

Deseret News

President Obama supports winding down Fannie and Freddie

By: Devon Murling – August 15, 2013

At a speech in Phoenix last week, President Barack Obama lent his support to a plan to wind down mortgage-finance companies Fannie Mae and Freddie Mac. The news comes as the real estate market has been recovering.

Fannie and Freddie do not make mortgage loans themselves. Instead, they buy loans from private companies. They hold some loans themselves and bundle other loans into bonds and sell those bonds to investors. They then guarantee the money put up by the investors in case of default by the mortgage borrower. In 2008 when the housing market collapsed and borrowers defaulted in massive numbers, Fannie and Freddie were taken over by the government and bailed out to the tune of \$200 billion.

"For too long, these companies were allowed to make big profits buying mortgages, knowing that if their bets went bad, taxpayers would be left holding the bag," Obama said. "It was 'heads we win, tails you lose.'"

He added, "Private capital should take a bigger role in the mortgage market. I know that sounds confusing to folks who call me a socialist."

In his speech, Obama supported a bill sponsored by Senators Bob Corker, R-Tenn., and Mark Warner, D-Va., that would wind down Fannie and Freddie over the course of five years. This would decrease the government's role in guaranteeing mortgage-backed securities, although the government would still insure mortgage securities once private insurers had first taken large losses, according to CNBC.

The reactions to the president's announcement have been diverse. Some worry that the housing market is still too tenuous to remove Fannie and Freddie.

"Removing them entirely would be devastating," Kelly Powers, vice president for advocacy at the Arizona Mortgage Lenders Association, told FoxNews.com. "It would make it much more difficult for people to borrow. There would be less liquidity and less players in the game. The requirements would go up and people won't be able to qualify for loans."

David Berson, an economist with insurance company Nationwide and former chief economist for Fannie Mae, told the Christian Science Monitor that if Fannie and Freddie were eliminated, mortgage rates would likely go up. "In almost all of these [proposals] because there is no government guarantee, it's likely that mortgage rates will be higher," he said. "That means there will be some creditworthy people who will have to pay more, or may not get a mortgage at all. That makes it harder for lower income buyers."

Mr. Berson was also concerned that if the government eliminated Fannie and Freddie, the 30-year fixed-rate mortgage would be in jeopardy or become much more expensive. However, the

Christian Science Monitor also spoke to Mark Calabria, director of financial regulation studies at the Cato Institute, a libertarian think tank, who supports the wind down of Fannie and Freddie and thinks that the 30-year mortgage is here to stay.

“What Fannie and Freddie provide is a credit guarantee,” he said. “Getting rid of them will not get rid of the 30-year fixed rate. You can get one on the jumbo market. The interest rate risk must be borne by somebody. It will still be available in the US. To me, there’s very little evidence that suggest otherwise.”