

FANNIE MAE & FREDDIE MAC HISTORY

1938 – Fannie Mae is founded as a mechanism to make mortgages more available to low-income families. It was added to the Federal Home Mortgage association, a government agency in the wake of the Great Depression in 1938, as part of President Roosevelt's New Deal in order to facilitate liquidity within the mortgage market.

1968 – In 1968, the government converted Fannie Mae into a private shareholder-owned corporation in order to remove its activity from the annual balance sheet of the federal budget

1970 – Freddie Mac is chartered by Congress to expand the secondary market for mortgages in the US.

1992

- In 1992, an interagency report issued by the Treasury, the SEC, and the Federal Reserve, recommended that the GSEs' unsecured debt and equity be subject to the SEC's registration and disclosure requirements (*Joint Report on the Government Securities Market* (January 1992), pg. 34).
- As early as 1992, the SEC expressed that Fannie Mae and Freddie Mac's disclosure requirements should comply with the disclosure requirements of the federal securities laws. Shortly thereafter, both Fannie and Freddie announced that they would voluntarily register their common stock under the Securities Exchange Act of 1934.

1999 – In 1999, *The New York Times* reported that with the corporation's move towards the subprime market "Fannie Mae is taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980s." Holmes, Steven A. (September 30, 1999). "*Fannie Mae Eases Credit To Aid Mortgage Lending*". *The New York Times* (The New York Times Company). <http://query.nytimes.com/gst/fullpage.html?res=9C0DE7DB153EF933A0575AC0A96F958260>.

2001 – In 2001, Fannie Mae issued \$249 billion in long-term debt, \$1.8 billion in short-term debt, and \$528 billion in MBS. Freddie Mac issued \$208 billion in long-term debt, \$2 trillion in short-term debt, and \$390 billion in MBS (CRS: Fannie Mae, Freddie Mac, and SEC Registration and Disclosure, Mark Jickling, update July 11, 2003 – RS21263).

2002

- The Bush Administration's FY2003 Budget pointed out that from the end of FY1997 through FY2001, the GSEs' combined mortgage portfolios grew 150% and MBS guarantees grew 40%; their combined debt rose during the same period at an annualized rate of 25% (CBO, May 2003 – "*Effects of Repealing Fannie Mae's and Freddie Mac's SEC Exemptions*, pg 3).
- On March 20, 2002, Congressman Christopher Shays introduced H.R. 4071, the Uniform Securities Disclosure Act, legislation that would repeal Fannie and Freddie's SEC registration and disclosure requirements.
- On July 12, 2002, Fannie and Freddie announced they would register their common stock under the Securities and Exchange Act of 1934 and make the requisite disclosures for equity (CBO, May 2003 – "*Effects of Repealing Fannie Mae's and Freddie Mac's SEC Exemptions*").
- In July 2002, during testimony before the House Financial Services Subcommittee on Capital Markets, Insurance, and GSEs, testimony from the Treasury Department stated, "Fannie Mae and Freddie Mac are two well run companies that have done much in recent years to provide their investors with high quality financial disclosures."

2003

- On January 21, 2003, OFHEO proposed securities disclosure regulation – "Public Disclosure of Financial and Other Information" – that would virtually eliminate the remaining gaps, including those covering proxy statements and stock transactions by company directors and officers (OFHEO News Release, "*OFHEO Proposes Securities Disclosure Regulation for Fannie Mae and Freddie Mac*" - <http://www.ofheo.gov/NewsRoom.aspx?Q1=0&Q2=0&FormMode=Detail&ID=4>).

- In January 2003, Freddie Mac announced it had understated its earnings for the past few years, and was taking corrective action to revise financial statements and revamp management controls (CBO, May 2003 – *Effects of Repealing Fannie Mae's and Freddie Mac's SEC Exemptions*, pg 6).
- On February 3, 2003, a joint task force consisting of staff from Treasury, OFHEO, and the SEC released a report including recommendations for new disclosures to the GSEs' MBS market. Subsequently, the enterprises agreed to disclose additional information about – but not register – their MBSs (CBO, May 2003 – *Effects of Repealing Fannie Mae's and Freddie Mac's SEC Exemptions*, pg. 17).
- On May 7, 2003, Congressman Christopher Shays introduced H.R. 2022, the Leave No Securities Behind Act, legislation that would extend the registration and reporting requirements of the Federal securities laws to Fannie and Freddie.
- In May 2003, CBO reported that Fannie Mae's share of its own MBSs increased from 16 percent of the securities that it guaranteed to 33% between 1996 and 2001. Freddie Mac's share increased from 15% to 32% over that five-year period (CBO, May 2003 – *Effects of Repealing Fannie Mae's and Freddie Mac's SEC Exemptions*, page 16).
- In June 2003, Freddie Mac shared additional information about their accounting problem, including an estimate that reported earnings for 2000 through 2001 would be raised by \$1.5-\$4.5 billion. Freddie's management deferred earning that should've been recognized under Generally Accepted Accounting Principles (GAAP) to future years.
- On November 21, 2003, Freddie Mac said that it had understated its earnings by nearly \$5 billion over more than three years, ending an 11-month review of the company's accounting that led to resignations by prominent executives and concerns by regulators and lawmakers (New York Times, November 22, 2003 - *Freddie Mac Understated Its Earnings By \$5 Billion*; <http://query.nytimes.com/gst/fullpage.html?res=9805EFDC133BF931A15752C1A9659C8B63>).

