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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

April 18, 2016

Dr. Keith Hall
Director
Congressional Budget Office
Ford House Office Building, Room 402
Washington, D.C. 20515

Dear Director Hall:

In February 2016, Federal Housing Finance Agency Director Mel Watt raised concerns about the possibility of quarterly losses by Fannie Mae or Freddie Mac (“the GSEs”) necessitating a draw of funds from the U.S. Treasury. In particular, he stated that “[t]he most serious risk and the one that has the most potential for escalating in the future is the Enterprises’ lack of capital.”

Director Watt’s concerns have led some in the mortgage industry to support amending the GSEs’ agreements with the Department of Treasury to allow the GSEs to increase capital levels by retaining more of their earnings. Others, however, have argued that this would allow the GSEs to be reconstituted without providing a commensurate reduction in taxpayer exposure to the multi-trillion-dollar housing finance market. Such an outcome could potentially reduce incentives for Congress to enact statutory reforms.

In order to assist the Committee’s examination of the issue and oversight of the GSEs, please prepare a short report that addresses the following questions:

- What are the federal government’s financial obligations to Fannie Mae and Freddie Mac while they are in conservatorship?
- What would be the implications for the budget and the federal debt if the GSEs were to retain more of their earnings?
- How would increasing the GSEs’ capital affect the risk borne by taxpayers?
- Could an increase in the capitalization of the GSEs have consequences for the operations of the GSEs or the mortgage markets?

In order to be the most useful to the Committee’s ongoing efforts, please complete the report by July 2016. If you have any questions, please have your staff contact Chad Davis at 202-224-3223.

Sincerely,



Richard Shelby
Chairman