PSPA Next Steps

Term Sheet: Recommended Changes

Proposed Change	**Details**
Modify 10% Dividend To A Net Worth Sweep	• Quarterly dividend payments starting in [2013] will equal the Net Worth of the GSE (i.e. GAAP Assets *less* Liabilities at quarter end) *less* a predefined Capital Reserve • The Capital Reserve will equal [$3.0B] between [January 2013 - December 2017], after [December 2017] the Capital Reserve will fall to $1.0MM
Accelerated Retained Investment Portfolio Reduction	• The mandatory "run off" factor for the retained investment portfolios will be increased from 10% per annum to 15% until such time that the GSEs portfolios reach a target $250B balance • A 15% requirement results in meeting the $250B target in 2018 vs. 2022 (with the 10% run off factor) • On an annual basis, each GSE will submit a plan to Treasury detailing how they will take steps through their portfolio wind down to reduce their financial and operational risk profile
Annual Plan To Treasury Detailing Steps To Be Taken To Reduce The Risk Profile Of Mortgage Guarantee Business	• On an annual basis each GSE will submit to Treasury a plan that details the steps they will take in the coming year to reduce the risk profile associated with their mortgage guarantee business • The plan should cover their expected usage of credit risk syndication, new forms of mortgage insurance and other risk management steps that will protect the tax payer from future credit losses at the GSEs

Timing

Announce the change in mid August after each GSE releases "record" second quarter earnings

- *Earnings will be in excess of current 10% dividend paid to Treasury*
- Record earnings will be driven by large credit loss reserve release

Rationale

- The changes will reduce the risk of potential financial market uncertainty and volatility
- The changes protect the taxpayer
  - Taxpayer 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 will be wound down faster and will not return to their past state
  - GSEs will not be allowed to build capital and exit conservatorship in their prior form
  - Faster portfolio reduction could help encourage NPL sales to entities that are more aggressive in writing down principal for troubled homeowners