Caroline Roy

Branch Manager/Loan Officer, GoPrime Mortgage
271203
2015 Charlotte St Ste. 3 Bozeman, MT 59718

Office: 406.624.6330
caroline@goprime.com
View My Website

GSEs Fire Respectful Warning Shots at Conservatorship Plan

Fannie Mae and Freddie Mac (the GSEs, or "government-sponsored enterprises") were already **well** past having paid back taxpayer bailouts before this week's earnings releases. Freddie Mac has paid back $36.9 billion more than it drew from taxpayers and the number is $46.6 billion for Fannie Mae. Both have capital buffers at the moment, but those are slated to be drawn down to $0 by the beginning of 2018. Neither the GSEs nor their overseer the FHFA are too thrilled about that. The GSEs have now joined FHA in **firing warning shots** about potentially fighting that fate.

FHFA Director Mel Watt fired his warning shot earlier this year. Before authorizing a full sweep of profits in the first quarter, he told congress he was concerned about the planned drawdown and not to be surprised if he took steps to protect some of the GSE's capital buffers. The GSEs **clearly** had this in mind when Freddie and Fannie announced $2.0 billion and $3.1 billion dividends respectively, but in only slightly different words, said they would only pay whatever the FHFA directed them to pay. In other words, if the FHFA declares the dividends to be less than $2.0 and $3.1 billion respectively, the GSEs would net the difference to their capital buffers. Simply put, the GSEs are saying 'we'll keep any capital reserves that FHFA allow us to keep!'

That was the most interesting part of this week's earnings releases, and here are the nitty gritty numbers underlying them:

Fannie Mae's net income is an increase from its net income of $2.8 billion for the first quarter of 2017. The increase was due primarily to an increase in credit-related income, from $179 million to $1.233 billion and a shift to investment gains ($385 million) in the second quarter from investment losses ($9 million) in the first quarter. This was partially offset by higher fair value losses on the company's risk management derivatives.

Net revenues, consisting of net interest income and fee and other income, were $5.4 billion for the second quarter of 2017, compared with $5.6 billion for the previous period. Net interest income alone was $5.0 billion for the second quarter of 2017, compared with $5.3 billion for the first quarter of 2017. The decrease was due to lower guaranty fee income from decreased amortization income arising **from lower refinance activity.**

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
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%
Builder Confidence	Mar	51	+6.25%

The company said it continues to increase the role of private capital in the mortgage market and **reduce the risk** to its business, to taxpayers, and the housing finance system through its credit risk transfer transactions, which transfer a portion of the mortgage credit risk on some of the recently acquired loans in its single-family book of business. As of June 30, 2017, $798 billion in single-family mortgages or approximately 28 percent of the loans in the company's single-family conventional guaranty book of business, measured by unpaid principal balance, were covered by a credit risk transfer transaction.

"Our results reflect the strength of our business model and the momentum of our strategy," said Timothy J. Mayopoulos, President and Chief Executive Officer. "We are focused on helping lenders save time and money, making the mortgage process easier, and expanding access to credit in ways that make sense. We will continue to deliver innovative solutions that help our customers succeed, improve the mortgage process, and create safe and sustainable opportunities for families to own or rent a home."

Freddie Mac's net income of $1.7 billion was down from $2.2 billion in the first quarter, and its comprehensive income declined over the same period from $2.2 billion to $2.0 billion.

Net interest income was $3.4 billion, a decrease of $0.4 billion, or 11 percent, from the first quarter of 2017 and unchanged from the prior year. The decrease primarily reflected lower amortization income and a 2 percent decline in the balance of the mortgage-related investments portfolio.

Freddie Mac said it transferred a large majority of the credit risk on $12.3 billion of loans during the quarter, bringing the aggregate since the program began in 2009 to over $200 billion.

The company's **multifamily guarantee portfolio increased** to $174 billion, up 23 percent form a year earlier. The purchase volume in its multifamily book was up 50 percent from a year ago to $14.1 billion and outstanding loan commitments of $19 billion were also significantly higher than in the prior year.

Donald H. Layton, Freddie Mac's CEO said, "Our continued very solid financial results and strong business fundamentals reflect the company's transformation into a well-run commercial enterprise. This transformation is enabling us to better deliver on the mission that is our purpose - to provide liquidity, stability and affordability to the American primary mortgage market. We're doing that by helping lenders of all sizes compete which, in turn, expands affordable housing opportunities for borrowers and renters nationwide. Additionally, through our award-winning credit risk transfer programs, we're fulfilling our mission with much less risk to taxpayers than in the past.