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# The Housing GSE's: Implications for the 2009 Financial Markets

*Specially Prepared for:*  
**Burnham-Moores Center for Real Estate,  
Residential Real Estate Conference:  
Outlook 2009**

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# Presentation Outline

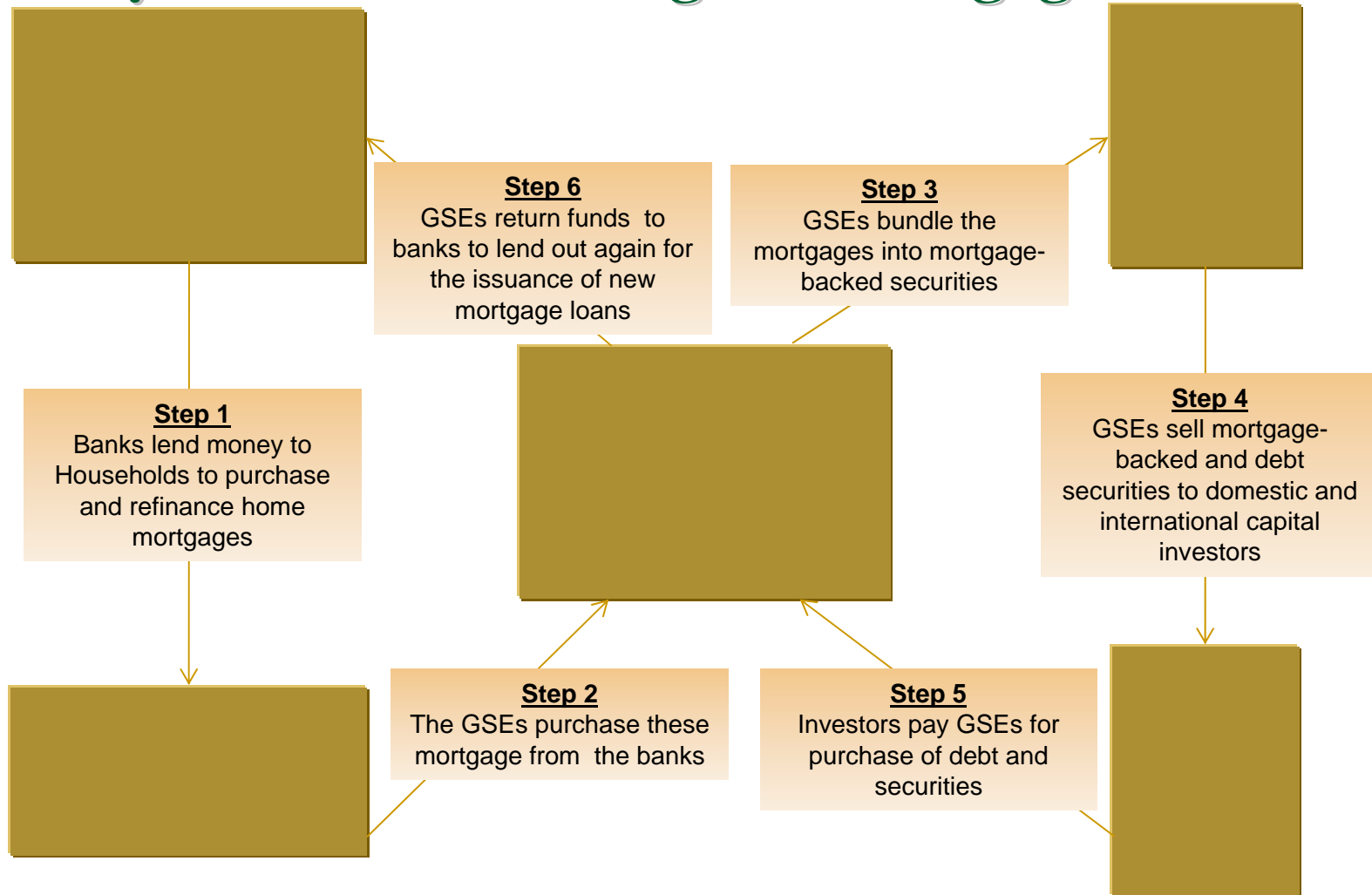
- The Role and Market Presence of the GSEs
  - Remedies Proposed to Address the Financial Risk of the GSEs
  - Re-invention Proposals to Reinvigorate the GSEs
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# **The Role and Market Presence of the GSEs**

