

Administration presses for mortgage giant rescue (The News Journal)

By JULIE HIRSCHFELD DAVIS

July 17, 2008

WASHINGTON (AP) - The Bush administration lobbied skeptical lawmakers Wednesday to support a rescue plan for Fannie Mae and Freddie Mac, as lawmakers weighed how to protect taxpayers while still giving the government unfettered power to pour money into the mortgage giants.

The administration's request for urgent action to prop up the troubled companies has sparked concern in Congress, particularly among Republicans who are loath to let the government interfere in financial markets. But it's also sweeping away the last obstacles to a separate broad housing package that's expected to clear Congress by the end of the month.

"I'm uneasy, as are many (lawmakers), about unlimited authority, and we may need to do things to give taxpayers assurance," Sen. Christopher J. Dodd, D-Conn., the Banking Committee chairman, said in an interview. "We're going to make sure that what we're doing here is not going to expose them to a disastrous situation down the road."

Dodd is consulting with Rep. Barney Frank, D-Mass., the Financial Services Committee chairman, and Treasury Secretary Henry M. Paulson on the details of the proposal.

Paulson worked the phones and met with lawmakers Wednesday seeking to allay Republicans' fears about the plan, which specifies no upper limit for what the government could spend to prop up the mortgage giants.

Paulson argues that he's proposing a backstop that won't have to be used, and that placing a dollar amount on it would spook markets and exacerbate the problem.

In a closed-door meeting, Paulson asked an at-times hostile audience of House Republicans to support the rescue, which he described as vital to stabilizing capital markets and the broader economy.

"I am optimistic that this is going to be done quickly, and it's not blind optimism," Paulson said after the meeting.

"Members clearly have concerns," said Rep. John A. Boehner, R-Ohio, the minority leader. "But I do think at the end of the day this proposal is likely to become law."

Republicans who gathered in a basement meeting room for the late-afternoon session stood and blasted the proposal, some denouncing a foreclosure rescue that's part of the broader housing bill, and others focusing on the potential costs of the help for Fannie and Freddie_ entities whose very existence is anathema to many in the GOP.

"If these entities are too big to fail - and I will concede that that may in fact be true - we ought not to be ever in a position where they're too big to fail again," said Tom Price, R-Ga.. He said Congress should consider overhauling Fannie Mae and Freddie Mac - perhaps privatizing them - in exchange for any backstop.

Asked Wednesday about the situation, Republican presidential candidate John McCain reiterated his position that the mortgage companies are too important to be allowed to go under. "We have to do what we can to make sure they don't fail," he told reporters after a campaign appearance in Omaha, Neb.

With shares of Fannie Mae and Freddie Mac plummeting on fears about their financial stability, the Federal Reserve and the Treasury Department on Sunday unveiled a plan to throw them a lifeline. The two government-sponsored companies hold or guarantee more than \$5 trillion in mortgages - almost half of the nation's total.

The Bush administration is asking Congress to temporarily increase lines of credit to Fannie and Freddie and to let the government buy their stock. The Fed has offered to let the companies draw emergency loans.

Fed Chairman Ben Bernanke assured Congress Wednesday that the firms are in "no danger of failing," but that "weakness of market confidence" is hindering their ability to raise capital.

The push to shore up Fannie Mae and Freddie Mac is adding momentum to the housing package, which creates a new regulator and tighter controls over the companies and creates a new affordable housing fund financed by their profits.

The bill creates a \$300 billion program at the Federal Housing Administration to let strapped homeowners who can't afford their monthly payments - many of them trapped in subprime loans and owing more than their homes are worth - refinance into cheaper, fixed rate mortgages instead of losing their homes.

In something of an ironic twist, Senate Republicans who initially complained the FHA program would be a taxpayer-financed bailout backed it after Democrats agreed to cover any losses by diverting the affordable housing fund. Now lawmakers are contemplating bailing out the rescuers.

House Republicans roundly denounced that plan in Wednesday's meeting with Paulson.

Members of Congress are pondering how to limit the potential cost to taxpayers of the Fannie Mae and Freddie Mac rescue plan. Frank has floated the idea of mandating that any equity stake the government bought in either company be a preferred class of stock, to ensure that taxpayers would be compensated before other shareholders in the event of a collapse.

But Dodd said that could discourage private investment in the firms, potentially harming them further.

"This problem isn't going to be solved by the government, it's going to be solved by the private market," he said.

The new Fannie Mae and Freddie Mac plan has emboldened Democrats to defy Bush's veto threat and demand that the bill include one of their highest priorities: \$3.9 billion to buy fix up foreclosed properties in neighborhoods hit hardest by the housing crisis. House Democrats, who had planned to drop the funds as part of a compromise with the White House, are now insisting it stay in the bill.

Dodd said Bush wouldn't dare veto the money.

"If we're going to be asking the American taxpayer to be giving unlimited authority for lines of credit and stock purchases, you tell me how I explain that I can't get some more resources back to my towns and cities and counties to address some of the damage that's been done here," Dodd said.

Asked about the grants in Wednesday's private meeting with Republicans, Paulson said he'd work to get it stripped from the bill. But he also said the administration would have to swallow some things it didn't want in the interests of a deal.

"He says there have to be trade-offs, and it's very important to get this done," said Rep. Michael N. Castle, R-Del.