

# Treasury lifts cap on aid to Fannie Mae, Freddie Mac

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NEW YORK -- The government has handed its ATM card to besieged mortgage giants Fannie Mae and Freddie Mac.

The Treasury Department said Thursday it removed the \$400-billion financial cap on the money it will provide to keep the companies afloat. Already, taxpayers have shelled out \$111 billion to the pair, and most analysts hadn't expected the companies to hit the limit.

Treasury Department officials said it now will use a flexible formula to ensure the two agencies can stand behind the billions of dollars in mortgage-backed securities they sell to investors. The formula is to provide the companies with a sufficient cushion based on projected losses over the next three years.

By making the change before year-end, Treasury sidestepped the need for an OK from a bailout-weary Congress. But the timing of the announcement on a slow news day raised eyebrows.

"The companies are nowhere close to using the \$400 billion they had before, so why do this now?" said Bert Ely, a banking consultant in Alexandria, Va. "It's possible we may see some horrendous numbers for the fourth quarter and, thus 2009, and Treasury wants to calm the markets."

Fannie Mae and Freddie Mac provide vital liquidity to the mortgage industry by purchasing home loans from lenders and selling them to investors. Together, they own or guarantee almost 31 million home loans worth about \$5.5 trillion, or about half of all mortgages. Without government aid, the firms would have gone broke, leaving millions of people unable to get a mortgage.

The biggest headwind facing the housing recovery has been the rise in foreclosures as unemployment remains high. Treasury said its latest move could allow Fannie and Freddie to play a bigger role in restructuring mortgages for troubled borrowers.

Treasury officials are to provide an updated estimate for Fannie and Freddie losses in February when President Barack Obama sends his 2011 budget to Congress.

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