

Hall, Kimberly

From: Jeb.Mason@do.treas.gov
Sent: Sunday, September 07, 2008 11:30 AM
To: Jeb.Mason@do.treas.gov
Subject: Secretary Paulson on Treasury & FHFA action on GSEs
Attachments: 09-07-08 PSPA Fact Sheet.pdf; 09-07-08 GSECF Fact Sheet.pdf; 09-07-08 MBS Fact Sheet.pdf

Please find Secretary Paulson's statement on the GSEs below. Also, please take close note of the following three fact sheets (attached):

1. Treasury Senior Preferred Stock Purchase Agreement
2. GSE Credit Facility
3. GSE Mortgage Backed Securities Purchase Program

All the documents will be available on the Treasury website shortly: www.treas.gov.

WR, -Jeb

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL, 11 a.m. (EDT), September 7, 2008
 CONTACT Brookly McLaughlin, (202) 622-2920

STATEMENT BY SECRETARY HENRY M. PAULSON, JR. ON TREASURY AND FEDERAL HOUSING FINANCE AGENCY ACTION TO PROTECT FINANCIAL MARKETS AND TAXPAYERS

Washington, DC— Good morning. I'm joined here by Jim Lockhart, Director of the new independent regulator, the Federal Housing Finance Agency, FHFA.

In July, Congress granted the Treasury, the Federal Reserve and FHFA new authorities with respect to the GSEs, Fannie Mae and Freddie Mac. Since that time, we have closely monitored financial market and business conditions and have analyzed in great detail the current financial condition of the GSEs – including the ability of the GSEs to weather a variety of market conditions going forward. As a result of this work, we have determined that it is necessary to take action.

Since this difficult period for the GSEs began, I have clearly stated three critical objectives: providing stability to financial markets, supporting the availability of mortgage finance, and protecting taxpayers – both by minimizing the near term costs to the taxpayer and by setting policymakers on a course to resolve the systemic risk created by the inherent conflict in the GSE structure.

Based on what we have learned about these institutions over the last four weeks – including what we learned about their capital requirements – and given the condition of financial markets today, I concluded that it would not have been in the best interest of the taxpayers for Treasury to simply make an equity investment in these enterprises in their current form.

The four steps we are announcing today are the result of detailed and thorough collaboration between FHFA, the U.S. Treasury, and the Federal Reserve.

We examined all options available, and determined that this comprehensive and complementary set of actions best meets our three objectives of market stability, mortgage availability and taxpayer protection.

5/19/2009

Throughout this process we have been in close communication with the GSEs themselves. I have also consulted with Members of Congress from both parties and I appreciate their support as FHFA, the Federal Reserve and the Treasury have moved to address this difficult issue.

Before I turn to Jim to discuss the action he is taking today, let me make clear that these two institutions are unique. They operate solely in the mortgage market and are therefore more exposed than other financial institutions to the housing correction. Their statutory capital requirements are thin and poorly defined as compared to other institutions. Nothing about our actions today in any way reflects a changed view of the housing correction or of the strength of other U.S. financial institutions.

I support the Director's decision as necessary and appropriate and had advised him that conservatorship was the only form in which I would commit taxpayer money to the GSEs.

I appreciate the productive cooperation we have received from the boards and the management of both GSEs. I attribute the need for today's action primarily to the inherent conflict and flawed business model embedded in the GSE structure, and to the ongoing housing correction. GSE managements and their Boards are responsible for neither. New CEOs supported by new non-executive Chairmen have taken over management of the enterprises, and we hope and expect that the vast majority of key professionals will remain in their jobs. I am particularly pleased that the departing CEOs, Dan Mudd and Dick Syron, have agreed to stay on for a period to help with the transition.

I have long said that the housing correction poses the biggest risk to our economy. It is a drag on our economic growth, and at the heart of the turmoil and stress for our financial markets and financial institutions. Our economy and our markets will not recover until the bulk of this housing correction is behind us. Fannie Mae and Freddie Mac are critical to turning the corner on housing. Therefore, the primary mission of these enterprises now will be to proactively work to increase the availability of mortgage finance, including by examining the guaranty fee structure with an eye toward mortgage affordability.

To promote stability in the secondary mortgage market and lower the cost of funding, the GSEs will modestly increase their MBS portfolios through the end of 2009. Then, to address systemic risk, in 2010 their portfolios will begin to be gradually reduced at the rate of 10 percent per year, largely through natural run off, eventually stabilizing at a lower, less risky size.

Treasury has taken three additional steps to complement FHFA's decision to place both enterprises in conservatorship. First, Treasury and FHFA have established Preferred Stock Purchase Agreements, contractual agreements between the Treasury and the conserved entities. Under these agreements, Treasury will ensure that each company maintains a positive net worth. These agreements support market stability by providing additional security and clarity to GSE debt holders – senior and subordinated – and support mortgage availability by providing additional confidence to investors in GSE mortgage backed securities. This commitment will eliminate any mandatory triggering of receivership and will ensure that the conserved entities have the ability to fulfill their financial obligations. It is more efficient than a one-time equity injection, because it will be used only as needed and on terms that Treasury has set. With this agreement, Treasury receives senior preferred equity shares and warrants that protect taxpayers. Additionally, under the terms of the agreement, common and preferred shareholders bear losses ahead of the new government senior preferred shares.

These Preferred Stock Purchase Agreements were made necessary by the ambiguities in the GSE Congressional charters, which have been perceived to indicate government support for agency debt and guaranteed MBS. Our nation has tolerated these ambiguities for too long, and as a result GSE debt and MBS are held by central banks and investors throughout the United States and around the world who believe them to be virtually risk-free. Because the U.S. Government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and MBS.

Market discipline is best served when shareholders bear both the risk and the reward of their investment. While conservatorship does not eliminate the common stock, it does place common shareholders last in terms of claims on the assets of the enterprise.

Similarly, conservatorship does not eliminate the outstanding preferred stock, but does place preferred shareholders second, after the common shareholders, in absorbing losses. The federal banking agencies are assessing the exposures of banks and thrifts to Fannie Mae and Freddie Mac. The agencies believe that, while many institutions hold common or preferred shares of these two GSEs, only a limited number of smaller institutions have holdings that are significant compared to their capital.

The agencies encourage depository institutions to contact their primary federal regulator if they believe that losses on their holdings of Fannie Mae or Freddie Mac common or preferred shares, whether realized or unrealized, are likely to reduce their regulatory capital below "well capitalized." The banking agencies are prepared to work with the affected institutions to develop capital restoration plans consistent with the capital regulations.

Preferred stock investors should recognize that the GSEs are unlike any other financial institutions and consequently GSE preferred stocks are not a good proxy for financial institution preferred stock more broadly. By stabilizing the GSEs so they can better perform their mission, today's action should accelerate stabilization in the housing market, ultimately benefiting financial institutions. The broader market for preferred stock issuance should continue to remain available for well-capitalized institutions.

The second step Treasury is taking today is the establishment of a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Given the combination of actions we are taking, including the Preferred Share Purchase Agreements, we expect the GSEs to be in a stronger position to fund their regular business activities in the capital markets. This facility is intended to serve as an ultimate liquidity backstop, in essence, implementing the temporary liquidity backstop authority granted by Congress in July, and will be available until those authorities expire in December 2009.

Finally, to further support the availability of mortgage financing for millions of Americans, Treasury is initiating a temporary program to purchase GSE MBS. During this ongoing housing correction, the GSE portfolios have been constrained, both by their own capital situation and by regulatory efforts to address systemic risk. As the GSEs have grappled with their difficulties, we've seen mortgage rate spreads to Treasuries widen, making mortgages less affordable for homebuyers. While the GSEs are expected to moderately increase the size of their portfolios over the next 15 months through prudent mortgage purchases, complementary government efforts can aid mortgage affordability. Treasury will begin this new program later this month, investing in new GSE MBS. Additional purchases will be made as deemed appropriate. Given that Treasury can hold these securities to maturity, the spreads between Treasury issuances and GSE MBS indicate that there is no reason to expect taxpayer losses from this program, and, in fact, it could produce gains. This program will also expire with the Treasury's temporary authorities in December 2009.

Together, this four part program is the best means of protecting our markets and the taxpayers from the systemic risk posed by the current financial condition of the GSEs. Because the GSEs are in conservatorship, they will no longer be managed with a strategy to maximize common shareholder returns, a strategy which historically encouraged risk-taking. The Preferred Stock Purchase Agreements minimize current cash outlays, and give taxpayers a large stake in the future value of these entities. In the end, the ultimate cost to the taxpayer will depend on the business results of the GSEs going forward. To that end, the steps we have taken to support the GSE debt and to support the mortgage market will together improve the housing market, the US economy and the GSEs' business outlook.

Through the four actions we have taken today, FHFA and Treasury have acted on the responsibilities we have to protect the stability of the financial markets, including the mortgage market, and to protect the taxpayer to the maximum extent possible.

And let me make clear what today's actions mean for Americans and their families. Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of either of them would cause great turmoil in our financial markets here at home and around the globe. This turmoil would directly and negatively impact household wealth: from family budgets, to home values, to savings for college and retirement. A failure would affect the ability of Americans to get home loans, auto loans and other consumer credit and business finance. And a failure would be harmful to economic growth and job creation. That is why we have taken these actions today.

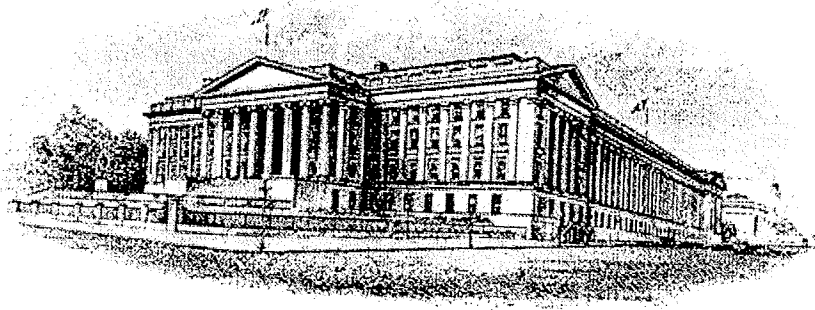
While we expect these four steps to provide greater stability and certainty to market participants and provide long-term clarity to investors in GSE debt and MBS securities, our collective work is not complete. At the end of next year, the Treasury temporary authorities will expire, the GSE portfolios will begin to gradually run off, and the GSEs will begin to pay the government a fee to compensate taxpayers for the on-going support provided by the Preferred Stock Purchase Agreements. Together, these factors should give momentum and urgency to the reform cause. Policymakers must view this next period as a "time out" where we have stabilized the GSEs while we decide their future role and structure.

Because the GSEs are Congressionally-chartered, only Congress can address the inherent conflict of attempting to serve both shareholders and a public mission. The new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market. There is a consensus today that these enterprises pose a systemic risk and they cannot continue in their current form. Government support needs to be either explicit or non-existent, and structured to resolve the conflict between public and private purposes. And policymakers must address the issue of systemic risk. I recognize that there are strong differences of opinion over the role of government in supporting housing, but under any course policymakers choose, there are ways to structure these entities in order to address market stability in the transition and limit systemic risk and conflict of purposes for the long-term. We will make a grave error if we don't use this time out to permanently address the structural issues presented by the GSEs.

In the weeks to come, I will describe my views on long term reform. I look forward to engaging in that timely and necessary debate.

-30-

Jeb J. Mason
Deputy Assistant Secretary
for Business Affairs and Public Liaison
U.S. Department of the Treasury
202-622-9760 (main)
jeb.mason@do.treas.gov



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 11 a.m. (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET: TREASURY SENIOR PREFERRED STOCK PURCHASE AGREEMENT

Fannie Mae and Freddie Mac debt and mortgage backed securities outstanding today amount to about \$5 trillion, and are held by central banks and investors around the world. Investors have purchased securities of these government sponsored enterprises in part because the ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in GSE debt outstanding, and the breadth of these holdings pose a systemic risk to our financial system. Because the U.S. government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

To address our responsibility to support GSE debt and mortgage backed securities holders, Treasury entered into a Senior Preferred Stock Purchase Agreement with each GSE which ensures that each enterprise maintains a positive net worth. This measure adds to market stability by providing additional security to GSE debt holders – senior and subordinated-- and adds to mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

These agreements are the most effective means of averting systemic risk and contain terms and conditions to protect the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

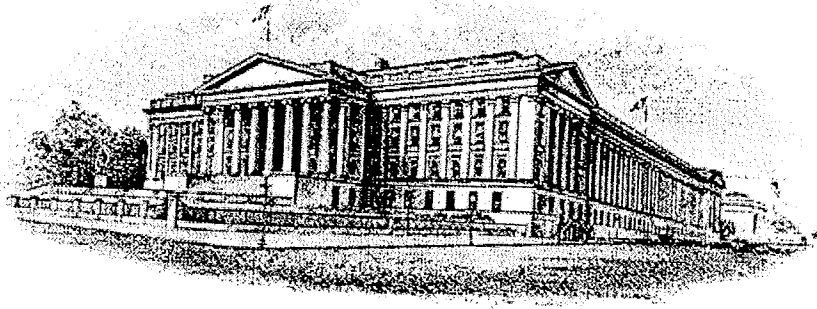
These agreements provide significant protections for the taxpayer, in the form of senior preferred stock with a liquidation preference, an upfront \$1 billion issuance of senior preferred stock with a 10% coupon from each GSE, quarterly dividend payments, warrants representing an ownership stake of 79.9% in each GSE going forward, and a quarterly fee starting in 2010.

Terms of the Agreements:

- The agreements are contracts between the Department of the Treasury and each GSE. They are indefinite in duration and have a capacity of \$100 billion each, an amount chosen to demonstrate a strong commitment to the GSEs' creditors and mortgage backed security holders. This number is unrelated to the Treasury's analysis of the current financial conditions of the GSEs.
- If the Federal Housing Finance Agency determines that a GSE's liabilities have exceeded its assets under generally accepted accounting principles, Treasury will contribute cash capital to the GSE in an amount equal to the difference between liabilities and assets. An amount equal to

each such contribution will be added to the senior preferred stock held by Treasury, which will be senior to all other preferred stock, common stock or other capital stock to be issued by the GSE. These agreements will protect the senior and subordinated debt and the mortgage backed securities of the GSEs. The GSE's common stock and existing preferred shareholders will bear any losses ahead of the government.

