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Fannie Mae and Freddie Mac: Conservatorship Status and Related Directives

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Fannie Mae and Freddie Mac: Conservatorship Status and Related Directives

SUMMARY

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Darryl E. Getter
Specialist in Financial Economics

Congress chartered Fannie Mae and Freddie Mac, also known collectively as the Enterprises, to promote homeownership by providing liquidity to the secondary mortgage market. The Enterprises specifically facilitate financing for single-family residential mortgages and multifamily (apartment and condominium) construction. After purchasing pools of single-family 30-year fixed rate mortgages, the Enterprises retain the credit (default) risks from the whole mortgages and subsequently issue mortgage-backed securities (MBSs), which are bond-like securities. Investors who purchase MBSs are guaranteed a return on their initial principal and interest, but they assume prepayment risk, which is the risk that borrowers will prepay their mortgages ahead of schedule. In contrast to the original mortgages, the MBSs are relatively more liquid, meaning that they can be bought and sold as well as converted into cash more quickly with little change in their quoted prices. If institutional investors from around the globe are willing to hold liquid MBSs, then additional funds are channeled to the U.S. mortgage market (particularly to support 30-year fixed rate mortgages). National mortgage rates tend to fall as the supply of funds in this market increases, making homeownership more affordable.

The Federal Housing Finance Agency (FHFA), an independent federal government agency created by the Housing Economic and Recovery Act of 2008 (HERA, P.L. 110-289), is the Enterprises' primary regulator. FHFA regulates the Enterprises for, among other things, prudential safety and soundness and to ensure that they meet their affordable housing mission goals. In September 2008, above-normal mortgage defaults caused the Enterprises to experience losses that exceeded their statutory minimum capital requirement levels. The Enterprises also experienced losses following spikes in short-term borrowing rates that occurred while they were funding long-term assets held in their portfolios. The Enterprises were subsequently placed into conservatorship by FHFA, which currently has the powers of management, boards, and shareholders until the Enterprises' financial safety and soundness can be restored. In addition, the U.S. Department of the Treasury (Treasury) provides financial support through the preferred stock purchase agreements (PSPAs), which stipulate that the Enterprises must pay dividends to Treasury rather than to private shareholders while they are under conservatorship. While the PSPAs have had multiple amendments, Treasury's September 30, 2019 stipulations allowed the Enterprises to retain their earnings for the purpose of accumulating capital reserves in preparation for eventual release from conservatorship.

Congressional interest in the Enterprises has continued since conservatorship. For one reason, the final costs to the U.S. Treasury (and, by proxy, to U.S. taxpayers) of providing the Enterprises financial support are unknown. In addition, the Enterprises' future viability could affect the availability of single-family 30-year fixed rate mortgage loan products. Although these mortgage products are arguably popular with borrowers, private lenders may be reluctant to retain in portfolio and fund relatively less liquid mortgages for several decades. Congressional interest has been reflected by various draft proposals, bills, and oversight hearings on housing finance reform. During the 119th Congress, for example, H.R. 1209, the End of GSE [Government-Sponsored Enterprises] Conservatorship Preparation Act of 2025, would require the Treasury Secretary to submit to Congress completed proposals for the termination of the Enterprises' conservatorships.

Meanwhile, FHFA's conservatorship goals have focused primarily on managing the Enterprises' liquidity, operational, and credit risks. FHFA has directed the Enterprises to standardize numerous processes to foster greater liquidity in the market for their MBSs. The Enterprises are also being required to share more of the credit risk linked to their single-family mortgage purchases with the private sector. Greater uniformity is expected to provide greater data integrity and reduce pricing irregularities, thereby fostering efficient operation of the primary and secondary mortgage markets.

On October 28, 2019, FHFA announced a strategic plan to prepare the Enterprises for their eventual exit from conservatorship. FHFA also adopted a final rule on December 17, 2020, establishing a capital regulatory framework for the Enterprises to be in place once they exit conservatorship. The capitalization requirements are designed to increase the Enterprises' resiliency to another severe financial downturn. Furthermore, FHFA directs the Enterprises to pursue programs to meet affordable mission goals for low- and moderate-income households as mandated in their congressional charters. However, FHFA has also limited the Enterprises' activities in the multifamily (e.g., apartments) lending space that are not explicitly linked to their affordable mission goals. If returned to private markets, the Enterprises' prioritization of shareholder profitability could reverse the operational standardization efforts achieved while under conservatorship, thereby reintroducing inefficiencies in the distribution of mortgage risks.

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Introduction

Fannie Mae and Freddie Mac (the Enterprises[1]) were chartered by Congress to support housing finance.[2] The Enterprises' core business is to guarantee mortgage *credit (default) risk*, and doing so fosters greater liquidity for single-family residential and multifamily (apartment and condominium) mortgages. For example, the Enterprises retain the credit risks from the single-family residential mortgages they purchase from loan originators and subsequently issue bond-like instruments known as mortgage-backed securities (MBSs).[3] Investors who purchase the MBSs are guaranteed to get their initial principal investment returned, but they assume *prepayment risk*, the risk of declining cash flows if borrowers repay their mortgages ahead of schedule.[4] In comparison to traditional 30-year fixed rate mortgages (with both prepayment and default risks), MBSs are more liquid (e.g., they can be traded or sold more quickly) because they have only one embedded lending risk and shorter durations (e.g., typically 7-10 years), which is more appealing to private sector investors. As more funds flow into the MBS market, mortgage rates tend to fall, increasing the affordability to finance home purchases.[5]

The Federal Housing Finance Agency (FHFA), an independent federal agency created by the Housing and Economic Recovery Act of 2008 (HERA, P.L. 110-289), is the Enterprises' primary regulator for compliance with prudential safety and soundness requirements and their affordable housing mission goals.[6] FHFA is also authorized to act as conservator (or receiver) for the Enterprises when their capital levels are too low to absorb losses from defaults or cover other financial obligations. In September 2008, a high rate of mortgage defaults triggered losses that exceeded the Enterprises' statutory minimum capital requirement levels. The Enterprises also experienced losses following spikes in short-term borrowing rates that increased the costs to fund the long-term assets held in their portfolios. Consequently, the Enterprises subsequently agreed to be placed under *conservatorship*, which transfers the powers of management, boards, and shareholders to FHFA until the Enterprises' financial safety and soundness is restored.[7] Thus, FHFA currently acts as both regulator and conservator for the Enterprises.

The U.S. Department of the Treasury (Treasury) provides the Enterprises with financial support during their conservatorships as specified by the terms outlined in the *preferred stock purchase*

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[1] Fannie Mae and Freddie Mac are often referred to as government-sponsored enterprises (GSEs). However, entities such as the Federal Home Loan Bank System and the Farm Credit System are also GSEs.

[2] For more historical information about the chartering of Fannie Mae and Freddie Mac, see "Why Were Fannie Mae and Freddie Mac Created?" in CRS Report R44525, *Fannie Mae and Freddie Mac in Conservatorship: Frequently Asked Questions*, by Darryl E. Getter.

[3] Fannie Mae calls its securities MBSs, and Freddie Mac calls its securities participation certificates. Common industry practice is to refer to both Fannie Mae's MBSs and Freddie Mac's participation certificates collectively as MBSs.

[4] In addition to Fannie Mae and Freddie Mac, Congress created Ginnie Mae, a federal corporation that guarantees the timely repayment of principal and interest to investors in MBSs (created by Ginnie Mae–approved issuers) linked to mortgages in which the default risk has already been guaranteed by federal agencies, such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), and the U.S. Department of Agriculture (USDA). Hence, Ginnie Mae does not retain credit risk.

[5] For more information on the pricing of single-family mortgages, see CRS Report R46980, *Single-Family Mortgage Pricing and Primary Market Policy Issues*, by Darryl E. Getter.

[6] Prior to FHFA's creation, the Office of Federal Housing Enterprise Oversight (OFHEO), which was an agency under the Department of Housing and Urban Development (HUD), was the safety and soundness regulator for Fannie Mae and Freddie Mac. OFHEO ensured that the Enterprises complied with their statutory capital requirements. The Enterprises' annual housing mission goals were set by HUD but not by OFHEO.

[7] See FHFA, "Conservatorship," https://www.fhfa.gov/Conservatorship.

agreements (PSPAs).[8] In return, Treasury received $1 billion of senior preferred stock in each Enterprise, securing the right to receive payment distributions over all other equity holders. The PSPAs are indefinite in duration, initially stipulating that the Enterprises pay all net earnings to Treasury as cash dividends rather than to private shareholders during conservatorship in exchange for its funding commitment. Treasury also received *warrants* (which are functionally equivalent to financial call options) for the purchase of 79.9% of the common stock of each government-sponsored enterprise (GSE) at a nominal cost.[9] The PSPAs have since been amended numerous times in response to changing financial circumstances as well as to minimize possible taxpayer losses. Notably, the September 2019 PSPA amendments allowed the Enterprises to retain their earnings and build capital reserves to prepare for release from conservatorship.[10]

Congress continues to monitor the Enterprises' financial health amid affordability challenges in housing and mortgage markets. Whether Treasury will provide additional financial support to the Enterprises is a concern expressed by stakeholders. In addition, reforming or replacing the Enterprises might affect the availability of single-family 30-year fixed rate mortgage loan products, which are arguably more popular with borrowers.[11] Congressional interest has been reflected by various draft proposals, bills, and oversight hearings on housing finance reform. For example, H.R. 1209, the End of GSE Conservatorship Preparation Act of 2025, which was introduced during the 119th Congress, would require the Treasury Secretary to submit to Congress completed proposals for the termination of the Enterprises' conservatorships.

This report begins with an overview of Fannie Mae's and Freddie Mac's secondary mortgage market activities. It then discusses FHFA's administrative directives pertaining to the management of the Enterprises' credit and liquidity risks. The directives were focused on reducing potential financial risks that could be borne by U.S. taxpayers, standardizing numerous processes to foster greater liquidity in the market for their MBSs, and increasing their capital reserves to prepare for their exit from conservatorship. Next, this report discusses FHFA's modifications that, even with some adjustments, may remain in place after conservatorship. Finally, it summarizes some issues and broad ramifications that Congress may choose to consider if the Enterprises were to promptly exit conservatorship. Specifically, the Enterprises would prioritize shareholder profitability if returned to private markets, potentially reversing the operational standardization efforts achieved under conservatorship and reintroducing inefficiencies in the distribution of mortgage risks.

[8] P.L. 110-289 gave the Treasury Secretary authority to lend or invest in the Enterprises. The Treasury's response to the Enterprises after they were undercapitalized was similar to its response after the banking system became undercapitalized, in which it purchased preferred shares from the banks via the Troubled Asset Relief Program. For information, see CRS Report R43413, *Costs of Government Interventions in Response to the Financial Crisis: A Retrospective*, by Baird Webel and Marc Labonte.

[9] The warrants may be exercised in whole or in part at any time on or before September 7, 2028; however, Treasury has indicated that this expiration date is likely to be extended. See U.S. Department of the Treasury, "Treasury Department and Federal Housing Finance Agency Amend Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac," press release, January 2, 2025, https://home.treasury.gov/news/press-releases/jy2767.

[10] See U.S. Department of the Treasury, "Treasury Department and FHFA Modify Terms of Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac," press release, September 30, 2019, https://home.treasury.gov/news/press-releases/sm786.

[11] See Richard K. Green and Susan M. Wachter, "The American Mortgage in Historical and International Context," *Journal of Economic Perspectives*, vol. 19, no. 4 (Fall 2005), pp. 93-114. Private lenders are more reluctant to retain the liquidity risks associated with 30-year fixed rate mortgages in their lending portfolios.

