

[GSE]¹

Summary of Terms for Keepwell

August [], 2008

This Summary of Terms is not intended to be legally binding on any person or entity, nor is it intended to be a comprehensive list of all relevant terms and conditions of the transactions contemplated herein. Any binding agreement with respect to the matters referred to herein shall be evidenced by appropriate documentation, executed by the applicable parties.

This Summary of Terms shall not constitute an offer to sell, nor the solicitation of an offer to buy, any security or instrument referred to herein.

Purchaser: United States Department of the Treasury (“DOT” or “Purchaser”)

Seller: [GSE] (“[GSE]” or “Seller”)

Purchase Transaction: On the effective date of the transactions contemplated herein DOT will purchase from GSE, and GSE will sell and issue to DOT, the Preferred Stock and Warrants described below. In consideration therefor, DOT will commit (the “Commitment”) to make available to GSE, as set forth below, an amount of cash requested by GSE up to but not in excess of the Deficiency Amount (as defined below).

Preferred Stock: Series [] Variable Liquidation Preference Senior Preferred Stock, with the terms set forth herein and in Annex A hereto.

Warrants: Warrants for the purchase of common stock of GSE representing [51.0%] of the total common stock of GSE on a fully-diluted basis, with the terms set forth herein and in Annex B hereto; provided, that if the Deficiency Amount shall be greater than zero as of the last day of any fiscal quarter of GSE, then the Warrant shall thereafter entitle the holder thereof to purchase 99.0% of the common stock of GSE on a fully-diluted basis.

¹ All information contained in this document shall not be disclosed outside the Government consistent with the Freedom of Information Act (5 U.S.C. 552). Information being delivered to the Department of the Treasury by Wachtell, Lipton, Rosen & Katz and Morgan Stanley (and its advisors), each as a contractor and paid consultant to Treasury, is for the exclusive use by Treasury in its deliberative process antecedent to its adoption of an agency decision. Wachtell, Lipton, Rosen & Katz and Morgan Stanley have no interest or stake in the outcome of that decision-making process. Information delivered by Treasury to Wachtell, Lipton, Rosen & Katz and Morgan Stanley (and its advisors) remains under the control of Treasury and is part of its deliberative process.

Initial Commitment Fee: GSE shall pay to DOT an initial commitment fee, payable as of the effectiveness of the Commitment, in an amount equal to \$[]. The Initial Commitment Fee shall be payable in the form of the initial Liquidation Preference of the Preferred Stock.

Periodic Commitment Fee: GSE shall pay to DOT a periodic commitment fee, payable not later than [45] days after the end of each fiscal quarter of GSE, in an amount equal to []% of the Deficiency Amount as of the last business day of such fiscal quarter. The Periodic Commitment Fee shall be payable, at the option of GSE, in cash or in the form of an increase in the Liquidation Preference of the Preferred Stock.

Deficiency Amount: As of any date of determination, the amount, if any, by which (a) the total liabilities of GSE exceed (b) the total assets of GSE (other than the Commitment), in each case as reflected on the most recent balance sheet of GSE, prepared in accordance with GAAP. For the avoidance of doubt, liabilities shall exclude any obligation in respect of any capital stock of GSE, including the Preferred Stock contemplated herein.

Commitment Term: [30] years.

Right to Call on Commitment: The Seller may call on the Commitment in an amount up to the then existing Deficiency Amount at the earlier of (a) the end of the Commitment Term or (b) ~~any time that GSE shall cease to conduct upon the liquidation of all or substantially all of its existing operations and the Commitment shall not have been transferred in accordance with the terms hereof~~ the assets of GSE.

Covenants:

Payments with Respect to Capital Stock Seller shall not, without the prior consent of Purchaser, make any payment to or on account of its capital stock (other than the Preferred Stock), including preferred dividends, until expiry of the Commitment and redemption in full of the Preferred Stock.

Executive Compensation [discuss desirability of incorporating provisions consistent with §1117(a)/(b) of HERA]

Conservatorship Seller shall not ~~(and conservator of Seller shall not)~~, without the prior consent of Purchaser, terminate (or permit to be terminated) its conservatorship pursuant to ~~[statutory reference]~~ Section 1367 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended), other than in connection with a receivership pursuant to ~~[statutory reference]~~ Section

1367 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended).

Transfers of Assets

Subject to de minimis and ordinary course exceptions to be agreed, Seller shall not, without the prior consent of Purchaser, sell, convey or otherwise transfer to any other person all or any portion of its assets; provided, that, with respect to a conveyance by GSE of all or any portion of its charter, franchise rights, operating platform and other operating assets, such consent shall not be unreasonably withheld if: (i) GSE retains all of its financial assets (including without limitation all mortgage loans, mortgage securities and the Commitment) and financial liabilities, (including without limitation all mortgage loans and mortgage securities and all debt security obligations and MBS/Participation Certificate guaranty obligations), (ii) all operating liabilities corresponding to the transferred assets are also transferred to and assumed by the transferee and (iii) GSE retains operating assets and/or contractual rights sufficient for the efficient and effective realization by GSE of the fair value of the ~~financial~~ assets it retains, in each case to an extent and on terms satisfactory to DOT.

Termination:

The Commitment shall terminate at the expiry of the Commitment Term or, if earlier, upon payment or other satisfaction of all liabilities of GSE, including payment of any amounts that may become payable on, or expiry of, all guaranties of GSE in respect of MBS/Participation Certificates held by third parties.

