GRETCHEN MORGENSON

AND JOSHUA ROSNER

RECKLE$S ENDANGERMENT

HOW OUTSIZED AMBITION, GREED, AND CORRUPTION LED TO ECONOMIC ARMAGEDDON

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CAST OF CHARACTERS

FANNIE MAE AND FRIENDS

James A. Johnson, chief executive officer, Fannie Mae, 1991-1998, director, Goldman Sachs; former director, KB Home; former chairman of The Brookings Institution and The Kennedy Center for the Performing Arts Franklin Delano Raines, former director, Office of Management

and Budget; chief executive officer, Fannie Mae, 1999-2005 David O. Maxwell, chief executive officer, Fannie Mae, 1981-1991 William Jefferson Clinton, forty-second president of the United States

Barney Frank, Democratic congressman from Massachusetts Robert Zoellick, executive vice president, Fannie Mae, 1993-1997 Thomas Donilon, head of government affairs, Fannie Mae, 1999-2005

LaRRy SummERS, deputy secretary, United States Treasury, 1995-

1999. Secretary of the Treasury, 1999-2001 Robert Rubin, Secretary of the United States Treasury, 1995-1999 Richard Holbrooke, cofounder with James Johnson of Public

Strategies, consulting firm Leland Brendsel, former chief executive, Freddie Mac, 1987-2003

Timothy Howard, chief financial officer, Fannie Mae, 1990-2005 Thomas Nides, executive vice president, human resources, Fannie Mae, 1998-2001

Herb Moses, community affairs official, Fannie Mae, 1991-1998,

and former partner of Barney Frank R. Glenn Hubbard, Columbia Graduate School of Business Peter Orszag, senior economist, Council of Economic Advisors, 1995-1996

Bruce Vento, Democratic representative from Minnesota, 1977-2000

Robert Bennett, Republican senator from Utah, 1993-2010 Kit Bond, Republican senator from Missouri, 1987-2003 Stephen Friedman, former director, Fannie Mae, and former chief

executive, Goldman Sachs Maxine Waters, Democratic representative from California

DOUBTERS AND THOSE WHO PUSHED BACK

Dean Baker, codirector, Center for Economic & Policy Research Anne Canfield, lobbyist for community banks and author of *The GSE Report*

Marvin Phaup, former director, Financial Studies/Budget Process

group, Congressional Budget Office June O'Neill, director, Congressional Budget Office, 1995-1999 Walker Todd, former chief counsel at Federal Reserve Bank of Cleveland

Richard S. Carnell, assistant secretary for financial institutions, United States Treasury

EDwArd) DeMarco, director, office of Financial Institutions Policy,

Treasury Department, 1993-2003 William Lightfoot, former D.C. Council member Armando Falcon, director, Office of Federal Housing Enterprise

Oversight, 1995-2005 Roy E. Barnes, governor of Georgia, 1999-2003, and predatory

lending adversary William J. Brennan Jr., former director, Home Defense Program, Atlanta Legal Aid Janet Ahmad, president, Homeowners for Better Building, San Antonio

Marc Cohodes, former money manager, Marin County, California

SUBPRIME LENDERS AND THEIR ENABLERS

Angelo Mozilo, cofounder and former chief executive, Countrywide Financial Wright H. Andrews Jr., subprime lending lobbyist Walter Falk, founder, Metropolitan Mortgage of Miami David Silipigno, founder, National Finance Company J. Terrell Brown, former chief executive, United Companies Financial

Scott Hartman, former chairman, NovaStar W. Lance Anderson, former chief executive, NovaStar Bruce Karatz, former chief executive, KB Home Henry Cisneros, secretary, Housing & Urban Development, 1993-1997

Murray Zoota, former chief executive, Fremont Investment & Loan David McIntyre, former chief executive, Fremont Corporation Louis Rampino, former chief executive, Fremont General

FECKLESS REGULATORS

Timothy F. Geithner, president, Federal Reserve Bank of New York, 2003-2008

RogER FERGUSON, vice-chairman of the FEDERAL ReServE, 1999-2006

Andrew Cuomo, secretary, Housing & Urban Development, 1997-2001

Robert Peach and John McCarthy, researchers at the Federal

Reserve Bank of New York Alan Greenspan, chairman, Federal Reserve Board, 1987-2006 Frederic Mishkin, governor, Federal Reserve Board, 2006-2008

INTRODUCTION

This is not the first book to be written about the epic financial crisis of 2008 and neither will it be the last. But Josh and I believe that *Reckless Endangerment* is different from the others in two important ways. It identifies powerful people whose involvement in the debacle has not yet been chronicled and it connects key incidents that have seemed heretofore unrelated.

