

DOMESTIC CREDIT

'Off budget' borrowing Fannie Mae's delight

With all their fuss about slashing the Federal budget deficit, fiscal conservatives have not made one peep about reducing the size of the government's enormous *off-budget* borrowing. This year off-budget or federally assisted borrowing, as it is called, will top \$30 billion for the second year in a row. Again the main beneficiaries are the government agencies and government-sponsored private enterprises which assist the mortgage market and prop up this nation's vastly inflated real estate values.

The entities in question are the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Bank Mortgage Corporation ("Freddie Mac"), and the Government National Mortgage Association ("Ginnie Mae"). Ginnie Mae is a government agency, while her cousins are government-sponsored private enterprises. All three discount government-insured mortgages, selling them to institutional investors and some private investors in the secondary mortgage market. The Federal Home Loan Banks make direct loans, known as advances, to the federally regulated savings and loan institutions to keep them flush with lendable mortgage funds.

The argument is made that these government-sponsored mortgage associations provide a lifeline to the housing market and construction industry by injecting liquidity into S & Ls and other mortgage lenders. This is a good public relations formula. In actuality, by placing unlimited governmental borrowing power behind the home mortgage market, these entities have fueled the real-estate speculation which has priced the average homeowner out of the market. Nor, the way they presently operate, do the secondary mortgage markets

necessarily foster new construction. Only around 20 percent of single-family homes that are sold each year are new homes—some 80 percent of mortgages issued finance the resale of old homes and housing.

In 1978 Fannie Mae and Freddie Mac increased their combined purchases of mortgages by \$8.2 billion over 1977, while the Federal Home Loan Banks upped their net advances to the S & Ls by \$11.1 billion. This \$19.3 billion net increase in credit advanced accounted for the entirety of the rise in government assisted borrowing that year.

In the current calendar year, total federally assisted borrowing (borrowing by the government-sponsored enterprises and government-guaranteed borrowing) is expected to be just a shade below 1978: \$33.4 billion versus 1978's \$35.4 billion.

To a certain extent, the discount-

ing activities of Fannie Mae and her friends are being taken over by the private mortgage companies. These organizations will pick up riskier conventional mortgages, which are much larger and are not insured by the government. With personal income eroding and down payments on homes shrinking, such mortgages are the order of the day. As we reported two weeks ago, there has been a late-summer flurry of issues of so-called mortgage pass-through securities by private mortgage companies like the Milwaukee-based MGIC—"Magic"—and S&Ls such as the Gibraltar Savings Association, along with a rush of prestigious investment banks into the mortgage broker field. As one investment banker put it, "This is the new growth area in the economy."

In 1978 off-budget borrowing represented about a third of the total; this year, off-budget borrowing will run almost *one-half* of the total. Fiscal conservative forays against the budget deficit will remain highly suspect until they tackle the off-budget borrowing.

