

# PLACEHOLDER

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# Federal Housing Finance Agency



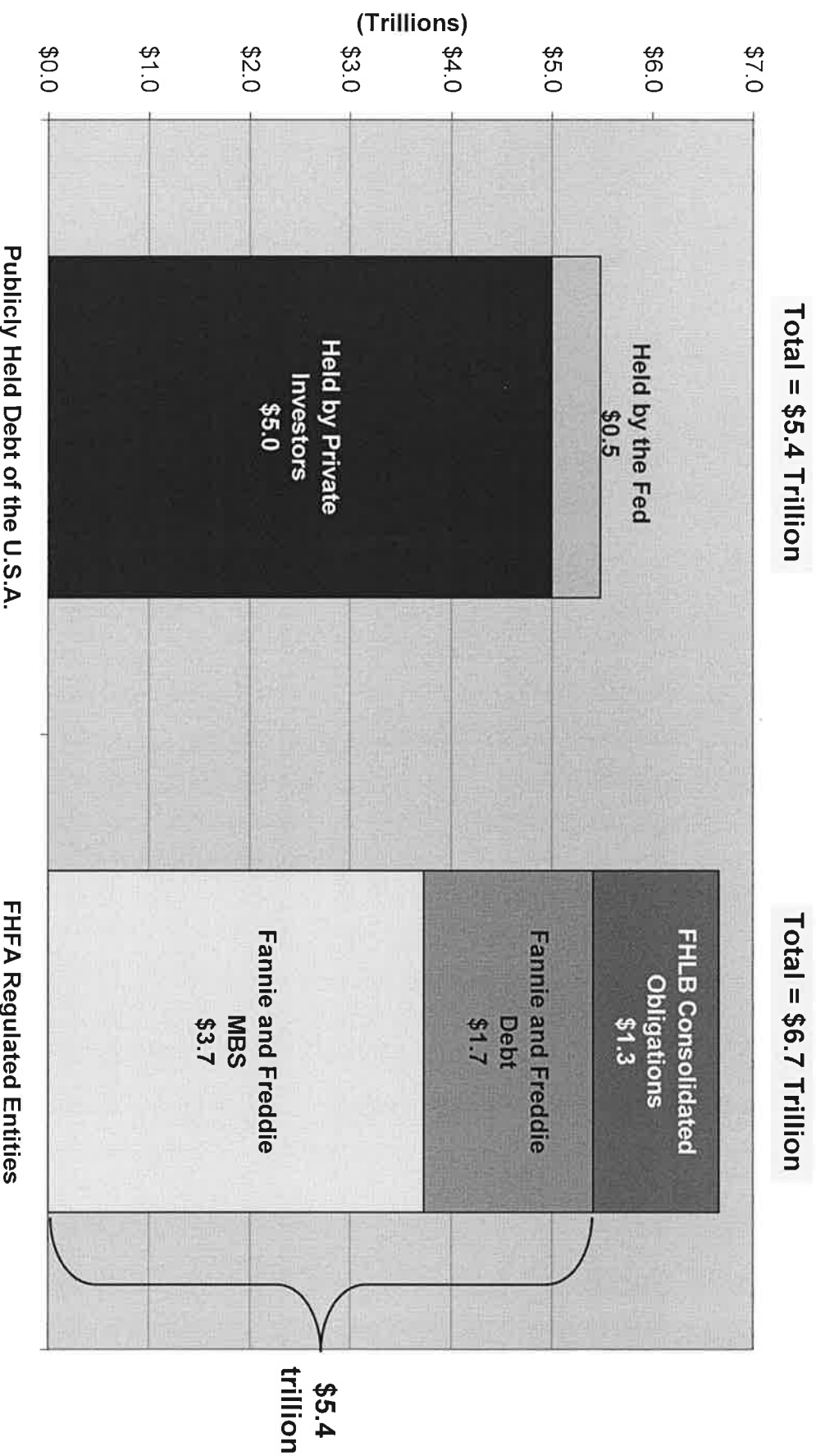
**ABS EAST**

**OCTOBER 20, 2008**

# Housing GSEs Exceed the Public U.S. Debt

FHFA

## Relative Size of Enterprise Obligations (August 2008)

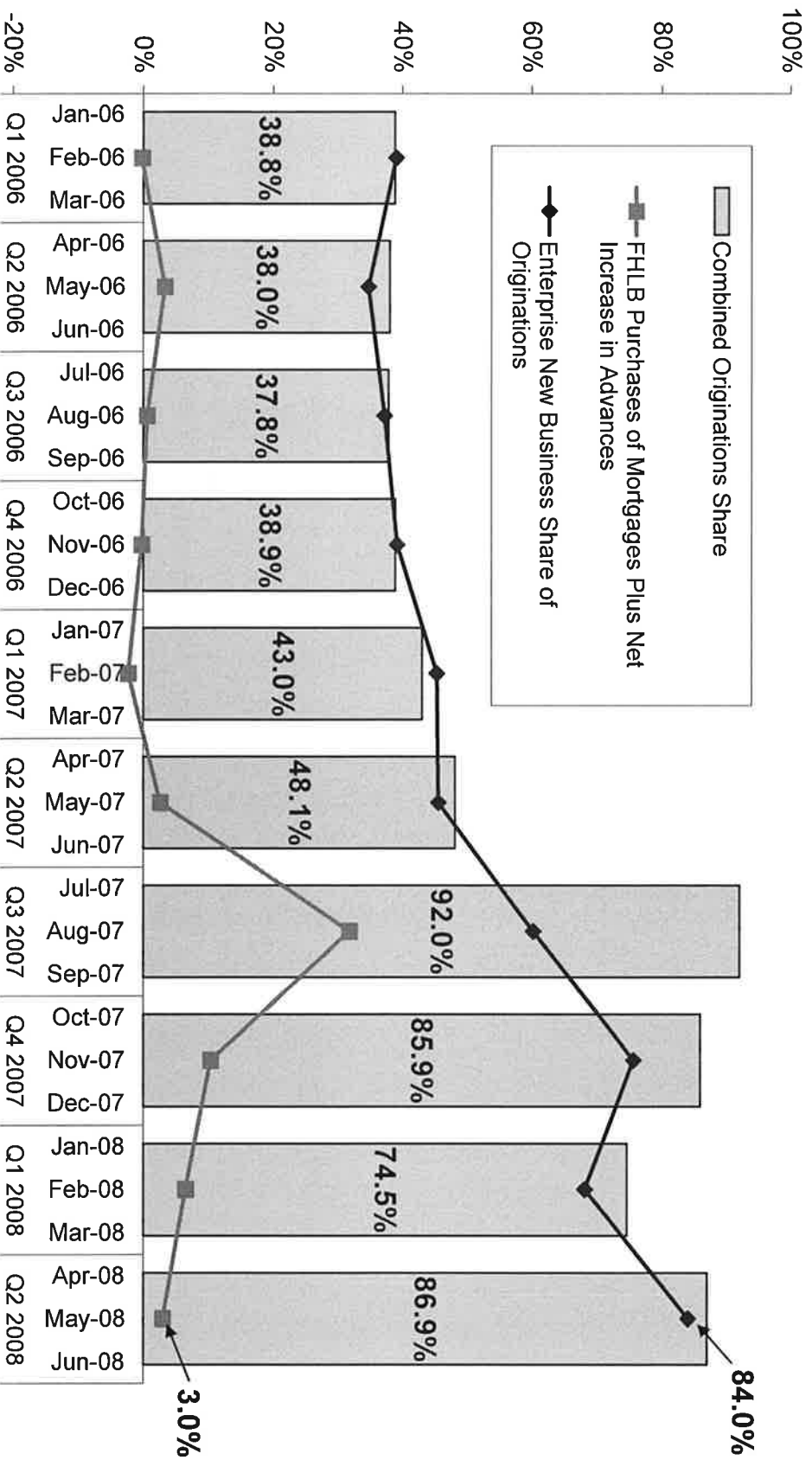


Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries, TreasuryDirect.gov, Federal Reserve H.4.1 Release.

# Enterprise and FHLB Shares of Originations

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Fannie Mae, Freddie Mac, and FHLB Shares of Mortgage Originations  
January 2006 - June 2008