Enterprises' Secondary Mortgage Market Activities

By law, the Enterprises cannot originate mortgages directly to borrowers, who obtain their mortgages from loan originators in the *primary market*.[12] Instead, the Enterprises operate in the *secondary mortgage market*, interacting with loan originators (which sell mortgages to the Enterprises) and investors (which purchase the Enterprises' debt and MBS issuances). The Enterprises' securitization activities, which facilitate the acquisition of funds from the ultimate lenders to mortgage borrowers, are discussed in the sections below.

Transfer of Mortgage Prepayment Risk, Retention of Credit Risk

In the secondary market, the Enterprises purchase homeowners' *conforming mortgages* from loan originators. Conforming mortgages are single-family mortgages that meet certain eligibility criteria set by the Enterprises on the basis of size and creditworthiness.[13] These mortgages must meet the Enterprises' underwriting standards and cannot exceed the *conforming loan limit*, which is adjusted each year to reflect the changes in the national average home prices.[14] The Enterprises use two methods to acquire conforming mortgages. An Enterprise may pay cash (directly from its cash window) to a loan originator for delivery of a small number of mortgages. Alternatively, an Enterprise may enter into a *swap agreement* with a loan originator to purchase a large number (or pool) of mortgages. In exchange for a pool, the purchasing Enterprise delivers one (or more) MBS that is linked to the *MBS trust* holding the mortgages. An MBS trust is a legal entity established to hold pools of conforming mortgages, thereby keeping the loans off the Enterprises' balance sheets.[15]

As borrowers repay their mortgages, principal and interest streams are collected by loan servicers and forwarded to MBS investors.[16] An investor that purchases an MBS receives a *coupon*, which is the yield composed of the principal and interest repayments from borrowers whose mortgages are held in MBS trusts.[17] However, various fees are subtracted before the coupons are paid to investors.[18] For example, a designated mortgage servicer retains a fee to collect borrowers'

[12] For more information about the primary mortgage market, see CRS Report R46980, *Single-Family Mortgage Pricing and Primary Market Policy Issues*, by Darryl E. Getter.

[13] These mortgages tend to have fixed interest rates with a 30-year maturity.

[14] FHFA establishes the annual conforming loan limits for one- to four-unit properties. For most areas in which the median local house value exceeds the national average house value by 115%, the conforming loan limit is set at 115% of the median home value. FHFA establishes separate conforming loan limits for Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

[15] The MBS trusts are bankruptcy-remote or special-purpose entities, meaning that the parent company (e.g., one of the Enterprises) isolates and holds these assets in the trust rather than on its own balance sheets. If, for example, a parent company goes bankrupt, then the stipulated activities of a special-purpose entity are not disrupted given that the trust assets are legally not owned by the parent company. In this case, the assets (mortgages) held in the MBS trusts are funded by MBS issuances.

[16] For more information on the pricing of single-family mortgages—specifically how mortgage coupons paid by borrowers are calculated—see CRS Report R46980, *Single-Family Mortgage Pricing and Primary Market Policy Issues*, by Darryl E. Getter.

[17] For detailed descriptions of loan securitizations and MBS trust guarantees, see Fannie Mae, *Basics of Fannie Mae Single-Family MBS*, August 2025, http://www.fanniemae.com/resources/file/mbs/pdf/basics-sf-mbs.pdf.

[18] For example, if the average interest rate of the underlying pool of mortgages is 4% or 400 basis points, an Enterprise may retain an average of 56 basis points and pass the remaining 344 basis points to the MBS holders after subtracting additional basis points for mortgage servicers (typically 25 basis points) and paying for other costs to originate the loan. See FHFA, "FHFA Issues 2017 Report to Congress on Guarantee Fees," press release, December 10, 2018, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-2017-Report-to-Congress-on-Guarantee-Fees.aspx.

regular payments, resolves borrower delinquency and default problems, and disburses payments to the Enterprises (which subsequently disburse payments to MBS investors). Other fees related to the home purchase (e.g., settlement costs) that borrowers may have chosen not to pay up front may also be subtracted. Simply put, the MBS coupon is the interest rate—after subtracting fees—passed on to an investor for investing in an MBS.

The Enterprises' primary revenue source is collecting *guarantee fees (g-fees).* G-fees, along with other fees, are deducted from the streams of principal and interest payments (made by borrowers) prior to forwarding the net coupons to MBS investors. G-fees compensate the Enterprises for guaranteeing timely MBS coupon payments and for retaining the default risks of the mortgages held in the MBS trusts.[19] The Enterprises can also generate returns from assets held on their balance sheets by borrowing at relatively lower rates through successive sequences of debentures—unsecured debt securities—issued to investors.

Stated differently, the Enterprises' securitization process (i.e., business model) essentially detaches two specific mortgage risks—the risk that borrowers will repay early and the risk that they will repay late (or not at all)—into distinct components. *Prepayment risk*, the risk that borrowers will repay their mortgages ahead of schedule, results in lower revenue streams. For example, if mortgage rates decline, some borrowers may repay their existing mortgages early by refinancing them into (replacing them with) new mortgages with lower rates. Borrowers also prepay their mortgages when they move. In these cases, the applicable Enterprise passes on the repayment of principal but reduces the MBS coupons by the amount of interest forgone.[20] The Enterprises charge g-fees to cover the *credit (default) risk*, the risk that the mortgage obligation will not be repaid, which also lowers revenues. If a delinquency or default occurs, the applicable Enterprise purchases the non-performing mortgage (for the unpaid outstanding balance amount) from the linked MBS trust, thereby protecting the MBS investors from loss of their principal investment.[21] The MBS coupon is subsequently adjusted for the reduced stream of interest payments, thus making it appear to investors that mortgage obligations have prepaid ahead of schedule (rather than defaulted). Consequently, MBSs are conceptually equivalent to derivatives, which expose investors to a single rather than all the financial risks attached to an underlying asset (e.g., whole mortgages).[22]

MBSs Markets and Liquidity Premium Management

In the *secondary mortgage market*, the Enterprises acquire existing mortgages to subsequently create new MBSs. The Enterprises promise *future* delivery of new MBSs—via swap agreements—to MBS investors, otherwise referred to as the *to-be-announced (TBA)* market.[23] Instead of purchasing an MBS for cash, an investor can use a swap to deliver pools of mortgages

[19] The Enterprises, therefore, are monoline insurance companies. See FHFA et al., "Enterprise Capital Requirements," 83 *Federal Register* 33312, July 17, 2018. Bond insurers guarantee (for a fee) that the interest payment streams generated from a bond (or loan) will be made on time and that, if a default occurs, the initial principal investment will be returned to the bondholder. Likewise, the Enterprises facilitate the equivalent transaction on a larger scale, referring to the process as *securitization*.

[20] The process when borrowers prepay mortgages that underlie Ginnie Mae MBSs is similar.

[21] The Enterprises define default as 120 days late.

[22] In finance, a *derivative* is a financial instrument with value linked to at least one but not all of the risks contained in a reference instrument. In this case, the MBS derivative instruments have the prepayment risk but not the default risk that is contained in the underlying reference mortgage.

[23] Ginnie Mae facilitates MBSs that it issues in the TBA market. Ginnie Mae transfers prepayment risk in a similar manner as the Enterprises, but it does not retain default risk. The default risk is retained by the federal agencies—FHA, VA, and USDA—that provide mortgage insurance.

directly to an Enterprise for purchase of an MBS (linked to the underlying pool), with the delivery and settlement taking place at a later date in the TBA market. Interest rates—and, therefore, movements in MBS bid (offer) and ask (sell) prices—may occur over the gap period between entering and settlement of a swap agreement.[24] If this happens, investors may choose to hedge against adverse bid-ask price movements prior to delivery of the MBSs by requiring additional compensation (e.g., hedging fees, premiums) to offset possible adverse price movements that could make their securities less liquid prior to the settlement date. These costs can be passed on to homebuyers, particularly those choosing to lock in their mortgage rates to protect against interest rate upticks prior to their closing settlement dates.

After issuance in the TBA (primary MBS) market, the Enterprises' MBSs—just like all bonds and securities—can subsequently trade directly (via broker-dealers) between two parties in the *over-the-counter* (OTC) market, the secondary market for securities.[25] Valuation (pricing) challenges occur in secondary bond markets that are *thin*—meaning that these assets generally trade infrequently and their trade sizes vary—causing investors and market-makers to regard bonds as *illiquid*.[26] Illiquid bond securities cannot easily be traded within a reasonable time or converted into cash without affecting their quoted prices. Investors arguably might bid "too much" to buy or ask for a price "too low" to sell illiquid securities. Investors may require additional compensation, referred to as a *liquidity premium*, to trade illiquid securities.[27] Widening bid-ask price spreads signal the emergence of liquidity premiums being incorporated in bond prices, which can also emerge even when more liquid MBSs trade in OTC markets.[28] Persistent liquidity premiums—just as in TBA markets—may result in higher mortgage rates for future homebuyers if investors demand higher yields (i.e., higher coupons) to offset the risk that their future MBSs sales would occur at prices considered "too low" due to market illiquidity.[29]

Prior to conservatorship, the Enterprises could actively trade their own MBSs in the secondary OTC market to facilitate liquidity.[30] By conducting OTC market trades when the bid-ask spreads for MBS widened, the Enterprises were able to abate rising liquidity premiums and reduce mortgage costs for borrowers.[31] Hence, high-volume trading by the Enterprises facilitated

[24] Interest rate movements affect both the market value and prepayment risk of mortgages and MBSs. For example, following a decline in mortgage rates during the COVID-19 pandemic, mortgage pools scheduled for delivery experienced an increase in prepayment risk, thereby reducing their liquidity. The liquidity loss was reflected by a widening gap between the present value of the mortgage pool and the future MBS prices at settlement. See Jiakai Chen et al., *Dealers and the Dealer of Last Resort: Evidence from the MBS Markets in the COVID-19 Crisis*, Federal Reserve Bank of New York, July 2020, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr933.pdf.

[25] See Financial Industry Regulatory Authority, "A Look at Over-the-Counter Equities Trading," April 24, 2024, https://www.finra.org/investors/insights/over-the-counter-equities-trading.

[26] The increase in electronic trading has increased price transparency in many OTC markets. See Randall Dodd, "Financial Markets: Exchange or Over the Counter," International Monetary Fund, https://www.imf.org/external/pubs/ft/fandd/basics/markets.htm.

[27] See Douglas J. Elliott, "Market Liquidity: A Primer," Brookings Institution, June 2015, https://www.brookings.edu/wp-content/uploads/2016/07/Market-Liquidity.pdf.

[28] See Rich Podjasek et al., "Has MBS Market Liquidity Deteriorated?," Federal Reserve Bank of New York, February 8, 2016, https://libertystreeteconomics.newyorkfed.org/2016/02/has-mbs-market-liquidity-deteriorated.html.

[29] Whether investors found MBSs attractive because of their lack of credit risk or their OTC market liquidity is subject to debate. See James Vickery and Joshua Wright, *TBA Trading and Liquidity in the Agency MBS Market*, Federal Reserve Bank of New York, May 2013, http://www.newyorkfed.org/research/epr/2013/1212vick.pdf.

[30] See Scott Richardson and Diogo Palhares, "(Il)liquidity Premium in Credit Markets: A Myth?," *Journal of Fixed Income*, vol. 28, no. 3 (Winter 2019), pp. 3-21.

