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Three Decades of Politics and Failed Policies at HUD

by Tad DeHaven

Executive Summary

The U.S. Department of Housing and Urban Development has long been plagued by scandals, mismanagement, and policy failures. Most recently, HUD's subsidies and failed oversight of Fannie Mae and Freddie Mac helped to inflate the housing bubble, which ultimately burst and cascaded into a major financial crisis.

Given this giant policy blunder, now is a good time to review the many failures in HUD leadership over the years. This study discusses how HUD officials operate within a highly politicized environment, which is heavily influenced by the groups that HUD subsidizes and regulates, including the housing industry, financial institutions, and community activists.

At the same time, HUD leaders often put their personal goals ahead of those of the general public. Recent HUD secretaries have focused on gaining private benefits while doing favors for business interests and political insiders. These leadership failures are illustrated in this study by profiles of four recent HUD secretaries: Samuel Pierce in the 1980s, Henry Cisneros and Andrew Cuomo in the 1990s, and Alphonso Jackson in the 2000s.

These public officials touted seemingly noble goals while pursuing personal and political agendas that ended up harming taxpayers and the economy. Even if there were a need for federal housing programs, experience has shown that HUD could not implement such programs without mismanagement, cronyism, and other abuses.

Federal housing policies illustrate broader realities of government intervention. When making decisions, policymakers usually have self-interested goals that conflict with the broader interests of taxpayers and the general public. Furthermore, their visions for improving society with federal programs usually backfire because of the distortions that those programs create in the economy.

Housing was traditionally a private concern, and it should be made so again because government involvement has done great damage. Alas, policymakers have not learned this lesson even after the recent housing boom and bust. Since the housing and financial meltdowns, federal intervention in housing markets has substantially increased, thus paving the way for further troubles down the road for taxpayers and the economy.

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Introduction

Mismanagement, financial abuses, and failed policies have resulted in many scandals at the $65 billion Department of Housing and Urban Development over the decades. Numerous HUD officials have enriched themselves or conferred benefits on people with political and financial connections. This study looks at such leadership failures during the tenures of four HUD secretaries under three recent presidents:

- Samuel Pierce, 1981–1989, Ronald Reagan's HUD secretary
- Henry Cisneros, 1993–1997, Bill Clinton's first HUD secretary
- Andrew Cuomo, 1997–2001, Bill Clinton's second HUD secretary
- Alphonso Jackson, 2003–2009, George W. Bush's second HUD secretary

One reason that HUD has been scandal-prone is that it administers such a large and complicated array of subsidies and regulations. Many HUD programs involve policymakers in federal, state, and local governments. At the same time, HUD programs aid a large range of private interests, including home builders, realtors, financial companies, and community groups. Until recently, HUD was also charged with overseeing the vast financial activities of Fannie Mae and Freddie Mac. The resulting range and complexity of HUD programs has created many opportunities for people in the public and private sectors to take personal advantage.

Secretary Pierce's tenure was so scandal-prone that it led to 17 criminal convictions, including convictions of three former HUD assistant secretaries. Secretaries Cisneros and Cuomo ignored the economic risks created by their political strategy of increasing the home ownership rate. Alphonso Jackson oversaw the inflation of the housing bubble and then the bust, while using his office to reward friends and political allies. HUD activities sadly illustrate that the general public interest is often a low priority for the people who create and administer federal programs.

The Pierce Years, 1981–1989

President Ronald Reagan entered office promising to downsize the government and reduce federal intervention in the economy. His administration sought to cut traditional subsidies for public housing and to focus on providing more flexible housing benefits to tenants. However, HUD reform was a low priority of the Reagan administration, and that disregard contributed to the major scandals that enveloped the department during the 1980s.

Those scandals owe a lot to the mismanagement and corruption of Samuel Pierce, Reagan's HUD secretary for eight years. A major review undertaken by Pierce's successor at HUD, Jack Kemp, uncovered "significant problems" of fraud, theft, mismanagement, and influence-peddling in activities that accounted for 94 percent of the department's budget.[1] Estimated losses from this abuse ranged from $2 billion to $6 billion.[2]

Pierce took a disengaged approach to HUD—often watching soap operas with younger aides during work hours—and allowed HUD to become a "dumping ground" for political appointees who used their positions for personal gain.[3] He assigned a HUD staffer to work full-time on a book to be called "The Pierce Years," which ended up as an 87-page glossy pamphlet printed at taxpayer expense.[4] Pierce enjoyed the perks of office—for example, taking five taxpayer-funded trade junkets to the Soviet Union, which resulted in very little business being generated.[5]

When Pierce did make hands-on management decisions, it often resulted in friends and politically connected businesses getting favorable HUD treatment, as these examples illustrate:

- Pierce backed a $4.5 million HUD grant to convert an aircraft carrier into a museum, a project that was championed by his former law-firm clients. The grant was approved shortly after Pierce's former client Larry Fisher met with Pierce to solicit his help.[6] Fisher was a wealthy real estate developer and a large Republican donor.

