The term “government sponsored entity” (alternatively “government sponsored enterprise” or GSE) is a generic term that has assumed special meaning in the mortgage industry. In the mortgage market, any reference to “the GSEs” is assumed to mean Fannie Mae and Freddie Mac. The origins and operations of these GSEs are described in § 1.2.3 [1], supra, and § 1.5 [2], infra. While they dominate public discussion of the mortgage industry, there are actually other GSEs that provide significant amounts of housing credit: the FHLBanks, the Farm Credit System, and Farmer Mac.

The twelve FHLBanks are cooperatives owned by the member banks in their regions. They were originally established in 1932 under the supervision of the Federal Home Loan Bank Board. The Board was abolished in 1989 by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and replaced by the Federal Housing Finance Board. The FHLBanks are now regulated by the same regulator as Fannie Mae and Freddie Mac—the Federal Housing Finance Agency. The FHLBanks’ primary mission is to make housing credit available to their member banks, which the banks then use to make mortgage loans. Extensions of credit from the FHLBanks (called “advances”) are funded by member capital contributions and collateral as well as by bonds sold by the FHLBanks.

The Farm Credit System is another GSE consisting primarily of the Agricultural Credit Bank, the Farm Credit Banks, and direct-lender associations. Regulated by the independent Farm Credit Administration, the System provides credit for agricultural loans and projects in rural areas.

Farmer Mac was created in 1971 to create a secondary market for agricultural and rural mortgages. It is analogous to Fannie Mae and Freddie Mac.

Fannie Mae, Freddie Mac, and Farmer Mac are investor owned (although Fannie Mae and Freddie Mac are currently in a federally controlled conservatorship). The FHLBanks and the Farm Credit System are cooperatives, owned by their borrowers. Ginnie Mae, described in § 1.2.3.1 [3], supra, is sometimes considered a GSE because it serves a similar purpose, but it is actually a government agency. Ginnie Mae only guarantees agency loans that are originated and securitized by approved, private issuers. Until Fannie Mae and Freddie Mac were taken into conservatorship, Ginnie Mae’s guarantee was the only secondary market promise that officially carried the full faith and credit of the federal government. Ginnie Mae does not, itself, buy or securitize any loans. Although Fannie Mae and Freddie Mac were originally created to serve different markets, they now do largely the same work for the same types of lenders. So there is little practical difference between their functions in the market.

Each GSE establishes guidelines for the loans it will purchase or guarantee. Available online, the guidelines include a wide range of requirements that affect most aspects of originating and servicing a mortgage. Lenders must adhere to these guidelines or the GSEs will refuse to purchase or guarantee the lender’s loans in the secondary market. Loans that unintentionally fail to comply are sometimes called “scratch-and-dent” loans and may be securitized or sold by other means, or may be held by the originator.

Because the GSEs purchase so many loans, their standards have a major impact on industry standards and on the terms of credit available in the market. When the GSEs refuse to purchase certain types of loans, or impose onerous restrictions, the lending industry will give consumers substantially fewer loans of that type.

Footnotes

379 [379] The statutory definition of “government-sponsored enterprise” (for budget-making purposes) can be found at 2 U.S.C. § 622(8).


381 [381] See § 1.2.2.1 [4], supra.


385 [385] Id.

386 [386] Id.

For more information, see the Council of FHLBanks website, www.fhlbanks.com [7].


388 [388] See generally id. at 1353.

389 [389] Id.


391 [391] Sean M. Hoskins, Katie Jones & N. Eric Weiss, Congressional Research Serv., Report No. R42995, An Overview of the Housing Finance System in the United States 11 (Mar. 13, 2013) (“Unlike Fannie Mae and Freddie Mac, Ginnie Mae does not purchase or securitize mortgages; rather, it guarantees the MBS issued by certain issuers (such as banks or credit unions) that have been approved by Ginnie Mae.”).

392 [392] Fannie Mae’s requirements for originating single-family home loans are called the Selling Guide [8], which is available at https://www.fanniemae.com. Freddie Mac combines its requirements for origination and servicing into their Single-Family Seller/Servicing Guide [9], which is available at www.freddiemac.com. Both guides are frequently updated. Like a statute or regulation, it is important to determine which version of the guidelines was in effect when a loan was originated. Both websites include archives of older guidelines.


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