NATIONAL HOUSING CONFERENCE

Moving *Forward*

Administrative recapitalization and release from conservatorship for Fannie Mae and Freddie Mac

STOP

Introduction

Sixteen years after the financial crisis, Fannie Mae and Freddie Mac remain in conservatorship, leaving the mortgage market exposed to political interference and uncertainty. The country is in the midst of a deep and historic housing affordability crisis that severely impacts most families. There may finally be an opportunity to find a durable, nonpartisan solution that preserves market stability, protects taxpayers, and advances affordable housing. It is increasingly irresponsible to leave in perpetual limbo these lynchpins of a $12.8 trillion single-family residential mortgage market and a $2.3 trillion multifamily mortgage market.

Since the Supreme Court decided Collins v. Yellen four years ago this month, conservatorship has permitted a degree of political control over the mortgage finance system that was never intended. With renewed momentum from the second Trump Administration—including multiple public statements by President Donald Trump, Treasury Secretary Scott Bessent and Federal Housing Finance Agency (FHFA) Director William Pulte—the time for a durable, nonpartisan solution may be here.

This paper outlines the rationale, objectives, and policy recommendations for a successful transition, integrating the latest data and perspectives from over 100 leading policy experts and stakeholders. We have benefited from a wide range of views, some of which are aligned with this paper, others remain skeptical or in opposition. As has been the case for over 16 years, there is a wide range of views on this complicated subject. This work represents only the views of the National Housing Conference, and does not speak for all of our members. We have aimed to find highest common denominator of agreement within our broad and diverse coalition.

NHC supports a pragmatic, stability-focused pathway for housing finance reform centered on administratively enshrining critical powers of FHFA under conservatorship in a new amendment to the Treasury Department's Preferred Stock Purchase Agreements (PSPAs) with the Enterprises, followed by the concurrent recapitalization and administrative release of the Enterprises from conservatorship, as discussed in detail in our 2019 paper, Restoring the American Dream Through Focused Housing Finance Reform. This approach builds on the robust regulatory foundation of the Housing and Economic Recovery Act of 2008 (HERA) (PL110-289), preserves the existing statutory affordable housing mandates, and ensures continued market liquidity, access to capital and confidence.

Without action we are effectively choosing in perpetuity a nationalized housing finance model that effectively operates as a utility with full government control and taxpayer risk in an increasingly politicized environment.

It is essential that any windfall from the sale of the Treasury Department's stake in the Enterprises be substantially dedicated to affordable housing priorities. These could include supplemental commitments to the Housing Trust Fund and Capital Magnet Fund; significant investments in technology improvements and program modernizations at Ginnie Mae and the Federal Housing Administration (FHA); full funding over ten years for the Affordable Housing Credit Improvement Act and the Neighborhood Homes Investment Act; and relieving low- and moderate-income first-time homebuyers of the burden of paying tax on Employer Assisted Housing grants and loan forgiveness. Redirecting proceeds from stock sales to recapitalization and affordable housing, rather than deficit reduction, cannot be done without amending the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which requires Congressional action.

While moving forward on recapitalization and release from conservatorship is by no means required to maintain a safe and sound mortgage finance system, without action we are effectively choosing in perpetuity a nationalized housing finance model that operates as a utility with full government control and taxpayer risk in an increasingly politicized environment. There is also nothing about administrative release from conservatorship that precludes additional action by Congress.

I. Policy Objectives for Housing Finance Reform

It is essential that any changes to the status quo preserve or enhance five aspects of a healthy market for both single-family and multifamily housing. After 16 years of government conservatorship and efforts in the Obama and first Trump Administrations to redesign the U.S. housing finance system, it is increasingly clear that an approach that builds upon the major reforms enacted in HERA should be the cornerstone of the transition. This legislation has long been underappreciated, in part due to the fact that it was almost immediately utilized to create a new, more powerful and agile regulator, and move the Enterprises into conservatorship, a power that previously had not existed. For almost its entire existence, FHFA has been both conservator and regulator, and a reorientation and identification of necessary regulatory powers to establish in an exit will be necessary to properly transition.

