

# Housing Government Sponsored Enterprise Programs

## 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%

## Explanation of Budget Estimate

The Housing Government Sponsored Enterprise (GSE) Programs consist of three different programs with respect to, Fannie Mae and Freddie Mac, and the Federal Home Loan Banks (FHLBs) outlined below. These programs were created to provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer. 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.

These programs are designed to meet the following priorities:

- To promote stability in financial markets.
- To improve the availability of mortgage credit to American homebuyers.
- To ensure investor confidence in the GSEs by maintaining and/or increasing the PSPAs.

The FY 2010 budget estimate anticipates decreases in two of the programs due to

reduced draws under the PSPAs as housing market conditions improve; and the authority to make purchases under the GSE MBS Program expiring on December 31, 2009. Treasury does not expect to use the Credit Facility in FY 2010.

## Purpose of Program

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. The PSPAs provide up to \$200 billion for each GSE to ensure that each enterprise maintains a positive net worth.

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 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.

### **Explanation of Budget Activities Preferred Stock Purchase**

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#### **Agreements (\$41.293 billion in obligations)**

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.

#### **GSE MBS Purchase Program (\$60 billion in purchases)**

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, the program could produce gains. Treasury's authority to purchase GSE MBS expires on December 31, 2009.

#### **GSE Credit Facility Program (No funding)**

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. All loans would be collateralized and collateral is limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the FHLBs. Loans will not be made with a maturity date beyond December 31, 2009.

### **Legislative Proposals**

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The Housing GSE programs have no legislative proposals for FY 2010.

### **Performance Measures**

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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.