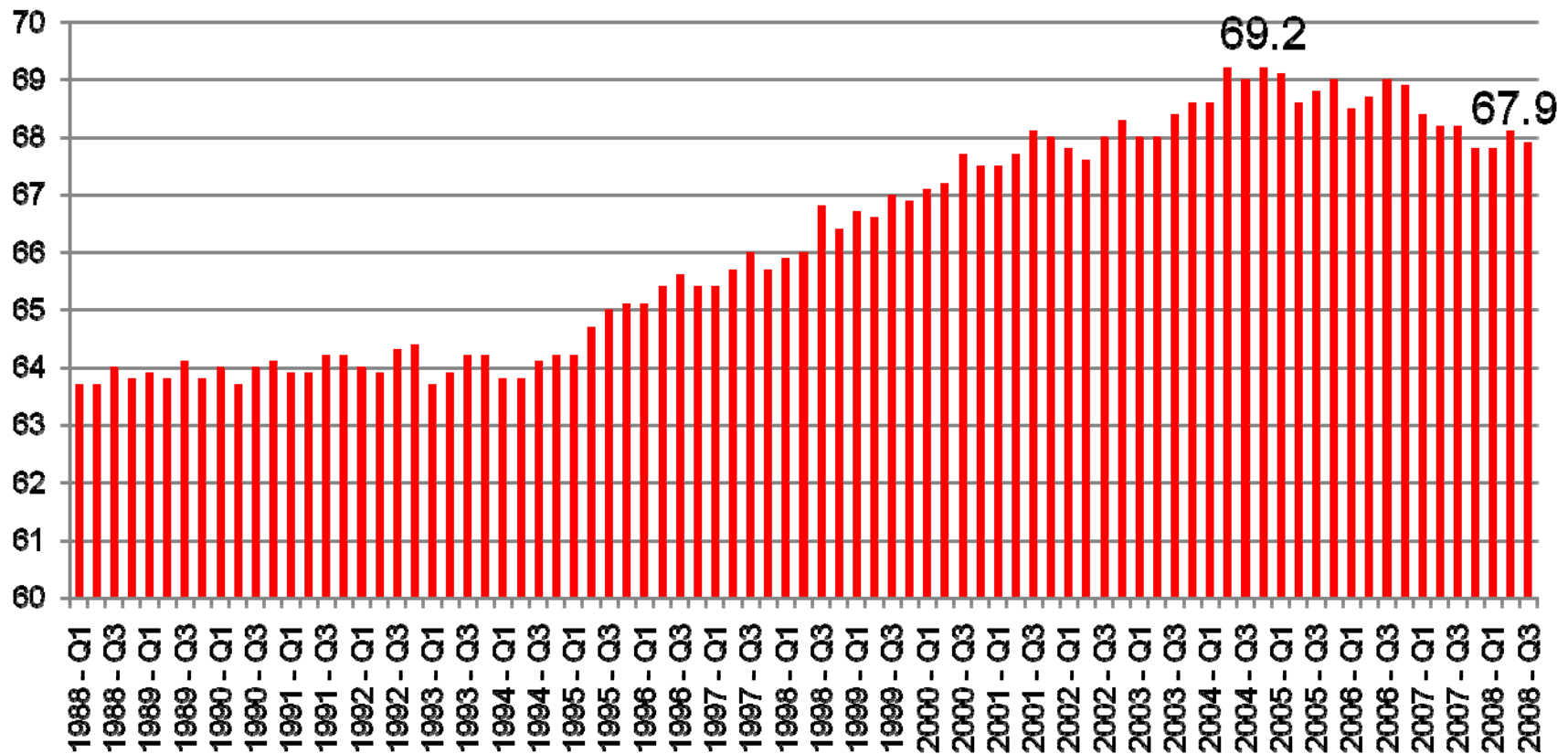
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# The Role of the GSEs is to provide liquidity and stability to the U.S. housing and mortgage markets.

