Fact Sheet: Re-Proposed Rule on Enterprise Capital

FHFA Proposed Rule on Enterprise Capital

Background

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the Safety and Soundness Act) prescribed both a minimum leverage capital requirement and a highly prescriptive risk-based capital requirement for Fannie Mae and Freddie Mac (the Enterprises). The Housing and Economic Recovery Act of 2008 (HERA), which amended the Safety and Soundness Act, gave FHFA greater authority to determine the capital standards for the Enterprises.

Shortly after the enactment of HERA, FHFA placed each Enterprise into conservatorship and suspended the statutory capital classifications and regulatory capital requirements. On July 17, 2018, FHFA issued a notice of proposed rulemaking seeking comment on a new regulatory capital framework for the Enterprises (the 2018 proposal). The 2018 proposal was based on the Conservatorship Capital Framework that had been developed by FHFA in 2017. At the time of the 2018 proposal, FHFA had stated that it was not taking a position on housing finance reform and that the 2018 proposal was not connected to efforts or plans to recapitalize the Enterprises or release them from conservatorship.

FHFA is now issuing a new notice of proposed rulemaking (the proposed rule) to establish a new regulatory capital framework for the Enterprises. The proposed rule is a critical step in furtherance of FHFA's stated intention to responsibly end the conservatorships.

Purpose

The proposed rule is a re-proposal of the 2018 proposal that would have established new risk-based capital requirements for the Enterprises and updated the minimum leverage requirement. With this re-proposal, FHFA is proposing enhancements to establish a post-conservatorship regulatory capital framework that ensures that each Enterprise operates in a safe and sound manner and is positioned to fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle, in particular during periods of financial stress.

FHFA is re-proposing the regulatory capital framework for the Enterprises for three key reasons:

- First, FHFA has begun the process to responsibly end the conservatorships of the Enterprises. This policy change is a departure from the expectations of interested parties at the time of the 2018 proposal, when the prospects for indefinite conservatorships informed comments and perhaps even the decision whether to comment at all.

- Second, FHFA is proposing to increase the quantity and quality of the regulatory capital at the Enterprises to ensure the safety and soundness of each Enterprise and that each Enterprise can fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle, in particular during periods of financial stress.

- Third, to facilitate regulatory capital planning, and in furtherance of the safety and soundness of the Enterprises and their countercyclical mission, FHFA is proposing changes to mitigate the pro-cyclicality of the aggregate risk-based capital requirements of the 2018 proposal.

Key Considerations

Consistent with the Enterprises' and FHFA's statutory duties and purposes, the regulatory capital framework contemplated by the proposed rule reflects the following key considerations:

- Each Enterprise, in order to exit conservatorship, must become a safe and sound financial institution. Strong capital that enables a financial institution to remain a viable going concern through a period of financial stress is the foundation of safety and soundness, and Fannie Mae and Freddie Mac are no exceptions. There should never need to be another taxpayer bailout of these companies.

- The Enterprises must maintain regulatory capital levels that are tailored to their risk profile, including the risk that a failure of an Enterprise would pose to the liquidity, efficiency, competitiveness, or resiliency of national housing finance markets.

- The Enterprises should provide countercyclical support to the market, ensuring they can be a source of market strength when needed the most. Therefore, each Enterprise must be capitalized to remain a viable going concern both during and after a severe economic downturn to ensure that the Enterprise will be positioned to fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle.

- The scale of the Enterprises' capital exhaustion during the 2008 financial crisis is critically relevant to the capital necessary to ensure that each Enterprise operates in a safe and sound manner and is positioned to fulfill its statutory mission across the economic cycle. Setting aside the valuation allowances on their deferred tax assets (DTAs), which are subject to deductions and other adjustments to regulatory capital under the proposed rule, the Enterprises' peak cumulative capital losses were $167 billion, approximately 3.0 percent of their total assets as of December 31, 2007.

- It is not only the quantity but also the quality of the regulatory capital, especially its loss-absorbing capacity, that is critical to the Enterprises' safety and soundness. Market confidence in the Enterprises came into doubt in mid-2008 when Fannie Mae and Freddie Mac still had total capital of $55.6 billion and $42.9 billion, respectively, due in part to concerns about the loss-absorbing capacity of their sizeable DTAs.

- After the taxpayer-funded rescue of the Enterprises in 2008, there can be no doubt as to the risk posed by an insolvent or otherwise financially distressed Enterprise to the stability of the national housing finance markets.

- Stress in housing markets can come from a wide range of sources and therefore requires appropriate levels of regulatory capital, even when there are no evident signs of credit excess either in the housing finance system or more broadly.

