GSE Debt Securities: Market Overview
CDIAC Webinar

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STIFEL NICOLAUS

Presentation Topics

- Provide background on largest GSE debt issuers
- Discuss prospects for reform of Housing GSEs
- Review current market conditions for GSE debt securities
- Evaluate risk/reward characteristics of GSE instruments

Active GSE Debt Issuers

- Federal Home Loan Bank System (FHLB)
  - Consists of 12 regional banks; extends credit to owner-members to support mortgage lending.
- Fannie Mae (FNMA)
  - Federally chartered corporation that promotes a secondary market for conventional mortgages. FNMA has operated under federal conservatorship since September 2008.
- Freddie Mac (FHLMC)
  - Federally chartered corporation that promotes a secondary market for conventional mortgages. FHLMC has operated under federal conservatorship since September 2008.
- Federal Farm Credit System (FFCB)
  - Nationwide system of banks and associations that provides credit to farmers, rural homeowners, and agricultural and rural cooperatives.
- Farmer Mac (FAMCA)
  - Established as an institution of the Farm Credit System in 1987, Farmer Mac provides a secondary market for agricultural and rural utility loans.
- Tennessee Valley Authority (TVA)
  - Wholly owned corporation of the US government established in 1933 to develop the resources of the Tennessee Valley region for economic and national defense purposes.

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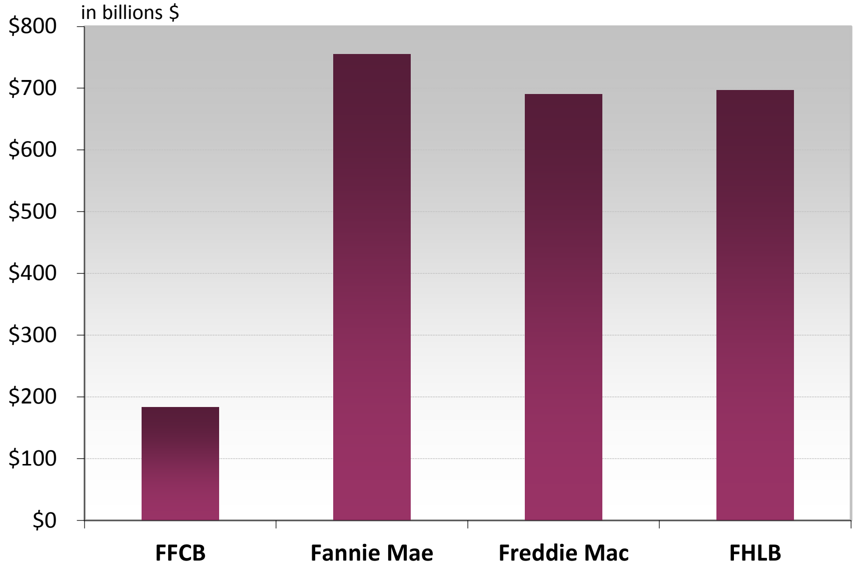
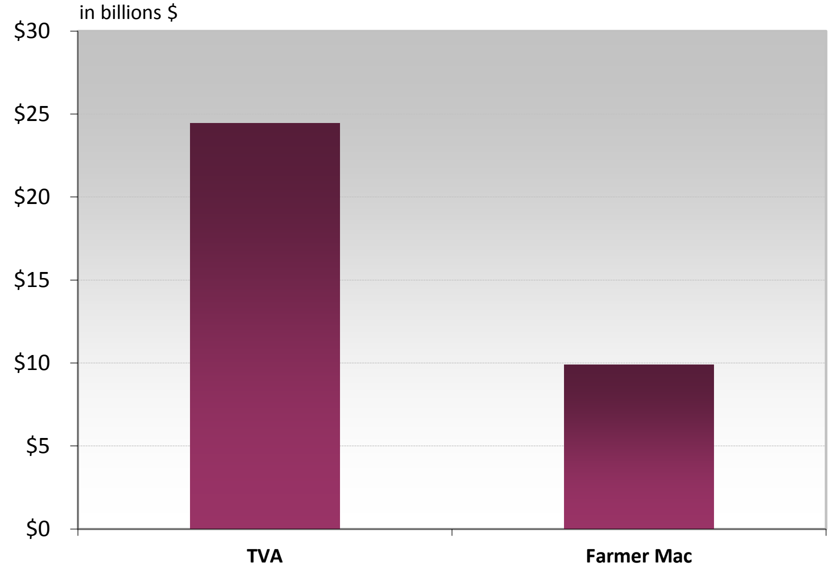
GSE Debt Outstanding

Largest Issuers



Smaller Issuers



Source: GSEs as of 9/30/2011.

