



The Real Estate Roundtable

Fannie Mae, Freddie Mac, and the Future of Housing Finance in the U.S.

Housing, Infrastructure, and Cities

Summary

In response to the Global Financial Crisis in September 2008, the U.S. Treasury placed Fannie Mae and Freddie Mac into conservatorship under the oversight of the Federal Housing Finance Agency (FHFA). This action was intended to stabilize the mortgage market and restore confidence in the government-sponsored enterprises (GSEs). It also involved an injection of \$190 billion of capital, while creating an explicit U.S. government guarantee. The ongoing conservatorship means that the government has total control over these huge government-backed mortgage enterprises, with \$7.7 trillion in combined assets.

Conservatorship was not meant to be indefinite. More than 17 years later, the GSEs are in a much stronger financial position and have repaid the \$187 billion used to preserve Fannie and Freddie during the financial crisis. Yet, retiring the government's preferred and common equity stake would require a refinancing of massive scale, a taxpayer gift from the U.S. Treasury of tens of billions of dollars to Fannie and Freddie, or both.

Policymakers have increasingly discussed various reform proposals, including ending the conservatorship, full privatization, hybrid models, and continued government backing with additional safeguards. The administration has set reform as a key priority, yet concrete details have yet to emerge.

As policymakers consider privatization or structural reforms, it is essential to the real estate industry and the broader economy to **preserve a well-functioning housing finance system that supports homeownership, expands affordable housing supply, and sustains economic growth.**

Key Takeaways

- GSE reform will involve transitioning these government-sponsored enterprises to private entities, which necessitates significant recapitalization, potentially through an Initial Public Offering (IPO), to meet regulatory capital requirements and address outstanding liabilities.
 - As a practical matter, it will be challenging for Fannie and Freddie to exit conservatorship and remain effective in the marketplace without a government guarantee. Determining the cost of this guarantee is one of the key challenges of reform.
 - An explicit guarantee, similar to Ginnie Mae, might be one solution, but this would likely require an act of Congress and a fee paid to the Treasury for assuming the risk. This could increase costs for underlying borrowers.
 - If Fannie and Freddie are transitioned to private ownership, the process must ensure **financial stability, avoid market disruptions, and protect access to affordable mortgages.**
 - Reforms to the GSEs should be part of a **larger national transformation in housing policy** to unleash a wave of new housing construction and fully address the underbuilding gap, including Yes In My Backyard (YIMBY) policies, property conversion incentives and reforms to zoning and permitting rules, Opportunity Zones, and the Low-Income Housing Tax Credit (LIHTC).
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Background

Fannie Mae and Freddie Mac

- The Federal National Mortgage Association (FNMA), known as Fannie Mae, was chartered in 1938 to support the housing market during the Great Depression. In 1968, Fannie Mae was removed from the federal budget and became a federally chartered, stockholder-owned corporation. The Federal Home Loan Mortgage Corporation (FHLMC), or Freddie Mac, was chartered in 1970 to further expand the secondary mortgage market.



- Both of these entities enjoyed an “implicit guarantee” that the government would not allow such important institutions to fail or default on debt, enabling them to borrow in the credit markets at lower rates than other financial institutions. They have played a vital role in the U.S. residential single-family and multifamily mortgage market. As of December 2024, Fannie Mae and Freddie Mac collectively guarantee \$6.6 trillion in Agency Mortgage-Backed Securities (MBS), or some 50 percent of all outstanding U.S. mortgage debt.
- Since 2019, the GSEs have been authorized to retain profits to build capital. As of the third quarter of 2024, the Treasury’s liquidation preference for the senior preferred shares stands at \$340 billion. This would need to be addressed as part of any privatization plan.
- As a result of retaining capital, Fannie Mae and Freddie Mac increased their combined net worth to \$147 billion as of the third quarter of 2024. Despite this steady growth, the GSEs remain well below the minimum regulatory capital framework requirements set by the FHFA in 2020. As of Sept. 30, 2024, Fannie Mae’s capital requirement is \$187 billion, while Freddie Mac’s is \$141 billion, resulting in a combined total requirement of \$328 billion.
- Privatization efforts languished under the former Biden administration, but Trump administration officials, including U.S. Department of Housing and Urban Development (HUD) Secretary Scott Turner, FHFA Director Bill Pulte, and Treasury Secretary Scott Bessent, have expressed a desire to end the conservatorship. Yet, a key consideration of ending the conservatorship for Sec. Bessent is the potential impact on mortgage rates. He has indicated that any plan to release the GSEs from government control must carefully assess potential effects on mortgage rates to ensure that homeownership remains affordable.
- On Dec. 9, 2024, House Financial Services Committee Chairman French Hill (R-AR) commented on the potential for reform: “Although some changes can be achieved through administrative actions, certain important reforms are only possible through statutory changes.”

Recommendations

Preserve Market Liquidity: Reforms that directly affect or result in changes to the GSEs’ market activities must ensure that there continues to be sufficient liquidity to maintain a well-functioning housing finance system. Less liquidity and higher costs could reduce investment in new housing supply and exacerbate the housing shortage.

- The GSEs serve a vital purpose in the U.S. housing market, helping to keep mortgage rates relatively low and encouraging financial institutions to finance single-family and multifamily housing.
- Fannie Mae and Freddie Mac support around [70 percent](#) of the mortgage market, and in the first half of 2024, were responsible for [48 percent](#) of newly originated apartment loans.

Support Affordable Housing Goals: GSE reforms should ensure that Fannie and Freddie continue to maintain a strong emphasis on affordable housing and underserved markets.

- GSE-backed financing assists in the construction of new affordable housing, which is essential to address the chronic housing shortage. The estimated gap of [5.5 million](#) housing units in the U.S. undermines affordability and economic growth—particularly in urban areas.
- As part of their mission, Fannie and Freddie purchase [multifamily loans](#) which support affordable and workforce housing. The GSEs’ loan purchases are overseen by the FHFA, which sets volume caps based on market forecasts.

Ensure Soundness and Stability: Any privatization or restructuring must ensure that the GSEs maintain financial strength, mitigate risk to taxpayers, and support long-term market confidence.

- Fannie Mae and Freddie Mac together accounted for 42 percent of the total dollar volume of multifamily mortgages originated in 2023, according to the Mortgage Bankers Association (MBA). Reforms should ensure that the soundness of these and other loans continue to meet standards while providing sufficient liquidity to meet the market’s needs, particularly in the affordable sector.
- The Enterprise Regulatory Capital Framework ([ERC](#)), adopted by the FHFA as part of the conservatorship, established risk-based capital standards for the GSEs that exceed the statutory minimum leverage requirements. Reforms to Fannie and Freddie’s capital requirements should ensure that they continue to be well-capitalized and can withstand economic distress.



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Enhance Private Market Capacity: GSE financing efforts should focus on affordable and workforce housing and avoid crowding out private-sector financing and investment in class "A" market-rate apartments. However, reforms must appropriately calibrate any restrictions on multifamily lending to avoid any unintended consequences to aggregate credit capacity—particularly in times of economic distress.