As a veteran business reporter and columnist for the *New York Times,* I've covered my share of big and juicy financial scandals over the years. For more than a decade as an established financial and policy analyst, Josh has seen just about every trick there is.

But none of the scandals and financial improprieties we experienced before felt nearly as momentous or mystifying as the events that culminated in this most recent economic storm. That's why we felt that this calamity, and the conduct that brought it on, needed to be thoroughly investigated, detailed, and explained.

The disaster was so great—its impact so far-reaching—that we knew we were not the only ones who wanted to understand how such a thing could happen in America in the new millennium.

Even now, more than four years after the cracks in the financial foundation could no longer be ignored, people remain bewildered about the causes of the steepest economic downturn since the Great Depression. And they wonder why we are still mired in it.

Then there is the maddening aftermath—watching hundreds of billions of taxpayer dollars get funneled to rescue some of the very institutions that drove the country into the ditch.

The American people realize they've been robbed. They're just not sure by whom.

Reckless Endangerment is an economic whodunit, on an international scale. But instead of a dead body as evidence, we have trillions of dollars in investments lost around the world, millions of Americans jettisoned from their homes and fourteen million U.S. workers without jobs. Such is the nature of this particular crime.

Recognizing that a disaster this large could not have occurred overnight, Josh and I set out to detail who did it, how, and why. We found that this was a crisis that crept up, building almost imperceptibly over the past two decades. More disturbing, it was the result of actions taken by people at the height of power in both the public and the private sectors, people who continue, even now, to hold sway in the corridors of Washington and Wall Street.

Reckless Endangerment is a story of what happens when unfettered risk taking, with an eye to huge personal paydays, gains the upper hand in corporate executive suites and on Wall Street trading floors. It is a story of the consequences of regulators who are captured by the institutions they are charged with regulating. And it is a story of what happens when Washington decides, in its infinite wisdom, that every living, breathing citizen should own a home.

Josh and I felt compelled to write this book because we are angry that the American economy was almost wrecked by a crowd of self-interested, politically influential, and arrogant people who have not been held accountable for their actions. We also believe that it is important to credit the courageous and civically minded people who tried to warn of the impending crisis but who were run over or ignored by their celebrated adversaries.

Familiar as we are with the ways of Wall Street, neither Josh nor I was surprised that the large investment firms played such a prominent role in the debacle. But we are disturbed that so many who contributed to the mess are still in positions of power or have risen to even higher ranks. And while some architects of the crisis may no longer command center stage, they remain respected members of the business or regulatory community. The failure to hold central figures accountable for their actions sets a dangerous precedent. A system where perpetrators of such a crime are allowed to slip quietly from the scene is just plain wrong.

In the end, analyzing the financial crisis, its origins and its framers, requires identifying powerful participants who would rather not be named. It requires identifying events that seemed meaningless when they occurred but had unintended consequences that have turned out to be integral to the outcome. It requires an unrelenting search for the facts, an ability to speak truth to power.

Investigating the origins of the financial crisis means shedding light on exceedingly dark corners in Washington and on Wall Street. Hidden in these shadows are people, places, and incidents that can help us understand the nature of this disaster so that we can keep anything like it from happening again.

RECKLES$ ENDANGERMENT

PROLOGUE

More Americans should own their own homes, for reasons that are economic and tangible, and reasons that are emotional and intangible, but go to the heart of what it means to harbor, to nourish, to expand the American Dream.

—WILLIAM JEFFERSON CLINTON,
forty-second president of the United States,
November 1994

The president of the United States was preaching to the choir when he made that proclamation in 1994, just two years into his first term. Facing an enthusiastic crowd at the National Association of Realtors' annual meeting in Washington, D.C., Clinton launched the National Partners in Homeownership, a private-public cooperative with one goal: raising the numbers of homeowners across America.

Determined to reverse what some in Washington saw as a troubling decline of homeownership during the previous decade, Clinton urged private enterprise to join with public agencies to ensure that by the year 2000, some 70 percent of the populace would own their own homes.

An owner in every home. It was the prosperous, 1990s version of the Depression-era "A Chicken in Every Pot."

