# Fannie Mae, No 1. Corporate Citizen?

## How this firm went from No. 1 to 0 among 100 Best Corporate Citizens

BY MARJORIE KELLY

**MY HEAVENS, WHAT A DIFFERENCE** a year makes. Last year at this time, *Business Ethics* was celebrating Fannie Mae as No. 1 among its 100 Best Corporate Citizens — lauding the fact that this federally chartered financial institution is in "the American Dream business," helping under-served Americans become home owners, keeping mortgage rates down, and delivering great returns to stockholders. Fannie Mae is still doing many great things. Yet this year it is not only out of the No. 1 slot — it's off the list entirely. Gone with the wind.

It's been similarly demoted in the court of public opinion. Start a sentence with "Fannie Mae" and people will expect your next words to be about cooking the books, the ouster of a CEO, or increased regulation pending in Congress. To judge by its public image, Fannie Mae is the newest member of the dishonorable Enron brotherhood. How this happened — and whether it's fully justified — is worth exploring.

First, a word about the 100 Best Corporate Citizens process. Our policy is to pull companies recently required by the Securities and Exchange Commission to restate earnings, as Fannie Mae was in December (to the tune of $11 billion or more over four years). If not for this, Fannie Mae might again have been No. 1, because it continues to earn high ratings for service to communities, minorities, and customers. Yet like many in the corporate social responsibility (CSR) community, we at *Business Ethics* have come to see that serving a variety of stakeholders well — our old definition of corporate citizenship — is no longer sufficient.

Companies must act with *integrity*. That includes honesty in financial reporting. Without this bedrock, CSR reputations are built on shifting sand. Quite simply, poor ethics trumps good CSR.


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This wasn't always the case. A decade ago, there were only a dozen company ethics officers in the nation, and business schools had no one but hapless philosophy professors to teach the topic. Ethics codes were fine words collecting dust on CEO shelves.

Now suddenly — with the ethics crisis, and the advent of Sarbanes-Oxley — business ethics has been rushed from the back of the auditorium to center stage. This is no doubt a good thing. But its suddenness has left little room for nuanced, balanced judgments when ethical missteps are found. We're all on hair-trigger alert, unable to distinguish heinous misdeeds — like Enron shutting down power plants to juice profits — from more technical errors, like Fannie Mae's accounting for derivatives transactions in hedging. But if we tar Fannie Mae and Enron with the same brush, we are the ones who have made the ethical misstep.

It may be time for an "ethical time-out," a breathing space wherein we let our sense of alarm pass. While we shouldn't hold up Fannie Mae now as a stellar corporate citizen, neither should we take steps Washington is contemplating: massively shrinking its portfolios, privatizing the company, or creating a hastily assembled new regulatory apparatus. Better to pause and wait.

Pause and allow the positive changes underway at Fannie Mae to work — like cutting executive compensation, creating an ethics office, separating chairman and CEO roles, and awarding bonuses for objectives beyond earnings (such as providing financing for low-income buyers).

These steps are likely to be effective. They buttress other policies at Fannie Mae that are likewise ethical and effective. We have Fannie Mae to thank for the 30-year mortgage, which is almost unheard of in other nations. Fannie Mae is the glue holding the housing market together, reining in interest rates and preventing abusive lending. Fannie insists that borrowers with blemished credit be given the lowest-cost mortgages available. It refuses to purchase mortgages where points and fees are greater than 5 percent of the total, or where borrowers were pushed into costly single-premium credit life insurance policies. Without a robust Fannie Mae, such abuses would grow — because they create out-size profits for other banks.

We mustn't let "ethics" become a Trojan horse, permitting nefarious agendas to slip through. And we mustn't view all ethical missteps as uniformly monstrous, because they are not. A new era of ethics has indeed dawned. Let us hope it ripens soon into the era of ethical wisdom. BE