- Pierce overrode the recommendations of the department's top career officials to push through a project in Durham, North Carolina, that was sought by Charles Markham, the mayor of the city and a former law firm associate of Pierce.[7] The deal included a $2.3 million grant, $11.8 million in rent subsidies, and HUD-backed mortgage insurance.[8]
- Pierce helped his friend and Republican Party supporter, jazz musician Lionel Hampton, obtain a 20-year, $21 million rent subsidy for a housing project in Newark, New Jersey.[9]

Those sorts of personal favors, however, were small potatoes compared to the systematic abuses engineered by Pierce and his top assistants. One of the costliest scandals involved HUD's section 223(f) coinsurance program, which was kicked off in 1983 and was designed to rehabilitate multifamily housing units. The program was lucrative for favored mortgage lenders—such as the Washington, D.C., firm DRG—but it put taxpayers on the hook for 85 percent of the value of any losses on mortgage loans. The program put mortgage lenders in charge of overseeing the entire process—from underwriting to foreclosure and disposition—and it allowed them to collect excessively high fees.

The end result of the program was that participating lenders overmortgaged projects in order to collect the high fees. In his book, *HUD Scandal*s, former HUD official Irving Welfeld writes:

> By the middle of 1988, five years after the program was inaugurated, participating lenders had coinsured 846 loans. The amount of the mortgages was $4.8 billion. By 1998, led by the highest-flying firm in the business, DRG, the program went off course—106 loans, having an outstanding principle and accrued interest amount of $700 million, were in default. The largest coinsurer in the program, DRG, which had 272 coinsured mortgages, contributed 79 defaults and a half billion dollars in losses. The program was in free-fall descent—65 of DRG defaults had occurred in 1988. By March of 1990 the dollar volume of defaults had reached $1.6 billion, and HUD was rushing to shut the program down.[10]

A year after the 223(f) coinsurance program was initiated, a mid-level HUD official warned in a memo, "This is the most fraud-prone system ever spawned by HUD, but we have been overruled so many times in matters of compliance that I have given up registering protests."[11] Two years later, a regional HUD administrator wrote to his superiors in Washington that he was "convinced that financial problems of national proportions are inevitable unless something is done."[12] However, the department's political overseers were not interested in such naysaying.

In 1984, after HUD investigators determined that DRG was inflating appraisal values of properties in order to collect higher fees, the firm's activities were restricted. DRG promptly hired a particularly powerful lobbyist to get the restrictions lifted: former HUD secretary under Gerald Ford, Carla Hills, who would later serve as U.S. Trade Representative under George H. W. Bush. In May 1985, a few weeks after meeting with Hills and her team, Pierce lifted the restrictions on DRG.

Another scandal-prone program at HUD during Pierce's tenure involved the Section 8 moderate rehabilitation program. "Mod-rehab" was launched in 1979 to finance repairs to housing units for rent to low-income tenants. The program originally contained a "fair-share" provision, which meant that funding was awarded to state and local public housing authorities on the basis of population and demographics.

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HUD became a sort of graduate school for ethics-challenged officials.

In 1984, Congress allowed HUD to waive the fair-share provision and make allocations subjectively by means of a panel consisting of Pierce's executive assistant, the assistant secretary of housing, and the undersecretary of the department. But as Pierce's executive assistant, Deborah Dean, later told the *Wall Street Journal*, "[Mod-rehab] was set up and designed to be a political program . . . I would have to say we ran it in a political manner."[13] Dean was at the center of the abuse, and she was initially sentenced to 21 months in prison on 12 counts of corruption, bribery, and perjury in 1994.[14] Five of the counts were later reversed on appeal, and her sentence was eventually reduced to three years of probation, including six months of home confinement.[15]

Under the program, "a trove of rent subsidies, tax credits, and consulting fees, totaling millions of dollars on each housing project, flowed to GOP faithful and their associates."[16] HUD became a sort of graduate school for ethics-challenged officials to master the complexities of housing programs such as mod-rehab, and then join the private sector and use their connections at HUD to cash in.[17]

Using congressional testimony, HUD documents, and interviews, the *New York Times* compiled a lengthy list of those benefiting from their political connections to HUD in the 1980s. Some earned substantial consulting fees for persuading Pierce and his top aides to approve federal subsidies, whereas others used their connections to secure HUD subsidies for their own projects. The following is just a sampling:[18]

- Philip Winn, assistant secretary at HUD. Winn was a cofounder of the Winn Group, which secured HUD backing for a housing project in Colorado. The Winn Group received $133 million in federal rent subsidies and $29 million in federal tax credits.
- Philip Abrams, undersecretary at HUD. Abrams was a cofounder of the Winn Group, and earned $100,000 in consulting fees from HUD.
- Lance Wilson, executive assistant to Pierce. Wilson was a member of the Winn Group, and was involved in five projects that secured $92 million in HUD subsidies. As vice president at the PaineWebber Group, Wilson became an adviser to HUD on bond sales. He was convicted on one felony count in 1993.[19]
- Maurice Barksdale, assistant secretary at HUD. Barksdale received $300,000 in consulting fees for helping with securing HUD approval of eight or nine projects.
- Michael Karem, deputy assistant secretary at HUD. Karem received $360,000 for consulting on three subsidized projects.
- James Watt, secretary of the interior. Watt received $420,000 for helping clients secure subsidies for three HUD-related projects.
- Joseph Strauss, special assistant to Pierce. Strauss received $1.7 million in consulting fees for helping win HUD subsidies for various projects. He worked with James Watt.
- Gerald Carmen, head of General Services Administration. Carmen earned $2.3 million in the sale of tax credits for a subsidized project.
- Frederick M. Bush, leading fundraiser in the George H. W. Bush presidential campaign. Bush received $600,000 for consulting on a dozen subsidized projects.
- Edward Brooke, former senator from Massachusetts. Brooke received $183,000 for consulting and legal work on two housing projects.

