

The future of Fannie, Freddie

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WASHINGTON — Treasury Secretary Henry Paulson, seeking to calm nervous investors about the financial state of Fannie Mae and Freddie Mac, said Friday the government's primary policy focus currently is to leave the congressionally created mortgage giants intact.

"Today our primary focus is supporting Fannie Mae and Freddie Mac in their current form as they carry out their important mission," Paulson said.

The financial health of the two companies is of critical concern to Washington policymakers because of the crucial role they play in the housing market.

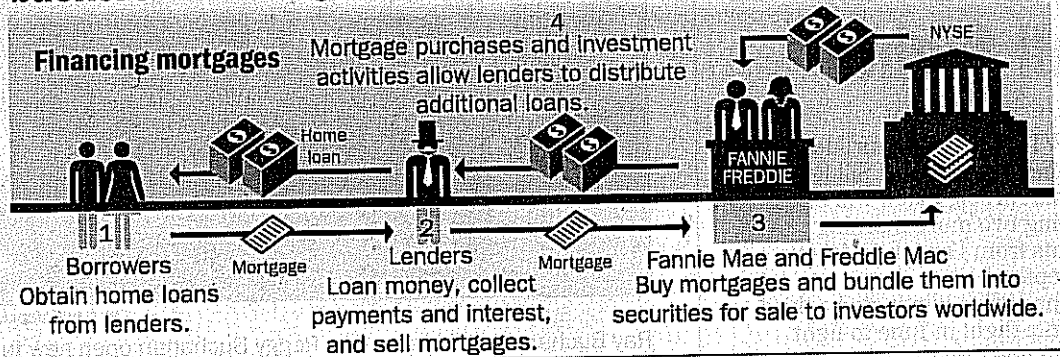
Sen. Christopher J. Dodd, D-Conn., the Banking Committee chairman, said he spoke Friday to Federal Reserve Chairman Ben Bernanke and Paulson, saying the two are "looking at various options" for propping up the firms if they ultimately need help. These include giving them access to the Fed's emergency lending program, Dodd said.

Conservatorship talked

Paulson's comments came amid reports that the government was considering a plan to take over one or both of the companies and place them in a

Mortgage backers

Congress created Fannie Mae in 1938 and Freddie Mac in 1970 to keep money flowing into the home-loan market by buying up mortgages and selling them to investors, making home ownership more affordable.



Sources: Fannie Mae; Freddie Mac

AP



Henry Paulson

conservatorship.

In an unprecedented and controversial move in March, the Fed allowed big Wall Street firms to — on a temporary basis — directly borrow cash from the emergency facility. That privilege has been afforded

to commercial banks on a permanent basis for years.

Fannie Mae and Freddie Mac hold or guarantee around \$5 trillion worth of mortgages. That's roughly half of the \$9.5 trillion debt of the United States. The fear is that a failure of one or both would wreak havoc on the nation's financial system and the broader economy as well.

Paulson, earlier in the day, said his department was "maintaining a dialogue with regulators and with the companies." The companies' main regulator, the Office of Federal Housing Enterprise Oversight, will continue to work with Fannie Mae and Freddie Mac, he said, "as they take the steps necessary to allow them to continue to perform their important public mission."

Shares of the companies' stocks have plunged in recent days, with Freddie's and Fannie's down sharply on Friday as fear intensified. Investors are increasingly worried the companies will suffer more losses as housing prices keep falling and foreclosures keep rising.

Small financial cushion

Stock investors are worried the companies will have to raise a lot more money to cover

those losses. By law the companies are required to hold only a fraction of what is mandated for commercial banks as a financial cushion against risk.

Congress created the companies to provide a steady stream of money for home mortgages. Although the government doesn't guarantee Fannie's and Freddie's debts, most investors believe the government would come to their rescue if the companies fell into dire straits. This "implicit" guarantee allows them to borrow money at lower interest rates than other companies.

The worries about Fannie and Freddie come as the government is depending on them for much-needed mortgage financing at a time when credit has gotten harder to obtain.

The housing, credit and financial crises have pummeled the economy, retarding growth and employee layoffs.