

“A PUBLIC SERVICE,” MY FANNIE

I wanted to juxtapose two stories about Fannie Mae. The first, from this WaPo story reporting that the Administration has decided to keep some kind of federal entity guaranteeing mortgages. The story itself is interesting—as are Dean Baker’s post criticizing the underlying decision.

What I found particularly interesting, though, were the comments from the usual suspects about the role they perceive Fannie and Freddie as playing.

Two top Obama advisers, HUD Secretary Shaun Donovan and Treasury Secretary Timothy F. Geithner, think the government should maintain an outsize role in the housing market, administration officials said.

Donovan thinks federal support for housing fulfills **a public service**, while Geithner has been focused on **the need for the government to have a way to keep the mortgage market operating during a financial crisis**.

Other advisers, however, opposed a continued government role over the long run. Austan Goolsbee, who this month left his job as chairman of Obama’s Council of Economic Advisers, argued that the federal role in housing **distorts the free market**. By subsidizing mortgage investments, he argued, the government drives capital away from other types of investments – for example, those in companies developing environmentally friendly technology. He also warned that the government is **putting enormous sums of taxpayer money on the line while conveying little actual benefit to home buyers**.

In a meeting with the president, Goolsbee said that the government had **finally brought Fannie and Freddie's excesses to heel** by taking over the companies and that it would be a mistake to let them loose in the market again, said a person familiar with the meeting. Goolsbee likened the companies to a villain held in a special prison who shouldn't be freed just because he promises to help the poor, the source recounted.

Lawrence H. Summers, who was director of the National Economic Council until early this year, argued that, over the long term, **it didn't make sense to have a government-backed agency providing guarantees** to the mortgage market but that Fannie and Freddie still play a crucial role.

"My position was that we needed to maximize activity in the short run to support the housing market," Summers said in an interview. "Discussions of scaling down Fannie and Freddie were vastly premature under the circumstances of a collapsing housing market." [my emphasis]

Compare those comments—particularly those favoring the GSEs from Donovan and TurboTaxTimmeh—with the description of the way Fannie Mae is fleecing the taxpayers and ruining communities by pushing servicers to foreclose even though homeowners are seeking a modification, an approach that violates Fannie's own stated policy.

The documents show Fannie Mae has told banks to foreclose on some delinquent homeowners – those more than a year behind – even as the banks were trying to help borrowers save their houses, a violation of Fannie's own policy.

Fannie Mae has publicly maintained that homeowners would not lose their houses while negotiating changes to mortgages under the federal Home Affordable Modification Program, or HAMP.

The Free Press also obtained internal records revealing that the taxpayer-supported mortgage giant has told banks that it expected them to sell off a fixed percentage of foreclosed homes. In one letter sent to banks around the country last year, a Fannie vice president made clear that Fannie expected 10%-12% of homes in foreclosure to proceed to sale.

[snip]

“Fannie just wants to clean up its balance sheet and get these loans off the books while taxpayers are eating these losses,” [Valpariso University Law Professor Alan] White said, referring to the multibillion-dollar federal bailout of Fannie Mae in 2008 and the rising cost to taxpayers.

“And Treasury and the FHFA are letting them get away with it. It’s a huge waste. Wealth is being destroyed, people are losing houses needlessly, and taxpayers are losing money.”

[snip]

According to White, the Valparaiso professor, foreclosing on a home typically costs Fannie Mae far more than a successful loan modification. But, he and others say, Fannie is willing to absorb higher losses because it knows taxpayers – not Fannie Mae – will eventually reimburse the loss.

In other words, even as Donovan and Timmeh appear to have won the argument on sustaining Fannie and Freddie (or something like them),

what was implicitly clear (I've been hearing this accusation since 2009) has been proven: that the GSEs have been using their government backing to stiff taxpayers and ruin communities. (Kudos to Goolsbee who got it mostly right on this one: the taxpayer backing is providing little of value to taxpayers.)

It's as if none of these folks overseeing Fannie know how badly it is screwing American communities. Or perhaps they don't care?