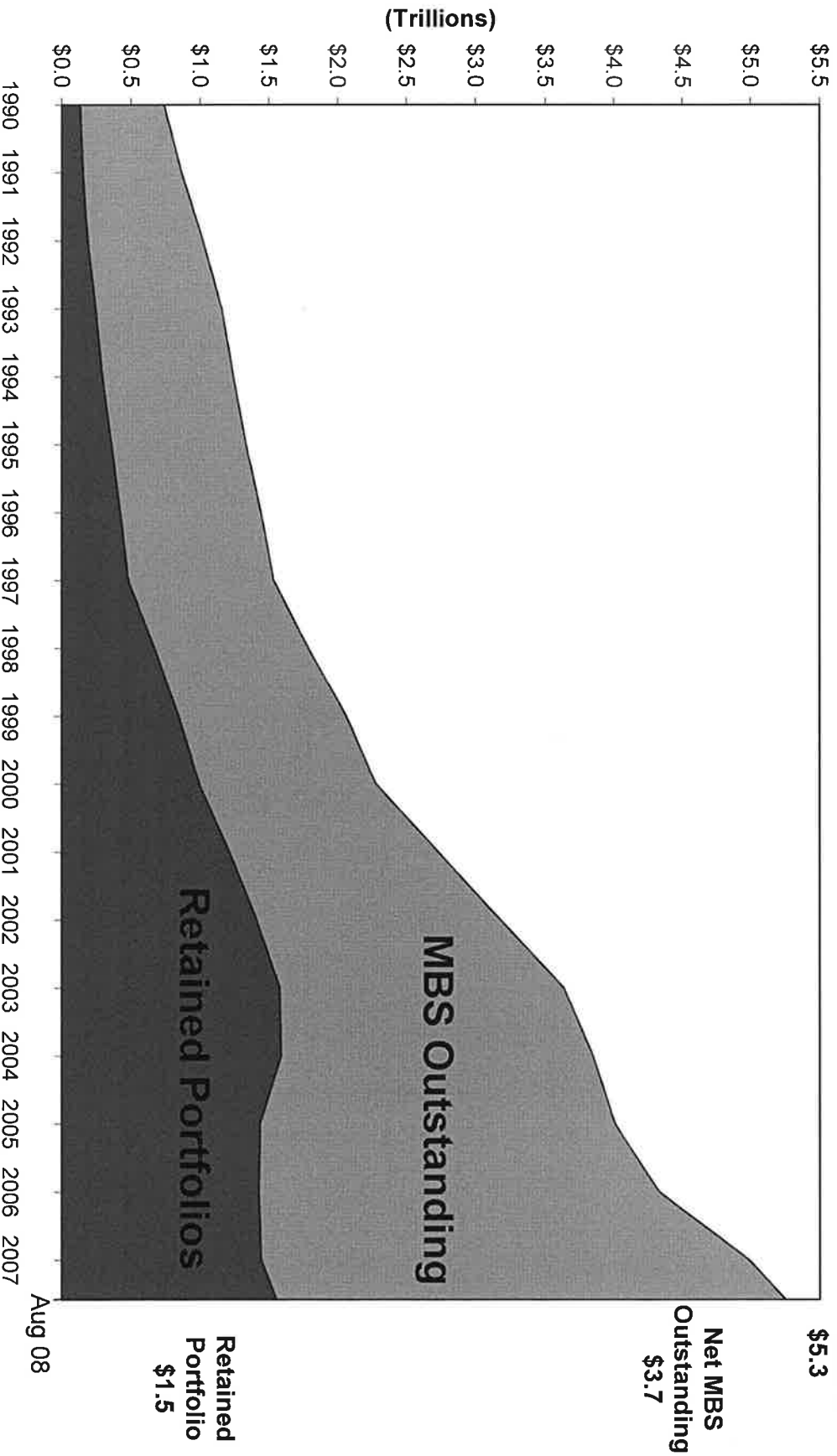


Sources: Enterprise Monthly Volume Summaries, FHLB Office of Finance, Inside Mortgage Finance.

