

# FANNIE MAE, FREDDIE MAC, AND HOUSING FINANCE REFORM

By the NLIHC Policy Team

**See Also:** For related information, refer to the *National Housing Trust Fund: Funding* section of this guide.

## Issue Summary

Fannie Mae and Freddie Mac are two federally-chartered companies—created in 1938 and 1970, respectively—that provide a secondary market for residential mortgages. They play an important role in stabilizing the overall mortgage market, which includes ensuring the mortgage market serves the entire country and not just the most profitable regions. They are also vital to the Housing Trust Fund, which is funded by a very small percentage of each company's transactions.

The “Housing and Economic Recovery Act of 2008” (HERA) established an independent agency, the Federal Housing Finance Agency (FHFA), to serve as a regulator and significantly strengthen federal oversight of Fannie Mae and Freddie Mac. HERA also created the National Housing Trust Fund (HTF) and the Capital Magnet Fund (CMF) and gave the FHFA power to take the companies into conservatorship.

FHFA exercised this power almost immediately, taking the companies into conservatorship on September 7, 2008, after the foreclosure crisis precipitated a global financial meltdown. As of 2026, the companies remain under the control of the federal government. As a result, it is unknown how exactly the GSEs would function out of conservatorship with HERA providing regulation and oversight apart from its role as conservator.

Because Fannie Mae and Freddie Mac provide the dedicated source of funding for the HTF, their status and viability are of particular interest to low-income housing advocates. NLIHC supports housing finance legislation that would provide significant new funding for the HTF.

## What are Fannie Mae and Freddie Mac?

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are government sponsored enterprises, known as GSEs. Congress established the GSEs to provide liquidity and create a secondary market for both single-family (one to four units) and multifamily (five or more units) residential mortgages. Although Fannie Mae and Freddie Mac were created at different times and for different purposes, they have had effectively identical charters and responsibilities since 1992. Before September 7, 2008, when they were placed in conservatorship, they were privately owned and operated corporations. They are required by law to remain separate entities, a “duopoly,” to ensure competition and avoid a monopoly.

Fannie Mae and Freddie Mac do not provide mortgage loans directly to individual borrowers. Rather, they facilitate the secondary mortgage market by buying loans from banks, savings institutions, and other mortgage originators. Lenders then use the sale proceeds to engage in further mortgage lending. For the most part, the GSEs purchase single-family, 30-year fixed rate conventional mortgages that are not insured by the federal government. They also play a major role in financing the multifamily housing market.

The GSEs either hold the mortgages they purchase in their portfolios or package them into mortgage-backed securities (MBSs), which are sold to investors. When the GSEs securitize a mortgage, they are guaranteeing that those investors receive timely payment of principal and interest. The GSEs charge mortgage lenders a guarantee fee (g-fee), generally in the form of monthly payments, to cover projected credit losses if a borrower defaults over the life of the loan.

The GSEs raise money in the capital markets to fund their activities. Their incomes come from the difference between the interest they receive on the mortgages they hold and the interest they pay on their debt, and from g-fees and income earned on non-mortgage investments.

## Role in Private Mortgage Markets

Single-family mortgages must meet certain criteria set by the GSEs to be packaged and sold as securities. Since they have a large market share (together Fannie Mae and Freddie Mac cover more than 40% of U.S. home mortgages), the two GSEs set the lending standards for the conventional, conforming loan single-family mortgage market. This standardization increases the liquidity of mortgages meeting GSE guidelines, thereby decreasing the interest rates on these mortgages and lowering costs for homebuyers. Generally, the GSEs provide support for 30-year fixed-rate mortgages on single-family homes. This function of the GSEs amounts to a significant, federal policy intervention in support of single-family homeowners.

The GSEs also purchase mortgages on multi-family properties. These mortgages are generally held in portfolio, but they can be securitized and sold to investors. The GSEs also play a significant role in supporting the Low-Income Housing Tax Credit market, both through equity investments and loan purchases on developments financed with LIHTC.

## Housing Goals

As GSEs, Fannie Mae and Freddie Mac are required to achieve social goals as well as assure safety and soundness in the housing finance system. Congress requires that the GSEs meet statutorily based “housing goals” to help assure affordable homes in the U.S. The GSEs are required to purchase a certain number of mortgages on properties with specific characteristics to ensure that low- and moderate-income, underserved, and special affordable markets are served. FHFA updates these goals periodically.

Substantial partisan disagreement remains over the affordable housing goals and the role of the federal government in the housing market. Progressives believe the goals are necessary to ensure that people with low incomes and people of color have access to mortgage markets. Others argue the goals caused the GSEs to participate in overly risky business practices that triggered the foreclosure crisis.

Importantly, the multifamily side of the GSEs’ business did not sustain losses during the 2008 financial crisis. At the same time, the GSE multifamily goals have not measurably ensured a supply of rental housing affordable to families with extremely low incomes.

FHFA updates the housing goals every three years, with the current three-year cycle being 2025 through 2027. However, in 2025 FHFA published a [proposed rule \(https://tr.ee/WacdoS\)](https://tr.ee/WacdoS) proposing a mid-cycle change to the goals, lowering the single family low-income and very low-income loan purchase goals. The proposed rule also collapses the now-separate “Low-Income Census Tracts Home Purchase Subgoal” and the “Minority Census Tracts Home Purchase Subgoal” into one new combined subgoal. This change could decrease mortgage access in minority communities. The multifamily loan purchase goals remain unchanged in the proposed rule. Comments on the proposed rule were due November 3, 2025.

## Duty To Serve

HERA also established a “Duty to Serve” for the GSEs, which requires them to lead the industry in developing loan products and flexible underwriting guidelines for manufactured housing, affordable housing preservation, and rural markets. FHFA published its final rule in December 2016, which outlines the GSEs’ Duty To Serve.