[31] See Congressional Budget Office, *Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage* (continued...)

narrower bid-ask MBS spreads and hedging fees in both the OTC and TBA markets, respectively.[32] (The Enterprises held their own MBSs to show incentive alignment with investors, meaning the Enterprises were willing to hold the same risks that they were selling.[33]) Thus, despite intermittent episodes of budding liquidity premiums, MBSs issued by the Enterprises were considered to be almost as liquid as U.S. Treasury bonds.[34]

The current $250 billion cap on the Enterprises' asset portfolios (resulting from the PSPAs) limit their ability to buy and sell MBSs at the volumes necessary to influence market pricing. Although the Federal Reserve has purchased large amounts of the Enterprises' MBSs while carrying out its statutory responsibilities, it has largely retained the MBSs in its asset portfolio rather than actively trading them.[35] Hence, less active trading of MBSs by the Enterprises and more holding (rather than actively trading) of MBSs by the Federal Reserve might explain declines in market liquidity observed prior to the COVID-19 pandemic.[36]

FHFA's Conservatorship Priorities

Since conservatorship, FHFA has released various versions of strategic plans and performance goals.[37] FHFA has focused primarily on (1) reducing the credit risks (which pose a direct risk to U.S. taxpayers) retained by the Enterprises and (2) increasing the liquidity of their MBS issuances. The directives that focus on those risks are highlighted in this section.

Directives to Reduce the Enterprises' Credit Risks

The PSPAs require the Enterprises to reduce taxpayers' credit risk. Various programs to facilitate the Enterprises' credit risk management are discussed in this section.

Loan-to-Value Ratios and Mortgage Reinsurance Transactions

By statute, additional credit risk reduction measures are required if the Enterprises purchase mortgages with loan-to-value (LTV) ratios above 80%, meaning that the mortgage balance

Market, December 2010, https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/12-23-fanniefreddie.pdf.

[32] See Karan Kaul, "The Past, Present and Future of Agency MBS Liquidity," State Street Global Advisors and the Urban Institute's Housing Finance Policy Center, October 2016, https://www.ginniemae.gov/newsroom/publications/Documents/agency_mbs_liquidity.pdf.

[33] See Robert Van Order, "Government-Sponsored Enterprises and Resource Allocation: Some Implications for Urban Economics," in *Brookings-Wharton Papers on Urban Affairs*, ed. Gary Burtless and Janet Rothenberg Pack (Brookings Institution, 2007), pp. 151-203.

[34] See Karan Kaul and Laurie Goodman, "Declining Agency MBS Liquidity Is Not All About Financial Regulation," Urban Institute, November 2015, https://www.urban.org/sites/default/files/publication/72621/2000503-Declining-Agency-MBS-Liquidity-Is-Not-All-about-Financial-Regulation.pdf.

[35] See Board of Governors of the Federal Reserve System, "Authority to Lend to Fannie Mae and Freddie Mac," press release, July 13, 2008, http://www.federalreserve.gov/newsevents/press/other/20080713a.htm; and Dave Na, Ellie Newman, and Bernd Schlusche, *The Evolution of the Federal Reserve's Agency MBS Holdings*, Board of Governors of the Federal Reserve System, FEDS Notes, September 20, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/the-evolution-of-the-federal-reserves-agency-mbs-holdings-20240920.html..

[36] Kaul and Goodman, "Declining Agency MBS Liquidity."

[37] FHFA issues annual *scorecards*, which communicate the annual priorities and expectations that it sets for the Enterprises with respect to both of their single-family and multifamily mortgage businesses while under conservatorship. See FHFA, "Conservatorship."

exceeds 80% of the residential property value.[38] If a borrower defaults, the Enterprise generally recovers losses by foreclosing (repossessing) and then liquidating (selling) the property. If a repossessed property sells for at least 80% of its original value, then the 80% LTV requirement increases the likelihood that an Enterprise would recover enough proceeds to cover the remaining mortgage balance and foreclosure expenses.[39] Mortgage insurance is used when borrowers lack the funds to make down payments that would bring their LTV ratios to 80% or lower.[40] Borrowers can purchase private mortgage insurance, which generally assumes the first 20% (or more in some cases) of losses associated with a mortgage default.[41]

The Enterprises introduced additional methods to facilitate the transfer of credit risk stemming from low-down-payment borrowers, referred to as *mortgage reinsurance transactions*. In their pilot programs, the Enterprises initially paid the mortgage insurance premiums up front and were reimbursed later by borrowers via interest rate adjustments on their loans, thus streamlining the origination process for some borrowers in need of private mortgage insurance. Fannie Mae's pilot program, the Enterprise-Paid Mortgage Insurance Option, and Freddie Mac's pilot program, Integrated Mortgage Insurance, ended in June 2021.[42]

Guarantee Fees and Loan-Level Price Adjustments

As previously discussed, the Enterprises' revenues are generated by g-fees, which can be set to target returns by lines of business, cover potential credit losses, and mitigate losses to taxpayers.[43] G-fees are included in the overall mortgage price.[44] Specifically, a loan originator typically receives a *rate sheet* from Fannie Mae or Freddie Mac with a designated minimum base mortgage rate as well as the various risk adjustments, referred to as loan-level price adjustments (LLPAs). With the applicant's credit score and down payment amount, the loan originator uses LLPA matrixes to locate the corresponding fees, which are then added to the minimum base rate. Borrowers with low default risk characteristics generally pay lower LLPAs compared to those with high default risk characteristics. The higher LLPAs are structured to compensate for elevated levels of default risk attributed to high-risk borrowers. Loans for cash-out refinances or for

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[38] 12 U.S.C. §1717.

[39] The property value would have been determined by an appraisal when the mortgage was originated. Property values, however, are not constant and might increase or decrease by the time a borrower officially defaults. The Enterprises' definition of *default* is 120 days delinquent. A loss mitigation or workout option may be able to resolve a default if the property's value exceeds the outstanding mortgage balance. If the property value falls below the outstanding mortgage balance, the likelihood that a loss mitigation option will succeed diminishes.

[40] Certain borrowers may also qualify to obtain federal mortgage insurance from the FHA, VA, or USDA. Because federally insured mortgages are backed by the full faith and credit of the U.S. government, the Enterprises face no counterparty credit risk when borrowers choose this option. Another option for borrowers may be to obtain a junior (second) loan for some or all of the 20% down payment requirement. After the property is liquidated in a foreclosure sale, the recovered proceeds would be distributed first to the Enterprises. The junior lender would receive any proceeds left over to cover the unpaid portion of the junior loan. Given that foreclosure costs can be substantial, the mortgage insurer or second lender faces a greater possibility of little or no recoupment of loan proceeds.

[41] According to FHFA, mortgage insurers represent the largest counterparty exposure for the Enterprises. See FHFA, Office of Inspector General, *Enterprise Counterparties: Mortgage Insurers*, February 16, 2018, https://www.fhfaoig.gov/Content/Files/WPR-2018-002.pdf.

[42] See FHFA, Office of Inspector General, *Enterprise Counterparties: Reinsurers*, September 27, 2021, https://www.fhfaoig.gov/sites/default/files/WPR-2021-007.pdf.

[43] See Edward Golding et al., "How to Think About Fannie Mae and Freddie Mac's Pricing," Urban Institute, August 2023, https://www.urban.org/research/publication/how-think-about-fannie-mae-and-freddie-macs-pricing.

[44] See CRS Report R46980, *Single-Family Mortgage Pricing and Primary Market Policy Issues*, by Darryl E. Getter.

investment properties, which may be associated with higher default risk or are not directly related to the policy goal of increasing homeownership, respectively, may incur additional LLPA fees.

On January 19, 2023, FHFA directed the Enterprises to alter their g-fee schedules as part of the strategic plan to improve their financial conditions.[45] Under the new LLPA fee structure, most prospective borrowers pay higher LLPAs. All borrowers with low default risk characteristics continue to pay lower LLPAs compared to those with high default risk characteristics.[46] The increase in g-fee revenues may expedite the Enterprises' ability to accumulate more retained earnings necessary to exit conservatorship.

The Enterprises' g-fees can be separated into two components. First, the up-front g-fee is determined by the borrower's risk characteristics (e.g., credit score, LTV ratio). Second, the ongoing g-fee, which is collected each month over the life of the loan, is determined by the product type (e.g., fixed rate, adjustable). In December 2011, Congress directed the Enterprises to increase their ongoing g-fees for all loans by 10 basis points (or 0.1% given that a single basis point is equal to 1/100 of a percent—100 basis points is 1%), which took effect on December 1, 2012, for loans exchanged for MBSs.[47] In November 2021, Congress extended the 10-basis-point ongoing g-fee until 2032.[48] Borrower risk characteristics and other requirements, therefore, are factors taken into account when establishing g-fees.[49]

Credit Risk Transfer Programs

In July 2013, the Enterprises initiated new credit risk transfer (CRT) programs to share a portion of the credit risk linked to their guaranteed single-family mortgages with the private sector.[50] Both Enterprises now offer CRT financial instruments that are linked only to the *credit risk* of the single-family mortgages held in the MBS trusts.[51] Investors preferring exposure only to mortgage *prepayment risk* may continue to purchase MBSs, but the private sector may now purchase CRT issuances to earn revenue in exchange for assuming credit risk exposure.

The Enterprises transfer to investors the credit risk linked to mortgages with LTV ratios *greater* than 60% (or borrowers with 40% or less in accumulated home equity, making them more vulnerable to the possibility of owing more than the initial value of their homes if housing market prices were to fall).[52] After defaults occur, the Enterprises decrease the coupon amounts paid to

[45] FHFA, "FHFA Announces Updates to the Enterprises' Single-Family Pricing Framework," press release, January 19, 2023, https://www.fhfa.gov/news/news-release/fhfa-announces-updates-to-the-enterprises-single-family-pricing-framework.

[46] A category of prospective high-risk borrowers will pay slightly lower LLPAs compared to the previous LLPA fee structure. Although slightly lower premiums for this group may increase affordability and promote more stable payment behavior, the anticipated revenues generated may not be large given that fewer high-risk borrowers can qualify for as many mortgages or for those as large as those obtained by low-risk borrowers.

[47] Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78).

[48] Infrastructure Investment and Jobs Act (P.L. 117-58).

[49] Section 1601 of the Housing and Economic Recovery Act of 2008 (HERA, P.L. 110-289) requires FHFA to conduct an ongoing study of the guarantee fees charged by the Enterprises. For more information and recent reports, see FHFA, "Guarantee Fees History," December 22, 2025, https://www.fhfa.gov/policy/guarantee-fees.

[50] Prior to conservatorship, the Enterprises had existing programs that transferred the credit risk linked to their multifamily programs. For more information, see the section of this report entitled "The Enterprises' Multifamily Business Models."

[51] See FHFA, *Overview of Fannie Mae and Freddie Mac Credit Risk Transfer Transactions*, August 2015, https://www.fhfa.gov/sites/default/files/2023-03/CRT-Overview-8-21-2015.pdf.

[52] See FHFA, *Performance & Accountability Report: FY 2018*, https://www.fhfa.gov/sites/default/files/documents/FHFA-2018-PAR.pdf.

CRT investors (similar to adjusting the MBS coupons downward after prepayments occur).[53] The Enterprises retain the credit risk for mortgages with *lower* LTV ratios (or borrowers with 41% or more in accumulated home equity such that their outstanding balances are significantly below the value of their residential properties), which are less likely to default.[54]

Connecticut Avenue Securities and Structural Agency Credit Risk Issuances

Fannie Mae's credit risk transfer (CRT) instruments are known as Connecticut Avenue Securities (CAS); Freddie Mac's CRT instruments are known as Structural Agency Credit Risk (STACR). The CAS and STACR issuances are structured in a tiered system of tranches: a first-loss tranche, two mezzanine tranches, and a senior tranche.

