



## Memo

Date: March 7, 2013

To:


From:

Subject:



### FACTS

The Company is a government sponsored enterprise (“GSE”) chartered by the United States Congress with the mission of supporting the liquidity and stability of the secondary mortgage market and increasing the supply of affordable housing. On September 6, 2008, the Company was put into conservatorship by the Federal Housing Finance Agency (“FHFA”), and the Director of the FHFA was appointed as Fannie Mae’s conservator. As a result, FHFA, in its capacity as conservator, has



To: 

succeeded to obtain (1) all rights, titles, powers and privileges of the Company, and of any shareholder, officer or director of the Company with respect to the Company and its assets, and (2) title to the books, records and assets of any other legal custodian of the Company. FHFA has since delegated specified authorities to the Company's Board of Directors, which in turn delegated to management the authority to conduct the Company's day-to-day operations.

On September 7, 2008, the Company, acting through FHFA as conservator, entered into a senior preferred stock purchase agreement (the "2008 Agreement")<sup>2</sup> with the Treasury. Under the 2008 Agreement, Treasury committed to provide funds on a quarterly basis of up to \$100,000,000,000 to the extent that the Company's total liabilities exceed its total assets (determined in accordance with U.S. GAAP). In exchange, the Company provided Treasury 1,000,000 shares of preferred stock with an initial liquidation preference of \$1,000 per share (a \$1,000,000,000 interest) and warrants to purchase up to 79.9% of the common stock of the Company. The Agreement was amended on May 6, 2009, December 24, 2009 and August 17, 2012. Per the Certificate of Designation of Terms of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 (the "Preferred Stock Certificate")<sup>3</sup>, the Treasury, as holder of the senior preferred stock, is entitled to receive, when and if declared by the Board of Directors, cumulative quarterly cash dividends. Dividends accrue and are payable in arrears, when and if declared by the Board of Directors, on a quarterly basis.

Prior to implementation of the Third Amendment, cumulative cash dividends are paid at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock through December 31, 2012. If at any time during this period, the Company does not pay the cash dividends in a timely manner, then all dividend periods thereafter until the dividend period following the date on which the Company has paid in cash full cumulative dividends (through and including December 31, 2012), the annual dividend rate is 12%.

The Third Amendment modified the dividend amount provision of the senior preferred stock and is effective beginning January 1, 2013. Specifically, for each quarterly dividend period from January 1, 2013 (payable March 31, 2013), the Company is required to pay to the Treasury, when and if declared by the Board of Directors, cumulative cash dividends in an amount equal to a modified dividend amount<sup>4</sup>. The dividend amount is defined as the amount, if any, by which the net worth amount at the end of the immediately preceding fiscal quarter, less a defined capital reserve amount, exceeds zero. The capital reserve amount is \$3 billion for 2013 and will be reduced by \$600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of the Company's net worth, if any, as of the end of the immediately preceding fiscal quarter.

The dividend provisions above are the only dividend rights included in the senior preferred stock. In other words, they do not participate in dividends with common shares (i.e., they are not participating securities).

