

## MARKETS

# The White House Wants to Privatize Fannie and Freddie. It Needs Wall Street's Help.

The two mortgage giants would potentially have to raise billions of dollars from investors, and financial firms are laying the early groundwork



From left, Treasury Secretary Steven Mnuchin, Housing and Urban Development Secretary Ben Carson and Federal Housing Finance Agency Director Mark Calabria testified Tuesday before a House Financial Services Committee hearing in Washington on Trump administration efforts to remove Fannie Mae and Freddie Mac from government conservatorship. PHOTO: CARLOS JASSO/REUTERS

*By Juliet Chung and Ben Eisen*

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The Trump administration wants to put Fannie Mae [FNMA -7.69% ▼](#) and Freddie Mac [FMCC -7.84% ▼](#) back into private hands after more than a decade in government control. The path to doing so will likely lead through Wall Street.

Before the two mortgage giants can be privatized, they will potentially have to raise billions of dollars from investors, a move that will require big banks to move further into a sticky political issue. Financial firms are already laying the early groundwork.

Executives at Bank of America Corp. [BAC 0.71% ▲](#), Citigroup Inc., Goldman Sachs Group Inc., [GS 0.82% ▲](#) JPMorgan Chase [JPM 0.26% ▲](#) & Co. and Morgan Stanley in recent months have

talked with the Treasury Department and Fannie and Freddie’s regulator about how a capital raise could work, said people familiar with the matter.

There are no indications the government has begun a formal process for hiring banks on a capital raise, and it could be a hard sell to investors. Still, several, including Bank of America, Citigroup and Goldman, have begun preparing internally to win a role in what could be a landmark event, these people said.

What to do with the mortgage giants has divided lawmakers for years. The two firms were bailed out with taxpayer money in the financial crisis. If they are privatized, shareholders and bankers could reap big financial rewards—without eliminating the risk that taxpayers could end up footing the bill for another downturn, skeptics say.

The Trump administration still needs to answer important questions to clear the way for a capital raise.

For example, the government still has a large ownership interest in the two firms from bailing them out, which could make potential investors reluctant to get involved.

The government must also decide how much capital Fannie and Freddie need to stand on their own. The Federal Housing Finance Agency, which regulates the companies, said last year they would need to have as much as roughly \$180 billion combined, but the regulator is currently deciding whether to propose new capital rules.

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The FHFA and Treasury in September began allowing Fannie and Freddie to retain as much as \$45 billion of their earnings combined. Fannie currently holds \$6.4 billion in capital and Freddie holds \$4.8 billion, according to FHFA. Still, they would need substantially more capital, and would likely

need to turn to the public markets for it, to stand on their own.

The IPO market has also slowed recently even on more typical companies, which could make it harder to raise money. It is not clear what forms a capital raise for Fannie and Freddie would take. The biggest IPO in the U.S. so far this year was Uber Technologies Inc., which raised \$8.1 billion, according to Dealogic. U.S.-listed IPOs raised less than \$332 million each on average so far this year.

Treasury Secretary Steven Mnuchin, who once ran Goldman's mortgage trading desk, has long said privatizing Fannie and Freddie is a priority.

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The FHFA put out a notice this month that it is hiring a contractor to advise it on capital markets. That role could potentially include helping select underwriters and advising on what capital structures could look like.

During a Congressional hearing Tuesday, FHFA head Mark Calabria was asked about the potential for hedge funds and other money managers that hold shares currently to reap a windfall from these efforts. Mr. Calabria said: "If... we have to wipe out the shareholders, we will." Shares of both Fannie and Freddie, which have risen sharply this year, fell Tuesday and were down again as of mid-morning on Wednesday.

The preliminary discussions between the banks and the government also covered topics such as how the mortgage market would be affected by releasing Fannie and Freddie from government control, the people said. Some of the meetings took place as the Treasury prepared to release a September report about its support for privatizing the two companies.

The biggest U.S. banks already have a large presence in the mortgage market, potentially complicating any capital raise. Many banks not only make mortgages to consumers, they also sell those loans to Fannie and Freddie. Some banks package and trade mortgage bonds, a business that would be upended if Fannie and Freddie return to private hands.

Fannie and Freddie are essentially the plumbing behind the U.S. mortgage market, buying home loans from lenders and packaging them into securities that are sold to investors. The government effectively nationalized them in 2008 as defaults mounted. They have remained in conservatorship ever since as lawmakers have tried and failed to overhaul them. Some pushed to privatize them and others tried to do away with them altogether.

The government injected about \$190 billion into the companies in the crisis bailout. Since 2012, the companies have been required to return profits to the government. They have now returned more than \$300 billion.

James Dimon, the chief executive of JPMorgan, has said in private meetings in recent months



Banks including James Dimon's JPMorgan Chase have talked with the Treasury Department about how a capital raise for Fannie Mae and Freddie Mac could work. **PHOTO:** KENA BETANCUR/AGENCE FRANCE-PRESSE/GETTY IMAGES

that housing finance regulators in the Trump administration have been more effective than in the Obama administration, according to people familiar with the matter.

Mr. Dimon has long criticized the government's oversight of housing finance after the financial crisis. But recently he has taken a more conciliatory tone, lauding the latest efforts to overhaul Fannie and Freddie.

"I think they're kind of going in the right direction," Mr. Dimon said at a conference last month.

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