THE HILL

Fannie and Freddie didn't get a bailout; it was a stick-up

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Newly-amended lawsuits and recently-disclosed documents clearly refute the storyline put out by the authors of a recent op-ed in The Hill.

For starters, Ed DeMarco, Douglas Holtz-Eakin, Jim Parrott, Lew Ranieri, Dave Stevens and Mark Zandi state that at the time of their seizures on Sep. 6, 2008, Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs) "teetered on the edge of collapse, forcing the Bush and Obama administrations to commit hundreds of billions of taxpayer dollars to keep them operating ...".

Really? If they were in such dire straits, how can the authors explain that just three days prior to the seizures, they had been able to tap the capital markets for $6 billion of unsecured debt in an oversubscribed offering underwritten by a who's who of Wall Street investment banks?

Fannie and Freddie were not insolvent at the time of their seizures; to the contrary, they were, under applicable generally accepted accounting principles (GAAP), in full compliance with all capital requirements.

It's true they had recently been incurring losses due to the nationwide housing crisis, but they still maintained the highest capital cushions in their histories.

It was not until after the government obtained control that it was able to fire the boards of directors, replace management and direct the GSE accounting staffs to start booking billions of one-time, non-cash charges.

This, in turn, required Fannie and Freddie to offset what were effectively "cookie jar" accounting entries by issuing the Treasury $187 billion of preferred stock in order to maintain a positive book net worth.

Flash forward to the summer of 2012, by which time the housing market had turned around. Under the same GAAP accounting rules, the write-downs had to be written back up.

The Obama administration, fearful that the companies' (unexpected) return to profitability would end up resulting in their release from conservatorship, decided to change the previous administration's terms retroactively.

The original deal entitled the government to a 10-percent dividend on its preferred shares. But in August of that year, just days after Fannie and Freddie reported their largest profits ever, Treasury put into place a new dividend scheme equal to 100 percent of their net worths (minus a de minimis reserve) payable in perpetuity, no less.

The "net worth sweep" was, in reality, a "concrete life preserver." Indeed, no less than Parrott himself, then working in the Obama White House, let the cat out of the bag in an Aug. 18, 2012 email (which the government produced only when forced by court order).

Writing to a "fellow traveler," he disclosed that the government's real intent was to ensure that the GSEs would not be allowed to "repay their debt and escape."

When the 2018 books are closed at the end of this month, it is estimated that Fannie and Freddie will have repaid the government $100 billion more than the $187 billion they received during the financial crisis. Under the current arrangement, however, not a penny of that money counts toward reducing principle.

Like the restaurant owner who accepted cash from the mob, they will be in hock to Uncle Sam for the rest of their corporate lives.

DeMarco and his friends continue to peddle a false narrative. Forcing Fannie and Freddie into conservatorship wasn't a bailout. It was a stick-up.

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