



## **U.S. Treasury Department Releases Plan to Restructure Fannie Mae and Freddie Mac**

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Last Thursday, after the close of the markets, the U.S. Treasury Department released a plan on restructuring these government-sponsored enterprises (GSEs): Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

In 2008, the government put the two companies into conservatorship and subsequently received approximately \$190 billion from the Treasury Department. The two companies have since returned to profitability and repaid their debt to the Treasury. For a number of years now, policymakers in Washington have discussed the next moves for the two companies. In March 2019, President Trump issued a Presidential Memorandum directing the Secretary of the Treasury to develop a plan for administrative and legislative reforms to address this last unfinished business of the financial crisis.

Fannie and Freddie, along with the Federal Housing Administration (FHA), guarantee over half of the \$10 trillion U.S. home loan market. Any changes to Fannie and Freddie will have an impact on the mortgage market.

The central component of the Treasury Department's plan is making the companies private again, but with sufficient private capital to prevent the companies from seeking another financial bailout. The Treasury Department also recommends that Fannie and Freddie pay a fee for any backing it has from the U.S. government. Some have suggested this may raise the cost of mortgages, but others suggest it is a necessary component of the plan.

It is unclear what the timetable would be for returning Fannie Mae and Freddie Mac to private ownership. Some observers have speculated it could be in 2020, or perhaps much later. The Treasury Department's plan also includes nearly fifty recommended legislative and administrative reforms.

The Trump Administration can privatize the companies without Congressional input, but the report makes a number of legislative recommendations to improve upon this move. It is unclear if the GOP-controlled Senate and Democrat-controlled House can come together on a significant issue facing the housing markets.

### ***Title Industry Insights***

The title industry has closely monitored these GSE discussions for many years. Given the power of the two companies over the mortgage market, their activities can impact our industry. The title industry has also been watchful for any attempts by the two companies to shortcut the land title examination process - or perhaps even get into this business line themselves.

The Treasury Department's report specifically addresses Fannie and Freddie's attempts to expand their business lines. The report recommends that Congress restrict the permissible activities of Fannie and Freddie to the business of securitizing government-guaranteed, mortgage-backed securities. The report further recommends that pending any legislation, Fannie and Freddie's regulator, the Federal Housing Finance Agency (FHFA), assess whether Fannie and Freddie's current products, services, and other activities are consistent with their statutory mission.

Finally, the report recommends that FHFA implement a policy and process for approval of Fannie and Freddie's new pilot programs—as well as any other new activities or products—with that process including the solicitation of public input. This last recommendation is important; it would preserve public comment from industry segments regarding any possible business expansion through a pilot program.

TLTA will continue to monitor this issue and any legislative or regulatory activities to come in the future.