United States Government Accountability Office

Report to the Chairman, Committee on Banking, Housing, and Urban Affairs U.S. Senate

November 2016

FEDERAL HOUSING FINANCE AGENCY

Objectives Needed for the Future of Fannie Mae and Freddie Mac After Conservatorships

Accessible Version

GAO-17-92

FEDERAL HOUSING FINANCE AGENCY

Objectives Needed for the Future of Fannie Mae and Freddie Mac After Conservatorships

GAO Highlights

Highlights of GAO-17-92, a report to the Chairman, Committee on Banking, Housing, and Urban Affairs, United States Senate

Why GAO Did This Study

In 2008, FHFA used its authority under the Housing and Economic Recovery Act to place Fannie Mae and Freddie Mac into conservatorships out of concern that their deteriorating financial condition threatened the stability of the financial market. Eight years later, the enterprises remain in conservatorships. However, FHFA says the conservatorships were not intended to be permanent. FHFA has issued two strategic plans for its conservatorship of the enterprises, one in 2012 and another in 2014.

GAO was asked to examine FHFA's actions as conservator. This report addresses (1) the extent to which FHFA's goals for the conservatorships have changed and (2) the implications of FHFA's actions for the future of the enterprises and the broader secondary mortgage market.

GAO analyzed and reviewed FHFA's actions as conservator and supporting documents; legislative proposals for housing finance reform; the enterprises' senior preferred stock agreements with Treasury; and GAO, Congressional Budget Office, and FHFA inspector general reports. GAO also interviewed FHFA and Treasury officials and industry stakeholders.

What GAO Recommends

Congress should consider legislation that would establish clear objectives and a transition plan to a reformed housing finance system that enables the enterprises to exit conservatorship. FHFA agreed with our overall findings.

View GAO-17-92. For more information, contact Lawrance L. Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

What GAO Found

The Federal Housing Finance Agency (FHFA) issued a new strategic plan for the conservatorships of Fannie Mae and Freddie Mac (the enterprises) in 2014 with reformulated goals and supporting actions that reflect a shift in priorities and changing market conditions. While the three goals in the 2014 strategic plan are broadly similar to those in the previous plan issued in 2012, FHFA changed the weight and wording of the goals (see table) to align the plan more closely with FHFA's statutory responsibilities. Specifically, compared with the 2012 plan FHFA (1) increased its emphasis on maintaining credit availability and foreclosure prevention options; (2) shifted away from shrinking the enterprises as a way to reduce taxpayer risk (focusing instead on transferring credit risk to private investors, for example); and (3) reduced the scope of the securitization infrastructure being built, such as a new technology platform for securitizing mortgages, to focus on meeting the enterprises' current needs.

Changes in the Wording of the Federal Housing Finance Agency's Goals for the Conservatorships of Fannie Mae and Freddie Mac between the 2012 and 2014 Strategic Plans

Goal	2012 plan wording	2014 plan wording
Maintain	Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages	Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets
Contract/ Reduce	Gradually contract the enterprises' dominant presence in the marketplace while simplifying and shrinking their operations	Reduce taxpayer risk through increasing the role of private capital in the mortgage market
Build	Build a new infrastructure for the secondary mortgage market	Build a new single-family securitization infrastructure for use by the enterprises and adaptable for use by other participants in the secondary market in the future

Source: GAO analysis of Federal Housing Finance Agency 2012 and 2014 strategic plans for the conservatorships. | GAO-17-92

In the absence of congressional direction, FHFA's shift in priorities has altered market participants' perceptions and expectations about the enterprises' ongoing role and added to uncertainty about the future structure of the housing finance system. In particular, FHFA halted several actions aimed at reducing the scope of enterprise activities and is seeking to maintain the enterprises in their current state. However, other actions (such as reducing their capital bases to $0 by January 2018) are written into agreements for capital support with the Department of the Treasury (Treasury) and continue to be implemented. In addition, the change in scope for the technology platform for securitization puts less emphasis on reducing barriers facing private entities than previously envisioned, and new initiatives to expand mortgage availability could crowd out market participants. Furthermore, some actions, such as transferring credit risk to private investors, could decrease the likelihood of drawing on Treasury's funding commitment, but others, such as reducing minimum down payments, could increase it. GAO has identified setting clear objectives as a key principle for providing government assistance to private market participants. Because Congress has not established objectives for the future of the enterprises after conservatorships or the federal role in housing finance, FHFA's ability to shift priorities may continue to contribute to market uncertainty.

Contents

Tables

Figures

Abbreviations

CBO	Congressional Budget Office
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FMIC	Federal Mortgage Insurance Corporation
HERA	Housing and Economic Recovery Act of 2008
HUD	Department of Housing and Urban Development
MBS	mortgage-backed securities
MFA	Mortgage Finance Agency
MIF	Mortgage Insurance Fund
SMAC	Secondary Market Advisory Committee
SPSA	Senior Preferred Stock Purchase Agreement

Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

November 17, 2016

The Honorable Richard Shelby
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate

Dear Mr. Chairman:

On September 6, 2008, the Federal Housing Finance Agency (FHFA) placed the government-sponsored enterprises Fannie Mae and Freddie Mac (the enterprises) into conservatorships out of concern that their deteriorating financial condition threatened the stability of financial markets. At the time, the enterprises guaranteed about $4.5 trillion in mortgage-backed securities (MBS), on par with their current exposure. The Department of the Treasury (Treasury) provided substantial capital support to the enterprises as part of senior preferred stock purchase agreements, as authorized under the Housing and Economic Recovery Act (HERA), so that the enterprises could continue to support mortgage finance through the secondary mortgage market in accordance with their charters.[1] In doing so, Treasury committed to provide funds to the enterprises to avoid insolvency. Before receiving Treasury support, the enterprises' guarantees had been viewed by the market as being implicitly backed by the federal government. This market perception lowered the enterprises' overall cost of doing business. As of September 2016, Treasury had provided about $187.5 billion in funds as capital support to the enterprises, with an additional $258.1 billion available to the enterprises should they need further assistance. In accordance with the terms of the agreements with Treasury, the enterprises had declared and paid dividends to Treasury totaling about $250.5 billion through September 2016.

Congress did not provide direction on reforming the enterprises when it granted conservatorship authority to FHFA. Although the conservatorships have lasted more than 8 years, FHFA has said that the conservatorships were not intended to be permanent.

[1]In the secondary mortgage market, institutions purchase loans from primary market loan originators and then either hold the loans in their own portfolios or bundle the loans into MBS that are sold to investors. The secondary market provides liquidity and reduces risk for mortgage originators.

You asked us to examine FHFA's actions as conservator of the enterprises and the effects of its actions on the future of the enterprises and the secondary mortgage market. This report addresses (1) how FHFA's goals for the conservatorships have changed over time and what actions FHFA has taken to further these goals, and (2) the implications of FHFA's actions for the future of the enterprises and the broader secondary mortgage market.

To address our first objective, we reviewed relevant statutory provisions to understand FHFA's authorities and responsibilities. We analyzed FHFA's 2012 and 2014 strategic plans for the conservatorships to identify key differences in the goals FHFA established and any changes to the actions to be taken to further these goals. We also reviewed FHFA's annual scorecards for the enterprises for 2012–2016 along with various progress reports FHFA issued related to the scorecards and specific initiatives for additional information about the actions FHFA was taking or planned to take.[2] We reviewed public statements from the current FHFA Director and interviewed FHFA officials about the goals and actions to understand the rationale for differences we identified. We also reviewed the enterprises' senior preferred stock purchase agreements with Treasury and interviewed Treasury officials to understand Treasury's role and input into FHFA's decisions and actions.

For our second objective, we reviewed documentation from FHFA, the enterprises, industry stakeholders, the Congressional Budget Office (CBO), the FHFA Inspector General, and our prior reports.[3] In particular, we reviewed CBO's 2014 report on transitioning to alternative structures for housing finance.[4] We compared legislative proposals for reforming the housing finance system introduced from 2014 through 2016 with the alternative structures CBO outlined and with FHFA's actions as conservator to assess whether FHFA's actions appeared to be necessary to transition to alternative structures included in the various proposals.

---

[2]FHFA developed scorecards that lay out specific actions the enterprises are to take to achieve the strategic goals in FHFA's strategic plan for the conservatorships and the weight FHFA put on these activities.

[3]See, for example, GAO, *The Cooperative Model as a Potential Component of Structural Reform Options for Fannie Mae and Freddie Mac,* GAO-11-33R (Washington, D.C.: Nov. 15, 2010) and *Fannie Mae and Freddie Mac: Analysis of Options for Revising the Housing Enterprises' Long-term Structures,* GAO-09-782 (Washington, D.C.: Sept. 10, 2009).

[4]Congressional Budget Office, *Transitioning to Alternative Structures for Housing Finance* (Washington, D.C.: December 2014).

Additionally, we reviewed the enterprises' senior preferred stock purchase agreements with Treasury and the results of their annual stress tests for 2014 through 2016 to identify potential implications of FHFA's actions on the enterprises' future structures and potential draws on Treasury's capital commitment. We also interviewed FHFA officials and industry stakeholders and reviewed industry stakeholders' comment letters to FHFA on a number of proposed and completed actions to understand the potential implications of these actions on the enterprises and the broader secondary market. Industry stakeholders we interviewed included members of an industry advisory group formed by the enterprises to provide feedback and share information on efforts to build a common securitization platform—the American Bankers Association, Mortgage Bankers Association, Securities Industry and Financial Markets Association, and Structured Finance Industry Group—as well as several members of the Association of Institutional Investors.

