

## Bachus Statement During GSE Hearing

June 3, 2009

WASHINGTON - Congressman Spencer Bachus (AL), the top Financial Services Committee Republican, made the following remarks during today's Capital Markets Subcommittee hearing entitled "The Present Condition and Future Status of Fannie Mae and Freddie Mac:"

Thank you, Mr. Chairman for convening this important hearing on the future of the Government Sponsored Enterprises, Fannie Mae and Freddie Mac.

Congress established Fannie Mae during the New Deal to make homeownership more affordable and Congress created Freddie Mac in 1970 with a similar purpose. Neither provides home loans. Instead, they increase the funding available for home mortgage financing either by providing credit guarantees on mortgage-backed securities or by directly investing in mortgages and mortgage-related securities through their retained mortgage portfolios. To further their missions, the GSEs' congressional charters grant them unique privileges, shielding them from many of the financial standards and tax burdens imposed upon their competitors. These benefits created a perception that Fannie and Freddie were backed by the U.S. government and this "implicit guarantee" also provided them a funding advantage over private-sector participants.

Over time, the GSEs' advantages enabled them to dominate the secondary mortgage market. Today, they have more than \$5.4 trillion in obligations outstanding, an amount that is nearly 40 percent the size of the entire U.S. economy. The systemic risk posed by the size of these entities was only magnified by investor perceptions that GSE securities were backed by the full faith and credit of the U.S. government. In September, those perceptions became reality.

On September 7, 2008, shortly after Congress passed GSE reform legislation, the federal government placed Fannie Mae and Freddie Mac into conservatorship. The rescue was one of the most extraordinary federal interventions in private enterprise and is on track to become one of the most expensive. As part of the GSEs' conservatorship agreement, the Treasury has committed up to \$200 billion to purchase preferred stock from each company through December 31, 2009. In exchange Fannie and Freddie provided Treasury with \$1 billion in senior preferred stock and warrants to acquire 80% of each GSE.

In addition to Treasury purchases of preferred stock both the Treasury and the Federal Reserve Bank are also scheduled to purchase trillions of dollars worth of GSE debt and mortgage backed securities. As of May 29th Treasury has purchased \$167 billion dollars of GSE MBS using authority granted under the Housing and Economic Recovery Act of 2008. The Congressional Budget Office estimated in March that the GSE titles of HERA will cost \$384 billion. The Federal Reserve currently holds \$81 billion of GSE debt and \$507 billion of agency MBS. On March 18th the Fed announced its purchases of agency MBS will total \$1.25 trillion by the end of the year. Finally, the Treasury has also initiated a credit facility for both GSEs to provide liquidity.

Mr. Chairman, the magnitude of the trillion dollar GSE bailout demands our full engagement about the future of the GSEs. Congress must work to develop a new model for housing finance. Some, like former Treasury Secretary Hank Paulson, have endorsed a public utility model. Others have proposed shrinking and privatizing the GSEs. Whatever the

GSEs' ultimate fate, we can all agree that the GSEs cannot continue as before. Socializing risk and privatizing profit must end. The American people demand an end to the bailouts. Any discussion of the long-term future of the GSE's must include a bailout exit strategy.

I would like to thank the witnesses for appearing today. I look forward to hearing their ideas on resolving the GSEs.

###