

U.S. HOUSING

Fannie, Freddie overhaul faces hurdles

WEAK MARKET TIES LAWMAKERS' HANDS ON MORTGAGE REFORM



BARRIE MCKENNA
MARCH 24, 2010

WASHINGTON -- 0.6 per cent / Drop in sales of previously occupied homes in the United States in February

\$165,100 / The median price, down nearly 2 per cent from a year ago

95 per cent / Amount of the residential mortgage market backstopped by the U.S. government

Print Edition - Section Front



Enlarge Image

More Stories

- Stamp out the trade
- Our politicians need expert help in dealing with the costs of aging
- What's cooking in Canadian innovation?
- Taking the controls out of traffic
- Health care and the public's trust
- Go to the section



The Obama administration and the U.S. Congress are plotting an overhaul of the U.S. housing finance market, exploring ways to remove government life support for mortgage giants Fannie Mae and Freddie Mac, the last line of defence against another disastrous meltdown of the housing market.

The effort comes amid fresh signs the housing sector remains in a deep slump. Sales of existing homes fell for a third successive month in February, further depressing home prices.

U.S. Treasury Secretary Timothy Geithner kicked off the debate yesterday, telling a congressional committee that the government aims to relinquish its role as the main housing lender, but must be careful not to destabilize the fragile mortgage market in the process.

"The substantial direct support for the housing markets that has been put in place will be allowed to fade as the market recovers and fully stabilizes," Mr. Geithner assured the House financial services committee.

The two giant mortgage lenders, seized by the federal government in September, 2008, are reminders that major problems left over from the financial crisis remain unsolved.

The government has already pumped \$127-billion (U.S.) to keep the two companies afloat, while pledging billions more to make good on their debts for at least the next three years.

Fixing Fannie and Freddie is sure to prove a complex and drawn-out challenge. With Democrats, Republicans and the housing industry deeply divided on what to do, getting the policy right could make the administration's hard-fought health reform package look easy.

The housing market's ongoing malaise complicates matters.

Sales of previously occupied homes dropped 0.6 per cent in February to a seasonally adjusted annual rate of 5.02 million, according to the U.S. National Association of Realtors.

The median price dropped nearly 2 per cent from a year ago to \$165,100.

The housing market is prone to a double-dip that could hold back the U.S. economic recovery, argued Paul Dales, U.S. economist at Capital Economics in Toronto.

"The housing market may remain a noose around the neck of the U.S. economy for some time yet," Mr. Dales said.

Mr. Geithner, who says he wants a housing finance overhaul in place by next year, isn't embracing the outright privatization of Fannie and Freddie that is advocated by many Republicans and outside critics.

He insisted the government would play a "key role" in shaping the housing finance system. He said there are good reasons for the government to continue providing "a carefully calibrated guarantee, appropriately priced."

But never again would the government allow itself to be on the hook for the losses of private lenders, he said.

The government intends to get the debate started by seeking comment on a list of key questions next month.

For all intents, the U.S. government is the mortgage market. Little known outside the housing market before the financial crisis, Fannie and Freddie financed or guaranteed more than seven out of 10 new mortgages on single-family homes last year, up from 40 per cent in 2006. Combined with other agencies, the U.S. government now backstops more than 95 per cent of the residential mortgage market.

That dominant role is likely to make the government's job of extricating itself from the business all the more difficult.

"You can't really tear down the old jail until you've built a new one," pointed out House financial services chairman Barney Frank.

But Republicans, who blame Fannie Mae and Freddie Mac for triggering the housing collapse, are pushing for much quicker action.

Spencer Bachus of Alabama, the committee's top Republican, called the Obama administration's go-slow approach to reform "unacceptable."

Some analysts are pushing for a quick breakup of Fannie Mae and Freddie Mac to pave the way for private funds to return to the mortgage market. Mark Calabria, director of financial regulation studies at the Washington-based Cato Institute, told the committee that the two companies should be parcelled into a dozen lenders of roughly equal size.

"We need to take immediate action to get the financial institutions and the investment community back in the game and wind down the federal government's involvement," Anthony Sanders, a real estate expert and finance professor at George Mason University, told the committee.

But key players in the housing industry, including the National Association of Realtors, want to preserve Fannie Mae and Freddie Mac as non-profit government agencies, without private shareholders.

The Mortgage Bankers Association, on the other hand, wants the government to continue guaranteeing some mortgage-backed securities, but not Fannie and Freddie.

© Copyright 2010 CTVglobemedia Publishing Inc. All Rights Reserved.

CTVglobemedia

globeandmail.com and The Globe and Mail are divisions of CTVglobemedia Publishing Inc., 444 Front St. W., Toronto, ON Canada M5V 2S9
Phillip Crawley, Publisher