With homeownership standing at around 64 percent, Clinton's program was ambitious. But it was hardly groundbreaking. The

U.S. government had often used housing to achieve its public policy goals. Abraham Lincoln's Homestead Act of 1862 gave away public land in the nation's western precincts to individuals committed to developing it. And even earlier, during the Revolutionary War, government land grants were a popular way for an impoverished America to pay soldiers who fought the British.

Throughout the American experience, a respect, indeed a reverence, for homeownership has been central. The Constitution, as first written, limited the right to vote to white males who owned property, for example. Many colonists came to America because their prospects of becoming landowners were far better in the New World than they were in seventeenth- and eighteenth-century Europe.

Still, Clinton's homeownership plan differed from its predecessors. The strategy was not a reaction to an economic calamity, as was the case during the Great Depression. Back then, the government created the Home Owners' Loan Corporation, which acquired and refinanced one million delinquent mortgages between 1933 and 1936.

On the contrary, the homeownership strategy of 1994 came about as the economy was rebounding from the recession of 1990 and '91 and about to enter a long period of enviable growth. It also followed an extended era of prosperity for consumer-oriented banks during most of the 1980s when these institutions began extending credit to consumers in a more "democratic" manner for the first time.

Rather than pursue its homeownership program alone, as it had done in earlier efforts, the government enlisted help in 1995 from a wide swath of American industry. Banks, home builders, securities firms, Realtors—all were asked to pull together in a partnership made up of 65 top national organizations and 131 smaller groups.

The partnership would achieve its goals by "making homeownership more affordable, expanding creative financing, simplifying the home buying process, reducing transaction costs, changing conventional methods of design and building less expensive houses, among other means."

Amid the hoopla surrounding the partnership announcement, little attention was paid to its unique and most troubling aspect: It was unheard of for regulators to team up this closely with those they were charged with policing.

And nothing was mentioned about the strategy's ultimate consequence—the distortion of the definition of homeownership—gutting its role as the mechanism for most families to fund their retirement years or pass on wealth to their children or grandchildren.

Instead, in just a few short years, all of the venerable rules governing the relationship between borrower and lender went out the window, starting with the elimination of the requirements that a borrower put down a substantial amount of cash in a property, verify his income, and demonstrate an ability to service his debts.

With baby boomers entering their peak earning years and the number of two-income families on the rise, banks selling Americans on champagne hopes and caviar dreams were about to become the most significant engine of economic growth in the nation. After Congress changed the tax code in 1986, eliminating the deductibility of interest payments on all consumer debt except those charged on home mortgages, the stage was set for housing to become Americans' most favored asset.

Of course, banks and other private-sector participants in the partnership stood to gain significantly from an increase in home-ownership. But nothing as crass as profits came up at the Partners in Homeownership launch. Instead, the focus was on the "deeply-rooted and almost universally held belief that homeownership provides crucial benefits that merit continued public support." These included job creation, financial security (when an individual buys a home that rises in value), and more stable neighborhoods (people don't trash places they own).

In other words, homeownership for all was a win/win/win.

A 1995 briefing from the Department of Housing and Urban Development did concede that the validity of the homeownership claims "is so widely accepted that economists and social scientists have seldom tested them." But that note of caution was lost amid bold assertions of homeownership's benefits.

"When we boost the number of homeowners in our country," Clinton said in a 1995 speech, "we strengthen our economy, create jobs, build up the middle class, and build better citizens."

Clinton's prediction about the middle class was perhaps the biggest myth of all. Rather than building it up, the Partners in Home-ownership wound up decimating the middle class. It left Americans in this large economic group groaning under a mountain of debt and withdrawing cash from their homes as a way to offset stagnant incomes.

It took a little more than a decade after the partnership's launch for its devastating impact to be felt. By 2008, the American economy was in tatters, jobs were disappearing, and the nation's middle class was imperiled by free-falling home prices and hard-hit retirement accounts. Perhaps most shocking, homeownership was no longer the route to a secure spot in middle-class America. For millions of families, especially those in the lower economic segments of the population, borrowing to buy a home had put them squarely on the road to personal and financial ruin.

Fueled by dubious industry practices supported by many in Congress and unchecked by most of the regulators charged with oversight of the lending process, the homeownership drive helped to plunge the nation into the worst economic crisis since the Great Depression.

Truly this was an unprecedented partnership.

