

TMPG Consultative Summary Note

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February 26, 2026

Theoretical Implications for Agency MBS Market Liquidity
and Functioning of any Potential GSE Ownership Structure
Changes

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Introduction

Fannie Mae and Freddie Mac are two government-sponsored enterprises (GSEs) that were created by Congress in 1938 and 1970, respectively, to support home ownership and expand the secondary mortgage market by securitizing mortgage loans into mortgage-backed securities (MBS). Mortgage securities securitized by the GSEs and Ginnie Mae¹ are referred to as “agency” MBS. The two GSEs guarantee over \$6.6 trillion in agency MBS, or nearly half of single-family U.S. mortgage debt outstanding. In September 2008, Fannie Mae and Freddie Mac were placed into government conservatorship after experiencing significant capital losses during the Global Financial Crisis (GFC).

Under conservatorship, a new agency, the Federal Housing Finance Agency (FHFA) was created and had operational authority over the two GSEs.² A significant feature of the government conservatorship involves changes in the implicit government guarantee for the GSEs. Prior to conservatorship, there was widespread assumption among investors that the government would provide financial support should the GSEs require it. However, no explicit terms were put into place for such an event. Conservatorship replaced this implicit guarantee with written support agreements from the U.S. Treasury. Currently, the GSEs’ statutory charters provide a \$2.25 billion line of credit each from the U.S. Treasury for each GSE. GSEs also have an additional \$254 billion funding commitment from the U.S. Treasury under the Preferred Stock Purchase Agreements (PSPA). Market participants believe that the magnitude of these credit lines and funding commitment is sufficient to protect against most downside scenarios for GSEs. Additionally, GSEs have also been rebuilding capital in recent years, based on a framework called the Enterprise Regulatory Capital Framework (ERCF), creating greater resilience in the event of a downside shock.³

Conservatorship was intended to be a temporary measure for the GSEs to improve their business model. Potential changes to the ownership structure of the GSEs have now garnered renewed focus by the current administration. This note reviews the evolution in GSE ownership structure in recent history and the potential effects on agency MBS liquidity and market functioning in the event of a change to the existing ownership structure.

¹ Ginnie Mae was established as a government-owned entity, and its securities are explicitly backed by the government.

² The FHFA replaced the Office of Federal Housing Enterprise Oversight (OFHEO). The FHFA unified multiple regulatory agencies into one (OFHEO, Federal Housing Finance Board, parts of Housing and Urban Development). In addition, the FHFA was given stronger regulatory and enforcement powers to inject confidence in the GSE safety and soundness as Fannie Mae and Freddie Mac were placed in conservatorship under the Housing and Economic Recovery Act (HERA) of 2008.

³ Current capital requirements are significantly higher than those that existed before 2008. Today, GSEs undergo stress tests every year which suggests GSEs can sustain adverse decline in the US economy and still serve their mission.

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Key Changes under Conservatorship

Reduced GSE Activity in the Secondary Market

Prior to the financial crisis, key vulnerabilities developed across the GSEs that led to significant capital losses: market value losses in the GSEs' respective investment portfolios, and credit losses realized on guarantee books - the books of mortgage-backed securities the GSEs guaranteed payment on in event of default. Before conservatorship, Fannie Mae and Freddie Mac were once extremely active investors in the MBS market and their retained portfolios were major sources of demand with significant impact on mortgage spreads to other benchmark interest rates. For reference, at year-end 2008, the GSEs' combined retained portfolios were roughly \$1.6 trillion. Combined, the GSEs owned about 10 percent of all U.S. mortgages and about 20 percent of all agency MBS. They were also viewed as significant liquidity providers to the mortgage market. The GSEs funded their MBS investments by issuing agency debt, often issuing shorter maturity debt (at levels near Treasury interest rates) than the average life of the mortgage assets they purchased and hedging the duration difference in interest rate swaps. Under the terms of the conservatorship, the GSEs were required to meet specific retained portfolio reduction targets, including reducing their combined mortgage assets to below \$500 billion by 2018.⁴ As of November 2025 month-end, GSE retained portfolios were around \$247 billion, below their current combined \$450 billion cap⁵.

Since entering conservatorship, the GSEs were required to shift their business models away from investing and toward insuring mortgage credit risk in exchange for guarantee fees (g-fees), the fee required for the GSE to provide the guarantee on the underlying loans. Fannie Mae and Freddie Mac now earn most of their income from g-fees in exchange for insuring investors against default risk, with income from g-fees constituting a greater share of total net income compared to their investment portfolios. Prior to 2008, the GSEs earned two-thirds of their income from retained portfolios and one-third from g-fees. More recently, their operating models have been flipped with the g-fee making up over two-thirds of their income today.

Introduction of Single Security

The Single Security Initiative (SSI) was a major development for the GSEs while under conservatorship, resulting in significant structural changes to the agency MBS market through the issuance of Uniform MBS (UMBS).⁶ The objective of the SSI was to save taxpayer money by eliminating the historical pricing disparity between Fannie Mae and Freddie Mac securities and to improve liquidity in the agency MBS market, which could reduce trading costs for agency MBS and thus pass through to reducing borrowing costs for homeowners.

