Frank, Syron, and the blame game

The leadership roles of two Bay Staters come under scrutiny in the wake of the mortgage crisis. BY SHAWN ZELLER

TWO MASSACHUSETTS GUYS, Richard Syron and Barney Frank, are among those at the center of the blame game going on in Washington concerning the root causes of the country's worst financial disaster since the Great Depression.

Syron, the former chief executive of mortgage giant Freddie Mac, lost not only his job but also his reputation as a result of the financial meltdown and the government takeover of his company. His multimillion-dollar severance package is still in limbo.

Frank, the chairman of the US House's Financial Services Committee, has emerged as a major player in the country's recovery effort. But he has also been accused of precipitating the crisis by pushing Freddie Mac and Fannie Mae to recklessly expand the supply of affordable housing.

Unlike Syron, who has hired Boston attorney Stuart Cable and gone into the bunker after giving a handful of press interviews last summer, Frank has defended himself with his customary flair. A look at the record indicates both Syron and Frank played a role in the crisis, Syron by abandoning his core principles and Frank by pressuring Syron and others to do more. How central a role they played is much harder to say; there's plenty of blame to go around.

In retrospect, it's far too easy to see where Syron went wrong. The Irish-born executive, whose parents emigrated to Boston and raised him there, had long championed affordable housing during his five years at the helm of the Federal Reserve Bank of Boston, starting in 1989. But Syron's enthusiasm was tempered, at that time, by a healthy skepticism of the government's ability to use public policy to expand homeownership.

His tenure at the Boston Fed is perhaps best remembered for a 1992 report that found massive discrimination against minority homebuyers in Boston. But what's largely forgotten is that Syron also grappled with then–Attorney General Scott Harshbarger over what policymakers should do with the report. Harshbarger wanted to use the report to pressure Boston's bank executives to change the way they issued mortgages. Syron argued for information over action. He feared that a more aggressive approach would "forever poison the well for future research and analysis to develop a better understanding of these problems."

Around the same time, then-President Bill Clinton was pushing to use the government's regulatory powers to require banks to offer more loans to low-income people. Syron sympathized, but he warned that there were limits to what government could do. Government could ensure that poor people with good credit would not be discriminated against by lenders, he said, but it couldn't do much to help those with poor credit buy homes. As Syron told *The American Banker*, the Community Reinvestment Act was "actually quite limited in its statutory capabilities to solve those insidious problems of society."

A decade after leaving the Boston Fed—and after successful stints at the head of Thermo Electron and the American Stock Exchange—Syron was brought in by Freddie's board of directors to save the company, which was under fire on Capitol Hill because of a massive accounting scandal in which executives had misstated earnings by some $5 billion.

At first, Syron received good reviews, steadying Freddie's finances while assuaging affordable housing advocates such as Frank by promising to bring Freddie back around to its mission of expanding homeownership among lower-income people.

Congress had a keen interest in that goal. It had, after all, founded Freddie in 1970 to help spur the

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US Rep. Barney Frank

Richard Syron, former chief executive of Freddie Mac

flow of credit to homebuyers. Freddie's job, to this day, is to buy mortgages from banks and other lenders to free up capital so that the institutions can turn around and make more loans. Until the government takeover of Freddie in September, it was a quasi-governmental company, answerable to both Congress and private shareholders.

As banks began to eat into Freddie's market share by buying risky subprime loans made to buyers with iffy credit and little money down, Syron's private shareholders began to pressure him to remain competitive. Just 10 months after taking over at Freddie, in late 2004, Syron told the industry publication *Mortgage Line* he was jumping more aggressively into subprime lending. Ominously, in retrospect, Syron said the company was well-positioned financially to make some more risky bets.

There were warnings that this move might blow up in his face. As Syron moved heavily into subprime lending that year, his chief risk officer, David Andrukonis, told him that the loans "would likely pose an enormous financial and reputational risk to the company and the country," according to an August report in the *New York Times*.

In response, Syron told the *Boston Globe* that he had no choice. "If you're going to take aid to low-income families seriously, then you're going to make riskier loans," he said. "We have goals to meet."

More recently, Syron told the *Washington Post* he had miscalculated the risk of the loans as he sought to please policymakers eager to see expanded homeownership. "What this organization is all about is balancing among the different missions," Syron said a month before the federal takeover of Freddie last September. "It makes the job almost impossible."

THAT'S WHERE FRANK comes in. He had long pushed Freddie and Fannie to expand their lending in low-income areas. Some conservatives say Frank was hoodwinked by Syron's talk of a mission.

"The Democrats were very protective and very unified in protecting Fannie and Freddie," says Peter Wallison, a fellow at the American Enterprise Institute, a right-leaning think tank in Washington, indicating that Frank was among the leaders.