- While there are significant benefits to a mortgage-risk sensitive regulatory capital framework rooted in actual historical loan performance data, there also are significant risks and limitations inherent to any methodology for calibrating granular credit risk capital requirements. The statistical methods used to allocate losses between various borrower-related risk attributes and product-related risk attributes in the crisis-era single-family loan performance data are critically relevant to the proposed rule yet pose significant model risk. In addition, the Enterprises' crisis-era losses likely were mitigated, at least to some extent, by the unprecedented support by the Federal Government of the housing market and the economy and also by the declining interest rate environment of the period, which might not occur in a future period of financial stress. Finally, there are some potentially material risks to the Enterprises that are not assigned risk-based capital requirements—for example, risks relating to uninsured or underinsured losses from flooding, earthquakes, or other natural disasters, climate change more broadly, or radiological or biological hazards. Regulatory capital requirements must mitigate the modeling and other risks inherent in establishing granular risk-based capital requirements.

Enhancements to the 2018 Proposal

Taking into account the key considerations above, the proposed rule would establish a strengthened regulatory capital framework designed to ensure each Enterprise is capitalized to remain a viable going concern both through and after a severe economic downturn and is positioned to fulfill its statutory mission to provide stability and on-going assistance to the secondary mortgage market across the economic cycle. The proposed rule maintains at its core the mortgage-risk sensitive capital framework of the 2018 proposal, backstopped by a leverage ratio requirement, with enhancements in four key components:

1. **Quality of Capital** – The proposed rule strengthens the quality of regulatory capital by including a set of supplemental capital requirements based on the U.S. banking framework's definitions of capital. These supplemental requirements mitigate the weaknesses in the Enterprises' statutorily defined capital requirements that became evident in the 2008 financial crisis, ensuring that the Enterprises have a foundation of capital that can truly absorb losses.

2. **Quantity of Capital** – The proposed rule strengthens the quantity of regulatory capital through a number of enhancements. Principal enhancements include:

    - *Risk Weight Floor* – The proposed rule would ensure that the levels of risk-based capital for single-family and multifamily mortgage exposures are subject to a prudent 15 percent risk weight floor.

    - *Capital for Retained CRT Exposures* – The proposed rule includes additional refinements that ensure post-CRT capital requirements are prudent and reflect the credit risk of the

exposures retained, while still providing the Enterprises meaningful capital relief for credit risk transfer (CRT).

- *Capital Buffers* – The proposed rule would establish a set of capital buffers that help ensure the Enterprises remain viable going concerns and promote stability in the secondary market during a period of financial stress.

- *Operational Risk* – The proposed rule would determine operational risk capital using the U.S. banking framework's advanced measurement approach, subject to a floor equal to 0.15 percent of the Enterprise's adjusted total assets. Adjusted total assets would be defined as total assets under generally accepted accounting principles (GAAP), with adjustments to include certain off-balance sheet exposures. This is an increase from the 0.08 percent requirement in the 2018 proposal. By comparison, of the U.S. bank holding companies with at least $500 billion in total assets at the end of 2019, the smallest operational risk capital requirement was 0.69 percent of that U.S. banking organization's total leverage exposure.

- *Backstop Leverage Requirements* – The proposed rule would establish a minimum leverage requirement of 2.5 percent of an Enterprise's adjusted total assets, with an additional leverage buffer amount of 1.5 percent of adjusted total assets, intended to serve as a risk-insensitive credible backstop to risk-based measures that are subject to significant model and other risks.

3. **Addressing Pro-cyclicality** – The proposed rule includes the following key changes to address concerns with the significant pro-cyclicality of the aggregate capital requirements of the 2018 proposal:

   - *Capital Buffers* – The proposed rule's risk-based and leverage capital buffer amounts can be drawn down in a period of financial stress and then rebuilt over time as economic conditions improve. Similar to capital buffers under the Basel and U.S. banking frameworks, when an Enterprise does fall below the prescribed buffer amounts, it must restrict capital distributions, such as stock repurchases and dividends, as well as discretionary bonus payments until the buffer amounts are restored. Of note, the proposed rule would deviate from the Basel and U.S. banking frameworks by establishing capital buffers that supplement the risk-based capital requirements as a percentage of an Enterprise's adjusted total assets as opposed to a percentage of risk-weighted assets. This deviation promotes greater stability in the Enterprises' aggregate risk-based capital requirements throughout the economic cycle.

