

## Housing Government Sponsored Enterprise Programs

### Mission Statement

To provide stability to financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented five programs with respect to two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks (FHLBs). These programs include Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac, a Mortgage-Backed Securities (MBS) Purchase Program limited to such securities issued by Fannie Mae and Freddie Mac, and a credit facility for all three entities. In addition to these programs, Treasury has purchased securities of Fannie Mae and Freddie Mac backed by new housing bonds issued by the Housing Finance Agencies (HFAs), through the New Issue Bond Program (“NIBP”). Treasury also purchased participation interests in temporary credit and liquidity facilities which are obligations of Fannie Mae and Freddie Mac as part of the Temporary Credit and Liquidity Program (“TCLP”) to provide backstop liquidity and credit for state and local HFAs. Together, the TCLP and the NIBP comprise the Housing Finance Agencies Initiative (“HFA Initiative”).

### Program Summary by Budget Activity

(Dollars in Thousands)

Housing GSEs	FY 2010 Enacted	FY 2011 Estimated	FY 2012 Estimated	Change FY10 to FY12 \$ Change	% Change
Preferred Stock Purchase Agreements	\$52,600,000	\$47,500,000	\$28,700,000	(\$18,800,000)	-39.58%
GSE MBS Purchase Program	\$29,877,874	\$0	\$0	\$0	0%
GSE Credit Facility	\$0	\$0	\$0	\$0	0%
New Issue Bond Purchase Program	\$15,308,598	\$0	\$0	\$0	0%
Temporary Credit and Liquidity Program	\$8,209,840	\$0	\$0	\$0	0%

### FY 2012 Priorities

- To provide stability to financial markets.
- To prevent disruptions to the availability of mortgage credit to American homebuyers.
- To maintain investor confidence in the GSEs and in state and local HFAs.
- To restore the capacity of state and local HFAs to provide affordable housing resources to working families at the state and local level.

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## Section 1 – Purpose

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### 1A-Description of Bureau Vision and Priorities

#### **Preferred Stock Purchase Agreements**

The PSPAs were created to instill confidence in investors that Fannie Mae and Freddie Mac would remain viable entities critical to the functioning of the housing and mortgage markets. Investors have purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in the obligations issued or guaranteed by the two housing GSEs and the breadth of these holdings posed a systemic risk to global financial markets.

***Vision:*** The function of the PSPAs is to enhance market stability by providing additional confidence to holders of Fannie Mae and Freddie Mac securities that the GSEs will remain viable entities, which, in turn, leads to increased mortgage affordability. This commitment also eliminates any mandatory triggering of receivership. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer.

***Priorities:*** Market stability is a priority for the Department of the Treasury. In this regard, Treasury has identified the following priorities for mission success:

- To provide stability to the GSE securities market.
- To maintain the viability of the GSEs.

#### **GSE MBS Purchase Program**

The GSE MBS Purchase Program was created to help support the availability of mortgage credit by temporarily providing additional capital to the mortgage market.

***Vision:*** Treasury's investment in GSE MBS, with the size and timing subject to the discretion of the Secretary of the Treasury, was another element of its comprehensive plan to address challenges in the housing markets. By purchasing these credit-guaranteed securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners as well as to promote secondary market stability. The scale of the program was based on developments in the capital markets and housing markets. Given that Treasury can hold these securities to maturity, the spreads between Treasury's cost of funds and GSE MBS yield should result in a positive return to the taxpayer.

***Priorities:***

- To prevent disruptions to the availability of mortgage credit to American homebuyers.
- To mitigate pressures in mortgage markets.
- To provide stability to the mortgage market.

### **GSE Credit Facility**

The GSE Credit Facility was created to ensure credit availability to Fannie Mae, Freddie Mac, and the FHLBs by providing secured funding on an as-needed basis under terms and conditions established by the Treasury Secretary.

**Vision:** The funding was to be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral which was limited to guaranteed MBS issued by Fannie Mae and Freddie Mac as well as advances made by the FHLBs. All such assets pledged against loans were to be accepted with appropriate collateral margins as determined by Treasury. Loans were to be for short-term durations and would in general be expected to be for less than one month, but no shorter than one week. The fee, if the GSE Credit Facility was used, was to be LIBOR + 50 basis points.

