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Fannie Mae and Freddie Mac: Past, Present, and Future

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Policy Briefs

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Fannie Mae and Freddie Mac: Past, Present, and Future

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Abstract

This policy brief examines the past, present, and future of Fannie Mae and Freddie Mac. Beginning with the present, this brief discusses the recent economic and regulatory changes that have affected the government-sponsored enterprises' (GSEs') operations and businesses. Next, the article looks back at the regulations and major events over the years that shaped the enterprises and their role in the housing finance market. The final part of this article highlights issues to consider. These issues present research opportunities on topics that will shape and inform the policy debate on the future of the GSEs.

Recent Economic and Regulatory Changes

In the past 2 years, Fannie Mae and Freddie Mac have faced dramatically changing economic and regulatory environments. Large declines in house prices began in December 2006 and led to the deepest recession since the 1930s.[1] Mortgage delinquencies began to skyrocket in nearly all states and uncovered lax underwriting standards, unsustainable payment terms in exotic mortgage products, and faulty securities ratings. The widespread undervaluation of mortgage default risk and loss severity had dire effects on the performance of mortgage portfolios and mortgage-related securities.

The regulatory structure that had governed the government-sponsored enterprises (GSEs) since the Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA) of 1992 began to change on July 30, 2009, when the U.S. Congress passed the Housing and Economic Recovery Act (HERA) of 2008. This reform legislation created the Federal Housing Finance Agency (FHFA),

[1] Based on the S&P/Case-Shiller® U.S. National Home Price Index, the decline in national house prices began in December 2006.

a new independent regulator. FHFA replaced the Office of Federal Housing Enterprise Oversight (OFHEO), Fannie Mae and Freddie Mac's safety and soundness regulator, and assumed additional responsibilities that had previously been carried out by the U.S. Department of Housing and Urban Development (HUD).[2] These responsibilities included setting affordable housing goals, monitoring the GSEs' compliance with the housing goals, and conducting new program reviews. HERA provided FHFA with broad authority to regulate the size and composition of the Fannie Mae and Freddie Mac investment portfolios, set capital requirements, place the enterprises into conservatorship, and reorganize them to prevent their insolvency. HERA also provided temporary authority for the U.S. Department of the Treasury (Treasury Department) to provide financial support to Fannie Mae and Freddie Mac by purchasing securities or other obligations of the GSEs through December 31, 2009.

The troubles in the mortgage finance market exposed large risks the GSEs had undertaken and increased concerns related to their safety and soundness. In 2007, both GSEs reported net income losses, the first ever for Freddie Mac. Losses continued to mount for the GSEs in the first half of 2008. Their core capital eroded and FHFA moved to place Fannie Mae and Freddie Mac in conservatorship on September 7, 2008. The Treasury Department began to exercise its GSE assistance authorities to restore the GSEs' solvency. Initially, the Treasury Department purchased $1 billion in senior preferred stock in Freddie Mac and Fannie Mae and warrants for the purchase of common stock representing 79.9 percent of outstanding common stock. To further ensure the GSEs' stability and strength, the Treasury Department and Federal Reserve created the Troubled Asset Relief Program and Term Asset-Backed Securities Loan Facility to purchase GSE mortgage-backed securities (MBS) and GSE debt.

As of April 30, 2009, the Treasury Department had spent $59.8 billion on capital injections through the purchase of preferred stock in the two enterprises. As of May 20, 2009, the Federal Reserve, using its separate authorities, had purchased nearly $77 billion in GSE debt issuances. In addition, both the Treasury Department and the Federal Reserve directly purchased more than $567 billion worth of GSE MBS.

Federal conservatorship has allowed the GSEs to maintain, and even expand, their presence in the secondary mortgage market. Their combined share of single-family mortgage purchases peaked at 81 percent in the second quarter of 2008 and stood at 73 percent for 2008 as a whole.

The Treasury Department also contracted with Fannie Mae and Freddie Mac to act as financial agents for the federal government to implement the Making Home Affordable (MHA) program.[3] MHA is a major initiative that was designed to combat loan delinquencies on two fronts: through loan modifications (the Home Affordable Modification Program [HAMP]) and refinancing (Home Affordable Refinance Program [HARP]). In most cases, borrowers who participate in the program receive a new loan with mortgage payments that should be more affordable over the long term.