We conducted this performance audit from May 2016 to November 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Enterprises

Congress chartered Fannie Mae and Freddie Mac as for-profit, shareholder-owned corporations in 1968 and 1989, respectively.[5] They share a primary mission, which is to enhance the liquidity, stability, and affordability of mortgage credit. To accomplish this goal, the enterprises purchase conventional mortgages that meet their underwriting standards, known as conforming mortgages, from primary mortgage lenders such as

[5]Congress initially chartered Fannie Mae in 1938 but did not establish it as a shareholder-owned corporation until 1968. Congress initially established Freddie Mac in 1970 as an entity within the Federal Home Loan Bank System and reestablished it as a shareholder-owned corporation in 1989.

banks or savings associations.[6] Mortgage lenders sell mortgages to transfer risk (especially interest rate risk in the case of fixed-rate mortgages) or increase liquidity. They can use the proceeds from selling mortgages to the enterprises to originate additional mortgages, or they may exchange a pool of mortgages for enterprise-backed MBS, which they can keep or sell. The enterprises package mortgages they purchase into MBS, which are sold to investors in the secondary mortgage market. In exchange for a fee (the guarantee fee), the enterprises guarantee the timely payment of interest and principal on MBS that they issue. These fees are typically incorporated into the interest rates charged to borrowers.[7] The charter requirements for providing assistance to the secondary mortgage markets specify that those markets are to include mortgages on residences for low- and moderate-income families and require the enterprises to support mortgage financing in underserved areas.

FHFA's Authorities and the Conservatorships of the Enterprises

HERA established FHFA as an independent agency responsible for the safety and soundness and housing mission oversight of the enterprises.[8] FHFA took over the oversight of the enterprises from the Office of Federal Housing Enterprise Oversight, formerly an independent entity within the Department of Housing and Urban Development (HUD).[9] FHFA has a statutory responsibility to ensure that the enterprises operate in a safe and sound manner and that the operations and activities of each

[6]For example, the enterprises typically purchase mortgages with loan-to-value ratios of 80 percent or less (mortgages with down payments of at least 20 percent) and require private mortgage insurance on mortgages with higher loan-to-value ratios. The enterprises also have a limit, known as the conforming loan limit, on the size of mortgages they purchase. Mortgages above this limit are called jumbo mortgages. The conforming conventional market differs from other markets, such as the subprime market, which generally have differing underwriting standards, or markets where mortgages are insured or guaranteed by the federal government, such as through programs that the Federal Housing Administration and the Department of Veterans Affairs administer.

[7]However, because of the enterprises' funding advantage relative to banks, interest rates for mortgages sold to the enterprises are often lower than interest rates banks would charge to hold those mortgages in portfolio.

[8]Pub. L. No. 110-289, §§ 1101-1103, 122 Stat. 2654, 2661-2664 (codified at 12 U.S.C. §§ 4511-4513).

[9]Pub. L. No. 110-289, § 1301, 122 Stat. 2654, 2794 (codified at 12 U.S.C. § 4511 note). The Office of Federal Housing Enterprise Oversight was created by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, Pub. L. No. 102-550, tit. XIII, § 1311, 106 Stat. 3941, 3944 (codified at 12 U.S.C. § 4511).

regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets. Additionally, the Emergency Economic Stabilization Act of 2008 directed FHFA and other agencies to implement plans seeking to maximize assistance for homeowners and encourage mortgage servicers to take advantage of available programs to minimize foreclosures.[10]

HERA authorized the Director of FHFA to appoint FHFA as conservator or receiver for the enterprises for the purpose of reorganizing, rehabilitating, or winding up their affairs.[11] As conservator, FHFA was authorized to take such action as may be necessary to put the regulated entity in a sound and solvent condition, as well as such action as may be appropriate to carry on the business of the regulated entity and to preserve and conserve the assets and property of the regulated entity.[12] Upon placing the enterprises into conservatorships, FHFA succeeded by operation of law to the authority of the enterprises' management, boards of directors, and shareholders during the period of the conservatorships. However, according to FHFA, it does not manage every aspect of the enterprises' operations. Instead, FHFA reconstituted the enterprises' boards of directors in 2008 and charged them with overseeing management's day-to-day operation of the enterprises, subject to FHFA review and approval on certain matters. Fannie Mae and Freddie Mac retain their government charters and continue to operate legally as business corporations.

FHFA initially outlined its understanding of its conservatorship obligations and how it planned to fulfill those obligations in a 2010 letter to Congress. In February 2012, FHFA sent Congress a strategic plan that set three

[10]Pub. L. No. 110-343, § 110, 122 Stat. 3775 (codified at 12 U.S.C. § 5220). Mortgage servicers earn a fee for acting as the servicing agent on behalf of the owner of a loan. Servicing duties can involve sending borrowers monthly account statements, answering customer service inquiries, collecting monthly mortgage payments, maintaining escrow accounts for property taxes and hazard insurance, and forwarding proper payments to the mortgage owners. In the event that a borrower becomes delinquent on loan payments, servicers also initiate and conduct foreclosures in order to obtain the proceeds from the sale of the property on behalf of the owners of the loans.

[11]According to FHFA, conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition. In a conservatorship, the powers of the company's directors, officers, and shareholders are transferred to the designated conservator. In contrast, receivership has the goal of liquidating an entity by selling or transferring its remaining assets.

[12]Pub. L. No. 110-289, § 1145, 122 Stat. 2654, 2734 (codified at 12 U.S.C. § 4617).

strategic goals for conservatorship and elaborated on how FHFA planned to meet its conservatorship obligations. Most recently, under the current Director, whose term began in January 2014, FHFA issued an updated strategic plan in May 2014 that reformulated its three strategic goals.

Using its authority provided in HERA, Treasury provides capital support to the enterprises while in conservatorships through senior preferred stock purchase agreements. Under these agreements, Treasury committed to provide up to $445.6 billion in assistance to the enterprises, of which the enterprises have drawn $187.5 billion to date.[13] In exchange, the enterprises pay quarterly dividends to Treasury. Under the current terms of the agreements as amended, Fannie Mae and Freddie Mac must pay to Treasury as dividends all of their quarterly positive net worth amount (if any) over a specified capital reserve amount upon declaration of dividends.[14] However, the agreements reduce this capital reserve amount to zero in January 2018.

Proposals to Reform the Housing Finance System

From 2008 through 2013, the federal government directly or indirectly supported over three-quarters of the value of new mortgage originations in the single-family housing market. Mortgages with federal support include those backed by the enterprises as well as mortgages insured by the Federal Housing Administration (FHA), which has experienced substantial growth in its insurance portfolio and significant financial difficulties. In light of developments concerning the enterprises and FHA, in 2013 we identified the role played by the federal government in the housing finance system as a high-risk area for the government.[15]

Subsequently, Congress considered a number of legislative proposals to make significant changes to the housing finance system. Three

[13]However, since the second quarter of 2012, neither enterprise has requested funds from Treasury because the enterprises' total liabilities have not exceeded their assets.

[14]In lawsuits brought against Treasury and FHFA, shareholders have challenged the 2012 amendment to the agreements. Thus far investors' challenges have largely been unsuccessful. See Perry Capital LLC v. Lew, 70 F. Supp. 3d 208 (2014) (finding that HERA barred a group of investors' actions seeking equitable relief against the FHFA and Treasury); Robinson v. The Federal Housing Finance Agency, No. 7:15-cv-109-KKC (E.D.Ky Sept. 9, 2016) (dismissing an investor's claim that the 2012 amendment to the agreements materially damaged her investments in the enterprises). A number of lawsuits challenging FHFA's and Treasury's actions are still pending as of October 2016.

[15]GAO, *High-Risk Series: An Update,* GAO-13-283 (Washington, D.C.: February 2013).

proposals—the Housing Finance Reform and Taxpayer Protection Act of 2014, S. 1217; the FHA Solvency Act of 2013, S. 1376; and the Protecting American Taxpayers and Homeowners Act, H.R. 2767—were reported out of committee during the 113th Congress (January 2013–January 2015), but no further action was taken.

Enterprises' Share of First-Lien Mortgage Originations

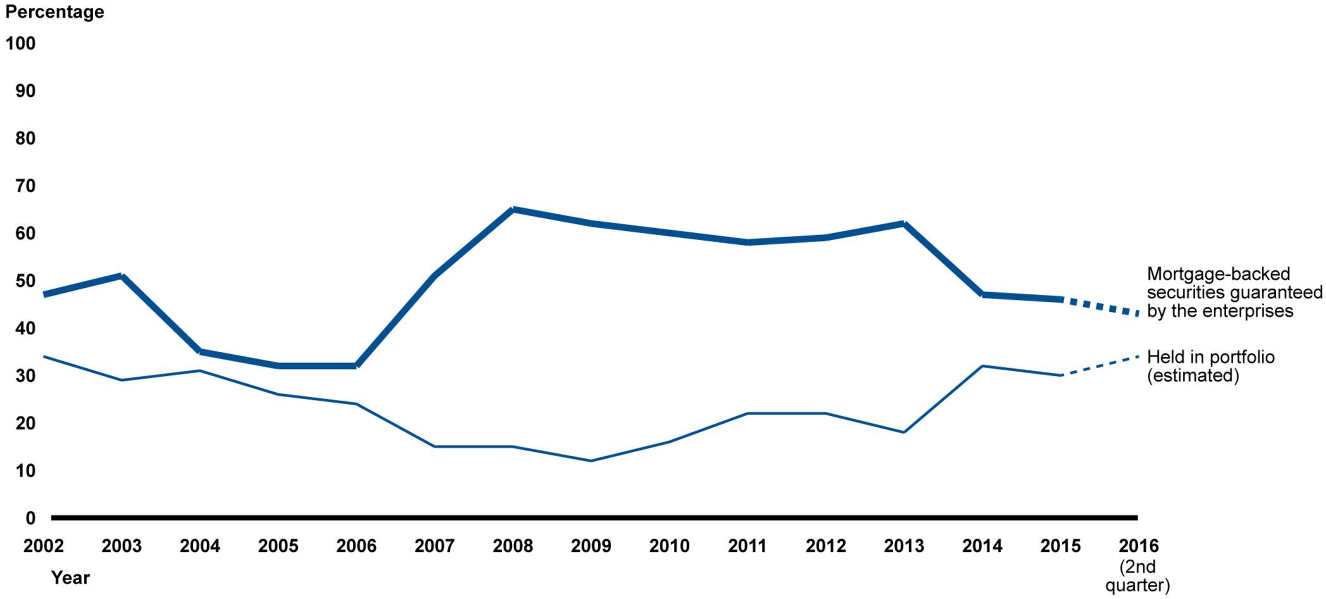
From 2003 to 2006, the enterprises saw the share of total first-lien mortgage originations they securitized into MBS decline from 51 percent to 32 percent (see fig. 1).[16] This decrease coincided with the rapid expansion of nonprime lending and private-label MBS.[17] However, there have been very few new issuances of private-label MBS since 2007. As that segment of the market virtually disappeared, the enterprises' market share increased to a high of 65 percent of total originations in 2008 (even as the dollar volume of originations they securitized decreased from 2007) and remained nearly at that level for several years. Meanwhile, the share of first-lien mortgage originations that banks held in their portfolios generally decreased, from 34 percent in 2002 to a low of 12 percent in 2009.[18] However, the percentage of loans held in banks' portfolios increased from less than 20 percent in 2013 to more than 30 percent in 2014, where it remained through the first half of 2016. Simultaneously, the percentage of loan originations that the enterprises packaged into MBS and guaranteed dropped from 62 percent in 2013 to less than 50 percent in 2014, and fell further to 43 percent during the first half of 2016.