In 1990, a report adopted unanimously by the House Government Operations Committee concluded, "At best, Secretary Pierce was less than honest and misled the subcommittee about his involvement in abuses and favoritism in HUD funding decisions. At worst, Secretary Pierce knowingly lied and committed perjury during his testimony."[20] An independent counsel investigation into HUD activities under Pierce's watch was instituted in 1990 and wrapped up in 1996. Pierce himself was not indicted, based on his agreement to admit that "he created an atmosphere at HUD that allowed influence-peddling to go on."[21] In all, the independent counsel investigation into HUD corruption on Pierce's watch yielded 17 convictions, including convictions of three former HUD assistant secretaries.

Reflecting on Pierce's tenure, Irving Welfeld writes, "Integrity of public processes was replaced by partisan favoritism and the fragile bond of trust between the electorate and appointed officials was shattered."[22] In reality, the "bond of trust" with federal policymakers is an illusion. Many HUD programs—and programs in other agencies—are often just tools that officials use for personal and political gain.

President George H. W. Bush's HUD secretary, Jack Kemp, spent much of his four-year tenure trying to rehabilitate the department's sullied image. Kemp was a champion of supply side tax cuts, but he was not very interested in restraining spending. Indeed, HUD's budget increased substantially during Kemp's tenure and his zeal for fostering homeownership would become a hallmark of subsequent administrations.

The Cisneros Years, 1993–1997

In the Clinton administration, a primary mission of HUD was to increase home ownership rates, especially among minorities and low-income families. That mission was carried out through HUD subsidy programs and through the two government-connected mortgage finance giants, Fannie Mae and Freddie Mac. In 1992, HUD was given regulatory authority over these government-sponsored enterprises (GSEs) in order to ensure that they were "adequately capitalized and operating safely."[23] At the same time, HUD was given new leverage to push the two firms into greater lending for riskier "underserved" markets. We now know that HUD's strategy of encouraging riskier mortgages, which was pursued on multiple fronts during the 1990s, helped to fuel the housing bubble and subsequent crash in the early 21st century.

Henry Cisneros served as President Bill Clinton's HUD secretary from 1993 to 1997, when he resigned to deal with allegations that he lied to the FBI about payments he made to a former mistress. Cisneros plead guilty in 1999 and was fined $10,000, avoiding a possible prison sentence.

Cisneros oversaw a politicized HUD that mobilized to help fend off the Republicans, who gained a congressional majority in the 1994 election. The resurgent GOP initially sought to eliminate many departments and agencies as part of a plan to rein in federal spending and reduce budget deficits. HUD was one of the Republican targets, and department officials fought back in numerous ways to ward off proposed reforms.

HUD held a series of "standing up for communities" rallies, financed by taxpayers, which encouraged local officials and special interest groups to lobby against Republican budget cuts. One piece of propaganda distributed by HUD's New York office warned that the budget cuts "would dramatically expand America's underclass" and that "thousands of families, many with children, would end up homeless."[24] HUD sponsored a National Tenants Organization convention in Puerto Rico to defend the department. That event was so political that a HUD translator walked out of the proceedings in protest.[25] According to HUD's inspector general, an NTO official responded that "he really didn't care whether HUD translated or not because the point was to get rid of Newt Gingrich."[26]

Cisneros used HUD as a political tool, but when he left office he was lauded for the increase in homeownership rates that occurred on his watch. Part of his apparently winning strategy, Cisneros noted, was HUD's "ability to convince lenders, builders and real estate agents that there was money to be made in selling housing to low- and moderate-income individuals."[27] Part of this "convincing" involved HUD-initiated legal actions against mortgage lenders who declined higher percentages of loans for minorities than whites. As

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a result of such political pressure, lenders begin lowering their lending standards, which was another contributing factor to the housing boom and bust in the 2000s.[28]

A key weapon in the Cisneros arsenal was the Clinton administration's changes to the Community Reinvestment Act. The CRA was passed in 1977 and updated in 1995 to pressure lenders into making more loans to moderate-income borrowers by allowing regulators to deny merger approvals for banks with low CRA ratings. Even complaints brought by activists, such as the leftist group ACORN, were counted in a bank's CRA rating.

