



The Daily Dish

The Future of the GSEs – Rumor #173,453

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Fannie Mae and Freddie Mac, the housing government-sponsored enterprises (GSEs), have been in conservatorship for 17 years and there are regular rumors regarding their exit from government control and return to the private sector. (AAF endeavors to keep up, see [here](#) and [here](#).) The latest is a [report](#) from *The Wall Street Journal*. As usual, it raises more questions than it answers.

The gist of the idea is:

The Trump administration is preparing to sell stock in mortgage giants [Fannie Mae](#) and [Freddie Mac](#) in an offering it believes could raise around \$30 billion and kick off later this year, according to people familiar with the matter.

The plans being discussed by some administration officials could value the companies at roughly \$500 billion or more combined and involve selling between 5% and 15% of their stock, some of the people said.

To begin, let us dispose of the fiscal do-gooder claims about any such deal: “Proponents have long said that such a transaction—which at the values being discussed would rank among the largest stock offerings in history—could reduce the country’s deficit and return money to taxpayers.” First, the federal deficit is headed toward \$2 trillion a year; \$30 billion is simply chump change. More important, this is just an asset sale, which provides a one-time infusion of cash and makes no dent in the ongoing, structural deficit that is the actual fiscal threat.

Next are two serious mysteries.

It is unclear whether Fannie and Freddie would remain under government conservatorship. Bill Pulte, head of the Federal Housing Finance Agency, has in the past suggested the firms could remain under conservatorship while conducting a share offering, [without clarifying how it would work](#).

Also:

The Treasury Department holds warrants to purchase about 80% of Fannie and Freddie common stock and also holds senior preferred shares. Other investors own junior preferred shares or common stock. The government would be selling stock in the offering.

These are two serious ambiguities to be cleared up. Who would pay \$30 billion for the *status quo*? It is unimaginable. And who would make any sort of deal without knowing what Treasury plans to do with its preferred shares and warrants?

Eakinomics could go on. But the bottom line is that rumors and leaks are not the same thing as a real plan. A real plan would include the details of the financial transaction to exit conservatorship, the capital structure of the newly privatized firms, the terms of the future government backstop of the GSE mortgage guarantees, and the nature of the safety and soundness regulation that will supervise the firms.