



May 22, 2018

The Honorable Mike Crapo
Chairman, Banking, Housing, and Urban Affairs Committee
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Crapo, Ranking Member Brown, and Members of the Committee:

On behalf of National Taxpayers Union (NTU) and our members across the country, I write to offer our comments regarding a hearing that will be before the committee on Wednesday, May 23, 2018. At the hearing, the committee will hear testimony from Mel Watt, Director of the Federal Housing Finance Agency (FHFA), about the current state and future of Fannie Mae and Freddie Mac. You will also have the opportunity to seek answers for important questions bearing directly upon the well-being of taxpayers, among them addressing oversight concerns, transferring Fannie and Freddie out of conservatorship, and establishing taxpayer safeguards against future bailouts. NTU commends this committee's efforts toward achieving a more stable housing finance system and ensuring the activities of these federally-chartered entities are diligently scrutinized.

The economic collapse of the late 2000s was fueled by hazardous practices from Fannie Mae and Freddie Mac, the two giant government-sponsored enterprises (GSEs). When the housing bubble burst, these entities were saved by an influx of taxpayer funds and placed into conservatorship where they are regulated by the FHFA. A decade later, Congress still has the unenviable task of crafting a comprehensive housing reform package that safeguards against some of the risky activity that led to the last crisis. The status quo puts taxpayers in an untenable position of bearing the risk of future losses while leaving the housing finance system on an unsustainable trajectory. While the GSEs dominate the housing finance system by backing the vast majority of secondary market loans, the GSEs have considerably less capital today than when they were first placed into conservatorship -- a precarious position for taxpayers.

NTU has long contended that the federal government cannot be the primary financier of mortgage credit as it places a potentially large and volatile liability on the taxpayers' balance sheet. And after 10 years of conservatorship, it is clear GSEs have been under federal control far longer than was originally intended, once again threatening to create a precarious financial situation. With very thin reserve capital to cover even short-term losses, taxpayers have little protection against possible bailouts in the event of a down market. In fact, taxpayers are guaranteeing more mortgage debt today than they were in 2008 -- now above \$5 trillion. Given this reality, how Fannie and Freddie operate and allocate funds is of great concern to NTU and taxpayers, aside from the GSEs' shareholders.

There are a host of areas where taxpayers remain in the dark with the decision making process, level of risk, and charter creep by Fannie and Freddie. Specifically, taxpayers need answers to the following questions:

- In the years preceding the crisis, [Fannie Mae](#) and [Freddie Mac](#) commanded some of the [most well-funded lobbying](#) networks in Washington D.C., but a condition of their taxpayer-funded bailout legally prohibits them from engaging in lobbying activities. However, recent reports indicate Fannie Mae employees may have been intentionally violating their government prohibition on lobbying through meetings and exploiting loopholes in the system. To what extent should these reports lead to additional investigations (besides activities announced by House Financial Services Committee Chair Hensarling), and is it appropriate for a taxpayer-backed group to ever engage in this type of behavior?
- Every federal agency is subject to the Freedom of Information Act (FOIA), which allows the public to gain access to certain documents. FOIA is an important taxpayer-protection tool to ensure the bureaucracy is conducting its responsibilities accountably and effectively. However, Fannie and Freddie are exempt from complying with FOIA requests. Meanwhile, the Administrative Procedure Act has not, by itself, proven to be a robust accountability measure for FHFA's activities. Is it appropriate for the actions of these taxpayer-backed entities to be shrouded from the public with virtually no transparency?
- Staffing at the GSEs has increased by nearly 25 percent since conservatorship was imposed. Is this workforce expansion related to managerial improvements, or indicative of mission creep?
- Director Watt has previously stated that FHFA has transferred about \$49 billion worth of risk off the books of government and onto the private market. However, \$49 billion is equivalent to 1.2 percent of the \$1.4 trillion for which taxpayers are on the hook. Is Director Watt satisfied with this progress, and what steps are being taken to hasten additional relief?
- Freddie Mac recently unveiled the IMAGIN program as a type of risk sharing for investors to purchase low down-payment mortgages. This program, which is steeped in secrecy, has very few details about its operations or capital standards, and has the potential to increase the chance of a future taxpayer bailout. Since there was no public comment period and many lingering questions, is this consistent with other agencies of government that are backed by taxpayers?

It is essential to transition away from a housing finance system that benefits only private shareholders when the market is strong but depends on taxpayer funds to prop them up when the market is weak. Furthermore, it is fundamentally unfair for government to confer advantages and protections upon entities that can then as a result expand their competitive position and influence. In the interim, basic transparency, oversight, and limitations on the GSEs' missions are fundamental to protecting taxpayers from poorly crafted policy and wasteful spending.

Once again, NTU thanks you for your continued dedication to fostering a housing finance system which benefits homebuyers, the economy, and taxpayers. We strongly believe that the issues discussed at this upcoming hearing can positively contribute to building a foundation for serious reforms to the GSEs. NTU looks forward to working with you and serving as a voice for taxpayers in any future deliberations.

Sincerely,

Pete Sepp, President
National Taxpayers Union