Fannie/Freddie Conservatorship Timeline

July 2008
- Federal Housing Finance Agency (FHFA) created to regulate Fannie, Freddie, and FHLB.
- US Treasury granted emergency authority to provide financial assistance to GSEs.

September 2008
- Fannie and Freddie placed into conservatorship by FHFA.
- Senior Preferred Stock Purchase Agreement (SPSPA) established by US Treasury.

March 2009
- Federal Reserve announces program to buy $200 billion in GSE senior debt and $1.25 trillion in GSE mortgage-backed securities.

December 2009
- US Treasury extends and amends SPSPA.

February 2011
- US Treasury issues 'white paper' outlining three options for GSE Reform

October 2011
- Scott Garret (R-NJ) introduces a GSE reform bill, the 16th bill submitted in 2011 by House Republicans.

November 2011
- Cumulative preferred stock investments by US Treasury total $184B as of 9/30/2011.
- Cumulative investments by the Federal Reserve: $106 billion in GSE debt and $842 billion in GSE MBS as of 11/25/2011.

Housing GSE Reform: Possible Approaches

- Nationalization
  - Fold the GSEs into the federal government, like the FHA, VA, and GNMA.
- Privatization
  - Reconstitute the GSEs as private companies with no government support or replace the GSEs with alternative approaches to mortgage finance.
- Hybrid Model
  - Combine private companies with some level of government support or backing.

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Housing GSE Reform: The Uncertain Path Ahead

- Housing GSE reform is a politically contentious issue, with no obvious solution for garnering bi-partisan support. It is highly unlikely that a compromise will be reached prior to the 2012 elections.

- FNMA and FHLMC will likely remain in conservatorship through 2012 and possibly for many more years to come.

- Debt securities and MBS issued by FNMA and FHLMC will continue to be protected by the “effective” guarantee of the U. S. Government in all plausible scenarios.

- Given the dominant role of the Housing GSEs in the U. S. mortgage market, and the severe dislocations that could result from their absence, drastic changes such as full privatization are highly unlikely.

- A hybrid model that gradually replaces Fannie and Freddie with a private sector alternative over a period of years but retains some level of U. S. Government support appears to be the most likely outcome.

Impact of U. S. Rating Downgrade

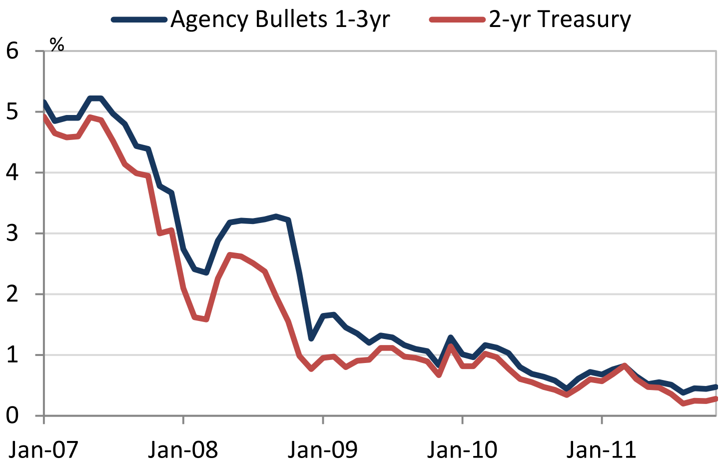
- Standard & Poor’s downgraded the United States’ long-term sovereign credit rating from AAA to AA+ on 8/5/11.

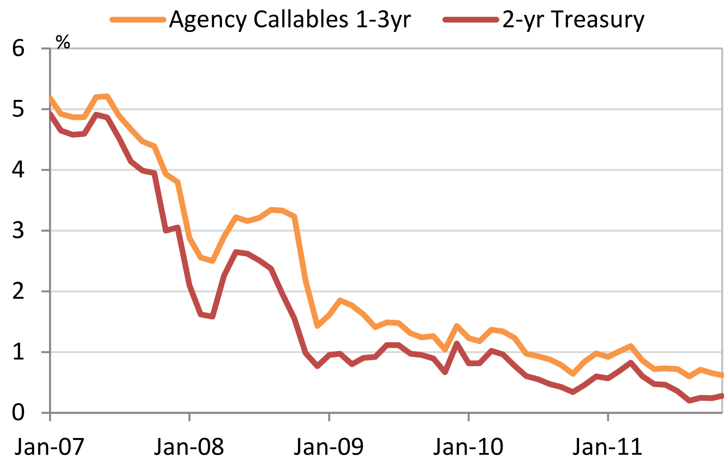
- Due to the implicit support provided by the U. S. Government to the GSEs, S&P also downgraded the credit ratings of the following GSEs to AA+: FFCB, FNMA, FHLMC, FHLB, and TVA.