2004

- In September 2004, OFHEO charged that Fannie Mae had failed to follow GAAP. Fannie Mae disagreed and claimed it was a simple interpretation of very technical rules. The SEC investigated and found Fannie's financial reports and management were inadequate and ordered Fannie to restate earning for previous five years. The SEC later found that Fannie Mae had misstated its financial statements from at least 1998 through 2004.
- On December 14, 2004, the SEC announced that Fannie Mae's accounting practices did not comply with GAAP ("Office of the Chief Accountant Issues Statement on Fannie Mae Accounting," SEC Press Release 2004-172 (Dec. 15, 2004).

2006

- During June 15, 2006 testimony (page 7 and 9) in front of the Senate Banking Committee by SEC Chairman Christopher Cox, Mr. Cox stated "GSE disclosure should comply with the disclosure requirements of the federal securities laws" and "investors are best served by applying the federal securities laws in an even handed and judicious manner to all companies participating in the public markets."
- In December 2006, Fannie Mae released restated financials for 2001-2005 that reduced its earnings by \$6.3 billion, and subsequently paid \$400 million in civil penalties.

2007

- In August 2007, OFHEO denied requests from Fannie and Freddie to ease on their portfolio limitations. OFHEO stated that sufficient progress had not been made to resume timely financial reporting (including annual and quarterly filings with the SEC), and that management controls were not prepared for additional growth.
- On November 9, 2007, Fannie resumed timely SEC filings.

2008

- On Sunday, July 13, 2008, The Federal Reserve and the U.S. Treasury announced steps today to shore up mortgage giants Fannie Mae and Freddie Mac. The Federal Reserve said it granted the Federal Reserve Bank of New York authority to lend to the two companies "should such lending prove necessary." If the companies did borrow directly from the Fed, they would pay 2.25% — the same rate given to commercial banks and Big Wall Street firms. Any lending would be at the primary credit rate and collateralized by U.S. government and federal agency securities. This

authorization is intended to supplement the Treasury's existing lending authority and to help ensure the ability of Fannie Mae and Freddie Mac to promote the availability of home mortgage credit during a period of stress in financial markets (FRB Press Release: <http://federalreserve.gov/newsevents/press/other/20080713a.htm> and Treasury Press Release: <http://www.ustreas.gov/press/releases/hp1079.htm>).

- On Monday, July 14, 2008, Freddie Mac sold \$3 billion in short-term debt in securities offering.
- On Friday, July 18, 2008, Freddie Mac filed its first timely quarterly report (10-Q) with the SEC.
- On Tuesday, July 22, 2008, in a letter to lawmakers, Peter R. Orszag, director of CBO, said there is "a significant chance -- probably better than 50 percent" -- that federal officials would never have to use the authority to lend the firms money or buy their stock. In addition, CBO estimated that a government plan to stabilize mortgage giants Fannie Mae and Freddie Mac could cost the government an average of \$25 billion. It also said there is a 5% chance that Freddie and Fannie's losses would cost the government \$100 billion.
- On July 30, 2008, President Bush signed into law legislation enabling expanded regulatory authority over Fannie Mae and Freddie Mac which increased the national debt ceiling to \$10.6 trillion, an increase of \$800 billion, in anticipation of the potential need for the Treasury to have the flexibility to support the federal home loan banks. The legislation gives the Treasury Department emergency authority to purchase stock in the mortgage giants through December 31, 2009. The Secretary would be required to make an emergency designation before using this authority. Gives the Treasury secretary authority to increase the existing line of credit to the GSEs for the next 18 months. Currently, this line of credit is set at \$2.25 billion.
- In August 2008, shares of both Fannie Mae and Freddie Mac tumble more than 90% from their one-year prior levels.
- In September 7, 2008, the FHFA placed Fannie and Freddie under conservatorship, and increased the limit for their portfolios to \$850 billion each until December 31, 2009, with a 10% yearly decline until the portfolios reach \$250 billion. Treasury agreed to purchase \$100 billion of new preferred stock on an as needed basis from each GSE. If the GSEs are unable to sell new MBS, the Treasury agreed to purchase them using the Federal Reserve Bank of NY as its fiscal agent.
- In an updated October 28, 2008 CRS report (RL34236), CRS stated that "between July 2007 and July 2008, Fannie Mae's gross mortgage portfolio rose from \$730 billion to \$758 billion. Fannie Mae's gross mortgage guarantee business through MBS was much larger, rising from \$2.2 trillion to \$2.6 trillion during the same period." In addition, the report stated, "Fannie Mae reports that as of the end of August 2008, approximately one week before being placed under conservatorship, it had a portfolio of \$760 billion, and Freddie Mac reports that its portfolio at the end of August 2008 was \$761 billion."
- On November 14, 2008, Freddie Mac announced it will receive a \$13.8 billion cash injection from the government, after reporting a \$25.3 billion loss in the third quarter on the declining value of mortgage investments and other charges.
- On December 9, 2008, during testimony before the House Oversight and Government Reform Committee, Franklin Raines stated, "Specifically, in the first three quarters of 2008, Fannie Mae was forced to recognize nearly \$18 billion in credit-related expenses, of which nearly \$17 billion was the result of provisioning for credit losses associated with its guaranty book of business." In addition, he stated that "As of September 2008, Fannie Mae's total guaranty book of business was \$2.94 trillion, nearly all of that representing the unpaid principal on loans underlying Fannie Mae MBS or held in Fannie Mae's portfolio."
- Moody's gave Freddie Mac's preferred stock an investment grade rating of A1 until August 22, 2008 when Warren Buffett said publicly that both Freddie Mac and Fannie Mae had tried to attract him and others. Moody's changed the credit rating on that day to Baa3, the lowest investment grade credit rating. Freddie's senior debt credit rating remains Aaa/AAA from each of the major ratings agencies Moody's, S&P, and Fitch ("Freddie Mac courts investors, Buffett passes". Associated Press via International Herald Tribune. August 22, 2008. <http://www.iht.com/articles/ap/2008/08/22/business/NA-US-Mortgage-Giants-Crisis.php>).