- In exchange for entering into these agreements with the GSEs, Treasury will immediately receive the following compensation:
 - \$1 billion of senior preferred stock in each GSE
 - Warrants for the purchase of common stock of each GSE representing 79.9% of the common stock of each GSE on a fully-diluted basis at a nominal price
- The senior preferred stock shall accrue dividends at 10% per year. The rate shall increase to 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.
- The senior preferred stock shall not be entitled to voting rights. In a conservatorship, voting rights of all stockholders are vested in the Conservator.
- Beginning March 31, 2010, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultation with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.
- The following covenants apply to the GSEs as part of the agreements.
 - Without the prior consent of the Treasury, the GSEs shall not:
 - Make any payment to purchase or redeem its capital stock, or pay any dividends, including preferred dividends (other than dividends on the senior preferred stock)
 - Issue capital stock of any kind
 - Enter into any new or adjust any existing compensation agreements with "named executive officers" without consulting with Treasury
 - Terminate conservatorship other than in connection with receivership
 - Sell, convey or transfer any of its assets outside the ordinary course of business except as necessary to meet their obligation under the agreements to reduce their portfolio of retained mortgages and mortgage backed securities
 - Increase its debt to more than 110% of its debt as of June 30, 2008
 - Acquire or consolidate with, or merge into, another entity.
- Each GSE's retained mortgage and mortgage backed securities portfolio shall not exceed \$850 billion as of December 31, 2009, and shall decline by 10% per year until it reaches \$250 billion.



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EMBARGOED UNTIL, 11 a.m., (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET: GOVERNMENT SPONSORED ENTERPRISE CREDIT FACILITY

The Government Sponsored Enterprise Credit Facility (GSECF) announced today by Treasury to ensure credit availability to the housing GSEs is a lending facility that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed.

The facility will offer liquidity if needed until December 31, 2009. The Housing and Economic Recovery Act of 2008 provided Treasury with the authority to establish this facility.

Funding. Funding will be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York (FRBNY) in exchange for eligible collateral from the GSEs which will be limited to guaranteed mortgage backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the Federal Home Loan Banks. All such assets pledged against loans will be accepted with appropriate collateral margins as determined by Treasury.

- The FRBNY will act as Treasury's fiscal agent to advance funds to the GSEs and to administer collateral arrangements.
- Any lending through the GSECF will be directly debited from Treasury's general account and credited to the borrowing GSE's account, both held at the FRBNY.
- Loan requests will require approval from Treasury and verification by the FRBNY that adequate collateral has been pledged.
- Similar to other borrowing done by Treasury, information on any borrowing will be publicly reported at the end of the following day in the Daily Treasury Statement. (<http://www.fms.treas.gov/dts/>)
- Any additional borrowing by Treasury necessitated by this program would be subject to the debt limit.

Loan Duration and Size. Loans will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week.

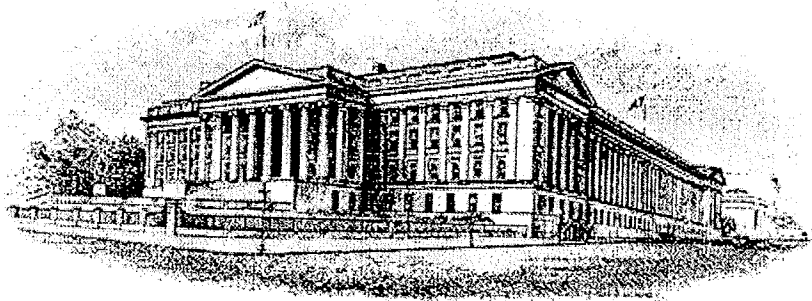
- Specific maturities will be determined based on individual loan requests.
- The term of a loan may not be extended, but a maturing loan may be replaced with a new loan under the same borrowing procedures as the initial loan.

- Loans may be pre-paid with two days notice, and loans may be called before their scheduled maturity date.
- Loan amounts will be based on available collateral.
- Loans will not be made with a maturity date beyond December 31, 2009.

Rate. The rate on a loan request ordinarily will be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points (LIBOR +50 bp). The rate is set at the discretion of the Treasury Secretary with the objective of protecting the taxpayer, and is subject to change.

Collateral. All loans will be collateralized and collateral is limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the Federal Home Loan Banks.

- The collateral will be valued and managed by Treasury's fiscal agent, the FRBNY, based on a range of pricing services.



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EMBARGOED UNTIL, 11 a.m., (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET: GSE MORTGAGE BACKED SECURITIES PURCHASE PROGRAM

Treasury announced a program today to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury will purchase Government Sponsored Enterprise (GSE) mortgage-backed securities (MBS) in the open market. By purchasing these guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

Scope of Program. Treasury is committed to investing in agency MBS with the size and timing subject to the discretion of the Treasury Secretary. The scale of the program will be based on developments in the capital markets and housing markets.

- Congress granted Treasury authority to purchase MBS in the Housing and Economic Recovery Act of 2008. The authority expires on December 31, 2009.
- Treasury will begin later this month by investing in new GSE MBS, which are credit-guaranteed by the GSEs. Additional purchases will be made as deemed appropriate.
- Treasury can hold this portfolio of MBS to maturity and, based on mortgage market conditions, Treasury may make adjustments to the portfolio.

Management. Treasury will designate independent asset managers as financial agents to undertake the purchase and management of a portfolio of GSE MBS on behalf of Treasury.

- The portfolios will be managed with clear investment guidelines and investment objectives.
- The primary objectives of this portfolio will be to promote market stability, ensure mortgage availability, and protect the taxpayer.

Risk. Treasury is committed to protecting taxpayers and will ensure that measures are in place to reduce the potential for investment loss.

- Under most likely scenarios, taxpayers will benefit from this program - both indirectly through the increased availability and lower cost of mortgage financing, and directly through potential returns on Treasury's portfolio of MBS.

Budget Implications. Given that Treasury can hold these securities to maturity, the spreads between Treasury's cost of borrowing and GSE MBS indicate that there is no reason to expect taxpayer losses from this program, and it could produce gains.

- Treasury financing of purchases of GSE MBS will be deemed as outlays and are subject to the statutory debt limit.
- However, Treasury will be receiving an income producing asset (a portfolio of GSE MBS) in return for its invested funds.
- Treasury will make available information on purchases through this program in the Monthly Treasury Statement (<http://fms.treas.gov/mts/index.html>).

Hall, Kimberly

From: Brereton, Peter
Sent: Sunday, September 07, 2008 11:52 AM
To: 'Kevin.Fromer@do.treas.gov'; 'King.Mueller@do.treas.gov'
Cc: Hanley, Joanne
Subject: Director Lockhart Statment and fact sheet on conservatorship

Full statement is at: <http://www.ofheo.gov/newsroom.aspx?ID=456&q1=1&q2=None>

Fact Sheet on Conservatorship is at: www.ofheo.gov/media/pdf/FHFACONSERVQA.pdf

Hall, Kimberly

From: Brereton, Peter
Sent: Sunday, September 07, 2008 4:40 PM
To: 'Kevin.Fromer@do.treas.gov'; 'King.Mueller@do.treas.gov'
Cc: Hanley, Joanne
Subject: Call with Bill Dunke

Kevin and King:

Director just took a call with Bill Duhnke and Mark Oesterle. Questions on how the Conservator would operate, grounds for decision, etc. They are working on a possible Shelby statement that they said they would share if they put it out.

Peter

mberly

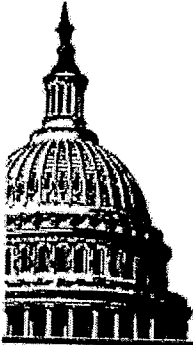
releas

From: Brereton, Peter
Sent: Sunday, September 07, 2008 5:51 PM
To: 'Kevin.Fromer@do.treas.gov'; 'King.Mueller@do.treas.gov'
Subject: FW: SHELBY STATEMENT ON REGULATORS' ACTIONS REGARDING FANNIE MAE, FREDDIE MAC

From: Kuhn, Peggy (Banking) [mailto:Peggy_Kuhn@banking.senate.gov]
Sent: Sunday, September 07, 2008 5:17 PM
To: Brereton, Peter; Hanley, Joanne
Subject: FW: SHELBY STATEMENT ON REGULATORS' ACTIONS REGARDING FANNIE MAE, FREDDIE MAC

FYI. This just went out.

From: Graffeo, Jonathan (Banking)
Sent: Sunday, September 07, 2008 5:07 PM
To: Graffeo, Jonathan (Banking)
Subject: SHELBY STATEMENT ON REGULATORS' ACTIONS REGARDING FANNIE MAE, FREDDIE MAC



U.S. Senate Committee on Banking, Housing, and Urban Affairs

U.S. SENATOR RICHARD C. SHELBY, AL, RANKING MEMBER

PRESS RELEASE
For Immediate Release

Contact: Jonathan Graffeo at (202) 224-0899
Jonathan_Graffeo@banking.senate.gov

SHELBY STATEMENT ON REGULATORS' ACTIONS REGARDING FANNIE MAE, FREDDIE MAC 9-7-08

WASHINGTON, D.C. – Senator Richard C. Shelby, Ranking Member of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, issued the following statement regarding financial regulators' actions with respect to Fannie Mae and Freddie Mac:

“I long advocated for substantive reform of Fannie Mae and Freddie Mac due to the massive risks they posed to taxpayers and the financial system. Unfortunately, by the time others in Congress came to that realization, the reform we passed had to be accompanied by emergency powers for the Treasury Department. Had we acted earlier, we could have avoided our current situation. Now that the old structure has failed, and the Treasury Department has intervened to temporarily shore up the GSEs, we now need to begin a vigorous debate about the future of these entities and the role of Government in our private housing market.”

Hall, Kimberly

From: DeMarco, Edward
Sent: Sunday, September 07, 2008 12:49 PM
To: 'Jim.Wilkinson@do.treas.gov'; Lockhart, James
Subject: RE:

Great, thanks. Just finished the press briefing. AM meeting with Fannie senior team at 1:00 and Freddie at 3:30

From: Jim.Wilkinson@do.treas.gov [mailto:Jim.Wilkinson@do.treas.gov]
Sent: Sunday, September 07, 2008 12:42 PM
To: DeMarco, Edward; Lockhart, James
Subject:

Full outreach plan proceeding as we planned last week... Paulson has already talked to Greenspan, Summers, Snow, etc... he will be talking to key media as well... we have conference calls proceeding as planned as below:

We are hosting a 2 pm call with Wall Street analysts and economists, including all primary dealers and the fred/fan equity and fixed income desks, and some other researchers and economists.

Also hosting a 3 pm call with think tankers, trade associations and other opinion folks.

Also hosting a 4 pm call with CFOs from major firms.

Paulson did a CEO-only call before the announcement to explain.

Also, the international phone calls to central bankers, etc are rolling and going well...

Any concerns on your end?

James R. Wilkinson
Chief of Staff
Department of the Treasury
(202) 622-1906
jim.wilkinson@do.treas.gov

Hall, Kimberly

From: Seth.Wheeler@do.treas.gov
Sent: Sunday, September 07, 2008 5:28 PM
To: Newell, Jamie; Dickerson, Chris; DeMarco, Edward; Roberts, Kyle
Cc: Matthew.Rutherford@do.treas.gov; Peter.McCarthy@do.treas.gov; Jeffrey.Stoltzfoos@do.treas.gov
Subject: FW: GS research on GSE actions
Attachments: GS - Treasury Actions 1 08Sept7.pdf; GS - Treasury Actions 2 08Sept7.pdf

FHFA colleagues -

Matt and I requested research from the Wall St community, we'll collate and send over as part of the Market Rooms operation when received.

Thanks

Seth

Please find attached two research notes from GS.

<<GS - Treasury Actions 1 08Sept7.pdf>> <<GS - Treasury Actions 2 08Sept7.pdf>>

Seth Wheeler - Senior Advisor

U.S. Department of the Treasury

(202) 622-0108

Seth.Wheeler@do.treas.gov



GS Skinny: Treasury Actions Reduce Tail Risks, Positive for Housing and Broader Economy

September 7, 2008

(CLEARED FOR EXTERNAL USE)

BOTTOM LINE: The Treasury's announcement that it will place the GSEs into conservatorship and purchase agency MBS is a very positive step for the housing market and the broader economy. The main benefit is the avoidance of a worst-case scenario in which the GSEs reduced lending to conserve capital. While the move comes with important fiscal consequences and leaves some uncertainty about the longer term prospects of these companies, the macro benefits outweigh these issues.

1. The Treasury has taken a bolder step than most were expecting by exercising several of its newly-granted powers simultaneously. Both GSEs have been placed into conservatorship, which gives the Federal Housing Finance Board (FHFA) authority over most aspects of the GSEs operations. While there is some risk that political considerations could eventually prompt the regulator to restrict lending activity out of concern over the fiscal consequences, there was likely greater risk that if left under private control the GSEs would have curtailed lending to preserve capital. FHFA director Lockhart stated that the GSEs would face no limits on their securitization business and would be allowed to grow their portfolios by \$20 billion per month. Under the terms of the agreement, the GSEs may not increase their portfolios to more than \$850 billion each through the end of 2009, which implies combined cumulative balance sheet growth of no more than \$144 billion. Spread evenly over the next 15 months, this would allow the GSEs to maintain net portfolio purchases of nearly \$10 billion, a slightly faster pace than the average of \$7 billion per month the GSEs have added to their combined balance sheets over the last year.
2. From a macro perspective, the total growth of GSE credit (i.e. the off-balance sheet guarantees as well as the on-balance sheet portfolio) is critical, and this announcement appears to be a very positive step from that perspective. As noted in Friday's US Economics Analyst, the difference between a scenario in which the GSEs keep growing at roughly their current rate, rather than one in which loan growth freezes to conserve capital, is an estimated 1% to 1.5% of GDP growth over a 2 year period. While there is great uncertainty around these estimates, they illustrate that the positive impact on economic growth resulting from the continued functioning of the GSEs is likely to outweigh the negative implications for holders of common and preferred stock, despite some of these being financial institutions themselves.
3. In addition to placing both entities under federal control, the Treasury has also entered into an agreement to purchase senior preferred stock to provide the GSEs with up to \$100 billion each in additional capital, and will purchase \$1 billion in preferred stock immediately. The Treasury will retain warrants as part of the transaction equal to just under 80% of the value of each company. Although the Treasury's authority to purchase securities from the GSEs expires at the end of 2009, the preferred stock agreement announced today would be indefinite,



First thoughts on the market impact of the Treasury's GSE plan (Cleared for External)

September 7, 2008

(CLEARED FOR EXTERNAL USE)

1. Overview of market impact

As aired in the press late on Friday, Freddie Mac and Fannie Mae have been placed into conservatorship, with direct oversight from the Federal Housing Finance Agency. The Treasury has become a direct shareholder in the GSEs, and is initiating a temporary plan to buy new MBS originated by the GSEs. The move is consistent with the US Administration's main aim to secure financial stability first, in the spirit of the Bear Stearns bailout in March and the declaration of the unusual and exigent circumstances by the Federal Reserve Board.

While our views will likely evolve over the next day or two, we offer below our first quick thoughts across asset markets from across our macro strategy groups ahead of the market open. The US Economics group has just released a note covering the action and its economic impact in more detail. In summary, we view the policy announcement as very positive both from reducing systemic risk and the economic tail risk of deeper housing credit contraction. It should be particularly beneficial for high-quality spread products, which we expect to tighten in the coming sessions, and ? at least in the near-term ? for financial stocks and broader equity risk. In FX, there are conflicting cross-currents, but we see it ultimately as more likely to be dollar-positive and to provide a lift to risky EM and carry crosses.

