

BRIEFING MEMORANDUM FOR SECRETARY GEITHNER

Event: Meeting with Edward DeMarco, Acting Director FHFA
Date/Loc: Friday, January 6, 2012; 2:30 p.m. – 3:00 p.m.; Secretary's Office
Press: Closed

PRIMARY OBJECTIVE

To discuss the shared goal between the Federal Housing Finance Agency (FHFA) and Treasury to reduce government involvement in the housing market and Treasury's desire to provide the public and financial markets with a clear plan to wind down the Government Sponsored Enterprises (GSEs) over time. Emphasize Treasury is committed to help achieve those objectives.

OVERVIEW

This is a collaborative meeting to address several near-term housing reform initiatives and longer-term programs that Treasury would like to implement in collaboration with the FHFA.

SCENARIO

The meeting will be held in the Treasury Secretary's Office. FHFA Acting Director Edward DeMarco will attend, although it is unclear how many additional individuals from FHFA will participate.

KEY POINTS TO MAKE

- **Topic: Emphasize Treasury is focused on near-term targeted actions to help the housing market recovery.** Ask if there are further steps we can take to ensure success of the Home Affordable Refinance Program (HARP) 2.0, whether FHFA is willing to support the extension / expansion of the Home Affordable Modification Program (HAMP), including making Net Present Value (NPV) positive principal reductions. Highlight Treasury's desire to reduce lender overlays, representation and warranty uncertainties and the need to further explore potential NPV positive equity building refinancing opportunities. Finally, mention you are pleased that the FHFA and Treasury staffs are actively collaborating together on the REO-To-Rental initiative.
- **Topic: Stress Treasury's desire to establish meaningful policies that demonstrate a commitment to winding down the GSEs.** Discuss FHFA's view of the impact on guarantee fees from the recent payroll tax extension legislation and the potential need for further clarification. Highlight the necessity for additional changes, including credit risk syndication, the alignment of payment and servicing standards, and servicer compensation reform. Finally, indicate Treasury would like to explore options regarding the resolution and disposition of legacy assets, potentially including the pursuit of a good bank / bad bank-type strategy in 2012, if economic and consistent with the Enterprises' charters.

- **Topic: Indicate the need to provide sufficient capital support for the GSEs during the transition period and thereafter.** Express willingness to consider restructuring the calculation of Treasury's dividend payments from a fixed 10 percent annual rate to a variable payment based on available positive net worth. Reemphasize desire to explore options for transferring legacy assets to a special purpose vehicle (i.e., the good bank / bad bank strategy) at fair market value (FMV) before the Preferred Stock Purchase Agreement (PSPA) caps are set at the end of 2012.
- **Topic: Highlight that Treasury and the broader Administration are committed to help achieve housing reform.** In addition to making adjustments to the PSPA agreements, express willingness to work with FHFA to draft policy paper(s) on our housing market and GSE reform goals, commit Treasury and Administration personnel, and help coordinate outreach efforts to Congress and the public to ensure the merits of the policy initiatives are communicated appropriately and are well supported.

PARTICIPANTS

Federal Housing Finance Agency

Edward DeMarco, FHFA Acting Director

Others TBD

ATTACHMENTS

1. Abbreviated Agenda for Discussion with FHFA
2. Detailed Agenda for Discussion with FHFA
3. Memo Summarizing the Temporary Payroll Tax Cut Continuation Act of 2011
4. Housing Initiative Timeline Calendar

Clearance Sheet

Event: Meeting with Edward DeMarco, Acting Director FHFA
Drafted: Capital Markets – Jeff Foster, phone 622-2753
Capital Markets – Adam Chepenik, phone 622-2534
Approved: Mary Miller, Assistant Secretary for Financial Markets
Cleared:

Memo

Exec Sec – Sam Valverde and Carlo Passeri **OK** 1/5/12
Capital Markets – Tim Bowler/Jeff Foster **OK** 1/5/12
Domestic Finance – Bret Hester **OK** 1/5/12

Housing Calendar

Exec Sec – Sam Valverde **OK** 1/5/12
Banking and Finance – Peter Bieger **OK** 1/5/12
Financial Institutions – Cyrus Amir-Mokri **OK** 1/5/12
SmBizComDevAffHous – Buzz Roberts **OK** 1/5/12
Cap Markets – Tim Bowler **OK** 1/5/12
Econ Policy – Jan Eberly **OK** 1/5/12
OFS – Tim Massad **OK** 1/5/12
Housing Counselor – Michael Stegman **OK** 1/5/12

FHFA Agenda/Annotated Agenda

Exec Sec – Sam Valverde **OK** 1/5/12
Banking and Finance – Peter Bieger **OK** 1/5/12
Financial Institutions – Cyrus Amir-Mokri **OK** 1/5/12
SmBizComDevAffHous – Buzz Roberts **OK** 1/5/12
Cap Markets – Tim Bowler/Jeff Foster **OK** 1/5/12
Econ Policy – Jan Eberly **OK** 1/5/12
OFS – Tim Massad **OK** 1/5/12
Housing Counselor – Michael Stegman **OK** 1/5/12

Guarantee Fee Summary

Exec Sec – Sam Valverde and Carlo Passeri **OK** 1/5/12
General Counsel – Peter Bieger **OK** 1/5/12
Cap Markets – Tim Bowler/Jeff Foster **OK** 1/5/12