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The Rescue of Fannie Mae and Freddie Mac – Module D: Treasury's GSE MBS Purchase Program

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Abstract

As the housing crisis escalated during the second half of 2007, two government-sponsored enterprises (GSEs), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), occupied an increasingly central role in the secondary mortgage market, purchasing a greater percentage of new mortgages as private securitization rapidly contracted. As their importance in this market grew, the two GSEs also began to suffer billion-dollar losses, inciting concerns that they might not be able to stay solvent throughout the remainder of the crisis. On September 6, 2008, fearing the systemic consequences of the two firms' failures, the GSEs' new regulator, the Federal Housing Finance Agency (FHFA), took both entities into indefinite conservatorships as one step of a four-part rescue of the GSEs, which included the U.S. Treasury's establishment of a GSE MBS purchase program (GSE MBS Program). This case examines the GSE MBS Program, pursuant to which Treasury purchased $225 billion in GSE MBS in the open market, and finds it difficult to quantify the program's exact impact given the simultaneous implementation of other measures for the GSEs as well as the Federal Reserve's later adoption of its own MBS purchase program.

Keywords: GSEs, Fannie Mae, Freddie Mac, FHFA, Treasury, MBS, secondary mortgage market, housing crisis

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[1] The Yale Program on Financial Stability (YPFS) has written 7 case studies that examine in detail the various elements of the government's rescue of the GSEs:

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Treasury's GSE MBS Purchase Program

At a Glance

During the summer of 2008, the US housing and mortgage markets experienced severe distress because of the subprime mortgage crisis. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were publicly traded government sponsored enterprises (GSEs) that by the end of 2007 guaranteed or owned approximately 50% of outstanding US mortgages. The firms, which had increased their exposure to subprime and Alt-A mortgages, funding their growth by dramatically increasing their leverage, began posting increasing losses. The Federal Reserve agreed to provide liquidity to the companies – if needed – in an attempt to reassure their investors and counterparties. However, problems persisted.

As a result, on September 6, 2008, with both firms barely solvent, the Treasury placed both GSEs into conservatorship pursuant to a four-part rescue plan that included the Treasury's creation of a facility to purchase mortgage-backed securities (MBS) issued by the GSEs (the GSE MBS Program). The amount and timing of the purchases were open-ended and at the discretion of the Treasury Secretary. The program was implemented quickly using third party financial agents. Purchases of GSE MBS in the open market began in September 2008 and continued through December 31, 2009, when Treasury's authority to purchase these securities ended. In total, Treasury purchased $105.9 billion of Freddie Mac MBS and $114.8 of Fannie Mae MBS, for a total of $220.8 billion (face value), investing $225 billion.

Summary of Key Terms

Purpose: To support the distressed housing finance market by purchasing GSE MBS on the open market.

Announcement Date	September 6, 2008
Operational Date	End of September 2008
Expiration Date (New Purchases)	Dec. 31, 2009
Announcement of Program Wind-Down	March 11, 2011
Final MBS Sale Date	March 19, 2012
Legal Authority	HERA §1117
Peak Utilization	$225 billion
Sponsor	U.S. Treasury
Financial Agents	State Street, Barclays, Smith Graham Investment Advisors, JPMorgan Chase

On March 21, 2011, the Treasury announced that it would sell off its remaining GSE MBS Program portfolio (face value of $142 billion) at a rate of no more than $10 billion per month, so as to not disrupt the markets. Sales were concluded in March 2012 and the Treasury reported that it had received total revenue of $250 billion for a profit to taxpayers of $25 billion.

Summary Evaluation

It is difficult to isolate what effect the Treasury's GSE MBS Program had. It was one component of the government's four-part GSE rescue plan and shortly after it began operations the Federal Reserve also began purchasing GSE MBS in volumes that dwarfed the Treasury's program (ultimately buying $1.2 trillion). There is some evidence that the GSE MBS Program may have been too small to have any impact. The mortgage market did begin to recover in late 2008. However, authorities disagree whether and how much of this shift was due to the GSE MBS Program, with most of the impact being credited to the Federal Reserve program.