Under political pressure, banks began issuing more loans to otherwise uncreditworthy borrowers while purchasing more CRA mortgage-backed securities.[29] As housing finance expert Peter Wallison noted, "The most important fact associated with the CRA is the effort to reduce underwriting standards. . . . Once those standards were relaxed . . . they spread rapidly to the prime market and to subprime markets where loans were made by lenders other than insured banks."[30]

The thrust is clear: if people don't have "cash" or "income," the government will help them get a house anyway.

*Business Wee*k columnist Peter Coy noted that the Clinton "administration went to ridiculous lengths to increase the national homeownership rate. It promoted paper-thin downpayments and pushed for ways to get lenders to give mortgage loans to first-time buyers with shaky financing and incomes."[31] The Clinton administration's approach was encapsulated by the 1994 National Homeownership Strategy, prepared under Cisneros's direction. Here is an excerpt from the plan:

> For many potential homebuyers, the lack of cash available to accumulate the required downpayment and closing costs is the major impediment to purchasing a home. Other households do not have sufficient available income to make the monthly payments on mortgages financed at market interest rates for standard loan terms. Financing strategies, fueled by the creativity and resources of the private and public sectors, should address both of these financial barriers to homeownership.[32]

The thrust is clear: if people don't have "cash" or "income," the government will help them get a house anyway. In the political drive to increase the home ownership rate, old-fashioned ideas such as individual responsibility and the riskiness of real estate investment where thrown by the wayside. Apparently embarrassed by this 1994 strategy document, HUD removed it from its website after the housing bubble burst in recent years.

Coy notes that the George W. Bush administration "continued the practices because they dovetailed with his Ownership Society goals, and of course Congress was strongly behind the push."[33] But it was the Clinton administration that launched the all-out drive to put people into homes that they could not afford. That helped plant the seeds for the housing boom and bust in the following decade, as financial expert Joseph R. Mason noted:

> The Strategy certainly helped some renters achieve the dream of homeownership. But the Strategy was also fundamentally misused to extend more credit to prime borrowers, fueling home price inflation. That home price inflation led builders to build ever more developments, using creative financing to leverage their bets on home price appreciation in the bubble environment, ultimately resulting in record foreclosures in the present marketplace.[34]

Cisneros planted another seed for the housing bubble and its subsequent burst by putting Fannie Mae and Freddie Mac under constant pressure to facilitate more lending to "underserved" markets.[35] While Cisneros's own HUD administration acknowledged that mortgages financed by Fannie and Freddie in "underserved" areas have a higher risk of default, it did not see that "there need be any safety and soundness impediment" to the policy.[36] It was under the direction of Cisneros that HUD agreed to allow Fannie and Freddie credit toward its "affordable housing" targets by buying subprime mortgages.[37]

After four years of introducing economic distortions into housing markets, Henry Cisneros spent most of his post-HUD career making money in those markets, as many ex-HUD officials do. In 2000, Cisneros formed a housing development company in partnership with KB Homes and became a KB director. The KB board also included the former CEO of Fannie Mae, James Johnson. The *New York Times* noted that "it made for a cozy network."[38] Indeed, Fannie Mae bought or backed many of the mortgages that were in KB development projects.

In 2001, Cisneros joined the board of Fannie Mae's biggest client, the now notorious Countrywide Financial, the company that was center stage in the subprime lending scandals of recent years. When the housing bubble was inflating, Countrywide and KB took full advantage of the liberalized lending standards fueled by HUD under Cisneros. In addition to the money he received as a KB director, Cisneros' company, in which he held a 65 percent stake, received $1.24 million in consulting fees from KB in 2002.[39]

When Cisneros stepped down from Countrywide's board in 2007, he called it a "well-managed company" and said that he had "enormous confidence" in its leadership.[40] Yet one wonders whether Cinsneros was just trying to escape before the crash. Just days before his resignation, Countrywide announced a $1.2 billion loss, and reported that a third of its borrowers were late on mortgage payments.[41] According to SEC records, Cisneros earned a $360,000 salary at Countrywide in 2006, and he has gained $5 million from stock sales since 2001.[42]

The Cuomo Years, 1997–2001

Andrew Cuomo joined the Clinton administration as an assistant secretary of HUD in 1993. He replaced Cisneros as secretary in 1997, where he remained until the end of Clinton's second term. Cuomo's housing policies followed the same approach as his predecessor—seeking personal publicity, pandering to special interest groups, and encouraging those who were not financially suited for home ownership to nonetheless move into homes.

Cuomo began cultivating his image at HUD as assistant secretary. In 1993, he organized a lavish conference costing taxpayers $235,360 to announce a new anti-poverty program, and he flooded attendees with sloganeered shopping bags, HUD buttons, and glossy brochures. One observer called it a "rah-rah rally for Andrew Cuomo."[43] Cuomo doubled the number of top-level staff members under him, and in one of his years as assistant secretary, he spent almost $1 million on travel. According to the *Wall Street Journal*, the lavish spending on "image-making . . . strained HUD budgets so much that officials have devised plans to pay some bills by diverting money from projects intended to help people."[44]