# Combined Book of Business Continues to Grow

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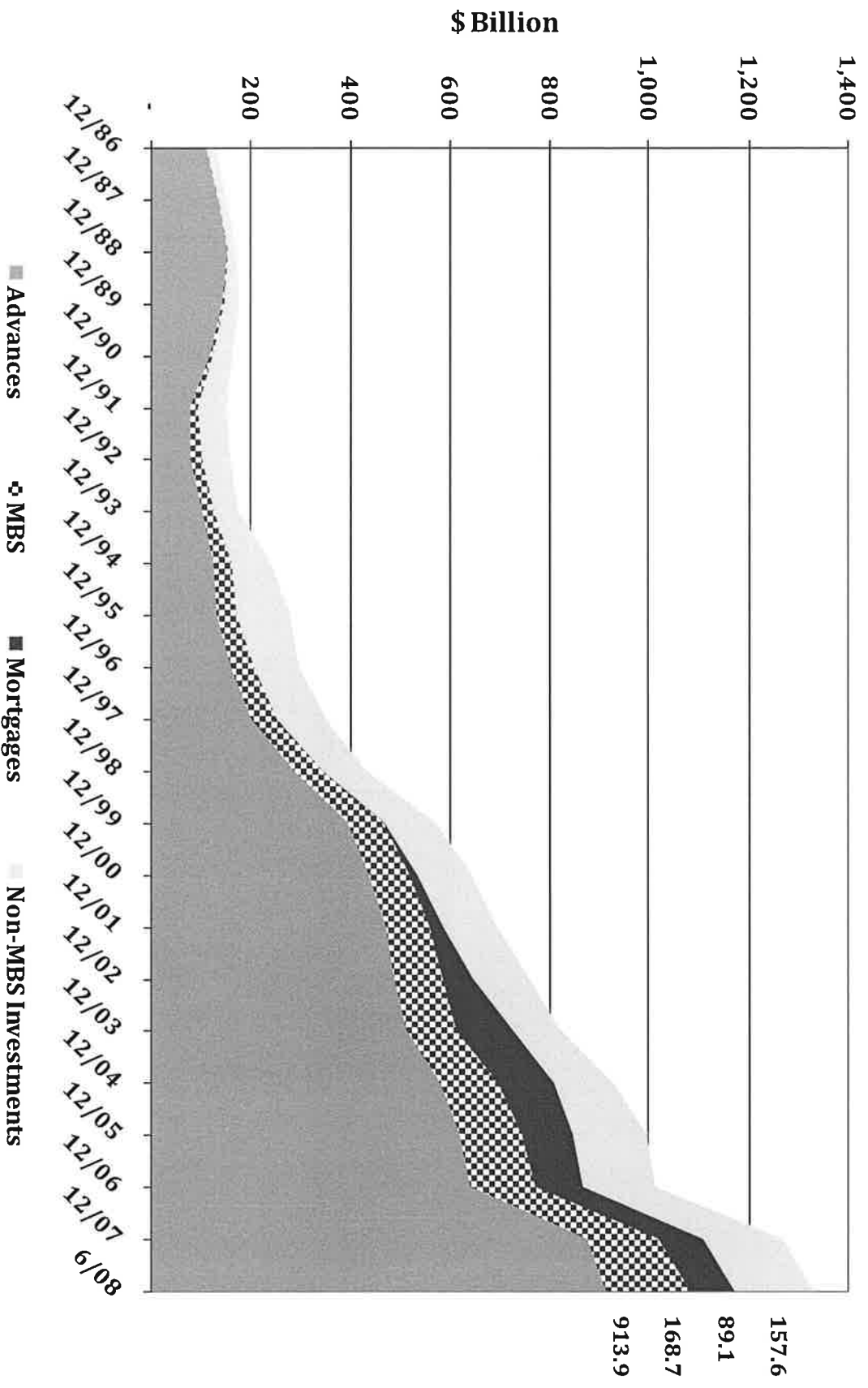
Enterprises' Combined Total Book of Business  
1990 - August 2008



Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries and 2007 OFHEO Report to Congress.

# FHLBanks' Portfolios Also Continuing to Grow

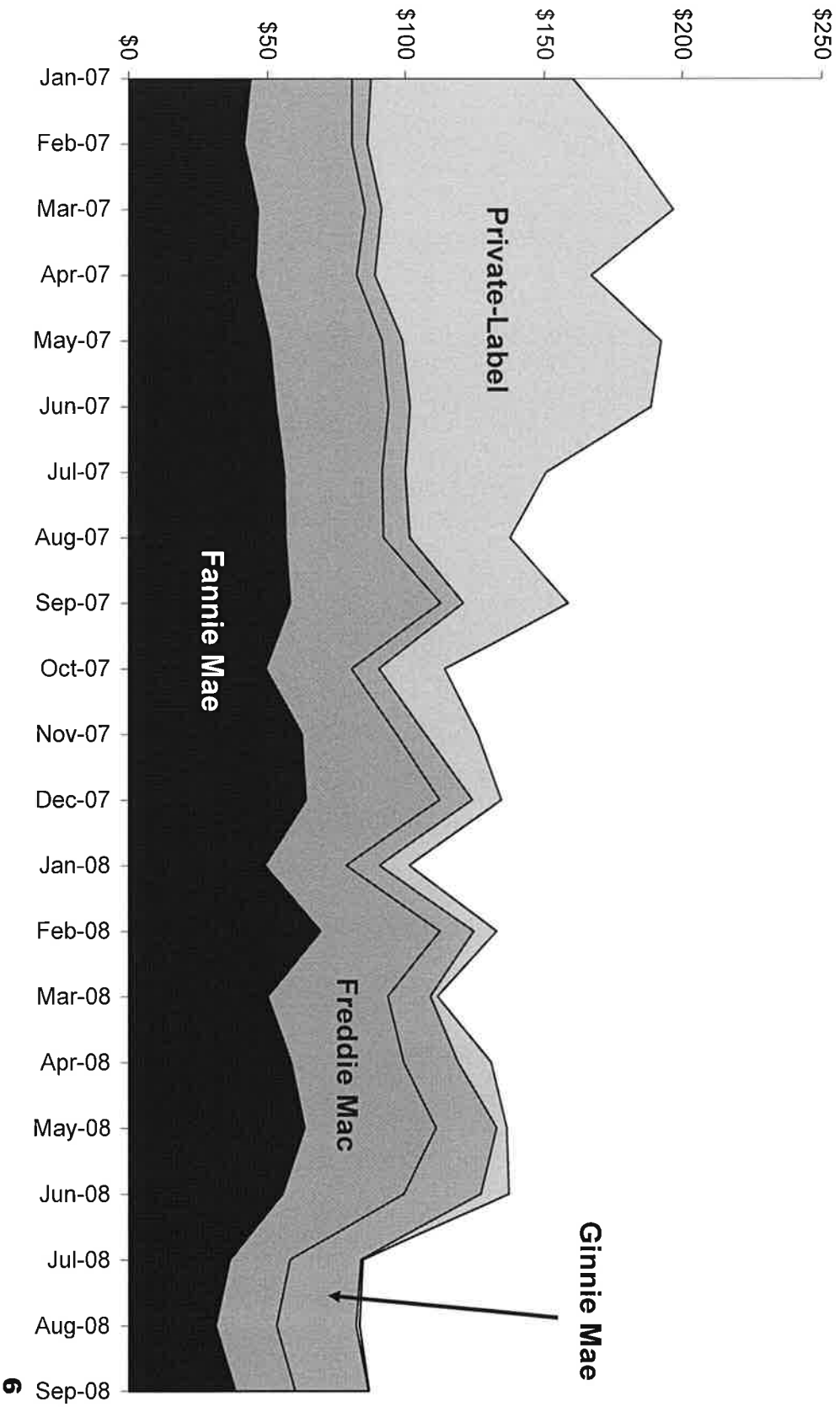
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# MBS Issuance by Issuer

