

GAO Highlights

Highlights of [GAO-17-92](#), a report to the Chairman, Committee on Banking, Housing, and Urban Affairs, United States Senate

Why GAO Did This Study

In 2008, FHFA used its authority under the Housing and Economic Recovery Act to place Fannie Mae and Freddie Mac into conservatorships out of concern that their deteriorating financial condition threatened the stability of the financial market. Eight years later, the enterprises remain in conservatorships. However, FHFA says the conservatorships were not intended to be permanent. FHFA has issued two strategic plans for its conservatorship of the enterprises, one in 2012 and another in 2014.

GAO was asked to examine FHFA's actions as conservator. This report addresses (1) the extent to which FHFA's goals for the conservatorships have changed and (2) the implications of FHFA's actions for the future of the enterprises and the broader secondary mortgage market.

GAO analyzed and reviewed FHFA's actions as conservator and supporting documents; legislative proposals for housing finance reform; the enterprises' senior preferred stock agreements with Treasury; and GAO, Congressional Budget Office, and FHFA inspector general reports. GAO also interviewed FHFA and Treasury officials and industry stakeholders.

What GAO Recommends

Congress should consider legislation that would establish clear objectives and a transition plan to a reformed housing finance system that enables the enterprises to exit conservatorship. FHFA agreed with our overall findings.

View [GAO-17-92](#). For more information, contact Lawrence L. Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

November 2016

FEDERAL HOUSING FINANCE AGENCY

Objectives Needed for the Future of Fannie Mae and Freddie Mac After Conservatorships

What GAO Found

The Federal Housing Finance Agency (FHFA) issued a new strategic plan for the conservatorships of Fannie Mae and Freddie Mac (the enterprises) in 2014 with reformulated goals and supporting actions that reflect a shift in priorities and changing market conditions. While the three goals in the 2014 strategic plan are broadly similar to those in the previous plan issued in 2012, FHFA changed the weight and wording of the goals (see table) to align the plan more closely with FHFA's statutory responsibilities. Specifically, compared with the 2012 plan FHFA (1) increased its emphasis on maintaining credit availability and foreclosure prevention options; (2) shifted away from shrinking the enterprises as a way to reduce taxpayer risk (focusing instead on transferring credit risk to private investors, for example); and (3) reduced the scope of the securitization infrastructure being built, such as a new technology platform for securitizing mortgages, to focus on meeting the enterprises' current needs.

Changes in the Wording of the Federal Housing Finance Agency's Goals for the Conservatorships of Fannie Mae and Freddie Mac between the 2012 and 2014 Strategic Plans

| Goal | 2012 plan wording | 2014 plan wording |
|-----------------|---|---|
| Maintain | Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages | Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets |
| Contract/Reduce | Gradually contract the enterprises' dominant presence in the marketplace while simplifying and shrinking their operations | Reduce taxpayer risk through increasing the role of private capital in the mortgage market |
| Build | Build a new infrastructure for the secondary mortgage market | Build a new single-family securitization infrastructure for use by the enterprises and adaptable for use by other participants in the secondary market in the future |

Source: GAO analysis of Federal Housing Finance Agency 2012 and 2014 strategic plans for the conservatorships. | GAO-17-92

In the absence of congressional direction, FHFA's shift in priorities has altered market participants' perceptions and expectations about the enterprises' ongoing role and added to uncertainty about the future structure of the housing finance system. In particular, FHFA halted several actions aimed at reducing the scope of enterprise activities and is seeking to maintain the enterprises in their current state. However, other actions (such as reducing their capital bases to \$0 by January 2018) are written into agreements for capital support with the Department of the Treasury (Treasury) and continue to be implemented. In addition, the change in scope for the technology platform for securitization puts less emphasis on reducing barriers facing private entities than previously envisioned, and new initiatives to expand mortgage availability could crowd out market participants. Furthermore, some actions, such as transferring credit risk to private investors, could decrease the likelihood of drawing on Treasury's funding commitment, but others, such as reducing minimum down payments, could increase it. GAO has identified setting clear objectives as a key principle for providing government assistance to private market participants. Because Congress has not established objectives for the future of the enterprises after conservatorships or the federal role in housing finance, FHFA's ability to shift priorities may continue to contribute to market uncertainty.