CHAPTER 1

The Housing Bubble

Owners of U.S. commercial real estate, comprising principally office buildings, multifamily rental properties, retail properties, and the hotel and hospitality sector, draw upon both consumers and businesses as their customers. The businesses that occupy our office buildings and book our hotels, and our retailers, in turn, depend largely upon consumers, whose spending accounts for over 70 percent[1] of our gross domestic product. One way or the other, U.S. commercial real estate is dependent upon the U.S. consumer.

Consumer spending was decimated by the bursting of the housing bubble, which began unfolding in 2006, while American businesses, particularly small businesses, were ravaged by the abrupt and unprecedented curtailment of credit following on its heels. The credit freeze itself was triggered by the subprime mortgage crisis.

The sudden seizure of our credit markets in August 2008 was preceded by the sale of Merrill Lynch to Bank of America,[2] was followed by the Lehman bankruptcy and then–Treasury Secretary Paulson seizing government-sponsored enterprises Fannie Mae and Freddie Mac and placing them under federal conservatorship.[3]

To understand where our commercial real estate markets are headed, we must gauge the health *and future prospects* of the U.S. consumer. This, in turn, requires an understanding of the subprime mortgage crisis, the building and bursting of the U.S. housing bubble, and where the housing sector is headed. Consumer purchasing power and sentiment are driven in large measure by the relative health of the housing and equities markets.

The systemic risk to our banking sector created by trillions of dollars worth of defaulted securitized subprime (and later prime) residential mortgages spread like a wind-fueled brushfire throughout our worldwide banking system, and as well to the myriad other investors attracted to diverse pools of U.S. home mortgages. Real estate private equity firms, life insurance companies, public and corporate pension funds, and hedge funds, to name a few—really, a cadre of investors, which had become, by virtue

COPYRIGHTED MATERIAL

of the securitization process, a shadow mortgage banking system unto itself—were drawn to home mortgages, then thought to be a bullet-proof asset class.

THE U.S. AFFORDABLE HOME OWNERSHIP MANDATE

To understand the subprime mortgage crisis, we must roll back the clock. For the first four decades of the twentieth century—prior to the onset of World War II—the percentage of home ownership in the United States hovered in a tight range—43.6 percent to 47.8 percent, a spread of only 4.2 percent.[4] Discounting the 1940 figure as an aberrational low brought about by the Great Depression, the range tightens further—45.6 percent to 47.8 percent—a spread of a mere 2.2 percent over a span of four decades. (See Figure 1.1.)

After the end of World War II, however, a dramatic change took place. The percentage of home ownership jumped to 55 percent in 1950 and then began a steady climb from there up to 66.2 percent at the turn of the millennium. By 2004–2005, the U.S. home ownership rate had skyrocketed to over 69 percent.

The stunning post–World War II increase in U.S. home ownership rates—going from about 47 percent to 69 percent (representing a 47 percent increase in the home ownership rate)—was not brought about by laissez-faire market forces, but rather by aggressive government intervention designed and driven by a liberal vanguard so blinded by the political correctness of marching toward the American Dream for America's minorities that they could not foresee the devastating consequences to both the

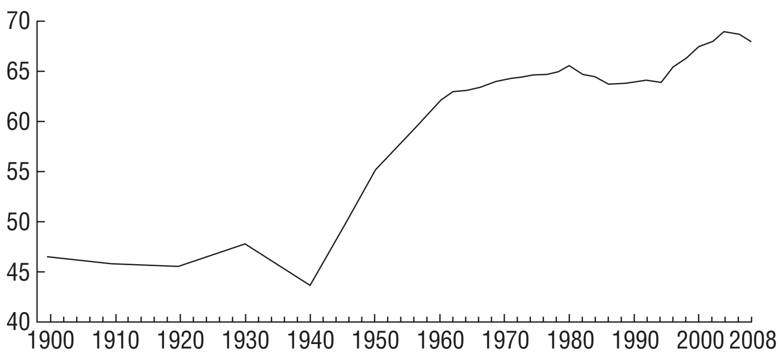

FIGURE 1.1 U.S. Homeownership Rates, 1900–2008 (in percent)
Source: U.S. Census Bureau

supposed beneficiaries of their intervention, as well as to all other Americans (and really, people the world over). Regrettably, however, good intentions are not enough; as Oscar Wilde said, "all bad poetry springs from genuine feeling." And as the late neoconservative publisher Irving Kristol added, "the same can be said for bad politics."