But what few have recognized is how the partners in the Clinton program embraced a corrupt corporate model that was also created to promote homeownership. This was the model devised by Fannie Mae, the huge and powerful government-sponsored mortgage finance company set up in 1938 to make it easier for borrowers to buy homes in Depression-ravaged America. Indeed, by the early 1990s, well before the government's partnership drive began, Fannie Mae had perfected the art of manipulating lawmakers, eviscerating its regulators, and enriching its executives. All in the name of expanding homeownership.

Under the direction of James A. Johnson, Fannie Mae's calculating and politically connected chief executive, the company capitalized on its government ties, building itself into the largest and most powerful financial institution in the world. In 2008, however, the colossus would fail, requiring hundreds of billions in taxpayer backing to keep it afloat. Fannie Mae became the quintessential example of a company whose risk taking allowed its executives to amass great wealth. But when those gambles went awry, the taxpayers had to foot the bill.

This failure was many years in the making. Beginning in the early 1990s, Johnson's position atop Fannie Mae gave him an extraordinary place astride Washington and Wall Street. His job as chief executive of the company presented him with an extremely powerful policy tool to direct the nation's housing strategy. In his hands, however, that tool became a cudgel. With it, he threatened his enemies and regulators while rewarding his supporters. And, of course, there was the fortune he accrued.

Perhaps even more important, Johnson's tactics were watched closely and subsequently imitated by others in the private sector, interested in creating their own power and profit machines. Fannie Mae led the way in relaxing loan underwriting standards, for example, a shift that was quickly followed by private lenders. Johnson's company also automated the lending process so that loan decisions could be made in minutes and were based heavily on a borrower's credit history, rather than on a more comprehensive financial profile as had been the case in the past.

Eliminating the traditional due diligence conducted by lenders soon became the playbook for financial executives across the country. Wall Street, always ready to play the role of enabler, provided the money for these dubious loans, profiting mightily. Without the Wall Street firms giving billions of dollars to reckless lenders, hundreds of billions of bad loans would never have been made.

Finally, Fannie Mae's aggressive lobbying and its methods for neutering regulators and opponents were also copied by much of the financial industry. Regulators across the country were either beaten back or lulled into complacency by the banks they were supposed to police.

How Clinton's calamitous Homeownership Strategy was born, nurtured, and finally came to blow up the American economy is the story of greed and good intentions, corporate corruption and government support. It is also a story of pretty lies told by politicians, company executives, bankers, regulators, and borrowers.

And yet, there were those who questioned the merits of the homeownership drive and tried to alert regulators and policymakers to its unintended consequences.

A handful of analysts and investors, for example, tried to warn of the rising tide of mortgage swindlers; they were met with a deafening silence. Consumer lawyers, seeing the poisonous nature of many home loans, tried to outlaw them. But they were beaten back by an army of lenders and their lobbyists. Some brave souls in aca-demia argued that renting a home was, for many, better than owning. They were refuted by government studies using manipulated figures or flawed analysis to conclude that homeownership was a desired goal for all.

Even the credit-rating agencies, supposedly neutral assayers of risks in mortgage securities, quelled attempts to rein in predatory lending.

All the critics were either willfully ignored or silenced by well-funded, self-interested, and sometimes vicious opposition. Their voices were drowned out by the homeownership trust, a vertically integrated, public-private housing machine whose members were driven either by ideology or the vast profits that rising homeownership would provide.

The consortium was too big and too powerful for anyone to take on. Its reach extended from the mortgage broker on Main Street to the Wall Street traders and finally to the hallowed halls of Congress. It was unstoppable.

Because housing finance was heavily regulated, government participation was vital to the homeownership push. And Washington played not one but three starring roles in creating the financial crisis of 2008. First, it unleashed the mortgage mania by helping to relax basic rules of lending that had been in place for decades. Then its policymakers looked the other way as the mortgage binge enriched a few and imperiled many. Even after the disaster hit and the trillion-dollar bailouts began, Congress and administration officials did little to repair the damaged system and ensure that such a travesty could not happen again.

This was a reckless endangerment of the entire nation by people at the highest levels of Washington and corporate America.

Barney Frank, the powerful Massachusetts Democrat and ardent supporter of Fannie Mae, summed it up perfectly back in March 2005. He had just delivered a luncheon speech on housing at the Four Seasons Hotel in Georgetown.

