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UPDATE: Here's How Possible Fannie/Freddie Boss Thinks

A couple of past articles from the alleged soon-to-be nominee to head the FHFA.

1. Fannie and Freddie have only ever failed during a housing downturn

2. We don't need 30yr fixed loans

These concepts are a dangerous mix of logic and ignorance--positives and negatives. The biggest issue with anyone who wants to do away with the GSEs is that of borrowing costs for consumers. GSEs provide a valuable resource by standardizing underwriting guidelines, thereby allowing investors to buy mortgages more freely, in larger numbers, and with better-managed risks.

Did this system fail in 2007-2008? Absolutely! Are those mistakes likely to be repeated? Never say never, but they certainly won't be repeated in the same way or to the same extent.

Ask investors to buy individual whole loans instead of securitized pools with a government guarantee and watch loan costs skyrocket (relatively). Ask yourself: would you want to invest $200k in one mortgage with a 3% risk of default, or would you prefer to buy a 1% share in a pool of 100 $200k loans where you know roughly 3 of them will default? Additionally, the cost of buying those mortgages will automatically be adjusted in your favor to reflect to known default risk.

My point is that there's nothing wrong with securitization, if done correctly. In fact, it provides substantial benefits in terms of borrowing costs and substantial revenue for the government. It's oh-so-fashionable to refer to the "American taxpayer being on the hook" for whatever an op-ed columnist is opposed to. Fannie and Freddie have received a ton of bad press for that. Indeed, taxpayers were on the hook, and they were in the red for several years following the financial crisis. But Fannie and Freddie have long since paid back their bailout money and continue to sweep all excess profits directly to Treasury. We'd have to undergo another shock like the financial crisis in order for the American taxpayer NOT to be coming out ahead on the deal.

The revenue argument is one of the factors that will make it challenging for anyone to make huge changes to the current system. The size of the real estate lobby is another huge hurdle for any GSE skeptic to clear.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.68	-0.01
10 YR Treasury	5.1281	-0.0061
30 YR Treasury	5.4763	+0.0005

Pricing as of: 11/16 7:51PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00
Freddie Mac			
30YR Fixed	7.11%	+0.90	0.00
15YR Fixed	6.45%	+0.98	0.00
Mortgage Bankers Assoc.			
30YR Fixed	7.21%	+0.09	0.75
15YR Fixed	6.64%	+0.21	0.97
30YR FHA	6.98%	+0.20	1.06
30YR Jumbo	7.21%	+0.06	0.47
7/6 SOFR	6.28%	+0.18	1.14

Rates as of: 11/16

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Long story short, the Calabria nomination (expected) is a scary thing at first glance, but even if he comes in with a clear agenda of dissolving the GSEs, it's not necessarily going to be that simple.



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Ted Rood

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