

You Can Check Out Any Time You Like... But Can the GSEs Ever Leave?

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Fannie Mae (FNMA) and Freddie Mac (FHLMC), collectively known as the government-sponsored enterprises (GSEs), have been pillars of the U.S. housing finance system since their establishment in the 1930s and 1970s, respectively. These entities purchase mortgages from lenders, package them into mortgage-backed securities (MBS), and provide liquidity to the secondary market, supporting approximately 50% of all U.S. home loans. They were chartered by Congress as GSEs with special privileges, but no explicit federal ownership or guarantee. Prior to 2008, FNMA and FHLMC were privately owned corporations with publicly traded stock and broad private shareholder bases. Placed under federal conservatorship by the Federal Housing Finance Agency in 2008 amid the financial crisis, the GSEs received a \$187 billion bailout from taxpayers, which they have since repaid with interest, generating over \$300 billion in profits for the U.S. Treasury¹. As of December 2025, they remain in this state, with the government holding senior preferred stock stakes exceeding 79% in each. Recent political momentum under the second Trump administration has reignited debates on privatization, aiming to transition these entities to fully private ownership while potentially retaining an implicit government backstop. The push for privatization stems from a desire to reduce taxpayer exposure, foster market discipline, and eliminate the moral hazard inherent in the GSEs' government-backed status. Proponents argue that ending conservatorship would allow FNMA and FHLMC to operate as profit-driven entities, incentivizing innovation in mortgage products and risk management without the overhang of federal oversight. Critics warn that without explicit guarantees, investors might demand higher yields on MBS, elevating borrowing costs and exacerbating housing affordability in an already strained market. The core policy question remains whether and how to transition the enterprises back to private ownership while preserving stability in the U.S. mortgage market, which relies heavily on their role in providing liquidity, standardization, and credit guarantees.

¹ GovFacts.org

Recent policy discussions suggest renewed interest in some form of privatization, most likely through a staged exit from conservatorship rather than an abrupt release. Proposed paths have included retaining earnings to build capital, resolving Treasury's senior preferred stock and warrants, and potentially re-listing the GSEs through public equity offerings. However, privatization does not necessarily imply full removal of government support. Most serious proposals envision an explicit or implicit federal backstop, possibly fee-based, to maintain investor confidence and avoid materially higher mortgage rates, which would have broader economic and political consequences.

Highly regulated industries like banking and insurance would be directly impacted by changes to the agencies' conservatorship. For banks, the implications of privatization are closely tied to regulatory capital treatment and liquidity assumptions. Agency debentures and agency mortgage-backed securities currently benefit from preferential risk-weighting and high-quality liquid asset status based on their government-sponsored nature. Agency issued debt represent approximately \$2 trillion of assets on bank balance sheets². A poorly designed privatization that weakens the perceived federal guarantee could lead to higher risk weights, increased capital charges, and reduced balance-sheet efficiency for banks that rely heavily on agency MBS for interest income and liquidity management. Conversely, a clear statutory backstop could preserve current treatment, limiting disruption while potentially improving spreads modestly.

Insurance companies face a different, but equally important set of considerations. Agency MBS and debentures are widely held due to their favorable capital charges under risk based capital (RBC) frameworks. They represent almost 5% of insurance company bond portfolios³. Any reduction in perceived government support could increase required capital, affect statutory surplus, and introduce rating agency scrutiny. The potential erosion or outright removal of the implicit government guarantee could elevate perceived risk leading to wider MBS spreads and subsequent mark-to-market losses on existing portfolios alongside possible credit rating downgrades that increase capital reserve requirements for insurers. For insurance companies, the key risk is not credit loss, but regulatory or accounting reclassification that alters capital efficiency.

From a market perspective, most credible reform scenarios aim to avoid disruption to the "agency" label that underpins the over \$8 trillion agency MBS market. Policymakers are acutely aware that sudden changes could ripple through mortgage rates, housing affordability, and institutional portfolios. As a result, any privatization is likely to be gradual, highly structured, and accompanied by explicit language clarifying the treatment of outstanding debentures and MBS. Legacy securities would likely retain their current status, while any changes would apply prospectively to new issuance.

In terms of timing and probability, privatization remains a medium-term rather than near-term outcome. While administrative action can advance capital retention and preparatory steps, a durable exit from conservatorship likely requires congressional involvement to establish a permanent framework for government support. Over the next 1 to 3 years, the odds of a partial privatization or meaningful restructuring are moderate, but the probability of a full, clean break from government backing is materially lower. For banks and insurers, the base-case expectation should be continuity with incremental evolution, not a sudden loss of agency status or systemic repricing of agency securities.

² Urban Institute. *Housing Policy Finance Center December "Housing Finance At A Glance" 2024*

³ S&P Global 12/31/2024

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