Any movement out of conservatorship along with any subsequent reforms must guarantee the following aspects of the status quo.

1. **Maintain and enhance** mortgage funding liquidity for single-family and multifamily mortgages, including a robust and efficient To-Be-Announced (TBA) market;
2. **Ensure** broad, reliable, safe and sound access to affordable mortgage credit for the most consumers possible as statutorily required in the Housing and Economic Recovery Act of 2008 (HERA);
3. **Improve** on the pre-conservatorship implicit guarantee structure;
4. **Maintain** strong, independent regulation to ensure the Enterprises are safe and sound while preserving a level playing field for lenders of all sizes; and
5. **Mitigate** any adverse market and consumer impacts with a smooth, transparent transition.

Maintain and enhance mortgage funding liquidity for single-family and multifamily mortgages, including a robust and efficient TBA market

It is essential that any change in the status quo maintain a well-functioning secondary mortgage market, which is foundational to the U.S. housing system. The Enterprises currently support nearly half of all outstanding single-family mortgage debt and a significant share of multifamily finance. Maintaining liquidity in this market is crucial for lenders, homebuyers, and renters, especially during economic downturns when private capital tends to retreat. Liquidity is also important for multifamily mortgages that must be refinanced at regular intervals independent of the business cycle.

Preserving the TBA market is essential to a smooth functioning market that allows for locking rates, shopping with confidence, and managing mortgage pipelines. The United States' home mortgage market remains the envy of the world, offering qualified homebuyers across the country reliable access to long-term, fully amortizing home mortgage loans under all economic conditions; allowing borrowers to prepay without penalty; and enabling them to lock in an interest rate prior to closing. This provides homeowners with unique control over their housing budget, protecting them from managing their own interest rate risk and shifting that burden to sophisticated financial institutions far better equipped to manage it.

More than 90% of agency mortgage-backed securities (MBS) trading occurs in the TBA forward market, according to a report by the Federal Reserve Bank of New York. "The liquidity of this market improves market functioning and helps mortgage lenders manage risk, since it allows them to 'lock in' sale prices for new loans as, or even before, those mortgages are originated. In a TBA trade, the seller of MBS agrees to a sale price, but does not specify which particular securities will be delivered to the buyer on settlement day," the report explains. The report estimates the value of the TBA execution to be worth 10-25 basis points in reduced rates, and more during periods of market stress. This allows lenders to hedge pipeline risks and offer borrowers locked in rates at application.

Further, experience during and after the 2008 crisis suggests that the Enterprises' countercyclical role is essential for moderating market cycles that generate credit contractions that can deepen recessions and disproportionately harm low- and moderate-income households. This is true for both homeownership and rental housing finance. The safe and sound operations of Fannie Mae and Freddie Mac have historically provided consistency, stability, and resilience to the U.S. residential mortgage market that purely private alternatives have not matched. The obvious exception to this was the 2008 financial crisis. Root causes of this were thoroughly explored in the Financial Crisis Inquiry Report and addressed in HERA and the Dodd-Frank Act.

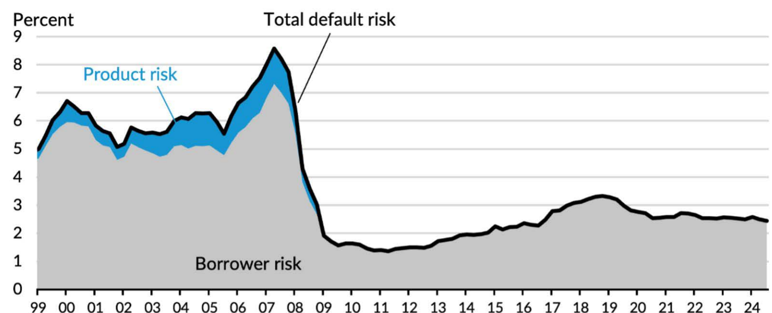
Ensure broad, reliable, safe and sound access to affordable mortgage credit for the most consumers possible as statutorily required in HERA

Access to affordable, sustainable mortgage credit must be preserved, modernized, and expanded. The Enterprises play a critical role in serving a wide spectrum of borrowers, including first-time, minority, and low- to moderate-income homebuyers. Urban Institute data shows that credit availability, while somewhat tighter than pre-crisis levels, remains stable and prudent, with the Enterprises' Housing Credit Availability Index (HCAI) at 4.79% as of Q3 2024.

