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Geithner says closer to Fannie, Freddie reform

Analysts see no progress until after election

By **Greg Robb**, MarketWatch

WASHINGTON (MarketWatch) — Treasury Secretary Timothy Geithner said Wednesday that the White House and Congress were inching closer to a plan to wind down government seized giants Fannie Mae and Freddie Mac.

“It is very important we work to find a bipartisan consensus with Congress on how to wind them down, bring private capital back into this market, and ultimately replace the GSEs with something that is going to work better for the country in the future,” Geithner said in testimony to the House Appropriations subcommittee on financial services.

Last year, Treasury put out a menu of three longer-term reform options for Fannie and Freddie which would require enactment of legislation passed by Congress.

Asked for an update, Geithner replied: “we are hoping to be in a position relatively soon to engage with Congress more substantively to narrow those range of choices.”

“I think we’re getting closer to be able to work with Congress on something that might... result in legislation,” he added.

Housing experts threw cold water on any notion that GSE reform was poised to move through Congress.

Mark Calabria, a former Republican staff member of the Senate Banking Committee and now director of financial regulation studies at the libertarian Cato Institute, said there was “absolutely no consensus in Congress on anything that looks like GSE reform.”

Geithner’s remarks were designed to “look like the administration is doing something” on the GSEs, he said.

Fannie and Freddie were taken over by the government in 2008 at the height of the financial crisis.

The net cost to taxpayers for the bailouts now stands at \$151 billion.

Brian Gardner, senior vice president at Keefe, Bruyette & Woods, said the high cost of the bailout has Geithner “playing defense” on the issue with an eye on the November presidential election.

“I wouldn’t be surprised if Treasury put some document out over the next couple of months. But it is to ‘check the box’ before the next election,” he said.

Calabria agreed.

“Is Treasury going to release something extensive, thoughtful and in-depth that looks like a bill anytime soon? No,” he said.

Gardner said the reform of the housing finance system is “horribly complex.”

One reason for caution is that reform proposals could roil the mortgage market at a time when the housing market is struggling,

Another problem is that the Republicans in the House are “split down the middle” on the issue, Calabria said.

One faction wants to fully privatize the housing market. The other side, more sympathetic to the housing industry, wants to reduce government influence but its not convinced that there can be a robust market for mortgage-backed securities absent a government guarantee.

Geithner said the losses of Fannie and Freddie “are now virtually entirely the legacy of choices made during the financial boom.” The firms have been managed much more conservatively since the takeover, he said.

Paul Dales, senior U.S. economist at Capital Economics, noted that the Obama administration’s push to cut the amount struggling borrowers owe for mortgages owned by Fannie and Freddie, known as principal reduction, means the government is becoming more involved in housing, not less.