Walking up from the lower-level conference room where he had addressed the Institute of International Bankers, Frank was asked whether he had considered the possible downsides to the homeownership drive. Was he afraid, for instance, that easy lending programs could wind up luring many of his constituents into homes they could not ultimately afford? Was he concerned that, after the groundbreaking and ribbon-cutting ceremonies were forgotten, the same people he had put into homes would be knocking on his door, complaining of being trapped in properties and facing financial ruin?

Frank brushed off the questioner. "We'll deal with that problem if it happens," he barked.

CHAPTER ONE

I'm not big on losing. Somebody may have mentioned that to you.

—JAMES A. JOHNSON,
chief executive officer, Fannie Mae

It was a cool and partly cloudy day in May 2002, when Augsburg College seniors gathered in their downtown Minneapolis campus to collect the undergraduate degrees they had worked so hard to earn. Before them stood James Arthur Johnson, a major donor to the college and a Minnesota boy, made good. A man who had climbed to the top of two cutthroat worlds—corporate America and the Washington power scene—Johnson had been invited to provide guidance and advice to the class of 2002. He was returning to his roots that day in Minneapolis—Johnson's mother, Adeline, a schoolteacher, had been an "Auggie" graduate seventy-one years earlier.

Invoking Adeline, his father, Alfred, and his Norwegian emigrant grandparents, Johnson urged the graduates to pursue their careers with integrity and honesty. Just months after a rogue energy company called Enron had hurtled into bankruptcy, faith in corporate America and the nation's markets had been shaken.

Avuncular, professorial, and attractive, Johnson delivered a reassuring message: "Good ethics are good business."

It was the kind of advice to be expected from a man who just three years earlier had presided over Fannie Mae, one of the world's largest and most prestigious financial institutions. Johnson had then gone on to serve on the boards of five large and well-known public companies, including the mighty investment bank, Goldman Sachs. "What we want from friends—honesty and integrity, energy and optimism, commitment to family and community, hard work and high ethical standards—are the same qualities we need from American business," he told the graduates.

But as he wound up his speech, the fifty-nine-year-old Johnson struck a wistful tone. Just before George Bernard Shaw died, Johnson said, the playwright had been asked to name a famous deceased man—artist, statesman, philosopher, or writer—

whom he missed the most.

Johnson recounted Shaw's reply: "The man I miss most is the man I could have been."

It was a surprising, almost regretful comment from a man who had it all—wealth, power, prestige, and access to men and women at the highest levels of government. Johnson was not only the former chief executive of Fannie Mae, the quasi-government mortgage finance giant; he had also run the Kennedy Center for the Performing Arts in Washington and the Brookings Institution, an influential D.C.-based liberal think tank. Even as he addressed the graduates, he was vice-chairman of a blue-chip private equity firm, Perseus Capital.

A regular in Washington's halls of power, Johnson had also been a top adviser to Walter Mondale, when he was vice president of the United States. John Kerry, the 2000 Democratic presidential nominee, had also relied on Johnson for guidance.

Just one of Johnson's achievements, by almost anybody's reckoning, would have placed him in the top echelons of success.

And yet, for all of his accomplishments, Johnson's ultimate aspirations in Washington remained unmet that May. "The man I could have been" was a likely nod to his longtime desire to become

Treasury secretary of the United States, people who know him say.

But that appointment never came. Nor is it likely to. In the wake of the mortgage crisis of 2008, Johnson's legacy has become decidedly darker. Sure, he retired as vice-chairman of Fannie Mae in 1999, almost a decade before the financial debacle took hold. But Johnson's command-and-control management of the mortgage finance giant and his hardball tactics to ensure Fannie Mae's dominance amid increasing calls for oversight are crucial to understanding the origins of the worst financial debacle since the Great Depression.

Little known outside the Beltway, Johnson was the financial industry's leader in buying off Congress, manipulating regulators, and neutralizing critics, former colleagues say. His strategy of promoting Fannie Mae and protecting its lucrative government association, largely through intense lobbying, immense campaign contributions, and other assistance given to members of Congress, would be mimicked years later by companies such as Countrywide Financial, an aggressive subprime mortgage lender, Goldman Sachs, Citigroup, and others.

Perhaps more crucial, Johnson's manipulation of his company's regulators provided a blueprint for the financial industry, showing them how to control their controllers and produce the outcome they desired: lax regulation and freedom from any restraints that might hamper their risk taking and curb their personal wealth creation.