Contents

I. Overview

Background

In 2007 and 2008 the United States (US) mortgage market experienced severe distress as the exuberant housing market began to slow. In particular, rates of default on subprime and Alt-A (collectively, nonprime) mortgages increased dramatically and housing prices fell. Mortgage lending and private mortgage securitization contracted severely, which in turn fueled additional defaults and devaluations of mortgage-related assets held by a wide range of domestic and foreign banks and financial institutions.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are publicly traded government sponsored enterprises (GSEs) authorized by congressional charter to support the residential mortgage market by creating a secondary market and advancing affordable housing policy. At the end of 2007, Fannie Mae and Freddie Mac collectively held or guaranteed $5.3 trillion in mortgage debt, approximately half of all outstanding mortgages in the U.S. (FCIC Report 2010). Because private securitization of mortgages had contracted, it was critical for the GSEs to continue to support the market during this period, which they did even though the new mortgages that the firms guaranteed and bought included higher percentages of nonprime mortgages.

As defaults on the mortgages that the GSEs had guaranteed increased, so too did their liabilities.[4] The firms' investment portfolios also suffered because of devaluations and in July 2008, the GSEs posted a combined $14.2 billion in losses for the first half of 2008 highlighting the severity of the situation (Frame et. al 2015). Additionally, during recent years the firms had increased their leverage and reliance on short term financing while their capital remained at less than 2%, as was permitted by law (FCIC Report 2011). Investors pulled back from funding the firms as they struggled.

Treasury and the Federal Reserve moved quickly to make additional liquidity available to the firms. However, such measures were not enough and it soon became clear that the GSEs would not be able to weather the correction on their own. It was almost certain that if they failed, the US housing market would fail with them. Therefore, on September 6, 2008, the firms' new regulator, the Federal Housing Finance Agency (FHFA)[5], placed them under conservatorship as one component of a four-part rescue plan.[6] (Treas. PR 09/07/2008).

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[4] Most of the cumulative losses (73%) experienced by the firms during 2008 would occur in the single-family mortgages that they guaranteed including Alt-A mortgages (FCIC Report 2011).

[5] The FHFA was created by the Housing and Economic Recovery Act of 2008 (HERA). For more information on the HERA, see Thompson 2018 E.

[6] Conservatorship is similar to a bankruptcy reorganization procedure as compared to a liquidation. This action was permitted by the Housing and Economic Recovery Act (HERA), which was enacted on July 30, 2008. A resolution process was needed because the GSEs were exempt from the Bankruptcy Code. The HERA also gave the Treasury the ability to make unlimited debt and equity investments in Fannie Mae, Freddie Mac

The next day the Treasury Department announced three additional components of the rescue plan: 1) to enter into senior preferred stock purchase agreements with both Fannie Mae and Freddie Mac, 2) to establish a credit facility, and 3) to establish an MBS purchasing facility to purchase MBS issued by the GSEs. (Treas. PR 09/07/2008).

Program Description

The GSE MBS Program was established pursuant to the Housing and Economic Recovery Act of 2008 (HERA)[7], which had been adopted in July 2008 at the urging of Secretary Paulson and others as the housing crisis, and its effects on Fannie Mae and Freddie Mac, worsened. The program was intended to "support the availability of mortgage financing for millions of Americans," and "promote secondary market stability." (Treas. PR 09/07/2008, Treas. Housing GSE Programs 2012). The dilemma facing the government in September 2008 was that Fannie Mae and Freddie Mac were key to the recovery of the mortgage market, which was reeling from the housing crisis, particularly since private securitization had contracted severely. Yet, the more mortgages the GSEs purchased and guaranteed, the more risk the weakened firms absorbed against a capital base that was by all accounts insufficient (FCIC Report 2011). This was especially true since a greater proportion of new mortgages were nonprime, Alt-A and subprime mortgages, which were at the greatest risk of default (FCIC 2011a). And stabilizing the GSEs might not be enough to prevent the collapse of the housing market if they could not continue to purchase and guarantee loans at least at traditional rates. As a result, the government established the GSE MBS Program to purchase new GSE MBS directly in the open market to support the secondary market for housing finance.

As announced, the size and timing of the GSE MBS Program were not stated definitively but were characterized as being at the discretion of the Treasury Secretary, and purchases were limited to only MBS issued by the two GSEs (Ibid.). The scale of the program was to be based on developments in the capital markets and housing markets (Treas. Fact Sheet 09/07/2008). No dollar limits were stated, so, in theory the upper limit was subject to the statutory debt limit (which the passage of HERA increased by $800 billion in order to accommodate the possible rescue of the firms).

The Treasury had discretion to hold the purchased MBS to maturity, or based on market conditions, to sell parts of it or otherwise adjust the portfolio (Ibid.).

