From: Foster, Jeff
Sent: Monday, June 06, 2011 1:15 PM
To: Brundage, Amy; Paustenbach, Mark; Parrott, Jim; Siewert, Jake; Psaki, Jennifer R.; LeCompte, Jenni; Bellows, John; Scharlemann, Therese; Zakutansky, Brian; Miller, Sarah
Cc: Mlynarczyk, Beth; Anderson, Matthew
Subject: RE: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

Adding a few more folks.

The numbers are mixing apples and oranges all over the place.

The 130 bn dollars accounts for the total net cash investment made by UST to date. The 187 bn fair value difference is the mark to mark valuation assuming the mortgage assets were liquidated today. Since we are not liquidating/selling these mortgages today, it's not appropriate to add the two numbers together.

As Fannie and Freddie continue to work through their legacy book of business, the actual realized losses are expected to decline significantly. Moreover, the new loans are guaranteeing are of a much higher quality, in terms of LTV, FICO score and other underwriting criteria, and will generate income which will offset losses realized by the legacy loans acquired before conservatorship. OMB takes these factors into account and

OMB has provided a longer term forecast as part of the President's budget which shows the net investment actually decreasing over time and ending at 73 bn in 2021. These forecasts are conservative and consistent with the "stress tests" produced by FHFA. Moreover, as we implement some of the recommendations in the Administrations White Paper, including higher G-fee pricing, these costs may decline further.

Note: the ongoing costs of an average "4bn per year" relates to the way CBO assumes there is an imbedded subsidy that the GSEs benefit from, not actual cash costs that will be drawn on the Preferred Stock Purchase Agreements.

From: Brundage, Amy [mailto:Amy_Brundage@who.eop.gov]
Sent: Monday, June 06, 2011 1:07 PM
To: Paustenbach, Mark; Parrott, Jim; Siewert, Jake; Psaki, Jennifer R.; LeCompte, Jenni
Cc: Mlynarczyk, Beth; Foster, Jeff; Anderson, Matthew
Subject: RE: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

So would something like this work?

- **There are different methodologies used here – in short, our estimate is based on actual costs whereas CBO looks at future losses. It is our belief is that prospects of future losses are much lower due to stricter underwriting standards and the steps we have taken to improve the quality of loans going forward.**

- **Regardless, we all agree that the GSEs cannot exist in their current form and reforms are needed. That's why we have proposed a path forward for reforming our nation's housing finance market to better serve families and function more safely in today's economy.**

- **Our plan reduces the government's role in housing finance, gets private capital back into the market and winds down Fannie Mae and Freddie Mac on a responsible timeline. We will proceed carefully and deliberately so that American**

families are not harmed by disruptions in the mortgage-finance chain or the broader capital markets during this transition.

- **This approach is essential to protecting the health of the economic recovery and in the best interests of taxpayers.**

From: Mark.Paustenbach@treasury.gov [mailto:Mark.Paustenbach@treasury.gov]
Sent: Monday, June 06, 2011 1:00 PM
To: Parrott, Jim; Jake.Siewert@treasury.gov; Brundage, Amy; Psaki, Jennifer R.; Jenni.LeCompte@treasury.gov
Cc: Beth.Mlynarczyk@treasury.gov; Jeff.Foster@treasury.gov; Matthew.Anderson@treasury.gov
Subject: Re: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

+ matt

From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Monday, June 06, 2011 12:59 PM
To: Siewert, Jake; Brundage, Amy; Psaki, Jennifer R. <Psaki_J@who.eop.gov>; LeCompte, Jenni; Paustenbach, Mark
Cc: Mlynarczyk, Beth; Foster, Jeff
Subject: RE: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

Following up on Jake last point, the steps we are taking to scale back the GSEs and that FHFA has taken to improve the quality of loans they are doing going forward, together reduce the risk of future loss to taxpayers significantly.

From: Jake.Siewert@treasury.gov [mailto:Jake.Siewert@treasury.gov]
Sent: Monday, June 06, 2011 12:57 PM
To: Brundage, Amy; Parrott, Jim; Psaki, Jennifer R.; Jenni.LeCompte@treasury.gov; Mark.Paustenbach@treasury.gov
Cc: Beth.Mlynarczyk@treasury.gov; Jeff.Foster@treasury.gov
Subject: Re: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

Copying Beth and Jeff who may be in a better position to analyze CBO. Short answer is that we have very different methodologies. We look at actual cost - cash in/cash out. CBO models potential future losses on new business as well. Safe to say that under-writing standards post-conservatorship are dramatically higher and have significantly lowered prospects of future losses.