Empowered by the influence of Congress over the government-sponsored enterprises and that of the banking sector over Congress and Fannie and Freddie; assisted by mortgage originators who, courtesy of Wall Street's securitization prowess, retained no stake in the loans they originated and therefore had no reason to underwrite them soundly, and by the appraisers they controlled; aided and abetted by an oligopoly of credit raters who, protected by our government from the pressures of free-market competition, had fallen asleep at the switch; and enabled by the swollen supply of cheap and easy money put into place in the years preceding the bursting of the housing bubble by the Greenspan Fed, there was no stopping the mainstream-media–praised racial lending quotas established under our affordable home ownership mandate. The results, given the scale of the U.S. housing market, were nothing less than cataclysmic.

THE BIRTH OF THE GOVERNMENT-SPONSORED ENTERPRISES

Initially the government intervention was relatively tame and not racially driven. Starting with the G.I. Bill,[5] which provided home loans to returning soldiers, and the Federal National Mortgage Association or "Fannie Mae" as it is now commonly called, the federal government undertook a consistent policy of promoting home ownership, primarily through subsidizing home mortgage loans and making them easily and readily available, and secondarily via tax policy by making home mortgage interest deductible.[6]

Fannie Mae was chartered in 1938 by Franklin Delano Roosevelt as a governmental agency in the wake of the Great Depression. In 1968, it was converted by Lyndon Johnson to a private stockholder-owned (but government-sponsored) enterprise or GSE,[7] in order to remove its activity from the balance sheet of the federal budget.

Fannie Mae was formed as part of the New Deal to promote liquidity in the mortgage market by providing a robust and efficient secondary mortgage market—a market where home mortgage loan originators could come to sell their mortgage paper and replenish their capital in order to redeploy it and originate more loans.

Even though conceived during the severe financial stresses of the Great Depression, Fannie Mae purchased conforming mortgage loans with

sensible down payment requirements. Initially, Fannie's down payment requirement was 20 percent.[8] Fast forwarding to the present, the down payment requirement imposed by the Federal Housing Administration, an arm of the U.S. Department of Housing and Urban Development, which issues explicit government-backed mortgage insurance,[9] was reduced to an astonishing 3.5 percent,[10] nearly one-seventh of the original mandate.

Although there have been very low (including 0 percent) down payment programs, beginning with the Veteran's Administration as early as 1944, these programs were used far more broadly after 2000. The big change came with the greater use of second-lien home purchase loans (sometimes called piggyback loans) beginning in 2002, which let more borrowers put no money down to buy a house.[11]

THE U.S. AFFORDABLE HOME OWNERSHIP MANDATE IS RADICALIZED AND RACIALIZED

A radicalization of the federal policy of promoting home ownership took place during the 15-year period preceding the bursting of the housing bubble—1992 to 2007—initially led by the efforts of the Clinton Administration, most notably then–Attorney General Janet Reno, and thereafter by leading liberal congressmen and senators, whose campaign coffers were stuffed with contributions from Fannie Mae and its sister agency, Freddie Mac They included Senate Banking Committee Chairman Christopher Dodd and House Financial Services Committee Chairman Barney Frank. Some Republicans as well fell prey to the irresistible lure of housing subsidies, including President George W. Bush, who signed into law the American Dream Downpayment Act in 2003.

Besides the Clinton Administration, Senator Dodd, Congressman Frank, and their liberal minions, another key player in the liberal left vanguard pushing for ever higher home ownership rates among American minorities was the since disgraced liberal advocacy group, ACORN (Association of Community Organizations for Reform Now).[12]

In 1992, under intense lobbying pressure from ACORN, Congress passed the Federal Housing Enterprises Financial Safety and Soundness Act, also known as the GSE Act.[13] Forced to comply with the GSE Act's "affordable housing" mandate—a mandate pushed through by ACORN—Fannie Mae and Freddie Mac now own or are responsible for (via securitization) a jaw-dropping $5.5 trillion of residential mortgages, roughly half of all U.S. residential mortgages (by dollar value, but more than half in number of mortgages).

