



Written by [Michael Tennant](#) on May 7, 2011

Fannie and Freddie: Still Mortgaging America's Future to Stay in Business

Fannie said it lost \$8.7 billion in the first quarter of 2011, as a result of which it is now asking for \$8.5 billion more in federal aid, "more than three times the federal aid it sought in the previous quarter," says the AP. Fannie has thus far cost taxpayers almost \$100 billion in bailouts, making it the largest bailout of a company in U.S. history.

Reuters adds that Freddie "lost just under a billion dollars" in the first quarter but "did not request any new money from the government."

The two companies are expected to cost taxpayers \$259 billion by the time all is said and done. Of course, that \$259 billion is only to cover bad loans made during the housing bubble, prior to the government's conservatorship of Fannie and Freddie. However, under the current circumstances, it seems likely that the losses and concomitant bailouts will continue mounting, and someday Americans may look back wistfully upon the day when they thought they would get socked for "only" \$259 billion for these two money pits.

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For example, Fannie and Freddie together "own or guarantee about half of all mortgages in the U.S., or nearly 31 million home loans worth more than \$5 trillion," the AP explains. With home prices continuing to decline (1.8 percent on average during the first three months of 2011), more and more homeowners are defaulting on their mortgages, leaving Fannie and Freddie — and ultimately taxpayers — holding the bag. Fannie Mae CEO Michael Williams stated quite frankly, "We expect our credit-related losses to remain elevated in 2011 as we continue to be negatively impacted by the prolonged decline in home prices."

In addition, the two companies, along with the Federal Housing Administration, "backed nearly 90 percent of new mortgages over the past year," according to the AP. Without a significant economic turnaround, many of those loans are likely to end up in default as well; and Fannie and Freddie will go, hats in hand, to Uncle Sam, who will, in turn, rob innocent taxpayers to save his fair-haired boys from the consequences of their own irresponsibility.

Williams, of course, sees the proverbial light at the end of the tunnel, predicting that new loans will turn





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out to be profitable. The government has never been able to turn a profit; but even if it did in this case, it would take a mighty hefty one to make up for all the ongoing losses.

The fact of the matter is that Fannie and Freddie have absolutely no incentive to be responsible in their lending. They are not lending their own money, after all, and they can count on politicians in Washington — many of whom have received campaign contributions from the two companies and none of whom are spending their own money either — to bail them out. And if those same politicians grow skittish about having these bailouts show up in the budget, they can always turn to the Federal Reserve, which will be all too happy to produce the necessary cash out of thin air, further weakening the already fragile dollar. (It was, in fact, the Fed that purchased almost all the mortgage-backed securities issued by Fannie and Freddie in 2009, a pattern that has probably continued ever since.)

Furthermore, executives at Fannie and Freddie need not worry about their own financial security as long as the government is willing to bail them out. Their top six executives got a combined [\\$35.4 million in compensation](#) in 2009 and 2010 — even as they begged for more money from Washington, and even after the feds cracked down on executive compensation at private firms receiving federal bailouts.

[House](#) and [Senate](#) Republicans introduced legislation in March to end the bailouts of Fannie and Freddie and force them into the private sector, where they would have to sink or swim on their own merits. Although the bills together have 48 cosponsors as of this writing, not a single cosponsor is a Democrat, despite the fact that even [the Obama administration](#) has stated that Fannie and Freddie must go. Democrats apparently have no problem with bailing out exorbitantly paid fat cats as long as those executives are at government-run enterprises.

The bills, known as the GSE Bailout Elimination and Taxpayer Protection Act, are currently in committee. Americans would best be served if the bills were to get out of committee and be passed by both houses of Congress. With the administration already on board the Fannie-Freddie elimination train, it is quite likely that the President would sign the legislation. (His proposed replacements for the two companies, which would reinstate many of their worst features, ought, on the other hand, to be deep-sixed.)

The legislative and executive branches should seize this rare moment of comity to put an end to these costly, unconstitutional parasites before they get another thin dime, let alone \$8.5 billion, from American taxpayers.

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