December 27, 2011

Mark Steyn wants the West to have some kids.
... The problem with the advanced West is not that it's broke but that it's old and barren. Which explains why it's broke. Take Greece, which has now become the most convenient shorthand for sovereign insolvency – "America's heading for the same fate as Greece if we don't change course," etc. So Greece has a spending problem, a revenue problem, something along those lines, right? At a superficial level, yes. But the underlying issue is more primal: It has one of the lowest fertility rates on the planet. In Greece, 100 grandparents have 42 grandchildren – i.e., the family tree is upside down. In a social democratic state where workers in "hazardous" professions (such as, er, hairdressing) retire at 50, there aren't enough young people around to pay for your three-decade retirement. And there are unlikely ever to be again.

Look at it another way: Banks are a mechanism by which old people with capital lend to young people with energy and ideas. The Western world has now inverted the concept. If 100 geezers run up a bazillion dollars' worth of debt, is it likely that 42 youngsters will ever be able to pay it off? As Angela Merkel pointed out in 2009, for Germany an Obama-sized stimulus was out of the question simply because its foreign creditors know there are not enough young Germans around ever to repay it. The Continent's economic "powerhouse" has the highest proportion of childless women in Europe: one in three fräulein have checked out of the motherhood business entirely. "Germany's working-age population is likely to decrease 30 percent over the next few decades," says Steffen Kröhnert of the Berlin Institute for Population Development. "Rural areas will see a massive population decline, and some villages will simply disappear." ...

Andrew Malcolm hopes Iraq's leaders don't work like ours.
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AutoBlog tells how some union thugs got jailed.
Danny Douglas and Jay Campbell, have been sentenced to 18 months and 12 months plus one day, respectively, after being convicted of extortion. It seems the two former United Auto Workers officials agreed to end an 87-day strike at a GM plant in Pontiac, MI back in 1997 – but only after General Motors agreed to hire Campbell's son and the son of another UAW official for high-paying jobs they were evidently not qualified for.

It's been a rather long and winding road for Douglas and Campbell. According to the Detroit Free Press, the case first went to trial in 2002, and in 2003, the charges were dismissed by U.S. District Judge Nancy Edmunds. Shortly thereafter, a trio of judges from the U.S. Sixth Circuit Court of Appeals reversed that decision and reinstated the charges.

The maximum penalty allowed for the pair of law breakers – both are now 70 years old – was up to 30 years in prison and fines of $750,000. Judge Edmunds, however, sentenced them much less strictly, with six months of house arrest and two years of probation. Both Douglas and Campbell appealed the ruling, and the case went back to the Sixth Circuit Court of Appeals.

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OC Register editorial with a good example of why California is headed to the dumps.
Democratic reaction to the news that Waste Connections, a $3.6-billion company and major Sacramento-area employer, is headed to Houston to seek a friendlier business climate tells other businesses all they need to know about the attitudes of those who run California's government.

State Senate President Pro Tem Darrell Steinberg, D-Sacramento, gave these clueless and snarky remarks in response to the news: "In this instance you have a company that is, in fact, profitable, making significant revenue gains in 2011 and 2010. That doesn't speak to a bad business climate here in California when a good company is able to thrive in that way. So whatever Mr. Middelstaedt's (company CEO) reasons are to leave the great state of California, I know I'm pushing back."

Steinberg claims to have worked on improving the state's business climate, but from what we see in Sacramento, Steinberg and the party he helps lead have been pushing hard mainly for additional regulations and much higher taxes. The California Democratic Party's attitude long has been that businesses are basically trying to rip off the public, and the source of all wealth and advancement can be found in the public sector, When businesses leave. Steinberg and Co. show little sympathy. ...

Joel Kotkin says the rest of the sun belt is doing just fine.
Along with the oft-pronounced, desperately wished for death of the suburbs, no demographic narrative thrills the mainstream news media more than the decline of the Sun Belt, the country's southern rim extending from the Carolinas to California. Since the housing bubble collapse in 2007, commentators have heralded "the end of the Sun Belt boom."

Yet this assertion is largely exaggerated, particularly since the big brass buckle in the middle of the Sun Belt, Texas, has thrived throughout the recession. California, of course, has done far worse, but its slow population growth and harsh regulatory environment align it more with the Northeast than with its sunny neighbors.