   - *Countercyclical LTV Adjustment* – The proposed rule retains the 2018 proposal's approach to using updated home values to establish the mark-to-market loan-to-value ratio (MTMLTV) of single-family mortgage exposures and their associated risk-weighted asset requirement. However, the use of MTMLTV through the house price cycle had the potential to cause significant variability and uncertainty in Enterprise capital requirements, resulting in potentially too little capital at the peak of the cycle while

likely necessitating a substantial managerial capital cushion in anticipation of substantially higher capital requirements at the trough of the cycle. The proposed rule includes a new, countercyclical adjustment to MTMLTV that will provide significantly more stability and predictability in Enterprise capital requirements through the economic cycle, while promoting safety and soundness.

- *Other Enhancements* – The proposed rule contains several other refinements and enhancements, such as the risk weight floors mentioned above and changes to the base risk weight grids and risk multipliers, that result in more stable and manageable capital requirements and buffers.

4. **Advanced Approaches** – The proposed rule includes requirements for the Enterprises to assess their own credit, market and operational risks. The Enterprises must maintain regulatory capital at the greater of the amount required under the advanced approach or the standardized approach. The Enterprises must take responsibility for measuring and managing the risks they take and hold sufficient capital to stand behind those risks. Accordingly, FHFA's standardized capital requirements, set largely through various grids, multipliers and other formulas, should serve as a safety and soundness backstop to the advanced approaches.

Service to the Mission

The proposed rule's enhancements were made with careful consideration to the Enterprises' ability to fulfill their mission and to responsibly serve qualified single-family and multifamily borrowers across the risk spectrum. The proposed rule would help the Enterprises fulfill their mission by ensuring that they are positioned to serve the secondary market when it most needs support – in times of stress. This means implementing a "going concern" approach to capital, complemented by capital buffers. The alternative – to accept weak regulatory capital standards for these companies – is to ensure their eventual failure with unacceptable costs to the housing market and the financial system. These companies are simply too big and important to allow them to remain undercapitalized.

The proposed rule also addresses the pro-cyclicality of the aggregate capital requirements of the 2018 proposal, which left the Enterprises potentially undercapitalized when the markets might be most vulnerable to correction, while facing very large additional capital demands in times of stress, when the housing finance market needs support. Under the proposed rule, the Enterprises' risk-based capital requirements would be safe and sound, yet much more stable through the cycle, enabling them to better serve the markets in times of stress, while maintaining a prudent risk posture when housing markets may be overheated.

FHFA gave careful consideration in designing the overall framework in a manner that would help ensure affordable access to credit for borrowers across the risk spectrum. For example:

- The single-family risk multipliers for loan balance and number of borrowers were removed, with the associated capital allocated to the base grids. This change helps ensure that regulatory capital requirements do not unduly restrict access to credit for lower-income or single borrowers. In addition, the risk-based capital requirements for low down payment loans with private mortgage insurance were modestly reduced for coverage provided by private mortgage insurance providers that meet Enterprise mortgage insurer eligibility requirements.

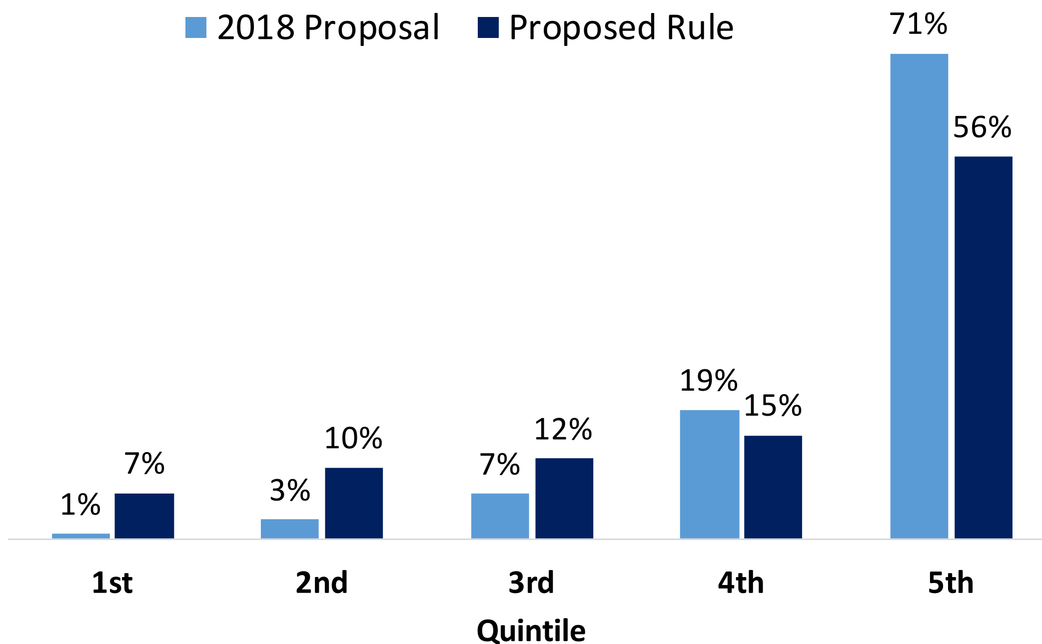
- While protecting against model risk and other uncertainties associated with granular risk-based capital requirements, the 15 percent risk weight floor would affect only the lowest risk single-family mortgage exposures. Relative to the 2018 proposal, the risk weight floor results in a more equitable distribution of credit risk capital across the risk spectrum. See Chart 1.

