February 24, 2010

REPUBLICANS CALL FOR FANNIE AND FREDDIE TRANSPARENCY

The Administration has been hiding the true cost of Fannie Mae and Freddie Mac from the American taxpayers, while also using these off-the-books institutions to funnel money into special loan modification programs that are also unaccounted for in the federal budget. Republicans have tirelessly called for transparency from the Obama administration, and yet their calls have gone unanswered.

To rectify this matter, Rep. Scott Garrett has introduced the **Accounting of Fannie Mae and Freddie Mac Act** in order to compel the Office of Management and Budget (OMB) to prepare President Obama's budget to accurately reflect the losses sustained by these Government-Sponsored Enterprises (GSEs) since they were placed in conservatorship.

FANNIE AND FREDDIE "ON BUDGET" TALKING POINTS

Fannie Mae and Freddie Mac are a Disaster for Taxpayers. Fannie and Freddie's blank check from the Treasury department poses a huge risk to the American taxpayer as they are essentially allowed an endless bailout. Initially, Congress put a $200 billion limit on federal assistance for Fannie Mae and Freddie Mac. Then last year, the Treasury raised the potential commitment to $400 billion, and then on Christmas Eve 2009, Treasury removed the cap altogether, making federal assistance virtually unlimited for the next three years. This risk, however, is not reflected anywhere in the President's budget.

We Must Achieve Consistency in the Government's Deficit Assessment. This legislation will compel the Office of Management and Budget (OMB) to accurately reflect the losses sustained by these Government-Sponsored Enterprises (GSEs) since they were placed in conservatorship. The losses at the GSEs would have to be accounted for in the same way that the Congressional Budget Office (CBO) calculates their losses.

New Classifications = New Rules. Now that they have been placed in conservatorship, the distinction between Fannie Mae and Freddie Mac being government *sponsored*, rather than government *operated*, has been eliminated. Now it is appropriate to include their financial transactions alongside all other federal activities in the budget.

Fannie and Freddie's Debt Should Be Subject to the Debt Ceiling. The federal government now explicitly backs the operations of the GSEs. As a result, there should no longer be a distinction between their debt used to purchase mortgages in their portfolio, and the debt issued by the Department of the Treasury. As such, their current $1.6 trillion in outstanding debt should be reflected in the statutory public debt ceiling. To allow time for Congressional and Administrative action to either raise the debt ceiling or place the GSEs in receivership, the legislation delays the effective date by 90 days.

FANNIE AND FREDDIE NUMBERS

$291 billion: added to federal deficit in 2009 to support Fannie and Freddie according to CBO

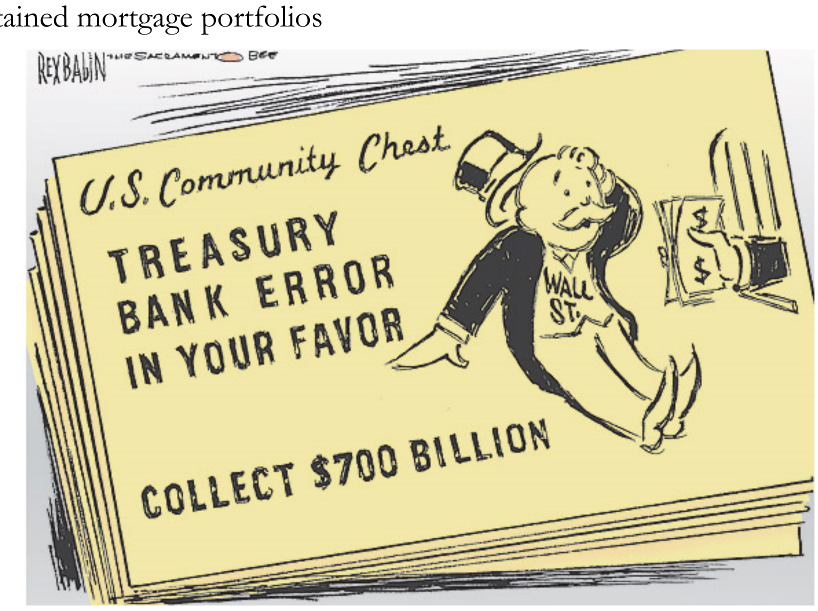
$389 billion: estimated cost of Fannie and Freddie to the taxpayers over 10 years according to CBO

