

United States Senate

WASHINGTON, DC 20510

January 19, 2009

Senator Chris Dodd
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Dodd,

On December 24, 2009, in what the *Wall Street Journal* called the Christmas Eve Taxpayer Massacre, the United States Department of the "Treasury" wrote a blank check to Fannie Mae and Freddie Mac removing any limit on how much money the Treasury could pour into the two failed mortgage companies. Given the last minute nature of this sweeping move, the fact that relatively little notice or explanation was given, and that this action seems to solidify Fannie Mae and Freddie Mac as public utilities. We think that this action merits immediate scrutiny by the Senate Committee on Banking, Housing and Urban Affairs through a formal hearing.

Treasury and the Federal Housing Finance Agency (FHFA) own 79.9 percent of Fannie Mae and Freddie Mac. Treasury has already spent a total of \$110.6 billion on them (\$59.9 billion on Fannie Mae; \$50.7 billion on Freddie Mac) since September 2008 when the two companies were taken into conservatorship. As of October 2009, Treasury and the Federal Housing Finance Agency have purchased \$201.8 billion of mortgage backed securities through its Government Sponsored Enterprise Mortgage-Backed Security Purchase Facility. All told, the taxpayer is on the hook for \$312.4 billion.

For the American taxpayer, that is not the end of the bad news. The Federal Reserve has also spent taxpayer money to purchase GSE debt and MBS. Since their inception in November 2008, the Federal Reserve has purchased \$155.1 billion of GSE debt and \$852.2 billion of MBS (as of December 3, 2009). In sum, the Federal Reserve is exposed to \$1.0073 trillion of potential losses. In total, US taxpayers are on the hook for over \$2 trillion of bailouts of Fannie Mae and Freddie Mac.

This latest Christmas Eve action by the Treasury could make that number seem penny-ante. We have a number of concerns about this latest taxpayer funded bailout.

First, we'd like to know the motivations for it. Why did the Treasury wait until Christmas Eve when the Senate had left town to make this announcement? The Treasury had the authority to inject almost \$300 billion into the two companies left. Why did the Treasury take a far more aggressive action?

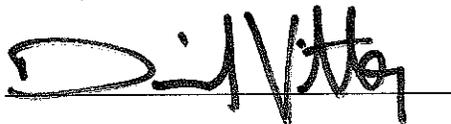
Second, according to the FHFA, in 2009 Fannie Mae and Freddie Mac issued 73.5 percent of all new mortgage backed securities in the United States. In 2008, the two companies issued 77 percent of all mortgage-backed securities issued in the United States. What is the impact of a mortgage market utterly dependent on a federal guarantee on taxpayers?

Third, what will be the consequences on mortgages and homeowners of this effective nationalization of these two companies that dominate the mortgage market?

If these questions seem familiar, Mr. Chairman, they ought to. They were the same questions you raised, in an interview with National Public Radio, when former Treasury Secretary Henry Paulson originally placed Fannie Mae and Freddie Mac into conservatorship. The current status of the GSEs is untenable, and as this Committee continues to make progress on resolving the questions left behind by 2008's financial crisis, we feel that it would be irresponsible for the Committee to fail to investigate Treasury's drastic action with regard to what could be the next chapter in our financial crisis, the ever-growing balance sheet burdens of the two companies that current Treasury Secretary Timothy Geithner has called "a core part of what went wrong in our system."

We request that you hold a hearing to help the Committee expeditiously address these questions when the Senate reconvenes in January. We look forward to continuing to work with you in a bipartisan way to address the tremendous challenges in updating our nation's financial regulatory framework.

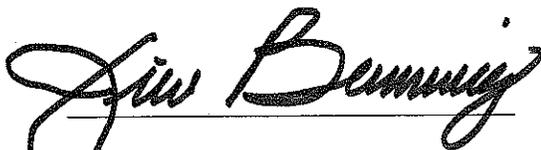
Sincerely,



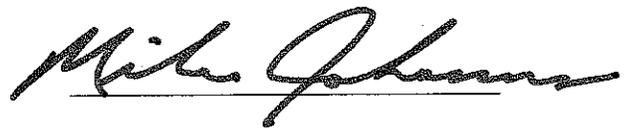
David Vitter
United States Senator



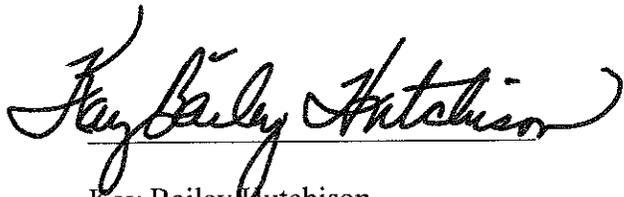
Jim DeMint
United States Senator



Jim Bunning
United States Senator



Mike Johanns
United States Senator



Kay Bailey Hutchison
United States Senator



Mike Crapo
United States Senator



Robert Bennett
United States Senator

Cc: Senator Richard Shelby, Ranking Republican, Senate Committee on Banking, Housing & Urban Affairs