Moreover, the Sun Belt is poised for a recovery, [according to the most recent economic and demographic data]. Even such hard-hit states as Arizona appear to be making an unexpected, and largely unheralded, recovery.

Take Florida. The Sunshine State may have experienced rapid population loss during 2008 and 2009, but the just-released 2011 Census estimates show a remarkable turnaround, with the state adding 119,000 domestic migrants last year. This may be less than half the gains in 2004 and 2005, when the in-migration reached nearly 250,000, but it is close to levels enjoyed a decade ago.

The big winners in terms of growth were in the South, with Texas, Florida and North Carolina as the leading in-migration states. Virginia, South Carolina, Georgia, Tennessee and Virginia also ranked in the top 10. ...

WSJ Editors say the SEC case against Fannie and Freddie execs provides some interesting and timely information.

Democrats have spent years arguing that private lenders created the housing boom and bust, and that Fannie Mae and Freddie Mac merely came along for the ride. This was always a politically convenient fiction, and now thanks to the unlikely source of the Securities and Exchange Commission we have a trail of evidence showing how the failed mortgage giants turbocharged the crisis.

That's the story revealed Friday by the SEC's civil lawsuits against six former Fannie and Freddie executives, including a pair of CEOs. The SEC says the companies defrauded investors because they "knew and approved of misleading statements" about Fan and Fred's exposure to subprime loans, and it chronicles their push to expand the business.

The executives deny the charges, and we hope they don't settle. The case deserves to play out in court, so Americans can see in detail how Fan and Fred were central to the bubble. The lawsuits themselves, combined with information admitted as true by Fan and Fred in civil nonprosecution agreements with the SEC, are certainly illuminating.

The Beltway story of the crisis claims that Congress's affordable housing mandates had nothing to do with it. But the SEC's lawsuit shows that Fannie degraded its underwriting standards to increase its market share in subprime loans. According to the SEC suit, for instance, in 2006 Fannie Mae adjusted its widely used automated underwriting system, "Desktop Underwriter." Fannie did so as part of its "Say Yes" strategy to "provide more 'approve' messages . . . for larger volumes of loans with lower FICO [credit] scores and higher LTVs [loan-to-value] than previously permitted." ...

Orange County Register
An upside-down family tree
by Mark Steyn

Our lesson for today comes from the Gospel according to Luke. No, no, not the manger, the shepherds, the wise men, any of that stuff, but the *other* birth:

"But the angel said unto him, Fear not, Zacharias: for thy prayer is heard; and thy wife Elisabeth shall bear thee a son, and thou shalt call his name John."

That bit of the Christmas story doesn't get a lot of attention, but it's in there – Luke 1:13, part of what he'd have called the back story, if he'd been a Hollywood screenwriter rather than a physician. Of the four gospels, only two bother with the tale of Christ's birth, and only Luke begins with the tale of two pregnancies. Zacharias is surprised by his impending paternity – "for I am an old man and my wife well stricken in years." Nonetheless, an aged, barren woman conceives and, in the sixth month of Elisabeth's pregnancy, the angel visits her cousin Mary and tells her that she, too, will conceive. If you read Luke, the virgin birth seems a logical extension of the earlier miracle – the pregnancy of an elderly lady. The physician-author had no difficulty accepting both. For Matthew, Jesus' birth is the miracle; Luke leaves you with the impression that all birth – all life – is to a degree miraculous and God-given.

We now live in Elisabeth's world – not just because technology has caught up with the deity and enabled women in their fifties and sixties to become mothers, but in a more basic sense. The problem with the advanced West is not that it's broke but that it's old and barren. Which explains why it's broke. Take Greece, which has now become the most convenient shorthand for sovereign insolvency – "America's heading for the same fate as Greece if we don't change course," etc. So Greece has a spending problem, a revenue problem, something along those lines, right? At a superficial level, yes. But the underlying issue is more primal: It has one of the lowest fertility rates on the planet. In Greece, 100 grandparents have 42 grandchildren – i.e., the family tree is upside down. In a social democratic state where workers in "hazardous" professions (such as, er, hairdressing) retire at 50, there aren't enough young people around to pay for your three-decade retirement. And there are unlikely ever to be again.

