Fannie's Black Box

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There she goes again. We mean Fannie Mae, the leveraged hedge fund that calls itself a housing finance company. On Monday Fannie released its quarterly earnings but failed to include its balance sheet, leaving investors to guess about losses on derivatives and stockholder equity. In the past, Fannie has included its balance sheet, as other large financial companies do. Now it is delaying release of this information until May 10.

This omission is just one of many problems with Fannie's financial disclosure. We are thinking especially of its refusal to make public the salaries of about 20 of its most highly compensated employees.

Late last year, the House Financial Services Committee requested that Fannie's regulator, the Office of Federal Housing Enterprise Oversight, share information on the compensation of Fan's most senior executives. Ofheo complied. But suddenly staff members of the committee received e-mails from Fannie warning them that release of the information would violate the Trade Secrets Act and subject blabbermouths to "criminal proceedings." Just for good measure, the e-mail noted that former Whitewater special prosecutor Ken Starr is Fan's outside counsel on this issue.

But wait, it gets better. In January, the House Subcommittee on Commerce, Trade and Consumer Protection requested the same information. Ofheo complied. And you guessed it: Fannie's e-mails struck again. To her credit, committee member **Janice Schakowsky** (D., Illinois) is considering releasing the info anyway. As chairman Cliff Stearns (R., Florida) says, "If a corporation is going to have the benefits of government advantages and protections, then they certainly should be as forthright as possible. If they want all the advantages of being secret, then they should be private corporations."

Fannie's political intimidation only raises questions about what, exactly, is going on inside the black box that are its business operations. Perhaps Fannie's most highly compensated include not financial risk managers but, instead, political risk managers. This is a company of 4,700 employees, of whom fully one-third are in the persuasion business, either as legal, lobbying or public relations minions who try to influence politicians.

And just where does this money for the highly compensated come from? Well, a nice chunk comes from the implicit subsidy that Fannie enjoys as a government-sponsored enterprise. According to a recent study by the Federal Reserve Board (which joins a long list of studies with similar conclusions), the perception that the federal government stands behind Fannie gives it a 40-basis-point funding advantage over private competitors.

In dollar terms, the Fed study found that the implicit subsidy to both Fan and its sibling Freddie Mac came to between $119 billion and $164 billion, with more than half retained by the companies. A nice chunk of change, that.

And what of the vast population of homeowners that Fan says it serves? The study finds that Fan reduces mortgage rates by about seven basis points (.07%). In other words, a trifle. As the study observes, the implicit subsidy does not appear to have substantially increased homeownership or homebuilding.

The benefits that Fan receives from its special relationship with the federal government are huge. The costs of that relationship -- especially the potential costs of a bailout -- are also huge, but they are shouldered by taxpayers.

All the more reason that Fannie should not be allowed to pick and choose what it wants to disclose. Information about its operations is especially crucial. And if Fannie is having troubles with its accounting system -- one possible reason its balance sheet has been delayed -- investors and taxpayers deserve to know. We hope that when Fannie does release her balance sheet, the numbers don't tell us she is having trouble with her risk management, too.