Some policy experts have argued for narrowing the Enterprises' footprint to promote private market solutions or to focus government support on the most underserved. NHC maintains that any reduction in the Enterprise footprint should only occur if there is high confidence that alternative channels can serve affected borrowers fairly and effectively. Historical evidence demonstrates that abrupt or poorly coordinated withdrawals from segments of the market can widen homeownership gaps and limit upward mobility.

Access to affordable, sustainable mortgage credit must be preserved, modernized, and expanded.

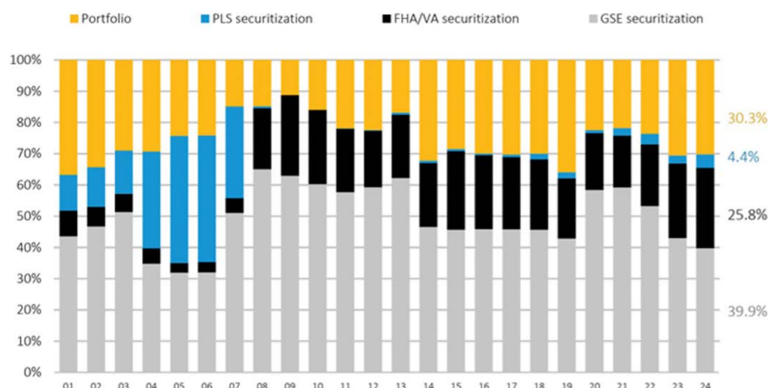
Default Risk taken by the Mortgage Market, 1999 to Q3 2024



Sources: eMBS, CoreLogic, Home Mortgage Disclosure Act data, Inside Mortgage Finance, and the Urban Institute.
Notes: Default is defined as 90 days or more delinquent at any point.

There have been multiple efforts over the past 16 years to revitalize the private label-securitization (PLS) market for non-Jumbo, non-Qualified Mortgages. These efforts have failed largely due to the inability to provide uniform legal structures that make it possible to easily withdraw seriously delinquent mortgages from their MBS allowing for effective loss-mitigation. As a result, the PLS market has remained a niche market. Pricing of the Enterprises guarantee fee (G-fee) is not a material factor in this reality, as no pricing structure is capable of addressing the pro-cyclicality of the PLS market. As a result, while the PLS market has grown in recent years, it remains a fraction of its pre-crisis market share. It also has a history of retreating during economic downturns putting additional pressure on FHA and other government-backed channels.

Composition of Securitized First-Lien Originations



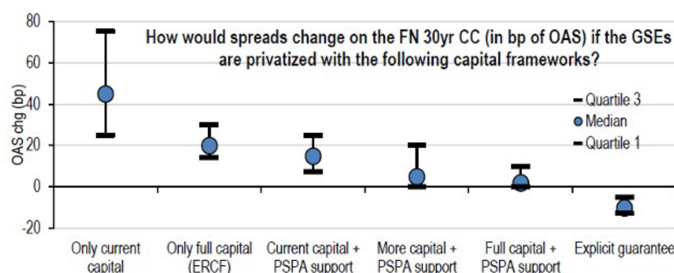
Sources: Inside Mortgage Finance and Urban Institute.
Note: Data as of Q4 2024.

The Duty to Serve, Affordable Housing Goals, and contributions to the National Housing Trust Fund and Capital Magnet Fund embedded in HERA are essential to the Enterprises' public mission. Each of these mandates helps to ensure that the benefits of the secondary market extend to underserved communities. Some market participants express concern that, post conservatorship, the drive for returns could dilute the focus on affordable housing. NHC acknowledges this risk and emphasizes that as long as HERA remains in force, statutory affordable housing requirements must continue to guide the activities of the Enterprises.

The statutory charters of Fannie Mae and Freddie Mac are clear on this point. They both require the Enterprises "to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing."

