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Cloudy Future for Fannie and Freddie

By **[CHARLES DUHIGG](#)**

The Great Bailout is mostly over for the banks. But for those troubled behemoths of the nation's housing bust, [Fannie Mae](#) and [Freddie Mac](#), the lifeline from Washington just keeps getting longer.

Fifteen months after Fannie and Freddie were effectively [nationalized](#), neither the Obama administration nor Congressional leaders see a quick solution to one of the thorniest problems in American finance: how to fix the twin mortgage giants without choking the flow of credit to homeowners and dealing a blow to a still-fragile housing market.

The administration had said for months that it would begin charting a new course for Fannie and Freddie when it released its budget proposal on Monday. The companies, crucial pillars of American housing, already have consumed over \$112 billion of taxpayer dollars.

Bankers, builders and homeowners stand to win or lose from any plan for the two so-called government-sponsored enterprises, or G.S.E.'s. But, on Monday, that plan amounted to a single, ambiguous sentence from the White House:

"The administration continues to monitor the situation of the G.S.E.'s closely and will continue to provide updates on considerations for longer-term reform of Fannie Mae and Freddie Mac as appropriate."

[Treasury](#) officials say more details may be forthcoming, although they decline to say when. To many experts, however, the message is that Fannie and Freddie are likely to remain wards of the state for years.

And, given the alarm in some quarters over the mounting budget deficit, these two giants and their vast obligations are likely to remain conveniently — and controversially — off the federal books. Fannie Mae and

Freddie Mac have obligations of \$3.9 trillion to investors who bought bundles of mortgages that the companies assembled.

Powerful and often competing interests are grappling over the companies' futures. Lawmakers on both sides of the aisle, eager to demonstrate their scorn for the companies, have called for their eradication. But few policy makers are willing to take aggressive steps that might weaken the housing market. On Christmas Eve, the White House quietly disclosed that it had, in effect, given the companies a blank check by making their federal credit line unlimited; the ceiling had been \$400 billion.

For decades, Fannie and Freddie have played a central role in the housing market. But when the market began falling apart in 2008, so many of the home loans that Fannie and Freddie had bought or guaranteed went bad that the companies nearly went bankrupt. The government essentially took them over.

Today, many financial companies are pushing to shrink or even dismantle the two G.S.E.'s in hopes of expanding their own businesses into the resulting vacuum. Financial executives contend that the government does not belong in the housing market. Given the animosity directed at the financial industry in general, however, few will criticize the government publicly.

"Almost no other country has companies like Fannie and Freddie, where the government essentially competes with private banks," said one executive who was not authorized to speak to the media or willing to publicly criticize any government decisions.

"People still manage to buy houses in France and England," the executive continued. "One of the attractions of abolishing Fannie and Freddie is that a source of competition is gone. But, by the same token, if Fannie and Freddie hadn't existed, maybe things wouldn't have gotten so out of hand in the first place."

Others disagree — often also for reasons of self-interest. The construction and real estate industries, two powerful political constituencies, essentially want to preserve the status quo so that their customers, homebuyers, can continue buying homes.

"If the government isn't involved, you run the risk of the secondary mortgage market drying up at exactly the wrong time," said Jerry Giovaniello, the chief lobbyist for the [National Association of Realtors](#). "Private

companies get tighter with money when things get bad. The government is the only one who can make sure capital continues flowing.”

Shading all of this is election-year politics. In a polarized Washington, Democrats and Republicans seem to agree that flogging Fannie and Freddie might play well to an electorate weary of costly bailouts and anxious about the rising national debt.

The Treasury secretary, [Timothy F. Geithner](#), has pledged to propose “detailed reforms” this year. Democrats and Republicans in Congress are scheduling hearings. Politicians from both parties have demanded the eradication of Fannie Mae and Freddie Mac.

But for now, the only real consensus is that no one quite knows what to do with the companies. Whatever happens is almost certain to determine which Americans can — and cannot — get mortgages, and how much those loans will cost. That, in turn, will most likely influence home values for decades.

And so, despite talk of dislodging political gridlock in Washington, many policy makers seem happy to put off making any real decisions. Many policy makers concede that there are no easy options. Trying to reinvent Fannie Mae and Freddie Mac, they say, could push the housing market into even more dire straits.

“I’ve said we should abolish Fannie Mae and Freddie Mac in their current form and come up with a whole new system of housing finance,” said Representative [Barney Frank](#), a Massachusetts Democrat and the chairman of the House Financial Services Committee. “I can’t say when. And I don’t have any idea what that new system will look like. No one, I believe, knows. All we really know is that we need something new.”

Indeed, most of the recent enthusiasm for public discussions about Fannie and Freddie have been attempts by both parties to gain political advantage. Aides to high-ranking Republican and Democratic lawmakers say that opinion polls suggest that independent voters are unlikely to support candidates who defend Fannie and Freddie.

Republicans are trying to emphasize the companies’ longtime Democratic ties. They attacked the Treasury Department in December when the government announced multimillion-dollar pay packages for the

companies' top executives.

“Awarding millions of dollars in bonuses on the taxpayers’ dime is unconscionable,” Representative Jeb Hensarling, Republican of Texas, wrote to the Treasury secretary in a letter signed by 70 Republicans.

On Monday, after the White House announced it did not yet have a firm plan for the companies, Representative Spencer Bachus, Republican of Alabama, said, “It is irresponsible for the administration to give Fannie and Freddie a blank check and offer no strategy for reforming the G.S.E.’s.”

To counter such salvos, Democratic lawmakers are now searching for opportunities to publicly distance themselves from Fannie and Freddie.

“We’re going to provide a lot of chances for Democrats to vote against Fannie and Freddie and to openly criticize them,” said a Congressional staff member working for a high-ranking Democrat. “Everyone is going to get a chance to say something bad about the companies if they want to, and we’re going to make sure the volume is up on the microphone.”

The White House, already under attack for mounting debts, has so far disregarded advice from the [Congressional Budget Office](#) to fold the costs associated with Fannie and Freddie into the budget. In Monday’s statement, the administration emphasized that because Fannie and Freddie may one day come out from under government control, they should stay off the books.

Meantime, everyone is waiting for the big fix.

“No one has come up with a new model that can both maintain liquidity and eliminate all the bad or conflicting incentives that caused the crisis in the first place,” said Thomas A. Lawler, an economist who worked at Fannie Mae for more than two decades before leaving in 2006 to become a consultant. “And the longer the government relies on entities like Fannie and Freddie to implement the recovery, the harder it is to get rid of them. This is a really, really hard problem, and it’s going to take a long time to figure out the right solution.”

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