The Daily Dish

GSE Mission Drift

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Eakinomics: GSE Mission Drift

I swear that I am not obsessed with Fannie Mae and Freddie Mac. But housing is central to the welfare of U.S. citizens; housing finance is a key area of policy; and the housing Governemnt Sponsored Enterprises (GSEs) have been at the center of poor policy for decades. So when the recent expansion of GSE activity in the rental market is noted by *The Wall Street Journal* (WSJ) and *Financial Times* (FT), it catches my attention.

As the FT reported, "The two companies' most recent earnings filings showed how their financing of owners of large rental housing developments has expanded faster than their better-known business of financing owner-occupied mortgages. The pair funded a combined 306,000 units in 'multi-family' rental complexes during the first three months of the year. By the end of the quarter, they had provided financial guarantees on $494bn worth of such loans, up 18 per cent from a year earlier." Among the activities that the GSEs are scaling up, according to the WSJ, is "offer[ing] lower interest rates to landlords who agree to rent the majority of units in a building at levels affordable to tenants making 80% or less of the area's median income, a range that typically includes nurses, teachers and police officers."

This is an act of housing policy that is attributable to the unexpectedly long conservatorship of the GSEs. Under the terms of the conservatorship, all GSE profits over a $3 billion minimum threshold are immediately sent to the U.S. Treasury. So, offering low-interest — and less profitable — loans to achieve policy purposes does not harm the GSEs, but does curry political favor. Unfortunately, the budgetary policy line is that the Treasury collects fewer profits and, thus, must borrow more to meet its needs. The commitment of taxpayer resources should only take place with congressional approval and a presidential signature. It should not be the prerogative of the GSEs and their conservator.

The lack of spending discipline shows up more broadly. As noted by the National Taxpayers Union (NTU), an "area of particular concern is the excessive spending of funds for Fannie Mae's relocation to its new headquarters. The FHFA Inspector General reports tens of millions of dollars in 'questionable purchases' on extravagant features, an unfortunate tendency that NTU has seen in numerous office construction projects involving federal agencies or government-backed entities. This is perhaps one reason why construction costs for the headquarters have 'risen dramatically' from its original $115 million to $171 million, bringing the total 15-year cost (with lease) to $770 million."

This serves as another reminder of the costs of failure to pursue GSE reform. In the absence of such legislation, however, closer congressional scrutiny of both the GSEs and their conservator (the Federal Housing Finance Authority) should be a top priority.