Utilization of Financial Agents

Trading in GSE MBS is a sophisticated business requiring specialized knowledge and resources. It is a business that the Treasury does not regularly engage in. Therefore, the

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and the Federal Home Loan Banks and increased the federal debt ceiling by $800 billion, to $1.6 trillion, to provide funds for such endeavors, if needed. (FCIC 2011b).

[7] Pub. L. 110-289, 122 Stat. 2654, approved July 30, 2008. The HERA authorized the Secretary of the Treasury to support Fannie Mae, Freddie Mac, and the Federal Home Loan Banks by purchasing obligations and other securities from these GSEs. It also created a new regulator for Fannie Mae and Freddie Mac, the FHFA.

Treasury hired independent asset managers specializing in such trading as financial agents to administer the GSE MBS Program for it and manage the portfolio. Using financial agents enabled the Treasury to quickly access the expertise needed to speedily implement the program. (Treas. FAQs 03/02/2011).

The financial agents were selected by Treasury in a multi-step review process. In late August 2008, Treasury reviewed a list of the 20 largest fixed-income asset managers in the United States that had been provided by Morgan Stanley, which the Treasury had hired to advise it in evaluating the GSEs and the housing finance market. Within a week, Treasury had narrowed this list to 10 firms with expertise in MBS. The 10 firms signed non-disclosure agreements, and the Treasury requested detailed proposals from all 10. Seven companies provided proposals, Treasury held interviews with five of them, and selected two (see Treasury audit report OIG-12-061 for further details of the selection process.) Agreements, including a fee structure lower than any that the seven firms had proposed, were offered by Treasury and accepted by the two firms that were appointed: State Street Global Advisors (State Street) and Barclays Bank PLC (New York) (Barclays). (OIG-12-061).

State Street and Barclays each signed a Financial Agency Agreement (FAA) that outlined the responsibilities of the parties and certain other operating requirements such as confidentiality.[8] Treasury chose two agents because it believed that it was prudent that no single agent be fully aware of its market involvement and that it would obtain more market information. (Ibid.)

While an audit report from the Treasury's Office of Inspector General (OIG) found the selection, process followed by Treasury reasonable, especially considering the exigent circumstances at the time, it nonetheless criticized the department for not having a policy for selection of financial agents and for not maintaining a record to support its evaluation and selection. It recommended that such a policy be adopted and that in the future, some form of written notes of the process be maintained to be consistent with government rules.[9]

State Street and Barclays were both active while the Treasury was purchasing MBS under the program. After the Treasury's purchasing power expired on December 31, 2009, the FAA with Barclays was terminated as the Treasury decided that it needed only one agent to manage the portfolio.

Treasury also hired JPMorgan Chase Bank N.A, (JPMChase) to serve as custodian for the portfolio, through a non-competitive process because of its prior custodian experience and familiarity with Treasury operations. (OIG-12-061).

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[8] State Street signed on September 15th and Barclays signed on September 18th, the same day that JPMChase signed an FAA limited to custodial and accounting services. (Ibid.).

[9] Treasury agreed with the OIG's recommendations and also replied that it had consciously failed to comply with documentation standards because of the exigent circumstances, staffing, and the need for confidentiality. (OIG-12-061).

Guidelines and Instructions

Both financial agents were subject to guidelines developed by the Treasury to further the objectives of promoting market stability, ensuring mortgage availability, and protecting the taxpayer, including managing risk and avoiding losses. (OIG-13-030). Specific guidelines addressed: strategic parameters for Treasury trading, safeguarding confidential information, and ongoing monitoring by the Treasury to ensure that programmatic goals were achieved. (Ibid.). The latter was accomplished by the Treasury through ongoing communication with agents' senior management, daily monitoring of trades, and site visits to the agents' trading floors.[10]

Treasury terminated its FAA with Barclays in December 2009 at the expiration of its authority to purchase agency MBS. At that time, the remainder of the GSE MBS portfolio held by Barclays was transferred to State Street, which managed the combined portfolio for Treasury until sold. (OIG-13-030).

Outcomes

Noting that the market for GSE MBSs had significantly improved, on March 21, 2011 the Treasury announced that it would begin to sell off its remaining MBS portfolio, then with a face value of $142 billion, and wind down the GSE MBS Program. (Treas. PR 03/21/2011). The Treasury intended to sell the portfolio at a rate of no more than $10 billion (face value) per month, as market conditions allowed, so as to not disrupt the markets. (Ibid). The sales were managed by State Street with the assistance of Smith Graham Investment Advisors, which it hired as a contractor. (OIG-13-030).