### **Priorities:**

- To maintain credit availability to the GSEs.
- To instill confidence in investors that these entities can finance themselves.

### **Housing Finance Agencies Initiative**

State and local Housing Finance Agencies (collectively, the “HFAs”) are agencies or authorities created by state law that are charged with helping persons and families of low or moderate income attain affordable housing. State and local HFAs operate in all 50 states and many cities across the country. HFAs also provide refinancing and modification opportunities to homeowners at risk of foreclosure, to enable them to convert to more affordable and sustainable mortgages. In addition, HFAs serve other functions related to providing affordable housing resources, such as providing homeownership education and allocating low income housing tax credits.

HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families across the country. State and local HFAs have experienced a number of challenges in the course of the housing downturn, including a lack of liquidity support for existing variable rate bonds, credit and cash flow concerns stemming from losses on mortgages and downgrades of re-insurance providers, and an inability to issue new bonds to fund single-family and multi-family loans. Historically, HFAs have funded their activities by issuing tax-exempt mortgage revenue bonds (MRBs), keeping the associated mortgage collateral produced on HFA balance sheets. The bond performance of HFAs has generally been strong. However, due to the uncertainties and strain throughout the housing sector and the widening of spreads in the tax-exempt market, HFAs have experienced challenges in issuing new bonds to fund new mortgage lending. They have also faced difficulties in renewing required liquidity facilities on non-punitive terms.

Overall, market conditions have undermined the ability of the HFAs to maintain their important, Congressionally supported role in the housing market, providing access to affordable mortgage credit for low and moderate-income Americans.

To provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented two programs as part of the Housing Finance Agencies Initiative – the New Issue Bond Purchase Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP).

### **New Issue Bond Program**

The New Issue Bond Program (NIBP) provides temporary financing for HFAs to issue new housing bonds. Treasury purchased securities of Fannie Mae and Freddie Mac backed housing bonds and escrowed funds that may be converted to housing bonds prior to the end of calendar year 2011. This temporarily allows the HFAs to issue an amount of new housing bonds equal to what they would ordinarily have been able to issue with the allocations provided them by Congress but are unable to issue given the challenges in housing and related markets. The program is sized to support several hundred thousand new mortgages to first time homebuyers, as well as refinancing opportunities to put at-risk, but responsible and performing, borrowers into more sustainable mortgages. The NIBP also supports development of tens of thousands of new rental housing units for working families.

***Vision:*** The NIBP provided stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production until the market recovered, the NIBP enables HFAs to keep their lending programs active while they adapted to changing market conditions. The program supports the availability of mortgage credit and affordable rental properties for low and moderate income Americans. Facilitating supply and demand in the housing markets helps to stabilize the housing markets, thereby reducing losses to the Housing GSEs.

### ***Priorities:***

- To provide stability to the housing market.
- To maintain the viability of the GSEs and state and local Housing Finance Agencies.
- To promote availability and affordability of housing resources for low and moderate income Americans.

## **Temporary Credit and Liquidity Program**

Fannie Mae and Freddie Mac administer a Temporary Credit and Liquidity Program (TCLP) for HFAs to help relieve financial strains and enable them to continue to serve their important role in providing housing resources to working families. Treasury purchased a participation interest in the Temporary Credit and Liquidity Facilities (TCLFs) provided to HFAs under the program, providing a credit and liquidity backstop. These temporary credit and liquidity facilities will help the HFAs maintain their financial health and preserve the viability of the HFA infrastructure so that that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

***Vision:*** The TCLP provides stability to financial markets and prevent disruptions in mortgage finance availability by helping HFAs relieve financial strains and enabling them to continue to serve their important role in providing housing resources to working families. The TCLP supports the HFAs through the downturn and gives them time to develop and implement more sustainable financing structures that preserve their critical role in extending mortgage credit to low- and moderate-income Americans.

### ***Priorities:***

- To provide stability to the housing market.
- To maintain the viability of the GSEs and state and local Housing Finance Agencies.
- To promote availability and affordability of housing resources for low and moderate income Americans.

