SCHWARTZ *Report*

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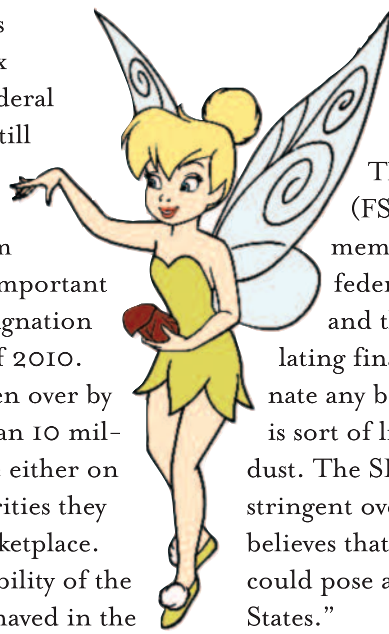
Fannie and Freddie as SIFI



Here's an interesting idea I ran across recently in an article written by Alex Pollock, the former CEO of the Federal Home Loan Bank of Chicago. As concern still exists for the delinquent behavior of the "toxic twins", why not designate them as SIFI. Before you get the impression that I am launching into science fiction, Systemically Important Financial Institution, SIFI for short, is a designation that has sprung from the Dodd- Frank Act of 2010. When Fannie Mae and Freddie Mac were taken over by the government in the fall of 2008, more than 10 million subprime and other deficient loans were either on their books or were in mortgage backed securities they had "guaranteed" and pushed out to the marketplace. What could be more SIFI than that to the stability of the economy? How Fannie and Freddie have behaved in the past might be predictive of how they will carry on in the future, particularly as they now appear to be returning to a mode of operation similar to what they did when the housing bubble was inflating.

A recent Wall Street Journal editorial by Holman Jenkins begins with the following admonition: "The 2008 [financial] crisis did not begin in a handful of too-big-to-fail banks but in incentives cast far and wide among home buyers, mortgage brokers, lenders and others to underwrite tax-advantaged one-way bets on home prices. Too-big-to-fail was implicated in only one way: Fannie Mae and Freddie Mac were too big to fail in the eyes of their own lenders…" By definition it would seem they qualify under the Dodd Frank Act as Systemically Important Financial Institutions. He goes on to write that their correspondent lenders, bond holders, etc. bought their bonds with the expectation that Washington would bail these government sponsored entities (GSEs) out should they get into trouble. This in fact happened to the tune of $187.5 billion.

The Financial Stability Oversight Council (FSOC) created by the Dodd-Frank Act is a 15 member board made up largely of the heads of the federal agencies such as the Treasury Department and the Federal Reserve that are charged with regulating financial services . This unelected body can designate any bank or non-bank financial firm as a SIFI. That is sort of like sprinkling these entities with reverse pixy dust. The SIFI designation singles out the designee for stringent oversight by the Federal Reserve if the council believes that "the material financial distress of the firm could pose a threat to the financial stability of the United States."

Other non-bank enterprises anointed as SIFI's have recently sought to be un-designated and thus avoid the onerous restrictions, reporting rules and capital requirements established by the FSOC. The most notable case in point is MetLife which recently went to court seeking to be shed of its designation. On March 30, 2016 federal district Judge Rosemary Collyer ruled that MetLife should be freed of its designation as a systemically important financial institution based on a violation by the FSOC of the Administrative Procedure Act as it made claims about the company that it did not have evidence to support. Under that law the courts are authorized to dismiss federal agencies' rulings that are not based on evidence.

There is plenty of evidence that MetLife or another designee, GE Capital's, activities up to and after the onset of the financial conflagration in 2008 did not contribute

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to it happening. They could not even hold a candle before the roaring bonfire that Fannie and Freddie built. Now the Fannie and Freddie fan club would argue that they already have sufficient oversight given to them by the Federal Housing Finance Agency (FHFA). In 2011 Congress mandated that the FHFA adjust the prices of Fannie and Freddie's mortgages and guarantee fees to make sure that they truly reflect the risk of loss. Ed DeMarco, the acting director of the FHFA from 2009 to 2014 had worked hard to comply with that directive. Mr. DeMarco left office in January, 2014 and his successor, former congressman Mel Watt, has suspended efforts to comply with Congress' mandate. As was reported last month, Fannie Mae will once again offer heavily subsidized 3 percent down mortgages and other new cross subsidies will doubtless follow from Freddie Mac as well.

As Mr. Pollock points out in his analysis, "Fannie and Freddie unquestionably qualify as SIFIs. They are, combined, $5 trillion in size, densely interconnected with the domestic and global financial system, hyper-leveraged, and able to put the entire system , as well as the finances of the U.S. government , at risk." So why not, as the French say, hoist the government sponsored "toxic twins" on their own petard and sprinkle them with a little of the Financial Stability Oversight Council's pixie dust.

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11 Critical Home Inspection Traps to be Aware of Weeks Before Listing Your Home for Sale

DE, MD, PA – According to industry experts, there are over 33 physical problems that will come under scrutiny during a home inspection when your home is for sale. A new report has been prepared which identifies the eleven most common of these problems, and what you should know about them before you list your home for sale.

Whether you own an old home or a brand new one, there are a number of things that can fall short of requirements during a home inspection. If not identified and dealt with, any of these 11 items could cost you dearly in terms of repair. That's why it's critical that you read this report before you list your home. If you wait until the building inspector flags these issues for you, you will almost certainly experience costly delays in the close of your home sale or, worse, turn prospective buyers away altogether. In most cases, you can make a reasonable pre-inspection yourself if you know what you're looking for, and knowing what you're looking for can help you prevent little problems from growing into costly and unmanageable ones.

To help homesellers deal with this issue before their homes are listed, a free report entitled "11 Things You Need to Know to Pass Your Home Inspection" has been compiled which explains the issues involved.

To order a FREE Special Report, visit www.charlieschwartz.com and select *Seller Tips* from the side bar menu, or to hear a brief recorded message about how to order your FREE copy of this report call toll-free 1-888-322-5252 and enter 1003. You can call any time, 24 hours a day, 7 days a week.

Get your free special report NOW to learn how to ensure a home inspection doesn't cost you the sale of your home.

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