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Government reports smaller deficit

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The cost of bailing out Wall Street, and mortgage giants Fannie Mae and Freddie Mac was a little cheaper than the government expected, resulting in a smaller federal deficit, the Obama administration announced Friday.

Saving billions on emergency stability programs did the most to reduce the deficit in fiscal 2010 to 8.9 percent, down from 10.0 percent of GDP in fiscal 2009, according to Treasury Secretary Timothy Geithner and acting Office of Management and Budget Director Jeffery Zeints.

"By carefully managing the emergency initiatives to stop the financial panic and by accelerating our exit from those investments, we have significantly lowered the cost to taxpayers, bringing the costs of the financial rescue down by more than \$240 billion this year," Geithner said in a statement. "However, we still have a long way to go to repair the damage to the economy and address the long-term deficits caused by the crisis." While estimates of the total price tag for the Troubled Asset Relief Program (TARP) continues to shrink, the cost of the Fannie and Freddie bailout in late 2008 continues to be a drag on the federal balance sheet. Aid to the two banks was \$52.6 billion in 2010 compared with \$9 billion paid out through TARP.

And with all 50 states mulling a moratorium on foreclosures, there could still be major perils ahead for Fannie Mae and Freddie Mac, whose holdings still include a large number of mortgage-backed securities and performing loan modifications.

Mark Calabria, director of Financial Regulation Studies at the Cato Institute, said that recent foreclosure troubles will be a problem for the federal government, which continues to back Fannie and Freddie.

"It's just a question of how much," Calabria said. "If for instance we end up just having, say a four-to-six month moratorium ... my feeling is this will add to losses. Worst-case scenario: if there's a nuclear-type situation where you see a big blanket moratorium on foreclosures then the losses to Fannie and Freddie will be massive."

The federal government also announced that corporate tax revenues and Federal Reserve receipts increased in fiscal year 2010, offsetting a reduction in personal income tax and payroll tax revenues.