Improve on the pre-conservatorship implicit guarantee structure

A clear, credible guarantee structure is essential to market stability, but legislative and political realities limit options. Since conservatorship, the pre-2008 implicit guarantee on Enterprise debt and MBS has been replaced by full government control. A major risk of release from conservatorship is how the market will value the implicit guarantee in the future, which is unknown and largely unknowable. Some experts suggest that a statutory full faith and credit guarantee that comes with government ownership would provide the greatest market stability and optimal pricing, but recognize that such a change requires legislation. Estimates vary widely on what a post-conservatorship premium might be, from negligible to close to one percent, depending on the level of federal support. JPMorgan Research surveyed investors on the impact on spreads that could result from release from conservatorship. While there is no way to accurately predict how the market will react, this research suggests any increase in rates would be minimal if they were on a path to full capitalization, with a new amendment to the PSPAs.



Source: JPMorgan Research

Any transition must consider the future of the Common Securitization Platform, now jointly owned by Fannie Mae and Freddie Mac, and the Uniform Mortgage-Backed Security (UMBS) itself, in which securities guaranteed by both Enterprises are currently comingled. This unique structure has been facilitated by the conservatorship's effective unitary control of the

companies. How these effective innovations can be managed in light of anti-trust laws must be considered and addressed, and every effort made to prevent market disruptions.

In our view, a statutory full faith and credit guarantee is politically unfeasible for the foreseeable future. Others argue that the current implicit guarantee is sufficient, but this view is tempered by concerns about increased mortgage rates and market volatility if the guarantee is perceived as weakened. We believe that release from conservatorship with a governing PSPA that retains FHFA's regulatory authority under conservatorship to forbid race to the bottom pricing wars, requires equal treatment of lenders regardless of size, forbids irresponsible use of mortgage portfolios, and manages the Common Securitization Platform, all while building capital, will have a minimal impact on mortgage interest rates. However, it is important to emphasize that no one can be certain of the outcome.

As of early 2025, Fannie Mae and Freddie Mac together hold approximately $125 billion in combined equity capital and are building capital at a rate of about $26 billion annually. Both Enterprises remain below their full regulatory capital requirements under the Enterprise Regulatory Capital Framework (ERCF), which will ultimately require Fannie Mae to hold up to $190 billion and Freddie Mac up to $146 billion in total capital, including buffers. If current trends continue, Fannie Mae is on track to meet its minimum capital requirement by the end of 2026, with Freddie Mac expected to follow by 2027.

A January 2025 commentary by Fitch ratings stated that if the Enterprises "were to exit conservatorship while maintaining the PSPAs or similar support, their ratings could remain aligned with the U.S. sovereign rating." Without PSPA support, Fitch said it would rate the Enterprises "on a standalone basis considering their monoline business models and product concentration, counterbalanced by strong capitalization levels." Factors that would be considered would include compliance with the existing FHFA capital rule, strong risk-adjusted earnings, and dominant market presence.

What is the Implicit Guarantee?

THIS DEBENTURE, CERTIFIED TO BE LEGAL AND REGULAR IN ALL RESPECTS, IS ONE OF A SERIES OF DEBENTURES ISSUED BY THE CORPORATION UNDER THE AUTHORITY OF SUBSECTION (B) OF SECTION 304, OF THE FEDERAL NATIONAL MORTGAGE ASSOCIATION CHARTER ACT. REFERENCE IS HEREBY MADE TO SAID CHARTER ACT WITH THE SAME EFFECT AS IF HEREIN SET FORTH.

AS PROVIDED IN THE CHARTER ACT, THIS DEBENTURE, TOGETHER WITH THE INTEREST THEREON, IS NOT GUARANTEED BY THE UNITED STATES AND DOES NOT CONSTITUTE A DEBT OR OBLIGATION OF THE UNITED STATES OR OF ANY AGENCY OR INSTRUMENTALITY THEREOF OTHER THAN THE CORPORATION.