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MBS Issuance by Issuer, in Billions  
January 2007 - September 2008



Sources: Inside Mortgage Finance Publications and Fannie Mae and Freddie Mac Monthly Volume Summaries.

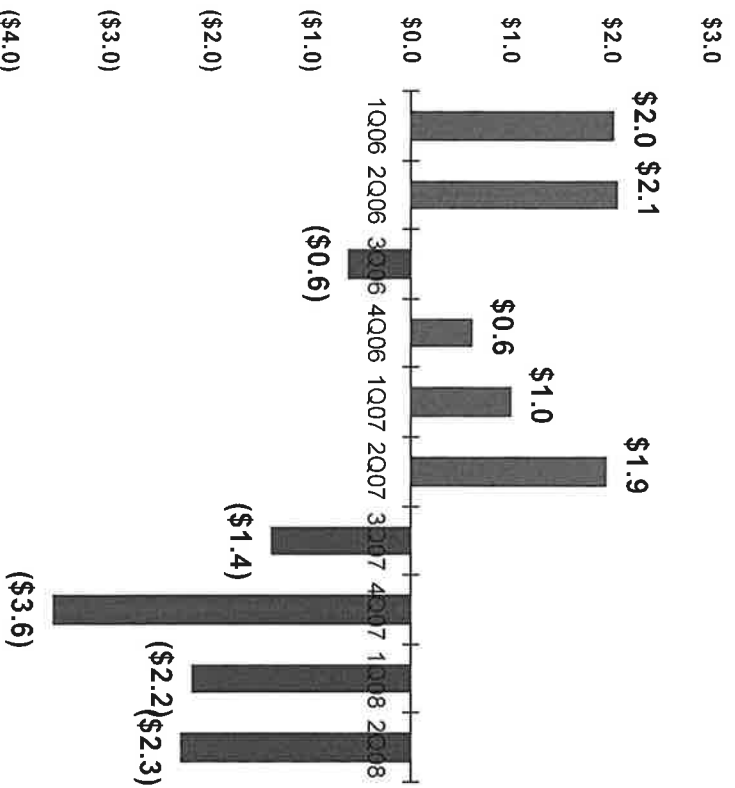
# Quarterly Net Income for 2006Q1 through 2008Q2

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Both Enterprises reported significant net losses in the second half of 2007 and the first half of 2008, continuing a trend of volatile and unattractive financial results over the past several quarters.

