

What Does Government-Sponsored Housing Finance Actually Do?

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March 21, 2026

Abstract: This paper evaluates the role of U.S. government-sponsored housing finance—primarily Fannie Mae, Freddie Mac, and related federal programs—in promoting homeownership and stabilizing mortgage markets. Drawing on long-run data and causal empirical research, we document a central puzzle: despite a vast expansion of government-backed mortgage credit, the U.S. homeownership rate has shown little sustained increase over the past several decades. These programs have had only modest effects on homeownership, particularly for lower-income households. Instead, expanded mortgage credit has primarily increased housing demand, boosting home prices, especially in supply-constrained markets.

While these institutions have supported credit flows and market functioning during periods of financial stress, their structure and incentives may also contribute to the buildup of systemic risk. We evaluate current reform proposals, including efforts to return the GSEs to private ownership, and argue that privatization without changes to capital, pricing, and incentive structures risks recreating the vulnerabilities that led to the 2008 crisis. More broadly, the findings suggest that stabilizing mortgage markets and expanding homeownership are distinct policy objectives that may require different institutions and instruments.

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1. Introduction

For decades, advocates have promoted government-sponsored housing programs—led by Fannie Mae and Freddie Mac— as mechanisms for enhancing liquidity and stability in mortgage markets, expanding nationwide access to mortgages, and facilitating homeownership.

Today, government-backed institutions and federal agencies support roughly 65 percent of all (1-4 family) residential mortgages and stand behind about \$9 trillion in such mortgage debt. They exert unrivaled influence over mortgage pricing, eligibility standards, and market liquidity.

Yet a central puzzle remains. The U.S. homeownership rate has shown little, if any, upward trend over the last five decades despite a vast expansion of government-sponsored housing finance.

This paper investigates that paradox. Drawing on long-run data and existing studies, it examines the relationships among government-sponsored housing finance, homeownership rates, house prices, home sizes, and financial stability.

The findings are sobering.

The evidence indicates that these programs have had only modest effects on increasing homeownership, especially for lower-income households. Instead, expanded credit has been linked to higher housing prices and larger homes, and in areas where regulations limit housing supply, easier credit has driven prices up without increasing ownership rates.

The paper also examines the role of government-backed mortgage finance in stabilizing markets. The evidence shows that these institutions have supported credit flows during times of systemic distress—helping to stabilize financial markets. At the same time, critics argue that the implicit federal guarantee—made explicit in 2008—encouraged risk-taking that contributed to the fragility they later helped contain.

In summary, while evidence indicates that U.S. government-sponsored housing programs have improved mortgage market liquidity, their effects on homeownership have been only modest at best, and the evidence regarding their overall impact on financial market stability remains mixed. As the nation moves toward reforming its housing finance policies, the gap between one of its publicly stated goals and actual measured outcomes remains one of the most significant and underexplored issues in U.S. economic policy.

2. How the System Works: What Fannie Mae and Freddie Mac Do

Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation) are government-sponsored enterprises (GSEs) that play a key role in U.S. housing finance. Although they are technically shareholder-owned corporations, they were created by acts of Congress and operate under federal charters with special privileges.

These privileges include lines of credit with the U.S. Treasury and exemption from state and local taxes.

Before 2008, their obligations did not have an explicit federal guarantee. However, markets generally believed the government would not allow them to fail. That expectation was effectively confirmed during the financial crisis, when the U.S. government placed both firms in conservatorship and provided substantial Treasury support to protect creditors and stabilize mortgage markets.

Fannie Mae and Freddie Mac do not originate mortgages. Instead, they buy loans from banks and other lenders, bundle these loans into mortgage-backed securities (MBS), and guarantee the investors in these MBSs against borrower default. These guarantees make the MBS more appealing to investors—including pension funds, insurance companies, banks, mutual funds, the Federal Reserve, and foreign central banks—which helps reduce mortgage interest rates for qualified homebuyers.

Securitization influences how mortgage credit moves through the economy. When lenders sell loans to GSEs, they quickly recover their funds and can issue new mortgages instead of holding the loans on their books for years. Essentially, securitization transforms relatively illiquid mortgage loans into tradable securities and shifts credit risk from lenders to the GSEs, which guarantee payments to MBS investors.

Imagine a small bank in Iowa that issues a 30-year mortgage to a local family. Without access to a secondary market, the loan stays on the bank's balance sheet, tying up capital and restricting how many more mortgages it can originate. With GSE support, the bank can sell the mortgage to Fannie Mae almost instantly, reclaim its funds, and lend to another borrower. The original mortgage becomes part of a mortgage-backed security sold to investors, who receive regular payments from homeowners while the GSE guarantees repayment if the borrower defaults.

To be eligible for GSE purchase and securitization, mortgages must meet “conforming” standards established by the GSEs. The standards include limits on loan size (e.g., in most counties, it was \$806,500 in 2025 and \$832,750 in 2026), borrower credit scores, etc.

By setting these standards and buying such a large share of the resulting loans, Fannie and Freddie exert extraordinary influence over which borrowers gain access to low-cost, long-term fixed-rate mortgages—and which do not.

They dominate the U.S. mortgage market. As of 2025, Fannie Mae and Freddie Mac alone owned or guaranteed about \$7.7 trillion in mortgage assets—accounting for over half of the market for one-to-four-family residential mortgages.

When combined with federal agencies that directly subsidize homeownership for specific groups—such as the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA)—and the securities guaranteed by Ginnie Mae, federal entities own or guarantee roughly \$9 trillion in mortgage assets, over 65% of the U.S market.

Since the 2008 financial crisis, Fannie Mae and Freddie Mac have been under federal conservatorship overseen by the Federal Housing Finance Agency. Although this status was originally meant to be temporary, these enormous entities continue to operate in a kind of institutional limbo.

Policymakers have repeatedly debated how to resolve this arrangement—whether to fully nationalize the enterprises, restructure them, or return them to private ownership—but no consensus has emerged.