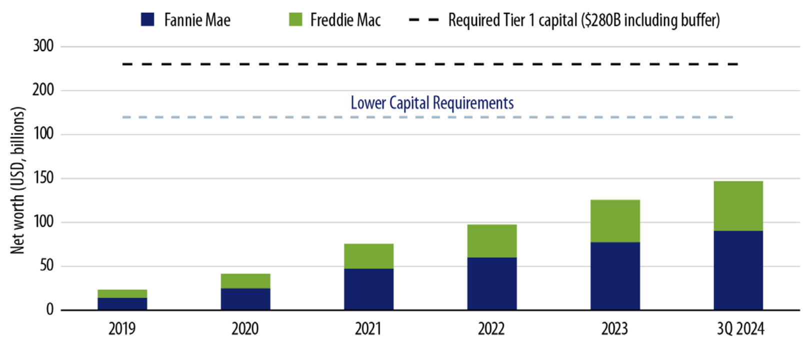
Since the separation from the government of the Federal National Mortgage Association (Fannie Mae) in 1968 and the chartering of the Federal Home Loan Mortgage Corporation (Freddie Mac) in 1970, these indicia have contributed to the widely held perception of government backing of the corporations, despite the fact that every security issued by the Enterprises clearly states:

The statutory indicia of the implicit guarantee are:

1. Congressional Charter and Public Purpose. The GSEs' charter requires them to provide stability in the secondary market for residential mortgages, increase the liquidity of mortgage investments, improve the distribution of investment capital for housing finance and promote access to mortgage credit throughout the nation. Under the current law, the GSEs are chartered to:
    - provide stability in the secondary market for residential mortgages,
    - respond appropriately to the private capital market,
    - provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing, and
    - promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.
2. State and Local Tax and Regulatory Exemptions. The GSEs are exempt from taxation by states or local governments, with the exception of property taxes. They are also exempt from local regulations and legal actions.
3. SEC exemptions. The GSEs are legally exempt from registration of their equities, however, they have voluntarily agreed to register their stock with the Securities and Exchange Commission (SEC). The GSEs are also exempt from the registration of their securities to the same extent as securities which are direct obligations of or obligations guaranteed to principal and interest by the United States. This exemption relates to MBS and has implications on the liquidity of the TBA market.

The GSEs' debt obligations are exempt and required to be treated to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States, be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission. This exemption relates to debt obligations and has implications on the pricing and liquidity of the Enterprises' debt issuance.

4. Access to Federal Reserve. The Federal Reserve Banks are authorized to act as depositories, custodians and fiscal agents for the GSEs; and
5. Treasury Line of Credit. The Secretary of the Treasury is authorized to buy GSE debt obligations at his/her discretion up to $2.25 billion.



Source: Citigroup. As of 30 Sep 2024

Maintain strong, independent regulation to ensure the Enterprises are safe and sound while preserving a level playing field or lenders of all sizes

Often lost in discussions of housing finance reform is the extent to which HERA fundamentally transformed the regulatory landscape for Fannie Mae and Freddie Mac. HERA addressed the failures of the Office of Federal Housing Enterprises Oversight (OFHEO) by consolidating and expanding regulatory authority in FHFA. This consolidation created a single, independent regulator with enhanced tools to ensure the safety and soundness of the Enterprises. FHFA's mission is to "ensure that Fannie Mae and Freddie Mac (the Enterprises) and the FHLBanks... fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity and funding for housing finance and community investment." Under HERA, FHFA is required:

"(A) to oversee the prudential operations of each regulated entity; and

(B) to ensure that—

(i) each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls;

(ii) the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities);

(iii) each regulated entity complies with this chapter and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;

(iv) each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with this chapter and the authorizing statutes; and

(v) the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest."

Unlike OFHEO, which had limited enforcement capabilities and struggled to ensure adequate capital and risk management at the Enterprises, FHFA is vested with broad supervisory and enforcement powers with or without conservatorship, including the authority to set and enforce capital standards, issue regulations, conduct risk-based examinations, and take prompt corrective actions. FHFA's regulatory reach also encompasses the Federal Home Loan Banks, further strengthening its oversight of the housing finance system. HERA also moved affordable housing regulation and supervision out of the U.S. Department of Housing and Urban Development and into FHFA. This was meant to ensure that housing goals would no longer be subject to politicization but instead be supervised by the Enterprises' safety and soundness regulator.

