Beholden or Market-Reactor? An Alternative View for Fannie Mae and Freddie Mac's Role in the 2004 to 2008 Housing Bubble

Michael D’Itiri, Dalton State College
Jon Littlefield, Dalton State College

EXECUTIVE SUMMARY

There is considerable controversy over the causes of the "Great Recession" that started in 2008 and lasted for at least two years. Critics propose the Government Sponsored Entities (GSEs), concerned about the prospect of losing their "quasi" government status, responded to political pressure by encouraging the generation of subprime and alternative (Alt-A) mortgages. This paper provides an alternative view suggesting the GSEs were grappling with new and aggressive competitive challenges and as privately held companies with a fiduciary responsibility to earn an adequate return for shareholders, the GSEs had little alternative to the course of action they pursued.

KEYWORDS: Bailouts, Housing collapse, Fannie Mae, Freddie Mac