Look at it another way: Banks are a mechanism by which old people with capital lend to young people with energy and ideas. The Western world has now inverted the concept. If 100 geezers run up a bazillion dollars' worth of debt, is it likely that 42 youngsters will ever be able to pay it off? As Angela Merkel pointed out in 2009, for Germany an Obama-sized stimulus was out of the question simply because its foreign creditors know there are not enough young Germans around ever to repay it. The Continent's economic "powerhouse" has the highest proportion of childless women in Europe: one in three *fräulein* have checked out of the motherhood business entirely. "Germany's working-age population is likely to decrease 30 percent over the next few decades," says Steffen Kröhnert of the Berlin Institute for Population Development. "Rural areas will see a massive population decline, and some villages will simply disappear."

If the problem with socialism is, as Mrs. Thatcher says, that eventually you run out of other people's money, much of the West has advanced to the next stage: it's run out of other people, period. Greece is a land of ever-fewer customers and fewer workers but ever more retirees and more government. How do you grow your economy in an ever-shrinking market? The developed world, like Elisabeth, is barren. Collectively barren, I hasten to add. Individually, it's made up of millions of fertile women, who voluntarily opt for no children at all or one designer kid at 39. In Italy, the home of the Church, the birthrate's somewhere around 1.2, 1.3 children per couple – or about half "replacement rate." Japan, Germany and Russia are already in net population decline. Fifty percent of Japanese women born in the Seventies are childless. Between 1990 and 2000, the percentage of Spanish women childless at the age of 30 almost doubled, from just over 30 percent to just shy of 60 percent. In Sweden, Finland, Austria, Switzerland, the Netherlands and the United Kingdom, 20 percent of 40-year old women are childless. In a recent poll, invited to state the "ideal" number of children, 16.6 percent of Germans answered "None." We are living in Zacharias and Elisabeth's world – by choice.

America is not in as perilous a situation as Europe – yet. But its rendezvous with fiscal apocalypse also has demographic roots: The baby boomers did not have enough children to maintain the solvency of mid-20th century welfare systems premised on mid-20th century birthrates. The "Me Decade" turned into a Me Quarter-Century, and beyond. The "me"s are all getting a bit long in the tooth, but they never figured there might come a time when they'd need a few more "thems" still paying into the treasury.

The notion of life as a self-growth experience is more radical than it sounds. For most of human history, functioning societies have honored the long run: It's why millions of people have children, build houses, plant trees, start businesses, make wills, put up beautiful churches in ordinary villages, fight and, if necessary, die for your country. A nation, a society, a community is a compact between past, present and future, in which the citizens, in Tom Wolfe's words at the dawn of the "Me Decade," "conceive of themselves, however unconsciously, as part of a great biological stream."

Much of the developed world climbed out of the stream. You don't need to make material sacrifices: The state takes care of all that. You don't need to have children. And you certainly don't need to die for king and country. But a society that has nothing to die for has nothing to live for: It's no longer a stream, but a stagnant pool.

If you believe in God, the utilitarian argument for religion will seem insufficient and reductive: "These are useful narratives we tell ourselves," as I once heard a wimpy Congregational pastor explain her position on the Bible. But, if Christianity is merely a "useful" story, it's a perfectly constructed one, beginning with the decision to establish Christ's divinity in the miracle of His birth. The hyper-rationalists ought at least to be able to understand that post-Christian "rationalism" has delivered much of Christendom to an utterly irrational business model: a pyramid scheme built on an upside-down pyramid. Luke, a man of faith and a man of science, could have seen where that leads. Like the song says, Merry Christmas, baby.

Investor's

Obama White House lectures Iraqis on reaching out to political opponents

by Andrew Malcolm

The politicians in Baghdad have in their own way been working hard at this democracy business, especially hard now that most U.S. troops are gone.

Iraq's leaders have no doubt been monitoring CNN International in recent days as the needless payroll tax extension fight in that exotic place called Washington was settled, fell apart and now both houses of Congress have packed up without any agreement. As if another legislative month off was more important than the nation's struggling economy.

