Housing & Government Sponsored Enterprises

FY 2017 President's Budget

February 9, 2016

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Section 1 – Purpose

1A – Mission Statement

To provide stability to financial markets and promote mortgage affordability while also protecting the taxpayer, Treasury implemented four programs with respect to two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Banks (FHLBs). The Senior Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac are currently active, while Treasury completed the orderly disposition of the Mortgage-Backed Securities (MBS) Purchase Program in March 2012.

In addition to these programs, Treasury purchased securities of Fannie Mae and Freddie Mac backed by new housing bonds issued by Housing Finance Agencies (HFAs), through the New Issue Bond Program (NIBP). Treasury also purchased participation interests in temporary credit and liquidity facilities, which were obligations of Fannie Mae and Freddie Mac as part of the Temporary Credit and Liquidity Program (TCLP) to provide backstop liquidity and credit for state and local HFAs. The facilities backstopped by Treasury were terminated in July 2015, thereby ending the TCLP. Together, the NIBP and the TCLP comprised the Housing Finance Agencies Initiative (HFA Initiative).

1.1 – Program Account Summary

Dollars in Millions

	FY 2015	FY 2016	FY 2017	FY 2016 to FY 2017	
	Estimated	Estimated	Estimated	$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Obligations					
Senior Preferred Stock Purchase Agreements Account	0	0	0	0	0.00%
GSE MBS Purchase Program Account	177	3	3	0	0.00%
Total Obligations	**$177**	**$3**	**$3**	**0**	**0.00%**
Budget Authority					
Senior Preferred Stock Purchase Agreements Account*	258,050	258,050	258,050	0	0.00%
GSE MBS Purchase Program Account	178	3	3	0	0.00%
Total Budget Authority	**258,228**	**258,053**	**258,053**	**0**	**0.00%**
Outlays					
Senior Preferred Stock Purchase Agreements Account	0	0	0	0	0.00%
GSE MBS Purchase Program Account	177	3	3	0	0.00%
Total Outlays	**$177**	**$3**	**$3**	**0**	**0.00%**

*The $258 billion is not new budget authority. It is unobligated balances.

1.2 – Financing Account Summary

Dollars in Millions

	FY 2015	FY 2016	FY 2017	FY 2016 to FY 2017	
	Actual	Estimated	Estimated	$ Change	$ Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
State HFA NIPB & TCLP					
Obligations	291	276	242	-34	-12.32%
Collections	1315	816	624	-192	-23.53%
Financing Authority (net)	-899	-539	-382	157	-29.13%
Financing Disbursements (net)	-1024	-539	-382	157	-29.13%

1.3 – Mandatory Receipts Summary

Dollars in Millions	FY 2015	FY 2016	FY 2017	FY 2016 to FY 2017	
	Actual	Estimated	Estimated	$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
Senior Preferred Dividend Payments from Fannie/Freddie					
Receipts	20,370	16,016	18,671	2,654	16.57%
Additional G Fee Collected Per Temporary Payroll Tax Cut Continuation Act					
Receipts	2,363	2,741	3,032	291	10.62%

1B – Vision, Priorities and Context

FY 2017 Priorities:

- To provide stability to financial markets.
- To prevent disruptions to the availability of mortgage credit for American homebuyers.
- To maintain investor confidence in the GSEs.

Senior Preferred Stock Purchase Agreements (PSPAs)

Section 1117 of the Housing and Economic Recovery Act of 2008 (HERA) granted temporary authority for 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 and 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 HERA was necessary to provide stability to the financial markets, prevent disruptions in the availability of mortgage finance, and protect taxpayers.

Vision: The function of the PSPAs is to enhance market stability by providing holders of Fannie Mae and Freddie Mac securities with confidence that the GSEs will remain solvent. This commitment is also designed to eliminate any mandatory triggering of receivership of the GSEs under HERA. 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 central to the mission of the Treasury. In this regard, the following priorities have been identified for mission success:

- To provide stability to the GSE securities market.
- To maintain the solvency of the GSEs.

Program History: During FY 2008, the Department of the Treasury entered into the PSPAs with Fannie Mae and Freddie Mac. The PSPAs were indefinite in duration and had a funding commitment cap of $100 billion each. These agreements were amended in May 2009 to provide a funding commitment cap of $200 billion each, and further amended in December 2009, to replace the fixed-dollar amount funding commitment cap with a formulaic cap that ended December 31, 2012, at which time the maximum amount became fixed. Based on the financial results reported by Fannie Mae and Freddie Mac as of December 31, 2012 and under the terms of the PSPAs, the cumulative funding commitment cap for Fannie Mae was set at $233.7 billion and the cumulative funding commitment cap for Freddie Mac was set at $211.8 billion. 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 percent 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.

