

Federal Housing Finance Agency (FHFA) Announces Reversal of Plans to Wind Down Fannie Mae and Freddie Mac

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Early last week, recently-appointed director of the Federal Housing Finance Agency (FHFA) Melvin L. Watt, [announced plans](#) to keep GSEs Fannie Mae and Freddie Mac going strong. This new strategy is in stark contrast to the express goals of his predecessor Edward J. DeMarco, White House officials and other proposed legislation, such as the Housing Opportunities Move the [Economy \(HOME\) Forward Act of 2014](#), that was aimed at dismantling the GSEs and shifting mortgage-lending risks back to the private sector. In his first speech as leader of the FHFA, Watt presented [FHFA's Strategic Plan for 2014](#), in which he stressed the Agency's plan "to manage the present status of Fannie Mae and Freddie Mac" and maintain the dominance of those companies in the mortgage-lending market.

Watt explained that the reversal of Agency plans for GSE wind-down "is motivated by concerns about how such a reduction could adversely impact the health of the current housing finance market." Rather than do away with Fannie Mae and Freddie Mac, Watt plans to strengthen those entities by improving market liquidity and loan-servicing standards. The Strategic Plan details include such measures as relaxation of the payment-history requirements for acquiring loans, quality control reviews, eliminating automatic loan-repurchase demands caused by mortgage-insurance rescission, clarification of Fannie Mae's and Freddie Mac's respective underwriting standards and the development of cure mechanisms for loan defects—rather than permitting the GSEs to simply insist on lender repurchase of defaulted loans as has been the case since the advent of the mortgage meltdown.

Notably, FHFA plans still include the goal of reducing taxpayer risk by expanding the role of private investment in the mortgage-lending market.

The proposed HOME Forward bill, currently pending approval by the Senate Banking Committee, was introduced last month by the Housing Financial Services Committee in an effort to wind down Fannie Mae and Freddie Mac over a period of five years. While the bill is expected to pass the committee, Watt's new direction in FHFA strategy makes it likely that HOME Forward will lose support and momentum, and that Fannie Mae and Freddie Mac may be here to stay for much longer than expected.

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