Republican Senators Pressing to End Federal Control of Fannie, Freddie

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As the Senate resumed debate Monday on legislation to overhaul financial regulation, leading Republican lawmakers are pushing an amendment that would wind down the government-controlled mortgage finance giants Fannie Mae and Freddie Mac.

The proposal by Sens. John McCain (Ariz.), Richard C. Shelby (Ala.) and Judd Gregg (N.H.) calls for the government to end its control of the companies within two years. Under the amendment, Fannie and Freddie would have to reduce the size of their mortgage portfolios and begin paying state and local sales taxes.

Congressional aides say the amendment is unlikely to pass. But as Congress argues over what to do with Fannie and Freddie, the hole burns deeper at the companies. Fannie reported Monday that it lost $11.5 billion in the first three months of the year and needed $8.4 billion from taxpayers to stay afloat.

The total price tag for Fannie and Freddie will be $145 billion, easily becoming the costliest element of the government's rescue of the financial system. Last week, Freddie reported a net loss of $6.7 billion in the first quarter and said it needed an additional $10.6 billion in assistance from taxpayers. Fannie's latest earnings report showed that the company continues to lose money on the trillions of dollars in loans it owns or insures. The company reported an increasing number of foreclosures.

Under the terms of the government's 2008 emergency takeover of Fannie and Freddie, the Treasury must pump money into either firm whenever its worth, as measured by assets minus liabilities, goes into the red. Late last year, the Obama administration pledged unlimited backing.

Fannie and Freddie have been contentious in Washington for years. Republicans have seized on the companies' historically close relationship with Democrats, pointing out that Democratic lawmakers have often defended the companies' roles in the housing market and been showered with campaign cash. Republicans also say the firms illustrate the dangers of the government's large role in the mortgage market.

Democratic lawmakers and the Obama administration have resisted efforts to close down the companies, warning that they play an important role in supporting the housing market. Democrats say that disrupting efforts to spur a housing recovery could endanger the wider economy.

On Monday, the Senate banking committee's chairman, Christopher J. Dodd (D-Conn.), called the Republican amendment "reckless" and "poorly thought out," saying it would shutter Fannie and Freddie without offering a replacement.

"There's no reform here," he said on the Senate floor. "It just gets rid of something without replacing it with anything."

Dodd said that more needs to be done to overhaul Fannie and Freddie but that including it in the current financial overhaul bill probably "would have doubled the size of this legislation."
But in introducing the amendment last week, McCain said Congress must address Fannie and Freddie.

"Fannie Mae and Freddie Mac are synonymous with mismanagement and waste and have become the face of too big to fail," McCain said.

"The time has come to end Fannie Mae and Freddie Mac's taxpayer-backed free ride and require them to operate on a level playing field."

The administration began seeking public input on the future of Fannie, Freddie and other elements of the housing finance system.

No action is expected until at least early next year.

Fannie executives stressed that they continue to rework mortgages for borrowers struggling with monthly payments and to fund new home loans. But executives said they were being careful not to offer new loans to people who can't afford them.

"Promoting sustainable homeownership and maintaining ready access to liquidity are our guiding principles in serving the residential markets," said Fannie chief executive Michael Williams. "The strong credit characteristics of our acquisitions during the quarter are evidence that we continue to strike an appropriate balance in providing liquidity while also applying the lessons of the recent credit cycle."