Sales of the Treasury's GSE MBS portfolio were concluded on March 19, 2012 and the department reported that it had received total revenues of $250 billion for a profit to taxpayers of $25 billion. (Treas. PR 03/19/2012).

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[10] A second Treasury audit report describes in detail the Treasury's monitoring of the agents and found that the Treasury administered the program consistent with its authority under HERA. However, the report criticized the department on two points. First, the department failed to document its monitoring actions, and secondly, it failed to properly assess the need for a physical ethical wall to preserve confidentiality. The Treasury accepted both recommendations and both should be considered in undertaking any future similar program. (OIG-13-030).

Figure 1: Treasury Purchases of Fannie Mae and Freddie Mac MBS[11]

Period	Purchases of: Freddie Mac MBS	Purchases of: Fannie Mae MBS
September 2008	$2.5	$0.9
October 2008	4.3	11.6
November 2008	10.0	10.5
December 2008	10.3	18.1
January 2009	7.4	13.9
February 2009	11.9	2.8
March 2009	10.2	9.2
April 2009	5.5	11.2
May 2009	5.7	6.9
June 2009	5.6	3.4
July 2009	9.4	1.7
August 2009	3.8	5.9
September 2009	4.4	5.2
October 2009	6.7	3.0
November 2009	6.6	3.1
December 2009	1.7	7.6
Total[2]	$105.9	$114.8
Total Purchases	**$220.8**	

Source: *FHFA, "Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities"*

II. Key Design Decisions

1. The GSE MBS Program was authorized under HERA.

The GSE MBS Program was authorized under the HERA, which was actively pursued by the Treasury and others and adopted in July 2008. (FCIC Report 2012). The department recognized the systemic importance of the two entities that as of the end of 2007 financed or guaranteed 50% of outstanding residential mortgages, and anticipated that they might not be able to survive the housing correction on their own (FCIC Report 2010). By the end of 2007, the entities were purchasing 75% of new mortgages, two times the level of a year earlier, a strong indication of how the private securitization market had dried up. (FCIC Report 2010.)

HERA provided several broad authorities to the Treasury Secretary, the newly created FHFA, and Federal Reserve that led to creation of a four-part rescue plan in September 2008, which included the GSE MBS Program. The Secretary's use of the granted authority was conditioned on a finding that an emergency existed, i.e., that such actions were necessary to:

i. "provide stability to the financial markets;

[11] Treasury's GSE MBS purchase program terminated on December 31, 2009. Columns may not sum to total due to rounding.

ii. prevent disruptions in the availability of mortgage finance; and

iii. protect the taxpayer" (HERA Sect. 1117(a)).

The Treasury's September 7, 2008, press release affirmed these objectives as support for the rescue plan.

The fate of Fannie Mae and Freddie Mac differed from that of other large companies which came under severe financial duress during the fall of 2008. The government was proactive in evaluating the decline of the companies, sought expanded remedial authority, and proactively crafted a solution before the companies faced imminent failure. This is most likely due to their status as GSEs, the recognized fact that the companies' concentration in the housing finance market was systemic, and that there existed an implied governmental guarantee that was known to have been relied upon by investors. (Treas. PR 09/8/2008).

2. The GSE MBS Program was one component of a four-part rescue plan designed to save the two GSEs from insolvency and to prevent the parallel collapse of the housing market.

The GSE MBS Program was announced in conjunction with the conservatorship of Fannie Mae and Freddie Mac, and was part of the four-part rescue plan for the entities designed to prevent their insolvency and the concomitant collapse of the housing market. The program was not meant to function alone, without other simultaneous action, but was a key component of the objectives of the rescue plan, particularly the second one – to stabilize the companies, maintain the housing finance market, and protect the taxpayers. (Ibid).

By the fall of 2007 private MBS securitization had been severely constricted as investors shied away from real estate assets. Large lenders began holding loans that they had previously securitized. Smaller lenders that could not sell their loans failed and others told the GSEs that they too would fail if the GSEs did not continue to purchase their loans. In August 2007 the GSEs asked their regulators to expand their ability to purchase more loans, a request which was originally denied, but later granted, in mid-September, as the mortgage market became even more constricted. By the fourth quarter of 2007, the GSEs were purchasing 75% of new mortgages, twice the 2006 rate. (FCIC Report 2011).

