

## Fannie Mae and Freddie Mac

# WILL THE NEW ADMINISTRATION BECOME COMPLICIT IN A BRAZEN THEFT?

*The previous three have lied to the American public.*

First, [the history](#):

During the height of the 2008 financial crisis, the **Bush Treasury** engineered the takeover of **Fannie Mae** and **Freddie Mac**. It claimed they were teetering on bankruptcy and needed to be put into 'temporary' conservatorship so as to avoid a major collapse of the economic system.<sup>1</sup>

This "*big lie*" has been repeated for years, but it turns out to have been just that: a big lie.<sup>2</sup> Through over a dozen years of ongoing litigation, angry shareholders who saw their investments in the companies vaporize overnight obtained thousands of pages of government documents, including emails between the major players at Treasury and the **Bush White House**. (Getting the documents was like pulling teeth: they were only produced under court order.) Those documents make clear that neither Fannie nor Freddie needed a rescue and that the real purpose of the takeover was to use the companies to soak up toxic mortgages from the big banks which were groaning under their weight. Indeed, [it wasn't a bailout; it was a stick-up](#).

After using deceptive accounting manipulations to order the companies to book \$193 billion in *non-cash* write-offs, the government injected the same amount in the form of Senior Preferred Stock which carried a 10 percent annual dividend. But by the summer of 2012, when the economy and housing market had turned around, the by-then-**Obama Treasury** panicked. They had assumed that during those four years, Congress would have allowed them to basically chop up the companies and redistribute their lucrative franchises to the big banks. But alas, it hadn't happened, and under the accounting rules, all those non-cash write downs had to be written back up. So, Treasury hatched a plan to keep the companies under government control – permanently. Called the "net worth sweep", the dividend on the government's preferred stock was increased from 10 percent a year (twice, BTW, what the banks were charged for their TARP loans) to *100 percent of their earnings and net worths* – in perpetuity – without a dime going towards paying down the \$193 billion in advances. No matter how much the companies earned, no matter how much the companies paid, they would forever owe \$193

<sup>1</sup> Among other things, the Bush Treasury put out the word that the companies were having trouble rolling over their paper. Really? How to explain that just three days before being seized, they had sold \$6 billion in unsecured debt in an over-subscribed offering underwritten by Wall Street's top investment banks?

<sup>2</sup> See, e.g., Pagliara, Tim, *Another Big Lie: How the Government Stole Billions from The American Dream of Home Ownership – and Got Caught* (Forbes Books 2021).

billion.<sup>3</sup> They were basically nationalized – with Uncle Sam now cast in the role of a Mob lender.<sup>4</sup>

And Treasury lied about it. It claimed that the purpose of the net worth sweep was to avoid a “death spiral” of Fannie and Freddie having to pay Treasury bigger and bigger dividends, only to have to reborrow the money from Treasury in order to make the payments. But as the documents it tried to keep secret showed, Treasury knew the companies were about to write up those written-down assets and would shortly be awash in cash. For Treasury, ‘sweeping’ that windfall into its own coffers couldn’t have come at a better time, for it solved two pressing problems then facing the Obama Administration.

The first was the debt ceiling. Recall that during the summer of 2012, Treasury had acknowledged that it was employing “extraordinary measures” to extend the debt-ceiling runway; the money would come in handy considering GOP threats to shut down the government if it blew through the debt ceiling. (They later did exactly that.)

In addition, there was the problem of **Obamacare**. The Republican-controlled House had refused to fund a key component without which the program would likely collapse. Where to find the money to keep the program afloat? “Sweep” it from Fannie and Freddie, of course. That this actually happened was later confirmed by **Steven Mnuchin**, **President Trump**’s Treasury Secretary.

And now, the numbers:

Treasury has collected \$301 billion in dividends from Fannie and Freddie. That’s \$108 billion more than it advanced (and about \$30 billion more than it would have been entitled to had the original 10 percent dividend rate remained unchanged). That the government has been paid in full was confirmed almost two years ago by **Craig Philips**, then Counsellor to the Treasury Secretary. (You can view his May 18, 2019 interview here.) Yet because Treasury hasn’t yet made an accounting entry to offset those dividends against what it advanced, it claims it is still owed \$193 billion. In effect, it has made the

taxpayer complicit in its brazen theft of private property in their name

Under three Secretaries during three Administrations, Treasury has been lying.

- It lied about why it took over Fannie and Freddie in 2008.
- It lied about the reason for imposing the net worth sweep in 2012.
- And it is lying today about Fannie and Freddie owing it \$193 billion.

Treasury’s conduct has been utterly immoral.

Enough with the lies.

Enough with the charade.

Mr. President, please do the right thing.

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<sup>3</sup> “No principal is written down no matter what the quarterly payment is . . . (eliminates) ability to pay down principal, so they can’t repay their debt and escape . . .” (emphasis added). White House advisor **Jim Parrott** to Treasury official **Tim Bowler**, Aug. 17, 2012.

<sup>4</sup> There are unconfirmed reports that then-Vice-President Biden was opposed to the net worth sweep.

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