From: Parrott, Jim <James_M_Parrott@who.eop.gov>
Sent: Friday, August 17, 2012 8:46 AM
To: Bowler, Timothy; Miller, Mary
Subject: FW: Nice - I like it

all the investors will get this very quickly.

From: Mary Goodman [mailto:Mary.Goodman@jaecredit.com]
Sent: Friday, August 17, 2012 8:45 AM
To: Parrott, Jim
Subject: Nice - I like it

Nice - I like it. The assessment I shared with my colleagues is below - FWIW.

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Key issues:

- Faster reduction of mortgage portfolios (not clear whether this implies net sales or whether would be consistent with runoff)
- Ends the payment of high-coupon dividends on USG pref shares – replaces that with a "full income sweep" quarterly – so no chance that GSEs recap themselves through higher earnings

This should have the effect of stretching out the $$$ which the USG has pledged in the backstops to the GSEs. The total $$$ amount on those backstops gets locked in at the end of this year. By ending the high-coupon dividend payments, Treasury reduces the "draws" on the backstops from any quarterly loss. So it leaves more money in the backstop to cover any future real losses that might materialize. (That money could also cover any losses that were materialized through some sort of future restructuring operation in coming years.)

The principle of 'full income sweep of all future earnings to benefit taxpayers" should lay to rest permanently the idea that the outstanding privately held pref will ever get turned back on.

From: Mary Goodman
Sent: Friday, August 17, 2012 8:35 AM
To: Robert Miller; Frederic Ryser; Daniel Gish; Randy Masel; Simon Park; Eugene Burger; Richard Labriola; Dylan Minert
Subject: Treasury Announcement

Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac

8/17/2012
Page Content

Modifications to Preferred Stock Purchase Agreements Will Make Sure That Every Dollar of Earnings Fannie Mae and Freddie Mac Generate Will Benefit Taxpayers

Announcement Will Support the Continued Flow of Mortgage Credit during a Responsible Transition to a Reformed Housing Finance Market

WASHINGTON -- The U.S. Department of the Treasury today announced a set of modifications to the Preferred Stock Purchase Agreements (PSPAs) between the Treasury Department and the Federal Housing Finance Agency (FHFA) as conservator of Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs) that will help expedite the wind down of Fannie Mae and Freddie Mac, make sure that every dollar of earnings each firm generates is used to benefit taxpayers, and support the continued flow of mortgage credit during a responsible transition to a reformed housing finance market.

"With today's announcement, we are taking the next step toward responsibly winding down Fannie Mae and Freddie Mac, while continuing to support the necessary process of repair and recovery in the housing market," said Michael Stegman, Counselor to the Secretary of the Treasury for Housing Finance Policy. "As we continue to work toward bi-partisan housing finance reform, we are committed to putting in place measures right now that support continued access to mortgage credit for American families, promote a responsible transition, and protect taxpayer interests."

The modifications to the PSPAs announced today are consistent with FHFA's strategic plan for the conservatorship of Fannie Mae and Freddie Mac that it released in February 2012. The modifications include the following key components:

Accelerated Wind Down of the Retained Mortgage Investment Portfolios at Fannie Mae and Freddie Mac

The agreements require an accelerated reduction of Fannie Mae and Freddie Mac's investment portfolios. Those portfolios will now be wound down at an annual rate of 15 percent – an increase from the 10 percent annual reduction required in the previous agreements. As a result of this change, the GSEs' investment portfolios must be reduced to the $250 billion target set in the previous agreements four years earlier than previously scheduled.

Annual Taxpayer Protection Plan

To support a thoughtfully managed wind down, the agreements require that on an annual basis, each GSE will – under the direction of their conservator, the Federal Housing Finance Agency – submit a plan to Treasury on its actions to reduce taxpayer exposure to mortgage credit risk for both its guarantee book of business and retained investment portfolio.

Full Income Sweep of All Future Fannie Mae and Freddie Mac Earnings to Benefit Taxpayers for Their Investment

The agreements will replace the 10 percent dividend payments made to Treasury on its preferred stock investments in Fannie Mae and Freddie Mac with a quarterly sweep of every dollar of profit that each firm earns going forward.

This will help achieve several important objectives, including:

- Making sure that every dollar of earnings that Fannie Mae and Freddie Mac generate will be used to benefit taxpayers for their investment in those firms.
- Ending the circular practice of the Treasury advancing funds to the GSEs simply to pay dividends back to Treasury.
- Acting upon the commitment made in the Administration's 2011 White Paper that the GSEs will be wound down and will not be allowed to retain profits, rebuild capital, and return to the market in their prior form.
- Supporting the continued flow of mortgage credit by providing borrowers, market participants, and taxpayers with additional confidence in the ability of the GSEs to meet their commitments while operating under conservatorship.
- Providing greater market certainty regarding the financial strength of the GSEs.

For a copy of the modification agreements for the PSPAs, please visit, link and link.

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