

FEDERAL RESERVE BANK of NEW YORK *Serving the Second District and the Nation*

FAQs: Purchasing Direct Obligations of Housing-Related GSEs

The following is intended to address operational questions about the program initially announced by the Federal Reserve on November 25, 2008 expanded on March 18, 2009, and further modified on September 23, 2009 to purchase the direct obligations of housing-related government-sponsored enterprises (GSEs) Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

Effective September 23, 2009

General

What is the policy objective of the Federal Reserve's program to purchase direct obligations of the housing-related GSEs?

The goal of these debt purchases, combined with the purchases of mortgage-backed securities (MBS) backed by Fannie Mae, Freddie Mac and Ginnie Mae announced on November 25, 2008, is to reduce the cost and increase the availability of credit for the purchase of houses. Purchases of housing-related GSE direct obligations are intended to narrow the spreads between rates on GSE direct obligations and U.S. Treasury debt. On March 18, 2009, the FOMC reaffirmed this goal by expanding the GSE direct obligation purchase program by up to \$100 billion, to a total of up to \$200 billion. On September 23, 2009, the FOMC announced its intention to gradually slow the pace of these purchases and to execute them by the end of the first quarter of 2010.

What type of GSE direct obligations will the Federal Reserve purchase under the program?

The Federal Reserve purchases fixed-rate, non-callable, senior benchmark securities issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Prior to August 31, 2009, purchases were focused on off-the-run securities in that category. Going forward, purchases will include on-the-run securities in that category. Subsequently, purchases have included on-the-run securities in that category. This change represented a technical adjustment designed to mitigate market dislocations and to promote overall market functioning. Over the course of the program, the Federal Reserve may change the scope of purchasable securities.

How much will the Desk purchase in any one agency issue?

Desk purchases will not result in SOMA ownership that reduces the availability of agency issues to levels which materially compromise liquidity and market functioning. In addition, the Desk may restrict purchases to ensure that SOMA holdings do not represent an excessively large ownership concentration in any one issue.

Who is eligible to sell GSE direct obligations to the Federal Reserve under the program?

Primary dealers are eligible to transact directly with the Federal Reserve and are encouraged to submit offers for themselves and their customers.

How long will the program be in place?

The program to purchase up to \$200 billion in GSE direct obligations will be in place through the end of the first quarter of 2010.

Are these operations reserve neutral?

No, these operations are financed through the creation of additional bank reserves.

Does the Federal Reserve Bank of New York lend GSE direct obligations purchased as a result of the program?

Yes, direct obligations of housing-related GSEs held in the SOMA portfolio are currently offered for loan in the daily SOMA securities lending auctions.

Auction

How are the auctions conducted?

Auctions are conducted via FedTrade. Awards are based on a multiple-price competitive auction process.

How often does the New York Fed conduct auctions to purchase GSE direct obligations?

On average, purchases of GSE direct obligations occur about once per week, subject to market conditions and holiday schedules. At some point during the first quarter of 2010, the frequency of purchases will be reduced to once every two weeks to promote a smooth transition in markets. The New York Fed announces each auction on its website one business day prior to the auction.

During the first quarter of 2010, the frequency of purchases will be reduced to once every two weeks to promote a smooth transition as these purchases are completed.

How does the New York Fed determine which issues will be included in the auctions?

The New York Fed consults market participants and solicits available inventory from primary dealers in order to determine the list of securities to be included in each auction.

When does the New York Fed announce the auctions?

The New York Fed posts the time and date of the auction and the list of securities to be included in the auction one business day in advance.

How do dealers submit their offers in the auction?

Primary dealers submit their offers via FedTrade once the auction has been opened, or approximately 30 minutes prior to the announced close time. The auctions are normally open for 30 minutes, but may be shortened or extended, at the discretion of the New York Fed.

How many offers can a dealer submit during an auction?

Dealers are limited to three propositions per issue.

What is the minimum amount for which a dealer may submit offers?

The minimum offer size is \$1 million, with a minimum increment of \$1 million.

How does the New York Fed communicate the auction results?

Auction results are posted on the New York Fed website following each auction. The announcement includes the offers received, offers accepted, and amount purchased per issue.

In addition, individual auction results, including accepted offers, are made available via FedTrade to the participating primary dealers. Similar to other outright operations conducted by the New York Fed, pricing information related to transactions are not disclosed publicly.

Whom do dealers call if they experience difficulties during the auction?

Primary dealers may call the New York Fed Trading Desk with submission and verification questions. For system related problems, dealers may call New York Fed Primary Dealer Support at 877-376-9837.

Settlement

When and how does settlement take place?

Securities settlement occurs on a T+1 basis, i.e. one business day after the day of the auction, via the Fedwire Securities system.

[FAQs: September 1, 2009 >>](#)
