WASHINGTON'S OWN MORTGAGE AGENCIES GET UNLIMITED BAILOUT MONEY FROM YOU, THE TAXPAYER!!

U.S. Move to Cover Fannie, Freddie Losses Stirs Controversy

BY JAMES R. HAGERTY AND JESSICA HOLZER

The Obama administration's decision to cover an unlimited amount of losses at the mortgage-finance giants **Fannie Mae** and **Freddie Mac** over the next three years stirred controversy over the holiday.

The Treasury announced Thursday it was removing the caps that limited the amount of available capital to the companies to $200 billion each.

Unlimited access to bailout funds through 2012 was "necessary for preserving the continued strength and stability of the mortgage market," the Treasury said. Fannie and Freddie purchase or guarantee most U.S. home mortgages and have run up huge losses stemming from the worst wave of defaults since the 1930s.

"The timing of this executive order giving Fannie and Freddie a blank check is no coincidence," said Rep. Spencer Bachus of Alabama, the ranking Republican on the House Financial Services Committee. He said the Christmas Eve announcement was designed "to prevent the general public from taking note."

Treasury officials couldn't be reached for comment Friday.

So far, Treasury has provided $60 billion of capital to Fannie and $51 billion to Freddie. Mahesh Swaminathan, a senior mortgage analyst at Credit Suisse in New York, said he didn't believe Fannie and Freddie would need more than $200 billion apiece from the Treasury. But he and other analysts have said the market would find a larger commitment from the Treasury reassuring.

In exchange for the funding, the Treasury has received preferred stock in the companies paying 10% dividends. The Treasury also has warrants to acquire nearly 80% of the common shares in each firm.

The Treasury removed the cap on the size of available bailout funds by amending agreements it reached with the companies in September 2008, when the government seized control of the agencies under a legal process called conservatorship. The agreement allowed the Treasury to make amendments through the end of the year, without the consent of Congress. Changes made after Dec. 31 would likely involve a struggle with lawmakers over the terms.

Some Republicans are angry the administration is expanding the potential size of the bailout without having a plan for eventually ending the federal government's role in the companies.

The Treasury is removing caps that limited the amount it would provide to $200 billion apiece.

The Treasury reiterated administration plans for a "preliminary report" on the government's future role in the mortgage market around the time the federal budget proposal is released in February.

The companies on Thursday disclosed new packages that will pay Fannie Chief Executive Officer Michael Williams and Freddie CEO Charles Haldeman Jr. as much as $6 million a year, including bonuses. The packages were approved by the Treasury and the Federal Housing Finance Agency, or FHFA, which regulates the companies.

The FHFA said compensation for executive officers of the companies in 2009, on average, is down 40% from the pay levels before the conservatorship.

Under the conservatorship, top officers of Fannie and Freddie take their cues from the Treasury and regulators on all major decisions, current and former executives say. The government has made foreclosure-prevention efforts its top priority.

The pay packages for top officers are entirely in cash; company shares have been trading on the New York Stock Exchange at less than $2 apiece, and it isn't clear when the companies will to profitability or whether common shares will have any value in the long term.

For the CEOs, annual compensation consists of a base salary of $900,000, deferred base salary of $3.1 million and incentive pay of as much as $2 million.

When Mr. Haldeman was hired by Freddie in July, the company set his base pay at $900,000 and said his additional "incentive" pay would depend on a decision by the regulator.

At Fannie, Mr. Williams was chief operating officer until he was promoted in April to CEO. As COO, his base salary was $676,000. He also had annual deferred pay of $2.3 million and a long-term incentive award of as much as $1.5 million.

Under the new packages, Fannie will pay as much as about $3.6 million annually to David M. Johnson, chief financial officer; $2.4 million to Kenneth Bacon, who heads a unit that finances apartment buildings; $2.8 million to David Benson, capital markets chief; $2.2 million to David Hisey, deputy chief financial officer; $3 million to Timothy Mayopoulos, general counsel; and $2.8 million to Kenneth Phelan, chief risk officer.

At Freddie, annual compensation will total as much as $4.5 million for Bruce Witherell, chief operating officer; $3.5 million for Ross Kari, chief financial officer; $2.8 million for Robert Bostrom, general counsel; and $2.7 million for Paul George, head of human resources.

The pay deals also drew fire. With unemployment near 10%, "to be handing out $6 million bonuses to essentially federal employees is unconscionable," said Rep. Jeb Hensarling, a Texas Republican who is a frequent critic of Fannie and Freddie.

He also criticized the administration for approving the compensation without settling on a plan to remove taxpayer supports: "To be doing that with no plan in place is just unconscionable."

The FHFA said that Fannie and Freddie "must attract and retain the talent needed" for their vital role in the mortgage market.

WASHINGTON (OBAMA) APPROVES NEW PAY PACKAGES FOR GOVERNMENT ENTITIES. OUR RULING ELITES GET $ $ $ - WE GET THE SHAFT.

WALL STREET JOURNAL 12/26-27/09