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# Bailouts Should Not Be the Norm

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When COVID-19 sent waves through our financial markets in March 2020, I was the regulator overseeing most of America's mortgage market. When the usual calls for Wall Street bailouts came, others, such as the Federal Reserve, responded generously with the public's money. I was an exception. Despite the dire warnings that our mortgage market would collapse if I did not give in, we gave no bailout—and our mortgage market continued to function well.

The American economy lost 22 million jobs from February through April of 2020. As in 2008, these historic job losses posed significant risks to our mortgage market, as the ability of borrowers to pay came into question. The Federal Housing Finance Agency (FHFA), which I headed, and which supervises Fannie Mae and Freddie Mac, reacted quickly to establish programs to assist borrowers and renters. We expected to be repaid any deferred mortgage payments. Many private lenders voluntarily established programs similar to ours.

These assistance programs did put additional stress on large segments of the mortgage industry—particularly servicers, those entities that collected payments and forwarded them along to the ultimate mortgage investors. Despite having paid these mortgage servicers ahead of time to shoulder this risk, many in the mortgage industry demanded the federal government take over these payments. After all, everyone else, such as the airlines, were being rescued.

I had the advantage of having financial statements for all the servicers that did business with Fannie and Freddie. We knew their financial state. We knew they had liquidity and did not need a public rescue. The decision was ultimately up to Treasury Secretary Steven Mnuchin, but he relied heavily on the FHFA's analysis.

Not surprisingly, these Wall Street firms began a campaign to attack me specifically. A columnist at the *Financial Times* warned that I would bring down the entire U.S. mortgage market and should be run out of Washington for everyone's safety. He wasn't alone. Calls were made to the president to remove me. If you are ever the one standing between Wall Street and a bailout, the heat will be intense.

Private equity and hedge funds were major investors in a few of the troubled servicers. Now, I am a big believer in the net positive role played by both. I am certainly not hostile to that industry. But I do object to the idea that investors can spend years pulling money out of a company and then, when that company needs funds, request that the government provide them.

Fortunately, when investors came to realize that we would transfer the servicing rights of these companies—their main assets—and that they would have almost no value left, those investors decided to inject funding sufficient to protect their investments. A win all around, without a single penny of taxpayer assistance.

We helped keep just under 3 million families in their homes during a pandemic. In comparison, the federal response to 2008 provided permanent assistance to 1.5 million borrowers, and about a third of those eventually defaulted. The rollout was slow: A year into the program, just over half a million borrowers had received permanent assistance, whereas we helped almost six times that number in the first year of COVID. But the sluggishness didn't keep it from being expensive—it cost taxpayers well over $20 billion.

I have now written a book, *Shelter From the Storm*, about my experiences at FHFA, in hopes of establishing a model for future responses. My approach was certainly far preferable to the endless subsidies and bailouts that have become the norm. During the 2008 financial crisis, President George W. Bush proclaimed that he had "abandoned free market principles to save the free market system." That premise was continued under President Barack Obama. Both presidents were badly mistaken. There is a better way.

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