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PENN IUR **POLICY BRIEF**

# The Future of the GSEs: Conservatorship, Capital, and Mission

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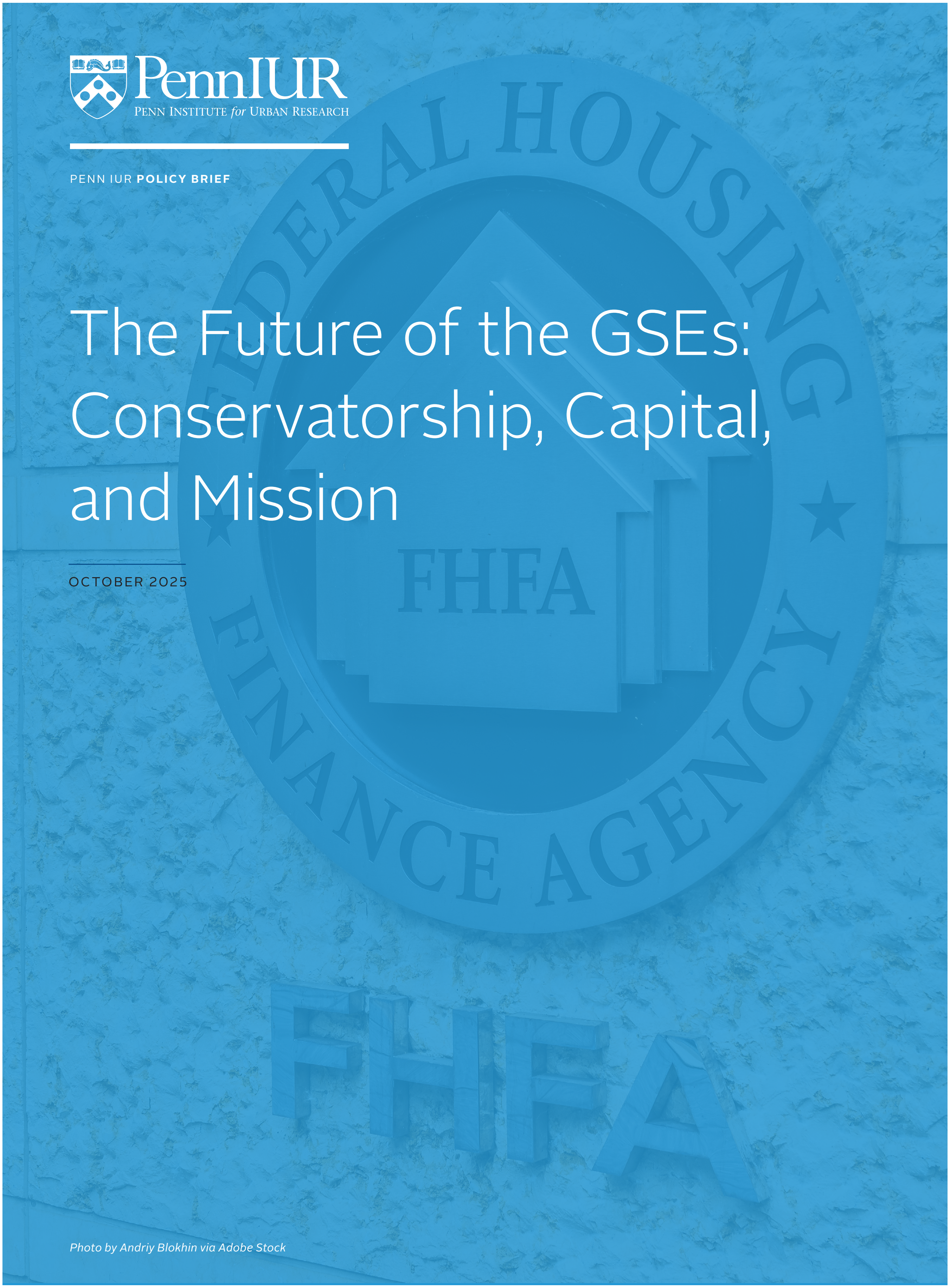


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*Full paper is available on the Penn IUR website at* ***penniur.upenn.edu***

# Introduction

Penn Institute for Urban Research ("Penn IUR") has examined the privatization of the GSEs and the potential impact on broadly accessible, low-term mortgage credit for American consumers. To this end, in publications in 2019 and 2020, IUR examined the "Utility Model" as a successor to the conservatorship of Fannie Mae and Freddie Mac.