## **1B – Program History and Future Outlook**

Section 1117 of the Housing and Economic Recovery Act of 2008 (Act) authorizes the Treasury to purchase any obligations and other securities issued by Fannie Mae, Freddie Mac, and any Federal Home Loan Bank on such terms and conditions as the Treasury may determine and in such amounts as the Treasury may determine. On September 7, 2008, the Secretary of the Treasury made the determination that the Treasury's exercise of its purchase authority under the Act was necessary to provide stability to the financial markets, prevent disruptions in the availability of mortgage finance, and protect taxpayers.

Prior to Treasury's exercise of authority, the overall conditions in the mortgage and housing markets were challenging for many market participants. Both Fannie Mae and Freddie Mac were exposed to these markets through their guarantees of mortgage backed securities and mortgage investments in their portfolios. As the assets supporting Fannie Mae's and Freddie Mac's guarantee and investment portfolios deteriorated, the costs of raising additional capital and funding themselves had increased, and both companies had experienced challenges in raising capital under these conditions. In addition to the challenges experienced by Fannie Mae and Freddie Mac, the FHLBs' borrowing costs

were also affected, which had repercussions on the availability of mortgage credit in the overall economy.

As noted above, investors have purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because ambiguities in their Congressional charters created a perception of government backing, which fostered enormous growth by these two housing GSEs. Fannie Mae and Freddie Mac were so large and so interwoven in the U.S. financial system that a failure of either of them would have caused significant turmoil in U.S. financial markets and financial markets around the globe. Thus, Treasury exercised its purchase authority under this Act, and created the first three programs described above to avoid the negative impact that the failure of Fannie Mae and Freddie Mac (and the diminished role of the FHLBs) would have on financial markets and the U.S. economy.

In order to further provide stability to financial markets, prevent disruptions in mortgage finance availability, and protect the taxpayers, Treasury exercised its authority under the Act in December 2009 by amending the PSPAs in three ways. First, Treasury replaced the existing fixed \$200 billion cap on Treasury advances with a formulaic cap for the next two years that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below \$200 billion, and will become fixed at the end of two years. Second, Treasury adjusted the retained portfolio runoff requirements such that any reduction will be measured from the \$900 billion total permitted portfolio size for each GSE and the target date for the first 10% reduction was postponed to December 31, 2010. Third, Treasury delayed the periodic commitment fee setting process to December 10, 2010.

The PSPAs provide for purchases in senior preferred stock from each GSE to help ensure that they each maintain a positive net worth. The three changes to the PSPAs described above will further provide market stability by providing additional confidence to GSE debt holders and will further prevent disruptions in mortgage availability by providing additional confidence to investors in GSE mortgage-backed securities.

In designing these three changes to the PSPAs, specific steps were taken to protect the taxpayer. In particular, consideration was given to the six factors set forth in the Act.

*The need for preferences or priorities* – The PSPAs continue to protect the taxpayer by providing the Treasury with senior preferred stock that has a liquidation preference over all other classes of equity, including existing preferred stock. The PSPAs also continue to protect the taxpayer by: (i) prohibiting Fannie Mae and Freddie Mac from issuing any additional subordinated debt; and (ii) restricting Fannie Mae and Freddie Mac from increasing the aggregate amount of their indebtedness to more than 120% of the amount of their permitted mortgage portfolio size as of December 31, 2010. In addition, the terms of the PSPAs require Fannie Mae and Freddie Mac to remit to Treasury the net proceeds from the issuance of any equity which is to be applied to redeem amounts outstanding under the liquidation preference (and which shall be applied first against any accrued and unpaid dividends).



*Limits on maturity or disposition of obligations or securities* – In considering the appropriate limits on the duration of the PSPAs, it was determined that, in order to facilitate market stability, the PSPAs should continue until the earlier of reaching a formulaic cap that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below \$200 billion or until all liabilities of Fannie Mae and Freddie Mac have been satisfied. In addition, beginning in 2011 the Treasury will charge the GSEs a periodic commitment fee that is payable quarterly to compensate the taxpayers for the ongoing support provided to the GSEs under the terms of the PSPAs.

*Enterprise plans for orderly resumption of private market funding or capital market access* – Under conservatorship, the PSPAs allow for Fannie Mae and Freddie Mac to continue operating as going concerns by maintaining a positive net worth in each company, which allows for continued access to debt markets and preserves potential future capital market access.