A critical expansion of authority under HERA was the power to place the Enterprises into conservatorship or receivership—a power not available to OFHEO. Under conservatorship, FHFA is not merely a supervisor but assumes all the rights, powers, and privileges of the Enterprises' shareholders, directors, and officers. Under conservatorship, Enterprise directors "do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae [or Freddie Mac] MBS unless specifically directed to do so by the conservator." This means FHFA, as conservator, can take any action necessary to put the Enterprises in a sound and solvent condition and to preserve and conserve their assets and property. FHFA can override management and board decisions, restructure operations, transfer or sell assets and liabilities without external approval, and enter into agreements—such as the Treasury's Senior Preferred Stock Purchase Agreements—to secure financial support for the Enterprises. These extraordinary powers are designed to stabilize the Enterprises and the broader housing market during periods of distress.

Outside of conservatorship, FHFA's powers are primarily regulatory and supervisory. While FHFA can conduct examinations, set prudential standards, and require corrective actions, it cannot directly manage the Enterprises' day-to-day operations or unilaterally restructure their business or finances. The agency's role is to ensure compliance with laws and regulations,

While FHFA can conduct examinations, set prudential standards, and require corrective actions, it cannot directly manage the Enterprises' day-to-day operations or unilaterally restructure their business or finances.

assess risks, and intervene through formal enforcement actions when necessary. The conservatorship framework, therefore, grants FHFA a unique level of operational control and flexibility, allowing it to act swiftly and decisively in the face of systemic threats—powers that are not fully available under its standard regulatory authority.

Before the GSEs exit conservatorship, it is important the Treasury Department and FHFA, via a new amendment to the PSPAs, establish additional supervisory objectives to regulate market conduct to ensure the GSE duopoly does not unfairly compete with primary market activities or engage in anticompetitive (and risky) activities—such as the pre-conservatorship practice of negotiating lower prices and underwriting variances with "preferred partners" in exchange for market share commitments from those lenders. In particular, FHFA should have an obligation to ensure the Enterprises preserve a level playing field with respect to pricing and underwriting practices regardless of the lender's size or loan volume. In addition, FHFA should preserve a "bright line" between primary market activities and the Enterprises' secondary market mission to ensure Fannie Mae and Freddie Mac support—not supplant—primary market functions. These market-conduct regulatory functions need to be an explicit part of the FHFA's regulatory objectives before release. Ultimately, Congress may enshrine these powers in legislation.

On June 25, 2021, the U.S. Supreme Court ruled in Collins v. Yellen that FHFA's structure violates the Constitution's separation of powers because the Enterprises "have federal charters, serve public objectives, and receive special privileges." Since this decision, any pretense of independence has completely disappeared. During the Biden Administration, the FHFA Director routinely participated in White House policy discussions regarding housing, and in the second Trump Administration, the FHFA Director has clearly stated that he is beholden to the President.

Mitigate any adverse market and consumer impacts with a smooth, transparent transition

Transitioning out of conservatorship must be managed carefully to avoid market shocks, ensure clarity for investors, and protect ongoing affordable housing programs. A phased, transparent process, with regular communication, stakeholder engagement, and robust consumer protections is imperative. Lessons from the 2008 crisis underscore the risks of abrupt or poorly coordinated change; a steady transition is essential to maintaining market stability, confidence, and continuity of service. The transition to UMBS offers a model of transparency that can be adapted for use in this case.

Additional considerations include the impact on the Federal Home Loan Banks. Their mortgage programs currently are used by approximately 1,000 participating financial institutions across the country, overwhelmingly smaller community lenders, to provide conventional, conforming, and government-backed mortgages to their homebuying customers. A rational, competitive, and transparent secondary mortgage market would reward their credit judgments in the pricing for their loans and consumers would benefit.