Understanding how this system works mechanically is essential. But the more important question is whether it achieves the objective that increasingly defines its mission: expanding access to homeownership.

3. Long-Term Patterns

Chart 1 illustrates that government-supported mortgage finance has expanded dramatically since the early-1970s, yet the homeownership rate today is almost the same as it was in 1980.

This chart compares the *Homeownership Rate* with *Agency-GSE Financing* from 1940 to 2023. The *Homeownership Rate* is the percentage of occupied housing units that are owner-occupied. *Agency-GSE Financing* represents the total value of residential mortgages held, guaranteed, or securitized by federal agencies and government-sponsored enterprises, including Fannie Mae, Freddie Mac, FHA, VA, and others. The Data Appendix offers detailed definitions of variables and sources. Here, we note that all prices and incomes are adjusted to 2023 dollars using the Consumer Price Index (Shiller, 2024).

The trends differ markedly. Government-supported mortgage finance was flat from the mid-1940s through the mid-1970s but expanded substantially thereafter. Over the same period, the homeownership rate rose steadily from 1940 through 1980, reaching about 66%. It then fluctuated, peaking near 69% during the mid-2000s housing boom before falling back to its 1980 level.

Chart 2 shows that real home prices have trended upward alongside the expansion of government-supported mortgage finance.

Home Prices are measured as the median sale price of newly constructed single-family homes (in 2023 dollars). As shown, median house prices have roughly doubled in real terms since the early 1980s.

Chart 3 shows that the size of new single-family homes grew with *Agency-GSE Financing*.

In 1970, the typical new home was about 1,500 square feet. In 2024, it exceeded 2,200 square feet—an increase of almost 50%—even as average household sizes declined. The chart also shows that the upward trend in new home sizes began well before the surge in government-supported housing finance.

Chart 4 shows the growing role of government-sponsored finance in residential mortgage markets.

Before the mid-1960s, the federal government accounted for less than 10% of the entire residential mortgage market. By the 1990s, the share had risen to roughly half, and following the financial crisis, it surged to over 65% in 2024. Furthermore, as shown in **Chart 5**, the increased role of government-supported residential mortgages, as occurred through securitization, has resulted in direct holdings falling both in absolute terms and as a share of 1-to-4 family mortgages.

Taken together, these charts reveal a striking empirical puzzle: the enormous expansion of government-supported housing finance coincided with larger and more expensive homes, but not with a sustained increase in the share of households owning homes.

4. What the Research Says about GSE and Homeownership, Prices, and Size

Moving beyond the long-term trends documented above, we now examine research that evaluates the causal effects of government-supported mortgage finance on homeownership, house prices, and new home construction. A growing empirical literature exploits quasi-experimental variation in mortgage eligibility, structural models of housing markets, and macroeconomic analyses of credit supply. Taken together, these studies provide a clearer picture of what government-supported mortgage finance does—and does not do.

4.1 Homeownership: Little Evidence of Large Gains

Despite their mission to expand homeownership, the best causal evidence suggests that government-supported mortgage finance institutions have had only modest effects on the share of households that own homes.

Adelino, Schoar, and Severino (2018) exploit discontinuities in mortgage eligibility created by conforming loan limits, comparing homes whose financing requires mortgages just below the conforming limit with otherwise similar homes requiring slightly larger “jumbo” mortgages. They find that conforming loan eligibility increases loan sizes and house prices but does not appear to affect homeownership rates. Instead, cheaper credit mainly allows already-likely buyers to purchase more expensive homes.

In earlier work, Bhutta (2015) reached a similar conclusion using variation in conforming loan limits across metropolitan areas. He finds that eligibility for conforming mortgages had only small effects on the probability that renters become homeowners.¹

Structural models yield similar findings. For example, Elenev, Landvoigt, and Van Nieuwerburgh (2021) calibrate a quantitative model of the U.S. housing market to estimate the

¹ Fieldhouse, Mertens, and Ravn (2018) find that major expansions in GSE mortgage credit (particularly in the early 2000s) did increase aggregate homeownership—but those gains were temporary and tightly linked to broader macroeconomic credit booms.

impact of government-supported mortgage financing. Their counterfactual analyses indicate that eliminating GSEs would reduce the national homeownership rate by about two percentage points, with somewhat larger effects for low- and middle-income households. These estimates imply that GSEs prevent some erosion of ownership—but fall far short of dramatically expanding homeownership.

4.2 Housing Prices: Demand Effects Dominate

While GSE-mortgage support has had little effect on homeownership, expanded mortgage credit has large effects on home prices.

Adelino, Schoar, and Severino (2018) exploit discontinuities created by conforming loan limits, comparing homes whose financing requires mortgages just below the conforming limit with otherwise similar homes requiring slightly larger “jumbo” mortgages. Because loans below the limit are eligible for purchase by Fannie Mae and Freddie Mac, this comparison helps isolate the effect of GSE-backed credit availability. The authors find that conforming eligibility increases home prices by roughly 1 percent for homes near the threshold.

Similarly, Di Maggio, Kermani, and Korgaonkar (2023) use county-level variation in mortgage credit supply to show that increased credit access boosts borrowing and house prices but has relatively small effects on real activity, such as construction or employment.²

While several studies show that mortgage credit expansions increase borrowing and house prices, there is relatively little causal evidence directly linking credit availability to the size of homes purchased. The long-run trends documented above are therefore informative about how expanded mortgage finance has coincided with changes in housing consumption.

4.3 Housing Supply: Modest and Uneven

A natural question is whether expanded mortgage credit stimulates new housing construction. Research suggests that government-supported mortgage financing has had, on average, only modest effects on housing supply, though there is notable cross-region variation in the supply response.