*Probability of the Enterprises and the FHLBs fulfilling the terms of their obligations* – The structure of the PSPAs, with their liquidation preference over all other equity, including preferred equity, combined with the PSPAs' restrictions on debt issuance, enhance the probability of both Fannie Mae and Freddie Mac ultimately repaying amounts owed.

*Need to maintain the Enterprises' and the FHLBs' status as private shareholder-owned companies* – Fannie Mae and Freddie Mac may emerge from conservatorship to resume independent operations, or they may emerge in some other form reflecting legislative changes to their congressional charters. Conservatorship preserves the status and claims of the preferred and common shareholders. The value of the warrants issued to the government under the terms of the PSPAs could potentially increase, thereby providing enhanced value to the taxpayers. Upon the government's exercise of the warrants, the GSEs would be required under the terms of the PSPAs to apply the net cash proceeds to pay-down the liquidation preference of the senior preferred stock.

*Restrictions on the use of corporation resources* – The terms of the PSPAs prohibit Fannie Mae and Freddie Mac from declaring any dividends on outstanding preferred or common stock until the senior preferred stock has been fully redeemed. The PSPAs also prohibit the redemption of any outstanding preferred or common stock without the prior consent of the Treasury until the senior preferred stock has been fully redeemed. The PSPAs require that the Director of FHFA consult with the Treasury before entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation agreements with certain executive officers.



## **Preferred Stock Purchase Agreements**

**Program History:** During FY 2008, the Department of the Treasury entered into agreements with Fannie Mae and Freddie Mac. The agreements are indefinite in duration and have a funding commitment limit of \$100 billion each. These agreements were subsequently amended to have a funding commit limit of \$200 billion each, and further amended in December, 2009, to replace the fixed-dollar-amount funding commitment limit with a formulaic limit that will automatically adjust upward quarterly by the amount of any cumulative reduction in net worth over the next three years. In exchange for entering into these agreements with these two GSEs, Treasury immediately received \$1 billion of senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully-diluted basis at a nominal price. No taxpayer money was spent to receive the senior preferred stock.

**Program Outlook:** Treasury estimates that it will make \$47.5 billion in payments under its funding commitment in FY 2011 and \$28.7 billion in FY 2012.

## **GSE MBS Purchase Program**

**Program History:** During September 2008, Treasury designated private sector firms as its financial agents to act as asset managers and custodian. Treasury began to fund the GSE MBS purchase program in September 2008, and the first purchases were made by Treasury's agents in the third week of September 2008. Program activity was initially reported in the Monthly Treasury Statement but is now also published in a more detailed form on [FinancialStability.gov](http://FinancialStability.gov).

**Program Outlook:** Treasury purchased nearly \$29.9 billion under its authority for this program in FY 2010 which was the last fiscal year in which purchase authority was available. Treasury's authority to purchase securities under the program expired on December 31, 2009.

## **GSE Credit Facility**

**Program History:** This program would have provided liquidity if needed until December 31, 2009, but it was not been needed.

**Program Outlook:** Treasury did not use this program in FY 2011 as Treasury's authority to originate loans under the program expired on December 31, 2009.

## **Housing Finance Agencies Initiative**

The Housing and Economic Recovery Act of 2008 signed into law on July 30, 2008, included authority for the Secretary of the Treasury to purchase obligations of the Housing GSEs. These entities include: Fannie Mae, Freddie Mac, and the FHLBs. On October 19, 2009, Treasury announced the Housing Finance Agencies Initiative, including the New Issue Bond Program and the Temporary Credit and Liquidity Program.

In designing these two initiatives, specific steps were taken to protect the taxpayer. In particular, consideration was given to the six factors set forth in the Act as discussed below.

*The need for preferences or priorities* – The Housing GSEs are participating in the TCLP and NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under both the TCLP and the NIBP, participating HFAs pay the Housing GSEs and Treasury a fee designed to credit cover risk posed by the HFA. In addition, both the TCLP and the NIBP are designed to maintain the health of the HFAs while still protecting the taxpayer. The fee for HFAs to use the TCLP increases over time. This increasing cost to the HFAs will encourage the HFAs to transition from the TCLP to private market financing alternatives as quickly as possible. Before the HFAs can use the NIBP to issue bonds purchased by the GSEs, they are required to sell to the private market an amount of shorter-term bonds in a ratio equal to 40 percent of aggregate bond proceeds, with the other 60 percent of bonds represented by the bonds purchased through NIBP.

