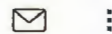




REGULATION AND COMPLIANCE

BankThink Fannie Mae and Freddie Mac are safe, profitable, and should be set free

By [Gary Hindes](#) September 05, 2022, 10:30 a.m. EDT 3 Min Read



According to his memoirs, as secretary of the Treasury Henry Paulson left the Oval Office on Sept. 4, 2008, the last thing then-President George W. Bush said about troubled the mortgage giants Fannie Mae and Freddie Mac was "we have to make clear that (conservatorship) is transitory, because otherwise it looks like nationalization." Two days later, conservatorships were formally imposed upon Fannie and Freddie by their regulator, the Federal Housing Finance Agency. The government promised they would end once the companies had been restored "to a safe and sound condition." Paulson called the situation a "temporary time-out."





That was 14 years ago. Now, halfway into their fourth presidential administration, five Treasury secretaries and four FHFA directors have come and gone. For a decade, Fannie and Freddie have been highly profitable. "Reforms" critics insisted were necessary have long-since been enacted. And the government's own [stress tests](#) prove that even under its draconian "severely adverse" scenario, neither would require a dime of government assistance — even at present capital levels. Indeed, Don Layton, installed by the government to run Freddie Mac from 2012 until his retirement in 2019, recently commented that the "de-risking" of the GSEs has progressed to the point that "given the existing level of capital at the two companies, the probability of taxpayers having to inject more funds into the GSEs is approaching levels that I believe are so small they cannot be statistically measured."

Clearly it is time to ask why these companies — whose tenure as wards of the state has now outlasted even the conservatorship of pop star Britney Spears — should not be released. Shareholders rightfully want to know: "When do we get our companies back?"

The conventional wisdom that the taxpayer is somehow at risk is a myth. True, Fannie and Freddie insure approximately \$6.5 trillion of primarily single-family home mortgages, but [none](#) of that debt is on the government's balance sheet. To the contrary, a legend printed on the cover of every prospectus makes clear, in bold-faced, capital letters, that Fannie and Freddie debt is not U.S. government debt. And even if it were, what of the \$6-trillion-plus cushion of homeowner equity which stands in front of the GSEs' insurance obligations? No one talks about that.



NOT all downturns are the same and banks certainly can't prevent them. But they can mitigate their impact.

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The purpose of a conservatorship is to preserve and conserve the assets of an enterprise, restore it to financial health, and then return it to its owners. Under capitalism and our free enterprise system, the government is not supposed to be in the business of owning private, profit-making companies. Respect for private property rights is a bedrock principle of our democracy and is enshrined in our Constitution.

Republicans on the Senate Banking Committee have called for Fannie and Freddie to be released. So why is the Biden administration procrastinating? True, some critics fear shareholders might make a killing. If that's the issue, does it count that for 14 years, shareholders have been stuck with "dead money" — while the stock market has risen fivefold? And why be concerned? Warrants allow the government to purchase 79.9% of Fannie and Freddie common shares for just \$70,000 (you read that right, no zeroes omitted). That means that for every dollar the shareholders make, the taxpayer makes four.

Once Treasury formally admits that the \$191 billion it advanced Fannie and Freddie during the financial crisis has been fully repaid with a [profit](#) of over \$100 billion (clearly the best deal for the taxpayer since the Louisiana Purchase), FHFA Director Sandra Thompson can release them pursuant to a consent decree, which could set in stone whatever safety and soundness measures she deems appropriate. This would allow the companies to go to market and raise whatever additional capital the FHFA might require. It would also allow the government to monetize its warrants; some analysts assert they could be worth yet another [\\$100 billion](#) (which some have argued should be used to [augment](#) the administration's Affordable Housing programs). In the meantime, while it dithers, the cost of any new capital will undoubtedly go up along with rising interest rates.



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Mr. Layton and the Republicans in Congress aren't the only ones calling on the administration to free Fannie and Freddie. Among others is the former head of the FDIC, [Sheila Bair](#) (whom the government installed as chairman of the Fannie Mae board until her recent resignation). And then there's the man who signed the papers putting Fannie and Freddie into conservatorship in the first place: [James Lockhart](#), the former head of the FHFA.

So, Mr. President, what are we waiting for?

Gary Hines Chairman , The Delaware Bay Company