

A vibrant, stylized illustration of an urban environment. It features various elements: a construction crane on the left, colorful buildings in shades of blue, yellow, green, and purple, silhouettes of people and workers, a forklift, a hand holding a key, a hand holding a plant, and a large dome building on the right. The background is a mix of geometric shapes and patterns.

Recapitalizing the GSEs through Administrative Action: Economics and Budgetary Implications

#LiveAtUrban

Housekeeping

- Event is being recorded and the recording will be posted online afterward.
- Speaker biographies and slides are available online at [Urban.org](https://www.urban.org).
- All participants are muted.
- Type your **questions** and **comments** into the Q&A box at any time.
- Please complete the survey at the end of the event.

A vibrant, stylized illustration of an urban environment. It features various elements: a construction crane on the left, colorful buildings in shades of blue, yellow, green, and purple, silhouettes of people and workers, a forklift, a hand holding a key, a hand holding a plant, and a large dome building on the right. The background is a mix of geometric shapes and patterns.

Recapitalizing the GSEs through Administrative Action: Economics and Budgetary Implications

#LiveAtUrban

Values CBO Used in Modeling Scenarios for Recapitalization

	Type of value	Values used in the 2020 report	Values used in the 2024 update
GSEs' combined assets before recapitalization	Point estimate	<ul style="list-style-type: none"> • \$5.7 trillion as of December 31, 2019 • 4 percent growth per year during the recapitalization period 	<ul style="list-style-type: none"> • \$7.6 trillion as of December 31, 2023 • 4 percent growth per year during the recapitalization period
GSEs' combined annual earnings before recapitalization	Point estimate	<ul style="list-style-type: none"> • \$20 billion in 2019 • Reduced to \$10 billion in 2020 because of the coronavirus pandemic • 4 percent growth per year (based on the amount of 2019 earnings) during the recapitalization period 	<ul style="list-style-type: none"> • \$26 billion in 2024 • 4 percent growth per year (based on the amount of 2024 earnings) during the recapitalization period
Senior preferred shares in the GSEs	Point estimate	<ul style="list-style-type: none"> • \$190 billion outstanding • No dividends paid before the sale of new common shares • Retired, to the extent possible, as part of the sale of new common shares 	<ul style="list-style-type: none"> • Same as in the 2020 report
Junior preferred shares in the GSEs	Point estimate	<ul style="list-style-type: none"> • \$35 billion outstanding • No dividends paid before the sale of new common shares • Retired, to the extent possible, as part of the sale of new common shares 	<ul style="list-style-type: none"> • Same as in the 2020 report

Existing common shares in the GSEs	Point estimate	<ul style="list-style-type: none"> • 1.8 billion shares outstanding in 2020 • 7.2 billion additional shares outstanding with the exercise of the Treasury's warrants, to the extent possible, as part of the sale of new common shares • No dividends paid before the sale of new common shares 	• Same as in the 2020 report
Cost of the GSEs' debt	Point estimate	• 3 percent per year	• Same as in the 2020 report
GSEs' capital requirement as a percentage of total assets (unadjusted for assets' risk)	Range	• 3 percent, 4 percent, 4.5 percent, 5 percent, and 6 percent	• Same as in the 2020 report
Investors' required annual rate of return on capital invested in the GSEs	Range	• 8 percent, 9 percent, 10 percent, 11 percent, and 12 percent	• Same as in the 2020 report
Annual growth of the GSEs' earnings after recapitalization	Range	<ul style="list-style-type: none"> • Zero, 2 percent, 4 percent, 6 percent, and 8 percent • Earnings grow at that annual rate for five years after recapitalization • After five years, earnings grow at an annual rate of 3 percent 	• Same as in the 2020 report

Data source: Congressional Budget Office.

Comparison of Key Input Amounts in CBO's 2020 and 2024 Analyses

Billions of dollars

	2020 report: starting value in 2020	2020 report: estimated value at the end of 2023	2024 update: starting value in 2024	Comments
GSEs' combined assets	5,700	6,668	7,606	Actual asset growth in the 2020–2023 period exceeded the estimate of 4 percent annual growth during recapitalization used in the 2020 report.
GSEs' combined annual earnings	20	22	26	Actual earnings growth in the 2020–2023 period exceeded the estimate of 4 percent annual growth during recapitalization used in the 2020 report.
GSEs' combined capital	24	102	125	Higher-than-expected earnings in the 2020–2023 period increased the GSEs' capital accumulation above the amount estimated in the 2020 report. In that report, CBO also estimated that combined earnings in 2020 would be reduced from \$20 billion to \$10 billion because of the coronavirus pandemic. Actual combined earnings in 2020 were about \$19 billion.

Data source: Congressional Budget Office.

