



Fannie and Freddie investors want us to forget about the housing crisis

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Wall Street investors in Fannie Mae and Freddie Mac are pushing a plan to take over the behemoth financial institutions after a decade in government control.

They would reap billions of dollars on a bet made during the financial crisis that lawmakers would ultimately fail to fundamentally change the housing finance system, despite universal agreement that it was badly needed.

To appreciate the audacity of their proposal, it is helpful to recall how we got here. In the early days of the crisis, Fannie and Freddie, which buy and guarantee the majority of the nation's mortgages, teetered on the edge of collapse, forcing the Bush and Obama administrations to commit hundreds of billions of taxpayer dollars to keep them operating so that mortgage credit could continue to flow.

For a sense of how badly the support was needed, in the first few years of government control, the companies lost three times the amount of capital they held.

This arrangement kept Fannie and Freddie from collapsing and dragging the economy into the abyss of depression, but it was always intended to be temporary, giving Congress time to replace a badly flawed model with something that posed less risk to the housing finance system. A decade and several failed legislative attempts later, we're still waiting.

Taking advantage of this congressional impasse, several of Fannie and Freddie's largest investors have banded together to advocate a path out of this state of limbo. Remarkably, however, the path does not lead to a new system as policymakers had intended, but back to the very system we had before the crisis. Yes, the one that nearly took down the economy.

To their credit, the investors recommend retaining some of the reforms that have taken place in conservatorship, such as limits on what Fannie and Freddie can invest in, and higher capital levels. But they would leave untouched the fundamental structural flaw that was the system's ultimate undoing: the dominance of a duopoly that is too big and too important for the nation ever to let fail.

This makes sense from the investors' point of view, as Fannie and Freddie's market power will bring them more profits. But it is absurd from the nation's point of view.

By once again standing behind the solvency of these two institutions, which taxpayers would have to do for the very reasons we could not let them fail the last time around, we would again give Fannie and Freddie the incentive to take outsized risks.

After all, the investors would get the upside if their riskiest bets pay off, and taxpayers would get the downside if they don't — again. As the saying goes, fool us once, shame on you. Fool us twice, shame on us.

So let's not be distracted by this call to forget the past but roll up our sleeves and get on with the difficult but important work of real reform.

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