[16]A home mortgage is an instrument by which the borrower gives the lender a lien on residential property as security for the repayment of a loan. A first-lien mortgage creates a primary lien against real property and has priority over subsequent mortgages, which generally are known as junior, or second, mortgages. That is, first liens are the first to be paid when the property is sold.

[17]Nonprime mortgages include subprime and Alt-A loans, which have higher interest rates and fees than prime loans. Historically, subprime mortgages have been offered to borrowers who do not qualify for a prime loan, while Alt-A loans have been offered to borrowers who have some higher-risk characteristics, such as limited documentation of income or assets. Private-label MBS are securities that are not issued or guaranteed by a federal government agency or the enterprises.

[18]We estimated the percentage of first-lien originations held in banks' portfolios based on the value of first-lien mortgages originated and the value of first-lien mortgages securitized by year as reported by Inside Mortgage Finance.

Figure 1: Mortgage-Backed Securities Guaranteed by Fannie Mae and Freddie Mac (the Enterprises) and Mortgages Held in Banks' Portfolios as a Percentage of First-Lien Mortgage Originations, 2002 through Second Quarter 2016



Source: GAO analysis of Inside Mortgage Finance data. | GAO-17-92

Note: A first-lien mortgage creates a primary lien against real property and has priority over subsequent mortgages. First-lien mortgage originations held in banks' portfolios were estimated from data on the value of mortgages originated and the value of mortgages securitized.

FHFA's Reformulated Goals for the Conservatorships and Its Supporting Actions Reflect a Shift in Priorities and Changing Market Conditions

While the three goals FHFA outlined in its 2014 strategic plan for the conservatorships are similar to those in the previous 2012 plan in a number of ways, there are key differences that reflect a shift in priorities for the conservatorships and changing market conditions. Whereas in the 2012 plan FHFA stated that its goals were aimed at establishing a foundation for a new housing finance system in the future, FHFA stated that the 2014 plan and goals emphasize overseeing and managing the enterprises in their current state in accordance with statutory mandates. This shift in priorities is evident in the goals' relative importance as indicated by the weight given to each goal, as well as changes to the wording of the three goals between the 2012 and 2014 strategic plans (see table 1) and the actions FHFA is taking to further these goals. In addition, the previous strategic plan was produced while the enterprises were generating losses and the outlook for future losses was highly uncertain, according to FHFA, but the 2014 plan was issued after a string of profitable quarters for both enterprises.

Table 1: Changes in the Wording of the Federal Housing Finance Agency's Goals for the Conservatorships of Fannie Mae and Freddie Mac between the 2012 Strategic Plan and the 2014 Strategic Plan

Goal	2012 plan wording	2014 plan wording
Maintain	Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages	Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets
Contract/Reduce	Gradually contract the enterprises' dominant presence in the marketplace while simplifying and shrinking their operations	Reduce taxpayer risk through increasing the role of private capital in the mortgage market
Build	Build a new infrastructure for the secondary mortgage market	Build a new single-family securitization infrastructure for use by the enterprises and adaptable for use by other participants in the secondary market in the future

Source: GAO analysis of Federal Housing Finance Agency 2012 and 2014 strategic plans for the conservatorships. | GAO-17-92

FHFA Increased Its Emphasis on Maintaining Credit Availability and Foreclosure Prevention Options to Align with Statutory Responsibilities

In the 2014 plan, FHFA indicated it was placing greater emphasis on its goal for maintaining credit availability and foreclosure prevention options (Maintain goal). FHFA increased the weight given to this goal in its annual scorecards for the enterprises, from 20 percent in 2012 and 2013 to 40 percent in 2014 through 2016. Additionally, FHFA changed the wording of the Maintain goal from "maintain foreclosure prevention activities and credit availability for new and refinanced mortgages" to "maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets." The new wording more closely aligns the goal with FHFA's responsibilities outlined in statute and Congress's stated purpose for the enterprises.[19]

[19]The additional phrases in the 2014 Maintain goal come from HERA, which calls for the Director "to ensure that … each regulated entity operates in a safe and sound manner … [and] the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets…." Pub. L. No. 110-289, § 1102, 122 Stat. 2664. As noted earlier, the Emergency Economic Stabilization Act of 2008 directed FHFA to implement a plan seeking to maximize assistance for homeowners and encourage servicers to take advantage of available programs to minimize foreclosures. Additionally, the enterprises' charters state that Congress' purpose in establishing them was to, among other things, "promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing." 12 U.S.C. § 1716 and 12 U.S.C. § 1451 note.

Many of the activities that were identified in the 2012 plan under the Maintain goal continue to be stressed in the 2014 plan. These activities include the following:

- **Representations and warranties framework.** FHFA and the enterprises undertook a multiyear effort to develop a new framework governing representations and warranties—the assurances lenders provide that mortgage loans sold to the enterprises comply with the standards outlined in the enterprises' selling and servicing guides, including underwriting and documentation. The objective of the framework is to enhance transparency and certainty for lenders by clarifying when a mortgage loan may be subject to repurchase.[20] This clarity may give lenders more confidence to lend, which helps maintain borrowers' access to credit. For example, currently lenders are eligible for relief from certain representations and warranties when borrowers make 36 consecutive payments with no more than two delinquencies of 30 days or less.[21] The enterprises categorized loan origination and servicing defects and the appropriate remedies available to address them in the framework and established an independent dispute resolution program to resolve contested loan-level disputes about repurchase requests. The final piece of the framework was put in place in February 2016.
- **Loss mitigation and foreclosure prevention.** In an effort to help borrowers avoid foreclosure, FHFA worked with the enterprises to align their servicing policies and develop loss mitigation tools that included loan modifications, streamlined refinance options, and foreclosure prevention actions including short sales and deeds-in-lieu of foreclosure.[22] FHFA and the enterprises also made enhancements

[20]If lenders and servicers do not comply with the enterprises' selling and servicing requirements, the enterprises may require them to repurchase the improperly underwritten or serviced loans from the enterprises.

[21]In the version of the framework in effect from January 1, 2013, through June 30, 2014, lenders were eligible for relief from representations and warranties when borrowers made 36 consecutive payments with no delinquencies, or after 60 months with no more than two delinquencies of 30 days or less within the first 36 months.

[22]In a short sale, the mortgage holder agrees to accept proceeds from the sale of the home to a third party even though the sale price is less than the sum of the principal, accrued interest, and other expenses owed. For a deed-in-lieu of foreclosure, the mortgage holder opts to accept ownership of the property in place of the money owed on the mortgage. The homeowner voluntarily gives the mortgage holder the keys to the property and executes a deed to transfer title to the mortgage holder. The mortgage holder agrees to release the debtor from any liability on the outstanding mortgage balance.

to requirements related to foreclosure alternatives, unemployment forbearance, and rate-reset notifications. For example, the enterprises announced in June 2014 that mortgage servicers could approve eligible borrowers for extended unemployment forbearance without obtaining prior written authorization from the enterprises.[23] Finally, the enterprises have used sales of nonperforming loans to transfer pools of severely delinquent loans to new buyers and servicers with the goal of providing more favorable outcomes for borrowers while also reducing losses to the enterprises and, therefore, to taxpayers.

In addition, FHFA identified a number of new activities, some of which the enterprises have begun implementing, that serve to expand its efforts to maintain credit availability and foreclosure prevention as market conditions improve, including

- lowering the minimum down payment from 5 percent to 3 percent;[24]
- providing for principal forgiveness for an estimated 30,000 borrowers in default;[25]

[23]With an unemployment forbearance plan, the mortgage holder agrees to reduce or suspend payments for a specified period of time while the borrower is unemployed, during which a portion of the principal balance does not accrue interest. Usually, the mortgage holder will require the borrower to make up the difference at a later time. The enterprises have made unemployment forbearance available to eligible borrowers for 6 months, which can be extended for up to an additional 6 months.

[24]In December 2014, the enterprises announced they would begin offering mortgages with a 3 percent down payment for certain low- to moderate-income borrowers in order to increase access to credit for these borrowers. To qualify, a mortgage must be for a one-unit principal residence and have a fixed interest rate and a term of 30 years or less. In addition, the borrower or coborrower must not have an ownership interest in any other residential dwelling.

