

# PITTSBURGH TRIBUNE-REVIEW

## Republicans want feds out of the mortgage business

By McClatchy Newspapers

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WASHINGTON -- With the most sweeping financial reform bill since the Depression becoming law, Washington is finally getting around to dealing with the hard part: Fannie Mae and Freddie Mac.

But even as the Obama administration prepares for a conference today on the housing finance system, lawmakers on Capitol Hill are preparing to battle one another and the powerful housing lobby over the future of the mortgage-finance giants.

The goal of the conference is to come up with a system that would win the support of enough lawmakers on Capitol Hill to pass while ensuring a fully functional housing market that doesn't rely on taxpayer backing -- even in a severe economic downturn.

It's a tall order. Many Republicans want to fully privatize the two entities altogether, while numerous Democrats want to enshrine a permanent government agency -- or agencies -- to buy and sell mortgages and mortgage securities.

"Conservatives are saying the government should be out of the business altogether and they should be privatized to compete in the private market," said Bob Kuttner, senior fellow at research and advocacy group Demos in Washington. "Democrats say if the government is going to run it, it should be a government agency and have set standards."

Treasury Secretary Timothy Geithner is seeking a middle ground where the government would continue to offer some type of federal guarantee of mortgage loans to ensure that borrowers can easily finance the purchases of homes. But he has yet to provide details.

Among the obstacles for any agreement are the mid-term elections, fresh fears that the economy will fall back into recession, and the still precarious state of the housing market fully two years after the onset of the credit crisis.

The administration is working to develop a proposal with the aim of delivering it to Congress by early next year.

### Running up risk

Practically all new mortgages are guaranteed by Fannie Mae and Freddie Mac

and the Federal Housing Administration. Since the credit crisis began the Federal Reserve has purchased \$1.1 trillion in agency mortgage securities as a means of propping up the market and keeping loan rates low.

As the financial crisis intensified in September 2008, Fannie and Freddie were essentially nationalized to avoid losses and stem the credit contagion. They were taken over by the government in a conservatorship. Roughly \$145 billion in taxpayer funds have been used to cover their losses.

Before their downfall, Fannie and Freddie were hybrid government-sponsored quasi-private entities that purchased whole mortgages, mortgage securities and asset-backed securities from banks and other direct lenders, packaged them, and sold them back to private investors as mortgage backed securities. The system was designed to ensure that adequate capital was available to banks and other financial institutions that lend money to homebuyers.

However, starting in the 1990s Fannie and Freddie dramatically raised the risk they took on their balance sheets, and eased their underwriting standards, at the behest of lawmakers seeking to make home ownership possible for less qualified Americans.

Their expansive purchases -- along with risky loans taken on by private mortgage investors -- helped drive the subprime boom and bust that took the economy to the brink in 2008.

### **Accord on horizon**

Despite the divergent views, lawmakers actually are moving toward agreement that Fannie and Freddie should stop borrowing heavily from the capital markets.

"There is a broad bipartisan mood to get rid of their portfolio activities, and that was impossible seven years ago," said Mark Calabria, director of financial regulation studies at the CATO Institute in Washington. "The ground has shifted a lot."

Instead, Geithner and other Democrats seem to be moving in the direction of turning Fannie and Freddie into much smaller entities that buy individual mortgages, pool them and sell them back into the market to private investors who would pay a fee for a government guarantee of the security, argues Ted Gayer, a fellow at the Brookings Institution in Washington.

It's that guarantee that lies at the heart of the debate over Fannie and Freddie's future.

Republicans who don't back a fully private market are likely to push for a government guarantee that is available for any corporate mortgage investor packaging loans, not just Fannie and Freddie.

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