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Power of the Mortgage Twins

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WASHINGTON, Nov. 11 — In a spacious office just north of Georgetown, James A. Johnson has the latest technology: a video monitor that flashes both the news and prices from Wall Street and displays a small window with a television screen showing live debates from Congress.

It is a neat symbol for Mr. Johnson, whose job as chairman and chief executive of the Federal National Mortgage Association bridges political and financial circles. Fannie Mae, as it is informally known, and its smaller brother, Freddie Mac, a second Government-created mortgage financing company, have scored their greatest successes this year in both worlds.

As the main sources of credit for American home buyers, Fannie Mae and Freddie Mac, which is also known as the Federal Home Loan Mortgage Corporation, finance about one home in four. So far, they have enjoyed their most profitable year on record. Propelling their earnings, which are expected to approach a total of $2 billion, are low interest rates, which have encouraged a wave of mortgage refinancings, and the decline of savings and loan associations, their main competition. Mission of the Companies

The two companies were created by the Government to make the purchase of homes more affordable. These publicly traded corporations accomplish their mission by raising money relatively cheaply in debt markets, using the cash to buy mortgages from banks and savings and loans, and then either holding the mortgages or repackaging them into securities that are sold to investors.

The process provides banks and savings and loans with fresh cash to issue more mortgages. In the last few years, favorable interest rates have also enabled Fannie Mae and Freddie Mac to post larger profits by taking advantage of the difference between the price at which they borrow money and the price at which they issue their mortgage-backed securities.

But critics in the Bush Administration and on Capitol Hill assert that over the long term, the two companies have become so unrestrained that they could pose enormous liabilities to taxpayers, because no one thinks the Government would stay on the sidelines should they ever encounter difficulties.

Senior executives at the two companies say that the criticism is misplaced and that they are in a sense becoming victims of their success.

Fannie Mae and Freddie Mac have grown more than two and a half times in the last five years, issuing more than $1 trillion in obligations. The Government provides the companies with a wide array of tax benefits, regulatory breaks and securities law exemptions not shared by any of their competitors in the banking and savings and loan industries.

The two companies are the nation's largest issuers of corporate debt, and since the markets generally view their securities as Government-backed, they are able to raise money more cheaply than any other business. They also enjoy multibillion-dollar credit lines with the Treasury.

So far, their defense has staved off the critics from making any legislative or regulatory inroads that threaten their autonomy. The companies have resoundingly rebuffed calls for a drastic overhaul that would put them under tighter Government control. And despite suggestions of phony bids by customers who buy their debt, they have managed to keep the lid on the details.

In a reflection of their persuasive political power, the companies wrote much of a bill, adopted overwhelmingly by the House in September, that would give them more autonomy in some areas than they had before and impose less onerous capital requirements than some lawmakers wanted. They also have put the brakes on an effort to get the Securities and Exchange Commission more actively involved in regulating them. Generous Contributions

Some critics say their successes are not solely the product of their policy choices and business acumen, and point to the roster of prominent former Government members on their employee and lobbying payrolls, including former White House officials and Cabinet members from both parties -- and to generous campaign contributions.

These critics maintain that the companies continue to pose significant potential risk to taxpayers, particularly if interest rates rise drastically, and that they have railroaded Congress into adopting rather lenient legislation.

Alfred A. DelliBovi, Deputy Secretary of Housing and Urban Development, said Fannie Mae and Freddie Mac "have the broadest constituency in the United States after the President," since they serve so many homeowners and also have the support of mortgage bankers, real estate development groups and customers on Wall Street who make tens of millions of dollars selling their debt.

Executives at the two companies attribute their political gains to their track record of providing enormous amounts of cash to the housing market, and in so doing keeping housing costs lower while simultaneously providing returns on equity averaging about 25 percent for the last few years. 'A Great Success Story'

"This has been the greatest year and most eventful year ever for Freddie Mac," notes Leland C. Brendsel, chairman and chief executive of the company.

Mr. Johnson's view is similar. "It's a great success story," he said. "One of the points I generally make to people in the Administration and people on Capitol Hill is that in the context of there being so few clear public-policy successes, you should rejoice in Fannie Mae and Freddie Mac rather than fight them. This is a very unique idea that Congress and the Presidency put in place that works beautifully."

