



Yale SCHOOL OF MANAGEMENT  
*Program on Financial Stability*

## EliScholar – A Digital Platform for Scholarly Publishing at Yale

---

YPFS Resource Library

---

2-2-2015

### Housing & Government Sponsored Enterprises FY 2016 President's Budget

United States: Department of the Treasury

<https://elischolar.library.yale.edu/ypfs-documents/407>

---

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact [ypfs@yale.edu](mailto:ypfs@yale.edu).

# Housing & Government Sponsored Enterprises

FY 2016  
President's Budget

February 2, 2015

# Table of Contents

<b>Section 1 – Purpose</b> .....	<b>3</b>
1A – Mission Statement.....	3
1.1 – Program Account Summary.....	3
1.2 – Financing Account Summary .....	3
1.3 – Mandatory Receipts Summary.....	4
1B – Vision, Priorities and Context .....	4
1C - Credit Reform Account Descriptions.....	7
<b>Section 2 – Budget Adjustments and Appropriation Language</b> .....	<b>8</b>
2A- Budget Increases and Decreases Description .....	8
2B – Appropriations Language and Explanation of Changes.....	8
2C – Legislative Proposals.....	8
<b>Section 3 – Budget and Performance Plan</b> .....	<b>9</b>
3A – Senior Preferred Stock Purchase Agreements (PSPAs).....	9
3.1.1 – Senior PSPAs Budget and Performance Report and Plan .....	9
3B – New Issue Bond Program.....	9
3.1.2 – New Issue Bond Program Budget and Performance Report and Plan.....	10
3C – Temporary Credit and Liquidity Program.....	10
3.1.3 – Temporary Credit and Liquidity Program Budget and Performance Report and Plan.	11

## 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 has purchased 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). Treasury also purchased participation interests in temporary credit and liquidity facilities, which are 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. Together, the NIBP and the TCLP comprise the Housing Finance Agencies Initiative (HFA Initiative).

### 1.1 – Program Account Summary

Dollars in Millions

	FY 2014	FY 2015	FY 2016	FY 2015 to FY 2016	
	Actual	Estimated	Estimated	\$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>Obligations</b>					
Senior Preferred Stock Purchase Agreements Account	0	0	0	0	0.00%
GSE MBS Purchase Program Account	4	178	3	-175	-98.31%
<b>Total Obligations</b>	<b>\$4</b>	<b>\$178</b>	<b>\$3</b>	<b>-175</b>	<b>-98.31%</b>
<b>Budget Authority</b>					
Senior Preferred Stock Purchase Agreements Account	258	258	258	0	0.00%
GSE MBS Purchase Program Account	8	178	3	-175	-98.31%
<b>Total Budget Authority</b>	<b>\$266</b>	<b>\$436</b>	<b>\$261</b>	<b>-175</b>	<b>-40.14%</b>
<b>Outlays</b>					
Senior Preferred Stock Purchase Agreements Account	0	0	0	0	0.00%
GSE MBS Purchase Program Account	4	228	3	-225	-98.68%
<b>Total Outlays</b>	<b>\$4</b>	<b>\$228</b>	<b>\$3</b>	<b>-225</b>	<b>-98.68%</b>

### 1.2 – Financing Account Summary

Dollars in Millions

	FY 2014	FY 2015	FY 2016	Change	% Change
	Actual	Estimated	Estimated	FY 2015 to FY 2016	FY 2015 to FY 2016
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>State HFA NIPB &amp; TCLP</b>					
Obligations	399	301	284	-17	-5.65%
Collections	953	1,000	736	-264	-26.40%
Financing Authority (net)	-387	-699	-453	246	35.19%
Financing Disbursements (net)	-553	-699	-284	415	59.37%

### 1.3 – Mandatory Receipts Summary

Dollars in Millions

	FY 2014	FY 2015	FY 2016	FY 2015 to FY 2016	
	Actual	Estimated	Estimated	\$ Change	% Change
	AMOUNT	AMOUNT	AMOUNT	AMOUNT	AMOUNT
<b>Senior Preferred Dividend Payments from Fannie Mae and Freddie Mac</b>					
Receipts	72,472	23,352	19,812	-3,540	-15.16%
<b>Additional G Fee Collected Per Temporary Payroll Tax Cut Continuation Act</b>					
Receipts	1,921	2,436	2,739	302	12.40%

### 1B – Vision, Priorities and Context

#### FY 2016 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 and in state and local HFAs.
- To restore the capacity of state and local HFAs to provide affordable housing resources to working families at the state and local level.

#### 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, 2014. Treasury forecasts that it will not make any payments under the PSPAs in FY 2015. Treasury forecasts that it will receive approximately \$23.4 billion in dividends in FY 2015.

### **Housing Finance Agencies Initiative**

State and local Housing Finance Agencies (collectively, the “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).

### **New Issue Bond Program**

The NIBP has 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 has 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 has enabled HFAs to keep their lending programs active while they adapt to changing market conditions. The program supports 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 helps to stabilize the HFAs.

#### ***Priorities:***

- To help provide stability to the housing market.
- To provide funding to HFAs so that they continue to provide affordable mortgage credit.
- To promote availability and affordability of housing resources for low- and moderate-income homebuyers and renters.
- To protect taxpayers.