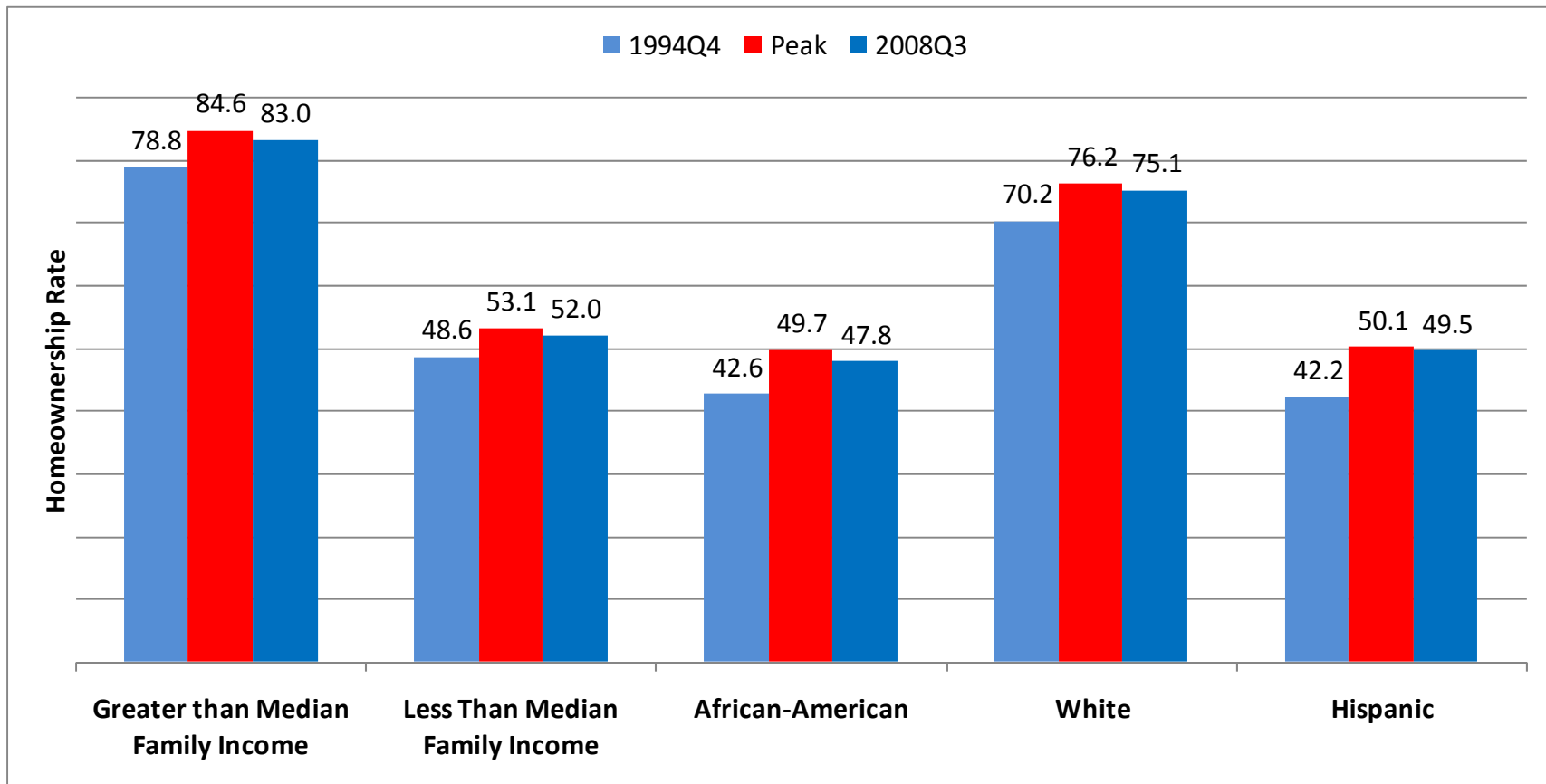


Partially in response to increased activity of the GSEs, homeownership in the U.S. rose to record levels over the last 20 years...

