ORAL ARGUMENT HELD APRIL 15, 2016

No. 14-5254

IN THE UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

FAIRHOLME FUNDS, INC., *et al.*,

Plaintiffs-Appellants,

v.

FEDERAL HOUSING FINANCE AGENCY, *et al.*,

Defendants-Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA (NO. 1:13-CV-1053-RCL)

JULY 2016 PUBLIC REDACTED APPENDIX TO MOTION FOR JUDICIAL NOTICE AND SUPPLEMENTATION OF THE RECORD – VOLUME 1

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EXHIBIT 1

UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

PERRY CAPITAL LLC, Plaintiff, v. JACOB J. LEW, *et al.*, Defendants.	Civil Action No. 13-cv-1025 (RLW)
FAIRHOLME FUNDS, INC., *et al.* Plaintiffs, v. FEDERAL HOUSING FINANCE AGENCY, *et al.*, Defendants.	Civil Action No. 13-cv-1053 (RLW)
ARROWOOD INDEMNITY COMPANY, *et al.*, Plaintiffs, v. FEDERAL NATIONAL MORTGAGE ASSOCIATION, *et al.*, Defendants.	Civil Action No. 13-cv-1439 (RLW)

DECLARATION OF MARIO UGOLETTI

I, Mario Ugoletti, hereby declare, based on personal knowledge of the facts, as follows:

1. I am Special Advisor to the Office of the Director of the Federal Housing Finance Agency ("FHFA"), a role I assumed in September 2009. As Special Advisor, my responsibilities include advising FHFA's Acting Director Edward DeMarco concerning the Senior Preferred Stock Purchase Agreements ("PSPAs"), described *infra*. Additionally, I serve as the primary liaison with Treasury concerning the PSPAs and any amendments to the PSPAs.

2. I was employed at Treasury from 1995 to 2009, serving as Director of the Office of Financial Institutions Policy from 2004-2009. In that capacity, I participated in the creation and implementation of the PSPAs.

3. FHFA is an independent federal agency with regulatory authority over the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") (together, the "Enterprises") and the twelve Federal Home Loan Banks ("Banks"). 12 U.S.C. § 4511.

4. On September 6, 2008, FHFA's Director appointed FHFA as Conservator of the Enterprises, and on September 7, 2008 FHFA as Conservator of the Enterprises entered into two materially identical Senior Preferred Stock Purchase Agreements (together, the "PSPAs") with the United States Treasury ("Treasury")—one for Fannie Mae and one for Freddie Mac. The Amended and Restated Agreements dated September 26, 2008 and subsequent amendments are currently available at http://www.fhfa.gov/Default.aspx?Page=364.

5. The PSPAs were a last resort after it became apparent that no infusions of capital from the private sector were forthcoming to save the Enterprises. *See Oversight Hearing to Examine Recent Treasury and FHFA Actions Regarding the Housing GSEs Before the H. Comm. on Financial Services*, 110th Cong., at 5 (Sep. 25, 2008) (statement of James B. Lockhart III,

Director, Federal Housing Finance Agency), currently *available at* http://archives.financialservices.house.gov/hearing110/lockhart092508.pdf ("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."). The PSPAs provided the market with assurances that Treasury would provide a backstop to the Enterprises. Absent the commitments of Treasury, the Enterprises would have collapsed. *See id.* at 5-6 ("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."); Timothy F. Geithner, Secretary, U.S. Dep't of the Treasury, Written Testimony Before the H. Comm. on Financial Services (Mar. 23, 2010), currently *available at* http://www.treasury.gov/press-center/press-releases/Pages/tg603.aspx ("In 2007, the GSEs reported combined losses of over $5 billion . . . The GSEs ultimately reported combined 2008 losses in excess of $108 billion. . . . Both companies were severely undercapitalized and would not have been able to meet their obligations without the intervention and financial support of the government."). With the PSPAs and the market assurance they provided, the Enterprises were able to remain in operation.

6. The PSPAs provided that the Enterprises would draw funds from Treasury against the Treasury commitment if the Enterprises exhausted all of their stockholder equity and had a negative net worth (defined as liabilities exceeding assets). If Enterprise liabilities exceeded assets, the provision for mandatory receivership in the Housing and Economic Recovery Act of 2008 ("HERA") would be triggered. The PSPAs were designed so that the Enterprises could

draw funds from Treasury in amounts necessary to cure their negative net worth and bring their capital to zero. By the end of 2008, all shareholder equity had been exhausted and the Enterprises drew on the Treasury commitment to avoid mandatory receivership. *See* FHFA Data as of November 14, 2013 on Treasury and Federal Reserve Purchase Programs for GSE & Mortgage-Related Securities at 2, currently *available at* http://www.fhfa.gov/webfiles/25784/TSYSupport%202013-11-13.pdf (Freddie Mac draw of $13.8 billion for third quarter 2008; Fannie Mae draw of $15.2 billion for fourth quarter 2008).

7. The PSPAs gave Treasury an expansive bundle of rights and entitlements in exchange for the lifeline that Treasury provided, without which the Enterprises would have gone out of business. For example, Treasury received warrants to acquire 79.9% of the common stock of the Enterprises for a nominal payment. In addition, under the PSPAs, Treasury obtained Senior Preferred Stock that is senior in priority over all other series of preferred stock. The Treasury Senior Preferred Stock in each Enterprise had an initial face value of $1 billion, which increases by any amount that the Enterprises draw from Treasury under the Treasury Commitment. Further, the Treasury Senior Preferred Stock has a liquidation preference so that Treasury has priority over any other preferred or common shareholders in the event of a liquidation — that is, Treasury is entitled to the value of its Senior Preferred Stock (face value plus any amounts drawn from Treasury by the Enterprises, without reduction for dividends or other amounts that the Enterprises might pay to Treasury) before any other shareholders — preferred or common — are paid anything in liquidation.

8. The Treasury Senior Preferred Stock also included payment obligations from the Enterprises to Treasury, commensurate with the enormous risks and financial commitments that Treasury assumed. The Enterprises were obligated to pay a 10% annual dividend together with a

Periodic Commitment Fee ("PCF") that was "intended to fully compensate [Treasury] for the support provided by the ongoing Commitment." Amended and Restated Agreements, § 3.2(b) (Sept. 26, 2008). The PSPAs provided that the amount of the PCF to be imposed beginning January 2010 "shall be determined with reference to the market value of the Commitment as then in effect." *Id.*

9. The PSPA gave Treasury the right, in its sole discretion, to waive the PCF for a year at a time "based on adverse conditions in the United States mortgage market." Treasury exercised this right to waive the PCF for 2010 and 2011, years in which the Enterprises had insufficient funds to pay even the 10% dividend, let alone an additional PCF, stating that "the imposition of the PCF at this time would not fulfill its intended purpose of generating increased compensation to the American taxpayer." Periodic Commitment Fee Waiver Letters from Dept. of Treasury to FHFA (Dec. 29, 2010; Mar. 31, 2011; Jun. 30, 2011; Sept. 30, 2011; Dec. 21, 2011). It was clear by this time that, given the risks of the Enterprises and the enormity of the Treasury commitment, the value of the PCF was incalculably large.

10. Under the Second Amendment to the PSPAs (executed December 24, 2009), Treasury was obligated to commit any amount of funds necessary to maintain the Enterprises' positive net worth through December 31, 2012, subject to an initial cap of $200 billion for each of the Enterprises plus the amount of draws between January 1, 2010 and December 31, 2012. As of January 1, 2013, however, Treasury's financial commitment cap became fixed: the amount

remaining available to Fannie Mae under the cap was \$117.6 billion, and the amount remaining available to Freddie Mac under the cap was \$140.5 billion.[1]

11. By late 2011, analysts and key stakeholders, including institutional and Asian investors in the Enterprises' debt and mortgage backed securities (MBS), began expressing concerns about the adequacy of Treasury's financial commitment to the Enterprises after January 1, 2013, when the cap on Treasury's funding commitment would become fixed.

12. The principal driver of these concerns about the adequacy of Treasury's capital commitment were questions about the Enterprises' ability to pay the 10% annual dividend to Treasury without having to draw additional funds from Treasury, thereby eating away at the amount remaining available under the capped Treasury commitment. From the outset of the PSPAs, the Enterprises could not at times generate enough income to make these dividend payments.

13. The Enterprises drew funds from Treasury to pay the required 10% dividend back to Treasury. Of the \$188 billion the Enterprises drew from Treasury from the outset of the PSPAs (September 2008) to the execution of the Third Amendment (August 2012), \$45.7 billion was drawn solely to pay the 10% annual dividend back to Treasury. *See* FHFA, Data as of November 14, 2013 on Treasury and Federal Reserve Purchase Programs for GSE and

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[1] Under the Second Amendment to the PSPAs, Treasury committed to provide each Enterprise the greater of: (i) \$200 billion or (ii) \$200 billion plus the Enterprise's cumulative draws for 2010, 2011, and 2012, less the Enterprise's positive net worth, if any, on December 31, 2012. Second Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, at 3.

For Fannie Mae, alternative (ii) provided the greater amount: \$200 billion + \$40.9 billion (cumulative draws for 2010-2012) – \$7.2 billion (positive net worth on December 31, 2012) – \$116.1 billion (total draws from 2008-2012) = \$117.6 billion.

For Freddie Mac, alternative (ii) provided the greater amount: \$200 billion + \$20.6 billion (cumulative draws for 2010-2012) – \$8.8 billion (positive net worth on December 31, 2012) – \$71.3 (total draws from 2008-2012) = \$140.5 billion.

Mortgage-Related Securities at 2, 3. Additionally, each time the Enterprises drew funds to pay the 10% dividend, the total amount of the Treasury draw increased, in turn increasing the amount of the next 10% dividend payment.

14. By mid-2012, the amount of the annual 10% dividend had grown so large—$11.7 billion for Fannie Mae and $7.2 billion for Freddie Mac—that it appeared unlikely that either of the Enterprises would be able to meet that amount consistently without drawing additional funds from Treasury. *See* Freddie Mac, Quarterly Report (Form 10-Q) at 10, 85 (May 3, 2012), currently *available at* http://www.freddiemac.com/investors/sec_filings/index.html ("Over time, our dividend obligation to Treasury will increasingly drive future draws. Although we may experience period-to-period variability in earnings and comprehensive income, it is unlikely that we will generate net income or comprehensive income in excess of our annual dividends payable to Treasury over the long term."); Freddie Mac, Quarterly Report (Form 10-Q) at 10, 92 (Aug. 7, 2012), currently *available at* http://www.freddiemac.com/investors/sec_filings/index.html (same); Fannie Mae, Quarterly Report (Form 10-Q) at 11, 81 (May 9, 2012), currently *available at* http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/q12012.pdf ("Although we may experience period-to-period volatility in earnings and comprehensive income, we do not expect to generate net income or comprehensive income in excess of our annual dividend obligation to Treasury over the long term."); Fannie Mae, Quarterly Report (Form 10-Q) at 12-13, 83 (Aug. 8, 2012), currently *available at* http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/q22012.pdf (same). Because the cap on the Treasury commitment became fixed on January 1, 2013, each dollar drawn from Treasury merely to repay the Treasury dividend was one less dollar available

to the Enterprises to draw in the event the Enterprise suffered losses due, for example, to a decline in the housing market or broader economic turbulence.

15. Market forecasts—which FHFA monitored—predicted that the Enterprises' ongoing payment of the 10% dividend would completely exhaust Treasury's funding commitment within ten years, leading to potential downgrades in the Enterprises' credit ratings. Moody's rating service opined that the 10% dividend payments would "eliminate Fannie Mae's contingent capital by 2019 and Freddie Mac's by 2022 . . . [even] assum[ing] that the GSEs are able to fully offset credit losses, which we believe is unlikely." Moody's, Sector Comment, "Plan To Raise Fannie Mae and Freddie Mac Guarantee Fees Raises Question of Support," at 2 (Sept. 26, 2011). Moody's stated that this "would be credit negative and prompt a review of [the Enterprises'] Aaa ratings." *Id.* Likewise, Deutsche Bank observed that "diminishing Treasury support raises the risk that the agencies one day might face challenges in covering MBS losses" and that such a risk "becomes greater in a housing market catastrophe, such as the one that started in the US after 2006." Deutsche Bank, *The Path of US Support for Fannie Mae, Freddie Mac*, THE OUTLOOK, Mar. 14, 2012, at 6.

16. FHFA shared the concerns that the 10% annual dividend to Treasury would reduce the amount of the Treasury commitment starting in 2013. Treasury also generated and provided certain forecasts to FHFA that were similar to those prepared by market participants.

17. These concerns about the adequacy of Treasury's financial commitment undermined the purpose of the PSPAs to express financial support to holders of Enterprise debt (*i.e.*, bondholders) and mortgage backed securities. *See* FHFA Mortgage Market Note (Dec. 5, 2008), currently *available at* http://www.fhfa.gov/webfiles/1241/mmnote084.pdf. The strength of that support depends upon the Enterprises having a sufficiently large pool of available funds

from Treasury that will permit the Enterprises to continue to operate under adverse market conditions that may arise in the coming years.

18. To resolve these concerns, FHFA and Treasury agreed on the provisions that were incorporated into the Third Amendment, executed on August 17, 2012. The Third Amendment (1) eliminated the 10% annual dividend, (2) added a quarterly variable dividend in the amount (if any) of each Enterprises' positive net worth (above net worth values that were specified in the Third Amendment), and (3) suspended the PCF for as long as the quarterly variable dividend is in effect. The new dividend structure eliminated the risk that borrowings to make fixed dividend payments would lead to the exhaustion of the Treasury commitment.

19. These changes in structure did not change the underlying economics of the PSPAs. It was my belief at this time, given the size and importance of the Treasury commitment, that through the liquidation preference, fixed dividends, and the market value of the PCF, Treasury would receive as much from the Enterprises under the Second Amendment as it would under the Third Amendment. Thus, the intention of the Third Amendment was not to increase compensation to Treasury — the Amendment would not do that — but to protect the Enterprises from the erosion of the Treasury commitment that was threatened by the fixed dividend. The Third Amendment was therefore consistent with the intent of the original PSPAs to (1) fully compensate Treasury for the value of its financial support, without which the Enterprises would have been forced into receivership, and (2) protect the Enterprises and the national housing market.

20. At the time of the negotiation and execution of the Third Amendment, the Conservator and the Enterprises had not yet begun to discuss whether or when the Enterprises would be able to recognize any value to their deferred tax assets. Thus, neither the Conservator

nor Treasury envisioned at the time of the Third Amendment that Fannie Mae's valuation allowance on its deferred tax assets would be reversed in early 2013, resulting in a sudden and substantial increase in Fannie Mae's net worth, which was paid to Treasury in mid-2013 by virtue of the net worth dividend.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 17 day of DECEMBER 2013 at Washington, D.C.

By: Mario Ugoletti

MARIO UGOLETTI

Special Advisor to the Office of the Director,
Federal Housing Finance Agency

EXHIBIT 2

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GSE Preferred Stock Purchase Agreements (PSPA) Overview and Key Considerations

Sensitive and Pre-Decisional

June 13, 2012

Discussion Agenda

Sensitive / Pre-Decisional

1) Executive Summary
2) Overview of the GSE Preferred Stock Purchase Agreements (PSPAs)
3) Key Considerations With Existing PSPAs
4) GSE Financial Projections
   - Base Case
   - Stress Case
5) Treasury's PSPA Modification Proposal

TREASURY-3834

Section 1: Executive Summary

Sensitive / Pre-Decisional

Executive Summary

Sensitive / Pre-Decisional

- U.S. Department of Treasury (Treasury) provides capital support to Fannie Mae and Freddie Mac (the GSEs), pursuant to the Preferred Stock Purchase Agreements (PSPAs).
- Financial modeling by the GSEs, the Federal Housing Finance Agency (FHFA) and Treasury highlights that a majority of future draws will likely be necessary to cover dividend payments to Treasury.
- This circularity (i.e. the GSEs drawing from Treasury to pay dividends to Treasury) reduces Treasury's ability to support the capital needs of the GSEs once the final level of the caps are fixed as of the December 31, 2012 financials.
- Consequently, Treasury proposes to modify the PSPAs to protect the solvency of the GSEs.
  - Replace the fixed 10 percent quarterly cash dividend paid by each GSE to Treasury with a variable quarterly dividend equal to any net worth above a certain dollar threshold (a net worth sweep) otherwise the quarterly dividend is zero.
- Over time and based on earnings projections of the GSEs, there should be no material difference in the net cash returned to taxpayers (i.e., the difference between draws taken and dividends received) as would be expected with the fixed ten percent dividend.

Primary GSE Financial Forecast Assumptions

Sensitive / Pre-Decisional

- As conservator, FHFA evaluated the GSEs financial future by performing sensitivity analyses, commonly referred to as the "stress tests."
  - The sensitivity analyses included a base and downside case and were projected out to year 2014.
  - The sensitivity analyses were based on assumptions about GSE operations, loan performance, macroeconomic and financial market conditions, and house prices.
- Treasury also evaluated the financial prospects of the GSEs.
  - Grant Thornton was engaged as an independent, third-party consultant to perform a valuation of the entities for the Treasury Financial Report and OMB budget estimation figures.
  - Grant Thornton developed their own forecasts based, in part, on the forecasts prepared by each GSE based on a consistent set of assumptions provided by FHFA.
  - The Grant Thornton models were projected out until each GSE depleted its PSPA capacity.
- Both the FHFA and Grant Thornton analyses were used to generate the forecast estimates on the subsequent pages.

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Section 2: Overview of the GSE Preferred Stock Purchase Agreements

Conservatorship & the PSPAs

Sensitive / Pre-Decisional

- In September 2008, the FHFA placed Fannie Mae and Freddie Mac into conservatorship.
  - As stated by FHFA, the goals of conservatorship include: (1) helping restore confidence in the GSEs, (2) enhancing the GSEs' capacity to fulfill their role in the housing market, and (3) mitigating the systemic risk that has contributed to market instability.
- When the GSEs entered conservatorship, each GSE received capital support through PSPAs with the Treasury.
  - The PSPAs were designed to provide confidence to the market that the GSEs would remain solvent.
- Under the PSPAs, Treasury committed to make advances of funds to each GSE for each calendar quarter in which the liabilities of the respective GSE exceeded its assets in order to maintain solvency (i.e. maintain positive net worth).
  - Operationally, there is a one quarter lag between the net worth deficit being measured and subsequently cured by a PSPA draw. (I.e., a one-quarter delayed payment)

TREASURY-3839

Conservatorship & the PSPAs (Cont'd)

Sensitive / Pre-Decisional

- The initial cap on the Treasury Senior Preferred Stock funding commitment to each GSE was $100 billion. In return for the commitments, Treasury received a preferred stock certificate from each GSE and an initial $1 billion liquidation preference. Treasury also received warrants with the right to purchase up to 79.9 percent of the common equity of each GSE.
  - Under the terms of each preferred stock certificate, the "liquidation preference" value increases dollar-for-dollar by the amount of each advance of funds made by Treasury to the respective GSE under the commitment.
  - The cash dividend rate on the preferred stock under the PSPAs was set at 10 percent of the cumulative liquidation preference.
- Since they were initially established, the PSPAs have been amended twice:
  - First, in May 2009, when the commitment caps were increased to $200 billion for each GSE;
    - Retained portfolio cap increased to $900 billion (from $850 billion) at December 31, 2009 with 10% annual declines based on the cap (in place of the year-end balance).
  - Second, in December 2009, when the fixed $200 billion cap was amended to increase by the amount of draws between January 1, 2010 and December 31, 2012.
  - After December 31, 2012, the commitment cap becomes fixed again and the unused balance of the commitment will be available to be drawn under the existing terms of the PSPAs.

TREASURY-3840

PSPAs: Key Terms

Sensitive / Pre-Decisional

As of December 31, 2011	
Core Terms	
Amended & Restated PSPAs	Signed on September 26, 2008.
Amendments Dated	1st Amendment – May 6, 2009; 2nd Amendment – December 24, 2009.
Liquidation Preference	Increases with draws under the funding commitment.(1)
Dividend Rate	Cash 10%; if elected to be paid in kind ("PIK") 12%.
Seniority of Senior Preferred Stock	Senior Preferred Stock is senior to the existing preferred stock issued prior to conservatorship and common equity but is junior to all debt claims and obligations.
Covenants	
Retained Investment Portfolio	Reduce by 10% per year until the GSEs' retained portfolios each reach $250 billion.
Dividend Payments to Other Parties	None permitted until senior preferred stock is repaid in full.
Asset Sales	No sale, transfer, or disposition of any assets other than dispositions for fair value in the ordinary course of business.
Leverage Limitation	Not permitted to increase debt to more than 120% of the total amount of mortgages and mortgage-backed securities owned by each enterprise.
Other Terms	
Warrants	Right to purchase up to 79.9 percent of the common equity at one-thousandth of one cent ($0.00001) per share, fully diluted. Warrants expire Sept. 7, 2028.

(1) As amended on December 24, 2009, each PSPA commits Treasury to provide additional support to each Enterprise through the end of 2012 in exchange for a greater liquidation preference. Treasury's financial commitment now equals the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010, 2011, and 2012, less any surplus remaining as of December 31, 2012. Beginning in 2013, the capacity available becomes fixed and the remaining capacity declines as there are further draws.

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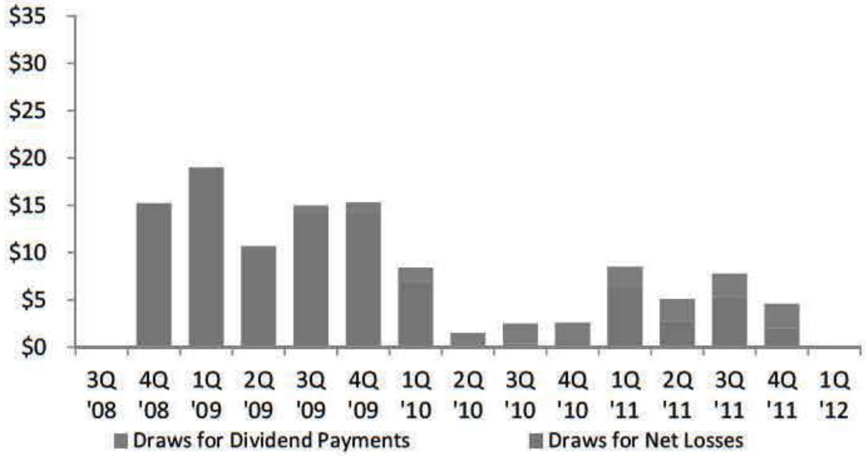
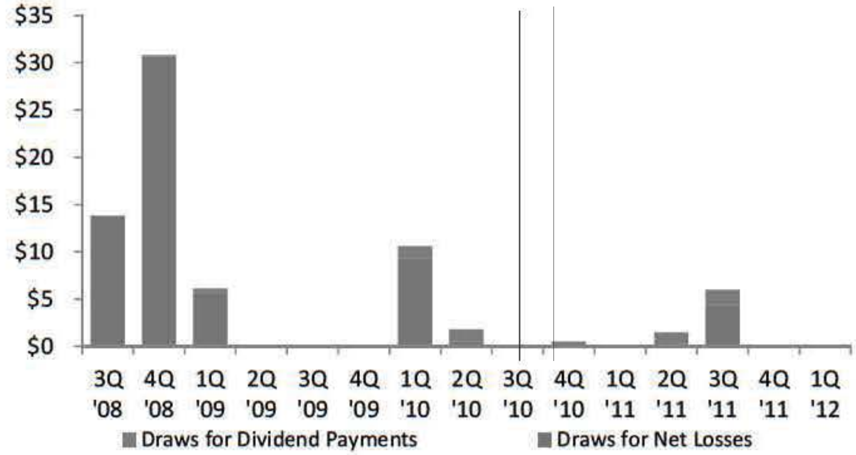
PSPAs: Usage To Date

Sensitive / Pre-Decisional

Fannie Mae:
$ in Billions



Freddie Mac:
$ in Billions



- Cumulative gross draws by Fannie Mae through March 31, 2012 total **$117.2 billion** (including the initial $1.0 billion liquidation preference), of which $19.4 billion were drawn to fund senior preferred stock dividends paid to Treasury.
- Cumulative gross draws by Freddie Mac through March 31, 2012 total **$72.3 billion** (including the initial $1.0 billion liquidation preference), of which $7.0 billion were drawn to fund senior preferred stock dividends paid to Treasury.
- Since 2008, nearly **17%** of the total PSPA draws by Fannie Mae and nearly **10%** of the total PSPA draws by Freddie Mac have been used to pay senior preferred stock dividends back to Treasury.

Remaining Preferred Stock Purchase Agreement Capacity

Sensitive / Pre-Decisional

- Initial Purchase Agreement had a specified funding commitment cap of $100 billion for each GSE.
- The May 2009 amendment increased the specified cap for each institution to a fixed $200 billion.
- The Dec. 2009 amendment modified the fixed cap and allowed the cap to increase dollar for dollar for any draws between Jan. 1, 2010 and Dec. 31, 2012.
    - At the end of 2009, Fannie Mae had drawn $75.2 billion and Freddie Mac had drawn $50.7 billion, excluding the initial $1.0 billion liquidation preference for which the GSEs did not receive cash proceeds.
- At the end of 2012, these caps become fixed and there will be ~$125 billion of capacity remaining for Fannie Mae and ~$149 billion for Freddie Mac.
    - This remaining capacity will decline to the extent there are further draws from 2013 onward.

Fannie Mae:

PSPA cap as of 12/24/09 amendment	$200 billion
+ Est. PSPA draws[1] Jan. '10 – Dec. '12	+ $65.9 billion
Total est. PSPA cap on Dec. 31, 2012	$265.9 billion
- PSPA draws through Dec. 31, 2009	- $75.2 billion
- Est. PSPA draws[1] Jan. '10 – Dec. '12	- $65.9 billion
= Remaining capacity Dec. 31, 2012 *(less any positive net worth on Dec. 31, 2012)*	$124.8 billion

Freddie Mac:

PSPA cap as of 12/24/09 amendment	$200 billion
+ Est. PSPA draws[2] Jan. '10 – Dec. '12	+ $25.1 billion
Total est. PSPA cap on Dec. 31, 2012	$225.1 billion
- PSPA draws through Dec. 31, 2009	- $50.7 billion
- Est. PSPA draws[1] Jan. '10 – Dec. '12	- $25.1 billion
= Remaining capacity Dec. 31, 2012 *(less any positive net worth on Dec. 31, 2012)*	$149.3 billion

[1] Actual draws between January 1, 2010 and March 31, 2012, forecasted draws thereafter. Forecasted draws through December 31, 2012 as estimated by the base case forecast in the Federal Housing Finance Agency's annual "Projections of the Enterprises' Financial Performance" report, released October 2011.

Section 3: Key Considerations With Existing PSPAs

Sensitive / Pre-Decisional

1) Executive Summary
2) Overview of the GSE Preferred Stock Purchase Agreements (PSPAs)
3) **Key Considerations With Existing PSPAs**
4) GSE Financial Projections
   - Base Case
   - Stress Case
5) Treasury's PSPA Modification Proposal

TREASURY-3844

Structural Considerations With The PSPAs

Sensitive / Pre-Decisional

- A large percentage of recent draws has been used to fund dividend payments.
  - Of Fannie Mae's $117.2 billion draw, $19.4 billion (~17%) has been used to fund dividends.
  - Of Freddie Mac's $72.3 billion draw, $7.0 billion (~10%) has been used to fund dividends.
- Financial modeling employed by the GSEs, FHFA and Treasury highlights that a majority of future draws will likely be used to pay dividend payments to Treasury.
  - "Our annual dividend obligation on the senior preferred stock exceeds our annual historical earnings in all but one period... it is unlikely that we will regularly generate net income... in excess of our annual dividends payable to Treasury. As a result, there is significant uncertainty as to our long-term financial sustainability. Continued cash payment of senior preferred dividends... will have an adverse impact on our future financial condition and net worth..." – Freddie Mac 2011 10-K.
  - "We will continue to need funds from Treasury as a result of a number of factors, including the dividends we are required to pay Treasury on the senior preferred stock... As a result of our draws, we do not expect to earn profits in excess of our annual dividend obligation to Treasury for the indefinite future..." – Fannie Mae 2011 10-K.
- The circularity described above (i.e. the GSEs drawing from Treasury to pay dividend payments to Treasury) reduces Treasury's ability to support the capital needs of the GSEs once the final level of the caps are fixed as of the December 31, 2012 financials.