They see this Democrat Harry Reid fellow saying no, absolutely no way will he name Senate conferees to work together with Republicans on a year-long tax cut extension, which he really wants, until the House passes a two-month extension, which Reid only says he wants. So, Reid the petulant politician closes the Senate.

And Iraqi leaders see the U.S. House not even voting on the two-month extension because its newest members want a year-long extension like everybody else and they also feel like needling their own sect leader a bit. So, they waste a vote demanding that the other chamber do what everyone knows it's not going to do.

And they see the president of the United States, who wanted a year-long extension until he thought he got Republicans in a PR bind over two months, jabbering only at the GOP about its extraneous demands.

"We have more important things to worry about now than politics," said Obama, who cares so much about working constructively with opponents that he didn't chat with the Senate GOP leader for nearly two years because he didn't need to and that would take leadership.

Now, Obama is so interested in getting an extension deal done that he hasn't even bothered to try mediation with a bipartisan political summit because, frankly, dividing everybody everywhere is really the only hope his endangered reelection effort has of winning, given the country's awful economic and morale mess.

And if inexperienced Republican House rebels are so willing to walk into a political IED with a de facto tax hike in an election year, who is a lowly ex-state senator out of the Chicago machine to get in their way? *Heh Heh*.

"We have more important things to worry about than saving face, or figuring out internal caucus politics," claims Obama, who's been figuring out his billion-dollar fundraising for eight months for an election still 11 months away.

So, imagine the surprise of Iraq's Prime Minister Nouri al-Maliki and the speaker of the Representative Council Tuesday when their phones rang in Baghdad and it was Joe "How You Doin'?' Biden.

He said he and Obama were monitoring the situation over there very closely and they were really worried about all the political fractiousness they saw among that country's parties and leaders, apparently thinking of their own self-interest ahead of the country's.

Biden said the U.S. administration had signed on to support post-war Iraq because the leaders agreed to "an inclusive partnership government," you know, with everyone working together for common goals, despite all the temptations to cut someone out.

According to an official White House description of Biden's calls to Iraqi leaders, "The Vice President also stressed the urgent need for the Prime Minister and the leaders of the other major blocs to meet and work through their differences together."

Wait! All sides actually meeting together? Hashing out deals that cost each side something and give each side something? Just like real politicians in a functioning democracy?

What a brilliant idea for Iraq! Obviously, it would never work in Washington.

AutoBlog
Two UAW officials sentenced to prison for strike-related extortion
by Jeremy Korzeniewski

Danny Douglas and Jay Campbell, have been sentenced to 18 months and 12 months plus one day, respectively, after being convicted of extortion. It seems the two former United Auto Workers officials agreed to end an 87-day strike at a GM plant in Pontiac, MI back in 1997 – but only after General Motors agreed to hire Campbell's son and the son of another UAW official for high-paying jobs they were evidently not qualified for.

It's been a rather long and winding road for Douglas and Campbell. According to the *Detroit Free Press*, the case first went to trial in 2002, and in 2003, the charges were dismissed by U.S. District Judge Nancy Edmunds. Shortly thereafter, a trio of judges from the U.S. Sixth Circuit Court of Appeals reversed that decision and reinstated the charges.

The maximum penalty allowed for the pair of law breakers – both are now 70 years old – was up to 30 years in prison and fines of $750,000. Judge Edmunds, however, sentenced them much less strictly, with six months of house arrest and two years of probation. Both Douglas and Campbell appealed the ruling, and the case went back to the Sixth Circuit Court of Appeals.

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Orange County Register - Editorial
Even profitable firms fleeing California

Democratic reaction to the news that Waste Connections, a $3.6-billion company and major Sacramento-area employer, is headed to Houston to seek a friendlier business climate tells other businesses all they need to know about the attitudes of those who run California's government.

State Senate President Pro Tem Darrell Steinberg, D-Sacramento, gave these clueless and snarky remarks in response to the news: "In this instance you have a company that is, in fact, profitable, making significant revenue gains in 2011 and 2010. That doesn't speak to a bad business climate here in California when a good company is able to thrive in that way. So whatever Mr. Middelstaedt's (company CEO) reasons are to leave the great state of California, I know I'm pushing back."