- The risk-based capital buffers are based on an Enterprise's adjusted total assets, rather than risk-weighted assets, ensuring that these buffers do not fall disproportionately on higher risk exposures.

In its totality, the proposed rule enhances the mortgage risk-sensitive foundation of the 2018 proposal to ensure the safety and soundness of the Enterprises and position the Enterprises to perform their mission across the economic cycle.

FHFA recognizes that the proposed rule does result in an increase in risk-based capital requirements for all exposures. FHFA has concluded the proposed rule best promotes credit access and affordability through the economic cycle for several reasons. First, the proposed rule increases the stability of the Enterprises' aggregate capital requirements, which may expand access to capital, reduce its cost and mitigate the need for substantial managerial capital cushions. Second, the proposed rule helps ensure the stability and liquidity of the Enterprises' MBS and agency debt issuance, particularly during a period of financial stress. Any adverse impact to these vital markets would directly impact the cost and availability of mortgage credit and also affect loss mitigation support to borrowers. Third, post-financial crisis experience suggests that the enhanced regulatory capital requirements in the U.S. banking system and the U.S. private mortgage insurance industry have not resulted in a significant increase in borrowing cost or reduced access to credit, and they have provided for more resilient markets.

Chart 1: Share of Single-family Total Net Credit Risk Capital by Risk-weight Quintile[1]



SUMMARY OF THE PROPOSED RULE

Risk-based Requirements and Buffers:

- An Enterprise would determine its risk-based capital requirements under two approaches—a standardized approach and an advanced approach—with the greater of the two being the binding requirement.
    - The standardized credit risk capital requirements for single-family and multifamily mortgage exposures would be determined using lookup grids and multipliers that assign an exposure-specific risk weight based on the risk characteristics of the mortgage exposure. The advanced approach for credit risk capital requirements would rely on each Enterprise's internal models.
    - For single-family mortgage exposures, the MTMLTV used to calculate the risk weight for the exposure would be subject to a countercyclical adjustment to the extent that national house prices are 5 percent greater or less than an inflation-adjusted long-term trend. The impact tables as of September 30, 2019 do not show any effect from the single-family countercyclical adjustment because national house prices were within +/- 5 percent of the estimated inflation-adjusted long-term trend.

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[1] For purposes of Chart 1, single-family exposures are ranked by the adjusted risk weight assigned to the exposure and grouped by quintile.

- Each Enterprise would also determine a market risk capital requirement for spread risk. Under the standardized approach, an Enterprise would determine its market risk-weighted assets using FHFA-specified formulas for some covered positions and its own models for other covered positions. An Enterprise would separately determine its market risk-weighted assets under an advanced approach that relies on its own internal models for all covered positions.

- The operational risk capital requirement would be determined using the U.S. banking framework's advanced measurement approach, subject to a floor equal to 0.15 percent of the Enterprise's adjusted total assets.

- Each Enterprise would need to meet a statutory capital requirement of total capital of at least 8 percent of risk-weighted assets (RWA), using the definition of total capital in the Safety and Soundness Act.

- The proposed rule also includes three supplementary risk-based capital requirements:

    - Common equity tier 1 (CET1) capital of at least 4.5 percent of RWA;
    - Tier 1 capital of at least 6 percent of RWA; and
    - Adjusted total capital (Tier 1 and Tier 2) of at least 8 percent of RWA.

