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Interview: Mr. Dick Stevenson
New York Times (Photo-Op)

Wednesday, July 9, 1997
Meeting: 10:30 - 11:15 a.m.
Photo-Op: 11:15 - 11:30 a.m.
JDW Office

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A. CLASSIFICATION

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B. SUBJECT: INTERVIEW: MR. DICK STEVENSON, NEW YORK TIMES (B) (N) // FOLLOWED BY: <PHOTO-OP> VENUE: MC 11-123 (OFFICE) CONTACT: KLAS @ 33798 IN ATTENDANCE: JDW, MR. STEVENSON, BERGMAN (TBC) NOTE: PHOTOGRAPHER WILL ACCOMPANY MR. STEVENSON & WILL TAKE PICTURES AFTER THE INTERVIEW (B) BY KLAS // DUE: TUESDAY, JULY 8 EXC: CA // ALI (7/8) BLOCK * FOR PHOTO-OP Brief Includes memo to Mr. Wolfensohn from Klas Bergman, dated July 8, 1997, "Interview with Dick Stevenson of the New York Times" and tabs: - Article on J. Johnson - Article on WB/Bosnia	**DATE:** 07/09/97

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E. COMMENTS:

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THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: July 8, 1997

TO: Mr. James D. Wolfensohn, EXC

FROM: Klas Bergman, EXTME

EXTENSION: 33798

SUBJECT: **Interview with Dick Stevenson of the New York Times**

Wednesday, July 9, from 10:30 AM to 11:15 AM, Dick Stevenson of the New York Times Washington Bureau will interview you for a large profile on you and the changing Bank. We see this as the major story on the Bank's renewal in the run up to the Annual Meetings.

Dick Stevenson has interviewed you before. It was in connection with the Bank's growing role in Bosnia. The interview resulted in a long and good article on April 18, 1997 under the headline, World Bank Gets Bosnia Aid Role". (attached).

To illustrate the kind of serious stories Mr. Stevenson does, I have also attached a long profile from April 19, 1997 on Jim Johnson under the heading, "A $6 Million Man: James A. Johnson and Chief Executive of Fannie Mae".

This time, Mr. Stevenson wants to do a working profile on you, telling the story in broad terms on what you are doing at the Bank, why you are doing it, where you see the Bank heading, why you want to change it. He would like to write about how you approach change and how your previous background and experience as an investment banker has influenced you in your present job. He is interested in the broad issues of the changing Bank and is not seeking a detailed discussion on the Strategic Compact.

Mr. Stevenson hopes the interview will result in a major article on you and the new Bank, and he hopes to have it published on the front page of the Sunday Times' Business Section.

For that purpose, the New York Times would like to take some new photos of you. Mr. Stevenson will bring a photographer to the interview, and a special photo-op has been scheduled from 11:15 AM to 11:30 AM in the same room as the interview, room MC11-123.

I will accompany Mr. Stevenson to the interview.

Attached:
Two previous articles by Dick Stevenson.

Article on J. Johnson

A $6 Million Man: James A. Johnson And Chief Executive Of Fannie

By RICHARD W. STEVENSON
c. 1997 N.Y. Times News Service

WASHINGTON - In a city whose currency is connections, James A. Johnson is truly wired.

Johnson is chairman of both the Kennedy Center for the Performing Arts and the Brookings Institution, the research organization. A former top aide to Vice President Walter F. Mondale, Johnson has close ties to many prominent Democrats - and quite a few Republicans, too.

Johnson's real power these days, though, comes from his role as chairman and chief executive of Fannie Mae, the little-understood company that dominates the nation's housing finance industry.

Long known as the Federal National Mortgage Association but now just by its former nickname, Fannie Mae helps make sure that financing is available to home buyers at the lowest possible rate, serving as a bridge between the vast pools of capital on Wall Street and the demand for loans on Main Street.

And it does so by relying not only on its own canny financial management but also on government-conferred benefits, arising out of its roots as a federal agency, that some analysts value at billions of dollars a year.

It is a tricky role, running a company that is government-created but shareholder-owned, a public trust and a private fountain of wealth that melds the policy of promoting the American dream of home ownership with the nation's faith in the workings of the marketplace.

Balancing those public and private missions has been Johnson's toughest task since joining the company in 1990 and taking over the top job a year later. Johnson has won widespread admiration from advocacy groups for working to expand home ownership among low-income people and others left out of the housing market.