Steinberg claims to have worked on improving the state's business climate, but from what we see in Sacramento, Steinberg and the party he helps lead have been pushing hard mainly for additional regulations and much higher taxes. The California Democratic Party's attitude long has been that businesses are basically trying to rip off the public, and the source of all wealth and advancement can be found in the public sector, When businesses leave. Steinberg and Co. show little sympathy.

Is it really the Senate president's role to determine the proper profit margin for a privately owned company? Talk about arrogance.

"The decision by Waste Connections to relocate, despite the 17 percent revenue increase and the $18 million cost to move to Texas, illustrates that businesses will endure short-term costs to ensure long-term prosperity," wrote state Sen. Mimi Walters, R-Laguna Niguel, in response to Steinberg's message. Walters quotes business-relocation expert Joe Vranich of Irvine, who notes that businesses typically save 40 percent in costs by leaving California because of lower taxes and more manageable regulations found elsewhere.

State Democratic leaders ignore the obvious. Liberal-leaning think tanks have produced studies alleging that few businesses actually leave the state. That is true on its surface, although Fox News reported that more than 2,500 employers, accounting for 109,000 jobs, have left California in the past four years.

While a limited number of businesses go through the trouble of pulling up stakes and high-tailing it to Texas, Nevada or Arizona, many others just quietly go out of business. Others keep their headquarters here, but expand their operations elsewhere. Many jobs are never created or opportunities pursued because of the punitive regulatory and tax climate in California, where Steinberg's true constituency – the public-sector unions that enforce the myriad regulations and laws – does its work.

If California wants to improve its business climate and reduce its double-digit unemployment rate, its officials need to understand what companies such as Waste Connections are saying, rather than simply dismiss their concerns.

Forbes

The Sun Belt's Comeback

by Joel Kotkin

Along with the oft-pronounced, desperately wished for death of the suburbs, no demographic narrative thrills the mainstream news media more than the decline of the Sun Belt, the country's southern rim extending from the Carolinas to California. Since the housing bubble collapse in 2007, commentators have heralded "the end of the Sun Belt boom."

Yet this assertion is largely exaggerated, particularly since the big brass buckle in the middle of the Sun Belt, Texas, has thrived throughout the recession. California, of course, has done far worse, but its slow population growth and harsh regulatory environment align it more with the Northeast than with its sunny neighbors.

Moreover, the Sun Belt is poised for a recovery, according to the most recent economic and demographic data. Even such hard-hit states as Arizona appear to be making an unexpected, and largely unheralded, recovery.

Take Florida. The Sunshine State may have experienced rapid population loss during 2008 and 2009, but the just-released 2011 Census estimates show a remarkable turnaround, with the state adding 119,000 domestic migrants last year. This may be less than half the gains in 2004 and 2005, when the in-migration reached nearly 250,000, but it is close to levels enjoyed a decade ago.

The big winners in terms of growth were in the South, with Texas, Florida and North Carolina as the leading in-migration states. Virginia, South Carolina, Georgia, Tennessee and Virginia also ranked in the top 10. Overall, the Southern states reaped 95% of the inter-regional net domestic migration (people moving from one state to another). Arizona, another state widely written off, enjoyed an 11th place finish, with a net gain over 13,000.

As for the much-cherished notion that people will start flocking to highly urbanized, high-cost littoral states? Well, as they say in my native New York, fuggedaboutit. As has been the case for most of the past few decades, the Empire State has once again been the biggest loser, not of pounds, losing 113,000 people. Following close behind are California and Illinois, all of which are once again losing people in large numbers to other places.

In contrast, one of the few Sun Belt states to lose migrants is former high-flier Nevada, which lost 11,000 people to other states. The Silver State's continued decline seems traced to what Phoenix economist Elliot Pollack describes as its "one-trick pony economy." In Nevada, that economy is tied to gambling, which has been hit by the recession and by increasing competition both domestically and in East Asia. It also suffers from its unhealthy "evil twin" dependency on still-weak California.

The reasons behind these shifts are complex. For one, there is a slowly improving economic climate in many Sun Belt cities. In terms of year-to-year job growth, Dallas ranks first and Houston third, while Orlando, Miami and Phoenix all are among the top 10 of the country's 32 largest metropolitan areas. Among the states Texas ranks fifth and Arizona ranks seventh' while Florida clocks in at 16th. This may not be the gangbuster growth of previous decades, but is far from moribund.

