

# Housing Government Sponsored Enterprise Programs

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## Mission Statement

To provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury has implemented three programs with respect to the Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, and 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 Treasury credit facility for all three entities.

## Program Summary by Budget Activity

(Dollars in Thousands)

Housing Government Sponsored Enterprise Programs	Activity	FY 2008	FY 2009	FY 2010		
		Actual	Estimated	Estimated	\$ Change	% Change
Preferred Stock Purchase Agreements	Obligations	\$0	\$105,900,000	\$41,293,000	(\$64,607,000)	-61.01%
GSE MBS Purchase Program	Securities Purchased	\$5,000,000	\$249,000,000	\$60,000,000	(\$189,000,000)	-75.90%
GSE Credit Facility	Loan Levels	\$0	\$0	\$0	\$0	0%

## FY 2010 Priorities

- To promote stability in financial markets.
- To improve the availability of mortgage credit to American homebuyers.
- To ensure investor confidence in the GSEs.

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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 purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because they perceived that the GSEs were implicitly backed by the U.S. Government. This perception may have contributed to the enormous growth in the obligations issued or guaranteed by these two housing GSEs, and the breadth of these holdings posed a systemic risk to global financial markets. The U.S. government entered into the PSPAs with Fannie Mae and Freddie Mac as part of its efforts to avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

***Vision:*** The focus of the PSPAs is to enhance market stability by providing additional security to holders of Fannie Mae and Freddie Mac securities that the GSEs will remain viable entities, leading to continued purchases of their debt and increased mortgage affordability. This commitment also significantly diminishes the potential for 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 promote stability of the GSE securities market.
- To ensure 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, is another element of its comprehensive plan to address challenges in the housing markets. By purchasing these credit-guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability. The scale of the program will be 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 indicate that there is little likelihood to expect taxpayer losses from this program, and, in fact, the program could produce gains.

***Priorities:***

- To improve the availability of mortgage credit to American homebuyers
- To mitigate pressures in mortgage markets
- To promote stability of 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. Treasury does not expect to use this program in FY 2010.

***Vision:*** Any loans issued to the GSEs would be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York in exchange for eligible collateral, 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 would be accepted with appropriate collateral margins as determined by Treasury. Loans would be for short-term durations and would in general be expected to have a maturity of less than one month, but no shorter than one week. The established interest rate for any loans issued through the credit facility is LIBOR + 50bp.

***Priorities:***

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

**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 purchased securities issued or guaranteed by Fannie Mae and Freddie Mac in part because they perceived that the GSEs were implicitly backed by the U.S. Government. 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 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 designing these three programs, 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 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. Beginning in 2010, Treasury will have the ability to charge a periodic commitment fee that will be payable quarterly to compensate the taxpayers for the ongoing support provided to Fannie Mae and Freddie Mac under the terms of the PSPAs. The PSPAs also protect the taxpayer by limiting the amount of debt obligations and setting forth repayment requirements.

*Limits on maturity or disposition of obligations or securities* – Any loans made under the GSE Credit Facility will have a short-term duration and will be fully collateralized. The eligible collateral for loans made to the enterprises will generally be limited to enterprise MBS collateral. There will be adequate haircuts on the collateral to provide additional protection to the taxpayer as well as discretion to change if necessary. In considering the appropriate limits on the duration of the PSPAs, to facilitate market stability the PSPAs continue until the earlier of the cap being reached or until all liabilities of Fannie Mae and Freddie Mac have been satisfied. Under the GSE MBS Purchase Program, no taxpayer losses are expected given the spread between Treasury issuances and purchased MBS, and Treasury's ability to hold MBS purchases to maturity.

*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 terms of the GSE Credit Facility with regard to the short-term duration, eligible collateral, and haircuts make it likely that the regulated entities will be able to fulfill their obligations. With regard to the PSPAs, the terms of the Senior Preferred Stock with its

liquidation preference over all other equity, including preferred equity, 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* – While the PSPAs provide Treasury with various forms of compensation (e.g., initial grant of preferred stock and warrants), Fannie Mae and Freddie Mac remain 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 determined by Congress. Conservatorship preserves the status and claims of the preferred and common shareholders. Moreover, the terms of the collateralized short term loans made under the GSE Credit Facility to the FHLBs are consistent with the need to maintain their status as private shareholder-owned companies.

*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 Purchase Agreements 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. In addition, the PSPAs have procedures in place to address executive compensation.

### **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 capacity of \$100 billion each. 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% 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 will amend the PSPAs to \$200 billion each from their original levels of \$100 billion each. Treasury estimates that it will make \$105.9 billion in payments under its funding commitment in FY 2009 and \$41.3 billion in FY 2010.

### **GSE MBS Purchase Program**

**Program History:** During September 2008, Treasury designated private sector firms to act as its financial agents 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 reported in the Monthly Treasury Statement. \

**Program Outlook:** Treasury estimates that it will make \$249 billion in purchases under its authority for this program in FY 2009 and \$60 billion in FY 2010.