Wall Street applauds him for generating consistently strong returns for investors. And Washington insiders respect him as the most skilled political operator in corporate America, protecting Fannie Mae's franchise with an influential network that extends from the highest reaches of the Clinton administration to the ranks of conservative Republicans on Capitol Hill.

But for all his success - or maybe because of it - Johnson, 53, faces some unsettling questions from critics: Is Fannie Mae's government sponsorship still needed in a deregulated financial world that has changed so much from the Depression era when Fannie Mae was created? Could companies with no ties to Washington perform Fannie Mae's role just as well - or even better? Do the company, its shareholders and its management team profit unduly from that support?

The same questions dog Fannie Mae's smaller compatriot and competitor, the Federal Home Loan Mortgage Corp, or Freddie Mac, which also operates in the gray area between the public and private sectors.

Some analysts believe the government has created in Fannie Mae a beast that has so inextricably linked itself to the popular cause of home ownership that it would be politically impossible to slay it even if a consensus emerged that it was economically desirable to do so.

As the Congressional Budget Office put it last year in a study examining the merits and demerits of cutting Fannie Mae's and Freddie Mac's government ties: ``Once one agrees to share a canoe with a bear, it is hard to get him out without obtaining his agreement or getting wet."

Fannie Mae's fearsome reputation has created the impression in Washington that Johnson can squelch any meaningful debate over the company's relationship with its government benefactor.

That debate encompasses a regulatory review of whether Fannie Mae should put aside more capital to protect taxpayers against the risk that a ruinous economic spell or mismanagement could lead to a federal bailout. And the company faces an increasingly heated battle over whether it should be permitted to continue expanding into related businesses to maintain its rapid growth.

``All financial institutions face differing kinds of risk, such as credit risk, interest rate risk and country risk," said Rep. Jim Leach, R-Iowa, who is chairman of the House Banking Committee. But the prime risk to Fannie Mae, he said, is a political risk that Washington will withdraw its privileges.

``Accordingly," Leach said, ``no institution in America has as sophisticated tentacles into the legislature and the executive branch as Fannie Mae."

In an interview, Johnson scoffed at the suggestion that connections or political maneuvering allow the company to suppress debate over its relationship with the government.

``The reason Fannie Mae has broad political support is that we do our job," Johnson said. ``We effectively promote more homeownership for more people at a lower price."

Fannie Mae was established as a government agency in 1938 as a New Deal effort to help avert credit crunches in the housing industry. Spun off to shareholders in 1968, but retaining important implicit and explicit ties to the government, it is now the largest of the so-called government-sponsored enterprises. Beyond Freddie Mac, they also include the Federal Home Loan Banks, the Farm Credit System and the Student Loan Marketing Association, or Sallie Mae.

The most important, if the vaguest, tie is what most investors perceive as a government guarantee of Fannie Mae's debt. Although the guarantee has never been tested and is nowhere written down - indeed, it is explicitly contradicted by language in the prospectus for any debt the company issues - it is nonetheless widely accepted in global financial markets. That provides Fannie Mae with a thin but vital advantage over traditional financial institutions.

Other, more concrete advantages include Fannie Mae's exemption from state and local income taxes, saving it perhaps $300 million in taxes to the District of Columbia, and from the registration requirements of the Securities and Exchange Commission.

The flip side of Fannie Mae's relationship with the government is that it continues to operate under a congressional charter that requires it to help home buyers by promoting liquidity, stability and low interest rates in the secondary market for mortgages benefits that it says have filtered down to millions of homeowners over the years.

Fannie Mae links global financial markets to individual home buyers, providing local lenders access to nearly limitless funds. It buys mortgages issued to home buyers with no big credit problems, mostly for single-family homes with mortgages up to $214,600 - the so-called conforming mortgage market.

It either holds them in its own portfolio or, for a fee, bundles them into mortgage-backed securities, carrying a repayment guarantee, which can be freely bought and sold by investors in the open market. Doing so enables the banks and savings institutions that originate loans to generate more mortgages with less risk.

Fannie Mae has built itself into a corporate powerhouse. Its assets of more than $351 billion make it the largest in the country, exceeding Chase Manhattan, the nation's biggest bank, by nearly $15 billion. The assets are $80 billion greater than those of General Electric. And Fannie Mae's $25 billion in revenues put it 29th on the 1997 Fortune 500 list, while its profits of $2.7 billion rank it with oil companies like Chevron and Amoco.

