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## Panel Recommends Privatization of Fannie Mae And Freddie Mac

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By Ravi Bhatia – Talk Radio News Service

A panel proposed some options for the future of Fannie Mae and Freddie Mac on Monday at the Cato Institute in Washington, D.C. with one member recommending the privatization of the two organizations and another suggesting that the government-sponsored enterprises be abandoned in order to establish Mortgage Credit Guarantor Entities (pronounced "McGees") in their place.

"Fannie and Freddie pose a systemic risk to the financial system, unfairly benefit from their regulatory privilege, and they do not create enough benefits for the American people," said David Reiss, guest panelist and Professor at Brooklyn Law School. "As a result, the company should be privatized in one form or another."

Two of the panelists, Chief Economist and CEO of the Mortgage Bankers Association Jay Brinkmann and Vice President of the National Association of Home Builders David Crowe, will testify their findings before the Senate Banking, Housing and Urban Affairs Committee Tuesday morning. Brinkmann detailed the concept behind MCGEs, which he claims would be privately capitalized and thus would benefit from private equity, while the ownership structure of the MCGEs would depend on "the method the private capital comes into it."

"Whether its strictly stock held, there's an opening here for doing a co-op type structure," Brinkmann said. "We don't specify [the ownership structure of the MCGEs] that way."

According to Brinkmann, the MCGE's would be chartered by a new federal regulator and would do away with a Congressional charter, which he claims posed problems in the past.

Fannie Mae and Freddie Mac owned or guaranteed about half of the \$12 trillion U.S mortgage market as of 2008, according to a New York Times article written the same year. According to Reiss, the number currently hovers around 44 percent.

"Fannie and Freddie's overall success in exploiting the benefits of their government charter has concentrated an extraordinary amount of risk in the two companies," Reiss said while explaining the origins of the subprime mortgage crisis. "And this has been compounded by their successful fights over the year to expand the reach of their business model. They've been winning additional privileges from Congress to move into subprime, exotic parts of the jumbo market, making them larger and larger and larger."

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