THE FANNIE MAE AND FREDDIE MAC FULL DISCLOSURE ACT

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The Fannie Mae and Freddie Mac Full Disclosure Act would repeal Fannie Mae's (Federal National Mortgage Association) and Freddie Mac's (Federal Home Loan Mortgage Corporation) exemptions from the SEC's (Security and Exchange Commission) registration and disclosure requirements – specifically, repealing exemptions from both the Securities Act of 1933 and the Securities Exchange Act of 1934. Fannie and Freddie would be required to pay registration fees and to disclose information as specified by the SEC about their securities, just as other publicly traded companies and issuers of private mortgage-backed securities (MBSs) do.

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While legislation was signed into law (Public Law No: 110-289) on July 30, 2008, that created a new federal regulator for the GSEs and now requires Fannie and Freddie to register equity securities – common or preferred stock, there is still much needed disclosure regarding their MBSs and their own debt securities.

It is because Fannie and Freddie acquired loans that were so risky, that they put at risk their own financial security and soundness, negatively impacting consumers, and greatly disrupting capital markets. Although regulations did not force financial institutions to make bad loans, the lack of consumer protection regulation allowed too many bad loans to be made to the disregard of consumers. The Fannie Mae and Freddie Mac Full Disclosure Act would help avert a future crises and the onslaught to consumers that follows. In addition, the legislation would ensure the proficiency of disclosures to investors in all mortgage-backed securities, which would help rebuild a prosperous financial system.

In light of the continued costs taxpayers could likely acquire through attending to the inadequacies of Fannie and Freddie, further disclosure and transparency would bring forth greater accountability to the GSEs and overdue protection to the taxpayers' wallet. Taxpayers and investors need transparency and accountability and this bill would provide both.

A report by the nonpartisan Congressional Budget Office (CBO) in January 2009 reiterated the need to provide greater transparency and disclosure to taxpayers. The CBO projected the federal budget deficit will hit at least $1.18 trillion this year. Further, CBO estimated that $238 billion represented the long-term cost of paying for the guarantees that Fannie and Freddie write on their mortgage-backed securities. The last $38 billion of that is for losses on new business this year. However, the $238 billion did not include the additional funding requests of the GSEs totaling $70 billion – so adding the $70 billion to $238 billion, totals $308 billion. This number is likely to grow. On February 18, 2009, the Administration announced a new foreclosure mitigation plan that increased Fannie and Freddie's portfolio limits each from $850 billion to $900 billion. The Treasury also plans to increase its preferred-stock purchase agreements with the companies to $200 billion each, up from $100 billion each.

It is apparent that SEC disclosure would improve the quality of information available to public investors about Fannie and Freddie and the securities they sell. If investors received more detailed information about the mortgage pools behind individual MBS issues, it can be argued they would be able to price those issues more efficiently. Our system of regulating securities markets has failed our country – we have an opportunity to change that. Given the taxpayers large stake in the GSEs, bringing full transparency and disclosure to Fannie Mae and Freddie Mac is essential and long overdue.

Fannie Mae and Freddie Mac...

► own or guarantee about half of the $10.6 trillion in outstanding home loan debt.

► are now allowed to increase their mortgage holdings to a maximum of $900 billion through the end of the year. By December 31, 2009 they will have to reduce their mortgage portfolios from the $900 billion level by at least 10% annually until the assets reach $250 billion.

► have requested a combined $51 billion (as of January 2009) from the Treasury to compensate for losses in their own portfolios. This comes on top of the $13.8 billion Freddie Mac received in November 2008, taking the total tab to approximately $70 billion.