

Fannie, Freddie and Maria

Everything comes to an end someday; Fannie Mae and Freddie Mac were no exceptions. While I was staying in New York with my wife in early September of 2008, US government announced the take-over of Fannie and Freddie. Apart from business trips, this was the second visit to New York for me and my wife after our stay from 1977 to 82.

Fannie and Freddie, both quasi-government companies have played a pivotal role in the development of US economy in the past 70 years; Fannie was created in 1938 to provide liquidity to the distressed mortgage market, and Freddie was created in 1970 to compete with Fannie. Both companies have facilitated easier access to possessing houses through distributing securitized housing loans purchased from commercial financial institutions to investors.

In 2003 Freddie was found to have underreported its results by \$7 billion, and in 2004 Fannie was reported to have inflated its earnings by \$9bio. In May 2008 Fannie reported a first quarter loss of \$151 million, and in August Freddie announced a loss of \$821 million in the second quarter. According to Nikkei (July 15—16), outstanding balance of bonds issued by Fannie and Freddie amounts to \$1.6trillion, of which 80 percent is owned by foreign investors including sovereign entities. They were too big to fail.

The fall of Fannie and Freddie was largely attributable to American consumers' lifestyle itself; spending more than earnings. Such negative rate of saving has long been sustained by the continuous rise of the home value, which lifted the credit line available to consumers for more borrowing and spending. Negative rate of saving was made possible by the securitization of housing loans by Fannie and Freddie, and has supported consumer-led US economy as well as economies of the rest of the world. The role of Fannie and Freddie came to an end, and it symbolizes the beginning of an end to the US hegemony in the global economy.

From 1977 to 82 I was living in New Jersey with my wife and a son of pre-school age. We rented the second floor of an Italian family; Salvador was running a grocery store in Manhattan, and Maria was looking after the whole family including their two high school boys. On weekdays I drove to work to a bank office on Wall Street, and on weekends we often had BBQ together in the backyard. Maria took care of our son when we had to go out.

We still kept in touch after we left New York in 1982, and in 1986 we were informed that Salvador passed away. In 1994 my wife had a serious damage in spinal nerves, never to recover in full. When we traveled to New York in 1998 for the first time since we had left there, we paid a surprised visit to Maria. She

welcomed us with a big and warm smile. She liked very much the Japanese craft we brought for her.

Every Christmas we sent a card but she never wrote to us. In September 2008 we paid another surprise visit to Maria. We parked the car in front of Maria's, and she probably heard the sound of the engine. The house door opened, and there stood Maria, smiling full and warm.

She invited us in and asked if we used to live on the second floor. She said she was no more renting out upstairs, and started talking with her familiar casual voice.

Long time ago a Japanese family was renting the second floor. The husband was working in downtown Manhattan; they had a 2 year old son. They were very nice people. After 20 years they suddenly visited me with a very nice Japanese gift. The wife then had problems in legs and couldn't walk well, just like you, Maria said to my wife. They still write to me and I feel so sorry I cannot write back.

When we kissed her farewell, she looked us warmly and said she was sorry she could not remember us. Yes Maria, you do remember us! We live in her memory as she does in ours, forever and ever.

On the way back to Manhattan, Hudson River was as blue and serene as it was 30 years ago. We realized that we came to New York this time to meet ourselves in the past, young and struggling; we could meet them, but now we know they won't be around any longer when we come back next time if at all. Everything comes to an end some day.