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Focusing on Fannie and Freddie: The Dilemmas of Reforming Housing Finance


White, Lawrence J.

Fannie Mae and Freddie Mac are unique and controversial participants in the housing finance system of the United States. Because of these enterprises' federal government charters, the financial markets believe that the government would not allow Fannie and Freddie to fail to honor their debt obligations, and they are thereby able to borrow more cheaply in credit markets; in turn, they lower interest rates for residential mortgages. If the financial markets are right, however, Freddie and...

Like Public Utilities: Regulating Fannie Mae and Freddie Mac


Olson, W.P.

What's to be done with Fannie and Freddie? Until recently, the debate was between "nationalization" and "privatization," with no apparent middle ground. Now, following passage of the Restoring American Financial Stability Act of 2010, a consensus may perhaps be emerging that Fannie and Freddie, which are government-sponsored enterprises, could be regulated like public utilities.

Comment: Some Notes of the Effects of Fannie Mae and Freddie Mac on Mortgage Markets


Order, Robert Van

The Interest Rate Risk of Fannie Mae and Freddie Mac

Do the GSEs expand the supply of mortgage credit? New evidence of crowd out in the secondary mortgage market


Gabriel, S.A.; Rosenthal, S.S.

The dramatic government takeover of Fannie Mae and Freddie Mac in September, 2008 was motivated in part by a desire to ensure a continued flow of credit to the mortgage market. This study examines a closely related issue: the extent to which GSE activity crowds out mortgage purchases by private secondary market intermediaries. Evidence of substantial crowd out suggests that government support for the GSEs may be less warranted, whereas the absence of crowd out implies that GSE loan purchases...

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The Electricity Journal, Vol. 23, Issue: 8, October, 2010. pp. 79-84

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Securitization and the Declining Impact of Bank Finance on Loan Supply: Evidence from Mortgage Originations


Loutskina, Elena; Strahan, Philip E.

Abstract: Low-cost deposits and increased balance sheet liquidity raise banks’ supply of illiquid loans more than loans easily sold or securitized. We exploit the inability of Fannie Mae and Freddie Mac to purchase jumbo mortgages to identify an exogenous change in liquidity. The volume of jumbo mortgage originations relative to non-jumbo originations increases with bank holdings of liquid assets and decreases with bank deposit costs. This result suggests that the increasing depth of...
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Journal of Financial Services Research, Vol. 24, Issue 1, August 2003, pp. 5-29
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1. New York University

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Keywords: Housing finance; mortgages; Fannie Mae; Freddie Mac; government sponsored enterprises.

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LAWRENCE J. WHITE*
New York University

Abstract

Fannie Mae and Freddie Mac are unique and controversial participants in the housing finance system of the United States. Because of their unique roles, federal government charters, the financial markets believe that the government would not allow Fannie and Freddie to fail to honor their debt obligations, and they are thereby able to borrow more cheaply in credit markets. In turn, these lower interest rates for residential mortgages. If the financial markets are right, however, Freddie and Fannie also create a contingent liability for the government. Though there are positive externalities from home ownership, the Fannie/Freddie rents are far too broad and unobserved to address these externalities directly. Privatization, accompanied by targeted federal assistance for potential first-time low and moderate-income home buyers, would be a superior policy direction.

Key words: Housing finance, mortgages, Fannie Mae, Freddie Mac, government sponsored enterprises.

1. Introduction

Public policy discussions invariably occur—or should occur—in the context of the second best. When one or more non-trivial market imperfections are already present, the social welfare consequences of an additional apparent market imperfection cannot automatically be predicted.

The continuing policy discussions concerning Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation), and their special status, are no exception. Since the 1950s the federal government has had an array of programs, incentives, and institutions to encourage housing and especially to encourage home ownership. Fannie and Freddie are just two such vehicles for encouragement among many. And home ownership itself may well convey positive externalities for American society, which might justify some encouragement—although very likely not as much and not as broadly as is actually provided.

Accordingly, a discussion of Fannie and Freddie should consider the larger context of housing policy in which they are embedded, as well as considering their roles and net effects. Efficiency and distribution both matter. And an analysis of net effects necessarily

* As part of my duties as Board Member of the Federal Home Loan Bank Board, I was also a director of
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The international transmission of interest rate shocks: The Federal Reserve and emerging markets in Latin America and Asia


Edwards, Sebastian

This paper analyzes the effects of changes in the U.S. Federal Reserve’s Federal Funds rate on emerging countries' interest rates using high frequency (weekly) data. It also investigates how changes in the U.S. term structure affect short term rates' differentials. Other shocks include changes in the U.S. dollar-Euro exchange rate, changes in the international price of oil, risk aversion, and the degree of capital mobility. The results indicate that there is a strong and fairly rapid transmission...

Money, Banking, and Capital Formation


Schreft, Stacey L.; Smith, Bruce D.

We consider a monetary growth model in which banks arise to provide liquidity. In addition, there is a government that issues not only money, but interest-bearing bonds; these bonds compete with capital in private portfolios. When the government fixes a constant growth rate for the money stock, we show that there can exist multiple nontrivial monetary steady states. One of these steady states is a saddle, while the other can be a sink. Moreover, paths approaching a steady state can display...

What is the Real Story for Interest Rate Volatility?


Hornstein, Andreas; Uhlig, Harald

What is the source of interest rate volatility? Why do low interest rates precede business cycle booms? Most observers tend to assume that monetary policy is largely responsible for it. Indeed, a standard real business cycle model delivers rather small fluctuations in real interest rates. Here, however, we present two models of the real business cycle variety, in which the fluctuations of real rates are of similar magnitude as in the data, while simultaneously matching salient business cycle...
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