Buried in the White House’s plan for reorganizing the federal government were some major changes for the two housing government-sponsored enterprises, Fannie Mae and Freddie Mac. The White House proposes privatizing Fannie and Freddie, albeit while providing a federal guarantee for mortgage-backed securities (MBS). AAF’s Director of Financial Services Policy Thomas Wade examines the details, and lack of details, in the proposal as well as its implications.

An excerpt:

Some critics wonder if privatization with an explicit federal guarantee for MBS is in fact privatization at all; it may be difficult to distinguish this new structure from the current implied federal backstop of a congressional charter…. Those nervous about the GSEs’ ability to contribute to another recession are rightly worried about the explicit federal MBS guarantee. Such a guarantee could allow the GSEs to resume riskier operational behavior, leading them back to the toxic loan packaging that many see as having caused the financial crisis in the first place.

Read the analysis here.