



Accounting Policy Group

CONSULTATION MEMO NO: 08-046

Accounting for Preferred Stock Issuance and Warrants Issued to the Treasury

Issuance Date: October xx, 2008

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Background

1. On September 6, 2008, the Board of Directors of Freddie Mac consented to the appointment of a conservator and, in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, FHFA was appointed the Conservator.

2. The conservatorship is a statutory process designed to stabilize the enterprise with the objective of returning Freddie Mac to normal business operations. Upon appointment, the Conservator has all rights, titles, powers, and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to its assets pursuant to the Federal Housing Finance Regulatory Reform Act of 2008. All voting rights of the shareholders were suspended, the powers of the Board of Directors was assumed by the Conservator, ~~all dividends on outstanding preferred and common stock were eliminated for periods subsequent to September 30, 2008, and the par value of the common stock was reduced to zero.~~ During conservatorship, all of the preferred stock and common stock will remain outstanding.

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3. Upon the Director of FHFA's determination that the Conservator's plan to restore Freddie Mac to a safe and sound condition has been completed successfully, the Director will issue an order terminating the conservatorship.

4. On September 7, 2008, the Conservator executed a Preferred Stock Purchase Agreement ("Purchase Agreement") with the Treasury on behalf of Freddie Mac. As consideration for the Treasury's entry into the Purchase Agreement, Freddie Mac has issued \$1 billion aggregate liquidation preference of senior preferred stock ("Senior Preferred Stock") to the Treasury, together with a warrant ("Warrant") for the purchase of common stock representing 79.9% of Freddie Mac's common stock on a fully diluted basis, to be determined as of the exercise date. The warrant is exercisable ~~in whole or in part~~ at any time through September 7, 2028 at a price of \$0.00001 per share. ~~The warrant can be exercised for cash or through a net share settlement.~~

5. The Senior Preferred Stock will pay quarterly cumulative dividends at a rate of 10% per year, or 12% in any quarter in which dividends are not paid in cash, until all accrued dividends have been paid in cash. If FHFA has determined that Freddie Mac's liabilities have exceeded its assets (excluding Treasury's commitment and any unfunded amounts thereof under the Purchase Agreement) under generally accepted accounting principles, the Treasury will contribute funds to Freddie Mac in an amount equal to the difference between such liabilities and assets. The maximum aggregate amount of funding under the Purchase Agreement is \$100 billion. Should a contribution be required, the amount of such contribution will be added to the aggregate liquidation preference of the Senior Preferred Stock. In addition, Freddie Mac will be required to pay a quarterly commitment fee to the Treasury based on the market value of the Treasury's commitment.

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