On October 9, 2025, Penn IUR continued exploring the utility model through a convening of a high-level roundtable of economists, federal policymakers, mortgage industry leaders, trade association executives, and housing advocates. They considered the elements needed and best structure for a more privatized GSE model for Fannie Mae and Freddie Mac.

The roundtable was structured into three moderated sessions, each designed to provoke discussion and generate actionable insights. The first session, "What Needs to Be Done," focused on the financial and structural realities of the GSEs. The second "Industry Perspectives" examined the implications of privatization from the vantage point of market participants. The final session, "The GSEs' Mission and the Way Forward," explored the broader public purposes of the GSEs and the regulatory frameworks necessary to support their mission.

Throughout the day, participants engaged in candid dialogue, under Chatham House rules, offering both technical analysis and reflection on the role of the GSEs in the American housing finance system. What emerged was a nuanced vision of a potential way forward to privatization—one that balances financial viability, market stability, and public purpose.

## SESSION I: WHAT NEEDS TO BE DONE

The opening session set the stage with a sobering assessment of the GSEs' financial position and the challenges of recapitalization. The session began with a quantitative overview, noting that Fannie Mae and Freddie Mac had a combined capital of $155 billion at the end of 2024, but faced a capital requirement of $336 billion under risk-based standards that leaves a $180 billion shortfall, adding in the $341 billion in preferred stock owed to the Treasury, leaves a $520 billion gap.

Nonetheless, accepting that the $200 billion bailout has been paid back, reduces this shortfall, and together with a reduction in the risk-based standard to a 2.5% capital requirement (for an approximated $7 trillion MBS portfolio and an amount that would have covered the GFC losses, assuming today's lending standards) reduces the required capital to $175 billion, and the shortfall to $20 billion. With combined profits of nearly $30 billion, this can be reached within the year.

Going forward, using a 12X ratio for pricing the value of these profits results in a combined potential value of the stock of $360 billion. A 17X price earnings ratio results in an evaluation of somewhat over $500 billion, which is the number that is being spoken of in the press. Testing this will be possible and important in a partial stock offering with 5 to 10% reported as being considered for an approximate $30 billion raise. The price at which these shares will be revelatory for how the market perceives the ongoing discussion of ultimately how the entities will be perceived.

For example, there is a tension between the desire to release the GSEs from conservatorship with a high valuation and the simultaneous push to limit their activities. Cutting the scope of the business means moving further away from the $500 billion mark. Nonetheless, it is likely that there will be a move towards privatization of the GSEs, at least in the form of a partial stock offering.

Critical to the success of the eventual full privatization will be maintaining an implicit or paid-for explicit guarantee without a substantial increase in the cost of mortgages. For now, a partial stock offering is consistent with the maintenance of the current conservatorship under FHFA and the current perception of a government backstop.

This guarantee, it was noted, allows the GSEs to borrow more cheaply than any private sector participant, and that power must come with a public benefit. The importance of the GSEs' role during the financial crisis and, more generally, the importance of maintaining their countercyclical capacity, were noted. It was stated that there is a "grand bargain" that allows for an implicit or paid-for explicit government backstop with the public benefit as a return.

## SESSION II: INDUSTRY PERSPECTIVES

The second session brought in the voice of the market, opening with a discussion around liquidity and investor confidence. The importance of standardization was also highlighted. It was noted that the GSEs are not just mortgage companies, but the backbone of the TBA [To-Be-Announced] market, which sees over $300 billion in trades daily. Any disruption to that market would ripple across the entire financial system. The reason the GSEs exist is tied to the TBA market. Beyond housing, they ensure the capital markets work.

An argument for privatization was made that it would allow for competition around improving service functions. Lenders currently face operational challenges interacting with the GSEs under conservatorship, comparing it to a visit to the DMV. There was a call for the GSEs to return to acting like businesses—ones that are responsive, innovative, and service-oriented.