We do not think these fiscal policy initiatives alter the profile for Fed rates over the coming quarters and continue to expect policy rates to be kept on hold at 2%. However, to the extent that these policies support the recovery in housing, they may affect expectations of a faster normalization in the 3-5 year horizon. As such, we expect 5-year Treasuries to underperform on the curve from a rich level. Unlike in March, when investors re-rated financial risks against the backdrop of a stronger economy, the front end of the curve is likely to remain better pegged. Any sell-off in rates markets is likely to be mostly led by the intermediate part of the yield curve. Although the increase in the federal deficit is likely to be relatively small (we are expecting an increase of around 0.5 percent a year over the next few years relative to the baseline), US Treasury securities are likely to remain cheap to OIS.

Of course, the economic context of a severely impaired housing market and damage financial system has not changed, nor the new dynamic of significant non-US slowing. And questions are likely to be asked about what happens after the end of 2009 when Treasury authority is currently planned to end and a planned gradual contraction in GSE assets to begin. By this time, however, the housing market is likely to have stabilised. And we see the policies announced today as a further confirmation of a bipartisan resolve to try new measures if fresh problems emerge.

2. The policy announcement: capital injection, liquidity backstop, MBS purchases

The authorities plan is centred around two mutually reinforcing initiatives, one acting on the

✓

Statement of Federal Housing Finance Agency Regarding Contracts of Enterprises in Conservatorship
September 7, 2008

Freddie Mac

Existing contracts with the Freddie Mac remain in effect. United States federal law overrides any right of Freddie Mac's counterparties to these contracts (including any "qualified financial contracts") to exercise any right to accelerate, terminate, liquidate or net such contracts solely by reason of the appointment of the conservator.

Under the conservatorship, Freddie Mac continues to have the authority to enter into new contracts and the enforceability of such new contracts is not affected by the appointment of the conservator.

Fannie Mae

Existing contracts with the Fannie Mae remain in effect. United States federal law overrides any right of Fannie Mae's counterparties to these contracts (including any "qualified financial contracts") to exercise any right to accelerate, terminate, liquidate or net such contracts solely by reason of the appointment of the conservator.

Under the conservatorship, Fannie Mae continues to have the authority to enter into new contracts and the enforceability of such new contracts is not affected by the appointment of the conservator.

September 7, 2008

FEDERAL HOUSING FINANCE AGENCY



STATEMENT

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

For Immediate Release
September 7, 2008

STATEMENT OF FHFA DIRECTOR JAMES B. LOCKHART

Good Morning

Fannie Mae and Freddie Mac share the critical mission of providing stability and liquidity to the housing market. Between them, the Enterprises have \$5.4 trillion of guaranteed mortgage-backed securities (MBS) and debt outstanding, which is equal to the publicly held debt of the United States. Their market share of all new mortgages reached over 80 percent earlier this year, but it is now falling. During the turmoil last year, they played a very important role in providing liquidity to the conforming mortgage market. That has required a very careful and delicate balance of mission and safety and soundness. A key component of this balance has been their ability to raise and maintain capital. Given recent market conditions, the

balance has been lost. Unfortunately, as house prices, earnings and capital have continued to deteriorate, their ability to fulfill their mission has deteriorated. In particular, the capacity of their capital to absorb further losses while supporting new business activity is in doubt.

Today's action addresses safety and soundness concerns. FHFA's rating system is called GSE Enterprise Risk or G-Seer. It stands for Governance, Solvency, Earnings and Enterprise Risk which includes credit, market and operational risk. There are pervasive weaknesses across the board, which have been getting worse in this market.

Over the last three years OFHEO, and now FHFA, have worked hard to encourage the Enterprises to rectify their accounting, systems, controls and risk management issues. They have made good progress in many areas, but market conditions have overwhelmed that progress.

The result has been that they have been unable to provide needed stability to the market. They also find themselves unable to meet their affordable housing mission. Rather than letting these conditions fester and worsen and put our markets in jeopardy, FHFA, after painstaking review, has decided to take action now.

Key events over the past six months have demonstrated the increasing challenge faced by the companies in striving to balance mission and safety and soundness, and the ultimate disruption of that balance that led to today's announcements. In the first few months of this year, the secondary market showed significant deterioration, with buyers demanding much higher prices for mortgage backed securities.

In February, in recognition of the remediation progress in financial reporting, we removed the portfolio caps on each company, but they did not have the capital to use that flexibility.

In March, we announced with the Enterprises an initiative to increase mortgage market liquidity and market confidence. We reduced the OFHEO-directed capital requirements in return for their commitments to raise significant capital and to maintain overall capital levels well in excess of requirements.

In April, we released our Annual Report to Congress, identifying each company as a significant supervisory concern and noting, in particular, the deteriorating mortgage credit environment and the risks it posed to the companies.

In May OFHEO lifted its 2006 Consent Order with Fannie Mae after the company completed the terms of that order. Subsequently, Fannie Mae successfully raised \$7.4 billion of new capital, but Freddie Mac never completed the capital raise promised in March.

Since then credit conditions in the mortgage market continued to deteriorate, with home prices continuing to decline and mortgage delinquency rates reaching alarming levels. FHFA intensified its reviews of each company's capital planning and capital position, their earnings forecasts and the effect of falling house prices and increasing delinquencies on the credit quality of their mortgage book.

In getting to today, the supervision team has spent countless hours reviewing with each company various forecasts, stress tests, and projections, and has evaluated the performance of their internal models in these analyses. We have had many meetings with each company's management teams, and have had frank exchanges regarding loss projections, asset valuations, and capital adequacy. More recently, we have gone the extra step of inviting the Federal Reserve and the OCC to have some of their senior mortgage credit experts join our team in these assessments.

The conclusions we reach today, while our own, have had the added benefit of their insight and perspective.

After this exhaustive review, I have determined that the companies cannot continue to operate safely and soundly and fulfill their critical public mission, without significant action to address our concerns, which are:

- the safety and soundness issues I mentioned, including current capitalization;
- current market conditions;
- the financial performance and condition of each company;
- the inability of the companies to fund themselves according to normal practices and prices; and
- the critical importance each company has in supporting the residential mortgage market in this country,

Therefore, in order to restore the balance between safety and soundness and mission, FHFA has placed Fannie Mae and Freddie Mac into conservatorship. That is a statutory process designed to stabilize a troubled institution with the

objective of returning the entities to normal business operations. FHFA will act as the conservator to operate the Enterprises until they are stabilized.

The Boards of both companies consented yesterday to the conservatorship. I appreciate the cooperation we have received from the boards and the management of both Enterprises. These individuals did not create the inherent conflict and flawed business model embedded in the Enterprises' structure. I thank the CEOs for their service in these difficult times.

The goal of these actions is to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market. The lack of confidence has resulted in continuing spread widening of their MBS, which means that virtually none of the large drop in interest rates over the past year has been passed on to the mortgage markets. On top of that, Freddie Mac and Fannie Mae, in order to try to build capital, have continued to raise prices and tighten credit standards.

FHFA has not undertaken this action lightly. We have consulted with the Chairman of the Board of Governors of the Federal Reserve System, Ben

Bernanke, who was appointed a consultant to FHFA under the new legislation. We have also consulted with the Secretary of the Treasury, not only as an FHFA Oversight Board member, but also in his duties under the law to provide financing to the GSEs. They both concurred with me that conservatorship needed to be undertaken now.

There are several key components of this conservatorship:

First, Monday morning the businesses will open as normal, only with stronger backing for the holders of MBS, senior debt and subordinated debt.

Second, the Enterprises will be allowed to grow their guarantee MBS books without limits and continue to purchase replacement securities for their portfolios, about \$20 billion per month without capital constraints.

Third, as the conservator, FHFA will assume the power of the Board and management.

Fourth, the present CEOs will be leaving, but we have asked them to stay on to help with the transition.

Fifth, I am announcing today I have selected Herb Allison to be the new CEO of Fannie Mae and David Moffett the CEO of Freddie Mac. Herb has been the Vice Chairman of Merrill Lynch and for the last eight years chairman of TIAA-CREF. David was the Vice Chairman and CFO of US Bancorp. I appreciate the willingness of these two men to take on these tough jobs during these challenging times. Their compensation will be significantly lower than the outgoing CEOs. They will be joined by equally strong non-executive chairmen.

Sixth, at this time any other management action will be very limited. In fact, the new CEOs have agreed with me that it is very important to work with the current management teams and employees to encourage them to stay and to continue to make important improvements to the Enterprises.

Seventh, in order to conserve over \$2 billion in capital every year, the common stock and preferred stock dividends will be eliminated, but the common and all preferred stocks will continue to remain outstanding. Subordinated debt interest and principal payments will continue to be made.

Eighth, all political activities -- including all lobbying -- will be halted immediately. We will review the charitable activities.

Lastly and very importantly, there will be the financing and investing relationship with the U.S. Treasury, which Secretary Paulson will be discussing. We believe that these facilities will provide the critically needed support to Freddie Mac and Fannie Mae and importantly the liquidity of the mortgage market.

One of the three facilities he will be mentioning is a secured liquidity facility which will be not only for Fannie Mae and Freddie Mac, but also for the 12 Federal Home Loan Banks that FHFA also regulates. The Federal Home Loan Banks have performed remarkably well over the last year as they have a different business model than Fannie Mae and Freddie Mac and a different capital structure that grows as their lending activity grows. They are joint and severally liable for the Bank System's debt obligations and all but one of the 12 are profitable. Therefore, it is very unlikely that they will use the facility.

During the conservatorship period, FHFA will continue to work expeditiously on the many regulations needed to implement the new law. Some of the key regulations will be minimum capital standards, prudential safety and soundness

standards and portfolio limits. It is critical to complete these regulations so that any new investor will understand the investment proposition.

This decision was a tough one for the FHFA team as they have worked so hard to help the Enterprises remain strong suppliers of support to the secondary mortgage markets. Unfortunately, the antiquated capital requirements and the turmoil in housing markets over-whelmed all the good and hard work put in by the FHFA teams and the Enterprises' managers and employees. Conservatorship will give the Enterprises the time to restore the balances between safety and soundness and provide affordable housing and stability and liquidity to the mortgage markets. I want to thank the FHFA employees for their work during this intense regulatory process. They represent the best in public service. I would also like to thank the employees of Fannie Mae and Freddie Mac for all their hard work. Working together we can finish the job of restoring confidence in the Enterprises and with the new legislation build a stronger and safer future for the mortgage markets, homeowners and renters in America.

Thank you and I will now turn it back to Secretary Paulson.

Hall, Kimberly

From: Kelly, Austin
Sent: Sunday, September 07, 2008 12:25 PM
To: Pearl, David; !DER
Subject: RE: Paulsen Statement:

Video is available at www.bloomberg.com

From: Pearl, David
Sent: Sunday, September 07, 2008 12:18 PM
To: !OS
Subject: Paulsen Statement:

<http://www.ustreas.gov/press/releases/hp1129.htm>

From: Dickerson, Chris
Sent: Sunday, September 07, 2008 11:43 AM
To: !OS
Subject: the facts

Fact Sheets:

[FHFA Director Lockhart Remarks on Housing GSE Actions](#)

[Fact Sheet: FHFA Conservatorship](#)

[Fact Sheet: Treasury Preferred Stock Purchase Agreement](#)

[Fact Sheet: Treasury MBS Purchase Program](#)

[Fact Sheet: Treasury GSE Credit Facility](#)

Hall, Kimberly

From: Lakroune, Amy [amy.lakroune@OFHEO.GOV]
Sent: Sunday, September 07, 2008 11:23 AM
To: OFHEO-NEWS@ofheo.gov
Subject: STATEMENT OF FHFA DIRECTOR JAMES B. LOCKHART

Full statement is at: <http://www.ofheo.gov/newsroom.aspx?ID=456&q1=1&q2=None>

Fact Sheet on Conservatorship is at: www.ofheo.gov/media/pdf/FHFACONSERVQA.pdf

Hall, Kimberly

From: Seth.Wheeler@do.treas.gov
Sent: Monday, September 08, 2008 5:16 PM
To: Seth.Wheeler@do.treas.gov; Newell, Jamie; Dickerson, Chris; DeMarco, Edward; Roberts, Kyle
Cc: Matthew.Rutherford@do.treas.gov; Peter.McCarthy@do.treas.gov; Jeffrey.Stoltzfoos@do.treas.gov
Subject: RE: GS research on GSE actions
Attachments: Moodys - Zandi 08Sept8.pdf; LEH - Implications for GSEs 08Sept8.pdf; BNP - Initial Thoughts 08Sept8.pdf; ML - Conservator Impact on Equity 08Sept8.pdf; DB - MBS Commentary 08Sept8.pdf; GS - Homebuilders 08Sept8.pdf

Additional research from today

<<Moodys - Zandi 08Sept8.pdf>> <<LEH - Implications for GSEs 08Sept8.pdf>> <<BNP - Initial Thoughts 08Sept8.pdf>> <<ML - Conservator Impact on Equity 08Sept8.pdf>> <<DB - MBS Commentary 08Sept8.pdf>> <<GS - Homebuilders 08Sept8.pdf>>

From: Wheeler, Seth
Sent: Monday, September 08, 2008 9:13 AM
To: Wheeler, Seth; 'Newell, Jamie'; 'Dickerson, Chris'; 'DeMarco, Edward'; 'Roberts, Kyle'
Cc: Rutherford, Matthew; McCarthy, Peter; Stoltzfoos, Jeffrey
Subject: RE: GS research on GSE actions

Ongoing research coverage

<< File: ML - Bazooka 08Sept7.pdf >> << File: BAR - First Thoughts 08Sept7.pdf >> << File: FPK - End of Road 08Sept7.pdf >> << File: BAR - Takeover Implications 08Sept7.pdf >> << File: BAS - Too Big to Liquidate 08Sept7.pdf >> << File: BAR - Credit Market Implications 08Sept7.pdf >> << File: CS - Conservatorship 08Sept7.pdf >> << File: GS - A Pause for Banks 08Sept7.pdf >>

From: Wheeler, Seth
Sent: Sunday, September 07, 2008 5:28 PM
To: Newell, Jamie; Dickerson, Chris; DeMarco, Edward; 'Roberts, Kyle'
Cc: Rutherford, Matthew; McCarthy, Peter; Stoltzfoos, Jeffrey
Subject: FW: GS research on GSE actions

FHFA colleagues -

Matt and I requested research from the Wall St community, we'll collate and send over as part of the Market Rooms operation when received.

Thanks

Seth

Please find attached two research notes from GS.

