



June 23, 2010

## Financial Services Reg Reform Update: Conference Week 2

Welcome to week 2 of the financial services regulatory reform conference committee. The change of venue hasn't meant much, because the conference still has a staggering lack of transparency.

Chairman Frank has stated "there are no rules in Conference," and during week 1 accepted a number of Democrat provisions that weren't included in either of the House or Senate bills, but **when Republicans tried to offer amendments to address much-needed reforms for Fannie Mae and Freddie Mac, Frank ruled them out of order.**

**Let's take a look at all of the amendments that Barney Frank has considered "germane" to the Conference bill, while refusing to allow Republican amendments to reform Fannie and Freddie:**

**Maxine Waters' "Trial Lawyer Bonanza":** Rep. Waters amendment to overturn a Supreme Court decision was accepted. This provision would allow trial lawyers to launch suits not just against companies that commit securities fraud, but also against other companies that didn't defraud investors but did business with the alleged fraudsters.

**TAG Program:** The FDIC's Transaction Account Guarantee Program provides full coverage for noninterest-bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. Note that the **TAG Program was 1.) meant to be temporary and 2.) not in the original bill**, so it could be argued that this is outside the scope of the current debate.

**IndyMac Bailout:** A provision to permanently increase FDIC and NCUSIF deposit insurance amount to \$250,000 was added to the bill, but this provision also made the increase retroactive to January 1, 2008. This serves as a retroactive bailout of IndyMac depositors, which 1.) perpetuates the bailout mentality that has plagued us through this financial crisis and 2.) creates a moral hazard for depositors.

**There have been some great GSE amendments suggested by members of the Conference Committee, and since Barney won't even allow these amendments to be debated, we can at least highlight them here:**

**Orderly Transition to Privatization (Hensarling):** This amendment would phase out the taxpayer subsidies of Fannie Mae and Freddie Mac, transitioning them to private, non-governmental enterprises. The amendment would end the conservatorships of both GSEs within two years and, if they are financially viable, allow them to resume operations for a transition period of three years.

**Place the GSEs "On Budget" (Garrett):** The non-partisan Congressional Budget Office (CBO) has concluded that Fannie and Freddie have "effectively become government entities whose operations should be included in the federal budget." This amendment would adopt the CBO recommendation and place Fannie and Freddie on budget.

**Bailout Cap (Bachus/Royce):** This amendment would limit the amount that the American people would be forced to contribute to the bailout of Fannie Mae and Freddie Mac at \$200 billion. At the outset of the conservatorship, the Bush Administration established a \$200 billion facility to purchase senior preferred stock in the GSEs to backstop their losses. Since then, the Obama Administration first raised the commitment to \$400 billion and then, in a Christmas Eve 2009 raid on the Treasury, announced that it was removing *any* limits on the use of Federal funds to cover losses at the GSEs.

**Special GSE Inspector General (Biggert/Issa):** This amendment establishes for the GSEs a Special Inspector General to audit and report to Congress on the activities of the Federal Housing Finance Agency (FHFA) and the GSEs as long as the GSEs are in conservatorship or receivership and are benefiting from taxpayer subsidies.

**Strike the Affordable Housing Mandates on the GSEs (Royce):** Failing to adopt the Royce amendment would be a failure to acknowledge the role played by the affordable housing goals and the GSEs in the housing collapse.

**Apply Salary Caps, Freedom of Information Act (FOIA) Requirements, and Government Ethics Rules to GSEs (Issa):** This amendment incorporates language from previously introduced legislation to subject executives at Fannie Mae and Freddie Mac to the same pay scale applicable to Federal employees (H.R. 4476 – Bachus) and to apply the Freedom of Information Act to Fannie and Freddie during any period that such entities are in conservatorship or receivership (H.R. 5539 – Chaffetz). It also makes Fannie and Freddie employees subject to government ethics rules.

**Apply FOIA During Treasury Study (Issa):** This amendment provides that the Freedom of Information Act will apply to the GSEs during the period that the Treasury GSE study required by section 1075 of the Conference Base Text is being conducted.