Guren, McKay, Nakamura, and Steinsson (2021) use a general equilibrium model calibrated to long-run housing data to show that increases in housing demand—including those driven by mortgage credit expansions—raise house prices far more than they increase housing supply. In

² The broader macroeconomic literature reaches similar conclusions. For example, Favilukis, Ludvigson, and Van Nieuwerburgh (2017) show that mortgage finance subsidies increase housing demand and house prices in equilibrium. Similarly, Justiniano, Primiceri, and Tambalotti (2019) argue that the mid-2000s housing boom was largely driven by expansions in mortgage credit supply and relaxed borrowing constraints rather than by improvements in economic fundamentals such as income growth.

their estimates, a 1% increase in mortgage credit raises prices by 0.9% but increases housing stock by only 0.1%.

Focusing on local differences, Nakamura, Steinsson, and Liu (2020) exploit geographic variation in land-use restrictions to show that supply responses to housing demand shocks vary dramatically across regions: in regions with flexible zoning and abundant buildable land, expanded credit may increase both housing prices and supply. But in high-cost, supply-constrained markets—such as coastal California or New York—credit-fueled demand fuels price rises without additional construction. These dynamics help explain the growing regional disparities in housing affordability documented by Glaeser and Gyourko (2003) and Hsieh and Moretti (2019).

Taken together, this body of evidence indicates a consistent mechanism linking mortgage credit expansion to housing outcomes. When mortgage finance becomes cheaper or more accessible, the main effect is to boost demand for housing among households already ready to buy. In markets where housing supply is relatively inelastic, this increased demand mostly leads to higher prices and greater housing consumption per buyer—larger mortgages, more expensive homes, or higher-quality housing—rather than a significant increase in the number of homeowners over time. These patterns help explain the stylized facts documented earlier: the scale of government-supported mortgage finance has grown substantially, yet the homeownership rate has remained largely unchanged, while home prices and sizes have increased.

The literature reviewed above focuses primarily on housing demand and ownership outcomes. A separate line of research examines whether GSEs contribute to financial stability during downturns. We now examine whether causal evidence supports this interpretation.

5. What the Research Says about GSE and Macroeconomic Stability

GSEs can both stabilize housing finance during times of macroeconomic and financial distress and promote excessive risk-taking that can cause or worsen such distress. The stabilizing effects can work through three potential channels: maintaining the flow of mortgage credit, supporting investor demand for mortgage assets, and enabling coordinated policy actions.

5.1. Stabilizing the Flow of Mortgage Credit

In times of crisis, private investors often retreat from mortgage markets. Mortgage-backed securities that lack federal backing—known as "private-label MBS"—can lose both liquidity and value.

During the 2008 financial crisis, as Fuster and Vickery (2015) show, the market for private-label mortgage securities contracted sharply and became severely illiquid. By contrast, GSEs continued to buy, securitize, and guarantee conforming mortgages. This kept the secondary

mortgage market functioning, allowing originators (such as banks and credit unions) to continue issuing new loans to home buyers.

Empirical work by Hurst, Keys, Seru, and Vavra (2016) highlights the role of the U.S. mortgage system in redistributing credit across regions. The authors show that areas with greater exposure to conforming (GSE-eligible) mortgage markets experienced smaller declines in house prices, construction, and employment following the 2008 housing collapse. In contrast, regions more reliant on private-label securitization were more exposed to credit contraction and suffered sharper downturns. The authors interpret these patterns as evidence of cross-regional risk-sharing through mortgage markets, with GSE-linked financing channels helping to cushion local shocks. These findings are consistent with the view that GSEs can play a stabilizing, countercyclical role during periods of financial stress.

Furthermore, by facilitating the widespread availability of long-term, fixed-rate mortgages, GSE-backed securitization has important implications for household risk management and macroeconomic dynamics. In the United States, fixed-rate mortgages are far more prevalent than in most other advanced economies, a feature that depends critically on lenders' ability to securitize and sell these loans through government-supported channels (e.g., Fuster and Vickery 2015). By locking in borrowing costs, fixed-rate mortgages insulate households from interest rate fluctuations, supporting consumption smoothing and financial planning over the life of the loan. At the same time, this structure shifts interest rate and prepayment risk away from households and toward financial intermediaries and investors. As the financial crisis of 2008 illustrated, when such risks are concentrated and not properly managed, they can propagate systemic instability.³

5.2. Anchoring Mortgage Credit Through Implicit Federal Support

A distinct but related mechanism operates through asset pricing and investor demand: the implicit government guarantee of GSE securities.

Although GSE debt and mortgage-backed securities are not formally backed by the U.S. Treasury, investors have long believed that the federal government would intervene to prevent a default—a belief effectively validated when both enterprises were placed into federal conservatorship and received substantial Treasury support in September 2008.

This guarantee is widely understood to have two stabilizing effects. First, it makes GSE-backed mortgage-backed securities more attractive to global investors than comparable private-label securities during economic turmoil, limiting flight from these guaranteed assets relative to private-label mortgages. Second, it lowers borrowing costs for homebuyers by keeping yields on GSE MBS below those on comparable private instruments, a pricing advantage widely attributed to the implicit government guarantee (e.g., Passmore, Sherlund, and Burgess 2005). In effect, the implicit guarantee transforms agency mortgage-backed securities into near-safe assets—

³ International experience offers alternative models for structuring housing finance, including Denmark's covered bonds, Canada's largely private mortgage market with strong prudential oversight, and Germany's Pfandbrief system. Comparing GSE-led and alternative frameworks may help policymakers understand which features are essential for stability and access, and which are products of historical path dependency or institutional inertia.

supporting demand in normal times while concentrating risk within the financial system. Evidence from quantitative easing programs shows that large-scale purchases of agency MBS contributed to reductions in yields, consistent with strong investor demand for these securities as near-safe assets (e.g., Hancock and Passmore 2011; Krishnamurthy, Nagel, and Vissing-Jorgensen 2018).

Empirical evidence is consistent with this view. Di Maggio, Kermani, and Palmer (2020) show that GSE-backed MBS remained liquid and actively traded, while private-label securities experienced severe illiquidity and capital outflows. Similarly, Fuster and Vickery (2015) document that agency mortgage markets remained functional when private-label securitization collapsed.