[2] HERA amended FHEFSSA and transferred GSE oversight to FHFA, with the exception of the responsibility for administering FHEFSSA's fair lending provisions, which HUD retained. HERA also transferred the regulatory authority of the Federal Home Loan Banks to FHFA.

[3] The MHA program, which was announced on March 4, 2009, is a major initiative of the Homeowner Affordability and Stability Plan, which was announced on February 18, 2009.

The GSEs' roles in the program vary. Fannie Mae is working with mortgage servicers to implement HAMP, an aggressive restructuring approach for curing troubled loans.[4] It is estimated that up to 4 million at-risk homeowners could reduce mortgage payments primarily through interest-rate reductions. The program also provides loan servicers and investors with the option of reducing a loan's outstanding principal balance. Freddie Mac's role is overseeing the servicers' compliance with HAMP's terms and conditions.

Both Fannie Mae and Freddie Mac offer HARP. Under this program, the GSEs will purchase any refinanced mortgage that they owned or guaranteed when the property is owner-occupied, the borrower has sufficient income to support the new mortgage debt, and the first mortgage does not exceed 125 percent of the current market value of the property. This program provides access to mortgage credit for up to 5 million homeowners who are current on their mortgage payments but have negative equity due to declining house prices and lack of private mortgage insurance.[5] In many cases, this program enables borrowers to refinance into lower interest-rate mortgages.

Thus, the support from the Treasury Department and the Federal Reserve has allowed the GSEs to play a key role in providing liquidity to the second-mortgage market and stabilizing the primary-mortgage market through loan modifications and refinances; however, conservatorship is not a permanent state. Determining where the GSEs go from here is one of the key policy objectives of the Obama Administration's white paper entitled *Financial Regulatory Reform—A New Foundation: Rebuilding Financial Supervision and Regulation*, which was released on June 23, 2009. The administration empowered the Treasury Department and HUD to work with other government agencies to explore options regarding the future of the GSEs.[6] The process will be comprehensive and include an interagency task force that will study and assess the various options for reforming the GSEs. Recommendations are expected when the President's 2011 budget is released.

A Brief History of the GSEs

In 1948, the Federal National Mortgage Association (now known just as Fannie Mae) was established as a portfolio holder of mortgage loans under the Federal Housing Administration (FHA). Initially, Fannie Mae bought and held loans guaranteed by FHA and later by the Veterans Administration (now known as the Department of Veterans Affairs). The Housing Act of 1954 expanded Fannie Mae's charter. In addition to managing and liquidating its existing mortgage portfolio, Fannie Mae was directed to provide liquidity in the mortgage market. The 1954 Act reorganized Fannie Mae as a mixed ownership corporation; the eligible shareholders were the federal government and lenders who sold mortgages to Fannie Mae.

[4] To be eligible for HAMP, a borrower must be an owner-occupant in a one- to four-unit property; have an unpaid principal balance that is equal to or less than $729,750; have a loan that was originated before January 1, 2009; have a mortgage payment (including taxes, insurance, and homeowners association dues) that is more than 31 percent of the borrower's gross monthly income; and have experienced a significant change in income or expenses to the point that the current mortgage payment is no longer affordable.

[5] See the Road to Stability on the Financial Stability website at http://www.financialstability.gov/roadtostability/homeowner.html.

[6] Under the Obama Administration's Financial Regulatory Reform Plan, the Treasury Department and HUD will also explore options and report on recommendations about the future of the Federal Home Loan Bank System.

In 1968, Congress chartered Fannie Mae as a private, shareholder-owned company with government sponsorship. The Housing and Urban Development Act of 1968 gave the Secretary of HUD general regulatory authority over Fannie Mae. The federal government's shares were sold publicly. Fannie Mae issued its first MBS in 1981.

Congress established Freddie Mac in 1970 to develop a secondary market for conventional mortgage loans under the Federal Home Loan Bank Board. Freddie Mac introduced its first conventional mortgage security in 1971, the Mortgage Participation Certificate. In 1982, Freddie Mac became a publicly traded shareholder-owned corporation. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 dissolved the Federal Home Loan Bank Board and established a shareholder-elected board of directors for Freddie Mac. Freddie Mac mainly securitized mortgages until the early 1990s, when it began accumulating a substantial portfolio of mortgages.