$1.5 trillion: size of Fannie and Freddie's retained mortgage portfolios

$1.6 trillion: debt issued by Fannie and Freddie now explicitly backed by the taxpayer

$8.1 trillion: Fannie and Freddie securities outstanding according to data released by the Federal Reserve on December 10, 2009 *(Neither CBO nor OMB incorporates debt securities or mortgage-backed securities issued by Fannie Mae and Freddie Mac in estimates of federal debt held by the public.)*

UNLIMITED: Taxpayer assistance available to Fannie and Freddie through 2012



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THE WALL STREET JOURNAL

Obama's New Investment Tax

A sneaky Medicare levy on dividends and capital gains.

The White House's new health-care proposal promises the "largest middle class tax cut for health care in history," which is a creative way of describing a vast taxpayer-subsidized insurance entitlement. Naturally, the fine print goes on to describe one of the largest tax increases for health care in history, too.

This new ObamaCare bargain would for the first time apply the 2.9% Medicare payroll tax to "interest, dividends, annuities, royalties and rents," so-called passive income that we are told includes capital gains, though the latter wasn't explicitly mentioned in the proposal. This antigrowth investment tax would apply to singles earning more than $200,000 and joint filers over $250,000 and comes on top of the Senate's 0.9-percentage-point increase in the payroll tax, which would bring the combined employee-employer share to 3.8%.

The rate hike on investment income would presumably take effect at the same time the 2001 and 2003 Bush tax cuts are due to expire next year, bringing the top rate to 22.9% as the current top capital gains rate would also rise to 20% from 15%. That's a 52% jump, and the last time investors were slammed with anything comparable was 1986 when the capital gains rate bounced to 28% from 20%—or a 40% increase—as part of the Reagan tax reform that reduced income tax rates.

In part this is a sneaky way of waging the House's war on "the rich" by other means while appearing to compromise. Speaker Nancy Pelosi's 5.4-percentage-point "surcharge" on modified adjusted gross income above $1 million—which also includes capital gains—was supposedly too extreme for the Senate, but the White House is trying to smuggle in its 2.9-percentage-point cousin. Of course, $250,000 is a lot lower income threshold than $1 million, and the rate can always be inched up later once the tax is already in place.

The House surcharge is certainly destructive but it is at least above-board. The White House levy muddies up both the tax code and Medicare financing.

The Medicare payroll levy was designed as a social insurance program with some connection, however attenuated, between taxes paid and benefits received. When Medicare passed in 1965 it was modelled after Social Security and the tax was supposed to be equivalent to a "premium" for guaranteed health-care insurance for seniors; everyone "contributed" at the same rate. Until 1993, the payroll tax was assessed only on the first $135,000 of wages, until the Clinton Administration and the Democratic Congress lifted the Medicare cap entirely.

The Clinton move was bad enough but Mr. Obama's plan fundamentally changes the nature of the government's health-care financing. Medicare's liabilities mean that it must receive injections of general revenue, but never before have Medicare's own "dedicated" revenues been siphoned off to fund another entitlement. Essentially, it turns Medicare financing into a wealth transfer program at a stroke.

This will be sold in the name of "fairness," if anyone else in the press corps notices, but the worst implications are economic. The 0.9% increase is another tax on job creation, though Democrats claim they want more jobs. The devious 2.9% hike on investment income will raise the cost of capital, though Democrats claim to want more capital investment. Sometimes we wonder if Democrats even listen to their own rhetoric, or if they assume voters are too dumb to notice their contradictions.

If Americans need another reason to oppose ObamaCare, or more evidence of its destructiveness, here it is.