



The Daily Dish

Disappointment Thy Name is GSE

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Eakinomics: Disappointment Thy Name is GSE

According to my Wikipedia, “Disappointment is the feeling of [dissatisfaction](#) that follows the failure of expectations or [hopes](#) to manifest” and “The study of disappointment—its causes, impact, and the degree to which individual decisions are motivated by a desire to avoid it—is a focus in the field of [decision analysis](#), as disappointment is, along with [regret](#), one of two primary emotions involved in [decision-making](#).”

Which brings us, naturally, to Fannie Mae and Freddie Mac, the housing government-sponsored enterprises (GSEs). Yesterday their regulator, the Federal Housing Finance Agency (FHFA), made it official and [published](#) in the Federal Register its proposed capital requirements for the GSEs. The rule, entitled the “Enterprise Regulatory Capital Framework,” would dictate the amount of capital the GSEs would need to hold if they were to be released from conservatorship and operating again as free-standing entities.

For the record, I am not disappointed that after a full decade the FHFA has finally met its Housing and Economic Recovery Act (HERA) requirement to advance a risk-based capital framework for the GSEs.

For the record, I am not disappointed that the leverage of the GSEs has been steadily reduced over the recent past, and that this rule would require the capital backing of the GSEs to [rise ten-fold](#) from roughly \$24 billion to roughly \$240 billion.

For the record, I am not disappointed that in addition to risk-weighted capital requirements and a leverage-ratio standard, the GSEs could also be subjected to additional capital buffers that are familiar from the [regulation of commercial banks](#) – a stress capital buffer, a stability capital buffer, and a countercyclical capital buffer.

For the record, however, I am disappointed by the fact that this capital rule will be perceived as an appropriate standard for the GSEs to be released from conservatorship. It is not. Even if in compliance with the GSE capital rule, Fannie and Freddie will hold half of the capital of a comparably sized bank. The minimum leverage requirement of 2.5 percent of total assets is just half of the 5 percent minimum typically applied to the much-safer community banks and one-third or less of that applied to the largest banks, which range from 12 to 18 percent.

Given their track record of accounting fraud, excessive risk-taking and abuse of their charters, and economic damage inflicted on the American public, it is indefensible that they continue to operate on favorably tilted playing field. It goes beyond indefensible that they might be able to operate while holding far too little capital to appropriately reflect the outsized risk they pose to the economy.

As for sticking to a personal decision-making framework that leaves me perpetually disappointed by the GSEs and public policy toward them, that is a topic for another day.