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Fannie and Freddie bosses got pay hikes while owing taxpayers billions

By Dustin Hurst – 12/18/12

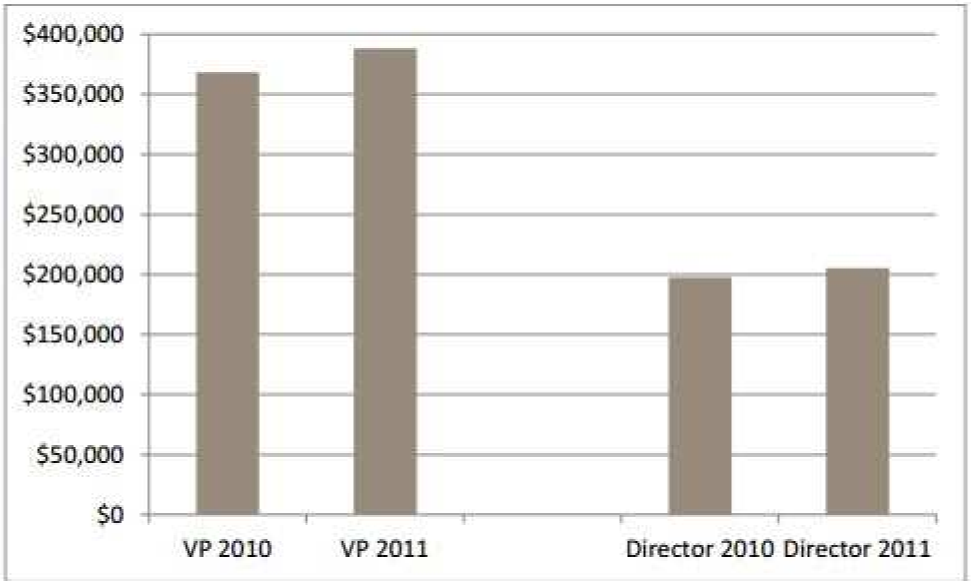
HELENA, MONT. – Even after taxpayers spent billions to bail out the two struggling mortgage firms, top execs at Fannie Mae and Freddie Mac received more compensation in 2011 than 2010, a government watchdog agency has found.

According to the Federal Housing Finance Agency, the legal watchdog for Fannie Mae and Freddie Mac, 2,000 mid-level executives saw raises in 2011 from the two lending giants, even as most of the two firms' 11,900 employees endured agency-wide pay freezes.

The Dec. 10 report shines light on the pay practices of some of the highest-paid mortgage workers. To stave off their financial collapse, the federal government pumped more than $180 billion in taxpayer cash into the two lending agencies.

According to FHFA data, median income among 333 vice presidents at the two firms was $388,000 in 2011. The 1,650 directors each brought home a median $205,300 the same year. That represented a raise for both groups in 2011, with vice presidential pay up 5.4 percent over 2010 and director wages up 3.9 percent.

Here's the FHFA chart on the pay hikes:



The federal government created Fannie Mae in 1938 and Freddie Mac in 1970 as avenues to cheaper loans and expanded home ownership. They don't lend directly to Americans, but instead serve the secondary mortgage market. Together, they hold an estimate $4.5 trillion in mortgage-backed securities.

While experts don't hold Freddie and Fannie accountable for sparking the 2008 mortgage meltdown, many financial analysts believe the two firms contributed to the problems by taking on risky mortgages due to loosened lending standards.

In July 2008, with the housing market tumbling, federal lawmakers took the only course of action they recognize: More government and more money. President George W. Bush's administration, with the help of Congress, effectively seized control of the two mortgage behemoths, promising billions in taxpayer support in exchange for government authority over decision-making.

In September 2008, the Bush administration placed Fannie Mae and Freddie Mac in conservatorship, a legal maneuver handing FHFA control of the two bumbling enterprises. FHFA's role is to bring the two agencies to solvency. The mortgage companies handle the day-to-day operations, but major policy shifts, business decisions and senior executive compensation require FHFA approval.