Looking forward, some of the "bubble states" appear to be taking a lesson from Texas and are reconsidering their former growth formula, which relied far too much on tourism, retirees and housing construction. "We know the business model has to change from just tourism and retirees," notes Chris McCarty, director of the Bureau of Economic and Business Research at the University of Florida. "We need to make a modification in our approach and now there's a desire to do something about it."

Increasingly, places like Phoenix, Orlando and Tampa are focusing on more broad-based growth in such fields as biomedicine, software and trade, which may produce steadier, if not quite as rapid, growth. Aggressively pro-business governments in almost all Sun Belt states — with the exception of California — will enjoy better economic prospects as companies seek out lower-tax, less regulated environments.

But ultimately demographic trends may prove more determinative. People moving into a state provides many things — such as new workers, skills and, perhaps most important, capital. An examination of IRS data of income brought in as a result of migration by the Tax Foundation shows that Florida ranked third in terms of overall gains, behind only Montana and South

Carolina. Arizona ranked fifth. The biggest losers are all in the frost belt: Michigan, New York, Rhode Island and Illinois.

If we are, as is likely, returning to something approximating earlier patterns, we should expect these trends to accelerate gradually over the coming years. One critical factor will be our rapidly aging population. Over the past decade, Phoenix as well as the Florida burgs of Tampa-Saint Petersburg, Orlando and Jacksonville all ranked among the top 10 destinations for aging boomers. This pattern may be reasserting itself.

Housing prices are a critical factor here. Once-soaring prices in communities such as Orlando and Phoenix have adjusted to the more historic median multiple (median housing price relative to income) of roughly three; in contrast, despite some declines, prices in metropolitan areas like New York, Los Angeles, San Francisco, San Diego and San Jose all remain around six or higher.

This suggests that many retirees and down-shifting boomers — people still working but able to relocate their jobs — may find cashing out of their more expensive houses in the Northeast, Chicago or coastal California an effective way of supplementing often depleted IRAs. “There’s a lot of older people with equity who can find bargains that weren’t around in 2006,” observed the University of Florida’s McCarty.

More important still is the movement of younger people from the large millennial generation. Despite the assumption that this group inevitably prefers dense, expensive cities, the 2010 Census showed people 25 to 34 moving primarily to Sun Belt cities such as Orlando, Tampa, Houston and Austin, as well as Raleigh, North Carolina.

“There are a lot of people who will be getting into their 30s [who] still haven’t created a household or bought a home,” says Phoenix-based economist Elliot Pollack. “They mostly won’t be able to do that in California or the Northeast, but they can do it in places like Arizona.”

Pollack maintains that the real estate meltdown has actually created opportunities for the emerging generation. Burdened by college debt and what could still be a sluggish economy, they may find, like so many of their parents, that their best options for homeownership lie in these Sun Belt growth markets. In this sense, the millennials, like the generations before them, may not be the ones to kill the Sun Belt but the demographic which will propel it into a new period of more steady, and sustainable, growth.

The Top 10 Growing States (per 2011 Census estimates)
1. Texas
2. Florida
3. North Carolina
4. Washington
5. Colorado
6. South Carolina
7. Tennessee
8. Georgia
9. Virginia
10. Oregon

WSJ - Editorial

What Fannie and Freddie Knew

The SEC shows how the toxic twins turbocharged the housing bubble.

Democrats have spent years arguing that private lenders created the housing boom and bust, and that Fannie Mae and Freddie Mac merely came along for the ride. This was always a politically convenient fiction, and now thanks to the unlikely source of the Securities and Exchange Commission we have a trail of evidence showing how the failed mortgage giants turbocharged the crisis.

That's the story revealed Friday by the SEC's civil lawsuits against six former Fannie and Freddie executives, including a pair of CEOs. The SEC says the companies defrauded investors because they "knew and approved of misleading statements" about Fan and Fred's exposure to subprime loans, and it chronicles their push to expand the business.

The executives deny the charges, and we hope they don't settle. The case deserves to play out in court, so Americans can see in detail how Fan and Fred were central to the bubble. The lawsuits themselves, combined with information *admitted as true* by Fan and Fred in civil nonprosecution agreements with the SEC, are certainly illuminating.

