

FANNIE MAE AND FREDDIE MAC: WHAT ARE THEY? WHY DO THEY MATTER?

The US government created **Fannie Mae** in 1938 and **Freddie Mac** in 1970 to help support affordable mortgages by increasing liquidity in the mortgage market and to help more American families become homeowners. Fannie Mae and Freddie Mac, also known as the Enterprises, are government-sponsored enterprises (GSEs) and are regulated by the Federal Housing Finance Agency.



HOW DO FANNIE AND FREDDIE PROMOTE HOMEOWNERSHIP?

The Enterprises helped pioneer the **30-year fixed-rate mortgage** in the US, which has helped bring homeownership within reach of millions of families. Today, as the credit guarantor of the **mortgage backed securities**

(**MBS**) cash flows, they continue to hold lenders to standardized underwriting standards that benefit consumers and support the safety and soundness of the housing market. The GSE MBS market is one of the most liquid in the world: the structure of this market makes long-term, prepayable, fixed-rate mortgages possible.

WHAT IMPACT DO THEY HAVE ON AFFORDABLE HOUSING?

The Enterprises support the steady flow of money into the mortgage market, allowing American families to safely access loans and purchase homes. They stabilize the housing market, which helps to **decrease mortgage costs**.

Congress requires Fannie Mae and Freddie Mac to engage in the Duty to Serve program and meet their annual Affordable Housing Goals. These programs ensure that the GSEs remain focused on their public mission, and also serve our nation's underserved markets and mortgages for low- and moderate-income families.

59%

Fannie and Freddie now
back over half of all
mortgages in the U.S.¹



¹ "National Mortgage Database," (2023) as cited in "2025-2027 Enterprise Housing Goals," 89 Fed. Reg. 70,128 (August 29, 2024).

FANNIE MAE AND FREDDIE MAC: HOW DOES THE SECONDARY MARKET WORK?

The **secondary mortgage market** makes home loans more accessible by allowing lenders to free up funds and offer **more mortgages at more affordable rates**. Without this market, lenders would have less money to lend, leading to higher interest rates and fewer borrowers qualifying for loans. The secondary market includes Fannie and Freddie securities, Ginnie Mae securities that bundle loans insured by the FHA, VA and Rural Housing, and private label securities. The GSEs guarantee the timely payment of principal and interest to the MBS investors from the underlying mortgages, and charge a “guarantee fee.”



First, a customer obtains a mortgage underwritten, funded, and serviced by a lender.

As of 2024, it is estimated that **70% of mortgages** are sold into the secondary market.¹

The lender can then either...

retain the mortgage with the other loans it has.



sell the mortgage in the **secondary market**, replenishing its funds and allowing it to finance more customers.

THE SECONDARY MARKET BENEFITS HOMEBUYERS BY...

- keeping mortgage rates lower.
- standardizing mortgage interest rates nationwide.
- offering longer-term mortgages, like the 30-year fixed-rate loan.
- allowing homeowners to refinance easily.

Mortgage aggregators, including Fannie and Freddie, sell these mortgages in the form of **mortgage-backed securities (MBS)** to a securities dealer.



The securities dealer, likely a Wall Street brokerage firm, sell the **MBS** to investors.

FANNIE MAE, FREDDIE MAC, and CONSERVATORSHIP

Fannie and Freddie entered conservatorship in 2008, when they were at risk of financial collapse due to widespread mortgage failures. Per the 2008 HERA legislation, the Federal Housing Finance Agency (FHFA) became the companies' conservator and the Treasury provided over \$185 billion in taxpayer support, in the form of senior preferred stock purchase agreements (SPSPAs).

Conservatorship was not designed as a permanent fix.

Conservatorship has supported **safety and stability** in the mortgage market and has helped restore the trust of investors in America's mortgages while keeping rates steady.



WHY DO SOME PEOPLE WANT TO SEE A RELEASE FROM CONSERVATORSHIP NOW?

