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Feds weigh remake of loan giants

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WASHINGTON — The Obama administration is considering an overhaul of Fannie Mae and Freddie Mac that would strip the mortgage finance giants of hundreds of billions of dollars in troubled loans and create a new structure to support the home-loan market, government officials said.

The bad debts the firms own would be placed in new government financial institutions — so-called bad banks — that would take responsibility for collecting as much of the outstanding balance as possible. What would be left would be two healthy financial companies with a clean slate.

The moves would represent one of the most dramatic reorderings of the badly shattered housing finance system since Fannie Mae was created by Congress to support mortgage lending during the Great Depression. Both Fannie Mae and Freddie Mac, based in McLean, Va., have government charters to buy home loans from banks, which they then repackage and sell to investors. The banks can then use the proceeds to offer more loans to homebuyers.

The leviathans became emblematic of the financial crisis when they were effectively nationalized in September amid a market meltdown that revealed much of their holdings to be troubled.

The government has since pledged more than $1.5 trillion, including $85 billion in direct aid, to keep the mortgage market working through Fannie Mae and Freddie Mac.

The proposal, which is preliminary and one of several under discussion, is scheduled to be taken up by the White House's National Economic Council today.

"It should come as no surprise that the administration is thinking through" wholesale changes to these companies, said Andrew Williams, a Treasury Department spokesman. "We are in the preliminary stage of the process, the systematic development of options has not taken place and no decisions have been made."

Internal discussions over the future of the companies began earlier this year during the regulatory reform planning process and now are entering a more serious phase. National Economic Council director Lawrence Summers has long wanted to overhaul the companies.

The government's efforts so far "have taken the

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risk out of those two firms," Treasury Secretary Timothy Geithner said recently. "The only question that remains is what form, what structure they ultimately will take."

In an interview Wednesday announcing that he would step down later this month, James Lockhart, the chief regulator of Fannie Mae and Freddie Mac, said there needs to be a "good bank, bad bank" structure.

The "bad bank" would be a depository for Fannie Mae's and Freddie Mac's toxic assets. Then, the government could create new companies, if it chose to do so, that would attract private investment in support of mortgage finance.

Options for the "good banks" include consolidating the firms into a single government agency, leaving mortgage finance purely to private banks or maintaining a hybrid model.

The National Economic Council has looked at the "bad bank" option, among many others, in several internal policy papers. Any final decision would come after talks involving the White House, the Treasury, the Department of Housing and Urban Development, and the Federal Housing Finance Agency.

With the economy still in a deep recession, joblessness rising and defaults on home loans expected to continue to increase, there is great uncertainty over the size of future losses at Fannie Mae and Freddie Mac. That, in turn, is likely to drive investors from committing money to the companies.

Regulator to step down

James Lockhart is resigning as Fannie Mae and Freddie Mac's regulator and returning to the business sector.

Lockhart was appointed in 2006. His departure isn't likely to shift the direction of the Federal Housing Finance Agency because he has been "quite accommodative" to President Barack Obama, said Mark Calabria of the Cato Institute. *Bloomberg News*