As evidence of its benefit to home buyers, Fannie Mae points to the lower rates for conforming mortgages, where it brings its financial muscle to bear, compared with ``jumbo'' mortgages, for larger amounts, where it has no direct involvement. Earlier this month, the difference was about three-tenths of a percentage point.

But competitors and critics of Fannie Mae have long argued that much of its government-conferred advantage flows not to home buyers but to the company's shareholders and executives. They point to the big pay days enjoyed by Fannie Mae's top management: Johnson earned $6 million last year and other executives earned multimillion-dollar salaries as well. Johnson defended his compensation as commensurate with the company's performance and the pay for other financial industry executives.

As part of legislation passed in 1992 setting up a new federal regulator for Fannie Mae and Freddie Mac, Congress required four government agencies to report last year on whether subsidies to the two companies served public policy goals efficiently. The most provocative of the studies came from the Congressional Budget Office, which concluded that the implied debt guarantee had saved Fannie Mae $3.9 billion in 1995, of which the company passed along to homeowners $2.5 billion in the form of lower mortgage rates. The remaining $1.4 billion was retained by the company in the form of profits, the study said.

The study also concluded that the housing finance markets would continue to function efficiently if they were left to companies with no special government benefits. Fannie Mae and Freddie Mac harshly criticized the study's methodology and its conclusions.

The issue of whether government-sponsored enterprises deserve these benefits was raised anew earlier this month when Leach called for an investigation by the General Accounting Office into Freddie Mac's investment practices. Leach acted after Freddie Mac sold $125 million of bonds at its subsidized rate, and then used the proceeds to acquire the same amount of higher-yielding bonds issued by the Philip Morris Companies - a transaction with no direct tie to Freddie Mac's housing mission.

Freddie Mac defended its investment practices, but said late Thursday that it had sold its holdings in Philip Morris.

Moreover, Fannie Mae and Freddie Mac are stirring ire among companies in the housing finance business that see them as increasingly direct competitors. This is particularly true as they develop new products and technologies that encroach on related businesses, like computerizing the mortgage application and underwriting process, a business traditionally handled by banks, savings institutions and mortgage bankers.

``They've grown so large that they cannot put all their capital to work and expand their base without reaching out into other parts of the market," said Robert P. Cochran, the chief executive of Financial Security Assurance, a New York company that sees Fannie Mae creeping into its business of securitizing mortgages to borrowers with credit problems. ``Because they are this odd mix of private sector equity and public guarantee, they have an insatiable desire to grow their franchise."

For all the political popularity of his mission, Johnson has had to fend off efforts by a relative handful of members of Congress to scale back the company's compact with the government. And with conservative, free-market-minded Republicans now in power on Capitol Hill, the political threat to Fannie Mae has grown in intensity.

But when a subcommittee of the House Banking Committee held hearings last year on stripping Fannie Mae and Freddie Mac of their federal ties, it failed to make a dent in their formidable defenses.

``When it comes to the nexus of politics and business, these guys are the standard by which others are measured," said Charles A. Gabriel Jr., a political analyst in Washington for Prudential Securities. ``They are very aggressive."

In a glossy written report, Johnson details for all members of Congress how the company's efforts help home buyers in their districts. He hires lobbyists from both sides of the political aisle - last year the company had 36 registered lobbyists making its case in the hallways and hearing rooms of Congress.

~~(MORE)~~

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Article on WB/Bosnia

This item appeared on page **A6** of the **April 18, 1996** issue of the

The New York Times

World Bank Gets Bosnia Aid Role

By RICHARD W. STEVENSON

WASHINGTON, April 17 — As they embark in earnest on efforts to rebuild Bosnia, the United States and the European Union have handed over much of the job to the World Bank, an institution widely criticized for its slow-moving bureaucracy and its spotty record in similar programs.

The bank played a key role in raising the $1.2 billion pledged to the reconstruction program for the rest of this year at a conference this weekend in Brussels, including more than $200 million from the United States.

Established in 1944 under American leadership with its main purpose the reconstruction of a war-shattered Europe, the bank later became almost solely devoted to helping impoverished third-world countries.

Now the bank has taken on the monumental role in Bosnia of overseeing what is expected to be $5.1 billion of reconstruction projects, drawing up plans to rebuild roads, railways, power plants, phone systems and the other basic components of a functioning economy.

With its long experience in the world's poorest countries, the World Bank was not a surprising choice. But in Bosnia, where war has left behind not just hatred but land mines, millions of refugees, billions of dollars in damage and a decimated economy, the job is by most measures bigger and more critical than any the bank has previously taken on.