Being assistant secretary was a good job, but Cuomo wanted the top spot. He got his chance when Cisneros announced his intention to resign after Clinton was reelected in 1996. Seattle Mayor Norm Rice was thought to be Clinton's first choice to replace Cisneros, but he was knocked out when HUD launched an investigation into his possible misuse of a federal loan. The investigation, which was launched a week after the 1996 election, had been approved by Cuomo's office. The result was that Clinton went with Cuomo as secretary. Rice was later cleared, but the timing of the investigation and a leak to the press suggested involvement by Cuomo.[45]

A HUD employee characterized Cuomo's tenure "as all show and very self-promoting. He always was a politician."[46] In 2000, Cuomo's HUD administration issued 302 press releases in 331 working days. Most of these releases contained headlines touting Cuomo's role. (By comparison, less than one-third of HUD's press releases in 2009 have mentioned the current secretary's name in the headline). And in a

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move reminiscent of Samuel Pierce, Cuomo spent $900,000 in taxpayer money on a brochure detailing his own accomplishments.[47]

When it became apparent that Cuomo would run for governor of New York, he made 25 official HUD visits to the state—21 more than to any other state. In his final year as HUD secretary, he announced $170 million in HUD grant money for economic development along the Erie Canal. One former HUD employee noted, "It was about me, me, me, me. If he didn't get a headline out of it, he didn't want to hear about it."[48]

One thing Cuomo didn't like to see was criticisms of HUD by the department's inspector general, Susan Gaffney. Gaffney, who had a very good reputation, was subject to a smear campaign by Cuomo's staff that aimed to undermine her and force her out.[49] Cuomo was reported to be angry with Gaffney over some of her audit reports that reflected poorly on him. One audit suggested that HUD's determination of which cities were designated "empowerment zones" under a billion-dollar program were subject to political manipulation.[50] An aide to Cuomo told a reporter, "That was his baby—when the audit report came out, he went crazy."[51] Another report by Gaffney's office found widespread mismanagement in billions of dollars of HUD contracts.[52]

Like Cisneros, Cuomo's main policy legacy was promoting subsidies for increasing the home ownership rate and weakening safeguards against excessive mortgage market risks. For example, Cuomo successfully advocated that Congress raise the ceiling on Federal Housing Administration–insured mortgages while lowering down-payment requirements.[53] Those moves helped set the stage for higher FHA-insured mortgage default rates in later years.

Cuomo also supported efforts to have home sellers funnel money to nonprofit groups to help pay for buyers' down payments and closing costs. These "down payment assistance" loans ended up having default rates twice that of standard FHA-insured mortgages.[54] Cuomo portrayed his efforts as helping to increase homeownership rates for minorities, but he also had an interest in pleasing mortgage industry officials who would later help finance his gubernatorial campaign.[55] Cuomo also worked hard to receive support from leftist housing advocacy groups, such as ACORN.[56]

During the Cuomo years, mortgage industry officials and housing advocates wanted Fannie Mae and Freddie Mac to purchase greater volumes of high-risk loans offered to less credit-worthy borrowers. Cuomo's HUD pressured Fannie and Freddie to increase the portion of their portfolios consisting of loans to moderate-income and higher-risk borrowers. Cuomo applied pressure by having HUD publicly "investigate" whether Fannie and Freddie were sufficiently in compliance with government fair-lending standards designed to prevent discrimination.[57]

At the time, numerous financial analysts saw the problems coming with these strategies, but policymakers such as Cuomo did not change course. Here is a prescient observation by a *New York Times* reporter in 1999:

> In moving, even tentatively, into this new area of lending, Fannie Mae is taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980s.[58]

We know now that Fannie and Freddie's expansion into low-quality mortgages was a huge mistake. But with Cuomo, fiscally prudent policies took a backseat to his political aspirations.

The Jackson Years, 2001–2009

The Bush administration's HUD combined some of the Reagan era's corruption with some of the Clinton era's politicized push for increased homeownership rates. The Bush administration proposed tighter oversight of Fannie and Freddie, but it did little to end the mortgage giants' federal benefits or their rapid expansion. The housing bubble expanded and then burst on Jackson's watch, and he and the Bush administration deserve a share of the blame.

Alphonso Jackson was named a deputy secretary at HUD a few months into President George W. Bush's first term. He became the acting secretary in late 2003, and permanent secretary in April 2004. He replaced Mel Martinez, who resigned to run for an open Senate seat in Florida. Jackson resigned in April 2008 in the midst of allegations that he had used his official power to benefit friends and Republican Party loyalists. He remains under federal investigation.

Jackson's troubles began in 2006 when he told an audience that he killed a potential HUD contract after the contractor told Jackson he didn't like President Bush. Jackson later claimed to have made the story up. A HUD inspector general's report found that Jackson did instruct staff to favor friends of the president when awarding HUD contracts, but it did not find concrete evidence that his orders were followed.[59]

A *Washington Post* investigation of HUD contracting under Jackson found that "the proportion of contracts awarded to small black- and Hispanic-owned businesses . . . rose from 6 percent to nearly 35 percent. The proportion of contracts open to full competition decreased from 71 percent to 33 percent."[60] The practice of awarding HUD contracts to Republican-friendly minority firms was common under Jackson, and the *Post* story provided numerous examples.