*Limits on maturity or disposition of obligations or securities* – The duration and maturities of the obligations undertaken by the Housing GSEs have been set in a manner that is consistent with commercially reasonable practices. Treasury can at any time, e.g., when the secondary market for HFA housing bonds recovers, instruct the issuing Housing GSE to dissolve any GSE security that Treasury has purchased, at which time the Housing GSE will deliver the underlying HFA housing bonds to Treasury's designee for resale.

*Housing GSEs' plans for orderly resumption of private market funding or capital market access* – Under conservatorship, Fannie Mae and Freddie Mac continue to operate as going concerns, and the issuance of the Senior Preferred Stock Purchase Agreement, and Treasury's corresponding commitment of funding for the next two years so that each Housing GSE maintains a positive net worth, should continue to strengthen their ability to secure financing in the capital markets. The Housing GSEs and FHFA have assessed the NIBP and TCLP programs as being commercially reasonable, so the Housing GSEs will be executing these programs through commercially reasonable capital markets transactions. We don't envision any negative impact on the Housing GSEs' resumption of private market funding or capital market access from executing the HFA Initiative.

*Probability of the Housing GSEs fulfilling the terms of their obligations* - The pricing and fee structure of the TCLP and NIBP were designed to be commercially reasonable, and

allow the Housing GSEs to fully cover all costs of the programs. Therefore, it is expected that the Housing GSEs will be able to fulfill all of their obligations under the HFA Initiative. The HFA Initiative will be funded by fees paid by the HFAs to the Housing GSEs.

*Need to maintain the Housing GSEs' status as private shareholder-owned companies –* Both the TCLP and NIBP have been entered into by the Housing GSEs with the approval of FHFA on commercially reasonable terms. Based on pricing and the fee schedule for both programs, the Housing GSEs expect a commercially reasonable return from participating in these programs. We don't envision any negative impact to the Housing GSEs or shareholders from executing the HFA Initiative.

*Restrictions on the use of corporation resources –* Fannie Mae and Freddie Mac have already been made subject to executive compensation restrictions. The TCLP and NIBP do not place additional restrictions on the use of corporation resources.

### **New Issue Bond Program**

**Program History:** During FY 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. The Housing GSEs are participating in the NIBP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under the terms of the NIBP, Treasury has purchased GSE securities backed by housing bonds issued by the state and local HFAs as well as some proceeds which are in escrow pending the issuance of additional HFA housing bonds.

**Program Outlook:** Treasury purchased approximately \$15.3 billion under its authority for this program in FY 2010. Treasury's authority to enter additional purchase commitments under the program expired on December 31, 2009, however the funds remaining in escrow may continue to be used for the issuance of new housing bonds through December 31, 2011.

## **Temporary Credit and Liquidity Program**

**Program History:** During FY 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. The Housing GSEs are participating in the TCLP based on an assessment by the Housing GSEs and the FHFA that these are commercially reasonable transactions for the Housing GSEs to undertake. Under the terms of the TCLP, Treasury purchased participation interests in GSE liquidity facilities available for outstanding housing bonds issued by state and local HFAs. \$8.2 billion has been allocated to state and local HFAs through the TCLP to use the credit and liquidity facilities.

**Program Outlook:** Treasury incurred nearly \$8.2 billion in obligations in FY 2010 that will remain open in FY 2011 and FY 2012. However, this obligation will diminish over time as HFAs redeem the bonds in the program or transition to private market liquidity providers. Treasury's authority to enter additional obligations under the program expired on December 31, 2009.

