

Fannie, Freddie Housing Goals May Exclude Subprime

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Fannie Mae and Freddie Mac would no longer be able to rely on subprime mortgages to meet their government-mandated goals for helping lower-income Americans obtain home loans, according to proposed regulations.

The rules offered by the Federal Housing Finance Agency would restrict the companies from using private-label bonds backed by Alt-A and subprime mortgages, or commercial mortgage-backed securities, to meet affordable-housing targets.

Fannie Mae and Freddie Mac, the largest sources of money for U.S. residential mortgages, had been relying on riskier private-label debt to satisfy goals of financing loans for low- and moderate-income homebuyers, according to FHFA. Fannie Mae and Freddie Mac were seized in 2008 largely because of regulators' concern that the companies wouldn't have enough capital to cover losses on that type of debt.

"The results of providing large-scale funding for such loans were adverse for borrowers who entered into mortgages that did not sustain homeownership and for the enterprises themselves," the agency said in the proposal.

Private-label, or non-agency, bonds are issued by banks and don't carry guarantees by Fannie Mae, Freddie Mac or government-agency Ginnie Mae. Freddie Mac held about \$176 billion in non-agency debt in its \$755.3 billion portfolio as of December, according to its monthly volume summary. Fannie Mae had about \$90 billion in its \$772.5 billion portfolio.

Second Liens

The companies have been required to devote a certain amount of their annual business to low- and moderate-income borrowers, economically depressed neighborhoods and other disadvantaged groups. Those goals were modified after the companies were seized by federal regulators in September 2008.

At least half the dwellings the companies helped finance with their more than \$500 billion in total mortgage purchases in 2008 were used to satisfy affordable housing goals, according to calculations made from company filings.

The new affordable-housing rules would also forbid Fannie Mae and Freddie Mac from counting second-lien debt such as home-equity and "piggy-back" loans and the financing of some rental units toward the goals. It would also change how the companies account for multifamily financing.

Much of the new structure is set out in the 2008 law that created FHFA and strengthened oversight of Fannie Mae and Freddie Mac.

The rules would establish separate targets for multifamily and owner-occupied properties as well as set efforts to include poorer borrowers than before, the FHFA said.

Lower Risk

Edward DeMarco, FHFA's acting director, said in a letter to lawmakers earlier this month that he doesn't expect Fannie Mae and Freddie Mac to take on as many risks to fulfill their affordable-housing missions in the future.

FHFA reiterated that statement in the proposal today, saying it doesn't intend for the companies "to undertake economic or high-risk activities in support of the goals" it proposed.

Washington-based Fannie Mae, which dates back to the 1930s, and McLean, Virginia-based Freddie Mac, started in 1970, were chartered by the government primarily to lower the cost of homeownership.

They buy mortgages from lenders, freeing up cash at banks to make more loans. They make money by financing mortgage-asset purchases with low-cost debt and on guarantees of home-loan securities they create out of loans from lenders.

The companies now own or guarantee more than \$5 trillion in U.S. residential debt, and were responsible for as much as 75 percent of the new mortgages made last year.

Fannie Mae has posted \$120.5 billion in net losses in the nine quarters ended in September and requested \$59.9 billion in Treasury aid to remain solvent. Freddie Mac has lost \$67.9 billion and sought \$50.7 billion in taxpayer-funded aid.