



FREQUENTLY ASKED QUESTIONS: DODD-FRANK ACT STRESS TESTS (DFAST)

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 are similar to those actually 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.





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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 BHCS?

As a rule, the large BHCs charge off delinquent loans after 180 days, which results in higher credit losses during the DFAST planning horizon. The Enterprises typically do not charge off delinquent loans until disposition of the property, which generally requires a significantly longer time horizon resulting in lower credit losses during the DFAST planning horizon.

