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Denver Office: <http://www.DenverHomeLiving.com> - (303) 816-9199

What Are Fannie Mae and Freddie Mac?



Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) - shareholder-owned corporations with government charters - that play a central role in mortgage finance.

They buy home mortgages from the original lenders, repackage them as mortgage-backed securities (MBSs), and either sell them or hold them in their own investment portfolios. In 2008, Fannie and Freddie have purchased about 80% of all new home mortgages in the United States. Their combined investment portfolios held mortgage assets (loans and MBSs) valued at \$1.5 trillion (as of June 30, 2008).

Over the years, the GSEs have provided strong support to the housing market. When a bank (or other lender) sells a mortgage loan to the GSEs, it receives cash to make new loans, and avoids the risks of holding a long-term asset. Without this secondary (or resale) market, in which private firms participate as well as the GSEs, lenders would have to keep loans on their own books, and mortgage credit would become more expensive and difficult to obtain.

Why Are they in the News so Often?

The turmoil in housing and credit markets that began in 2007 has put extreme financial pressure on the GSEs. If Fannie and Freddie were purely private firms, rather than GSEs, some observers assert that they would have failed by mid-2008. A failure or default by Fannie or Freddie would have severely disrupted financial markets around the world.



On September 7, 2008, the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac, two government-sponsored enterprises (GSEs) that play a critical role in the U.S. home mortgage market, in conservatorship. As conservator, the FHFA has full powers to control the assets and operations of the firms. Dividends to common and preferred shareholders are suspended, but the U.S. Treasury has put in place a set of financing agreements to ensure that the GSEs continue to meet their obligations to holders of bonds that they have issued or guaranteed.

This means that **the U.S. taxpayer now stands behind about \$5 trillion of GSE debt.** This step was taken because a default by either of the two firms, which have been battered by the downturn in housing and credit markets, could have caused severe disruptions in global financial markets, made home mortgages more difficult and expensive to obtain, and had negative repercussions throughout the economy.

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