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FAQs: Purchasing Direct Obligations of Housing-Related GSEs

Federal Reserve System: Federal Reserve Bank of New York

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FAQs: Purchasing Direct Obligations of Housing-Related GSEs

The following is intended to address operational questions about the program to purchase the direct obligations of housing-related government-sponsored enterprises (GSEs) Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

Effective August 20, 2010

General

What is the policy objective of the Federal Reserve's program to purchase direct obligations of the housing-related GSEs?

The goal of these debt purchases, combined with the purchases of mortgage-backed securities (MBS) backed by Fannie Mae, Freddie Mac and Ginnie Mae announced on November 25, 2008, is to reduce the cost and increase the availability of credit for the purchase of houses. Purchases of housing-related GSE direct obligations are intended to narrow the spreads between rates on GSE direct obligations and U.S. Treasury debt. On March 18, 2009, the FOMC reaffirmed this goal by expanding the GSE direct obligation purchase program by up to \$100 billion, to a total of up to \$200 billion. On September 23, 2009, the FOMC announced its intention to gradually slow the pace of these purchases and to execute them by the end of the first quarter of 2010 and on November 4, 2009 the Committee announced its intention for purchases to total about \$175 billion.

What type of GSE direct obligations will the Federal Reserve purchase under the program?

The Federal Reserve purchases fixed-rate, non-callable, senior benchmark securities issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Prior to August 31, 2009, purchases were focused on off-the-run securities in that category. Going forward, purchases will include on-the-run securities in that category. Subsequently, purchases have included on-the-run securities in that category. This change represented a technical adjustment designed to mitigate market dislocations and to promote overall market functioning. Over the course of the program, the Federal Reserve may change the scope of purchasable securities.

How much will the Desk purchase in any one agency issue?

Desk purchases will not result in SOMA ownership that reduces the availability of agency issues to levels which materially compromise liquidity and market functioning. In addition, the Desk may restrict purchases to ensure that SOMA holdings do not represent an excessively large ownership concentration in any one issue.

Who is eligible to sell GSE direct obligations to the Federal Reserve under the program?

Primary dealers are eligible to transact directly with the Federal Reserve and are encouraged to submit offers for themselves and their customers.

How long will the program be in place?

The program to purchase about \$175 billion in GSE direct obligations will be in place through the end of the first quarter of 2010.

Are these operations reserve neutral?

No, these operations are financed through the creation of additional bank reserves.

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