5.3. Supporting Refinancing and Forbearance Programs

Beyond their role in private credit markets, GSEs also provide a centralized institutional platform for policy intervention. Because they own or guarantee a large share of U.S. mortgages, GSEs offer a policy lever that can be activated quickly in a crisis.

For example, during the Great Recession, the Home Affordable Refinance Program (HARP) allowed underwater borrowers with GSE-backed loans to refinance even if their loan-to-value ratios exceeded 100%. These interventions did not occur in private-label markets, where fragmented investor structures and complex servicing arrangements impeded coordination. As another example, during the COVID-19 pandemic, the Federal Housing Finance Agency (FHFA) required GSEs to offer payment forbearance to distressed borrowers for up to 12 months, with minimal documentation and no penalties. Since GSE servicing contracts are standardized and centrally overseen, these relief programs were rolled out nationally and quickly.

These mechanisms helped prevent foreclosures, stabilizing housing demand during these economic shocks.

5.4. GSEs and Financial Fragility

The same institutional features that enable GSEs to stabilize mortgage markets may also contribute to systemic fragility. A central concern in the literature is that the implicit government guarantee associated with GSE obligations can distort risk pricing and encourage excessive risk-taking. Because investors expect government support in the event of distress, GSE debt and mortgage-backed securities benefit from lower funding costs than comparable private instruments. This funding advantage can weaken market discipline by reducing incentives for both issuers and investors to fully price credit risk, potentially encouraging excessive risk-taking (e.g., Passmore, Sherlund, and Burgess 2005).

A related concern is that government-supported mortgage finance can amplify credit cycles. A large empirical literature links increased credit availability to higher household leverage and greater macroeconomic vulnerability. For example, Mian and Sufi (2009) show that the expansion of mortgage credit in the early 2000s was disproportionately concentrated in areas with weaker income growth and was followed by sharper increases in defaults and more severe

local downturns. Similarly, Keys, Mukherjee, Seru, and Vig (2010) and Keys, Seru, and Vig (2012) provide evidence that securitization weakened screening incentives in mortgage origination, while related work shows that securitized loans were less likely to be renegotiated ex post (Piskorski, Seru, and Vig 2010). Together, these findings suggest that securitization affected both underwriting and post-origination flexibility in ways that increased default risk and amplified the severity of downturns. Justiniano, Primiceri, and Tambalotti (2019) further show that expansions in mortgage credit supply and relaxed borrowing constraints played a central role in driving the housing boom of the mid-2000s.

Although private-label securitization was a primary driver of credit expansion during this period, GSE participation contributed to the overall scale and persistence of mortgage credit growth. By lowering borrowing costs and expanding access to credit, government-supported mortgage finance can increase housing demand and household leverage, thereby heightening vulnerability to adverse shocks.

Finally, the structure of mortgage finance redistributes risk throughout the financial system. By supporting long-term, fixed-rate borrowing, GSE-backed securitization shifts interest rate and prepayment risks away from households and onto financial intermediaries and investors (e.g., Fuster and Vickery 2015). While this redistribution helps smooth consumption during normal times, it also creates large, correlated exposures that can intensify systemic stress when risks are not properly managed.

Taken together, these considerations suggest that GSEs play a dual role in the financial system. They act as stabilizing intermediaries during downturns, but their structure and incentives may also contribute to the buildup of systemic risk during expansions.

5.5. Summary of Research on GSEs and Macroeconomic Stability

Research suggests that during systemic crises, the GSEs act as a publicly backed, centrally coordinated conduit for mortgage credit—playing a stabilizing role that no private institution is currently well positioned to replicate. They do this by maintaining liquidity when private markets freeze, preserving investor confidence through implicit federal backing, facilitating national-scale relief programs, and limiting sharp credit contractions.

These functions help explain why policymakers across administrations have been hesitant to wind down or privatize the GSEs, even while criticizing their efficiency or equity impacts. While GSEs may not have achieved their goal of expanding homeownership, their capacity to stabilize housing finance during downturns remains crucial to their political and financial resilience.

In this sense, the GSE system both insures the economy against shocks and, under certain conditions, helps create the vulnerabilities that make those shocks more damaging. These dual roles—stabilization and fragility—raise a central policy question: how should the housing finance system be structured to preserve stability while limiting risk distortions?

6. Evaluating Potential Trump Administration—and More Radical Reforms

The Trump administration has signaled interest in ending the federal conservatorship of Fannie Mae and Freddie Mac, which has remained in place since 2008. Reporting indicates that the administration has considered returning the enterprises to private ownership through public offerings, but no detailed legislative or regulatory blueprint has been released. At a broad level, the administration appears to favor a hybrid approach: reintroducing private ownership while preserving enough public backing to avoid sharp increases in mortgage rates or instability in the agency MBS market. That general direction is clear. What remains unclear is the institutional design: what form any government guarantee would take, how much capital the enterprises would be required to hold, how tail risk would be allocated, and how affordable-housing or access objectives would be preserved.

6.1 What the Administration has Signaled

Three elements appear central:

1. **Privatization.** Administration officials have signaled interest in returning Fannie Mae and Freddie Mac to private ownership, potentially through public offerings and an eventual exit from conservatorship. However, no detailed public offering or restructuring plan has been released.
2. **Preservation of the Implicit Federal Backstop.** Although the administration favors removing the GSEs from federal control, it has signaled that some form of continuing government support, including the government guarantee, would remain to preserve investor demand for GSE securities, maintain mortgage market liquidity, and prevent higher mortgage rates.
3. **Mortgage Affordability and Stability Constraints.** Recent administration actions have emphasized lowering mortgage costs, easing credit access, and reducing regulatory burdens rather than tolerating higher rates in the name of pure market discipline. This makes a clean withdrawal of federal support unlikely.