- As of September 30, 2019, under the standardized approach, the Enterprises' average risk weight for single-family and multifamily mortgage exposures would have been 26 percent and 51 percent, respectively. These average risk weights are determined based on the credit risk capital requirement for single-family and multifamily mortgage exposures after adjustments for mortgage insurance and other loan-level credit enhancements but before any adjustment for CRT.[2]

- To avoid limits on capital distributions and discretionary bonus payments, an Enterprise would have to maintain regulatory capital that exceeds each of its adjusted total capital, tier 1 capital, and CET1 capital requirements by at least the amount of its prescribed capital conservation buffer amount (PCCBA). That PCCBA would consist of three separate component buffers—a stress capital buffer, a stability capital buffer, and a countercyclical capital buffer.

    - Stress Capital Buffer - The stress capital buffer would be 0.75 percent of adjusted total assets, with this buffer in effect replacing the 2018 proposal's going-concern buffer. The going-concern buffer was a part of the Enterprises' total capital requirement in the 2018 proposal, such that an Enterprise would be subject to enforcement action if it drew down this going-concern buffer. In contrast, under the proposed rule, drawing

[2] The U.S. banking framework generally assigns a 50 percent risk weight to performing single-family mortgages to determine the credit risk capital requirement. In contrast, the Basel framework generally assigns a 35 percent risk weight. Proposed amendments to the Basel framework contemplate a sliding scale based on the original loan-to-value (OLTV) ratio. Performing loans in the lowest risk-weight category, with an OLTV below 50 percent, generally have a risk weight of 20 percent.

down the stress capital buffer generally would trigger only limits on capital distributions and discretionary bonus payments. By prescribing less severe sanctions for drawing down this buffer during a period of financial stress, the proposed rule's approach should help position an Enterprise to fulfill its statutory mission across the economic cycle.

- Stability Capital Buffer – An Enterprise's stability capital buffer would be tailored to the risk that an Enterprise's default or other financial distress could have on the liquidity, efficiency, competitiveness, or resiliency of the national housing finance market. FHFA is proposing a stability capital buffer based on an Enterprise's share of the total U.S. residential mortgage debt outstanding, and the buffer would be calculated as a percent of adjusted total assets. As of September 30, 2019, the stability capital buffer would have been 1.05 percent for Fannie Mae, 0.64 percent for Freddie Mac, and 0.88 percent on a combined basis.

- Countercyclical Capital Buffer – The countercyclical capital buffer amount initially would be set at zero percent of an Enterprise's adjusted total assets. As under the Basel and U.S. banking frameworks, FHFA would adjust the countercyclical capital buffer taking into account the macro-financial environment in which the Enterprises operate, such that it would be deployed only when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk. This focus on excess aggregate credit growth means the countercyclical buffer likely would be deployed on an infrequent basis and generally only when similar buffers are deployed by the U.S. banking regulators. FHFA does not expect to adjust this buffer in the place of, or to supplement, the countercyclical adjustment to MTMLTV for single-family risk-based capital requirements.

Leverage Ratio Requirements and Buffer:

- Each Enterprise would be required to satisfy the following leverage ratios:

  - Core capital, as defined in the Safety and Soundness Act, not less than 2.5 percent of adjusted total assets; and

  - Tier 1 capital not less than 2.5 percent of adjusted total assets.

- To avoid limits on capital distributions and discretionary bonus payments, each Enterprise also would be required to maintain tier 1 capital in excess of the amount required under its tier 1 leverage ratio requirement by at least its prescribed leverage buffer amount (PLBA). The PLBA would equal 1.5 percent of the Enterprise's adjusted total assets.

- The leverage measures are intended to serve as a credible backstop to the risk-based measures to safeguard against model risk and measurement error. The leverage requirements also help to dampen some of the pro-cyclicality inherent in the risk-based capital requirements.

IMPACT OF THE PROPOSED RULE

- Risk-Based Requirements (Preamble Tables 1, 2, 3, 26 and 29):

    - As of September 30, 2019, the Enterprises' adjusted total assets would have been $6,072 billion and their RWA would have been $1,678 billion. Risk-based capital requirements are based on the standardized approach.

    - The statutory total capital and adjusted total capital requirements would have been both $135.1 billion (8 percent of RWA) based on RWA of $1,678 billion, shown below by risk and asset category:

        - By risk category:
            - Net credit risk of $134.9 billion before CRT, and $112.8 billion after CRT;
            - Market risk of $13.6 billion; and
            - Operational risk of $8.7 billion.

        - By asset category:
            - Single-family mortgage exposures of $111.0 billion;
            - Multifamily mortgage exposures of $17.8 billion; and
            - Other assets of $6.3 billion.

    - As of September 30, 2019, the combined Enterprise CET1 capital requirement would have been $76 billion (4.5 percent of RWA) and the tier 1 risk-based capital requirement would have been $101 billion (6 percent of RWA).

