

# [An overview of freddie mac essay example](https://assignbuster.com/an-overview-of-freddie-mac-essay-example/)

[](https://assignbuster.com/)[Business](https://assignbuster.com/essay-subjects/business/), [Company](https://assignbuster.com/essay-subjects/business/company/)

One of the major causes of the Great Depression had to do with excessive speculation in financial markets, and one of the major tragedies that resulted was a foreclosure epidemic that created the torrent of “ Okies,” farmers from Oklahoma (and other parts of the Great Plains) who had been kicked off their land and just headed west, because of the rumors of work in the California fruit fields. Of course, there were many fewer jobs than what was initially advertised (excess supply of labor means rock-bottom wages), and so California was left with a legion of sharecroppers with no other refuge but shoddy campgrounds. One of the ways that the government responded to the Great Depression was to create the Federal National Mortgage Association, known as Fannie Mae, in 1938, to encourage mortgage lending and to insure each mortgage’s value with the credit of the American government. When the government privatized Fannie Mae in 1968, it created the Federal Home Loan Mortgage Corporation (Freddie Mac) to provide some competition with Fannie Mae and continue to expand Americans’ access to mortgage loans and securities backed by mortgages.

Until 1989, the Federal Home Loan Bank System owned Freddie Mac, but in 1989, the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) moved it to oversight by the U. S. Department of Housing and Urban Development (HUD). In 1995, Freddie Mac started receiving credit for affordable housing, for the purpose of buying up subprime loans and securities. However, in the aftermath of several fraud investigations, the government put Freddie Mac under conservatorship in 2008.

Freddie Mac is not allowed to buy just any mortgage, though. Instead, there are rules governing the definition of a “ conforming loan,” which means a loan that is under a maximum amount (that maximum can vary depending on the location and on the income of the borrower, and is based on overall mean home price). This limits the portion of the market in which Freddie Mac can compete.