FHEFSSA fundamentally revised Fannie Mae and Freddie Mac's regulatory structure and better defined their mission. Under FHEFSSA, Congress created OFHEO as an independent agency within HUD to monitor the safety and soundness of Fannie Mae and Freddie Mac. OFHEO was responsible for ensuring that the GSEs were adequately capitalized and operating safely. The Director of OFHEO assessed the GSEs for the costs of their financial safety and soundness regulation.

FHEFSSA mandated specific responsibilities for the Secretary of HUD, acting independently of OFHEO, that included setting affordable housing goals, monitoring and enforcing the GSEs' performance in meeting the housing goals, reviewing requests for new program approval submitted by the GSEs, prohibiting discrimination in the GSEs' mortgage purchase activities and reviewing and commenting on their underwriting guidelines, and establishing a public use database on the GSEs' mortgage purchases. Before 1992, the GSEs' charters required that 30 percent of GSE conventional mortgage purchases be devoted to mortgages for (1) low- and moderate-income housing or (2) housing located in central cities. FHEFSSA provided HUD with the power to collect data to monitor the GSEs' compliance with the housing goals, a critical authority it had lacked.

In 1995, HUD began issuing affordable housing goals requiring the GSEs to purchase (1) mortgages made to low- and moderate income families, (2) mortgages on properties located in underserved areas, and (3) mortgages made to very low-income families and low-income families in low-income areas. The levels of the affordable housing goals and home purchase subgoals are summarized in exhibit 1. With the issuance of subsequent rules in 2001 and 2004, the levels of the affordable housing goals increased. In 2004, home purchase subgoals were introduced.

The recent housing crisis has brought the effectiveness of the housing goals into question. Some critics argue that the goals and subgoals contributed to the crisis. Critics also suggest that the GSEs used the goals as an excuse to expand their business into a higher yield segment of the housing market instead of providing prudent underwriting for borrowers on the margin, as advocated in their respective charters.

Exhibit 1 shows that, in recent years, one or both GSEs failed to meet one or more of the affordable housing goals or home purchase subgoals. In 2005, Fannie Mae's performance fell short of the low- and moderate-income subgoal, which, in that year, was 45 percent. Of total eligible units, 44.6 percent qualified for the home purchase low- and moderate-income subgoal. In 2007,

Exhibit 1

Levels of the Affordable Housing Goals and Home Purchase Subgoals for Fannie Mae and Freddie Mac Since 1996

	Year													
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Housing goals														
Low- and moderate-income	40%	42%	42%	42%	42%	50%	50%	50%	50%	52%	53%	55%	56%	43%
Geographically targeted (underserved area)	21%	24%	24%	24%	24%	31%	31%	31%	31%	37%	38%	38%	39%	32%
Special affordable	12%	14%	14%	14%	14%	20%	20%	20%	20%	22%	23%	25%	27%	18%
Special affordable multifamily														
Fannie Mae ($ billions)	$1.29	$1.29	$1.29	$1.29	$1.29	$2.85	$2.85	$2.85	$2.85	$5.49	$5.49	$5.49	$5.49	$6.56
Freddie Mac ($ billions)	$0.99	$0.99	$0.99	$0.99	$0.99	$2.11	$2.11	$2.11	$2.11	$3.92	$3.92	$3.92	$3.92	$4.60
Home purchase subgoals														
Low- and moderate-income										45%	46%	47%	47%	40%
Geographically targeted (underserved area)										32%	33%	33%	34%	30%
Special affordable										17%	17%	18%	18%	14%

Sources: "HUD's Housing Goals for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mae) for the Years 2005-2008 and Amendments to HUD's Regulation of Fannie Mae and Freddie Mac; Final Rule," 24 CFR Part 81. Federal Register *69 (211) November 2, 2004; "2009 Enterprise Transition Affordable Housing Goals; Final Rule," 12 CFR 1282.* Federal Register *74 (83) August 10, 2009* the GSEs met the affordable housing goals but failed to meet two of the subgoals. In letters sent to the GSEs on April 24, 2008, HUD notified the GSEs that the low- and moderate-income home purchase subgoal of 47 percent and the special affordable home purchase subgoal of 18 percent were suspended as infeasible.[7] For 2008, although FHFA determined that the low- and moderate-income and special affordable goals and all the home purchase subgoals were infeasible, the underserved areas goal was feasible. Fannie Mae exceeded this goal and Freddie Mac failed it with 37.7 percent of its total eligible units qualifying. Both GSEs exceeded their respective special affordable multifamily subgoal.

