

## What Happens to Treasury Support For GSEs After December 2012?\*

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Note to our readers re: Treasury Support for GSEs after December 31, 2012.

I got my math wrong in the application of the December 2009 Formula that will govern Treasury support for the GSEs after the end of the year. After December 31, 2012, Treasury's remaining support for Fannie would be approximately \$125 billion and its support for Freddie would be approximately \$150 billion. These figures are confirmed in recent SEC filings by the enterprises.

Nonetheless, the basic point of the article remains. The GSEs will have sufficient Treasury support for some period of time after the end of the year, so reestablishment of a dollar limit on support will not, by itself, serve as a trigger for Congressional action on GSE reform before the end of the year.

My apologies for the error. Jim Sivon

Treasury's "unlimited" support for Fannie Mae and Freddie Mac terminates on December 31, 2012. What does this mean for the GSEs? Will this change in the level of Treasury support for the GSEs force Congressional action on GSE reform before the end of the year?

This article concludes that the GSEs will continue to have sufficient federal support for some period of time beyond December 2012. Thus, by itself, this change will not force Congressional action on GSE reform prior to year end.

### Background

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\*The information contained in this newsletter does not constitute legal advice. This newsletter is intended for educational and informational purposes only.

When Fannie Mae and Freddie Mac were placed into receivership in September 2008, the Treasury Department agreed to ensure their solvency in exchange for senior preferred shares in each enterprise. This senior preferred stock purchase agreement also gave Treasury warrants for up to 79.9 percent of the common shares of each GSE.

Initially, Treasury's financial commitment was limited to \$100 billion for each enterprise. That commitment was doubled in May 2009 to \$200 billion for each enterprise.

In December 2009, however, the commitment was amended for a second time to be the *greater* of: (1) \$200 billion, or (2) \$200 billion *plus* the cumulative total of the net worth support provided by Treasury during 2010, 2011 and 2012, *less* any surplus held by an enterprise as of 2012. This formula (let's call it the *December 2009 Formula*) was widely interpreted to give the GSEs "unlimited" federal support because it could grow beyond the \$200 billion limit by any amount actually drawn under the commitment between 2010 and 2012.

#### What Happens After the End of 2012?

After December 31, 2012, the *December 2009 Formula* remains in effect, but operates as a ceiling on federal support for the GSEs. In other words, the level of support will no longer increase based upon draws made by the GSEs. After December 31, 2012, Treasury's cumulative support for each enterprise will equal \$200 billion plus the amount of net worth support provided to the enterprise between 2010 and 2012, less the amount of net worth support provided prior to 2010. (Note: The *December 2009 Formula* also requires a deduction for any surplus (i.e., the amount of total assets that exceed total liabilities) that is maintained by the enterprises as of December 31, 2012. However, in their most recent filings with the SEC, neither enterprise recorded a surplus.)

The Federal Housing Finance Agency has published some data that gives some insight into what this means in dollar terms for each enterprise. That data shows that between 2010 and the third quarter of 2011, Freddie Mac received approximately \$20.5 billion in federal support, and Fannie Mae received approximately \$36.5 billion in federal support. It also shows that prior to 2010 Freddie Mac received approximately \$51 billion in cash infusions from Treasury, and Fannie Mae received approximately \$75 billion.

Therefore, after December 31, 2012, Treasury can provide Freddie Mac with *at least* another \$170 billion in support (\$200 billion *plus* \$20.5 billion (draws between 2010 and 2011) *less* \$50.7 billion (pre-2010 draws)). The \$170 billion amount could be somewhat larger since any amounts received by Freddie Mac in 2012 can be added to this total. Similarly, after December 31, 2012, Treasury can provide Fannie Mae with at least another \$161 billion in support (\$200 billion plus \$36.5 billion (draws between 2010 and 2011) less \$75 billion (pre-2010 draws)). We already know that the \$161 billion amount will be somewhat higher because Fannie recently tapped Treasury for another \$4.5 billion that is not included in this amount. (FHFA data can be found at: [this link](#).)

Will this be enough support for the GSEs? Again, FHFA provides some useful data. FHFA has projected the potential GSE draws on Treasury through 2014 under three alternative scenarios. See [this link](#) for FHFA Updates Projections of Potential Draws for Fannie Mae and Freddie Mac. Those projections show that Treasury will have sufficient funds to cover both credit losses and dividend payments for the GSEs through 2014, even under an extreme economic scenario (which is unlikely). Moreover, under a more realistic economic scenario, it appears that there would be sufficient funds available well beyond 2014.

Additionally, the data shows that much of Treasury's financial support between 2012 and 2014 will be used to pay dividends to Treasury dividends on the senior preferred shares. Therefore, it would appear that the scope of federal support for the GSEs could be extended if Treasury reduced the amount of the required dividend payments and simply covered the credit losses of the GSEs.

#### Summary

In sum, the unlimited Treasury support for the GSEs ends as of December 31, 2012. Nonetheless, according to FHFA data, there will be sufficient federal funds to support the GSEs for the near term, and potentially for some time to come.

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