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Section 4: GSE Financial Projections

Sensitive / Pre-Decisional

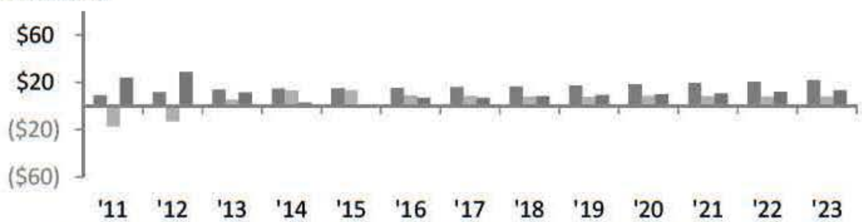
Fannie Mae Base Case PSPA Forecast

Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	($13.1)	$5.4	$13.1	$13.5	$9.1	$8.5	$8.0	$7.9	$8.5	$8.4	$8.1	$8.0
Total Gross PSPA Draw	$28.7	$11.4	$2.9	$1.2	$7.0	$7.1	$8.2	$9.4	$9.8	$10.7	$12.1	$13.5
Total Dividend Paid	($11.8)	($14.0)	($14.8)	($15.0)	($15.2)	($15.9)	($16.6)	($17.5)	($18.4)	($19.4)	($20.6)	($21.8)
Total PSPA Draw Net of PSPA Dividends	$16.9	($2.6)	($11.9)	($13.8)	($8.2)	($8.8)	($8.4)	($8.1)	($8.6)	($8.7)	($8.5)	($8.3)
Projected End of Period Net Worth[2]	*($6.2)*	*($3.4)*	*($2.2)*	*($2.5)*	*($1.6)*	*($1.9)*	*($2.3)*	*($2.4)*	*($2.5)*	*($2.9)*	*($3.3)*	*($3.6)*
Percent of Dividends Funded by PSPA Draws	100%	81%	20%	8%	46%	45%	49%	54%	53%	55%	59%	62%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$2.6	$11.9	$13.8	$8.2	$8.8	$8.4	$8.1	$8.6	$8.7	$8.5	$8.3
Cumulative Cash Dividends Funded by Earnings	**$0.0**	**$2.6**	**$14.5**	**$28.3**	**$36.5**	**$45.3**	**$53.7**	**$61.7**	**$70.4**	**$79.1**	**$87.6**	**$95.9**
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	**$92.4**
Beginning PSPA Liquidation Preference	$112.6	$141.3	$152.7	$155.6	$156.8	$163.8	$170.9	$179.1	$188.5	$198.3	$209.0	$221.1
Total Gross Liquidation Preference	$28.7	$11.4	$2.9	$1.2	$7.0	$7.1	$8.2	$9.4	$9.8	$10.7	$12.1	$13.5
Cumulative Gross Liquidation Preference	$141.3	$152.7	$155.6	$156.8	$163.8	$170.9	$179.1	$188.5	$198.3	$209.0	$221.1	$234.6
Remaining PSPA Funding Capacity	*$125.0*	*$120.8* [4]	*$117.9*	*$116.7*	*$109.7*	*$102.6*	*$94.4*	*$85.0*	*$75.2*	*$64.5*	*$52.4*	*$38.9*
Cumulative Net PSPA Investment[5]	**$112.3**	**$109.7**	**$97.7**	**$84.0**	**$75.8**	**$67.0**	**$58.6**	**$50.5**	**$41.9**	**$33.2**	**$24.7**	**$16.4**

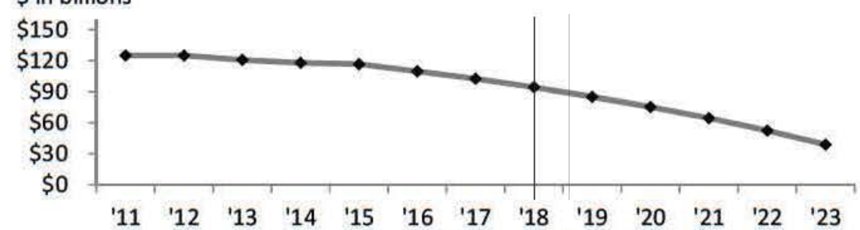
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



(1) Net comprehensive income is defined as the sum of economic net interest margin, fees and other income less a provision for credit losses, administrative expenses and other non-interest expenses.
(2) Negative every year because of a one quarter timing delay in payment of PSPA draw requests. Calculated as the sum of net comprehensive income and total gross PSPA draws less total dividends paid.
(3) The cumulative net return to taxpayers by FY2023 represents the sum of the cumulative cash dividends funded by earnings as of FY2023 and the projected end of period net worth in FY2023.
(4) Remaining PSPA funding capacity reduced by draws that occur after January 1, 2013. Potential PSPA draws in 4Q 2012 appear as FY2013 but do not reduce PSPA capacity.
(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.

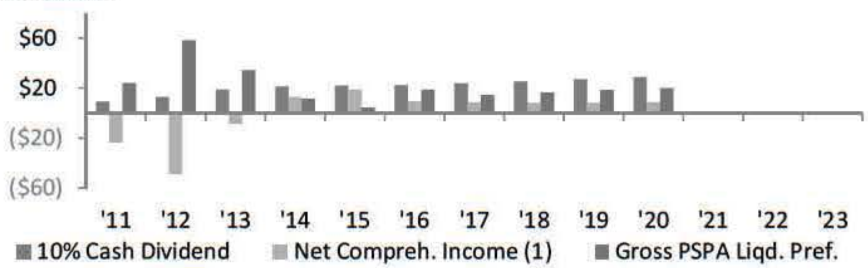
Fannie Mae Downside Case PSPA Forecast

Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	($49.0)	($8.8)	$12.9	$18.6	$9.3	$8.7	$8.2	$8.0	$8.7	$8.5	-	-
Total Gross PSPA Draw	$58.1	$34.3	$11.3	$4.5	$18.6	$14.5	$16.5	$18.4	$19.9	$8.7	-	-
Total Dividend Paid	($12.9)	($18.6)	($21.1)	($21.9)	($22.2)	($23.7)	($25.2)	($26.9)	($28.8)	($8.7)	-	-
Total PSPA Draw Net of PSPA Dividends	$45.2	$15.7	($9.8)	($17.4)	($3.6)	($9.2)	($8.7)	($8.5)	($8.9)	-	-	-
Projected End of Period Net Worth[2]	*($20.3)*	*($13.4)*	*($10.3)*	*($9.0)*	*($3.4)*	*($3.9)*	*($4.4)*	*($4.9)*	*($5.2)*	-	-	-
Percent of Dividends Funded by PSPA Draws	100%	100%	54%	21%	84%	61%	65%	68%	69%	-	-	-
Dollar Amt. of Dividends Funded by Earnings	$0.0	$0.0	$9.8	$17.4	$3.6	$9.2	$8.7	$8.5	$8.9	-	-	-
Cumulative Cash Dividends Funded by Earnings	**$0.0**	**$0.0**	**$9.8**	**$27.2**	**$30.8**	**$40.0**	**$48.7**	**$57.2**	**$66.2**	-	-	-
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	**$60.9**	-	-	-
Beginning PSPA Liquidation Preference	$112.6	$170.7	$205.0	$216.3	$220.8	$239.4	$253.9	$270.4	$288.8	$308.7	-	-
Total Gross Liquidation Preference	$58.1	$34.3	$11.3	$4.5	$18.6	$14.5	$16.5	$18.4	$19.9	$8.7	-	-
Cumulative Gross Liquidation Preference	$170.7	$205.0	$216.3	$220.8	$239.4	$253.9	$270.4	$288.8	$308.7	$317.4	-	-
Remaining PSPA Funding Capacity	*$125.0*	*$112.4* [4]	*$101.1*	*$96.6*	*$78.0*	*$63.5*	*$47.0*	*$28.6*	*$8.7*	*($0.0)*	-	-
Cumulative Net PSPA Investment[5]	**$140.6**	**$156.2**	**$146.4**	**$129.1**	**$125.5**	**$116.3**	**$107.6**	**$99.0**	**$90.1**	-	-	-

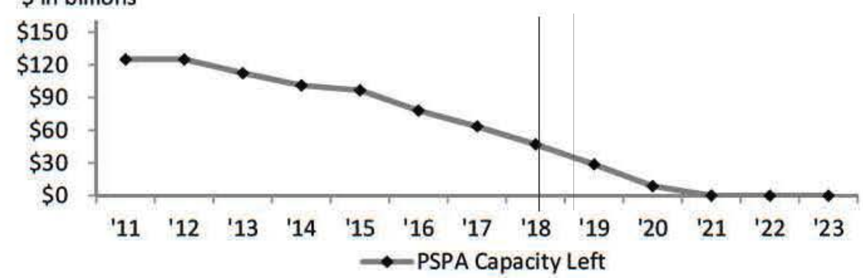
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



(1) Net comprehensive income is defined as the sum of economic net interest margin, fees and other income less a provision for credit losses, administrative expenses and other non-interest expenses.
(2) Negative every year because of a one quarter timing delay in payment of PSPA draw requests. Calculated as the sum of net comprehensive income and total gross PSPA draws less total dividends paid.
(3) The cumulative net return to taxpayers by FY2023 represents the sum of the cumulative cash dividends funded by earnings as of FY2023 and the projected end of period net worth in FY2023.
(4) Remaining PSPA funding capacity reduced by draws that occur after January 1, 2013. Potential PSPA draws in 4Q 2012 appear as FY2013 but do not reduce PSPA capacity.
(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.

Freddie Mac Base Case PSPA Forecast

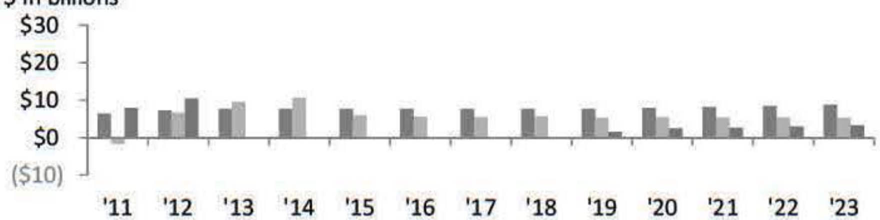
Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	$6.7	$9.5	$10.6	$6.0	$5.5	$5.5	$5.6	$5.3	$5.5	$5.4	$5.4	$5.4
Total Gross PSPA Draw	$10.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.5	$2.5	$2.6	$3.0	$3.3
Total Dividend Paid	($7.3)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.9)	($8.2)	($8.4)	($8.7)
Total PSPA Draw Net of PSPA Dividends	$3.2	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($6.2)	($5.4)	($5.6)	($5.4)	($5.4)
Projected End of Period Net Worth[2]	*$3.5*	*$5.3*	*$8.2*	*$6.6*	*$4.4*	*$2.3*	*$0.2*	*($0.7)*	*($0.6)*	*($0.7)*	*($0.8)*	*($0.8)*
Percent of Dividends Funded by PSPA Draws	100%	0%	0%	0%	0%	0%	0%	19%	32%	32%	36%	38%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$6.2	$5.4	$5.6	$5.4	$5.4
Cumulative Cash Dividends Funded by Earnings	$0.0	$7.7	$15.3	$23.0	$30.7	$38.3	$46.0	$52.2	$57.6	$63.2	$68.6	$74.0
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	$73.2
Beginning PSPA Liquidation Preference	$72.2	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$84.2	$86.7	$89.3	$92.3
Total Gross Liquidation Preference	$10.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.5	$2.5	$2.6	$3.0	$3.3
Cumulative Gross Liquidation Preference	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$84.2	$86.7	$89.3	$92.3	$95.6
Remaining PSPA Funding Capacity	*$150.0*	*$150.0*[4]	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$148.5*	*$146.0*	*$143.4*	*$140.4*	*$137.1*
Cumulative Net PSPA Investment[5]	$60.5	$52.8	$45.2	$37.5	$29.8	$22.2	$14.5	$8.3	$2.9	($2.7)	($8.1)	($13.5)

TREASURY-3849

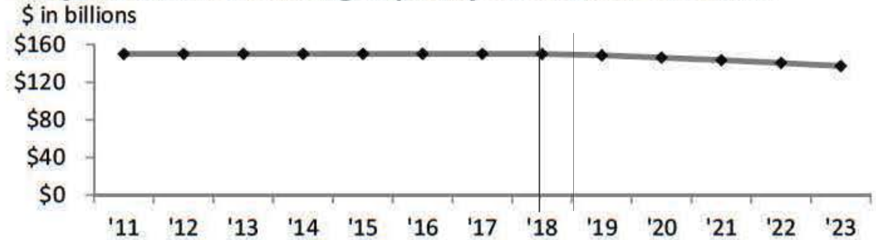
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



(1) Net comprehensive income is defined as the sum of economic net interest margin, fees and other income less a provision for credit losses, administrative expenses and other non-interest expenses.
(2) Negative in some years because of a one quarter timing delay in payment of PSPA draw requests. Calculated as the sum of net comprehensive income and total gross PSPA draws less total dividends paid.
(3) The cumulative net return to taxpayers by FY2023 represents the sum of the cumulative cash dividends funded by earnings as of FY2023 and the projected end of period net worth in FY2023.
(4) Remaining PSPA funding capacity reduced by draws that occur after January 1, 2013. Potential PSPA draws in 4Q 2012 appear as FY2013 but do not reduce PSPA capacity.
(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.

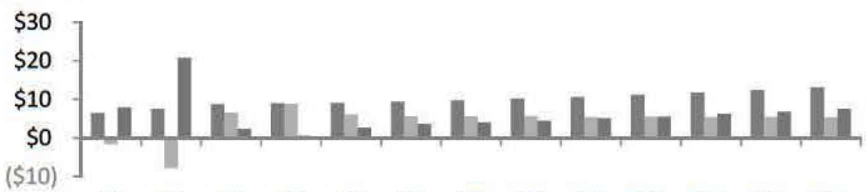
Freddie Mac Downside Case PSPA Forecast

Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	($7.8)	$6.6	$8.9	$6.1	$5.6	$5.6	$5.7	$5.4	$5.5	$5.4	$5.4	$5.4
Total Gross PSPA Draw	$20.7	$2.3	$0.5	$2.7	$3.6	$4.0	$4.4	$5.1	$5.5	$6.2	$6.8	$7.5
Total Dividend Paid	($7.6)	($8.8)	($9.0)	($9.1)	($9.4)	($9.7)	($10.2)	($10.6)	($11.2)	($11.7)	($12.4)	($13.1)
Total PSPA Draw Net of PSPA Dividends	$13.1	($6.5)	($8.4)	($6.4)	($5.8)	($5.7)	($5.8)	($5.5)	($5.7)	($5.5)	($5.6)	($5.6)
Projected End of Period Net Worth[2]	*($1.1)*	*($0.9)*	*($0.5)*	*($0.8)*	*($0.9)*	*($1.1)*	*($1.2)*	*($1.3)*	*($1.5)*	*($1.6)*	*($1.8)*	*($2.0)*
Percent of Dividends Funded by PSPA Draws	100%	26%	6%	30%	38%	41%	43%	48%	49%	53%	55%	57%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$6.5	$8.4	$6.4	$5.8	$5.7	$5.8	$5.5	$5.7	$5.5	$5.6	$5.6
Cumulative Cash Dividends Funded by Earnings	**$0.0**	**$6.5**	**$14.9**	**$21.3**	**$27.0**	**$32.8**	**$38.6**	**$44.1**	**$49.7**	**$55.3**	**$60.8**	**$66.4**
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	**$64.4**
Beginning PSPA Liquidation Preference	$72.2	$92.9	$95.2	$95.7	$98.4	$102.0	$106.0	$110.4	$115.5	$121.0	$127.2	$134.0
Total Gross Liquidation Preference	$20.7	$2.3	$0.5	$2.7	$3.6	$4.0	$4.4	$5.1	$5.5	$6.2	$6.8	$7.5
Cumulative Gross Liquidation Preference	$92.9	$95.2	$95.7	$98.4	$102.0	$106.0	$110.4	$115.5	$121.0	$127.2	$134.0	$141.5
Remaining PSPA Funding Capacity	*$150.0*	*$149.0* [4]	*$148.4*	*$145.7*	*$142.1*	*$138.1*	*$133.7*	*$128.6*	*$123.1*	*$116.9*	*$110.1*	*$102.6*
Cumulative Net PSPA Investment[5]	**$70.4**	**$64.0**	**$55.6**	**$49.2**	**$43.4**	**$37.7**	**$31.9**	**$26.4**	**$20.7**	**$15.2**	**$9.6**	**$4.0**

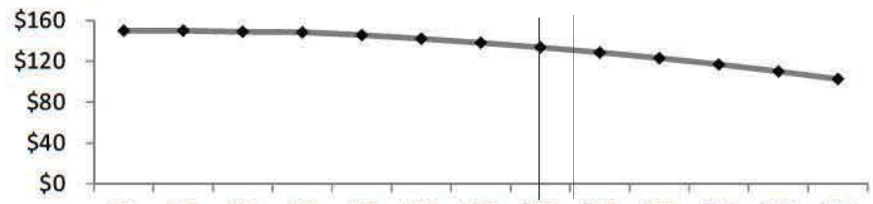
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



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(2) Negative every year because of a one quarter timing delay in payment of PSPA draw requests. Calculated as the sum of net comprehensive income and total gross PSPA draws less total dividends paid.
(3) The cumulative net return to taxpayers by FY2023 represents the sum of the cumulative cash dividends funded by earnings as of FY2023 and the projected end of period net worth in FY2023.
(4) Remaining PSPA funding capacity reduced by draws that occur after January 1, 2013. Potential PSPA draws in 4Q 2012 appear as FY2013 but do not reduce PSPA capacity.
(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.

Section 5: Treasury's PSPA Modification Proposal

Sensitive / Pre-Decisional

1) Executive Summary
2) Overview of the GSE Preferred Stock Purchase Agreements (PSPAs)
3) Key Considerations With Existing PSPAs
4) GSE Financial Projections
   - Base Case
   - Stress Case
5) **Treasury's PSPA Modification Proposal**

Goals of Modifying the PSPAs

Sensitive / Pre-Decisional

- Treasury would like to modify the PSPAs given the challenges and circularity embedded in the current structure.
- Any modification would need to achieve four core goals:

  1) Protect the taxpayers' investment in the GSEs.
  2) There should be no material difference in the net cash returned to taxpayers (i.e., the difference between draws taken and dividends received) as would be expected with the fixed ten percent dividend.
  3) The maximum financial upside possible should be retained for the taxpayer if/when the GSEs return to sustained profitability.
  4) Should be executed in a transparent manner that maintains stakeholder confidence in the GSEs so they can fulfill their current and future mission.

Treasury's PSPA Modification Proposal

Sensitive / Pre-Decisional

- Replace the fixed 10 percent quarterly cash dividend paid by each GSE to Treasury with a variable quarterly dividend equal to a net worth sweep based upon financial results.
  - If quarterly net worth[1] is positive above a minimum amount[2], all of that value would be paid to Treasury.
  - If quarterly net worth[1] is negative, no dividends would be paid to Treasury.
    - The GSEs would draw on the remaining funding commitment capacity to maintain positive net worth.
- The proposed modification has the following impact on PSPA operations:
  - Eliminates the circularity of Treasury funding dividends paid to Treasury.
  - All future net income/profits above an established threshold are distributed to Treasury as dividends.
  - Future draws are only used to meet solvency needs and fund actual operating losses to the extent necessary.

(1) Net worth is determined by subtracting the total liabilities from the total assets as reflected on the GSE balance sheets as of an applicable date, prepared in accordance with GAAP.

(2) Treasury is proposing a minimum net worth amount of $10,000,000,000 for the quarterly reporting periods between January 1, 2013 and December 31, 2019. For all subsequent periods, the minimum net worth amount will be $1,000,000. The economic rationale behind the minimum net worth amount is to avoid having unnecessary PSPA draws that result from price volatility in the GSEs mortgage investment portfolios. By January 1, 2020, these portfolios need to be reduced to $250 billion from their current levels of $708 billion and $653 billion at Fannie Mae and Freddie Mac, respectively.

Hypothetical Cashflows prior to 2020 where the GSE has positive net worth that totals less than $10 billion

Sensitive / Pre-Decisional

Current 10% Annualized Dividend

Quarter with Positive Net Worth

Income Statement	Net Comprehensive Income	$2.00
Balance Sheet	Assets	$3,202.00
	Liabilities	$3,200.00
	Net Worth	$2.00
	Dividend Accrued	*$2.50*
Cash Flows: TSY	Dividend Payment	$2.50
	Less: Increase in Liq. Pref.	($0.50)
	Net Cash to/from Treasury	$2.00
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$100.50

Quarter with Negative Net Worth

Income Statement	Net Comprehensive Income	($2.00)
Balance Sheet	Assets	$3,198.00
	Liabilities	$3,200.00
	Net Worth	($2.00)
	Dividend Accrued	$2.50
Cash Flows: TSY	Dividend Payment	$2.50
	Less: Increase in Liq. Pref.	($4.50)
	Net Cash to/from Treasury	($2.00)
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$104.50

Proposed Net Worth Sweep

Quarter with Positive Net Worth

Income Statement	Net Comprehensive Income	$2.00
Balance Sheet	Assets	$3,202.00
	Liabilities	$3,200.00
	Net Worth	$2.00
	Dividend Accrued	*$0.00*
Cash Flows: TSY	Dividend Payment	$0.00
	Less: Increase in Liq. Pref.	$0.00
	Net Cash to/from Treasury	$0.00
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$100.00

Quarter with Negative Net Worth

Income Statement	Net Comprehensive Income	($2.00)
Balance Sheet	Assets	$3,198.00
	Liabilities	$3,200.00
	Net Worth	($2.00)
	Dividend Accrued	*$0.00*
Cash Flows: TSY	Dividend Payment	$0.00
	Less: Increase in Liq. Pref.	($2.00)
	Net Cash to/from Treasury	($2.00)
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$102.00

TREASURY-3854

Hypothetical Cashflows prior to 2020 where the GSE has positive net worth that totals more than $10 billion

Sensitive / Pre-Decisional

Current 10% Annualized Dividend

Quarter with Positive Net Worth

Income Statement	Net Comprehensive Income	$2.00
Balance Sheet	Assets	$3,212.00
	Liabilities	$3,200.00
	Net Worth	$12.00
	Dividend Accrued	*$2.50*
Cash Flows: TSY	Dividend Payment	$2.50
	Less: Increase in Liq. Pref.	$0.00
	Net Cash to/from Treasury	$2.50
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$100.00

Proposed Net Worth Sweep

Quarter with Positive Net Worth

Income Statement	Net Comprehensive Income	$2.00
Balance Sheet	Assets	$3,212.00
	Liabilities	$3,200.00
	Net Worth	$12.00
	Dividend Accrued	*$2.00*
Cash Flows: TSY	Dividend Payment	$2.00
	Less: Increase in Liq. Pref.	$0.00
	Net Cash to/from Treasury	$2.00
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$100.00

TREASURY-3855

Hypothetical Cashflows Where The GSE Has Positive Net Worth After 2020

Sensitive / Pre-Decisional

TREASURY-3856

Current 10% Annualized Dividend

Quarter with Positive Net Worth

Income Statement	Net Comprehensive Income	$2.00
Balance Sheet	Assets	$3,212.00
	Liabilities	$3,200.00
	Net Worth	$12.00
	Dividend Accrued	*$2.50*
Cash Flows: TSY	Dividend Payment	$2.50
	Less: Increase in Liq. Pref.	$0.00
	Net Cash to/from Treasury	$2.50
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$100.00

Proposed Net Worth Sweep

Quarter with Positive Net Worth

Income Statement	Net Comprehensive Income	$2.00
Balance Sheet	Assets	$3,212.00
	Liabilities	$3,200.00
	Net Worth	$12.00
	Dividend Accrued	*$12.00*
Cash Flows: TSY	Dividend Payment	$12.00
	Less: Increase in Liq. Pref.	$0.00
	Net Cash to/from Treasury	$12.00
PSPAs	Beg. Cum. Liquidation Pref.	$100.00
	End. Cum. Liquidation Pref.	$100.00

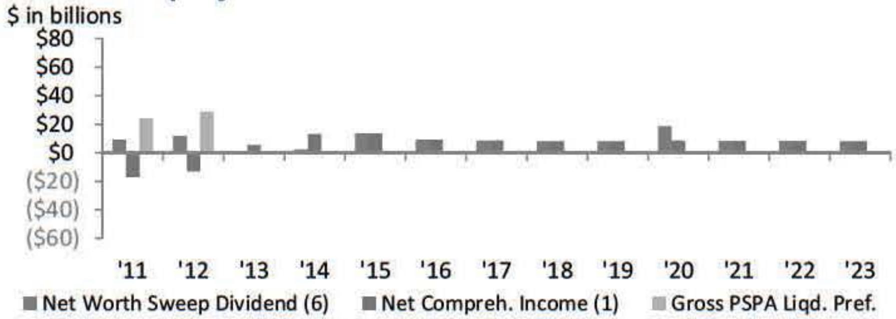
Fannie Mae Base Case PSPA Forecast Under Sweep Proposal

Sensitive / Pre-Decisional

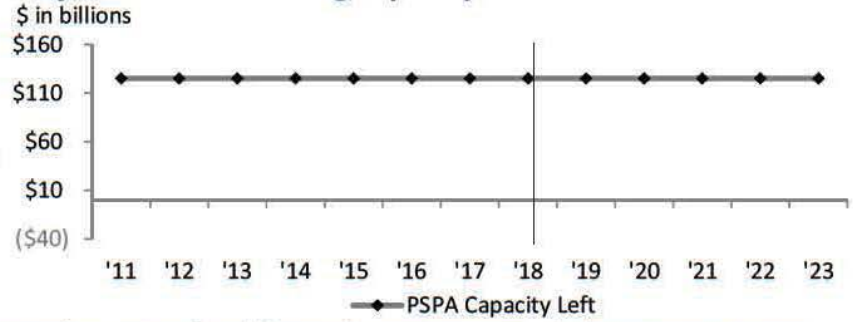
Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	($13.1)	$5.4	$13.1	$13.5	$9.1	$8.5	$8.0	$7.9	$8.5	$8.4	$8.1	$8.0
Total Gross PSPA Draw	$28.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Net Worth Sweep Dividend	($11.8)	$0.0	($2.3)	($13.5)	($9.1)	($8.5)	($8.0)	($7.9)	($18.5)	($8.4)	($8.1)	($8.0)
Total PSPA Draw Net of Net Worth Sweep	$16.9	$0.0	($2.3)	($13.5)	($9.1)	($8.5)	($8.0)	($7.9)	($18.5)	($8.4)	($8.1)	($8.0)
Projected End of Period Net Worth[2]	*($6.2)*	*($0.8)*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
Percent of Dividends Funded by PSPA Draws	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$0.0	$2.3	$13.5	$9.1	$8.5	$8.0	$7.9	$18.5	$8.4	$8.1	$8.0
Cumulative Cash Dividends Funded by Earnings	**$0.0**	**$0.0**	**$2.3**	**$15.8**	**$24.9**	**$33.4**	**$41.4**	**$49.3**	**$67.8**	**$76.2**	**$84.3**	**$92.4**
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	**$92.4**
Beginning PSPA Liquidation Preference	$112.6	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3
Total Gross Liquidation Preference	$28.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cumulative Gross Liquidation Preference	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3	$141.3
Remaining PSPA Funding Capacity	*$125.0*	*$125.0* [4]	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*
Cumulative Net PSPA Investment[5]	**$112.3**	**$112.3**	**$110.0**	**$96.5**	**$87.4**	**$78.9**	**$70.9**	**$63.0**	**$44.4**	**$36.0**	**$27.9**	**$19.9**

TREASURY-3857

Per annum projected PSPA draws and dividends



Projected PSPA funding capacity as a result of draws



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(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.
(6) Net worth sweep dividend begins in FY2013. 10 percent cash dividend paid through FY2012.

Fannie Mae Downside Case PSPA Forecast Under Sweep Proposal

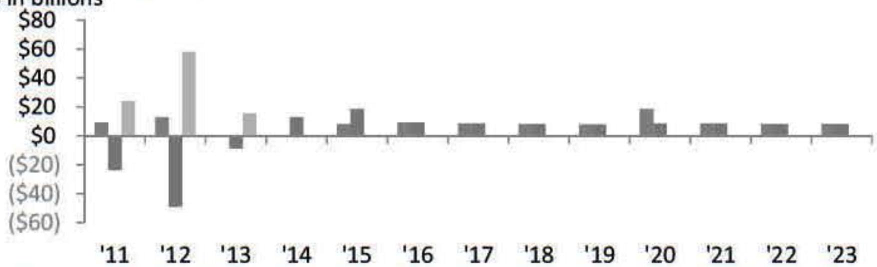
Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	($49.0)	($8.8)	$12.9	$18.6	$9.3	$8.7	$8.2	$8.0	$8.7	$8.5	$8.2	$8.2
Total Gross PSPA Draw	$58.1	$15.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Net Worth Sweep Dividend	($12.9)	$0.0	$0.0	($8.1)	($9.3)	($8.7)	($8.2)	($8.0)	($18.7)	($8.5)	($8.2)	($8.2)
Total PSPA Draw Net of Net Worth Sweep	$45.2	$15.7	$0.0	($8.1)	($9.3)	($8.7)	($8.2)	($8.0)	($18.7)	($8.5)	($8.2)	($8.2)
Projected End of Period Net Worth[2]	*($20.3)*	*($13.4)*	*($0.5)*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
Percent of Dividends Funded by PSPA Draws	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$0.0	$0.0	$8.1	$9.3	$8.7	$8.2	$8.0	$18.7	$8.5	$8.2	$8.2
Cumulative Cash Dividends Funded by Earnings	$0.0	$0.0	$0.0	$8.1	$17.4	$26.1	$34.2	$42.3	$60.9	$69.5	$77.6	$85.8
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	$85.8
Beginning PSPA Liquidation Preference	$112.6	$170.7	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3
Total Gross Liquidation Preference	$58.1	$15.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cumulative Gross Liquidation Preference	$170.7	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3	$186.3
Remaining PSPA Funding Capacity	*$125.0*	*$125.0* [4]	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*	*$125.0*
Cumulative Net PSPA Investment[5]	$0.0	$154.0	$154.0	$145.9	$136.6	$127.9	$119.8	$111.8	$93.1	$84.6	$76.4	$68.2

TREASURY-3858

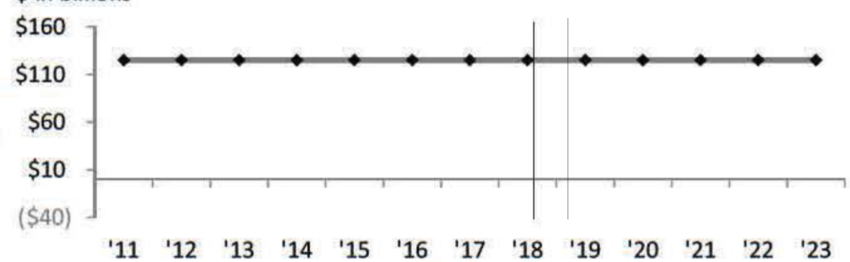
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



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(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.
(6) Net worth sweep dividend begins in FY2013. 10 percent cash dividend paid through FY2012.