Since FHEFSSA was enacted in 1992, the GSEs' combined book of business grew substantially until 2008. At the end of 1992, Fannie Mae's retained portfolio was $156.3 billion and the total of its MBS outstanding was $424.4 billion. Freddie Mac had a portfolio of $33.6 billion and a total of $407.5 billion MBS outstanding. By 2008, Fannie Mae's portfolio grew to $768 billion and its MBS outstanding increased to $2,289 billion. Freddie Mac's portfolio grew to nearly match Fannie Mae's, at $749 billion, while its MBS outstanding rose to $1,403 billion. To put the size of the GSEs' obligations into perspective, at the end of 2008, the GSEs held about 43.7 percent of the total outstanding mortgage debt in the United States and their combined obligations were $5.2 trillion. Their combined obligations rivaled the U.S. public debt, which was $6.3 trillion in October 2008.[8]

Other Events

Beginning in the 1990s, lenders' use of automated underwriting systems (AUSs) transformed the mortgage industry. These systems applied underwriting criteria and statistical algorithms to predict the default probability of loan applications. The GSEs were industry leaders in the development and implementation of these systems to evaluate their loan purchases. Fannie Mae's system, Desktop Underwriter, and Freddie Mac's system, Loan Prospector, considerably reduced the cost and time associated with loan approvals.[9] Another important benefit was that these systems evaluated loan applications without human preferences and biases that might occur with manual underwriting.

In 2000, Fannie Mae and Freddie Mac expanded their purchases to include "Alt-A," A-minus, and subprime mortgages, in addition to private-label mortgage securities.[10] To accommodate their mortgage purchases, Fannie Mae implemented the Expanded Approval system and Freddie Mac expanded its Loan Prospector system to accommodate risk-based pricing.

[7] Fannie Mae's and Freddie Mac's purchases that qualified for the low- and moderate-income home purchase subgoal were 42.1 and 43.5 percent of total eligible units, respectively, while their qualifying purchases for the special affordable home purchase subgoal were 15.5 and 15.9 percent of total eligible units, respectively.

[8] FHFA (2009).

[9] Before automated loan systems, it was not uncommon for loan approvals to take a month or more. With the advent of these systems, some lenders can approve a mortgage within 24 hours.

[10] Alt-A mortgages have little or no borrower income and asset documentation. A-minus mortgages are loans made to borrowers who cannot qualify for prime mortgages because of blemished credit; however, their credit is higher than that typically found for a subprime loan. Subprime mortgages are loans made to borrowers with credit blemishes that result in low credit scores. Private-label mortgage securities do not have the backing of a government entity.

Subprime and Alt-A mortgages provided the GSEs with an opportunity to grow their businesses. In 2000, the GSEs had very little exposure to the subprime market. Fannie Mae purchased $600 million of subprime mortgages. Freddie Mac purchased $18.6 billion worth of mostly Alt-A and A-minus mortgages. The GSEs guaranteed another $7.7 billion worth of subprime mortgages in structured transactions.[11] These totals were small compared to the total size (about $160 billion) of the Alt-A and subprime market segments.[12]

During the next 6 years, Alt-A and subprime lending exploded. In 2003, the dollar volume of originations doubled to more than $215 billion. In 2004, Alt-A and subprime loans accounted for more than 35 percent of the conventional mortgage market. In 2006, the dollar volume of originations peaked at more than $1 trillion and accounted for nearly 50 percent of the conventional market.

The GSEs increased their presence in the subprime and Alt-A markets and invested heavily in private-label MBS. Beginning in 2003, Fannie Mae and Freddie Mac began to rapidly increase their ownership of assets backed by private-label mortgage-related securities. In 2006, Fannie Mae's and Freddie Mac's holdings peaked at $80.3 billion and $157.5 billion, respectively. By the end of 2008, their holdings remained high, with $52.4 billion at Fannie Mae and $99.9 billion at Freddie Mac. The private-label securities contributed significantly to the GSEs' losses in 2008; in many cases, the value of the securities fell as much as 90 percent from the time of purchase. The Government Accountability Office (GAO) (GAO, 2009) concluded that the enterprises' substantial investments in assets collateralized by subprime and Alt-A mortgages had probably precipitated their conservatorships.

