



# Trump mulls taking Fannie, Freddie private, seeks Wall Street input

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April 2, 2019

President Trump has asked his economic advisers to examine a radical overhaul of Fannie Mae and Freddie Mac, including reaching out to Wall Street bankers in order to explore a complete privatization through an outright sale of the mortgage giants, FOX Business has learned.

The president's internal directive—which has yet to be reported—comes amid significant efforts by the administration to reform the so-called Government Sponsored Enterprises (GSEs), which are the linchpins of the \$10 trillion mortgage market. Last week the president signed a memorandum ordering both the Treasury Department and the Department of Housing and Urban Development to develop a plan to end Fannie and Freddie's direct government control, known as conservatorship, while implementing safeguards to prevent another collapse of the agencies.

But the president's instructions to aides to explore complete GSE privatization with Wall Street—and effectively end all government control of the agencies and possibly sell them to Wall Street or private equity—is among the most radical of the plans being examined by the administration for the future of Fannie and Freddie, according to a senior White House official who spoke on the condition of anonymity.

As FOX Business was first to report, the administration is also pushing to fast-track the Senate confirmation of Mark Calabria, the new director of the Federal Housing Finance Agency (FHFA), who, once confirmed by the GOP-led Senate, will be a key player in any reform effort. Calabria, a libertarian economist, has long advocated curtailing or completely eliminating the government's role in the mortgage market through the GSEs, which are publicly traded companies that are supported by the federal government.

Calabria would likely support a spin-off of Fannie and Freddie to private investors, people who know him say even as many of the plans under discussion by the White House and in Congress include some government role in the GSEs. Some Wall Street executives who own shares of Fannie and Freddie are pushing for something known as “Recap and Release,” or the government placing new capital in the agencies before they are released from conservatorship.

Even in these scenarios, the federal government would still play a role in Fannie and Freddie, by providing a line of credit to the agencies and placing a “implicit” federal government backup of its debt in the event of default. The government support was seen as essential to the GSE's mission since it allowed the agencies to expand homeownership to more working, and middle-class Americans.

But White House economic advisers are looking to reduce the role of the federal government in the mortgage business in an effort to prevent the tens of billions of dollars in tax payer money

that was spent propping up Fannie and Freddie during the 2008 financial crisis. With that sources say that the president is open to at least exploring something more comprehensive for the GSEs: a complete privatization of Fannie and Freddie with no government control and their eventual sale to a third party.

“He has said, 'Let's see if we can get rid of them,'” according to one person familiar with the president's thinking on the subject. “He has said speak to some bankers.”

A White House spokesman had no comment; a spokesman for the Treasury Department didn't return calls and emails for comment.

White House economic aides have been meeting with various Wall Street players about making Fannie and Freddie private companies, and will continue to do so following last week's memorandum, according to people with direct knowledge of the matter. The meetings with private equity firms are telling, because such players often buy companies that are publicly traded and turn them into private companies before selling them years later at a profit.

Shares of Fannie and Freddie have traded like penny stocks since the outfits were taken over by the government during the 2008 financial crisis when they were on the brink of insolvency. But so far this year they have been among the market's best performers amid speculation that they would be released from government control and allowed to retain their profits, which currently flow into the federal budget in a process known as the Net Worth Sweep.

Still, it's unclear how a complete privatization would affect the shares. Though it would theoretically end the so-called Net Worth Sweep, the government would also theoretically no longer back up the GSE's debt. One reason Fannie and Freddie make money is because they can finance their operations with debt that pays lower interest rates because of the government backup.

One potential path to spinning off the GSE's would involve a recapitalization of Fannie and Freddie, and converting them into entities that would operate like banks, according to people with direct knowledge of the matter. The government could then sell them to private players, but existing shareholders might get diluted from the recapitalization, and shares would decline significantly.

Also, how such a move to privatize the companies could be accomplished is fraught with politics. Democrats and housing advocates may object on the grounds that privatizing the GSEs would mean reducing their footprint in the housing market, resulting in fewer loans to working-class Americans.

As the race for the 2020 election gets underway, the administration is also hesitant to do anything radical involving such a huge piece of the U.S. economy as the housing market is, these people say.

That is one reason why Trump's GSE memorandum last week was so vague, with little in the form of specifics, such as stopping the government from taking all the GSE's current profits. Administration officials interviewed by FOX Business say they don't expect any radical proposals to take place this year, and may be left to Trump's second term if he wins in 2020

Since being taken over by the federal government during the dark days of the financial crisis, the GSE's have both paid back the government aid and become profitable. Various Trump

Administration officials have said ending government control of Fannie and Freddie would be a key policy goal, while maintaining the GSE's purpose to make homeownership affordable.

One complicating factor: Battle lines inside the White House are already being drawn between Calabria and the Treasury Department, including Treasury Secretary Steven Mnuchin, a former Wall Street mortgage-bond trader, over how the reform will play out, according to people with direct knowledge of the matter.

Mnuchin is said to favor returning the GSE's structure to something along the lines of what existed before the 2008 bailouts and government takeover: Publicly traded companies that were backed by the U.S. taxpayer with an implicit guarantee.

Calabria, a former economist for the libertarian Cato Institute, is a long-time critic of the GSEs, and favors releasing Fannie and Freddie from government control, these people add. He is said to be closest to the thinking of the president in possibly ending all federal government assistance to Fannie and Freddie and making them completely private outfits.

Fannie and Freddie themselves account for about \$5 trillion in home loans with the specific policy goal of juicing the market with affordable 30-year fixed-rate mortgages to many first-time home buyers. The agencies buy the loans from the banks, package them into securities, which are sold to private investors, allowing banks to sell loans to people with lower credit ratings.

But both agencies have been plagued by accounting scandals in recent years, and have been blamed for instigating the mortgage bubble and the collapse of housing prices in 2007 and 2008 by purchasing loans with some of the lowest credit ratings the banks were selling at the time.

The bursting of the housing bubble led to the broader banking collapse and the Great Recession that followed. Fannie and Freddie were among the first casualties of the financial crisis, when they were taken over by the federal government in the summer of 2008 and placed into what's known as government conservatorship.

Since then, they have operated as de facto arms of the federal government and continued their mandate to help provide affordable home ownership, and Wall Street is particularly keen on the future of Fannie and Freddie.

Mnuchin had business ties with at least one of the major investors in the GSE's stock that has benefited amid the speculation of a privatized Fannie and Freddie, and the run-up in shares—hedge fund giant John Paulson, who was an investor in OneWest Bank, the successor of the failed IndyMac bank that Mnuchin and a group of investors purchased in 2008 from the FDIC. And prior to being Treasury secretary, Mnuchin invested in Paulson's hedge fund.

A Paulson spokesman didn't return a call for comment.