Poor Credit Judgments Sank Fannie and Freddie
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Just whose narrative about the demise of Fannie Mae and Freddie Mac is faulty? Brian M. Carney suggests that housing advocates and Democrats are unable to reconcile their view that the financial crisis was caused by undisciplined financial practices among banks and Wall Street, with their continued support of the assistance Fannie and Freddie provide to the housing market ("Fan and Fred and the Problem of Narrative," op-ed, July 26). Perhaps the confusion is that the writer cannot fit the facts to the Journal's view that the crisis was government-made.

The facts about the financial collapse of Fannie and Freddie are pretty clear and a matter of public record. The company managers, their regulator and the Treasury have all said that the losses which crippled the companies were caused by the purchase of loans with lower credit standards between 2005 and 2007. The companies explicitly changed their credit standards in order to regain market share after Wall Street began to define market credit standards in 2004. As proved to be the case for most other investors in Alternative-A and sub-prime mortgages, this was a very bad idea.

So the cause of the financial problems for Fannie and Freddie was bad decisions, not their government sponsored status. Had the companies maintained their credit standards they would have fared much better. The same is true for Wall Street. Bad decisions, not bad government charters, caused the financial crisis.

The Journal had been warning for years that the on-balance sheet portfolios of Fannie and Freddie would lead to their demise. Mr. Carney suggests that excessive leverage was the culprit. Unfortunately, neither of these were involved. Nope. Just bad credit judgments. Decisions made, by the way, while operating under close regulatory scrutiny.

Perhaps one reason Congress and the administration are being careful before eliminating Fannie and Freddie is that they have noticed that Wall Street and the commercial banks have virtually abandoned the mortgage market leaving only Fannie, Freddie and the Federal Housing Administration to keep housing finance flowing. They may also be pondering just how the private-market players or any new entities created to replace Fannie and Freddie would be able to avoid bad credit decisions in the future.

It seems reasonable to some of us that they think about those issues before acting.

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