feb. 15, 2002, “CBS Evening News” broadcast, it created “nagging worries about corporate accounting and fears there may be other Enrons out there.”

The numbers behind Enron were stunning, and a \$567 million accounting adjustment was only the beginning of the company’s financial and public collapse. A March 1, 2002, ABC’s “World News Tonight” story revealed that, “According to company documents, Enron paid \$320 million to some executives, only 10 months before Enron collapsed.”

While the figures behind Enron were calculator-busting, the problems at Fannie Mae were greater: roughly \$11 billion in earnings restatements. That’s about 19 times more than Enron’s accounting “errors.” Although broadcast news offered wall-to-wall coverage of the endless commas and zeros behind the Enron collapse, Fannie Mae’s staggering problems and the resignation of six top executives, including the CEO and chief financial officer, received almost no TV news attention.

The compensation packages of Enron executives like Andy Fastow were similar to former Fannie Mae CEO Franklin Raines’s exorbitant bonuses. While Fastow raked in \$37 million, a Jan. 22, 2005, article in The New York Times reported that “Mr. Raines made \$14 million in salary and bonuses and received \$25.6 million in incentive pay, including stock options.” In a Jan. 24, 2005, article, Business Week confirmed that “Fannie had paid its 20 top executives a combined \$245 million in bonuses.”

Much of that money was in stock options and bonuses that were pegged to Fannie Mae’s performance. Now that earnings have been restated, those bonuses have been called into question. Though Fannie Mae and Enron are similar, they are not identical. Fannie’s mistakes were larger than Enron’s. But it is important to note that no one with Fannie Mae has been indicted.

## **Friends in High Places**

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Connections to the halls of power can make any story front-page news. Fannie Mae and Enron had no shortage of those. They employed two of the most generous campaign contributors in the nation. The media tried to link the leadership at Enron to the Bush administration and to several key figures in Congress. On the other hand, the broadcast media had nothing to say about the unambiguous connections between Fannie Mae board members and the Clinton administration.

Brian Ross of ABC's "World News Tonight" told viewers during a Feb. 14, 2002, broadcast, "The Enron scandal is leading to new efforts to crack down on tax havens like the Caymans, efforts that previously faced strong opposition. Before becoming White House economic adviser, Larry Lindsey was one of the most outspoken defenders of such havens. At the same time, he also served as a consultant to Enron, earning \$50,000." In the spirit of Valentine's Day, Ross tried to sell the concept of a sweetheart arrangement between the White House and Enron.

Tom Brokaw and David Gregory of "NBC Nightly News" also tried to exaggerate the connections between the Bush administration and Enron. On a Jan. 10, 2002, broadcast, Brokaw began: "Enron chief executive Kenneth Lay and his company have been some of the most generous contributors to President Bush during his political career, and Enron executives met six different times with Vice President Cheney or his staff as he was shaping the administration's energy policy last spring. So the White House today was working hard to put distance between the president and this company's troubles."

Gregory characterized Enron as a "Texas powerhouse, as you say, in the energy business, whose leader has close ties to this president." Gregory continued: "The political heat reaches the White House today as the president distanced himself from one of his top supporters and political contributors, saying Ken Lay, the Enron CEO who gave more than \$200,000 to the Bush campaign and inaugural committee, didn't have his ear when Enron was crumbling and didn't get any favors from the administration."

The following night, the tandem reprised the connections before concluding that they probably weren't that big of a deal to begin with. Brokaw began: "Now to the White House where a good deal of this day was spent doing damage control over the widening investigation into the collapse of energy giant Enron."

Gregory detailed several contacts between the Treasury and Commerce departments and Enron. While he conceded that "No action resulted from those calls," he theorized that the White House didn't have the time to hold up their end of the quid pro quo, "because the company fell too far, too fast for the government to have bailed them out."

