

THE MYTH THAT THE GSEs POSE A THREAT TO THE TAXPAYER.

The \$5 trillion cushion (which no one talks about).

SO WHY ARE THEY STILL IN CONSERVATORSHIP?

Even the man who put them there thinks they should be released.

For going on 14 years, **Fannie Mae** and **Freddie Mac** have been defenseless against the oft-repeated charge that they are a threat to the U.S. taxpayer. Critics routinely cite their \$6 trillion guaranty of American home mortgages – without mentioning the fact that the homes underlying those mortgages have a value of at least \$11 trillion. That's right, the owner equity in the average middle-class home would have to drop by almost *half* before the taxpayer would be exposed. (Were that to happen, we would have much bigger problems; think **Citi**, **Wells Fargo**, **JPMorgan** – and even the **FDIC**.)

Why don't you hear this from people who should know better? Why do people like (*the list is too long to cite here*) complain about the \$6 trillion on the liability side of the balance sheet while ignoring the \$11 trillion on the asset side? Part of it is sheer ignorance (shame on them; [it's all right there in the 10Qs](#)). And most members of Congress (and their staffs) already have their plates full with a host of other issues. But it's also because no one

is pointing them in the right direction. And why might that be?

Think about it. If any other company was faced with the misinformation campaign to which Fannie and Freddie have been subjected, their lawyers and lobbyists would be holding press conferences and issuing press releases. But since they were seized in 2008, Fannie and Freddie have been operating under a government-imposed gag order. Almost immediately after their seizure, the entire media and governmental relations departments were shut down. All lobbying activities were prohibited. No one was to have any contact with the press. Hence for going on 14 years, America has heard only one side of the story. (Or, perhaps more accurately, it has heard about only one side of the balance sheet.)

Shorn of their lobbyists and with muzzled lawyers, who is left to speak up in defense of the GSEs? No one. Certainly not a complacent and lazy press – which has repeatedly been taken in by what they have been spoon-fed by government officials.

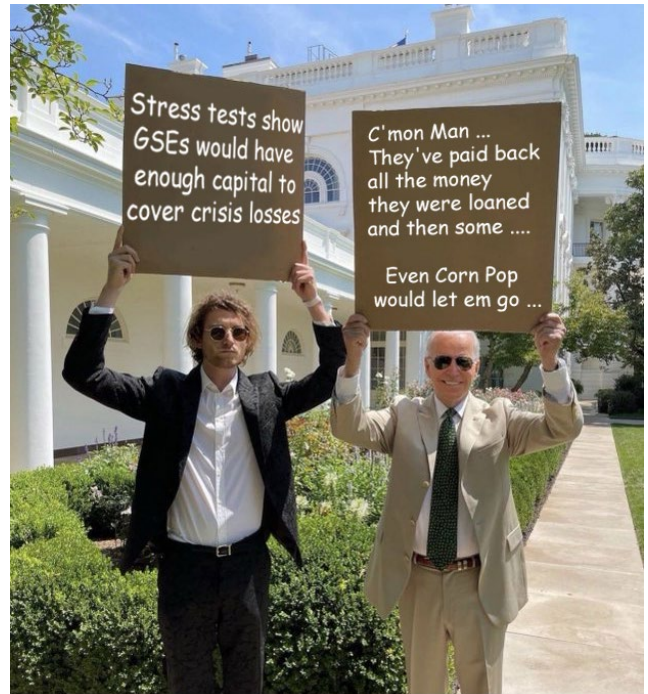
To the contrary, the only pushback has come from pesky shareholders (like me) who still believe that the federal government cannot confiscate private property without compensating the owners. (Ed. note: *it's in the Constitution, stupid.*)

While the \$5 trillion cushion standing between the companies and the taxpayer is a matter of arithmetical fact, it is supported by the most recent **Dodd-Frank** stress tests, which found that in a repeat of the 2008 financial crisis (i.e., a 25 percent across-the-board drop in housing prices), neither Fannie nor Freddie would require a penny of government support. In other words, the taxpayer is already fully protected. In addition, it is a matter of public record that the government has already made an over \$100 billion profit on its GSE 'investments'. So why are they still in conservatorship?

The answer goes to the fact that the so-called 'bailout' of the GSEs was actually a stick-up. After all, what company 'borrows' \$187 billion and pays it all back within just a few years? Answer: *someone who never needed the money in the first place*.

And for what it's worth, **James Lockhart**, the former head of the **FHFA** who signed the conservatorship orders back in 2008 is now calling for their release.

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