

Billions more for bailout of US mortgage giants

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30 December 2009

The US Treasury announced Thursday that it will remove a cap on federal support to mortgage giants Fannie Mae and Freddie Mac, extending to the largely government-owned firms an unlimited amount of funds for three years. The news came only a few hours after the two companies announced that they would hand out \$6 million pay packages to each of their chief executives.

Fannie and Freddie have been taking losses as foreclosures have reached record levels. The percentage of prime-rate mortgages in foreclosure has doubled over the past year, according to a study released earlier this month by federal regulators. Fannie and Freddie own or guarantee the majority of home mortgages made in the US.

Prior to Thursday's announcement, the companies each had a limit of \$200 billion on federal financial aid, of which Fannie had used \$60 billion and Freddie \$51 billion. The two firms are chartered by the government but held by private shareholders. Last year's intervention by the government, however, left it as the largest shareholder in both companies.

Investors responded to the decision by buying up shares of both companies on Monday, the first day of trading following the new policy announcement. They fell on Tuesday, however, in part due to fears that any government aid would come at the expense of existing shareholders.

Fannie and Freddie were created by the government in 1938 (Fannie) and 1970 (Freddie) in order to provide credit to mortgage originators and take mortgages off the books of local lenders. The companies repackaged

and resold a large share of these mortgage obligations.

In recent months, the Federal Reserve has become the largest buyer of these securities, of which it now holds over \$1 trillion worth, in order to steady the price of mortgage-backed securities.

But the Fed is preparing to wind down this program within months and the elimination of the cap on federal aid to Fannie and Freddie is being made to cover expected losses. The rationale is that, given an unlimited guarantee of funding for Fannie and Freddie, investors will continue to finance them even as foreclosures soar.

Reuters pointed out that the rationale for the unlimited guarantee of funds to Fannie and Freddie was similar to a point made by former Treasury Secretary Henry Paulson in July 2008, when he said, "If you have a bazooka in your pocket and people know it, you probably won't have to use it." Less than two months later, the government took over the companies.

Under the terms of the 2008 takeover by the US government, the Treasury had until the start of 2010 to increase the firms' funding limits without congressional approval.

Had the White House waited to make the announcement after the new year, it would likely have faced opposition on the part of Republicans.

Only hours before the Treasury announced the new policy, Fannie and Freddie reported that the Treasury and Federal Housing Finance Agency had approved \$6 million pay packages for each of the companies' chief

executives. Michael Williams and Charles Haldeman Jr. will take their compensation entirely in cash and deferred salary, since the two companies' stock is likely to fall further in the future.

Other executives will also make off handsomely. David M. Johnson, Fannie Mae's chief financial officer stands to earn \$3.6 million, and a number of other executives will make over \$2 million. Bruce Witherell, Freddie Mac's chief operating officer, will receive \$4.5 million, and its chief operating officer will receive \$3.5 million.



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