

Fannie Mae (FNMA)



Source: WSJ.com

Fannie Mae still has \$117BB in preferred stocks outstanding held by the federal government. Also, the FED has warrants which can convert to 80% of the common stock. A lot of buzz surrounding this name since it made a whopping \$17BB in net income in 2012, versus a loss of \$16BB in 2011. The co. paid out \$11BB in dividends to the FED, and a cumulative \$31 BB since 2008. On back of the news, the stock has doubled in the past month, which has a total market cap for common stock at \$1BB.

So how is business? Mark to market, or value to current market price and delinquency rates have improved in the newer portfolio of mortgages, post 2009. FNMA, stated simply, is an issuer of mortgage payments to MBS holders.

- 1) FNMA buys mortgages from banks
 - A. FNMA borrows money by issuing debt in the public market
- 2) FNMA packages the mortgages into MBS
- 3) Private investors invest in the MBS
- 4) Ownership transfers out of the hand of FNMA and to the MBS trust
- 5) FNMA receives money from MBS sale and can payoff the outstanding debt, or purchase more loans

FNMA can hold the loans, and in cases of default, or delinquency, will hold onto the house, or guarantee the timely payment of Principal and interest for a fee (40 bps). Off a \$3 Trillion asset base!!!!, with \$2.6TT in mortgages held by MBS trust, the co. generated a weighted 4% interest income while interest expense is 3.4%. A net 0.6% interest margin is ~\$20 BB. The co. could have been making roughly \$10 BB in operating profit, if there was no credit write off, or reserves held for credit.

Essentially acts like a bank, where they make money off the Net interest margin. Rates are borrowed at really low rates -0.1% for short term and 1.5% for long term. I think what happened in 2008 was the book value was wiped out as the asset value dropped more than the liabilities at hand. So, the government took the co. under conservatorship after injecting \$130 BB. Now the co. has a stable portfolio of assets, which will be used to pay back the government, first via dividend and subsequently repurchase of the preferred stock.

Table 10: Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2012			2011			2010		
	Average Balance	Interest Income/Expense	Average Rates Earned/Paid	Average Balance	Interest Income/Expense	Average Rates Earned/Paid	Average Balance	Interest Income/Expense	Average Rates Earned/Paid
	(Dollars in millions)								
Interest-earning assets:									
Mortgage loans of Fannie Mae	\$ 370,455	\$ 14,255	3.85 %	\$ 392,719	\$ 14,829	3.78 %	\$ 362,785	\$ 14,992	4.13 %
Mortgage loans of consolidated trusts	2,621,317	110,451	4.21	2,596,816	123,633	4.76	2,619,258	132,591	5.06
Total mortgage loans	2,991,772	124,706	4.17	2,989,535	138,462	4.63	2,982,043	147,583	4.95
Mortgage-related securities	268,761	12,709	4.73	316,963	14,607	4.61	387,798	19,552	5.04
Elimination of Fannie Mae MBS held in portfolio	(173,933)	(8,492)	4.88	(202,806)	(10,360)	5.11	(250,748)	(13,232)	5.28
Total mortgage-related securities, net ⁽¹⁾	94,828	4,217	4.45	114,157	4,247	3.72	137,050	6,320	4.61
Non-mortgage securities ⁽²⁾	50,282	71	0.14	71,713	117	0.16	91,613	221	0.24
Federal funds sold and securities purchased under agreements to resell or similar arrangements	38,708	73	0.19	26,045	32	0.12	28,685	62	0.22
Advances to lenders	6,220	123	1.98	3,943	85	2.16	3,523	84	2.38
Total interest-earning assets	\$3,181,810	\$129,190	4.06 %	\$3,205,393	\$142,943	4.46 %	\$3,242,914	\$154,270	4.76 %
Interest-bearing liabilities:									
Short-term debt ⁽³⁾	\$ 102,877	\$ 147	0.14 %	\$ 160,704	\$ 301	0.19 %	\$ 212,784	\$ 619	0.29 %
Long-term debt	561,280	11,925	2.12	585,362	14,711	2.51	583,369	18,857	3.23
Total short-term and long-term funding debt	664,157	12,072	1.82	746,066	15,012	2.01	796,153	19,476	2.45
Debt securities of consolidated trusts	2,697,592	104,109	3.86	2,651,121	119,010	4.49	2,682,434	131,617	4.91
Elimination of Fannie Mae MBS held in portfolio	(173,933)	(8,492)	4.88	(202,806)	(10,360)	5.11	(250,748)	(13,232)	5.28
Total debt securities of consolidated trusts held by third parties	2,523,659	95,617	3.79	2,448,315	108,650	4.44	2,431,686	118,385	4.87
Total interest-bearing liabilities	\$3,187,816	\$107,689	3.38 %	\$3,194,381	\$123,662	3.87 %	\$3,227,839	\$137,861	4.27 %
Net interest income/net interest yield ⁽¹⁾		\$ 21,501	0.68 %		\$ 19,281	0.60 %		\$ 16,409	0.51 %
Net interest income/net interest yield of consolidated trusts ⁽⁴⁾		\$ 6,342	0.24 %		\$ 4,623	0.18 %		\$ 974	0.04 %