The federal government’s role as the backer of most U.S. home loans is becoming entrenched as fiscal issues distract Congress and the White House from a housing- finance overhaul that would shift more risk to private capital, according to lawmakers and analysts.

At the core of such an overhaul is the future of Washington-based Fannie Mae and McLean, Virginia-based Freddie Mac, the so-called government-sponsored enterprises, or GSEs, that provide market liquidity by buying home loans and bundling them into securities. As they neared collapse in 2008, the companies were placed into federal conservatorship.

Housing-finance reform is “number two or three” on the agenda for Congress, Jim Millstein, the former U.S. Treasury Department chief restructuring officer who now runs advisory firm Millstein & Co., said in an interview.

“The reality is that a now four-year long conservatorship is no longer even threatening to become a nationalization of the mortgage market,” said Millstein. “It is becoming the nationalization of the mortgage market.”

Together, Fannie Mae, Freddie Mac and the Federal Housing Administration, the government agency that insures about 15 percent of mortgages, either own or guarantee more than 90 percent of home loans in the U.S.

The Obama administration is finishing a proposal to maintain a government safety net for housing finance while allowing private capital to take on the up-front risk. A date for the plan’s release hasn’t been set. Meanwhile, Republicans and Democrats in Congress are preparing to introduce bills next year to wind down Fannie Mae and Freddie Mac.

No Change

“Don’t get the idea that we’ll see Fannie and Freddie go away some time next year or be reconstituted in a different form,” said Clifford Rossi, a former risk manager and managing director at Citigroup Inc. who’s now at the University of Maryland’s Robert H. Smith School of Business. “There’s too much groundwork to be done.”

The risk of deep government involvement in backing mortgages was highlighted this month when the FHA said it faces a $16.3 billion shortfall in the value of its insurance fund. The agency is proposing to raise premiums and sell delinquent loans to avoid taking a taxpayer subsidy for the first time in its 78-year history.

“I hope now with this example we’ll get bipartisan support for comprehensive reform not only for FHA but for the GSEs as well,” Scott Garrett, a Republican from New Jersey who sits on the House Financial Services Committee, said in an interview. “Once again we’re proved that government cannot price the risk, government is not better at handling the mortgage market than the private sector.”

Even as FHA is facing financial headwinds, Fannie Mae and Freddie Mac have reduced their dependency on government support. After taking $190 billion in Treasury aid, each has now gone two straight quarters without needing additional cash infusions. They’ve paid a combined $50 billion to Treasury in dividends, which technically don’t count as a payoff of the government’s stake.

No plan exists for them to emerge from government control, and lawmakers including Garrett say they fear the companies’ improved finances could stall momentum to wind them down.

“What I’ve found unfortunately with regard to the GSEs is that peoples’ memories are very short and already people are saying 2008 was not that bad and the GSEs situation is being resolved, and the taxpayer won’t be on the hook ever again,” Garrett said.

18 Bills

In this session of Congress, Fannie Mae and Freddie Mac have been targeted in at least 18 Republican bills seeking to reduce or eliminate the government role in mortgages. None of the measures gained broad support, partly because Republicans disagree about what to do with the two companies.

Texas Republican Jeb Hensarling, a critic of Fannie Mae and Freddie Mac, is next in line to be chairman of the House Financial Services Committee, which handles housing-finance issues.

He is expected to put forward solutions of his own for phasing out government backing for housing.

Meanwhile, staff for Democratic members of Congress say they want White House guidance on mortgage finance reform. The Obama administration has provided few details on its preferred approach beyond a report suggesting three options with varying degrees of government involvement. They were unveiled by Treasury Secretary Timothy F. Geithner almost two years ago.
A more detailed plan the administration is now completing would be a version of one of the options in the report, allowing federal assistance for low- and moderate-income borrowers and providing catastrophic reinsurance for mortgages behind significant private capital, according to three people familiar with the document, who spoke on condition of anonymity because it has not been finalized.

There is broad support in Washington for a continued government role, though some Republicans may disagree, policy analysts say.

“I think we’re seeing some broad consensus around a government backstop of some sort,” Julia Gordon, director of housing finance and policy at the Center for American Progress, said in an interview. The center, which is aligned with Democrats, has proposed that privately capitalized entities issue mortgage securities with an explicit government guarantee.

Earlier this year, the Obama administration was said to be looking closely at bipartisan housing-finance bills for policy guidance. One such bill, co-sponsored by California Republican Gary Miller and New York Democrat Carolyn McCarthy, would create a government-run “secondary market facility” for residential mortgages to replace Fannie Mae and Freddie Mac.

Private Enterprises

A second measure drawing Treasury interest was introduced by **John Campbell**, a California Republican, and Gary Peters, a Michigan Democrat. It would replace the government-sponsored enterprises with privately capitalized entities that would buy government backing for the mortgage bonds they issued.

Whatever avenue lawmakers and the White House finally choose, they need to make the process transparent, Rossi said.

“The time has come to put something out,” he said in an interview. “You can’t just flip a switch and all of a sudden you’ve got a brand new secondary market. I’d like to see a specific timeline.”

Meanwhile, absent action from lawmakers, the Federal Housing Finance Agency, the regulator of Fannie Mae and Freddie Mac, is proceeding with its own plans for shrinking their footprint. FHFA director Edward J. DeMarco has called for the enterprises to share the risk on some of their portfolio with private capital, expand reliance on private mortgage insurance and raise the fees they charge to guarantee mortgage-backed securities.

As part of that process, FHFA is seeking public comment on a plan to standardize methods for issuing bonds, overseeing servicers, making payments to investors and tracking loan performance. The system could be used by Fannie Mae and Freddie Mac or by issuers of private-label securities, FHFA said.

Not everyone in Washington thinks it’s imperative to act fast, especially when Fannie Mae and Freddie Mac are becoming profitable.

“We all know it’s unhealthy for the federal government to play such a dominant role in the market and it’s unsustainable,” said Tim Rood, a partner in Washington-based consulting firm Collingwood LLC. “While the market heals, we can wean it off by creating market opportunities for private capital. In the meantime, let’s try to make some money to pay for the sins and claims of the last market.”