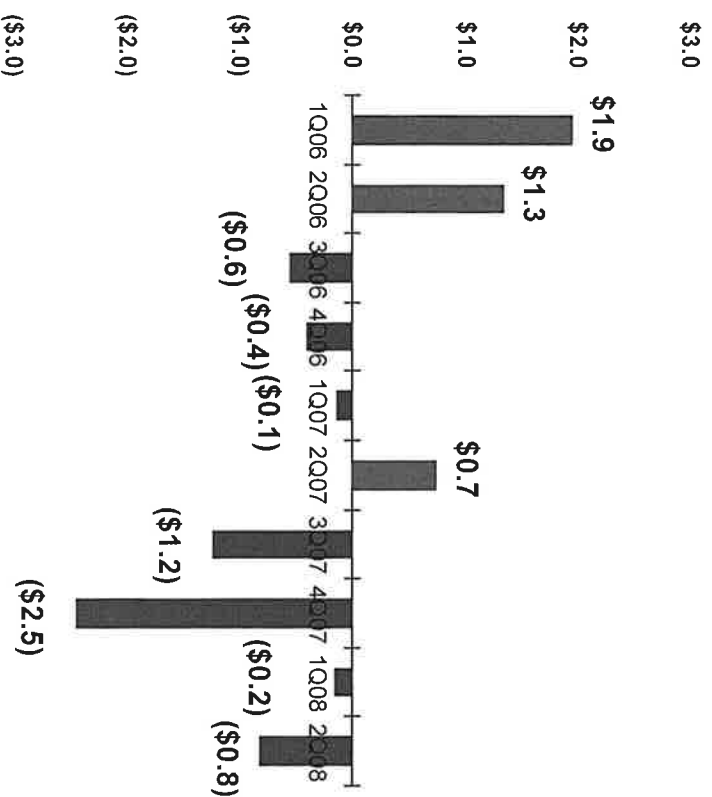
## Fannie Mae

### Net Income (\$ billions)



## Freddie Mac

### Net Income (\$ billions)



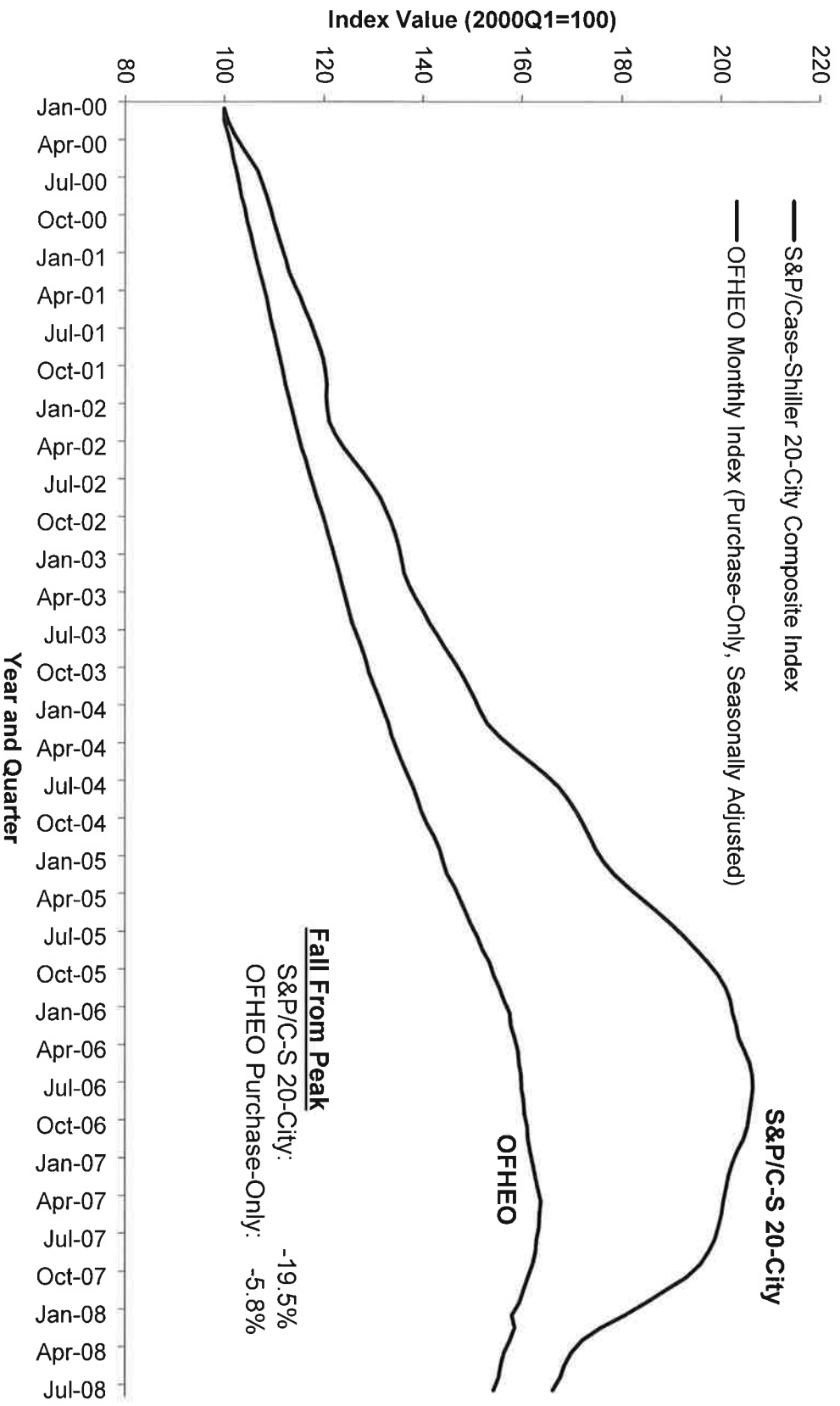
Sources: Fannie Mae 2008 Q2 10-Q; Freddie Mac 2008 Q2 10-Q.



