

Miscast as the heroes

by The Milwaukee Journal Sentinel

The collapse of the subprime housing market is like a bad Halloween movie. Thousands of homeowners who had hoped for the American dream are instead living an American horror story. With 2.5 million more loans resetting to higher rates over the next two years, that story is still playing out.

Even so, Congress must be wary of allowing Freddie Mac and Fannie Mae to play leading roles, as some congressional Democrats are suggesting.

Fannie and Freddie provide a secondary market in home mortgages by purchasing them from lenders. They hold some of these mortgages and sell others as mortgage-backed securities. Because of their unique position, they can borrow at rates that their top private competitors can't touch. The debt is backed, at least implicitly, by the U.S. Treasury, which means taxpayers could be on the hook if they fail.

Fannie and Freddie want the caps lifted on the size of their portfolios of mortgage-backed securities. And they want the ability to purchase jumbo mortgages, those larger than their current \$417,000 limit.

Neither does much to help subprime borrowers. Freddie and Fannie are unlikely to buy troubled loans, and it's debatable whether these agencies actually add capital to the market or just move it around.

There are also those nettlesome accounting scandals. Freddie Mac recently agreed to pay a \$50 million penalty as part of a settlement with the Securities and Exchange Commission over allegations it misstated earnings. It admitted no wrongdoing. Last year, Fannie Mae was fined \$400 million in its own accounting fraud case.

Any loosening of restrictions on Fannie and Freddie must include stronger regulation.

But it's worth asking why congressional patrons believe giving this duo more latitude is a good idea at all. We suspect the answer can be found in the donors' logs of those congressmen.

Fannie and Freddie are government-sponsored enterprises and are supposed to help with low-income housing. They should stick to that. Their presence in this story won't make for a happy ending.

For more information, go to www.fanniemae.com and www.freddiemac.com

Reprinted from The Milwaukee Journal Sentinel - CNS

Miscast as the heroes by The Milwaukee Journal Sentinel