    - The risk weights for single-family exposures would have been 26 percent before CRT, and 24 percent taking into account adjustments for CRT. For multifamily exposures, the risk weights would have been 51 percent before CRT, and 30 percent taking into account adjustments for CRT.

    - The combined PCCBA would have been $99 billion, comprised of the $46 billion stress capital buffer, $53 billion stability capital buffer, and $0 countercyclical capital buffer amounts. The risk-based capital requirements and PCCBA would have totaled $175 billion for CET1 capital, $200 billion for tier 1 capital, and $234 billion for adjusted total capital.

    - The adjusted total capital requirement of $135 billion would have represented 2.22 percent of adjusted total assets, while the PCCBA represents 1.63 percent. The combined adjusted total capital requirement and PCCBA of $234 billion would have represented 3.85 percent of the Enterprises' adjusted total assets and 13.9 percent of risk-weighted assets.

- Leverage Ratio Requirements (Preamble Table 1):

    - The supplementary framework also includes a tier 1 capital PLBA equal to 1.5 percent of adjusted total assets, or $91 billion for the Enterprises combined.

- In aggregate, the Enterprises' combined tier 1 leverage capital requirement and PLBA would have been $243 billion.

- Generally, FHFA would expect the leverage ratio requirement and buffer to serve as a credible backstop to risk-based capital requirements and buffers. There are measurement periods when a leverage requirement should be binding and FHFA believes that September 30, 2019 would be such a period as a result of strong home price appreciation over the preceding eight years, favorable credit performance in the multifamily market, significant progress by the Enterprise in reducing exposure to legacy non-performing and re-performing crisis-era assets, and the strong condition of key counterparties such as private mortgage insurers.

- <u>New Single-family Mortgage Exposure Capital Requirements</u>

    - New single-family mortgage exposures acquired by the Enterprises during the third quarter of 2019 had an average risk weight of approximately 35 percent after loan-level credit enhancements but before any adjustments for CRT. This is a slight increase over the approximately 33 percent risk weight for the same exposures under the 2018 proposal, with the increase in part due to the inclusion of the 15 percent risk weight floor.

    - The removal of risk multipliers for the number of borrowers and loan balance had a signficant impact on the allocation of regulatory capital to the borrower and loan segments:

        - For loans with one borrower, the removal of the risk multipliers for number of borrowers results in risk weights approximating those for loans with multiple borrowers. In contrast, under the 2018 proposal, risk weights for loans with one borrower would have been approximately 55 percent higher than for loans with multiple borrowers.

        - Under the 2018 proposal, loans with balances between $50,000 and $100,000 and loans with balances less than $50,000 would have had risk weights approximately 15 percent and 23 percent higher, respectively, than loans with larger loan balances. Under the proposed rule, risk weights are actually lower for small balance loans than larger loans, likely reflecting better-than-average credit characteristics on other drivers of risk weights.

SELECTED PREAMBLE TABLES

Preamble Table 1: Summary of Risk-based Capital Requirements for Fannie Mae and Freddie Mac Combined as of September 30, 2019

Enterprises Combined

Risk-based Capital Requirements

$ in billions	Total Capital (Statutory)	% of RWA	CET1	% of RWA	Tier 1	% of RWA	Adjusted Total Capital	% of RWA
Capital Requirement	$135	8.0%	$76	4.5%	$101	6.0%	$135	8.0%
Prescribed Buffers								
Stress Capital Buffer			46	2.7%	46	2.7%	46	2.7%
Stability Capital Buffer			53	3.2%	53	3.2%	53	3.2%
Countercyclical Capital Buffer Amount			0	0.0%	0	0.0%	0	0.0%
Prescribed Capital Conservation Buffer Amount (PCCBA)	0	0.0%	99	5.9%	99	5.9%	99	5.9%
Requirement and PCCBA	$135	8.0%	$175	10.4%	$200	11.9%	$234	13.9%
Risk-Weighted Assets (RWA)	$1,689							

Leverage Capital Requirements

	Core Capital (Statutory)	% of Adjusted Total Assets	Tier 1	% of Adjusted Total Assets
Capital Requirement	$152	2.5%	$152	2.5%
Prescribed Leverage Buffer Amount (PLBA)	0	0.0%	91	1.5%
Requirement and PLBA	$152	2.5%	$243	4.0%

** The Enterprise specific equivalent tables are in the proposed rule.*

Preamble Table 2: Comparison of Risk-based Capital Requirements for Fannie Mae and Freddie Mac Combined under the 2018 Proposal and the Proposed Rule, by Risk Category