- The first-loss tranche is used to transfer *expected* credit loss risk. The Federal Housing Finance Agency (FHFA) defines *expected* credit losses as those likely to occur during periods of stable housing market conditions when some borrowers fail to repay their mortgages, perhaps because of unforeseen life circumstances (e.g., job loss, disability, divorce). The first-loss tranche absorbs the initial 5% of credit losses linked to mortgages held in mortgage-backed security (MBS) trusts. The Enterprises retain 5% of the first-loss tranche and issue the remaining 95% of CRTs to first-loss-tranche investors. The Enterprises retain 5% of the issuances associated with the first-loss (and mezzanine tranches), signaling to investors their willingness to hold the same risks that they are willing to issue (as they do when holding their own MBSs), which is also consistent with risk-retention requirements for securitizations.[55]
- The mezzanine tranches are used to transfer *unexpected* credit loss risk. FHFA defines *unexpected* credit losses as those likely to result from macroeconomic events, such as a recession. The mezzanine tranches collectively absorb mortgage credit risk after 5% and up to 45% of total credit losses linked to mortgages held in MBS trusts. For the mezzanine tranches, the credit risk is distributed as follows:[56] The Enterprises retain 5% of all mezzanine tranche risk. The private sector retains 60% of mezzanine risk via purchases of the Enterprises' CRT issuances. For the remaining 35% of mezzanine risk, the Enterprises rely on another set of CRT risk-sharing programs in which they directly obtain insurance or reinsurance.[57] Just as the Enterprises charge g-fees, they pay insurance premiums to firms to assume a predetermined dollar amount of the credit risk.[58] Participating institutions, primarily insurers and reinsurers, may use proceeds from these programs to diversify their portfolios holding assets that are not highly correlated to U.S. residential mortgage credit risk.
- The Enterprises retain all the senior-tranche risk, which contains *catastrophic* credit loss risk. Catastrophic credit losses are those linked to catastrophic events with historically low probabilities of occurrence. The senior tranche absorbs credit losses after the mezzanine and first-loss tranches have absorbed the initial 45% of the mortgage credit losses linked to mortgages held in MBS trusts.[59] For this reason, the catastrophic credit loss risk is more economical for the Enterprises to retain rather than attempt to issue CRTs with sufficiently attractive compensation to encourage retention by private investors.[60]

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[53] Transferring credit risk via CRT instruments reduces counterparty risk—that is, the risk that the insurer fails to reimburse the Enterprise after a default.

[54] The Enterprises may also transfer the credit risk of mortgages retained in their portfolios (typically because they lack the standardized features that would make them eligible for placement into an MBS trust for securitization).

[55] For more information, see Board of Governors of the Federal Reserve System, "Six Federal Agencies Jointly Approve Final Risk Retention Rule," press release, October 22, 2014, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20141022a.htm.

[56] See FHFA, *Performance and Accountability Report: FY 2018*.

[57] See David Finkelstein et al., *Credit Risk Transfer and De Facto GSE Reform*, Federal Reserve Bank of New York, February 2018, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr838.pdf; and FHFA, *Performance and Accountability Report: FY 2018*.

[58] The term *reinsurance* may be used because the credit risk is insured twice: once by the Enterprises and a second time by another insurance company.

[59] FHFA acknowledges that a bright-line distinction between unexpected and catastrophic loss risk has yet to be defined. The distinction between risk types, however, may not be pertinent, because credit risk is measured in basis points, and the total amounts transferred to the private sector occur after certain basis point thresholds.

[60] See Joshua D. Coval et al., "Economic Catastrophic Bonds," *American Economic Review*, vol. 99, no. 3 (June 2009), pp. 628-666.

Although the CRTs may reduce the Enterprises' default risk exposure, the Congressional Budget Office reported that these transactions may not necessarily reduce taxpayers' costs.[61] When transferring default risk to the private sector, the Enterprises simultaneously transfer a portion of g-fee income to CRT holders. In other words, a trade-off between risk and reward exists. Credit risk reduction for the Enterprises translates into a portion of forgone g-fee revenue.

Standardization Initiatives to Foster MBS Liquidity

FHFA introduced initiatives to standardize many aspects of the Enterprises' operations, which include their mortgage data collection processes, securitization processes, mortgage servicing guidelines, and MBS issuances. Greater uniformity is expected to provide greater data integrity for appraisers, servicers, and secondary-market investors. Such standardization may increase transparency, reduce the length of the single-family mortgage origination and securitization processes, and ultimately increase the uniform pricing and liquidity of the Enterprises' MBS and CRT issuances.[62] These initiatives are discussed in this section.

Uniform Mortgage Data Program

FHFA's uniform mortgage data program initiative requires the Enterprises to support the standardization of single-family primary mortgage market industry data.[63] Data on loan applications, property appraisals, loan closings, and disclosures are the focus of the standardization efforts. Mortgage originators must prepare more standardized and streamlined mortgage loan packages that can be sent to and used by either Enterprise. Greater standardizing of mortgage loan packages will expedite the identification of irregularities and likely increase efficiencies in the following areas:

- Standardization may enhance the Enterprises' automated delegated underwriting processes, which rely on the sellers (loan originators) of conventional single-family mortgages to provide information about the mortgage and underwriting standards.[64] Standardization may quickly underscore abnormal credit risks and fraudulent information about the borrower, underlying property, or other involved stakeholders (e.g., property seller, title agent, servicer) that could trigger financial losses. Rather than independently verify the information, the Enterprises review samples of their loans to see what percentage meets contractual standards.

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[61] See Congressional Budget Office, *Transitioning to Alternative Structures for Housing Finance: An Update*, August 2018, p. 9, https://www.cbo.gov/system/files/2018-08/54218-GSEupdate.pdf.

[62] For more information on the mortgage servicing and loss mitigation initiatives, see FHFA, "Mortgage Servicing," November 1, 2023, https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Mortgage-Servicing.aspx; and Karan Kaul et al., *The Case for Uniform Mortgage Servicing Data Standards*, Urban Institute, November 2018, https://www.urban.org/sites/default/files/publication/99317/uniform_mortgage_servicing_data_standards_0.pdf. The standardization of servicing may enhance the attractiveness of CRT investments by clarifying the procedures for handling nonperforming mortgages, thus clarifying how losses will be distributed among the various tranche classes. For more information, see Basel Committee on Banking Supervision: The Joint Forum, *Report on Asset Securitisation Incentives*, July 2011, https://www.bis.org/publ/joint26.pdf; and Patricia A. McCoy, "Barriers to Federal Home Mortgage Modification Efforts During the Financial Crisis," Harvard University Joint Center for Housing Studies, August 2010, https://www.jchs.harvard.edu/sites/default/files/mf10-6.pdf.

[63] FHFA, "Uniform Mortgage Data Program," https://singlefamily.fanniemae.com/delivering/uniform-mortgage-data-program.

[64] See Freddie Mac, Form 10-K for the fiscal year ended December 31, 2018, p. 186, https://www.freddiemac.com/investors/financials/pdf/10k_021419.pdf; and Fannie Mae, Form 10-K for the fiscal year ended December 31, 2018, p. 33, https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/ir/pdf/quarterly-annual-results/2018/q42018.pdf.

Furthermore, because the Enterprises purchase most loans using *representations and warranties*—contracts that require loan originators to repurchase mortgages that fail to meet contractual standards—standardization may reduce *put-back risk*, the risk that originators must repurchase unacceptable mortgages.[65]

- Standardization may facilitate oversight related to fair lending, fair housing, and unfair or deceptive acts or practices. For example, on August 10, 2022, FHFA announced that the Enterprises would require mortgage servicers to obtain and maintain fair lending mortgage data beginning on March 1, 2023.[66] The fair lending data would include information such as the *accept rate*, the proportion of applicants approved by the Enterprises' underwriting systems.[67] Although the data alone cannot prove or disprove unlawful discrimination, they can facilitate monitoring trends and irregularities that may be useful for identifying fair lending risks and monitoring compliance.
- The Enterprises have adopted standardized credit scores, which may help minimize pricing differentials between their MBS issuances. Specifically, Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174), enacted in 2018, required FHFA to establish standards and criteria for the Enterprises' credit score model validation and approval processes, resulting in the approval and implementation of newer credit score models.[68]

By focusing on standardization and automation, the Enterprises and the broader mortgage industry—including private guarantors—are likely to achieve greater operational efficiencies.[69]

Common Securitization Platform

In 2012, FHFA determined that the technology platforms used by the Enterprises for securitization—the process of transferring the underlying mortgage payments into MBSs—were outdated.[70] Rather than update both systems, FHFA required the Enterprises to jointly develop a

[65] See FHFA, "FHFA, Fannie Mae and Freddie Mac Launch New Representation and Warranty Framework," press release, September 11, 2012, https://www.fhfa.gov/news/news-release/fhfa-fannie-mae-and-freddie-mac-launch-new-representation-and-warranty-framework; and Laurie Goodman et al., "Sunset Provisions on Reps and Warrants: Can They Be More Flexible While Still Protecting the GSEs?," Urban Institute, November 27, 2013, https://www.urban.org/research/publication/sunset-provisions-reps-and-warrants-can-they-be-more-flexible-while-still-protecting-gses.

[66] See Mortgage Bankers Association, *FHFA Announces Update for Services to Maintain Fair Lending Data*, August 10, 2022, https://newslink.mba.org/mba-newslinks/2022/august/mba-newslink-wednesday-may-17-2021/fhfa-announces-update-for-services-to-maintain-fair-lending-data/.

[67] For more information, see FHFA, "Fair Lending, Fair Housing, and Equitable Housing Finance Plans," 89 *Federal Register* 42786, May 16, 2024, p.42786.

[68] For more information, see FHFA, "FHFA Announces Validation of FICO 10T and VantageScore 4.0 for Use by Fannie Mae and Freddie Mac," October 24, 2022, https://www.fhfa.gov/news/news-release/fhfa-announces-validation-of-fico-10t-and-vantagescore-4.0-for-use-by-fannie-mae-and-freddie-mac; and CRS In Focus IF12588, *Fannie Mae and Freddie Mac Adopt Alternative Credit Scores*, by Darryl E. Getter.

[69] See written testimony of Edward J. DeMarco, president, Housing Policy Council, in U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Chairman's Housing Reform Outline*, hearing, 116th Cong., 1st sess., March 26, 2019.

[70] FHFA, "Building a New Infrastructure for the Secondary Mortgage Market," October 4, 2012, p. 4, https://www.fhfa.gov/research/papers/building-new-infrastructure-secondary-mortgage-market.

platform, the Common Securitization Platform (CSP), to facilitate various tasks associated with their securitization processes.[71] The CSP provides the following services:[72]

- The Enterprises purchase mortgages from originators, establish policies for their mortgage servicers to follow, choose the mortgages for placement in each MBS trust, and guarantee the credit risk linked to the individually created MBS trusts.
- The CSP facilitates the initial issuance of MBSs to investors. After receiving a securitization request from an Enterprise, the CSP validates the details related to the MBS trusts and linked MBSs that will be issued to investors (e.g., confirming the mortgages held in an MBS trust, confirming the average principal and interest payment amounts as well as the maturity on the linked MBSs, and confirming the identification code on the security used to facilitate clearing and settlement of trades). The Enterprises also receive notifications of any data inconsistencies.
- The CSP releases required disclosures for MBS investors. Data about MBSs are sent to the Federal Reserve Bank of New York or the Depository Trust and Clearing Corporation—typically two days before issuance, allowing information about MBSs to be disclosed to market participants—which facilitate the transfer of MBSs to investors in exchange for cash. The CSP confirms issuance and payment information back to the issuing Enterprise.
- The CSP provides ongoing administration of MBSs for investors. For example, the CSP calculates repayments of principal and interest to MBS holders for tax reporting purposes. The CSP provides monthly updates about the prepayment status of the underlying collateral to ensure that investors have current disclosures about information relevant to the linked MBS's performance.

Uniform MBS Single Security Initiative

As previously discussed, a loan originator selling mortgages to the Enterprises in the TBA market contracts to deliver mortgages in exchange for an MBS at a specified future date. Specifically, the MBS buyer (loan originator) and MBS seller (one of the Enterprises) negotiate in advance for future delivery and settlement date for the trade. The buyer and seller agree on six general *features* that the MBS should have: the issuer, maturity, coupon rate, sale price, approximate face value, and settlement date.[73] The exact features of the securities to be delivered are disclosed to the participants two days prior to delivery and settlement.

