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Fannie and Freddie's Future: Don't Run from Success

By Barry Zigas

The Administration's decision not to include a specific road map for the future of Fannie Mae and Freddie Mac in its new budget has disappointed some. But anyone who cares about affordable mortgages for American families should be less concerned about rushing to a new system than in making sure that the Administration keeps a steady course and leverages the strong hand it has over the companies to maintain market stability and enable American homebuyers continued access to long-term, fixed rate sustainable mortgages.

The government's current *de facto* ownership of the two companies and the Fed's commitment to insure a deep market for their securities has benefitted American consumers and the housing economy. In 2009 alone, the two companies have facilitated more than $1 trillion in real lending to nearly 5 million families to buy and refinance homes.

Simply put, the Fannie/Freddie intervention is the main reason most families still have any access to mortgage credit.

The government so far has put up about $110 billion in new capital to enable Fannie and Freddie to make good on their guarantees of mortgage backed securities, and in return forced shareholders to take steep losses, charged a healthy dividend on the funds, and turned over senior management and board leadership.

In return taxpayers have received the lowest mortgage rates for 30-year, prepayable fixed rate financing since the middle of the last century. They also got the first standardized mortgage modification program, including a unique refinancing option for underwater borrowers and efforts to allow defaulting owners to remain in their homes as renters, for as long as three years. The two also are the primary source of financing for affordable apartment rentals, at a time when other investors are hard to find.

Far too many owners are still losing their homes, and the companies could improve their own and the industry's responses to the crisis. They made serious mistakes in the housing boom. But with the government's intervention, Fannie and Freddie have done the most important thing they were created for: maintaining a working mortgage system and keeping many struggling borrowers in their homes.

Congress should pay close attention to this as they consider new options for mortgage finance after the Great Recession. Other countries have reached homeownership rates similar to the U.S. But they have done so mostly through adjustable rate mortgages that leave consumers exposed to interest rate risks much like those attached to subprime loans that are at the root of our current crisis. Stable, predictable and sustainable home loans were the hallmark of the US system until the last years of the boom. And through most of that period, Fannie Mae and Freddie Mac were the chief sources of the financing that made that possible.

In considering the future, Congress and the Administration should focus on the vital results that reform must insure: liquidity and stability for long-term, fixed-rate, sustainable mortgages and affordable rental homes; broad access to mortgage finance for all consumers and through lenders of all sizes; and the rapid spreading of innovation in products and services through standardization that Fannie and Freddie historically sustained.

Congress created the original Fannie Mae in the shadows of the granddaddy of mortgage meltdowns in 1938. The reforms that emerge eventually from this crisis must focus on sustaining the subsequent legacy of more than 70 years of stable homeownership and wealth creation for millions of American families.

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