[25]The Principal Reduction Modification Program is a one-time offer for underwater borrowers (that is, borrowers who owe more on their mortgages than their properties are worth) with mortgages guaranteed by the enterprises. The program offers capitalization of outstanding debt, lowered interest rates, an extension of loan terms to 40 years, and forbearance of principal. Upon completion of three timely payments and acceptance of the final modification, the principal forbearance amount will instead be forgiven. The program is available to approximately 30,000 eligible borrowers who were at least 90-days delinquent as of March 1, 2016, had unpaid principal balances of less than $250,000, and were owner-occupants, among other requirements. The main objective of the program is to help borrowers avoid foreclosure without increasing risk for the enterprises.

- issuing proposed rules outlining the enterprises' duty to serve certain underserved segments of the market;[26] and
- transferring funds to a statutory housing trust fund that will be distributed through grants made to the states.[27]

FHFA also reframed the enterprises' actions in multifamily production to focus on maintaining credit availability rather than on reducing their market share.[28] Beginning in 2013, FHFA imposed a production cap on the enterprises' multifamily business. However, since 2014 FHFA has allowed the enterprises to exclude from the caps affordable housing loans, loans to small multifamily properties, and loans to manufactured housing rental communities. In addition, FHFA increased the 2016 multifamily lending caps for the enterprises from $31 billion to $36.5

[26]In December 2015, FHFA issued a proposed rule to implement statutory provisions that require the enterprises to serve three specified underserved markets: manufactured housing, affordable housing preservation, and rural markets. See Enterprise Duty to Serve Underserved Markets, 80 Fed. Reg. 79,182 (Dec. 18, 2015). The proposed rule would require the enterprises to adopt plans covering a 3-year period to improve the distribution and availability of mortgage financing for residential properties that serve very low-, low-, and moderate-income families in three specified underserved markets. The proposed rule would also provide credit to the enterprises for eligible activities that facilitate a secondary market for mortgages on residential properties in these markets. FHFA would also evaluate the enterprises' performance using the following categories: development of loan products, flexible underwriting guidelines, and other innovative approaches to financing in each market; outreach to qualified loan sellers and underserved market participants; volume of purchased loans in each underserved market relative to the market opportunities available to the enterprise; and investment in projects assisting the underserved markets. FHFA accepted public comments on the proposed rule through March 17, 2016, and stated that it is reviewing them as it works to develop a final rule. Enterprise Duty to Serve Underserved Markets, 80 Fed. Reg. 79,182 (December 18, 2015).

[27]The National Housing Trust Fund is a permanent federal fund established by HERA to support affordable rental housing for extremely low-income households or those earning below the federal poverty line through block grants to states. It is funded by the enterprises and administered by HUD, which is responsible for distributing grants to the states, which then distribute the funds in accordance with annual allocation plans. States qualify for grants based on factors, including rental housing shortages for extremely or very low income households, the number of extremely or very low-income renters living in substandard or unaffordable units, and local construction costs. FHFA had prohibited the enterprises from contributing to the fund while in conservatorship. However, in December 2014, FHFA directed the enterprises to begin setting aside funds in 2015 and make them available to the fund by March 1, 2016. The enterprises' first payments to the fund totaled $186 million.

[28]In its 2014 progress report on the implementation of the 2014 plan, FHFA stated that the multifamily lending caps were intended to further FHFA's strategic goal of maintaining the presence of the enterprises as a backstop for the multifamily housing finance market while not impeding the participation of private capital.

billion.[29] The adjustment for 2016 was based on increased estimates of the overall size of the 2016 multifamily finance market due to continued high levels of property acquisitions and deliveries of newly constructed apartment units, as well as record levels of maturing loans that required refinancing.

FHFA Shifted Efforts for Reducing Taxpayer Risk Away from Decreasing the Enterprises' Role

FHFA's second goal in the 2014 plan, like the corresponding goal in the 2012 plan, is aimed at transferring risk from the enterprises (and taxpayers) to private investors. However, the two goals are worded differently due to different approaches to decreasing risk. In 2012, the goal was to "gradually contract the enterprises' dominant presence in the marketplace while simplifying and shrinking their operations" (Contract goal). The 2014 plan rephrases the goal as to "reduce taxpayer risk through increasing the role of private capital in the mortgage market" (Reduce goal) and shifts away from decreasing the enterprises' role in the housing market. In addition, FHFA reduced the weight that activities under the second goal were given in FHFA's annual scorecards, from 50 percent in 2013 to 30 percent in 2014 through 2016.

As FHFA noted in the 2014 strategic plan, its statutory responsibilities as conservator do not include making policy decisions on the future of housing finance reform. FHFA officials told us that the current Director did not believe that shrinking the enterprises' dominant presence in the market was FHFA's decision to make because Congress had not yet acted on housing finance reform.

Additionally, FHFA noted that it was concerned about the effects of shrinking the enterprises' operations on mortgage market liquidity and the availability of mortgage credit, which it was seeking to support through its Maintain goal. In other words, there may have been tension between the Contract goal and the Maintain goal in the 2012 plan, and shifting risk from taxpayers to private market participants without contracting the enterprises' presence in the market helped eliminate this tension. As a result, one of the actions outlined in the 2012 plan related to efforts to contract the enterprises' role—continued gradual increases in the

[29]FHFA reviews the estimates for the size of the multifamily finance market each quarter and increases the caps, if warranted.

enterprises' guarantee fee pricing—was eliminated.[30] Another action was reframed: the multifamily production activities that in the 2014 plan focus on maintaining access to credit and are therefore included in the Maintain goal, as discussed previously.

In its efforts to support the new focus of the Reduce goal, FHFA has taken several actions, including the following:

- **Credit risk transfers.** FHFA directed the enterprises to transfer a portion of the credit risk they face on the mortgages they securitize to private investors. These transfers of risk can occur either before ("front-end") or after ("back-end") the enterprises purchase mortgages. The enterprises primarily employed back-end risk transfers in the first 3 years of the initiative (2013–2015), but recently they have been trying various structures, including some front-end transfers.[31] Under the debt issuance structure for credit risk transfers (the structure the enterprises have used most), the enterprises sell debt to investors and receive payment up front at the time of the sale. The enterprises repay the debt based on the performance of a reference pool of mortgages, in which the investor earns a higher return if the mortgages perform well and a lower return should they perform poorly. From 2013 through 2015, the enterprises completed 70 transactions that transferred credit risk totaling $30.6 billion on single-family mortgages with an unpaid principal balance of about $838 billion. In June 2016, FHFA issued a request for input on proposals for the enterprises to adopt a number of front-end credit risk transfer structures.

[30]Overall, FHFA reported that guarantee fees increased from an average of 22 basis points in 2009 to 59 basis points in 2015. In 2012 and 2013, FHFA proposed two additional increases to guarantee fees. But after considering public input and conducting its own reviews, FHFA decided in 2015 not to go forward with either proposal. Instead, FHFA stated that the current average level of guarantee fees appropriately reflected the current costs and risks associated with providing the enterprises' credit guarantee. We did not independently assess FHFA's analyses.

[31]Other methods for credit risk sharing with private entities include insurance risk transfers, where the enterprises pay reinsurance companies to take on some of the credit risk on pools of mortgages the enterprises own; deeper mortgage insurance, where mortgage insurers agree ahead of time to cover more losses than they currently agree to cover; front-end collateralized lender recourse transactions, where originating lenders or aggregators retain a portion of the credit risk associated with the mortgages they sell to the enterprises in exchange for a reduced guarantee fee charge on the loans from the enterprises; and senior-subordinate securitization, where subordinate tranches of MBS sold to investors are subject to credit loss and senior tranches sold to investors are guaranteed repayment.

- **Private mortgage insurance standards.** FHFA and the enterprises updated eligibility requirements for private mortgage insurers seeking to insure loans that are eligible for purchase by the enterprises. These requirements help to ensure the stability of mortgage insurance companies that are counterparties of the enterprises, reducing counterparty risk to the enterprises and, by extension, risk to taxpayers. Among other things, the requirements establish financial standards for private mortgage insurers to demonstrate adequate resources to pay claims and operational standards relating to quality control processes and performance metrics. The enterprises began implementing the requirements in the second half of 2015, and all the revised requirements were effective December 31, 2015.

FHFA Has Reduced the Scope of the Securitization Infrastructure Being Built, Focusing Instead on Initiatives for the Enterprises

FHFA narrowed the focus of its goal of building a securitization infrastructure (Build goal) from creating a new secondary mortgage market infrastructure to primarily addressing the enterprises' current operational needs. But FHFA kept the weight assigned to this goal in the annual scorecards it issued for the enterprises at 30 percent (which is the weight it was given each year from 2012 through 2016). The reduction in scope is evident in the changed wording of the goal, from "build a new infrastructure for the secondary mortgage market" to "build a new single-family securitization infrastructure for use by the enterprises and adaptable for use by other participants in the secondary market in the future."

One example of refining the goal's scope was discontinuing the effort to develop a model contractual and disclosure framework. Since 2012, the enterprises had been working to develop the framework to align the contracts and data disclosures that supported fully guaranteed MBS issued by the enterprises and craft a set of uniform contractual terms and standards for transparency for MBS that carried no or only a partial federal guarantee and that could be broadly accepted by issuers and investors. To develop this framework, FHFA was incorporating input it received in 2012 on a proposal for a standardized pooling and servicing agreement. According to FHFA, by the end of 2013 the enterprises had made progress toward developing preliminary recommendations for the framework. However, the 2014 strategic plan did not mention the framework.[32] FHFA officials said that the effort to develop the framework

[32]FHFA officials told us that two initiatives begun as part of developing the framework—aligning the enterprises' MBS disclosures and loan buyout policies—were used in developing the Single Security, which is discussed later in the report.

was distracting FHFA from focusing on addressing the enterprises' securitization infrastructure needs, particularly those related to the implementation of a Single Security (discussed later). They said discontinuing the work on the framework was part of a strategy to mitigate risk through managing the scope of the infrastructure they were building. Additionally, the officials said that private industry groups commented to FHFA that such an effort should be left to the private sector.

