

Wall Street Journal Editorial  
**\$600 Million Baby**  
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As the Senate prepares to vote on its mortgage bailout this week, one part of Banking Chairman Chris Dodd's bill deserves more scrutiny. It's a section called "affordable housing allocations," and while it sounds innocuous, in practice it amounts to a new tax to create a permanent subsidy for state governments and political activists.

Like the bailout that has already passed the House, the Senate bill features a special new tax on Fannie Mae and Freddie Mac. We have long urged reform of the two mortgage giants, which operate with an implicit government guarantee and therefore a license to endanger the taxpayer if they take on too much risk. The shares of both plunged yesterday to new lows based on their credit risks. But as a price for allowing more oversight of the two companies, Mr. Dodd and House Financial Services Chairman Barney Frank want to cut their allies in on even more of the action.

Mr. Dodd creates an annual tax of 4.2 basis points on the mortgages that Fan and Fred purchase each year. Initially this money will go to finance losses resulting from the bill's bailout of refinanced mortgages. But by 2012 most of the cash from this tax will be directed to the new "affordable housing" funds. Mr. Frank applies a 1.2 basis-point tax on the value of all the loans Fan and Fred hold or have guaranteed, to collect roughly the same amount of money. The annual windfall here could amount to more than \$600 million at the start, growing to perhaps \$1 billion or more, depending on how fast the companies grow.

Even better for the pols, this money won't end up in the Treasury's general fund. Instead, they've written the bill to steer the cash toward some of their favorite political allies. In the Senate bill, the Secretary of Housing and Urban Development gets the largest pot to distribute, a full 65% of the "affordable housing" funds. Within guidelines established by the bill, the HUD chief has discretion to favor particular states while punishing others in creating a formula for doling out block grants.

Much of the political clout will be enjoyed by state politicians once they receive the checks from HUD. The state pols will be free to share the wealth with favored organizations, which will include both nonprofit and for-profit groups with an agenda.

Back at the federal level, the Treasury Secretary receives 35% of the affordable housing funds to distribute, but he doesn't have to ship it off to the states in the form of block grants. Treasury can make grants directly to nonprofits, and the one certainty is that most of this cash will be directed to the most powerful allies of the politicians in power. While Mr. Frank's version only authorizes this river of cash until 2012, the Senate would make it permanent and don't expect the House to object in conference.

Democrats claim the bill has ample protection against money going for electioneering and lobbying, but it will surely go to activists who promote ever-more taxes and

spending. We see nothing in either the House or Senate bills to prevent money from flowing to Acorn, the left-wing activist outfit that was infamous for its bare-knuckle politics even before eight of its employees pleaded guilty in April to election fraud in St. Louis.

Acorn operates an "affordable housing" arm, so it is structured to immediately board the new federal gravy train. The Center for Responsible Lending, which lobbies and litigates against market rates in consumer banking, also should be able to tap these funds via its affiliated Center for Community Self-Help. If later investigations prove that taxpayer funds were misused, the bills provide that recipients can simply return the amount of the grant, with no further financial penalty.

The affordable housing funds also give Members of Congress an even larger stake in the growth of Fannie and Freddie. Heretofore, the companies have had to influence Congress through lobbying and campaign donations. But now Congress will get a direct percentage in how much new business the companies do.

This, in turn, will give the companies more incentive to take even greater financial risks. While the bill gives Fan and Fred's regulator more power to limit their business, good luck to the human regulator who tries to do so. The companies will go to Messrs. Dodd and Frank, who will quickly let the regulator know he's not supposed to cut into their share of the loot. A bill that allegedly reins in the companies after their multibillion-dollar accounting frauds will thus make Fannie and Freddie even more politically invulnerable.

With rare exceptions, Republicans seem happy to go along with all this in the name of "doing something" about housing before the election. We doubt it will stem their electoral losses this year, and in return they'll be funding their political opponents for decades to come. Genius.