From: Brundage, Amy [mailto:Amy_Brundage@who.eop.gov]
Sent: Monday, June 06, 2011 12:48 PM
To: Parrott, Jim <James_M_Parrott@who.eop.gov>; Psaki, Jennifer R. <Psaki_J@who.eop.gov>; LeCompte, Jenni; Paustenbach, Mark; Siewert, Jake
Subject: FW: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

Jay's concerned about this for the briefing – thoughts on response?

From: Lee, Jesse C.
Sent: Monday, June 06, 2011 12:25 PM
To: DL-WHO-Financial; Baer, Kenneth S.
Subject: CNS News: True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

Going around the right-wing internets...
http://cnsnews.com/news/article/true-cost-fannie-freddie-bailouts-317-bi

True Cost of Fannie, Freddie Bailouts: $317 Billion, CBO Says

Monday, June 06, 2011

By **Matt Cover**

(CNSNews.com) – The Congressional Budget Office (CBO) says the real cost of the federal government guaranteeing the business of failed mortgage giants Fannie Mae and Freddie Mac is $317 billion -- not the $130 billion normally claimed by the Obama administration.

In a report delivered to the House Budget Committee on June 2, the CBO said a "fair value" accounting of guaranteeing the two defunct mortgage companies – known as Government Sponsored Enterprises (GSEs) – was more than twice as high as the Office of Management and Budget had accounted for.

"Specifically, CBO treats the mortgages guaranteed each year by the two GSEs as new guarantee obligations of the federal government," the **CBO report** said. "For those guarantees, CBO's projections of budget outlays equal the estimated federal subsidies inherent in the commitments at the time they are made."

"In contrast, the Administration's Office of Management and Budget continues to treat Fannie Mae and Freddie Mac as nongovernmental entities for budgetary purposes, and thus outside the budget," the report stated. "It records as outlays the amount of the net cash payments provided by the Treasury to the GSEs."

The total of those cash payments is $130 billion, and is normally reported as the cost of the bailout of the GSEs to date. However, the CBO said that merely counting the cash payments, and not the cost of federal subsidies granted to the GSEs, obscures their real costs.

Essentially, the CBO is accounting for the cost of the federal government guaranteeing the loans bought and securitized by the GSEs.

Currently, Fannie and Freddie rely on explicit federal guarantees to continue to secure below-market financing rates. Because Fannie and Freddie are insolvent, the federal government must make up their losses when the loans they have guaranteed lose money in default.

However, the CBO counts not only the amount of federal funds spent to keep the GSEs operating but the cost to the federal government to subsidize the mortgage guarantees issued by Fannie and Freddie. In other words, the CBO counts as a federal spending commitment the subsidy given by the government to the GSEs.

The CBO calls this approach "fair-value" accounting because it treats the federal government's actions just like the actions of any other market participant, taking into account the market risk of guaranteeing a mortgage.

Typically, federal accounting does not do this because it is argued that because the government can print its own money, its risk is zero.

The CBO says that even though the government can print money – technically by issuing Treasury bonds – this merely transfers the risk to the taxpayer, who will eventually have to pay off the bonds issued by the government.

As of March 31, the CBO calculated that the GSEs held a fair-value deficit of $187 billion, meaning that on a fair-value basis Fannie and Freddie held a combined $187 billion more in liabilities than they did in assets.

Added to the $130 billion in bailout payments the government has already made, the total cost of a bailout of Fannie and Freddie rises to $317 billion, which is far above the $130 billion usually cited by the OMB.

"As of March 31, 2011, the GSEs reported a fair-value deficit of approximately $187 billion," the **CBO report** stated. "Adding to that the $130 billion in net payments already received from the Treasury implies a fair-value cost to the government of about $317 billion in obligations incurred through March 2011."

That figure has grown since August 2009 when the CBO calculated that the cost of bailing out the GSEs was $291 billion, due mainly to further weakening in the housing market.

Further, the CBO expects these costs to rise by an additional $42 billion between 2011 and 2021, an average of $4 billion per year.

"CBO estimated that the subsidy costs of the GSEs' new business would total about $42 billion over the 2012–2021 period, an average of about $4 billion a year," the CBO said.

However, this subsidy cost could grow if the housing market continues to be weak. While the CBO expects it to recover, the difference between the agency's own 2009 and 2011 estimates show that this may not be the case.

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