



[Refinance Your Mortgage](#)

Get \$200,000 For Only \$542/month. Fast Closing in 30 Day. Free Quote!

loanDepot.com/Mortgage-Experts

[Freddie Loan Modification](#)

Freddie Mac Modification Lower your payment, save your home

www.ModificationHelp.info

[3.12% Mortgage Loans](#)

No Hidden Fees. Refi & Save Now! Fast Free Quotes - No Credit Check

MortgageLoans.LoanReduce.com

Ads by Google

Stories | Photos | About | Assignment Desk | UPI Stylebook | My Account | Search UPIU...

- Politics
- Business**
- Religion
- Science & Technology
- Health
- Environment
- Sports
- Culture & Society
- Human Rights
- Other

You are here: [UPIU](#) > [Business](#) > Fannie, Freddie mortgages could go private

Fannie, Freddie mortgages could go private

By [Bryce Baschuk](#)

Published November 10, 2009

[< Previous article](#) | [Next article >](#)

Spread the word.

Email

Genre: Current

[Flag this Article](#)

WASHINGTON, D.C., October 19 – Congress should jettison Fannie Mae and Freddie Mac and let them reorganize in the private sector, said David Reiss, a professor at the Brooklyn Law School. Speaking at the Cato Institute on Wednesday, Reiss urged policy makers to reconsider the future role of the government-sponsored mortgage corporations formally known as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. “[Fannie Mae and Freddie Mac] do not achieve legitimate public policy goals,” said Reiss. “They’ve outgrown their origins in a way that has a net negative effect.” Specifically, he cited the organizations’ failure to maintain competition, promote innovation and preserve consumer choice. Fannie Mae and Freddie Mac currently own or guarantee more than half of all U.S. residential mortgages at an estimated total value of \$5.4 trillion, according to the Federal Housing Finance Agency (FHFA). Shares of both Fannie Mae and Freddie Mac plummeted in the past several years as large losses and meager capital reserves shook investor confidence. In September of last year the FHFA fired the CEOs and directors of Fannie Mae and Freddie Mac and

[Refinance Your Mortgage](#)

Refinance at 3.75% (3.96%APR) FIXED Fast Approval, Get Your Free Quote!

loanDepot.com/Mortgage-Experts

[Freddie Loan Modification](#)

Freddie Mac Modification Lower your payment, save your home

www.ModificationHelp.info

[Refinance Now 3.7% FIXED](#)

\$160,000 mortgage for \$547/mo. No SSN req. Get a Free Quote Now!

MortgageRefinance.LendGo.com

[Fannie Foreclosure Deals](#)

Buy a Fannie Foreclosure and You Will Enjoy Low Prices and Great ROI

FannieMaeHomes.Reply.com



Ads by Google

About the Author



[Bryce Baschuk](#)

Washington, DC United States

[View Bryce's profile](#)

Also by Bryce

[D.C. Snowball Fight](#)

placed the organizations into conservatorship, a legal status whereby the federal government assumes temporary control.

“The American taxpayer will likely be required to fund a bailout of the two companies that will be measured in the hundreds of billions of dollars,” said Reiss.

According to a recent FHFA report, the Treasury Department has already purchased over \$507 billion in mortgage-backed securities from Fannie Mae and Freddie Mac and \$81 billion in direct obligations.

Instead of sinking more money into these organizations, Reiss suggested that Congress remove all federal ties and fully privatize them.

Private sector economists denounced Reiss’ proposal, advocating instead for limited government intervention.

David Crowe, chief economist and senior vice president of the American Home Builders Association, also attended the event and countered Reiss’ claim. Crowe affirmed the social benefits that come with government participation in the housing industry.

“Children in occupied homes have higher test scores, tend to stay out of trouble, tend to become better citizens,” said Crowe.

Opposed to both privatization and nationalization, Crowe endorsed a hybrid formation of a federally backed entity that is profit motivated, market driven and overseen by an effective and well-funded regulator.

The essential component of Crowe’s proposal is an explicit guarantee that the federal government will back any loans or securities that default. Prior to the federal takeover of Fannie Mae and Freddie Mac such a guarantee was assumed but not legally binding.

Crowe cited the collapse of the housing industry’s credit component as a concrete justification for the explicit federal guarantee.