THE COMMUNITY REINVESTMENT ACT

Congress had bought into ACORN's goal of pressuring the GSEs—Fannie and Freddie—into purchasing home mortgage loans with a heavy emphasis on mortgages made to low-income minority borrowers looking to purchase homes with razor-thin down payments. These "affordable housing" loans were in turn made by the banks under an earlier law—the Community Reinvestment Act of 1977, an act of Congress signed into law by President Carter, designed to stop the alleged bank practice known as "redlining" (the supposed discriminatory credit practices against minority, low-income, inner city neighborhoods).

The CRA's mandate merely admonished "each appropriate Federal financial supervisory agency to use its authority when examining financial institutions to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions." It was easy for aggressive liberal lawmakers to twist loan disapproval rate statistics to the end of converting the CRA's seemingly benign mandate into a radicalized and racialized monster.

As Mark Twain quipped over a century and a half ago, "facts are stubborn, but statistics are more pliable." Distorting loan denial rate statistics was easy, and the liberal mainstream media did whatever it could to help move the process along.

As Hoover Institution (Stanford University) economist and author Thomas Sowell compellingly explains in his book, *The Housing Boom and Bust*, instead of reporting that the vast majority of mortgage applications submitted by both blacks and whites were approved, as was the case, the mainstream media only reported the differences in rejection rates. Whenever possible, rationale differences in loan applicants' qualifications were ignored.

The trivial differences in approval rates among the races were explained by sound underwriting standards. If a certain percentage of African Americans or Hispanics of a given income level were denied mortgages while a higher percentage of whites in that same income bracket were granted their applications, other relevant factors like the amount of cash being put down or the overall cash assets of the applicant were ignored.

And, as Mr. Sowell aptly hypothesized, if 99 percent of loan applications by whites were granted while 98 percent of blacks' applications were granted, though it would be technically true in such a case to say that blacks suffered twice the rejection rate as whites, such an observation hardly presents a clear picture of what was really happening—that the great majority of all loan applications by both whites and blacks were approved.

Although actual approval rates were not quite that high, Mr. Sowell's point—that rejection rate statistics were being used to distort the true picture—is irrefutable. In any event, as Mr. Sowell noted, Asians had a higher mortgage approval rate than did whites, a statistic conveniently ignored by both the mainstream media and our lawmakers.

The whole notion that banks intentionally refused to make loans to African Americans or Hispanics simply because of the color of their skin and not because of some reasonably grounded fear that applicants of any race with inadequate assets, income, or credit histories would not be able to pay back the loans they sought, in and of itself should have raised the hair on the backs of our necks.

Why would the very same executives whom President Obama now describes as "fat cat bankers" refuse to turn a profit from the interest paid by putative borrowers simply because of the color of their skin? When exactly did the "fat cat bankers" lose their capitalist urges? Was their racism so strong that mortgage bankers were prepared to pay for it in millions of dollars of lost profits (which would then go to their nonracist competitors), even after spending millions of advertising dollars in order to attract borrowers?

Astute commercial trial lawyers look for simple economic motivations to explain human behavior. Isn't a far more plausible and simpler theory that these bankers had sound, objective reasons for denying the few loans they did in fact deny, or for granting such applications and charging higher interest rates to make up for the higher default rates to applicants (of any race) with poor credit characteristics?

This irrational insistence on seeing racism in what was nothing more than sound underwriting criteria consistently applied is explained by what another Hoover Institute scholar, Shelby Steele, referred to in a December 30, 2009 *Wall Street Journal* article as an American sophistication—"the sophistication of seeing what isn't there rather than what is"—likening the process to the parable of the emperor's new clothes.

As related by Mr. Steele, "[t]he emperor was told by his swindling tailors that people who could not see his new clothes were stupid and incompetent. So when his new clothes arrived and he could not see them, he put them on anyway so that no one would think him stupid and incompetent. And when he appeared before his people in these new clothes, they too—not wanting to appear stupid and incompetent—exclaimed [at] the beauty of his wardrobe. It was finally a mere child who said: 'The emperor has no clothes.'"

Not seeing racism in loan rejections, even though there was none, was thus forbidden by an embedded cultural taboo denouncing a failure to see racism everywhere. And those who failed to see racism in loan rejection

rates were themselves branded racists. Political correctness, and the ostracism faced by those who violated its strictures, commanded that we see racism that did not exist.

People who professed not to see the emperor's (nonexistent) clothes were quickly branded fools by the political class. When Barney Frank was taken to task by Bill O'Reilly for lauding the fiscal soundness of Fannie and Freddie Mac just two months before then–Treasury Secretary Paulson seized them both to prevent their imminent bankruptcy, Mr. Frank responded by telling Mr. O'Reilly he was "stupid." Mr. O'Reilly, it seemed, did not see the emperor's clothes.