2009

- On January 7, 2009, CBO estimated that \$238 billion represented the long-term cost of paying for the guarantees that Fannie and Freddie write on their mortgage-backed securities – pre increase in Preferred Stock Purchase Agreements. The last \$38 billion of that is for losses on new business this year. However, the \$238 billion did not include the additional funding requests of the GSEs totaling \$70 billion – so adding the \$70 billion to \$238 billion, totals \$308 billion. To put that in perspective, \$238 billion is more than the entire federal budget deficit in fiscal 2007.
- On Friday, January 23, 2009, Freddie Mac said that it may have to seek \$30 billion to \$35 billion in capital from the Treasury in the form of senior preferred stock. This would follow the \$13.8 billion they received in November 2008.
- On Monday, January 26, 2009, Fannie Mae said that the FHFA may request \$11 billion to \$16 billion, based on estimates for fourth-quarter results.
- On Tuesday, January 27, 2009, the FHFA announced that Fannie Mae and Freddie Mac will be allowed to increase their mortgage holdings to a maximum of \$850 billion through the end of the year before their regulator requires them to eventually reduce their portfolios to \$250 billion, under an interim final rule. The rule is subject to a 120-day comment period.
- A January 27, 2009 article projects that Fannie could see greater losses through 2009 than Freddie Mac from guarantees on mortgage-backed securities, according to analysts, including Rajiv Setia of Barclays Capital in New York. (Financial Week - *Fannie, Freddie to hit Uncle Sam up for another \$50 billion*; <http://www.financialweek.com/apps/pbcs.dll/article?AID=/20090127/REUTERS/901279991>).
- On February 18, 2009, the Treasury announced it is doubling its commitment to Fannie Mae and Freddie Mac, promising to reimburse the companies for up to \$400 billion (increased from \$100 billion each to \$200 billion each) in losses on their investments in mortgage loans. In addition, the Treasury increased the allowable size of their retained mortgage portfolios by \$50 billion to \$900 billion each, along with a corresponding increase in allowable debt outstanding (Statement by Secretary Tim Geithner on Treasury's Commitment to Fannie Mae and Freddie Mac - <http://www.ustreas.gov/press/releases/tg32.htm>).
- On February 26, 2009, Fannie Mae posted a fourth-quarter net loss of \$25.2 billion in the middle of massive fair-value losses and credit-related expenses, but the loss narrowed from the third quarter and revenue increased as the mortgage giant reported improvement in access to debt markets since late November. In addition, the company submitted a request for an additional \$15.2 billion from the U.S. Department of the Treasury in order to help reduce Fannie's net worth deficit (<http://online.wsj.com/article/SB123568951227387517.html?mod=djemalertNEWS>).
- On March 2, 2009, Freddie Mac announced that CEO David Moffett is stepping down as CEO and board of directors by March 13, 2009 (http://www.freddiemac.com/news/archives/corporate/2009/20090302_moffett-resign.html).
- On March 4, 2009, the Treasury Department announced finalized requirement for participation in the Administration's Homeowner Affordability and Stability Plan. Specifically, "the Home Affordable Refinance program will be available to 4 to 5 million homeowners who have a solid payment history on an existing mortgage owned by Fannie Mae or Freddie Mac" (<http://www.treasury.gov/news/index1.html>).
- On March 5, 2009, Freddie Mac announced a new foreclosure rental initiative program that would allow for "people facing eviction because of foreclosure to remain in their homes as renters." In addition, they also announced they are extending their moratorium on foreclosure-related evictions through April 1 (<http://www.forbes.com/feeds/ap/2009/03/05/ap6131769.html>).
- On March 6, 2009, Fannie Mae announced it is extending their eviction halt on foreclosed properties through the end of March due to implementation of President Obama's Homeowner Affordability and Stability Plan. (<http://www.businessweek.com/ap/financialnews/D96OPOP81.htm>).