

Reform could help with home buying

Fannie Mae, Freddie Mac may be freed from their US conservatorship

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USA TODAY

One of the Trump White House's key policy reforms may be something that touches the lives of millions of Americans – but few know about.

The administration will likely attempt to release Fannie Mae and Freddie Mac, the mortgage guarantors, from their current position as wards of the state, analysts believe, and Scott Turner, the new Secretary of Housing and Urban Development, confirmed to the Wall Street Journal earlier in February.

Housing finance observers see it as an opportunity to fundamentally remake a system that hasn't been able to purge systemic racism embedded in its processes, and to close the gap on serving historically marginalized communities.

Reform of the two Government-Sponsored Enterprises, or GSEs, as they are often called in housing circles, is "a timely and relevant conversation," said Michael Neal, a senior fellow in the Housing Finance Policy Center of the Washington-based Urban Institute.

"Any discussion of the GSEs needs to be part of a holistic look at the housing finance system, making sure that historically marginalized communities have access, in whatever the final outcome is," Neal said.

Fannie and Freddie play an important role in the housing market by buying mortgages from banks and other lenders. That allows lenders to offload risk, then extend credit to more borrowers, keeping the housing market liquid and more affordable than it would otherwise be.

Before the financial crisis, Fannie and Freddie were private companies. As the subprime bubble inflated in the early 2000s, they lowered their underwriting standards to remain competitive. When the bubble burst in 2008, the two enterprises were rushed into government-controlled conservatorship.

That arrangement was always in-



The serious delinquency rate among mortgages guaranteed by Fannie Mae and Freddie Mac was 0.53% at the end of 2024, substantially lower than the 1.55% for all loans across the mortgage industry. KEVIN DIETSCH/GETTY IMAGES

tended to be temporary, but for nearly two decades, the details of unwinding such massive institutions have bedeviled three presidential administrations. Meanwhile, under conservatorship and with a new regulator, the two enterprises have prioritized safety and stability.

The serious delinquency rate among mortgages guaranteed by Fannie and Freddie was 0.53% at the end of 2024, their regulator reported, substantially lower than the 1.55% for all loans across the mortgage industry.

That sense of stability and safety has led many housing observers to refer to Fannie and Freddie as being utility-like: staid, stable, but not innovative.

Vanessa Perry, interim dean of the George Washington University School of Business, agrees with that assessment.

"The idea that these entities could be reprivatized is one that has some promise," Perry told USA TODAY. "Because if they did not have that extra regulatory layer, they could actually start to experiment with some innovations."

One of the most significant ways Fannie and Freddie could innovate to

serve more people is to look at nontraditional ways of assessing borrower creditworthiness, Perry noted. One example: the two have started to allow lenders to consider a borrower's history of rental payments. But they could be even more creative if they're no longer saddled with that layer of oversight, she said.

Releasing Fannie and Freddie from conservatorship toward a structure oriented more toward the private sector doesn't have to mean they'll lose their focus on mission, Perry said. "Providing liquidity and serving low- and moderate-income borrowers and households and communities has always been part of their missions."

In fact, in the years before the crisis, the proportion of Fannie and Freddie's mortgages made to Black borrowers was at least double what it's been under conservatorship, she said.

"Homeownership is still our primary route to household wealth creation and accumulation and intergenerational transfers," Perry said. "We are at a place in the United States where the growth opportunity for the housing market lies in first-time home buyers. Do we now

have the opportunity to expand the market so that more people can become homeowners? That would not just be good for those segments, but great for our entire economy."

Neal thinks keeping the focus on historically underserved communities in the mortgage market is an apt way to observe Black History Month in February.

"Allowing everyone the same opportunity to build wealth, especially through housing, is an important goal," he said. "Certainly that brings up the need for more housing, but also highlights the importance of ensuring that everyone can access a sustainable mortgage."

Neal and fellow Urban Institute researchers have previously published research showing that deep discrepancies in mortgage lending lead to stubborn disparities in wealth:

- In 2023, mortgage applications from Black borrowers were denied twice as often as those from white borrowers.

- As of 2024, the Black homeownership rate was 45.3%, a whopping 30 percentage points below that of white households, at 74.4%.