Their critics include a number of lawmakers, members of the Bush Administration and competitors who assert that the companies' political victories have been the result of forging alliances with powerful interest groups, paying off some critics to gain their support, playing the different regulatory agencies off of each other, and wielding influence through an unusually heavy reliance on a cadre of executives and lobbyists who had previously served as officials in the Government and in Congress.

The critics also assert that shareholders instead of homeowners receive too much of the billions of dollars that the companies receive in Government subsidies through tax breaks and perceived Government guarantees, estimated by some to be $2 billion to $4 billion annually.
'Laughed Out of Town'

"To me, the rules totally change when you get a subsidy," said Mr. DelliBovi, who as H.U.D.'s Deputy Secretary is the Administration's second senior housing official after his boss, Jack Kemp. "If Lee Iaccoca came to town and said give us this kind of subsidy for these kinds of returns, he'd be laughed out of town."

"They want to make us a regulator in name only," he added.

Representative Jim Leach, Republican of Iowa and a respected member of the House Banking Committee, was the lone dissenting vote in his committee on the legislation about the companies, because he believed that it does not set adequate capital standards to insure that there would not be a taxpayer bailout if the economy ever turns against them.

And Representative Joseph P. Kennedy 2d, Democrat of Massachusetts, asserted that executive compensation at the two companies was excessive, pointing to this year's $27.5 million retirement compensation package for Fannie Mae's former chairman, David O. Maxwell, as well as the $1 million-plus salaries of six officials. Three of the 10 highest-paid executives in Washington work at Fannie Mae. Exception to the Critics

Mr. Johnson and Mr. Brendsel take strong exception to the critics, pointing to studies they have commissioned that conclude that most of the benefits flow not to their shareholders but to homeowners. Mr. Johnson said salaries and bonuses at the company were "at about the median for large financial institutions."

The legislation adopted in late September by the House imposes three sets of capital levels to be monitored by H.U.D.. Perhaps the most important capital level requires the two companies to hold capital of 0.45 percent to 2.5 percent of their assets. Banks and savings associations, in contrast, will be required to have a minimum capital to asset ratio of 4 percent, adjusted for risk, beginning next year.

Administration officials had originally proposed more strict capital measures, but senior Treasury officials decided on lower limits in the face of a lobbying blitzkrieg.

The companies have put an impressive bipartisan list of former Government officials on their lobbying and employee payrolls, including Joseph A. Califano Jr., the Health, Education and Welfare Secretary in the Carter Administration; Kenneth M. Duberstein, President Ronald Reagan's last chief of staff; Harry C. McPherson, a White House adviser in the Johnson Administration, and Leonard Garment and Henry C. Cashen 2d, two former senior advisers to President Richard M. Nixon who are partners at the Washington law firm of Dickstein, Shapiro & Morin.

Mr. Johnson himself has strong bipartisan connections, having served as chairman in Walter F. Mondale's Presidential campaign in 1984 and as managing director with Richard G. Darman, President Bush's budget director, in the Washington office of Shearson Lehman Brothers.

Freddie Mac recently added to its well-connected roster Mitchell Delk, the former chief lobbyist for the S.E.C., and Fannie Mae recently hired John Buckley, the former director of communcations at the National Republican Congressional Committee and deputy press secretary to the Reagan-Bush campaign in 1984. Political Action Committee

The two companies' legislative agenda has been assisted by generous campaign contributions. Fannie Mae is the only known federally created organization to have a political action committee, which in recent years has contributed more than $110,000 to lawmakers. Tens of thousands of dollars have also been contributed by its senior executives.

In the thick of the Congressional debate over the legislation this summer, Fannie Mae went on a grant binge, donating hundreds of thousands of dollars to almost a dozen low-income housing, community and consumer groups that had initially expressed strong support for tougher legislation, but ultimately backed down. Both the groups and Fannie Mae assert that the grants did not affect the outcome of the legislation, but Mr. Leach believes otherwise.

"The timing of the grants is self-evident," he said. "This is the most important legislation since the inception of Fannie and Freddie and they pulled out all the stops to make sure potential critics were silenced."