

# FHFA Subpoenas Firms That Sold Debt to Fannie Mae, Freddie Mac

*Lorraine Woellert*  
*Bloomberg Businessweek*  
*July 12, 2010*

The Federal Housing Finance Agency subpoenaed firms that sold mortgage-backed securities to Fannie Mae and Freddie Mac as the regulator aims to determine whether issuers can be held liable for losses on the debt.

FHFA, which has overseen the government-sponsored mortgage companies since they were placed under conservatorship in September 2008, issued 64 subpoenas seeking loan files and transaction documents, FHFA said today in a news release. The U.S. is trying to determine whether misrepresentations or omissions might require issuers to repurchase loans, FHFA said.

“By obtaining these documents we can assess whether contractual violations or other breaches have taken place leading to losses for the enterprises and thus taxpayers,” FHFA Acting Director Edward J. DeMarco said in the statement.

Fannie Mae and Freddie Mac, the largest sources of funding for U.S. residential mortgages, relied on so-called private-label debt backed by subprime loans to help meet a federal mandate to promote homeownership. The federal government took control of the companies in 2008 after the collapse of the U.S. mortgage market pushed them toward insolvency. They have been sustained by a promise of unlimited Treasury Department aid that has yielded \$145 billion for the companies so far.

FHFA said documents were being sought only for securities the agency plans to review and declined to say which companies were subpoenaed. Recipients have 30 days to provide the requested documents, the agency said in its statement.

## *Financial Inquiry*

“This is a financial inquiry, not an investigation or a lawsuit,” FHFA said.

“The conservator seeks the information to determine whether losses sustained by the enterprises are the legal responsibility of others and to ensure that the obligations of the various parties involved have been met.”

Mortgage-backed securities issuers including JPMorgan Chase & Co. and Goldman Sachs Group Inc. are fighting lawsuits from private investors who claim they were misled about the health of loans they packaged and sold.

Fannie Mae, based in Washington, and Freddie Mac of McLean, Virginia, own or guarantee more than half of the \$11 trillion U.S. mortgage market.

As of May, Fannie Mae owned \$87.1 billion worth of mortgage-backed securities and Freddie Mac held \$168.1 billion, according to regulatory filings.

Given their role in the mortgage market, Fannie and Freddie had the data necessary to determine whether the pools of loans they were buying were healthy, said Anne Canfield, executive director of the Consumer Mortgage Coalition, a Washington trade group of residential mortgage lenders.

“Of anybody in the market they had the ability to assess what the underlying quality was of those mortgages,” Canfield said today in a telephone interview.