A number of examples of cronyism at HUD have caught the eye of investigators. Major contracting work from the department was apparently given to friends of Jackson. In one instance, a no-bid contract was given to Jackson friend Michael Hollis to run the Virgin Islands Housing Authority. Hollis earned $1 million as the executive administrator of the housing authority, plus an undetermined amount from serving as an adviser to Smith Real Estate Services, which received $3.5 million from HUD for work at the VIHA. Anonymous HUD officials told a *National Journal* reporter that "there was no indication that Hollis had any experience running a public housing agency before arriving in the Virgin Islands."[61]

Investigators are also looking into Jackson's role in getting his golfing buddy William Hairston $485,000 in contract work with the troubled Housing Authority of New Orleans, which had been taken over by HUD in 2002. Another aspect of this investigation is that HANO awarded a $127 million redevelopment contract to an Atlanta firm, Columbia Residential, which owed Jackson between $250,000 and $500,000 for "past services" as a "partner/consultant."[62] In other words, it appears that Jackson might have been looking to receive payment for helping to steer a HANO contract to Columbia Residential.

When Jackson resigned in 2008, he was in the midst of another controversy regarding sweetheart deals for friends, this time involving the Philadelphia Housing Authority. PHA executive director Carl Greene sued HUD, claiming that it tried to punish PHA by withholding funds after PHA refused to sell land to Jackson's friend, music mogul Kenny Gamble, at "rock-bottom prices."[63]

Then in June 2008, *Condé Nast Portfolio* reported that influential members of Congress and other government officials had received very favorable mortgage loans from Countrywide Financial.[64] Countrywide had a special VIP program that sought to influence important housing officials in the federal government and Fannie Mae by offering them mortgages with reduced fees and other perks. The list of beneficiaries included Alphonso Jackson, who was on a select list known as "Friends of Angelo," or "FOA," named after Countrywide chairman and CEO Angelo Mozilo.

In December 2003, while he was acting secretary of HUD, Jackson applied to Countrywide for a $308,000 mortgage to buy a vacation home in Hilton Head, South Carolina.

The housing bubble expanded and then burst on Jackson's watch.

Jackson's loan came through a week before President Bush named him HUD secretary. Even before that, Jackson had refinanced a mortgage with Countrywide through the VIP program. Former Countrywide loan officer Robert Feinberg says that both of Jackson's loans came with special discounts.[65]

When asked if he received breaks on the loans, Jackson said: "Not to my knowledge. If I did, it certainly wasn't discussed with me."[66] However, a March 2009 report by the Republican staff of the House Committee on Oversight and Government Reform concluded that Countrywide made VIP borrowers aware of the preferential treatment. The report noted that "at times, Friends of Angelo used their preferred status to refer friends or family members to the VIP department. Sometimes the Friends of Angelo expected their friends and family to receive the same preferential treatment."[67]

The same month Jackson sought the VIP mortgage for his vacation house, his daughter, Annette Watkins, had a mortgage processed through the same special program. According to the House report, "Jimmie Williams [Countrywide's Washington lobbyist] contacted Countrywide Senior Vice President Perry on Watkins's behalf because 'Jackson suggested his daughter talk with Countrywide.'"[68]

In 1999, Countrywide, which had become the nation's largest residential housing lender, reached an exclusive agreement to sell Fannie Mae billions of dollars in mortgages in exchange for lower "guarantee" fees that Fannie charged originators when it bought their loans. The success, and then failure, of both entities became intertwined as Fannie purchased large amounts of subprime loans and securities, which allowed subprime lenders like Countrywide to grow their businesses. When the subprime market collapsed in 2007, Countrywide collapsed as well. It was bought at a fire sale price by the Bank of America, while a broken Fannie Mae was taken over by the federal government.

This point is crucial. Many commentators put the blame for the subprime meltdown on the shady or overly aggressive mortgage originators, such as Countrywide. But it was ultimately Fannie and Freddie that drove the system. First, as the GSEs purchased more loans from mortgage lenders, the lenders were able to originate more and more loans. Second, the GSEs' increasing purchases of subprime loans brought them into competition with private-label issuers that traditionally specialized in these loans. According to Peter Wallison:

> The increased demand from the GSEs and the competition with private-label issuers drove up the value of subprime and Alt-A mortgages, reducing the risk premium that had previously suppressed originations. As a result, many more marginally qualified or unqualified applicants for mortgages were accepted, and these loans joined the flood of junk loans that flowed to both the GSEs and the private-label issuers beginning in late 2004.[69]

It was under Secretary Jackson that HUD decided in 2004 to again increase Fannie and Freddie's "affordable" housing goals while allowing the financial giants to continue the Clinton-era policy of counting subprime mortgages as credit towards meeting that goal. Despite Fannie's 81-percent increase in lending to minority families in 2003, Jackson chastised the organization for its "failure to lead."[70] Jackson's pressure on the GSEs came despite the fact that regulators were growing increasingly concerned with subprime lending. The *Washington Post* noted that "housing experts and some congressional leaders now view those decisions as mistakes that contributed to an escalation of subprime lending that is roiling the U.S. economy."[71]

Secretary Jackson pushed for the adoption of riskier rules at HUD's FHA.

