



Insight

# Will Fannie & Freddie Reform Finally Move Forward?

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As we approach the 6<sup>th</sup> anniversary of taxpayers bailing out the two housing government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, Congress is still grappling with how to reform them. Some progress was made this week when the leaders of the Senate Banking Committee released legislation to reform Fannie and Freddie. This development builds upon the House Financial Services Committee approving a bill last year, which would create a stronger, and sustainable housing finance system. Despite a majority of voters favoring the GSEs be wound down, there remain some in Congress who claim Fannie and Freddie still have a future.

Fannie and Freddie were at the epicenter of the financial crisis. The GSEs suffered from a history of guaranteeing loans with weak underwriting, as well as mismanagement that included executives cooking the books. This led to their eventual collapse in 2008 that forced taxpayers to bailout the GSEs to the tune of \$170 billion. In addressing the financial crisis, Congress passed the Dodd-Frank Act. The Dodd-Frank Act, however, did not include any reforms to the GSEs as then-supporters claimed that housing finance reform was just “[too complicated](#)” to address.

Americans, however, are united in their opposition to Fannie and Freddie and strongly support phasing them out. A recent [national survey conducted by the American Action Forum](#) found that Fannie and Freddie are not only known by voters, but they aren't well liked. Fannie Mae and Freddie Mac have 72 percent name recognition, and 52 percent have an unfavorable view. The opposition increases to 59 percent (including 51 percent for Democrats) when Americans are reminded that they received a taxpayer bailout. The survey also found that 52 percent favor them phasing out.

While there is strong public support to wind down the GSEs, it seems that some in Congress want to keep Fannie and Freddie intact.

On March 9th, Congressmen John Delaney (MD), John Carney (DE), and Jim Himes (CT) wrote in the [Wall Street Journal](#):

*“We believe Fannie and Freddie **could have a future** once we agree on comprehensive reform that creates a stable system and safeguards against abuse, mispricing of risk and financial calamity.”*

And, others say that reform cannot be “rushed.” In a speech before the National Community Reinvestment Coalition, Senator Elizabeth Warren (MA) said:

*“Housing finance reform was too important to rush a committee deal on, and in my view, it's also too important to rush a markup on.”*

To justify why legislation cannot be rushed, Warren said:

*“if we get housing finance wrong, the impact will be felt throughout America’s middle class.”*

Of course, Congress has held hearings on reforming Fannie and Freddie for the last six years. We should all be able to agree that the current system is not working for America’s middle class, taxpayers, and homeowners alike. As we approach the six-year anniversary of the bailout, reform is long overdue. Taxpayers deserve a stronger housing finance system.