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Treasury, Fannie and Freddie Buying MBS but Is It Helping?

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Abstract: As part of its effort to increase liquidity in the mortgage market, in September the Treasury Department purchased \$5.1 billion in Fannie Mae and Freddie Mac mortgage-backed securities.

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Full text: WASHINGTON-The Treasury Department purchased \$5.1 billion in Fannie Mae and Freddie Mac mortgage-backed securities in September as part of its effort to increase liquidity in the mortgage market. After the Federal Housing Finance Agency seized control of Fannie and Freddie on Sept. 7, it directed the two to increase purchases of their own MBS. At press time, the two GSEs had still not reported what their MBS purchases have been under the effort.

So far, it appears that the impact of all this MBS buying has been minimal, at least that's what one analyst says. "They need to be aggressive and more public to impact pricing in this part of the MBS market," said Mahesh Swaminathan, a Credit Suisse mortgage strategist.

Treasury has committed a total of \$10 billion to its MBS purchase program, but it has the "option to purchase more," a Treasury official said.

The department recently hired Barclays Capital and State Street Global Advisers as managers for its GSE MBS program, according to a Credit Suisse report that was later confirmed by Treasury.

Meanwhile, the GSE regulator has denied news reports it directed Fannie and Freddie each to purchase \$20 billion in MBS a month and to purchase subprime and alt-A mortgage-backed securities, which are facing huge delinquencies.

"FHFA has not established a dollar target for such purchases for either company. FHFA has not asked the enterprises to buy private-label securities or mortgages that do not meet prudent underwriting standards," FHFA director James Lockhart said.

Mr. Swaminathan noted that Fannie and Freddie have issued guaranteed MBS backed by alt-A and subprime loans in "specified pools" outside the to be announced market. The GSEs issued their prime MBS through the TBA market. Usually investors pay a premium for these specified pools because of desirable prepayment characteristics.

But recently they have not been trading well, said Mr. Swaminathan.

"It would make sense for the GSEs to buy these things from a relative value standpoint. They could get them at cheaper valuations," the Credit Suisse mortgage strategist said.

He also noted that such purchases would put Fannie and Freddie in a better position to modify the loans for the nonprime borrowers who are having problems making their monthly mortgage payments.

Credit: By Brian Collins

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