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September 8, 2008 1:01 PM

Federal government takes over mortgage buyers Fannie Mae and Freddie Mac

Financial and housing-related companies listed on the Dow Jones Stock Exchange traded heavily today in response to the weekend's federal takeover of mortgage buyers Fannie Mae and Freddie Mac. Treasury department spokesmen are saying that the government had to act to stabilize these giant institutions, and that shareholders may eventually benefit if the housing market recovers. Christopher Thornberg of Beacon Economics told KPCC's AirTalk he's not so sure about that prediction, because the mortgage crisis has so weakened Fannie and Freddie.

Christopher Thornberg: "The kind of losses they're facing on their portfolios are enormous relative to their equity. Equity holders are wiped out. These losses are going to dip into the debt part of their holdings and as a result of that, Uncle Sam's going to have to pony up cash. And there's really, I mean, we should just be realistic about that. This is going to cost taxpayers."

Thornberg said he doubts Fannie Mae and Freddie Mac would have survived without government intervention.

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