MONEY HOUSE

Chris Munson
SVP and Managing Director US Sales and Operations, The Moneyhouse
NMLS #169716
8751 Commodity Circl Ste 17 Orlando, FL 32819

Office: 407-255-2047
Mobile: 704-957-5053
cmunson@moneyhouseus.com

GSEs Report Substantial but Diminishing Profits

Both Fannie Mae and Freddie Mac (the GSEs) released **fourth quarter and year-end results** for their 2015 fiscal years this week. While both GSEs posted **substantial profits** for the year both were substantially **lower** than in 2014. Fourth quarter income in both cases was at least slightly improved.

Freddie Mac regained its footing in the fourth quarter, posting a three-month comprehensive income of **$1.64 billion** compared to more than a half-billion in losses in Quarter Three. Fannie Mae's comprehensive income for the quarter was $2.26 billion, up only slightly from the previous period.

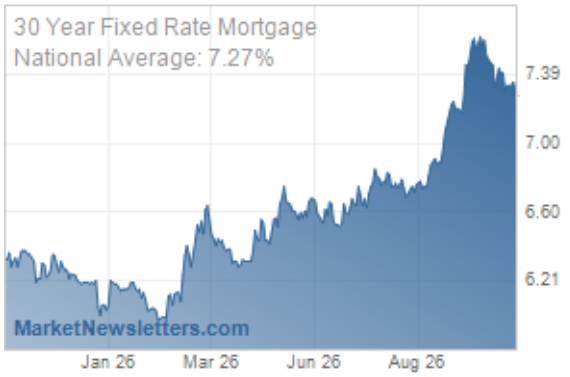
The GSEs are **not permitted to build capital** beyond a buffer reserve that diminishes each year, therefore most of their quarterly profit must be paid to the U.S. Treasury in the form of dividends on senior preferred stock. Freddie Mac will pay a fourth quarter dividend of $1.7 billion in March and Fannie Mae one of $2.9 billion. Prior to the upcoming distributions Fannie Mae will have returned $144.8 billion to the Treasury since being put in receivership in August 2008 and Freddie Mac has paid $96.5 billion. The dividend payments do not reduce their debts to Treasury of $116.1 and $72.3 billion respectively.

For the entire year Freddie Mac reports net income of **$6.4 billion**, down by $1.3 billion from 2014, and comprehensive income of $5.6 billion, a $3.6 billion decrease. The company said this decline was primarily driven by lower settlement income from non-agency mortgage-related securities litigation than in 2014. In addition, there were two market-related items that continued to create volatility.

The company's **single-family** guarantee sector generated net income of $1.78 billion, a gain of $231 million year-over-year. Income from the multi-family book of business was $827 million, about half of the income the prior year. Investments brought in $3.77 billion compared to $4.52 billion in 2014.

There was an estimated after-tax $0.2 billion fair value loss for the full year against a $2.3 billion gain in 2014 as interest rates declined less in the recent year than the prior one. Another $0.1 billion after tax loss come through the impact of spread widening on certain mortgage loans and mortgage-related securities whereas this line item had generated a $2.0 billion gain in 2014. Additionally, the company continues to sell non-performing single-family mortgage loans and reclassified $13.6 billion in unpaid principal balance of loans from held-for-investment to held-for-sale. Very few loans we so

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.81	-0.01
10 YR Treasury	4.9176	-0.0123
30 YR Treasury	5.2847	-0.0235

Pricing as of: 11/2 7:58AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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reclassified in 2014. Net interest income for the full year was $14.26 billion, an increase of $683 million from 2014.

Fannie Mae reported annual net income of **$11.0 billion** and comprehensive income of $10.6 billion compared to $14.21 billion and $14.74 billion respectively the previous year. Net interest income for the year increased by $1.44 billion in 2014 to $21.41 billion and investment gains more than tripled to $1.34 billion. Like Freddie Mac, Fannie Mae attributed at least part of the decline in revenues to a reduction in settlement moneys from lawsuits related to private-label mortgage-backed securities sold earlier to the company.

Decreases in interest rates had a **significant positive impact** on the company's credit losses in 2014 but were not a primary driver of the company's 2015 benefit for credit losses. The company also had increased expenses related to it single family foreclosed properties.

The decrease in 2015 net income was partially offset by **lower fair value losses** due to small decreases in longer term interest rates negatively impacting the value of the company's risk management derivatives.

Fannie Mae's Single Family net income was $5.1 billion compared to $8.5 billion in 2014 and single-family **guaranty fee income was $12.5 billion** compared to $11.7 billion the previous year. The company said these fees became a larger part of the Single-Family guaranty book of business due to the cumulative impact of the g-fee price increases implemented in 2012.

The company's multi-family net income was $1.5 billion for both 2015 and 2014 while income from capital markets was a net of $5.5 billion, down from $8.1 billion.

Freddie Mac said its Legacy Book of loans declined to 16 percent of its credit guarantee portfolio in 2015 from 20 percent the previous year. Its serious delinquency rate was 1.32 percent at the end of 2015 compared to 1.88 percent at the end of 2014.

The **serious delinquency rate** in Fannie Mae's single-family portfolio has declined to 1.55 percent from 1.89 percent during the same period in 2014. The company says its portfolio of single-family loans now has only a 15 percent share of legacy loans originated prior to January 1, 2009. Ten percent of the portfolio consists of Home Affordable Refinance Loans and 8 percent other Refi Plus loans. Thus 67 percent of the portfolio are new single family conventional loans that exhibit much stronger credit profiles than the legacy versions.

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Let our highly experienced reverse mortgage team help your company grow its HECM business.

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