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Fannie Mae to Be Allowed to Expand Its Portfolio

By ERIC DASH

A government regulator gave Fannie Mae permission yesterday to slightly increase the amount of mortgages it can buy for its investment portfolio, a move that analysts say will do little to ease the strain on the housing market.

The regulator, the Office of Housing Enterprise and Oversight, said Fannie Mae could expand its loan portfolio by 2 percent a year, an adjustment to a cap it put in place last May after it exposed widespread accounting problems.

Ofheo said it was also adjusting the method it used to determine the size of Fannie Mae's mortgage portfolio, which will set the new cap at $735 million.

The moves, along with similar ones for Freddie Mac, should give the nation's two biggest mortgage buyers a bit more flexibility in managing their portfolios. The changes are also intended to encourage the companies to purchase as much as $20 billion each in subprime loans.

But just two days ago, Ben S. Bernanke, the Federal Reserve chairman, in a letter to Representative Barney Frank of Massachusetts said relaxing the portfolio restrictions on Fannie Mae and Freddie Mac could prove "ill advised."

Wall Street analysts said that Ofheo's changes would do little to ease the pressures on the housing market. And Fannie Mae, which has lobbied to raise the portfolio limit by 10 percent, and several Democratic lawmakers said yesterday that the moves did not go far enough.

In a statement, Senator Christopher J. Dodd of Connecticut, the chairman of the Banking Committee and a Democratic candidate for president, called Ofheo's decision "timid and inadequate." He said the administration was ignoring the severity of the subprime mortgage crisis.

Others, however, suggested it could be a way for Fannie Mae and Freddie Mac to start regaining Ofheo's trust.

"I actually think this was a smart way of giving the enterprises an opportunity to prove themselves," said Josh Rosner, a managing director at Graham Fisher & Company who has been critical of Fannie Mae. Under the requirements, Fannie Mae and Freddie Mac must provide more frequent and detailed financial disclosures, including a monthly report that should more clearly parse out their purchases of subprime loans.

Ofheo's announcement came as the Senate Banking Committee voted 20-to-1 to approve legislation raising a separate limit on home loans made through the Federal Housing Administration. That could help prospective home buyers in higher-cost areas like California and New York but do little to ease the bigger challenge faced by homeowners who may lose their homes if they fall further behind on their payments.

If yesterday's bill is passed by the full Senate, it would need to be reconciled with legislation passed in the House.

It also came just two days after Mr. Bernanke sent a letter to Mr. Frank, the chairman of the House Financial Services Committee, that defended the current portfolio limits and urged Congress to move cautiously if it considers letting Fannie Mae and Freddie Mac buy mortgages over the current $417,000 limit.

In the letter, he suggested that allowing the companies to buy higher-priced mortgages would extend an "implied guarantee to another portion of the mortgage market."

"If the Congress is inclined to move in this direction, it should consider whether such action could be taken in a way that makes the change explicitly temporary as well as promptly implemented, lest it inhibit private securitization activity in the interim," Mr. Bernanke wrote.