Under Johnson, Fannie Mae led the way in encouraging loose lending practices among the banks whose loans the company bought. A Pied Piper of the financial sector, Johnson led both the private and public sectors down a path that led directly to the credit crisis of 2008. It took more than a decade to assemble the machinery needed to create the housing mania. But it took only a year or two for the juggernaut to collapse in a heap, destroying millions of jobs and retirement accounts, and devastating borrowers.

After years of crisis coverage in the media, multiple government investigations, and numerous books on the topic, Johnson's role in the mortgage maelstrom has escaped scrutiny. Remarkably, his reputation as a mover and shaker in both business and government remains largely intact, even after the September 2008 taxpayer takeover of an insolvent Fannie Mae, at a cost of hundreds of billions of dollars.

And while others on Wall Street and in the mortgage lending industry have been damaged by the crisis, Johnson is still viewed as a D.C. power broker, respected corporate director, and philanthropist. He enjoys a luxurious life, splitting time between homes in such glamorous locales as Ketchum, Idaho; Palm Desert, California; and a penthouse apartment atop the Ritz-Carlton in Washington, D.C.'s Georgetown neighborhood.

Johnson continues to hobnob with highly placed friends in government and industry—indeed, before Barack Obama was elected president of the United States, Johnson hosted a party to honor the candidate at his $5.6 million Washington apartment.

Some of Johnson's past associations did come back to haunt him in the summer of 2008, however. Obama had asked Johnson to help sift through possible vice presidential candidates but just weeks after he began the search, details emerged of sweetheart mortgage deals Johnson had received from Countrywide Financial, the nation's largest purveyor of toxic subprime loans during the lending boom. Johnson was forced to resign quickly from the Obama team.

But Johnson's involvement in the mortgage crisis goes far beyond receiving low-cost loans from Countrywide and its chief executive, Angelo Mozilo. Former colleagues say that Johnson, during his years running Fannie Mae, was the original, if anonymous, architect of what became the disastrous homeownership strategy promulgated by William Jefferson Clinton in 1994. Johnson, after becoming chief executive of Fannie Mae in 1991 and under the auspices of promoting homeownership, partnered with home builders, lenders, consumer groups, and friends in Congress to transform Fannie Mae into the largest and most influential financial institution in the world.

"Clinton was clearly coordinating with him—they had the same goals at the same time," said Edward Pinto, former chief credit officer at Fannie Mae, who is a consultant. With other high-level Democrats on his side, Johnson beat back all attempts to rein in Fannie Mae's operations or growth plans.

Although Johnson left Fannie Mae's executive suite in 1999, his stewardship of the company not only opened the door to the mortgage meltdown, it virtually guaranteed it, former colleagues said.

Johnson's many peers in the financial and homebuilding industries watched closely as he remade the government-created and -sponsored Fannie Mae from a political lapdog of housing policy into an aggressive, highly politicized attack dog. In the meantime, he created enormous wealth for himself and his executives even as the company took on outsized risks.

Fannie also funneled huge campaign contributions to supporters in Congress. Between 1989 and 2009, according to the Center for Responsive Politics, Fannie Mae spent roughly $100 million on lobbying and political contributions.

Johnson's most crucial win was making sure that Congress was the company's boss, not the Office of Federal Housing Enterprise Oversight (OFHEO), a regulator created in 1992 to watch over the company. With Congress as his de facto overseer and with millions of dollars to hand out to lawmakers, Johnson could be confident his company would always receive the support it sought on Capitol Hill.

"Fannie has this grandmotherly image," a congressional aide told a writer for *The International Economy* magazine in 1999. But when it came to opponents, "they'll castrate you, decapitate you, tie you up, and throw you in the Potomac. They're absolutely ruthless."

As Daniel Mudd, a former Fannie Mae executive, wrote in an e-mail after Johnson's departure from the company: "The old political reality was that we always won, we took no prisoners, and we faced little organized political opposition."

Fannie Mae, which was originally known as the Federal National Mortgage Association, was not always ruthless and all-powerful.

Like many financial institutions, it had a near-death experience in the 1980s when interest rates rocketed into the high teens. Technically insolvent in the early part of the decade because its mortgage portfolio carried interest rates well below prevailing levels, the mortgage finance company was delivered from the brink by an executive named David O. Maxwell.