Freddie Mac Base Case PSPA Forecast Under Sweep Proposal

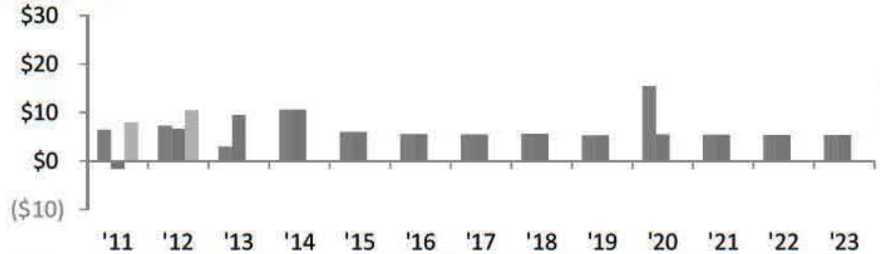
Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	$6.7	$9.5	$10.6	$6.0	$5.5	$5.5	$5.6	$5.3	$5.5	$5.4	$5.4	$5.4
Total Gross PSPA Draw	$10.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Net Worth Sweep Dividend	($7.3)	($3.0)	($10.6)	($6.0)	($5.5)	($5.5)	($5.6)	($5.3)	($15.5)	($5.4)	($5.4)	($5.4)
Total PSPA Draw Net of Net Worth Sweep	$3.2	($3.0)	($10.6)	($6.0)	($5.5)	($5.5)	($5.6)	($5.3)	($15.5)	($5.4)	($5.4)	($5.4)
Projected End of Period Net Worth[2]	*$3.5*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
Percent of Dividends Funded by PSPA Draws	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$3.0	$10.6	$6.0	$5.5	$5.5	$5.6	$5.3	$15.5	$5.4	$5.4	$5.4
Cumulative Cash Dividends Funded by Earnings	**$0.0**	**$3.0**	**$13.6**	**$19.6**	**$25.1**	**$30.6**	**$36.2**	**$41.5**	**$57.0**	**$62.4**	**$67.8**	**$73.2**
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	**$73.2**
Beginning PSPA Liquidation Preference	$72.2	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7
Total Gross Liquidation Preference	$10.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cumulative Gross Liquidation Preference	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7	$82.7
Remaining PSPA Funding Capacity	*$150.0*	*$150.0* [4]	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*
Cumulative Net PSPA Investment[5]	**$60.5**	**$57.5**	**$46.9**	**$40.9**	**$35.4**	**$29.9**	**$24.3**	**$19.0**	**$3.5**	**($2.0)**	**($7.4)**	**($12.7)**

TREASURY-3859

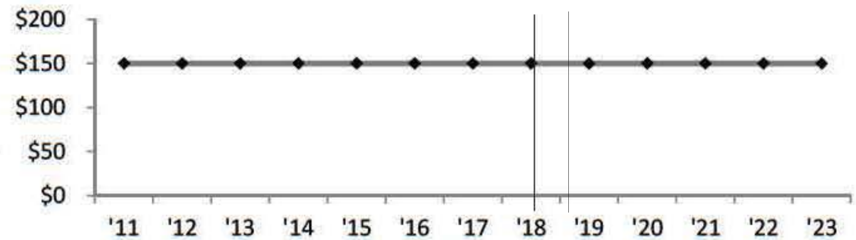
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



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(5) The cumulative net PSPA investment decreases by the dollar amount of dividends funded by earnings paid to the U.S. Department of the Treasury.
(6) Net worth sweep dividend begins in FY2013. 10 percent cash dividend paid through FY2012.

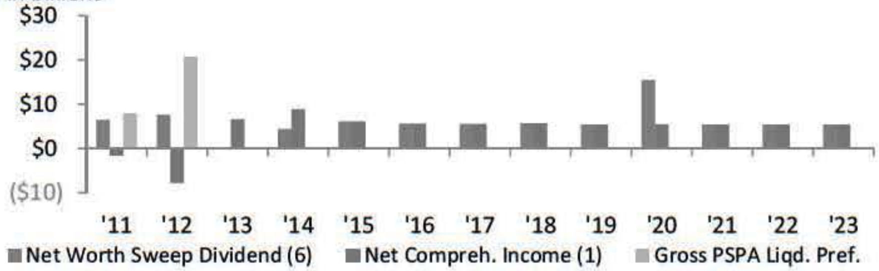
Freddie Mac Downside Case PSPA Forecast Under Sweep Proposal

Sensitive / Pre-Decisional

Projections: $ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Comprehensive Income (Loss)[1]	($7.8)	$6.6	$8.9	$6.1	$5.6	$5.6	$5.7	$5.4	$5.5	$5.4	$5.4	$5.4
Total Gross PSPA Draw	$20.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Net Worth Sweep Dividend	($7.6)	$0.0	($4.4)	($6.1)	($5.6)	($5.6)	($5.7)	($5.4)	($15.5)	($5.4)	($5.4)	($5.4)
Total PSPA Draw Net of Net Worth Sweep	$13.1	$0.0	($4.4)	($6.1)	($5.6)	($5.6)	($5.7)	($5.4)	($15.5)	($5.4)	($5.4)	($5.4)
Projected End of Period Net Worth[2]	*($1.1)*	*$5.5*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$10.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
Percent of Dividends Funded by PSPA Draws	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Dollar Amt. of Dividends Funded by Earnings	$0.0	$0.0	$4.4	$6.1	$5.6	$5.6	$5.7	$5.4	$15.5	$5.4	$5.4	$5.4
Cumulative Cash Dividends Funded by Earnings	$0.0	$0.0	$4.4	$10.5	$16.1	$21.7	$27.4	$32.7	$48.2	$53.7	$59.1	$64.4
Cumulative Net Return To Taxpayers By FY2023[3]	-	-	-	-	-	-	-	-	-	-	-	$64.4
Beginning PSPA Liquidation Preference	$72.2	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9
Total Gross Liquidation Preference	$20.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Cumulative Gross Liquidation Preference	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9	$92.9
Remaining PSPA Funding Capacity	*$150.0*	*$150.0* [4]	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*	*$150.0*
Cumulative Net PSPA Investment[5]	$0.0	$70.4	$66.1	$60.0	$54.3	$48.8	$43.1	$37.7	$22.2	$16.8	$11.4	$6.0

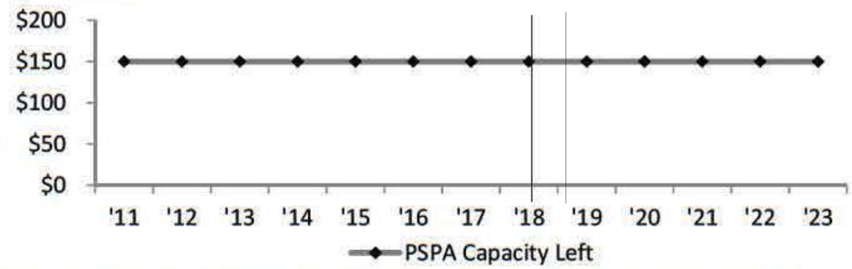
Per annum projected PSPA draws and dividends

$ in billions



Projected PSPA funding capacity as a result of draws

$ in billions



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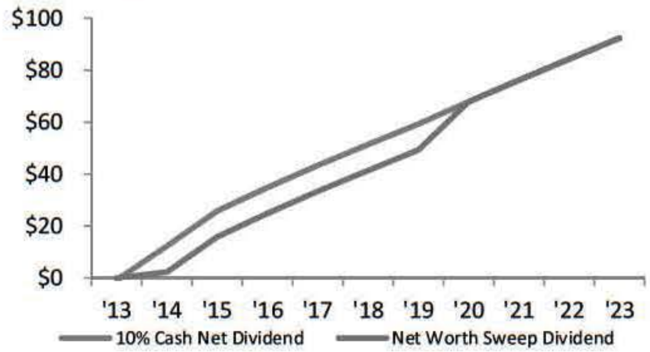
(6) Net worth sweep dividend begins in FY2013. 10 percent cash dividend paid through FY2012.

Summary

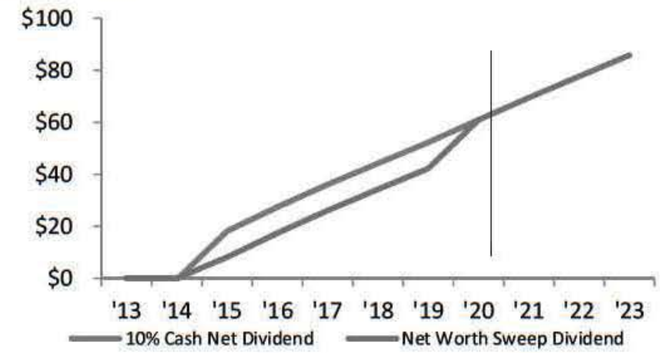
Sensitive / Pre-Decisional

- The net cash returned to taxpayers post the dividend modification is materially equivalent under the proposal as with the 10 percent fixed dividend.
  - The aggregate net cash returned by the GSEs remains materially the same.

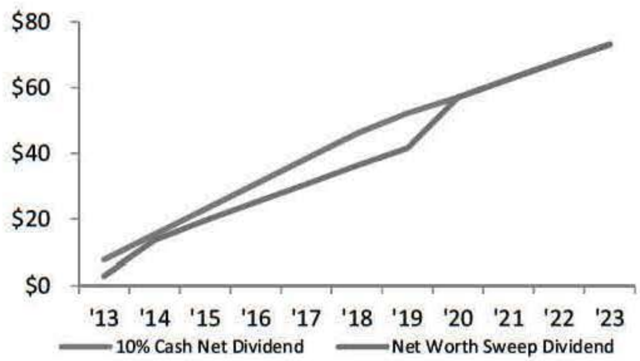
Fannie Mae Base Case Net Cash Returned to Taxpayers
($ in billions)



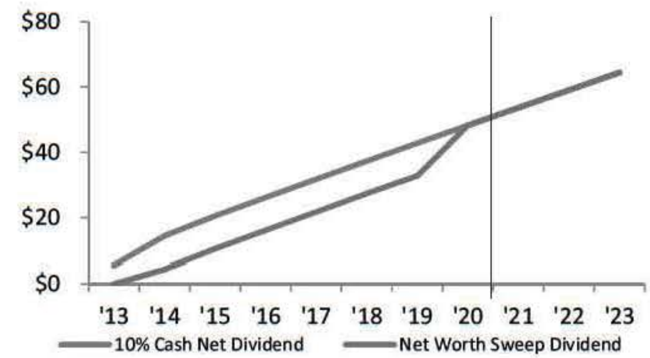
Fannie Mae Downside Case Net Cash Returned to Taxpayers
($ in billions)



Freddie Mac Base Case Net Cash Returned to Taxpayers
($ in billions)



Freddie Mac Downside Case Net Cash Returned to Taxpayers
($ in billions)

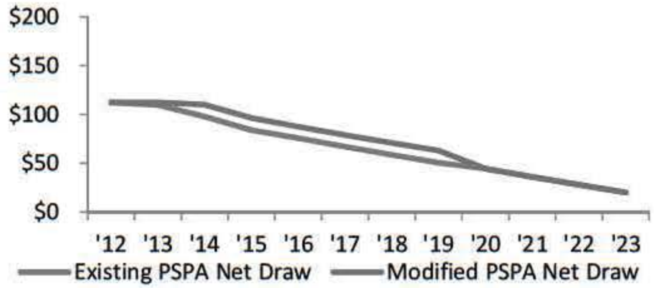


Summary (Cont'd)

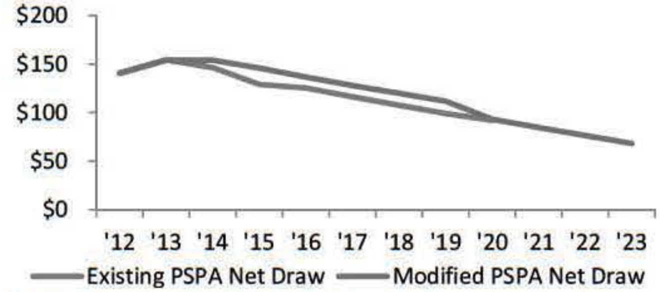
Sensitive / Pre-Decisional

- The net PSPA investment is materially equivalent under the proposal as with the 10 percent fixed dividend.
  - Under all scenarios, net draws (total payments made by Treasury to GSEs under PSPA funding commitments less dividends received) are materially equivalent.
  - In certain positive scenarios (not modeled), the proceeds recaptured by Treasury might be higher.
- The residual economic value of Treasury's existing and future liquidation preference may be higher as investor confidence in the GSEs should improve, which will decrease funding costs and enhance profitability.

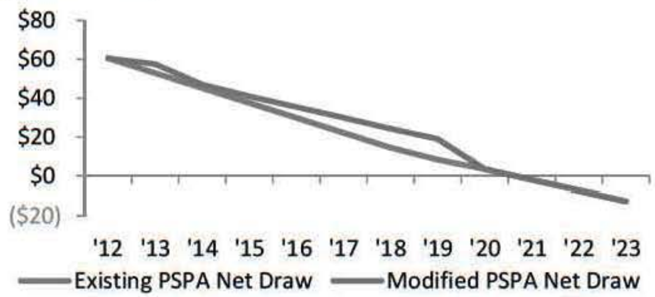
Fannie Mae Base Case Net PSPA Investment
($ in billions)



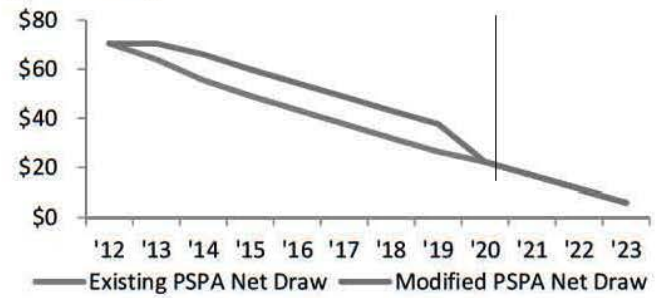
Fannie Mae Downside Case Net PSPA Investment
($ in billions)



Freddie Mac Base Case Net PSPA Investment
($ in billions)



Freddie Mac Downside Case Net PSPA Investment
($ in billions)



TREASURY-3862

EXHIBIT 3

IN THE UNITED STATES COURT OF FEDERAL CLAIMS
NO. 13-465 C
(FILED FEBRUARY 26, 2014)

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FAIRHOLME FUNDS, INC., ET AL

VS. RCFC 12(b); RCFC 12(b)(6); RCFC 56(d)

THE UNITED STATES
-----------------------------x

ORAL DEPOSITION OF MS. SUSAN MCFARLAND

HOUSTON, TEXAS

JULY 15TH, 2015

10:01 A.M.

Reported By:
SAMANTHA DOWNING, CSR
JOB NO. 39652

at the risk-free rate of debt, but then they would layer on top of that some risk premium for credit risk?

MR. LAUFGRABEN: Objection; form, foundation.

A. I would say my experience not just at Fannie but over the course of career with financial services, that's a normal construct for providers of funds, to -- to come up with a price point --

Q. (BY MR. THOMPSON) Yes.

A. -- that they would be willing to provide those funds.

Q. Yeah. And I am trying to figure out how they would come up with that price point.

They would look at interest rate risk, among others things, right?

MR. LAUFGRABEN: Objection.

A. I can't sit here and tell you what each entity specifically did.

But I think if you look academically at, you know, the buildup of rates, you're looking at a risk-free rate and then building something on for risk. And then you can make your list of what risks you think you need to build into the price and how much price you think you need to build for each of those types of risks.

But, you know, on an individual entity-be-entity basis, you would have to ask them how they built their rate structure.

Q. (BY MR. THOMPSON) And that's fair enough.

I was trying to get inside Fannie's head, when they're doing projections into the future and trying to think about, "What is our funding expense going to be?"

Did you-all try to build that expense in the same way where you made an estimate of, "Here's what we think the risk-free rates will be, and here's what we think our funding sources will require as a risk of premium"?

MR. LAUFGRABEN: Object to the form of the question.

MR. BARTOLOMUCCI: Objection; form.

A. We -- there's a lot of history that exists, and so there was a lot of -- the more -- the funding markets, by the time I was there, were performing fairly effectively with one exception. When the debt ceiling debates occurred, and there were challenges with the debt ceilings, we saw some interesting things go on within the debt markets for short periods of time around those debates.

Outside of that, it -- the pricing wasn't

that crazy or volatile. In other words, you could kind of almost trendline out the correlations that existed in the recent past to continue to exist on a go-forward basis.

Q. (BY MR. THOMPSON) Now, if you're -- we're looking at the cost of funding for Fannie Mae, is one of the variables -- is it true to say that all other things being equal, if Fannie had more capital, it would pay less in funding than if it had less capital?

MR. LAUFGRABEN: Objection; calls for speculation, calls for an expert opinion.

A. Capital exists for unexpected losses. Your expected losses should be reserved for and already reflected in your financials.

If someone is building up a price point, taking a risk-free rate and then building onto something for risks, one would then assess what the capacity that the entity has to absorb those risks. Capital could be one place a company could absorb some of those risks.

So it would not -- it would make sense to me that entities would look at capital levels in consideration, as one factor in determining a company's capacity to absorb risks, and that could influence their pricing.

Q. (BY MR. THOMPSON) Okay. And in trying to

operate Fannie's financials on a sound basis, do you think it was desirable for Fannie to have capital?

MR. LAUFGRABEN: Objection; calls for speculation.

A. I believe that if you're going to operate the enterprise ongoing that it should have capacity to absorb risks, and unexpected losses and capital is the most -- would be the -- my preferred form of risk absorption. Because really, quite -- you know, to me, Fannie had two places: Either you build capital inside the enterprise, and/or you continue to rely on the U.S. Government as the full backstop for the enterprise --

Q. (BY MR. THOMPSON) Was there --

A. -- to step in.

Q. Was there any discussion about going to the private market once Fannie had returned to profitability in 2012 and raising capital there?

MR. LAUFGRABEN: Object to the form of the question.

A. There was no discussions about, you know, raising capital in the marketplace at Fannie Mae in the time that I was there, you know, like -- the theoretical potential to do that in time, yes. But there was no discussions of, "Gee. We're starting to make money.

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Should we go and do a stock offering?"
No.
Q. Okay. And do you know why there weren't such discussions?
A. I think two reasons in my opinion. This is strictly my opinion.
One, it was probably premature. I think Fannie, in the -- would need to have returned to -- you know, they would have had to have more periods of profitability before the marketplace would probably have entertained -- before we could expect a stock offering to be successful.
Two, we didn't legally have the ability to do that on our own. That would have to be the Treasury, and FHFA would have had to have agreed to that.
Q. Yes.
A. And it was pretty clear to me at that point in time that that was not going to be something they would have been receptive to.
Q. Understood.
Okay. So, Ms. McFarland, I am going to be showing you some documents today, and you're free to sort of flip through them. But I will be generally directing your attention to a specific passage.

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In this first one, I would like to have the court reporter mark as McFarland 1, and it has a Bates number of Treasury 0201.
(McFarland Exhibit No. 1 was marked.)
MR. LAUFGRABEN: We object to this document from December 20th, 2010. It's well before the beginning of the discovery time period set forth in the Court's order.
MR. THOMPSON: Yes. And I understand that, and I am going to be asking questions about the time period that is within the Government's understanding of the Discovery Order.
Q. (BY MR. THOMPSON) But I would -- this is, as Counsel quite rightly notes, a memo from December 20, 2010. It's from a Jeffrey Goldstein. The subject is, "Periodic Commitment Fee for GSE Preferred Stock Purchase Agreements."
Ms. McFarland, I would like to direct your attention to the second page. And under the heading, "Reasons to Set the PCF," there's a bullet point that says, "Makes clear the administration's commitment to ensure existing common equity holders will not have access to any positive earnings from the GSEs in the future."
Now, I am not asking you about

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December 2010. You weren't there.
A. Correct.
Q. But when you did arrive in the middle of 2011, did you see any manifestations of the administration's commitment to ensure existing common equity holders would not have access to any positive earnings from Fannie?
MR. LAUFGRABEN: Object to the form of the question; lack of foundation.
A. The only example that I -- that comes to mind of note is the Third Amendment.
Q. (BY MR. THOMPSON) Yeah.
And what was your reaction when you learned -- you learned of a Third Amendment a couple of days beforehand; is that right?
A. Correct.
Q. All right. And what was your reaction to it?
MR. LAUFGRABEN: Objection; vague.
Q. (BY MR. THOMPSON) Did you think it was the effective nationalization of the companies?
MR. LAUFGRABEN: Objection; form.
MR. BARTOLOMUCCI: Objection; form.
A. No, I didn't view it as nationalizing. It borders on that; I can see.
But I had, shortly before that, had

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a meeting with Treasury whereby we reviewed our forecasts. I had expressed a view that I believed we were now in a sustainable profitability, that we would be able to deliver sustainable profits over time. I even mentioned the possibility that it could get to a point in the not-so-distant future where the factors might exist whereby the allowance on the deferred tax asset would be released. We were not there yet, but, you know, you could see positive things occurring.
So when the amendment went into place, part of my reaction was they did that in response to my communication of our forecasts and the implication of those forecasts, that it was probably a desire not to allow capital to build up within the enterprises and not to allow the enterprises to recapitalize themselves.
Q. (BY MR. THOMPSON) And with whom at Treasury do you have this meeting?
A. So the -- which meeting?
Q. The one you just referenced where --
A. Where I had the discussion about the forecasts?
Q. Yes.
A. So it was a common practice for us to meet with Treasury on a quarterly basis to review our results from the past quarter and to update them on our forecasts;

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you know, our updated forecast.

And that meeting -- I don't remember every specific person in the meeting. I was there; Tim Mayopoulos, who was the CEO of Fannie Mae was there; Dave Benson I think would have been there. He -- he was the Treasurer of Fannie Mae at the time. That would have been normal for him to be in attendance. Mary Miller, the Secretary of the Treasury, was there.

Tim --

Q. Bowler?

A. Thank you.

I believe he was there. He was normally at those meetings.

I believe there was a gentleman -- and I can't remember his name -- who used to work at Fannie that was now at Treasury that was, like, a Financial Analyst. I think he was there because they knew part of the topic we wanted to talk about was these projections.

And then there were probably other members of -- excuse me -- FHFA, the U.S. Treasury, and Fannie Mae to talk about some other topics that were going to be covered in that meeting. Because normally we reviewed financials, but they were -- you know, there may be one, two, or three other topics that would be

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discussed.

And both Fannie and Treasury would then make sure they had the -- the personnel around the table to facilitate those conversations. I don't remember in this particular meeting what those topics were and who those individuals were.

Q. Do you remember Jeff Foster being at the meeting?

A. He could have been.

MR. LAUFGRABEN: Objection.

A. He could have been. I can't confirm yes or not.

Q. (BY MR. THOMPSON) Yes.

A. It wouldn't surprise me if he was. That would have been reasonable.

Q. And Mario Ugoletti; was he at the meeting?

Do you know?

A. No, I don't remember Mario being there, you know, again, because I don't have perfect recollection of all the attendees.

If you said, "Here's this document. Mario was there," I would say, "Okay. He was there."

I don't remember him being there, but he could have been there.

Q. Okay. And so would it be fair to say that

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there were at least five or six Treasury officials at this meeting?

A. Probably, yes.

Q. Okay. And did the meeting take place at Treasury?

A. Yes, it did.

Q. And was this within less than a month before the net worth sweep?

A. I believe it was the week before.

Q. Okay.

A. It was very -- it was within the week or two. It was very close to.

Q. Would it surprise you to know that there's an e-mail from Tim Bowler where he's saying, "We need to make a renewed push on the net worth sweep"?

MR. LAUFGRABEN: Objection; form, lack of foundation.

MR. BARTOLOMUCCI: Objection.

A. I don't have knowledge of that e-mail.

Q. (BY MR. THOMPSON) Okay. And was this meeting -- I am sorry if I asked this.

Was it at Treasury?

A. Yes.

Q. And would this -- how would this have been set up?

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A. Normally Dave Benson was our primary sort of liaison between the company and Treasury. And these meetings were generally scheduled the day -- you know, because they were -- we had the regular kind of quarterly meetings, and there might be some other meetings of; you know, specific topics that would occur in between those other meetings.

I don't know -- I can't recollect exactly, you know, whether we would initiate setting it up, or Treasury would initiate setting it up. I don't know how the logistics all worked out.

Q. And when you were making your presentation, did you have a PowerPoint that you were using?

A. A few pages, yes, from a PowerPoint.

MR. THOMPSON: Okay. I don't believe, Mr. Bartolomucci -- and I apologize if I am wrong about this, but I don't believe we have that PowerPoint presentation.

So I would ask if you would be kind enough to go back and talk to your client and see if they did produce it? And if they didn't produce it, whether they have it, because it's our view that it's highly material to these depositions?

MR. BARTOLOMUCCI: Request noted.

MR. THOMPSON: Likewise, I would make the same request to the Government, that to the extent the Government has a copy of this document, I don't believe it's been provided to us. Again, I apologize if I am wrong, but I don't have knowledge of all the pages. But it's not one that I have seen.

I would just request if you could ask your client, Treasury, whether they have the document, whether it's been produced, whether privilege has been asserted, which I can't imagine since Fannie was there.

Will you take that back to your client?

MR. LAUFGRABEN: I will take it under advisement.

MR. THOMPSON: Thank you. I appreciate that.

Q. (BY MR. THOMPSON) Okay. And did you have internal -- so you had a PowerPoint presentation you used at the meeting.

Did you have also have any internal documentation that was provided to you in preparation of the meeting?

A. Well, in the sense that I was reviewing actual results and forecasts, there's a lot of documentation that I looked at on both of those to get comfortable and ultimately sign off on the financials and sign off on the 10-Q --

Q. Yes.

A. -- as well as approve the forecast. So -- and that's just part of the standard process of preparing actuals and preparing forecasts.

Q. And sorry if I am not being clear.

But I am just asking, when you went into this quarterly meeting with Treasury, would typically someone on your staff provide you with either a briefing book or some background materials that would be more detailed than the PowerPoint you would hand out to Treasury?

A. Well, in the normal course of preparing our actual results, there's a whole process for closing the books, reviewing the results, and preparing the 10-Qs.

And so the information contained in the PowerPoint from the actual results are ultimately pulled from -- they're basically summarizations, very high-level summarizations of results that come from that standard process that exists to, you know, approve our actuals.

So it wasn't like I needed a separate briefing book for that. I already had that information available to me in the normal course of my job and responsibilities to, you know, close the books, and sign off on the results and file our Q.

The forecasts, in much the same fashion, albeit not quite as formal, we had a process. My team would meet with me to review the forecasts, they would bring information, we would discuss. I, at times, would challenge assumptions, and, you know, I could play devil's advocate.

We could look at a lot of different things. We could look at sensitivity analyses, comparisons of this forecast to prior forecasts to things like that, a variety of mechanisms for me to get comfortable that we finalized a forecast that we felt comfortable with, that it was a baseline representation of what our most current perspectives were on expectations of future performance.

So because that process already existed, I was relying on that and the knowledge that I gained through that process to inform me to have those discussions with Treasury. I don't recollect bringing -- I didn't bring, like, you know, a bunch of supporting documentation with me.

Q. Okay.

A. Okay. You know, it was the PowerPoint presentation.

You know, from time to time, I might bring a page or two of notes that -- that I wanted to

make sure either -- you know, make sure I get these points across, or here's a few, you know, additional pieces of data that they may ask about that aren't reflected on the documents, and I wanted to make sure I had the correct information on hand.

Most of those would take the form of kind of personal notes on my part.

Q. Okay. Did you take notes of this meeting?

A. No.

I don't generally take notes in those types of meetings.

Q. Would there have been anyone on your team who would typically take notes on those meetings?

A. No one on my team was present. In other words, nobody from the Finance Team was present at the meeting other than me.

Q. Okay.

A. I -- I don't recollect -- there wasn't -- as far as I know, there was no official note-taking.

That doesn't mean that people at the table might be taking or jotting down personal notes.

Q. Okay. And I just was -- wanted to know if you had a recollection as to whether typically one participant from Fannie would try to take notes down as to what was said.

