BUSINESS

Fannie, Freddie tab may soar

Cost to rescue mortgage giants will increase as home prices fall

By Alan Zibel
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WASHINGTON — The government spelled out Thursday just how much the most expensive rescue of the financial crisis will end up costing taxpayers — as much as $259 billion for mortgage buyers Fannie Mae and Freddie Mac.

That figure would be nearly twice the amount Fannie and Freddie have received so far.

By contrast, the combined bailouts of financial companies and the auto industry have cost taxpayers roughly $50 billion, according to the Treasury Department's latest projections. And the bailouts of Wall Street banks alone, which sparked public fury, have so far brought taxpayers a $16 billion return.

Fannie and Freddie were battered by losses on loans they backed, once the housing bubble burst and foreclosures soared. They buy home loans from lenders, package them into bonds with a guarantee against default and sell them to investors.

Thursday, the government provided a broad estimate of the costs of bailing out Fannie and Freddie, because their losses depend on home values over the next few years. If prices fall sharply, as some analysts forecast, Fannie and Freddie won't be able to recover as much on foreclosures and would require more taxpayer aid.

Fannie and Freddie's rescue has cost $135 billion so far. Their bailout could end up costing taxpayers between $142 billion and $259 billion through 2013, the Federal Housing Finance Agency projected. Those figures take into account dividends the agency estimates the two companies will end up repaying.

The terms of their rescue require them to pay a 10 percent annual dividend to the Treasury Department. The two companies have paid $13 billion so far.

That expected to balloon in the coming years. Regulators expect the companies to repay an additional $67 to $91 over the next three years.

The two mortgage finance companies have been operating under federal control for more than two years. When the government stepped in to take them over in September 2008, their rescue was expected to cost a combined $200 billion.

Thursday's estimate was the first time the housing agency has released a public estimate of the taxpayer tab. The combined bailout of the two mortgage companies is on track to be the largest of the financial crisis.

Compare that with what was once the most expensive single bailout — American International Group Inc. That is now projected to cost taxpayers $5 billion. Even that bailout could turn a profit, Treasury said this month, if its sale of AIG shares succeeds.

The Obama administration's rescue of the U.S. auto industry is projected to cost $17 billion, Treasury has said.

Fannie and Freddie own or guarantee about half of all U.S. mortgages, or nearly 31 million home loans worth more than $5 trillion.

Over the next year, lawmakers plan to review the nation's mortgage-lending system and consider a potential replacement for Fannie and Freddie.