



Economic Review

What to Do about Fannie and Freddie: A Primer on Housing Finance Reform

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July 08, 2020

Policymakers face several issues in reforming the current system of mortgage finance toward one in which the government plays a less direct role.

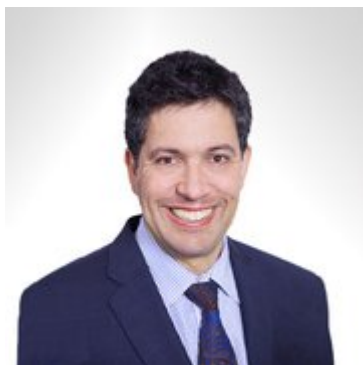
In September 2008, the U.S. government took control of Fannie Mae and Freddie Mac, the two dominant entities in U.S. residential mortgage markets. The government placed Fannie and Freddie into a conservatorship, meant to be temporary to curtail the risk of financial contagion during the financial crisis, conserve the value of the companies, and return them to safe-and-sound condition. But as of mid-2020, the conservatorship persists. Fannie and Freddie together with other mortgage-finance institutions have been meeting several important goals over the past few years, arguably satisfying most households' mortgage needs and, on balance, supporting financial stability. Even so, almost all policymakers, researchers, and industry advocates agree on the need to move to a system of mortgage finance in which the government plays a less direct role.

Jordan Rappaport reviews the current system of mortgage finance and analyzes the key issues policymakers face in reforming it, including what to do with Fannie and Freddie. Although policymakers have reached a rough consensus on several key issues, they disagree on the share of lending the government should backstop against widespread defaults and how many companies should have access to the backstop.

Publication information: Vol. 105, no. 2

DOI: 10.18651/ER/v105n2Rappaport

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Jordan Rappaport is a senior economist at the Federal Reserve Bank of Kansas City. He joined the Bank in 1999 following completing his Ph.D. in economics at Harvard University. Jordan also holds a bachelors' degree from Brown University, from which he graduated in 1990. Jordan's research focuses on issues related to local growth. His articles for the Bank's *Economic Review* primarily focus on U.S. metropolitan area growth and on housing. His empirical research published in peer-reviewed journals has documented the persistence and causes of long run local population growth. His published theoretical research shows that even small costs associated with moving are sufficient to cause high persistence in net population flows and that small productivity and amenity differences can cause very large differences in local population density. Jordan is an associate editor of *Regional Science and Urban Economics* and the *Journal of Regional Science*.