Secretary Jackson also pushed for the adoption of riskier rules at HUD's FHA. The FHA was created during the 1930s to help moderate-income families buy homes by providing a 100 percent taxpayer guarantee on mortgages below a certain dollar limit. Over the decades, the downpayment requirement on these loans was steadily reduced from the original 20 percent to just 3.5 percent. Such low downpayment requirements encourage high default rates by prompting borrowers who can't really afford homes to nonetheless buy homes. Amazingly, at the height of the housing bubble, Secretary Jackson advocated reducing the downpayment requirements on FHA-insured loans all the way to zero.

As with many federal officials, Jackson seems to have been focused on what's good for the government, not what's good for taxpayers. Private subprime lenders had dramatically reduced the FHA's share of the housing market in prior years, and that prompted Jackson to proclaim that he was "absolutely emphatic about winning back our share of the market."[72] Another indication that Jackson wasn't looking out for taxpayers is that default rates on loans insured by the FHA hit record highs during his tenure and continued to soar into 2009.[73] Indeed, taxpayers continue to be in a very precarious situation as the FHA's "market share" has soared, and the agency now insures one in three new mortgages.[74]

Alas, like previous HUD secretaries, Jackson was too busy enjoying the perks of office to worry about taxpayers' exposure to a possible housing downturn. Jackson had a taxpayer-provided chef and full-time security detail. During his tenure, $7 million was spent on a new auditorium and cafeteria at HUD's headquarters, and his personal office spent $100,000 to obtain oil portraits of Jackson and four previous HUD secretaries.[75]

The Political Environment of HUD Policymaking

We have seen how both Republican and Democratic housing officials have made self-interested and economically damaging decisions over the decades. An important driver of the bad policymaking is the large influence that housing lobby groups have in Washington. Ultimately, federal policymakers are responsible for their actions, but a brief review of the political power of the housing lobbies illustrates where policymakers get a lot of their bad ideas.

Housing and real estate groups have long had large influence over housing policy. One of the biggest groups is the National Association of Realtors, which has been the third largest contributor to federal political campaigns over the past two decades of all groups and corporations.[76] NAR supports all kinds of federal benefits and subsidies for the housing industry, such as tax credits, higher federal loan limits, and schemes to reduce mortgage interest rates. At the peak of the housing boom in 2006, the group's annual report boasted that it was successfully lobbying Congress to "eliminate restrictive down payment requirements" on FHA loans.[77] That year it mobilized its members to flood Congress with 500,000 letters and faxes over a single piece of legislation.[78] This year, NAR has continued to push for federal housing benefits in its "Housing Stimulus Plan" and "Comprehensive Housing Strategy."[79]

The National Association of Homebuilders is another powerful lobby group, ranked 23rd in contributions in the last two decades.[80] A recent press release from the group illustrates that it also continues to push for federal subsidies:

> With the U.S. Congress returning from its August recess, the nation's home builders are moving into the second phase of their "Revive Housing, Restore America" campaign, urging lawmakers in Washington to take a number of crucial steps to support housing as the framework for creating jobs and pulling the nation's economy out of a devastating recession. . . . Expanding the tax credit [for first-time home buyers] has been the centerpiece of NAHB's massive grassroots campaign, which began last month when association members across the country began meeting with their members of Congress.[81]

Perhaps the heaviest hitters of the housing lobbyists have been the finance companies,

An important driver of bad policymaking is the large influence that housing lobby groups have in Washington.

Fannie Mae and Freddie Mac. Fannie and Freddie spent an enormous $170 million between 1998 to 2008 on various federal lobbying activities.[82] In addition, the housing finance giants and their employees gave campaign contributions to members of Congress on committees responsible for overseeing them—almost $15 million between 2000 to 2008.[83]

Other than campaign contributions, housing lobby groups use many techniques to influence members of Congress. Fannie and Freddie, for example, opened "partnership offices" in congressional districts across the country in the 1990s to help provide local political support for favored members of Congress. Another way that the housing giants have influenced the Washington debate is through pro-housing policy reports, sometimes commissioned from prominent economists. A 2002 issue of *Fannie Mae Papers*, for example, was authored by Nobel Laureate Joseph Stiglitz, Jonathan Orszag, and the current director of the Office of Management and Budget Peter Orszag, who was then at the Brookings Institution. The study concluded that "the probability of default by the GSEs is extremely small."[84]

Another channel of influence in housing policymaking has been the revolving door between government offices and the private sector. A recent report provided a list of prominent Washington people who have had close ties to Fannie and Freddie:[85]

Another channel of influence in housing policymaking has been the revolving door between government offices and the private sector.