There was also a discussion of the potential for the GSEs to assist in the current housing affordability crisis, particularly in supporting construction lending. A secondary market in A, D, and C loans could help. Small builders struggle to get financing, and even a $50 million pilot program could make a marked difference. In addition, multifamily lending is often overlooked. Freddie and Fannie have distinct multifamily models deemed disciplined and profitable, which play a critical role in affordable rental housing.

Innovation, for example, around a uniform system of property identification that would reduce origination costs is possible, and hopefully, could occur with the profit incentives of privatization. Nonetheless, regulatory oversight and investor incentives remain concerns, with stable returns and long-term stewardship named as priorities. New shareholders must be aligned with the GSEs' mission to instill confidence. Stable earnings under a utility model would help assure this.

GSE reform is not just a technical issue, but a political one, with the issue of affordable housing rising above partisan divides. With affordable housing now a national crisis, the GSEs should be part of the solution.

## SESSION III: THE GSES' MISSION AND THE WAY FORWARD

The final session turned to the Congressionally-chartered missions of the GSEs. The opening question was under what conditions the GSEs should be privatized. Skepticism about the benefits of privatization was expressed. That is, Fannie Mae and Freddie Mac have an implicit guarantee in part because their mission is to ensure low-cost mortgage credit is available throughout the US. In fulfilling this mission, the Congress specifically gave them a duty to serve low and moderate-income communities, central cities, and rural areas. To this end, there have been special-purpose initiatives established by Fannie/Freddie regulators to ensure the enterprises reach goals that serve lower-income urban and rural areas. Some of the panel members stated that the mission of Fannie Mae and Freddie Mac should be looked at comprehensively, including, but not limited to, low-cost mortgage credit. That is their role in ensuring the continued availability of mortgage credit and their role in ensuring the liquidity/cost efficiency of the American mortgage. One refrain: “I’m not saying they should never be released, but I’m concerned that the incentives will shift away from mission-driven lending. The American mortgage is a great product. We don’t need to reinvent it—we need to protect it.”

Consequently, it was also emphasized that any privatization process must establish robust regulatory and corporate oversight in order to mitigate the incentive for the GSEs’ management to exploit any guarantee structure in pursuit of high-risk/short-term profits. As we saw during the Great Financial Crisis, left unchecked, such an arrangement would place homeowners and the housing finance system at significant risk. Regarding the importance of regulatory independence, “The shift away from independent oversight is troubling; we need a regulator that can resist political pressure and enforce the GSEs’ public mission.”

For the goal of a regulated utility outcome, a historical perspective on utility regulation is necessary. Public utility models are not easy. Even in monopolistic markets, setting the right price and ensuring service obligations is a complex task. The panel discussed the potential for a utility model that would regulate the GSEs’ rate of return and risk tolerance. A regulatory band for return on equity (ROE) was proposed to prevent both excessive risk-taking and implicit collusion. Chasing high ROEs could undermine stability and lead the entities to abandon low-return mission loans.

The conversation also touched on the need for transparency in pricing and the critical role of credit risk transfers (CRTs) in informing regulatory decisions, including on pricing. It was noted that CRT pricing gives us market signals to assess risk and help regulators set capital requirements and g-fees.

## CONCLUSION: PRINCIPLES FOR REFORM

The session concluded with a call for principles-based reform for mission preservation, market stability, and regulatory integrity, to be guided by a set of enduring principles which would include:

1. **Preserve the Public Mission:** The GSEs must continue to serve all markets at all times, with a particular focus on low- and moderate-income borrowers and underserved communities.
2. **Ensure Market Stability:** The GSEs’ role in the TBA market and broader capital markets must be protected to avoid systemic disruption.
3. **Maintain Regulatory Independence:** Oversight must be robust, transparent, and insulated from political influence.
4. **Align Incentives:** Any new ownership structure must prioritize long-term stability over short-term profit.
5. **Support Innovation in Process, Not Product:** The GSEs should focus on technological and operational improvements that reduce costs and expand access, rather than risky product innovation.
6. **Recognize Multifamily and Construction Needs:** Reform must address the full spectrum of housing finance, including rental housing and new development.

As the Trump administration considers a potential transaction—whether a tracking stock, partial IPO, or full release—the insights from this roundtable offer a roadmap for responsible reform. The stakes are high. The GSEs are not just financial institutions; they are pillars of the American housing finance system. Their future must be shaped with care, foresight, and a commitment to the public good.