FEDERAL HOUSING FINANCE AGENCY

NEWS RELEASE

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FHFA SENDS TWO INTERIM FINAL RULES TO *FEDERAL REGISTER*

WASHINGTON, DC -- The Federal Housing Finance Agency has sent to the *Federal Register* two interim final rules. The rules implement sections of the Housing and Economic Recovery Act of 2008 (PL 110-289) HERA, which required their submission within 180 days of its enactment on July 30, 2008.

Enterprise Portfolio Holdings

For Fannie Mae and Freddie Mac, an interim final regulation governs their portfolio holdings. The regulation implements Section 1109 of HERA by adopting, as the standard for the Enterprises' portfolio holdings, the criteria set forth in the Senior Preferred Stock Purchase Agreements executed between the Secretary of the Treasury and FHFA, as conservator of the Enterprises, on September 6, 2008. Those criteria, under which the Enterprises currently operate and which could be adjusted by amendment of the Agreements, provide that each Enterprise may grow its mortgage assets up to $850 billion on December 31, 2009, but, starting on December 31, 2010, must hold 10 percent less mortgage assets in its portfolio than at the end of the preceding year until those assets reach a level of $250 billion.

FHFA is aware of public interest in the portfolio holdings issue. Therefore, in addition to requesting comment on the interim final rule, the regulation requests comment on criteria governing Enterprise portfolio holdings that will apply when the Enterprises are no longer subject to Stock Purchase Agreements. A series of questions are set forth to further public comment and discussion in advance of a regulation on this subject. The questions ask for comment on such issues as the benefits and risks associated with the mortgage portfolios, how portfolio limits might be integrated with capital and risk management standards, how the portfolio limits might vary cyclically, and whether certain types of assets should be treated differently. Other questions relate to limits or floors for non-mortgage assets and possible constraints on the composition of those assets.

The comment period is 120 days from publication in the *Federal Register*.

Federal Home Loan Banks Capital Classifications

For the Federal Home Loan Banks (Banks), an interim final rule addresses both the critical capital level and four capital classification categories – adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The regulation principally implements Sections 1141 and 1142 of HERA, regarding the critical capital level and capital classifications, respectively. The critical capital level is the level at which a Bank would be categorized as critically undercapitalized, which the rule sets at two percent of a Bank's total assets, which is half the adequately capitalized requirement of four percent. Significantly undercapitalized is three percent of total assets.

The interim final rule also implements prompt corrective action provisions that HERA applied to the Banks. Fannie Mae and Freddie Mac already are subject to similar prompt corrective action provisions, which were adopted in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

The interim final rule adopts criteria to define the four capital classification categories specifically listed in HERA, which criteria are based on the risk-based and minimum capital requirements set forth in the Federal Home Loan Bank Act. FHFA is requesting comment on whether it should adopt a fifth capital classification of "well-capitalized," as is used with respect to depository institution. The FHFA is also interested in comments on how a well-capitalized category should be defined, and what provisions should be adopted to encourage Banks to achieve a well-capitalized classification.

The comment period is 90 days from publication in the *Federal Register*.

Links:

Enterprise Portfolio Holdings Interim Final Rule

Capital Classifications and Critical Capital Levels for the Federal Home Loan Banks Interim Final Rule

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The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than $6.3 trillion in funding for the U.S. mortgage markets and financial institutions.