### U.S. Homeownership Rate

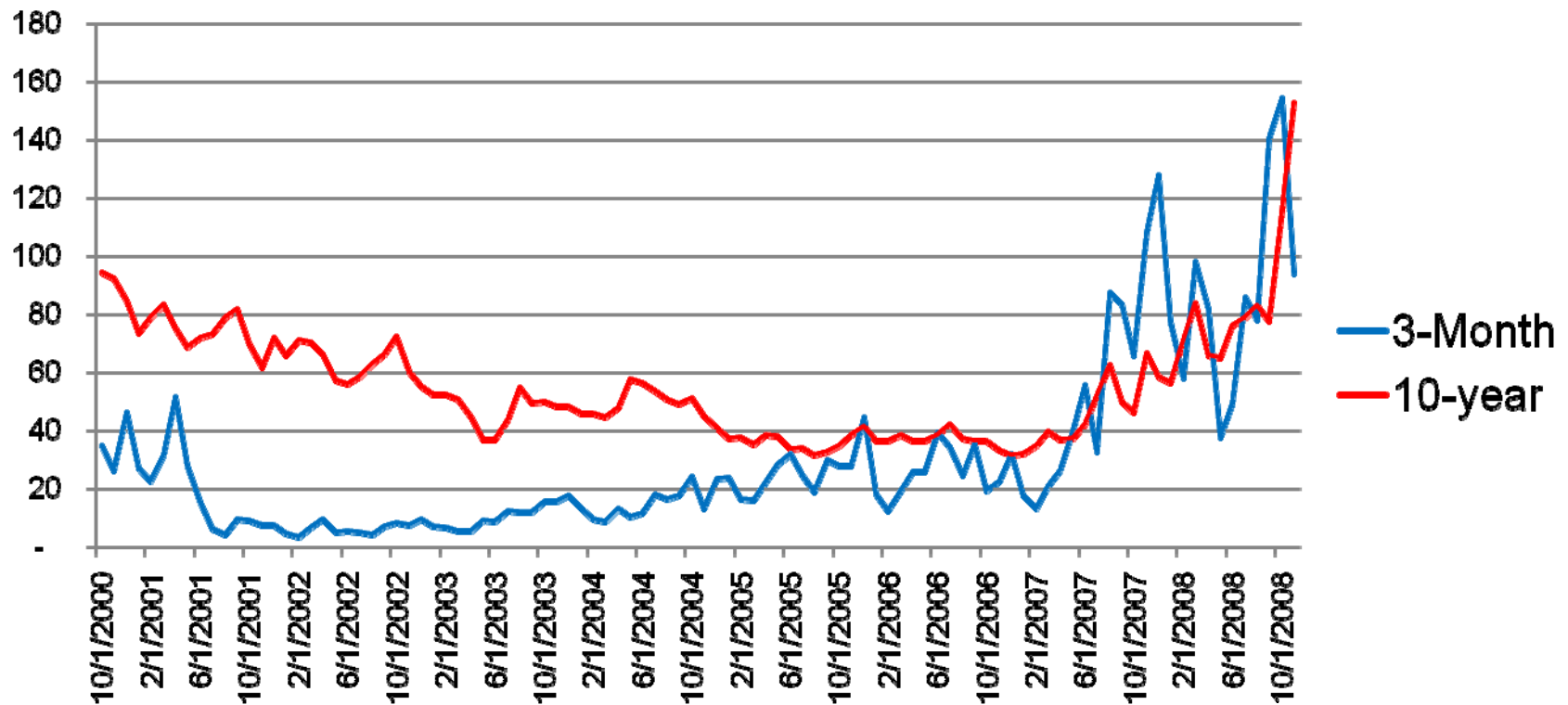


# ...and Expanded the Dream of Homeownership to a Much Broader Segment of American households.



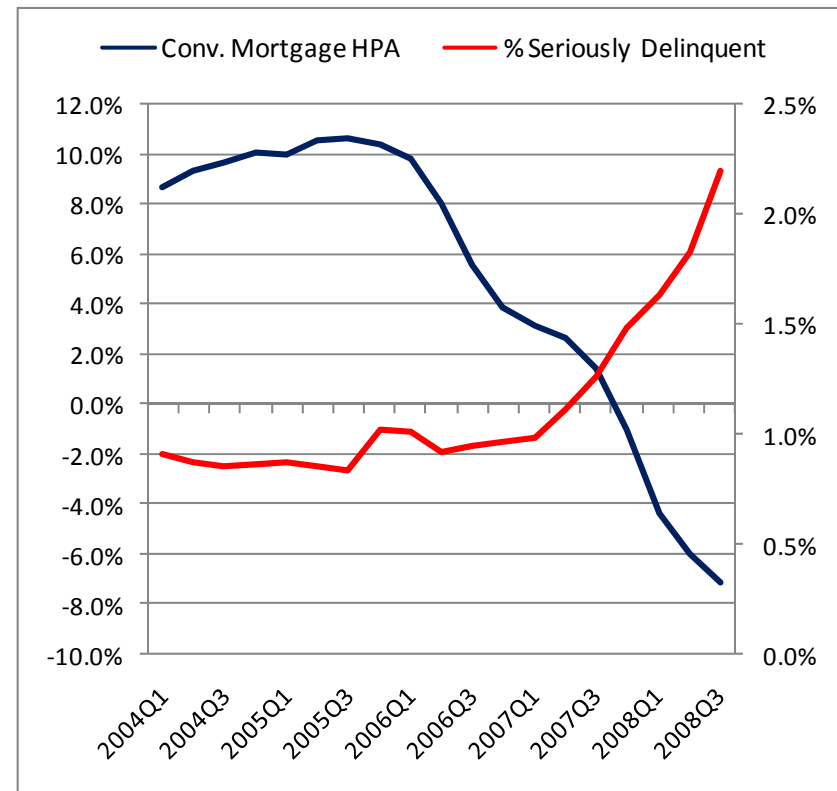
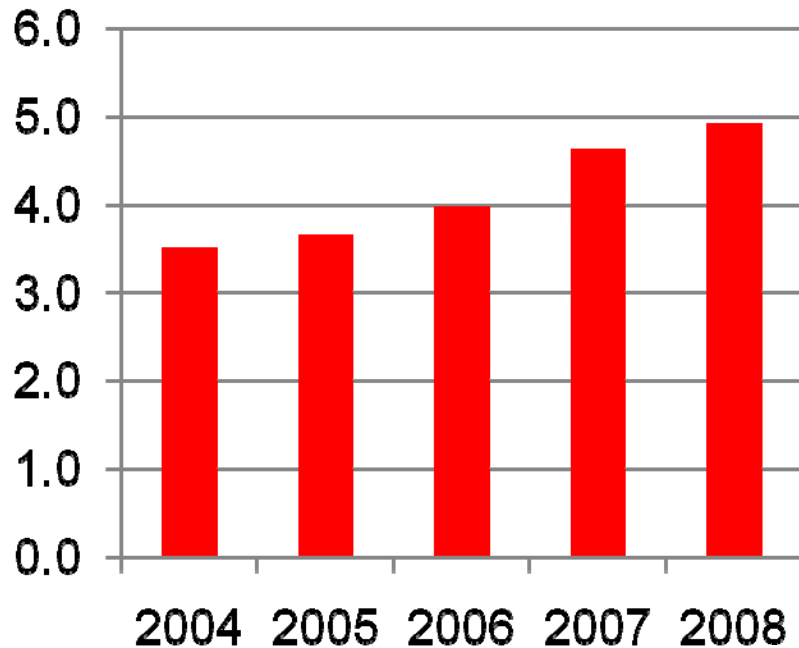
# But the expansion of benefits also carried expanded costs...