The companies' weakened states would not allow them to continue purchasing mortgages at historic rates. [12] (Treas. PR 09/8/2008). Yet, without a viable secondary market, the mortgage market would continue to contract disabling not only housing but potentially the wider economy as well. By purchasing MBS issued by the firms, the Treasury helped maintain the secondary market for mortgages, in effect stepping in to perform a role that the GSEs could no longer play and providing confidence to investors. However, it was critical that the GSE MBS Program be part of a comprehensive plan. (Treas. PR 09/8/2008). Stabilizing the GSEs might not have been enough to prevent the collapse of the housing

[12] It is worth noting that the Office of Federal Housing Enterprise Oversight (OFHEO), the GSEs regulator prior to the FHFA, was criticized in June 2008 when it increased the firms' allowable investment portfolios by $50 billion to address the contraction in the mortgage market even though it recognized then that the firms were in a weakened status. (FCIC Report 2011).

market if they could not continue to purchase and guarantee loans at least at traditional rates. Moreover, if the Treasury merely backstopped the secondary market, without the other elements (capital and liquidity), the firms still might have collapsed sending shockwaves throughout the market and the economy.

3. The GSE MBS Program was limited to purchasing GSE MBS in the open market.

Pursuant to the HERA, the Treasury Secretary was authorized to purchase any obligation or other security issued by the GSEs on such terms and conditions as he determined. However, the GSE MBS Program, as established, was limited to purchasing only MBS issued by Fannie Mae and Freddie Mac. The Treasury purchased $220.8 billion (face value) in GSE MBS pursuant to the program: $114.8 billion of Fannie Mae MBS, and $105.9 billion of Freddie Mac MBS, which was consistent with the stated aim of the rescue plan. The department purchased the GSE MBS in the open market rather than from the enterprises directly.

This had two benefits. First, it maintained the flow of funding to mortgage originators as the GSEs continued buying mortgages to bundle into its MBS, a critical need since private securitization had drastically contracted. Second, by purchasing in the open market rather than from the GSEs directly, the program supported the weakened market for new GSE MBS by stimulating the private market rather than by merely replacing it. Investors would be more likely to purchase new GSE MBS given the possibility that they could also sell the securities if need be.

4. Treasury could purchase an unspecified amount of securities under the GSE MBS Program.

The HERA granted the Treasury temporary, but unlimited, authority to invest in the GSEs and their securities and obligations, terms that Secretary Paulson had pushed for. The HERA also granted discretion to the Treasury Secretary to determine when to exercise such purchasing authority and the scale of such exercise.

Pursuant to this authority, the GSE MBS Program was announced without any authorized amount or limit (other than limits related to the Treasury debt limit), leaving open different possibilities. This open-ended announcement was done primarily to signal to the markets and investors 1) the Treasury's willingness to purchase as much MBS as necessary, and 2) that the size of the problem was not known. (Paulson 2010). It also signaled that the Secretary and department would be closely monitoring developments in the capital and housing markets and stood ready and able to act accordingly. (Treas. PR 9/8/2008).

The Treasury began purchases of GSE MBS in September 2008 from the open market and continued to make purchases each month thereafter. Monthly amounts purchased from the GSEs varied widely from $0.9 billion to a high of $18.1 billion and amounts purchased from each GSE fluctuated. Purchases were conducted by the financial agents at the direction of the Treasury, which continuously monitored the agents' activities. Ultimately, Treasury purchased a total of $225 billion of agency MBS prior to the expiration of its purchasing authority in December 2009.

5. **Treasury designated independent asset managers as financial agents, whose role was to purchase GSE MBS on behalf of Treasury and to manage the resulting portfolio.**

Trading in MBS is a complex and sophisticated skill that requires specialized knowledge, technology, and other resources. Treasury did not engage in such trading on an ongoing basis. Moreover, it would have demanded considerable resources for Treasury to hire appropriate staff into the department at a time when they were already strained, and would have diverted staff from other critical matters they were dealing with in the crisis. Such a project would also have taken time, delaying the implementation of the program.

Instead, the Treasury chose independent financial advisers with expertise in trading GSE MBS to administer the GSE MBS Program, utilizing a multi-tiered selection process. The Treasury selected two advisers, State Street and Barclays, to build competition into the process, and so that no single agent would know its entire trading strategy. Utilizing independent advisers enabled the department to tap the best experts in the area and to quickly operationalize the GSE MBS program. Financial advisers also promoted efficiency and minimizing operational and financial risks.