## **GSE Credit Facility**

**Program History:** This program will provide liquidity if needed until December 31, 2009, but it has not been needed.

**Program Outlook:** Treasury does not expect to use this program in FY 2009 or FY 2010.

## 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>					
Preferred Stock and Program Accounts	2008 Actual	2009		2010 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
<b>Obligations:</b>					
Preferred Stock Purchase Account	\$0	\$0	\$105,900,000	\$41,293,000	-\$64,607,000
GSE MBS Purchase Program Account	\$0	\$0	\$50,000	\$13,000	-\$37,000
<b>Total Obligations</b>	<b>\$0</b>	<b>\$0</b>	<b>\$105,950,000</b>	<b>\$41,306,000</b>	<b>-\$64,644,000</b>
<b>Budget Authority:</b>					
Preferred Stock Purchase Account	\$200,000,000	\$0	\$200,000,000	\$0	-\$200,000,000
GSE MBS Purchase Program Account	\$0	\$0	\$50,000	\$13,000	-\$37,000
<b>Total Budgetary Authority</b>	<b>\$200,000,000</b>	<b>\$0</b>	<b>\$200,050,000</b>	<b>\$13,000</b>	<b>-\$200,037,000</b>
<b>Outlays:</b>					
Preferred Stock Purchase Account	\$0	\$0	\$105,900,000	\$41,293,000	-\$64,607,000
GSE MBS Purchase Program Account	\$0	\$0	\$50,000	\$13,000	-\$37,000
<b>Total Outlays</b>	<b>\$0</b>	<b>\$0</b>	<b>\$105,950,000</b>	<b>\$41,306,000</b>	<b>-\$64,644,000</b>

### 2.2 Summary of Mandatory Receipts

<b>Summary of Mandatory Receipts (dollars in thousands)</b>					
Preferred Stock Account	2008 Actual	2009		2010 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
<b>Mandatory Receipts:</b>					
Preferred Stock Dividend Receipt Account	\$0	\$0	\$4,421,000	\$6,680,000	\$2,259,000
<b>Total Receipts</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,421,000</b>	<b>\$6,680,000</b>	<b>\$2,259,000</b>



### 2.3 Financing Accounts- Non-Budgetary Summary

<b>Financing Accounts – Non-Budgetary Financial Summary</b>					
(dollars in thousands)					
	2008 Actual	2009		2010 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
<b>GSE MBS Direct Loans:</b>					
Obligations	\$5,415,000	\$0	\$266,925,000	\$75,414,000	-\$191,511,000
Collections	\$335,000	\$0	\$16,313,000	\$67,606,000	\$51,293,000
Financing Authority (net)	\$5,415,000	\$0	\$250,639,000	\$7,808,000	-\$242,831,000
Financing Disbursements (net)	\$5,074,000	\$0	\$250,639,000	\$7,808,000	-\$242,831,000

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

The Housing Government Sponsored Enterprise 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.

## Section 3 – Budget and Performance Plan

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This table lists all FY 2010 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 2009 Estimated AMOUNT	FY 2010 Estimated AMOUNT	Percent Change AMOUNT
Stabilizing Economy- PSPA	105,900,000	\$41,293,000	-61.01%
Stabilizing Economy- MBS	249,000,000	60,000,000	-75.90%
Stabilizing Economy- Credit Facility	0	0	0%

**3A – Preferred Stock Purchase Agreements** (*\$41,293,000,000 in obligations*): 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 security to holders of Fannie Mae and Freddie Mac securities, which, in turn, leads to increased mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also significantly diminishes the potential for 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% of the common stock of each GSE on a fully-diluted basis at a nominal price. The senior preferred stock accrues dividends at 10% per year. The rate will increase to 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

Beginning March 31, 2010, 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:*

Performance metrics are currently in development for the Housing Government Sponsored Enterprise Programs. Finalization of program metrics is expected by the end of the third quarter of FY 2009.

**3B – GSE MBS Purchase Program** (\$60,000,000,000 in purchases): The function of the GSE MBS Purchase Program is 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 has purchased GSE MBS in the secondary 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 is subject to the discretion of the Secretary of the Treasury. The scale of the program is 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 indicate that there is little likelihood to expect taxpayer losses from this program, and, in fact, it could produce gains.

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

Treasury's authority to purchase GSE MBS expires on December 31, 2009.

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

#### *Description of Performance:*

Performance metrics are currently in development for Housing Government Sponsored Enterprise Programs. Finalization of program metrics is expected by the end of the third quarter of FY 2009.

**3C – GSE Credit Facility** (*No funding*): The function of the GSE Credit Facility is to ensure 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 are eligible to borrow under this program if needed. This facility offers liquidity if needed until December 31, 2009. Treasury does not expect to use this program in FY 2010.

Funding for any loans would 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, 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 would be accepted with appropriate collateral margins as determined by Treasury.

Loans would 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 rate on a loan request ordinarily would be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points. The rate is set at the discretion of the Secretary of the Treasury with the objective of protecting the taxpayer, and is subject to change. Loans will not be made with a maturity date beyond December 31, 2009.

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

#### *Description of Performance:*

Performance metrics are currently in development for Housing Government Sponsored Enterprise Programs. Finalization of program metrics is expected by the end of the third quarter of FY 2009.