MBSs that meet the required criteria can be delivered so long as the underlying MBS pools are *fungible*—that is, sufficiently interchangeable with other MBSs. Because the MBS issuer is one of the trading features, MBSs have generally been fungible only with other MBSs issued by the same Enterprise. Fannie Mae–issued MBSs and Freddie Mac–issued MBSs have not previously been interchangeable, and their MBSs do not trade at identical prices even though the Enterprises have essentially the same federal charters and business (securitization) models.[74]

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[71] See FHFA, *2015 Scorecard Progress Report*, March 2016, p. 24, https://www.fhfa.gov/sites/default/files/2023-03/progress-report-2015-scorecard.pdf.

[72] The CSP arguably reduces the fixed start-up costs for private guarantors (should they be approved) because they will not have to invest in the technology to perform CSP functions. See written testimony of Mark Zandi, chief economist, Moody's Analytics, U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Chairman's Housing Reform Outline*, hearing, 116th Cong., 1st sess., March 26, 2019.

[73] See Vickery and Wright, *TBA Trading and Liquidity in the Agency MBS Market*.

[74] An economic theory known as *the law of one price* states that identical securities should sell for identical prices. See (continued...)

Prior to the single security initiative, Freddie Mac's MBSs frequently traded at lower prices compared to those issued by Fannie Mae.[75] Following declines in mortgage rates that prompt borrowers to refinance, the mortgage pools underlying Freddie Mac's MBSs historically had faster prepayment rates (relative to Fannie Mae's MBSs). Faster prepayment translates into higher prepayment risk for Freddie Mac MBS investors, which would explain market trades at lower prices. Furthermore, a large mortgage originator could subsequently enter into a swap agreement with Fannie Mae to acquire a higher-priced MBS (compared to Freddie Mac) for immediate resell in the OTC market. Freddie Mac could respond by lowering its g-fees, thereby slightly increasing its MBS coupons relative to Fannie Mae's MBS coupons to remain somewhat competitive.[76] The pricing differential between the Enterprises' MBSs, therefore, provided Fannie Mae with a competitive advantage in the secondary market over Freddie Mac (and other prospective private sector securitizers).[77]

Under the single security initiative, FHFA directed the Enterprises to align their key contractual and business practices by acquiring mortgages with similar prepayment speeds along with other features.[78] The Enterprises were required to align their prepayment speeds such that they do not constitute a material misalignment or a divergence by more than 2% over a three-month interval.[79] (Standardizing the Enterprises' credit score model validation and approval processes, previously discussed, also fosters fungibility.) By harmonizing the financial characteristics of the Enterprises' separate mortgage purchases, the CSP can produce uniform and fungible MBSs because the underlying MBS trusts are structured to generate similar cash flow predictability and prepayment speeds.

Along with the development of fungible MBSs, FHFA directed the Enterprises to issue one common security, the *uniform mortgage-backed security (UMBS)*, rather than issue separate MBSs. (Private sector guarantors would also be allowed to use the CSP to issue fungible UMBSs.) FHFA argued that a single market for UMBSs would enhance secondary market liquidity by eliminating price differentials as well as mitigate the rise of market liquidity premiums.[80] UMBS issuances began on June 3, 2019.[81] FHFA monitors both Enterprises to avoid material misalignment that compromises UMBS fungibility.[82]

Owen A. Lamont and Richard H. Thaler, "The Law of One Price in Financial Markets," *Journal of Economic Perspectives*, vol. 17, no. 4 (Fall 2003), pp. 191-202.

[75] Laurie Goodman, "The $400 Million Case for a Single GSE Security," Urban Institute, September 5, 2014, http://www.urban.org/urban-wire/400-million-case-single-gse-security.

[76] In 2014, Freddie Mac's MBS issuances were approximately 70% of Fannie Mae's MBS issuances, and Freddie Mac's MBSs accounted for 9% of total trading activity. Goodman, "The $400 Million Case."

[77] Laurie Goodman and Jim Parrott, "A Progress Report on Fannie Mae and Freddie Mac's Move to a Single Security," Urban Institute, August 2018, https://www.urban.org/sites/default/files/publication/98872/single_security_0.pdf.

[78] See FHFA, "Uniform Mortgage-Backed Security," 84 *Federal Register* 7793, March 5, 2019.

[79] See FHFA, "Uniform Mortgage-Backed Security."

[80] FHFA, *An Update on the Structure of the Single Security*, May 15, 2015, p. 4, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Single%20Security%20Update%20final.pdf. For a discussion on the effects of standardization in the mortgage and MBS markets, see Adam J. Levitin and Susan M. Wachter, "Explaining the Housing Bubble," *Georgetown Law Journal*, vol. 100, no. 4 (April 12, 2012), pp. 1177-1258.

[81] See FHFA, "Statement of FHFA Deputy Director Robert Fishman on the Launch of the New Uniform Mortgage-Backed Security (UMBS)," press release, June 3, 2019, https://www.fhfa.gov/news/statement/statement-of-fhfa-deputy-director-robert-fishman-on-the-launch-of-the-new-uniform-mortgage-backed.

[82] The Securities Industry and Financial Markets Association (SIFMA)—a trade association for broker-dealers, investment banks, and asset managers operating in the United States and global capital markets—advocates for legislative, regulatory, and business policies on behalf of its members. SIFMA sets the TBA trading conventions, which (continued...)

FHFA's Longer-Term Policy Modifications

FHFA has implemented policies likely to be in effect (with periodic modifications) after conservatorship. For example, rather than having their risk exposure limited by lending portfolio caps (likely to be removed on termination of the PSPAs), the Enterprises will face higher capital requirements. FHFA also revised the Enterprises' framework for single- and multifamily lending goals and updated its mandate that the Enterprises serve various underserved markets. This section discusses these policies.

Restoration of Housing Trust Fund and Capital Magnet Fund Cash Contributions

The Housing Economic and Recovery Act of 2008 (HERA, P.L. 110-289) requires the Enterprises to make *cash contributions* to the Housing Trust Fund (HTF) and the Capital Magnet Fund (CMF). The HTF funds states and state-designated entities for eligible activities that primarily support affordable rental housing for low-income families, including homeless families.[83] The CMF awards competitive grants to financial institutions designated as Community Development Financial Institutions and qualified nonprofit housing organizations for which the development or management of affordable housing is one of their principal purposes.[84] The Enterprises must set aside 4.2 basis points (0.042%) of the unpaid principal balance of mortgages purchased in a year for these funds. The Federal Housing Finance Agency suspended the Enterprises' HTF and CMF contribution requirements between 2008 and 2014. These requirements were reinstated in 2015.

Heightened Capital Buffer Requirements

Regulatory rules set capital definitions for financial firms; however, *capital* generally refers to common and preferred equity shareholders (both as a percentage of assets) as well as retained earnings—all of which can absorb unexpected financial losses. For the Enterprises, the statutory minimum leverage (unweighted) capital requirement, specified in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (P.L. 102-550, Title XIII), is equal to 2.5% of on-balance-sheet (portfolio) assets and 0.45% of off-balance-sheet (MBS trust) obligations. HERA gave FHFA the authority to increase capital standards above the statutory minimum as necessary.

During conservatorship, FHFA suspended the Enterprises' capital requirements. Instead, the initial PSPAs required the Enterprises to pay Treasury a 10% cash dividend on the amount of the outstanding preferred shares, and dividend payments were suspended for all private Enterprise stockholders. The Enterprises were not allowed to issue additional stock shares or obtain funds elsewhere if they lacked the cash to make full dividend payments to Treasury.[85] On August 17, 2012, the 10% dividend was replaced with a *profit sweep* dividend requirement to allow for a

include the TBA settlement guidelines known as the Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities. SIFMA recommends that FHFA, while regulating the mortgage purchasing and trust structuring activities, ensure that the Enterprises do not deviate from the requirements to securitize mortgage originations with standardized borrower characteristics.

[83] After estimating the median family income for designated counties and metropolitan areas, HUD provides annual definitions for *extremely low-income family* and *very low-income family*, which are used to determine eligibility for various programs. See HUD, "Housing Trust Fund," https://www.hudexchange.info/programs/htf/.

[84] See Department of the Treasury, Community Development Financial Institutions Fund, "Capital Magnet Fund," https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx; and Department of the Treasury, Community Development Financial Institutions Fund, "Funding Opportunities: Capital Magnet Fund; 2018 Funding Round," 83 *Federal Register* 34685, July 20, 2018.

[85] See Don Layton, "Temporarily Ending the GSE Net Worth Sweep: A Limited but Important Step Towards GSE Reform," Harvard University Joint Center for Housing Studies, October 2, 2019, https://www.jchs.harvard.edu/blog/temporarily-ending-the-gse-net-worth-sweep-a-limited-but-important-step-towards-gse-reform.

cash buffer—all net worth proceeds (exceeding an initial $3 billion cash buffer that would be reduced annually by $600 million until reaching zero) would be paid to Treasury.[86] The August 2012 PSPAs also required the Enterprises to reduce their lending portfolios to $250 billion. In 2017, Treasury and FHFA reinstated the capital reserves to $3 billion each to avoid any further draws from Treasury by the Enterprises.[87] On September 30, 2019, Treasury modified the PSPAs to allow Fannie Mae and Freddie Mac to retain earnings and accumulate capital reserves of $25 billion and $20 billion, respectively.[88] On October 28, 2019, FHFA announced a strategic plan to prepare the Enterprises for their eventual exit from conservatorship.[89]

In December 2020, FHFA established and finalized requirements for the Enterprise Regulatory Capital Framework (ERCF), which became effective on February 16, 2021.[90] The ERCF enhanced the risk-based and leverage capital requirements to increase the Enterprises' resiliency to adverse financial conditions when they are released from conservatorship.[91] For this reason, the PSPAs were modified on January 14, 2021, to allow the Enterprises to build the reserves required by the 2020 capital rule.[92] Noncompliance with ERCF's heightened capital buffer requirements will result in limits on shareholder dividends and discretionary bonus payments to executives until such buffer amounts are restored.[93]

In February 2022, FHFA amended the December 2020 ERCF rule to revisit, among other items, the leverage buffer requirements and the risk-based treatment of the CRT exposures.[94] Rather than reduce the Enterprises' *level* of risk-taking—by scaling back their mortgage purchases—during recessionary periods, the revised leverage buffer requirement may allow the Enterprises to function as a countercyclical macroeconomic buffer.[95] In addition, FHFA was concerned about the

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[86] For all the preferred stock purchase agreements, see FHFA, "Senior Preferred Stock Purchase Agreements," October 17, 2022, https://www.fhfa.gov/conservatorship/senior-preferred-stock-purchase-agreements.

[87] A tax revision (P.L. 115-97) would have resulted in anticipated reductions in the Enterprises' deferred tax asset values, discussed in their 2013 Form 10-K reports. See Fannie Mae, Form 10-K for the fiscal year ended December 31, 2013, pp. 3, 80, 143, https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/ir/pdf/quarterly-annual-results/2013/10k_2013.pdf; and Freddie Mac, Form 10-K for the fiscal year ended December 31, 2013, pp. 135, 138, 231, https://www.freddiemac.com/investors/financials/pdf/10k_022714.pdf.

[88] See Department of the Treasury, "Treasury Department and FHFA Modify Terms of Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac," press release, September 30, 2019, https://home.treasury.gov/news/press-releases/sm786.

[89] See FHFA, *Conservatorship Strategic Plan*, https://www.fhfa.gov/reports/conservatorship-strategic-plan.

[90] See FHFA et al., "Enterprise Regulatory Capital Framework," 85 *Federal Register* 82150, December 17, 2020.