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A. Not that I was aware of, no.
Q. Okay. Was anyone from FHFA at this meeting?
A. I don't recollect. I don't remember.
Q. Okay. And you said there was an Analyst who had been at FHFA and --
A. No, had been at Fannie --
Q. Sorry.
A. -- and had gone to work for the U.S. Treasury.
Q. Mr. Goldstein?
A. Yes. Thank you.
Q. Okay.
A. Thank you. Yes.
Q. Allen Goldstein?
A. I said that if you refresh my memory on the name, I could confirm it.
Yes, it was Allen.
Q. And he was there at the meeting?
A. I believe he was at the meeting.
Q. Okay. Very good.
Did you ever have any similar type of conversation with anyone at the FHFA about the deferred tax asset prior to the Third Amendment?
A. Yes.
Q. Okay. And tell me about that meeting.
A. Well --

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MR. LAUFGRABEN: Object to the form of the question; vague.
A. I don't -- so just as we -- you know, we had a formal quarterly sit-down with Treasury. We had more regular interactions with individuals at FHFA. So one either Jeff Spohn and/or Brad Martin would attend our Executive Committee meetings.
And so generally anything I was going to say at Treasury, I was already telling the Executive Committee, and Brad or Jeff would have been present at those meetings.
And as such, my reviews of actuals and forecasts and even the -- the -- the raising of the potential that that allowance might be reversed in the not-so-distant future I would have mentioned at an Executive Committee meeting, and Jeff and/or Brad would have been present to hear that.
Q. (BY MR. THOMPSON) And just to be clear on that, that would have been within a month of the Third Amendment?
A. It would have been prior to that --
Q. Yes.
A. -- because it's all part of the discussions we have through the quarter-end-close process and forecast preparation and Board prep and all that kind of stuff

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that takes place in that cycle.
Q. Just so the record is clear, when you say, "prior to that," what period would that have been?
A. Well, it would have been probably -- I would suspect it was -- something that occurred in July would be my -- because of the timing.
You know, you're closing the books for the second quarter. We're prepping for the upcoming Board meetings, getting the forecasts done, letting the team know when the results are coming out for the quarter, all of those kinds of conversations that would happen internal at Fannie Mae before we would ever have that conversation with Treasury.
Q. Okay. And I am sorry I interrupted you.
You described these --
A. And then with the -- we also provide -- so we cannot file our Q unless DeMarco gave us permission to file the Q.
So drafts of our filings were also provided to FHFA first. They had the opportunity to provide feedback, and then we could incorporate that feedback and then got approval for the final filings.
We also had a press release that would go along with -- when we filed a Q, we would go out with a press release. There is where you might see a little

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more color.
There would normally be a quote for the CEO like Tim and a quote from me, and we would also kind of preclear that press release with FHFA before issuing the press release.
As far as -- I believe during 2012, I began to signal -- there began to be some public communication as to our view that things were starting to look good and starting to head in a positive direction.
I would have to refresh my memory through documents as to the timing of what I said and when. But I know through the course of early 2012 and then throughout that summer, the messaging was getting a bit more and more positive that we were sending out. And certainly FHFA was aware of our communications, our external communications in that regard.
As far as the deferred tax asset, I -- I don't recollect that we had some big formal meeting to break the news to them, okay? I believe that it was just something that we talked about in the normal course of keeping them informed about kind of what we're seeing.
And also, Jeff Spohn and/or Brad Martin would attend our Board meetings, so they would also

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hear that the same comments I was making to Treasury, I was making to the Board.

Q. Okay. In the same timetable?

A. I don't remember exactly when the Board meetings were within that window, but it would have been Board meetings shortly before that that I would have reviewed this very same information.

Q. Okay. And when you say that you would have had dialogue with people at FHFA about the deferred tax assets, with who would you have had the dialogue?

Would that have been Mario Ugoletti?

MR. LAUFGRABEN: Object to the form of the question; vagueness as to time period.

A. Yeah.

So early on, it's probably through the Chief Accountant's office of the FHFA, because it is a technical accounting matter.

Q. And do you happen to recall --

A. I can pick him out of a lineup.

Q. Okay. We'll show you some names later on.

A. I tell you, I -- ask me a number, I can probably give it to you. People's names...

It would have started there. Eventually there were conversations with Director DeMarco and key direct reports of his, but that -- the -- those -- the

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DeMarco conversations occurred when we were actually in the serious mode of potentially -- we were looking -- we did a full analysis at the end of the second quarter; no release. We did a full analysis at the end of the third quarter; no release.

When we were doing the analysis for the fourth quarter of 2012, we started to get to a point where we were tipping towards release, and that's when I began to have conversations with more senior folks at FHFA on it. But they were already aware of the statement that I made to Treasury. I mean, in general, I put it on people's radar screens that it's something that could happen in the not-so-distant future.

I will say that I believe Mary Miller asked me in this meeting about how large would it be and did I have any idea of when.

Q. Yeah.

A. And I believe my response was around 50 billion, but that could be larger or smaller depending upon when. The further out in time it is, the smaller it probably would be. It is part of the evidence that it might be good.

So the further out in time that it would be released, the smaller the release size would be.

But I said probably in the

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50-billion-dollar range and probably sometime mid 2013 at that time when I met with them late July, early August 2012.

But I said we had not done a real in-depth analysis, so I was just kind of giving her kind of my off-the-cuff perspective in the moment.

Q. And FHFA was on notice that you had sent this message to Treasury?

A. Yes.

MR. LAUFGRABEN: Object to the form of the question.

A. Yes.

Q. (BY MR. THOMPSON) And they were on notice of that fact before the Third Amendment; is that right?

MR. LAUFGRABEN: Same objection.

A. Yes.

Q. (BY MR. THOMPSON) Okay. Now, if we look for -- let's look at some of these Board minutes, and we've actually -- we've been going -- well, that's fine.

Does -- do you need a break, or --

A. I am fine right now.

Q. Okay.

A. I am fine right now. If I need water, then I will need a break.

Q. Okay. Very good.

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Okay. So we're going to have the court reporter mark as McFarland 2 a document that bears the Bates number FM3153 through 3159.

(McFarland Exhibit No. 2 was marked.)

Q. (BY MR. THOMPSON) And if we look, these are minutes of the meeting of the Board of Directors from August 22, 2011. And if we look at the last sentence of the second paragraph, it indicates Jeff Spohn from the Federal Housing Finance Agency also participated.

Is this a piece of what you were saying earlier, that typically there was an FHFA member at your Board meetings?

A. Yes.

Q. Okay. And if we turn to page 4 of this document, there's a heading that says, "Bank of America Countrywide and Bank of New York Mellon Proposed Settlement."

Do you see that?

A. Yes.

Q. And do you recall that Fannie Mae had initiated a series of litigations against major financial institutions?

A. Yes.

MR. LAUFGRABEN: Object to the form of the question.

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What does this have to do with the Discovery Order?

MR. THOMPSON: Profitability. They made tens of billions of dollars off of this.

MR. LAUFGRABEN: A couple of questions.

Q. (BY MR. THOMPSON) So at -- and do you recall what the gist of the lawsuit was?

Was it that you had bought product and covenants were false?

MR. LAUFGRABEN: Object to the form of the question.

A. Yes. Well, that we had bought product that had not complied with the requirements.

The general model that existed in originations at the time was to detect and correct after the fact, versus inspect and reject prior to taking it on. So it was determined that a significant percent of the -- the loans that we received that had been originated through some of these -- now, there were different lawsuits. So there's investment securities, and there is loan guarantee activity.

So the lawsuits and the loan guarantees was premised basically on the fact that we had found a significant defects in a significant number of loans. And that per the requirements, they were to make us

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whole on that. That was sort of the operating model. And that were large sums of money owed to us to resolve all those loans in accordance with the Loan Origination Agreements that existed. So that's on the loan origination side.

There were also lawsuits that existed related to the investment securities and whether or not the institutions involved had fully and appropriately disclosed information about securities to the buyers of those securities as required, and that the lawsuits contend that they had not. And as a result, they owed damages to the buyers and owners of those securities, Fannie Mae being one of those.

Q. (BY MR. THOMPSON) Did your team, when it was building projections of future profitability, include a line item for expected values of settlements that might or verdicts that might be realized?

A. Not as a general practice.

We would only build those in if in the event it was all but certain and agreed to. Otherwise, we -- there -- now, I want to pause here, because there's two ways one can address some of these issues.

So on the investment securities side, we didn't build anything in for being -- you know, getting some kind of a settlement. On the loan origination

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side, while we didn't build in settlement projections as settlement projections, we did have assumptions about how much we should expect to receive.

It's not -- in the normal course, a loan would go bad. We would assess the defects. If we thought we had a valid claim against the institution that originated the loan, we could build some assumption in for recovery from that institution for those defects. So in our normal projection of net loan losses, we would include some amount of recovery from various institutions for them curing the defects.

When we got into significant contention -- let's use the Bank of America Countrywide as an example -- we tried to be very conservative. Not that we didn't think we had a legitimate claim to a lot larger number, but we knew that Bank of America was heavily disputing our requests and how much we had been asking for them to make us good, you know, to cure the defects. So we tried to be very, very conservative as to how much we thought we would actually collect from Bank of America.

And so then as the actual agreements were reached, it was a matter of comparing that which we had already incorporated into our assumption set versus how much we actually got from them.

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Q. Okay. Very helpful. Thank you.

A. Okay.

Q. And we can put this document to the side.

A. Okay.

Q. Now, the periodic commitment fee.

Do you recall there being any discussion while you were at Fannie Mae about the amount of the periodic commitment fee?

MR. LAUFGRABEN: Objection as to time period.

Q. (BY MR. THOMPSON) As I said, at the beginning -- the assumption is -- that I am asking about --

A. The main discussions were the -- that they were continuing to waive our need to pay the commitment fee.

Q. Okay. Was the commitment fee regarded by yourself as akin -- not the commitment fee, but the commitment itself as akin to a line of credit?

MR. LAUFGRABEN: Objection; vague.

A. Yeah.

I mean, obviously the Preferred Stock Purchase Agreement provides for funding -- access to funding if in the event certain conditions exist. One could say that's not dissimilar to some forms -- you can call it a line of credit, or

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you can call it an LC, a letter of credit, because it's a little bit more you draw if in the event certain conditions exist, whereas a line of credit is open-ended as to where one can draw and pay down and whatnot on it.

So you -- yeah. The commitment fee would probably be very similar to fees that you would see structured into those types of instruments.

Q. And are those types of fees generally calculated as a percentage of the outstanding commitment?

MR. LAUFGRABEN: Objection; lack of foundation, calls for speculation, calls for expert testimony.

A. I would say it -- for letters of credit and lines of credit in the normal ordinary course of banks' dealings with customers, since I have a lot of banking experience, that would be a customary structure --

Q. (BY MR. THOMPSON) Okay.

A. -- Yes.

Q. All right. Did anyone at FHFA or Treasury tell you that the periodic commitment fee would be incalculably large if they didn't waive it?

A. No.

MR. LAUFGRABEN: Objection.

Q. (BY MR. THOMPSON) Okay. I am going to have --

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our next one will be McFarland 3. It has a Bates number of FM3070 through 3074.

(McFarland Exhibit No. 3 was marked.)

Q. (BY MR. THOMPSON) So these are minutes of the meeting of the Board of Directors of Fannie dated October 20, 2011. If you look at the third full paragraph on the first page, we can see you're present, as well as Jeff Spohn of the FHFA.

A. Uh-huh.

Q. And if we turn to the second page, the first full paragraph, the first sentence reads, quote, "The Board discussed the utility of obtaining on an ongoing basis a good bank/bad bank financial presentation, and CFO McFarland indicated that she would include this information in the November Board reporting package."

What is being referred to there as the good bank/bad bank?

A. At that time, Fannie Mae's results were commingled. The results associated with the book that had been originated prior to the -- I use the word, "meltdown" -- the financials crisis, the 2007, 2008 period, whatever you want to call it, and obviously there were fairly significant losses coming forward from that book of business. All the while, over the last most-recent period, new loans had been originated, put

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on the books.

And when you had this combined result, it made it at times difficult to ensure that you were -- we were getting the desired results from the new book of business. So could we kind of separate the results into two pieces, that of the bad back book, which is the bad bank, and that of the new book, that being the good bank, in such a way that it -- it would better enable us to understand the unique results of each of the -- each part of the portfolio.

Q. And have you heard of the term, "vintages"?

A. Yes.

Q. And is this a metaphor similar to wine, that the originations and investments made in a particular year could be good or bad?

A. Yes.

Q. Okay. And were the vintages of 2009 and '10 and '11 and '12 good vintages for Fannie Mae?

A. Yes. They were certainly much better vintages than the vintages of 2002, '3, '4, '5, '6, '7.

Q. Yes.

And as time went on, the good vintages became a bigger part of Fannie's future, and the bad vintages became diminished; is that right?

MR. LAUFGRABEN: Objection to the form of the question.

A. Yes.

So two things began to happen: The percentage of the overall book, you know, the -- the older vintages, comprised less of the total portfolio vis-à-vis the new vintages, and the performances of the new vintages improved.

The, for instance, the 2011 vintage had better performance than 2009 vintage.

Q. (BY MR. THOMPSON) Okay.

A. So you had both of those positives occurring over time.

Q. Okay. And I would like to ask the court reporter to mark this next exhibit as McFarland 4. It has a Bates number of FHFA72466 through 72484.

(McFarland Exhibit No. 4 was marked.)

Q. (BY MR. THOMPSON) This document says, "Senior Preferred Stock Purchase Agreement: Treasury Draw Projections, October 24, 2011, Financial Planning & Analysis."

Who was in charge of the financial planning and analysis of Fannie at this time?

A. I believe it was Anne Gehring reporting to me.

Q. Okay. And then if we turn to page -- I am going to refer to these Bates numbers -- these are the

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little numbers in the bottom right-hand corner -- 72478. It's the 13th --

A. 78?

Q. Yes, 78.

A. Okay.

Q. And it shows projections of total net income. And if we look at 2020 out through 2026, it -- in this document, Fannie's projecting profits of about 10 billion a year; is that right?

A. Yes --

MR. LAUFGRABEN: Objection.

A. -- this document says that.

Q. (BY MR. THOMPSON) Okay. And do you believe as of October 2011 that that was a reasonable long-term projection of profitability for Fannie?

A. Yes.

I do, though, appreciate, having been in this business for a long time, that the further out in time you go, the more those projections are subject to a lot of factors that have yet to occur that would not have been, you know, explicitly incorporated into those projections.

So they are reasonable placeholders based on trending out what you know today or could reasonably expect based on what you know today. But as you get

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further out in time, a lot of stuff can happen; with that as a caveat.

Q. Okay. Now, did anyone at FHFA -- well, first of all, would FHFA have been aware of these projections?

MR. LAUFGRABEN: Object to the form of the question; calls for speculation.

A. I need to refresh my memory as to where this document was -- it's -- this looks like a document that would have been covered in the Executive Committee and/or the Board, but I can't -- you know, I need -- I don't know if that was the case or not, because there's no nomenclature on this document to indicate one way or the other.

If it had been, then clearly members of FHFA would have been present in those meetings.

Q. (BY MR. THOMPSON) And if we look at this, is it fair to say that you at this time, October 2011, really thought that 2013 and then maybe going into 2014 was going to be a turning point for Fannie's profitability?

A. The projections that existed at that time based on this document show that profitability starts to show up in 2013. I mean, that's what this particular forecast indicated.

Q. Yes.

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Do you recall anyone at FHFA ever criticizing any of the projections of future profitability that Fannie was making in 2011 and 2012 up through the time of the net worth sweep?

MR. LAUFGRABEN: Object to the form of the question.

A. I -- my recollection is there wasn't criticism.

There were questions. There were cautions. In other words, you know, let's not forget that, you know, this -- that a lot of bad things have happened, right?

And, you know, with some history in mind, when the declines were occurring, the degradations were occurring, the company was having a hard time keeping up with the face of the degradations. As a result, the forecasts that the company had been producing prior to my arrival -- and I am basing this on what I have been told, so I don't know if it's relevant here or not -- that the actual outcomes tended to be a little bit worse than what the company had been projecting.

But when I got there, we focused very heavily on trying to continue to improve the quality of the forecasts. And I think if you look at the actual results vis-a-vis a lot of the forecasts we were

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producing, you would see the results and forecasts being more in alignment. In fact, it improved over time.

Having had experience at other companies, that's not unusual that it's hard to catch up with trends, whether that's negative trends or positive trends.

So if some things are going bad, sometimes it's hard to catch up to how bad. And, you know -- but on the flip side, when things start to turn good, sometimes it's hard to catch up with how fast and the magnitude of the tailwinds and how much things are going to improve and how fast. So that's not a unique thing to Fannie Mae.

I just remember there being some general discussions about, you know, are we -- you know, let's not forget that there have been times in the past where the forecasts didn't reflect all the badness that ultimately happened, right?

Q. (BY MR. THOMPSON) Uh-huh.

A. And it was more in that general conversation, but not a -- what I would call an outright criticism of, "You're wrong. That can't be right."

There wasn't any of that kind of --

Q. Okay. And were you aware that Grant Thornton was doing its own projections of the future

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of foundation. This is also beyond the scope of the Discovery Order.

A. I mean, you know, I don't remember exactly, you know, did somebody say this or that or whatever. I don't remember the specific comments, but I remember the general gist of conversation was in that kind of vein.

Q. (BY MR. THOMPSON) And was there a sense of this is a problem if we can't generate capital and retain capital?

MR. LAUFGRABEN: Object to the form of the question.

How is this related to any of the topics in the Discovery Order?

MR. THOMPSON: Well, it relates to the profitability, was it a problem in the term of probability.

MR. LAUFGRABEN: We will instruct the witness not to answer this.

MR. THOMPSON: She is not your witness.

MR. BARTOLOMUCCI: Do you know what the question on the table is?

A. So why we've had a little bit of back and forth here.

Q. (BY MR. THOMPSON) So was there a sense that this was going to be a problem for Fannie going forward

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that it was not able to retain capital?

MR. LAUFGRABEN: Same objection.

We're instructing the witness not to answer, this is so far beyond the scope of the discovery order.

A. There were discussions about the pros and cons. In other words, what about it is good for Fannie, what about it may not be so good for Fannie, okay?

Q. Okay.

A. Sos, you know, one of the things, you know, that is to the good is it did resolve this iterative borrow-to-pay-the-dividend issue that we've talked about previously.

You know, in my mind, the lack of capital accumulation meant that we had no -- we were building no financial wherewithal to take on unexpected events and losses, that we would be highly dependent on the Government -- even more-so dependent on the Government if an event, things like that happened in the future.

I didn't take in my own mind whether this was a temporary -- you know, that we've got this -- you know, look, they put a second amendment in, they put a third amendment in, could there be a fourth amendment.

So things could change in the future, so I didn't take it as a forever and ever amen necessarily.

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It could be, but it didn't necessarily need to be. So I wasn't, you know, kind of trying to draw any conclusion.

It seemed odd to me that if what they wanted to do was wipe out the shareholders, why they didn't do that in inception of the conservatorship in the first place, because they left market speculation to occur in the marketplace.

So -- but time passes. Different people and minds may think differently over time. So, you know, I wasn't assuming one way or the other that they were trying to wipe out the shareholders.

Q. Well, you said earlier that, well, you know, there was surprise and not surprise.

Was the not surprise because there was a sneaking suspicion that the Government wasn't going to let anyone else participate in the profits?

MR. LAUFGRABEN: Same objection as we specified before.

We would instruct the witness not to answer this question. It's far beyond the scope of the Discovery Order, and Counsel has not tied it to any topics in the Discovery Order.

MR. BARTOLOMUCCI: Do you want to restate the question?

MR. THOMPSON: Sure.

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Q. (BY MR. THOMPSON) So was there a -- did you have the sense that the Government simply was not going to allow the private shareholders to participate in future profits when you were at Fannie?

Do you think that was one of the possibilities that might ultimately come out?

MR. LAUFGRABEN: Renew our objections and our instruction to the witness not to answer.

Counsel still has not tied this to the Discovery Order.

MR. BARTOLOMUCCI: David, do you really want her to answer what was her sense of what the Government thought was possible?

MR. THOMPSON: Yeah.

I mean, it goes to the reasonable investment -- yeah.

Q. (BY MR. THOMPSON) I mean, from your perspective, you were dealing with the Government, and you said you weren't surprised totally by the net worth sweep.

I just really want you to explain why.

MR. LAUFGRABEN: Same objections, and same instructions.

A. I will tell you -- yeah. This is from my vantage point. I am not presuming what the Government

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was thinking or wanted. I am not trying to represent anything from them. I may represent my perspective on what they may have been thinking.

I just sat down with them -- to the Treasury and said, "We think we're sustaining profitable."

The numbers were decent-sized. I also put on the radar that there was a possibility of a deferred tax allowance release that could be sitting in the not-so-distant future.

So the fact that this happened shortly thereafter -- so the time -- the time connection there was part of why -- that was part of why I wasn't surprised. Okay. I just told them that.

So then the question is why would they be concerned of us making money and creating capital inside the enterprise. I think in my own opinion, a lot of -- a lot of people got wiped out, and the Government had to step in on a lot of fronts during the financial crisis. I think politically it seemed a little -- it would seem to me that there would be individuals bothered that some individuals might profit from the Government's support of the enterprises, okay?

So, you know, it wouldn't -- would it be -- how would it play out if somebody made big bucks

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because -- off the backs of the taxpayers? I am kind of -- how some people could connect dots that the Government stepped in, put a bunch of money into the GSEs using taxpayers' funds, and now Daddy Big Bucks over here is making a big profit off of Fannie Mae stock.

You could see how positioned that way, how that would be pretty politically unpalatable. I could see why there could be a concern that anybody plays things out that way. So, thus, why -- I wasn't trying to presume that they completely wanted to wipe out the shareholders, but I certainly would appreciate why there would be sensitivity of things playing out in a way that somebody would glob on to that story line.

Does that make sense?

Q. (BY MR. THOMPSON) Yes. Thank you. And let's go on.

MR. LAUFGRABEN: Is this a good time to take a five-minute break?

MR. THOMPSON: Sure.

THE REPORTER: Okay. It's 2:58.

(Recess from 2:58 p.m. to 3:05 p.m.)

THE REPORTER: It's 3:05.

Q. (BY MR. THOMPSON) Okay. We're on to McFarland 20, and it has a Bates number of Fannie Mae 2523 through 2525.

(McFarland Exhibit No. 20 was marked.)

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Q. (BY MR. THOMPSON) Now, this is a letter from you to Ed DeMarco dated August 6th, 2012; is that right?

A. Yes.

Q. And you're reporting that there's a surplus amount, thus there's no need for a draw; is that right?

A. Yes.

MR. LAUFGRABEN: Object to the form of the question.

Q. (BY MR. THOMPSON) If we look at the last page of the document, there's a lists of assets and liabilities. I just want to make sure I understand.

The Government's commitment was not listed as an asset on the Balance Sheet of the company; is that correct?

A. Yes.

Q. Okay. So this next one is going to be McFarland 21. It has a Bates number of Fannie Mae 2482.

(McFarland Exhibit No. 21 was marked.)

Q. (BY MR. THOMPSON) So this is an e-mail from Nicola Fraser dated August 7th, 2012 to you and Mr. Benson and Mr. Mayopoulos and others. The subject is, "Draft Treasury Meeting Discussion Materials, Treasury Slides 8, 9, 12 Version 9."

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Does this relate to the meeting that you described earlier that took place at Treasury on the eve of the net worth sweep where you spoke to Ms. Miller about deferred tax assets and other things?

MR. LAUFGRABEN: Object to the form of the question; mischaracterizes previous testimony.

A. This relates to the presentation that was being prepared for my use in the meeting with Treasury on the 9th with Mary Miller and others at Treasury to update them on our financial results forecast. And while the meeting materials didn't express in writing the deferred tax allowance issue, I in that meeting articulated that orally to Treasury.

Q. (BY MR. THOMPSON) Okay. And you can put that to the side. Let's look at McFarland 22, which has Bates numbers 2526 through 2535.

(McFarland Exhibit No. 22 was marked.)

Q. (BY MR. THOMPSON) So take a moment, Ms. McFarland, to look through this, and my question is whether this is the PowerPoint presentation that was provided to Treasury at that meeting?

A. Yes, although -- so you asked earlier -- I think you didn't think you had the presentation.

Q. Exactly.

A. This is it, although this is the update.

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So from time to time, presentations, whether that's -- you know, Treasury or Board or whatever, it looks like this has some updates. Normally those updates are minor corrections. Maybe it's spellings or -- you know, I can't tell you what got changed, but clearly we met with them on August 9th.

So the version I would have used would have been the version that existed on August 9th, not the updated version as of August 15th. I am not aware of substantive changes made the document. In all material respects, probably the information here is the same material that I reviewed with Treasury.

Q. Okay.

MR. THOMPSON: And I guess, Chris, if you-all could look and see if you have the August 9th version, that would be great, you know? We would certainly appreciate it.

MR. BARTOLOMUCCI: Got it.

Q. (BY MR. THOMPSON) Okay. So -- and you walked them through each of these slides --

MR. LAUFGRABEN: Object to the form of the question.

Q. (BY MR. THOMPSON) -- the Treasury officials who were present?

A. I walked Treasury through the financial slides.

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Q. The financial slides, okay.

A. Correct.

Q. Including the projections of future profitability?

A. Yes.

MR. LAUFGRABEN: Objection.

Q. (BY MR. THOMPSON) Okay. And what was their reaction to the projections of future profitability?

MR. LAUFGRABEN: Object to the form of the question. It's vague.

A. I remember there being a few questions asked that I would put more in the category of seek to understand.

Q. (BY MR. THOMPSON) Okay.

A. And I do think there was a, you know -- a little bit of question around, well, you know, what could cause the outcomes to be, you know, different than this. And I believe I gave them a brief update of some sensitivity analyses that we do, which we kind of do on a recurring basis.

But there wasn't any expression of -- I want to be careful here.

Generally in our meetings with Treasury, they wanted to hear a lot more from us than they were giving.

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Q. Yes. I understand.

A. They kept things fairly close to the vest, if you will.

Q. Yes.

A. So this was not untypical of that.

But they asked a few questions. Sometimes from the questions they ask, you can kind of get a sense of what's on their mind.

That is where, you know, Mary did ask me -- when I brought up the deferred tax asset allowance valuation, you know, she asked me that question as an example. But --

Q. Okay. That's helpful.

Let me ask you a question: Does it follow from the fact that -- well, strike that.

Am I right in thinking that Fannie Mae did reserve some of its loan loss provisions?

MR. LAUFGRABEN: Object to the form of the question.

A. Fannie Mae's loan loss reserve declined --

Q. (BY MR. THOMPSON) Okay.

A. -- over time.

Q. Okay.

A. And so in -- you know, so if you think of that as a loan loss reserve reversal, then yes.

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Q. Okay. And does it mean that, with the benefit of hindsight, Fannie was over-reserved at one point?

MR. LAUFGRABEN: Object to the form of the question; calls for speculation.

Just please put a time frame on it.

A. Let me answer this in the theoretical construct, and then we can apply it to Fannie specifically.

Q. (BY MR. THOMPSON) Okay.

A. When a company changes its allowance one way or the other, it can be for a variety of reasons. One, it can be because they didn't get it right before, and they had to correct it, which I think is a little bit of the question you're asking.

There are two other general reasons: One, for instance, if I reserved in period A for loans I expected to go bad in the future, and I am now in the future, those loans have gone bad, I have worked through them, and I charged them off, I no longer need to carry the reserve on them anymore. So the reserves will going away.

Now, I may put up new reserves for new loans that I think will go bad or loans that didn't look as bad in period A but now look not so hot in the next period.

So reversing reserves may just be the fact that you've worked through the problems, and you no longer need to carry the reserve because you actually realize the charge-off.

The third bucket can be because assumptions have changed, that you have seen -- you assumed a certain home price, so your severity was going to be a certain level. Now home prices are improving, so what you're likely to get -- it could be the other way. Let's say it was improving.

Then you would say, "Okay. I expect to get more for the collateral than I previously expected."

That's not a correction of an error. That's not meaning I was over-reserved in the prior period.

The reserves were based on what home prices were in the prior period. Now that I see that home prices are going to be better, I am updating the reserves to reflect those updated assumptions.

Q. Okay. Do you recall for Fannie whether all three of those factors were in place, or just some of them --

MR. LAUFGRABEN: Object to the form of the question.

Q. (BY MR. THOMPSON) -- in the reduction of the

loan loss provisions?

MR. LAUFGRABEN: Same objection with respect to the time period.

A. For the time period -- I believe we started reducing reserves sometime in 2012, so let's -- I will answer it in the context of declines in allowance during 2012 from, say, where it ended in 2011. So let me just box it in.

There was nothing that caused those declines that we deemed to be a correction of an error, because, quite frankly, if it was a correction of an error, and it was material, we would need to restate our prior financials. We have that responsibility from an accounting perspective to do so.

All of the materials chance in the allowance were driven by the burnoff of the bad stuff and improving assumptions and applying those improving assumptions to what we thought we now needed to have in the reserves.

Q. (BY MR. THOMPSON) Is there some judgment that you as CFO and your team had to exercise as you were trying to set the right level of loan loss provisions?

MR. LAUFGRABEN: Objection; form of the of the question.

A. Yes.

Judgment is required in setting allowance loan loss.

Q. (BY MR. THOMPSON) Okay. Where are the areas where judgment needs to be brought into bear?

Future home prices is one, right?

MR. LAUFGRABEN: Objection; vague, calls for speculation.

A. As we discussed previously, there were a number of different home-price projections out there.

Q. (BY MR. THOMPSON) Yeah.

A. So you use judgment as to which home price projections you're going to use as your base-case calculation.

You can see periods of time -- so when you look back at your history, you can try to extrapolate off the historical performance what you might expect in the future for loans in the same stage of delinquency. So you could say that historically loans that are 90 days delinquent, X percent of them don't pay.

However, what you would probably see, if you looked back over history, what that percentage looked like 12 months ago might look different than 6 months ago which may look different than 3 months ago. There's judgment involved in how you should consume

historical information into your assumptions set and calculations of where you think you need to set your reserves today.

We talked earlier about the fact that we had made requests of a myriad of financial institutions to make good on their warrant obligations for defects in loans that they presented to us, and we had to make assumptions to the collectability of those demands and requests on other financial institutions.

So those are just examples of things that are included in the loan loss reserve calculations that requires some degree of management judgment.

Q. Okay. Do you also have to make some management judgment about future macroeconomic conditions like the employment rate and that sort of thing?

MR. LAUFGRABEN: Objection; vague.

A. You can make assumptions around unemployment and its effect on expected performance. And, you know, you need to have an analytical basis for how you're consuming those assumptions.

But that can be a factor that can be used and considered in setting your allowances.