The PSPAs were further amended in August 2012. The changes included: replacing the fixed 10 percent dividend with a quarterly payment based on the net worth of the GSEs; increasing the rate at which the GSEs must reduce their retained investment portfolio balance to 15 percent in place of 10 percent per year; and requiring each GSE to submit to Treasury an annual risk management plan that details their respective strategies for reducing their enterprise-wide risk profile. The change to the dividend payment structure eliminated the need for the GSEs to make PSPA draws from Treasury after making dividend payments to Treasury. Since the original dividend provision threatened to erode the amount of the Treasury commitment available to the GSEs, this amendment helps to maintain the stability of the housing market by preserving the continued solvency of the GSEs.

Program Outlook: Under the PSPAs, Treasury helped maintain the solvency of the GSEs with its $187.5 billion cumulative investment as of December 31, 2015. Treasury forecasts that it will not make any payments under the PSPAs in FY 2016. Treasury forecasts that it will receive approximately $16 billion in dividends in FY 2016.

Housing Finance Agencies Initiative

State and local Housing Finance Agencies (collectively, "HFAs") are agencies or authorities created by state law that are charged with providing affordable mortgage financing for low- and moderate-income home buyers and providing financing for multifamily projects for low- and very-low income renters. In addition, HFAs provide homeownership education and allocate low income housing tax credits.

HFAs have historically played a central role in providing a safe, sustainable path to homeownership. Through the course of the housing downturn, the HFAs experienced a number of challenges including a lack of liquidity support for existing variable rate demand bonds, losses on mortgages, and downgrades of re-insurance providers. Historically, HFAs have funded their activities by issuing tax-exempt mortgage revenue bonds and keeping the associated mortgage collateral produced on HFA balance sheets. The bond performance of HFAs has generally been strong. However, due to the uncertainties and strain throughout the housing sector during the financial crisis and the widening of spreads in the tax-exempt market, HFAs experienced challenges in issuing new bonds to fund new mortgage lending.

To provide stability to the financial markets and promote mortgage affordability while at the same time protecting the taxpayer, Treasury implemented two programs in December 2009 as part of the Housing Finance Agencies Initiative – the New Issue Bond Purchase Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP). The TCLP ended in July 2015.

New Issue Bond Program

The NIBP provided temporary financing for HFAs to issue new housing bonds. Treasury purchased securities of Fannie Mae and Freddie Mac backed by HFA housing bonds, with the funding placed in escrow to be converted into new mortgages prior to the end of calendar year 2012. This allowed the HFAs to issue new housing bonds consistent with what they would ordinarily have been able to issue with the allocations provided them by Congress absent the challenges in housing and related markets. The program supported over one hundred thirty thousand new mortgages to low- and moderate-income homebuyers, as well as forty thousand new rental-housing units for working families.

Vision: The NIBP helped provide stability to financial markets and prevented disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. The NIBP enabled HFAs to keep their lending programs active while they adapt to changing market conditions. The program supported the availability of mortgage credit and affordable rental properties for low- and moderate-income homebuyers and renters. Facilitating supply and demand in the housing markets helped to stabilize the HFAs.

***Priority*:**

- To protect taxpayers through the administration of program receipts.

Program History: In December 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) outlining the obligations of each party with regard to the HFA Initiative transactions. Under the terms of the NIBP, Treasury purchased Fannie Mae and Freddie Mac securities backed by housing bonds issued by HFAs, with the funding placed in escrow pending the origination of new mortgages. Use of escrowed proceeds to finance new mortgages originally had to be completed by December 31, 2010; however continued disruptions in the HFA bond market led to extensions. After two one-year extensions, HFAs had a deadline of December 31, 2012 to use NIBP funds.

Program Outlook: Treasury purchased approximately $15.3 billion in securities under its authority for this program in FY 2010. As of the December 31, 2012 deadline, HFAs had used $13.3 billion to finance single and multi-family mortgages, and the remainder had been returned to Treasury. Going forward, Treasury will receive monthly payments of principal, interest and fees until all NIBP bonds are paid down or refunded.

