

The ***GSE*** REPORT™

Special Supplement

GSE Debt: Our National Liability?

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GSE Debt: Our Nationalized Liability?

There are more than above-market stock returns behind the popularity Fannie Mae and Freddie Mac enjoy on Wall Street. With the high volume of debt the GSEs are selling, these two firms are among the investment bankers' largest customers. Backed by an implied federal guarantee, Fannie Mae and Freddie Mac can issue debt any time they want. Buyers line up for such low-risk securities, regardless of market conditions. The investment house that captures GSE business is sure to profit.

The pattern of new issues evident in the public debt markets over the past three years shows how Fannie Mae and Freddie Mac are positioning their long-term securities to be the "benchmark" that replaces the dwindling supply of Treasury securities:

Public Market Debt Statistics (\$ billions)

Key Categories of Public Debt Issued :	1997	1998	1999	% Change, '97-'99
Fannie/Freddie GSE debt issued				
Short term	2,532	2,720	2,765	9.2%
Long Term	125	273	260	108.0%
Fannie/Freddie MBSs & CMOs issued	586	788	705	20.3%
Total Fannie/Freddie related issuances	3,355	3,945	3,913	16.6%
Ginnie Mae MBSs & CMOs issued	112	164	183	63.4%
Treasury securities issued				
Short term	1,630	1,530	1,660	1.8%
Long Term	540	438	365	-32.4%
Other Agency debt issued				
Short term	2,895	3,038	3,768	30.2%
Long Term	197	317	276	40.1%
Corporate bonds issued	508	689	677	33.3%
Asset backed securities issued	185	196	197	6.5%
Municipals issued	267	321	263	-1.5%
Total debt issued in eight key sectors	9,577	10,474	11,119	16.1%

Source: The Bond Market Association

In 1999, one-third of the debt issued by these key sectors was related to Fannie Mae and Freddie Mac. By comparison, Treasury securities comprised 18 percent of the market, and all corporate bonds made up 6 percent. While short-term Fannie/Freddie debt issues have remained in the \$2.5 to \$2.7 billion range for the past three years, the amount of long-term debt sold every year has soared from \$125 billion to \$260 billion – an increase of more than 100 percent. The U.S. Treasury sold 32 percent less in long-term securities in 1999 than it did in 1997, and it is

actively repaying debt when it matures. With such dominance, the housing GSEs are stepping into the role of market leaders.

Over time, the GSE dominance of current year issues translates into a growing share of outstanding debt. In the three years from 1997 through 1999, Treasury's share of outstanding debt for these sectors fell from 31 percent to 25 percent, while the GSE Debt/MBS outstandings moved from 22 percent to 24 percent of the total:

Public Market Debt Statistics (\$ billions)

Key Categories of Outstanding Debt:	1997	1998	1999	% Change, '97-'99
Fannie/Freddie debt outstanding	539	748	839	55.7%
Fannie/Freddie MBSs outstanding	\$1,289	\$1,480	\$1,709	32.6%
Fannie/Freddie CMOs outstanding	\$562	\$571	\$610	8.5%
Fannie/Freddie combined debt/MBSs & CMOs	\$2,390	\$2,799	\$3,158	32.1%
Other Agency debt outstanding	454	508	619	36.3%
Ginnie Mae MBSs & CMOs outstanding	555	566	635	14.4%
Treasury securities outstanding	3,457	3,355	3,281	-5.1%
U. S. Corporate debt outstanding	2,346	2,666	3,040	29.6%
Asset-Backed securities outstanding	514	633	743	44.6%
Municipal debt outstanding	1,367	1,464	1,532	12.1%
Total Key Categories of Outstanding Debt	10,521	11,421	12,399	17.9%

Source: The Bond Market Association. Outstanding Treasury securities include only interest-bearing publicly held debt; some year-end 1999 balances are estimated based on preliminary data.

Fannie Mae and Freddie Mac combined are the second largest category of outstanding debt, and their rapid debt growth moves them up the ranks quickly. Using current growth trends, GSE debt/MBS and CMO outstandings will exceed Treasury securities by the end of this year.

Debt Outstanding Projections, based on '97-'99 Actuals (\$ billions)

Year End:	1997	1998	1999	2000
	actual	actual	actual	projected
Fannie/Freddie debt/MBS&CMO outstandings	2,390	2,799	3,158	3,631
% growth		17.1%	12.8%	15.0%
Treasury securities outstanding	3,457	3,355	3,281	3,196
% decline		-3.0%	-2.2%	-2.6%

% growth used in projections is an average of 1998 and 1999 actual

As the taxpayers are paying down the national debt, GSE debt – for which taxpayers are offering an implied guarantee – is rising at an alarming pace.

Fannie Mae and Freddie Mac are quickly on course to be the largest joint debtor in the country. Their debt already exceeds the total amount of U.S. corporate debt outstanding.

Debt Outstanding Projections, based on '97-'99 Actuals (\$ billions)

Year End:	1997	1998	1999
	actual	actual	actual
Fannie/Freddie debt/MBS& CMO outstandings	2,390	2,799	3,158
% growth		17.1%	12.8%
U. S. Corporate debt outstanding	2,346	2,666	3,040
% growth		13.6%	14.0%

% growth used in projections is an average of 1998 and 1999 actual

No wonder Wall Street professionals worry about staying in favor with the GSEs.

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