Q. (BY MR. THOMPSON) Okay. This one is going to be McFarland 23. It has a Bates number of Fannie Mae 3595 through 3602.

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MR. LAUFGRABEN: Object to the form of the question.
Within what time period?
MR. THOMPSON: The same time period we've been talking about.
A. 2008?
Q. (BY MR. THOMPSON) And 2011, '12.
A. I am not aware of swapping of loans that occurred at my time at Fannie.
Q. Okay.
A. Okay.
MR. THOMPSON: Well, we are ending -- getting very close to the end of my questions.
And so what I would request is maybe we could take a short break, and I can confer with my colleagues. We may have some questions of their own, but there's light at the end of the tunnel. Let's take a five-minute break.
THE REPORTER: It's 3:48.
(Recess from 3:48 p.m. to 4:18 p.m.)
THE REPORTER: It's 4:18.
MR. THOMPSON: So the Fairholme plaintiffs do not have any more questions at this time, but thank you very much. We appreciate you taking the time today and we owe you a check and we will get that

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to your counsel next week for -- you know, it's a witness fee. I think it's $120, so don't spend it all in one place.
THE WITNESS: I can retire now.
MR. THOMPSON: Thank you very much.
EXAMINATION
BY MR. ZAGAR:
Q. Good afternoon, Ms. McFarland. My name is Eric Zagar. I represent the class action plaintiffs, and I have a few questions.
All of my questions will pertain to the time period from when you started at Fannie Mae in 2011 until the Third Amendment in August of 2012.
A. Okay.
Q. We talked a lot today about projections that Fannie Mae would be profitable and able to accumulate capital.
My question is, did you give any thought to how Fannie Mae could use that capital that it was projected to accumulate?
MR. LAUFGRABEN: Objection; form.
A. Not -- we didn't have conversations about, oh, if we had this much capital, then we could go out and expand our business in this way or, you know, any of those types of things.

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It was merely that the -- the profits, under the structure prior to the Third Amendment, would create some capital accumulation, and that capital accumulation could, you know, be there for providing the starting of capital available for whatever the resolution of housing finance might be.
It could be there to help take future negative events; you know, those kinds of things, but not -- there was no specific conversations about deploying capital in various ways, no.
Q. I think that answers my question, but I will ask it again.
Was there any discussion that you were aware of, of deploying that capital to try to pay back the Government for the money that it had borrowed?
MR. LAUFGRABEN: Objection; calls for a legal conclusion.
A. In the context that there would be capital available that at some point the existing construct, the Preferred Stock Purchase Agreement and the conservatorship, there's a hope and maybe an optimistic belief that that couldn't continue in perpetuity. And so all of the claims of the Government against Fannie needed to be resolved, and that to the extent that Fannie was profitable and that might create capacity

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from which to, you know, make available for whatever those resolutions might be.
But there wasn't any specific conversation on specific structures from which to try to make that happen in the near term.
Q. (BY MR. ZAGAR) Was there any discussion that you were aware of of just getting the excess capital to Treasury voluntarily?
MR. LAUFGRABEN: Object to the form of the question.
A. I think it's important to bear in mind that the profitable was recent, so the actual, you know, profitable quarters started in early 2012; that the improvement in our forecasts, you know, all kind of came about, you know, in that positive way in the last, say, six-month period. And so we were consuming a lot of new-and-improved information, and then the Third Amendment went in place.
So really, in some ways, I would contend there really wasn't sufficient enough time for us to really sort of contemplate. If the Third Amendment had not been put in place, it's theoretical we might we have begun to explore a myriad of options possibly.
But the way that the timing of everything played out, the Third Amendment was put in place, you

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know, so quickly, if you will, after the news started to turn good, we never delved in in a deep way into some of those options and alternatives.

Q. (BY MR. ZAGAR) The net worth sweep giving all the profits to Treasury, that was not your idea, correct?

A. It was not my idea.

MR. LAUFGRABEN: Object to the form of the question.

Q. (BY MR. ZAGAR) Do you think it is likely that you would have come up with that idea on your own?

MR. LAUFGRABEN: Objection; form, calls for speculation. It's outside the scope.

A. No, I don't believe that I would have proposed something quite like that.

MR. ZAGAR: That's all I have. Thank you.

EXAMINATION

BY MR. LAUFGRABEN:

Q. Good afternoon, Ms. McFarland. As I mentioned earlier, my name is Eric Laufgraben, and I represent the United States in this action.

I think you testified earlier that one source of recapitalization would be retained earnings.

In your view, what amount of capital, if

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any, would Fannie Mae need to be deemed adequately capitalized?

A. You know, we did do some what I call back-of-the-envelope work on that, and, you know, I -- I would have to -- I don't remember the exact numbers.

I think you would probably be looking at something in the high single-digit percent of assets, you know? You know, something in the 7-to-8-percent-of-asset range, and I could work the math backwards and come up with a -- what that means in dollars.

It would certainly be at a level higher than what Fannie would require to have in capital pre-conservatorship.

Q. Do you know how much that would be based on the level of assets held in 2012?

A. On-Balance-Sheet assets -- of course, we haven't done any kind of risk because it's a little more complex than that simple math.

I think the on-Balance-Sheet assets of Fannie on a GAAP basis were a little over 3 trillion, if I remember correctly. What would that be, 24 -- is that 24 billion? Do I have the zeros right?

But -- well, but you would do it on -- really have to look at -- okay. Let me -- that's why I

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said I would love to be able to use a little pen and paper to calculate that.

But, you know, I kind of come from a traditional bank environment. So when I assess and look at the activities, you know, I thought of it in the context of what -- how would you evaluate the capital requirements if you -- you constructed it more similar to how capital requirements are set for banks.

Having said that, some of the back of the envelope we were doing wasn't based on the Balance Sheet that existed in 2012, because the presumption is that certain things would change over time. So the held portfolio, which I think was a little under a billion dollars, then -- I can't remember the exact number -- would diminish over time, the guaranteed assets that were consolidated onto the Balance Sheet.

So I can't remember how we kind of worked through all of those different numbers. That's why I am hesitant to just throw, you know, an off-the-cuff enumeration of it.

Q. Now, were any of the forecasts that you presented to -- to Treasury prior to the execution of the Third Amendment -- now, it's true that none of them took into account the potential for a payment of periodic committee fees; is that correct?

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A. That's correct.

Q. Okay. And the Treasury commitment, did that serve as a means to absorb losses like capital?

A. It could be used -- if I remember, it was structured I think in a way that that could be used in addition to or instead of up to the amount that was available.

Q. And I will come back to it, but with respect to the -- I think it's the August 9th, 2012 meeting that you attended with Treasury, I think you mentioned that you advised Mary Miller of the possibility and the Treasury team of the possibility of releasing the DTA valuation allowance.

Is that correct?

A. Correct.

Q. Okay. Now -- and I think you -- you said that you had some belief that there was some sort of -- that Treasury was influenced by that -- by that disclosure that you said that you made during that meeting when it decided to execute the Third Amendment.

A. The timing of the Third Amendment was coincidental. It was closely -- followed closely after those conversations.

Q. Okay.

A. And so it was possible that the information we provided in that meeting may have had some influence on the going forward with the Third Amendment when it happened.

Q. But to be clear, no one from -- you don't know either way; is that correct?

A. That's correct.

Q. And no one from Treasury ever indicated that as much to you?

A. They never mentioned the Third Amendment until they told us they were doing it.

Q. Right.

And no one from Treasury ever indicated that the Third Amendment was somehow connected in any way to your disclosure to Mary Miller or to Treasury during the August 9th meeting?

A. Yeah; no one at Treasury ever said that.

Q. And no one from FHFA ever said that, either, did they?

A. No.

Q. And turning back to that meeting, we saw what was previously marked as McFarland Exhibit No. 24. This is an e-mail from David Benson to Tim Bowler dated August 11th, 2012.

A. Okay. I remember the document. I can pull it out from this stack here.

Okay. Got it.

Q. Okay. Now, this is now, I guess, 2 days after you met with Treasury on August 9th?

A. Based on the date of the e-mail, yes.

Q. Now, none of -- the models that are reflected in the attachments here, none of those models incorporate the release of the valuation allowance, do they?

A. No, but they incorporate the utilization of the deferred tax asset over time.

It got back -- that conversation on the assumption from a tax perspective, but, no, not a -- you know, a release in a near future period, no.

Q. Okay. And what was previously marked for identification as McFarland 22 -- this is the one that says on the cover, "Fannie Mae Update Treasury Meeting August 9th, 2012" -- it says it's updated on August 15th, 2012.

A. Correct.

Q. Now, is it also correct for the models in these attachments that none of those models, you know, reflect a -- you know, any sort of, you know, definitive release of a valuation allowance at any particular point in time; is that correct?

A. That's correct.

As I stated earlier, I did not include any of that in the numbers or in writing, but I did articulate that potential to the members that were present there from Treasury.

Q. Okay.

A. And Mary asked me some follow-up questions about that.

Q. Now, I guess the day before the Treasury meeting was, you know, I guess, August 8th, 2012.

Do you recall being interviewed by media outlets following Fannie Mae's release of the 10-Q for the second quarter of 2012 on or around August 8th, 2012?

A. If August 8th was the date we released the 10-Q, then I would have done media interviews on August 8th. That would have been normal.

I don't recollect the date we filed the Q.

MR. LAUFGRABEN: May I have this marked for identification?

(McFarland Exhibit No. 28 was marked.)

MR. BARTOLOMUCCI: Do you have any other copies?

MR. LAUFGRABEN: No.

MR. BARTOLOMUCCI: Don't worry about it.

Q. (BY MR. LAUFGRABEN) Do you recognize what's --

THE REPORTER: 28.

Q. (BY MR. LAUFGRABEN) What's been handed to you is what's been marked for identification as McFarland 28. It's a filing for Fannie Mae, the Form 10-Q.

And do you recognize this document?

A. Yes.

Q. Okay. And is this the -- is this the 10-Q for Fannie Mae for the second quarter of 2012?

A. Yes.

Q. Okay. And was this released on or around August 7th, 2012?

A. I would have to look here. I should be able to.

It's dated August 8th, 2012.

Q. Thank you for clarifying.

Is this the 10-Q that was released on or around August 8th, 2012?

A. Yes.

Q. Okay. And just for the record, on the page that's marked for identification as Treasury 4079 at the very end --

A. 4079; let me get to that.

Okay. Yes, my certification.

EXHIBIT 4

Message

From:	Ugoletti, Mario [/O=FHFA/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=UGDETTIM]
Sent:	8/9/2012 10:52:11 AM
To:	DeMarco, Edward [edward.demarco@fhfa.gov]; Pollard, Alfred [alfred.pollard@fhfa.gov]; Laponsky, Mark [mark.laponsky@fhfa.gov]; Spohn, Jeffrey [jeffrey.spohn@fhfa.gov]; Greenlee, Jon [jon.greenlee@fhfa.gov]; Lawler, Patrick [patrick.lawler@fhfa.gov]; DeLeo, Wanda [wanda.deleo@fhfa.gov]; Satriano, Nicholas [nicholas.satriano@fhfa.gov]
CC:	Brown, Jan [jan.brown@fhfa.gov]
Subject:	PSPA Alert

Close Hold

As a heads up, there appears to be a renewed push to move forward on PSPA amendments. I have not seen the proposed documents yet, but my understanding is that largely the same as previous versions we had reviewed in terms of net income sweep, eliminating the commitment fee, faster portfolio wind down, and a deminimus safe harbor for ordinary course transactions. The one potential difference is not having separate covenants on g-fees, risk reduction, etc., but potentially one covenant requiring the Enterprises to present a plan to Treasury on how they are managing or reducing risk. Depending on the language that could be an improvement.

I am leaving for the day at around 11:00. When I get the proposed language I will have Jan forward it to this group. I have told Treasury we should plan on meeting on Monday morning, perhaps around 11:00 to discuss further. Mario.

FHFA00103596

EXHIBIT 5

IN THE UNITED STATES COURT OF FEDERAL CLAIMS

\- - - - - - - - - - - - - - - - - - X

FAIRHOLME FUNDS, INC, et al., :

Plaintiffs, :

v. : Case No. 13-465C

THE UNITED STATES, :

Defendant. :

\- - - - - - - - - - - - - - - - - - X

Washington, D.C.

Friday, May 15, 2015

Videotaped Deposition of MARIO UGOLETTI, a witness herein, called for examination by counsel for Plaintiffs in the above-entitled matter, pursuant to notice, the witness being duly sworn by AMANDA BLOMSTROM, a Notary Public in and for the District of Columbia, taken at the offices of Cooper & Kirk, 1523 New Hampshire Avenue NW, Washington, D.C., at 9:34 a.m., Friday, May 15, 2015, and the proceedings being taken down by Stenotype by AMANDA BLOMSTROM, CRR/RMR/CLR/CSR, and transcribed under her direction.

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first three-quarters of 2012, did you also assume that FHFA was under a mandate to ensure the companies were operated in a sound and solvent manner?
A. That's another one of conservatorship, yes.
Q. And what does that mean to you?
A. Well, a sound manner means that companies, as I talked about some of the examples earlier, that they are operating their businesses under a traditional supervisory regime. Examiners go out there and look at, you know, their processes. There's a whole host of issues that a regular examiner would look at and make sure that they're doing things in a sound manner.
Q. Okay. And what about capital levels, how did that relate to soundness?
MS. HOSFORD: Objection; lack of foundation.
THE WITNESS: Well, the capital levels, the solvency aspect of that regulation was suspended shortly after the enterprises were -- or around when they were put into conservatorship.

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BY MR. THOMPSON:
Q. But does capital have to do with soundness as well?
A. Well, it does. But there was no capital, so it was suspended.
Q. When you were thinking about the future profitability of Fannie and Freddie in the first three-quarters of 2012, did you assume that the companies were going to be operated consistent with the -- consistent with the Administration's plans for them?
MS. HOSFORD: Objection; lack of foundation.
THE WITNESS: You know, I -- I don't know what the Administration's plans exactly were for them. I mean, the Administration had three years to come up with a plan for them.
And, in my view, I think, in Acting Director DeMarco's view, that plan needed to be a legislative solution. I didn't see any legislative solutions from the Administration. I saw a white paper that had three options that everybody knew what

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those options were. So it was not a -- there was not a plan for them that I -- that I saw. So consistency with a plan, no.
MR. THOMPSON: Ms. Hosford, I'm happy to keep going, but we've kind of got into a natural break point in my questioning. So I don't know if you want to take lunch now or ...
MS. HOSFORD: Well, we had talked about 12:45, but if Mr. Ugoletti is fine with lunch now, then I am fine with lunch now.
THE WITNESS: I'm a little hungry.
MR. THOMPSON: Okay. So we're off the record.
THE VIDEOGRAPHER: We're off the record. The time on the video is 12:30 p.m.
(Recess taken.)
THE VIDEOGRAPHER: We're back on the record. The time on the video is 1:34 p.m.
BY MR. THOMPSON:
Q. Now, sir, welcome back.
A. Thank you.
Q. And wanted to do, to do a little bit of

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cleanup before we got to some new topics.
With respect to the periodic commitment fee, do you know if anyone at FHFA ever tried to calculate what the value of it would be?
A. No.
Q. Okay. And do you know if anyone at Treasury ever tried to calculate the value of it?
MS. HOSFORD: Objection; calls for speculation during a particular time period.
THE WITNESS: Not that I'm aware of.
BY MR. THOMPSON:
Q. Okay. What is the basis for your statement that it would be incalculably large if no one calculated it?
A. Right, I think I went through a fair amount of that at, at the last round, but, I mean, my basis for that is it is to fully compensate Treasury for the value of the guarantee they are providing and a market value. And I do not think that there was any market value you could have put on, given their financial condition, the 100 billion that we started out, I don't even think -- I think it was very

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difficult on that. Doubling it to 200 billion and then taking on an unlimited commitment, I just don't, I don't see a market value that corresponds to that, that anybody would even come up with a price that anybody would be willing to put that amount of capital at risk in those situations.
Q. Did you discuss your view that it was an incalculably large fee or would have been with anyone at Treasury?
A. Not that I recall.
Q. Anyone at FHFA?
A. Not that I recall. The issue did not -- wasn't coming up.
Q. Yeah. And did you --
A. Nobody was looking to calculate it, so ...
Q. Okay. And at the time of the Net Worth Sweep, I'm not talking about afterwards but I'm --
A. Yeah.
Q. -- talking about at the time, had you given any thought to what the value of the periodic commitment fee would be? I mean, I understand now you're saying you think it would be incalculably

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large, but I'm saying back in August 2012 were you thinking about the size of the commitment fee?
A. Well, I don't recall any of those discussions, but I, I think that -- I mean, you may -- there was a trade-off made in the third amendment, right? The third amendment traded off a waiver, the periodic commitment fee for the Net Worth Sweep --
Q. Yep.
A. -- right?
Going back, I mean, the compensation that Treasury got prior to the third amendment -- we talked about this before -- was liquidation preference, 10 percent dividend, periodic commitment fee, warrants. After the third amendment, they got Net Worth Sweep, warrants were still out there, and their liquidation preference was still in place.
So I don't know if anybody shared that particular view, but, to me, that, the swapping out of those things, indicates that it was an incalculably large amount; and the only way that you could come up with something that approached an incalculably large amount was the earnings of the

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companies.
Q. And I'm sorry if you've answered this --
A. Yeah.
Q. -- and I'm too dense to pick up on it, but just to be clear on the record, are you -- in August of 2012, prior to the Net Worth Sweep, were you thinking along these lines? Were you thinking, You know, that periodic commitment fee is incalculably large?
MS. HOSFORD: Objection; vague question.
THE WITNESS: I -- I think that -- that's how you get from waiving -- waiving the periodic commitment fee if -- there's two different forms of compensation, periodic commitment fee that could be set -- could be set at what it was set in the third amendment at or the Net Worth Sweep. I mean, so ...
BY MR. THOMPSON:
Q. But was that, in fact, how you were looking at it? I understand you're saying, you know, you could look at it that way; but I'm saying, in fact, did you look -- you have these thoughts in August of 2012?

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A. Well --
MS. HOSFORD: Objection; ask- -- asked and answered.
THE WITNESS: -- I can't -- I can't sit here and say what I was thinking in August of 2012. That's, like, a long time ago, in August of 2012. But I don't think the view that I am -- that I've just stated about how you would think about the periodic commitment fee wasn't something I came up with after August of 2012.
BY MR. THOMPSON:
Q. When did you come up with it?
A. I don't know, but, I mean, it was something that was embedded in the whole sort of nature of the PSPAs and the substantial financial commitment that Treasury made.
Q. Now, let me ask you -- I also want to make sure the record is crystal clear on another thing that we did discuss --
A. Um-hmm.
Q. -- which was the alternatives.
If -- if we're looking at a funding

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commitment that could be diminished --
A. Yep.
Q. -- and we're thinking about alternatives, I want to make sure the record is clear as to what alternatives were considered to deal with that situation. One is the Net Worth Sweep --
A. Yep.
Q. -- correct?
Okay. A second that you described was, well, having a Net Worth Sweep but having it kick in at, you know, a particular dollar level, whether it's a hundred billion or something like that, correct?
A. That's correct.
Q. Okay. Were there any other alternatives that were discussed either internal at FHFA or at Treasury?
A. Not that I'm aware of.
Q. Okay. Was the PIK, the option of letting the companies do a payment in kind to preserve the funding commitment, discussed?
MS. HOSFORD: Objection; vague.
Considered by, discussed by whom? What

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PIK are you talking about?
BY MR. THOMPSON:
Q. Do you want me to repeat the question?
A. Yeah, that would be good.
Q. Yeah, yeah.
Was the option of preserving the funding commitment --
A. Yeah.
Q. -- by having the companies pay a 12 percent payment-in-kind dividend, was that something that was discussed at FHFA, you know, in the leadup to the Net Worth Sweep?
A. Not that I recall and for the reasons that we talked about. I mean, one of them was the basic 10 percent versus 12 percent, that it just -- that had been -- unless there was some economic aspect that would make that an economic transaction, it wasn't even part of the discussion.
So that's -- that's one that I would point to at FHFA. So it really wasn't -- it just never was on the table.
Q. Okay. Now, when you -- you've stated

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under oath that the periodic commitment fee was incalculably large in your view, right?
A. Um-hmm.
Q. And was that a phrase that you came up with or a lawyer came up with?
MS. HOSFORD: Objection. Instruct you not to answer to the extent that it involves discussions with Counsel about obtaining legal advice.
BY MR. THOMPSON:
Q. So did -- did you come up --
A. Wait, wait. I don't understand. I was instructed not to answer, right? Or --
Q. So let me -- let me --
A. You're --
Q. -- try to ask the question --
A. I want -- I want to understand the process.
Q. Sure.
A. When she says not to answer, I don't -- I don't answer; and you're trying to do another question on this.
Q. Well, you can answer, but in any event --

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MS. HOSFORD: No. I instructed you not to answer.
THE WITNESS: I've been instructed not to answer.
BY MR. THOMPSON:
Q. Okay. But -- but just, let me -- was that a phrase that you came up with, with -- wholly apart from what the lawyers told you to say, was that a phrase you came up with?
Now, if you can't answer, you can't answer.
MS. HOSFORD: Objection; calls for attorney-client privileged discussions.
I instruct you not to answer.
BY MR. THOMPSON:
Q. So I don't want to know anything about what the lawyers told you, okay? But did you independently come up with that?
MS. HOSFORD: You may answer.
THE WITNESS: I may answer?
I had another word that was similar.
BY MR. THOMPSON:

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that particular meeting was about.
BY MR. THOMPSON:
Q. Okay. Now, you did not raise the topic of the Net Worth Sweep with the companies until just a couple of days before August 17th; is that right?
MS. HOSFORD: Objection; assumes facts not in evidence.
THE WITNESS: I do not recall ra- -- I did not raise the topic with them. I'm not sure when Acting Director -- I can't, on this time line, I can't recall when Acting Director DeMarco actually -- and I'm pretty sure he called both companies and talked them through it. They did get a copy of what became close -- what became the final version to review. But that's, that's -- in terms of the time line, that's as far as I can remember.
BY MR. THOMPSON:
Q. But they weren't involved in the negotiations over the Net Worth Sweep, were they?
A. No. They weren't involved in negotiations over the PSPAs or any of the amendments to the PSPAs, or this amendment to the PSPA.

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Q. But this amendment to the PSPA was driven by a perceived problem, right?
MS. HOSFORD: Objection; assumes facts not in evidence.
BY MR. THOMPSON:
Q. A problem that their funding commitment might be exhausted, right?
A. Right, and you've showed me enough of their views on what they thought the base case looked like, so why -- what -- so I understand what their views were.
Q. Okay. But my question is: Why not talk to them and see if they have thoughts on whether there are different alternatives to solve this problem?
A. Just not an issue that we would talk to the companies about.
Q. You didn't value their opinion?
MS. HOSFORD: Objection; argumentative.
THE WITNESS: We valued their opinion and, their opinion and understand what their opinion is, I understand it.

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BY MR. THOMPSON:
Q. Okay. What was their reaction when they told all of their income would be swept to the federal government?
MS. HOSFORD: Objection; misstates the facts.
THE WITNESS: I don't, I don't recall a specific reaction that I could sit here and say --
BY MR. THOMPSON:
Q. Well, a --
A. -- this, this CEO said that, that CEO said that, I don't recall, I don't recall a specific one.
Q. Do you have a recollection of the general reaction?
A. Well, I think their general reaction was they probably were not too happy about it.
Q. Why not?
A. Well, in many camps within Fannie Mae and Freddie Mac, I mean, I think there were people, they, they certainly never liked the Treasury Department saying that they were going to be wound down. They didn't want to be wound down, right. You don't want

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to be wound down. You want to be Fannie Mae and Freddie Mac.
So to the extent that they perceived this as further somehow taking that possibility away, they might not have been very happy about it.
Q. And it did make it more remote that they would be rehabilitated because they'd never be able to build their capital under the Net Worth Sweep; is that right?
MS. HOSFORD: Objection; misstates the testimony.
THE WITNESS: Well, again, I will go back to, back to 2008 and say that if they, if they weren't, if they weren't put into conservatorship with the PSPAs, the employees would be working for our firms right now, so ...
BY MR. THOMPSON:
Q. I, I understand that, but --
A. Yeah.
Q. -- if we put ourselves and we compare Fannie Mae and Freddie Mac on August 16th, the day before the Net Worth Sweep, and August 18th, the day

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after the Net Worth Sweep, it was less likely they were going to be rehabilitated because they weren't going to be able to rebuild capital; isn't that right?
A. I don't generally believe that because the solution to this whole issue all along, in my view, needed to be a legislative solution. So if the Congress of the United States says, you know, this is all that's happened, this is all the draws, this is all the dividends, this is everything that happened, and we think Fannie Mae and Freddie Mac should be rehabilitated under this structure, and this is the housing system that we want for the next 30 years, you have a good chance to do that.
Q. Well, but, wait a minute, when you -- when the, when the Net Worth Sweep was entered into, you knew that because the companies were going to have the capital taken out of them, that when Congress eventually turned to this situation, they're going to be looking at two companies with no capital?
MS. HOSFORD: Objection. Can you tell me where in the Court's order this type of questioning

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is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer unless you can find --
MR. THOMPSON: Let me --
MS. HOSFORD: -- you can persuade me.
MR. THOMPSON: Let me try to tie this to the Court's order.
BY MR. THOMPSON:
Q. Do you know whether Treasury wanted to ensure that these companies did not reemerge well capitalized in the form that they had had before 2008?
MS. HOSFORD: Objection; calls for speculation.
THE WITNESS: Well, I'll speculate on that. I think Treasury had been pretty clear that they -- I mean, they were pretty clear all along from a legislative perspective that they wanted to see a wind-down and they wanted to see a new housing finance structure. I think Secretary Paulson was clear before that.
BY MR. THOMPSON:

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Q. And was that an objective that FHFA shared?
A. FHFA also believed, and I think Director DeMarco said this many times, the, the strategic plan, the second strategic plan was the next chapter in a story that needs an ending, right. The ending was for Congress to pass legislation. The ending was not for Fannie and Freddie Mac to emerge from conservatorship.
Q. And did the Net Worth Sweep further that goal?
MS. HOSFORD: Objection; calls for speculation.
THE WITNESS: I'll speculate. And, and the speculation I will give you is the answer I gave you not that long ago which was, emerging from conservatorship under the structure of the PSPAs is going to be very difficult, right. And we can recall, and we can go through that whole process again where, if they were going to emerge from conservatorship, they would have to go out and raise private equity of a hundred and 87.5 billion total

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and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able to dilute the 79,9 warrants from Treasury and raise enough private equity to do all that and become a well-capitalized institution under regulatory standards that, by the way, had changed fundamentally from when HERA was passed, because I would think in any corner of the world, if they were going to be in any corner of the United States, if there was going to be companies these -- this large, they were likely going to be systemically important financial institutions under Dodd-Frank and they were going to have to hold capital well in excess of anything that HERA or at least that pre-HERA envisioned, well in excess in anything of that. So the, the amount would have been huge.
And the PSPAs also have a provision that, given that, they don't go away. If you exit conservatorship under the PSPAs as, as you were before, the financial commitment from Treasury goes with you. That's, that's how it works. And so there

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was a provision in there that even if, even if they did all those things I talked about, and FHFA finally put the stamp of approval on them and said, By God, you did it, you've made the capital, you raised all that money, and even if we had the SIFI standard, you would meet it, and the Federal Reserve won't have to supervise you, Treasury still has to approve them coming out of conservatorship because it's still the financial backing of the PSPAs goes with them.

So did the third amendment change any of that stuff? No. Very little.

MR. THOMPSON: Now, Ugoletti 29 has a Bates number of FHFA 103596.

(Exhibit No. 29 marked.)

MS. HOSFORD: Mr. Thompson, would it be okay if we took a, like a three-minute break?

MR. THOMPSON: Sure.

THE VIDEOGRAPHER: This concludes Disk No. 3 in the video deposition of Mario Ugoletti. The time on the video is 4:44 p.m. We are off the record.

(Recess taken.)

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THE VIDEOGRAPHER: This begins Disk No. 4 in the video deposition of Mario Ugoletti. The time on the video is 4:53 p.m. We are on the record.

MS. HOSFORD: Counsel, a question: What is this document that you've handed us?

MR. THOMPSON: Oh, yeah. So your colleague had requested something that was verifiable with a URL. The prior screenshot we gave you, I believe, was from Bloomberg, and that's not -- there's no URL, you have to be a subscriber; so we wanted to give you something that had an Internet source for the same information. We've given you a CNN.com, we could also give you a Google Finance if you want.

MS. HOSFORD: But how does this document relate to this document?

MR. THOMPSON: It's the same information.

MS. HOSFORD: How did this document get created then? Is this a screenshot from the same site as this?

MR. THOMPSON: It's, it's -- it's stock price information, so you could get it from Google

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Finance, you could get it from CNN, you can get it from Bloomberg. So your colleague requested a URL, there is no URL for Bloomberg, it's a proprietary service, so what we're instead giving you is the information.

MS. HOSFORD: All right.

MR. THOMPSON: We're trying to be helpful. If it's not helpful, I apologize, and you can disregard it.

MS. HOSFORD: But I don't understand, I mean, there's different dates, different data, how -- there seems to be no relationship between this and this except --

MR. THOMPSON: Other than it's the same stocks, and the one that you have in your right hand is inclusive of all the information in your left hand.

MS. HOSFORD: So but why did you not -- why did you not give us a URL for this one?

MR. THOMPSON: It doesn't exist.

MS. HOSFORD: Well, how --

MR. THOMPSON: It's not available on the

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Internet. You have to pay Bloomberg, and so I can't give you a URL for it.

MS. HOSFORD: Oh, so you're trying to --

MR. THOMPSON: I'm trying to be helpful. Your colleague said, We'd like something we could verify. So I tried to give you something that was verifiable.

MS. HOSFORD: So you're trying to give me something that, that --

MR. THOMPSON: Verifies the information that we provided to the witness in a way --

MS. HOSFORD: Or this has some of the same information. It's not verifying this.

MR. THOMPSON: It has all of the same information. And if it's not helpful, I apologize. We weren't obligated to do this. We did it in a.

Spirit to try to be helpful.

Was it helpful to you, Mr. Dintzer?

