

Ex-Fannie Mae execs try to defend track record Associated Press

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6 mins ago

WASHINGTON – Two former Fannie Mae executives said Friday that competitive pressures, combined with the political goal of increasing homeownership, were to blame for the company's decision to back riskier mortgages that fueled the housing bubble.

Daniel Mudd, Fannie Mae's former chief executive, and Robert Levin, the company's former chief business officer, testified before a panel examining the roots of the financial crisis. Both executives left Fannie Mae after it was seized by regulators in fall 2008.

Just before the housing bust, executives at the Washington-based mortgage company worried about losing relevance as Wall Street companies issued mortgage securities and stole market share, according to a July 2005 internal presentation disclosed by the panel.

While executives were aware of "growing concern about housing bubbles," the presentation said, they also feared the company could come a "niche player" amid competition from Wall Street.

"Could we really sit out?" Levin told the panel. "Would we be permitted to sit out? That's what we were grappling with."

Short-term concerns ultimately prevailed, and Fannie dived increasingly into riskier loans, like those that didn't require proof of income.

Then, as the market turned down, Mudd noted "virtually every other housing sector investor fled the market." Fannie and sibling company Freddie Mac "were specifically required to take up the slack."

Members of the panel blasted the executives for failing to plan for a drop in home prices, and Mudd conceded that the company was consistently surprised as prices fell.

Fannie and Freddie buy mortgages from lenders and package them into bonds that are resold to global investors. As the housing bubble burst, they were unable to raise enough money to stay afloat, and the government effectively nationalized them in September 2008. That has

cost taxpayers about \$126 billion so far.

The role of Fannie and Freddie in the mortgage crisis is hotly debated in Washington. Republicans say the two companies, with the government's encouragement, deserve most of the blame for inflating the housing bubble.

They argue that the two companies promoted homeownership to people who ultimately couldn't afford it, and were required to do so by the Department of Housing and Urban Development, which required the companies to devote a portion of their business to affordable housing.

But Democrats say Wall Street players were the primary culprits behind shady lending practices that led to the mortgage bust. They argue that a lack of national lending standards allowed shady players to make irresponsible home loans.

Also scheduled to appear Friday were James Lockhart and Armando Falcon, both of whom headed up the federal regulator for Fannie Mae and Freddie Mac.

The inquiry is being held by the congressionally chartered Financial Crisis Inquiry Commission. Congress created the commission last year to examine the causes of the crisis. The panel's goal is to get an in-depth understanding of decisions that inflated the mortgage bubble and triggered a financial crisis that tipped the economy into the longest recession in 70 years. Its report is due Dec. 15.

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