



The Daily Dish

The Fannie/Freddie Rally

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Eakinomics does not pay attention to short-run (day-to-day, weekly, or even monthly) movements in equity prices as indicators of the outlook. But Eakinomics *will* get into a car with strangers if offered Twizzlers; nobody is perfect. So, it proved impossible to not notice that the election of Donald Trump as president not only triggered a broad equity market rally but also a very specific re-pricing of the stocks of the housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

Specifically, Fannie Mae stock was up [74.4 percent](#) between November 4 and November 11, while Freddie Mac share prices were up [79.7 percent](#). Taken at face value, this would imply that markets have re-evaluated the probability that the GSEs depart conservatorship after 16 years. Indeed, a little noodling with a spreadsheet – standard fare for a holiday Monday – suggests that the probability would have to rise from minuscule to something like 25 to 50 percent.

Really?

If you bet Eakinomics that Donald Trump had said something about everything during the campaign, it would concede the point. But there is no record of Trump saying anything about the GSEs, although there was this juicy [rumor](#) floated by (unnamed) allies. That's a thin reed for a dramatic re-pricing.

Or, perhaps, this is a bet that with unified Republican control of the Congress and White House there will be long-overdue statutory reforms to Fannie and Freddie. Sorry, but no way. Amid a nationwide affordable housing crisis and real estate construction slump, Congress is not going to put its fingerprints on a massive overhaul of mortgage finance.

And it can't be a sudden re-evaluation of the financial condition of the GSEs. Despite the efforts made to make the GSEs' capital requirements more rigorous and tied to the riskiness of their activities, even [Fannie Mae](#) and [Freddie Mac](#) acknowledge they are undercapitalized compared to the GSE capital standards (which remain below those of comparable large banks). And the Biden Administration has made this less attractive by expanding the credit box – issuing mortgages to riskier borrowers. An example is the Equitable Housing Finance Plans that would aim to advance equality in housing markets by subsidizing – even providing down payments for – those unable to purchase a home.

On top of all this, if the GSEs were to somehow convince the Treasury and Federal Housing Finance Agency to permit them to exit conservatorship, they would run straight into the Financial Stability Oversight Council, which has laid the groundwork to declare them to be systemically important financial institutions (or SIFIs) because their line of business is mortgages.

Recent equity market moves notwithstanding, no dramatic change appears likely in the future of the GSEs.