The Beltway story of the crisis claims that Congress's affordable housing mandates had nothing to do with it. But the SEC's lawsuit shows that Fannie degraded its underwriting standards to increase its market share in subprime loans. According to the SEC suit, for instance, in 2006 Fannie Mae adjusted its widely used automated underwriting system, "Desktop Underwriter." Fannie did so as part of its "Say Yes" strategy to "provide more 'approve' messages . . . for larger volumes of loans with lower FICO [credit] scores and higher LTVs [loan-to-value] than previously permitted."

The SEC also shows how Fannie led private lenders into the subprime market. In July 1999, Fannie and Angelo Mozilo's Countrywide Home Loans entered "an alliance agreement" that included "a reduced documentation loan program called the 'internet loan,'" later called the "Fast and Easy" loan. As the SEC notes, "by the mid-2000s, other mortgage lenders developed similar reduced documentation loan programs, such as Mortgage Express and PaperSaver—many of which Fannie Mae acquired in ever-increasing volumes."

Mr. Mozilo and Fannie essentially were business partners in the subprime business. Countrywide found the customers, while Fannie provided the taxpayer-backed capital. And the rest of the industry followed.

As Fannie expanded its subprime loan purchases and guarantees, the SEC alleges that executives hid the risk from investors. Consider Fannie's Expanded Approval/Timely Payment Rewards (EA) loans, which the company described to regulators as its "most significant initiative to serve credit-impaired borrowers."

By December 31, 2006, Fannie owned or securitized some $43.3 billion of these loans, which, according to the SEC, had "higher average serious delinquency rates, higher credit losses, and lower average credit scores" than Fannie's disclosed subprime loans. By June 30, 2008, Fannie had $60 billion in EA loans and $41.7 billion in another risky program called "My Community Mortgage," but it only publicly reported an $8 billion exposure.

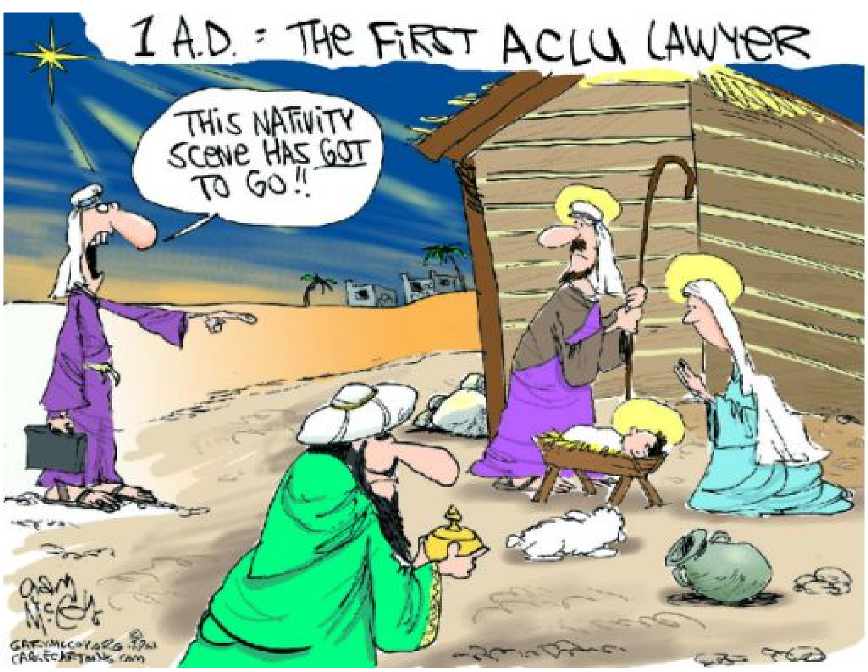
The SEC says Fannie executives also failed to disclose the company's total exposure to risky "Alt-A" loans, sometimes called "liar loans," which required less documentation than traditional subprime loans. Fannie created a special category called "Lender Selected" loans and it gave lenders "coding designations" to separate these Alt-A loans from those Fannie had publicly disclosed. By June 30, 2008, Fannie said its Alt-A exposure was 11% of its portfolio, when it was closer to 23%—a $341 billion difference.

