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GSEs’ Conservatorship May Be Nearing An End

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Fannie Mae and Freddie Mac have been in conservatorship since the financial crisis. Now some ten years later—after the GSes have sent approximately $292 billion to the federal government—the Trump Administration is signaling that their conservatorship may be nearing an end.

To be sure, there has been talk and numerous proposals for ending conservatorship over the years. Indeed, during his confirmation hearing some two years ago, US Treasury Secretary Mnuchin told the Senate that “we shouldn’t leave Fannie and Freddie alone for the next four or eight years without reform.”

But now the issue appears to be gaining momentum. In mid-January, government officials said they were starting to work on a plan to move the GSEs out of their decade-long conservatorship. According to published reports confirmed by an agency spokesperson, Currency Comptroller Joseph Otting—currently the acting director of the FHFA—indicated that Treasury and the White House are expected to release a housing plan that will include details about reform.

A possible plan also throws into some doubt the role the new director for the the Federal Housing Finance Agency will play. Currently awaiting confirmation by Senate, White House nominee Mark Calabria would replace Mel Watt, the Democratic appointee whose term ran out last year. A longtime housing reform advocate and a vocal critic of the GSEs, Calabria currently serves as chief economist for vice president Mike Pence. Prior to that, he was director of financial regulation studies at the Cato Institute, which describes itself as “a think tank dedicated to the principles of individual liberty, limited government, free markets and peace.”

It is unclear how imminent these events will be. The government shutdown ended Friday, leaving agencies and officials with a month’s backlog to clear up. Also if the government were to shut down again in another three weeks—the end of the temporary period in which Democrats and Republicans are to negotiate a solution for border security—that will further complicate matters.

As for multifamily borrowers and investors, they are counting on the GSEs to continue their lending mandates. Even as CRE professionals closely watch the government for any developments, 82% of respondents to a Berkadia poll still expect the GSEs to provide most of the financing this year. (This poll was taken before the Administration’s plans made its way into the public domain). Ernie Katai, executive vice president and head of Production at Berkadia, told GlobeSt.com in an earlier interview that there may be more smoke than actual fire around the issue of GSE reform, as the administration focuses on other priority issues.

“Until we have further clarity on what reform will look like, we expect investors to keep their foot on the gas when it comes to deal activity,” he said.