<< File: GS - Treasury Actions 1 08Sept7.pdf >> << File: GS - Treasury Actions 2 08Sept7.pdf >>

Seth Wheeler - Senior Advisor

U.S. Department of the Treasury

(202) 622-0108

Seth.Wheeler@do.treas.gov

6/1/2009



The Fannie-Freddie Takeover: A Latter-Day RTC



By Mark Zandi in West Chester

September 7, 2008

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- The Treasury's takeover of Fannie and Freddie was a reasonable response to the GSEs' mounting financial problems.
- While Fannie and Freddie shareholders will lose and the move will cost U.S. taxpayers tens of billions of dollars, the housing market will receive an important boost via lower mortgage rates and more available mortgage credit.
- While the effective nationalization of the nation's mortgage market will not forestall further house price declines, it raises the odds that those declines will not exceed 5% to 10% from current levels.
- The takeover will complicate matters for the next president, who must figure out how to gracefully re-privatize these institutions in some form.
- But it significantly reduces the near-term threat to the housing market, financial system and broader economy.

The Treasury Department's historic takeover of Fannie Mae and Freddie Mac is a necessary move that will provide an important boost to the flagging housing market, and by extension to the broader financial system and economy. The two government-sponsored enterprises' finances were apparently worse than their managements had let on, and were deteriorating rapidly. While policymakers will have their hands full for years deciding what to do with these institutions, the immediate impact of the takeover will be to lower mortgage rates and to increase the availability of mortgage credit.

The Treasury's principal actions include:

- Putting Fannie Mae and Freddie Mac under the conservatorship of their newly formed regulator, the Federal Housing Finance Agency.
- Sufficiently recapitalizing the institutions so they can expand their support of the housing market.
- Establishing a new secured lending facility to provide liquidity to Fannie, Freddie and the Federal Home Loan Banks.
- Investing in mortgage-backed securities issued by Fannie and Freddie.

Losers and winners

The biggest losers in the Treasury takeover are Fannie and Freddie shareholders. While their stock certificates weren't literally shredded, as would have been the case if the institutions were put into receivership, common shareholders will likely lose everything, while preferred shareholders are sure to take a massive financial hit. This will complicate matters for those other financial institutions, including many small and midsized commercial banks that hold Fannie and Freddie preferred as part of their capital base.

Implications of the Treasury/FHFA Actions for the GSEs

DETAILS OF THE PLAN

September 8, 2008

Interest Rates Strategy
Amitabh Arora
 212-526-6566
 aarora@lehman.com

Priya Misra
 212-526-6566
 prmisra@lehman.com

MBS Strategy
Vikas Shilpiekandula
 212-526-8311
 vshilpie@lehman.com

Credit Strategy
Ashish Shah
 212-526-9360
 asshah@lehman.com

Jonathan Glionna
 212-526-0328
 joglionn@lehman.com

On Sunday, the Treasury and the regulator of the three GSEs, the Federal Housing Finance Agency (FHFA), announced a four-point plan for Fannie Mae (FNMA) and Freddie Mac (FHLMC):

- **FHFA appointed conservator:** The FHFA establishes control and oversight over FNMA and FHLMC to keep the companies in a safe and solvent condition. Effectively, the conservator acquires all powers of the companies' shareholders/directors, resulting in management changes at both GSEs. A conservator can be appointed if certain capital thresholds are breached¹ or if the regulator deems that the company is in need of reorganization.² The conservatorship will last until the regulator determines that the companies are in a safe and solvent condition. No time frame for such an action was provided. Under this arrangement, the GSEs will no longer pay any common or preferred dividends (although the equity shares will remain outstanding). Importantly, the conservator will enforce all contracts and priority of claims across the capital structure. Note that a conservator cannot liquidate the GSEs (rather, it is supposed to preserve assets).
- **Treasury to inject capital** on a quarterly basis through the purchase of senior preferred stock to ensure that the companies maintain a positive GAAP net worth (as determined by the regulator). The seniority will ensure that the government's capital investment is returned first. Maximum capacity for this program is \$100 billion for each GSE, which will be in place indefinitely.
 - Initially, the Treasury will receive \$1 billion in senior preferred stock with a liquidation preference (with quarterly dividend payments), as well as warrants equal to 79.9% of the common stock of the GSEs. Beginning March 31, 2010, the GSEs will pay a quarterly fee to the Treasury for the support it provides, in order to compensate taxpayers.
 - Without the consent of the Treasury, the GSEs cannot issue debt beyond 110% of the amount outstanding on June 30, 2008 (which was \$811 billion for FNMA and \$874 billion for FHLMC).
 - The GSEs' retained portfolios may not exceed \$850 billion through December 31, 2009, after which time they will be reduced by 10% per year until they reach \$250 billion. As of July 31, the portfolios stood at \$758 billion (FNMA) and \$798 billion (FHLMC).

¹ Capital triggers for conservatorship: significantly undercapitalized—core capital < minimum capital—or critically undercapitalized—core capital < minimum capital, core capital < critical capital, and total capital < risk-based capital

² If the director determines that the GSE cannot meet its obligations, is engaging in actions that will be detrimental to capital, or is operating in an unsafe/unsound manner, among other conditions.



Market Implications of Conservatorship – Initial Thoughts

In an aggressive move to stabilize the U.S. housing market, Secretary Paulson and the director of FHFA, James Lockhart placed both Fannie and Freddie under conservatorship over the weekend. Their action has the support of the Fed, the GSEs' board, key figures in Congress and the presidential nominees of both major parties. Details are as follows:

1. The conservator, FHFA, will operate the companies. In Paulson's words, this will give the mortgage market a 15 month "timeout" and let Congress determine the companies' fate in 2010.
2. The Treasury will buy Senior Preferred Equity of \$1 Billion with 10% dividend in each company and receive warrants for 79.9% of common shares. It may invest up to \$100 Billion preferred in each company, enough to offset GSE losses according to most analyst estimates. To protect taxpayers, dividends on existing common and preferred shares will be suspended. Interest payments from Subordinate debt on up will continue.
3. The GSEs will be allowed to grow their Guarantee business without capital limits, and grow their retained portfolios modestly (up to \$20 Billion/month to replace run-off, up to \$850 Billion by December 2009. Currently they are \$758 and \$798 Billion). Their portfolios will go into run off mode in 2010,
4. The Treasury will buy Agency MBS in the open market to help stabilize the mortgage finance market (\$5 Billion this month). The Treasury will extend secured lending facility to the GSEs at L+50bp.

During conservatorship, the FHFA will assume the power of board and management. Current Fannie and Freddie CEOs are replaced by Herb Allison and David Moffett respectively.

While we have argued¹ for government intervention sooner rather than later, the size, breadth and clarity of the government's action has exceeded our expectations. We summarize our interpretation on debt markets below.

Treasuries – negative. The elimination of tail risks (GSE liquidation), the unwinding of the flight-to-quality trade last week, and the possibility of new issuance to support the GSEs are negatives for Treasuries. We expect the 5yr sector to lead the sell-off.

Agency MBS – strong positive. Buy mortgages and hedge with Treasuries. The U.S. government believes mortgage rates are too high and will backstop valuations. We expect conventionals to tighten against Treasuries by a point (~25bp in spreads) on removal of GSE uncertainty and the gradual return of overseas investors who absorbed ~30% of net supply in 1H 2008 but have stayed on the side lines for the past 2-3 months.

Agency Debt – strong positive. Subordinate holders are the biggest beneficiaries of this intervention. Senior debentures have already tightened. We expect Discount Notes to tighten more against Treasuries than the long end of the curve. There is no explicit government guarantee mentioned yesterday.

Swap Spreads – negative. In addition to the reasons mentioned above for MBS and Agency debentures, we expect swap receiving by convexity hedgers in the 5yr and 10yr sector. Bank losses on Agency Preferred and common equity should be manageable, according to Secretary Paulson and the Federal Reserve.

Volatility – mixed. Gamma should fall due to the removal of some uncertainty. Furthermore, as rates backup as we expect, they will move comfortably away from the extreme lows of late, allowing receiver skew to abate. **The impact on vega is less clear, however.** The market has priced in some possibility of the GSEs' retained portfolio going into runoff mode. The fact that they are allowed to maintain and modestly increase purchases until Dec 2009 should keep a floor on vega in longer tails.

Housing Market – positive. The intent of conservatorship is to help restore confidence in the mortgage market and keep mortgage rates low. In the short term, the GSEs will cease their "foreclosure delay" strategies and foreclosure sales should accelerate on the margin. We view this as a positive development to help bring equilibrium to the housing market.

¹ See the August 28th Market Mover, "Market Implications of GSE Scenarios".

Conservatorship may ease debt concerns, but not equity

Fate of GSEs in question

The Federal Housing Finance Agency (FHFA- newly appointed regulator to the GSEs), with the U.S. Treasury, announced that it is placing Fannie Mae (FNM; C-3-8; \$5.00) and Freddie Mac (FRE; C-3-8; \$3.50) into conservatorship to 1) stabilize financial markets, 2) ensure the availability of affordable mortgage credit, and 3) protect taxpayers interest. FHFA established that it was acting mainly due to concerns about the safety and soundness of the GSEs and their ability to serve their unique housing mission. Treasury took a complementary action to ensure each remain solvent and have liquidity to meet their debt and MBS obligations. As compensation, the Treasury will materially dilute current shareholder interest. Authorities highlighted that the GSE business model was flawed and that the period of conservatorship should be used to address the bifurcation of risk and reward inherent in the current model, raising doubts about the future of the GSEs.

Conservatorship and Treasury hug highly dilutive

FHFA will assume day-to-day responsibilities over each GSE, though it is unclear what actions they will take that could reduce the financial stress on each company or effect future financial performance. It appears that FHFA will focus on credit availability as portfolio caps were lifted through 2010 and it said it would consider pricing changes that ensured mortgage affordability. Treasury effectively controls the financial future of current shareholders, as it will provide the financial backstop for 80% of the equity of each company. Further financial support could be even more dilutive to current holders.

Mission priorities take center stage

It appears the GSEs will be operated to support its primary housing mission for the near-term prior to being reversed to reduce the systemic risk to the market. The portfolios will be allowed to grow to \$850B each from the current \$790B at FRE and \$760B at FNM in an effort to complement the Treasury's purchase of new GSE MBS in the open market. Post 2009, the portfolios will be run-off to \$250B apiece to reduce systemic risk. Pricing decisions also appear on the short list of steps FHFA can take to address mortgage affordability. Policy makers would like to see primary market pricing improve to support the beleaguered housing market, essentially taxing the companies' longer-term earnings.

Reiterate Underperform; Reducing Price Objective

Reducing Price Objective to \$0.50 for FNM and \$0.25 for FRE to reflect significant dilution from Treasury warrants and changes to operating metrics, including larger retained portfolio initially and lower margins. The heightened uncertainty of long-term business model and potential for more dilutive capital infusions for the GSE argue for meaningfully lower valuation. Reiterate Underperform, as we expect further selling as the market assesses increased risk to equity holders.

Price Objective Change

Equity | Americas | Government-Sponsored Agencies
08 September 2008



Merrill Lynch

Kenneth Bruce
Research Analyst
MLPF&S
kenneth_bruce@ml.com

+1 415 676 3545

Cyrus Lowe
Research Analyst
MLPF&S
cyrus_lowe@ml.com

+1 415 676 3523

Chart 1: FNM

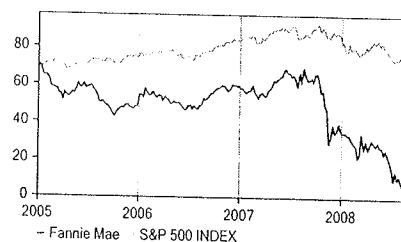
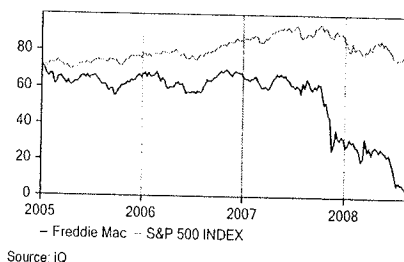


Chart 2: FRE



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Refer to important disclosures on page 9 to 11. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

7 September 2008

Daily MBS Market Commentary

Pass-throughs

Mortgages modestly underperformed both swaps and Treasuries Friday after a weaker-than-expected non-farm payroll report. In the morning rally after the non-farm payroll report was released, convexity-related buying from servicers led mortgages to tighten versus both swaps and Treasuries. As the convexity bid faded in the late morning, we saw more MBS selling than buying for the remainder of the day. Asian investors sold conventionals to buy GNMA, while money managers and leveraged investors sold outright. Origination was light Friday, totaling a little less than \$1 billion for the day. At the 3:00 close, the 30-year FNMA current coupon was 2.5 ticks wider to swaps and 1.5 ticks wider to Treasuries. Up-in-coupon trades modestly outperformed, with 6.5s and 7s the star performers of the coupon stack. The performance of the 15-year sector lagged 30-years again, with the Dwarf current coupon closing 3.5 ticks wider to swaps and 3 ticks wider to Treasuries. Dollar rolls closed down by about another ¼ tick from Thursday's close.

It was a very light trading session for the specified pool market. GNMA trading saw rather heavy but balanced two-way flow Friday. While Asian investors were better buyers of GNMA, some domestic money managers were sellers. GNMA origination was a bit on the light side at about \$200 million. GNMA dollar rolls continued to fall, closing down by about ¼ ticks. GN/FN swaps closed a bit lower Friday, with the 5% and 5.5% swaps down by 2 and 1 ticks, respectively, while the 6% and 6.5% GN/FN swaps were both down by half a tick.

Derivatives and Agency CMO

The Trust market was fairly quiet Friday, with very little in the way of investor flows. However, Trust IOs performed well in dealer-to-dealer trading in the inter-dealer broker screens. The 6% IOs, which closed about 3 ticks tighter to their collateral hedge ratios, were again the star performers of the IO coupon stack. Other actively traded IOs tightened as well, closing tighter by about 2 ticks to their hedge ratios. IO/PO combinations, on the other hand, again traded rather poorly Friday, in line with the performance of seasoned pools in the specified pool market. 5% and 5.5% IO/PO combinations have gone from trading 10 to 12 ticks above TBAs a month ago to trading just 2 to 3 ticks above TBAs. In structured derivatives, we sold a structured IO backed by GNMA collateral to an investor, and continue to see significant investor interest in support POs, which are trading at very wide OASs.

Trading in agency CMOs picked up a little, as we sold VADMs and GNMA-backed short sequentials to domestic investors Friday. Some overseas investors showed interest in long Z-bonds. There were a couple of mid-sized bid lists that came to.

Deutsche Bank Securities Inc.