Despite the change in goal's scope in the 2014 plan, FHFA is continuing efforts begun earlier to create a new securitization infrastructure—most notably, a common securitization platform. The common securitization platform is a technology and operational platform that will perform many of the enterprises' current securitization functions for single-family mortgages on behalf of the enterprises. FHFA directed the enterprises to develop a common platform to replace the information technology platforms at each enterprise that support their securitization activities.[33] While the common platform is designed to meet the current securitization activities of the enterprises, it is being built using open architecture and industry standard software, systems, and data requirements with the goal of being adaptable for use by other market participants in the future. According to FHFA officials, focusing first on meeting the known requirements of the enterprises made the most sense for defining the scope of the work and managing the project. Nonetheless, they said the ultimate goal of building an infrastructure that can be used by other market participants remains an important part of the Build goal and has informed many decisions FHFA has made.

FHFA expects the platform to be implemented in two releases:

- Implementation of the first release is scheduled to occur before the end of 2016 and should allow Freddie Mac to use the platform to issue its current single-class securities. In preparation for the first release, Freddie Mac and Common Securitization Solutions, LLC, a joint venture of the enterprises that was formed to operate the platform, successfully completed system-to-system and end-to-end testing of the functionality of the platform in early 2016.
- The second release is scheduled for 2018, when both enterprises plan to use the platform to issue a Single Security, which FHFA is

[33]These activities include data acceptance, issuance support, disclosures, and bond administration.

developing to replace the different MBS they currently offer. Unlike the enterprises' current products, the new securities will have the same features, and the goal is for the market to treat them as fungible irrespective of the enterprise that issued them.[34] In addition, the enterprises will be able to commingle first-level and second-level securities from either enterprise in the second-level securities they issue.[35] As of July 2016, FHFA had finalized the features of the Single Security after soliciting and incorporating input from the public. FHFA also updated loan-level disclosures and announced that the enterprises will begin issuing these securities in 2018.

To support the Build goal, FHFA and the enterprises continue to develop mortgage data standards for the single family loans they purchase through the Uniform Mortgage Data Program. This program has provided lenders with common and consistent definitions and specification for various mortgage data, including appraisal, loan delivery, mortgage loan application, and closing disclosure information. The enterprises currently collect standardized appraisal and loan delivery data, and expect to implement a data collection system for the closing disclosure dataset in the third quarter of 2017. As part of a new mortgage loan application, the enterprises released technical requirements and an associated dataset to electronically capture loan application information to the industry in the third quarter of 2016. Implementation of the new loan application and associated dataset is likely to be in the first quarter of 2019, according to FHFA.

[34]According to FHFA, one of the primary objectives of developing a Single Security is to reduce the costs to Freddie Mac and taxpayers that result from the persistent difference in the liquidity of Freddie Mac securities relative to Fannie Mae securities. Historically, certain Fannie Mae securities have been much more liquid than comparable Freddie Mac securities. The lower liquidity and prices of Freddie Mac securities result in Freddie Mac spending significant sums each year to subsidize the guarantee fees it charges sellers to induce sellers to do business with Freddie Mac. This imposes a significant cost on Freddie Mac and, ultimately, on taxpayers, since it lowers the dividend payments by Freddie Mac to Treasury under the senior preferred stock purchase agreement.

[35]A first-level security is collateralized by a single pool of mortgage loans. A second-level security is collateralized by a group of previously issued first- or second-level securities.

In the Absence of Congressional Direction, FHFA's Shift in Priorities Adds to Uncertainty about the Future Structure of the Housing Finance System

FHFA Partially Changed Direction on Reducing the Enterprises' Role in Housing Finance

Prior to 2014, FHFA was taking explicit steps to shrink the enterprises' role in the secondary market.[36] These actions included gradual increases in guarantee fees and strict caps on the total amount of multifamily loans that the enterprises could purchase.[37] As discussed earlier, these actions were stopped by the current Director and FHFA's adoption of the 2014 strategic plan. However, other actions that serve to reduce the depth and breadth of the enterprises' activities and that are written into the enterprises' agreements with Treasury continue. These actions include

[36]In 2011, the administration released a plan for reforming the housing finance system that also aimed to reduce the enterprises' role in the secondary mortgage market. See Department of the Treasury and Department of Housing and Urban Development, *Reforming America's Housing Finance Market: A Report to Congress* (Washington, D.C.: February 2011).

[37]In 2013, FHFA also indicated it was contemplating a reduction in loan purchase limits for the enterprises as a means of reducing their market footprint. See Fannie Mae and Freddie Mac Loan Purchase Limits: Request for Public Input on Implementation Issues, 78 Fed. Reg. 77,450 (Dec. 23, 2013).

reducing retained mortgage portfolios and reducing the enterprises' capital bases to $0 by January 2018.[38]

FHFA stated that it changed its strategy for the conservatorships and took actions to maintain the enterprises' current state and role in the secondary market in the absence of congressional direction on housing finance system reform. At the same time, FHFA officials told us that the strategy was intended to be neutral in terms of the enterprises' future structure and left all reform options open. Our analysis comparing FHFA's actions with legislative proposals to reform the enterprises' structure found that some proposals continue or build upon actions FHFA has taken, such as the common securitization platform and credit risk transfers. However, proposals that incorporate the same future structure for the enterprises do not consistently build upon the same actions. For example, one legislative proposal that replaces the enterprises with a single federal agency builds upon FHFA's credit risk transfer initiative, but other similar proposals do not explicitly address credit risk transfers. As a result, FHFA's actions are not necessary to transitioning to the particular structures in any of these proposals, such as a single governmental agency or fully privatized companies.[39] In addition, we found that the same actions were included in multiple proposals that envisioned different future structures for the enterprises.

[38]The enterprises' retained portfolios include mortgages they purchased but did not securitize, mortgages bought out of securities due to delinquency status or other reasons, MBS they purchased from each other or from private issuers, and their own MBS repurchased from other investors. The senior preferred stock purchase agreements set annual caps on the retained portfolios that decrease each year. The enterprises have been able to meet these caps each year through a number of activities. Most of the annual reductions in the retained portfolios were the result of voluntary and involuntary prepayments. In addition, the enterprises have sold less-liquid assets (mostly private-label securities and nonperforming loans) to private investors through auctions. For 2016, the cap on retained portfolios for each enterprise is $339 billion, which the enterprises must meet by December 31; through the first quarter of 2016, Fannie Mae's portfolio stood at $328 billion while Freddie Mac's was $334 billion.

[39]In a 2014 report on transitioning to alternative structures for housing finance, CBO identified four possible future structures: (1) a market with a single, fully federal agency; (2) a hybrid public-private market; (3) a market with the government as guarantor of last resort; and (4) a largely private secondary market. CBO laid out illustrative transition paths that included combinations of a few specific actions FHFA could take to help move to the different structures. Increasing guarantee fees, changing the maximum loan limits, and using credit risk transfers were among the actions CBO highlighted. See Congressional Budget Office, *Transitioning to Alternative Structures for Housing Finance* (Washington, D.C.: December 2014).

Industry stakeholders generally said that FHFA's recent actions have not advanced or constrained any of the future structures for the enterprises outlined in legislative proposals. Representatives from two industry associations told us that FHFA's recent actions have been neutral as to the future structure. However, other industry stakeholders who are members of a third industry association noted that FHFA had taken steps prior to 2014 to harmonize the enterprises' policies, procedures, and products, some of which continued after the publication of the 2014 plan, such as the development of a Single Security and the common securitization platform. Taking these steps could facilitate (but would not require) merging the enterprises into a single entity. But whether that single entity would be a government agency, government corporation, or private entity was unclear to these stakeholders. Officials from another industry association said that instead the enterprises could be recapitalized as competitors to one another but that it was unclear how they would be able to balance competing against each other with working together to ensure the common securitization platform works well.[40]

FHFA's Change in Priorities Puts Less Emphasis on Addressing Barriers to Entry into the Secondary Mortgage Market, Adding to Uncertainty

As outlined in the 2012 strategic plan, FHFA set out to address a number of barriers to entry into the secondary mortgage market. By creating a common securitization platform using open architecture, a model pooling and servicing agreement (which evolved into the contractual and disclosure framework discussed previously), and standardized mortgage data, along with contracting the enterprises' presence through increased guarantee fees, FHFA sought to make entry into the secondary market easier for private entities. However, over time most of these actions were scoped down or eliminated, resulting in a reduced emphasis on addressing barriers. Some industry stakeholders said that FHFA's shift in direction sent mixed messages to market participants and increased uncertainty about the role private entities should be playing in the secondary mortgage market.

For example, some industry stakeholders we spoke with perceived a technological barrier to entry into the secondary mortgage market.[41] The

[40]As noted earlier, the enterprises formed a joint venture, Common Securitization Solutions, LLC, to develop and operate the platform.

[41]Industry stakeholders with whom we spoke had differing views about whether technology for securitization was a barrier to entry into the secondary market. Some stakeholders told us that large lenders have their own securitization platforms that support more complex and innovative securitization structures than what the enterprises offer and may not have a reason to use the common securitization platform.

shift in the Build goal from 2012 to 2014 related to the common securitization platform does not clearly address this barrier as it is less clear whether private entities will be able to use the platform. According to FHFA officials, many decisions remain to be made about whether, when, and for what purposes private entities will be able to use the platform, which adds to uncertainty.

As another example, FHFA and the enterprises began developing a contractual and disclosure framework but decided to halt the effort in 2014. The framework had the potential to help address some of the governance issues that some industry stakeholders said were holding back the secondary mortgage market's private-label MBS. These governance issues include a lack of alignment of interests among parties to a securitization transaction and processes for holding servicers for the underlying mortgages accountable for their performance. Some industry stakeholders we spoke to said that completing the framework, while potentially helpful in addressing some issues, would have been unlikely to fully address the barriers that continue to prevent the private-label MBS market from growing. According to FHFA officials, the private sector has worked on developing its own framework, and this effort is ongoing.