# THE WALL STREET JOURNAL

**The Obama Speech We're Waiting For: Fannie Mae and Freddie Mac need to get the BP treatment.**  
By WILLIAM MCGURN

The President: Good evening. As we speak, our nation faces a multitude of challenges. At home, our top priority is to recover and rebuild from a recession. Abroad, our brave men and women in uniform are taking the fight to al Qaeda wherever it exists. Tonight, I want to speak with you about a battle we're waging against an enemy that is assaulting the very homes our citizens live in.

In September 2008, Fannie Mae and Freddie Mac imploded when their losses became unsustainable. In part because so many of our financial institutions relied on mortgage-backed securities based on bad loans, a housing crisis exploded into a financial crisis. And Americans continue to suffer from the effects. Unlike a hurricane or oil spill, where the damage is obvious to the eye, the damage wrought by Fannie and Freddie is much more insidious. As president, I have many smart people in my administration. But you do not need a Nobel Prize to know the problem here.

Fannie and Freddie bought mortgages offered by banks, which it then resold as mortgaged-backed securities. Banks liked this, because it meant more money to lend. In the name of enabling ever more Americans to own their homes, and encouraged by Congress, Fannie and Freddie expanded into ever more risky mortgages. In the end, these two companies helped send billions in loans to Americans who lacked the means to pay them back—while spreading risk throughout our financial system.

"I have met with moms and dads who bought modest houses that were within their means—and now find their tax dollars going to bail out neighbors who bought bigger houses not within their means."

Think of these bad loans as a nasty leak polluting our financial system. While most other large financial firms either have failed or are now recovering, the damage caused by Fannie and Freddie continues largely unabated. The Congressional Budget Office says that plugging these bad loans has already cost taxpayers \$145.9 billion, making them the single largest bailout of all.

Make no mistake: We will fight Fannie and Freddie with everything we have got for as long as it takes. We will make these two government-created companies pay for the damage they have caused. In fact, we are going to make Fannie and Freddie pay with their lives. Tonight I'd like to lay out our battle plan going forward:

First, the cleanup. For more than three decades there's been a culture of corruption in the regulatory oversight of these companies. I inherited a situation in which these firms lobbied and captured their regulators. Fannie and Freddie's privileged place in the market was sustained because they were a source of riches for Washington's Republican and Democratic establishments. Even today we see this oily alliance at work in the recent decision by Congress to exempt Fannie and Freddie from their financial reform bill.

Tonight I promise you: We will do whatever it takes, for as long as it takes, to change this.

One of the lessons we've learned from Fannie and Freddie is that you cannot combine private profit with taxpayers bearing risk. For decades we've propped up Fannie and Freddie's near monopoly. And for decades we have failed to face up to the fact that homeownership is not the best path for everyone. Time and again, reform has been blocked by former congressmen of both parties whom these companies hired to spread the money around and persuade Congress to back off.

So the second thing I will do is meet with the chairmen of Fannie Mae and Freddie Mac. And I will tell them the day of reckoning has come. We are going to break up Fannie and Freddie and end the privileges they enjoy from the government.

You know, for generations, Americans have scrimped and saved to provide a better life for their families. That is now in jeopardy. I have met with moms and dads who bought modest houses that were within their means—and now find their tax dollars going to bail out neighbors who bought bigger houses not within their means. I have stood with retirees whose pensions have been devastated. And I have sat in the living rooms of families who now face foreclosure on homes they were falsely assured they could afford.

The sadness and the anger they feel is not just about the money they've lost. It's about a wrenching anxiety that their way of life may be lost. I am a prayerful man. But I do not believe that the American people should have to pray that their own government isn't undermining their homes, their savings, and the lives they have built for their families.

The financial crisis was not caused by Fannie and Freddie alone. But fixing them is essential. To this important task, we bring hope, which comes from the confidence that free men and women in a free economy will in the end make better decisions than any government. And tonight we revive that hope by delivering change to two of the fattest cats Washington has ever known.

Thank you, and may God bless America.