

Follow the money.

FANNIE MAE AND FREDDIE MAC: THE BEST DEAL FOR THE TAXPAYER SINCE THE LOUISIANA PURCHASE.

No more whining!

Much has been written (including by me; see links below) about the saga that is **Fannie Mae** and **Freddie Mac**; how they were seized by the government during the 2008 financial crisis and how, after agreeing to a 10-percent dividend on its preferred stock, the **Obama Administration** changed the rules in 2012 and began taking 100 percent of the two mortgage insurers' profits – retroactively, even though they had just returned to sustained profitability. Along the way, there has been a continual stream of misinformation put out by their opponents: they were insolvent (they weren't); they were undercapitalized (they weren't); they operated with "*flawed business models*" (they didn't); they were an example of "*private gains and public losses*" (also untrue). Overlooked throughout all of this, however, is just how incredibly lucrative the two companies have turned out to have been for the government.

As a former **Goldman Sachs** executive, Secretary of the Treasury **Steven Mnuchin** – as well as fellow Wall Street veterans **Wilbur Ross**, the Commerce Secretary, and Presidential economic czar **Larry Kudlow** – should appreciate the brilliance of the trade.

As an initial matter, it is important to note that the government never put up a dime of its (our) own money. Where did it come from? Where all the rest

of our chronic deficit spending comes from: the bond market. Treasury *borrowed* \$191.5 billion (primarily from China and Japan) at probably less than 3 percent. We then *re-loaned* the money to Fannie and Freddie at 10 percent (even though both were already flush with cash and didn't need any). However, ever since the Net Worth Sweep was forced upon them, the government has been taking ALL their profits. As a result, Fannie and Freddie (as of June 30th) have now repaid \$306.2 billion on that \$191.5 'loan' from Uncle Sam. As I figure it, the IRR comes to almost 12 percent. So, think about it: without the American taxpayer putting up a dime, the government has been earning about a 900-basis-point spread on almost \$200 billion of Other People's Money – for 11 years! Brilliant!

And then there are the warrants which allow it to purchase 79.9 percent of Fannie and Freddie common stock for \$0.00001 per share. **Bill Ackman** (and others) estimate that to be worth another \$100-150 billion.

What a deal!

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See also:

HINDESight™ Feb. 19, 2019: [In Defense of the Hedge Funds](#)

HINDESight™ Sept. 6, 2017: ["The Case of the Concrete Life Preserver"](#)

HINDESight™ Aug. 25, 2017: [Fanniegate: The Cover-up Unravels](#)

HINDESight™ Sept. 6, 2016: [The Myth of Private Gains and Public Losses](#)