Further, changes to FHFA's Maintain goal from the 2012 plan to the 2014 plan have expanded the enterprises' reach to put them in competition with other market participants. Rather than addressing barriers to entry for private entities, these actions may enhance rather than lessen the enterprises' existing advantages, which serve as barriers to entry and add to market participants' uncertainty about their role in the market relative to the enterprises. For example, allowing down payments as low as 3 percent expands the market segments the enterprises serve. According to an industry stakeholder, doing so could push other market participants out of these segments because the enterprises have built-in advantages—such as lower cost of funding and a government guarantee—that may make their products more attractive. Another stakeholder said the proposed rule on the enterprises' duty to serve underserved markets, could also increase the enterprises' competition with private entities, depending on future decisions.[42]

[42]HERA requires the enterprises to provide leadership to facilitate a secondary market for mortgages for very low-, low-, and moderate-income families in three underserved markets specified in the statute: manufactured housing, affordable housing preservation, and rural housing.

Increases in guarantee fees that occurred in the first few years of the conservatorship began to address the barrier posed by the enterprises' pricing advantage. According to the Urban Institute, other options for lenders, such as holding certain loans in portfolio, made more financial sense as the cost of selling loans to the enterprises increased.[43] However, not continuing the increases as envisioned in the 2012 plan under the Contract goal could make these options less attractive than selling to the enterprises, according to an industry stakeholder. As a result, lenders may focus on making loans that can be sold to the enterprises and place less emphasis on reaching segments of the population that do not qualify for those loans. On the other hand, lower guarantee fees keep mortgages affordable, which has been the aim of the Maintain goal in both the 2012 and 2014 plans.

In addition, the Reduce goal includes developing new front-end credit risk transfers to increase the amount of risk borne by private entities. Some industry stakeholders expressed concern that possible options for front-end credit risk transfer transactions could increase barriers to entry for mortgage originators, depending on how the transactions are structured. FHFA officials noted that they would be reviewing comments on how to structure these front-end transactions after the close of the comment period on October 13, 2016.

Whether FHFA's Actions Reduce the Likelihood of Drawing on Treasury's Capital Commitment Is Uncertain

FHFA has taken some actions that could increase the likelihood of drawing on Treasury's capital commitment under the agreements as well as other actions that could have the opposite effect, and the net effect of these actions is uncertain. Some of FHFA's newer actions supporting the 2014 plan could increase credit risk and therefore the likelihood of needing further assistance from Treasury. For example, one industry stakeholder said allowing the enterprises to purchase riskier mortgages, such as those with a 3 percent down payment and expanding the enterprises' service to certain underserved segments of the market, could increase the likelihood of a draw on Treasury under the agreements. However, the underwriting requirements for these mortgages and the fees the enterprises collect help offset the increased risk. In addition, FHFA officials noted that these actions currently represent a small portion of the

[43]See, for example, Laurie S. Goodman and Jun Zhu, *The GSE Reform Debate: How Much Capital Is Enough?* (Washington, D.C.: Urban Institute, Oct. 24, 2013).

enterprises' business and therefore would have a minimal impact on the likelihood of drawing on Treasury's funding commitment.

Several actions FHFA is taking, such as credit risk transfers and the Single Security, would reduce the likelihood of needing additional Treasury support, according to FHFA. These and other actions, including private mortgage insurer standards, the representations and warranties framework, and loss mitigation and foreclosure prevention activities, reduce credit risk or counterparty risk to the enterprises.[44] While FHFA has directed the enterprises to engage in a growing set of credit risk transfers including front-end transfers, such as deeper mortgage insurance, the enterprises (as of 2016) have mostly conducted back-end risk transfers.[45] With back-end transfers, the enterprises hold the credit risk until they complete the credit risk transfer transactions. In front-end transactions, private entities agree to take on a portion of the credit risk before or at the same time the loans are delivered to the enterprises.[46] FHFA has stated that the enterprises need to issue a large enough volume of transactions to ensure a liquid market for credit risk transfer products. But FHFA has also stated that the enterprises need to avoid an excess supply of any particular product to the market that, for example, causes investors to abandon the market because the value of their existing holdings is reduced. Some industry stakeholders we spoke with noted that the enterprises have not been particularly attuned to investor demand when determining the timing, volume, and pricing of credit risk transfer transactions. As a result, investors' demand for credit risk transfer transactions may not meet the volume offered, and the enterprises could find themselves retaining more risk than planned.

[44]Under the Emergency Economic Stabilization Act of 2008, FHFA must consider the net present value to taxpayers of any action undertaken to minimize foreclosures. Pub. L. No. 110–343, § 110, 122 Stat. 3765, 3775 (codified at 12 U.S.C. § 5220).

[45]As noted previously, FHFA issued a request for input on proposals for the enterprises to adopt a number of front-end credit risk transfer structures in June 2016. The comment period closed October 13, 2016.

[46]FHFA officials noted that because the enterprises provide a full guarantee to MBS purchasers, the enterprises are responsible for the timely payment of principal and interest even when another entity has contractually agreed to hold the credit risk through either a front-end or back-end transaction. The enterprises would need to make those payments even if the counterparty failed to cover its portion of credit losses in a timely manner.

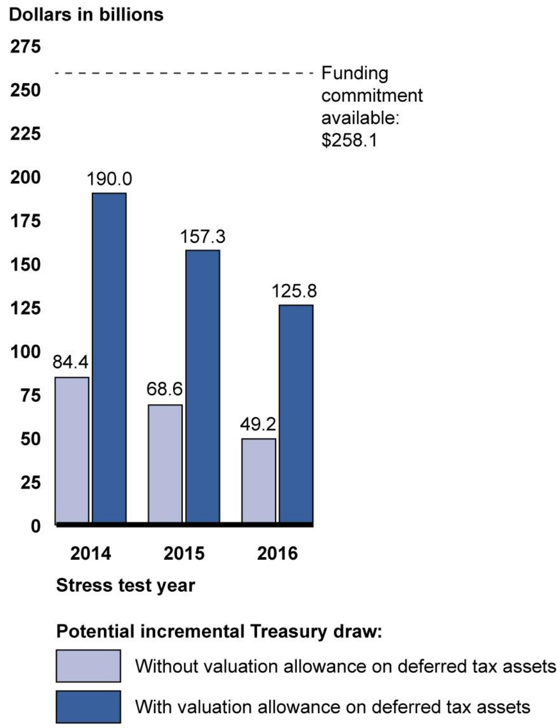
The enterprises' results from their annual stress tests have improved each year since 2014 (see fig. 2).[47] Although linking the changes in results to specific actions they and FHFA have taken is difficult, these results suggest that draws from Treasury due to negative economic conditions are less likely than they were several years ago. FHFA officials stated that loss mitigation actions, sales of illiquid assets from retained portfolios, and better credit quality in newer loans all contribute to the improved results, along with improved market factors such as house price appreciation. According to FHFA, credit risk transfers would also have an impact on the stress test results, even though the overall effect has been small given that the program is in the relatively early stages.[48] However, the stress tests show that both enterprises would still need capital support from Treasury under a severely adverse economic scenario. As noted earlier, in January 2018 the enterprises' capital reserve amount will fall to $0 as required by the agreements with Treasury, meaning any quarterly losses—including those due to market fluctuations and not necessarily to economic conditions—will require additional draws from Treasury under the agreements.[49]

[47]The enterprises are required to conduct annual stress tests under Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. FHFA requires the enterprises to submit the results of stress tests to FHFA based on three scenarios—baseline, adverse, and severely adverse—and to publish results of the severely adverse scenario each year.

[48]In addition, FHFA officials stated that the timing of when costs and benefits are recognized from an accounting perspective could affect whether the likelihood of a draw increases or decreases. For example, the enterprises recognize losses for accounting purposes months or years before the benefits from credit risk transfer transactions are recorded, according to FHFA.

[49]The current FHFA Director has stated that the enterprises' lack of capital is the most serious risk they face. Specifically, he noted that without capital, the enterprises will have no capital buffer and no ability to weather quarterly losses, which could trigger a draw on Treasury's commitment. He observed that "future draws that chip away at the backing available by the Treasury Department under the [preferred stock purchase agreements] could undermine confidence in the housing finance market…and future draws could lead to a legislative response adopted in haste or without the kind of forethought it should be given. I have been clear that conservatorship is not a desirable end state and that Congress needs to tackle the important work of housing finance reform." See Melvin L. Watt, Director, Federal Housing Finance Agency, prepared remarks for the Bipartisan Policy Center, February 18, 2016, accessed September 22, 2016, http://www.fhfa.gov/Media/PublicAffairs/Pages/Prepared-Remarks-Melvin-Watt-at-BPC.aspx.

Figure 2: Enterprises' Combined Potential Incremental Draws on the Capital Commitment from the Department of the Treasury under the Severely Adverse Scenario of the Dodd-Frank Act Stress Tests, 2014–2016



Source: Fannie Mae and Freddie Mac annual stress test results. | GAO-17-92

Notes: Fannie Mae and Freddie Mac (the enterprises) are required to conduct annual stress tests under Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). FHFA requires the enterprises to submit the results of stress tests to FHFA based on three scenarios—baseline, adverse, and severely adverse—and to publish results of the severely adverse scenario each year. The severely adverse scenario is similar to the 2007–2009 crisis—a deep protracted recession, high unemployment, low GDP growth, deteriorating credit, low interest rates, falling home values, and a global economic shock, among others.

Deferred tax assets refer to assets on the enterprises' consolidated balance sheets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and to tax credits. The realization of deferred tax assets is dependent upon the generation of sufficient future taxable income. If the enterprises' future operations do not generate sufficient taxable income to allow them to realize their deferred tax assets, they may be required to establish a valuation allowance for these assets.

