

## **Federal Reserve Purchase of GSE Debt Securities May Benefit Multifamily Housing**

**December 8, 2008**

On November 25, the Federal Reserve (the Fed) announced that it will institute a program to purchase up to \$100 billion of the debt securities of the housing-related government-sponsored enterprises (GSEs) Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

The plan to purchase the direct obligations of the GSEs was part of a larger announcement by the Fed under which it also agreed to purchase up to \$500 billion of mortgage-backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae, and launched a \$200 billion Term Asset-Backed Securities Loan Facility (TALF) to support student, automobile, and credit card loans, as well as loans backed by the Small Business Administration.

The decision to purchase GSE debt securities appears to be in response to the recent widening of spreads for GSE debt, which have increased significantly since Fannie Mae and Freddie Mac were placed into conservatorship by the Federal Housing Finance Agency on September 7, 2008. Increased spreads on GSE debt have influenced recent pricing increases by Fannie Mae and Freddie Mac for multifamily loans purchased by the two GSEs. The Fed's purchase of the GSE debt may lower rates for multifamily loans, which in turn could stimulate activity for the acquisition and refinancing of multifamily properties.

The full effects of the Fed's actions are unlikely to be felt for several weeks, however the announcement of the Fed's purchase of the GSEs debt failed to prevent Fannie Mae from releasing additional pricing increases for multifamily loans the week following. One of the countervailing forces that may mute the impact of potentially tighter spreads is planned limits on—and eventual reductions of—the size of each company's mortgage portfolios (both single- and multifamily). In fact, many in the industry believe that the specter of portfolio limits has been driving Fannie Mae's recent pricing increases.

Whether the Fed's actions are ultimately successful will also depend on the health of the multifamily housing market, which is currently experiencing relatively stable vacancies, rising rents, and growth in the number of rental households. It remains to be seen whether these fundamentals can sustain the impact of a weakening U.S. economy.

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