In March, Secretary Bessent appeared on the All In Podcast and discussed how President Trump's desire to create a Sovereign Wealth Fund (SWF) could play a pivotal role in the release of the Enterprises from conservatorship. The notion of releasing Fannie Mae and Freddie Mac from conservatorship and placing some significant amount of their stock in an SWF has not been previously considered and has been the subject of significant study and debate over the past three months. Like many interesting concepts debated over the past 16 years, the SWF approach has not held up to scrutiny. Nearly all of the experts we have consulted have concluded that moving Enterprise warrants into an SWF presents a significant risk that mortgage spreads could widen, increasing mortgage rates for home mortgage borrowers throughout the country. Some experts contend that the SWF's fiduciary duty to maximize returns would conflict with the Enterprises' public mission. NHC agrees that the risks far outweigh the benefits of this proposal. It is apparent that President Trump has reached the same conclusion more broadly. In May, President Trump appeared to distance his Administration from the concept, saying "I'd rather pay the debt off and then do the fund after the debt's paid off... Having a fund is advantageous, but [it] might be a bit premature because of our debt."

II. Conservatorship Release Strategy

The Enterprises must be well-capitalized, with minimum capital requirements increased from 45 basis points pre-2008 to over 4% today. Credit risk transfer and mortgage insurance further augment the capital base, reducing taxpayer exposure. Some investors and analysts have raised concerns about whether the Enterprises can attract sufficient private capital without a fully explicit guarantee or resolution of outstanding shareholder claims. NHC agrees that resolving the status of Senior and Junior Preferred shareholders, common equity holders, and the Treasury's liquidation preference is essential for a fair and orderly outcome for all stakeholders.

In order to use proceeds from a stock sale for recapitalization, or for any other purpose, legislation would be needed to amend 12 USC 1719(g)(2), which requires that any funds from the sale of the Enterprises' stock be dedicated solely to deficit reduction. Some policymakers have expressed skepticism about the feasibility of passing such legislation, especially in a divided Congress.

Amending the PSPAs is critical for defining the post-conservatorship operational framework, including FHFA's authority over affordable housing performance, capital standards, and MBS structure. HERA should be preserved as the regulatory foundation, with any necessary enhancements made through targeted legislative or administrative action. A new amendment to the PSPA establishing post-conservatorship regulatory authority must be adopted prior to release from conservatorship, addressing operational, governance, and shareholder issues during and after the transition. FHFA must retain the authority to manage guarantee fees within a narrow enough range so the Enterprises compete against each other on performance, not on pricing linked to market share agreements. This is essential to averting the "race to the bottom" that ultimately drove down credit standards during the run-up to the financial crisis of 2008.

Without an independent Board of Directors with fiduciary responsibility to the shareholders, the value of shares in a secondary offering would be significatnly diluted and potentially eliminated entirely.

NHC supports a structure that enables the Enterprises to "operate as a business again" while maintaining their public mission and regulatory accountability. NHC believes that a well-designed administrative end to the Enterprises' conservatorship, combined with robust capital and risk-sharing, can provide the necessary assurance to investors while balancing political and practical constraints.

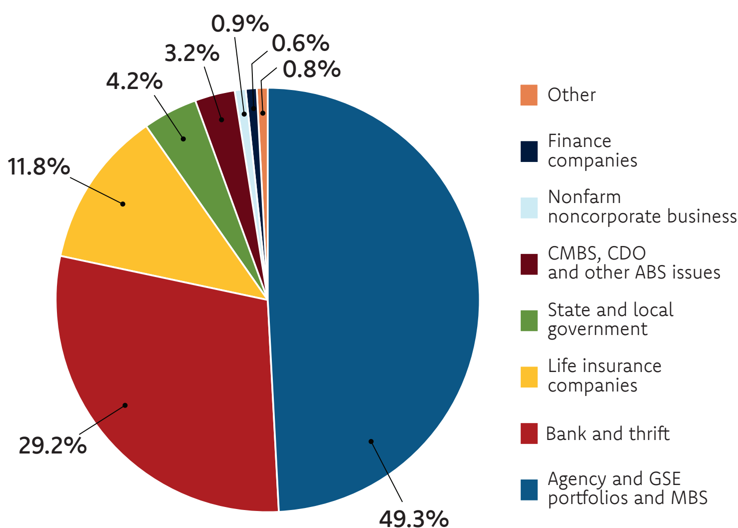
Board governance must transition from conservatorship-era structures to independent, professional boards. Without an independent Board of Directors with fiduciary responsibility to the shareholders, the value of shares in a secondary offering would be significantly diluted and potentially eliminated entirely. As proceeds from early sales increase Enterprise capital, and the size of the sales is managed to maximize earnings, the value of the shares could rise with each issuance.

