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Fannie, Freddie Losses May Hit U.S.

By [NICK TIMIRAOS](#)

The U.S. government's move to deepen its ties to mortgage-finance giants [Fannie Mae](#) and Freddie Mac by agreeing to absorb unlimited losses for the next three years is igniting a debate over whether it should bring the business operations of the companies onto its books.

A decision on how the government treats Fannie and Freddie could have broader political implications. So far, the White House has resisted calls by Republicans to bring Fannie's and Freddie's obligations onto the government's books, a move that could boost the federal deficit by tens of billions of dollars. At a time when the deficit is already at a postwar high, that could create added urgency for Congress and the administration to address the companies' future.

The Congressional Budget Office has reiterated its support for bringing the companies onto the federal budget—and onto the government books—which would effectively mean accounting for their operations in the federal budget as if they were federal agencies.

"Recent events clearly indicate a strengthening of the federal government's commitment to the obligations of Fannie Mae and Freddie Mac," the CBO said in a report.

The CBO pegged the government's total costs of bailing out the two companies at \$291 billion and said the government's takeover could cost an additional \$99 billion in the coming decade.

So far, the White House has taken a different tack. It only projects costs equal to the actual cash infusions that the Treasury injects into the companies each quarter to keep them afloat. That tab is currently at \$112 billion. The CBO's estimate, as opposed to the White House's, reflects the amount of taxpayer subsidy used by Fannie and Freddie as a result of lower borrowing costs enabled by their federal backing.

A Treasury official said the administration had no plans to alter how it accounts for Fannie and Freddie in the federal budget. "I don't anticipate any change," said Assistant Treasury Secretary Michael Barr. "They'll have the same appearance that they've had before in the budget books." A spokesman for the White House Office of Management and Budget declined to comment.

Officials have said it wasn't necessary to bring Fannie and Freddie onto the government books until the administration decided what to do in the long term with them. In September 2008, when the government took over Fannie and Freddie through a legal process known as conservatorship, the Bush administration cited the "temporary nature of the arrangement" in opting against incorporating the obligations of the companies into the federal budget.

But some Republicans say the arrangement has become more than temporary. "These are organisms that have now become a direct arm of the U.S. government and I assume that people who are now buying these securities are looking at them that way," said Sen. Bob Corker (R., Tenn.), in an interview. He asked Treasury Secretary Tim Geithner in a letter earlier this month to explain the rationale behind the "effective nationalization" of the companies, a move that he said "should absolutely be reflected on the balance sheet of the U.S. Treasury."

While such a move would raise the federal deficit sharply, critics of the companies argue it would reflect Fannie's and Freddie's actual risks to taxpayers. "It should have been done years ago," says [David Kotok](#), chairman of Cumberland Advisors, a Vineland, N.J., money-management firm.

The debate comes amid growing concerns in Washington over how to limit government spending. The U.S. budget deficit reached a postwar record of \$1.4 trillion in fiscal 2009.

Republicans also see the budget issue as an opportunity to jump-start a bigger discussion about how to overhaul Fannie and Freddie. "One of the ways you cause there to be a debate about the future is to debate whether they are or are not part of our country's obligations," said Mr. Corker.

The White House said it would weigh in with its proposals on how to reshape Fannie, Freddie and the broader mortgage market when it releases its budget next month. "There's no question that the future structure of the housing market is going to have to be very different from the structure that led Fannie and Freddie to the point of conservatorship," said Lawrence Summers, Mr. Obama's chief economic adviser. "But this is an issue that's going to play out over time."

Most investors already see the companies as effectively guaranteed by the government. Changing the budgeting of the companies "would be an accounting change rather than any fundamental change" that would affect the U.S. government's triple-A credit rating, said Steven Hess, lead U.S. debt analyst for Moody's Investors Service.

Moving the companies' assets and liabilities onto the government's balance sheet would bring the companies full circle. Fannie Mae, founded as a government corporation in 1938, was privatized by President Lyndon B. Johnson in 1968 to slash the government's debt obligations in the face of rising costs from the Vietnam War.

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