6.2 Evaluating the Reported Reform Direction

The attraction of this approach is easy to see. Returning the enterprises to private ownership could reintroduce shareholder discipline, reduce day-to-day federal control, and potentially improve managerial incentives. It could also allow the Treasury to monetize part of its position, generating a one-time fiscal gain. In principle, privatization could force policymakers and investors to confront more explicitly the true costs of credit guarantees and the risks embedded in the housing finance system.

But the weaknesses are equally clear.

The first problem is the extent of the implicit federal guarantee. If investors continue to expect government intervention in a crisis, privatization without a clearly priced and structured guarantee risks recreating the pre-2008 model of privatized gains and socialized losses. The enterprise may be privately owned in form while still publicly backstopped in substance.

The second problem is transition risk. Even if reform is economically sensible in the long run, moving from conservatorship to a new regime could unsettle the agency MBS market, widen spreads, or increase mortgage rates if investors are uncertain about the future treatment of guarantees, capital, or Treasury's claims.

The third problem is mission conflict. A privatized enterprise with profit-maximizing shareholders may be less willing to serve marginal borrowers, support politically salient but lower-return activities, or maintain broad access during periods of stress unless those obligations are clearly specified and compensated.

The fourth problem is fiscal illusion. Reducing the Treasury's visible balance-sheet exposure does not necessarily eliminate the government's underlying contingent liability. If markets continue to expect a rescue in a crisis, the fiscal risk remains, even if it sits off the balance sheet.

6.3. Strengthening the Existing Model: Privatization with Safeguards

Scholars and analysts generally agree that several accompanying reforms would increase the probability that privatization stabilizes rather than destabilizes the system. These include clear rules on capital adequacy, pricing of federal guarantees, enforcement of affordable housing goals, and regulatory authority to manage future crises. Absent such reforms, the risk remains that a new privatization cycle could once again end in public rescue, as it did in 2008. The future of the GSEs is not just a question of ownership structure—it is a test of whether the U.S. can design a housing finance system that is stable and effective.

More specifically, policymakers should consider the following six additional reforms *if* they move toward privatization with guarantees:

1. **Adopt Risk-Based Guarantee Pricing.** Guarantee fees should accurately reflect the true cost of government support and vary based on the risk of the underlying loans, rather than being uniform across the book.
2. **Establish Sufficient Capital Requirements.** GSEs must meet capital thresholds that exceed pre-2008 standards and be regularly reviewed under stress scenarios.
3. **Mandate Robust Executive Compensation Clawback Provisions.** If managers benefit from short-term risk-taking while taxpayers bear tail losses, incentives remain badly distorted. Compensation structures should align incentives by tying rewards to long-term performance and permitting recovery of pay following losses or regulatory failure.
4. **Introduce Contingent Capital and Bail-in Mechanisms.** A meaningful layer of loss-absorbing private capital should stand ahead of taxpayers, strengthening market discipline and reducing moral hazard.
5. **Implement Automatic Triggers for Supervisory Intervention.** Regulatory action should not depend solely on discretionary judgment in the midst of a crisis. Predefined triggers tied to capital, risk concentrations, or stress outcomes would improve credibility.
6. **Explicit Stress Testing and Public Reporting.** Regular, transparent stress testing of GSE balance sheets and risk exposures would strengthen market discipline.

Ownership reform without incentive reform is unlikely to be effective. A new privatization cycle that leaves the guarantee ambiguous, capital weak, and downside losses public would simply recreate the vulnerabilities that led to conservatorship in the first place.

The administration offers a broad, reform strategy: less federal control, more private ownership, but continued protection against a disruptive rise in mortgage costs. That approach is politically understandable, but economically incomplete. The future of Fannie Mae and Freddie Mac is not just a question of whether they are public or private. It is a question of how the United States allocates mortgage risk, prices government support, and balances liquidity, access, and stability in one of its largest credit markets.

6.4 A Structural Alternative: Separate Stabilization from Credit Allocation

The reform proposals discussed above seek to improve the existing model of government-sponsored housing finance. But they do not address a deeper question: whether the United States needs large, government-backed mortgage intermediaries to achieve its macroeconomic objectives at all.

A more fundamental alternative is to separate two distinct functions that are currently bundled together in the GSE system: the routine allocation of mortgage credit and the stabilization of mortgage markets during periods of stress. The existing model performs both roles simultaneously, using large, government-backed institutions that operate continuously across the business cycle. This structure expands credit availability in normal times but also embeds substantial fiscal exposure and distorts risk pricing.

An alternative strategy would separate the ordinary business of mortgage credit allocation from the emergency function of market stabilization. In practice, this would involve replacing the current model—large, multi-trillion-dollar GSEs—with a narrower public guarantor or a utility-like securitization platform. Such a system would provide an explicit, paid-for catastrophic guarantee on standardized mortgage-backed securities, require private capital to absorb first losses, and sharply limit or eliminate large retained portfolios.

Under this approach, mortgage origination, underwriting, and credit risk-bearing would be primarily private activities. The government's role would be more limited and more clearly defined: to provide a backstop only against extreme, system-wide disruptions that threaten the functioning of the mortgage market as a whole.

This framework reflects a broad convergence of views on housing finance reform. A range of policy analyses—including those from the Bipartisan Policy Center and the Urban Institute—emphasize explicit government guarantees for catastrophic risk, substantial private capital in a first-loss position, standardized securitization infrastructure, and the separation of market-making functions from credit risk-taking. These proposals differ in details, but they share the goal of preserving mortgage market liquidity—particularly for long-term, fixed-rate mortgages—while reducing reliance on implicit guarantees and large balance-sheet institutions.

The strongest argument for this approach is that it targets the one public function that appears hardest to replicate privately: the provision of catastrophic liquidity and standardization in a market built around long-term, prepayable fixed-rate mortgages. The current system achieves this objective, but at a high cost. It socializes tail risk while also influencing pricing, allocation, and leverage throughout the mortgage market. A narrower public guarantor would still leave taxpayers exposed in extreme scenarios, but that exposure would be more transparent, more limited in normal times, more explicitly priced, and better insulated by layers of private capital.

