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Taxpayer losses from supporting Fannie Mae and Freddie Mac will top $400 billion

Stop the Bailouts!

By Alan Caruba Sunday, January 3, 2010

I can recall the bailout that Chrysler received in 1979. Jimmy Carter was President and the question of whether the government should save the nation's third largest automaker was subjected to a lot of debate. In the end, Congress authorized a $1.5 billion loan package. In 1983, Chrysler repaid the loan guaranteed by the U.S. taxpayers.

By contrast, the so-called Stimulus Bill authorized the spending of $787 billion!

The Chrysler bailout was considered an anomaly even though the government has been in the business of making loans to just about anybody and everybody from small business owners to college students for a very long time.

From the G.I. Bill after World War Two to the latest effort to rescue defaulting homeowners from themselves, loans are part of the fabric of how government is seen.
Given the success of government-run entities such as Amtrak or the Postal Service, the notion that the now government-owned GM can recover, let alone pay back those billions, is doubtful.

Based on a liberal interpretation of the Constitution, the Federal Housing Administration was founded in 1934 to insure mortgage loans made by private firms to qualifying homeowners. The U.S. was in the midst of the Great Depression and the FDR administration engaged in every kind of intervention into the economy in an effort to end it.

In hindsight, many historians and economists believe that, had the government done nothing, the Depression would have very likely ended on its own. The general consensus is that all those government programs prolonged the Depression for ten long years until World War Two intervened.

The government really got into the mortgage loan business big-time when it created Fannie Mae and Freddie Mac so that everyone who wanted to own a home could go to a bank or mortgage company that would, in turn, sell the loan to either of these two quasi- government entities. By the time the government was forced to seize their control, they would own or guarantee about half of the United States' $12 trillion mortgage market.

Recall that in September 2003, Rep. Barney Frank (D-MA) defended the financial soundness of Fannie Mae and Freddie Mac. Backed by the full credit of the nation, mortgage loan rates kept getting lower and lower at the same time banks and mortgage loan firms were being pressured to make loans to minorities and others who, using normal banking standards, would not have received them.

Just how well did that work out? According to a December 31 article on Bloomberg.com, "Taxpayer

losses from supporting Fannie Mae and Freddie Mac will top $400 billion, according to Peter Wallis on, a former general counsel at the Treasury who is now a fellow at the American Enterprise Institute."

Do you think there might have been a connection? "The debt of Fannie Mae, Freddie Mac and the Federal Home Loan Banks grew an average of $184 billion annually from 1998 to 2008, helping fuel a bubble that drove home prices up by 107 percent between 2000 and 2006, according to the S&P/Case-Shiller home-price index."

So, it was the government, not "greedy" bankers and mortgage loan companies that created the scenario that led to the present financial crisis.

If you think that was a bad idea, wait until H.R. 4173 kicks in. The financial reform legislation that passed the House of Representatives in early December and is awaiting a vote in the Senate is the handiwork of Financial Services Committee Chairman, Rep. Barney Frank (D-MA), the same person who told us how sound Fannie Mae and Freddie Mac were.

At 1,279 pages, it is unlikely that anyone in the House read the bill, but we are in a new age of governance where Congressmen and women no longer feel required to read a bill before voting on it.

Republican members of Congress are the exception because, as you may have noticed, not one of them voted for healthcare "reform." Through bribery and other means, the bill still passed the Senate. A dozen or more states are already seeking exceptions and some governors are threatening to sue to block it.

Columnist David Reilly of Bloomberg.com reports that Rep. Frank's bill authorizes the Federal Reserve to provide as much as $4 trillion in emergency funding the next time Wall Street crashes.

"This is more than twice what the Fed pumped into markets this time around." The bill does require that there has to be "a 99 percent likelihood" that all funds and interest will be paid back. It also allows the government to back financial firm's debts in the next crisis. It is a blank check for the next crisis and a very bad idea.

The Frank bill also prohibits "any incentive-based payment arrangement." And we all know how well any business functions when you take away any incentives.

In October, the Cato Institute issued a Policy Analysis titled, "Would a Stricter Fed Policy and Financial Regulation Have Averted the Financial Crisis" by Jagadeesh Gokhale and Peter Van Doran.

"Imposing onerous financial regulations will only impede the reconstitution of financial institutions, delay the recovery, and dampen the pace of long-term economic growth."

You think?

The Cato analysis noted that many of the nation's prominent economists significantly misread the state of the economy.

"In hindsight," the Cato authors concluded, "they were all wrong."

In the first issue of 2010, Business Week's Bradley Keoun pointed out that, "As the last big banks scrambled to return their bailout funds in mid-December, the President summoned top Wall Street

chiefs to the White House, urging them to increase lending to companies and individuals."

What the President knows or understands about finance could fit neatly into a bug's ear. In his view, Wall Street is composed of "fat cat bankers." Not a good attitude if you want them to begin making loans again.

While granting that the TARP funds proved effective in getting credit flowing again, Keoun also noted that "Even when they had the federal funds, banks hunkered down in the face of losses." They have not been making loans at the previous pace, fueled in part by the housing bubble (see Fannie Mae and Freddie Mac). Indeed, "As capital rises, lending is falling," noted Keoun.

Ominously, the Business Week reporter concluded that "The only provider of credit is the government."

The government is not supposed to be in the banking business. What it is authorized to do is "lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States." Towards this end, the government may "borrow money on the credit of the United States."

That credit is based on the ability of Congress to manage the government in such a way to avoid plunging the nation into levels of debt that will devalue the U.S. dollar and threaten the loss of its rating as a reliable, trusted borrower. The U.S. government must borrow a billion dollars a day just to stay in business.

In May 2009, the President said "We have no money."

After that he and the Congress returned to the effort of increasing the national debt with a "Stimulus" bill that was pure "pork", and nutty programs like "Cash for Clunkers." After that, we were told that jobs had been "saved" in Congressional districts that don't even exist. The latest insanity is Obamacare that increases the insolvency of Medicare by adding thousands of recipients to its rolls.

The White House and Congress are treating the nation's wealth as if it were Monopoly money. It's not. It's our money.

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