MR. DINTZER: No, actually, it wasn't. But, I mean, I -- you hand -- you handed something to the witness, and you represent it's whatever -- actually, it doesn't even represent, you said it

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THE WITNESS: No, not -- not to my knowledge it had anything to do with that. I mean, my -- my take from this is, you know, we had done, as we went through earlier today, a lot of back and forth with negotiation on Treasury on these potential third PSPA amendments back in June.

And the Treasury Department has a whole process that they need to go through to try to get something that they're ready to complete. So, I mean, I just had taken it that, you know, they're working their process and, you know, when they get something that's -- they think they're ready to go, they'll let us know.

BY MR. THOMPSON:

Q. And, I'm sorry, so -- so why were they -- why was there a renewed push?

MS. HOSFORD: Objection; asked and answered.

THE WITNESS: Yeah, I -- I mean, I -- I took this to be that -- you know, we had done a lot of work on this on June. We had worked on the language in June. And, you know, the Treasury

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Department, to get a document all the way through to the Secretary and to get all their other ducks lined up in a row, it takes some time. So I figured it's somewhere over there and -- and they're working the process.

MR. THOMPSON: Okay. This next one is going to be Ugoletti 30. It has a Bates number of FHFA 102247.

(Exhibit No. 30 marked.)

BY MR. THOMPSON:

Q. So the top email is from Ms. Tagoe to you and to others, August 9th, 2012. And at the bottom is an email from a reporter with the American Banker. And this reporter, Mr. Horwitz, says in the second sentence of his email "It looks like the GSEs are vastly outperforming even the most optimistic outcome listed."

Was that true; were they "vastly outperforming even the most optimistic outcome listed"?

A. I'm not going to parse adjectives here in terms of "vastly," or whatever, but they were. I

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mean, we've talked about this numerous times. These were projections based on various -- various sources; in this case, Moody's opinion on house prices. And if Moody's was, even in the base case, if -- if markets performed better than that, they were likely to have an outperformance.

Q. Okay.

A. So, I mean, that's ...

Q. Now, Treasury had experience with writing --

A. Are you done with this?

Q. Yes, sir.

-- had experience with writing up deferred tax assets insofar as earlier in 2012, were you aware that Treasury had written back up AIG's deferred tax assets?

MS. HOSFORD: Objection; lack of foundation, also not within the scope of the Court's discovery order.

MR. THOMPSON: The deferred tax assets absolutely are, and I'm entitled to ask him if he knew whether Treasury had written up AIG's.

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MS. HOSFORD: Objection; speculative, and it has nothing to do with this case.

You may answer.

THE WITNESS: No.

BY MR. THOMPSON:

Q. Okay. FHFA reviewed Fannie and Freddie's 10-Ks and 10-Qs; is that right?

A. That is correct.

Q. Okay.

This next one is going to be Ugoletti 31. It has a Bates number of FHFA 3584 through 3738.

(Exhibit No. 31 marked.)

BY MR. THOMPSON:

Q. We have -- this is the 10-Q -- we have produced select pages. If you or DOJ wants the full 400 pages, we can print it out.

MS. HOSFORD: I'm just going to object that this is not going to represent the full document; and to the extent that Mr. Ugoletti attempts to interpret any information in this document, it will not be reliable.

BY MR. THOMPSON:

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Q. Now, sir, if we look at this document and you turn to page -- it's hard to read, but --
A. That's why I have my glasses.
Q. -- 3737, "Deferred Taxes Asset, Net," it says "Our valuation allowance decreased by $989 million to $34.7 billion during the six months ended June 30, 2012 primarily due to a decrease in deferred tax assets. After consideration of the" value "allowance, we had a net deferred tax asset of $3.1 billion, primarily representing the tax effect of unrealized losses on our available-for-sale securities. We continue to be in a tax loss carryforward position."
This reflects the fact that the companies were, in fact, decreasing their valuation allowance right on the eve of the Net Worth Sweep; isn't that right?
MS. HOSFORD: Objection; lack of foundation, assumes facts not in evidence.
THE WITNESS: I'm not the accounting expert here on -- on how -- how the deferred tax asset is -- how the valuation allowance is

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constructed, but there may be, in my recollection, that there are some portions of it that have different rules than other portions of it, but my under- -- my recollection was that when you make a determination, it is closer to an all-or-nothing determination for certain portions of it, for the large portion of it. But that's -- I'm not an accounting expert.
BY MR. THOMPSON:
Q. But FHFA would have been aware that the valuation allowance was, in fact, being reduced by 989 million?
A. Yeah, but --
MS. HOSFORD: Objection; lack of foundation, calls for speculation.
THE WITNESS: Right, and it doesn't say why it was being reduced there. I -- I don't know what portion of the rules in the deferred tax asset world that portion of the valuation allowance was being decreased by.
I don't know, maybe some of them expired, couldn't use them anymore. I -- I don't know. I

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don't know what the -- what the rationale was.
BY MR. THOMPSON:
Q. Now, if they had positive inc- -- they had positive income in the second quarter of 2012; Freddie did, right?
MS. HOSFORD: Objection; assumes facts not in evidence.
THE WITNESS: Yeah, they had positive income, but the general rules, as I understand them, on reversing a valuation allowance of a deferred tax asset require that sometime in the future you've accumulated enough income that you can do a reversal.
So whether this was for some portion of that or whether this was from -- from some other aspect of that account, all it says is, We reversed this. It doesn't say why, it doesn't say what portion of it it was, or anything else about it. So I don't know why they did it there.
BY MR. THOMPSON:
Q. Now, do you know that the Audit Committee of Fannie and Freddie every quarter were looking at the deferred tax assets in assessing whether it

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needed to be -- the valuation allowance needed to be reversed --
A. I'm generally aware of that, yes.
Q. Okay.
And the next document is going to be Ugoletti 32.
MS. HOSFORD: Thank you.
(Exhibit No. 32 marked.)
BY MR. THOMPSON:
Q. This says "Grant Thornton Questions for Fannie Mae Forecasting Group." It's got a Bates number of FHFA 95951, so it was produced to us out of the FHFA's own files. It's dated July 26, 2012.
"Fannie Mae Forecasting Group," do you know what that was?
MS. HOSFORD: Objection; lack of foundation.
THE WITNESS: Well, again, I think I described this process earlier, right, that, you know, Grant Thornton -- we went through a Grant Thornton document -- Grant Thornton, you know, does the Treasury financial statements, so every year they

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have to come in and do their valuation assessments of Treasury's holding. We went through one of those documents, so --
BY MR. THOMPSON:
Q. Okay.
A. -- as part of that process, Treasury asked FHFA if Grant Thornton can come over and talk to, I believe it was, FHFA and Fannie Mae to get information so they can help improve their calculation for Treasury's financial statements.
So I, I don't -- I don't -- I couldn't tell you now who is on the Forecasting Group, but that's the general framework. And so it was some combination, I would think, of those folks for that purpose.
Q. Okay. And if we look at this document on the second page under --
A. Let me read the first page first.
Q. Oh, take your time.
You tell me when you're ready.
A. Okay.
Q. All right. By the way, would Ms. Tagoe

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have been likely to have been a member of the Forecasting Group?
A. Either her or someone on her -- her staff, more likely.
Q. Okay. Do you know who on her staff would --
A. No, because there's people -- people have moved around and --
Q. Okay.
A. -- some people have left, so I'm not sure who -- who at this time would have been --
Q. Fair enough.
A. -- would have been that person.
Q. Okay. Well, if we look at 4, "Other Items" --
A. Yes.
Q. -- and we look at b, it says "What are the plans for the DTA?"
So that tells us that on the eve of the Net Worth Sweep, FHFA was in discussions with Fannie Mae and Grant Thornton about what -- about the DTA; is that right?

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MS. HOSFORD: Objection; lack of foundation.
THE WITNESS: Yeah, I wouldn't read it as that. I mean, you -- you just -- you just said that, I mean, they go through this process on a regular basis on evaluating what to do about the DTA. I think Grant Thornton just wants to know where they're at in that process and what they're thinking about, what -- what the -- I mean, this is -- this is a document -- a lot of these documents are taking -- like if you -- if you go up to 3.a., "What are the components of 'guaranty fee income' and 'fee and other income'?"
So Grant Thornton has a line item on Fannie Mae's balance sheet, these two line items; and they're trying to figure out, well, what's all in that line item? You know, so they're just -- they're trying to take what -- you know, a lot of what Fannie Mae has in their published information and in other materials that they have as to how are they developing things. And so this is an issue, so they want to know what the process is and what the

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thinking is on it.
BY MR. THOMPSON:
Q. And what was the --
A. My -- my --
Q. What was the thinking of Fannie Mae on --
MS. HOSFORD: Objection.
BY MR. THOMPSON:
Q. -- July 26, 2012?
MS. HOSFORD: Lack of foundation, calls for speculation.
THE WITNESS: I do not know what Fannie Mae's thinking was on July 26th. I was not part of this meeting. I did not really hear much about this issue until January or early February of the next year when the first quarter results were about to come out.
BY MR. THOMPSON:
Q. And they wanted to reverse the valuation allowance?
A. That's right.
Q. You have said that the conservator did not envision that the deferred tax assets were going to

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be written back up in 2013, right?
MS. HOSFORD: Objection; misstates prior testimony.
THE WITNESS: I think you'd have to, you'd have to go through --
BY MR. THOMPSON:
Q. Well, let me ask you: Did the conservator, on the eve of the Net Worth Sweep, envision that the deferred tax assets would be written back up in 2013?
A. As I just stated, I did not really think that this was a possibility anytime in the near future. And 2013, the early part of 2013 when this became an issue, it became an issue because, well, house prices are continuing to go up and we're going to take -- release more loss reserves, and it looks like it's more probable than not, which is a very low standard, more probable than not, that we're going to have to release the valuation allowance on the deferred tax asset.
So that is when it really came home that this was a possibility.

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Q. To you?
A. To me.
Q. Okay. But I'm asking: Do you have an opinion on whether FHFA, as conservator, knew that the deferred tax assets might be written back up in 2013?
MS. HOSFORD: Object -- objection; vague as to time period.
BY MR. THOMPSON:
Q. On the eve of the Net Worth Sweep.
MS. HOSFORD: Lack of foundation.
THE WITNESS: I, I don't know who else in FHFA or what they knew about the potential for that, but, as we've gone through here, there were -- our accountants were monitoring this situation, they were monitoring how they were doing about doing their potential, whether to revalue, they had to do it all the time, revalue or not revalue, and I do not recall knowing about that this was going to be an issue until really '13 when it became imminent that, oh, this has to happen now, and I don't know what anybody else thought about it.

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BY MR. THOMPSON:
Q. Do you know what Treasury thought about it?
MS. HOSFORD: Objection; calls for speculation.
THE WITNESS: I do not.
BY MR. THOMPSON:
Q. Okay. Now, you did know that one of the factors you look at is whether there's a three-year cumulative loss, right?
MS. HOSFORD: Objection; mischaracterizes testimony, assumes facts not in evidence.
THE WITNESS: I just said, I knew there were some tests that related to how much income, I can't -- I don't know if it was a three-year, I mean, but there was some test that you had to meet that you were going to pass this threshold and that you expected to continue to generate net income in the future to be able to use the tax asset. That's the condition for revaluing it.
BY MR. THOMPSON:
Q. And we looked at the Grant Thornton

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September 2011 projections, you recall that, for Freddie?
A. Yeah.
Q. I know it was a long time ago. Yeah.
A. Yeah.
Q. And it showed projections of roughly 5 1/2 billion out over the next 10 years; you remember that?
MS. HOSFORD: Objection; lack of foundation.
THE WITNESS: I would have to go back if you want the actual numbers, but, I mean, it showed, it showed net income being positive, I mean.
BY MR. THOMPSON:
Q. Yeah, and if, and if that condition persisted for some period of time, then -- and, and Freddie, for example, was making $5 billion a year, year after year, then the deferred tax asset would be written back up; is that right?
A. That's an accounting determination that the companies have to make.
Q. Yes.

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A. Because they have to sign their financial statements, so the companies have to go through the process of evaluating this accounting question on a regular basis, and between the co- -- the companies and their auditors, when they think they are in a place where they've hit the thresholds for reversing a valuation off or putting one on, they are going to follow GAAP because that is what they do.
Q. But did you ha- -- I understand you're saying that's an accounting issue for the companies. Did you have an opinion on that, as to whether if Freddie, for example, made $5 billion year after year, whether the deferred tax asset would be written back up?
A. It's not --
MS. HOSFORD: Objection; asked and answered.
THE WITNESS: Yeah, I'm not an accountant.
BY MR. THOMPSON:
Q. So you didn't have an opinion on that?
A. No, I don't have an accounting opinion on, on the DTA and the finer points of the DTA about when

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you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the -- it -- it's not my profession.
Q. Yeah, and I don't mean to be difficult, I don't mean to be difficult, but I want to make sure the record's complete. Even if you didn't have a precise understanding of every little test to know exactly what quarter it would be written up, did you have a rough sense as to, you know, if they make 5 billion a year, year after year, that yeah, at some point in the next two, three years they're going to write it back up?
MS. HOSFORD: Objection; asked and answered, mischaracterizes prior testimony.
THE WITNESS: Yeah, and the only thing I would highlight in what you just asked me is, you said "if."
BY MR. THOMPSON:
Q. Yeah.
A. So, if they didn't, they wouldn't write it up.

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Q. Okay. But if they did, they would, right?
MS. HOSFORD: Objection; asked and answered.
THE WITNESS: Asked that -- they're going to follow what the accounting rules say and they're going to make a judgment based on what they think the accounting rules tell them to do in terms of a probability more likely than not to use that asset to write it up.
BY MR. THOMPSON:
Q. Now, were you aware that there were market commentators after the release of the second quarter profits who were saying that Fed -- Freddie and Fannie had made a convincing return to profitability?
MS. HOSFORD: Can you -- objection. Can you please put a time frame of when those statements were made. After the second quarter profits is insufficient to tell whether it's in the scope of the Court's order.
MR. THOMPSON: Within the next two or three days.
MS. HOSFORD: Within the next two or three

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days after what?
MR. THOMPSON: The release of the second quarter earnings.
MS. HOSFORD: When were the second quarter earnings released?
MR. THOMPSON: I believe it was the 6th and 7th; it might have been the 8th and 9th.
MS. HOSFORD: Of August?
MR. THOMPSON: Yes.
MS. HOSFORD: Thank you.
THE WITNESS: No, I wasn't following what the market commentators were saying. It was a good quarter. That's, that's good. We were hap- -- we were happy it was a good quarter, their underwriting had improved, they were starting to earn some income. But because the market commentators said they had a good -- good quarter and something else is, is a response. That's nice to know. But, I mean, I'm going to ...
MR. THOMPSON: Okay. Let's look at the next one, which will be Ugoletti 32, FHFA --
THE WITNESS: 33.

EXHIBIT 6

IN THE UNITED STATES COURT OF FEDERAL CLAIMS

\- - - - - - - - - - - - - - - - - X

FAIRHOLME FUNDS, INC., et :
al., :
Plaintiffs, : Case No. 13-465C
v. :
THE UNITED STATES, :
Defendant. X

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Washington, D.C.

Tuesday, July 14, 2015

Deposition of JEFFREY ALAN FOSTER, a witness herein, called for examination by counsel for Defendant in the above-entitled matter, pursuant to notice, the witness being duly sworn by MARY GRACE CASTLEBERRY, a Notary Public in and for the District of Columbia, taken at the offices of Cooper & Kirk, 1523 New Hampshire Avenue, N.W., Washington, D.C., at 8:00 a.m., Tuesday, July 14, 2015, and the proceedings being taken down by Stenotype by MARY GRACE CASTLEBERRY, RPR, and transcribed under her direction.

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payment based on positive net worth."
Do you see that?
A. Yes.
Q. How did that idea come to be part of this document?
A. That related to the fact that --
MR. DINTZER: And I'm going to instruct the witness that to the extent that your answer would involve any communications with members of the White House or the NEC or would involve attorney-client communications, I'll instruct the witness not to answer. Otherwise, you may answer the question.
THE WITNESS: The reason why I believe this was part of the transition plan was that, as these steps were initiated, the profitability of Fannie Mae and Freddie Mac might have been impacted.
BY MR. PATTERSON:
Q. And had Treasury done any projections to test that concern that you just articulated?
MR. DINTZER: Objection. Vague.
THE WITNESS: I'm not -- can you be more specific?

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BY MR. PATTERSON:
Q. Yes. You said that this could impact the reform -- did you say that the reform proposal here could impact Fannie and Freddie's profitability potentially?
MR. DINTZER: Objection.
THE WITNESS: Potentially.
BY MR. PATTERSON:
Q. And was that concern based on any projections that Treasury did then?
MR. DINTZER: Objection. Confusing.
THE WITNESS: We knew that there was a circularity in the PSPAs that would over time result in reduced funding capacity and would make it more challenging to be able to gradually wind down the GSEs.
BY MR. PATTERSON:
Q. And how did you know that?
A. From modeling work that we had done.
Q. And which modeling work was that?
A. Where we forecast and using assumptions from FHFA and Grant Thornton that that earnings

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capacity would not be sufficient to cover expected dividend payments.
Q. Now, when did Treasury come up with this idea to restructure the PSPAs to allow for variable dividend payment?
MR. DINTZER: Objection. Vague.
THE WITNESS: Can you be more specific?
BY MR. PATTERSON:
Q. When did Treasury first have the idea to restructure the PSPAs to allow for variable dividend payment based on positive net worth as stated in this document?
A. I don't know when Treasury came up with that idea. I began discussing it with colleagues in 2010.
Q. And with whom did you discuss that?
A. Counsel, Jeffrey Goldstein, Mary Miller, Tim Bowler, others within the department.
Q. Do you remember specifically who else within the department?
A. It went from a small group to a larger group over time. So at some point it included the

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broader housing finance reform team.
Q. And was this your idea?
MR. DINTZER: Objection. Vague and confusing.
THE WITNESS: I don't know. Other people may have had this idea as well, but I had this idea.
BY MR. PATTERSON:
Q. And how did you come up with this idea?
MR. DINTZER: Objection. Vague. Confusing.
THE WITNESS: The original idea generated from a phone conversation between me and Mario Ugoletti about the challenges of the circularity of drawing to pay ourselves.
BY MR. PATTERSON:
Q. And when did that conversation take place?
A. Sometime in 2010.
Q. And did you discuss the idea of allowing for a variable dividend payment based on positive net worth with Mario Ugoletti at that point?
A. Yes.
Q. And what was Mr. Ugoletti's reaction to

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that?

MR. DINTZER: Objection, Counsel. I've allowed a few questions, but if you could keep your questions within the time frame allowed by the Court, please.

MR. PATTERSON: So your position is that I cannot ask him questions about FHFA's reaction to the net worth sweep dividend if they're outside the time period?

MR. DINTZER: My question to you is, if you could identify how your previous question, the one you just asked, fits into the Court's order allowing for specified limited discovery.

MR. PATTERSON: Well, one of the key topics is whether and what extent FHFA was acting as the United States.

MR. DINTZER: Right.

MR. PATTERSON: And, you know, FHFA's response to Treasury's proposal, I think, would fit well within that.

MR. DINTZER: So if you want to ask about that within the time frame, I have no problem with

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that.

MR. PATTERSON: So my question to you is, since that conversation took place outside of the time frame, is it your position that I cannot ask about that conversation?

MR. DINTZER: That would not fit within the time frame, that is correct.

MR. PATTERSON: So you would instruct the witness not to answer my question of how Mr. Ugoletti responded to that.

MR. DINTZER: In 2010?

MR. PATTERSON: Yes.

MR. DINTZER: Yes.

MR. PATTERSON: Well, we obviously reserve the right to challenge that instruction.

BY MR. PATTERSON:

Q. So in addition to Mr. Ugoletti, did you have discussions with anyone else outside of Treasury about your idea to allow for a variable dividend payment based on positive net worth?

MR. DINTZER: If you could put a time frame on that, Counsel.

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MR. PATTERSON: And again, we don't agree with your instruction, but for purposes of this, I will put a time frame on it. Beginning on June 1st, 2011 through August 17th, 2012.

THE WITNESS: Again, I wouldn't say it was my idea and no, I don't recall having conversations outside the Administration.

BY MR. PATTERSON:

Q. And how about other agencies of the government outside of Treasury?

MR. DINTZER: Objection. Vague. Incomplete.

THE WITNESS: Can you be more specific?

BY MR. PATTERSON:

Q. Were there any agencies of the government outside of Treasury that you had discussions or communications with about the idea to allow for a variable dividend payment based on positive net worth from June 1st, 2011 through August 17th, 2012?

A. Yes.

Q. And which agencies were those?

A. The White House. And I don't recall if

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there were others.

Q. With whom at the White House did you have discussions about that topic?

MR. DINTZER: Objection. Calls for Presidential communication privilege. But you can identify the name.

MR. PATTERSON: Yeah. That's all I asked.

MR. DINTZER: The name. That's it.

THE WITNESS: Jim Parrot and Brian Deese.

BY MR. PATTERSON:

Q. When was the first time after June 1st, 2011 that you had discussions with Jim Parrot and Brian Deese about the variable dividend payment idea?

MR. DINTZER: And I'm going to instruct you not to answer on Presidential communication privilege.

MR. PATTERSON: So he can't answer when he had communications with them?

MR. DINTZER: That's correct.

MR. PATTERSON: And, again, we reserve the right to challenge that instruction.

MR. DINTZER: And if you, Counsel, can

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explain how that relates to the limited scopes of discovery, I would appreciate it.

MR. PATTERSON: The whole process of how the net worth sweep idea was conceived, proposed, agreed to goes to the purposes and how FHFA was acting at the time it entered the net worth sweep.

MR. DINTZER: So it's your position that if somebody from the White House talked him as opposed to somebody from some other agency, that that affected the relationship between FHFA and Treasury?

MR. PATTERSON: It's our position that the whole process of the consideration and adoption of the net worth sweep informs the evaluation of what FHFA was doing when it agreed to it and in what capacity was acting.

MR. DINTZER: And it is your understanding that the evaluation of how FHFA -- what it was doing, that that was in the scope of the Court's discovery order?

MR. PATTERSON: Within the scope of this Court's discovery order is whether and to what extent FHFA was acting as the United States when it entered

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the net worth sweep. So it's our position that the process of how the net worth sweep got adopted is relevant to that question.

And so I think I had asked when he had first had communications with Mr. Parrot and Deese on this issue. You had instructed not to answer and so you're standing by that instruction?

MR. DINTZER: And I'm going to add to it I'm instructing not to answer on the scope as well.

MR. PATTERSON: Again, we take issue with that instruction.

BY MR. PATTERSON:

Q. So starting June 1st of 2011 through August 17th, 2012, did you have any communications with FHFA about the proposal to allow for a variable dividend payment under the PSPAs?

A. Yes.

Q. And with whom did you have communications on that topic at FHFA?

A. Mario Ugoletti and Ed DeMarco.

Q. And what was Mr. Ugoletti and Mr. DeMarco's response to this idea starting June

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1st, 2011?

A. I don't remember when the first conversation in that time period happened.

Q. But just in general, during that time period, what was FHFA's response to the proposal to change PSPAs to allow for variable dividend payment?

MR. DINTZER: Objection. Vague. Confusing.

THE WITNESS: I think you would have to ask FHFA.

BY MR. PATTERSON:

Q. Did FHFA express any concerns to you about the proposal to allow for variable dividend payment under the PSPAs?

A. Yes. They stated a number of concerns and questions throughout the conversation and discussion.

Q. And what were those concerns?

A. Primarily related to mechanics and how such a proposal would work. I don't remember the specifics.

Q. Did FHFA ever propose any alternatives to the proposal to allow variable dividend payment based

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on positive net worth starting June 1st, 2011?

A. Our original proposal was to modify the PCF, which was not ultimately adopted as a variable payment. And that was not the final structure of the reform. And there was a back-and-forth conversation between FHFA and Treasury on the appropriate way to support the funding capacity and maintain the financial stability of Fannie and Freddie on an ongoing basis.

Q. And when was that proposal to modify the PCF made?

A. I don't remember. I don't think a formal proposal was made. There was a discussion that was initiated.

Q. And earlier I think you said that the reason it was not adopted had to do with discussions with counsel, is that correct? That proposal to change the PCF.

MR. DINTZER: Objection. Vague.

THE WITNESS: I don't know why it wasn't ultimately adopted, but my advice from counsel was a reason.

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A. I don't recall what modifications, if any, we made.
Q. If we can turn to slide 9, the slide marked number 9. This slide has the title PSPAs key terms. And do you see the section of this slide titled core terms?
A. Yes.
Q. There is a row for dividend rate. Do you see that?
A. Uh-huh.
Q. And this row says, "Cash, 10 percent. If elected to be paid in kind, pick 12 percent."
What does this mean when it says, "if elected to be paid in kind"?
MR. DINTZER: Objection. Vague.
THE WITNESS: Can you be more specific?
BY MR. PATTERSON:
Q. This says one of the core terms of the dividend rate, it says, "If elected to be paid in kind, pick 12 percent:
What's your understanding of what that means?

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A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a paid-in-kind rate would then be put in place at a higher rate.
Q. And what is a paid-in-kind rate?
A. Instead of paying cash, you pay in kind for -- with other securities. I think that's a shorthand for any construct where, in this circumstance, the liquidation preference would be increased by 12 percent of the amount outstanding versus paid out in cash.
Q. And Fannie and Freddie had the option to elect to pay in kind, correct?
MR. DINTZER: Objection. Calls for a legal conclusion. Foundation.
THE WITNESS: I'm not a lawyer, so I don't know if I can answer that.
BY MR. PATTERSON:
Q. In your nonlawyer understanding, was it your understanding that Fannie and Freddie had the ability to elect to pay the dividends in kind under the PSPAs?

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A. I don't think they had the ability to elect. It was if they failed to be able to pay the 10 percent. In that circumstance, if that failure occurred, the liquidation preference would automatically increase at an annual rate of 12 percent.
Q. Now, this document says, "If elected to be paid in kind," correct?
A. That's what it says.
Q. So it's your position this document is incorrect?
MR. DINTZER: Objection. Vague.
THE WITNESS: This document was designed to be a shorthand summary, not necessarily a definitive legal conclusion of the documents, the legal documents themselves.
BY MR. PATTERSON:
Q. So then in your understanding, what is "elected" shorthand for?
MR. DINTZER: Objection. Confusing.
THE WITNESS: I don't necessarily think it was shorthand for anything. I think it may have been

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misstated.
BY MR. PATTERSON:
Q. And did you review this document?
MR. DINTZER: Objection.
BY MR. PATTERSON:
Q. Did you raise any concerns about this dividend rate provision being misstated at the time you reviewed it?
MR. DINTZER: Objection. Vague as to time.
THE WITNESS: Again, I'm not a lawyer, so I was not looking for its legal accuracy.
BY MR. PATTERSON:
Q. Now, if Fannie and Freddie paid the dividends in kind, they would not have been required to make a draw to pay Treasury's dividends, correct?
MR. DINTZER: Objection. Assumes facts. Calls for a legal conclusion.
THE WITNESS: I don't know if that would have been true or not. My understanding would be that it would increase the liquidation preference and further reduce the net worth outstanding.

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BY MR. PATTERSON:
Q. How would it further reduce the net worth outstanding?
A. Because it would increase the liquidation preference to offset the loss on the balance sheet.
Q. And how would increasing the liquidation preference reduce the net worth outstanding?
A. Actually, I'm sorry. That's not right. It would not impact the net worth, but it would increase the liquidation preference for the preferred stock.
Q. We're going to come back to this exhibit, but in the meantime, I'll mark another exhibit.
(Foster Exhibit No. 23 was marked for identification.)
BY MR. PATTERSON:
Q. You've been handed an exhibit marked Foster 23. This is an email from 2008 marked FHFA 00083259. Do you see that?
A. Yep.
Q. And on the first page -- or actually, let's turn to the second page of this email. And

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there is questions for both GSEs. Do you see that?
A. Okay.
Q. And number 4 says, "Did the GSEs intend to pay cash at 10 percent or accrue at 12 percent as a matter of policy?" Do you see that?
A. I do.
Q. Now, during the time you were at Treasury, FHFA always paid the dividends in cash; is that correct? Or Fannie and Freddie always paid the dividends in cash; is that correct?
A. During my --
Q. During your tenure at Treasury.
A. During my tenure, yes.
Q. Did you have any discussions during your tenure at Treasury about the option of accruing dividends at 12 percent versus paying dividends in cash?
MR. DINTZER: Objection. That's a really broad question, Counsel. Objection to the extent it calls for conversations with counsel and instruct you not to answer; objection to the extent that it calls for conversations with anybody at the White House,

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then I instruct you not to answer; to the extent that it calls for conversation outside of that, to the extent that it's beyond the time period specified, we have a scope problem. So I just ask counsel if you could make it a more narrow question.
BY MR. PATTERSON:
Q. And again, we don't agree with the scope objection or necessarily the other objections, but for the purposes of moving along today, we'll say from June 1st, 2011 through adoption of the net worth sweep on August 17th, 2012, did you have any discussions outside of discussions with counsel or the White House about the option that Fannie and Freddie had of accruing dividends at a 12 percent rate?
MR. DINTZER: Is this a question about the document itself or just in general?
MR. PATTERSON: In general.
MR. DINTZER: You can set aside the document. And I'm going to object to vague.
THE WITNESS: I don't recall having discussions about having the GSEs accrue at a 12

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percent rate.
BY MR. PATTERSON:
Q. Do you recall having any discussions that related in any way to the option to have the dividends be paid in kind that we've discussed, with all the time period and other caveats that I listed in my prior question?
MR. DINTZER: Objection. Vague.
THE WITNESS: I recall having a conversation around the implications of if the GSEs paid 10 percent, but it was never considered as an option that we would support or want to pursue.
BY MR. PATTERSON:
Q. And when did you have that conversation?
A. Had that conversation with Tim Bowler.
Q. And when did you have that conversation with him?
A. I don't recall.
Q. And what was discussed at that conversation in connection with --
A. The negative implications and signaling that would come from Fannie or Freddie failing to pay

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10 percent and moving to -- and accruing and paying a higher interest rate through a kind of -- create a liquidation preference or paid in kind and the negative implications that that would signal to the market.
Q. And what would those negative implications be?
MR. DINTZER: Objection. Vague.
THE WITNESS: That the government support for Fannie and Freddie was more limited and that an ever-increasing liquidation preference would be confusing to explain.
BY MR. PATTERSON:
Q. And how would that have the implication of Treasury's support being more limited?
MR. DINTZER: Objection. Confusing.
THE WITNESS: Because if effectively we were saying -- because the way that I recall the PSPAs were constructed were that the 12 percent only took into account if the GSEs failed to pay the 10 percent cash and there was concern that simply dealing a PIK or instructing the GSEs or having FHFA

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instruct the GSEs to accrue it or PIK at 12 percent would be perceived as bad by the markets.
BY MR. PATTERSON:
Q. What was your basis for thinking that would be perceived as bad by the markets?
A. That it would be confusing and that effectively, it would be a failure to pay the specified dividend that was outlined in the original document.
Q. And you used PIK as a shorthand for the payment-in-kind option. Is it okay if I use that terminology as well?
A. I'm okay with that.
Q. So are PIK provisions unusual provisions in equity securities?
MR. DINTZER: Objection. Beyond the scope of the Court's identified discovery topics. And lack of foundation.
THE WITNESS: PIK instruments are associated with a variety of different securities. The senior preferred stock, while structured as preferred stock, had more -- had features and

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mechanics that were more similar to a debt security than to an equity.
BY MR. PATTERSON:
Q. And what were those features?
A. Fixed interest rate, senior position and in many ways more structured like a bond.
Q. And what was your basis for thinking moving to a PIK would be confusing?
A. One, the liquidation preference would continue to accrete; two, you would be switching from the normal rate to effectively something that could be perceived as a penalty rate.
Q. And what about that is confusing?
A. So if you have an increasing liquidation preference, it would have required additional and more complicated messaging to the market.
Q. Why would it have been -- you've explained it here to me in a pretty straightforward way. Why would it have been confusing to the market?
MR. DINTZER: Objection. Argumentative.
THE WITNESS: I think that was my judgment based off of my experience.

