

---

# FEDERAL HOUSING FINANCE AGENCY



## STATEMENT

---

For Immediate Release  
January 30, 2012

**Contact:** Corinne Russell (202) 649-3032  
Stefanie Johnson (202) 649-3030

### **FHFA Statement on Freddie Mac Refinance Story**

A ProPublica–NPR news story today suggested that a mortgage financing vehicle utilized by Freddie Mac may be preventing homeowners from refinancing. While FHFA does not typically comment on its supervisory activities, the circumstances here require some clarification.

Freddie Mac has historically used the structuring of Collateralized Mortgage Obligations (CMOs) as a tool to manage its retained portfolio and to address issues associated with security performance. A particular CMO structure employed by Freddie Mac resulted in the creation of “inverse floaters.” This particular CMO structure was used to finance mortgages being sold to Freddie Mac through its cash window (typically used by smaller loan originators) and to sell mortgages out of Freddie Mac’s own portfolio in response to market demand and to shrink its own portfolio. Essentially, the inverse floater leaves Freddie Mac with a portion of the risk exposure it would have had if it simply held the entire set of mortgages on its balance sheet. The CMO structuring activity results in some portion of the mortgage cash flows being sold off and a smaller amount needing to be financed by Freddie Mac with debt securities. It also results in a more complex financing structure that requires specialized risk management processes.

For several reasons, Freddie Mac’s retention of inverse floaters ceased earlier in 2011. Of Freddie Mac’s \$650 billion retained portfolio, only \$5 billion is held as inverse floaters. A further assessment later in 2011 by FHFA supervision staff identified concerns regarding the controls, including risk management, surrounding the inverse floaters. FHFA supervision staff informed Freddie Mac in December of its preliminary examination findings and FHFA and Freddie Mac agreed that these transactions would not resume pending completion of the examination work.

Freddie Mac’s retained portfolio investment in inverse floaters did not have any impact on the recent changes to the Home Affordable Refinance Program (HARP). In evaluating changes to HARP, FHFA specifically directed both Enterprises not to consider changes in their own investment income as part of the HARP evaluation process. FHFA and the Enterprises remain fully committed to the success of HARP as it is a valuable tool to lessen the Enterprises’ credit risk and provide assistance to borrowers seeking to refinance. Now that the HARP changes are in place, the refinance process is between borrowers and loan originators/servicers, not Freddie Mac.

###

*The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$5.7 trillion in funding for the U.S. mortgage markets and financial institutions.*