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United States Senate

WASHINGTON, DC 20510

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November 18, 2015

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Dear Senate Conferees:

As you work to resolve the differences between the House and Senate transportation bills, I ask that you strike the offsets that increase the cost of homeownership and being regulated by the Federal Reserve.

The Fiscal Year 2016 Budget Resolution includes a scorekeeping rule to prohibit the use of guarantee fees charged by Fannie Mae and Freddie Mac to be scored as an offset. This bipartisan language was included as a response to the 10-year, 10 basis point increase in guarantees fees that passed in 2011. Unfortunately, the Senate version of H.R. 22 includes a four-year extension of the 10 basis point increase in violation of the Budget Resolution.

The purpose of the guarantee fee is to guard against prospective Fannie Mae and Freddie Mac credit losses from borrower defaults. Using guarantee fees in spending legislation double-counts revenue. Further increases of guarantee fees should be used to protect taxpayers from mortgage losses and as repayment for the bailout, not for unrelated programs.

Each time guarantee fees are extended, increased and diverted for unrelated spending, homeowners are charged more for their mortgages and taxpayers are exposed to additional risk. Attempts to increase or extend these fees makes it more difficult to reform our housing finance system and wind down Fannie Mae and Freddie Mac.

With no debate or input from the Senate Banking Committee, the Senate version of H.R. 22 would alter Federal Reserve dividends for the purpose of creating an offset rather than promoting public policy.

Federal law requires member banks of the Federal Reserve to purchase stock in the amount of 6 percent of their capital to their regional Federal Reserve Bank. In return, the Federal Reserve provides a dividend for the capital, which has been set at 6 percent.

According to the Bipartisan Policy Center: "From the introduction of the dividend in 1913 to present, the average return on 10-year U.S. Treasuries was approximately 5 percent, just slightly under the 6 percent rate paid by the Federal Reserve. Thus, over history, the original framers of the Federal Reserve System picked an interest rate for Federal Reserve Bank capital that would turn out to be remarkably close to actual experience over the next century."

If Congress considers a rate change, all unintended consequences and impacts to bank lending must be understood. Further, Congress also needs to weigh other policy options, such as a floating rate or counting the stock as bank capital.

After debating these issues, the House of Representatives voted 354 to 72 to strike these provisions and liquidate a reserve fund held at the Federal Reserve Board. According to CBO, this would raise $59 billion over 10 years -- $40 billion more than the offsets it replaced.

I urge you to follow-through on the commitment in the Budget Resolution to not use Fannie Mae and Freddie Mac as a piggybank. In addition, any changes to the Federal Reserve dividend should wait until we understand the costs and benefits of changes.

Sincerely,

Mike Crapo

Mike Crapo
United States Senator