Working for Freddie Mac

Established through the Emergency Home Finance Act of 1970, Freddie Mac is a government sponsored enterprise (GSE) created by the United States Congress, chartered to expand secondary markets for mortgages and mortgage backed securities by buying mortgages made by savings and loan associations. Headquartered in Tyson's Corner CDP, Fairfax County, Virginia, Freddie Mac, an acronym of the company's full name, The Federal Home Loan Mortgage Corporation (FHLMC), was initially created to provide competition for the newly privatized Fannie Mae which had split into a private corporation that retained the name Fannie Mae, and a publicly financed institution named Ginnie Mae, in 1968.
In 1989, the Financial Institutions Reform, Recovery and Enforcement Act standardized and revised regulation of Freddie Mac and Fannie Mae. Until this Act, Freddie Mac ownership resided in the hands of the Federal Home Loan Bank System and was overseen by the Federal Home Loan Bank Board, which became the Office of Thrift Supervision under the 1989 act. The 1989 act closed Freddie Mac off from the Federal Home Loan Bank System, then created an 18 member board of directors, and placed it squarely under the oversight of the U.S. Department of Housing and Urban Development (HUD). In 1995, Freddie Mac began buying subprime securities when they started receiving affordable housing credit.

Freddie Mac makes money by charging a guarantee fee on the loans that it purchases and securitizes into mortgage-backed security bonds, which are asset-backed securities or debt obligations which symbolize a claim on cash flow from mortgage loans through securitization, or the structural finance process which distributes risk by aggregating assets, then selling them to investors who share both the risks and rewards. Purchasers of Freddie Mac MBS pay this guarantee fee because Freddie Mac assumes the credit risk, which assures the purchaser that, regardless of the borrower repaying their loan, the principle and interest of that loan will be repaid to them.

Freddie Mac and Fannie Mae are allowed, by law, to only purchase conforming loans, which must meet specific guidelines, such as debt-to-income ratio limits, set by the GSE’s and The Office of Federal Housing Enterprise Oversight (OFHEO). This helps limit the number of non-conforming loans, which typically cost the consumers more, because they generally are loans that lack sufficient credit, or have an unorthodox nature to the use of the loan. If a loan is above the conforming loan limit, it is considered a jumbo loan. The Office of Federal Housing Enterprise Oversight sets the limit of the size of a conforming loan in response to the October to October change in mean home price.

There were no actual guarantees that the United States Government would back Freddie Mac's securities, nor did they carry a government guarantee that they would be repaid. The assumed guarantees were that Freddie Mac and Fannie Mae were backed by some sort of implied federal guarantee. These implied guarantees made the debt and mortgage-backed securities of GSEs worth more to investors than other private securities because of the perception of Government backing. Ultimately, in July of 2008, the speculations were put to test and made reality when the United States Government took steps to prevent the collapse of Freddie Mac and Fannie Mae. The Treasury Department and the Federal Reserve's actions included extending credit limits, granting access to Federal Reserve low-interest loans, and the potential of the Treasury Department to own stock.

In 2003, Freddie Mac was fined $125 million after it revealed that it had understated earnings by nearly $5 billion, one of the largest corporate restatements in United States history. Freddie Mac was also fined $3.8 million in 2006 for illegally using corporate resources for federal candidates. Freddie Mac had raised some $1.7 million, most of which benefited members of the House Financials Services Committee, a panel whose decisions affect Freddie Mac.

In 2008, the Federal Housing Finance Agency (FHFA) placed Freddie Mac and Fannie Mae under the conservatorship of the FHFA. The FHFA shook down the top ranks of both corporations, replacing the boards of directors and the chief executive officers. The liabilities of both companies may cost United States taxpayers tens of billions of dollars, in addition to increasing the national debt by $800 billion, which came from the anticipation of the potential need for the Treasury to support the flexibility of federal home bank loans.