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**Why Should Fannie Mae's Future Matter to Us?**

Fannie Mae's future "looks too much like the past," according to Gretchen Morgenson, in a March 23, 2013, article in The New York Times. But is this really such a bad thing?

In order to understand her concern, you have to understand the history of this massive government mortgage company. The story begins in the Great Depression of the 1930s, when enormous numbers of homeowners were defaulting on their loans and the banks were running out of money. In response to the crisis, President Franklin D. Roosevelt and Congress created Fannie Mae in 1938, to buy mortgages from bankers and keep them from going under. This freed the banks to loan money to people who normally were unable to buy homes.

Initially Fannie Mae (the Federal National Mortgage Association) had only $1 billion in funding power. But it was enough to fuel the American dream of home ownership. The company eventually grew so large, however, that President Johnson needed to reduce the growing national debt, to which Fannie contributed an enormous amount. So in 1968, he converted it into a publicly traded company owned by private investors. Then, in 1970, Freddie Mac (the Federal Home Loan Mortgage Corporation) was created to prevent Fannie Mae from becoming a monopoly. It too went public in 1989. Even then, both are wholly connected to the government in ways that no other public company is today.

However, these two mortgage giants increasingly loaned money to high-risk borrowers leading, in part, to the massive market crash in 2008. The subsequent government bailout of Fannie Mae and Freddie Mac was based on the notion that they were simply too big to be allowed to fail. As Kate Pickert (in TIME, July 14, 2008) points out: "Just as it was in 1938, the idea is to use tax dollars to prevent a complete meltdown in the U.S. financial sector that could trigger a global panic. We're not in a Great Depression, but the intervention is an indication of how concerned the government is about more turmoil to come."

She goes on to say, "Fannie and Freddie raise cash to buy mortgages from a variety of sources, including pension funds, mutual funds and foreign governments. Their influence on economies at home and abroad is pervasive enough that the Federal Reserve and the U.S. Treasury felt they had little choice but to offer assurances that the companies will not be permitted to collapse from reverberations of the sub-prime mortgage debacle."

According to an October 6, 2012, news release by the Federal Housing Finance Agency (FHFA), the Treasury has paid out $187 billion to date, (which has been reduced to $138 billion, if one were to subtract dividend payments). It further estimates that it will cost you and I — the taxpayers — between $191 and $209 billion by 2015.

How are they planning to fix this hemorrhage? Apparently they aren't. These agencies serve practical purposes: the most important being that private lenders would rather let Fannie Mae and Freddie Mac buy home loans from them (along with the risks) so they themselves won't have to invest in these long-term loans. Everyone is still a little jumpy about the economy and its future.

In her Times article, Gretchen Morgenson names another group that loves the status quo: "the former executives who still receive benefits from the companies and the taxpayers who own them. According to documents reviewed by The New York Times, $25.3 million in pension payments went to 1,785 former Fannie executives last year; an additional $12.7 million went to 871 former Freddie officials." Three former executives "were ousted from their companies amid accounting scandals. . . . All were paid handsomely through[out] their tenures. . . . Even so, Mr. Raines receives a pension of $2,639 from taxpayers each month . . . Mr. Howard receives $4,395 and Mr. Brendsel $8,039."

Five years later, the dwindling middle class is still carrying these bailouts on their backs. And the future doesn't look so different from the past. But until a better idea comes along, and a strong enough electorate can support it, not much is going to change. And you and I will continue to pay . . . and pay.

— Nancy L. Hoffmann

***Sources:***

1. Gretchen Morgenson, March 23, 2013, "Mortgages' Future Looks Too Much Like the Past," *The New York Times*.

2. Kate Pickert, "A Brief History of Fannie Mae and Freddie Mac," July 14, 2008, *TIME*.

3. News Release, October 6, 2012, "Projections of the Enterprises' Financial Performance," p. 5, the *Federal Housing Finance Agency (FHFA)*.

*(Client blog assignment: Define and Describe Fannie Mae; Limit 500 words)*