Congress Has Not Defined Objectives for Concluding the Conservatorships That Would Address Uncertainty

In the 8 years since the enterprises were placed in conservatorships, Congress has not enacted legislation that establishes objectives for concluding the conservatorships and the future structure of the enterprises. One of the long-standing principles we have identified that should serve as a guide for providing government assistance to private market participants is setting clear objectives.[50] In this case, clarity on issues related to comprehensive housing finance system reform is needed in order for the enterprises to exit conservatorship. According to FHFA, setting objectives for the conclusion of the conservatorships should be left to Congress.[51] In a 2014 report, we outlined a framework consisting of nine elements that Congress could use to assess or craft proposals as it considers changes to the housing finance system.[52] These elements are

- clearly defined and prioritized housing finance system goals;
- policies and mechanisms that are aligned with goals and other economic policies;
- adherence to an appropriate financial regulatory framework;
- government entities that have capacity to manage risks;
- protections for mortgage borrowers and reductions in barriers to mortgage market access;
- protection for mortgage securities investors;
- consideration of cyclical nature of housing finance and impact of housing finance on financial stability;
- recognition and control of fiscal exposure and mitigation of moral hazard; and
- emphasis on implications of the transition.

[50]GAO, *Financial Assistance: Ongoing Challenges and Guiding Principles Related to Government Assistance For Private Sector Companies,* GAO-10-719 (Washington, D.C.: Aug. 3, 2010) and *Guidelines for Rescuing Large Failing Firms and Municipalities*, GAO/GGD-84-34 (Washington, D.C.: Mar. 29, 1984).

[51]The Consolidated Appropriations Act, 2016 expressed the sense of the Congress that Congress should pass and the President should sign into law legislation determining the future of Fannie Mae and Freddie Mac. Pub. L. No. 114-113, Title VII, § 702(c), 129 Stat. 2242, 3025.

[52]GAO, *Housing Finance System: A Framework for Assessing Potential Changes,* GAO-15-131 (Washington, D.C.: Oct. 7, 2014).

As noted earlier, the 113th Congress considered a number of proposals for reforming the housing finance system, but none were enacted. Other proposals have been introduced in the 114th Congress but have not yet been passed by either the Senate or the House of Representatives (see app. I). These include the Financial Regulatory Improvement Act of 2015, S. 1484; Mortgage Finance Act of 2015, S. 495; Housing Finance Restructuring Act of 2016, H.R. 4913; and Partnership to Strengthen Homeownership Act of 2015, H.R. 1491. Given the unknown duration of the conservatorships, without Congress providing explicit direction for the future of the enterprises, a change in leadership at FHFA could again shift priorities for the conservatorships and set the enterprises on a new path with another vision for their role and future structure. Such changes in direction could send mixed messages to market participants and add to existing uncertainty.

Conclusions

Eight years after entering conservatorship, the enterprises' futures remain uncertain and billions of taxpayer dollars remain at risk. Although FHFA has established goals for the conservatorships, its goals have been somewhat in tension with each other. In addition, the actions taken by FHFA to implement its goals have lacked a consistent direction over time, and FHFA has not clarified how to balance different priorities. As we have previously found, the federal government should set clear goals and objectives when providing financial assistance to private market participants. However, Congress has yet to establish objectives for the future of the enterprises after conservatorship or the future federal role in housing finance. Without Congress providing explicit direction for the future of the enterprises, the conservatorships will continue. Prolonged conservatorships and a change in leadership at FHFA could again shift priorities for the conservatorships, which in turn could send mixed messages and create uncertainties for market participants and hinder the development of the broader secondary mortgage market. By setting a clear direction for the future of the housing finance system, Congress would enable FHFA to use the conservatorships of the enterprises to facilitate the transition to a new structure.

Matter for Congressional Consideration

To reduce uncertainty and provide FHFA sufficient direction for carrying out its responsibilities as conservator of the enterprises, Congress should consider legislation that establishes objectives for the future federal role in housing finance, including the structure of the enterprises, and a transition plan to a reformed housing finance system that enables the enterprises to exit conservatorship.

Agency Comments

We requested comments on a draft of this product from FHFA, Treasury, and the previous FHFA Acting Director. The Acting Deputy Director of the Division of Conservatorship provided us with oral comments, stating that FHFA agreed with our overall findings. He also provided some technical clarifications, which we incorporated as appropriate. The previous FHFA Acting Director also provided us with technical comments in an e-mail, which we incorporated as appropriate. Treasury did not provide comments.

We are sending copies of this report to the appropriate congressional committees, the Director of FHFA, and the Secretary of the Treasury. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or evansl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.

Sincerely yours,

Lawrance L. Evans, Jr.

Lawrance L. Evans, Jr.
Director, Financial Markets and
Community Investment

Appendix I: Legislative Proposals Introduced in Congress that Address the Role of Fannie Mae and Freddie Mac in the Housing Finance System—March 2013 to July 2016

This appendix discusses the legislative proposals that were introduced in the United States Senate and the House of Representatives between March 2013 and July 2016 that addressed the future structure of Fannie Mae and Freddie Mac and the secondary mortgage market.

Table 2: Legislative Proposals Introduced in Congress that Address the Role of Fannie Mae and Freddie Mac in the Housing Finance System—March 2013 to July 2016

Bill name, number, major actions, and sponsor	Summary
114th Congress	
Senate bills	
Financial Regulatory Improvement Act of 2015 S. 1484 Introduced June 2, 2015; Hearings held July 23, 2015 Sponsor: Sen. Richard Shelby (R-AL)	This bill consists of eight titles that together address a broad reform of the US financial regulatory system. Title VII of the bill addresses the protection of taxpayers and promotes market access for mortgage finance. Among other reforms, Title VII of this bill: • Prohibits the scoring of legislation that would increase guarantee fees for purposes of determining budgetary impacts under the Congressional Budget Act of 1974 with respect to budget authority, outlays, or revenues, except in certain circumstances. • Prohibits the Department of the Treasury (Treasury) from disposing of any outstanding shares of senior preferred stock in Fannie Mae or Freddie Mac (the enterprises) until a law is signed into effect which includes a specific instruction to the Treasury regarding the stocks' disposition. • Directs the Federal Housing Finance Agency (FHFA), Common Securitization Solutions, LLC (CSS), and the enterprises to establish the Secondary Market Advisory Committee (SMAC) to advise the enterprises on decisions related to the development of secondary mortgage market infrastructure. SMAC must include private market participants that represent multiple aspects of the mortgage market, including mortgage lenders and poolers of mortgage-backed securities. • Requires FHFA to submit a plan that transitions the Common Securitization Platform (CSP) from the ownership of the enterprises and their joint venture CSS to an independent nonprofit entity dedicated to fostering a deep, liquid, and resilient secondary market for mortgage-backed securities. • Instructs FHFA to reconstitute CSS's board of directors to include more private industry players. • Prohibits CSS from certain activities, including: (1) guaranteeing mortgage loans or mortgage-backed securities; (2) assuming or holding mortgage loan credit risk; and (3) owning or holding mortgage loans or mortgage-backed securities for investment purposes. • Grants FHFA general regulatory authority over CSS and its private successor. • Requires FHFA to transfer to CSS any funds necessary to implement CSP activities and operations. • Amends the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 to require the enterprises to engage in expanded credit risk-sharing programs.

Bill name, number, major actions, and sponsor	Summary
Senate bills	

Mortgage Finance Act of 2015
S. 495
Introduced February 12, 2015
Sponsor: Sen. Johnny Isakson (R-GA)
	This bill would:
	• Establish the Mortgage Finance Agency (MFA) as an independent agency of the federal government to:
	  ◦ guarantee securities issued by qualified issuers and collateralized by pools of qualified residential mortgages in order to provide a dependable, transparent, and liquid market for high-quality mortgages and multifamily mortgages for securitization;
	  ◦ charge and collect a guarantee fee sufficient to protect MFA and the Treasury from the risks of guaranteeing the timely payment of principal and interest on qualified mortgage-backed securities;
	  ◦ establish and maintain a catastrophic fund to minimize the burden on the federal government by setting aside amounts that will be available solely to pay obligations under the MFA guarantee in the event of any future mortgage market collapse;
	  ◦ guarantee the timely payment of the principal and interest to holders of qualified mortgage-back securities;
	  ◦ cover any shortfalls to security holders; and
	  ◦ purchase supplemental insurance coverage.
	• Place the enterprises in an irrevocable receivership with the FHFA, effective on the date on which MFA is operational and able to perform the guarantee function for qualified mortgage-backed securities collateralized by qualified residential mortgages.
	• Direct FHFA to commence liquidating the enterprises immediately after they are placed in receivership.
	• Repeal the charters of Fannie Mae and Freddie Mac.
	• Require FHFA to use all proceeds from the enterprises' operations in receivership—after fully satisfying the enterprises' outstanding obligations—to repay the General Fund of the Treasury for certain government-provided assistance.
	• Require FHFA as receiver to manage the combined assets of the enterprises to obtain resolutions that maximize the return for the taxpayer.

House bills	
Housing Finance Restructuring Act of 2016 H.R. 4913 Introduced April 12, 2016 Sponsor: Rep. Mick Mulvaney (R-SC)	In order to recapitalize and terminate the conservatorship of the enterprises, and to prevent future government bailouts of the enterprises, this bill: • Directs Treasury to modify the senior preferred stock purchase agreement (SPSA) for each of the enterprises to reduce to zero the liquidation preference of the senior preferred stock and require redemption of the stock, deeming it no longer outstanding and terminating all shareholder rights. • Instructs Treasury to exercise the warrants for the purchase of common stock of the enterprises under SPSA, ultimately terminating SPSA. • Requires FHFA to recapitalize the enterprises by mandating that the net income of each enterprise for the fiscal year be retained as capital reserves. • Instructs FHFA to report a capital restoration plan for each enterprise. • Terminates the conservatorship of an enterprise when it attains capital equal to or exceeding 5 percent of its risk-weighted assets. • Authorizes any individual or entity adversely affected or aggrieved by an action or inaction on the part of FHFA or Treasury in violation of the bill or the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 to commence a civil action in a US district court for prospective equitable relief.