The Treasury began evaluating potential advisers in late August, announced the rescue plan on September 6, signed FAA agreements on September 15, and made its first purchases shortly thereafter. The quick implementation was critical to maintaining the secondary mortgage market as the capacity of the GSEs evaporated. There is no way of knowing what impact the mere announcement of the program would have had if not followed by speedy implementation. Treasury staff closely monitored the agents' activities and trades and instructed them on the purchases to be made, a role which optimized their already over-burdened ranks.

6. **Although it was authorized to hold the MBS portfolio to maturity, Treasury opted to unwind its positions as market conditions improved.**

Under HERA and the GSE MBS Program it was within the Treasury's discretion to decide how long to hold the MBS that it purchased, including retaining the securities until their maturity. In March 2011, when the Treasury announced that it would begin the sale and wind-down of its portfolio of MBS, it also stated that the market for the securities had greatly improved. (Treas. PR 03/21/2011). Sales were to be conducted at a "gradual and orderly pace to maximize the recovery of taxpayer dollars and help protect the process of repair of the housing finance market." (Ibid.). Sales could occur daily but would not be conducted according to pre-scheduled times or preannounced sizes of individual trades. Sales would be in amounts up to $10 billion per month (subject to adjustment per market conditions).

State Street managed MBS sales with the assistance of Smith Graham Investment Advisors, which it hired as a contractor to assist it. (OIG-13-030). At the announced rate, it was expected that the Treasury would have disposed of the portfolio within a year and it was also expected that there would be a profit to the taxpayer, both of which proved to be true.

Sales of MBS were concluded on March 19, 2012. In total, sale of the Treasury's GSE MBS portfolio, originally acquired at a cost of $225 billion, generated revenue of $250 billion, returning to taxpayers a profit of $25 billion from sales, principal, and interest. (Treas. PR 03/19/2012).

7. Treasury implemented the GSE MBS Program with deliberate transparency.

Fannie Mae and Freddie Mac were systemically important to the residential finance market and their shares, debt, and MBS were widely held by many investors including financial institutions, pension funds, state and local governments and foreign central banks. Any failure or deterioration of the companies could have significant and far-reaching consequences. (FCIC 2011). Moreover, given the expected size of the GSE MBS program, and then the sales, there would naturally be concern about the impact that such large trades could have. (Treas. PR 03/19/2011). Additionally, because of the implied government guarantee, deterioration of the firms could reverberate negatively and affect the credit stability of the government itself. (Paulson 2010).

Mindful of these concerns, the Treasury undertook to maintain transparency with respect to the GSE MBS Program and communicated frequently regarding its rationale and actions. The press releases and other public communications relating to the program shared the following characteristics: (1) placed the GSE MBS Program within the context of the broader rescue plan for Fannie Mae and Freddie Mac, (2) discussed the program's implications for the housing finance market, and (3) conveyed a message that the Treasury was constantly monitoring the markets and could and would adjust its activities as market conditions warranted. Press releases, and the Frequently Asked Questions[13] that accompanied them, provided additional program details and anticipated concerns. Data regarding the amount of GSE MBS purchases, and then sales, (broken down by coupon and agency) were included in the Final Monthly Treasury Statement of Receipts and Outlays of the United States Government posted on the department's website monthly where they were publicly available.

III. Evaluation

For several reasons, it is difficult to isolate what effect the Treasury's GSE MBS Program had. First, it was one component of the government's four-part GSE rescue plan. Secondly, shortly after it began operations, the Federal Reserve[14] also began purchasing GSE MBS in volumes that dwarfed the Treasury's program.

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[13] For example, the FAQs accompanying the announcement of the sale of the portfolio discuss what information would be made available and when and explain the department's rationale. Treasury also published a monthly report of broker-dealer market shares for MBS sales, which was intended to "both maximize taxpayer returns and provide additional transparency." (Treas. FAQ 03/21/2011).

[14] The Treasury GSE MBS program was separate from, but related to, the Federal Reserve MBS purchase Program, also known as the Large Scale Asset Purchase (LSAP) Program. The Federal Reserve MBS Purchase Program was announced on November 25, 2008, and purchases began on January 5, 2009 and continued

The Treasury purchased $3.4 billion, $15.9 billion, and $28.4 billion of GSE MBS in September, October, and November 2008, respectively, but there is some evidence that the impacts were lackluster. An article in National Mortgage News on October 27, 2008, quoted one analyst saying that the effect of the program had been minimal and that government efforts needed "to be aggressive and more public to impact pricing in this part of the MBS market." (Collins 2008).

