Written by **Thomas R. Eddlem** on June 15, 2010

Fannie/Freddie Bailout May Reach 1 Trillion

Just when Americans thought that the bailouts were over, Bloomberg Financial News service reported on June 13 that the final tab for Fannie Mae and Freddie Mac bailout is increasing and may total as much as $1 trillion.

"The cost of fixing Fannie Mae and Freddie Mac, the mortgage companies that last year bought or guaranteed three-quarters of all U.S. home loans, will be at least $160 billion and could grow to as much as $1 trillion after the biggest bailout in American history," Bloomberg explained.

The news comes as criticism over the exposure of Fannie and Freddie's holding 75 percent of the home mortgage market at the time the housing bubble popped in 2008 is crystalizing. But last month the *Wall Street Journal* reported that while Fannie and Freddie's exposure to the home market has decreased in that past two years, total federal government exposure to home mortgages has continued to explode. "Government-related entities backed 96.5% of all home loans during the first quarter, up from 90% in 2009, according to *Inside Mortgage Finance*," the *Journal* summarized. *Inside Mortgage Finance* notes that while the market share of Fannie and Freddie has declined slightly from the 75 percent high, other Government Sponsored Enterprises (GSE) and federal agencies have more than picked up the slack.

The Federal Reserve Bank noted that Ginnie Mae began purchasing additional Mortgage Backed Securities (MBS) back in November of 2008. In its fiscal 2009 report to Congress, Ginnie Mae executives boasted, "In FY 2009, Ginnie Mae guaranteed $418.9 billion in MBS [mortgage-backed securities] and its market share of total agency and non-agency MBS was 25 percent, levels not seen since the mid-1990s. In July 2009, Ginnie Mae hit a remarkable milestone of issuing over $46 billion alone, the highest monthly amount in our history." And Ginnie Mae announced last week that it was getting into the housing market in a much bigger way.

Over at the Federal Housing Administration, the federal agency's website boasts, "Currently, FHA has 6.1 million insured single-family mortgages and 13,000 insured multifamily projects in its portfolio." The private newsletter *Inside FHA Lending* notes, "The FHA program accounted for nearly as much purchase-money lending as Fannie Mae and Freddie Mac combined during the first quarter of 2010, according to a new Inside FHA Lending analysis. FHA's home-purchase financing totaled $42.9 billion, a few billion short of the $46.4 billion financed by the two government-sponsored enterprises."

All of these purchases, in addition to the Federal Reserve Bank's purchase of $1.25 trillion in MBS in 2009, has led to a near monopoly in federal government financing of private home mortgages (or at least federal mortgage guarantees for nominally private mortgages).

Thus, it's not surprising that the various federal mortgage "stimulus" programs have arrested the decline in housing prices. The House Price Index for the private Integrated Asset Services announced June 9 that "national house prices gained 0.9% in April." The Federal Housing Finance Agency reported in May, “Over the past year, seasonally adjusted prices fell 3.1 percent from the first quarter of 2009 to the first quarter of 2010.” But it reported modest increases in property prices beginning in March of this year. “Arguably, the housing market is in better shape today than it was a year ago, but it’s reasonable to think federal tax credits have propped up home sales and prices to some degree,” Dave McCarthy, president and CEO of Integrated Asset Services, explained. “I’m concerned the end of government support could lead to renewed weakening in the market.”

Housing prices may indeed be poised for another decline, but cheaper houses for first-time buyers is hardly a cause for “concern.” If the housing market rose to artificial heights that the market will not bear, why should the federal government try to continue to prop up the housing prices? Why should taxpayers throw away more money trying to make housing more expensive for new buyers and continue to give unscrupulous lenders with low lending standards a guaranteed profit at taxpayer expense?