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Trump Tees Up Fannie, Freddie Offering

Deal to sell shares in the mortgage giants could raise about \$30 billion this year

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The Trump administration is preparing to sell stock in mortgage giants Fannie Mae and Freddie Mac in an offering it believes could raise around \$30 billion and kick off later this year, according to people familiar with the matter.

The plans being discussed by some administration officials could value the companies at roughly \$500 billion or more combined and involve selling between 5% and 15% of their stock, some of the people said. Still up for debate is whether the mortgage giants would go public as one company or two separate entities.

Fannie and Freddie, which bundle and sell mortgages, have been under government control since the 2008 financial crisis and rely on a government-backed guarantee to protect investors from losses. Shares of the firms, which currently trade on over-the-counter markets, each closed up roughly 20% after The Wall Street Journal reported on the offering plans.

It is unclear whether Fannie and Freddie would remain under government conserva-

torship. Bill Pulte, head of the Federal Housing Finance Agency, has in the past suggested the firms could remain under conservatorship while conducting a share offering, without clarifying how it would work.

The CEOs of six large banks—Morgan Stanley, JPMorgan Chase, Goldman Sachs, Citigroup, Wells Fargo and Bank of America—traveled to D.C. in recent weeks to meet with President Trump to discuss potential plans for Fannie and Freddie.

Treasury Secretary Scott Bessent, Commerce Secretary Howard Lutnick and FHFA's Pulte were also present at several of the meetings, people familiar with the matter said.

Trump allies began laying the groundwork to pursue public offerings for Fannie and Freddie months before he was re-elected, the Journal reported last year.

Proponents have long said that such a transaction—which at the values being discussed would rank among the largest stock offerings in history—could reduce the country's deficit and return money to taxpayers. Many questions remain about how any potential offerings of these companies would work, what the terms would be and what the impact on government finances would be.

If any deal goes forward, it could create a windfall for investors like Bill Ackman and John Paulson who bought shares years ago, banking on the idea that eventually the government would sell stock in the mortgage giants.

There is no guarantee a deal will come together. Initial public offerings take time to prepare, and one as complicated as offering shares of Fannie and Freddie is a large undertaking. Some bankers are skeptical whether such a quick timeline is likely. Previous attempts to privatize the firms, including by Trump in his first term, failed to gain traction.

Fannie and Freddie don't make loans. They buy them from lenders. They package them into securities that are sold to investors, and provide guarantees to make the investors whole if the loans default. They have long benefited from the market expectation that the government would bail them out of any trouble, through a so-called implicit guarantee. This role has helped preserve America's popular 30-year, fixed-rate mortgage—something few other countries have— including during savings-and-loan crises in the 1980s.

Analysts have warned that mortgage rates could rise without that government support.

“The market cannot function without the implied guarantee, and any release effort must preserve this backstop,” Wells Fargo strategists wrote to clients. “Without it, forced selling by domestic and foreign holders could destabilize” both mortgage-backed securities and housing markets.

Trump has said he wants the firms to keep the guarantee in the case of a public offering but hasn’t elaborated on how that might work. Any explicit guarantee would likely raise legislative and accounting challenges.

The Treasury Department holds warrants to purchase about 80% of Fannie and Freddie common stock and also holds senior preferred shares. Other investors own junior preferred shares or common stock. The government would be selling stock in the offering.

Since the financial crisis, some investors have bet that policymakers would eventually privatize Fannie and Freddie and that the value of their shares would increase dramatically.

Ackman’s Pershing Square owns a roughly 10% stake in the common shares of both Fannie and Freddie.

Paulson owns a sizable investment in preferred shares.

Both Ackman and Paulson endorsed Trump for president.

Ackman has told other investors that the likelihood that privatization doesn’t occur during Trump’s administration is near zero, according to people familiar with the matter.

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