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BY MR. PATTERSON:
Q. Now, you said you were concerned about the circular dividend issue; is that correct?
A. Yes.
Q. The PIK option would have solved that issue, right?
MR. DINTZER: Objection. Calls for a legal conclusion. Lack of foundation.
THE WITNESS: I never explored this option in the full kind of -- in the full extent as to whether it would have fully solved that problem or not. It still had the -- it still continued to accrete at a higher rate, but I don't know if it would have fully solved the problems of the circularity.
BY MR. PATTERSON:
Q. What problems of the circularity would have remained had the PIK option been adopted?
MR. DINTZER: Objection. Calls for speculation.
THE WITNESS: I'm not sure.
BY MR. PATTERSON:

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Q. Are you aware of any other company that has drawn on a line of credit to pay dividends?
MR. DINTZER: Objection. Vague.
THE WITNESS: Not that I can think of.
BY MR. PATTERSON:
Q. Can you think of any preferred stock instruments that have a dividend rate based on the net worth of a company other than Fannie and Freddie's preferred stock that Treasury owns after the net worth sweep?
MR. DINTZER: And I'm going to instruct the witness not to answer as beyond the scope.
MR. PATTERSON: And why is that beyond the scope?
MR. DINTZER: Actually, if you can go ahead and explain to me how it's in the scope, that'd be great.
MR. PATTERSON: This is all in the line of considerations that were made in connection with adopting the net worth sweep.
MR. DINTZER: I didn't hear about -- I'm sorry, I didn't mean to interrupt you, Counsel.

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MR. PATTERSON: As I explained earlier, our position is that issues related to the consideration and adoption of the net worth sweep are relevant to the topic of whether FHFA was acting as the United States.
MR. DINTZER: Right. And the question was, "Can you think of any preferred stock instruments" -- now, that would presumably be ever in the history of man -- "that have a dividend rate based on the net worth of a company?" So you're asking about everything ever.
MR. PATTERSON: Yes.
MR. DINTZER: And you think that that's within the scope of the Court's order?
MR. PATTERSON: I'm just trying to probe into the understanding of how this net worth sweep idea was proposed, what was thought about it.
MR. DINTZER: I completely understand. I'm just asking you, is your question, the breadth of your question, are there any preferred stock ever issued that he's ever heard of, that that's within the Court's order?

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MR. PATTERSON: That is my position. Let me ask it another way and see if you'll allow him to answer.
BY MR. PATTERSON:
Q. During the time that the net worth sweep proposal was under consideration, were you aware of other preferred stock instruments that had a net worth dividend component based on a company's net worth?
MR. DINTZER: Objection. Vague. Confusing.
THE WITNESS: There are no other companies that were in conservatorship or that the federal government invested in that I knew of that had preferred stock variable payments.
BY MR. PATTERSON:
Q. How about other private companies outside of conservatorship or that Treasury had invested in?
MR. DINTZER: Objection. Vague. Confusing.
THE WITNESS: Not that I know of, but none that were comparable to the investment that Treasury

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made in Fannie and Freddie.
BY MR. PATTERSON:
Q. Now, if you go back to this SEC presentation that we were looking at before, I would like you to turn to slide 17.
MR. DINTZER: Which exhibit number are we looking at,
MR. PATTERSON: This is 22.
BY MR. PATTERSON:
Q. Now, this slide is titled Freddie Mac base case PSPA forecast. Do you see that?
A. Yes.
Q. And there is a row in here for remaining PSPA funding capacity, which is above the last gray box there on the page. Do you see that?
A. Yes.
Q. Now, in fiscal year 2023, this shows Freddie Mac having $137.1 billion in remaining funding capacity; is that correct?
A. That's what it says, yes.
Q. If we turn to the next slide, which is the Freddie back downside PSPA's forecast, it projects in

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fiscal year 2023 a remaining PSPA funding capacity of 102.6 billion, correct?
A. That's what it says, yes.
Q. So in light of these projections, was there any risk of Freddie Mac exhausting Treasury's funding commitment at least in the near term?
MR. DINTZER: Objection. Calls for an expert analysis and vague. You can answer. And calls for speculation.
THE WITNESS: Can you ask the question again?
BY MR. PATTERSON:
Q. Given these projections --
MR. PATTERSON: Well, actually, read back the question, please.
THE REPORTER: "Question: So in light of these projections, was there any risk of Freddie Mac exhausting Treasury's funding commitment at least in the near term?"
MR. DINTZER: Same objection.
THE WITNESS: The concern -- so in the outward projection year, the circularity of the

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dividend continued to remain and the funding capacity continued to go down over time.
BY MR. PATTERSON:
Q. Do you remember what my question was?
A. Yes.
Q. Okay. I don't think that answered the question, so I --
MR. DINTZER: Objection. Argumentative.
MR. PATTERSON: If you could read back the question.
THE REPORTER: "Question: So in light of these projections, was there any risk of Freddie Mac exhausting Treasury's funding commitment at least in the near term?"
THE WITNESS: Again, the funding capacity -- so there was a risk that the market would perceive that, under this scenario, that eventually the funding capacity would be exhausted as draws and dividends exceeded net income, which could have resulted in an increase in debt funding costs, which would have further reduced net income, so it could have actually had a more detrimental impact if the

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market would have believed that the funding capacity would eventually be exhausted, which could have accelerated the problem sooner. So there was a risk in the near term.
BY MR. PATTERSON:
Q. That the funding capacity would be exhausted?
A. That the funding capacity could be at risk.
Q. How about whether the funding capacity could be exhausted?
MR. DINTZER: Objection. Vague. Confusing.
THE WITNESS: Again, I don't want to speculate as to what the risks were as to whether it could be exhausted or not, but there was a risk from this outcome, this forecast.
BY MR. PATTERSON:
Q. And please turn to slide 20, which is labeled -- strike that. I'll just keep going here. So you said the goal was to --
MR. DINTZER: I'm sorry, just what page

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are you on?
MR. PATTERSON: Stay on this page, 18. That's fine. We don't need to move to 20.
BY MR. PATTERSON:
Q. So you were saying that the risks still existed that the funding capacity could be exhausted in light of these projections; is that correct?
MR. DINTZER: Objection. Vague. Confusing.
THE WITNESS: I think I answered the question earlier.
BY MR. PATTERSON:
Q. Okay. Now, could the circularity issue have been addressed by having the net worth sweep dividend structure come into place if Treasury's commitment about got below $100 billion, but not before that time?
A. Can you repeat the question?
Q. Yes. Could the concern about the circular dividend payments putting Treasury's funding commitment at risk been addressed by having a net worth sweep dividend kick in only when Treasury's

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MR. DINTZER: Objection. Mischaracterizes. You're saying other than the conversations that were had either with counsel or that contained advice provided by counsel? Is that what you're asking?
MR. PATTERSON: Yes. I'm asking about policy discussions, which I'm assuming would be separate from discussions of the legal ramifications.
MR. DINTZER: I just want to make sure I understand the context.
MR. PATTERSON: Yes.
THE WITNESS: It's hard for me to separate what was supported by counsel or what was directly related to counsel.
MR. DINTZER: Do you want to talk? Anything that counsel told you that you consulted with counsel on, anything that conveys what counsel told you.
THE WITNESS: Can I just take two seconds?
MR. PATTERSON: Sure.
(Discussion off the record.)
THE WITNESS: I also just want to clarify

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the question in terms of my answer around if I ever had conversations with anyone at Fannie Mae or Freddie Mac. Employees from Fannie Mae and Freddie Mac regularly asked Treasury if we were ever going to do X, Y or Z related to the dividend or make any changes and those were typically -- or those were almost always one-way conversations.
BY MR. PATTERSON:
Q. And what do you mean by "one-way conversations"?
A. Meaning that they would ask, what are you guys -- are you guys thinking about this, or are you doing something about this, or are you going to consider this? And the answer was effectively, we know this is something -- this is something we're looking at.
Q. Okay.
A. But it was not a conversation or discussion around what we might do or what we might not do.
Q. And were there specific alternatives with respect to the dividend structure that Fannie and

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Freddie employees raised in those communications?
A. Not that I specifically recall.
Q. Generally, do you recall?
A. Inferences to cutting the dividend or changing the dividend structure, but we never would engage in those conversations.
Q. And were the things that Fannie and Freddie suggested considered by Treasury as it was considering altering the dividend structure?
MR. DINTZER: Objection. Vague. Calls for speculation.
THE WITNESS: I did not -- that wasn't -- those conversations did not contribute to my thinking other than to provide another data point of market concern about the unsustainability of the dividend structure.
BY MR. PATTERSON:
Q. And do you know if they contributed to anyone else's thinking?
A. You'd have to ask someone else.
Q. And now to get back to the --
A. Sorry.

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Q. No, that's fine. So there was a question pending. I don't know if you want to read it back.
MR. DINTZER: Could you?
THE REPORTER: "Question: So you didn't have any policy discussions about situations in which Treasury could envision Fannie and Freddie exiting conservatorship??"
THE WITNESS: Yes, we did.
BY MR. PATTERSON:
Q. And what was the content of those discussions?
A. We considered what circumstances Fannie or Freddie could exit conservatorship and what the mechanics of -- what the implications of that may or may not be.
Q. And did Treasury come to a conclusion about whether and in what circumstances it would permit Fannie and Freddie to exit conservatorship into private control under its existing charters? Under their existing charters?
MR. DINTZER: Objection. Confusing. Calls for speculation.

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THE WITNESS: My perspective was that consistent with the Administration policy to wind down Fannie Mae and Freddie Mac gradually over time and not allow them to continue to operate under the form of their existing charters, that exiting conservatorship as private companies would not be appropriate.
BY MR. PATTERSON:
Q. And that was a view shared in Treasury generally in light of that policy that you've just mentioned; is that correct?
MR. DINTZER: Objection. Calls for speculation.
THE WITNESS: I wouldn't want to speculate what others at Treasury felt or believed about that policy. I can only speak to how I interpreted and what I believed.
BY MR. PATTERSON:
Q. Did anyone at Treasury that you know of disagree with you on this issue?
MR. DINTZER: Same objection.
THE WITNESS: You would have to ask

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someone else at Treasury.
BY MR. PATTERSON:
Q. Do you know whether anyone else at Treasury disagreed with you?
MR. DINTZER: Disagreed.
MR. PATTERSON: Disagreed.
MR. DINTZER: Same objection.
THE WITNESS: In what time period?
BY MR. PATTERSON:
Q. While the net worth sweep was under consideration.
MR. DINTZER: Objection. Vague.
THE WITNESS: I'm not really sure how to define the time period the net worth sweep was under consideration.
BY MR. PATTERSON:
Q. Let's say June 1st, 2011 to August 17th, 2011. Or 2012, I'm sorry.
A. Not that I can recall.
Q. Do you recall someone disagreeing with you on that outside of that time period?
MR. DINTZER: Objection. Vague.

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Confusing.
THE WITNESS: Yes.
BY MR. PATTERSON:
Q. And who was that?
A. Jim Millstein.
Q. And what was his view?
A. That --
MR. DINTZER: Objection. Counsel, if you can just identify what period of time you're asking about.
BY MR. PATTERSON:
Q. Well, when did Jim Millstein communicate this disagreement to you? Or when did you become aware of this disagreement from Jim Millstein?
A. Prior to June 1st, 2011.
Q. Do you remember when any more precisely than that?
A. Sometime in Q1, Q2.
Q. What was your understanding of Mr. Millstein's disagreement with you?
MR. DINTZER: Objection. Vague and confusing.

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THE WITNESS: I wouldn't say it was a disagreement with me per se. Jim had a more positive view towards bringing the GSEs out of conservatorship.
BY MR. PATTERSON:
Q. And other than Jim, did anyone else that you recall have that more positive view about bringing Fannie and Freddie out of conservatorship?
A. Not that I can recall.
(Foster Exhibit No. 32 was marked for identification.)
BY MR. PATTERSON:
Q. We're on Foster 32. And this is an email from Ankur Datta to you and some others at Treasury, August 16th, 2012, UST 00505921 on the bottom of the first page.
And the top email here says, "Attached is the latest draft of the tick-tock, incorporating edits from Beth, Megan and Tim." And if we turn to the attachment, it says, "PSPA amendment announcement tick-tock - August 16th to 17th."
So what was this document?

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A. This was a rundown of the folks or the people that Treasury would reach out to to provide context for or an in-color explanation around the PSPA announcement.
Q. So then you see on Friday, August 17th at 8:00 a.m., it says, "Press release goes live." So entries before that time would be things that would be done before the third amendment was announced publicly; is that correct?
A. I presume so.
Q. And under Thursday, the last entry is "Outreach to Hill staff, Representatives Frank and Johnson." Do you know if before this time there had been any communications from Treasury to Congress about switching to a variable dividend under the PSPAs?
A. Not to my knowledge. I don't know.
Q. And do you know why it was the staff or Representatives Frank and Johnson that were being informed?
MR. DINTZER: Objection. Calls for speculation.

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THE WITNESS: I can only speculate.
BY MR. PATTERSON:
Q. If you had to, what would you say?
MR. DINTZER: Same objection.
THE WITNESS: If I had to speculate, those were ranking Democrats on the Hill. But I don't know if this was exhaustive either. So I don't know who all Megan Moore contacted.
BY MR. PATTERSON:
Q. So there may have been other Hill staff that she contacted; is that what you're --
A. You would have to ask Megan Moore.
Q. And then an entry above that is "Nick Timiraos from The Wall Street Journal."
Do you know why Treasury was contacting him before the public announcement of the net worth sweep?
A. You would have to ask Matt Anderson.
Q. So you weren't involved in that decision at all?
A. I was not involved in that decision.
Q. Did Treasury communicate with any other

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equity shareholders in Fannie and Freddie in connection with the PSPA amendment announcement?
MR. DINTZER: Objection. Vague. Foundation.
THE WITNESS: When?
BY MR. PATTERSON:
Q. Either in the time leading up to the net worth sweep or shortly thereafter.
A. We were contacted by some stakeholders the day of.
Q. And who were those stakeholders?
A. A number of different market participants reached out to folks at Treasury.
Q. Do you remember who any of those market participants were?
A. I remember speaking to a few different market participants that called me that day.
Q. Who were they?
A. Richard Perry at Perry Capital. I think I spoke to someone from Deutsche Bank and from Goldman Sachs. I don't remember who else I spoke to.
Q. And what was the reaction of those market

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participants to the net worth sweep announcement?
MR. DINTZER: Objection. Foundation.
THE WITNESS: As I recall, they were simply trying to ask questions to understand what the change had done.
BY MR. PATTERSON:
Q. So what sorts of questions were those?
A. I don't recall the specifics. It was my last day at Treasury.
Q. Is there a reason why that was your last day at Treasury, or was that just a coincidence?
A. More or less coincidental. It was coincidental.
Q. Anything about it that was not coincidental?
A. No.
Q. Had any market participants been informed of the net worth sweep prior to its public announcement?
MR. DINTZER: Objection. Foundation.
THE WITNESS: Not to my knowledge.
(Foster Exhibit No. 33 was

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marked for identification.)
BY MR. PATTERSON:
Q. I apologize in advance. This is very small, but you've been handed an exhibit marked Foster 33 and this is a Treasury press release from August 17th, 2012. "Treasury Department announces further steps to expedite wind-down of Fannie Mae and Freddie Mac." And if you look toward the bottom of this, there are some bullets at the very bottom. Above that it says, "This will achieve several important objectives including --"
MR. DINTZER: And it says, "This will help."
BY MR. PATTERSON:
Q. Oh, "This will help achieve," thank you, "several important objectives, including," and then the third bullet says, "Acting upon the commitment made in the Administration's 2011 white paper that the GSEs will be wound down and will not be allowed to retain profits, rebuild capital, and return to the market in the prior form."
How did the net worth sweep help achieve

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the objective of ensuring that the GSEs would be wound down and would not be allowed to return to the market in their prior form?
MR. DINTZER: Objection. Foundation.
THE WITNESS: The net worth sweep and the third -- the third amendment supported the wind-down of Fannie Mae and Freddie Mac to allow the size and the scope of the portfolios and guarantee book to be shrunk gradually over time, which would lower/reduce their ability to generate net income, which would reduce their ability to cover fixed income dividend payments and, therefore, the net worth sweep would have supported the execution of that wind-down policy.
BY MR. PATTERSON:
Q. Just so I can make sure I'm clear on this, under this heading "Full income sweep of all future Fannie Mae and Freddie Mac earnings to benefit taxpayers for their investment," do you see that?
A. I do.
Q. And under that it says, "The agreements will replace the 10 percent dividend payments made to

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Treasury on its preferred stock investments in Fannie Mae and Freddie Mac with a quarterly sweep of every dollar of profit that each firm earns going forward."
Do you see that?
A. I do.
Q. And then it says that feature of the third amendment, I'm assuming says this will help achieve several important objectives, including the objective that we've discussed.
So I guess my question is, how would moving to the net worth sweep dividend advance the commitment that the GSEs would be wound down and not be allowed to return to the market in their prior form?
A. So in order to be able to wind down the GSEs in a safe and responsible manner, we needed to be able to reduce -- well, Congress or FHFA would have needed to reduce the size and the footprint of the GSEs or Fannie Mae and Freddie Mac's retained portfolio and guarantee books. That reduction in footprint would reduce their ability to generate net income. Reduce net income generation capacity would

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reduce its ability to meet any fixed income dividend payments under a variety of -- almost under any scenario and, as a result, to be able to support the wind-down, a more flexible dividend structure supported that.
(Foster Exhibit No. 34 was marked for identification.)
BY MR. PATTERSON:
Q. You've been handed Foster 34. This is a document produced to us by Fannie. It's marked FM_Fairholme_CFC-00003013 on the first page. And from the context of this document, it's apparent that it's discussing the net worth sweep.
And under Roman numeral (ii)3.B, it says, "Friday Treasury press release emphasized wind down but changes are positive." And then B says, "Pay back money faster."
Did Treasury anticipate, at the time of the net worth sweep, that it would result in Fannie and Freddie paying them back faster for the amount that Treasury had invested in those companies?
MR. DINTZER: Objection. No foundation.

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Confusing.
THE WITNESS: I have no idea what this document is or what this means. So I don't know if -- I don't know what that means.
BY MR. PATTERSON:
Q. Apart from this document, did you --
MR. DINTZER: So are you done with the document?
MR. PATTERSON: I may return to it, but this question is apart from the document.
BY MR. PATTERSON:
Q. Apart from the document, at the time of the net worth sweep, did you anticipate that the sweep would result in Fannie and Freddie increasing the amount they would pay in dividends to Treasury?
MR. DINTZER: Objection. Vague.
THE WITNESS: Did I anticipate that?
BY MR. PATTERSON:
Q. Yes.
A. No.
Q. Do you know whether anyone else at Treasury anticipated that?

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A. Not to my knowledge.
Q. Did you consider whether or not that would be a result of the net worth sweep?
MR. DINTZER: Objection. Confusing.
THE WITNESS: I considered it.
BY MR. PATTERSON:
Q. And how was that considered?
MR. DINTZER: Objection. Vague and confusing.
THE WITNESS: Just through the general analysis as to whether or not this change would result in more profitability, more proceeds over time, and the conclusion was that it would not as we wound down. And so no, the conclusion -- my conclusion was that it would not.
BY MR. PATTERSON:
Q. And what was the basis for that conclusion?
A. Based off of forecasts and analysis that was done prior to the third amendment.
Q. And that conclusion is --
A. Based on the information we had available.

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Q. And that conclusion is proven incorrect at least as of today, wouldn't you agree?
MR. DINTZER: Objection. Mischaracterizes and calls for speculation. And also, if you could explain how this is within the scope, asking how what happened today is relevant.
MR. PATTERSON: I'm just trying to get a better understanding of the sources of his understanding at the time and then depending on his answer, I may ask some follow-up questions about if he anticipated those possibilities at the time, what could contribute to that different result, things of that nature.
MR. DINTZER: So your question is, "And your conclusion is proven incorrect at least as of today?"
MR. PATTERSON: Yes.
MR. DINTZER: So your understanding of the scope of the Court's order is that information about what actually happened in 2014-2015 is within the scope of the Court's discovery order; is that correct?

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MR. PATTERSON: Yes, at least to the extent that it informs the decision made at that time, at the time of the net worth sweep.
MR. DINTZER: So what happened in 2014 and 2015, how it informed decisions made in 2012.
MR. PATTERSON: There could be potential follow-up from what has happened since then that could get back to what was considered at that time.
MR. DINTZER: Go ahead and ask your question again, please.
THE REPORTER: "Question: And that conclusion is proven incorrect at least as of today, wouldn't you agree?"
MR. DINTZER: I'm going to object. Beyond the scope. Instruct not to answer.
MR. PATTERSON: And the reason for your objection?
MR. DINTZER: Because you're asking about 2015.
MR. PATTERSON: Well, of course we reserve the right to challenge that objection.
BY MR. PATTERSON:

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marked for identification.)
BY MR. PATTERSON:
Q. You've been handed an exhibit marked Foster 36. This is an information memorandum for Secretary Geithner dated January 4th, 2011, a memo from Jeffrey A. Goldstein, and the subject is housing finance reform plan. Is this something that you've seen before?
A. Yes.
Q. If you turn to page 3, heading number 4 says, "Affirm our current obligations." Do you see that?
A. Yes.
Q. And there is a bullet point that says, "Ensure $275 billion of funding capacity available after 2012 is not used to pay dividends. This may require converting preferred stock into common or cutting or deferring payment of the dividend under legal review."
Now, was the option of converting preferred stock into common stock an alternative that you considered as a way to modify the dividend

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obligation?
MR. DINTZER: Objection. Vague.
THE WITNESS: Yes.
BY MR. PATTERSON:
Q. And how did you consider that possibility?
A. We explored that option. But quickly dismissed that as a viable option under advice of counsel and other factors.
Q. What were the factors other than the advice of counsel?
A. That it would have required going through -- that the logistical requirements as posed by counsel would not have been acceptable.
Q. And why would they not have been acceptable?
MR. DINTZER: Hang on just because I'm hearing -- I instruct the witness to the extent that your answer requires divulging anything that you said to counsel or counsel said to you, I'm going to instruct you not to answer. If there are things beyond that, you can answer.
THE WITNESS: I don't recall the specifics

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of the mechanics or the difficulties with executing such a position, but my understanding is that it would have required the GSEs to go through -- either exit conservatorship or go through receivership and also would have compromised -- could have constituted as a compromise of claim.
BY MR. PATTERSON:
Q. And how would converting the preferred into common have addressed the circular dividend issue that you were concerned about?
A. Again, this was not an option that we seriously considered or that we spent -- it's not an option that we spent significant time considering. But my understanding is that if we would have converted the preferred stock into common, that would have eliminated or could have eliminated, depending on the ultimate structure, the need for fixed dividend payments.
Q. And why would that have been?
MR. DINTZER: And again, I'm going to instruct you not to answer to the extent that it involves conversations with counsel.

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THE WITNESS: My understanding was informed via conversations with counsel.
BY MR. PATTERSON:
Q. So your understanding of how converting the preferred into the common would have addressed the circular dividend issue is informed by conversations with counsel?
A. Again, we did not spend significant time looking at -- I don't remember all the analysis or work we did around this option and to the work -- to the extent that we did work, it was done in consultation and conversation with counsel as to how this option would mechanically work.
Q. So just so the record is clear, in your understanding -- if you don't know, you can say you don't know -- how would have converting the preferred into common have addressed the circular dividend issue?
MR. DINTZER: Since he's indicated that that at a minimum touches on or encompasses his conversations with counsel, what I would suggest is why don't we take our break now and I'll get a chance

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to talk with the witness and make sure I understand the scope of what you're asking and then we'll come back.
MR. PATTERSON: Okay. I think that should be fine.
(Recess.)
THE REPORTER: "Question: In your understanding, how would have converting the preferred into common have addressed the circular dividend issue?"
THE WITNESS: Converting a portion of the preferred stock into common would have -- might have eliminated the 10 percent dividend requirement on the portion that had been converted.
BY MR. PATTERSON:
Q. And how would that address the circular dividend issue?
A. If such action would have been taken, which we did not pursue, reducing the fixed dividend requirement would have -- might have made the total amount necessary to be paid to Fannie and Freddie or paid to the Treasury on an annual basis lower, and

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even a reduced and lowered normalized net income for Fannie and Freddie as they were wound down might have been sufficient to cover those fixed payments and fixed obligations.
Q. So what portion of the preferred stock did Treasury consider converting into common?
MR. DINTZER: Objection. Mischaracterizes.
THE WITNESS: I don't recall if we -- to what degree and what portion, if at all, we considered it.
(Foster Exhibit No. 37 was marked for identification.)
BY MR. PATTERSON:
Q. You've been handed an exhibit marked Foster 37. And this is minutes of the audit committee of the board of directors of Fannie Mae from September 13th of 2012. I know this date is after August 17th, 2012, but I'm going to ask questions that relate to the time period up to and including August 17th.
Now, if you turn to the second page of

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this document, it's entitled Chief Financial Officer Report. It says, "In response to questions regarding the deferred tax asset considerations presented in advance materials, CFO McFarland explained that timing will impact the estimates regarding the amount of the deferred tax asset valuation allowance, and the related accounting for it."
So my question is, during the time, you know, starting June 1st, 2011, leading up to August 17th, 2012, did you consider the possibility that Fannie or Freddie would at some point release their deferred tax assets valuation allowance?
MR. DINTZER: Objection. Foundation. Confusing.
THE WITNESS: Can you repeat the question?
THE REPORTER: "Question: During the time starting June 1st, 2011, leading up to August 17th, 2012, did you consider the possibility that Fannie or Freddie would at some point release their deferred tax assets valuation allowance?"
MR. DINTZER: Objection. Vague.
THE WITNESS: I was aware that that was a

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possibility at some point in time.
BY MR. PATTERSON:
Q. And what was the basis of your awareness of that being a possibility at some point in time?
A. That had been flagged for me by -- I'm trying to remember what the basis for that was. I don't recall what the basis for that was. I knew that the DTAs had been written down because the expectation of income generation didn't exist and from an accounting perspective, they had not been written up or released.
Q. Did you have any sense of the timing of when the deferred tax asset valuation allowances potentially could be released at the time of the net worth sweep?
MR. DINTZER: Objection. Vague.
THE WITNESS: I'm not an auditor and that's really more of a question for an auditor.
BY MR. PATTERSON:
Q. Did you have any understanding of that, though?
A. No.

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Q. And did you discuss with anyone else at Treasury from June 1st, 2011 through August 17th, 2012 the possibility that Fannie and Freddie could at some point release their deferred tax assets valuation allowance?
A. That was discussed with -- I discussed that between myself and Tim Bowler, and I think that was raised in consideration with Mario Ugoletti at one point, but I don't remember when.
Q. And what impact would the release of the valuation allowance have on Fannie and Freddie's net worth did you anticipate at that time?
A. I didn't anticipate that they would be released or that there would be an impact.
Q. But in the event they were, did you have a sense for how large the valuation allowances were?
MR. DINTZER: Objection. Vague. Hypothetical.
THE WITNESS: I was not aware -- I wasn't an accountant, so I wouldn't -- I didn't have an informed view on what the size would be if they were released.

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(Foster Exhibit No. 38 was marked for identification.)
BY MR. PATTERSON:
Q. You've been handed an exhibit marked Foster 38. And this is an email from Adam Chepenik to individuals including you on April 13th, 2012. It's marked UST 00437857.
And it says, "Attached please find the final GSE cost memorandum and attachments for Secretary Geithner."
If you turn to the attachment, this is entitled CEO's budgetary treatment of Fannie Mae and Freddie Mac. Do you see that?
A. Uh-huh.
Q. Now, please turn to the preface which is the first page containing text in this report.
A. Preface?
Q. Yes.
A. Okay.
Q. Are you there?
A. Yes.
Q. Okay. So now it reads, "After the U.S.