Enterprises Combined	2018 Proposal As of				Proposed Rule As of		
	9/30/2017		9/30/2019		9/30/2019		
	$ in billions	% of Total	$ in billions	% of Total	$ in billions	% of Total	% of Adjusted Total Assets
Gross Credit Risk			$127.0		$151.9		2.50%
Loan-Level Credit Enhancement			(17.9)		(17.0)		(0.28%)
Net Credit Risk	$112.0		$109.1		$134.9		2.22%
CRT Impact, net	(21.5)		(41.3)		(22.1)		(0.36%)
Post-CRT Net Credit Risk	90.5	50%	67.8	50%	112.8	84%	1.86%
Market Risk	19.4	11%	13.6	10%	13.6	10%	0.22%
Going-Concern Buffer	39.9	22%	43.5	32%	0.0	0%	0.00%
Operational Risk	4.3	2%	4.6	3%	8.7	6%	0.14%
Deferred Tax Assets	26.7	15%	7.4	5%	0.0	0%	0.00%
Total Capital Requirement	$180.9	100%	$136.9	100%	$135.1	100%	2.22%
Prescribed Buffers							
Stress Capital Buffer					45.5		0.75%
Stability Capital Buffer					53.3		0.88%
Countercyclical Capital Buffer Amount					0.0		0.00%
Prescribed Capital Conservation Buffer Amount (PCCBA)					98.8		1.63%
Total Capital Requirement and PCCBA	$180.9		$136.9		$233.9		3.85%
Adjusted Total Assets	$5,619.9		$6,072.0		$6,072.0		
Total Capital Requirement and PCCBA/ Adjusted Total Assets	3.22%		2.25%		3.85%		

** The Enterprise specific equivalent tables are in the proposed rule.*

Preamble Table 3: Comparison of Risk-based Capital Requirements for Fannie Mae and Freddie Mac Combined under the 2018 Proposal and the Proposed Rule, by Asset Category

Enterprises Combined	2018 Proposal As of				Proposed Rule As of		
	9/30/2017		9/30/2019		9/30/2019		
	$ in billions	% of Total	$ in billions	% of Total	$ in billions	% of Total	% of Adjusted Total Assets
Single-family excluding Going-Concern Buffer	$95.6	53%	67.8	49%			
Single-family Going-Concern Buffer	34.9	19%	36.9	27%			
Single-family	130.5	72%	104.7	76%	$111.0	82%	1.83%
Multifamily excluding Going-Concern Buffer	10.2	6%	12.2	9%			
Multifamily Going-Concern Buffer	3.7	2%	4.7	3%			
Multifamily	13.9	8%	16.9	12%	17.8	13%	0.29%
Deferred Tax Assets	26.8	15%	7.4	5%	0.0	0%	0.00%
Other Assets excluding Going-Concern Buffer*	8.4	5%	6.1	4%			
Other Assets Going-Concern Buffer	1.3	1%	1.8	1%			
Other Assets	9.7	5%	7.9	6%	6.3	5%	0.10%
Total Capital Requirement	$180.9	100%	$136.9	100%	$135.1	100%	2.22%
Prescribed Buffers							
Stress Capital Buffer					45.5		0.75%
Stability Capital Buffer					53.3		0.88%
Countercyclical Capital Buffer Amount					0.0		0.00%
Prescribed Capital Conservation Buffer Amount (PCCBA)					$98.8		1.63%
Total Capital Requirement and PCCBA	$180.9		$136.9		$233.9		3.85%
Adjusted Total Assets	$5,619.9		$6,072.0		$6,072.0		
Total Capital Requirement and Buffer Target/ Adjusted Total Assets	3.22%		2.25%		3.85%		

*Includes PLS, CMBS, Other.

** The Enterprise specific equivalent tables are in the proposed rule.*

Preamble Table 26: Comparison of Single-family Risk-based Capital Requirements under the 2018 Proposal and the Proposed Rule, as of September 30, 2019