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Deutsche Bank



Market Strategy

Arthur Frank

Research Analyst
(+1) 212 250-6156
arthur.frank@db.com

Marc Silie

Strategist
(+1) 212 250-6405
marc.silie@db.com

Adam Rothschild

Research Analyst
(+1) 212 250-6499
adam.rothschild@db.com

08 Sep 2008 - 07:25:59 AM EDT

INDUSTRY ALERT**Industry Announcement****Building & Building Products - GSE bailout positive but sustainable impact on housing less****Focus stocks**Centex (CTX.N), USD16.67 Buy,
Price Target USD20.00

Homebuilder stocks should react positively to the news of a GSE bailout along with the rest of the market; however in terms of underlying housing fundamentals GSE bailout may join a long list of policy initiatives that avert an extreme worst case but aren't enough to turn the tide. Near-term the worst case scenario of a breakdown in the GSEs guarantee business has been taken off the table and there is potential for quick easing of mortgage rates/standards. As we have written before, the govt has consistently acted to prevent extreme worst-case scenarios from coming to fruition and the GSE bailout is no exception. The key medium-term issue for housing is the impact on mortgage rates/standards and whether the rescue will ease them materially. There is still downward momentum in home prices & rates/standards would have to fall meaningfully to alter the current trajectory.

We identify four principal drivers in the housing correction and the GSE bailout only addresses one of them (tightening mortgage rates). The other three, including excess vacant inventory, foreclosures and unwinding sentiment aren't helped by this bailout. Moreover the medium term impact of the bailout on mortgage rates/standards is clouded by uncertainties such as the size of the Treasury's commitment to purchase MBS, the mandate for the GSEs to shrink post 2009 & whether the rest of the market will follow the Treasury's lead.

Overall, the GSE bailout is the most important new policy initiative since the Frank-Dodd bill was announced earlier this year and it certainly makes us more hopeful that housing stabilization is achievable sooner, however the housing downturn has stubbornly resisted policy measures so far, especially those aimed at the mortgage market.

Nishu Sood, CFA
Research Analyst
(+1) 212 250-4756
nishu.sood@db.com

Rob Hansen
Research Associate
(+1) 212 250-5182
rob.hansen@db.com

Deutsche Bank Securities Inc.

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

September 10, 2008

The Honorable James B. Lockhart III
Director
Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552

Dear Director Lockhart:

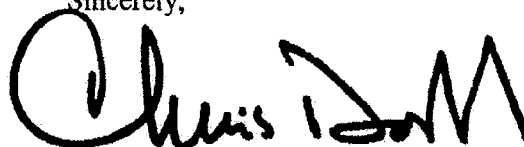
On behalf of the Senate Committee on Banking, Housing and Urban Affairs, I am writing to confirm that you will testify before the Committee at our hearing entitled, "Recent Regulatory Actions Regarding Fannie Mae and Freddie Mac." The hearing is scheduled for Tuesday, September 16, at 10:00 A.M. in Room 538 of the Dirksen Senate Office Building.

The Committee requests that your testimony address the basis for your decision to exercise the authority granted to you in the Housing and Economic Recovery Act of 2008 to place the enterprises into conservatorship, and the analysis you used to determine that taking such action was necessary. Please describe how your actions were coordinated with those of Secretary of the Treasury Paulson. In addition, your testimony should include your views on the impact these combined actions will have on the mortgage markets, on American homeowners, and on taxpayers.

For purposes of the Committee Record and printing, your written statement must be submitted in electronic form by e-mail to jonathan_miller@banking.senate.gov and dawn_ratliff@banking.senate.gov, or on a CDRW in WordPerfect (or other comparable program) format, double spaced. Also, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. Your statement should be sent no later than 24 hours prior to the hearing. Your oral statement should be approximately 5 minutes in duration. Your full statement will be made part of the hearing record.

If you have any questions regarding the hearing, please contact Jonathan Miller of the Committee staff at 202-224-7391.

Sincerely,



CHRISTOPHER J. DODD
Chairman

Hall, Kimberly

From: Jim.Wilkinson@do.treas.gov
Sent: Friday, September 12, 2008 5:51 PM
To: Lockhart, James; DeMarco, Edward; Peter.McCarthy@do.treas.gov
Subject: Fw: BLMBRG - FHFA May Limit Golden Parachutes for Fannie, Freddie (Update1)

----- Original Message -----

From: McLaughlin, Brookly
To: _DL_FYI; Albrecht, Stephen; Broome, Meredith; Cvitan, Sandra; Davis, Michele; Foley, Trip; Fromer, Kevin; Hong, Austin; Jaconi, Kristen; Jester, Dan (Contractor); Kane, Lauren; Mason, Jeb; McCormick, David; McDonnell, Tara; Mueller, King; Norton, Jeremiah; Pedroni, Michael; Robertson, William; Rutherford, Matthew; Ryan, Tony; Schaffer, Laurie; Schultheiss, Heidilynne; Shafran, Steven; Stoltzfoos, Jeffrey; Ugoletti, Mario; Via, Stafford; Wheeler, Seth; Wilkinson, Jim; Wilson, Ken (Contractor); Zuccarelli, Jennifer
Sent: Fri Sep 12 17:48:38 2008
Subject: BLMBRG - FHFA May Limit Golden Parachutes for Fannie, Freddie (Update1)

FHFA May Limit Golden Parachutes for Fannie, Freddie (Update1)
2008-09-12 21:46:43.950 GMT

(Adds congressional action in third paragraph.)

By Dawn Kopecki

Sept. 12 (Bloomberg) -- The regulator for Fannie Mae and Freddie Mac is seeking to limit golden-parachute payments for departing executives and board members now that the companies are under federal control.

The Federal Housing Finance Agency today proposed the new rule, which would also apply to contractors, outside lobbyists, business partners and shareholders. Executives and directors would also need the FHFA's approval to have their legal costs covered by the usual directors and officers' liability protection, according to the proposed regulation.

FHFA Director James Lockhart and Treasury Secretary Henry Paulson placed Fannie and Freddie into conservatorship Sept. 7 after federal examiners found that their capital was too thin and of low quality. The proposed rule will be open for public comment for 45 days after it is published in the Federal Register. The rule will also apply to the 12 regional Federal Home Loan Banks.

U.S. senators urged the regulator of Fannie Mae and Freddie Mac to trim or eliminate bonuses for former chief executive officers Daniel Mudd and Richard Syron, ousted when the conservatorship was put in place.

"We find it way out of line that these two executives will be rewarded with millions of dollars in bonus compensation at a time when taxpayer dollars may have to be deployed to cover any financial losses caused by errors in management," Democrats Charles Schumer of New York and Jack Reed of Rhode Island wrote Lockhart in a Sept. 9 letter.

'Quickly Review'

Mudd and Syron may receive more than \$24 million in so-called golden-parachute payments triggered after the U.S. took over the companies, according to estimates by the Senate Banking Committee members. Lockhart and Paulson tapped Herbert Allison, 65, former CEO of TIAA-CREF, to lead Washington-based Fannie, and David Moffett, 56, a Carlyle Group executive and former vice chairman of U.S. Bancorp, to lead McLean, Virginia-based Freddie.

6/1/2009

Schumer and Reed urged Lockhart to "quickly review" their pay packages and "substantially reduce or eliminate them" where appropriate.

Senator Richard Durbin, an Illinois Democrat and assistant Democratic leader, today urged Paulson, Lockhart, Allison and Moffett to deny pay deals for Syron and Mudd.

"Our focus ought to be on stabilizing the housing market and helping families stay in their homes, not on compensating failed leadership," Durbin wrote.

Losses

The beleaguered mortgage-finance companies, which own or guarantee nearly half of the \$12 trillion U.S. home loan market, were placed under federal control for the first time in about 40 years after their \$14.9 billion in net losses threatened to further disrupt the housing market.

The Treasury committed to invest as much as \$200 billion in preferred stock and extend credit through 2009 to prevent a collapse of Fannie and Freddie, protecting investors owning more than \$5 trillion of their debt and mortgage-backed securities.

For Freddie Mac earnings: {FRE US <Equity> TCNI ERN <GO>}
For news on Fannie Mae earnings: {FNM US <Equity> TCNI ERN <GO>}
For news on agency mortgage bonds {TNI AGE US BN <GO>}
News on mortgage delinquencies, foreclosures: {STNI MORDEL <GO>}
Top bond news: {TOP BON <GO>}

--With reporting by Alison Vekshin in Washington. Editors: Emma Moody, Alan Goldstein

To contact the reporter on this story:
Dawn Kopecki in Washington at +1-202-624-1915 or
dkopecki@bloomberg.net.

To contact the editor responsible for this story:
Emma Moody at +1-212-617-3504 or
emoody@bloomberg.net.

Hall, Kimberly

From: Mullin, Stefanie [stefanie.mullin@OFHEO.GOV]
Sent: Friday, September 12, 2008 4:19 PM
To: OFHEO-NEWS@ofheo.gov
Subject: FHFA STATEMENT

FEDERAL HOUSING FINANCE AGENCY



STATEMENT

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

For Immediate Release
September 12, 2008

FHFA STATEMENT OF SUPPORT FOR MULTIFAMILY HOUSING FINANCE ACTIVITIES OF THE ENTERPRISES WHILE IN CONSERVATORSHIP

<http://www.ofheo.gov/newsroom.aspx?ID=461&q1=1&q2=None>

Correction Notice:

The following information was corrected in this document on September 26, 2008, at 5 p.m. "For Fannie Mae, roughly 28 percent of new business in the first half of 2007 was in Alt-A and interest-only products versus 26 percent in 2005."

The sentence previously included a figure of 40 percent, which was in error.

**Statement of
The Honorable James B. Lockhart III, Director
Federal Housing Finance Agency
Before the Senate Committee on
Banking, Housing, and Urban Affairs
on the Appointment of FHFA as Conservator for
Fannie Mae and Freddie Mac
September 23, 2008**

Chairman Dodd, Ranking Minority Member Shelby, and members of the Committee, thank you for the opportunity to testify on recent regulatory actions taken by the Federal Housing Finance Agency (FHFA) at Fannie Mae and Freddie Mac.

Fannie Mae and Freddie Mac share the critical mission of providing stability, liquidity, and affordability to the housing market. Between them, these Enterprises have \$5.3 trillion of guaranteed mortgage-backed securities (MBS) and debt outstanding, which is equal to the publicly held debt of the United States. Their market share of all new mortgages was 76 percent during the first half of this year. During the turmoil that started last year, they have played a very important role in providing liquidity to the conforming mortgage market. That has required a careful and delicate balance of mission with safety and soundness. A key component of this balance has been their ability to raise and maintain capital. Because of recent market conditions, that balance was upset. Unfortunately, as house prices, earnings and capital have continued to deteriorate, their ability to fulfill their mission has deteriorated. In particular, the capacity to raise capital to absorb further losses without Treasury Department support vanished. That left both Enterprises unable to provide counter-cyclical support. Worse, it threatened to require substantial shedding of current positions with attendant further damage to mortgage and housing markets.

In retrospect and despite OFHEO's surplus capital requirements, portfolio caps, and repeated warnings about credit risk, the credit profile at both Enterprises followed the market down in 2006 and 2007 – without commensurate pricing for risk. They bought or guaranteed many more low documentation, low verification and non-standard ARM mortgages than they had in the past. For example, for the first half of 2007, roughly one-third of the Enterprises' new business was composed of Alt-A

(less than standard documentation), interest-only, or Option ARM products, and mortgages with layered (multiple) risk characteristics vs. 14 percent in 2005. For Fannie Mae, roughly 28 percent of new business in the first half of 2007 was in Alt-A and interest-only products versus

26 percent in 2005. The quality of their holdings of private-label mortgage securities (PLS) issued by others also deteriorated. The portfolio caps restrained the size of their PLS books, but maturing subprime and Alt-A PLS were replaced by PLS from the much riskier 2006 and 2007 origination years. As house prices turned down, delinquencies, foreclosures, real-estate owned, losses and reserves against future losses soared.

Over the last several years OFHEO, now FHFA, worked hard to encourage the Enterprises to rectify their accounting, internal controls systems and risk management issues. Both Enterprises and their dedicated managers and employees made good progress in many areas, but market conditions overwhelmed that progress. Their antiquated capital structures even with the OFHEO additional requirement were not adequate for this market.

The result was that the Enterprises were unable to provide needed stability to the market. They also found themselves unable to meet their affordable housing mission. Rather than letting these conditions fester and worsen and put the mortgage and overall financial markets in further jeopardy, FHFA, after painstaking review, decided to take action. The goal of these dual conservatorship actions is to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and reduce the systemic risk that would have exacerbated the instability in the current market.

The Determination to Appoint a Conservator

FHFA based its determination that grounds existed to appoint a conservator for the Enterprises, and that it was necessary to do so, on five key areas, each of which worsened significantly over the past two months:

1. Accelerating safety and soundness weaknesses, especially with regard to credit risk, earnings outlook, and capitalization;
2. Continued and substantial deterioration in equity, debt, and MBS market conditions;
3. The current and projected financial performance and condition of each company as reflected in its second quarter financial reports and our ongoing examinations;
4. The inability of the companies to raise capital or to issue debt according to normal practices and prices; and
5. The critical importance of each company in supporting the country's residential mortgage market.

Over the last month I shared our growing concerns with the Chairman of the Federal Reserve Board, Ben Bernanke, who was made our consultant by the recent legislation, and with Secretary Paulson. After I presented my assessment of these developments to each of the companies with Chairman Bernanke and Secretary Paulson, their CEOs and boards consented to the appointment of a conservator. I would like to trace for you these developments and how, taken together, they led FHFA to this conclusion.

In August of last year, it became apparent that the boom in subprime and nontraditional lending was coming to an abrupt end. In particular, subprime loans originated in 2006 and 2007 have been found to be far less creditworthy than market participants had expected. The downturn in

house prices in many markets across the nation accelerated the growing recognition of the poor credit quality of these loans.

Through the fall and then winter, the market continued to struggle as house price declines continued and delinquencies rose. Liquidity in PLS backed by subprime and Alt-A loans evaporated, and prices fell due to growing liquidity and credit concerns. In the fourth quarter, with our strong urging, Fannie Mae and Freddie Mac raised \$13.9 billion in preferred stock. As house prices continued to fall, concern spread from subprime to Alt-A mortgages, and then finally to prime mortgages. These concerns have been driven by the continued deterioration in house prices coupled with the alarming increase in mortgage delinquencies and defaults, even among prime mortgages.

In March, we announced with the Enterprises an initiative to increase mortgage market liquidity and market confidence. We reduced the OFHEO-directed capital requirements in return for their commitments to raise significant capital and to maintain overall capital levels well in excess of requirements. Fannie Mae raised \$7.4 billion in May, but Freddie Mac never fulfilled its commitment to raise capital.

As described in our April 2008 Annual Report to Congress, OFHEO continued to classify each company as a significant supervisory concern. In that report, we described the significant remediation progress that took place during 2007 but pointed specifically to concerns with the deteriorating credit environment and the risks it posed to the companies. Over the summer, we intensified our focus on a full range of credit-related issues, including loan loss reserving, securities valuation, and the management of real-estate owned (REO) due to foreclosures.