Spawned by the civil rights movement of the 1960s led by Dr. Martin Luther King, the Community Reinvestment Act—or at least the perversion of it that took root during the Clinton era—was itself predicated on another perversion, one twisting the principles for which Dr. King stood.

Contrast what President John F. Kennedy had to say about equal opportunity in 1963 to what has been done in the last 15 years in the name of the Community Reinvestment Act. President Kennedy said that Congress should "make a commitment to the proposition that race has no place in American life *or law*" (emphasis is the author's). In 1964, Senator Hubert Humphrey, a principal sponsor of the Civil Rights Act of that year, bristled at what he called the "nightmarish propaganda" then being espoused by the law's detractors, who argued that the Civil Rights Act would permit preferential treatment because of race or racial imbalance.

In short, sometime between 1964, when the Civil Rights Act was enacted, and the mid-1990s, when Clinton Administration Attorney General Janet Reno began her vicious campaign compelling banks—supposedly guilty of discriminatory redlining practices—to make low down payment loans to minorities regardless of tarnished credit histories, the civil rights movement had been hideously transformed from one supporting a policy requiring that all citizens be treated equally, as Dr. King demanded, to one mandating that they intentionally be treated unequally.

The answer to *de facto* racism had become *de jure* racism. It is no wonder that *Claremont Review of Books* editor William Voegeli called this perverse transformation of our civil rights laws "one of the most audacious bait and switch operations in American political history."[14]

RACIALLY BASED LENDING QUOTAS ARE IMPOSED IN THE NAME OF THE CRA

Extensive federal controls over the varied aspects of banking operations such as acquisitions (for example, of stock brokerage and insurance

businesses), were openly applied by regulators to reward banks that met, and to punish those that did not meet, the racially driven CRA lending quotas. Eventually the federal government imposed outright quotas on private mortgage lending.

In 1996, HUD set an explicit target commanding that 42 percent of the loans bought by Fannie and Freddie in the secondary market be to people with incomes below the median in the area. Eventually the target was raised to 50 percent in 2000 and to 52 percent in 2005.[15]

As Mr. Sowell noted, Clinton Administration Attorney General Janet Reno brought costly-to-defend actions backed by the Department of Justice merely for a bank (Chevy Chase Federal Savings Bank) not having a branch in a minority neighborhood she wanted to see one in, even where there was no evidence of racially discriminating lending practices by such bank whatsoever.[16] The Federal Reserve Board refused to approve a bank's (Shawmut National Corp.) proposed acquisition of another bank (New Dartmouth Bank) due to unproven charges of racial bias in the acquirer's mortgage lending practices.[17] Given the expense of defending government lawsuits aimed at ensuring bank compliance with racial lending quotas, and the arguably even greater costs stemming from regulatory blocks on bank acquisitions and mergers, the banks yielded. Eventually, racially based lending quotas became baked into our mortgage lending system.

So eager was Congress to appease activist community organizer groups like ACORN that the latter effectively wrote federal policy under the CRA and GSE acts. These community advocacy groups, with the backing of Congress, set the goal: the percentages of minority borrower/low income/low down payment mortgages purchased by the GSEs, Fannie and Freddie. Naturally, sound underwriting standards were cast aside in order to meet these racially based lending quotas. Congress ordered the GSEs to lower down payment requirements and to disregard credit blots over a year old.

Republicans are not without some blame in this tragedy, as many in their ranks fell prey to the irresistible political pull of the vote-getting affordable housing agenda. For example, on December 16, 2003, President Bush signed into law the American Dream Downpayment Act of 2003, apparently lured into the fold by the economic activity President Bush thought this act would engender in the post–9/11 environment.[18]

Unlike voting shares of corporate stock, where shareholders cast a number of votes proportionate to their investments in the collective (the corporation), in a democratic republic's one person, one vote system, it is far more politically strategic to err on the side of overburdening the "wealthy," since the other voters are so much more numerous.