## Spread of Fannie Mae Benchmark Rate to Comparable Maturity Treasury



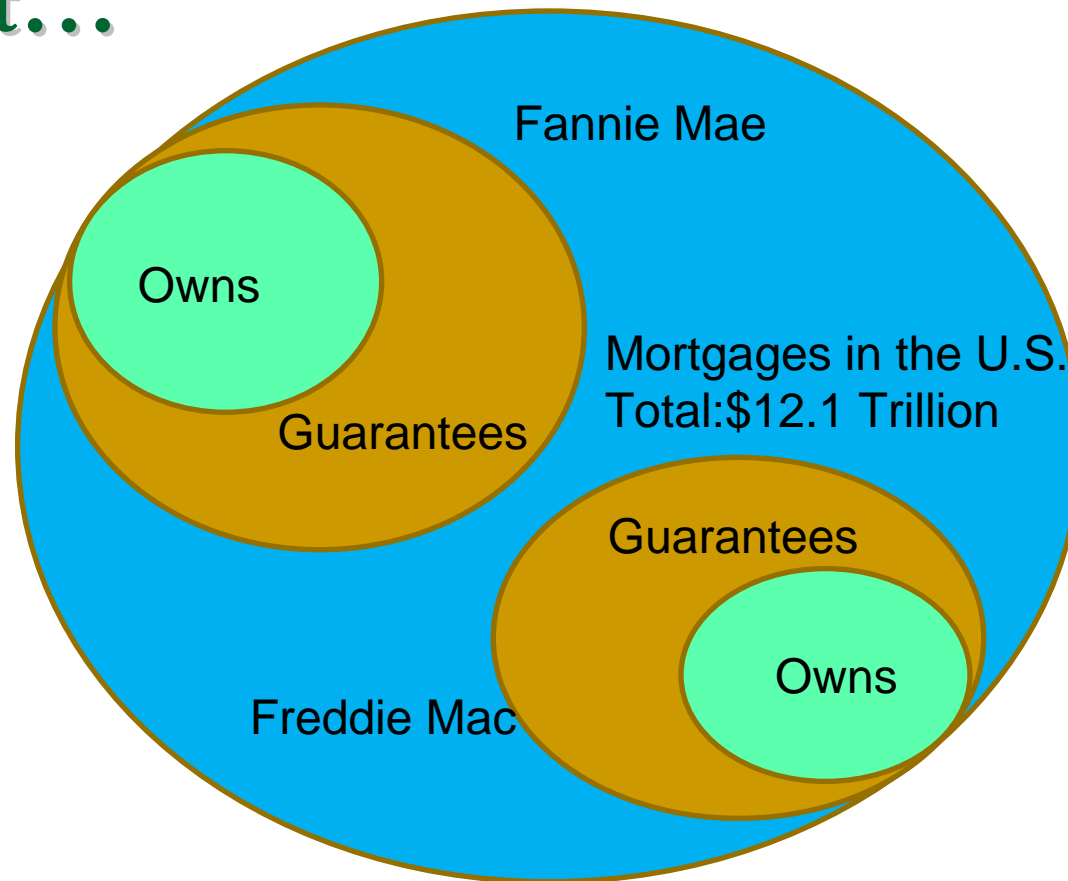
...to reflect the significantly increasing amount of risk assumed by the GSEs.

**Total Guaranteed Mortgages  
(Trillions of \$)**



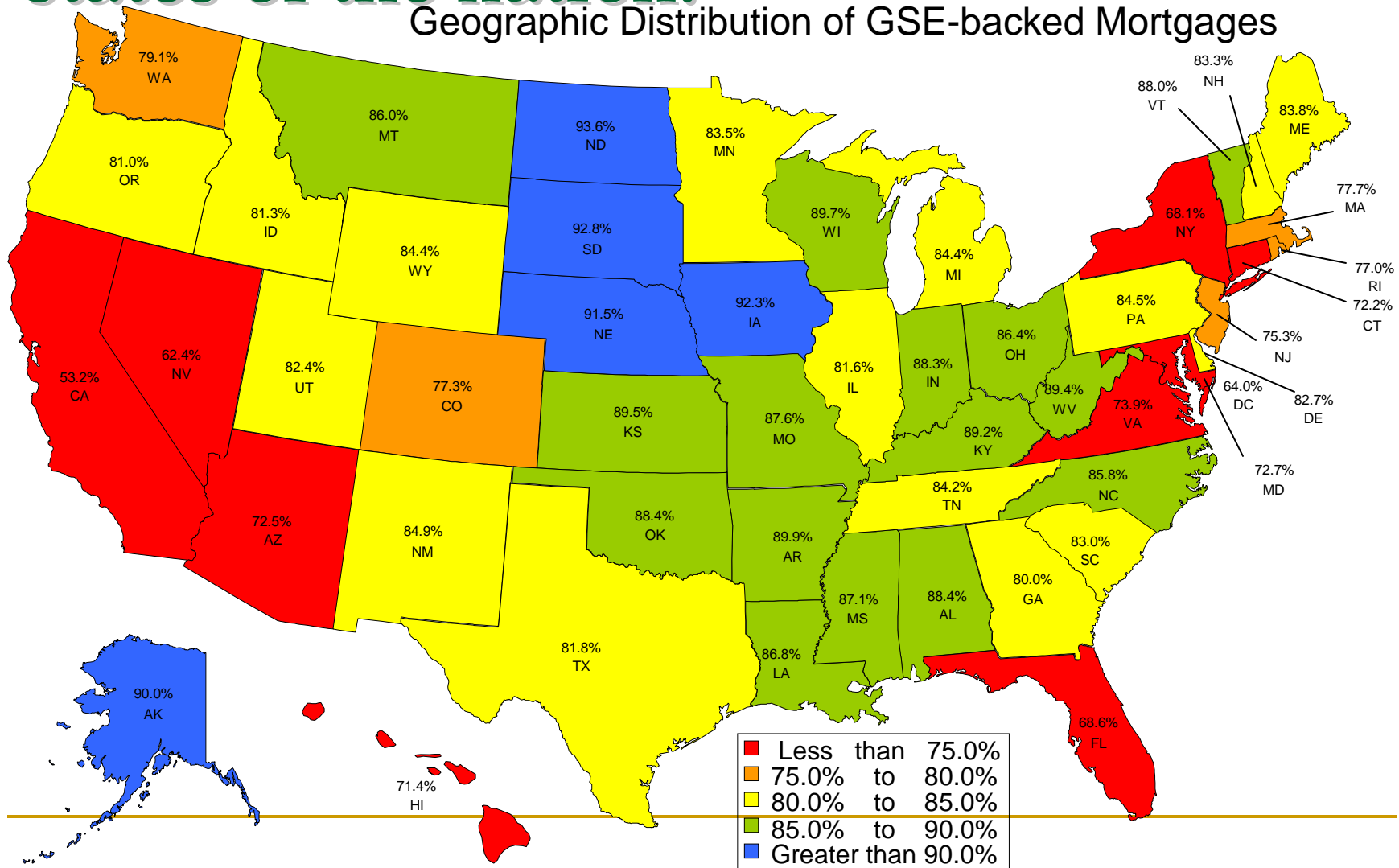
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# The GSEs are a Significant and Growing Part of the Mortgage Market...