It became apparent during this intense supervisory review that market conditions were deteriorating more quickly than the companies had anticipated and more quickly than they could respond to by adjusting their models and forecasts. After the late-July enactment of the Housing and Economic Recovery Act of 2008, and as provided by that act, we supplemented our own examination activity with consultations with senior mortgage credit examiners from the Federal Reserve and the Office of the Comptroller of the Currency. These examiners assisted and corroborated our own analysis of the deteriorating credit environment and its implications for the companies. It was clear that capital would be threatened by increasing loss reserves, impairments, counterparty risks and other accounting issues.

During the last part of July and in August, FHFA was completing its confidential semi-annual examination ratings. FHFA's rating system is called GSE Enterprise Risk or G-Seer. It stands for Governance, Solvency, Earnings and Enterprise Risk which includes credit, market and operational risk. There were significant and critical weaknesses across the board, which continued to worsen after the end of the second quarter.

The Enterprises themselves disclosed how the rapidly changing credit environment was affecting their outlook. Notably, in its second quarter 10Q filing, Fannie Mae took the unusual step of providing a statement on post-closing developments, describing the effect that market events in July had on the company's outlook:

“In mid-July, following the close of the second quarter, liquidity and trading levels in the capital markets became extremely volatile, and the functioning of the markets was disrupted. The market value of our common stock dropped rapidly, to its lowest level since October 1990, and we experienced reduced demand for our unsecured debt and MBS products. This market disruption caused a significant increase in our cost of funding and a substantial increase in mark-to-market losses on our trading securities arising from a significant widening of credit spreads. In addition, during July, credit performance continued to deteriorate, and we recorded charge-offs and foreclosed property expenses that were higher than we had experienced in any month during the second quarter and higher than we expected, driven by higher defaults and higher loan loss severities in markets most affected by the steep home price declines. Greater credit losses in July not only reduce our July net income through our actual realized losses, but also affect us as we expect that we will need to make further increases to our combined loss reserves in the second half of 2008 to incorporate our experience in July.” (FNMA Form 10-Q, August 8, 2008, pages 5-6)

Freddie Mac also announced adverse recent developments under “Recent Events” on page 1 of its 10-Q, including its expectation of a substantial dividend cut in the third quarter to conserve capital, a highly dilutive capital raise, and limitations on its ability to serve its mission as a result of efforts to conserve capital:

“Since mid-June 2008, there has been a substantial decline in the market price of our common stock. The market conditions that have contributed to this price decline are likely to affect our approach to raising new core capital including the timing, amount, type and mix of securities we may issue. We have committed to the Office of Federal Housing Enterprise Oversight, or OFHEO, to raise \$5.5 billion of new capital. We remain committed to raising this capital given appropriate market conditions and will evaluate raising capital beyond this amount depending on our needs and as market conditions mandate.

“Our financial performance for the second quarter, while reflecting the challenges that face the industry, leaves us capitalized at a level greater than the 20% mandatory target capital surplus established by OFHEO and with a greater surplus above the statutory minimum capital requirement. Given the challenges facing the industry, we expect to take actions to maintain our capital position above the mandatory target capital surplus. Accordingly, subject to approval by our board of directors, we currently expect to reduce the dividend on our common stock in the third quarter of 2008 from \$0.25 to \$0.05 or less per share and to pay the full dividends at contractual rates on our preferred stock. In addition, we continue to review and consider other alternatives for managing our capital including issuing equity in amounts that could be substantial and materially dilutive to our existing shareholders, reducing or rebalancing risk, slowing purchases into our credit guarantee portfolio and limiting the growth or reducing the size of our retained portfolio by allowing the portfolio to run off and/or by selling securities classified as trading or carried at fair value ...” (FHLMC Form 10-Q, August 6, 2008, page 1)

As noted earlier, Freddie Mac never fulfilled its March 2008 commitment to raise capital. Its own projections as disclosed to analysts on August 6 showed that, in the absence of such a capital raise, it would be unable to meet its commitment to maintain capital in excess of regulatory requirements.

The internal supervisory reviews and market evidence just presented led us to conclude that the companies each presented critical safety and soundness concerns pertaining to credit risk and to continued deterioration in the market environment. Importantly, key developments in July and August demonstrated market recognition of these heightened credit concerns and the effect of the deteriorating market environment on the Enterprises. New equity capital in any meaningful size became unavailable, and yields on Enterprise debt and mortgage-backed securities rose relative to other benchmarks. These developments convinced us that the time to act was now, before the conditions of each Enterprise worsened, and before the markets for their securities became too unstable to permit normal business activity and potentially threatened the financial health of many other institutions. The following developments in July and August provide context to this conclusion:

- July 7 – A Lehman Brothers report speculating on the need for the Enterprises to raise substantial capital should a proposed accounting rule to put MBS currently off-balance sheet on balance sheet be adopted sends Enterprise common share prices into a tailspin.
- July 13 – Secretary Paulson announces a proposed package of assistance for the Enterprises in response to fears of a debt market run on Enterprise securities.
- July 15 – Moody's cuts the bank financial strength rating from B to B- for Fannie Mae, from B+ to B- for Freddie Mac, and the preferred stock rating from Aa3 to A1 for both Enterprises.
- July 30 – President signs the Housing and Economic Recovery Act of 2008. Since I took the job as Director of OFHEO, I have been requesting regulatory reform legislation that would give the regulator much stronger, bank-like authorities, including expanded authority to set capital requirements and establish prudential safety and soundness standards. I am very grateful that Congress granted those authorities to FHFA, but regrettably they arrived too late to establish a strong capital regime in advance of this credit cycle. Going forward, we will be working towards creating a sounder capital structure for the Enterprises.
- August 6 – Freddie Mac files its 10-Q, reporting losses of \$0.8 billion and describing the deteriorating capital situation as noted above. The loss was Freddie Mac's seventh quarterly loss over the past eight quarters.
- August 8 – Fannie Mae files its 10-Q, reporting losses of \$2.3 billion and describing its July results and credit deterioration as noted above. This marked the fourth consecutive quarter of losses for Fannie Mae.
- August 11, Standard and Poors cuts subordinated debt and preferred stock ratings for each GSE from AA- to A-; the risk-to-the-government rating from A+ to A for Fannie Mae and AA- to A for Freddie Mac.
- August 22, Moody's cuts the bank financial strength rating from B- to D+ for each Enterprise and the preferred stock ratings from A1 to Baa3 for each.

- August 26, Standard and Poors cuts its subordinated debt rating from A- to BBB+, preferred stock from A- to BBB-, and risk to the government ratings from A to A- for each Enterprise.
- September 5 – The Mortgage Bankers Association reports new record highs for seasonally-adjusted total delinquencies, rate of foreclosure starts, and percentage of loans in foreclosures, consistent with the trends identified by our examination process.
- Throughout July and August other pressures were mounting that made it more and more difficult for Fannie Mae and Freddie Mac to fulfill their missions:
 - Increased headline risk led to increased scrutiny of GSE debt, including by foreign investors and their regulators.
 - Central banks ceased buying and began selling Enterprise securities; relatively small sales triggered large price moves.
 - Despite financing 30-year mortgages, the Enterprises had to rely on short-term discount notes, with only a few fixed-rate debt securities issued, none with maturity greater than three years. Yet they have \$89 billion in long-term debt maturing in the second half of 2008.
 - The spread between senior and subordinated Enterprise debt rose from less than 100 basis points in late June to as much as 500 basis points by late August.
 - The spread between preferred stock and Treasuries jumped in early July, settled back a bit after the July 13th Treasury Department announcement, and then spiked in August to roughly double the mid-July spread and four times the late June spread.
 - Stock analysts substantially lowered their prices targets for Enterprise stock, in one case from \$45 to \$8 for Freddie Mac and in another from \$48 to \$10 for Fannie Mae.
 - Press speculation of a government bailout became more frequent.
 - After substantial effort and communication with market participants, each company reported to FHFA and to Treasury that it was unable to access capital markets to bolster its capital position without Treasury financing. FHFA's and Treasury's own discussions with investment bankers and investors corroborated this conclusion.
 - In the absence of access to new capital, the only alternative left to the firms was to cease new business and shed assets in a weak market. That would have been disastrous for the mortgage markets as mortgage rates would have continued to move higher and, in turn, disastrous for the Enterprises as the prices of their securities would have fallen and credit losses would have increased.

Therefore, in order to restore the balance between safety and soundness and mission, FHFA placed Fannie Mae and Freddie Mac into conservatorship. That is a statutory process designed to stabilize a troubled institution with the objective of maintaining normal business operations and restoring its safety and soundness.

FHFA did not undertake this action lightly. We consulted with the Chairman of the Board of Governors of the Federal Reserve System, Ben Bernanke, who was made a consultant to FHFA under the new legislation. We also consulted with the Secretary of the Treasury, not only as an FHFA Oversight Board member, but also in line with his ability under the law to provide

financing to the GSEs. They both concurred with me that conservatorship needed to be undertaken.

FHFA will act as the conservator to operate the Enterprises until they are stabilized. The Treasury's financial commitments, authorized by the new law, were critical to creating a workable conservatorship structure.

Operating the Enterprises in Conservatorship

Let me now turn to the conservatorships. Although it is very early, the first signs are that the conservatorships have had a very positive impact on mortgage markets. A lack of confidence had resulted in continued widening of the spread between yields of their MBS and yields of Treasury securities, which meant that virtually none of the large drop in Treasury interest rates over the past year had been passed on to the mortgage markets. On top of that, Freddie Mac and Fannie Mae, in order to try to build capital, may have raised prices and tightened credit standards beyond what was necessary for sound underwriting. I am pleased to say early indications are that the Enterprises' funding costs have declined, as have spreads on mortgage securities, as denoted in the attached chart. This lower cost has been passed on to homebuyers, with 30-year fixed-rate mortgage rates below 6 percent for the first time since January.

There are several key components of this conservatorship:

On the first day of the conservatorship businesses opened as normal, only with stronger backing for the holders of MBS, senior debt and subordinated debt. Consistent with the terms of the Treasury's financial assistance, over the next 15 months we will allow each company to increase its portfolio, up to \$850 billion, before requiring gradual declines in the portfolios of 10 percent per year. That is less than their runoff rate. The Enterprises are allowed to grow their guarantee MBS books without volume limits.

As the conservator, FHFA assumed the power of the board and management. However, new Chief Executive Officers and Boards of Directors will have significant powers. I have selected Herb Allison to be the new CEO of Fannie Mae and David Moffett the CEO of Freddie Mac. Herb has been the President and Chief Operating Officer of Merrill Lynch and for the last six years Chairman and CEO of TIAA-CREF. David was the Vice Chairman and CFO of US Bancorp. I appreciate the willingness of these two men to take on these tough jobs during these challenging times. Their compensation will be significantly lower than the outgoing CEOs.

Although it is not necessary in a conservatorship, new boards are being formed as a matter of good governance. New non-executive Chairmen were announced yesterday. Philip Laskawy, former Chairman and CEO of Ernst and Young, and a Director for Loews Corporation, General Motors, Henry Schein, Inc., and Discover Financial Services, has agreed to be the Chairman of Fannie Mae. John Koskinen, former President and CEO of Palmieri Company, a corporate turnaround management company, former Deputy Director for Management at OMB, and Director for American Capital Ltd., has agreed to be the Chairman of Freddie Mac.

The present CEOs will be leaving, but have agreed to stay on for a time to help with the transition. Consistent with the authorities granted in HERA, I have determined not to pay any golden parachute payments to either departing CEO.

FHFA worked with the new CEOs to establish employee retention programs. They agreed with me that it is very important to work with the current management teams and employees to encourage them to stay and to continue to make important improvements to the Enterprises.

All political activities -- including all lobbying -- were halted immediately. We will review the charitable activities to ensure that it reflects their mission and their conservatorship status.

In order to conserve over \$2 billion in capital every year, the common stock and preferred stock dividends were eliminated, but the common and all preferred stocks will continue to remain outstanding. I recognize that the loss of dividend income may have an adverse affect on some investors, including depository institutions. Before taking our action, we consulted with the bank regulators and I understand that they are working with individual institutions under their jurisdiction that may have capital invested in Enterprise preferred stock. As you know, any preferred stock is part of the issuing firm's equity account and is issued to absorb losses ahead of debt holders. Subordinated debt interest and principal payments will continue to be made, even if the capital test is breached.

Finally and very importantly, there are the liquidity, MBS investment, and senior preferred stock facilities with the U.S. Treasury, which Secretary Paulson discussed. We believe that these facilities will provide critically needed support to Freddie Mac and Fannie Mae to fulfill their mission, most importantly of which is the liquidity of the mortgage market. In light of Treasury's senior preferred stock facility, we will continue to closely monitor capital levels, but the existing regulatory capital requirements will not be binding during the conservatorship. The Senior Preferred facility supports all past and future debt and MBS issuances, until the terms of the facility are completely satisfied. As SEC registrants the Enterprises will continue to report their financial results quarterly.

The secured liquidity facility is not only for Fannie Mae and Freddie Mac, but also for the 12 Federal Home Loan Banks that FHFA also regulates. The Federal Home Loan Banks have performed remarkably well over the last year as they have a different business model than Fannie Mae and Freddie Mac and a different capital structure that grows as their lending activity grows. They are jointly and severally liable for the Bank System's debt obligations and all but one of the 12 are profitable. Therefore, it is very unlikely that they will use the facility.

Let me now bring you up-to-date on our actions since September 7. The new CEOs were introduced to Enterprise senior management at separate meetings at FHFA offices on Sunday, September 7. To reassure financial counterparties, later that day FHFA posted a statement on its website emphasizing that all existing contracts with the Enterprises remain in effect, that the Enterprises have the authority to enter into new contracts, and that the enforceability of such new contracts is not affected by the appointment of the conservator. I also sent a statement to employees at both Enterprises explaining the conservatorships, and that the purposes of the

action are to help restore confidence in the Enterprises, enhance their ability to fulfill their mission, and mitigate systemic risk.

Since the Enterprises opened for business on September 8, FHFA examiners have been continuously on site, both at the Enterprises' headquarters and locations of other key operations, to ensure a smooth transition. FHFA examiners are there to reassure Enterprise employees about the business-as-usual objective of the conservatorship, to allay fears and dispel rumors, to provide information to employees, to support the needs of the new CEOs as they become familiar with their new organizations, and to communicate any questions and issues that need resolution back to me as FHFA Director.

During the conservatorship period, FHFA will continue to work expeditiously on the many regulations needed to implement the new law. Some of the key regulations will be minimum capital standards, prudential safety and soundness standards and portfolio limits. It is critical to complete these regulations so that any new investor will understand the investment proposition.

Affordable Housing and Mission

The new legislation, for the first time, adds affordable housing and mission enforcement to the responsibilities of the safety and soundness regulator. While FHFA has had these responsibilities for only a matter of weeks, they rank among our most immediate concerns in making the determination to place the Enterprises into conservatorship. In short, a key reason for moving quickly rather than waiting any longer was that the companies' abilities to serve their mission had been impaired. As I noted earlier, ceasing new business activity and shedding assets was not acceptable, especially given the Enterprises' public purpose.