## Section 2 – Budget Adjustments and Appropriation Language

### 2.1 Summary of Appropriation Highlights

<b>Total Housing GSE Assistance Program Summary of Appropriation Highlights (dollars in thousands)</b>			
<b>Preferred Stock and Program Accounts</b>	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Estimate</b>
<b>Obligations:</b>			
Preferred Stock Purchase Account	\$52,600,000	\$47,500,000	\$28,700,000
HFA Initiative and GSE MBS Purchase Program Account	\$21,000	\$27,920	\$17,000
<b>Total Obligations</b>	<b>\$52,821,000</b>	<b>\$47,527,920</b>	<b>\$28,717,000</b>
<b>Budget Resources:</b>			
Preferred Stock Purchase Account	\$304,400,000	\$251,800,000	\$204,300,000
HFA Initiative and GSE MBS Purchase Program Account	\$29,000	\$27,920	\$17,000
<b>Total Budgetary Authority</b>	<b>\$304,429,000</b>	<b>\$251,827,920</b>	<b>\$204,317,000</b>
<b>Outlays:</b>			
Preferred Stock Purchase Account	\$52,600,000	\$47,500,000	\$28,700,000
HFA Initiative and GSE MBS Purchase Program Account	\$29,000	\$27,920	\$17,000
<b>Total Outlays</b>	<b>\$52,689,000</b>	<b>\$47,527,920</b>	<b>\$28,717,000</b>

### 2.2 Financing Accounts- Non-Budgetary Summary

<b>Financing Accounts – Non-Budgetary Financial Summary (dollars in thousands)</b>			
	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Estimate</b>
<b>GSE MBS Direct Loans:</b>			
Obligations	\$45,292,000	\$5,336,000	\$6,512,000
Collections	\$48,602,000	\$41,397,000	\$39,201,000
Financing Authority(net)	\$8,791,000	-\$33,742,000	-\$35,008,000
Financing Disbursements(net)	-\$3,310,000	-\$39,270,000	-\$32,229,000
<b>HFA Initiative:</b>			
Obligations	\$23,739,000	\$225,000	\$261,000
Collections	\$223,000	\$1,976,000	\$3,097,000
Financing Authority(net)	\$24,684,000	-\$1,976,000	-\$2,836,000
Financing Disbursements(net)	\$15,943,000	\$1,373,000	-\$2,836,000

## **2B – Appropriations Language and Explanation of Changes**

The Housing Government Sponsored Enterprise Programs and the Housing Finance Agencies Initiative Programs do not receive any discretionary appropriation authority from the Congress. Therefore, no appropriations language is proposed.

## **2C – Legislative Proposals**

There are no current proposals for amending the enacting legislation.

## **2D – Probability of Repayment**

At the end of December, 2009, Treasury closed on all GSE MBS, NIBP and TCLP transactions. All three programs had a negative subsidy estimate at the time of purchase/obligation meaning anticipated net receipts for the government is in excess of outlays. Subsequent re-estimates have led to a positive subsidy estimate for the NIBP. Such changes in the NIBP estimate were a result of cash flows on actual bond issuances being timed in a manner different from the timing originally modeled as well as the fact that the present value factors used to model Treasury's cost of capital changed. Future re-estimates pending the formulation of a disposition strategy may cause the subsidy to return to being negative. The subsidy estimates for the TCLP and MBS Purchase program, however, remain negative.

## Section 3 – Budget and Performance Plan

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This table lists all FY 2012 resources by strategic goal, objective and outcome outlined in the FY 2007-2012 Treasury Department Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to: [http://www.treasury.gov/offices/management/budget/strategic\\_plan.shtml](http://www.treasury.gov/offices/management/budget/strategic_plan.shtml)

### 3.1 – Budget by Strategic Outcome

(Dollars in Thousands)

Treasury Strategic Outcome	FY 2010 Actual	FY 2011 Estimate	FY 2012 Estimate	% Change FY11 to FY12
Stabilizing Economy- PSPA	\$52,600,000	\$47,500,000	\$28,700,000	<b>-39.58%</b>
Stabilizing Economy- MBS	0	0	0	<b>0%</b>
Stabilizing Economy- Credit Facility	0	0	0	<b>0%</b>
Stabilizing Economy- NIBP	0	0	0	<b>0%</b>
Stabilizing Economy- TCLP	0	0	0	<b>0%</b>

**3A – Preferred Stock Purchase Agreements** (*No funding*): The function of the PSPAs is to instill confidence in investors that Fannie Mae and Freddie Mac will remain viable entities critical to the functioning of the housing and mortgage markets. Treasury entered into a PSPA with each GSE to ensure that each enterprise maintains a positive net worth.

This measure enhances market stability by providing additional confidence to holders of Fannie Mae and Freddie Mac securities, which, in turn, leads to increased mortgage affordability. This commitment also eliminates any mandatory triggering of receivership. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

In exchange for entering into these agreements with the GSEs, Treasury received \$1 billion on senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully-diluted basis at a nominal price. The senior preferred stock accrues dividends at 10 percent per year. The rate will increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

Beginning March 31, 2011, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support



provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultations with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.

