

PSPA Modification: Key Points To Make

- The Administration remains committed to winding down the GSEs in an orderly and financially prudent fashion.
- ~~Given this commitment and the recent stabilization of the GSEs' financial profile, we believe it is an appropriate time to restructure the financial support agreements Treasury has with the GSEs (the PSPAs) to simplify the arrangements and preserve operating support capacity.~~
- We are in the process of working with the FHFA to modify the dividend Treasury earns on its preferred stock investment. **The current fixed 10% dividend rate will be changed to one where the GSEs will pay to Treasury the net income they earn over time as they are wound down.**
- This is important for a number of reasons:

--It means the taxpayer will benefit from all future earnings of the GSEs
Under the current framework we are limited to the 10% dividend

--It will stop the circular process of the GSEs drawing on Treasury PSPA support in order to pay dividends back to Treasury

--This creates a binding contractual obligation requiring the GSEs to pay all earnings to the Treasury. Dividends, by contrast, are discretionary; the Board must declare a dividend, which can only be paid if the GSE is profitable.

~~-----At the end of 2012 any future support of the GSEs from the PSPA will be capped at \$200 billion.~~

---Future PSPA draws will only be made in the event that the GSEs have operating losses.

--It is consistent with our commitment that the GSEs will not return to their past form.

- The agreement is expected to be finalized later this year, but has been agreed to in principle by both Treasury and FHFA

We believe the taxpayers will be in a better position to benefit from any GSE profits as they are wound down.

In no way does this change impact our pledge to stand behind these institutions' ability to meet their commitments.

Question & Answers

- *Why are you doing this now?*
 - As the Enterprises begin their transition process (per FHFA's strategic plan), we wanted to make it clear to the markets and the housing community [or should we say home owners?] that future PSPA capacity would not be used to fund dividends back to Treasury and that the GSEs pay any and all profits back to the taxpayer.
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- *Is the taxpayer in a worse off position?*
 - No – they are in a better position. Under the current arrangement Treasury's upside was capped at the 10% dividend, now the taxpayer will be the beneficiary of any future earnings produced by the GSEs. Also, the GSEs would be making a binding contractual commitment to turn over profits to taxpayers, as opposed to the current discretionary dividend.
- *Did the year end 2012 expiration of Treasury's ability to provide unlimited support to the GSEs factor into this decision?*
 - As we have always said, "we stand behind these institutions so they can meet [all of] their commitments" and continue to fulfill their important mission
 - Taking this step now is a clear sign the Treasury is fully committed to supporting these organizations as they transition
- *Is the remaining PSPA capacity enough to support the GSEs after 2012? Should investors be worried?*
 - As we have always said, "we stand behind these institutions so they can meet their commitments"

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- ~~Is the tax payer in a worse off position?~~
- ~~No they are in a better position. Under the current arrangement Treasury's upside was capped at the 10% dividend, now the tax payer will be the beneficiary of any future earnings produced by the GSEs~~
 - *Will there be other modifications to the PSPAs?*
 - None are contemplated at this time

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