APPENDIX

NAHB HOUSING FINANCE TASK FORCE

PROS AND CONS OF ALTERNATIVE STRUCTURES FOR FANNIE MAE AND FREDDIE MAC[1]

I. **Status Quo**

II. **Full Government Ownership and Control**

III. **Completely Private Operation**

IV. **Private Utility Model**

V. **Continued Government Sponsorship with Private Stockholders and Reduced Scope of Operation**

VI. **Continued Government Sponsorship with Customer Stockholders and Reduced Scope of Operation**

[1] Under scenarios II-VI, enterprises could be merged into one operation or left as separate entities.

I. Status Quo

Following conservatorship, Fannie Mae and Freddie Mac would resume operating with private stockholders, a public mission charter and an implicit federal government backing.

Pro	Con
Retains ability to provide lower mortgage borrowing costs as a result of government support.	Since the government has shown it can and will take control of Fannie and Freddie, to the detriment of private stockholders, it will be impossible for the enterprises to resume business as normal in their former private/public state.
Provides consistent backstop to mortgage market.	Enterprises' credibility may be irreparably damaged.
Provides continued leverage to impose mission goals.	
Avoids pitfalls of greater government control.	

II. Full Government Ownership and Control

Fannie Mae and Freddie Mac are converted to government agencies (essentially a conventional market version of Ginnie Mae.

Pro	Con
Establishes continued ability to provide lower mortgage borrowing costs and consistent mortgage market backstop as a result of government ownership.	Would be bureaucratic, damaging flexibility, creativity and effectiveness.
Government could absorb greater risk and support more focused and effective mission activities.	Subject to constraints of Administration and Congress, this might not permit adequate responses to housing finance needs.
Government control would provide more decisive response in times of crisis.	Government would hamper more decisive response in times of crisis.
Provides continued leverage to impose mission goals.	

III. Completely Private Operation

Fannie Mae and Freddie Mac are converted to fully private companies with no public mission or government backing.

Pro	Con
Fannie and Freddie would have no constraints on operations and programs.	No implicit or explicit government guarantee.
Provides level playing field for housing finance providers.	No guarantee of consistent flow of mortgage credit.
	No requirement to focus on housing finance needs or affordable housing mission.
	Absence of mission requirement would remove any incentive to provide a cross-subsidy and lower rates for mortgages formerly provided under housing goals requirements.
	Industry stakeholders would have less influence on companies' decision making process.

IV. Private Utility Model

Fannie Mae and Freddie Mac are converted to private companies and granted monopoly powers over selected housing finance functions, with prices, fees and profits regulated by the government.

Pro	Con
Fannie and Freddie monopoly powers and regulated charges and returns would ensure flow of affordable housing credit.	Likely to be confined to very limited (lower-income) portions of mortgage market, since monopoly powers not likely to be extended to areas where private firms are already operating.
Fannie and Freddie could be focused on addressing unmet housing finance needs.	Difficult to accomplish function of providing market liquidity.
	Could limit innovation.

V. Continued Government Sponsorship with Private Stockholders and Reduced Scope of Operation

Fannie Mae and Freddie Mac would emerge from conservatorship as privately held corporations, retaining their public charter and implicit or explicit government backing. The key difference is that their scope of operations would be narrowed to primarily guaranteeing mortgage-backed securities and purchasing limited housing-related instruments that do not currently have a secondary market outlet.

Pro	Con
Would allow Fannie and Freddie to continue to use government backing to lower mortgage borrowing costs.	Private stockholder support may be difficult to obtain, given previous government intrusion.
Would prevent Fannie and Freddie from engaging in high-risk activities.	Could limit innovation.

VI. Continued Government Sponsorship with Customer Stockholders and Reduced Scope of Operation

Fannie Mae and Freddie Mac would emerge from conservatorship as privately held corporations, retaining their public charter and implicit or explicit government backing. Stockholders would be limited to financial institution customers of Fannie Mae and Freddie Mac, similar to the ownership model for the Federal Home Loan Banks. In addition, the scope of Fannie's and Freddie's operations would be narrowed to primarily guaranteeing mortgage-backed securities and purchasing limited housing-related instruments that do not currently have a secondary market outlet.

Pro	Con
Based on successful FHLBank model that has weathered current crisis.	Capital is not permanent.
Would allow Fannie and Freddie to continue to use government backing to lower mortgage borrowing costs.	Bigger originators would dominate board deliberations.
Would require Fannie and Freddie to focus on mission without conflict of satisfying public stockholders.	Could limit innovation.
Provides a cooperative system that minimizes conflicts with primary mortgage originators.	