

Washington Report: Fannie and Freddie

by Kenneth R. Harney

There were big doings at the White House last week over the future of Fannie Mae and Freddie Mac, the ailing giants who still finance roughly six out of ten new home mortgages in the U.S.

The Obama administration confirmed that it is putting together overhaul plans to restructure Fannie and Freddie, and maybe strip away their money-losing toxic loan portfolios to create a single, new super mortgage source.

How the administration's plans develop over the coming weeks could prove crucially important for home buyers, sellers, builders and other realty professionals -- and could expand, or restrict, the types of mortgages available in the marketplace.

If, for instance, the replacement for Fannie and Freddie is confined solely to buying the safest, least-likely-to-default types of mortgages, the menu of loans available to buyers theoretically could be limited to fixed-rate 30 year and 15 loans with big downpayments and high credit scores.

Though the White House is mum on where it's headed, the National Economic Council last week formally took up the question of what to do with Fannie and Freddie.

The council reportedly is exploring what officials call a "bad bank-good bank" scenario.

Under such a plan, hundreds of billions of dollars of seriously delinquent and nonperforming mortgages currently held in the two companies' portfolios would be transferred to a new entity that would manage their accounts, collect payments, attempt modifications and workouts where possible, and ultimately own the proceeds from foreclosures or loan sales.

The "good" bank, on the other hand, would come to life with a totally clean slate, buy mortgages from originators nationwide, and would seek to be profitable by minimizing risks

James Lockhart, the departing CEO of Fannie's and Freddie's regulator, the Federal Housing Finance Agency, has spoken in favor of this concept, as has Lawrence Summers, director of the president's National Economic Council.

Though the Obama administration has not indicated its timetable on Fannie and Freddie's future, analysts expect the plan to be rolled out in time for Congress' consideration early next year.

Why should real estate professionals care what happens to Freddie and Fannie, or keep a close eye on the administration's plans?

Because an overly risk-averse replacement agency, combined with the continuing absence of a private securitization market to handle higher risk or specialized loan

products, could stand in the way of home purchases by self-employed individuals, or consumers with less than perfect credit.

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