Insight

Q&A on the Anniversary of the GSEs' Government Bailout

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This week marks the seventh anniversary of Fannie Mae's and Freddie Mac's conservatorship. The government bailed out the two entities, collectively called the GSEs (government-sponsored enterprises), in September 2008 to the tune of $188 billion. Little has since been accomplished to appreciably disentangle the government from the housing finance system. Here's a quick guide on where things stand.

How much have the GSEs paid to Treasury?

Combined, Fannie and Freddie have paid $239 billion in dividends to the Treasury Department.

While Fannie and Freddie have been recently profitable, dividend payments over the last couple years were buoyed by income from legal settlements and one-time tax benefits, totaling $88 billion in income to the GSEs. This money made them appear more profitable than reality. In fact, dividend payments are expected to continue shrinking. There is still a very real risk that they will need to draw funds sometime in the future if the entities are not reformed.

So the government has been repaid?

No. As the Treasury Department, researchers at the New York Federal Reserve Bank, and others have rightly pointed out, the federal government and by extension all taxpayers made an investment in the GSEs to keep them functioning. That investment saved the GSEs. Current dividends being paid to the government are compensation for the ongoing risks borne by taxpayers. As such, it is not repayment.

What did Dodd-Frank do to fix housing finance?

Housing finance reform remains the most important unfinished business of the recession. Regulations promulgated under the Dodd-Frank Act touch upon all facets of the financial services industry and beyond. These rules have impacted lending and securitization and yet reforms to Fannie and Freddie remain unaddressed.

So what is next for Fannie and Freddie?

Efforts in both the House and Senate to reform our housing finance system have recognized that the GSEs can no longer exist in their current form. Unfortunately these remain stalled. While it may be difficult for comprehensive housing finance reform to move forward, FHFA has worked to establish a common security and securitization platform for both GSEs and encourage various risk-sharing experiment in which private capital assumes more credit risk. In lieu of a GSE reform, these initiatives can help limit risks borne by taxpayers and provide insight into how a new housing finance system may function.