### **3.2.1 – Preferred Stock Purchase Agreement Budget and Performance Plan**

#### *Description of Performance:*

PSPA program offices track metrics to assess Fannie Mae and Freddie Mac's health and contribution to mortgage market stability. To assess the contribution of Fannie Mae and Freddie Mac to mortgage availability, the Housing GSE program tracks the percentage of agency MBS issuance of total MBS issuance and the dollar volume of mortgage purchases by the GSEs. During FY 2009, the majority of MBS were originated by the GSEs, contributing substantially to the stabilization of housing markets. To assess program management and ensure the stability of the GSEs, the program tracks the condition of the GSEs in coordination with the FHFA and makes PSPA disbursements as necessary. Increasing stability in the housing market has resulted in declining disbursements to the GSEs in recent quarters. Projected disbursements for FY 2011 and FY 2012 are \$47.5 billion and \$28.7 billion, respectively.

**3B – GSE MBS Purchase Program** (*No funding*): The function of the GSE MBS Purchase Program was to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury purchased GSE MBS in the open market. By purchasing these guaranteed securities, Treasury sought to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

The size and timing of this program was subject to the discretion of the Secretary of the Treasury. The scale of the program was based on developments in the capital markets and housing markets. Given that Treasury can hold these securities to maturity, the spreads between Treasury issuances and GSE MBS should result in a positive return to the Taxpayer.

Treasury has designated independent asset managers as financial agents to undertake the purchase and management of portfolio of GSE MBS on behalf of Treasury. The portfolios are managed with clear investment guidelines and investment objectives. The primary objectives of this portfolio are to promote market stability, ensure mortgage availability, and protect the taxpayer.

Treasury purchases of GSE MBS were deemed as outlays, and the debt incurred to fund the purchases is subject to the statutory debt limit. However, Treasury is receiving an income producing asset in return for its invested funds.

Treasury does not have the authority to purchase GSE MBS beyond December 31, 2009.

### **3.2.2 – GSE MBS Purchase Program Budget and Performance Plan**

*Description of Performance:*

The MBS Purchase Program utilizes a broad range of market indicators in daily operations to ensure funds support mortgage availability for both current and prospective homeowners and promote secondary market stability. The program also utilizes risk assessment techniques, including scenario analysis and cash flow forecasts, to ensure zero principal loss on outlays. Risk management practices will constitute the bulk of program operations in FY 2012, as no additional purchases beyond December 31, 2009 are currently permitted under law.

**3C – GSE Credit Facility** (*No funding*): The function of the GSE Credit Facility was to maintain credit availability to the housing GSEs by providing secured funding on an as needed basis under terms and conditions established by the Secretary of the Treasury to protect taxpayers. Fannie Mae, Freddie Mac, and FHLBs were eligible to borrow under this program if needed. This facility offered liquidity if needed until December 31, 2009. Treasury did not use this program in FY 2010.

Funding was to be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral from the GSEs which was limited to guaranteed mortgage backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the FHLBs. All such assets pledged against loans were to be accepted with appropriate collateral margins as determined by Treasury.

Loans were to be for short-term durations and were in general expected to have been for less than one month but no shorter than one week. The rate on a loan request ordinarily was to be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points. The rate was to be set at the discretion of the Secretary of the Treasury with the objective of protecting the taxpayer, and was to be subject to change. All loans were to be collateralized and collateral was limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the FHLBs. Loans were not to have been made with a maturity date beyond December 31, 2009.

### **3.2.3 – GSE Credit Facility Budget and Performance Plan**

*Description of Performance:*

As the Credit Facility has been terminated, there are no related performance metrics for this program.

**3D – New Issue Bond Program** (*No funding*): The function of the NIBP is to provide stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production until the market can recover, the NIBP enables HFAs to keep their lending programs active while they adapt to changing market conditions. The program will support the availability of mortgage credit and affordable rental properties for low and moderate income Americans.

