

Financial crisis about fannie mae

[Finance](#)



FANNIE MAE

Fannie Mae (Federal National Mortgage Association) is the leading nonbank financial services corporation in the world, which operates in the secondary mortgage sector with the core objective of providing housing services to multifamily and single-family housing market of the United States. The company ensures reduced cost of housing and affordability of houses by granting mortgage backed securities. The company is dated back in 1938 during the Great Depression when banks and other financial institutions were cash trapped and borrowers highly defaulted on mortgage loans advanced to them by lending institutions. The Congress and President Roosevelt then passed a bill allowing for the establishment of Fannie Mae in order to freeze up capital by buying mortgages from lenders (Birger 38). The company was therefore chartered by the Federal Housing Act of 1934 to relieve the housing problem and increase homeownership among Americans. The primary purpose of Fannie Mae was to develop a secondary mortgage aimed at rejuvenating the financially strapped lenders such as loans and saving associations, mortgage banks, and commercial banks. Being a chartered financial institution which is regulated by the Federal Housing Finance Agency (FHFA), Fannie Mae was not affected by the Gramm-Leach-Bliley Act of 1999 (Birger 44).

Before the 2008 housing bubble burst, Fannie Mae was very successful. However, the fall in home prices and mortgage securitization changed the mortgage and housing sectors, which culminated into plummeting property values and foreclosures. The subprime events are partially blamed for unethical considerations by the lending institutions. However, the weight of the crisis can be explained by the global financial contagion, which was

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inevitable and hence characterized as bad luck. Following the global financial crisis, all the financial and credit institutions either were either culprits or victims. The financial hardship period was met by higher degree of defaults in the loans and credits advanced to potential borrowers. On their part, Fannie Mae was blamed for their inability to regulate and control internal affairs which included poor accounting and credit policies (Birger 45). After the real estate cratered, it was criticized for being unable to safeguard their investment portfolios. Having heavily invested in the subprime-backed securities, higher rate of default in the mortgage industry adversely affected the company. Beside, the significant fall in demand for houses and mortgage backed homes put the company at the brink of collapsing.

After the subprime borrowers defaulted on their loans, Fannie Mae and other GSEs received financial bailouts which were tax sponsored. The sizes of the bailouts were truly staggering. On their part, Fannie Mae received federal bailout of about \$153 billion (Birger 37). This increased the moral hazard and systematic risks concerns among financial experts. Although they sounded alarm to GSEs, these were never heeded as these institutions were over protected by the political powerhouse. For instance, Alan Greenspan (Federal Reserve Chairman) said that " if [Fannie and Freddie] continue to grow, continue to have the low capital they have, [then] they potentially create ever growing potential systemic risks down the road" (Birger 42). The GSEs were strongly defended by House Democrats who warned President Bush in a letter which read " an exclusive focus on safety and soundness is likely to come, in practice, at the expense of affordable housing" (Birger 42). The fact that GSEs were not criticized for their risky investment practices and lack of sound financial regulations ultimately led to their downfall.

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The future of Fannie Mae and other GSEs lies in the hands of the federal government. Reforms are necessary if Fannie Mae has to proceed with its mandate of increasing homeownership among American citizens. The Obama administration has stepped up reforms in attempting to salvage the future of the mortgage industry. In the proposed amendments regarding GSEs, the Congress has highlighted reduced federal government's participation in the mortgage market, a shift away from the homeownership policy to affordable rental housing especially for the low-income Americans, and potential tax liability through reducing the mortgage size that Fannie Mae can purchase (Birger 38).

Work Cited

Birger, Jon, *Housing America: An Overview of Fannie Mae's Past, Present and Future*, Washington, D. C.: FNMA, 2011: 37-45.

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