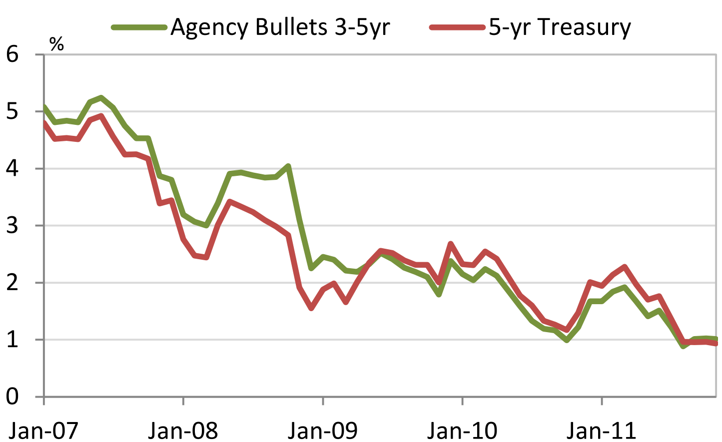
- U. S. Treasuries and senior GSE debt continues to be rated AAA by Moody’s and Fitch.

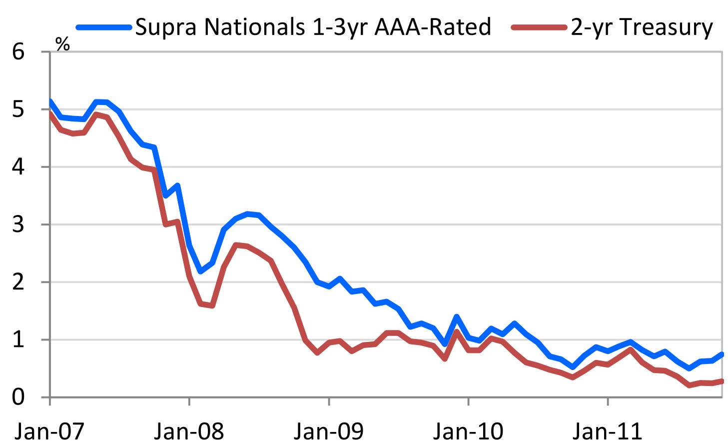
- Contrary to expectations, yields on U. S. government-affiliated securities have generally declined since the date of S&P’s downgrade.

Yield Trends: GSE Indices vs. Treasuries









Source: BAML Indices, Bloomberg Finance LP as of 11/25/2011.

Total Return Comparison

	Total Return 1/1/2011-8/5/2011	Total Return 8/6/2011-11/25/2011	Total Return YTD
US Treasuries	5.290	3.948	9.238
US Agencies	3.324	1.669	4.993
Mortgage Backed Securities	4.276	0.899	5.175
Investment Grade Corporates	6.594	-0.512	6.082

Source: BAML Indices, Bloomberg Finance LP as of 11/25/2011.

Current Market Overview

Treasuries	
3-month	0.02
6-month	0.07
2-year	0.28
3-year	0.43
5-year	0.99

Agency Discount Notes	
30-day	0.01
60-day	0.02
90-day	0.03
6-month	0.07
1-year	0.16

New Issue Callable Agencies	
2Y NC 6-month	0.63
3Y NC 6-month	0.90
4Y NC 6-month	1.30
5Y NC 6-month	1.70

Commercial Paper - Top Top Tier	
1-day	0.28
30-day	0.28
60-day	0.35
90-day	0.43
120-day	0.51
180-day	0.64
270-day	0.79

Agency bullets	
1-year	0.25
2-year	0.50
3-year	0.77
5-year	1.38
10-year	2.30

Source: Bloomberg Finance LP and Stifel Nicolaus Fixed Income Trading. Data as of 11/25/2011.

Risk/Reward Considerations for GSE Securities

- Short-term debt securities from the largest GSE issuers appear to be fully valued.

- Yield differentials across the maturity spectrum remain wide by historical standards.

- Debt issued by smaller GSEs and Supra Nationals provide opportunity for diversification and yield enhancement.

- Prior to investing in GSE securities, investors should carefully consider the following factors:
  - Credit risk
  - Sensitivity of cash flows, yields, and market values to changes in interest rates and other market variables
  - Liquidity
  - Impact of prospective security on the overall portfolio

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