

July 14, 2008

Dear MBA Member,

As you are aware, both the Federal Reserve and the Treasury Department announced actions over the weekend aimed at reassuring markets of the viability of Fannie Mae and Freddie Mac and their ability to provide ongoing liquidity to the mortgage market.

The Fed on Sunday announced it had granted the Federal Reserve Bank of New York the authority to lend to Fannie Mae and Freddie Mac "should such lending prove necessary." 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," the Fed said in a statement.

[Read the Federal Reserve's Full Statement](#)

Additionally, the Treasury Department announced a three-step plan aimed at stabilizing the situation at Fannie Mae and Freddie Mac, both of which have seen their stock prices fall by more than 80 percent since last year:

- \* A temporary increase in the line of credit the GSEs have with Treasury. Treasury would determine the terms and conditions for accessing the line of credit and the amount to be drawn. The current line of credit is \$2.5 billion;

- \* Temporary authority for Treasury to purchase equity in either of the two GSEs if needed. Use of either the line of credit or the equity investment would carry terms and conditions necessary to protect the taxpayer;

- \* Strengthening of GSE regulatory reform legislation currently moving through Congress by giving the Federal Reserve a consultative role in the new GSE regulator's process for setting capital requirements and other prudential standards. Such action would require approval by Congress.

"Fannie Mae and Freddie Mac play a central role in our housing finance system and must continue to do so in their current form as shareholder-owned companies," said Treasury Secretary Henry Paulson Jr. "Their support for the housing market is particularly important as we work through the current housing correction."

[Read Secretary Paulson's Full Statement](#)

All three of the steps announced last night will require Congressional action. Early intelligence indicates that Congress intends to consider these issues as part of the pending

omnibus housing measure that passed the Senate last week and is due to be considered in the House of Representatives in the next couple of days.

MBA staff and leadership worked throughout the weekend to monitor developments. We issued a statement Sunday expressing support for the Fed/Treasury action.

In our statement Kieran said "Fannie Mae and Freddie Mac play a critical role in the U.S. housing market. We commend both the Treasury Department and the Federal Reserve on this move as it will help ensure that the two companies can continue to play central roles in stabilizing the mortgage markets. This action will ensure that consumers are able to access mortgage credit and it will reassure the capital markets that Freddie and Fannie will continue to play their vital roles providing Americans the opportunity for homeownership and affordable renting housing."

"I applaud Secretary Paulson and Chairman [Ben] Bernanke for their leadership and we look forward to working with Congress in the coming days to pass important legislative initiatives that will also help stabilize the market."

The Fed/Treasury statements makes concrete, in part, what until now had only been implied: that the federal government would not allow Fannie Mae and Freddie Mac to fail. Until recently, that implicit guarantee had helped keep GSE stocks healthy, as shareholders showed faith in the government's willingness to support the GSEs.

In a show of support for Fed/Treasury action, Office of Federal Housing Enterprise Oversight Director James Lockhart III commented, "I support Secretary Paulson, the Administration, and the Federal Reserve in their efforts to stabilize the housing finance system. OFHEO will continue to work with the Treasury, the Federal Reserve, the Congress and the Enterprises in addressing the current situation and to assure that the Enterprises continue to fulfill their mission. We look forward to rapid passage of GSE regulatory reform legislation."

[Read Lockhart's full statement](#)

Last night's announcement appears to have had its intended consequence reassuring the capital markets. This morning Freddie Mac held an auction of \$3 billion of short term debt. Reports in the last hour indicate the auction was well-received by investors and the debt sold at better than expected prices.

In addition, reports this morning indicate that the turmoil has not spilled over to the mortgage market. Rates are being locked and honored and loans are being made, unaffected by this weekend's events.

MBA continues to monitor developments and will keep you apprised as this debate unfolds. We are working with members of Congress, Administration officials, the media and other decision makers to make sure they have the important real time information they will need to make sound, reasonable decisions going forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Kuan-Fu". The signature is fluid and cursive, with a long horizontal stroke extending to the right.