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Statement of the Shadow Financial Regulatory Committee on
**The Importance of Addressing the Subsidization of Housing GSEs
in Financial Reform Legislation**

December 14, 2009

The U.S. Treasury recently reduced its estimates of aggregate losses from the TARP program. It now reports a loss of \$42 billion and \$30 billion, respectively, for its support of financial firms and the auto industry. This is good news for taxpayers because this figure is much lower than earlier estimates of program costs. But there is bad news as well. The bad news is that the cost of those two programs is dwarfed by the losses accumulating in other programs of federal credit support. In particular, much larger losses continue to be accumulated by housing-related government-sponsored enterprises (GSEs). Fannie Mae and Freddie Mac have already lost at least \$100 billion. Depending on future appreciation of house prices (or lack thereof), analysts project that they and the other housing programs (FHA and GNMA) could lose as much as \$400 billion in the next few years.

It is striking that both the Wall Street Reform and Consumer Protection Act (H.R. 4173) just passed by the House and the bill Senator Christopher Dodd introduced in the Senate ignore the continued hidden subsidization of the activities of housing-related GSEs. The Shadow Financial Regulatory Committee believes that making taxpayers more aware of the large and growing cost of rescuing the GSEs would help Congress to see the wisdom of starting to slim the biggest elephants in the crisis-avoidance arena.

If the goal of regulatory reform is to minimize the odds of future financial meltdowns, the Committee believes that GSE reform must be included in the financial reform package. Principles of good government demand that the costs of subsidization programs be acknowledged and compared with their specific benefits. Because subsidized risk-taking in GSE and FHA programs played a central role in the 2007-2008 financial meltdown, rethinking the role of GSEs needs to be a top priority of financial reform. An important first step would be to put the costs of GSE subsidies through the appropriations process and register them on the federal budget and balance sheet. It is ironic that the same government officials who lambast the use of off-balance accounts by banks use the same devices to hide their own risk-taking.