

Banking and Finance Law Daily Wrap Up, FINANCIAL STABILITY—FHFA Outlines stress testing scenarios for Enterprises, (Mar. 6, 2026)

Banking and Finance Law Daily Wrap Up

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Annual stress testing is a forward-looking exercise that assesses the impact on capital levels that would result from immediate financial shocks and nine quarters of severely adverse economic conditions.

The Federal Housing Finance Agency has issued separate orders on March 5, 2026, outlining stress-testing scenarios to determine whether [Fannie Mae](#) and [Freddie Mac](#) (the Enterprises) and the 11 Federal Home Loan Banks (FHLBs) have the capital necessary to absorb losses resulting from severely adverse economic conditions. The agency also issued [Summary Instructions and Guidance](#), including revised [templates](#), that both the Enterprises and the FHLBs should use to report the test results.

Section 165(i)(2) of the Dodd-Frank Act requires certain financial entities with total consolidated assets exceeding \$250 billion and regulated by a primary federal financial regulatory agency to conduct periodic stress tests (DFAST) to determine their capital adequacy. These statutory changes became effective on November 24, 2019. DFAST is a forward-looking exercise that assesses the impact on capital levels that would result from immediate financial shocks and nine quarters of severely adverse economic conditions.

FHFA is the primary federal financial regulator of the Enterprises and the FHLBs, and FHFA's stress testing rule establishes the basic requirements for each Enterprise to conduct DFAST, including governance procedures for each Enterprise's board, and reporting of the results.

Stress Testing Scenarios. The FHFA stated that its stress test scenario variables and assumptions are aligned with those used by the Board of Governors of the Federal Reserve System (Fed) in its annual Dodd-Frank Act stress tests, which were issued Feb. 4, 2026.

The Enterprises are required to conduct stress tests based on two hypothetical economic scenarios: [Baseline](#) and [Severely Adverse](#), with each scenario covering domestic and international economic conditions. The stress tests are based on portfolios as of December 31, 2025, and the planning horizon is nine quarters, beginning the first quarter of 2026 and extending through the first quarter of 2028. The results must be reported to the FHFA and the Fed by May 20, 2026; however, public disclosure of the Severely Adverse scenario results will be released between August 1 and August 15, 2026.

Key Assumptions and Variables. The FHFA stated that each Enterprise may use appropriate variables that are applicable to its respective business lines. However, the agency stressed that the Enterprises must test for two key assumptions under the Severely Adverse economic stress scenarios: global market shock assumptions and counterparty default.

Global Market Shock Assumptions. The FHFA's global market shock assumptions are [applied](#) to the Enterprises' trading securities, available-for-sale securities, and other fair value assets as of December 31, 2025, under the Severely Adverse scenario. These securities include a variety of mortgage and real estate-related debt, as well as securitized assets—auto loans, credit cards, derivatives, and corporate debts.

According to the FHFA, "the result of the global market shock is to be taken as an instantaneous loss and reduction of capital in the first quarter of the planning horizon. The global market shock should be treated as an add-on that is exogenous to the macroeconomic and financial market environment specified in the supervisory stress scenario." The Enterprises should assume no recoveries of the losses generated by the global market shock over the nine quarters, and the capital impact of the global market shock is carried over the planning horizon, the agency added.

The FHFA continued, If an Enterprise can demonstrate that its loss-estimation methodology stresses identical positions under both the global market shock and the macroeconomic scenario, the Enterprise may assume that the combined losses do not exceed the losses resulting from the greater of the global market shock losses or the macroeconomic losses.

Counterparty Default Scenario Component. The counterparty default scenario component of the global market shock should be treated as an add-on to the macroeconomic and financial market scenario specified in the Severely Adverse scenario, the FHFA stated. The counterparty default scenario component involves an instantaneous and unexpected default of one of the following, and the potential losses and effects on capital associated with such a default:

- an Enterprise's largest counterparty across its secured and unsecured lending, securities lending, repurchase/reverse repurchase agreements (SFTs), unsecured overnight deposits, and derivative exposures, an Enterprise's largest counterparty across its single-family mortgage insurance providers;
- an Enterprise's largest counterparty across its providers of multifamily credit enhancements;
- an Enterprise's largest counterparty across the Enterprise's CRT reinsurance counterparties; or
- an Enterprise's largest counterparty across the Enterprise's non-bank servicers.

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