Removing Government Sponsorship from Fannie Mae, Freddie Mac, and the Federal Home Loan Banks

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October 4, 2004

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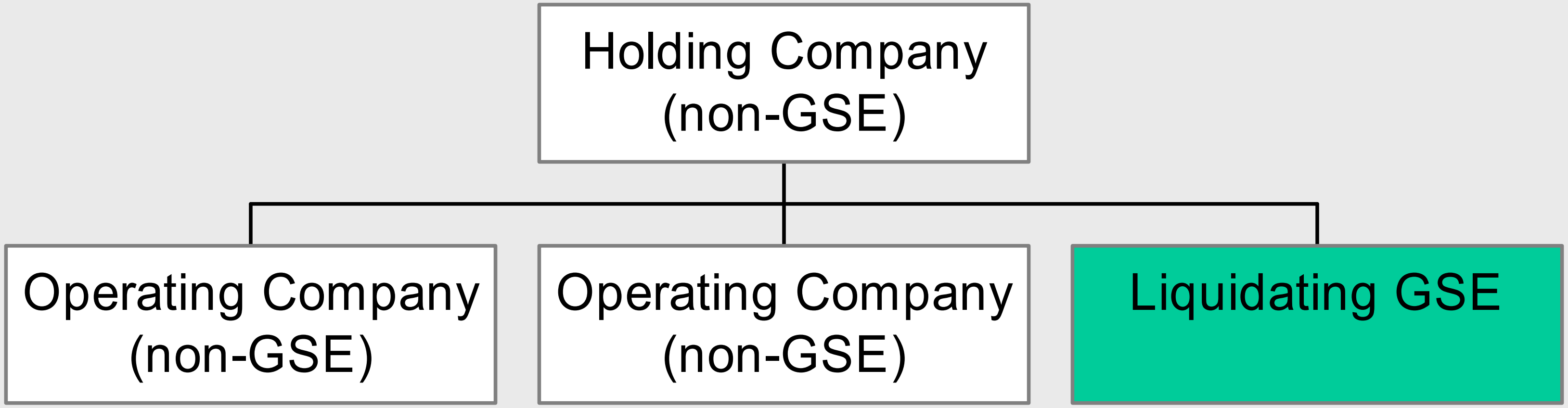
The Process:

- End of authorized GSE activities in stages
  - Eliminate most risky activities
  - Permit the GSE to serve core mission
  - Phase out GSE activities
- Asset disposal over a five year period
- Operations may shift to non-GSE affiliates
- Holding-company structure (Sallie Mae precedent)
- Five-year transition period

Restructuring as a Holding Company



The Process for Fannie Mae and Freddie Mac

Immediate Steps

- GSE stops purchasing assets
- Securitization continues
- 5-year schedule for disposing of all assets
- Escalating fees on excess portfolio
- (25-60 bp)
- Five year sunset in law

The Process for Fannie Mae and Freddie Mac (cont.)

After Six Months

- 30-month schedule for ending new securitization
- Escalating fees on excess MBS issuance (10-25 bp)

The Process for Fannie Mae and Freddie Mac (cont.)

May operate non-GSE holding company if…

- GSE "AA" stand-alone rating
- Spin-off AUS and information databases to independent companies with guaranteed access

The Process for Fannie Mae and Freddie Mac (cont.)

Operating the holding company

- Regulator certifies preconditions are met
- Holding company operates on non-GSE basis
- Financial services holding company: May engage in all lawful activities
- Subject to all applicable laws (antitrust, SEC, privacy, etc.)

The Process for Fannie Mae and Freddie Mac (cont.)

Winding up the GSE subsidiary

- Defease outstanding agency-status debt and place MBS in well-capitalized trusts
- Remit excess funds to holding company as trusts wind up
- Legal authority for GSE terminates
- GSE regulator terminates

The Process for the Federal Home Loan Banks

Similar to FNM/FRE process

- FHLB new business immediately limited to advances collateralized by high-investment grade loans
- After six months apply 30-month schedule for winding down new GSE advances to zero
- 5-year schedule for disposing of non-advance assets (escalating fees for excess holdings)

The Process for the Federal Home Loan Banks (cont.)

Differences:

- Immediately limit maturities of new advances and GSE debt
- Permit FHLBs to merge (if “AA” is maintained)

Protecting Taxpayers

- Portfolio purchases cease immediately
- Holding Company Incentives are Structured
  – Must achieve “AA” rating on GSE to begin operations
  – Must maintain GSE’s “AA” rating to transfer assets to holding company
  – Receives residual value of liquidated GSE
- The regulator supervises the process
- Process limited to five years

Protecting the housing market

- FNM and FRE issue MBSs for three years after ending portfolio operations
- Holding companies grow non-GSE businesses while GSEs wind down
- Affordable housing benefits from Offset Fund

Protecting competing firms in the marketplace

- GSEs must dispose of assets within five years
- FNM and FRE must cease MBS operations after three years
- Holding company may not operate until GSE achieves “AA” rating
- FNM and FRE must provide copies of AUS and databases to spin-off companies
- Holding company may not affiliate with depository institution until GSE is terminated

Open Issues

- GSEs could act before the date of enactment to create conditions that make privatization more difficult

- GSEs will have influence over the legislative process

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Questions?

Thank you for the useful comments on earlier versions of this proposal