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Frank wants details on mortgage lender overhaul

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Insists Obama must begin process now

By Jeremy Herb, Globe Correspondent | March 24, 2010

WASHINGTON — US Representative Barney Frank pressed the Obama administration to release the first details of its plans to overhaul troubled mortgage lenders Fannie Mae and Freddie Mac yesterday as he opened hearings on the issue.

The government seized the quasipublic agencies in 2008 and has pumped \$125 billion into them to keep them afloat and to stabilize the home mortgage market. But the Obama administration had recently stated it does not expect to unveil an overhaul until 2011.

That was too far away, said Frank, chairman of the House Financial Services Committee, and he called on the White House to begin the process now.

"It's a very complicated issue, and the longer we wait, the longer it takes to get done," Frank said in an interview.

"My timetable was as soon as we got financial reform done, this is the next big issue," said Frank, who ushered a financial regulation bill through the House late last year.

The White House responded by sending Treasury Secretary Timothy Geithner to testify on Fannie and Freddie before the committee yesterday.

Geithner said the administration planned "to take a fresh, cold, hard look at the core problems in our system." He said he would resist calls to nationalize Fannie and Freddie, but Geithner expected some government guarantee for mortgages would be preserved. "But it can't be the one we have today," he said.

There's little dispute among committee members, the administration, and economists that the nation must fix the way home mortgages are secured and financed. Fannie and Freddie own or guarantee more than half of the country's mortgages, around \$5 trillion worth, which the Treasury is backing. In January, Frank said he planned to abolish the companies, and Republicans, while offering different solutions, are calling for an overhaul.

But fixing Fannie and Freddie is a complicated minefield to maneuver, both economically and politically, analysts say.

Since the economic crisis, the two companies have financed nearly all new mortgages, as the private market has evaporated. Part of the reason the administration isn't rushing to revamp Fannie and Freddie is because if changes harm the companies, it could have a disastrous impact on the market.

"The administration has been consistent trying to walk the line on this in saying, 'Yes, Fannie and Freddie are a concern and we need to fix them, but we need make sure to do it at the right time, because the housing market is too unstable now,'" said Mark A. Calabria's, director of financial regulation studies at The Cato Institute.

Barry Sagas, director of housing policy at Consumer Federation of America, said that without Fannie and Freddie, there wouldn't be a mortgage market. Unraveling the companies is "complicated and fraught with excessive risks," he said, but "the risks of doing it badly but quickly are much greater than slowly but with greater deliberation."

Republicans have hounded Democrats and the administration for not acting more quickly to reform Fannie and Freddie, as they pushed through major health care and banking overhauls. "It's unacceptable . . . that the Treasury Department still does not have a plan for Fannie and Freddie," Spencer Bacchus of Alabama, ranking Republican on the Financial Services Committee, said at yesterday's hearing.

Republicans have also blasted the Obama administration for granting Fannie and Freddie unlimited financial support, as well as keeping \$1.6 trillion in Fannie and Freddie debt off the books.

Last week, Representative Jab Ensnarling, a Texas Republican, introduced legislation that would eventually privatize Fannie and Freddie, with the idea that private market competition would propel the housing market.

Censoring's legislation strikes at the core difference between what conservatives and liberals believe must be done to fix the housing market: How big of a role should the government play? Geithner said yesterday this was the "existential question" facing housing reform.

While conservatives want to focus on the private market's return, liberal groups are proposing a variety of options that would turn Fannie and Freddie into public utilities, so shareholders wouldn't push the companies toward taking excessive risks.

Frank said his committee has two tasks: "One is to figure out the best way to wind down Fannie Mae and Freddie Mac. But an equally important job is to decide what goes in their place."

Geithner testified that he had yet to see a viable alternative. The Treasury secretary did not release a timetable for proposing an overhaul, but said the administration would "move as carefully and quickly as we can." ■