July 7, 2016

Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Director Watt:

We write to encourage you to avoid taking any steps that may facilitate the release of the government sponsored enterprises, Fannie Mae and Freddie Mac, out of conservatorship without comprehensive reform. Doing so would perpetuate the pre-crisis practice of socializing losses and privatizing gains. Further, as Congress looks to reengage on the issue in the coming months, we ask that you continue to take incremental steps to facilitate housing finance reform.

As you know, the pre-crisis GSE model came with a laundry list of government-provided benefits that gave the GSEs a competitive advantage in the market and put taxpayers at risk. Beyond the sizable and ongoing government support provided since 2008, that list of benefits included a direct line of credit to the Treasury; tax-exempt status from state and local jurisdictions; the ability to issue special Securities and Exchange Commission-exempted To Be Announced (TBA) securities; the ability for the Federal Reserve to purchase GSE securities through monetary policy operations; favorable capital treatment for GSE securities, which makes holding them less costly for banks; and the GSE federal charter, the primary source of the implicit government guarantee. Put together, these benefits facilitate a government-backed duopoly that led to excessive risk-taking and cost taxpayers and the economy dearly.

Over the long run, we all agree changes will be needed to the existing structure. However, we firmly believe those changes should come through housing finance reform legislation, not unilateral action by this or any future Administration. That is why Congress included a provision in the 2016 omnibus legislation which restricted the release of Treasury's shares in the GSEs. The passage of this provision reasserted the desire of Congress to have a say in determining the fate of Fannie and Freddie.

While steps toward recreating the failed pre-crisis model would be counterproductive, we urge you to continue modifications that can protect taxpayers while also facilitating housing finance reform. Those changes include laying off additional mortgage credit risk into the private market with a greater focus on front-end risk transfers and continuing to wind-down the investment portfolios, which were used by the GSEs as hedge funds generating large profits. These two steps both lessen the risks posed by the GSEs and will help facilitate housing finance reform down the road.

In closing, we are hopeful that housing finance reform will be on the agenda for the next Congress and Administration and look forward to working with you on that effort. Until that time, we strongly encourage you to focus your efforts on steps that would help, not hurt, housing finance reform legislation.

Sincerely,

Bob Corker
United States Senator

Mark Warner
United States Senator

Mike Crapo
United States Senator

Jon Tester
United States Senator

Dean Heller
United States Senator

Heidi Heitkamp
United States Senator