

Fannie Mae Seeking another Bail Out

November 10, 2011 - Beleaguered Fannie Mae is seeking another government bailout; this one for \$7.9 Billion. It is the latest in a series of taxpayer funded bailouts for the company which played a leading role in crashing real estate markets nationwide. So far, the company has received approximately \$169 Billion in federal funds; more than any other company.

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Fannie Mae and its ailing cousin, Freddie Mac, are responsible for roughly \$5.5 Trillion dollars worth of mortgages. The loans that were guaranteed or purchased by these companies were supposed to meet specific credit criteria. But both companies failed to properly oversee the process; leading to federal government takeovers of both of them.

Since 2008, the federal government has been the sole stockholder in both Fannie and Freddie. That has not helped to improve their operation though. In fact, it was just last week that Freddie asked for an additional \$6 Billion in federal money.

Since the initial bailout, the federal government has been asked to contribute Billions of additional taxpayer dollars to keep the companies afloat. That is not likely to end anytime soon. Because of record low interest rates, Fannie is receiving less for mortgages that are not in default. And because the economy continues to languish, there is no end in sight for new foreclosures.

If you are wondering why the government doesn't just let the companies go bankrupt, it is because last year both companies backed roughly 90% of the new mortgages issued nationwide. If the companies suddenly went out of business, real estate markets across the country would most likely crash. And since problems in the housing market

were largely responsible for the current recession, nobody in Washington wants to do anything that would make matters worse.

With that said, both companies do need to start taking a more aggressive approach with enforcing their banking agreements. When banks sell mortgages to Fannie and Freddie, they have to agree to repurchase those mortgages under certain circumstances. Those circumstances can include default, or faulty loan underwriting procedures. Both Fannie and Freddie have sued some lenders to enforce their agreements, they have also entered into heavily discounted settlements with some of them. This leaves taxpayers on the hook for the remaining balance on defaulting loans.

It is highly unlikely that this will be the last bailout requested by either Fannie or Freddie.

byJim Malmberg

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