



June 7, 2005

CREDIT MARKETS

Fannie, Freddie Are
Expected
To Shorten Up Callable
Debt

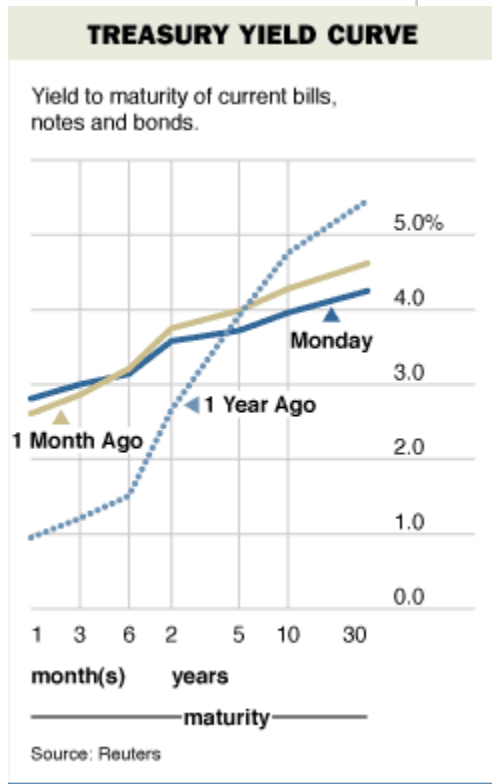
By ALLISON BISBEY COLTER
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Expect **Fannie Mae** and
Freddie Mac to redeem --
and reissue -- a lot more of
their callable debt if interest

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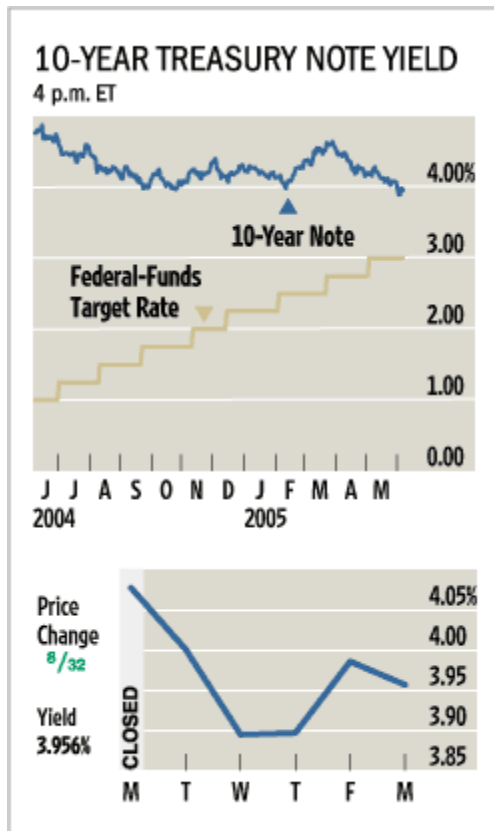


rates stick at current levels or head even lower.

The two government-sponsored housing agencies rely heavily on callable debt to manage the risks of their \$1.5 trillion in combined holdings of mortgage bonds. As interest rates fall, the risk increases that fixed-rate mortgages backing these bonds will be paid off as homeowners refinance, decreasing the duration, or price sensitivity to interest-rate swings, of their portfolios.

Redeeming callable debt and replacing it with debt of a shorter maturity helps Fannie and Freddie to immunize their portfolios against this additional risk.

Last week, after the 10-year Treasury yield fell from 4.07% to 3.80%, Fannie Mae announced plans to redeem \$3.7 billion of callable bonds with maturities as far out as



2017. That is more than all of the housing agencies combined called for the entire month of April, according to Jim Vogel, senior vice president at FTN Financial Capital Markets.

The yield on the benchmark Treasuries issue, which is the baseline for interest rates on mortgages, moved back up near 4% by the end of Friday's session, but Fannie followed up earlier yesterday by calling another \$410 million of bonds.

No one at Freddie was immediately available to provide data on the amount of debt it has called for this month.

At the end of April, Fannie had \$256.5 billion in callable debt outstanding, including fixed callable benchmark and non-benchmark notes as well as floating-rate callable non-benchmark notes. At the end of May, Freddie had \$242.1 billion in callable

debt outstanding, including syndicated and medium-term callable notes.

Redemptions of agency callables were already on the rise before Friday. Mr. Vogel said they increased \$9 billion in May from \$2.5 billion in April. He estimates the housing agencies could call more than \$20 billion of debt this month and will probably call between \$16 billion and \$20 billion in July.

"The brilliance of the system is that when we go through a period of high interest rates, there's an untapped pool of bonds that couldn't be called; then when you get these downturns, there is a pretty good pool with which to make adjustments," the analyst said.

Treasuries

Longer-dated Treasuries attracted buyers, though the market remained cautious ahead of two events this week featuring remarks by Federal Reserve Chairman Alan Greenspan. Short maturities fell slightly.

At 4 p.m., the benchmark 10-year note was up 8/32 point, or \$2.50 per \$1,000 face value, at 101 12/32. Its yield fell to 3.956% from 3.985% Friday, as yields move inversely to prices. The 30-year bond was up 22/32 point at 117 17/32 to yield 4.248%, down from 4.288% Friday.

Emerging-Markets Bonds

On the first day foreign investors were able to trade the new Argentine bonds they received in the country's global debt restructuring, Argentina's local bond market saw those bonds decline in price. The new, peso-denominated discount bond, whose \$5.345 billion issuance made it the biggest available to global market participants, was quoted at 99.80 Argentine pesos (\$34.52), down 1% from 100.90 pesos Friday. The peso par bond closed at 139.35 pesos, down a far bigger 4%.

--Michael Mackenzie, Michael Casey and Drew Benson contributed to this article.

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