

Crapo Statement at Hearing on Fannie, Freddie SIFI Designation
June 25, 2019

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at a hearing entitled “Should Fannie Mae and Freddie Mac be Designated as Systemically Important Financial Institutions?”

The text of Chairman Crapo’s remarks, as prepared, is below.

“Today, the Committee returns its focus once again to the state of our housing finance system.

“We are quickly approaching the eleven-year mark since the government asserted control of the GSEs Fannie Mae and Freddie Mac.

“After all that time, Fannie and Freddie continue to dominate the mortgage market, and taxpayers remain on the hook in the event of the next market downturn.

“In recent weeks, FHFA Director Mark Calabria has repeatedly stated, quoting President Kennedy, that ‘the time to repair the roof is not in the middle of a downpour but when the sun is shining.’

“I agree with this sentiment. We have a key opportunity right now, while the sun shines on our economy and mortgage markets are healthy, to put our housing finance system on a durable, sustainable course that can withstand any market cycle.

“My strong preference is for comprehensive legislation.

“However, we are also interested in analyzing some of the options currently available to the Administration to protect taxpayers and put our housing finance system on stronger financial footing.

“One of those options is for the Financial Stability Oversight Council, or FSOC, to designate Fannie and/or Freddie as a ‘systemically important financial institution,’ or ‘SIFI’ under Title 1 of Dodd-Frank, thus subjecting them to supervision by the Federal Reserve and enhanced prudential standards.

“Title 1 of Dodd-Frank authorizes FSOC to subject nonbank financial companies to such supervision if it determines that material financial distress at a particular company could pose a threat to the financial stability of the United States.

“Once a designation is made, the additional tools available to the Fed include but are not limited to: enhanced risk-based and leverage capital requirements; liquidity; risk management and risk committee requirements; stress test requirements; and, for institutions that pose a grave threat to financial stability, a debt-to-equity limit.

"Section 120 of the Dodd-Frank Act also authorizes the FSOC to make recommendations to primary financial regulatory agencies to apply new or heightened standards and safeguards for a financial activity or practice conducted by nonbank financial companies if the FSOC determines that the conduct, scope, nature, size, scale, concentration, or interconnectedness of such activity or practice could create or increase the risk of significant liquidity, credit, or other problems spreading among bank holding companies and nonbank financial companies, U.S. financial markets, or low-income, minority, or underserved communities.

"Fannie and Freddie are clearly too big to fail. We all know it, and the 2008 bailout proved it.

"Today, Fannie Mae has a larger balance sheet than any financial institution in the United States, and the second largest balance sheet of any public company in the world. Freddie Mac is not far behind.

"Collectively, they hold \$5.48 trillion in assets. Five thousand billion.

"Additionally, both companies hold far less capital, and are far more leveraged, than any other currently-designated SIFI.

"As FHFA Director Calabria recently said, 'With a leverage ratio of nearly a thousand to one, their balance-sheet capital cushion is razor thin.'

"Trillions of dollars of Fannie and Freddie obligations are held by central banks across the world, and the GSEs' economies of scale, proprietary underwriting engines, intellectual property, special congressional charters, and unique role in the marketplace would be nearly impossible to immediately substitute in the event of a market downturn.

"In a 2017 speech, Federal Reserve Chairman Jerome Powell publicly referred to Fannie and Freddie as 'systemically important.'

"Despite these considerations, Fannie and Freddie have never formally been designated as SIFIs under Title 1 of Dodd-Frank by FSOC.

"Today we are interested in assessing the viability of a formal designation of the GSEs under Title 1 of Dodd-Frank, whether in conservatorship or in the event that they someday return to the private market as reformed entities.

"In particular, I am interested in determining: to what extent a SIFI designation under Title 1 of Dodd-Frank would result in increased capital levels at the GSEs that can shield taxpayers from liability in the event of a future market downturn; how the Fed and FHFA would coordinate their oversight efforts in the event of a designation under Title 1 of Dodd-Frank; and the impact a designation under Title 1 of Dodd-Frank would have on all participants in the broader mortgage market.

"I look forward to continuing to work with members of this Committee, the Administration, and other stakeholders to finally put our housing finance system on durable, sustainable footing."

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