1C - Credit Reform Account Descriptions

<u>GSE Mortgage-Backed Securities Purchase Program Account:</u> The GSE Mortgage-Backed Securities Purchase Program Account records the subsidy costs associated with the GSE MBS Purchase Program and the HFA Initiative, which are treated as direct loans for budget execution. The subsidy amounts are estimated on a present value basis.

<u>HFA Financing Account:</u> As required by the Federal Credit Reform Act of 1990, this non-budgetary account records all cash flows to and from the Government resulting from the Treasury HFA Initiative programs. The amounts in the account are a means of financing and are not included in the budget totals.

Section 2 – Budget Adjustments and Appropriation Language

2A- Budget Increases and Decreases Description
Not applicable for the Housing Government Sponsored Enterprises.

2B – Appropriations Language and Explanation of Changes
The Housing Government Sponsored Enterprise Programs and the Housing Finance Agencies Initiative 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

3A – Senior Preferred Stock Purchase Agreements (PSPAs)
(No funding):
The PSPAs instill confidence in investors that Fannie Mae and Freddie Mac will remain solvent entities critical to the functioning of the housing and mortgage markets. Treasury entered into a PSPA with each GSE to enable each enterprise to maintain a positive net worth.

The PSPAs enhance market stability by providing confidence that the GSEs would remain solvent to holders of Fannie Mae and Freddie Mac securities, which, in turn, leads to increased mortgage affordability. Treasury's commitment through the PSPAs is also designed to prevent triggering mandatory receivership under HERA. To this end, the PSPAs are an effective means of averting systemic risk while at the same time protecting the taxpayer's investment of $187.5 billion made through December 31, 2015.

In exchange for entering into these agreements with the GSEs, Treasury received $1 billion of senior preferred stock in each GSE and warrants for the purchase of common stock of each GSE representing 79.9 percent of the common stock of each GSE on a fully diluted basis at a nominal price. The GSEs agreed to pay a dividend to Treasury equal to 10 percent per year of the total amount of funds that Treasury had provided to the GSEs (plus $1 billion for each GSE).

The dividend provision of each PSPA was amended in August 2012 to support the continued solvency of the GSEs. The amendments further supported the continued flow of mortgage credit and protected the interests of taxpayers. This amendment replaced the fixed 10 percent dividend with a quarterly dividend (if any) based on the positive net worth of the GSEs.

3.1.1 – Senior PSPAs Budget and Performance Report and Plan
Description of Performance:
To ensure the stability of the GSEs, the GSEs make PSPA draws from Treasury at the request of FHFA as necessary for each GSE to maintain a positive net worth. Under the PSPAs, Treasury has helped to ensure the solvency of the GSEs by providing these entities with $187.5 billion cumulative investment as of December 31, 2015. Through December 31, 2015, the GSEs have paid $241.2 billion in dividend payments to Treasury.

3B – New Issue Bond Program
(No funding):
The function of the NIBP was to help provide stability to financial markets and prevent disruptions in mortgage finance availability by providing a temporary supplemental market for newly issued HFA housing bonds. By temporarily supplementing private demand for HFA production, the NIBP enabled HFAs to keep their lending programs active while they adapted to changing market conditions. The NIBP supported the availability of mortgage credit and affordable rental properties for low- and moderate-income homebuyers and renters.

Program sized to meet demand - HFAs submitted detailed program participation requests to Treasury. In order to scale back the NIBP requests to an acceptable level that could be recommended for adoption, a methodology was developed and applied to arrive at final allocation recommendations under the program for HFAs. The allocation methodology was based primarily on the 2008 HERA allocations to HFAs and historical HFA issuance.

Support for both single-family and multi-family bonds: HFAs were able to request that a portion or all of their NIBP allocation be used to issue single or multi-family bonds. The amount of multi-family bond issuance was subject to a cap at the program level.

Protecting Taxpayers: HFAs pay Fannie Mae, Freddie Mac, and Treasury an amount intended to cover both the cost of financing the newly issued bonds as well as a fee designed to cover risk posed by the HFA. Generally speaking, the interest rate on the bond after release from escrow was set to cover Treasury's cost of financing (set at a market-based index rate) plus the additional fee designed to offset the credit risk to the taxpayer.

3.1.2 – New Issue Bond Program Budget and Performance Report and Plan

Description of Performance:

Treasury continues to monitor payments of principal, interest and fees to determine that all amounts due have been paid.