All the while, Fannie executives worked to calm growing fears about subprime while receiving internal reports about the company's risk exposure. In February 2007, Chief Risk Officer Enrico Dallavecchia told investors that Fannie's subprime exposure was "immaterial." At a March 2007 Congressional hearing, CEO Daniel Mudd testified that "we see it as part of our mission and our charter to make safe mortgages available to people who don't have perfect credit," adding that Fannie's subprime exposure was "relatively minimal." The Freddie record is similarly incriminating.

The SEC's case should embarrass Congress's Financial Crisis Inquiry Commission, which spent 18 months looking at the evidence and issued a report in January 2011 that whitewashed Fan and Fred's role. Speaker Nancy Pelosi created the commission to prosecute the Beltway theory of the crisis that private bankers caused it all, and Chairman Phil Angelides delivered what she wanted.

Far from being peripheral to the housing crisis, the SEC lawsuit shows that Fan and Fred were at the very heart of it. Private lenders made many mistakes, but they could never have done as much harm if Fan and Fred weren't providing tens of billions in taxpayer-subsidized liquidity to lend on easy terms to borrowers who couldn't pay it back.

Congress created the two mortgage giants as well as their "affordable housing" mandates, and neither the financial system nor taxpayers will be safe until Congress shrinks the toxic twins and ultimately puts them out of business.



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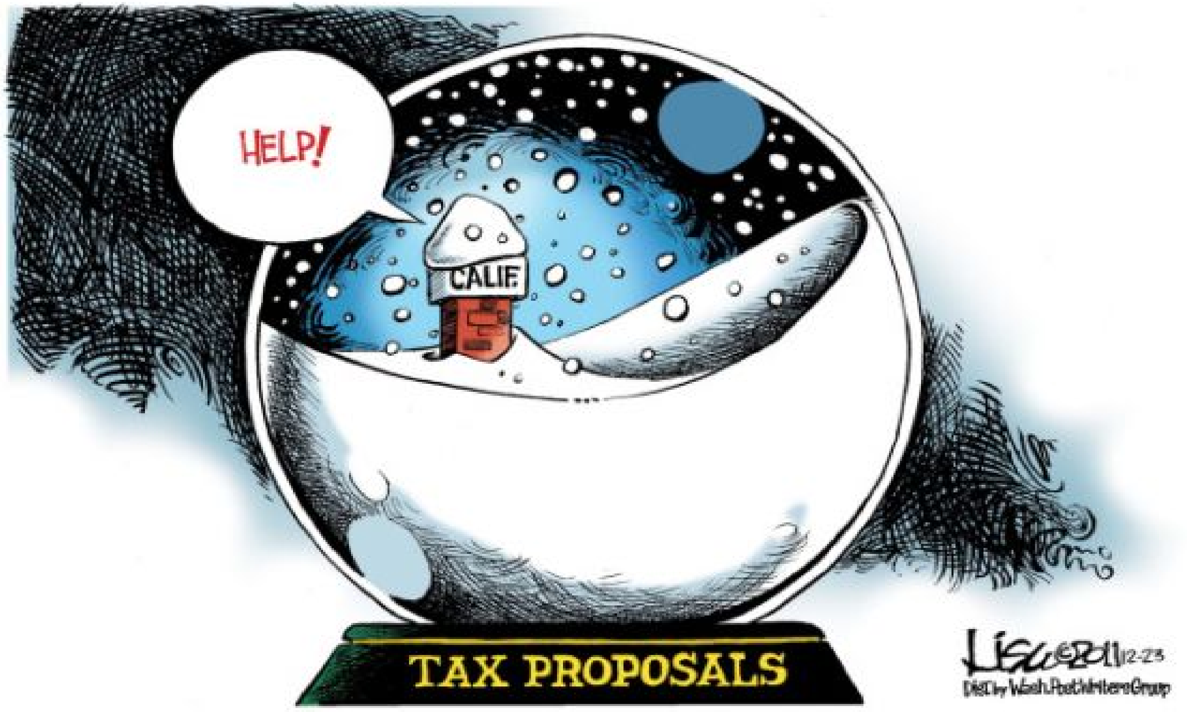
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