

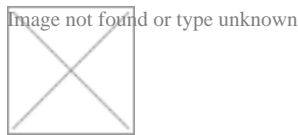


Insight

# A Safer Housing Finance System Is Still Needed

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Fannie Mae has reported it will pay the Treasury Department a \$7.2 billion dividend in March, bringing its total payments to \$121.1 billion. Together the two government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, have paid more than \$190 billion to Treasury since entering conservatorship in 2008, exceeding the \$187.4 billion in draw requests. While this is certainly a historic milestone of the largest bailout of the financial crisis, whether American taxpayers have been “repaid” is not so clear. Furthermore, this is hardly the end of an era; the GSEs are still in conservatorship and housing finance reform remains the most important unfinished business of the recession.



SOURCE: FANNIE MAE & FREDDIE MAC

## The GSEs’ repayment of all Treasury draws was to be expected for six reasons:

1. Fannie and Freddie dominate the secondary market.
2. Housing markets are recovering; house prices are improving and foreclosures are waning. As the only game in town, Fannie and Freddie have benefited financially.
3. Housing finance regulations including the Qualified Mortgage rule favor the GSEs and other government entities.
4. Recent profits have also been buoyed by settlements stemming from the housing and financial crises.
5. Last year the GSEs reclaimed tax benefits written down after the companies entered conservatorship, resulting in massive dividends.
6. The 2012 modification of the purchase agreement between the government and GSEs sweeps all earnings to the Treasury Department.

Repayment suggests that the GSEs’ draws from Treasury were the total price of their government bailout. However, for the aforementioned reasons, a return to profitability was all but assured. Ultimately though Fannie and Freddie were an integral part of a failed system that did incredible damage to communities across the country. While some may say that Fannie and Freddie have “repaid” their bailout, whether taxpayers have been

fully compensated for the risks they have taken and continue to take is not so clear-cut.

Efforts in both the House and Senate to reform our housing finance system recognize that the GSEs can no longer exist in their current form. Though profits may continue to roll in for the foreseeable future, earnings may not be sustainable in the long term. With an economy still plagued by weak growth in jobs and incomes, predicting the continued widespread improvement of housing markets is shortsighted. Fannie and Freddie are still a very real risk to taxpayers and the very definition of too-big-to-fail. Conservatorship for the GSEs is not their opportunity for a comeback but a chance for policymakers to put in place a safer housing finance system.