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Fannie Mae, Freddie Mac should be privatized, treasury secretary nominee says

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Steven Mnuchin, President-elect Donald Trump's nominee to lead the Treasury Department, said Wednesday that privatizing Fannie Mae and Freddie Mac is "right up there on the top-10 list of things we're going to get done," setting off a buying frenzy among investors.

"We've got to get Fannie and Freddie out of government ownership," Mnuchin said during a wide-ranging morning interview on Fox Business. "It makes no sense that these are owned by the government and have been controlled by the government for as long as they have."

Mnuchin's comments galvanized investors who have been scooping up shares of Fannie Mae and Freddie Mac since the election in anticipation that some action might be taken on the government-sponsored entities (GSE). By the end of trading, Fannie Mae's share price had jumped 46 percent, to \$4.49. Freddie Mac's share price climbed 43 percent, to \$4.31.

Fannie Mae and Freddie Mac guarantee about 60 percent of the mortgages in the United States and are the biggest source of homebuying credit. During the Great Recession, when Fannie Mae's share price plummeted from \$66.49 to less than \$1 in 18 months, they were put into conservatorship run by the Federal Housing Finance Agency. Although both remain publicly traded companies, they have remained under government control since 2008.

As part of the arrangement, which was altered significantly in 2012, their profits are sent back to the Treasury Department, much to the dismay of private shareholders who have been lobbying strongly or, in some cases, suing to have dividends paid to investors.

Efforts to resolve the status of Fannie and Freddie have languished for years. Part of the problem is that the most popular mortgage — the 30-year, fixed-rate, pre-payable mortgage — probably would go away without a government guarantee. Private lenders are reluctant to take on the risk associated with that product. The mortgage industry welcomes change to the government-sponsored enterprises — but with caveats.

"I'm encouraged to hear that ending the GSEs' conservatorship will be a priority for the new administration and that they see the need to reform the system before releasing the GSEs from government control," said David Stevens, president and chief executive of the Mortgage Bankers

Association. “We look forward to working with the next administration toward realizing this goal.”

The siphoning off the profits has created another looming crisis for Fannie and Freddie — no capital. Their equity will dwindle to nothing in 2018. But even that might not be enough to provoke change.

Those who have been following GSE retooling for years say it’s not as simple as Mnuchin suggests. Trump had said little about housing during the campaign, leaving many observers to wonder what, if anything, he would do.

“Never underestimate the ability of Washington to kick the can down the road,” Cato Institute economist Mark A. Calabria said. “I give it a 50-50 chance that [Trump] hands over conservatorship to his successor.”

While Mnuchin seems to indicate that he sees a role for Fannie and Freddie in the housing market, albeit not under government control, his position is not shared by all Republicans. Rep. Jeb Hensarling (R-Tex.), chairman of the House Financial Services Committee, has said that he would like to eliminate Fannie and Freddie within the next five years. Sen. Bob Corker (R-Tenn.) has sponsored a bill to do away with the GSEs.

Given how central Fannie and Freddie are to the functioning of the housing market, Calabria is heartened by Mnuchin’s stance on GSE retooling.

“It should be the treasury secretary’s top-five things to do,” Calabria said. “Whether that is doable is a separate question.”