



# NATIONAL ASSOCIATION OF REALTORS®

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## FEDERAL GOVERNMENT ACTS TO PROTECT THE GSE HOUSING MISSION AND STABILIZE MARKETS

### FREQUENTLY ASKED QUESTIONS

#### **Q. What is the federal government doing about Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs)?**

A. On Sunday, September 7, 2008, the Director of the Federal Housing Finance Agency (FHFA), James B. Lockhart, announced that he had decided to place Fannie Mae and Freddie Mac into conservatorship, as authorized by the Housing and Economic Recovery Act of 2008 (HERA). FHFA is the new, independent federal regulator of the GSEs and the Federal Home Loan Banks.

#### **Q. What is a conservatorship?**

A. The conservatorship gives Director Lockhart control over the operation of each of the GSEs to put them into sound and solvent conditions. Lockhart now has all the powers of the companies' directors, officers, and shareholders. He has appointed new chief executive officers (CEOs) who report to him.

#### **Q. Why did Lockhart put the GSEs into conservatorship?**

A. Lockhart explained that he was taking action "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their [housing] mission, and mitigate the systemic risk that has contributed directly to the instability in the current market." Even though interest rates have generally gone down over the last year, lower mortgage interest rates have not passed through to borrowers because the GSEs have had to pay more to borrow money, because of their financial problems. Lockhart noted that the GSEs have also raised fees and tightened credit standards because of the pressure to raise capital.

#### **Q. What did the Treasury Department do to stabilize the GSEs' financial condition?**

A. Also on September 7, Treasury Secretary Henry M. Paulson announced three additional steps under the GSE stabilization powers granted by HERA:

1. The Treasury Department has entered into agreements with the GSEs giving it the right to buy their senior preferred stock, as needed, to make sure they maintain a positive net worth. The agreement includes an initial \$1 billion issuance of senior preferred stock with a 10 percent dividend.

2. The Treasury Department has set up the structure for the GSEs to borrow from Treasury if needed to maintain regular business activities.
3. The Treasury Department will purchase GSE mortgage-backed securities (MBSs) in the open market. MBSs are pools of mortgages structured as securities with a GSE guarantee of the prompt payment of principal and interest. The GSEs either sell the MBSs in the financial markets or retain them in their portfolios.

**Q. Why did Lockhart and Paulson act now?**

A. Although both Fannie and Freddie still had sufficient capital to continue operations, questions have been raised about how long it would last. As Lockhart said in his statement, “the capacity of their capital to absorb further losses while supporting new business activity is in doubt.” Another factor is the extremely large amount of GSE debt held by other countries who have been selling it to reduce risk in the face of the GSEs’ financial problems. Major additional selling could have caused significant disruptions to the credit markets, here and abroad.

**Q. What is the impact of the Treasury’s senior preferred stock agreement with the GSEs?**

A. Treasury has agreed to invest up to \$100 billion in each of the GSEs, over time, to assure they each maintains a positive net worth. Treasury has immediately received \$1 billion of senior preferred stock in each of the GSEs and warrants giving it the right to purchase up to 79.9 percent of the common stock. The Treasury’s stock will pay a 10 percent dividend. Dividends on all other common and preferred stock have been suspended. Holders of GSE debt are protected since the GSEs will continue to have a positive net worth.

**Q. What does this mean for Realtors and homebuyers?**

A. Through its actions, the federal government has sent a clear signal that the mission of the GSEs to provide a stable secondary mortgage market must not be interrupted. The GSEs may increase value of the MBSs that they hold in portfolio up to a total of \$850 billion between now and the end of 2009 (with a 10 percent annual reduction after that). This will increase capital available for mortgage lending during the current housing and mortgage downturns. In addition, the Treasury Department will purchase MBSs which will also increase demand for MBSs. Both of these activities will assure a steady flow of mortgage funds, at lower interest rates, which is expected to spur an increase in home sales.

**Q. What does NAR think about the federal intervention?**

A. NAR President Dick Gaylord issued a statement on September 8, 2008, commending Secretary Paulson and Director Lockhart for their bold decisions “to bring stability and continued liquidity to the nation’s mortgage market.” Gaylord noted the critical importance of making sure that the GSE mission is not interrupted. NAR will work with the Administration and Congress to assure that there will continue to be a robust secondary mortgage market in good times and in bad. Continued liquidity in the mortgage market is essential to the health of the economy.

**Q. What's next?**

A. Congress is expected to consider the future of the GSEs starting next year. Restructuring appears to be inevitable. Among others, the options include creating a federal agency to carry out the GSEs' mission, structuring the GSEs as private utilities with a government-established limit on return, and privatizing the GSEs (presumably with a federal agency created to preserve their mission). The statutory authority for the Treasury Department to make loans to, and invest in, the GSEs expires at the end of 2009, so there is a strong incentive for Congress to act before then.

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