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 18 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.

The GSEs are currently "effectively owned" by the U.S. Treasury, which holds senior preferred stock and warrants for 79.9 percent of their common stock. While they have built significant reserves, the Congressional Budget Office (CBO) projected that their equity value by early 2027 would still fall short of full recapitalization requirements.

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**.

The enactment of the 21st Century ROAD to Housing Act in July 2026 directly impacts GSE operations and capital deployment, moving the goalposts for structural housing finance reform:

- Multifamily Backstop Role: The law explicitly codifies the GSEs' role as a stable liquidity backstop in the commercial and multifamily mortgage markets.
- FHFA Loan Purchase Caps: In alignment with the Act's goals, the FHFA sharply increased the 2026 multifamily loan purchase caps to a combined $176 billion (a 20.5 percent increase over 2025's $146 billion limit). The FHFA committed to a "liquidity backstop" pledge, promising not to reduce these caps even if the broader market contracts.
- Intertwined Legislative Fate: Because the ROAD to Housing Act leveraged banking system relief and increased Public Welfare Investment caps to unlock private capital, standalone legislative GSE reform has been sidelined. Congress has effectively prioritized using the GSEs as tools for immediate supply creation rather than executing a complex wind-down or restructuring of their charters.

Key Takeaways

- The tension between the executive branch's administrative ambitions and the legislative reality in Congress shapes the future of both GSE reform and institutional housing rules. While the administration utilizes regulatory agencies to bypass legislative gridlock, congressional opposition and structural legal hurdles create significant friction.
- The FHFA and the Treasury Department are quietly exploring an administrative "recapitalization and release" framework. With the GSEs holding $328 billion in combined capital, the administration is evaluating a consent decree that would restructure the Treasury's senior preferred stock and allow the enterprises to exit conservatorship without a new act of Congress.
- A complete, rapid exit from conservatorship is considered unlikely in the immediate term due to the technical complexity of raising enough capital to meet regulatory requirements. Instead, a gradual transition involving partial share offerings is more likely.

- A critical future debate is whether the government will provide a "paid-for explicit guarantee" on GSE mortgage-backed securities (MBS). Without this, critics warn mortgage rates could spike due to increased risk for private investors.
- However, one key concern for a successful exit is the "explicit guarantee." If the government does not legally guarantee the mortgages post-exit, mortgage rates could rise by 0.2 to 0.8 percentage points ($500 to $2,000 more per year for a typical buyer). An explicit, paid-for guarantee would likely stabilize the 30-year fixed-rate mortgage but would require an act of Congress.
- 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 (OZs), and the Low-Income Housing Tax Credit (LIHTC).

Background

Fannie Mae and Freddie Mac

- 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.

Recommendations

Preserve Market Liquidity: Reforms must preserve sufficient liquidity to avoid higher borrowing costs that 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.
- As part of their mission, Fannie and Freddie purchase multifamily loans which support affordable and workforce housing. The FHFA oversees these purchases and 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 continues to meet standards while providing sufficient liquidity to meet the market's needs, particularly in the affordable sector.
- The Enterprise Regulatory Capital Framework (ERCF), 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.

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.