The final rule requires the GSEs to submit plans for improving the “distribution and availability of mortgage financing in a safe and sound manner for residential properties that serve very low-, low-, and moderate-income families.” Each GSE is required to submit to FHFA a three-year Duty To Serve plan detailing the activities and objectives it will use to meet the rule’s

requirements. The final rule gives the GSEs Duty to Serve credit for eligible activities that facilitate a secondary market for residential mortgages that originated in underserved markets. The GSEs also receive Duty to Serve credit for qualifying activities that promote residential economic diversity in underserved markets. The rule establishes the manner in which the GSEs would be evaluated for their efforts. FHFA is required to report evaluation findings to Congress annually.

The GSE's Duty to Serve plan for 2025-2027 went into effect January 1, 2025.

## Fannie Mae, Freddie Mac, and the Housing Trust Fund

In HERA, Congress established that Fannie Mae and Freddie Mac would serve as the initial sources of funding for the HTF and the CMF. Fannie Mae and Freddie Mac are required to set aside an amount equal to 4.2 basis points (0.042%) for each dollar of total new business purchases. Note that the assessment is on their volume of business, not their profits. Of these amounts, 65% is dedicated to the HTF and 35% to the CMF.

Lawmakers reasoned that requiring Fannie Mae and Freddie Mac to set aside funds for the HTF was consistent with the GSEs' mission responsibilities under their charters. In addition to their affordable housing goals, which could be met through the regular course of business, funding the HTF allowed the GSEs to support housing that extremely low-income renters could afford, which was not possible through any other business product.

HERA allows FHFA to temporarily suspend the requirement that the GSEs fund the HTF and the CMF under circumstances related to threats to their financial health. In November 2008, at the height of the financial crisis, the FHFA director suspended this obligation before the GSEs even began setting aside funds. In 2014, FHFA Director Mel Watt lifted the suspension and directed both companies to begin setting aside the required amount starting on January 1, 2015. Since

2016, more than \$3 billion has been invested in the HTF. This is an important start, but more HTF resources are needed to begin to address the shortage of 7.3 million decent, accessible, and affordable, homes for households with the lowest incomes.

## Fannie Mae and Freddie Mac in Conservatorship

Before the financial crisis, Fannie Mae and Freddie Mac had never received any federal funds to support their operations. However, both companies incurred financial losses because of the foreclosure crisis. This prompted Congress to place the companies in conservatorship under the FHFA. Today, FHFA has all the authority of each company's directors, officers, and shareholders. Until the conservatorship ends, FHFA operates the companies through appointed management in each company. During conservatorship, the GSEs remain critically important to the housing finance system by providing liquidity for new mortgages and supporting the multifamily market.

Under an agreement between the Department of the Treasury and FHFA, the GSEs together were allowed to draw up to \$200 billion to stay afloat, which bolstered the U.S. housing market. In exchange, the U.S. government became the owner of the companies' senior preferred stock.

In 2012, Fannie Mae and Freddie Mac returned to profitability and began to make dividend payments to Treasury. Under the conditions of the conservatorship agreement between Treasury and FHFA, all of Fannie Mae and Freddie Mac's profits outside of a \$3 billion buffer were "swept" into the U.S. Treasury. In the final days of the first Trump administration, FHFA agreed to allow the GSEs to retain a combined \$45 billion worth of earnings before making dividend payments to Treasury. The GSEs' dividend payments now far exceed the \$188 billion drawdown.

## State of Play in 2026

The Trump administration renewed discussions about whether to remove the GSEs from conservatorship after the president indicated he would like to issue a public offering.

In 2025, NLIHC participated in roundtables hosted at the U.S. Department of Treasury where housing advocates elevated the role the GSEs play in stabilizing the housing market as well as the importance of the Housing Trust Fund, affordability goals, and other mechanisms whereby the GSEs make good on their mission.

As of 2026, it appears the Trump administration will move to issue a public offering or similar investor opportunity without taking the GSEs out of conservatorship. In comments on the administration's proposals, NLIHC has emphasized that the administration should preserve the role of FHA as a regulator, whether the GSEs remain in conservatorship or not. The administration has also floated proposals to lower the affordability goals, and NLIHC objects to those proposals in particular. Congress has not demonstrated much appetite for legislative action on the GSEs this year.

## What To Say to Legislators

Fannie Mae and Freddie Mac play important roles in both the single-family and the affordable multifamily markets. These functions, as well as the contributions to the HTF, need to be considered in any reform of the GSEs. The HTF must be retained and fully funded in any future arrangement.

If Congress takes up GSE reform proposals, advocates should urge their legislators to:

- Oppose any legislation that would eliminate or prohibit funding for the HTF, weakens the role of FHA as a regulator of the GSEs, or weakens the GSE's affordable housing goals.
- Support legislation that provides robust funding for the HTF, maintains FHA's role as a regulator of the GSEs, or strengthens the GSE's affordable housing goals.
- Support housing finance reform legislation that assures access to the market for all credit worthy borrowers, assures compliance with federal fair housing laws, and supports deeper affordability in the housing market generally.

## For More Information

Federal Housing Finance Agency, [www.fhfa.gov](http://www.fhfa.gov)

Federal Home Loan Mortgage Corporation, [www.fanniemae.com](http://www.fanniemae.com)

Federal National Mortgage Association, [www.freddiemac.com](http://www.freddiemac.com)

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*Many links and resources may have been changed or removed from federal websites before this guide was finalized. As a response, this guide provides full URLs to support your web-based research. Please utilize a web archival tool like <https://archive.org> to view links that may not currently be working and research any recent changes and funding cuts to ensure that you have the most current information.*

*Please contact [outreach@nlihc.org](mailto:outreach@nlihc.org) with any questions.*