



Insight

History Repeating Itself At Fannie Mae

MARISOL GARIBAY | MARCH 11, 2015

Fannie Mae continues to engage in behavior that could place taxpayers and the economy at risk. The [Washington Times](#) reported the news this morning, and the agency's risky behavior was [detailed in today's report by the Inspector General](#) of the Federal Housing Finance Agency (FHFA).

The sad reality is that this story is not new. Prior to the financial crisis, Fannie Mae and Freddie Mac engaged in reckless behavior with implicit taxpayer backing, becoming the poster children of too big to fail. Let's not forget that Fannie Mae executives also cooked the books between 1998 and 2004 in order to maximize bonuses for senior executives. [The Office of Federal Housing Enterprise Oversight \(OFHEO\)](#), then the regulator of the GSEs, found that the Enron-style accounting at Fannie Mae resulted in \$10.6 billion in losses.

Back then, Fannie Mae also failed to comply with Generally Accepted Accounting Principles (GAAP), had a regulator that was powerless to oversee them, and Fannie Mae obtained a massive loan portfolio by easing credit requirements on mortgages. Eventually, this created the perfect storm that led to their downfall and forced taxpayers to step in and bail them out.

Now the FHFA Inspector General is reporting that Fannie Mae hired an employee without the qualifications (and with a conflict of interest) to be its chief auditor and FHFA failed to act. This report underscores yet again why Congress and the administration should work together to achieve housing finance reform. Recently, FHFA also directed both Fannie and Freddie to do more to make credit available by [backing low downpayment mortgages](#) while also beginning [to fill the coffers of the affordable housing trust fund](#), further putting taxpayers at risk.

In order to ensure that history does not repeat itself, FHFA should explain why it decided to look the other way instead of ensuring a qualified individual was hired to hold Fannie Mae financially accountable. But most importantly, housing finance reform is needed to finally end the bailout of Fannie and Freddie and protect taxpayers.