⁴ The PSPAs currently limit the retained portfolios to \$225 billion each.

⁵ On January 8th 2026, the FHFA Director announced that Fannie Mae and Freddie Mac would conduct purchases in agency MBS totaling \$200 billion. To what degree the GSEs will hedge the duration risk of these purchases as they did in the past is unclear. Details of the program are pending.

⁶ [Single Security Initiative and Common Securitization Platform](#).

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Work was conducted by the Treasury Market Practices Group (TPMG) to recommend best practices for the transition period to UMBS, which highlighted the importance of smooth transition for liquidity and functioning purposes.⁷ The UMBS To Be Announced (TBA) contract⁸, which replaced the separate Fannie Mae and Freddie Mac TBA contracts that existed previously, began trading in March of 2019 with the first settlements occurring in June 2019. Since trading began, market participants have noted improved liquidity and functioning, lowering costs that flow back to borrowers.⁹

In addition, the SSI was designed with the goal of developing a common standardized MBS in a broader effort to build a Common Securitization Platform (CSP). Launched in June 2019, the CSP is the technology and operations behind securitizing UMBS, and is utilized to streamline the mortgage securitization process for Fannie Mae and Freddie Mac.

Change in Administrative Oversight

The creation of the FHFA merged GSE oversight responsibilities of several agencies, and the FHFA was empowered with authorities to ensure the stability of the housing finance system. Of note, the FHFA directed the GSEs to tighten mortgage origination and servicer underwriting standards, including increasing average FICO scores for mortgage borrowers and decreasing average loan-to-value ratios. The FHFA also pushed for a change to the guarantee fee pricing structure to correct for the previous underpricing of credit risk.

Considerations Around any Potential Changes in GSE Ownership Structure

Currently the counterparty credit risk associated with holding agency MBS is viewed as the same as any other U.S. government exposure. Should any change to GSE ownership structure lead to a removal (or perceived removal) of the federal implicit guarantee, the market evaluation of the risk profile of agency MBS could shift from its current status.

The following are key considerations around how a change in the perception of GSE ownership could affect the liquidity and functioning of the agency MBS market:

1. Whether and how the federal **government guarantee** supporting the GSEs is modified, or is removed entirely, and the implications for both legacy and newly issued agency MBS.
 - If market participants' perception of the strength of the government guarantee were to change, some investors could view agency MBS as having a higher credit risk

⁷ [*TPMG Encourages Market Attention to Best Practice Recommendations During the Transition to Uniform Mortgage-Backed Security \(UMBS\)*](#).

⁸ A TBA trade is a forward agreement between two parties to settle a given amount of agency MBS at a specific future date for a set price. All TBA contracts set 6 parameters which the seller agrees to fulfill – agency, maturity, coupon, price, par-amount and settlement date. TBAs settle once a month, usually mid-month.

⁹ [*Five Years Later, the UMBS is Paying Dividends for Housing Finance - Freddie Mac*](#)

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exposure. Without a perceived firm guarantee, Fannie and Freddie would no longer have the price premium received today, and investors would be expected to anticipate interest rate risk (as they do today) and also credit risk.

- Credit products tend to have wider bid-ask spreads and higher trading costs than government securities. If agency MBS were viewed as a credit product, this would likely decrease overall liquidity in mortgage markets and consequently pass on increased costs more broadly for mortgage borrowers. Agency MBS could start trading directionally with credit risk, making rate hedges put on by agency MBS holders less efficient. Consequently, investors will need to assess and price in the impact of less certainty around the government guarantee.
 - Mortgage markets may become more competitive for private market participants to issue into given the GSEs would no longer maintain the same pricing premium, and as a result the market could see a shift towards private label mortgage origination and MBS issuance.¹⁰ This is likely to make the US housing market more pro-cyclical, with more sensitivity around shifts in economic conditions affecting the credit quality of mortgage pools.
 - Other potential implications of changes in the guarantee
 - The FHFA would need to establish a complete regulatory framework relevant to the GSEs' privatized business model.
 - *Changes to the regulatory treatment for bank capital and liquidity standards.* Separately, risk weights on agency MBS for bank capital treatment may be higher, which may reduce bank broker-dealer willingness to hold agency MBS and impact their capability to intermediate. Similarly, bank willingness to hold agency MBS as part of their liquidity buffers could be impacted if agency MBS are no longer considered High Quality Liquid Assets (HQLA) or receive less favorable HQLA treatment.
 - Other areas of regulatory impact.
2. Changes to the structure of the GSEs could lead to changes in **TBA securitization and trading activity**. Recall that prior to the introduction of UMBS, trading dynamics of Fannie and Freddie securities led to pricing differences between agency MBS guaranteed by each GSE:
- Perceived credit quality and prepayment differences: Fannie and Freddie securities traded at different volumes and prices with different perceptions of credit quality. Additionally, at various points in time, Freddie Mac-guaranteed securities had material prepayment differences from Fannie Mae-guaranteed securities.¹¹ Since premium Freddie Mac bonds tended to pay faster, investors priced these securities

¹⁰ The non-agency market also benefits from the liquidity of the TBA market by providing a mechanism for non-agency securities to hedge their convexity exposures using TBA contracts.