[91] If, for example, a sudden plunge in house prices led to widespread *underwater* mortgages held by the Enterprises (in MBS trusts and in their portfolios), their capital buffers may be depleted and impair safe and sound operations. An underwater mortgage—in which the outstanding loan balance exceeds the home's market value—gives borrowers the financial incentive to default. See Neil Bhutta et al., *The Depth of Negative Equity and Mortgage Default Decisions*, Board of Governors of the Federal Reserve System, May 2010, http://www.federalreserve.gov/pubs/feds/2010/201035/201035pap.pdf.

[92] See FHFA, "FHFA and Treasury Allow Fannie Mae and Freddie Mac to Continue to Retain Earnings," press release, January 14, 2021, https://www.fhfa.gov/news/news-release/fhfa-and-treasury-allow-fannie-mae-and-freddie-mac-to-continue-to-retain-earnings.

[93] For an overview of the ERCF, see Freddie Mac, *Enterprise Regulatory Capital Framework (ERCF) Public Disclosures for the Standardized Approach: For the Quarterly Period Ended June 30, 2024*, https://www.freddiemac.com/investors/docs/2Q24_ercf_public_disclosure.pdf.

[94] See FHFA, "FHFA Announces Final Rule Amending the Enterprise Regulatory Capital Framework," press release, February 25, 2022, https://www.fhfa.gov/news/news-release/fhfa-announces-final-rule-amending-the-enterprise-regulatory-capital-framework; and FHFA, "Enterprise Regulatory Capital Framework—Prescribed Leverage Buffer Amount and Credit Risk Transfer," *87 Federal Register* 14764, March 16, 2022.

[95] See Edward Golding et al., "Analysis of the Proposed 2020 FHFA Rule on Enterprise Capital," Urban Institute, (continued...)

Enterprises altering alter the *composition* of their risk exposures to sustain attractive shareholder returns (by retaining more credit risk, increasing g-fees for borrowers, or both). For this reason, the risk weight for issuing CRTs was reduced (from 10% to 5%), which may incentivize the Enterprises to transfer more credit risk off their balance sheets to private sector investors.[96] If this ERCF revision incentives the Enterprises to maintain lower borrower g-fees, the affordability gains may further advance housing mission goal requirements detailed in the next sections.

Single-Family Housing Goals

HERA gives FHFA authority to set housing goals for the GSEs. (This authority was previously established by P.L. 102-550.)[97] The Enterprises are required to purchase percentages of mortgages to meet FHFA's established single-family (and multifamily) affordable housing goals.[98] For single-family housing, the Enterprises must annually acquire goal-eligible mortgages for home purchases and refinances to support various categories (e.g., low income, very low income, underserved) of borrowers.[99] FHFA modified some operational requirements pertaining to these mission goals, discussed in the **text box** below.

Recent Directives Pertaining to Single-Family Mission Goals

In 2025, the following policy changes were implemented for the Enterprises' single-family mission goals.

- On March 24, 2025, the Federal Housing Finance Agency (FHFA) rescinded Advisory Bulletin 2024-06, "Regulated Entity Unfair or Deceptive Acts or Practices (UDAP) Compliance."[100] UDAP defines certain acts or practices to be unfair or deceptive.[101] With respect to extensions of credit to consumers, the Consumer Financial Protection Bureau, other federal financial regulators, and state regulatory agencies enforce UDAP. UDAP enforcement may be duplicative, although state-level regulator approaches may vary.[102]
- In 1976, Congress established Special Purpose Credit Programs (SPCPs) to allow lenders to consider otherwise-prohibited-basis information—race, color, religion, national origin, sex—to serve economically or socially disadvantage consumers and small businesses.[103] In 2022, eight federal regulators and agencies,

August 2020, https://www.urban.org/sites/default/files/publication/102779/analysis-of-the-proposed-2020-rule-on-enterprise-capital_2.pdf.

[96] The initial 10% risk weight was meant to address *counterparty risk*, the risk that CRT investors fail to pay default losses or expiring CRT contracts are not renewed, thus pushing those risks back onto the Enterprises' balance sheets.

[97] P.L. 102-550, Title XIII; see 12 U.S.C. §§4561-4564.

[98] See FHFA, "Fannie Mae & Freddie Mac Affordable Housing Goals," June 10, 2026, https://www.fhfa.gov/programs/enterprise-affordable-housing-goals.

[99] For the various purchase and refinance category definitions, see FHFA, "Enterprise Housing Goals," June 1, 2026, https://www.fhfa.gov/data/enterprise-housing-goals.

[100] See FHFA, "Rescinded Advisory Bulletins," https://www.fhfa.gov/advisory-bulletin/rescinded.

[101] Section 5 of the Federal Trade Commission Act (15 U.S.C. §45).

[102] See Adam DeSanctis, "MBA Statement on FHFA Order Rescinding Regulated Entity UDAP Compliance," Mortgage Bankers Association, March 25, 2025, https://www.mba.org/news-and-research/newsroom/news/2025/03/25/mba-statement-on-fhfa-order-rescinding-regulated-entity-udap-compliance; and Christa L. Bieker, "Potential for Increased State Consumer Finance Enforcement," Mayer Brown, August 8, 2025, https://www.mayerbrown.com/en/insights/publications/2025/08/potential-for-increased-state-consumer-finance-enforcement.

[103] Kenneth Benton, "Overview of Special Purpose Credit Programs Under the Equal Credit Opportunity Act," *Consumer Compliance Outlook* (2022), https://www.consumercomplianceoutlook.org/2022/fourth-issue/overview-of-special-purpose-credit-programs/; and Tim Lambert, "Using Special Purpose Credit Programs to Serve Unmet Credit Needs," Consumer Financial Protection Bureau (CFPB), July 19, 2022, https://www.consumerfinance.gov/archive/blog/using-special-purpose-credit-programs-to-serve-unmet-credit-needs/. Under the Equal Credit Opportunity Act (P.L. 93-495, Title V), creditors may extend credit to meet the needs of specified classes of persons expressly authorized by federal or state law for the benefit of an economically disadvantaged class of persons and meet the standards prescribed in regulations by the CFPB. See CFPB, "§1002.8 Special Purpose Credit Programs," https://www.consumerfinance.gov/rules-policy/regulations/1002/8/.

including FHFA, issued an interagency reminder to creditors and relevant entities of their authority to establish SPCPs to meet the credit needs of specified classes of persons.[104] On March 25, 2025, the FHFA director released a directive eliminating the Enterprises' participation in SPCPs.[105]

- *Fair lending* laws are designed to protect consumers from unfair and discriminatory practices. *Fair housing* laws are designed to prohibit discrimination in the sale or rental of housing, the financing of housing, or the provision of brokerage services.[106] On July 28, 2025, FHFA announced a proposed rule that would repeal Fair Lending, Fair Housing, and Equitable Housing Finance Plans regulation; the comment period ended September 26, 2025.[107]
- When establishing the single-family mortgage market benchmarks, FHFA begins by estimating the size of the mortgage market. FHFA modified its initial benchmark estimates of goal-eligible purchase and refinance mortgages for the 2026-2028 rule.[108] For this reason, FHFA finalized lower single-family housing purchase goals for 2026-2028 from the benchmarks established for 2025-2027.[109] Specifically, the *low-income* home purchase goal was reduced from 25% to 21%, and the *very low-income* home purchase goal was reduced from 6% to 3.5%. The *low-income refinance goal*, which consists of refinance mortgages on single-family owner-occupied properties to borrowers with incomes no greater than 80% of area median income, remains unchanged at 26%. The census tract subgoals from 2025 to 2027—the 12% minority census tract subgoal and the 4% low-income census tract subgoal—were combined to be 16% in 2026-2028.

The collective impact of FHFA's recent actions on the mortgage market is unclear, as broader housing market and macroeconomic conditions also matter. Although FHFA's downward revisions suggest that meeting some goals may be challenging, actual market performance often deviates from forecasts. If the mortgage market outperforms expectations, the Enterprises could meet or exceed goals. Conversely, factors such as weaker macroeconomic performance may lead to stricter underwriting criteria, which may cause mortgage originations to decline. Therefore, evaluating the effectiveness of implementing SPCPs requires observing how targeted demographic groups fare across multiple housing market cycles.

The Enterprises' Multifamily Business Models

A multifamily mortgage is a loan secured by a residential dwelling, such as an apartment building, with at least five or more separate units. *Multifamily real estate* frequently refers to properties used as residential dwellings, including traditional apartment buildings, subsidized housing, housing for seniors (age-restricted, independent, and assisted living), and housing for students (dormitories). In multifamily mortgage markets, the Enterprises purchase mortgages and transfer a portion (or share) of the default risks to the private sector.[110] FHFA has issued various directives to limit and narrow the scope of the Enterprises' multifamily programs. The directives,

[104] See FHFA et al., *Interagency Statement on Special Purpose Credit Programs Under the Equal Credit Opportunity Act and Regulation B*, February 22, 2022, https://files.consumerfinance.gov/f/documents/cfpb_spcp_interagency-statement_2022-02.pdf.

[105] FHFA, "Order Issuing Directive to Terminate Special Credit Purpose Programs," Decision No. 2025-145, https://infobytes.orrick.com/wp-content/uploads/Gm6TkHpW0AA8uaB.pdf. This directive does not appear on the FHFA website; for a discussion of the directive, see Matthew Emery, "FHFA's Recent Directive on Special Purpose Credit Programs," National Association of Realtors, March 28, 2025, https://www.nar.realtor/washington-report/fhfas-recent-directive-on-special-purpose-credit-programs.

[106] See CRS Report R48113, *The Fair Housing Act (FHA): A Legal Overview*, by David H. Carpenter.

[107] See FHFA, "Fair Lending, Fair Housing, and Equitable Housing Finance Plans," 90 *Federal Register* 35475, July 28, 2025.

[108] See FHFA, *Significant Regulatory Action Determination, Major Rule Assessment and Regulatory Impact Analysis for 2026-2028 Enterprise Housing Goals Final Rule*, January 13, 2026, pp. 9-10, https://www.fhfa.gov/sites/default/files/2026-01/2026-01-13_MB_2026-2028%20EHG%20Final%20Rule_RIA%20Tech%20Correct_Web.pdf.

[109] For the 2026-2028 final rule, see FHFA, "2026-2028 Enterprise Housing Goals," 90 *Federal Register* 59948, December 23, 2025. For the 2025-2027 final rule, see FHFA, "2025-2027 Enterprise Housing Goals," 89 *Federal Register* 106253, December 24, 2024.

[110] For more information on multifamily mortgage finance as well as the Enterprises' underwriting and risk-sharing models, see CRS Report R46480, *Multifamily Housing Finance and Selected Policy Issues*, by Darryl E. Getter.

summarized in the **text box** below, are intended to prevent the Enterprises' multifamily programs from growing without a more explicit link to affordable rental units for low- and moderate-income and other historically underserved renters—while making a *reasonable* economic return—rather than offer cheaper borrowing rates that *crowd out* (impede) private sector lending activities in market segments with less apparent credit gaps.[111]

Revised Directives for the Enterprises Multifamily Programs

In 2013, the Federal Housing Finance Agency (FHFA) reduced the Enterprises' new multifamily purchase volumes by 10% from the 2012 caps to shrink their multifamily operations and risks to taxpayers.[112] FHFA subsequently directed the Enterprises to limit their 2014 multifamily purchase volumes to the level of or below the 2013 caps.[113] In 2014, FHFA excluded several business activities from counting toward the cap, which might make it possible for the Enterprises to provide greater support in the affordable housing and underserved market segments before reaching the cap. In 2016, FHFA also excluded loans that would finance certain energy and water efficiency projects (i.e., green loans) from the multifamily purchase caps. From 2016 to 2018, the Enterprises' share of multifamily lending activities that grew were related to green loans that were excluded from the cap, while those included in the cap declined.[114] On September 13, 2019, FHFA revised its directive regarding the multifamily purchase caps, increasing them from the 2018 caps of $35 billion each to $100 billion each for Fannie Mae and Freddie Mac.[115] Moreover, 37.5% of the Enterprises' loan purchases must be mission driven. All multifamily mortgage purchases count toward the cap—no exemptions or exclusions.[116]

FHFA also provides an updated comprehensive definition of *mission-driven multifamily purchases*.[117] Examples of eligible mission-driven mortgage purchases include those for properties subsidized by the Low-Income Housing Credit program; properties covered by Section 8 Housing Assistance Payment contracts (that limit tenant incomes to 80% or below of the area median income); and properties developed by a public housing authority (or nonprofit affiliates) that either reserves units for limited-income tenants or restricts the rents charged for units.[118]

[111] The Enterprises' statutory public purpose includes an "affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families in a manner consistent with their overall public purposes, while maintaining a strong financial condition and a reasonable economic return." See 12 U.S.C. §4501(7). Both Enterprise charters authorize them to perform "activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities." See 12 U.S.C. §§1451, 1716 note. For information about policies to address crowding out, see FHFA, "Fannie Mae and Freddie Mac Multifamily Businesses," https://www.fhfa.gov/policy/enterprise-multifamily-businesses.

