The initial steps to dismantle Fannie Mae and Freddie Mac are underway with the introduction of a bipartisan bill in the House of Representatives that would replace the mortgage giants with a minimum of five companies that would issue mortgage-backed securities with significant federal regulation. The compromise legislation proposed by **Representative John Campbell (R-CA)** and Representative Gary Peters (D-MI) is likely to be the only plan that will attract sufficient support from both parties on a politically volatile subject, especially at a time when gridlock looms over issues such as how to curb federal spending. The bailout of the two companies has cost taxpayers upwards of $100 billion.

According to **Representative Campbell, "Rather than putting out a political marker, we can move a piece of legislation that is significant…and can actually become law. The only other approach that's out there in a bill is one that replaces Fannie and Freddie with nothing."** Other policymakers, such as Treasury Secretary Timothy Geithner, have discussed the merits of a limited but unambiguous government guarantee of securities backed by certain types of mortgages. The new entities - similar to Fannie and Freddie — would be limited to purchasing loans that meet certain standards, including size caps. The difference would be that the firms would be required to hold much more capital than Fannie and Freddie. Only the mortgage-backed securities that they issue –not the companies themselves — would enjoy federal guarantees. The companies would operate similarly to public utilities and likely will not have exchange-listed shares.

Critics say the proposal risks recreating the same dynamics that led Fannie and Freddie to use their government ties to take risks that harmed taxpayers. "In reality, this is almost surely going to be terrible," said Dwight Jaffee, finance professor at the University of California, Berkeley. Government insurance programs, he says, inevitably lead to "a catastrophe." Advocates argue that taxpayers will be less exposed to losses because borrowers will have to make significant downpayments. Additionally, the new firms will have to hold more capital. Additionally, the firms will be required pay a fee for government backing to finance a catastrophic insurance fund, much as the Federal Deposit Insurance Corporation levies fees and handles bank failures.

The mortgage and housing industry support a continued government role in supporting mortgage lending, including the Mortgage Bankers Association, National Association of Realtors and National Association of Home Builders.

The agencies are still hemorrhaging money. For example, Fannie Mae reported a loss of $8.7

billion for the 1st quarter of 2011, which included a $2.2 billion dividend payment to the Treasury Department. The loss was significantly less than the $13 billion reported one year ago. “We need to manage our credit book — our old legacy book very vigorously,” said Fannie Mae President and CEO Michael Williams. But that is not in conflict with helping distressed homeowners. “Helping people to avoid foreclosure is a good thing,” Williams said.

Action must be taken to keep the mortgage market afloat and provide securitization for investments. According to a Washington Post editorial, “The housing market is still in deep trouble. Prices nationwide have fallen by about a third since the peak in 2006 — and they appear to be trending down again. The resulting hit to household wealth may hinder the recovery, which is already sluggish. Small wonder that various advocates for housing are once again asking Washington for help. But in at least one area, the prescription would be worse than the disease. We refer to calls for extending the current elevated limit on the size of loans eligible for securitization by Fannie Mae and Freddie Mac, the mortgage-finance giants operating under government control. Congress ‘temporarily’ raised the limit to a maximum of $729,759 in certain markets in response to the sudden evaporation of private liquidity during the 2008 crisis, but that measure is set to lapse at the end of September. At that point, the limit will not revert to the pre-crisis maximum of $417,000 in most of the country but to a level set in relation to local medians — and capped at $625,000. But the Obama administration has supported a reversion to lower loan limits as the first step in gradually reforming the mortgage security market and reducing taxpayer exposure to Fannie and Freddie. The administration’s goal is to lure cash-rich would-be mortgage securitizers back into the market, starting with the high end. Treasury Secretary Timothy F. Geithner has described this as “crowding in” private capital, and it is the rare housing policy proposal that has enjoyed a measure of bipartisan support.”