

Press Release



Douglas Holtz-Eakin on Designating Fannie and Freddie as Systemically Important Financial Institutions

ANDREW EVANS | JUNE 25, 2019

With momentum building toward reforming Fannie Mae and Freddie Mac and releasing them from government control, this morning AAF President Douglas Holtz-Eakin testifies before the U.S. Senate about how the federal government should regulate the housing finance giants after reform. Given their size and portfolio, they would still pose a substantial risk to the economy, Holtz-Eakin says, but there could be alternatives to imposing the systemically important financial institution (SIFI) designation on them.

An excerpt from his testimony:

In my view, it is difficult to see how Fannie Mae and Freddie Mac post-conservatorship could be anything but SIFIs. For some, however, explicit designation has the downside of having the Financial Stability Oversight Council (FSOC) move away from banking, something that produced difficulties in as closely related a field as insurance. It would require the Federal Reserve Board (FRB), with zero housing experience, to become the primary regulator. Would the FRB be more effective than the Federal Housing Finance Agency (FHFA), formed in 2008 for that very purpose? Others have pointed out that the conflict of interest inherent in being both central banker that sets interest rates and regulator of the banking system would only be exacerbated by having the housing finance industry also within the FRB purview.

From this perspective, the question is whether there is a potential alternative regime that the FHFA could impose to dissuade FSOC from designating Fannie and Freddie as SIFIs.

[Read the Testimony](#)

[Watch the Hearing](#)