

News Item
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US Government seizes control of Fannie and Freddie

The US government has seized control of mortgage finance companies Fannie Mae and Freddie Mac, in what could be seen as the biggest federal bailout in US history in a bid to support the US housing market and ward off more global financial market turbulence.

Officials were concerned that mounting losses at the two companies, which own or guarantee almost half of the country's \$12 trillion in outstanding home mortgage debt, was sapping their vitality and threatening to undermine them at a time when other sources of housing finance had largely run dry.

The two companies, publicly traded but also serving a government mission to support housing, have been placed into a government conservatorship that will be run by the Federal Housing Finance Agency, created by Congress this summer to regulate Fannie and Freddie. The executives and boards of both institutions are being replaced.

The Treasury Department will immediately take \$1 billion equity stakes in each company that could grow to be as large as \$100 billion each if the funds are needed to keep the companies afloat as losses mount. The government will also receive warrants representing ownership stakes of 79.9 per cent in each. Officials defended this approach by saying it underscores the importance of the trillions in mortgage debt that each company either holds or guarantees and the need to make sure that investors in the US and overseas keep buying this debt.

Simon Conn, Sales and Marketing Director at Conti Financial Services, the UK's leading overseas mortgage specialist, says: "This move will help to eliminate uncertainty in the US mortgage market, restore some confidence and stability, and spur home buying demand.

"It's unlikely, however, that we'll see any changes to the ever-tightening US lending standards in the short term. That said, there are many positives for UK investors interested in buying property there - the weak dollar and low house prices, combined with the lower mortgage costs which should result from this latest government move, mean that it's a good time to buy."