Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

Taxpayers Getting Another $5.3 Billion from Fannie and Freddie

The two government sponsored enterprises (GSEs) reported improved financial results in the third quarter of 2016. Fannie Mae and Freddie Mac both said they would pay **substantial dividends** to the U.S. Treasury under their Senior Preferred Stock Purchase Agreement with the government.

Freddie Mac's financial results for the third quarter continue to indicate that its loss in the first quarter of 2016 **may have been a fluke**. The company posted net and net comprehensive income of 2.3 billion compared to net income of $993 million and $1.13 billion in the second quarter. There was a net loss of $354 million in Q1, the first for the company in four years.

Net interest income was **$3.7 billion**, an increase of $203 million from the second quarter. This reflected an increase in guarantee fee income from $124 million to $133 million due to higher amortization in the single-family business resulting from higher liquidations and higher average contractual guarantee fees.

The company said the net interest rate effect was minimal as the modest increase in longer-term rates was offset by the flattening of the yield curve, compared to a $0.4 billion after tax estimated fair value loss for the second quarter as interest rates decreased.

Derivative losses also tightened, from -$2.1 billion in the second quarter to -$36 billion in the third and provisions for credit losses shifted from a benefit of $775 million in the previous quarter to a provision for losses of $113 million.

Based on the third quarter results Freddie Mac will pay a dividend to the U.S. Treasury of **$2.3 billion** in December. This will leave a capital reserve of $1.2 billion. The reserve is reduced every year. The December dividend will bring the total paid to the Treasury since the company was put into conservatorship in September 2008 to $101.4 billion against funds provided to Freddie Mac in a series of draws of $71.3 billion. The company has not required a draw since the end of 2012.

Freddie Mac said it had provided mortgage funding during the quarter totaling approximately **$129 billion**. This financed 485,000 single-family homes, including 255,000 refinances, and more than 165,000 multi-family rental units.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.25%	-0.03	0.00
15 Yr. Fixed	6.68%	-0.07	0.00
30 Yr. FHA	6.64%	-0.06	0.00
30 Yr. Jumbo	7.45%	-0.03	0.00
5/1 ARM	7.32%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/6

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

While the numbers are diminishing as the economy improves and home prices rise there is **still distress in the market**. The company sold $0.6 billion in seriously delinquent loans and completed loans workouts for 16,000 homeowners. The company reports that the serious delinquency rate in its single-family portfolio was 1.02 percent, down 6 basis points from the previous quarter and the lowest rate since July 2008.

Freddie Mac CEO Donald H. Layton said, "We're continuing to improve **affordability** and access to credit for homebuyers and renters - the core of our community mission, often working with industry partners and community organizations. We are also innovating to improve the operations of the mortgage markets, including giving our customers products and tools to make it easier and less expensive to make loans to working families."

Fannie Mae's net income of **$3.2 billion** and comprehensive income of $3.0 billion for the second quarter of 2016 compares to net and comprehensive income of 2.9 billion in the second quarter of 2016. The increase in net income was due primarily to lower fair value losses on the company's derivatives, partially offset by a decrease in credit-related income in the third quarter of 2016.

Net interest income, which includes **guaranty fee revenue**, was $5.4 billion for the third quarter compared with $5.3 billion the previous quarter. Net interest income for the third quarter of 2016 was driven by guaranty fee revenue, amortization income from mortgage prepayments, and interest income earned on mortgage assets in the company's retained mortgage portfolio.

In recent years, an increasing portion of Fannie Mae's net interest income has been derived from guaranty fees rather than from the company's retained mortgage portfolio assets. This is a result of both the impact of guaranty fee increases implemented in 2012 and the reduction of the company's retained mortgage portfolio. More than two-thirds of the company's net interest income in the third quarter of 2016 was derived from its guaranty business. The company expects that guaranty fees will continue to account for an increasing portion of its net interest income.

"Today's results reflect the strength of our business and our commitment to delivering innovations that make the mortgage process better for lenders," said Timothy J. Mayopoulos, president and chief executive officer. "Fannie Mae is delivering tools and technologies that reduce costs and increase efficiency for our customers. We have partnered with lenders to develop new solutions that meet their most important needs. We will continue to innovate so that we can help customers create a faster, safer, and, ultimately, fully- digitized mortgage experience for borrowers."

The company reported a positive net worth of $4.2 billion as of September 30, 2016 and as a result expects to pay **$3.0 billion in dividends** to Treasury in December 2016. With the upcoming payment, the company will have paid a total of $154.4 billion in dividends to Treasury. In the early years of conservatorship Fannie Mae drew down 117.1 billion in support from the Treasury but has not required a draw since 2011.

Fannie Mae was the largest provider of liquidity to the mortgage market in the third quarter of 2016, providing approximately $184 billion in mortgage financing that enabled families to buy, refinance, or rent homes.

The company's single-family portfolio had a serous delinquency rate of 1.24 percent at the end of the quarter. The rate has decreased for 26 consecutive quarters since the first quarter of 2010, falling from 5.47 percent.