# House Prices Continue to Fall

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OFHEO and S&P/Case-Shiller House Price Indexes

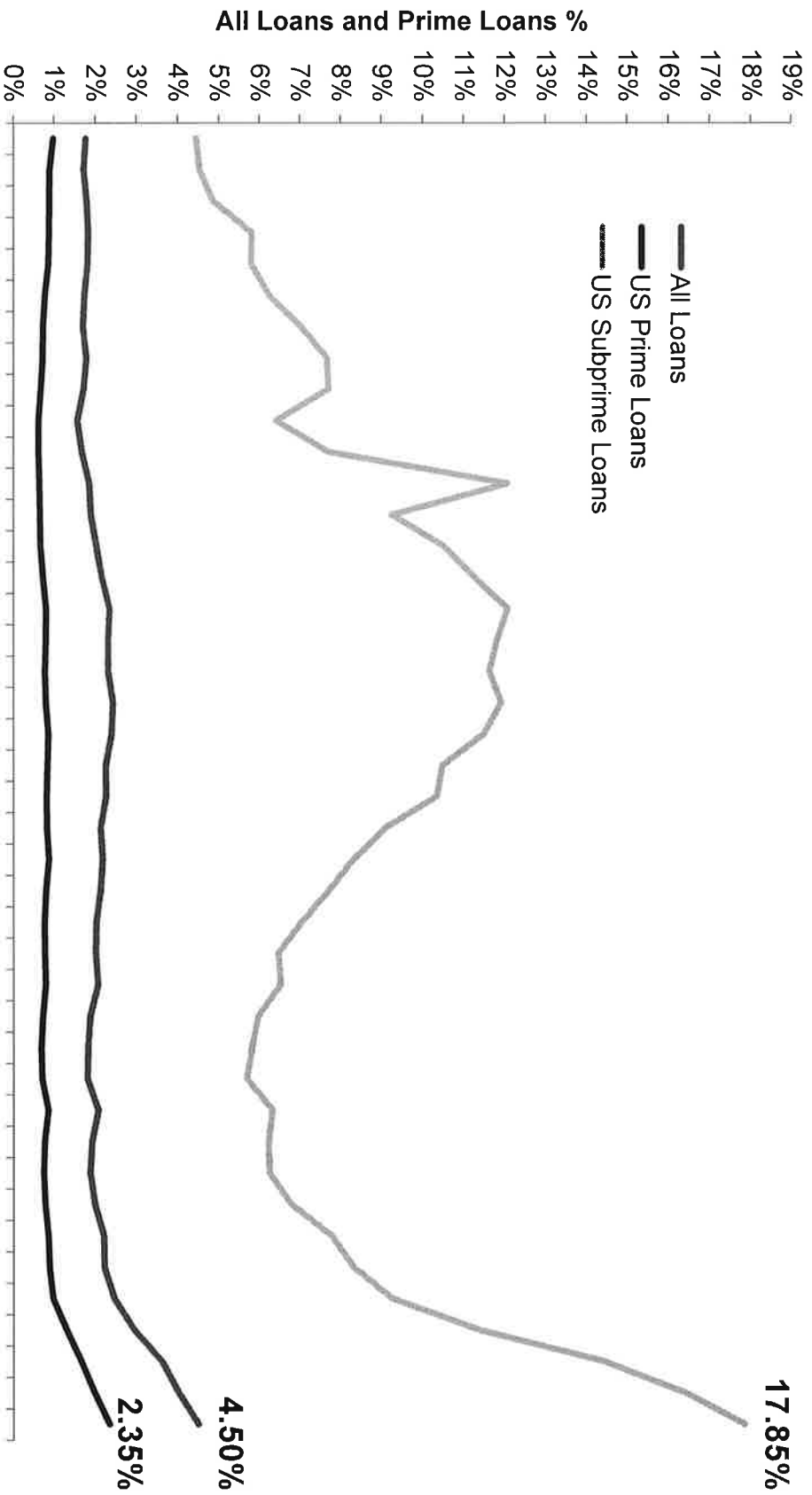


Note: For purposes of comparison, the OFHEO purchase-only index has been re-based to January 2000=100 (the standard series is set so that January 1991=100)

# Serious Delinquencies Rising

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Serious Delinquency Rates, 1998 - 2008Q2



Source: Mortgage Bankers Association.