In contrast, neither NBC nor any other broadcast outlet would have needed to search hard for political ties in the Fannie Mae debacle. Former Chief Executive Officer Franklin Raines and former Vice Chairman Jamie Gorelick were both instrumental figures in the Clinton administration. The print media were candid about Fannie's political connections. In a Dec. 23, 2004, article, Albert Crenshaw of The Washington Post revealed that Franklin Raines "was a director of the Office of Management and Budget in the Clinton administration, and his name was mentioned as a possible Treasury Secretary had Sen. John F. Kerry (D-Mass.) been elected president."

Jamie Gorelick was Deputy Attorney General under Clinton. Fannie Mae board member Jack Quinn was the attorney for pardoned tax evader Marc Rich. Fannie also has one of the largest lobbying budgets in Washington. A Feb. 24, 2005, article in The Washington Post reported that Fannie "paid its lobbying corps about \$5 million in the first six months of last year."

According to Jeff Bliss of Bloomberg.com, Fannie Mae spent almost \$8.7 million on lobbyists in 2003. In May of 2004, Citizens Against Government Waste criticized Fannie for "heavy handed meddling in the legislative process to protect the company's congressional protected status and its lavish corporate welfare program."

The connections were there, but broadcast news was uninterested.

## **Taking Stock of the Victims**

The Enron collapse created numerous victims. A Jan. 21, 2002, broadcast of "NBC Nightly News" explained that "Enron's stock dropped from \$80 to 70 cents in one year." During that same NBC broadcast, Jim Avila rightly called the Enron collapse a "big retirement dent for workers who never drew a paycheck from a company whose failure echoes nationwide."

This development prompted ABC's Feb. 5, 2002, "World News Tonight" to take a "closer look tonight at the importance of financial literacy." The media had infinite access to a witness pool of pensioners, individual investors, and laid-off Enron employees to underscore the depth of the calamity.

So far, Fannie Mae's stock hasn't dropped as badly and it's not likely to do so. One of the company's strengths is its reliance on the perception that Congress would bail it out of any financial trouble. Still, that hasn't prevented Fannie Mae stock from collapsing 31 percent in about one year - a loss of more than \$20 billion in overall value to the company. Those losses go directly to the owners of the firm's stock.

The media were obsessed with Enron's stock losses. A Feb. 9, 2002, CBS Evening News broadcast put the decline in perspective while warning of future ruin. Russ Mitchell led off with how "Thousands of Enron workers saw their 401(k)s disappear before their very eyes when the company went bankrupt. And Randall Pinkston tells us people still on the Enron payrolls are being warned to consider getting out while they can." Pinkston spent the report explaining "the rules of the game when a company goes belly up."

TV news reporters spent plenty of time explaining the present and future ramifications of Enron's downfall. However, they did little about the consequences of a possible Fannie Mae collapse. Although it is not guaranteed a capital cushion from the U.S. government, it uses the implied line of credit to secure cheap liquidity and a near government-perfect credit rating. As the October Wall Street Journal piece explained: "Fannie Mae isn't an ordinary company and this isn't a run-of-the-mill accounting scandal. The U.S. government had no financial stake in the failure of Enron or WorldCom. But because of Fannie's implicit subsidy from the federal government, taxpayers are on the hook if its capital cushion is insufficient to absorb big losses. Private profit, public risk."

So, if Fannie's trillion-dollar portfolio were to falter, the shareholders would absorb the loss. On the other hand, if the U.S. were to bail the mortgage giant out, the taxpayers would foot the bill. Fannie's potential fall is a "lose-lose" situation.

### **'Government-Sponsored Enron'**

The lack of coverage from the broadcast media is shocking, especially in light of the work done by print media, such as the Wall Street Journal, Washington Post and New York Times. Why would television avoid broaching the problems at Fannie Mae? Charles Gasparino, a reporter for Newsweek who had labeled this GSE a "Government-Sponsored Enron," had a theory.

On a Dec. 28, 2004, edition of CNN's "Newsnight With Aaron Brown," Tucker Carlson interviewed Gasparino about the media's bypassing the Fannie Mae story. Carlson asked, "Why has it not been reported like Enron?"

