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Fannie, Freddie regulator proposes long-awaited capital requirement hike

BY **KATY O'DONNELL** | 05/20/2020 04:55 PM EDT

The headquarters of the Federal Housing Finance Agency| John Shinkle/POLITICO

The Federal Housing Finance Agency on Wednesday released a heavily anticipated proposal setting capital requirements for Fannie Mae and Freddie Mac, a key marker on the path to releasing the mortgage giants from over a decade of government control.

The requirements are designed to ensure that the two companies, which stand behind about half the U.S. mortgage market, can weather future economic downturns without another government bailout. They will be a key factor for investors to consider when the companies move to raise private capital as they exit conservatorship.

The proposed rule would require Fannie and Freddie to retain capital equivalent to 4 percent of their assets under normal economic conditions, meaning the two companies combined would have to hold a little over $240 billion to support their $6.1 trillion in combined assets. The companies together currently hold about $23.5 billion in capital.

The ongoing economic crisis caused by the coronavirus pandemic has not pushed back the Trump administration's plan to release the companies within the next two years, according to FHFA Director Mark Calabria, who has repeatedly said the capital rule may be the most significant rulemaking of his five-year tenure.

"This national health crisis has affirmed the importance of the enterprises' mission to serve the American housing market during good times and bad," Calabria said.

“When credit dries up, low- and moderate-income households are hurt most. We must chart a course for the Enterprises toward a sound capital footing so they can help all Americans in times of stress,” he added. “More capital means a stronger foundation on which to weather crises. The time to act is now.”

The companies, which were permitted to start retaining earnings in October, are currently leveraged about 250-to-1. A typical bank is leveraged about 12-to-1. FHFA wants to get Fannie and Freddie down to 25-to-1 in the long term, according to a senior agency official.

According to a Sept. 30, 2019, snapshot, Fannie and Freddie would have been required to hold a combined $243 billion in capital to support their $6.1 trillion in assets

While the proposal retains much of the framework of the rule that Calabria’s predecessor proposed in June 2018, it would require the companies to keep more money in reserve and it sets new conditions on the kinds of capital that qualify.

The proposal would set a risk weight floor of 15 percent for Fannie and Freddie’s single-family and multifamily portfolios. The rule includes a stress capital buffer, set at 0.75 percent of adjusted total asset, and an operational risk floor of 0.15 percent.

The risk-based requirements would be backstopped by a leverage ratio requirement that the companies reserve capital worth at least 2.5 percent of their assets at all times, with a 1.5 percent buffer they could tap during a downturn.

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