

U.S. Taxpayers on Hook for \$5 Trillion of Fannie, Freddie Debt ...

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Global Research, March 12, 2010

[Yahoo Finance](#) 8 March 2010

Region: [USA](#)

Theme: [Global Economy](#)

House Financial Services Chairman Barney Frank caused a bit of an uproar Friday when he suggested the U.S. government does not guarantee the debts of Fannie Mae and Freddie Mac.

[Rep. Frank later recanted](#) and backed a Treasury Department statement reassuring investors that, yes, Fannie and Freddie Mae debt is guaranteed by the U.S. government. "Going forward," he said in a statement, we "will make sure that there are no implicit guarantees, hints, suggestions, or winks and nods...we will be explicit about what is and is not an obligation of the federal government."

But after years of winks and nods, there's no doubt that Fannie and Freddie now enjoy an explicit guarantee, according to most observers. The U.S. government placed Fannie Mae and Freddie Mac in conservatorship in September 2008: "This means that the U.S. Taxpayer now stands behind \$5 trillion of GSE debt," according to the Congressional Research Service.

The problem is that \$5 trillion of so-called agency paper is not treated as if it is a debt of Uncle Sam for accounting purposes, says Richard Suttmeier, chief market strategist at Niagara International Capital and [ValuEngine.com](#).

"Get it on the balance sheet - that's where it belongs," Suttmeier says. "Add it to the \$14.2 trillion in [federal] debt and let's move on."

Another Time Bomb Ticking But \$5 trillion is a lot of money - even by government standards — and moving on may be the problem because of [ongoing problems in the housing market](#), Suttmeier says. "There's a general concern on Main Street U.S.A. that 'my neighbors are throwing in their keys, there's more for sale signs in my community...do I want to buy a new home, risking there's still downside risk to housing?'"

Noting the Case-Shiller 20-City Home Price Index is still 50% above 1999 levels and mortgage delinquencies are still rising despite the rebound in GDP, Suttmeier says "victory is nowhere in sight, particularly when the drain we're going to see from Fannie and Freddie is unlimited losses between now and the end of 2012 — on top of the \$400 billion that's already been allocated."

Coincidentally (or not), the FDIC is allowing U.S. banks until 2012 before forcing them to fully write-down bad or toxic loans, which is "another time bomb ticking," Suttmeier says.

“They’re hoping the public market comes back into the mortgage arena, which is going to be hard to do.”

Unlimited losses from Fannie and Freddie? Keeping zombie banks alive on the backs of the taxpayer? Suttmeier’s right: There’s no accounting for that.

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