III. Multifamily Finance and Affordable Rental Housing

While the estimates vary widely, the United States is short anywhere from 1.5 million to 5.5 million units of single-family and rental housing. The Enterprises provide a constant market for multifamily debt, helping to maintain stability and liquidity in this critical market. The Enterprises help ensure that multifamily capital is available in all markets at all times, so the apartment industry can address the broad range of America's housing needs from coast to coast and everywhere in between. This is especially true during economic downturns where many sources of capital dry up, and the GSEs play a critical countercyclical financing role.

The Enterprises are critical to supporting the financing of multifamily housing. During the span of conservatorship each Enterprise purchase volume has predominantly been made to apartments that serve households making less than 120% of the area median income. It is critical to preserve the liquidity for these multifamily-backed mortgages in all markets at all times. Fannie Mae reported that it financed approximately 420,000 multifamily rental units in 2024. Their business volume of $55.1 billion represented a slightly more than 4% increase over 2023. A significant number of these units were for households earning 120% or less of area median income. Freddie Mac reported that it supported over 507,000 affordable rental units in 2024. This $65 billion financing volume represented a 34% increase over 2023.

Holders of Multifamily Mortgage Debt



Source: Yield Pro, March 19, 2025

It is imperative that no action be taken that reduces the Enterprises participation in financing multifamily housing.

It is imperative that no action be taken that reduces the Enterprises' participation in financing multifamily housing. Each Enterprise should be free to pursue its own multifamily finance model to ensure diversity of funding, competition, and counter-cyclicality. However, FHFA should continue its regulatory oversight of the Enterprises' capital allocations through the multifamily scorecard to ensure that all market segments have access to multifamily financing and to ensure compliance with the Duty to Serve and Affordable Housing Goals regulations.

Lack of enough affordable housing units leads to homelessness, and many of those that are able to rent a home are unable to save for the purchase of a home. Preferably, the Enterprises should continue to partner with the private market to reduce their risk through lender loss sharing structures, such as the Fannie Mae DUS lending program, and through each Enterprises' Credit Risk Transfer initiatives. Some have proposed spinning off or separately privatizing the multifamily operations because alternative sources of capital are available to multifamily owners. Past analyses confirm that these businesses cannot operate at scale and cannot fulfill their countercyclical and public purpose missions without an implicit government guarantee. NHC supports maintaining the multifamily mission within the Enterprises, with pricing models that reflect public purpose and encourage private competition, and with continued regulatory oversight by FHFA.

Conclusion

The path to meaningful housing finance reform remains one of the most consequential—and unfinished—legacies of the financial crisis. The transition out of conservatorship should be deliberate, transparent, and supportive of the affordable housing market, leveraging existing regulatory authorities where possible and engaging stakeholders across the housing ecosystem.

Ultimately, bipartisan cooperation will be essential to enact a durable solution that balances market stability, Enterprise safety and soundness, taxpayer protection, efficiency, and broad access to homeownership and rental opportunities. Administrative release of the Enterprises from conservatorship offers a viable path to transition the Enterprises to private ownership while maintaining systemic stability and optimizing taxpayer returns.

This strategy leverages the strengths of HERA, ensures robust regulatory oversight, and sustains the Enterprises' public mission—including affordable housing mandates and the Duty to Serve. NHC urges the Administration to consult closely with housing industry stakeholders and advocates, as well as Congress, on a bipartisan basis as it considers and develops its strategy for recapitalization and release. By addressing shareholder and capital structure issues, managing the transition to avoid market disruption, and engaging thoughtfully with alternative viewpoints, NHC's approach balances the interests of taxpayers, investors, and consumers.

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