¹¹ [A Progress Report on the Move to a Single Security](#) (Urban Institute).

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at a discount. Since the implementation of UMBS, Freddie Mac aligned its underwriting standards with Fannie Mae and prepayment characteristics across the two agencies are now similar.

- Issuance differences: Freddie Mac bonds also tended to exhibit lower liquidity due to lower overall issuance volume. This also has changed since the implementation of UMBS - currently Freddie Mac issuance actually exceeds that of Fannie Mae.
- Design and disclosure differences between the two securities: Prior to the introduction of UMBS, Fannie bonds paid on a 55-day delay while Freddie bonds paid on a 45-day delay. To be eligible for UMBS TBA trading, Freddie Mac MBS aligned with Fannie Mae MBS in terms of their principal and interest (P&I) delays.
- If the perceived differences in credit risk reemerged, it may be necessary for Fannie Mae and Freddie Mac MBS to again trade as separate securities, reversing the single security initiative. However, the design and disclosure harmonization that occurred for UMBS could remain in place, reducing some of the drivers of difference in pricing between Fannie and Freddie securities that existed prior to the introduction of UMBS.
- A return to separate securitization of Fannie Mae and Freddie Mac securities could hinder the goal of streamlining the mortgage securitization process.

The TMPG provided [best practice recommendations during the transition to UMBS](#).

Transitioning out of UMBS would affect some of the mechanisms highlighted in those best practice recommendations, such as changes to the market structure and efficient market clearing.

- The Single Security Initiative was a multi-year endeavor, and current guidelines address how to commingle Fannie Mae and Freddie Mac MBS, but not how to unwind UMBS. It may take time for investors to develop policies and procedures and then participate in any unwind. The downstream effects on settlement systems would also need to be evaluated.
 - Additionally, the market would need to address current outstanding TBA deliverability given current commingled collateral. Success in any transition would depend on backward compatibility and have many transition hurdles, such as treatment of legacy positions and questions around splitting up current outstanding collateral.
3. More broadly with shifts in overall **market perception**, there are some additional areas to consider:
- Internal risk control and regulatory requirements in banks and other regulated entities may put limits on total exposure to Fannie Mae and Freddie Mac securities if their perceived creditworthiness were to change.
 - Originators may need more capital to manage their business to account for greater perceived credit risk.

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- Agency MBS would likely trade at higher rates, resulting in the passthrough of increased borrowing costs to homeowners and tightening conditions for borrowers in the housing market.
- There would be open questions about the eligibility of agency MBS for various types of trades and margin were the perception around the government guarantee to change. For example, were the perceived credit quality of agency MBS to change, there may be questions around whether these securities would be eligible to meet margin calls and/or for central bank operations.

Conclusion

The agency MBS market is a deep and liquid securities market that serves vital functions for both financial markets broadly and for the U.S. housing market. The agency MBS market currently benefits from the creditworthiness conferred by the government guarantee and the improvement in liquidity that resulted from the introduction of UMBS. Any potential changes in the ownership structure of the GSEs that might alter this perceived creditworthiness could result in reduced liquidity and functioning in the agency MBS market. Additionally, were there to be a perception of difference in credit quality between Fannie Mae and Freddie Mac, these securities could again trade as separate credits and may require the unwinding of the Single Security Initiative. Given the importance of the agency MBS market for the financial system and for U.S. homeowners, it is critical that any potential changes in ownership structure for the GSEs be carefully designed with these factors in mind to ensure that this market remains robust and resilient.

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Appendix: TMPG Agency MBS Working Group Members

TMPG Member and Non-Member Firms

David Finkelstein	Annaly Capital Management, <i>Working Group Co-Chair</i>
Marc Seidner	PIMCO, <i>Working Group Co-Chair</i>
Frank Atwood	Bank of America Merrill Lynch
Leo Biselman	Goldman Sachs
Daniel Curtis	BlackRock
Doug Friedman	Tradeweb
David Garner	Barclays Capital Inc.
Christopher Iannuzzi	Wells Fargo
Greg Insinga	Annaly Capital Management
Dennis Jang	Citigroup Global Markets
Mohib Karzai	JP Morgan Chase
Serena Lin	Mizuho Securities
Nathan Persons	Vanguard
V.S. Srinivasan	Annaly Capital Management
Jennifer Wunsch	Depository Trust & Clearing Corporation

Federal Reserve Bank of New York

Anne Chen, *Lead Author*
Ellen Correia Golay, *Lead Author*
Richard Charlton
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