The U.S. government had created Fannie Mae in 1938 to buy mortgages from banks that loaned money to homebuyers. Fannie Mae did not lend directly to borrowers, but by buying mortgages from banks the company reduced consumer reliance on mortgages that were short-term in nature, hard to refinance, and issued by fly-by-night lenders. It was a Depression-era creation designed to ease financing costs for borrowers still recovering from the economic devastation of the 1930s.

In 1968, President Lyndon B. Johnson changed the company from an agency of the government into a partially private entity that issued common stock to public investors. With the costs of the Vietnam War escalating, the president's idea was to get the company's liabilities off the government's balance sheet. It still had close ties to the government and perquisites that other finance companies could only dream of, but by the 1980s, Fannie Mae was a financial colossus that had to please both shareholders and the government. Its shares were first offered to the public in 1989.

Before becoming the head of Fannie Mae in 1981, Maxwell had a career that spanned private industry and public service. He had been president of a mortgage insurance company and then in 1970 became general counsel at the Department of Housing and Urban Development, the federal agency that oversaw the Federal Housing Administration loan programs and also served as part-time regulator to Fannie Mae and its sibling, Freddie Mac.

Maxwell was a brilliant manager and a natural leader, according to those who worked under him. "He was a Brahmin," one former employee said. Unlike Johnson, the man he chose to be his successor, Maxwell was a businessman, not a politician.

While Fannie Mae was faltering, James A. Johnson was overseeing the 1984 presidential campaign of Walter Mondale, a fellow Minnesotan who had been vice president under Jimmy Carter.

Johnson was born on Christmas Eve in 1942 to Alfred and Adeline Rasmussen

Johnson, residents of Benson, Minnesota, a town of four thousand. Democratic politics was the mainstay in the house—Alfred Johnson was Speaker of the House in Minnesota during the 1950s. Adeline was a schoolteacher.

Johnson's upbringing was typical of a 1950s Scandinavian family. Words were few and displays of affection even fewer. In an interview with the *Washington Post,* he described life at home with his parents and older sister, Marilyn.

"There was no touching, no kissing, no 'I-love-yous,'" he said. "On the other hand, there could not have been a warmer, more protective, more supportive unspoken environment. If you go to the maximum of what you get through the unspoken, that's where we were. If you go to the furthest you can get in not touching and not speaking, I think we were there."

Johnson was interested in politics early on, working on campaigns locally even before he could vote. As a sophomore at the University of Minnesota, he won election for student body president; after graduation, he moved to Princeton, where he received a master's degree in public policy at the Woodrow Wilson School in 1968. He joined the antiwar movement and avoided serving in Vietnam on the strength of a student deferment. He worked on Senator Eugene McCarthy's campaign in 1968, and in 1972 he volunteered for George McGovern.

In 1969, Johnson attended a strategy session convened by antiwar activists in Martha's Vineyard. He roomed with William Jefferson Clinton, then an unknown twenty-two-year-old Georgetown University graduate.

When he wasn't campaigning, he worked at the Minneapolis department store, Dayton Hudson, and taught at Princeton.

Johnson, a tall and trim man who favors horn-rimmed glasses, met Mondale through his father, who knew him from Minnesota politics. Mondale recalled the meeting in a 2008 interview with

MinnPost.com. "As I remember it," Mondale said, "he came by to visit. He was bright and interested and so I hired him."

He became his aide-de-camp both when Mondale was a senator and later when he became vice president under Jimmy Carter in 1977.

After sitting out the 1980 election, Mondale decided to run for the presidency in 1984, hoping to unseat the popular Ronald Reagan by making him appear to be disengaged. Mondale chose Johnson, only forty years old at the time, to be his campaign chairman. Johnson's campaign machinery was highly centralized, with decisions made by a small circle of trusted officials. Prominent Democrats described the campaign as insular, arrogant, and "uncomfortable with outsiders." The *New York Times* quoted an influential party official this way: "There has been a real effort to keep out individuals who threaten that structure."

Such a setup was vintage Johnson. During the presidential race, advice from party leaders was not requested by the Mondale campaign, and ignored if it came. A highly polished operation that worked more like a hushed corporate boardroom than a frenetic presidential contest, the campaign was a closed shop, in the words of a midlevel aide. "Only a very few people know what's going on and why, and there's a sense of exclusivity, almost secrecy, that's potentially very damaging," the official said.

Those trying to plumb Johnson's inner reaches found it to be "a lot like the