At the same time, this model involves tradeoffs. Greater reliance on private risk-bearing may raise average mortgage rates, particularly for marginal borrowers, and reduce cross-subsidization. The availability of the 30-year fixed-rate mortgage may depend more directly on market conditions unless the catastrophic guarantee is sufficiently broad to sustain liquidity. Designing a credible and limited government backstop also presents a significant institutional challenge.

A central implication of this framework concerns how to pursue homeownership as a policy objective. If expanding access to homeownership remains a goal, it need not—and arguably should not—be embedded in the pricing and structure of the mortgage finance system itself. Broad-based mortgage credit subsidies are blunt and inefficient tools for increasing ownership, introducing distortions in pricing and risk-taking. A more transparent approach would rely on on-budget policies—such as targeted down payment assistance, explicitly funded credit subsidies for marginal borrowers, or reforms to tax expenditures—paired with efforts to expand housing supply.

If homeownership is a policy goal, it should be funded like one—on the federal balance sheet, transparently and explicitly—rather than hidden inside mortgage pricing and contingent guarantees.

The relevant policy choice is not between a mortgage finance system with government risk and one without it. It is between a system in which public risk is implicit, diffuse, and embedded in large, hybrid institutions, and one in which public risk is explicit, narrowly targeted, and more transparently priced. The former prioritizes continuous support for credit availability; the latter prioritizes clarity, discipline, and resilience.

7. Conclusion

Fannie Mae, Freddie Mac, and other government-sponsored housing agencies are often seen as cornerstones of the American Dream. One of their missions—to expand access to affordable homeownership—by facilitating the flow of credit to homebuyers has guided U.S. housing policy for decades. Today, they stand behind about \$9 trillion in residential mortgages and support the majority of all home loan originations in the country. Their influence on interest rates, loan standards, and credit availability is immense.

But size is not the same as success.

Strong evidence indicates a significant disconnect between the scale of these institutions and one of the results they are supposed to achieve. The government's involvement in housing finance has grown significantly, yet the homeownership rate has barely changed. Meanwhile, the expansion of government-backed housing finance has coincided with rising housing costs and the sizes of new homes. The evidence is consistent with the view that government-supported housing finance helped people buy larger homes, but did not increase the proportion of people owning homes.

These outcomes are not solely the fault of the GSEs. In many parts of the country, restrictive land-use policies and local zoning restrictions make it hard to build new housing, especially at lower price ranges. Without complementary supply-side reforms—liberalizing zoning, reducing red tape, and incentivizing affordable construction—even the best-designed mortgage finance system will struggle to deliver significant gains in ownership or affordability. These supply-side barriers mean that credit policies often lead to higher prices rather than new construction.

Put simply: if one of the goals is to increase homeownership—especially for those excluded by income, wealth, or geography—then the evidence is consistent with the view that the existing GSE system has failed. The current system works smoothly for those already in a position to buy. It works less well for those who are not.

Some argue that GSEs serve a stabilizing function even though they do not facilitate homeownership. GSEs have repeatedly served as stabilizers in moments of financial distress. They have kept mortgage credit flowing when private markets seized. They enabled mass refinancing during the 2008 crisis and again during COVID-19. They support the long-term, fixed-rate mortgage—an American institution that might not survive in a purely private market. And they provide a platform for scalable policy intervention in times of national stress.

Yet, others argue that it is the GSEs themselves that created the instability that they then address. They argue that implicit federal guarantee for GSE financing encouraged risk underpricing in the runup to the 2008 crisis. As a result, the GSEs facilitated a massive flow of credit to financially vulnerable households, helping to generate the global financial crisis.

With the U.S. once again at a crossroads—facing the prospect of GSE privatization and renewed promises of market-led efficiency—getting the design right is a first-order policy test. The choices made now will shape not only credit markets but patterns of wealth accumulation, access to housing, and economic stability for decades.

The Trump administration's interest in reprivatizing the GSEs reflects longstanding concerns about this status quo. If done carefully, IPOs and a return to private capital could reintroduce market discipline, reduce fiscal exposure, and encourage innovation. But as the literature and past experience show, privatization without reform may recreate the pre-2008 dynamic: profits accrue privately, while systemic risk remains public.

The success of privatization will depend on accompanying reforms. Implementing adequate capital standards, risk-based pricing of guarantees, executive clawback provisions, and contingent capital and bail-in mechanisms can serve the public interest by constraining excessive

risk-taking and dramatically reducing the likelihood of another housing crisis. The challenge is not merely to reform the institutions but to finally align their actions with their stated purposes.

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Appendix A: Data Sources and Variable Definitions

This appendix details the sources, definitions, and methods used to construct all data in the figures. Data are primarily sourced from the Federal Reserve Bank of St. Louis's FRED and the U.S. Census Bureau. All monetary variables are adjusted to 2023 dollars using the Consumer Price Index (CPI-U).

A.1. Data Scope and Aggregation

This paper concentrates on one-to-four-family residential mortgages, which include single-family homes, duplexes, triplexes, and fourplexes. These units are grouped together by FRED because they:

- Are subject to the same credit underwriting, appraisal, and documentation standards,
- Are uniformly eligible for conforming conventional loans,
- Fall under the same mortgage-consumer protection laws,
- Are treated similarly under bank capital rules.

The Federal Reserve does not separately report data on single-family homes. All charts use data for one-to-four-family residences to preserve consistency, as the patterns are very similar when including multifamily units.

