

Frequently Asked Questions (FAQs)

1. Are the DFAST scenarios that FHFA provides to the Enterprises the same as those that the Federal Reserve Board (FRB) provides to the large bank holding companies (BHCs)?
 - The Dodd-Frank Act requires financial regulators to use generally consistent and comparable stress scenarios. FHFA provides the Enterprises with scenarios that generally align with the FRB's scenarios along with minor variations to address the Enterprises' business model. For example, FHFA expanded the counterparty default component to include counterparties related to the Enterprises' single-family and multifamily guaranty businesses. These include mortgage insurers and providers of multifamily credit enhancements. FHFA also requires the Enterprises to use aligned regional house price paths to improve comparability of results.
2. Are the assumptions made by the FRB in the Severely Adverse scenario appropriate for the Enterprises' unique lines of business?
 - The Enterprises' two major areas of risk exposure are credit risk from the guaranty books of business and market risk from the retained portfolios. The home price declines prescribed in the Severely Adverse scenario for the 2018 DFAST reporting cycle are more conservative (i.e., greater declines) than experienced during the great recession of the late 2000s. Additionally, the severity of the Global Market Shock as prescribed by the FRB for the BHCs has a profound negative impact on the Enterprises' retained portfolios. Together, these scenarios provide appropriate levels of stress testing that are specific to the Enterprises' unique lines of business.



3. Why do FHFA and the Enterprises publish two sets of financial results in the Severely Adverse scenario, one with a valuation allowance on deferred tax assets (DTAs) and one without?
 - In 2008, both Enterprises established a valuation allowance on DTAs which significantly reduced their capital positions. The disclosure of results with and without the establishment of a DTA allowance eliminates the need to assess the recoverability of deferred tax assets in the Severely Adverse scenario. Financial results with and without the establishment of a DTA allowance are provided for comparative purposes and for transparency.

4. Why are the credit losses as a percentage of average loan balance at the Enterprises relatively low compared to the average credit losses reported by the FRB for the large bank holding companies (BHCs)?
 - As a rule, the large BHCs charge off delinquent loans after 180 days. The Enterprises also charge off delinquent loans after 180 days, except in certain specified circumstances (where the loans are not yet deemed uncollectible). The Enterprises analyze loans for collectability and employ loss mitigation strategies that emphasize early intervention by servicers in delinquent loans and offer alternatives to foreclosure by providing servicers with default management programs designed to manage non-performing loans more effectively and to assist borrowers in maintaining home ownership. As part of the loss mitigation activities, servicers contact borrowers who are eligible for the Enterprises' refinance initiatives. When refinancing is not practicable, the Enterprises require servicers first to evaluate the loan for a forbearance agreement, repayment plan, or loan modification. As a result, the Enterprises experience a higher rate of success with borrowers by providing foreclosure alternatives which allow more borrowers to maintain home ownership. This results in more loan modifications and fewer charge-offs. Readers of the Enterprises' DFAST results should also consider the provision for credit loss figures when assessing the Enterprises' credit risk under the Severely Adverse scenario.

