



The Daily Dish

Bloomberg on the Housing GSEs

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Eakinomics: Bloomberg on the Housing GSEs

Yesterday, presidential candidate Michael Bloomberg put out his [proposals](#) for financial services, with the headline being a financial transactions tax, a “stronger” Consumer Financial Protection Bureau, and beefed-up financial regulation of banks (e.g., putting the Volcker Rule on steroids). As wrong-headed as these are from a policy perspective, they make political sense for a so-called moderate candidate trying to protect his left flank from attacks by progressives such as Bernie Sanders and Elizabeth Warren.

Intriguingly, included in these proposals is this: “Gradually merge Fannie and Freddie into a single, fully government-owned mortgage guarantor, to ensure that taxpayers are fully compensated for the risks they are assuming – and that lower-income households are well served.” I don’t know if this is progressive, conservative, populist, or neapolitan.

In the interest of full disclosure, I have [argued](#) that if one can’t genuinely transform the housing government-sponsored enterprises (GSEs) into competitive, well-capitalized entities, it might make sense to acknowledge that Fannie and Freddie are being used for public-policy purposes and have been supported by the taxpayer – i.e., they are being used like they are part of the government. “This raises an intriguing possibility,” I wrote: “merge Fannie and Freddie into the Department of Housing and Urban Development.”

As it turns out, that is not what Bloomberg has in mind. His proposal is modeled on [one](#) by Jim Parrott, Lew Ranieri, Gene Sperling, Mark Zandi, and Barry Zigas that proposes to merge the GSEs into a government corporation – the National Mortgage Reinsurance Corporation (NMRC). “The NMRC would differ from Fannie and Freddie, however, in several important respects. It would be *required* to transfer all non-catastrophic credit risk on the securities that it issues to a broad range of private entities. Its mortgage-backed securities would be backed by the full faith and credit of the U.S. government, for which it would charge an explicit guarantee fee, or g-fee, sufficient to cover any risk that the government takes.”

Let’s think about that for a second. First, all of the Fannie and Freddie debt would become Treasury debt – making \$5 trillion in implicit debt explicit with the stroke of a pen. Lots of debt is a common feature of progressive proposals. Second, all the non-catastrophic risk would be borne by the private sectors. That’s the heart of conservatives’ desire to turn the GSEs into genuine private-sector entities, although Bloomberg (and most others) are silent as to how the private sector would be incentivized to assume this risk. Third, the taxpayer’s exposure to catastrophic risk would be compensated by an explicit fee. Conservatives like that idea until it is pointed out that, other things equal, it means higher mortgage interest rates. At this moment, the political conservatives flee and leave the policy folks hanging.

But most interesting, it is a government *corporation*, not an agency. That means it will have the same tools and incentives that have turned the United States Post Office and Amtrak into customer service disasters and financial cancers.

Progressive idea? No. Conservative idea? No. Good idea? No.