A.2. Definitions and Adjustments

- **Agency-GSE Financing** (Federal Reserve Board, Z.1 Financial Accounts of the United States, Tables L.218 and L.219)

Agency-GSE Financing equals the total value of residential mortgages on one-to-four-family homes that are:

- [1] Held directly by federal agencies on their balance sheets.
 - BOGZ1FL313065105A ("Federal Government; One-to-Four-Family Residential Mortgages; Asset, Level").
 - This captures mortgage loans originated or acquired by federal agencies and held as assets on their own books. These are not securitized or sold to the market; the federal government bears the credit risk directly.
- [2] Held by Government Sponsored Enterprises.
 - BOGZ1FL403065105A ("Government-Sponsored Enterprises; One-to-Four-Family Residential Mortgages; Asset, Level").

- This captures mortgage loans held as assets on their balance sheets.
- Note: this series can be further disaggregated using BOGZ1FL403065195A (“Government-Sponsored Enterprises; Securitized One-to-Four-Family Residential Mortgages; Asset, Level”), which identifies the securitized portion within BOGZ1FL403065105A.
- Following the adoption of FAS 166/167 in 2010, the Z.1 Financial Accounts consolidated previously off-balance-sheet securitized trust assets onto GSE balance sheets, inflating the reported total.
- Subtracting BOGZ1FL403065195A from BOGZ1FL403065105A yields the asset value of the mortgage loans that GSEs purchased from lenders and hold directly on their balance sheets rather than securitized.

[3] Packaged into securitized mortgage pools.

- BOGZ1FL413065105A (“Agency- and GSE-Backed Mortgage Pools; One-to-Four-Family Residential Mortgages; Asset, Level”).
- This represents mortgage loans that were pooled into mortgage-backed securities (MBS) and sold to investors, with the credit risk guaranteed by a federal agency or GSE.
- **Agency-GSE Financing** = [1] + [2] + [3].
- *Adjustment*: Nominal values are adjusted to 2023 dollars using the CPI-U, which we obtain from FRED series CPIAUCSL (Bureau of Labor Statistics, CPI-U All Urban Consumers, Seasonally Adjusted, December values, base period 1982–84 = 100).

- **Total One-to-Four-Family Mortgage Market**

The aggregate value of all residential mortgage loan assets on one-to-four-family properties across all sectors, including banks, credit unions, GSEs, and federal agencies. (Federal Reserve Board, Z.1 Financial Accounts of the United States, Tables L.218 and L.219)

- **Federal Government Share of Financing**

The proportion of total one-to-four-family mortgage assets that are financed through federal agencies or GSEs and calculated as the ratio of Agency-GSE Financing to Total Mortgage Market.

- **Homeownership Rate**

The share of all occupied housing units that are owner-occupied. We use decennial data (1940–1960) from the U.S. Census Bureau and quarterly data (1965–2023) from the FRED series RHORUSQ156N, using Q4 (end-of-year) values.

- **Median House Price (New Homes)**

Median sale price of new single-family homes sold in each year, reported by the U.S. Census Bureau. Source: FRED series MSPNHSUS (U.S. Census Bureau and U.S. Department of Housing and Urban Development, Median Sales Price of Houses Sold for the United States).

- **Median Home Size (Square Feet)**

Median square footage of new single-family houses, available annually from 1977 to 2023 and at decennial intervals from 1950 to 1970. Source: U.S. Census Bureau, Characteristics of New Housing (annual, 1977–present) and Census of Housing

(decennial, 1950–1970). Decennial values are linearly interpolated between census years for pre-1977 coverage.

- **Median Price per Square Foot**

Computed as the ratio of the median sale price of new homes to the median square footage. This measure isolates inflation in unit prices, distinct from changes in home size. Formula: $\text{Real Price per Sq.Ft.} = (\text{Median Sale Price} / \text{CPI-U 2023 index}) / \text{Median Square Footage}$. Sources: MSPNHSUS for prices, Census Characteristics of New Housing for square footage.

- **Price-to-Income Ratio**

Calculated as the ratio of median sale prices of sold houses to real median family income, expressed as a percentage. This is a proxy for affordability. Sources: MSPNHSUS for house prices; FRED series MEFAINUSA646N (U.S. Census Bureau, Median Family Income in the United States, nominal current dollars) for income.

- **Inflation Adjustment**

All monetary variables are expressed in 2023 constant dollars using the Consumer Price Index for All Urban Consumers (CPI-U). Source: FRED series CPIAUCSL (Bureau of Labor Statistics, CPI-U All Urban Consumers, Seasonally Adjusted). We use end-of-year (December) values, base period 1982–84 = 100. The deflation factor for year t is: $\text{CPI-U}(2023) / \text{CPI-U}(t)$.

A.3. Data Coverage and Frequency

- Annual averages are used for all figures unless otherwise specified.
- The analysis period runs from 1940 to 2023, depending on data availability.
- Price and size data apply to new single-family homes. Where new vs. existing is not differentiated (e.g., homeownership rate), the total housing stock is used.
- All data are presented at the national level.

