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**Statement To The Capital Markets Subcommittee  
Of The Committee On Banking And Financial Services**

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Today, I want to focus a little on Fannie Mae. There is a frightening dimension to Fannie Mae, and I say this after witnessing Fannie Mae's heavy handed techniques in shaping public opinion, and even causing advocacy groups to acquiesce to the power and influences of this publicly traded government sponsored enterprise.

For the last two or so years, I have watched and participated as Fannie Mae and Freddie Mac hosted numerous gatherings, which means, financially underwriting those conferences and many conferees, under the auspices of groups like the Civil Rights Leadership Conference, the National Community Reinvestment Coalition, and the Neighborhood Reinvestment Corporation. I watched as Fannie Mae and Freddie Mac peddled their desire to engage in sub-prime lending, taking the position that some people will never qualify for prime lending, but still needed to be serviced, and that they were the ones who were able to attend to this under-served market. At face value one will not necessarily see the problem with an arrangement of this kind. After all, conferences should be an environment where ideas are allowed to flow, disagreements surface, and strategies for addressing problems gel. Unfortunately, I have found that these conferences are usually not the place for this type of interaction and development. Instead, the purpose of the gathering is clear, particularly when they are underwritten by Freddie or Fannie, and that is to buy submissive loyalty with silent approval to the actions of the GSEs.

An example of this occurred nearly three years ago. While participating in a conference on community lending sponsored by a non-profit organization, and partially underwritten by Fannie Mae, I, along with some colleagues challenged Mr. Johnson, then CEO of Fannie Mae, about his stance on the issue of "zero

down” lending. Approximately a week after challenging Mr. Johnson I received a note from the Executive Director of that non-profit corporation saying, “Fannie Mae has canceled an \$80,000 grant with us. Are you happy?” The note was in direct reference to the questioning that the CEO of Fannie Mae was exposed to during this session in the conference.

Another glaring example of Fannie Mae’s ability to shape public opinion took place during the recent serious financial crisis that we faced in the District of Columbia. I was engaged in educating the public with other clergy around the issue of Fannie Mae’s exemption from taxes while enjoying a prominent and profitable presence in D.C.. We educated the public and pressed Fannie Mae in hopes of recouping some share of revenue that is protected from taxation. It seemed to be only fair since District roads, water, police and fire services helped to facilitate this profit making shareholder owned government sponsored enterprise. However, gradually one minister after another dropped out of the work of the coalition with each quietly citing that they had received money from Fannie Mae for one project or another, and therefore their speaking, acting or organizing would no longer be prudent. Though this advocacy didn’t bring any new monies into the District, evidently for the price of silence and inactivity some groups received funds that may not have otherwise been made available.

These two examples, I believe, are important ones, because corporations like Freddie and Fannie, which enjoy special benefits and subsidies by being GSEs, should not be engaged with the public in ways that quiet protest, mute questions, or dispirit spirited debate. However the very size and money of these GSEs has leaned toward this tendency. And when so much is spend on public relations, “Showing America The Way Home”, there is a natural resolve to silence anything that threatens to tarnish the hype.

It is clear to me that these GSEs need more scrutiny and accountability. Being a type of hybrid, both a shareholder owned corporation and yet enjoying generous government subsidy, these GSEs sometimes get caught up in their own spin. On the one hand, they seek and claim to do good, making monies available for home ownership and attempting to come up with strategies to help larger segments of the American population achieve that dream. Yet at the same time, these GSEs are responsible to shareholders in maximizing return on investment. I believe this is one of the motives that have led Freddie and Fannie to enter the sub-prime market. Of course, Fannie and Freddie publicly claim that by entering those markets they will have the ability to regulate it through the flow of their

dollars and product into the arena. However, the real reason can probably more accurately be found in higher interest rates, greater fees, prepayment prohibitions, and greater profits to the corporation and its shareholders. A friend of mine once told me that “de-nial” is more than just a river in Egypt!”

Of course the real fear here is that when the economy goes south, or just through one of those cycles that it periodically goes through, if Fannie and Freddie are engaged in these sub-prime markets then they will get left holding the bag, and the American taxpayer with them. If Fannie and Freddie are protected by their great ability to buy silence, then who is going to protect Joe and Jane Taxpayer from the imprudent moves that come when one is above questions and fair criticism like it seems that Freddie, and particularly, Fannie Mae is.

It has been suggested by previous witnesses last week that these GSEs should be setting the standard for what is offered in the market place. They should not be following the market downward into exploitation and predatory lending, but should be leading the market upward to new places of social responsibility. I concur with a previous witness, that these GSEs should be monitored and evaluated according to a well founded criteria of social responsibility, meaning: what communities have been helped by these enterprises; what families; precisely where; what income levels; and how has these enterprises made a difference in particularly under and unserved communities.

Also, it is dangerous, frightening and undemocratic that GSEs, like Fannie Mae, while receiving millions of dollars in government subsidy, uses millions of dollars to lobby congress, fund political campaigns and silence critics. This is an unfair and unintended advantage of these GSEs, and should be corrected. It further protects the GSEs from scrutiny and even regulatory inquiry, because they have the right and financial might to politically lobby and silence any critic they choose.