

May 10, 2016

Open Letter to the House and Senate:

Protect the Financial System and Taxpayers from Another
Fannie/Freddie Bailout – Enact the Housing Finance Restructuring
Act of 2016

To Members of the U.S. Congress:

We the undersigned organizations, representing millions of hardworking Americans, urge Congress to pass H.R. 4913, the “Housing Finance Restructuring Act of 2016” introduced by Rep. Mick Mulvaney (R-SC). If there is one thing this presidential campaign has revealed it is that Americans are, depending on the particular policy issue, fed up with either inaction or overreach from Washington officials. The government’s handling of the massive Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac represents a failed mixture of both, and must be corrected now.

With their politicized missions and imprecise status as GSEs, it was no surprise that Fannie and Freddie were at the center of the 2008 financial crisis. In a frantic move to prevent their collapse, the GSEs received \$187.5 billion in taxpayer loans and were placed in a conservatorship under the newly-created Federal Housing Finance Agency (FHFA).

The conservatorship was supposed to be a short-term measure to keep the GSEs solvent while Congress and the Administration worked to reform the housing finance system. With the passage of Dodd-Frank in 2010, policymakers in Washington required financial institutions to maintain higher capital ratios, but they could not agree on similar steps for Fannie and Freddie. Instead, starting in 2012, the Treasury Department’s “Third Amendment” unilaterally began diverting the GSEs’ quarterly profits to government accounts. This has had the perverse effect of making these huge institutions more vulnerable to market downturns while leaving taxpayers on the hook for additional capital the GSEs may need to cover losses related to their mortgage portfolios.

As the sweep of GSEs’ profits is on track to bring their capital reserves to zero in 2018, FHFA Director Mel Watt sternly reiterated in a speech in February that this will pose “unique challenges and risks.” This is an understatement.



Ideally, Congress and the Administration would have agreed by now on a plan to phase out the oversized role government plays in housing finance. With an election six months away, there is no chance of that. But there is a pathway to protect the broader financial system as well as taxpayers. First, Congress can enact the Housing Finance Restructuring Act of 2016, which would allow Fannie and Freddie to retain capital, end government's conservatorship of Fannie and Freddie once they reach five percent risk weighted capital, and require the GSEs to maintain capital buffers similar to other very large financial institutions. In addition, Congress has a responsibility to taxpayers to obtain hard data on the risks posed by low capital levels at the GSEs and the viability of alternative housing finance models. Fortunately, Senate Banking Committee Chairman Richard Shelby (R-AL) has asked the Congressional Budget Office and the Government Accountability Office for badly-needed analysis of the situation. Hearings should also be held to ascertain how the Third Amendment, now embroiled in legal controversy, was allowed to metastasize in the first place.

This Congress still has six months to serve its constituents and protect taxpayers by laying the foundation for GSE reform that must take place in earnest next year. We call on lawmakers to use this time wisely.

Sincerely,

Pete Sepp, President
National Taxpayers Union

Amy Frederick, President
60 Plus Association

Brent Gardner, Vice President of Government Affairs
Americans for Prosperity

Grover Norquist, President
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