"I've been saying for some time that development banks are to the new world order what security organizations were to the old," said Deputy Treasury Secretary Lawrence Summers. "The World Bank's role in Bosnia surely illustrates that."

The bank, which is used to taking years to draw up plans and then waiting additional years for results, must make substantial, visible progress in Bosnia by the end of the year, when NATO troops are scheduled to leave, or the risk of war resuming will be high..

"The challenge is to move quickly, especially for organizations like the World Bank where time frames are usually longer," said William D. Montgomery, the State Department's special adviser for carrying out the Bosnian peace plan.

By its own standards, the bank has moved quickly in Bosnia. It had made the only comprehensive study of Bosnia's economic needs even before the peace accords were signed last fall. It committed $150 million of its own funds to emergency, short-term measures at the end of January. It is helping to match money from donor nations, which usually comes with strings attached, to specific programs. And in recent weeks it gave the go-ahead to three long-term programs covering transportation, agriculture and sewers and water supply, taking only a few months for an approval process that normally takes a year.

James D. Wolfensohn, the former Wall Street investment banker who became the World Bank's president last June, said that while concerns about the bank's ability to move quickly were valid, he is trying to make the institution more nimble and responsive.

"The institution has a merited reputation for being long-term and bureaucratic, but along with my colleagues I'm trying to cut that down," Mr. Wolfensohn said. "There is a growing and significant consensus in this institution that we need to move more quickly, that we need to have greater accountability and that we need the capacity to do things in an urgent time frame. It's particularly important to do that in post-conflict situations, but we're also trying to do it generally."

A delicate task for a financial institution.

The bank is already well into a similar program in the West Bank and Gaza, trying to create jobs and economic hope there as those regions adapt to autonomy from Israel. But it has had little success there, analysts and some members of the bank's staff said, especially in its goal of creating jobs. As a result, there are doubts about the bank's ability to succeed in Bosnia, where the scale of the problem is so much bigger.

"Put me down as skeptical," said Senator Mitch McConnell of Kentucky, a Republican who has raised questions about whether the American contribution will be used effectively. "I'm not opposed to the World Bank. But the World Bank is not always very effective, and it certainly hasn't been very effective in the West Bank and Gaza multilateral effort."

But others, including senior bank officials, argue that because the former Yugoslavia had a relatively advanced economy and an educated work force, Bosnia has a more solid foundation for rapid development than exists in Gaza or the West Bank.

Another problem will be financing in Bosnia. While the United States, Western Europe, Japan, some Islamic countries and others have pledged enough to finance the programs that bank dec[illegible] essential for this year, bank officials and diplomats said it is unclear whether the necessary money will be available in coming years.

For the World Bank and for other international organizations playing a big role in Bosnia, including the International Monetary Fund and the European Bank for Reconstruction and Development, there is another big issue at stake in Bosnia. Their efforts to bring stability and improved living standards to the region amount to the biggest test yet of their ability to play the broader role in the economic side of foreign policy that many governments, constrained by budget and political problems at home, want them to assume.

"The real test for the international community is whether it can respond effectively enough immediately, and in the medium term to get these countries moving on a self-sustaining basis," Mr. Wolfensohn said. "The bank is a front line player, but the bank cannot do it alone."

In Bosnia, as in the West Bank and Gaza, Mr. Wolfensohn said, the World Bank is adapting to new responsibilities and pressures. It has given its managers who are on the scene much greater authority and responsibility than ever before. Rather than reporting through a bureaucratic maze, they report to a single person at the bank's headquarters in Washington, who in turn reports to the board. Most importantly, they can make most decisions on their own, Mr. Wolfensohn said.

But even as he gives the bank's staff more freedom and authority, he is broadening its task. Instead of concentrating just on the big construction projects for which the bank is best known, he has been promoting development of programs intended to create jobs and contribute to social stability.

Mr. Wolfensohn said a primary goal of the reconstruction program in Bosnia should be to create as many as 300,000 jobs through a combination of public works programs and narrowly targeted projects to support small businesses and farmers, among others. In addition, he called for a program to provide cheap materials plus a stipend to people who are willing to rebuild their own homes.

The World Bank, has come under increasing criticism in recent years. Critics contend that the bank has failed in its efforts to fight world poverty, and that many of its construction projects in developing nations are environmental disasters.

In Bosnia, the bank's reputation has clearly been put further at risk.

Even though he sees his institution as one of several key players, Mr. Wolfensohn admits, 'It's there that people may blame the bank."