Racial lending quotas and the watered-down underwriting standards they spawned; former Federal Reserve Chairman Alan Greenspan's very

low Federal Funds Rate, held in place for an extended period following the dot-com crash, the 9/11 attacks, and the Enron scandal; the triangle of corruption and influence peddling that emerged among lawmakers, top executives at Fannie and Freddie, and their counterparts at private mortgage lenders; mortgage originators retaining no skin in the game thanks to the securitization efforts of Wall Street, bank-controlled appraisers, and asleep-at-the-switch credit rating agencies, all made for a perfect storm in housing.

All the vast firepower of the formidable GSEs, under the control of congressmen and senators (some of whom had received preferential loans from private sector lender Countrywide Financial), supplied with a nearly inexhaustible cache of ammunition, as Greenspan's monetary policies caused our money supply to swell to unprecedented levels, was unleashed in all its fury and without restraint.

A TRIANGLE OF INFLUENCE PEDDLING AND CORRUPTION—LAWMAKERS, FANNIE AND FREDDIE EXECUTIVES, AND PRIVATE MORTGAGE LENDER EXECUTIVES

Not content with the mere tripling of these toxic low down payment mortgage loans, Congressman Frank (along with 13 other congressmen including California Congresswoman Maxine Waters) co-sponsored a bill (HR 1852) in 2007 (thankfully never passed by the Senate), which would have reduced the down payment requirement to zero.[19]

The triangle of lawmakers, GSE executives, and bank executives became a hotbed of corruption and influence peddling. Senate Banking Committee Chairman Christopher Dodd, Senate Finance Committee Chairman Kent Conrad, and former Fannie Mae CEO (and former Obama VP vetter) Jim Johnson received special low-rate mortgage loans from Countrywide Financial through a program personally overseen by Countrywide's chairman and CEO, Angelo Mozilo, known as the "Friends of Angelo" program.

Senator Dodd received a $75,000 reduction in mortgage payments from Countrywide at below-market rates on his Washington, D.C. and Connecticut homes. Clinton Jones III, senior counsel of the House Financial Services Subcommittee on Housing and Community Opportunity, was singled out for special treatment. Jones became state director for federal residential-mortgage bundler Freddie Mac and was thereafter hired to serve on the House Financial Services Committee.

Alphonso Jackson, acting secretary of the Department of Housing and Urban Development, received a discounted mortgage loan for himself and sought one for his daughter. In 2003, using VIP loans for nearly

$1 million apiece, Franklin Raines, the since disgraced chairman and CEO of Fannie Mae from 1999 to 2004, twice refinanced his seven-bedroom home.[20]

Under intense pressure, both Democrats and Republicans on the House Oversight and Governmental Reform Committee issued a congressional subpoena on October 23, 2009, demanding documents relating to charges of Countrywide's efforts at influence peddling at all levels of government.[21] The fallout from that investigation, if it is ever concluded, remains to be seen.

As I explained in a *New York Post* Op-Ed piece, Democrats claim their sweeping financial-sector reforms will guard against the kind of problems that triggered the recent economic meltdown. But if they *really* wanted to do that, they would have focused on how so many U.S. officials were simply bought off by Angelo Mozilo.

Rep. Darrell Issa (R-Calif.), ranking member of the House Committee on Oversight and Governmental Reform, has demanded just such a review—and, for the sake of the nation, he should get one.

In July 2010, Rep. Issa wrote to Alfred Pollard, general counsel to the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, asking for a probe of "VIP" mortgage loans given to Fannie and Freddie executives by Countrywide Financial Corporation.

The documents Rep. Issa subpoenaed strongly suggest that, through a VIP loan program at Countrywide for "Friends of Angelo," Mozilo helped spur officials to keep up Fannie and Freddie's multitrillion-dollar mortgage-spending spree and, especially, buying Countrywide's junk mortgages. Special account executives were hired to administer the "FOA" loan program. Their business cards contained the designation "VIP Loan Program," so that the VIPs who received these discounted loans would know they were being given special treatment. Thousands of dollars were saved by each VIP borrower, and each had to have known it.

Beyond Dodd, Conrad, Jones, Jackson, and Raines, the more than 44,000 documents subpoenaed by Issa showed that the corruption in the system ran even deeper. They show that a staggering 153 VIP loans were extended to the quasi-governmental employees who decided what loans Fannie would buy with the taxpayers' money. Another 20 VIP loans were made to Freddie Mac executives.