As the companies operate in conservatorship, I have already instructed each new CEO to examine the underwriting standards and pricing. They have begun to do so, and I expect any changes to reflect both safe and sound business strategy and attentiveness to the Enterprise's mission.

Fannie Mae and Freddie Mac are important to the secondary market for multifamily loans, and multifamily lending is critical to the affordable housing mission of the Enterprises. I am determined to ensure that, in conservatorship, both Enterprises remain dedicated to, and actively involved in, multifamily lending. I released a statement to this effect last Friday so that market participants may have assurance that the Enterprises will continue to be a source of underwriting and financing for multifamily loans.

The new legislation established a Housing Trust Fund to increase and preserve the supply of rental housing for extremely low and very low income families, including homeless families, and to increase homeownership for extremely low and very low income families. I recognize the importance of the Housing Trust Fund to many members of Congress. In the near-term, these funds will be used to fund a key component of the new law, the FHA HOPE for Homeowners Program, which will be funded by Treasury if the Enterprises do not.

Congress required that the FHFA Director consider annually circumstances in which such allocations would be suspended. Accordingly, I intend to make that determination only after a careful and thorough review of existing conditions.

Enforcement of the affordable housing goals established for the Enterprises by the Congress, once HUD's responsibility, is now up to FHFA. While ensuring liquidity in the mortgage marketplace has necessarily been a primary focus in recent weeks and months, ensuring that low and moderate income persons and underserved areas have ready access to affordable mortgage loans remains a critical responsibility of the Enterprises. In the near-term, the Enterprises are charged with meeting the very ambitious goals set by HUD back in 2004, a year in which the mortgage marketplace looked far, far different than it does today. In 2007, they missed two subgoals. Based on our discussions with the Enterprises, the miss will be larger in 2008. With the Enterprises now in conservatorship, even if some or all of these goals are found to be unattainable, I will expect each Enterprise to develop and implement ambitious plans to support the borrowers and markets targeted by the goals.

If we are to address the problem of mortgage delinquencies, a systematic approach to loan modification is essential. Well before last week's actions, we had already asked the Enterprises to facilitate the loan modification program the FDIC has undertaken with IndyMac Federal. I expect the ongoing work on loan modifications being done there, and with other seller servicers, to continue to be a high priority for the conservatorships, both as a matter of good business and as a matter of supporting the Enterprises' mission.

Finally, I am pleased to report that FHFA expects to have a regulation in place by October 1 to implement Section 1218 of HERA, which provides temporary authority for the Federal Home Loan Banks to use a portion of the subsidy money in Affordable Housing Program to refinance mortgages for families at or below 80 percent of area median income. In broad terms, we intend to issue a regulation implementing this program so that it supports the refinance program in HERA's Hope for Homeowners program by permitting AHP funding of additional principal write-downs or payment of closing costs. We've discussed this initiative with the FHA, which is very supportive of the prospect of added support on this initiative.

Conclusion

The decision to appoint a conservator for each Enterprise was a tough one for the FHFA team members who as they have worked so hard to help the Enterprises remain strong suppliers of support to the secondary mortgage markets. Unfortunately, all the good and hard work put in by the FHFA teams and the Enterprises' managers and employees was not sufficient to offset the consequences of the antiquated capital requirements and the turmoil in housing markets. Conservatorship will give the Enterprises the time to build on progress already made, to address more recently developing concerns, and ultimately, to restore the balances between safety and soundness and affordable housing market stability and liquidity. I want to thank the FHFA employees for their work during this intense regulatory process. They represent the best in public service.

I also recognize that many employees at each company have been working extremely hard through years of remediation and through the past year of market volatility. Employees have lost personal savings as a result of the plummet in their company's stock price and they have been working, and continue to work, long hours in the face of uncertainty. To them, I say thank you and pledge that, as conservator, we share the common goal of stabilizing your company while ensuring it continues to serve its public purpose of providing stability, liquidity, and affordability to the mortgage market.

Working together we can finish the job of restoring confidence in the Enterprises and with the new legislation build a stronger and safer future for the mortgage markets, homeowners and renters in America.

Thank you. I would be pleased to answer any questions you may have.



Federal Housing Finance Agency

OFFICE OF THE DIRECTOR

October 9, 2008

Honorable Richard C. Shelby
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Re: Notice of Freddie Mac Final Capital Classification at June 30, 2008

Dear Senator Shelby:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance and Regulatory Reform Act, Division A of the Housing and Economic Recovery Act, Public Law No. 110-289, Stat. 2654 (2008) and 12 C.F.R. § 1777.21 require that the Federal Housing Finance Agency (FHFA) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On October 2, 2008, FHFA issued a notice of proposed action indicating its intention to classify Freddie Mac as undercapitalized at June 30, 2008 and requesting that Freddie Mac notify FHFA by October 3, 2008 whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

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- The current and projected financial performance and condition of Freddie Mac as reflected in its second quarter financial reports and our ongoing examinations;

- The inability of Freddie Mac to raise capital or to issue debt according to normal practices and prices;
- The critical importance of Freddie Mac in supporting the country's residential mortgage market; and
- Concerns that a growing proportion of Freddie Mac's statutory core capital consisted of intangible assets.

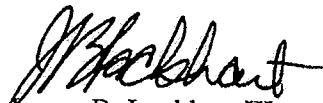
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The final capital classification of undercapitalized is based on Freddie Mac's financial results, as certified and represented as true and correct by Freddie Mac's management, and consistent with the company's second quarter report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on August 6, 2008.

The enclosures summarize FHFA's calculation of Freddie Mac's FHFA-directed, statutory minimum and risk-based capital at June 30, 2008.

Please contact me if you have questions or concerns regarding this matter.

Sincerely,



James B. Lockhart III
Director

Enclosures



Federal Housing Finance Agency

OFFICE OF THE DIRECTOR

October 9, 2008

Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515

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James B. Lockhart III
Director

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Federal Housing Finance Agency

OFFICE OF THE DIRECTOR

October 9, 2008

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

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James B. Lockhart III
Director

Enclosures



Federal Housing Finance Agency

OFFICE OF THE DIRECTOR

October 9, 2008

Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Re: Notice of Freddie Mac Final Capital Classification at June 30, 2008

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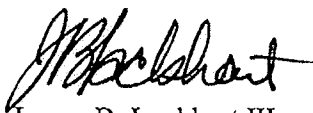
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Please contact me if you have questions or concerns regarding this matter.

Sincerely,



James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	21,667
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	6,262
Commitments	551
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	139
Sold Portfolio Remittances Pending	10
Other Off-Balance Sheet Obligations	80
MINIMUM CAPITAL - Statutory Requirement	28,709
MINIMUM CAPITAL - FHFA-directed 20% Requirement	34,451
CORE CAPITAL	37,128
SURPLUS (DEFICIENCY) (based on FHFA-directed Requirement)	2,676

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	237
DOWN-RATE SCENARIO	20,139
RISK-BASED CAPITAL LEVEL	20,139
TOTAL CAPITAL	42,916
SURPLUS (DEFICIENCY)	22,777

Note: Totals may not add due to rounding.



Federal Housing Finance Agency

OFFICE OF THE DIRECTOR

October 9, 2008

Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515

Re: Notice of Fannie Mae Final Capital Classification at June 30, 2008

Dear Congressman Bachus:

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FHFA is classifying Fannie Mae as undercapitalized as of June 30, 2008, the period before the conservatorship, based on discretionary authority provided in the statute and subsequent events. Although the capital calculations for June 30, 2008 reflect that Fannie Mae met the FHFA and statutory requirements for capital, the continued market downturn during late July and August raised significant questions about the sufficiency of capital. The following factors, which led to the need for conservatorship, support the decision to downgrade the classification to undercapitalized:

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- The inability of Fannie Mae to raise capital or to issue debt according to normal practices and prices;
- The critical importance of Fannie Mae in supporting the country's residential mortgage market; and
- Concerns that a growing proportion of Fannie Mae's statutory core capital consisted of intangible assets.

Under the conservatorship, the United States Treasury, through the Senior Preferred Stock Purchase Agreement, will provide capital as needed to ensure that Fannie Mae maintains a positive net worth. Consequently, FHFA has determined that it is prudent and in the best interests of the market to suspend capital classifications during the conservatorship. Fannie Mae should continue to submit regulatory capital reports and FHFA will continue to closely monitor capital levels. However, the existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. Relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) will be posted on FHFA's website to ensure market transparency. FHFA does not intend to publish critical capital levels, risk-based capital, or subordinated debt levels during the conservatorship.

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The enclosures summarize FHFA's calculation of Fannie Mae's FHFA-directed, statutory minimum and risk-based capital levels at June 30, 2008.

Please contact me if you have questions or concerns regarding this matter.

Sincerely,



James B. Lockhart III
Director

Enclosures



Federal Housing Finance Agency

OFFICE OF THE DIRECTOR

October 9, 2008

Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, DC 20515

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Ranking Minority Member
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United States Senate
Washington, DC 20510

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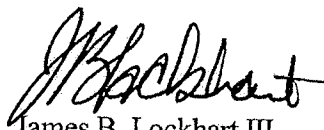
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Honorable Christopher Dodd
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, D.C. 20510

Re: Notice of Fannie Mae Final Capital Classification at June 30, 2008

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act, Division A of the Housing and Economic Recovery Act, Public Law No. 110-289, 122 Stat. 2654 (2008) and 12 C.F.R. § 1777.21 require that the Federal Housing Finance Agency (FHFA) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On October 2, 2008, FHFA issued a notice of proposed action indicating its intention to classify Fannie Mae as undercapitalized at June 30, 2008 and requesting that Fannie Mae notify FHFA by October 3, 2008 whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

FHFA is classifying Fannie Mae as undercapitalized as of June 30, 2008, the period before the conservatorship, based on discretionary authority provided in the statute and subsequent events. Although the capital calculations for June 30, 2008 reflect that Fannie Mae met the FHFA and statutory requirements for capital, the continued market downturn during late July and August raised significant questions about the sufficiency of capital. The following factors, which led to the need for conservatorship, support the decision to downgrade the classification to undercapitalized:

- Accelerating safety and soundness weaknesses, especially with regard to credit risk, earnings outlook, and capitalization;
- Continued and substantial deterioration in equity, debt, and MBS market conditions;
- The current and projected financial performance and condition of Fannie Mae as reflected in its second quarter financial reports and our ongoing examinations;

- The inability of Fannie Mae to raise capital or to issue debt according to normal practices and prices;
- The critical importance of Fannie Mae in supporting the country's residential mortgage market; and
- Concerns that a growing proportion of Fannie Mae's statutory core capital consisted of intangible assets.

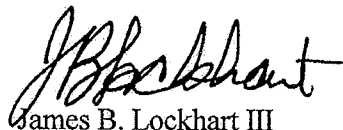
Under the conservatorship, the United States Treasury, through the Senior Preferred Stock Purchase Agreement, will provide capital as needed to ensure that Fannie Mae maintains a positive net worth. Consequently, FHFA has determined that it is prudent and in the best interests of the market to suspend capital classifications during the conservatorship. Fannie Mae should continue to submit regulatory capital reports and FHFA will continue to closely monitor capital levels. However, the existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship. Relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) will be posted on FHFA's website to ensure market transparency. FHFA does not intend to publish critical capital levels, risk-based capital, or subordinated debt levels during the conservatorship.

The final capital classification of undercapitalized is based on Fannie Mae's financial results, as certified and represented as true and correct by Fannie Mae's management, and consistent with the company's second quarter report on Form 10-Q filed with the Securities and Exchange Commission (SEC) on August 8, 2008.

The enclosures summarize FHFA's calculation of Fannie Mae's FHFA-directed, statutory minimum and risk-based capital levels at June 30, 2008.

Please contact me if you have questions or concerns regarding this matter.

Sincerely,



James B. Lockhart III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	21,891
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	10,135
Commitments	296
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	155
Other Off-Balance Sheet Obligations	153
MINIMUM CAPITAL LEVEL - Statutory Requirement	32,631
MINIMUM CAPITAL LEVEL - FHFA-directed 15% Requirement	37,525
CORE CAPITAL	46,964
SURPLUS (DEFICIENCY) (based on FHFA-directed Requirement)	9,439

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	6,198
DOWN-RATE SCENARIO	36,288
RISK-BASED CAPITAL LEVEL	36,288
TOTAL CAPITAL	55,568
SURPLUS/(DEFICIENCY)	19,280

Note: Totals may not add due to rounding.

ELIZABETH DOLE
NORTH CAROLINA

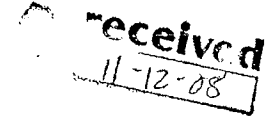
555 DIRKSEN SENATE OFFICE BUILDING
WASHINGTON, DC 20510
(202) 224-6342
FAX: (202) 224-1100

United States Senate

WASHINGTON, DC 20510-3307

COMMITTEES:
ARMED SERVICES
BANKING, HOUSING, AND
URBAN AFFAIRS
SMALL BUSINESS AND
ENTREPRENEURSHIP
SPECIAL COMMITTEE ON AGING

October 17, 2008



Mr. James B. Lockhart, III
Director and Chairman
Federal Housing Finance Agency
4th Floor
1700 G Street
Washington, D.C. 20552

Dear Director Lockhart:

I am writing to bring to your attention an unintended consequence of the Fannie Mae and Freddie Mac conservatorship as it relates to several small life insurance companies.

As you know, on September 7, 2008, Secretary Paulson announced the conservatorship of Fannie Mae and Freddie Mac, a part of which was the elimination of dividends on all their preferred stock. The consequence of that action was to cause the securities to be rated near default, requiring insurance companies to carry them at a market value of approximately 10 cents on the dollar for regulatory capital purposes, resulting in an immediate reduction of their capital.

Recently, my office was contacted by two of the small life insurance companies facing dire consequences as a result of the Fannie Mae and Freddie Mac takeover. These are insurance companies that had at least 20 percent of their regulatory capital in Fannie Mae and Freddie Mac preferred shares. The insurance companies are similar in size and have policyholders around the country.

It is my understanding that if the companies are not able to replace the capital in a short amount of time, several unanticipated consequences may occur. Already, one of the companies has, in fact, experienced a downgrade of their rating. A rating downgrade could lead to a diminution in or a shutdown of sales, extended withdrawal activity ("run on the bank"), regulatory intervention and a disruption to policyholders. Further, policyholders may suffer the cost of surrender charges as they feel pressured to move their insurance policies to other insurers with higher capital ratios. Ultimately, the companies may be forced to go out of business, competition will be reduced, and jobs will be lost.