$ in billions	Fannie Mae		Freddie Mac		Enterprises Combined			
	2018 Proposal	Proposed Rule	2018 Proposal	Proposed Rule	2018 Proposal	Risk Weight	Proposed Rule	Risk Weight
Gross Credit Risk	$61.8	$75.1	$38.0	$47.4	$99.9	25%	$122.4	31%
Loan Level Enchancement	(11.0)	(10.4)	(6.9)	(6.6)	(17.9)		(17.0)	
Net Credit Risk	50.8	64.6	31.2	40.8	82.0	20%	105.4	26%
CRT Impact, net	(15.2)	(6.2)	(12.0)	(4.7)	(27.2)		(10.9)	
Post-CRT Net Credit Risk	35.6	58.4	19.1	36.1	54.7	14%	94.5	24%
Market Risk	3.6	3.6	5.5	5.5	9.1		9.1	
Operational Risk	2.4	4.5	1.5	2.9	3.9		7.4	
Subtotal	41.6	66.5	26.2	44.5	67.8		111.0	
Going-concern Buffer	22.4	0.0	14.5	0.0	36.9		0.0	
Total Capital Requirement	$64.0	$66.5	$40.7	$44.5	$104.7		$111.0	
Total UPB	$2,944.9	$2,944.9	$2,058.8	$2,058.8	$5,003.8		$5,003.8	

Includes single-family whole loans, Fannie Mae and Freddie Mac guarantees of single-family securities held by third parties, and investments in single-family securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

Preamble Table 29: Comparison of Multifamily Risk-based Capital Requirements under the 2018 Proposal and the Proposed Rule, as of September 30, 2019

$ in billions	Fannie Mae		Freddie Mac		Enterprises Combined			
	2018 Proposal	Proposed Rule	2018 Proposal	Proposed Rule	2018 Proposal	Risk Weight	Proposed Rule	Risk Weight
Net Credit Risk	$12.8	$13.9	$11.8	$13.1	$24.7	47%	$27.0	51%
CRT Impact, net	(4.6)	(4.3)	(9.5)	(6.9)	(14.1)		(11.2)	
Post-CRT Net Credit Risk	8.2	9.6	2.4	6.2	10.6	20%	15.8	30%
Market Risk	0.6	0.6	0.5	0.5	1.1		1.1	
Operational Risk	0.3	0.5	0.2	0.4	0.5		0.9	
Subtotal	9.1	10.7	3.1	7.1	12.2		17.8	
Going-Concern Buffer	2.5	0.0	2.2	0.0	4.7		0.0	
Total Capital Requirement	$11.6	$10.7	$5.3	$7.1	$16.9		$17.8	
Total UPB	$352.3	$352.3	$303.2	$303.2	$655.5		$655.5	

Includes multifamily whole loans, Fannie Mae and Freddie Mac guarantees of multifamily securities held by third parties, and investments in multifamily securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.

Adjusted Total Assets

$ in billions
As of 9/30/2019

	Fannie Mae	Freddie Mac	Enterprises Combined
Total on-balance sheet assets	$3,494	$2,170	$5,665
Less: on-balance sheet assets for derivative transactions and repo-style transactions	(24)	(53)	(76)
Adjusted on-balance sheet assets	3,471	2,117	5,588
Less: deductions from common equity tier 1 capital and additional tier 1 capital	0	0	0
Total on-balance sheet exposures	3,471	2,118	5,588
Plus:			
Derivatives exposures	3	7	10
Repo-style transaction exposures	25	51	76
Off-balance sheet exposures	49	349	397
Adjusted Total Assets	$3,547	$2,525	$6,072

Components of Regulatory Capital

	Statutory definitions		Supplemental definitions		
	Core Capital	Total Capital	Adjusted Total Capital	Tier 1 Capital	CET 1 Capital
Common stock	Include	Include	Include	Include	Include
Par value of preferred stock	Include	Include	Include	Include	
AOCI related to AFS and Defined Benefit Plans			Include	Include	Include
AOCI related to cash flow hedge relationships					
General ALLL		Include			
Specific loss allowance		Deduct			
Excess credit reserves			Include		
Subordinated debt			Include		
DTA Adjustment*			Deduct	Deduct	Deduct

*The sum of 1) DTAs that arise from net operating losses and tax credit carryforwards, net of any related valuation allowances and net of DTLs, and 2) DTAs arising from temporary differences that could not be realized through net operating loss carry backs, net of related valuation allowances and net of DTLs that exceed 10 percent of adjusted core capital.

Acronyms

ALLL	Allowance for loan and lease losses
AOCI	Accumulated other comprehensive income
CET1	Common equity tier 1 capital
CRT	Credit risk transfer
DTA	Deferred tax asset
FHFA	Federal Housing Finance Agency
HERA	Housing and Economic Recovery Act of 2008
MTMLTV	Mark-to-market loan-to-value ratio
OLTV	Original loan-to-value ratio
PCCBA	Prescribed capital conservation buffer amount
PLBA	Prescribed leverage buffer amount
RWA	Risk-weighted assets