In October, US House Minority Leader John Boehner of Ohio said Frank needed to "start taking responsibility for the role he and other top Democrats played in putting Main Street Americans in this mess."

After Syron took over, Freddie Mac aggressively pursued subprime loans.

Some of Frank's past remarks are damning. In 2003, when the Bush administration proposed new oversight for the two companies, Frank told the *New York Times* that they were "not facing any kind of financial crisis." Frank said he saw the regulatory push as a threat to low-income homebuyers: "The more people exaggerate these problems, the more pressure there is on these companies, the less we will see in terms of affordable housing."

While Frank has not disavowed that earlier statement,

BILL GREENE/BOSTON GLOBE/LANDOV; BRENDAN MCDERMID/REUTERS/LANDOV he is now trying to place it in context. "I was not in favor of them buying subprime mortgages. I wanted them to make money and then take it to buy rental housing," he insists.

The real blame, he says, lies with a Bush administration whose campaign pledge of an "ownership society" fed the desire to raise homeownership rates beyond what was reasonable. According to Frank, "The Bush administration was a modern-day Marie Antoinette: 'Let them own homes,' as opposed to being able to rent places."

Even if Frank had seen the financial meltdown coming, he wouldn't have been in a position to do much about it. At the time Syron was pushing into the risky world of subprime lending, Frank was cooling his heels as the ranking minority member on the House Financial Services Committee. Democrats had been in the minority on Capitol Hill for nearly a decade, and Frank had little power to do much of anything but throw grenades at Republicans. The GOP, Frank notes, did nothing.

Indeed, when House Republicans moved in 2005 to toughen regulation of Fannie and Freddie, it was a dispute with the Bush administration over the shape of the deal that stalled action. Republicans "controlled the Congress from 1995 through 2006," Frank says. "If I could have stopped them, I could have stopped impeachment, the Terri Schiavo bill, the war in Iraq, and the Patriot Act."

When Democrats took charge of the House in January 2007, Frank's views about risks posed by Fannie's and Freddie's financial health had changed for the worse and, despite his other differences with the Bush administration, he reached out to it to craft new legislation. Frank was concerned about the subprime lending and joined hands with Treasury Secretary Henry Paulson to push through the House a bill establishing a new agency to oversee Fannie and Freddie. But the Senate didn't act for more than a year, passing legislation in July of last year, just before the meltdown hit.

Even AEI's Wallison says Frank deserves credit for reaching out to Paulson. "He did see his responsibility once he became chairman," Wallison says.

Aaron Gornstein, the executive director of the Citizens' Housing and Planning Association in Boston, defends Frank: "He wanted Fannie and Freddie to fulfill their mission, but he also knew the limits of doing so."

Gornstein also defends Syron. "I don't think it's correct to blame Fannie and Freddie," he says. The two mortgage giants, he says, were swept up in a wave "that certainly no one predicted." In retrospect, he says, "It's easy to look back and say everyone should have predicted it, but that didn't happen."

John Taylor, the West Roxbury resident who heads the Washington–based National Community Reinvestment Coalition, says the attacks against Frank are smears meant to hide where the true blame lies: "There's nothing wrong with encouraging lending in poorer communities," he says. Blame directed at those who would expand affordable housing is "just a convoluted excuse people are putting up to try to hide why we are in this situation, which is deregulation, and infectious greed and malfeasance [by lenders]."

Taylor points out that studies show foreclosure rates are similar across income groups, buttressing his contention that it was predatory lending to people with suspect credit that hurt the housing market, not necessarily lending to poor people.

Frank has fought back with his usual panache.

"Low-income residents are not, by definition, poor credit risks," says Michael Rubinger, president of the Local Initiatives Support Corporation, a New York–based group that funds affordable housing construction and conducted one such study.

From March 2007 to March 2008, Rubinger found, default rates for all loan types rose significantly, with subprime foreclosures vastly outstripping prime defaults. But among subprime borrowers, income level had little correlation to foreclosure rates. Subprime borrowers in prosperous communities defaulted at nearly the same rate as those in impoverished areas, Rubinger notes.

What Frank has fought for, Taylor says, is not indiscriminate lending to people ill-equipped to pay their mortgages, but rather for the right of poor people with good credit to secure loans.

In Washington, Frank has fought GOP criticism with his usual panache, accusing Republicans of trying to pin the blame for the crisis on poor minorities and pointing out that it was he, not his Republican predecessors, who moved oversight legislation through the House. He says he's now focused on working with the Obama administration to right the economy and is planning legislation this year to tighten regulation of the lending and credit rating sectors.

The American homeownership rate hit an all-time high of 69 percent in 2004. It is now below 68 percent and, by all indications, will fall further. Frank won't try to stop it. Instead, he says, with some tinkering, he expects to free up $1 billion to go, primarily, toward affordable rental housing. "We overdid homeownership," he says. CW