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Nation's Housing

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A Bare-Knuckles Fight Between S&Ls, Fannie

WASHINGTON — A bare-knuckles, bruising fight is under way here between two of the most powerful providers of mortgage money for home buyers and refinancers across the country. The brouhaha has been kept out of the general public's earshot thus far. But the noise level is rising fast. So are the stakes for the American consumer.

The battle pits Fannie Mae (the Federal National Mortgage Association) against many of the nation's thrift institutions — savings and loan associations, savings banks and other local lenders. Fannie Mae is the country's largest single source of mortgage money. It buys billions of dollars worth of home mortgages every year from local lenders and mortgage bankers. In so doing, it enables them to make loans far beyond the capacities of their savings deposits from consumers.

But local lenders, particularly larger ones who prefer to keep their mortgages in their own portfolios, have a beef with Fannie. They say Fannie is growing too big, too fast. They complain that Fannie — along with another corporation based in Washington, D.C., Freddie Mac (the Federal Home Loan Mortgage Corp.) — don't play fair. Both corporations are privately controlled, but carry federal charters created by Congress. Fannie even has a direct pipeline into the United States Treasury, should it ever need it.

As a result, lenders say, Fannie can borrow money cheaper than they can. With its vast, multi-billion-dollar annual volume, it can also shave interest rates charged on loans to levels that are unprofitable for locally based competitors.

Local lenders complain that Fannie and Freddie have taken control of the American mortgage market at their expense. Last year, the two companies accounted for $180 billion worth of mortgage financings, well in excess of private lenders' estimated $120 billion in originations. Yet Fannie's federal charter directs it to be "supplementary" to the market, not dominant.

To slow down Fannie, the thrift industry has begun a bitter assault on the corporation. The most recent punch — and one that's pushing the fracas into public view — involves cutting Fannie off from its most important tool for future financial growth.

The principal lobbying organization for the nation's S&Ls, the U.S. League of Savings Institutions, is demanding that the Reagan administration prohibit Fannie Mae from issuing a new form of mortgage-backed bond. The bond, known as a "REMIC" (real-estate mortgage investment conduit), was created by the 1986 tax-reform law. REMICs are designed to raise money from domestic and international investors for home mortgages at the lowest possible rates.

Congress expressly sanctioned Fannie Mae's right to use REMICs. But the White House — acting through the Department of Housing and Urban Development — has the legal right to regulate certain of Fannie's financial activities. Hence, the S&Ls' strategy: block 'em at the political pass.

HUD Secretary Samuel Pierce is currently trying to figure out whether to go along with the thrifts, go along with Fannie or find some compromise. He has promised a decision next month. Here are the key factors the Reagan administration will be looking at and how they may touch you as a consumer:

- Mortgage-money costs. There's no disagreement between the S&Ls and Fannie Mae that Fannie's use of REMICs would lower national interest rates. The decrease would be one-fourth to one-half of one percentage point below what rates would be otherwise. Fannie Mae argues that lower rates benefit consumers, builders, bankers and the economy as a whole.
- The costs of cheaper mortgage money. S&Ls charge that the one-fourth to one-half point differential won't be worth the damage it will wreak on lenders' deposits. Fannie REMICs would siphon off billions in deposits from local lenders' vaults, they say, because mutual-fund sponsors would entice individual savers into new, highly liquid, "federally backed" (Fannie Mae) money-market-type investments that pay more than passbook accounts. But other industry experts say such funds wouldn't be as feasible or effective as the S&Ls fear.
- "Federalization" versus local free enterprise. "Do we want federal agencies like Fannie and Freddie totally running the American mortgage market?" asked Dennis Jacobe, the U.S. League's research director. "Or do we want our traditional system where several thousand S&Ls and banks make loans to local customers, on locally competitive terms?"

Other mortgage-industry experts scoff at the S&Ls' argument. Said one lender: "The S&Ls have been bailed out of their own hot soup by Fannie Mae every time the market turned against them (in the mid-1970s, late 1970s and early 1980s). Fannie gave them the bucks that helped keep them alive (by buying their mortgages.) Now they want to put her on the back shelf, even if it means higher costs to the consumer."