

The Federal Takeover Of Fannie & Freddie From The Lens Of A Bank CEO



■ By **HENRY WALKER**
Guest Columnist

The federal takeover of Fannie Mae and Freddie Mac came as no surprise to me since the government has been micro-managing the two mortgage giants for years. Although the government founded Fannie Mae in 1938 with a mission to increase home ownership across the United States, she was converted into a private entity in 1968. She soon ballooned into a mortgage powerhouse and gave birth to her son, Freddie Mac.

As the two mortgage companies grew and built their foundations on making non-traditional loans, including qualifying creditors for the lowest cost mortgages possible, the housing bubble grew out of control. Unfortunately, the bubble has burst. I don't typically agree with government intervention in a free market economy, however, in this situation, I think the government needs to step in to bail these two giants out.

Fannie and Freddie have always been market leaders, incorporating innovative programs that often contradicted traditional mortgage lending standards. The "American Dream" of home ownership was riding an economically driven wave and was at an all time high. With pressure from the government,

Fannie and Freddie greeted the wave with an unregulated appetite to supply creative mortgages accumulating this enormous debt. The lack of proper management and disregard for long-term viability of high risk-based loans haunted them in the end, preventing either entity from succeeding in our current economic downturn.

While a federal takeover may help the housing market in the short term, I don't think there will be sustained improvement in the long term. With that said, this action is needed to help boost our sagging economy. If Fannie and Freddie can quickly right themselves and start lending, it will provide a much-needed boost to housing issues of price and available loans. My hope is that this decision will thwart more economic upheaval and economic devastation that could otherwise lie in our future.

As a free market advocate, I think we could have avoided the mortgage crisis altogether without relying on government intervention. Fannie and Freddie were doomed as the Federal Reserve endorsed strategies for housing, allowing them to fund non-traditional loan markets, making them two of the most vulnerable programs in the United States. The reality is that once Fannie and Freddie ride out the storm, they need to get back into a free market economy, rather than remain a federally managed and tax-subsidized agency. My hope is that Freddie and Fannie can eventually return to flourish as a publicly run entity, bringing the "American Dream" of home ownership to the masses again.

(Henry Walker is CEO of Long Beach-based Farmers & Merchants Bank, which consistently has been rated as one of California's and the country's strongest banks by rating agencies such as Bauer Financial, Street/Weiss Ratings and VERIBANC.) ■