
October 21, 2010

Fannie and Freddie May Need Infusion

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WASHINGTON — The federal bailout of Fannie Mae and Freddie Mac may be winding down with relatively little additional cost to taxpayers so long as the economy continues to recover. But if the economy tips back into recession, the bailout could nearly double in size, according to new government projections announced on Thursday.

The troubled mortgage companies are likely to require about $19 billion in additional federal aid over the next three years, according to a projection by the Federal Housing Finance Agency.

If the economy recovers more quickly than expected, the projections show that the companies could need as little as $6 billion in new aid. By contrast, if the economy falls into recession, the companies could need another $124 billion.

The Treasury Department has spent $135 billion on Fannie and Freddie since they were seized by the government in 2008, to cover their losses on soured mortgage loans. The government is propping up the two companies to make sure that money remains available for mortgage loans. Even under the worst case detailed on Thursday by the housing finance agency, the pace of new cash infusions would decline sharply.

The agency, which oversees Fannie and Freddie, said that it was publishing the numbers to inform public debate about the future of the two companies. The Obama administration plans to propose changes to the government's role in housing finance early next year.

"These projections are intended to give policy makers and the public useful snapshots of potential outcomes for the taxpayer support of Fannie Mae and Freddie Mac," said Edward J. DeMarco, the agency's acting director.

Other estimates of the cost of cleaning up the two companies have ranged widely, with some financial industry analysts quoting numbers as high as $1 trillion.

Fannie and Freddie could face additional losses as a growing number of homeowners challenge the legality of foreclosures, citing evidence that some mortgage service firms have not complied with the legal requirements to seize a home. Delays in the foreclosure process cost the companies money; more serious disruptions, like court orders preventing home seizures, would be even more expensive. The companies have said they will seek compensation from servicers to cover any such losses.

The Obama administration welcomed the latest government projections, which it said underscored that the companies had largely ended the practices that led to the losses, so that loans they bought in recent years were not causing new problems.

"In the most likely economic scenario, nearly 90 percent of the losses at Fannie Mae and Freddie Mac are already behind us," Jeffrey A. Goldstein, the Treasury Department's under secretary for domestic finance, said in a statement.

He added, however, that success in stabilizing the companies "should not distract us from the pressing need for reform so that taxpayers aren't put on the hook in the future."

The new projections could vindicate the initial estimates of the Bush administration that saving the two companies would require no more than $200 billion. The Obama administration said it would provide as much as $400 billion in aid, and then removed the limit entirely, promising to provide all necessary funds.

So far, Treasury has pumped $148 billion into the two companies. In return, the companies have paid dividends to the federal government totaling $13 billion, meaning that the net cost to taxpayers stands at $135 billion. Because the companies are losing money, the dividend payments come directly from the money provided by Treasury, basically refinancing a portion of the government's aid.

In coming up with the latest aid projections, the housing finance agency performed three sets of stress tests on the companies, each reflecting a different set of assumptions about the economy.

In the bleakest case, the economy would return to recession and housing prices would tumble again, falling 45 percent in total from the peak levels of 2006. The companies might then require another $215 billion from Treasury, of which they would return $91 billion in the form of dividend payments. The total cost to taxpayers: $259 billion, including the $135 billion already spent, or new assistance of $124 billion.

In the most optimistic case, housing prices would hit bottom this fall, about 31 percent below the 2006 peak, and then begin to recover as the economy continues to grow. The companies might then require another $73 billion in aid, of which they would return $67 billion in dividend payments. The total cost to taxpayers: $141 billion, only slightly more than the $135 billion that has already been spent.

The agency says that it considers the third, intermediate case to be the most likely. Housing prices would continue to decline until next fall, bottoming out 34 percent below 2006 prices, and then begin a slow recovery. Fannie and Freddie might then require about $90 billion in aid, of which they would return $71 billion in dividend payments. The total cost to taxpayers would be $19 billion on top of the $135 billion already provided, or a total of $154 billion.

Under both of the more moderate assumptions, the agency projects that Freddie Mac would return to profitability and begin to make dividend payments from those profits rather than simply refinancing its federal aid.