**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. As of December 31, 2014, the aggregate balances of NIBP bonds had decreased to approximately \$8.4 billion.

### **Temporary Credit and Liquidity Program**

Fannie Mae and Freddie Mac administer the TCLP for HFAs to help relieve financial strains during the financial crisis. Treasury purchased a participation interest in the Fannie Mae and Freddie Mac Temporary Credit and Liquidity Facilities (TCLFs) provided to HFAs under the TCLP, thus providing a credit and liquidity backstop. These facilities have helped the HFAs maintain their financial health and preserve the viability of the HFA infrastructure so that that

HFAs can continue their Congressionally supported role in helping provide affordable mortgage financing for low and moderate income homebuyers, as well as continue their other important activities in communities.

***Vision:*** The TCLP has helped provide stability to financial markets and prevented disruptions in mortgage finance availability by helping HFAs relieve current financial strains. The TCLP has supported the HFAs through the economic downturn and given them time to develop and implement more sustainable financing structures that preserve their critical role in extending mortgage financing to assist low- and moderate- income homebuyers and renters.

***Priorities:***

- To help provide stability to the housing market.
- To provide funding to HFAs so that they can continue to provide affordable mortgage financing. To promote availability and affordability of housing resources for low- and moderate-income homebuyers and renters.
- To protect taxpayers.

**Program History:** In December 2009, the Department of the Treasury entered into a Memorandum of Understanding with Fannie Mae, Freddie Mac, and FHFA outlining the obligations of each party with regard to the HFA Initiative transactions. Under the terms of the TCLP, Treasury purchased participation interests in Fannie Mae and Freddie Mac liquidity facilities available to support outstanding housing bonds issued by HFAs. At the time of execution, \$8.2 billion had been allocated to HFAs through the TCLP to use the credit and liquidity facilities.

**Program Outlook:** Treasury incurred approximately \$8.2 billion in obligations in FY 2010 that were to remain open to the end of calendar year 2012. Due to continued strain on the market for HFA liquidity facilities, Treasury granted a three-year extension of the TCLP to the end of calendar year 2015 for six HFAs, which was conditioned on Treasury's approval of the HFA's plans to reduce balances of their bonds covered by TCLP during the extension period. To date there have been no draw requests or disbursements from the TCLP and since the extension of the TCLP, four additional HFAs have exited the program, leaving two participants. Prior to the expiration of the TCLP, Treasury's obligation will continue to diminish over time as HFAs redeem the bonds supported by the program or otherwise reduce their need for Treasury's liquidity support. As of December 31, 2014, the remaining balance of TCLP backed bonds had decreased to \$737 million.

**1C - Credit Reform Account Descriptions**

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

**HFA Financing Account:** 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, 2014.

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, 2014. Through December 31, 2014, the GSEs have paid \$225.4 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 enables HFAs to keep their lending programs active while they adapt to changing market conditions. The NIBP supports 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 the housing markets as well as other indicators, which have an impact on the HFAs. After two one-year extensions, HFAs had a deadline of December 31, 2012 to use NIBP funds.

### **3C – Temporary Credit and Liquidity Program**

#### ***(No funding):***

The function of the TCLP is to help relieve financial strains for HFAs. The TCLP provides HFAs with temporary credit and liquidity facilities to preserve the viability of the HFA infrastructure. This allows HFAs to continue their Congressionally supported role in helping provide affordable mortgage credit to low and moderate-income homebuyers, and other important activities in communities.

***Reducing costs of maintaining existing financing for HFAs:*** Through Fannie Mae and Freddie Mac, the TCLP provides replacement credit and liquidity facilities to HFAs that help reduce the costs of maintaining existing financing for the HFAs. Using HERA authority, Treasury purchased a participation interest in Fannie Mae and Freddie Mac temporary credit and liquidity facilities for the HFAs, and thereby Treasury backstops the replacement liquidity.

***Program sized to meet demand :*** HFAs submitted detailed program participation requests to Treasury for the TCLP. No allocation process was required because requests came in at a total below the program cap.

***Protecting Taxpayers:*** The HFAs pay Fannie Mae, Freddie Mac, and Treasury a fee designed to cover risk posed by the HFA. Additionally the program extension required participating HFAs to submit a plan for Treasury's approval that demonstrated how each HFA would reduce risk borne by the taxpayer under the program.

***Temporary solution, with incentives for HFAs to quickly transition back to market financing:*** The fee for HFAs to use the TCLP increases over time to encourage the HFAs to transition to private market financing alternatives as quickly as possible. This process was accelerated by the

required submission and approval of plans from the HFAs, which demonstrated how they will exit the program.

*Terms designed to facilitate sustainable business models for housing agencies* - The liquidity facilities under the TCLP program are only available for outstanding bonds.

### **3.1.3 – Temporary Credit and Liquidity Program Budget and Performance Report and Plan**

#### Description of Performance:

Treasury continues to monitor the housing markets as well as other factors affecting HFAs. During FY 2012 and FY 2013, Treasury granted three-year extensions to the end of calendar year 2015 to six HFAs, which were conditioned on Treasury's approval of plans to reduce balances of HFA bonds covered by TCLP during the extension period. Continued market surveillance and monitoring of participating HFAs will take place in FY 2015.