Mozilo's seemingly systematic efforts to sway lawmakers, a cabinet member, White House staff, and the executives at Fannie and Freddie appear to have paid off. In 2007, Countrywide alone originated 23 percent of a massive volume of Fannie and Freddie's mortgage purchases. In that year alone, Mozilo made more than $140 million. VIP borrower and Fannie CEO Jim Johnson signed a strategic agreement with Countrywide granting

Fannie exclusive access to Countrywide's junk loans. Mozilo, in effect, had managed to make the United States and Countrywide joint ventures in the most prodigious—dangerous—subprime-mortgage operation in our country's history.

Mozilo also seems to have stifled numerous bills in Congress aimed at reform—despite warnings by Republicans that a failure to rein in Fannie and Freddie posed grave dangers to taxpayers. When Sen. Richard Shelby (R-Ala.) pushed for a comprehensive fix, Dodd successfully threatened a filibuster.

Meanwhile, despite ethical codes governing Congress, the Executive Branch, and Fannie and Freddie, which ban the acceptance of gifts or discounts, influential "Friends of Angelo" accepted their discounted loans.

If House Leader Nancy Pelosi really were interested in reform and in "draining the swamp," she'd have launched a probe long ago. She didn't. Even worse, multiple VIP loan recipient Dodd served as sponsor of the financial-reform law, which made no effort to deal with Fannie and Freddie, even though to date they've received $148 billion in taxpayer bailouts—with no end in sight.

President Obama and his fellow Democrats singled out Wall Street in their massive reform package. They should have looked in the mirror first.

Executives at the GSEs also profited handsomely and at one time cooked Fannie's books to perpetuate their unearned compensation levels. A study jointly conducted by the Securities and Exchange Commission and the Office of Federal Housing Enterprise Oversight found that Fannie executives had engaged in "extensive financial fraud" over the six-year period 1998–2004 and arranged a settlement of $400 million, which, in typical government fashion, was paid by Fannie Mae and therefore penalized the victims of the fraud perpetrated by the book-cooking executives—Fannie's shareholders. Further investigation of and efforts to bring about disgorgement of tens of millions of dollars of "ill gotten" compensation received by then–Fannie CEO Franklin Raines and CFO Timothy Howard have continued to languish for years.[22]

LAWMAKER LAPDOGS OBEY THEIR MASTERS

As criticism of Fannie and Freddie heated up in 2003, Congressman Frank responded in his typical fashion: "Critics conjure up the possibility of serious financial losses to the Treasury, which I do not see."[23] In response to $11 billion of book-cooking irregularities being reported by the Office of Federal Housing Enterprise Oversight in 2007, President Bush called for a "robust reform package" to be put in place for the GSEs. Senator Dodd

responded by saying that President Bush should "immediately reconsider his ill-advised" recommendation.[24]

Back in 2004, when the Franklin Raines scandal broke, Dodd called Fannie and Freddie "one of the great success stories of all times," urging "caution" in restricting their activities. As late as July 2008, just two short months before the insolvent mortgage giants were seized and placed into federal conservatorship by Treasury Secretary Paulson, Dodd continued his unflinching support for the GSEs, saying even then, on the eve of disaster, that they were "on a sound footing."[25]

In 2003, California Congresswoman Maxine Waters said, "We do not have a crisis at Freddie Mac, and in particular at Fannie Mae, under the outstanding leadership of Mr. Franklin Raines." Ms. Waters added that regulatory reforms at the GSEs "must be done in a manner so as not to impede their affordable housing mission, a mission that has seen innovation flourish from desktop underwriting to 100 percent loans."[26]

What Ms. Waters was referring to, of course, was the replacement of old-school 30-year, self-amortizing, fixed-rate mortgage loans with innovative interest-only "option ARMS"[27] the private lenders needed to put in place to justify the riskier loans (with their higher anticipated default rates) required to be made in order to fill the racial lending quotas imposed under the CRA. Said differently, Ms. Waters insisted that reform not stop the precise lending practices that ended up causing the subprime mortgage crisis and housing bubble.

As recently as Christmas Eve 2009, Jane Hamsher, editor of liberal website Firedoglake, and Grover Norquist, head of the conservative group, Americans for Tax Reform—sent a joint letter to Attorney General Eric Holder, demanding that he investigate Obama's White House Chief of Staff Rahm Emanuel. Emanuel was appointed to the board of Freddie Mac by President Clinton in 2000 and served there for 14 months.[28]

According to a story broken by the *Chicago Tribune*, the Office of Federal Enterprise Housing Oversight, the same Congressional oversight office that charged Fannie CEO Raines with cooking Fannie's books in order to line his own pockets, issued a report finding that, during Emanuel's tenure as a Freddie Mac board member, a plan was put in place by "the executives and the board to use accounting tricks to show shareholders they were reaping massive profits even as they continued down a path of risky investments."[29] The profits were then used to justify the executives' big bonuses, as well as compensation to outside board members, including Emanuel.