“There has to be a backstop to that,” said Crowe. “No private entity can guard against those kinds of

 [D.C. Snowball Fight](#)

- » [D.C. rental inspection program lacks teeth, critics say](#)
- » [Banks bully D.C. renters out of foreclosed buildings](#)
- » [Young residents struggle to keep city condos](#)

Tagged with: [Fannie mae](#), [Freddie mac](#), [Federal housing finance agency](#)

Popular news

[Articles](#) [Photos](#)

1. [Man in Philippines sells kidney to save...](#)
2. [They won't give up their land, identity](#)
3. [Immigrations laws: an unsettled issue](#)
4. [Plants vs. Mosquitoes](#)
5. [UP Pep Squad reclaims UAAP Cheerdance c...](#)
6. [Blame game?](#)
7. [NIGERIA@ 50 CAN YOU IMAGINE AFIFTY YE...](#)
8. ["Restoring Honor" rally stirs thousands](#)

overwhelming losses.”

Yet Crowe dismissed the idea of full nationalization and said that such a move would bind the industry in bureaucratic red tape and hamper its response to market fluctuations.

Jay Brinkmann, chief economist and senior vice president of the Mortgage Banking Association (MBA), echoed Crowe’s call for a hybrid restructuring plan.

As a former member of Fannie Mae’s strategy group, Brinkmann has an intimate understanding of the inner workings of the organization.

On Wednesday he suggested that policy makers break Fannie Mae and Freddie Mac into multiple, private mortgage guarantor entities and explicitly back their loans with a federal guarantee.

In return, Brinkmann said banks and loan originators would contribute money to a risk-based fund that would protect against future insolvency. The proposed mortgage credit guarantors, called “MCGEs,” would be chartered by a new federal regulator that would provide oversight, evaluate credit risk and require greater capital reserves than Fannie Mae and Freddie Mac’s current levels.

Brinkmann argued that the Mortgage Banking Association’s restructuring plan would fortify the secondary mortgage market by promoting liquidity and transparency.

The Federal National Mortgage Association known as Fannie Mae was established in 1938 as a government agency to stimulate the mortgage lending industry during the Great Depression. In 1968 Fannie Mae was converted to a for-profit government enterprise. Soon thereafter the Federal Home Loan Mortgage Corporation known as Freddie Mac was created as a government agency in the likeness of Fannie Mae. It too was sold to private shareholders and in 1989 was converted to a government-sponsored enterprise.

ONLINE EDUCATION CENTER
education close to home



UPI.com
Online Education Center

Find Your Degree

[Leave a comment \(1\)](#)

Average rating



My rating



Spread the word.



< Previous article

Next article >

Email

1 Comment



Beth Potter said (8 months ago)

[log in to flag a comment](#)

Great start for a story on a complex topic. It would be good to get someone who has a Fannie Mae mortgage (many people do!) and see how this could affect folks. Or if the

average person doesn't understand how it might affect him/her, that might be a fun story, too!

Reply

Name:

Email:

Save yourself some effort! [Login](#) or [register](#) to comment! Or, sign-in super fast with your Facebook account...

 [Connect with Facebook](#)

Add a new comment:

Add comment

[Privacy policy](#) | [Terms of use](#) | [Flagging policy](#) | [Support](#) | [About UPIU](#) | [FAQs](#) | [Visit UPI.com](#)

© 2010 UPIU. All Rights Reserved.

Mortgage Rates -- Select A Loan Program 

| | | | |
|-------------------------------|----------------------------|---------------------------------------|----------------------------------|
| 40 Year Fixed | 7 Year ARM | 30 Year Interest Only | Home Equity Line |
| 30 Year Fixed | 5 Year ARM | 5 Year Interest Only | Second Mortgage |
| 15 Year Fixed | 3 Year ARM | 3 Year Interest Only | |
| 10 Year Fixed | 1 Year ARM | 1 Year Interest Only | |

www.amerisave.com

Ads by Google

Any views, information and/or other content expressed or made available by any UPIU.com contributor are those of the respective contributor and are not those of UPIU.com or

Featured Headlines: [Faded Glory—age discrimination in the Philippines](#)

follow UPIU.com