***Program sized to meet demand.*** HFAs submitted detailed program participation requests to Treasury’s financial agents. In order to haircut the NIBP requests to an acceptable level that could be recommended for adoption, a methodology was developed and applied to arrive at final allocation recommendations under the program for state and local HFAs. The allocation methodology was based primarily on the 2008 HERA allocations to HFAs and historical HFA issuance.

***Support for both single-family and multi-family bonds.*** HFAs were able to request that a portion or all of their NIBP allocation be used to issue single or multi-family bonds. The amount of multi-family bond issuance is subject to a cap at the program level. Two types of multi-family bonds are allowed under the program: bonds that finance single-projects and bonds where proceeds can be used to finance multiple-projects that are approved or guaranteed by Fannie Mae, Freddie Mac, or the Federal Housing Administration. Both single-family and multi-family bond issuance are also subject to additional requirements.

***Protecting taxpayers.*** HFAs pay the GSEs and Treasury an amount intended to cover both the cost of financing the newly issued bonds as well as a fee designed to cover risk posed by the HFA. Generally speaking, the interest rate on newly issued HFA bonds will be set to equal a short-term Treasury interest rate for the period in which the proceeds are held in reserve before being drawn down by the HFAs to originate mortgages. Within 60 days of the proceeds being drawn down, the interest rate on the bond will increase to cover Treasury’s cost of financing (set at the 10-year Treasury rate) plus the additional fee designed to offset risk to the taxpayer.

***Required sale of bonds to private market to impose market discipline and further leverage investment.*** The proceeds from issued bonds were placed in escrow until used by the HFAs to fund new mortgages in 2010 or 2011. Before the HFAs can use the proceeds, they are required to sell to the private market an amount of shorter-term bonds in a ratio equal to 40 percent of aggregate bond proceeds, with the other 60 percent of bonds represented by the bonds purchased through NIBP. This means that our temporary investment will be leveraged to create even more low-rate mortgages for working families, while at the same time using market discipline to help mitigate risk to the taxpayer.

### 3.2.4 – New Issue Bond Program Budget and Performance Plan

#### *Description of Performance:*

Treasury and its financial agents continue to monitor the housing markets as well as other indicators which have an impact on the HFAs. Through monitoring these indicators, as well as the performance of the HFAs, Treasury will assess the relative health of the HFAs in FY 2012. No additional assistance beyond December 31, 2009 is currently permitted under law.

**3E – Temporary Credit and Liquidity Program** (*No funding*): The function of the TCLP is to help relieve current financial strains for HFAs and enable them to continue to serve their important role in providing housing resources to working families. The TCLP provides HFAs with temporary credit and liquidity facilities to preserve the viability of the HFA infrastructure so that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

***Reducing costs of maintaining existing financing for HFAs.*** Through Fannie Mae and Freddie Mac, the TCLP provides replacement credit and liquidity facilities to HFAs that will help reduce the costs of maintaining existing financing for the HFAs. Treasury backstops the replacement liquidity by purchasing a participation interest in the GSE temporary credit and liquidity facilities for the HFAs using HERA authority.

***Program sized to meet demand.*** HFAs submitted detailed program participation requests to Treasury’s financial agents for the Temporary Credit and Liquidity Program (TCLP). No allocation process was required because requests came in at a total below the program cap.

***Protecting Taxpayers.*** The HFAs pay the GSEs and Treasury a fee designed to cover risk posed by the HFA. Other specific features of the program are also designed to maintain the health of the HFAs while still protecting the taxpayer, such as limiting the requirement for accelerated amortization of principal for bonds that end up being put to the GSEs under the program.

***Temporary solution, with incentives for HFAs to quickly transition back to market financing.*** The fee for HFAs to use the TCLP increases over time. This increasing cost to the HFAs encourages the HFAs to transition from the TCLP to private market financing alternatives as quickly as possible.

***Terms designed to facilitate sustainable business models for housing agencies.*** The liquidity facilities under the TCLP program are only available for outstanding bonds.

### **3.2.5 – Temporary Credit and Liquidity Program Budget and Performance Plan**

*Description of Performance:*

Treasury and its financial agents continue to monitor the housing markets as well as other indicators which have an impact on the HFAs. Through monitoring these indicators, as well as the performance of the HFAs, Treasury will assess the relative health of the HFAs in FY 2012. No additional assistance beyond December 31, 2009 is currently permitted under law.