[112] See FHFA, "FHFA Seeks Public Input on Reducing Fannie Mae and Freddie Mac Multifamily Businesses," press release, August 9, 2013, https://www.fhfa.gov/news/news-release/fhfa-seeks-public-input-on-reducing-fannie-mae-and-freddie-mac-multifamily-businesses.

[113] The 2013 volume that became the 2014 cap for Fannie Mae was $30 billion. The 2013 volume that became the 2014 cap for Freddie Mac was $26 billion. See Karan Kaul, "The GSEs' Shrinking Role in the Multifamily Market," Urban Institute, April 2015, https://www.urban.org/sites/default/files/publication/48986/2000174-The-GSEs-Shrinking-Role-in-the-Multifamily-Market.pdf.

[114] See FHFA, "2024 Multifamily Caps for Fannie Mae and Freddie Mac," https://www.fhfa.gov/news/fact-sheet/2024-multifamily-caps-for-fannie-mae-and-freddie-mac.

[115] See FHFA, "FHFA Revises Multifamily Loan Purchase Caps for Fannie Mae and Freddie Mac," press release, September 13, 2019, https://www.fhfa.gov/news/news-release/fhfa-revises-multifamily-loan-purchase-caps-for-fannie-mae-and-freddie-mac.

[116] For example, exemptions for multifamily loans used to finance energy and water improvements still count toward the cap. See Kathleen Howley, "FHFA Moves to Curb Fannie Mae, Freddie Mac Green Loans for Multifamily: Regulator Raises Lending Caps for GSEs but Ends the Energy-Efficiency Carve-Out," *HousingWire*, September 13, 2019, https://www.housingwire.com/articles/50147-fhfa-moves-to-curb-fannie-mae-freddie-mac-green-loans-for-multifamily/.

[117] FHFA, "FHFA Revises Multifamily Loan Purchase Caps for Fannie Mae and Freddie Mac—Appendix A: Multifamily Definitions," September 9, 2019, https://www.fhfa.gov/Conservatorship/Documents/AppendixA-Revisions-to-2019-FHFA-Conservatorship-Scorecard.pdf.

[118] See CRS Report RS22389, *An Introduction to the Low-Income Housing Tax Credit*, by Mark P. Keightley; and CRS Report RL34591, *Overview of Federal Housing Assistance Programs and Policy*, by Maggie McCarty, Libby Perl, and Katie Jones.

On December 14, 2022, FHFA finalized a rule to adopt a new percentage-based methodology to set benchmark levels for multifamily housing goals.[119] Each of the three subgoals are now established as a percentage of the total number of affordable multifamily properties financed by the GSEs each year. Because new developments may occur over the period that can increase the infeasibility to meet a housing goal defined in terms of units, the percentage-based methodology lessens the need to amend the benchmarks after publication of the final rule. For 2026-2028, for example, the *low-income* goal, the *very low-income* goal, and the *small multifamily low-income* subgoal are 61%, 14.0%, and 2%, respectively.[120] The 2026 volume caps are $88 billion for each Enterprise with a 50% minimum of loans that meet mission-driven goals.[121]

Duty to Serve: Manufactured Housing Chattel Loans

In addition to single- and multifamily housing goals, HERA created a *duty to serve* for the Enterprises with respect to three underserved markets: manufactured housing, affordable housing preservation, and rural markets. Supporting manufactured housing—particularly in underserved communities—is considered an affordable option that poses challenges for the Enterprises.

Manufactured housing involves *chattel* lending, which differs from real property lending. A *manufactured home* is a factory-built home that is transportable in one or more sections; has been constructed after June 15, 1976; is built on a permanent metal chassis; and must meet the safety standards set by the U.S. Department of Housing and Urban Development.[122] Mortgage loans can be used to finance homes that are permanently attached to real property.[123] By contrast, manufactured home *chattel loans* are used to finance personal property that is not permanently attached to land (i.e., chattel). Because the cost to purchase a manufactured home is typically far below the cost to purchase a site-built home, a manufactured home may be a viable affordable housing option for low-income borrowers.[124] By facilitating liquidity to the chattel market, the Enterprises can make progress toward achieving all three duty-to-serve goals, because manufactured homes are disproportionately located in nonmetropolitan areas occupied by

[119] FHFA, "FHFA Finalizes 2023-2024 Multifamily Housing Goals for Fannie Mae and Freddie Mac," press release, December 14, 2022, https://www.fhfa.gov/news/news-release/fhfa-finalizes-2023-2024-multifamily-housing-goals-for-fannie-mae-and-freddie-mac; and CRS Report R46480, *Multifamily Housing Finance and Selected Policy Issues*, by Darryl E. Getter.

[120] For the 2026-2028 final rule, see FHFA, "2026-2028 Enterprise Housing Goals," 90 *Federal Register* 59948, December 23, 2025.

[121] See FHFA, "2025 U.S. Federal Housing Announces 2026 Multifamily Loan Purchase Caps for Fannie Mae and Freddie Mac," November 24, 2025, https://www.fhfa.gov/news/news-release/u.s.-federal-housing-announces-2026-multifamily-loan-purchase-caps-for-fannie-mae-and-freddie-mac.

[122] By contrast, a manufactured home built before June 15, 1976, that does not meet HUD standards is referred to as a mobile home. Few lenders are willing to provide loans to finance mobile homes. In contrast to mobile and manufactured homes, a modular home is constructed to the same state, local, or regional building codes as site-built homes. See HUD, "On-Site Completion of Construction of Manufactured Homes: Frequently Asked Questions," https://www.hud.gov/sites/documents/onsite07062016.pdf. Moving a manufactured home from one permanent site to another may interfere with its loan financing. Thus, modular homes may be considered better investments. See American Financing, "What Is a Chattel Mortgage?," https://www.americanfinancing.net/mortgage-basics/chattel-mortgage.

[123] See Fannie Mae, "Key Legal Distinctions Between Manufactured Home Chattel Lending and Real Property Lending," June 29, 2018, https://www.fanniemae.com/media/28481/display.

[124] See FHFA, "Fannie Mae and Freddie Mac Support for Chattel Financing of Manufactured Homes Request for Input," January 2017, https://www.manufacturedhomepronews.com/wp-content/uploads/2023/09/FederalHousingFinanceAgencyFHFA-DutyToServeManufacturedHousingChattel-Pilot-RFI-January2017-ManufacturedHomeProNewsMHProNews.pdf.

residents with lower incomes or net worth.[125] The Enterprises have noted, however, that pursuit of their duty-to-serve obligations entails substantial risks that may adversely affect their financial results and conditions.[126] Providing support for chattel loans includes the following challenges:

- Lenders generally prefer to provide loans for manufactured homes titled as real property, as defaults on chattel loans pose greater recovery risks. If a borrower who is leasing (rather than buying) the land beneath a manufactured home defaults on a chattel loan, then the lender must initiate a property repossession or replevin lawsuit to recover losses.[127] If the borrower is also delinquent on the land lease, then reselling a repossessed manufactured home—whether it sits on its current site or must be relocated—adds more legal challenges and expenses that further reduce the amount of recoverable losses.[128]
- Manufactured homeowners usually pay higher *annual percentage rates (APRs)*—the total cost of a loan (both the interest rates and transaction fees)—for their loans relative to buyers of site-built homes.[129] The Enterprises generally avoid purchasing high-cost loans with above-normal APRs, which are inconsistent with their affordable housing mission. Furthermore, certain consumer protections that apply to dwellings attached to land do not apply to chattel loans. For example, the integrated disclosures that require lenders, mortgage brokers, or servicers of home loans to disclose loan pricing information to borrowers do not apply to dwellings that are not attached to land.[130] Fewer disclosures may lead to greater uncertainty about the extent that borrowers could have received cheaper financing or were aware of less costly financing alternatives.
- Securitizing chattel loans is challenging. Chattel loans cannot be placed in the same pools with other mortgages linked to UMBS issuances, which have strict prepayment speed requirements and homogenous credit risks. Secondary market security issuances linked to chattel loans must be structured from pools consisting only of chattel loans—more likely to have homogeneous financial risks—to enhance investors' understanding of the likely performance of their investments, which may not be economically feasible.[131] Thus, collecting data to better understand the prepayment and default performance of chattel loans will assist efforts to create attractive secondary market securities for investors.

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[125] See CFPB, "Manufactured-Housing Consumer Finance in the United States," September 2014, https://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf.

[126] See Fannie Mae, Form 10-K for the fiscal year ended December 31, 2019, p. 31, https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/ir/pdf/quarterly-annual-results/2019/q42019.pdf; and Freddie Mac Form 10-K for the fiscal year ended December 31, 2019, p. 152, https://www.freddiemac.com/investors/financials/pdf/10k_021320.pdf.

[127] See Justia, "Manufactured Homes Foreclosures & Relevant Legal Concerns," October 2025, https://www.justia.com/foreclosure/foreclosures-of-manufactured-homes/.

[128] See Fannie Mae, "Key Legal Distinctions."

[129] According to the CFPB, a chattel loan may be priced between 50 and 500 basis points higher than a mortgage loan for a manufactured home secured by real property. See CFPB, "Manufactured-Housing Consumer Finance."

[130] See CFPB, "CFPB Consumer Laws and Regulations: Regulation X: Real Estate Settlement Procedures Act," https://files.consumerfinance.gov/f/201503_cfpb_regulation-x-real-estate-settlement-procedures-act.pdf.

[131] Large-scale operations such as the Enterprises may not have the volume of similar chattel loans necessary to offer pools for securitizations. See Fannie Mae, "2025-2027 Duty to Serve Underserved Markets Plan," https://www.fhfa.gov/document/d/dtsp/fm_dutytoserveplan_2025-2027_modified_09.30.2025.pdf.

Fannie Mae and Freddie Mac are developing plans to provide liquidity for manufactured housing titled as chattel through securitization channels.[132] FHFA granted the Enterprises permission to implement their chattel financing initiatives as pilot programs.[133] Nevertheless, FHFA also considers manufactured housing to contain higher credit and liquidity risks. In the final rule establishing the Enterprises' heightened capital requirements, the manufactured home loan category is assigned one of the higher risk weights relative to other types of mortgages. Thus, if the Enterprises enter chattel lending markets, FHFA might introduce a separate risk weight that could be higher than the current risk weight for manufactured homes titled as real property.

