Fannie Mae has a real history, perhaps a life of its own, which may be why the Federal National Mortgage Association so easily became known by its acronym as "Fannie Mae. An Appalachian woman's name coming out of the Depression through the New Deal to assist in helping stressed homeowners.

The Great Depression which tragically bore down on our country in the early 1930's wreaked economic and social havoc in our country and the world. The massive industrialization of the late 19th and early 20th centuries, saw rural households become city dwellers and farming communities dwindle. The Depression brought high unemployment, bread lines, housing foreclosures, and great loss of personal wealth and savings or income.

We are not here to discuss or debate the Depression, however it is against this backdrop that FNMA was created. The Roosevelt Administration was the New Deal. While these wer actually two separate programs or eras, usually referred to as the First New Deal from 1933 thru 1934 and the second New Deal from 1936 to 1938 they were together one giant program and both controversial and complex.

The so-called First New Deal dealt with the big problems of banks. jobs, and food. Out of this era and the new administration we got multiple "letter agencies", such as the SEC, FDIC, REA, and many others; the second phase brought the Social Security Act, NLRB, WPA, HOLC, and more.

These newly created agencies coming out of the Roosevelt Administration and Congress were rather unique and very powerful. The agencies were para-congresses once created, they were relatively independent and, within their spheres, small executive, legislative, and judicial entities were created all wrapped up in one and not really accountable to any superior government authority. I may be overstating a bit, but these agencies are designed to be independent. The governors running them are appointed by the President and approved by the Senate for specific time periods, usually eight years. Most of their staffs are government employees and many are within the civil service.

These are not like cabinet appointments or Departments. Most of these agencies are still in existence today and play an important role in national governance. Along with other parts of Washington governance, they receive their authority as created out of the "Interstate Commerce Clause" in the Constitution.

The Federal National Mortgage Agency or FNMA was one such "letter agency." However, it actually evolved out of another senior to it, the Home Owners Loan Corporation which was created in 1933 as an Agency to stabilize housing to refinance mortgages in default to prevent foreclosure. Incidentally, Prohibition was repealed in 1933. What a crazy era!

Fannie Mae's business purpose was to create liquidity in the secondary mortgage market buying mortgages from banks and other financial institutions who originated these mortgage loans. Most of the mortgage financing miseries and foreclosure problems settled down by the late 1930's and were on hold or non-issues during World War II and in the early days of recovery thereafter.

Fannie Mae was a success in its mission throughout this entire period and earned a permanent place in the financial and mortgage financing world. Such was formalized in the FNMA Charter Act of 1954 which created a permanency and, most interestingly, mixed ownership with certain qualified investors now to be owning the common shares and the US Government owning the preferred shares.

These financial housing related issues continued their saga as the country came out of the war in the mid40's, after all, housing for.our veterans was enormously important. Fannie Mae remained important as the money conduit to the housing finance industry, buying loans, holding them or selling into the institutional market. Savings and Loans, community quasi-banking institutions, usually state chartered, were also active in the home mortgage business.

These S&L 's were backstopped by state and federal insurance pools such as FSLIC. Other lenders and guarantors were also prominent in housing and provided financing for 25 or 30 years after the war. The industry boomed. But out of the post war recovery, the inflation scare on the50's, the bull market of the 60's, and guns and butter, a new storm erupted in the 70's which would forever change banking and the home financing market.

As a result of several issues which came together in the early 70's, inflation rose from 2 % to 18 % late in the decade and, as monetarily natural, interest rates followed suit and rose to over 20% in the late 70's and early 80's. Needless to say, such devastated the housing industry, the bond market, and overall economy. Federal regulations capped interest to savers at 4/1/4%, so the higher yields in newly created "money market funds" prompted a rush out of CD's and S&L savings accounts and a "sort of" run on the banks. The S&L and banks, both small and large, engaged in mortgage financing were in serious trouble; lending "long" - mortgages, and borrowing "short" - savings accounts, was a terrible money looser. The financial word was "disintermediation"..

By the early 80's the Savings and Loan crisis had come and almost all of them we're gone, some in financial mismanagement and others fraud flames, others absorbed and wound down.

During much of this period Fannie Mae and her newly born brother, little Freddie Mac, created In 1970 in the Emergency Home Finance Act, were quite active but largely on the sidelines. They were borrowing money in the bond market, Fannie Mae notes or bonds, buying mortgages, and then repackaging these mortgages into notes they sold into the bond market called "collateralized mortgage notes." When these notes were in turn sold to the investing public, we knew them as Fannie Mae Pass Throughs" meaning that they passed through or passed along the interest paid by the borrower to the investor, of course there was a Fannie Mae guaranty, so presumably no risk. Although not definitely stated, these notes carried an "implied" U.S. Treasury guarantee.

However, these pass throughs were a pain in the neck for the investor as the typical mortgage pays interest and principal each month thereby reducing the underlying principal and needing a cost schedule corresponding to an amortization schedule as in a loan agreement. While Fannie did this work for the investor, it was not a normal or typical investment for most investors. Along came "securitization."! While various forms of this packaging had been around for many years, the product available to the public investor with marketability was new and became very popular and very, very profitable in the investment banking business.

A fellow named Lou Ranieri, fairly young and unknown in the Salomon Brothers bond department around the mid to late 70's, is generally credited with pioneering the process of packaging mortgages into a bond, backed by these mortgages, often with a Fannie Mae guaranty, and marketability, creating a market, a new bond. It, the bond created, was soon known as a "CMO" or collateralized mortgage obligation. This was or is the birth of what has come to be known as "securitization".

Coming out of the decade of the 70's, the money market fund replaced the savings account and the CMO replaced he mortgage holder. Both of these were scrutinized or collateralized, liquid or readily marketable, and fairly transparent, if the investor cared to look. Not much room for the S&L in such a financial environment, but a great big place for Fannie Mae and Freddie Mac!