[capital/market-based termination events]

For the avoidance of doubt, the Commitment shall not be terminable by DOT as a result of (a) the conservatorship, receivership or other insolvency proceeding of GSE or (b) the financial condition of GSE (including by reason of the occurrence of a material adverse change).

**Third-Party
Beneficiaries:**

Subject to the existence and continuance of a payment default with respect to debt securities issued by GSE and/or ~~debt~~passthrough obligations guaranteed by GSE, the obligation of Purchaser to fund the Commitment at the times set forth under the heading "Right to Call on Commitment" above may be enforced by any holder of such defaulted debt securities or guaranties. The Commitment shall not otherwise be enforceable by any creditor of GSE or any other person or entity, other than the Seller and its permitted successors.

- Treatment:** The Commitment will be structured and documented so as to constitute an asset of GSE in accordance with GAAP.
- Non-Transferable;
Successors:** The Commitment may not be assigned or otherwise transferred, in whole or in part, to any person or entity without the prior written consent of DOT, other than to an LLRE to which a receiver has assigned substantially all of GSE's assets. In no event shall any successor to GSE (other than such an LLRE to which a receiver has assigned substantially all of GSE's assets) be entitled to the benefit of the Commitment without the prior written consent of DOT. GSE, its conservator and its permitted successors shall covenant not to transfer the Commitment in contravention of the terms hereof and any such attempted transfer shall be null and void *ab initio*.
- Governing Law;
Jurisdiction; Venue:** The Commitment and the Warrants shall be governed by, and construed in accordance with, applicable federal law and the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of New York. The United States federal courts located in the District of Columbia shall have exclusive jurisdiction for all purposes regarding the Commitment, the Preferred Stock and the Warrants and venue of any action brought hereunder shall be exclusively in the District of Columbia.

Summary of Terms of Preferred Stock

Issuer:	GSE
Securities To Be Purchased:	Newly issued Series [] Variable Liquidation Preference Senior Preferred Stock.
Mandatory Redemption:	Mandatorily redeemable on the [30th] anniversary of the date of the Purchase Transaction or, if earlier, the date that is [one (1)] year following the termination of the Commitment in accordance with its terms, in either case for 100% of the liquidation preference, plus accrued and unpaid Dividends [consider change of control put].
Voluntary Redemptions:	Permissible at any time in whole or in part, at a price equal to the liquidation preference attributable to the portion of the Preferred Stock to be redeemed, plus accrued and unpaid Dividends with respect to such portion.
Liquidation Preference:	The sum of (a) the Initial Commitment Fee , (b) all Deficiency Amounts advanced to GSE pursuant to the Commitment, (b) <u>the Initial Commitment Fee</u> , (c) all accrued and unpaid Periodic Commitment Fees <u>(except to the extent paid in cash)</u> and (d) all accrued and unpaid Dividends, subject to redemption as set forth below.
Cumulative Dividends:	Dividends shall accrue at a rate of []²10.0% per annum, and shall be payable in cash quarterly subject to declaration by the board of directors (or conservator or other authorized person) of GSE. The rate shall be increased to []12.0% at and following any quarter in which the accrued dividend is not paid in cash. All accrued and unpaid dividends shall be added to the Liquidation Preference of the Preferred Stock and shall further accrue dividends at the specified rate.
Ranking:	With respect to dividend rights and rights upon liquidation, winding-up or dissolution of GSE, the Preferred Stock shall rank senior to all preferred stock, common stock and other series of capital stock issued or to be issued by GSE.

Mandatory Redemption:

- ~~• [excess capital sweep]~~
- ~~• [other?]~~

² ~~Floating 30-yr treasury yield? Plus a margin? Step-up over time?~~

[consider whether relevant in absence of liquidity feature]

Voting:

The Preferred Stock shall not be entitled to voting rights other than with respect to amendment of the terms of the Preferred Stock.

Dividend Block:

The terms of the Preferred Stock shall prohibit the declaration and/or payment of dividends with respect to any junior class of capital stock unless and until all Dividends with respect to the Preferred Stock (including those added to the Liquidation Preference) have been paid (or redeemed) in cash.

Summary of Terms of Warrant

Issuer:	GSE
Exercise Price:	[\$ <i>nominal</i>] per share
Shares issuable upon exercise:	<u>[] shares 51.0% of the common stock of GSE with full voting rights on a fully-diluted basis; provided, that if the Deficiency Amount shall be greater than zero as of the last day of any fiscal quarter of GSE, then the Warrant shall thereafter entitle the holder thereof to purchase 99.0% of the common stock of GSE on a fully-diluted basis.</u>
Exercise Terms:	The Warrant may be exercised in whole or in part at any time during the period commencing on the date of issuance and ending on the [30th] anniversary of the date of the Purchase Transaction or, if earlier, the date that is [one (1)] year following the termination of the Commitment by GSE or DOT in accordance with its terms.
Transferability:	The Warrant and the underlying common shares initially will be unregistered and subject to applicable securities laws with respect to transfers. Registration rights TBD.
Anti-Dilution Protections:	Customary and appropriate adjustments to be made to the exercise price and/or number of shares issuable in the event of stock distributions, stock dividends, issuances of common stock below a specified price, and similar corporate events.

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