While I have heard from only a few of the small life insurance companies facing this dilemma, our government should use every available tool to stabilize the markets, encourage consumer confidence, and prevent additional job losses. Therefore, I am requesting that you consider a remedy for small life insurance companies that had at least 20 percent or more of their regulatory capital in Fannie Mae and Freddie Mac preferred shares as of September 6, 2008.

GREENVILLE OFFICE:
306 SOUTH EVANS STREET
GREENVILLE, NC 27858
(252) 329-1093
FAX: (252) 329-1097

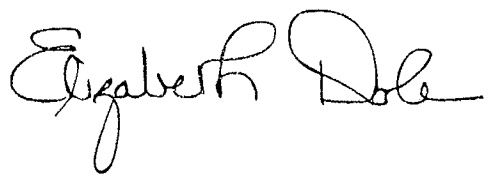
HENDERSONVILLE OFFICE:
401 NORTH MAIN STREET
SUITE 200
HENDERSONVILLE, NC 28792
(828) 698-3747
FAX: (828) 698-1267

RALEIGH OFFICE:
310 NEW BERN AVENUE
SUITE 122
RALEIGH, NC 27601
(919) 856-4630
FAX: (919) 856-4053
TOLL FREE: 866-420-6083

SALISBURY OFFICE:
225 NORTH MAIN STREET
SUITE 304
SALISBURY, NC 28144
(704) 633-5011
FAX: (704) 633-2937
TOLL FREE: 866-420-6084

Through this targeted effort, I also hope that whatever remedy you implement will have the most minimal impact possible on American taxpayers.

With my warmest best wishes,

A handwritten signature in black ink that reads "Elizabeth Dole". The signature is written in a cursive style with a large, prominent "E" and "D".

United States Senate

WASHINGTON, DC 20510

October 20, 2008

Mr. James B. Lockhart, III
Director and Chairman
Federal Housing Finance Agency
Office of Federal Housing Enterprise Oversight
1700 G Street N.W.
4th Floor
Washington, D.C. 20552

Dear Director Lockhart:

On September 7, 2008, the Treasury Department and the Federal Housing Finance Agency (FHFA) announced that FHFA had placed Fannie Mae and Freddie Mac into conservatorship. To conserve billions of dollars in capital, FHFA understandably eliminated payment of dividends on common and preferred shares of the two entities.

Many community financial institutions and insurers held preferred stock in those two entities. The Secretary of the Treasury remarked in his September 7 statement that "only a limited number of smaller institutions have holdings that are significant compared to their capital," and he encouraged affected institutions to contact their federal regulator if losses on the shares would materially impair their capitalization.

I have heard from several constituents who work for community financial institutions or insurers. Some of these companies hold significant amounts of Fannie and Freddie stock, and some hold lesser amounts. Regardless, all of these Kentuckians have expressed concerns about the unintended consequences of FHFA's actions on their capitalization, and the effects that will have on their fellow employees, customers, and clients.

As you continue to oversee the conservatorship, I ask you to keep in mind the implications for these Kentucky communities. I also ask that you give proper consideration to requests for any reasonable remedy that provides fair treatment to those who, through no fault of their own, face the unintended consequences of the conservatorship.

Thank you for your attention to this matter.

Sincerely,



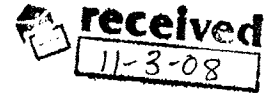
MITCH McCONNELL
UNITED STATES SENATOR



JIM BUNNING
UNITED STATES SENATOR

Congress of the United States

Washington, DC 20515



October 22, 2008

Mr. James B. Lockhart II
Director
Federal Housing Finance Agency
1700 G Street 4th Floor
Washington, D.C. 20552

Dear Mr. Lockhart:

We are writing on behalf of the many public, civic, and private leaders in the Washington metropolitan region whose dedication, commitment, and resources to serve the thousands of charities in our region, who, in turn, serve our most vulnerable constituents. The role of these charities will become even more critical as the nation enters a recession.

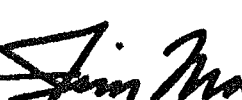
The decision last month to make you Conservator for Fannie Mae and Freddie Mac, we recognize, imposes an unprecedented burden upon you to act as a steward to the nation's housing finance system, including restructuring Fannie Mae and Freddie Mac to ensure not just their safety and soundness, but also their unique role in the provision of affordable homeownership in our country. Restoration of these agencies' financial health is fundamental to addressing both our credit freeze and current economic conditions.


As you know, Fannie Mae and Freddie Mac are the top two charitable givers in the National Capital region. Their contributions have directly touched the lives of thousands of families. A loss of these contributions, or a significant diminution, could have devastating consequences for thousands of families.

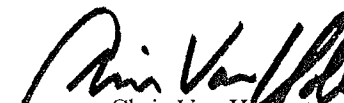
We are grateful for your review of these agencies' charitable activities to ensure they serve an appropriate mission, and we would very much look forward to receiving your final report and recommendations. As you weigh all the competing interests in your role as Conservator, we very much appreciate your recognition of the importance of the Enterprises to the many charitable organizations in the National Capital region.

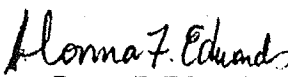
Sincerely,

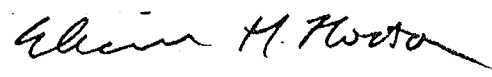

Steny H. Hoyer
Member of Congress


James P. Moran
Member of Congress

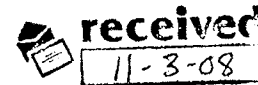

Thomas M. Davis III
Member of Congress


Chris Van Hollen, Jr.
Member of Congress


Donna F. Edwards
Member of Congress


Eleanor Holmes Norton
Member of Congress

Congress of the United States
House of Representatives
Washington, DC 20515



October 22, 2008

Mr. James B. Lockhart, III
Director and Chairman
Office of Federal Housing Enterprise Oversight
4th Floor
1700 G Street
Washington, D.C. 20552

Dear Director Lockhart:

We are writing to bring to your attention an unintended consequence of the Fannie Mae and Freddie Mac conservatorship as it relates to several small life insurance companies.

As you know, on September 7, 2008, Secretary Paulson announced the conservatorship of Fannie Mae and Freddie Mac, a part of which was the elimination of dividends on all their preferred stock. The consequence of that action was to cause the securities to be rated near default, requiring insurance companies to carry them at a market value of approximately 10 cents on the dollar for regulatory capital purposes, resulting in an immediate reduction of their capital.

Recently, our offices were contacted by two of the small life insurance companies facing dire consequences as a result of the Fannie Mae and Freddie Mac takeover. These are insurance companies that had at least 20 percent of their regulatory capital in Fannie Mae and Freddie Mac preferred shares. The insurance companies are similar in size and have policyholders around the country.

It is our understanding that if the companies are not able to replace the capital in a short amount of time, several unanticipated consequences may occur. Already, one of the companies has, in fact, experienced a downgrade of their rating. A rating downgrade could lead to a diminution in or a shutdown of sales, extended withdrawal activity ("run on the bank"), regulatory intervention and a disruption to policyholders. Further, policyholders may suffer the cost of surrender charges as they feel pressured to move their insurance policies to other insurers with higher capital ratios. Ultimately, the companies may be forced to go out of business, competition will be reduced, and jobs will be lost.

While we have heard from only a few of the small life insurance companies facing this dilemma, our government should use every available tool to stabilize the markets, encourage consumer confidence, and prevent additional job losses. Therefore, we are requesting that you consider a remedy for small life insurance companies that had at least 20 percent or more of their regulatory capital in Fannie Mae and Freddie Mac preferred shares as of September 6, 2008. Through this targeted effort, we also hope that whatever remedy you implement will have the most minimal impact possible on American taxpayers.

Thank you in advance for your assistance and attention to our request.

Sincerely,

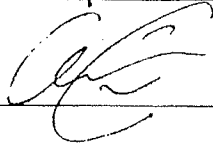
Handwritten signature of B. D. Goodlatte in black ink, written over a horizontal line.

Handwritten signature of Rick Boucher in black ink, written over a horizontal line.

Danny K. Davis

~~Gregory W. Miller~~

Debra L. Watt



Butterfield

Brad Ellsworth



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 6, 2008

The Honorable Danny Davis
U.S. House of Representatives
2159 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Davis:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

As part of the conservatorship action, we have undertaken a review of the charitable contributions of the Enterprises. This review is underway and we will certainly keep you informed of our progress.

Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 6, 2008

The Honorable Barbara A. Mikulski
U.S. Senate
503 Hart Senate House Office Building
Washington, DC 20510

Dear Senator Mikulski:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 6, 2008

Ms. Melvina C. Ford
722 Garrett A Morgan Blvd.
Landover, MD 20785

Dear Ms. Ford:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac that you sent to Senator Mikulski.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable Thomas M. Davis III
U.S. House of Representatives
2348 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Davis:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable James P. Moran
U.S. House of Representatives
2202 Rayburn House Office Building
Washington, DC 20515


Dear Congressman Moran:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,


James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable Steny H. Hoyer
U.S. House of Representatives
1705 Longworth House Office Building
Washington, DC 20515

Dear Congressman Hoyer:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable Chris Van Hollen, Jr.
U.S. House of Representatives
1707 Longworth House Office Building
Washington, DC 20515

Dear Congressman Van Hollen:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable Donna F. Edwards
U.S. House of Representatives
2470 Rayburn House Office Building
Washington, DC 20515

Dear Congresswoman Edwards:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable Eleanor Holmes Norton
U.S. House of Representatives
2136 Rayburn House Office Building
Washington, DC 20515

Dear Congresswoman Norton:

Thank you for your recent correspondence with respect to charitable contributions of the Enterprises, Fannie Mae and Freddie Mac.

I share your concern about the continued role of the Enterprises in the affordable housing area, a key component of their mission. In fact this role, along with providing stability and liquidity in the housing market were crucial in our decision to place Fannie Mae and Freddie Mac in conservatorship. The Enterprises were simply no longer able to fulfill these mission roles. Given their crucial role in the U.S. housing markets, regulatory action had to be taken.

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Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable John Warner
United States Senate
225 Russell Senate Office Building
Washington, DC 20510

Dear Senator Warner:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

On September 7, the conservatorships of Fannie Mae and Freddie Mac were announced. As part of this action, dividends on all preferred stock were eliminated. In announcing these actions, FHFA's statement said: "...in order to conserve over \$2 billion in capital every year, the common stock and preferred stock dividends will be eliminated, but the common and all preferred stocks will continue to remain outstanding..." These actions had to be taken given the severe financial condition of the two companies. As Treasury Secretary Paulson recently noted: "The GSEs were failing, and if they did fail, it would have materially exacerbated the recent market turmoil and more profoundly impacted household wealth; from family budgets, to home values, to savings for college and retirement." Their recently reported third quarter losses of \$25 billion for Freddie Mac and \$29 billion for Fannie Mae displayed the need for conservatorship.

As you are aware, two specific insurance companies are negatively impacted by this action, Shenandoah Life Insurance Company of Virginia and Standard Life Insurance Company of Indiana. Unfortunately, both companies had a significant portion of their regulatory capital invested in preferred shares of the Enterprises. Both companies are seeking a regulatory or legislative solution.

I, and FHFA staff, have met with representatives of these companies. We reiterated the need for taking the action we did with respect to preferred stock dividends. The solution proposed by the companies was to allow them to exchange their preferred shares for senior debt to be issued by the two Enterprises. This is unacceptable for two reasons. First, there would be an additional loss for Fannie Mae and Freddie Mac from this transaction, which would only have to be filled by additional Treasury funds. Secondly, allowing special treatment for only two companies and not the entire class of preferred shareholders would be unfair and could lead to further litigation. We explained that we had conducted our own internal review and that review concluded that there are no federal laws, direct or indirect, that would provide any form of relief for these companies. Remedies are best sought at the state level or in legislation for congressional consideration.

Please do not hesitate to call me should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Lockhart', is written over a horizontal line.

James B. Lockhart, III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Mitch McConnell
United States Senate
361A Russell Senate Office Building
Washington, DC 20510

Dear Senator McConnell:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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I, and FHFA staff, have met with representatives of these companies. We reiterated the need for taking the action we did with respect to preferred stock dividends. The solution proposed by the companies was to allow them to exchange their preferred shares for senior debt to be issued by the two Enterprises. This is unacceptable for two reasons. First, there would be an additional loss for Fannie Mae and Freddie Mac from this transaction, which would only have to be filled by additional Treasury funds. Secondly, allowing special treatment for only two companies and not the entire class of preferred shareholders would be unfair and could lead to further litigation. We explained that we had conducted our own internal review and that review concluded that there are no federal laws, direct or indirect, that would provide any form of relief for these companies. Remedies are best sought at the state level or in legislation for congressional consideration.

Please do not hesitate to call me should you have any questions.

Sincerely,

James B. Lockhart, III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Jim Running
United States Senate
316 Hart Senate Office Building
Washington, DC 20510

Dear Senator Running:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

On September 7, the conservatorships of Fannie Mae and Freddie Mac were announced. As part of this action, dividends on all preferred stock were eliminated. In announcing these actions, FHFA's statement said: "...in order to conserve over \$2 billion in capital every year, the common stock and preferred stock dividends will be eliminated, but the common and all preferred stocks will continue to remain outstanding..." These actions had to be taken given the severe financial condition of the two companies. As Treasury Secretary Paulson recently noted: "The GSEs were failing, and if they did fail, it would have materially exacerbated the recent market turmoil and more profoundly impacted household wealth; from family budgets, to home values, to savings for college and retirement." Their recently reported third quarter losses of \$25 billion for Freddie Mac and \$29 billion for Fannie Mae displayed the need for conservatorship.

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Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Elizabeth Dole
United States Senate
555 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Dole:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Melvin Watt
United States House of Representatives
2236 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Watt:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Brad Ellsworth
United States House of Representatives
513 Cannon House Office Building
Washington, DC 20510

Dear Congressman Ellsworth:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Greg Meeks
United States House of Representatives
2342 Rayburn House Office Building
Washington, DC 20510

Dear Congressman Meeks:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable G. K. Butterfield
United States House of Representatives
413 Cannon House Office Building
Washington, DC 20510

Dear Congressman Butterfield:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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Chairman, FHFA Oversight Board



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Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Rick Boucher
United States House of Representatives
2187 Rayburn House Office Building
Washington, DC 20510

Dear Congressman Boucher:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Danny Davis
United States House of Representatives
2159 Rayburn House Office Building
Washington, DC 20510

Dear Congressman Davis:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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Phone: 202-414-3800
Fax: 202-414-3823

November 21, 2008

The Honorable Bob Goodlatte
United States House of Representatives
2240 Rayburn House Office Building
Washington, DC 20510

Dear Congressman Goodlatte:

Thank you for sharing your concerns about actions taken by the Federal Housing Finance Agency (FHFA) upon appointing the conservatorships of Fannie Mae and Freddie Mac. Specifically, you express concern about the financial state of companies which had a significant portion of their regulatory capital invested in preferred shares of these Enterprises.

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