

Capitol Hill Storm Envelops Fannie-Freddie Rescue (The Wall Street Journal)

WASHINGTON -- The Bush administration's hastily arranged strategy to stabilize Fannie Mae and Freddie Mac came under siege on Capitol Hill, as Republicans tried to slow it down and Democrats moved to marry it with a program the White House has threatened to veto.

The bill's many moving parts could make for frantic negotiations as policy makers try to minimize the political and economic fallout from the credit crisis before Congress goes on break in August. While most expect the package to eventually pass, the next few days will likely force one side or the other to back down in what is becoming a high-stakes game of political chicken.

The plan, unveiled Sunday, would temporarily allow the Treasury to extend an unspecified credit line to Fannie Mae and Freddie Mac and also allow the government to buy equity in either company.

The Congressional Budget Office is expected to estimate the cost of Treasury's proposals to the federal government to be in the tens of billions of dollars, according to people familiar with the matter. That estimate is expected to reflect the likelihood that an equity investment will be made by the federal government and that the line of credit might also be tapped.

Treasury and Democrats want the proposal rolled into a housing-rescue package that was nearing completion last week before the plan came together over the weekend.

"The administration raised the stakes with this request," House Financial Services Committee Chairman Barney Frank (D., Mass.) said.

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Maneuvering in Washington could delay action on the housing crisis.

Treasury Secretary Henry Paulson held a closed-door meeting with House Republicans Wednesday evening, where he urged the lawmakers to support the legislation and emphasized the need to pass the bill quickly. Government officials hope it will head off fears that the housing market could spill into disarray if Fannie Mae and Freddie Mac falter.

Several House Republicans critical of the plan questioned Mr. Paulson during the meeting, raising concerns about the potential cost to taxpayers of rescuing Fannie and Freddie and about some of the proposals in the underlying housing bill that Republicans have long opposed. Some Republicans had hoped the plan for the government-sponsored entities, or GSE, would move separately from the housing bill.

They have little leverage to hold up or stop the bill. Mr. Paulson, emerging from the meeting, said he is "very confident and optimistic that there is broad-based support for moving quickly to get the GSE overhaul done, and I'd be very optimistic we could get it done sometime next week."

House Minority Leader John Boehner (R., Ohio) joined Mr. Paulson in speaking to reporters. "I don't think there's any question that this will become law, and become law soon," Mr. Boehner said.

Democrats say they plan to vote Wednesday. But they want to combine the request with a \$4 billion grant program that would direct money to cities and towns to buy and rehabilitate foreclosed properties. The White House has threatened to veto a bill with that provision in it.

Mr. Paulson, at the meeting with Republican lawmakers, indicated some flexibility on that issue. "He told us he thought that should not be in the legislation either, but he feels that may have to be lived with or resolved in some other way," said Rep. Mike Castle (R., Del.).

The White House publicly maintained a strong line. "Urgent legislation dealing with systemic risk in our economy shouldn't be hijacked as a vehicle for wasteful programs that will not help the housing correction, and will primarily serve as a bailout for the very lenders who foreclosed on homeowners," White House spokesman Tony Fratto said.

Democrats said the \$4 billion is crucial to help cities and towns recover from record numbers of new foreclosures. They appear ready to test the White House's willingness to block a housing-rescue bill, with foreclosure numbers growing and housing prices in many parts of the country continuing to fall.

"I don't know how in good conscience you come up here and ask me to give unlimited lines of credit" to the Treasury without giving Democrats something in return, Senate Banking Committee Chairman Christopher Dodd (D., Conn.) said in an interview. "I think they might be building the perfect storm to help Congress react negatively."

House Democrats saw their leverage over the package increase in the last day, as it became clear votes in favor of the bill in their chamber would come principally from within their own party, not from Republicans. They took advantage, saying it was necessary to win the support from lawmakers from heavily urban districts that benefit from the grant program.

"I think it's a negotiating tactic," Rep. Spencer Bachus (R., Ala.) said of the Democrats' move. He added that the White House might not end up vetoing the bill. "I think they're in such a rush to get this bill out," he said.