The Federal Home Loan Bank System and Chattel Loans

The Federal Home Loan Bank (FHLB) System, which is also a government-sponsored enterprise (GSE) with an affordable housing mission that is supervised by the Federal Housing Finance Agency (FHFA), has addressed issues pertaining to the higher levels of default risk associated with chattel loans.[134] Lenders face limitations obtaining advances (short-term loans) from some of the FHLBs using chattel loans as collateral, as different FHLBs may have separate policies.[135] FHFA, however, allows the FHLBs to purchase chattel loans under their Acquired Member Assets programs, although they have made few if any such purchases from member financial institutions.[136]

Ending the Conservatorships: Some Considerations

An accelerated release of the Enterprises from conservatorship raises policy issues and implications. Such concerns include whether their post-conservatorship capital levels are adequate and the need for congressional approval. Furthermore, the likely discontinuation of UMBSs and limited CRT issuance could reduce mortgage market liquidity and credit risk sharing opportunities with the private sector. These and other considerations are outlined below.

Current Capitalization Levels

If returned to shareholder control after being released from conservatorship, the Enterprises' financial health from a capital perspective may not be significantly improved from when they initially entered conservatorship. The most recent estimates are discussed in the **text box** below.

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[132] See Fannie Mae, "Duty to Serve – Affordable Opportunities in Underserved Markets," https://www.fanniemae.com/media/45201/display; and Freddie Mac, "Duty to Serve," https://sf.freddiemac.com/working-with-us/affordable-lending/duty-to-serve/overview.

[133] See FHFA, "Enterprise Duty to Serve Underserved Markets," 81 *Federal Register* 96242, December 29, 2016.

[134] See CRS Report R46499, *The Federal Home Loan Bank (FHLB) System and Selected Policy Issues*, by Darryl E. Getter.

[135] The FHLBs may require a manufactured home to be converted from personal property to real property before any loan to secure the property can be used as collateral for a loan to its member lending institutions. For example, see FHLBank Atlanta, *Loan Collateral Resource Guide*, http://corp.fhlbatl.com/files/documents/loan-collateral-resource-guide.pdf.

[136] See FHFA, "Federal Home Loan Bank Housing Goals Amendments Final Rule," June 25, 2020, https://www.fhfa.gov/regulation/federal-register/final-rule/federal-home-loan-bank-housing-goals-amendments-final-rule. The Mortgage Purchase Program and the Mortgage Partnership Finance Program are two types of Acquired Member Assets programs. For more information, see FHFA, "Final Rule on Federal Home Loan Bank Housing Goals," fact sheet, June 3, 2020, https://www.fhfa.gov/news/fact-sheet/final-rule-on-federal-home-loan-bank-housing-goals.

Enterprises' Financial Health: Available Estimates

The following estimates were available at the date of this report's publication. According to the Congressional Budget Office, the Enterprises reported a combined total of $125 billion in capital at the end of December 2023, which equaled 1.6% of their $7.6 trillion in total assets.[137] However, the 1.6% falls below the Enterprises' unweighted total leverage requirement of 4% as well as their risk-weighted adjusted total capital requirement of not less than 8%, meaning that they are still undercapitalized. By the end of the second quarter 2026, the capital levels for Fannie Mae and Freddie Mac were estimated to be 2.84% and 2.36%, respectively, which would still be below those required under the regulatory framework.[138]

Releasing the Enterprises with capital buffers considerably below the minimums established by FHFA may affect the amount of funds that can be raised to reimburse Treasury and, ultimately, taxpayers. After providing financial support, Treasury usually auctions off its equity warrants to the public for profit. The company that initially issued the warrants to Treasury—following recovery of its financial health—typically wins the auction. The Enterprises, however, may not have accumulated sufficient capital buffers to repurchase their own warrants. Furthermore, if prospective investors perceive the Enterprises to be insufficiently capitalized (i.e., still vulnerable to another insolvency event that may lead to reinstatement of conservatorship and shareholder losses), then they may be unwilling to place high or any bids for Treasury warrants. The Enterprises' stock prices must stay above the $1 mark to meet the minimum price requirement to stay listed on the New York Stock Exchange, which may be difficult to achieve if market investors perceive their capital buffers to be insufficient.[139]

Authority to End Conservatorships

As the Enterprises' time in conservatorship has continued, the question regarding the ability to release them without congressional approval grows more ambiguous. Some conditions expected to be met prior to their release are as follows.[140] FHFA would determine whether the prudential ERCF requirements have been attained. Treasury would determine whether the Enterprises' dividend repayments are sufficient or if its holdings of their senior preferred stock have been redeemed in full. Given the 10-basis-point increase in the Enterprises' ongoing g-fees through 2032, Congress may either retain this assessment—using the proceeds to reimburse losses associated with systemic events (e.g., the 2008 financial crisis, COVID-19) or for discretionary budget purposes—or eliminate it to lower costs for borrowers. Upon mutual agreement on the fulfillment of these requirements, FHFA and Treasury may choose to consult with Congress on how to proceed with ending the conservatorships.[141]

[137] See letter from Phillip L. Swagel, director, Congressional Budget Office, to Rep. Patrick McHenry, Chairman, U.S. Congress, House Committee on Financial Services, December 13, 2024, https://www.cbo.gov/system/files/2024-12/60810-GSEs.pdf.

[138] See Fannie Mae, *Fannie Mae Earn $4.0 Billion in Second Quarter 2026*, July 29, 2026, p. 1, https://www.fanniemae.com/media/57286/display; and Freddie Mac, "Freddie Mac Reports Net Income of $2.8 Billion for Second Quarter 2026," p. 10, https://www.freddiemac.com/investors/financials/pdf/2026er-2q26_release.pdf.

[139] See FHFA, "FHFA Directs Delisting of Fannie Mae and Freddie Mac Stock from the New York Stock Exchange," press release, June 16, 2010, https://www.fhfa.gov/news/news-release/fhfa-directs-delisting-of-fannie-mae-and-freddie-mac-stock-from-new-york-stock-exchange.

[140] This section list conditions cited by Freddie Mac and Fannie Mae. See Freddie Mac, Form 10-K for the fiscal year ended December 31, 2024, p. 4, 95-96, https://www.freddiemac.com/investors/financials/pdf/10k_021325.pdf; and Fannie Mae, Form 10-K for the fiscal year ended December 31, 2024, p. 12, https://www.fanniemae.com/media/54826/display.

[141] For the perspective of a former Freddie Mac CEO regarding the authority to administratively end the Enterprises' (continued...)

UMBS Issuance After Conservatorship

Upon exit of conservatorship, Fannie Mae and Freddie Mac would likely revert to competing in separate niche markets. As private, for-profit, competing firms, they would prioritize maximizing shareholder returns, especially given the requirement to hold greater amounts of capital composed primarily of common shareholders. They would adopt separate strategies for creating MBS trusts and setting g-fees. Even if greater competition between the Enterprises resulted in lower g-fees, fragmentation of the UMBS market—that is, reversion to separate MBS markets—may trigger more episodes of rising liquidity premiums that could produce greater costs for mortgagors.

Elimination of the UMBS market following the end of the Enterprises' conservatorships would also have implications for conducting monetary policy. The Open Market Trading Desk (the Desk), located at the Federal Reserve Bank of New York, currently buys and sells U.S. Treasury securities along with other securities issued by federal and federally related entities—including UMBS—to facilitate monetary policy implementation.[142] Although the depth and liquidity of the Enterprises' separate MBSs markets previously allowed the Desk to make large-dollar trades without necessarily causing material movements in their market prices, the current UMBS market is even deeper and more liquid.[143] The ability to consolidate the Enterprises' MBS (along with some MBSs issued by Ginnie Mae) under one unique identifier also simplifies the accounting of such transactions.[144] If the UMBS market is not sustained after the Enterprises' exit conservatorship, the Desk would return to using the separately issued MBSs that would be somewhat less liquid, trade separately in markets with less depth, and require more extensive accounting for those transactions given the differences in prepayment speeds and characteristics.

CRT Issuance After Conservatorship

From 2013 through the end of 2023, the Enterprises' CRT programs have transferred a portion of credit risk on approximately $6.7 trillion of unpaid principal balance of single-family mortgage credit risk to private sector investors.[145] As previously discussed, CRTs allow investors to acquire direct exposure to the credit risks of borrowers who meet the Enterprises' lending standards. (By contrast, the Enterprises' shareholders are exposed directly to the Enterprises' solvency risks.) The distribution of credit risk among numerous private sector investors is arguably a more efficient diversification approach compared to concentrating massive amounts of credit risks between the two firms.[146] If, however, the Enterprises exit conservatorship, they may be less willing to transfer credit risks—and the associated g-fee revenues—to prospective CRT investors.

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conservatorships, see Don Layton, "To Senator Toomey: The Process of Exiting GSE Conservatorship Is Not So Simple," Joint Center For Housing Studies, January 18, 2022, https://www.jchs.harvard.edu/blog/senator-toomey-process-exiting-gse-conservatorship-not-so-simple.

142 See Federal Reserve Bank of New York, "Permanent Open Market Operations," https://www.newyorkfed.org/markets/pomo_landing.html.

143 See Simon Potter, "The Federal Reserve's Experience Purchasing and Reinvesting Agency MBS," Federal Reserve Bank of New York, speech, March 7, 2019, https://www.newyorkfed.org/newsevents/speeches/2019/pot190307.

144 See Federal Reserve Bank of New York, "FAQs: Agency MBS CUSIP Aggregation," https://www.newyorkfed.org/markets/agency_mbs_cusip_aggregation_faqs.

145 See FHFA, *Credit Risk Transfer Progress Report*, Fourth Quarter, 2023, https://www.fhfa.gov/document/d/crtp/credit-risk-transfer-progress-report-4q2023.

146 *Concentration risk* arises when a financial entity faces exposure to a single or predominant source of credit risk liability. For example, a lender's overall financial well-being may become intrinsically linked to the performance of a highly correlated group of borrowers when retaining a disproportionately large amount of the credit risk. See J. Anthony Curcio, *Should Federal Lending Programs Mitigate Concentration Risk?*, Summit Consulting, January 2017, https://cdn2.hubspot.net/hubfs/355318/Concentration%20Risk%20White%20Paper%20PDF%20Curcio.pdf.

Instead, the Enterprises would likely retain the profits earned from performing mortgages, which can then be distributed to their shareholders.

Multifamily Mortgage Lending After Conservatorship

Before conservatorship, the Enterprises' multifamily business activities could be used to offset cash-flow disruptions across various lending market segments. However, FHFA's current restrictions on lending activities and caps may increase cash-flow volatility, especially if they remain intact after conservatorship. For example, the requirement to focus primarily on mortgages used to finance multifamily structures for low- and moderate-income tenants (who have more difficulty paying market-level rents) results in greater concentration of mission-related lending activities, which may contribute to greater cash flow volatility for the Enterprises' multifamily portfolios.[147] Additionally, the Enterprises could pivot to multifamily lending activities to sustain profitability without concern about lending caps following decreases in single-family mortgage volumes (because of factors such as higher house prices, mortgage rates, or insurance premiums) prior to conservatorship. FHFA could consider alternative policy deterrents to address concerns related to crowding out the private sector—such as setting higher capital requirements for involvement in certain lending activities—which can increase lending costs with less disruption to the Enterprises' multifamily portfolios.[148] In short, the Enterprises may want more strategic control over their multifamily loan portfolios on exiting conservatorship to make economic returns that shareholders would also find reasonable.

Author Information

Darryl E. Getter
Specialist in Financial Economics

[147] Multifamily mortgages are underwritten based on the current and anticipated cash flows—predominantly in the form of rental income—generated by the properties. If the tenants in multifamily properties are cost-burdened, meaning that their monthly housing (rent) costs exceed 30% of their income, then the rental income streams necessary to repay loans may exhibit greater volatility, thus increasing the Enterprises' cash-flow volatilities and loss risks. For more information, see CRS Report R46480, *Multifamily Housing Finance and Selected Policy Issues*, by Darryl E. Getter.

[148] Economic theory suggests that an anticipated reduction in market transactions linked to tax incidence tends to be smaller relative to an anticipated reduction linked to a cap on the quantity supplied. See Hal R. Varian and Marc J. Melitz, *Intermediate Microeconomics*, 10th ed. (Norton, 2024).

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