Some housing industry groups believe government restrictions stifled efficiency and innovation at the Enterprises, and hope that once out of conservatorship, these GSEs will be more responsive to industry feedback. Several hedge fund billionaires are also actively lobbying

for an exit to conservatorship, as they invested in Fannie Mae and Freddie Mac stock and stand to financially benefit from a release. However, **the Enterprises' operations in the years leading up to the financial crisis of 2008 have been widely scrutinized for placing profit ahead of safety and soundness.** Some housing advocates and policy experts also argue that conservatorship is working well for American homeowners – why fix what isn't broken.

WHAT ARE THE DOWNSIDES OF RELEASING THE ENTERPRISES FROM CONSERVATORSHIP?



A release of a trillion-dollar housing finance system is complex and demands sufficient private capital to stand on its own. **Rushed release could introduce greater market risk, undermine investors' trust, and drive up mortgage rates.** Today's housing market is stressed and many American families worry about high mortgage interest rates: This is not the time for major structural changes.



FANNIE MAE, FREDDIE MAC, and the AFFORDABLE HOUSING GOALS

Congress requires Fannie and Freddie to **support affordable housing finance**. Every three years, the Federal Housing Finance Agency (FHFA) sets benchmarks for the Enterprises to improve access to housing finance in the nation's underserved markets, including **lower-income families** and **lower-to-moderate income neighborhoods**. The Affordable Housing Goals (AHGs) help ensure that the Enterprises serve all borrowers, not only the most profitable ones.

The goals specify the percentage of overall qualified loan purchases for each year and are broken up into two categories: **single-family housing** and **multifamily housing**.



ARE THE AFFORDABLE HOUSING GOALS EFFECTIVE?

The goals ensure Fannie and Freddie purchase more mortgages in underserved markets than they would if left to focus solely on profit. Their dominance in the mortgage market extends beyond their own purchases – Fannie and Freddie set the underwriting standards, credit availability and risk appetite, and mortgage product mix in the U.S. mortgage market at large. Advocates argue that to have a greater impact on increasing access to affordable housing financing, FHFA must set more ambitious benchmarks.

WHY ARE THEY IMPORTANT NOW?

With the U.S. facing an ever worsening housing crisis, is more important than ever to keep FHFA accountable for upholding one of the most basic

tenets of the Enterprises' mission: **providing affordability in the mortgage market**.



The Congressional Budget Office estimated that the goals will result in the purchase of about **37,000 additional eligible mortgages in 2025**.



FANNIE MAE, FREDDIE MAC, and DUTY TO SERVE

Duty to Serve (DTS) is a requirement set by Congress, directing Fannie Mae and Freddie Mac to **support affordable housing** in specific enumerated ways. Passed under the bipartisan Housing and Economic Recovery Act of 2008 (HERA), it directs the Enterprises to help develop loan products and flexible underwriting to **serve low-to-moderate income families** in three underserved markets:

- **Manufactured Housing:** To help support more mortgages for factory-built homes (that comply with the federal HUD code) for low-to-moderate income families.
- **Affordable Housing Preservation:** To help maintain and improve existing affordable housing, such as older rental properties and federally subsidized housing for low- and moderate-income families.
- **Rural Housing:** To support housing finance needs in rural areas, where mortgage options are often limited and housing challenges are unique.



WHAT IMPACT DOES DUTY TO SERVE HAVE ON THE HOUSING MARKET?

FHFA requires Fannie and Freddie to submit Duty to Serve Strategic Plans and invites the public to offer feedback to the Enterprises. These plans aim to **spur research, pilot programs, and innovation** on how to best serve

these three underserved markets. This may include new loan products, targeted educational outreach, or fostering closer working relationships with small lenders in rural communities. Congress requires the Enterprises to develop and implement these strategic plans every three years, which help the Enterprises reach less profitable markets, while **innovating loan origination practices that can deliver on credit needs** for people and places across the country.