

August 25, 2015

Open Letter to the House and Senate:

Protect Taxpayers from Another Fannie/Freddie Bailout – Enact the Enterprise Secondary Reserve Taxpayer Protection and Government Accountability Act of 2015

We the undersigned organizations, representing hundreds of thousands of hardworking Americans fed up with government spending and overreach, urge members of Congress to pass H.R. 1673, the `Enterprise Secondary Reserve Taxpayer Protection and Government Accountability Act of 2015_ introduced by Rep. Marsha Blackburn (R-Tenn.). This legislation takes a much-needed first step to reining in Fannie Mae and Freddie Mac. It is important that Congress pass H.R. 1673 as a standalone bill or as part of other legislation.

The Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac stood at the center of the 2008 financial crisis. In the aftermath of that crisis, taxpayers provided Fannie Mae and Freddie Mac with \$188 billion in equity to cushion against losses related to their mortgage portfolios. Despite the significant taxpayer support they received, the danger they continue to pose to the federal balance sheet is significant. Incredibly, while the Dodd-Frank `financial reform_ of 2010 imposes higher level of capital and new regulations on community banks and life insurance companies that had nothing to do with the mortgage crisis, Fannie and Freddie operate today with virtually no capital reserves.

Since 2008, Fannie and Freddie have been under conservatorship administered through the Federal Housing Finance Agency (FHFA). Pursuant to the Obama administration's 2012 `Third Amendment_ to an agreement between FHFA and the United States Treasury, all of Fannie and Freddie's net profits have been swept back into government coffers, thereby masking higher spending and creating phony short-term deficit reductions that the Obama administration can claim credit for. This scheme has left the two GSEs with almost no capital reserves to offset potential losses in the event of another downturn in the mortgage and housing markets.

H.R. 1673 would help protect taxpayers in the event that these two GSEs experience significant losses in the future. By creating a reserve fund using profits generated by the GSEs, the Enterprise Secondary Reserve Taxpayer Protection and Government Accountability Act allows Fannie and Freddie to draw down such funds in the event of significant losses, rather than going back to the Treasury for additional resources. Once FHFA's conservatorship of Fannie and Freddie ends, the reserve fund would dissolve. Simply put, the bill creates an insurance policy for taxpayers.



As long as Fannie and Freddie are under conservatorship, any losses they experience are a threat to taxpayers. While H.R. 1673 is a wise proposal, it highlights the need for Congress to reduce dramatically the role of government in the housing finance system. In particular, Fannie and Freddie's government support – implicit and explicit – should be phased out. Until lawmakers embrace comprehensive reform, however, they should pass the Enterprise Secondary Reserve Taxpayer Protection and Government Accountability Act. And this measure must, as a first step, be part of any large appropriations or financial services bill that attempts to deal with Fannie and Freddie.

Sincerely,

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Competitive Enterprise Institute

Matthew Kandrach
60 Plus Association

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