# Federal Housing Finance Agency

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FHFB

OFHEO

HUD

*mission*

*compliance*

# Federal Housing Finance Agency

FHFA

- **Single, unified and independent GSE regulator**
  - ❖ FHFB and OFHEO
  - ❖ HUD's mission and new product authority
  
- **Enhanced safety and soundness authorities**
  - ❖ More complete set of regulatory and enforcement authorities
  - ❖ Authorities based on safety and soundness, not just capital
  - ❖ Flexibility to adjust capital requirements – minimum and risk based
  
- **Focus on mission**
  - ❖ Combines safety and soundness, charter compliance, and affordable housing goals in one agency
  - ❖ Establish criteria governing the Enterprises' retained portfolios

# Agency Structure

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FHFA

## Independent Agency

### ❖ Director

- 5-year term
- Current OFHEO Director serves until successor is appointed and confirmed
- Oversees the operations of each regulated entity and any joint office of the FHLBanks
- Ensures safety and soundness
- Ensures regulated entities comply with applicable laws, regulations, orders and guidelines, and that they carry out their missions only through permissible activities

### ❖ Deputy Directors oversee:

- Fannie Mae and Freddie Mac
- Federal Home Loan Banks
- Housing Mission and Goals -- mission functions of all the GSEs, including their respective affordable housing goals and programs

# New Authorities Given to FHFA

**FHFA**

## ■ **Fannie/Freddie Regulation**

- ❖ Prudential Management and Operations Standards
- ❖ Portfolio Limits
- ❖ Expanded Enforcement Authorities
- ❖ Capital Regulation
  - Risk-based
  - Minimum Capital
- ❖ Prompt Corrective Action broadened
- ❖ Receivership

# New Authorities Given to FHFA

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**FHFA**

## ■ **FHLBank Regulation**

- ❖ Prudential Management and Operations Standards
- ❖ Risk-based Capital Requirements
- ❖ Capital Classification for Prompt Corrective Action
- ❖ Temporary authority to provide letters of credit for tax-exempt bonds
- ❖ Conservatorship/ Receivership Authority

# New Authorities Given to FHFA

**FHFA**

- **Mission Supervision**
  - ❖ Combines FHFBS oversight of Affordable Housing Program and Community Investment Program and HUD's setting of affordable housing goals
  - ❖ New product approval for all GSEs



# Conservatorship

**FHFA**

- Conservatorship is defined as a statutory process to stabilize a troubled institution which is intended to have a limited duration and has as its objective to return the entity to normal business operations once stabilized. Conservatorship statutes provide broad authority for a conservator to operate the institution until it is stabilized and then returned to the shareholders.
- FHFA is Conservator
- New CEO's appointed
- Appointed new Chairmen who will reconstitute boards

# Treasury Facilities

FHFA

- Senior Preferred Stock Purchase Agreement – no expiration date
- Binding legal agreement that ensures that each GSE maintain a positive net worth through Treasury purchases of senior preferred stock as needed. Means the United States stands behind the debt and the MBS of the GSEs.
- Contract between Treasury and each GSE with a capacity of \$100 billion (\$200 billion combined).
  - nearly three and a quarter times the Enterprises combined statutory minimum capital.
- Enterprises each paid Treasury \$1 billion in senior preferred stock and warrants for 79.9 percent of common stock.
- Portfolios allowed to grow to \$850 billion and then shrink 10 percent p.a starting 2010

# Treasury Facilities

FHFA

- Senior Preferred Stock Purchase Agreement (continued)
- Holders of MBS, senior debt and subordinated debt, including all maturities and issuances are effectively guaranteed by the U. S. Treasury.
- Facility can only terminate if:
  1. Facility is fully funded
  2. GSE liquidates and Treasury has topped up net worth deficiency, if any
  3. GSE satisfies all its liabilities

# Treasury Facilities

FHFA

- ❑ GSE MBS Purchase Program – Expires 12/31/09
  - ❑ Provides for Treasury to make unlimited purchases of Fannie Mae and Freddie Mac MBS in open market. Over \$15 billion purchased.
  - ❑ Treasury may hold these securities to maturity.
- ❑ GSE Credit Facility – Expires 12/31/09
  - ❑ Secured funding provided directly to Fannie Mae, Freddie Mac and FHLBanks by Treasury as a backstop.
  - ❑ Unlimited borrowing facility with Federal Reserve Bank of New York as fiscal agent.

# Emergency Economic Stabilization Act

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**FHFA**

- TARP (Troubled Asset Relief Program) - \$700 billion.
- Broad, flexible power to allow Treasury to purchase troubled assets, provide guarantees and provide capital.
  - \$250 billion in Bank Preferred Stock
  - Other financial institutions eligible
  - Investment managers for Private Label MBS, whole mortgages
- Provides for heightened mortgage modification activities to avoid preventable foreclosures.
- Strong oversight established