



The Daily Dish

Putting The Real H in HUD

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Eakinomics: Putting The Real H in HUD

Yesterday was Memorial Day, the annual poignant reminder of those who paid the ultimate price for the freedoms and prosperity Americans enjoy. My thinking, however, also wandered to their antithesis — those who have taken advantage of their fellow citizens for narrow purpose and personal gain. High on the latter list are Fannie Mae and Freddie Mac, those public policy Frankensteins that enjoyed years of fat profits from special government-provided privileges and repaid the favor by sticking taxpayers with hundreds of billions of dollars in bills as the financial crisis unfolded. The two housing Government Sponsored Enterprises (GSEs) remain in conservatorship a decade later with their future uncertain and housing policy being driven by their conservator, the Federal Housing Finance Agency (FHFA).

What might the future look like for the GSEs? Certainly a return to the half-private, half-government business model that produced ruin cannot be on the table. That suggests only two possibilities: They become either purely private entities or government agencies. The former is simply unrealistic. If Fannie and Freddie were cut loose, they would immediately be Systemically Important Financial Institutions (SIFIs) that would have to hold base capital of 8 percent plus a whole list of other surcharges. There is no realistic way for them to raise such large amounts of capital. Moreover, their business model was built on being able to sell debt cheaply in the agency market. Stripped of their special privileges, it is hard to see them competing easily in the market for corporate funds. Anyone who says they believe in a privatized Fannie and Freddie either has not run the numbers, or is hoping nobody will notice and allow the bad old days to return.

That leaves having them fully in the government — something that the Congressional Budget Office has already assumed when preparing its budgets. Because Fannie and Freddie are being used for public policy purposes and, clearly, are being funded in part by

the taxpayers, they are treated as being on the federal budget. The goal, then, should be to get the policy and the budget in alignment. This raises an intriguing possibility: merge Fannie and Freddie into the Department of Housing and Urban Development (HUD).

This has some advantages. First, all of the low-income housing support would be in HUD and could be appropriately budgeted and overseen. No more off-the-books slush funds. Second, HUD has the Federal Housing Administration (FHA). This would allow a simultaneous overhaul of the missions and purposes of all three entities. That just makes sense. Third, FHA would benefit from using the mortgage platforms possessed by Fannie and Freddie. And fourth, fees paid to compensate for the GSE mortgage guarantees would be explicitly shown on the budget and could be used as the taxpayers desired.

There would be downsides as well, not the least of which is that the \$5 trillion or so of GSE debt would now become a Treasury liability — raising the debt in the hands of the public by one-third overnight. But the status quo simply cannot continue, and the opportunity to harmonize the breadth of federal housing policy under one management team is an enormous attraction.