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A Message from BRETON MACDONALD:

""The Enterprises are leveraged nearly 1,000-to-one, ensuring they would fail during an economic downturn - exposing taxpayers once again."

Fannie and Freddie Allowed to Make Money Again

On Monday the government slightly loosened the leash on which it has held the two government sponsored enterprises (GSEs) for **more than 11 years**. In a letter signed by Treasury Secretary Steven Mnuchin and Federal Housing Finance Agency (FHFA) Director Mark Calabria, Fannie Mae and Freddie Mac will be allowed to retain a larger share of their profits to protect against any future financial downturns.

The two corporations, which continue to provide most of the mortgage market for the U.S., were placed in government conservatorship in August 2008 at the start of the Great Recession. At that time, under the terms of a Senior Preferred Stock Purchase Agreement (SPPA), they were permitted to borrow up to \$100 billion (later increased to \$200 billion) in order to withstand potentially billions of dollars in losses from mortgage loans that defaulted during the housing crisis. **In return**, the Treasury was granted senior preferred stock in the two corporations on which the two were obligated to pay a 10 percent dividend each quarter even though it took four years for them to return to profitability. In effect this meant they had to borrow from Treasury each quarter in order to pay Treasury its dividend. Each draw on the Treasury increased the Treasury's Liquidation Preference.

In 2012, shortly **before** each company moved into the black, the SPPA was modified to require the GSEs to remit **all quarterly profits** to the Treasury except for a buffer which gradually decreased, reaching zero at the end of 2017. The agreement also **prohibited the GSEs from building any capital**. More recently the buffer was reinstated, allowing the companies to retain \$3 billion each quarter.

Pressure has been building to allow the GSEs to retain a larger amount of their now massive profitability so they can withstand a downturn in the housing market without again requiring taxpayer assistance. Under the agreement reached on Monday, the GSEs will be allowed to retain capital **not to exceed a combined \$45 billion**, \$25 billion allotted to Fannie Mae and \$20 billion to Freddie Mac.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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	51	+6.25%

The agreement also states that, beginning with the end of the current quarter (September 30) and at the end of each subsequent quarter thereafter, Treasury's Liquidation Preference will be increased by an amount equal to the increase the companies' Net Worth Amount during the prior quarter until that Preference is increased by \$22 billion. We read this to mean that Treasury is merely deferring the balance of its net sweep in return for **increasing its stock position**.

In a statement issued on the FHFA website, Calabria made the following statement:

"The Enterprises are leveraged nearly 1,000-to-one, ensuring they would fail during an economic downturn - exposing taxpayers once again. This letter agreement between Treasury and FHFA, which allows the Enterprises to retain capital of up to \$45 billion combined, is an important milestone on the path to reform. FHFA commits to working with Treasury in the coming months to amend the share agreements and further advance broader housing finance reform. These reform goals include limiting the government's role in housing finance, increasing marketplace competition, focusing on affordable housing, and sustainable homeownership. The status quo is not an option. Now is the time to act."

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Breton is a Branch Manager & Sr Loan Officer at the top of his field for over 15 years. Transparency & treating people like family is how he has built a solid network of referral & repeat business over the years. Candor and expertise is how he communicates & consistently closes on time getting the best loan possible. With Geneva Financials' wide array of products & its seamless, straightforward process he will be able to find you the best mortgage structured the right way. With a positive attitude, Breton is consummate pro who is honest, upfront & shoots it to you straight. 949-887-7289

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