Scenarios for Recapitalization With a Common-Stock Offering at the Beginning of 2027

	Scenario 1	Scenario 2	Scenario 3
	Parameters of the scenario		
Earnings retention period (years)	3	3	3
Capital requirement (as a percentage of unadjusted assets)	3	4.5	6
Investors' required return on capital (percent)	8	10	12
Annual growth rate of earnings for first five years after recapitalization (percent)	8	4	0
	Results of the scenario (billions of dollars)		
Amount of capital required	247	370	494
Minus: capital on hand at the end of 2026	208	208	208
Equals: capital shortfall at the end of 2026	39	162	285
GSEs' total equity value (amount available from sale of common stock)	521	368	292
Amount available after covering capital shortfall	482	206	7
Amount of the Treasury's senior preferred shares redeemed (total face value of \$190 billion)	190	171	0
Amount of investors' junior preferred shares redeemed (total face value of \$35 billion)	35	35	7
Value of the Treasury's warrants ^a	206	*	*

Data source: Congressional Budget Office.

Scenarios for Recapitalization With a Common-Stock Offering at the Beginning of 2029

	Scenario 1	Scenario 2	Scenario 3
	Parameters of the scenario		
Earnings retention period (years)	5	5	5
Capital requirement (as a percentage of unadjusted assets)	3	4.5	6
Investors' required return on capital (percent)	8	10	12
Annual growth rate of earnings for first five years after recapitalization (percent)	8	4	0
	Results of the scenario (billions of dollars)		
Amount of capital required	267	400	534
Minus: capital on hand at the end of 2028	273	273	273
Equals: capital shortfall at the end of 2028	n.a.	127	260
GSEs' total equity value (amount available from sale of common stock)	563	398	316
Amount available after covering capital shortfall	563	271	56
Amount of the Treasury's senior preferred shares redeemed (total face value of \$190 billion)	190	190	21
Amount of investors' junior preferred shares redeemed (total face value of \$35 billion)	35	35	35
Value of the Treasury's warrants ^a	271	37	*

Data source: Congressional Budget Office.



Federal Programs That Guarantee Mortgages

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
BUDGET INFORMATION											
Millions of dollars, by fiscal year											
Dollar Volume of Mortgage Originations ^a	1,869,000	2,349,000	2,802,000	3,606,000	3,722,000	3,712,000	3,764,000	3,889,000	4,033,000	4,179,000	4,330,000
Fannie Mae and Freddie Mac											
Dollar Volume of Annual Loans	785,000	987,000	1,177,000	1,515,000	1,563,000	1,559,000	1,581,000	1,634,000	1,694,000	1,755,000	1,819,000
Share of Originations (Percent)	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0
Cash Receipts ^b	6,330	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Annual Subsidy Costs ^c	n.a.	63	1,993	3,972	4,818	5,189	5,432	5,689	5,866	9,353	9,378
Subsidy Rate (Percent)	n.a.	0.01	0.17	0.26	0.31	0.33	0.34	0.35	0.35	0.53	0.52
Federal Housing Administration MMI Program ^{d,e}											
Dollar Volume of Annual Loans	233,000	293,000	350,000	449,000	464,000	464,000	468,000	485,000	503,000	522,000	540,000
Share of Originations (Percent)	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Annual Subsidy Costs	-3,076	-6,094	-6,860	-8,576	-9,280	-9,280	-9,360	-9,700	-10,060	-10,440	-10,800
Subsidy Rate (Percent)	-1.32	-2.08	-1.96	-1.91	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00
Department of Veterans Affairs Home Loan Program ^{d,f}											
Dollar Volume of Annual Loans	157,237	189,824	187,692	215,606	224,341	233,175	242,195	251,473	261,059	270,989	281,291
Share of Originations (Percent)	8.4	8.1	6.7	6.0	6.0	6.3	6.4	6.5	6.5	6.5	6.5
Annual Subsidy Costs	333	2,089	1,082	2,054	2,376	2,584	2,681	2,747	3,302	3,453	3,629
Subsidy Rate (Percent)	0.21	1.10	0.58	0.95	1.06	1.11	1.11	1.09	1.26	1.27	1.29
Government National Mortgage Association Mortgage-Backed Securities Program ^g											
Annual Subsidy Receipts	-1,370	-1,460	-1,700	-2,060	-2,110	-2,130	-2,170	-2,240	-2,310	-2,390	-2,460

FCRA = Federal Credit Reform Act of 1990; FHA = Federal Housing Administration; GNMA = Government National Mortgage Association; MMI = Mutual Mortgage Insurance; VA = Department of Veterans Affairs; n.a. = not applicable.

See next page for notes.

The background is a vibrant, stylized illustration of an urban environment. It features various elements: a construction crane on the left, a multi-story building under construction with workers, a yellow house, a green house with a dog on the roof, a purple house, a forklift, silhouettes of people, and a large dome building with an American flag. The scene is overlaid with a semi-transparent dark layer, and the text is centered in white.

Recapitalizing the GSEs through Administrative Action: Economics and Budgetary Implications

#LiveAtUrban