In 2003, Freddie Mac disclosed that it used improper accounting. OFHEO, its regulator at the time, later found that it had misstated earnings by $5 billion between 2000 and 2003. The interesting twist in Freddie Mac's restatement is that, in most cases, the earnings were underreported. In response to the revelation of fraud at Freddie Mac, OFHEO launched an investigation of Fannie Mae and, in 2004, found it had overstated earnings between 2000 and 2003 by $6.3 billion. OFHEO reported serious accounting, disclosure, and management issues that led to the GSEs' misstatements. Freddie Mac paid a $125 million penalty in 2003 and a $50 million fine in 2007. Fannie Mae paid a $400 million civil penalty, one of the largest penalties in an accounting fraud case.

The misapplication of accounting rules had two intended effects. First, the improper accounting served to smooth out variations in the GSEs' earnings over time, masking their volatility and giving the enterprises the appearance of low-risk companies. Second, in the case of Fannie Mae, senior management manipulated earnings to maximize their annual bonuses. Among the accounting-rule violations was the failure of both GSEs to properly book complex financial instruments known as derivatives, which the companies used to hedge against movements in interest rates in their investment portfolio of mortgages.

These improper accounting practices deceived investors about the GSEs' true performance, profitability, and growth trends. These practices also disclosed a failure of senior management to establish and maintain adequate internal control systems.

[11] Inside Mortgage Finance Publications (2001).

[12] Temkin, Johnson, and Levy (2001).

In May 2006, OFHEO reported that, in addition to violating accounting and corporate governance standards, the GSEs engaged in excessive risk-taking and poor risk management. These actions included their increased holdings of subprime and Alt-A private-label MBS and their use of derivatives to manage the interest-rate risk of their investment portfolios. In hindsight, these findings were a clear warning of the systemic risk that the GSEs posed to the greater financial system.

The accounting scandals at the GSEs also reignited the 1995 debate about whether the GSEs' organizational structure was optimal for meeting the goals laid out in their charters. Continual efforts were made to pass reform legislation but all failed under the GSEs' heavy lobbying efforts.

After the enactment of FHEFSSA in 1992, the GSEs enjoyed large profits until 2007. Between 1992 and 2003, the GSEs' reported annual return on equity (ROE) was generally higher than 20 percent and rose as high as 47.2 percent for Freddie Mac in 2002. After the accounting scandals, the GSEs reported more modest profitability ranging between 8.1 and 19.5 percent ROE.

In 2007 and 2008, as house prices plummeted and serious delinquencies soared, the GSEs experienced huge credit losses on their guarantee and portfolio business and saw a rapid deterioration of the value of their private-label MBS holdings, which had composed 19 percent of their investments. In 2007, both GSEs had negative net income. Fannie Mae reported -8.3 percent ROE and Freddie Mac reported -21.0 percent ROE. By the fourth quarter of 2008, both GSEs had negative core capital positions, triggering insolvency concerns. On September 6, 2008, both Fannie Mae and Freddie Mac voluntarily entered conservatorship under FHFA.

Issues To Consider

This section highlights issues to consider in the policy debate about the future of the GSEs and how researchers can help make better public policy.

The GSEs' charters define their public purpose in terms of four organizational goals:

1. Provide stability in the secondary market for residential mortgages.
2. Respond appropriately to the needs of the private capital market.
3. Provide ongoing assistance to the secondary market for residential mortgages (including activities related to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for home mortgage finance.
4. Promote access to mortgage credit throughout the nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for home mortgage finance.

In the 17 years since FHEFSSA was passed, the secondary mortgage market and housing finance have evolved. A first step in the process of determining the future of the GSEs is determining whether their public purpose objectives need to be amended.

The Obama Administration's white paper on financial regulatory reform tasked the Treasury Department and HUD with conducting extensive research and outreach and providing recommendations for restructuring Fannie Mae and Freddie Mac. The potential policy options for the GSEs range widely. Six possible models include (1) returning the companies to their previous status as GSEs with the paired interests of maximizing returns for private shareholders and pursuing public policy homeownership goals; (2) incorporating the GSEs' functions into a federal agency; (3) creating a public utility model in which the government regulates the GSEs' profit margin, sets guarantee fees, and provides explicit backing for GSE commitments; (4) converting the GSEs' corporate purpose to being providers of insurance for covered bonds; (5) dissolving Fannie Mae and Freddie Mac into many smaller companies; and (6) gradually winding down the GSEs' operations and liquidating their assets.[13] Within the context of each of these models, the public purpose objectives of the GSEs need to be examined and evaluated.

