

Housing Government Sponsored Enterprise Programs

Program Summary by Budget Activity

(Dollars in Thousands)

Housing Government Sponsored Enterprise Programs	Activity	FY 2009	FY 2010	FY 2011		
		Actual	Estimated	Estimated	\$ Change	% Change
Preferred Stock Purchase Agreements	Obligations	\$95,600,000	\$69,000,000	\$23,000,000	(\$46,000,000)	-37.68%
GSE MBS Purchase Program	Securities Purchased	\$190,574,064	\$29,877,874	\$0	(\$29,877,874)	-100.00%
GSE Credit Facility	Loan Levels	\$0	\$0	\$0	\$0	0%
New Issue Bond Purchase Program	Securities Purchased	\$0	\$15,308,598	\$0	(\$15,308,598)	-100.00%
Temporary Credit and Liquidity Program	Securities Purchased	\$0	\$8,209,840	\$0	(\$8,209,840)	-100.00%

Explanation of Request

The Housing Government Sponsored Enterprise (GSE) Programs consist of five 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 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. In addition to these, Treasury will purchase securities of Fannie Mae and Freddie Mac backed by new housing bonds issued by the Housing Finance Agencies (HFAs), through the New Issue Bond Program (“NIBP”) and Treasury will also purchase participation interests in the obligations of Fannie Mae and Freddie Mac under Temporary Credit and Liquidity Facilities that they will issue and administer through the Temporary Credit and Liquidity Program (“TCLP”) to provide backstop liquidity and credit for state and local HFAs

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.
- To improve the capacity of State and local HFAs to provide affordable housing resources to working families at the state and local level

The FY 2011 budget estimate anticipates decreases in four of the programs due to reduced draws under the PSPAs as housing market conditions improve; and the expiration of Treasury’s authority to make purchases under the GSE MBS Program and the HFA Initiative on December 31, 2009.

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 will provide funding 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 did not use this program in FY 2010.

The function of the NIBP is to 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 until the market can recover, the NIBP will enable HFAs to keep their lending programs active while they adapt to changing market conditions. The program will support the availability of mortgage credit and affordable rental properties for low and moderate income Americans.

The function of the TCLP is to help relieve current financial strains for HFAs and enable them to continue to serve their important role in providing housing resources to working families. The TCLP will provide HFAs with

temporary credit and liquidity facilities to preserve the viability of the HFA infrastructure so that HFAs can continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate income Americans, as well as continue their other important activities in communities.

Explanation of Budget Activities

Preferred Stock Purchase Agreements (\$23 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 (No funding)

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 should result in a positive return to the Taxpayer. Treasury's authority to purchase GSE MBS expired 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. No loans were made under this program before Treasury's authority expired on December 31, 2009.

New Issue Bond Program (No funding)

HFAs submitted detailed program participation requests to Treasury's financial agents. In order to haircut the NIBP requests to an acceptable level that could be recommended for adoption. HFAs were able to request that a portion or all of their NIBP allocation be used to issue single or multi-family bonds. HFAs will pay the GSEs 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. All purchase commitments of related GSE securities occurred before December 31, 2009.

Temporary Credit and Liquidity Program (No funding)

Through Fannie Mae and Freddie Mac, the TCLP will provide replacement credit and liquidity facilities to HFAs that will help reduce the costs of maintaining existing financing for the HFAs. The HFAs will pay the GSEs and Treasury a fee designed to cover

risk posed by the HFA. The fee for HFAs to use the TCLP will increase over time. This increasing cost to the HFAs will encourage the HFAs to transition from the TCLF to private market financing alternatives as quickly as possible. All purchase commitments of related GSE securities occurred before December 31, 2009.

Legislative Proposals

The Housing GSE programs have no legislative proposals for FY 2011.

Description of Performance

Performance metrics are currently in development for Housing Government Sponsored Enterprise Programs.