A month later, the Federal Reserve announced that it would purchase up to $500 billion in GSE MBS as part of its quantitative easing program. (Fed Res PR 11/25/2008). The reasons given for the Federal Reserve's program also indicated that the Treasury's GSE MBS Program, although it had been in place for almost two months, was not having the intended effect on the housing finance markets:

> Spreads of rates on GSE debt and on GSE-guaranteed mortgages have widened appreciably of late. This action is being taken to reduce the cost and increase the availability of credit for the purchase of houses, which in turn should support housing markets and foster improved conditions in financial markets more generally (Federal Reserve 11/25/2008).

Mortgage spreads did begin to fall in late 2008. However, authorities disagree whether this shift was due to the government's programs. Stroebel and Taylor (2012) considered the two interventions together. After controlling for default risk and prepayment risk, they concluded that only a small amount of the narrowing of the spreads was attributable to the programs. And it is possible that the majority of any such impact was related to the much larger Federal Reserve program.

Hancock and Passmore (2011) also considered the Federal Reserve's MBS purchase program but concluded that it "substantially improved market functioning and provided a strong statement of government support for U.S. mortgage markets." Specifically, the authors found that the announcement of the Federal Reserve's program "which signaled strong and credible government backing for mortgage markets in particular and for the financial system more generally, reduced mortgage rates by about 85 basis points between November 25 and December 31, 2008, even though no MBS had (yet) been purchased by the Federal Reserve."

Overall, the authors concluded that the Federal Reserve's MBS purchase program had a positive effect, reestablished normal market pricing in the MBS market, and resulted in lower mortgage rates of roughly 100 to 150 basis points. The program also restarted a viable secondary mortgage market restoring the funding of mortgages from capital markets and keeping rates lower than if there were no secondary market (Ibid). By July 2009, rates had returned to their long-term average.

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through March 31, 2010. Overall, the Federal Reserve GSE MBS Purchase Program bought $1.25 trillion of GSE MBS. For more information on the LSAP Program, see Thompson 2018 F.

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V. Key Program Documents

Summary of Program

- Fact Sheet: GSE Mortgage Backed Securities Purchase Program, U.S. Treasury Department Office of Public Affairs, September 7, 2008 – *document outlining the terms and set up of the GSE MBS Program.*
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- Frequently Asked Questions on Treasury's Program to Sell MBS, U.S. Treasury Department Office of Public Affairs 2011 – *document explaining the Treasury's plan to sell its GSE MBS portfolio.*
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Legal/Regulatory Guidance

- Housing and Economic Recovery Act of 2008 – *law authorizing the Treasury to establish the GSE MBS Program. http://som.yale.edu/sites/default/files/GPO_Authenticated%20Law%20HERA.pdf*

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- *Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers (09/07/2008) – Treasury announces a four-part rescue plan for the GSEs, including the GSE MBS purchase program. https://www.treasury.gov/press-center/press-releases/Pages/hp1129.aspx*
- *Remarks by Treasury Secretary Henry M. Paulson, Jr.* (01/07/2009) – *Secretary Paulson's remarks on the role of the GSEs and recent government interventions to support the housing market. https://www.treasury.gov/press-center/press-releases/Pages/hp1345.aspx*
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Reports/Assessments

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- Audit Report OIG-12-061 (Office of Inspector General, Department of the Treasury 2012) – *Audit of GSE MBS Program that focusses on Treasury's selection of financial agents. http://som.yale.edu/sites/default/files/Treasury%20OIG%20Report%20OIG-13-030.pdf*
- *Audit Report OIG-013-030 (Office of Inspector General, Department of the Treasury 2013) – Audit of GSE MBS Program that focusses on Treasury's implementation of the program and monitoring of the financial agents. https://www.treasury.gov/about/organizational-structure/ig/Audit%20Reports%20and%20Testimonies/OIG13030.pdf*
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- Housing Government Sponsored Enterprise Programs (Department of the Treasury FY2012) – *Report discussing the status of the department's several GSE programs. http://som.yale.edu/sites/default/files/Treasury-Housing%20GSE%20Programs%202012.pdf*
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