Bill name, number, major actions, and sponsor	Summary
	House bills
Partnership to Strengthen Homeownership Act of 2015 H.R. 1491 Introduced March 19, 2015 Sponsor: Rep. John Delaney (D-MD)	The proposed legislation addresses winding down the enterprises and transferring the responsibilities of the enterprises to Ginnie Mae. To accomplish these goals the bill would: • Separate Ginnie Mae from the Department of Housing and Urban Development (HUD) and establish Ginnie Mae as an independent entity. • Abolish FHFA and appoint Ginnie Mae as the conservator over the enterprises until they enter a mandatory receivership. • Require appointment of Ginnie Mae as receiver and prescribes requirements for winding down the enterprises and repealing their charters. • Establish within Ginnie Mae an issuing platform to issue standardized mortgage-backed securities and require Ginnie Mae to insure the securities issued by the platform • Require the enterprises to create a risk-sharing pilot program, which would develop private-sector first-loss positions on mortgage-backed securities (MBS). • Instruct the Director of Ginnie Mae to strive to obtain a return on taxpayer investment from the enterprises while using the receivership to remove barriers for private sector competition in the housing finance market. • Require that Ginnie Mae impose limits on the enterprises' business after specific dates. • Direct Ginnie Mae to restructure SPSA and compensate the Federal Government for the financial support given to the enterprises. Ginnie Mae would be authorized to exchange any securities insured by the enterprises to Ginnie Mae at the request of the holder.
GSE Review and Reform Act of 2016 H.R. 5505 Introduced June 16, 2016 Sponsor: Rep. J. French Hill (R-AR)	This bill requires Treasury to conduct a study and submit a report each year regarding an end to the conservatorship of the enterprises and submit recommendations developed from that study to the President and the House Financial Services Committee and the Senate Banking Committee. The proposal further mandates that the Secretary of the Treasury appear before the committees each year for hearings regarding these reports.

Bill name, number, major actions, and sponsor	Summary

Let the Enterprises Pay Us Back Act of 2015
H.R. 1036
Introduced February 24, 2015
Sponsor: Rep. Michael Capuano (D-MA)
	This bill alters the enterprises' current conservatorship scheme by:
	• Directing the Secretary of the Treasury and the enterprises to enter into an agreement modifying the current SPSA to provide that:
	  • any senior preferred stock purchased by the Treasury under SPSA shall accrue no further dividends
	  • any amounts received by the enterprise, before or after the modification, during a single year as a draw upon the Treasury's commitment under SPSA shall be treated as a loan by the Treasury to the enterprise.
	• Specifying that under the modified SPSA this loan be treated as though originated on the date of the last such draw during that year, with: (1) an original principal obligation equal to the aggregate amount of such draws, (2) a 30-year term, (3) an annual interest rate of 5 percent, and (4) requirements for full amortization of the loan over the 30-year term.
	• Requiring the enterprises to repay the loan in accordance with the amortization schedule established.
	• Requiring any dividends paid by the enterprises to the Treasury under SPSA before the modification to be treated as payments of principal and interest due under the loan, to be credited against payments due, first to the loan with the earliest origination date that has not yet been fully repaid until it is repaid, and then to the loan having the next earliest origination date until it is repaid.

113th Congress	
Senate bills	
Housing Finance Reform and Taxpayer Protection Act of 2014 S. 1217 Introduced June 25, 2013; Ordered to be reported with an amendment in the nature of a substitute favorably May 15, 2014 Sponsor: Sen. Bob Corker (R-TN)	This version of S.1217, as amended in committee, addresses secondary market reform by winding down the enterprises and creating a federal mortgage insurer to protect MBS investors against catastrophic loss, establishing a regulatory structure to oversee the secondary market, and imposing secondary market fees that would provide a funding stream to address low-to-moderate homeownership and rental housing needs. To accomplish these goals the bill, among other things: • Transforms FHFA into an independent office under a new agency, the Federal Mortgage Insurance Corporation (FMIC). FHFA would be responsible for overseeing the enterprises as they wind down over a 5 year transitory period. • Requires FMIC to maintain the Mortgage Insurance Fund (MIF), a reinsurance fund for FMIC-guaranteed securities. MIF would fund claims for principle and interest on FMIC-guaranteed securities if losses exceed a required private market first loss position. • Instructs FMIC to establish a securitization platform to purchase mortgage loans or securities collateralized by mortgage loans for securitization and issue standardized FMIC-guaranteed securities. • Funds MIF through initial assessments on the enterprises and through fees on FMIC-insured securities. MIF is to attain a capital reserve ratio of 1.25 percent of the outstanding principal balance of FMIC-backed securities within 5 years, and to maintain a permanent capital reserve ratio of 2.5 percent after 10 years.

Bill name, number, major actions, and sponsor	Summary
	Senate bills

Housing Finance Reform and Taxpayer Protection Act of 2013
S. 1217
Introduced June 25, 2013; Ordered to be reported with an amendment in the nature of a substitute favorably May 15, 2014
Sponsor: Sen. Bob Corker (R-TN)
	The originally introduced version of the 2014 bill, *supra*, also establishes FMIC and MIF, but differs in how the changes are implemented. Among other requirements, this version of the bill:
	• Creates a new agency, FMIC, and transfers the functions of the FHFA to FMIC.
	• Directs MIC to wind down the enterprises.
	• Establishes:
	  • MIF, to covered insured losses when they exceed the required private first loss position;
	  • The FMIC Mutual Securitization Company, to be owned by credit unions, community and mid-size banks, and non-depository mortgage originators, to securitize member mortgages;
	  • The Office of Federal Home Loan Bank Supervision, to oversee the Federal Home Loan Banks and the Federal Home Loan Bank System; and
	  • An Office of Underwriting within FMIC, to ensure that mortgages that underlie FMIC-guaranteed securities meet certain standards.
	• Requires FMIC to develop standard risk-sharing mechanisms, products, and contracts within five years of enactment.
	• Assures full-faith-and-credit government guarantees for MIF insurance.

	House bills
Partnership to Strengthen Homeownership Act of 2014 H.R. 5055 Introduced July 10, 2014 Sponsor: Rep. John Delaney (D-MD)	The proposal addresses secondary market reform by winding down the enterprises and creating a federal mortgage insurer to protect mortgage-backed securities investors against catastrophic loss, establishing a new regulatory structure for certain secondary market participants, and imposing secondary market fees to fund low-income housing initiatives. To accomplish these goals the bill would: • Separate Ginnie Mae from HUD and establish Ginnie Mae as an independent agency. • Abolish FHFA and transfer all FHFA functions and staff to Ginnie Mae, which would assume regulatory authority over financial institutions insuring securities issued by the securitization platform or aggregating mortgages that collateralize securities issued by the platform. • Instruct Ginnie Mae to establish a securitization platform and a reinsurance fund or guarantor program and an insurance fund to cover losses incurred with respect to mortgage-backed securities. • Wind down the enterprises. • Require Ginnie Mae to promulgate uniform standards for MBS issued by the platform and participating mortgage originators or aggregators. • Mandate that Ginnie Mae consult and coordinate with other agencies and work to avoid duplication with the regulatory activities of other agencies. • Create the Market Access Fund to increase the supply of affordable housing for low-income families.

Bill name, number, major actions, and sponsor	Summary
	House bills
Protecting American Taxpayers and Homeowners Act of 2013 H.R. 2767 Introduced July 22, 2013 Sponsor: Rep. Scott Garrett (R-NJ)	This bill aims to address the primary and secondary mortgage markets. Among other things, this proposal would: • Terminate conservatorship of the enterprises five years from the date of enactment, requiring the FHFA director to act as receiver of the enterprises and terminate their authority to conduct new business. • Authorize FHFA to issue a charter for a national mortgage market utility, to be organized, operated, and managed by the private sector, which will manage the common securitization platform being developed by the enterprises.

Source: GAO analysis of proposed legislation. | GAO-17-92

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Lawrance L. Evans, Jr., (202) 512-8678 or evansl@gao.gov

Staff Acknowledgments

In addition to the contact named above, Karen Tremba (Assistant Director), Don Brown (Analyst-in-Charge), Giselle Cubillos-Moraga, Rachel DeMarcus, Davis Judson, Risto Laboski, Marc Molino, Jennifer Schwartz, Mathew Scirè (retired), Tyler Spunaugle, and Jessica Walker made significant contributions to this report.

(100897)

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (http://www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to http://www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts.
Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: http://www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548

Appendix III: Accessible Data

Data Table for Figure 1: Mortgage-Backed Securities Guaranteed by Fannie Mae and Freddie Mac (the Enterprises) and Mortgages Held in Banks' Portfolios as a Percentage of First-Lien Mortgage Originations, 2002 through Second Quarter 2016

Year	Mortgage-backed securities guaranteed by the enterprises	Held in portfolio (estimated)
2002	47%	34%
2003	51%	29%
2004	35%	31%
2005	32%	26%
2006	32%	24%
2007	51%	15%
2008	65%	15%
2009	62%	12%
2010	60%	16%
2011	58%	22%
2012	59%	22%
2013	62%	18%
2014	47%	32%
2015	46%	30%
First half of 2016	43%	34%

Data Table for Figure 2: Enterprises' Combined Potential Incremental Draws on the Capital Commitment from the Department of the Treasury under the Severely Adverse Scenario of the Dodd-Frank Act Stress Tests, 2014–2016

Stress Test	Potential incremental Tresaury draw (without valuation of DTA)	Potential incremental Tresaury draw (with valuation of DTA)
2014 stress test	84.4	190.0
2015 stress test	68.6	157.3
2016 stress test	49.2	125.8