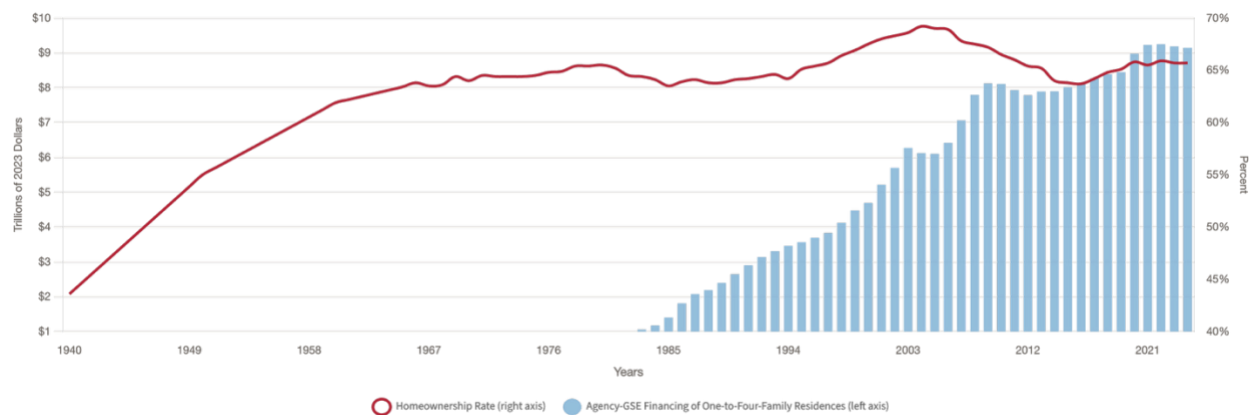


Chart 1: Homeownership Rate and Agency-GSE Financing

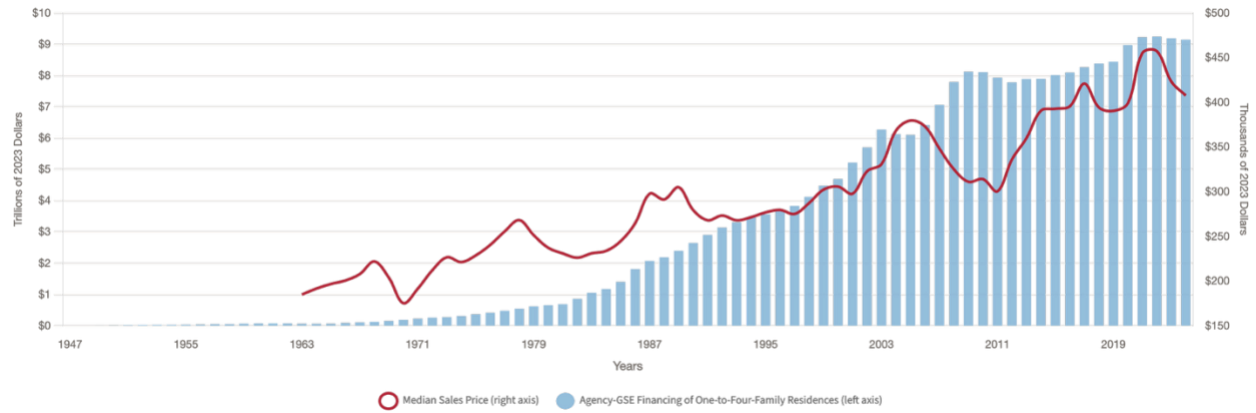
Chart 2: Home Prices and Agency-GSE Financing

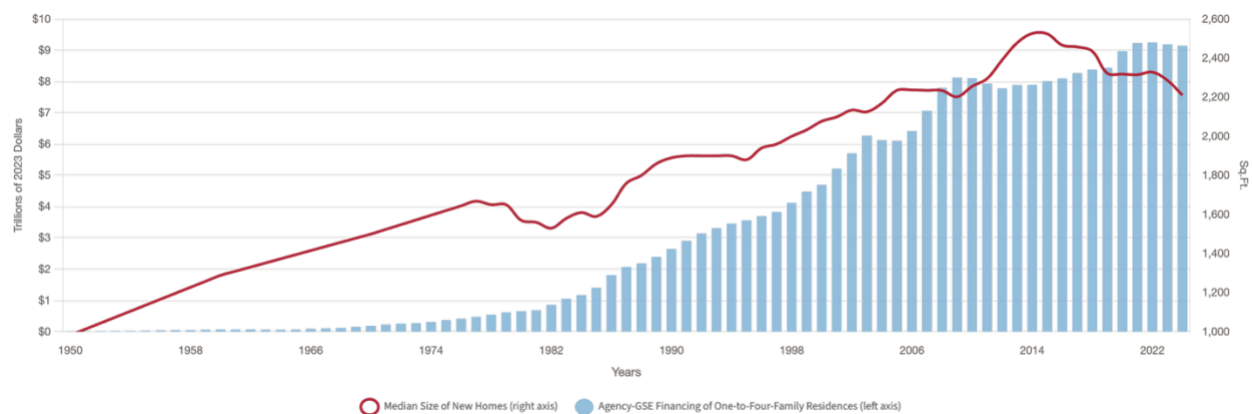
Chart 3: House Sizes and Agency-GSE Financing

Chart 4: Federal Government's Share in the 1-to-4 Family Mortgage Market

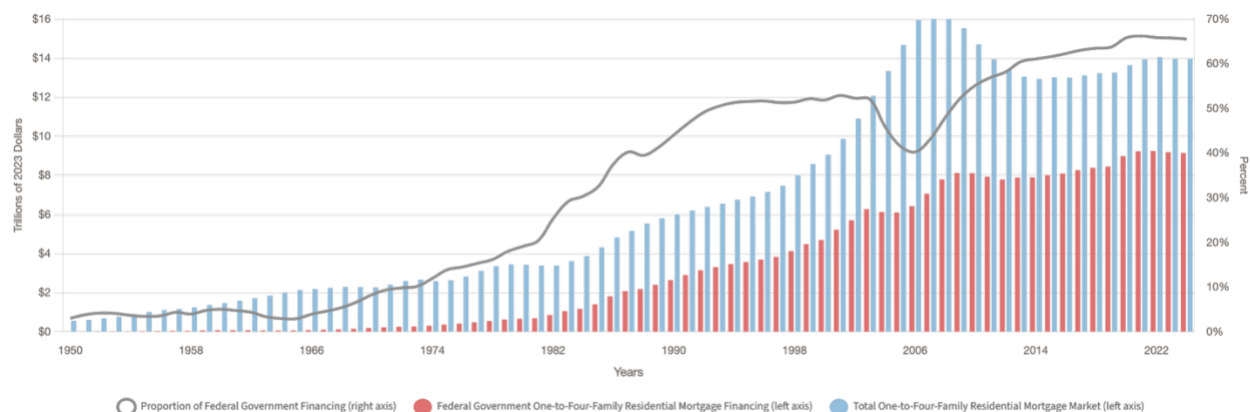


Chart 5: GSE Direct Mortgage Holdings