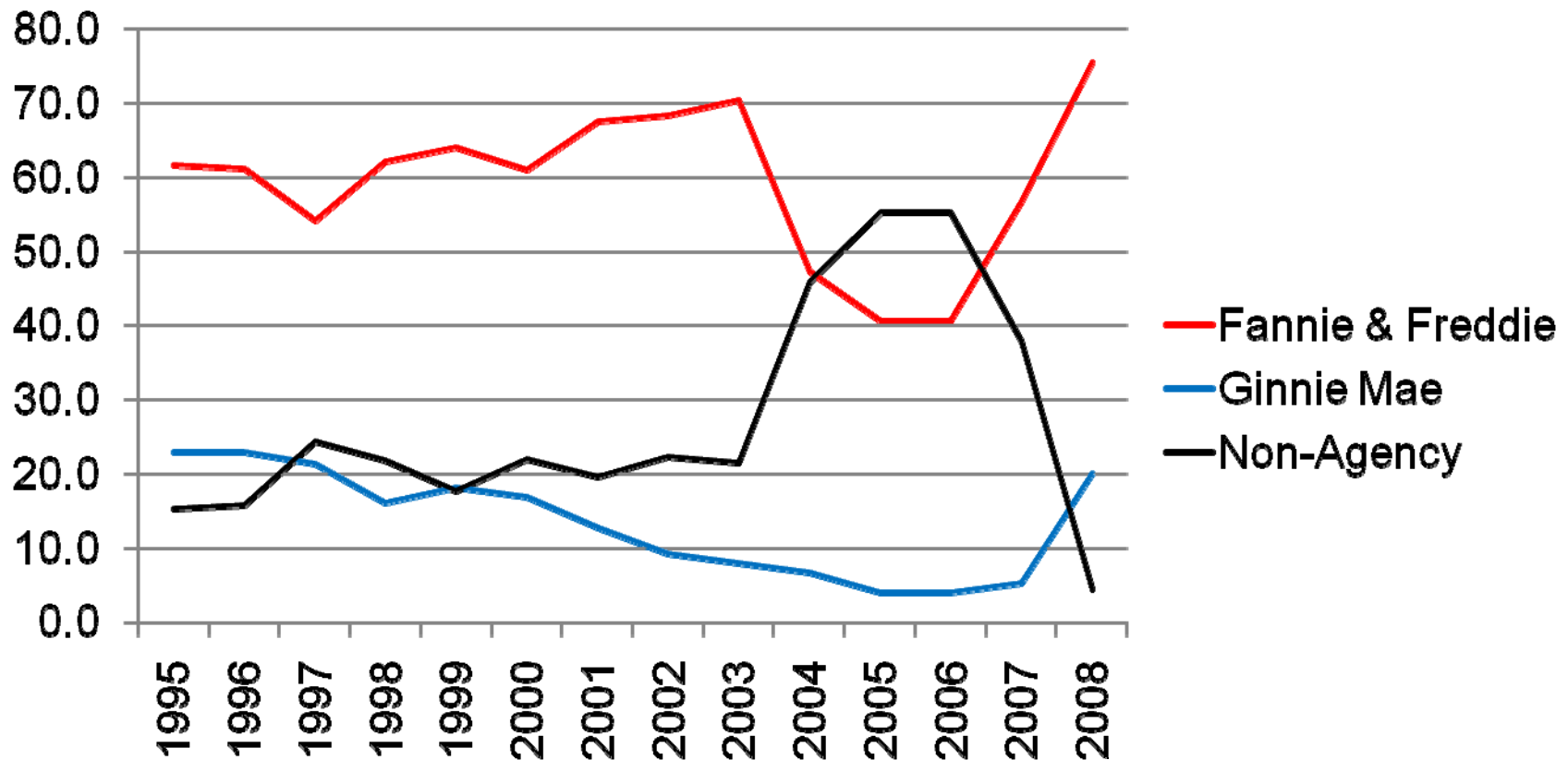
# ...whose effect is spread across all states of the nation.