If the GSEs were to be fully privatized shareholder-owned companies, they would no longer have their public purpose objectives. It is unlikely that fully privatized companies would provide the desired social benefits. During stressful economic periods, such companies generally withdraw from mortgage markets or fail, providing little or no support to mortgage markets. Earlier discussions supporting fully privatizing Fannie Mae and Freddie Mac were predicated on the conditions that the GSEs were stable, well managed, and economically viable institutions. It is unclear at what point in the future these conditions will again apply.

In its *Report to Congress 2008*, FHFA identified key operational issues that the GSEs must overcome before they can emerge from conservatorship. These issues present short- and long-term challenges. The short-term challenges include (1) addressing the operational, financial, and risk-management weaknesses that led to conservatorship; (2) building and retaining staff and infrastructure; (3) mitigating credit losses, including through loan modifications; and (4) pricing mortgage products given current market uncertainties, modeling difficulties, and the political risk of operating while in conservatorship.

The long-term issues fit into a larger debate on financial regulatory reform. More specifically, policy recommendations on the future of the GSEs are contingent on the federal government determining their role in the housing finance market and the relationship between the GSEs, or their successors, with other institutions involved in the financing of home mortgages. These long-term challenges include (1) providing for mission and public policy objectives of housing market stability, mortgage availability, and mortgage affordability; and (2) buying and/or guaranteeing mortgages when constraints exist on the availability of private mortgage insurance.

In addition to the operational challenges that the GSEs face, Fannie Mae and Freddie Mac face one new financial challenge associated with their conservatorships: the obligation on their senior preferred stock. The Treasury Department has purchased $44.6 billion in preferred stock in Freddie Mac and $15.2 billion in Fannie Mae. The dividends of senior preferred stock accrue at 10 percent based on the Treasury Department's outstanding preferred share investments. In the case of Freddie Mac, this accrual currently translates into annual dividends of $4.6 billion. Before

[13] These options were identified in U.S. Department of the Treasury (2009).

conservatorship, Freddie Mac's annual net income exceeded $5 billion in only 2 years. The GSEs are in the process of reducing their mortgage portfolios and have stopped purchasing private-label securities. These two lines of business were very profitable in the good times and very costly in the recent downturn. It is unclear how the GSEs' current lines of business will produce enough returns to honor this obligation to the Treasury Department.

In practice, the GSEs' public purpose objectives (discussed previously) can be categorized into four activities: (1) providing liquidity and stability to the residential mortgage markets, (2) managing mortgage credit risks, (3) providing targeted lending (affordable, neighborhood renewal, green, etc.), and (4) financing the construction of multifamily and other types of housing. Additional areas of concern within activities, summarized in the following bullet points, will shape the debate and outcomes of the Treasury Department's and HUD's research and recommendations on restructuring options for the GSEs.

Liquidity and Stability

- How will the broader capital markets be accessed?
- Will capital access be available for both single-family and multifamily properties?
- What alternative models to mortgage securitization exist?
- How are institutions providing liquidity being adequately regulated and capitalized?
- How are regulations being monitored for consistency across institutions?
- How will down cycles affect liquidity?
- What are the countercyclical roles and capacities of FHA and Ginnie Mae compared with those of alternative institutions?

Credit Risk

- Who will bear mortgage credit risks?
- How will incentives support good underwriting?
- How will underwriting quality controls be enforced?
- How does the federal government bear catastrophic risk—explicitly or implicitly?
- How might credit risk-sharing options apply?
- How well do these options provide liquidity and targeted lending, particularly during down cycles?

Targeted Lending

- What are the goals of targeted lending?
- How well are they achieved?
- How best should subsidies or incentives be provided?
- What enforcement mechanisms exist?
- What are possible fair lending concerns?

Financing the Production of Other Housing

- What mechanisms exist for financing multifamily housing production?
- How can a market for such production be created?
- How can investments from a secondary market institution be an efficient means for financing housing production compared with alternative approaches?
- How can a private-market solution meet public-sector production goals?

Concluding Remarks

The GSEs have a dominant position in housing finance. Even in conservatorship, they have played a critical role in providing liquidity to mortgage markets. Going forward, careful attention must be paid to avoiding the past missteps of Fannie Mae and Freddie Mac. The GSEs' transition and future place in the housing finance system remain key components of the broader financial regulatory reform taking shape.

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