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Treasury, Lenders Seek to Keep Government Role in Housing Fix

By Lorraine Woellert - Aug 18, 2010

The Obama administration, looking to overhaul the U.S. mortgage-finance system, gathered support from [lenders](#) and the real estate industry for reducing, without ending, the government's role in insuring loans.

A limited government backstop "has a lot of traction," said [Michael Berman](#), chairman-elect of the [Mortgage Bankers Association](#), in a Bloomberg Television interview after a Treasury Department [conference](#) in Washington to discuss proposals. "At either of the extremes -- either a full nationalization or a full privatization -- we're not in the mainstream."

The Obama administration is seeking advice on how to rebuild a system at the center of the 2008 credit crisis. Some Republicans have sought to abolish [Fannie Mae](#) and [Freddie Mac](#), the main sources of U.S. mortgage financing. Yesterday, [Bill Gross](#), who runs the world's biggest bond fund at Pacific Investment Management Co., said the U.S. should consider "full nationalization" of the system.

"To suggest that there's a large place for private financing in the future of housing finance is unrealistic," Gross said at the meeting. "Government is part of our future. We need a government balance sheet. To suggest that the private market come back in is simply impractical. It won't work."

Fannie Mae, based in Washington, and Freddie Mac of McLean, Virginia, have drawn almost \$150 billion in Treasury aid since September 2008, when they were seized by the government amid soaring losses on mortgage investments. The U.S. has promised unlimited support for the two companies. Including Ginnie Mae, the government insured almost 97 percent of U.S. mortgages in 2009, according to Inside Mortgage Finance.

'Carefully Designed Guarantee'

"There is a strong case to be made for a carefully designed guarantee in a reformed system," aimed at providing access to mortgages, even during economic slumps, Treasury Secretary [Timothy Geithner](#) said. "The challenge is to make sure that any government guarantee is priced to cover the risk of losses and structured to minimize taxpayer exposure."

Some government involvement is needed to ensure that markets traditionally underserved by lenders have access to credit, mortgage lenders and housing advocates said. The Federal Housing Administration, created in 1934, insures loans to borrowers with little cash.

Private lenders provide “virtually no mortgage finance in lower income and communities of color,” said [Ellen Seidman](#), an executive vice president at Chicago-based ShoreBank Corp. “We’ve got to pay better attention to access to credit.”

Congressional Overhaul

Representative [Barney Frank](#), the Massachusetts Democrat who leads the House Financial Services Committee, has begun work on overhaul legislation and will hold hearings in September. Geithner has promised to deliver a “comprehensive” plan for the housing-finance system by January. Yesterday’s meeting was also hosted by the Department of Housing and Urban Development.

During debate over the financial-regulation overhaul signed by President [Barack Obama](#) last month, Republicans were rebuffed in efforts to abolish Fannie Mae and Freddie Mac. Led by Senator [John McCain](#) of Arizona and Representative [Jeb Hensarling](#) of Texas, Republicans say the firms were driven to ruin by their competing missions -- serving shareholders as publicly traded companies and promoting homeownership among lower-income borrowers as government-sponsored entities.

The question remains how a new guarantee would work. Ideas at the meeting included a government backstop of last resort for some mortgage-backed securities.

The challenge is to encourage private investment and contain taxpayer exposure, said [Ingrid Gould Ellen](#), director of the [Furman Center for Real Estate & Urban Policy](#) at New York University, during a panel discussion.

“A government guarantee is critical,” she said. Still, “you want to limit the scope of the guarantee.”

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