## Geographic Distribution of GSE-backed Mortgages



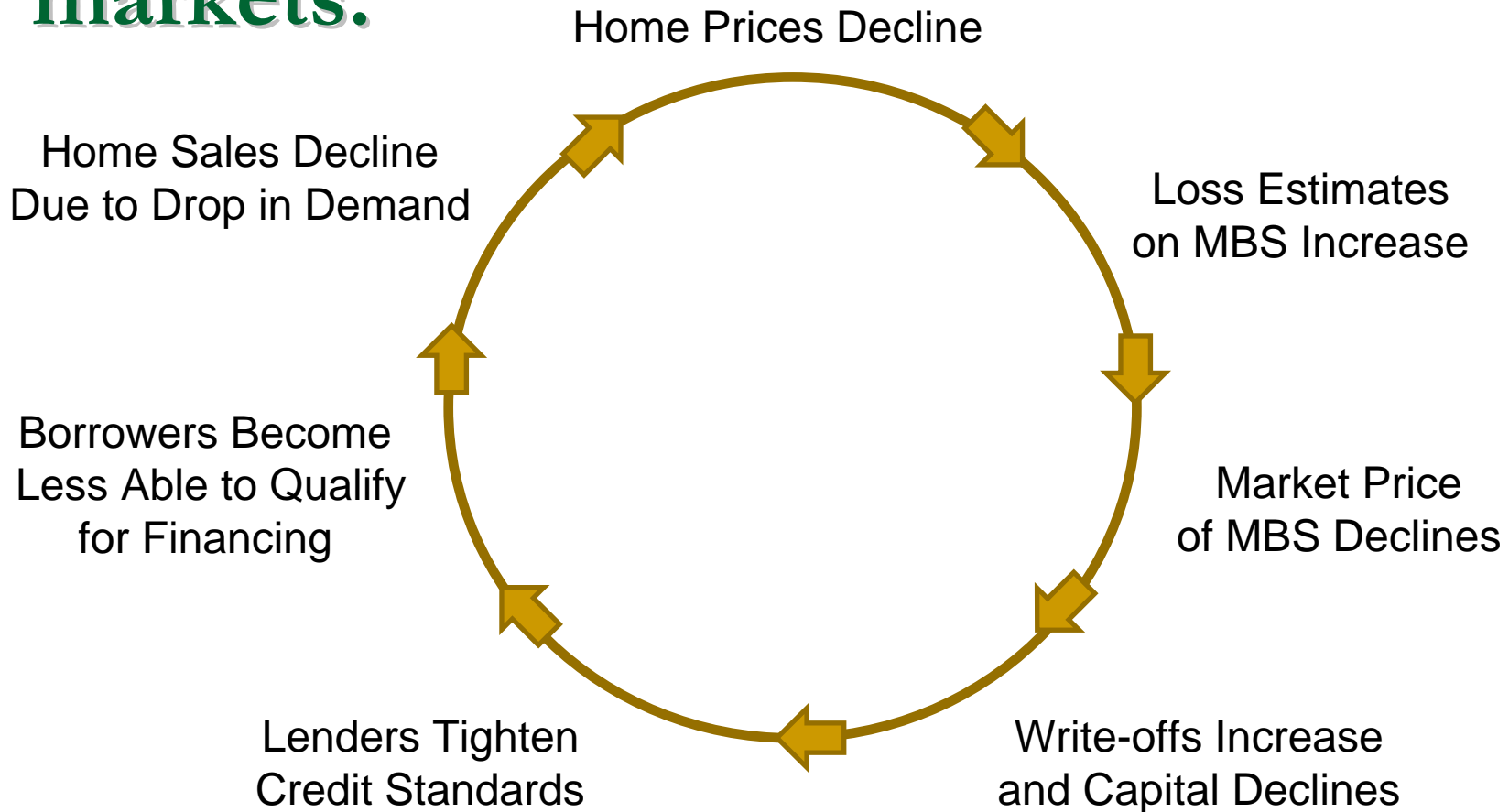
# There is a renewed and growing reliance on GSE securitization in the mortgage markets...

**Percent of Total MBS Issued**



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# ...during this period of increasing stress in the housing and mortgage markets.



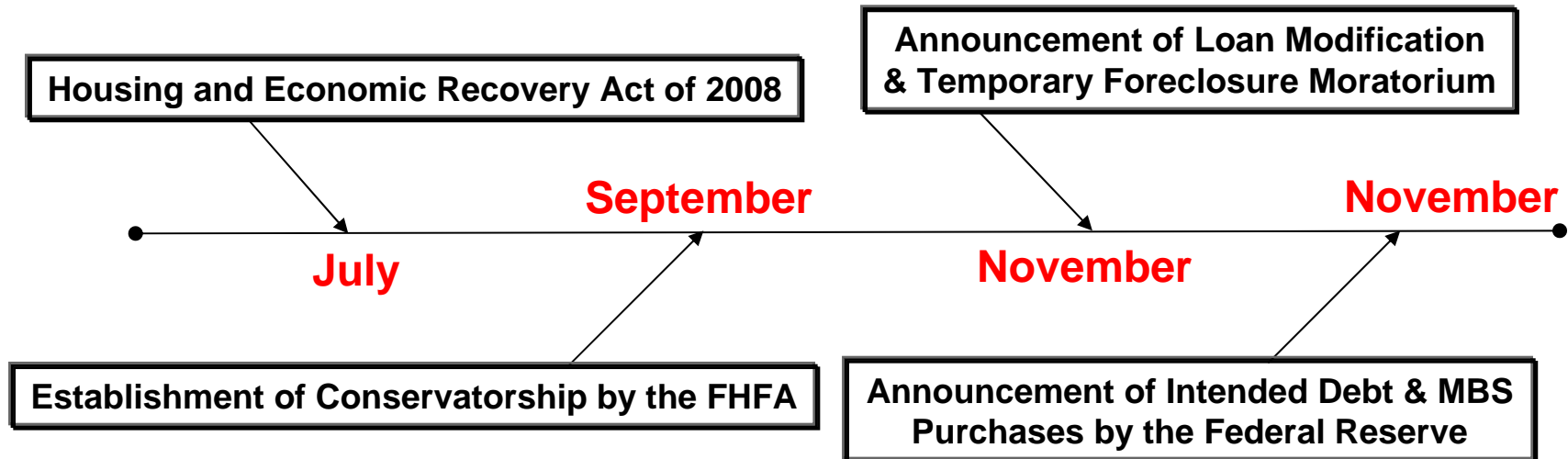
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# **Remedies Proposed to Address the Financial Risk of the GSEs**

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# Federal Intervention and Program Announcements Accelerate...



