PSPA Covenant and Timing Proposal: July, 30 2012

The Treasury housing team recommends finalizing the PSPA agreement changes next Friday. Key elements of the plan are:

Form and adjustments to the existing agreement

- Finalized and signed changes to the PSPAs to be completed prior to public announcement
- Adjustments to the existing PSPAs
    1. Change 10% dividend to net worth sweep
        - Include a [$2-4B] buffer through year end 2018
    2. Increase the investments portfolio reduction rate from 10% to 15% per annum and require each GSE submit an annual plan to Treasury highlighting how the will reduce their financial and operational risk in conjunction with the reduction
        - This will result in the portfolios reaching their mandated $250B target in 2018, rather than 2022
        - Enables Treasury to have a more pro-active voice in encouraging the GSEs to sell non-core / higher risk legacy assets (NPLSs, PLS, etc…)
    3. Require the GSEs to submit annual plans to Treasury outlining the pro-active steps they are going to take to reduce credit risk with their guarantee business
        - Enables Treasury to have a more active role in encouraging / mandating the GSEs to be more aggressive in managing their credit risk profile as they are "wound down"

Timing

- Announce changes Friday August 10th after markets close. Rationale:
    - GSE's will report very strong earnings on August 7, that will be in-excess of the 10% dividend to be paid to Treasury
    - Highlight Treasury's focus on winding down the GSEs post the disappointing PRA announcement
        - Covenant 2 above could also be "messaged" within the context of our desire to see the GSEs sell NPLs to special servicers who will be "more creative" in how they manage troubled loans
    - Put to rest any near term market concerns on the financial stability of the GSEs

Message

- The proposed changes protect the tax payer interests
    - Tax payer will now benefit from all future earnings at the GSEs
    - GSEs will need to take pro active steps to reduce their risk profile
- The GSEs are being wound down faster and will not return to their past state
    - Investment portfolio reduction will be done in six years not ten
    - GSEs will not build capital and exit conservatorship in their prior form
- Changes will be beneficial to the financial markets as uncertainty will be removed
- Treasury will use the wind down of the portfolios as an opportunity to encourage the GSEs to more effectively manage troubled assets (i.e. sell NPLs to investors who will be more aggressive in loss mitigation)

Ghana
Kenya
* Nigeria
Senegal
Tanzania
x Angola

Rwanda small

Cote d'Ivoire

* Ecobank

EBRD