Gasparino replied: "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."

The next exchange was telling. Carlson deduced: "So, because it's not part of the tobacco industry or an energy company, it gets a pass from the press?"

Gasparino agreed: "Right. It's not related to George Bush. Franklin Raines, I believe, is a Democrat. So there is a degree here – because I've heard journalists talk about this – that hey, this is – there's politics on the part of the Republicans. That's why they're beating up on Fannie Mae, which may be true. But, at the same time, this is a huge story, and it's going overlooked."

Sadly, this perception of political correctness is out of touch with reality. According to a September 2003 report by a GSE watchdog group, Fannie Mae Policy Focus, Fannie lags far behind the market in facilitating housing for minority and first-time buyers. As a matter of fact, the GSEs buy less than 10 percent of private sector loans to first-time African-American and Hispanic purchasers. Moreover, Fannie and Freddie acquired "more loans made to absentee landlords, vacation homes, and second mortgages than first-time homebuyer loans," according to the report.

It appears that very little of the implicit taxpayer subsidy to the GSEs is fulfilling that politically correct dream. This failure, compounded by an accounting scandal, should be red meat for story-driven TV journalists. As the analysis proves, that hasn't been the case.

## **Conclusion**

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Gasparino is right: The scandal at Fannie Mae is a "huge story." Despite all the similar circumstances between Enron and Fannie Mae, there are two notable differences. First, Fannie Mae is unlikely to go bankrupt because of its government charter. Secondly, it appears the Fannie Mae accounting scandal, though arguably larger than Enron's, is just as unlikely to attract the attention of network news.

The results of our analysis lend weight to Gasparino's view – that Fannie Mae is too politically correct to be criticized. The disparity between the coverage of Enron and Fannie Mae is too significant to conclude otherwise.

## **Fannie Mae Fact Sheet**

Fannie Mae (and her little brother Freddie Mac) were chartered by Congress to provide capital for the secondary mortgage market, where residential mortgages are traded like stocks and bonds. Fannie and Freddie were intended to free up capital for banks and other financial services firms to provide mortgages for first-time homebuyers and minorities seeking the American dream of home ownership.

Because Fannie Mae's investments are implicitly guaranteed by the U.S. Treasury, it enjoys incredible economic advantages over its private sector competitors. Fannie has used those advantages to pursue an aggressive expansion into markets surrounding the housing finance system. Some of these ventures have resulted in profits, but some of them have produced serious losses. Several analysts and experts wondered how Fannie could manage its portfolio with very little volatility. It turns out that their questions were answered. Fannie couldn't. The Fannie Mae scandal revealed not only the media's apprehensive coverage of "politically correct" institutions, but the dangers of "private" companies using government benefits to undertake inherently risky business ventures.

### **Fannie Mae Experts**

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- Mike House, Executive Director of Fannie Mae Policy Focus; Media inquiries: Call Beneva Schulte (202) 661-6379

### **Fannie Mae Facts and Figures**

- Expected to adjust for about \$11 billion dollars in losses because of accounting errors – 19 times more than Enron's accounting fiasco
- Stock value has fallen from 52-week high of 77.80 to about 55 per share.
- Former CEO Franklin Raines was Clinton's director of the Office of Management and Budget and a possible choice for Secretary of the Treasury had Kerry won election
- Despite marketing slogans like "Our Business is the American Dream," the GSEs together buy less than 10 percent of loans made to first-time African-American and Hispanic homebuyers
- Bought more loans made to absentee landlords, vacation homes and second mortgages than first-time homebuyer loans
- S&P 500; Ticker: FNM; Number of Employees: 5,060 (approx)

### **Fannie Mae Policy Focus Report:**

[http://www.fmpolicyfocus.org/publications/resources/09.23.03\\_report.pdf](http://www.fmpolicyfocus.org/publications/resources/09.23.03_report.pdf)