# Housing and Economic Recovery Act of 2008

## ■ Highlights

- Authorized the Secretary of the Treasury to support the GSEs by purchasing obligations and other securities from the GSEs.
- Granted the Secretary broad authority to determine the conditions and amounts of such purchases.

## ■ Impact on the Market

- Fairly Minimal
- Credit Markets continued to tighten

	<u>FR 30-yr</u>	<u>Mtge Apps</u>
12Jul08	6.37	30.40
19Jul08	6.26	-5.40
<b>26Jul08</b>	<b>6.63</b>	<b>-15.50</b>
2Aug08	6.52	0.40
9Aug08	6.52	-3.20
23Aug08	6.47	-2.70

	<u>3-mo Sprd</u>	<u>10-yr Sprd</u>
Jun 2008	49	75.8
<b>Jul 2008</b>	<b>85.8</b>	<b>78.7</b>
Aug 2008	78	83.1

# FHFA establishment of Conservatorship

## ■ Highlights

- FHFA takes a conservatorship position relative to the GSEs with the purpose of preserving and conserving the GSE's assets and property and to put the companies on a sound and solid footing.
- FHFA agreed to purchase senior preferred stock in the GSEs.
- Secretary of Treasury established two special facilities to purchase the securities and debt of the GSEs.
- Treasury announces that it has essentially guaranteed Fannie Mae and Freddie Mac securities.

## ■ Impact on the Market

- Marginal, in the short-run
- Significant, in the long-run

	<u>FR 30-yr</u>	<u>Mtge Apps</u>
23Aug08	6.47	-2.70
30Aug08	6.40	3.70
<b>6Sep08</b>	<b>6.35</b>	<b>-8.00</b>
13Sep08	5.93	75.60
20Sep08	5.78	-13.40
27Sep08	6.09	-26.40
	<u>3-mo Sprd</u>	<u>10-yr Sprd</u>
Aug 2008	78	83.1
<b>Sep 2008</b>	<b>140.3</b>	<b>77.6</b>
Oct 2008	154.3	115.7

# Announcement of Loan Modifications & Foreclosure Moratorium

## ■ Highlights

- November 11 - FHFA Director Lockhart announced a streamlined, uniform loan modification program for qualifying loans of the GSEs
- November 20 – The GSEs announced a moratorium on all foreclosure activity until January 9.

## ■ Impact on the Market

- Too early to call, but may prove significant if done in quantity and the moratorium period is extended sufficiently

	<u>FR 30-yr</u>	<u>Mtge Apps</u>
25Oct08	6.04	33.70
1Nov08	6.46	-26.10
8Nov08	6.20	13.90
15Nov08	6.14	-9.50
22Nov08	6.04	-2.20
29Nov08	5.97	78.60

	<u>3-mo Sprd</u>	<u>10-yr Sprd</u>
Oct 2008	154.3	115.7
Nov 2008	93.7	152.8

# Announcement of Purchase of GSE Debt and MBS by Federal Reserve

## ■ Highlights

- November 25 – Fed announced its intention to purchase up to \$100 billion in GSE direct obligations through a series of competitive auctions.
- Fed also announced that it would purchase up to \$500 billion in MBS by year-end.

## ■ Impact on the Market

- Significant in both the short and long run.
- Helps to improve the appeal of the GSEs' debt and remove some of the uncertainty regarding their future prospects.

	<u>FR 30-yr</u>	<u>Mtge Apps</u>
1Nov08	6.46	-26.10
8Nov08	6.20	13.90
15Nov08	6.14	-9.50
22Nov08	6.04	-2.20
29Nov08	<b>5.97</b>	<b>78.60</b>
6Dec08	<b>5.53</b>	

	<u>3-mo Sprd</u>	<u>10-yr Sprd</u>
Oct 2008	154.3	115.7
Nov 2008	<b>93.7</b>	<b>152.8</b>

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# **Re-invention Proposals to Reinvigorate the GSEs**

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## Reinvention of the GSEs will not be simple...

- Broad agreement that the GSEs serve a useful purpose
  - Substantial disagreement on what the future structure and mission should be
  - Most common disagreement arises from the reconciliation of the GSEs public mission and its private ownership
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## **Alternative Solutions that have been proposed...**

- Post-HERA 2008 and Pre-conservator status: the return of the GSEs to the private sector, with stronger regulation
  - Public Utility Status – regulated activity and return
  - FHLB Structure – cooperative based on customers/regional location
  - Complete Privatization
  - Nationalization
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# Conclusions

- The GSEs have reached the point where a new solution must be reached
  - Role of the GSEs as a stabilizing element is likely to gain as the housing and financial markets remain in crisis
  - Unlikely to see full resolution of the housing and mortgage market problem in 2009, pushing the likelihood of a resolution to the GSEs future into 2010
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