



FHFA Looking to Lock-In Fannie/Freddie Liquidity Rules

In November, the Federal Housing Finance Agency (FHFA) released a new regulatory capital framework for Fannie Mae and Freddie Mac (the GSEs). At the time FHFA said the final rule fulfills Congress's mandate in the Housing and Economic Recovery Act of 2008 that FHFA establish risk-based capital requirements for the GSEs to ensure their safety and soundness by increasing the quantity and quality of their regulatory capital and reducing the pro-cyclicality of the aggregate capital requirements. This week the agency **submitted for comments** a companion rule regarding liquidity requirements for the two companies.

The agency says its rule is designed to ensure that the GSEs are a source of strength for the mortgage market during downturns in the economy, and to incentivize them to issue an appropriate and stable mix of debt over the long term. The proposed rule takes into account the GSEs' lack of access to the Federal Reserve Bank discount window, unique structure, and public charter. Currently, Fannie Mae and Freddie Mac **would meet or exceed** all requirements of the proposed rule.

There are **four liquidity requirements**. The first two are cash-flow based. One is a **short-term** (30 days) requirement based on a cumulative net cash outflow analysis, plus an additional \$10 billion cushion requirement that must be met by highly liquid assets, like Treasury securities. The second is a **365-day** requirement extending the short-term cumulative cash outflow analysis to a full year. During the longer period, the GSEs can count borrowings against certain instruments which cannot be counted under the 30-day requirement but are deemed eligible collateral by the Fixed Income Clearing Corporation. There is no separate excess cushion required under this metric.

There are also two **long term** liquidity and funding requirements. The ratio of long-term unsecured debt to less-liquid assets must be greater than 120 percent; and the ratio of the spread duration of unsecured debt to the spread duration of retained portfolio assets must be greater than 60 percent.

FHFA says the proposed rule is a result of the experience FHFA has gained from managing the GSEs' liquidity positions during the 12 years of conservatorship. The rule seeks to implement minimum liquidity and funding requirements, daily and monthly disclosure of liquidity positions and other liquidity-related requirements.

FHFA Director Mark Calabria said, "During the 2008 financial crisis, Fannie Mae and Freddie Mac did not have enough truly liquid assets nor did they have consistent access to the longer-term unsecured debt markets. This liquidity and funding failure, along with their low capital levels, necessitated placing the into conservatorship. A companion to the new capital rule, today's proposed rule will better ensure that they are positioned to fulfill their countercyclical mission. Requiring to have enough liquid assets to continue supporting the mortgage market during times of severe stress protects taxpayers and the housing market."

Parties wishing to comment on the proposed rule have **60 days** after its publication in the Federal Register. Comments can be made at FHFA.gov.



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