

US takes control of Fannie and Freddie

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Abstract (Abstract): While the [George W. Bush] administration stopped short of using the word "nationalisation", analysts said the moves amounted to de facto government control. Fannie and Freddie have \$5,400bn in outstanding liabilities and guarantee three-quarters of all new US mortgages.

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Mr Paulson said the plan gave policymakers a "time out" to "decide their future role and structure" and urged the next administration and Congress to make use of this opportunity.

Full text: Analysts say move is a de facto nationalisation ; Agreement to inject up to \$200bn into groups
The US government yesterday seized control of the troubled Fannie Mae and Freddie Mac mortgage groups in what could become the world's biggest financial bail-out.

The government's move, its most dramatic since the start of the credit crisis, is aimed at ensuring the two groups' woes do not cripple the country's housing market or worsen to the point that they fail and send shockwaves through global markets.

While the Bush administration stopped short of using the word "nationalisation", analysts said the moves amounted to de facto government control. Fannie and Freddie have \$5,400bn in outstanding liabilities and guarantee three-quarters of all new US mortgages.

"Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of either of them would cause great turmoil in our financial markets here at home and around the globe," Hank Paulson, Treasury secretary, said. Mr Paulson said the intervention would "accelerate stabilisation in the housing market" by bringing down the cost of home loans.

In a sign of the magnitude and historic nature of the decision, Mr Paulson briefed presidential contenders Barack Obama and John McCain, as well as President George W. Bush and senior members of Congress before the announcement.

As regulators took charge of the companies, the government said it had agreed to inject up to \$100bn in each of them as needed to ensure they meet their debts. In addition, it would buy mortgage bonds backed by these companies starting with an initial \$5bn purchase, and provide an unlimited liquidity facility to them until the end of next year.

The chief executives of both groups are to leave, though they will stay on during a transition period. Herb Allison, a former vice-chairman of Merrill Lynch, will become the new head of Fannie Mae, while David Moffett, a former vice-chairman of US Bancorp, will run Freddie Mac.

Shares in the two companies will continue to trade but shareholders face the prospect of massive dilution. Bondholders would have their assets underpinned by the US government support. The move was welcomed by analysts and foreign investors. Goldman Sachs said it was "a very positive step for the housing market and the broader economy".

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Fannie and Freddie will be allowed to grow in the short term to \$850bn each, but from 2010 onwards they will have to shrink their portfolios by 10 per cent a year until they reach \$250bn. Officials hope this will reduce the future risk to taxpayers.

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www.ft.com/freddieandfannie

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