**Andrea F. Pringle**
*Senior Vice President*

# Reprivatizing the GSEs: What It Means for Community Financial Institutions

For more than fifteen years, Fannie Mae and Freddie Mac have operated in a state of limbo. The two government-sponsored enterprises (GSEs), which play a central role in U.S. mortgage finance, were placed into federal conservatorship during the 2008 financial crisis after suffering severe losses.

At the time, the U.S. government stepped in to prevent a collapse of the mortgage market. In exchange for financial support, the Federal Housing Finance Agency (FHFA) assumed control of the companies, while the U.S. Treasury received senior preferred stock and warrants giving it a dominant economic interest. Conservatorship was intended to be temporary but instead has become a long-standing feature of the housing finance system.

Today, Fannie and Freddie remain publicly traded companies, as they were prior to 2008, but they operate under FHFA control, with Treasury holding the largest financial interest. Recently, renewed political attention has reignited discussion around “reprivatizing” the GSEs, raising important questions for financial institutions that originate and invest in mortgage assets.

## What Does Reprivatization Actually Mean?

Reprivatizing the GSEs is often used as shorthand for a broader process involving an exit from conservatorship and some form of private ownership. Exiting conservatorship would end FHFA’s direct control, allowing the GSEs to operate more like traditional shareholder-owned companies. Full privatization would go further by eliminating federal backing altogether and relying solely on private capital to absorb losses.

While exiting conservatorship is challenging but feasible, full privatization—especially without a government guarantee—would be far more disruptive and is widely considered unlikely. Under most plausible scenarios, the GSEs would retain some form of government backstop.

## A Little Background on the GSEs’ Financial Position

A key feature of conservatorship is the Preferred Stock Purchase Agreements between the GSEs and the Treasury. Under these agreements, the Treasury committed capital to stabilize the enterprises during the crisis. In return, it received senior preferred stock with a liquidation preference granting the Treasury a first-priority claim on the GSEs’ earnings and assets, which grows over time.

For much of the post-crisis period, these agreements required Fannie and Freddie to sweep nearly all profits to the Treasury rather than retain earnings and build capital like regulated financial institutions. Although the GSEs returned to profitability years ago and have paid dividends to the Treasury totaling roughly double the original capital injection, this structure largely prevented them from accumulating meaningful capital buffers or reducing the preferred balance. As a result, despite strong earnings, Fannie and Freddie remain deeply undercapitalized and the Treasury’s claim has continued to grow.

## How Could Reprivatization Happen?

The most discussed path is a “recap and release” strategy, under which the GSEs would rebuild capital and then exit conservatorship. Treasury’s senior preferred stock would likely need to be converted into common equity or otherwise restructured so new private investors are not subordinated to the government. While this would materially reduce the capital shortfall, a substantial gap would remain, to be filled through retained earnings and additional private capital raised over time. Once sufficient progress is achieved, FHFA could formally end conservatorship, likely through a consent decree allowing the GSEs to exit before they are fully capitalized but committing them to meet capital milestones over time.

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Importantly, changes to the current capital framework are also likely necessary. The Enterprise Regulatory Capital Framework (ERCF), FHFA's capital rule for the GSEs, functions much like bank capital rules. Under the current ERCF, Fannie and Freddie generate returns that are too low to attract the private investment needed to raise sufficient capital to exit conservatorship. Without that capital, reprivatization would stall.

## Timing and Political Constraints

While political rhetoric has raised expectations for rapid progress, execution risks remain significant. Capital rule changes, amendments to Treasury agreements, and resolution of ongoing legal issues are complex and time consuming. Even under optimistic assumptions, a full exit from conservatorship is unlikely before late 2027.

## What Would This Mean for Community Financial Institutions?

For most institutions, the central issue is not who owns the GSEs' equity, but whether agency mortgage-backed securities retain their current characteristics. U.S. banks collectively hold roughly $2 trillion of conventional agency MBS. Disruptions to guarantees or regulatory capital treatment would trigger widespread balance-sheet adjustments and likely increase mortgage costs, which policymakers have repeatedly said they want to decrease.

As a result, any successful reform would almost certainly need to maintain government support for agency MBS, sustain current capital treatment for banks, and preserve the to-be-announced (TBA) trading market for MBS. Current market pricing indicates investors strongly expect these features to remain intact.

While headlines may suggest sweeping change, the most likely outcome is an exit from conservatorship that largely preserves the existing framework, resulting in minimal near-term impact on community financial institutions. That said, reprivatizing the GSEs within President Trump's final term is far more difficult than headlines imply, and the odds diminish the longer the process goes without a formal plan. For now, institutions can take comfort in knowing that while the mortgage system may evolve, it is unlikely to be reinvented overnight.

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**Andrea Pringle**
**Senior Vice President**
**The Baker Group LP**





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