When Emanuel left the board to enter Congress in 2002, he qualified for $380,000 in stock and options and $20,000 cash. It seems Emanuel made as much as $400,000 for attending about six Freddie Mac board

meetings. Not bad for a man who makes a $172,000 salary as the White House Chief of Staff.

Worse, charges were levied by Hamsher and Norquist that Emanuel had used his powerful position as White House Chief of Staff to prevent the filling of the vacant Freddie Mac Inspector General post in a stonewalling effort to force the running of the 10-year statute of limitations on Emanuel's alleged corruption before charges could be brought against him.

The demand for Holder's investigation of Emanuel's alleged corruption came on the heels of the White House approving $42 million in Wall Street–style year-end bonuses for the top 11 executives at Fannie and Freddie, including a stunning $6 million apiece for the CEOs of Fannie and Freddie. That's a pretty good chunk of change to be given to individuals who, given the federal conservatorship imposed on the GSEs and the hundreds of billions of dollars they will receive in taxpayer subsidies, are really just government bureaucrats who have no mission in life other than to "democratize credit," or said differently, lose taxpayer money—and a lot of it.

Wall Street–style year-end bonuses were lavished on the top GSE executives by Obama, despite his incessant ravings that he would not allow "fat cat bankers" to continue to be paid millions in unjust compensation—that was why, after all, he had appointed Kenneth Feinberg in the first place. A $6 million bonus for losing $5 to $20 billion per quarter is pretty good work if you can get it. Where is Ken Feinberg when you need him?

It would seem that when it comes to running a big company, the White House feels the need to pay big bonuses to attract top talent, the same plaintive cry the major banks laid at Pay Czar Feinberg's feet. (Apparently, losing that much money takes a lot of talent.) Unless a company is giving away taxpayer money to meet government-imposed racial lending quotas, it would seem attracting executive talent is not much of a concern for Obama appointees.

FHA MORTGAGE INSURANCE

The GSEs and the liquidity they provided to the secondary mortgage market was not the only tool in the government's arsenal. In addition, the Federal Housing Administration, a department of HUD, issues default insurance to private mortgage lenders insuring them against losses up to 100 percent of the loan amount.

Although the FHA insured just three out of 100 residential mortgages as recently as 2006, due to substantial pullback of private lending in the residential arena following the subprime mortgage crisis, the FHA's market

share quickly swelled to nearly one out of every three mortgage loans made by the first quarter of 2010. This should not be confused with the overall rate of mortgage loans currently being made or insured by U.S. taxpayers, which stands at 96.5 percent—nearly the entire home mortgage market—as of May 2010.

While I was waiting to go on air at Fox Business News Channel on Thursday, November 12, 2009, for an interview with FBN anchors Dave Asman and Liz Claman to discuss "Cracks in the Foundation of the Fed's Housing Fix," FBN cut to a live feed from HUD's Washington, D.C. headquarters, where HUD Secretary Shaun Donovan was explaining why we should not be worried that the FHA's capital reserves had fallen to razor-thin levels. In fact, the FHA's capital reserves had fallen to barely more than one-quarter of the minimums mandated by Congress for the FHA's book, which as of September 2009 included $685 billion of mortgage loans.[30]

SO, HERE'S WHAT HAPPENED

A crushing tsunami of shoddily underwritten mortgage loans overtook us. Mortgage lenders readily complied by flooding the secondary mortgage market with trillions of dollars of the high loan-to-value mortgage loans to minority borrowers mandated by Congress and the GSEs. Wall Street did its part, as well, providing the financial engineering (the slicing and dicing) and distribution channels necessary to enable Fannie, Freddie, and Ginnie Mae residential mortgage-backed securities to work their way onto the balance sheets of investors throughout our shadow banking system worldwide. As a result, the percentage of home mortgage loans made to borrowers putting up a down payment of 5 percent or less more than tripled from 9 percent in 1991 to 27 percent in 1995, eventually reaching a staggering 29 percent in 2007.[31]