Earlier this year, FHFA developed and implemented compensation reductions for some top executives. CEOs who hauled in $5 million a year or more from Fannie or Freddie saw 89 percent pay cuts, down to $600,000 annually.

FHFA also instituted a freeze on merit and cost-of-living pay hikes through 2011, a suspension extended through 2012.

From 2010 to 2011, pay for 23 executive vice presidents dropped from $1.9 million to $1.7 million annually, an 8.8 percent reduction. The 62 senior vice presidents saw a 5.2 percent wage dump, from $763,000 in 2010 down to $724,000 the following year.

The pay reductions, FHFA says, come mostly from the pay freeze and replacing higher-paid executives with lower-paid ones.

While taxpayers and good-government groups might vociferously applaud wage reductions for the top 90 earners at the two lenders, they might equally scorn the next employee tier, which actually saw pay spikes in recent years.

The nearly 2,000 “senior professionals,” as FHFA labels them, took home more pay in 2011 than 2010, thanks largely to “other compensation,” such as delayed bonus payments or promotions.

The raises came even as the two agencies owed U.S. taxpayers billions of dollars. The U.S. Treasure originally invested more than $187 billion in the lenders. Fannie and Freddie have returned more than $46 billion to the Treasury, leaving $141 billion outstanding.

Even though Fannie and Freddie might have been contractually obligated to pay some bonuses — also called “long-term incentives” —FHFA’s inspector general isn’t entirely sure the two lenders aren’t using those promotions or incentives to work around the lingering pay freeze and hand more cash to the senior professionals.

“FHFA has not examined the implementation of the pay freeze to determine whether the Enterprises may be using promotions and changes in responsibility to offset the impact of the pay freeze,” the report notes.

These second-tier employees might cause more worry than top tier because, while per capita they take home less than top executives, they represent a sizable wage chunk.

Here’s FHFA’s take on that:

> *Moreover, it may be appropriate to enhance oversight of the Enterprises’ senior professionals since they are the most highly compensated group of employees after executives and they—as a group of fewer than 2,000 individuals—collectively received $455 million in cash compensation in 2011.*

Instead of examining pay for all top employees, FHFA focused only on those at the highest reaches of the two lenders. That decision came out of sheer expediency, giving the two lenders enough autonomy to run their own operations.

That, however, could crash very quickly.

In the audit’s final few paragraphs, analysts suggest stricter controls on second-tier employee wages.

“FHFA should develop a long-term plan to strengthen its oversight of the Enterprises’ nonexecutive compensation through reviews or examinations, focusing on senior professional compensation,” the report suggests.

Should FHFA adopt the recommendations, it might examine general pay structures and correct imbalances, control compensation for new hires and ensure officials cannot thwart pay freezes through bonuses or other means.

While the recommendations may signal progress for the two agencies, conservative and libertarian types see the FHFA’s report as more evidence of government-backed failure.

The Cato Institute’s Mark Calabria wrote last week that because American taxpayers basically own the two lenders, their employees should be paid just like federal workers. That would likely mean huge wage reductions for most employees.

Calbera isn’t timid in his call for pay reductions.

“One of the arguments against cutting pay at Fannie and Freddie is that all the good employees will leave, ultimately costing the taxpayer even more,” he wrote Dec. 14. “First, I question whether we want the same people running these companies that ran them into the ground. Shouldn’t we be cleaning house at Fannie and Freddie?”

The Treasury revamped the terms of repayment of Fannie and Freddie debt in August, requiring the two lenders to send all quarterly profits back to taxpayers, but freeing them from payments when they take losses. Analysts argue that while that plan will hasten the return of taxpayer money, the move will also preventing Fannie and Freddie from accumulating reserve funds to hedge against future troubles.

Before the new agreement, Fannie and Freddie made required dividend payments to the feds, occasionally borrowing from the Treasury to meet the mandates.