- Former Fannie Mae CEO Jim Johnson managed Walter Mondale's 1984 presidential campaign, chaired the vice presidential selection committee for John Kerry, and was involved in President Obama's vice presidential selection process. Johnson received a cut-rate mortgage on his home from Countrywide Financial, which was a major business partner of Fannie Mae's.
- Former Fannie Mae CEO Franklin Raines was a director of the Office of Management and Budget under President Clinton. Raines, who left Fannie in the wake of an accounting scandal, earned over $90 million in compensation between 1998 and 2004.[86] Raines was the subject of a federal investigation into whether he manipulated Fannie Mae earnings to maximize his bonuses, and ultimately settled for a $25 million fine. Raines was also one of the insiders who received a specially discounted home mortgage rate from Countrywide Financial.
- Clinton deputy attorney general Jamie Gorelick became a Fannie Mae vice-chairman following her stint with the administration. She earned over $26 million in compensation from Fannie Mae between 1998 and 2002.[87]
- Former Fannie Mae senior vice president John Buckley was a Republican congressional staffer and senior adviser to the presidential campaigns of Ronald Reagan and Bob Dole.
- Former Fannie senior vice president Arne Christenson was a senior adviser to Republican House Speaker Newt Gingrich.
- Rep. Barney Frank's (D-MA) partner Herb Moses was an executive at Fannie Mae from 1991 to 1998 while Frank sat on the House Banking Committee, which was responsible for overseeing the GSEs.
- President Clinton appointed current White House chief of staff Rahm Emanuel to Freddie Mac's board of directors, where he earned $320,000 in compensation and sold stock worth more than $100,000. Emanuel was a senior adviser to Clinton between 1993 and 1998.

Over the decades, Fannie Mae's executive suites became filled with Washington insiders, who were paid big bucks to defend the company's federal privileges. A *Washington Post* columnist noted that "Fannie Mae . . . has become over the years a place where former government officials and others with good political connections can go to make millions of dollars."[88] House hearings in 2004 revealed that 21 Fannie Mae executives earned more than $1 million per year.[89]

After many warnings over the years by analysts concerned about the dangers posed by the rapidly growing Fannie and Freddie, the two finance giants imploded in 2008 and were taken over by the government. The two entities racked up losses of $165 billion over the last two years, much of which has landed on taxpayers.[90] Congress generally ignored the risks posed by Fannie and Freddie, no doubt partly a result of the firms' huge lobbying efforts.

Since the financial crash, one would think that Congress and the administration would be moving to withdraw federal housing subsidies from the market because they have caused so much damage. However, the opposite is happening. Policymakers are following the advice of the various housing lobby groups that continue pushing to expand federal intervention in housing markets. A *Wall Street Journal* editorial recently raised the alarm about the expanding role of the FHA:

> Everyone knows how loose mortgage underwriting led to the go-go days of multitrillion-dollar subprime lending. What isn't well known is that a parallel subprime market has emerged over the past year—all made possible by the Federal Housing Administration . . . Last year banks issued $180 billion of new mortgages insured by the FHA, which means they carry a 100 percent taxpayer guarantee. Many of these have the same characteristics as subprime loans: low downpayment requirements, high-risk borrowers, and in many cases shady mortgage originators. FHA now insures nearly one of every three new mortgages, up from 2 percent in 2006.[91]

As the *Journal* notes, the realtor and homebuilder lobby groups have been cheerleading for the FHA's expansion, and they continue to help block sensible reforms to FHA rules, such as increasing downpayment requirements and reducing the federal guarantee from the current 100 percent.[92]

At the same time, taxpayers face related federal housing exposure from HUD's Government National Mortgage Association (Ginnie Mae). That agency provides guarantees on mortgage-backed securities bundled from federally insured loans issued by the FHA and other federal agencies. By the end of next year, Ginnie Mae is expected to be guaranteeing $1 trillion of mortgage securities, double the amount in 2007.[93] All in all, "among the FHA, Ginnie, Fannie and Freddie, nearly 9 of every 10 new mortgages in America now carry a federal taxpayer guarantee."[94] It appears that today's policymakers have learned little from decades of mismanagement and failure in federal housing programs.

Conclusion

This review of housing policies and HUD leadership in recent decades suggests that we need to discard the idea that federal housing officials act in the general public interest when setting their agendas. HUD leaders have variously put career advancement, party interests, personal financial interests, and the demands of lobby groups ahead of sound policy choices.

While government officials and advocates for housing subsidies view HUD programs through rose-tinted glasses, the reality is that federal housing intervention has done far more harm than good. The housing and financial meltdowns of recent years have partly, or largely, stemmed from the distortions injected into markets by federal housing regulations and subsidies through HUD and other agencies. We have learned that when the government intervenes in the housing industry, the results are often cronyism, mismanagement, and economic distortions, not efficient policy outcomes.

With many members of Congress beholden to the housing lobbies, it will take a strong initiative from the executive branch to reverse course and reduce housing subsidies. Unfortunately, the Obama administration has been doubling down on the government's interventions in housing markets. The HUD agencies, Ginnie Mae and the FHA, could become the

It appears that today's policymakers have learned little from decades of mismanagement and failure in federal housing programs.

next Fannie Mae and Freddie Mac requiring huge bailouts, but policymakers are encouraging the rapid growth of these agencies.[95] As a result, it will be no surprise if we face government-caused turbulence in housing markets down the road and taxpayers are hit once again with the costs of failed federal policies.

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