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Government assumed control in 2008 of Fannie Mae and Freddie Mac, two federally chartered institutions that provide credit guarantees for almost half of the outstanding residential mortgages in the United States, the Congressional Budget Office (CBO) concluded that the institutions had effectively become government entities whose operations should be included in the federal budget."
Now, starting on June 1st, 2011 through the net worth sweep on August 17th, 2012, were you aware that the CBO had concluded that Fannie and Freddie should be included in the federal budget?
MR. DINTZER: Objection. Vague. Confusing.
THE WITNESS: Had I concluded that?
BY MR. PATTERSON:
Q. Were you aware that CBO had concluded that?
A. Yes.
Q. And Treasury made a different determination, correct?
MR. DINTZER: Objection. Vague.

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THE WITNESS: I think the distinction that Treasury had made was consistent with its accounting principles. CBO accounting and OMB accounting are different from my understanding.
BY MR. PATTERSON:
Q. And I guess my question was a simpler one than that. Did Treasury agree with CBO that Fannie and Freddie should be included in the federal budget?
A. I think the treatment that Treasury had for its investments in our -- I believe Treasury's investments and commitments to Fannie Mae and Freddie Mac were included in the budget.
Q. Treasury's investments were included in the budget; is that what you said?
A. Yes.
Q. Were Fannie and Freddie's assets and liabilities included in Treasury's budget?
MR. DINTZER: Objection. Calls for speculation. Foundation.
THE WITNESS: I'm not a budget expert, so I wouldn't want to opine on what was in or what was not in the official federal budget.

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BY MR. PATTERSON:
Q. So you don't know whether Fannie and Freddie's assets and liabilities were included in the federal budget?
A. I don't believe so.
Q. You don't believe they were or you don't believe that you know? I'm sorry, I just want to make the record clear.
MR. DINTZER: Objection. Foundation.
THE WITNESS: Again, I'm not a government accounting expert, but my understanding was that the assets and liabilities were not included on the balance sheet, but all of the costs and inflows and outflows of capital were included.
BY MR. PATTERSON:
Q. Now, in connection with considering the net worth sweep, did Treasury consider whether adoption of the sweep would require the assets and liabilities of Fannie and Freddie to be included in the federal budget?
MR. DINTZER: Objection. Calls for speculation. And Counsel, if you could explain how

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that question fits within the scope.
MR. PATTERSON: Well, whether Fannie and Freddie are part of the government of the United States, to the extent that they're included in the budget of the United States, would affect the capacity in which FHFA and Treasury were acting at the time they entered the third amendment.
MR. DINTZER: How?
MR. PATTERSON: Well, if the action had the result of Fannie and Freddie being included in the budget of the United States to the same extent as agencies of the federal government, that would indicate that they were acting on behalf of the United States.
MR. DINTZER: So what's your question?
BY MR. PATTERSON:
Q. The question is, in connection with the net worth sweep, did Treasury consider whether entering the net worth sweep would require the assets and liabilities of Fannie and Freddie to be included in the federal budget?
MR. DINTZER: Objection. Calls for

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speculation.
THE WITNESS: I don't recall.
BY MR. PATTERSON:
Q. Did you have any discussions on that issue with anyone in connection with considering the net worth sweep?
A. I don't recall this being a specific issue that came up as part of the third amendment. There were questions that were asked generally that I recall related to the budgetary treatment of Fannie and Freddie, but I don't recall being mentioned in connection specifically with the third amendment.
Q. Were those discussions related in any way to the variable dividend that was being considered?
A. Not that I recall.
Q. You can put aside that exhibit. While you were at Treasury, did you have access to the Treasury secure data network?
A. No.
MR. PATTERSON: Would it be okay if we take a break?
MR. DINTZER: Sure.

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(Recess.)
BY MR. PATTERSON:
Q. I just had a few things I wanted to wrap up on. First, from June 1st through August 17th, 2012, who at Treasury other than yourself was working on issues relating to the PSPAs?
MR. DINTZER: Objection. Calls for speculation.
THE WITNESS: There were a number of people that were working on the PSPAs.
BY MR. PATTERSON:
Q. And who were they?
A. To my knowledge, myself, counsel, Tim Bowler, Michael Stegman, Mary Miller and Adam Chepenik, Beth Mlynarczyk. There were many people working on it.
Q. And do you know if any of these individuals, did they use email accounts other than their Treasury accounts when working on official Treasury matters?
A. I don't know.
Q. And did you have discussions with anyone

EXHIBIT 7

Freddie Mac

Table 1

Income, Assets, and Equity, 2003 to June 30, 2011
($ in millions)

Year	Net Income (Loss)	Assets	Equity (Shareholder Deficit)	SP Stock	10% of SPS
2003	4,816	803,449	31,487	-	-
2004	2,937	795,284	31,416	-	-
2005	2,113	806,222	25,691	-	-
2006	2,327	804,910	26,914	-	-
2007	(3,094)	794,368	26,905	-	-
2008	(50,119)	850,963	(30,634)	14,800	1,480
2009	(21,553)	841,784	4,372	51,700	5,170
2010	(14,025)	2,261,780	(401)	64,200	6,420
2011	(5,266)	2,147,216	(146)	72,171	7,217
Q1 2012	577	2,114,944	(18)	72,317	7,232

If NI = taxable income

— 51 B → 2017 is about when Net Loss Carryforward based on our projections and the figures in the 10K. (per discussion w/ Dan Golub)

— Internal tax department → what do their book-to-tax projections look like

Find out who is responsible – internal or external

General Rule $\boxed{\Sigma \text{ of the 3 yrs} > 0}$
3 yrs of cum. ~~profits~~ profits → you start to think about ~~the the~~ releasing (the valuation allow.
→ the valuation allow. → when

probably 2013, 2014

GT005322

EXHIBIT 8

Freddie Mac

We make home possible ®

To:

PwC

From:

Gregory Metz

Michael Culhane

Tracy Mitchell

cc:

Rob Mailloux

Mary Beth Perdue

Stephen Lewis, FHFA

Effective Date:

June 30, 2012

Subject:

2Q 2012 Valuation Allowance Assessment

EXECUTIVE SUMMARY

The purpose of this memo is to document the assessment made for the need of a valuation allowance against all or a portion of Freddie Mac's deferred tax assets as of June 30, 2012.

Consistent with 1Q 2012, we determined that it was more likely than not that a portion of our deferred tax assets would not be realized.

FASB ASC 740 (Accounting for Income Taxes) requires establishment of a valuation allowance against deferred tax assets when based on the weight of available evidence it is more likely than not that they will not be realized. All available evidence, both positive and negative, must be considered with the appropriate weight given based on the extent to which it can be objectively verified. At June 30, 2012, we considered all available positive and negative evidence in performing our assessment as to the need for a deferred tax asset valuation allowance.

The negative evidence that we considered included 1) Freddie Mac's cumulative loss position under the general guideline of summing the pre-tax book income and permanent differences for three years, 2) Freddie Mac's estimated cumulative tax net operating loss carryforward (after consideration to all carryback potential including regular tax, alternative minimum tax and the impact of FIN 48 liabilities for each open tax period), and 3) difficulty predicting unsettled circumstances.

Freddie Mac considered positive evidence including the future reversals of existing taxable temporary differences and positive income from uncertain tax benefits recorded for prior and current year tax periods. We also considered management's intent and ability to hold the available for sale securities until unrealized losses can be recovered.

As of June 30, 2012, after consideration <D0> $34.7 billion valuation allowance, we had a net deferred tax as <D0> $3.1 billion representing primarily the tax effect of unrealized losses on our available-for-sale securities. Management believes the deferred tax asset related to these unrealized losses is more likely than not to be realized because of our intent and ability to hold our available-for-sale securities until any temporary unrealized losses are recovered.

A summary of the 2Q 2012 valuation allowance activity is summarized below:

Valuation Allowance Rollforward

(in millions)		Continuing Ops	AOCI	R.E.	APIC	Total
Valuation Allowance 1Q 2012	<PQ>	(35,564)	(128)	(2)	66	(35,628)
2Q Activity	<D0>	948	5	-	4	957
Valuation Allowance 2Q 2012		(34,616)	(123)	(2)	70	(34,671)

It is important to note that this assessment is based on all available information as of June 30, 2012 and this conclusion is subject to reassessment at each relevant measurement date, in our case, quarterly.

FACTS

Economic Environment

We continue to operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA as our Conservator. During the conservatorship, the Conservator delegated certain authority to the Board of Directors to oversee, and to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business.

We had net worth at June 30, 2012 as our assets exceeded our liabili FS $1.1 billio FS $1.1 billion equity includes our total comprehensive income of $2.9 billion and our dividend payn FS $1.8 billion to Treasury on the senior preferred stock in June 2012.[1]

FHFA, as Conservator, will not submit a draw request on our behalf to Treasury under the Purchase Agreement.

Balance and Nature of Deferred Tax Assets and Liabilities:

As of June 30, 2012, DTLs were estim <D1> $4.9 billion primarily for basis differences related to assets held for investm <D1> $4.7 billion.

The temporary difference related to basis differences related to assets held for investment is primarily driven by the Section 475 "Mark to Market" election that was made in January 2010 for newly acquired LIA Loans. The Deferred tax assets and liabilities are the same character (ordinary). The deferred tax liabilities do not include any liabilities on indefinite-lived intangible assets.

The DTA related to available-for-sale securities increa <D0> $128 millio <D0> $2.73 billion as of March 31, 2 <D0> $2.86 billion as of June 30, 2012 attributable primarily to unrealized losses on our mortgage-related securities.

[1] Freddie Mac Form 10-Q draft distributed 7/30/12, Executive Summary, page 1.

[redacted]

Cumulative Losses in Recent Years

Considering the current year forecast and activity from the last two years, Freddie Mac was in a cumulative loss position as interpreted per guidance from the Big 4 accounting firms as generally being the sum of pre-tax income and permanent differences of the current year and the two preceding years. The following table depicts the three-year cumulative loss:

<D3 56-65>

(dollars in millions)	Actual 2010	Actual 2011	Forecast 2012	Cumulative 2010-2012
Pre-tax Income (Loss)	(14,883)	(5,666)	7,013	(13,536)
Permanent Differences (excludes credits)*	(579)	(524)	(454)	(1,557)
Total	(15,462)	(6,190)	6,558	(15,093)

PY PY

*Permanent differences for 2010 are per filed tax return, 2011 and 2012 permanent differences from Analysis of Tax Provision schedule.

Impact of Carryforward and Carryback of Net Operating Loss and Tax Credits Opportunities on the 2012 Projected Income

<D3 56-65> Our June 30, 2012 tax provision estimate of the year's taxable income/loss includes taxable income of $6.6 billion. Taxable income can be entirely offset by the available NOL carryforward. It is likely that the company will be in an Alternative Minimum Tax (AMT) position for 2012. The 2012 AMT credit carryforward can be carried forward indefinitely, and the 2012 LIHTC not utilized in 2012 can be carried forward 20 years.

Mark-to-Market of Available for Sale Securities

Consistent with prior quarters, we maintain available for sale securities in our portfolio that are accounted for in Other Comprehensive Income. Management intends to hold these securities until such point that the unrealized losses previously recorded reverse.

During 1Q 2012 Freddie Mac sold its last two commercial mortgage-backed securities (CMBS) issued by LaSalle Bank after becoming the directing certificateholder due to significant credit deterioration. In 2011 management concluded that our intent changed from "intent to hold until recovery" to "intent to sell" the remaining two CMBS, and thus the deferred tax assets associated with these securities were written off. Because these LaSalle CMBS bonds exhibited characteristics, such as significant credit deterioration and severely depressed pricing, that were atypical of the wider CMBS portfolio, our actions with respect to the LaSalle CMBS do not change Freddie Mac management's assertion over the remainder of the CMBS portfolio (i.e. that we have the intent and ability to hold the securities until the point in time in which substantially all of the unrealized losses reverse).

ISSUE

Is a valuation allowance needed against all or a portion of Freddie Mac's deferred tax assets as of June 30, 2012?

CONCLUSION

Considering the significant negative evidence of our cumulative three year loss and other positive and negative evidence, we determined that it is more likely than not that a portion of our deferred tax assets would not be realized. A valuation allowance was recorded against the majority of net deferred tax assets other than the deferred tax asset attributable to unrealized losses on the available for sale securities recorded in Accumulated Other Comprehensive Income. Additionally, a valuation allowance was not recorded on approxi<D0>$197 million of LITHC credits carried forward (and generating a deferred tax asset), for which, should the uncertain tax position not be sustained, would otherwise be utilized in the 2007 tax year as a result of the 2009 FIN 48 liability decreasing the estimated 2009 NOL to be carried back to 2007.

RELEVANT ACCOUNTING GUIDANCE AND ANALYSIS

FASB ASC 740 requires that a valuation allowance be established for deferred tax assets when it is more likely than not that they will not be realized.[2] In other words, "a deferred tax asset could be recognized based on a presumption that it would be realized, subject to an impairment test (i.e., valuation allowance), or it could be recognized based on an affirmation belief as to realizability." [3]

FASB ASC 740-10-30-17 states, "All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Information about an enterprise's current financial position and its results of operations for the current and preceding years ordinarily is readily available. That historical information is supplemented by all currently available information about future years."

Sources of Positive Evidence

The realization of deferred tax assets is dependent on the existence of taxable income of the appropriate character during the carryback and carryforward periods.[4] FASB ASC 740-10-30-18, provides the following four sources of taxable income available under the tax law that provide positive evidence to realize a tax benefit for deferred tax assets (listed in the order of most objective to the most subjective):[5]

- Taxable income in prior carryback years if carryback is permitted under the relevant tax law (including FIN 48 Liabilities).
- Future reversals of existing taxable temporary differences (including FIN 48 liabilities).
- Tax-planning strategies.
- Future taxable income exclusive of reversing temporary differences and carryforwards.

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[2] FASB ASC 740-10-30-5.
[3] Deloitte & Touche FAS 109 guidance, FASB 109, 20-1
[4] FASB ASC 740-10-30-18
[5] PwC Guide to Accounting for Income Taxes (2011), sec. 5.3

Sources of Negative Evidence

A significant piece of negative evidence is the existence of a significant cumulative loss in recent years. Other examples of negative evidence include (but are not limited to) the following:

- A history of operating loss or tax credit carryforwards expiring unused.
- Losses expected in early future years (by a presently profitable entity).
- Unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years.
- A carryback, carryforward period that is so brief that it would limit realization of tax benefits if: (1) a significant deductible temporary difference is expected to reverse in a single year or; (2) the enterprise operates in a traditionally cyclical business.[6]

FASB ASC 740 does not define "cumulative losses" or "recent years." Guidance published by the Big 4 accounting firms suggests that while arbitrary, three years (the current and two preceding years) is a common benchmark. While all firms also agree that cumulative losses mean the sum of recent years (i.e., the current year and two preceding years) equals a net loss, there is some disagreement as to what type of "losses." E&Y and KPMG state that "losses" mean pre-tax losses. D&T and PwC, on the other hand, state that "losses" means pre-tax losses adjusted for permanent differences.[7]

FASB ASC 320 Mark-to-Market of Available-for-Sale Securities

Securities classified as available-for-sale are reported at fair value with changes in fair value included in AOCI, net of taxes. Only upon sale or recognition of impairment loss are the losses recognized in earnings. Our intent, as well as our ability, is to hold investments until a point in time at which recovery of the unrealized loss can be reasonably expected to occur.[8]

There are two acceptable views to assess the need for valuation allowances against deferred tax assets related to unrealized losses on securities classified as available-for-sale[9]:

- View A: The Company's intent and ability to hold the securities with unrealized losses until maturity can be considered akin to a tax planning strategy. This tax planning strategy is specific only to available for sale securities with the demonstrated intent to hold until maturity or such time that the unrealized losses reverse. Under this view, a valuation allowance would not be necessary for the applicable deferred tax assets even in situations where there is significant negative evidence related to the realizability of other deferred tax assets.

- View B: Recovery of deferred tax assets related to unrealized losses should not be assessed differently than other deferred tax assets. Under this view, a valuation allowance would be necessary for the applicable deferred tax assets in situations where there is significant negative evidence related to the realizability of other deferred tax assets.

Currently, both View A and B are acceptable accounting policies that should be followed consistently. In 2008, we received pre-clearance from the SEC to discretely treat the tax effect of the unrealized losses on

[6] FASB ASC 740-10-30-21

[7] D&T FASB 109 Audit Manual (December 2007), p. 243; E&Y Financial Reporting Developments – Accounting for Income Taxes (June 2007), p. 79; KPMG Accounting for Income Taxes – An Analysis of FASB Statement 109 (September 2007), para. 4.025; PwC Guide to Accounting for Income Taxes (November 2007), p. 92, sec. 5.1.3.1.

[8] 2007 Annual Report [DRAFT 2-14-08], Note 1: Summary of Significant Accounting Policies – Investments in Securities; Note 4: Retained Portfolio and Cash and Investments Portfolio

[9] See Ernst & Young Technical Line No. 2008-14, dated December 3, 2008.

our available-for-sale securities portfolio in assessing the need for a valuation allowance against our deferred tax assets.

Weighing of Available Evidence

FASB ASC 740-10-30-21 states that negative evidence such as cumulative losses in recent years is difficult to overcome. FASB ASC 740-10-30-23 also states the following with regard to weighing available evidence, "An enterprise shall use judgment in considering the relevant impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists the more positive evidence is necessary; and the more difficult it is to support a conclusion that a valuation allowance is not needed for some portion or all of the deferred tax asset."

In order to support a conclusion that a valuation allowance is not necessary, the more likely-than-not criterion requires objective and verifiable positive evidence sufficient to counteract the negative evidence.[10] Forecasts become more difficult to be used as positive evidence when there are cumulative losses. Future income projections following a cumulative loss are inherently subjective since a return to profitability often involves a turnaround plan that has not yet been demonstrated.[11] Actual results achieved to date under an existing turnaround plan will presumably be given much more weight than projected results under a pending plan.[12]

Cumulative Loss Table above (pg. 3)

The cumulative book loss position (adjusted for permanent differences) as of June 30, 2012 of $15.1 billion and unsettled circumstances as to future operations and profit levels and our continuing or emergence from conservatorship are significant negative evidence that, in our opinion, cannot be overcome by any existing positive evidence. Thus, we determined that it is more likely than not that the net deferred tax assets (excluding the DTA attributable to available-for-sale securities and positive income related to UTBs discussed above) will not be realizable in the future.

In 2008, we received pre-clearance from the SEC to discretely treat the tax effect of unrealized losses on our available-for-sale securities portfolio in assessing the need for a valuation allowance against our deferred tax asset (View A discussed above) and have applied this accounting policy consistently. After assessing events in 2Q 2012, no changes will be made to the accounting policy previously elected and thus for 2Q 2012 we have not recorded a valuation allowance against the deferred tax asset related to unrealized losses on our available for sale securities portfolio.

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[10] Deloitte and Touche Guidance Q&A FASB 109 23-3
[11] PwC Guide to Accounting for Income Taxes 5.1.3.1 (2009 edition)
[12] Deloitte and Touche Guidance Q&A FASB 109 23-3

EXHIBIT 9

FannieMae

MEMORANDUM

Subject:	Framework for evaluating the realizability of DTAs, including the timing of release of the related valuation allowance
Approval Date:	February XX, 2013
APG Rpt ID:	Tax-2013-X
Status:	**DRAFT**
Prepared by:	Kavitha Hichkad, Accounting Policy
Reviewed by:	Bob Kerich, Director, Accounting Policy
Approved by:	Kirk Silva, VP, Accounting Policy
Cleared with:	
Business Line:	N/A
Financial Reporting:	Michael Boylan
Business Unit CFO:	N/A
Acctg Operations:	N/A
Tax:	Chryssa Halley; Vicki Lyons & Michael Chaney
Legal:	N/A
D&T:	
Applicable Updates To:	
Acctg Policy Manual	N/A
Closing Meeting:	***Date:*** ; ***Attendees:***
Interpretive Guidance:	ASC 740, *Income Taxes*
Attachments:	None

PURPOSE

This memorandum provides a framework for evaluating the realizability of deferred tax assets ("DTAs") and for determining the timing of release of the related Valuation Allowance ("VA").

Judgments exercised in connection with the application of principles established herein will be separately documented and maintained by the Company's Corporate Tax Department.

EXECUTIVE SUMMARY

This memorandum concludes that:

- In order to release the valuation allowance, it must be more likely than not that the DTA will be realized, which will depend upon various quantitative and qualitative factors, including but not limited to the existence of future taxable income.

- In order to release the valuation allowance, Fannie Mae will need to consider all available evidence – both positive and negative. The weight given to the potential effects of negative and positive evidence should be commensurate with the extent to which it can be objectively verifiable. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is no longer needed for some portion or all of the deferred tax assets. Hence, positive evidence should be of sufficient quantity and quality to outweigh negative evidence.

- In evaluating a potential release of a portion or all of the valuation allowance, Fannie Mae should consider the full weight of positive and negative evidence attributable to the following key factors:

  - Overcome the impact of certain negative evidence (e.g. cumulative losses in recent years) with relative positive evidence.

  - Be able to predict future profitability on the basis of objectively verifiable evidence to assert that it is more likely than not that sufficient taxable income will be available in the future against which a deferred tax asset may be used.

- Appropriate disclosures should be provided in the Company's financial statements at the point that the Company determines, based on the weight of evidence (both positive and negative), that it is more likely than not that a portion or all of our deferred tax assets will be realized.

- The financial reporting of a change in a DTA valuation allowance is subject to an application of ASC 740's intraperiod tax allocation rules.

BACKGROUND

- ASC 740-10-25-20 states that an assumption inherent in an entity's statement of financial position prepared in accordance with GAAP is that the reported amounts of assets and liabilities will be recovered and settled, respectively. As such, a temporary difference between the tax basis of an asset or a liability and its reported amount in the statement of financial position will result in taxable or deductible amounts in some future year(s) when the reported amounts of assets are recovered and the reported amounts of liabilities are settled.

- ASC 740-10-30-2(b) establishes a basic requirement to reduce the measurement of deferred tax assets, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. ASC 740-10-30-5 states that a valuation allowance shall be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.

- A valuation allowance must be established for deferred tax assets when it is more likely than not (a probability level of more than 50 percent) that they will not be realized. An evaluation of the need for and amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all the positive and negative evidence available to determine whether all or some portion of the deferred tax assets will not be realized.

- In 2008, due to the rapid deterioration of then-current market conditions and the uncertainty of future market conditions on our results of operations, the Company determined that it was more likely than not that it would not generate sufficient future taxable income in the foreseeable future to realize a majority of its recognized deferred tax assets. Therefore, the Company recorded a valuation allowance on the net deferred tax asset (excluding the DTA related to unrealized losses on AFS debt securities, which management has the intent and ability to hold until recovery)[1].

  - The Company's decision to establish a full valuation allowance on the majority of our DTAs during the third quarter of 2008 was based on a weight of evidence, which included among other things, (1) deterioration of the credit market and macroeconomic outlook and (2) the decision by FHFA, on September 6, 2008, to place the Company into conservatorship. Due to the deterioration in the credit market and macroeconomic outlook, there was no verifiable objective evidence to conclude that the Company could expect to continue with the strong core earnings experienced in past years. In addition, terms of the conservatorship required the shrinkage of the portfolio, which was considered negative evidence as it reduced the Company's ability to shelter future tax bad debt deductions with core income from fees and net interest margin. Further, while the Company did not have any tax losses in 2008 or in the prior 20 years, the projections indicated that the book loan losses would create large tax net operating losses in the future when charge offs were claimed.

  - As a consequence, the Company recorded a valuation allowance of $21.4 billion in the three month period ended September 30, 2008. Additionally, in the fourth quarter of 2008, we increased our valuation allowance by $9.4 billion to reserve for the tax benefit that would have been recognized as a result of the Company's fourth quarter 2008 loss. We did not establish a valuation allowance for the deferred tax assets related to unrealized losses recorded through AOCI on our AFS securities that we have the intent and ability to hold until recovery.

- Since 2008, additional tax benefits have been created with a corresponding valuation allowance.

- The valuation allowance assessment is performed by the Company on a quarterly basis.

- The Company maintained a full valuation allowance against net DTAs recognized in connection with the Company's core business operations through the third quarter of 2012.

[1] Refer to SEC pre-clearance letter dated November 5, 2008

During the third quarter of 2012, AFS Investments moved into a net unrealized holding gain position for the first time since a VA on core business DTAs was recognized[2].

- The table below is a presentation of our deferred tax assets/liabilities from 2008 through 2012.

Note that the numbers presented in the table are for information purposes only to provide the reader with some context and are not intended to support the analysis or conclusions herein.

	As of December 31,				
(Dollar in millions)	**2012**	**2011**	**2010**	**2009**	**2008**
DEFERRED TAX ASSETS:					
Allowance for Loan Losses and Basis in REO Proper	26,252	29,935	27,063	23,615	10,561
Mortgage and Mortgage Related Assets	15,062	12,358	10,825	10,547	6,566
Debt and Derivative Instruments	5,445	6,562	6,627	8,255	8,604
Partnership credits	5,931	5,473	4,500	3,587	2,157
NOL / AMT & Other Carryforwards	2,543	5,904	3,341	688	-
Other, net	2,190	2,053	1,818	3,661	2,687
Partnerships and other equity investments	1,595	1,809	2,175	2,411	257
Unrealized Losses on AFS Securities	-	442	772	927	3,926
Total Deferred Tax Assets	59,018	64,536	57,121	53,691	34,758
DEFERRED TAX LIABILITIES:					
Other, net	(48)	(23)	(53)	(45)	(7)
Unrealized Gains on AFS Securities	(495)	-	-	-	-
Total Deferred Tax Liabilities	(543)	(23)	(53)	(45)	(7)
Valuation Allowance	(518)	(64,080)	(56,314)	(52,737)	(30,825)
Net Deferred Tax Assets(Liability)	57,957	433	754	909	3,926

This memo specifically addresses the following questions as it relates to the release of the valuation allowance:

1. What threshold needs to be met in order to release the valuation allowance?

2. What sources of taxable income are available to Fannie Mae to realize a tax benefit for deductible temporary differences and carryforwards?

3. Based upon the guidance that has been provided in the accounting literature, what evidence is required to support that we have sufficient taxable income and how should that evidence be weighted?

[2] Refer to the *Assessment of Investments in AFS Securities As a Source of Taxable Income and Related Valuation Allowance Considerations* memo, dated January 14, 2013, for additional information.

4. What positive and negative evidence is relevant to Fannie Mae's fact pattern?

5. When evaluating the positive and negative evidence, what is the first factor that should be considered?

6. What is the bottom line on the weighting of evidence?

7. When should the Company disclose a potential release of a portion or all of its valuation allowance in its financial statements?

8. Our deferred tax asset is comprised of several different tax attributes. What evidence will our forecast have to support in order to release the valuation allowance associated with each tax attribute?

Accounting Considerations

Factors to Consider in Determining Whether to Release a Portion or All of a Valuation Allowance

Question 1: What threshold needs to be met in order to release the valuation allowance?

- It should be more likely than not (a likelihood of more than 50 percent) that some portion or all of the DTA will be realized (ASC 740-10-30-5(e))

- The realization of the DTA will depend upon the existence of sufficient future taxable income (ASC 740-10-30-18)

Question 2: What sources of taxable income are available to Fannie Mae to realize a tax benefit for deductible temporary differences and carryforwards?

- There are 4 possible sources of taxable income that are available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered.

Source	Available to Fannie Mae?
Taxable income in prior carryback years if carryback is permitted under the tax law	This is currently not available to Fannie Mae as we have previously used all carrybacks available to us. To the extent that in future periods that we generate carrybacks that can be utilized against taxable income in prior years, we should consider whether this results in a source of taxable income.
Future reversals of existing taxable temporary differences	In order for the future reversal of taxable temporary differences to result in taxable income, Fannie Mae will need to demonstrate that existing

	temporary differences will reverse in a period in which the reversal will generate taxable income. The Company does not currently have sufficient future reversals of taxable temporary differences that could provide a source of taxable income. However, Fannie Mae has identified that future reversals of existing taxable temporary differences associated with AFS Investments that are in an unrealized gain position could be considered a source of taxable income in certain circumstances[3].
Tax planning strategies that would, if necessary, be implemented to: 1. Accelerate taxable amounts to utilize expiring carryforwards 2. Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss 3. Switch from tax-exempt to taxable investments	In assessing the need for a valuation allowance, the consideration of tax-planning strategies is not elective. Therefore, the Company must consider whether there is an available tax-planning strategy that is prudent and feasible in assessing the need for a valuation allowance. However, our current assessment is that significant tax planning strategies are not currently available to Fannie Mae.
Future taxable income exclusive of reversing temporary differences and carryforwards	Based on current facts and circumstances, this is the primary category that could provide a source of taxable income to Fannie Mae that we could utilize to demonstrate the release of all, or a portion, of our valuation allowance. In order to use this as source of taxable income, Fannie Mae will need to be able to provide positive evidence to support the future taxable income.

- Given the fact pattern that exists today, "Future taxable income exclusive of reversing temporary differences and carryforwards" is the primary source of taxable income that may be available to support the conclusion that it is appropriate to release all or a portion of the valuation allowance.

Question 3: Based upon the guidance that has been provided in the accounting literature, what evidence is required to support that we have sufficient taxable income and how should that evidence be weighted?

- All available evidence, both positive and negative should be considered (ASC 740-10-30-17)

- The weight given to the potential effect of negative and positive evidence should be commensurate with the extent that it can be objectively verifiable (ASC 740-10-30-23)

    - What has already occurred, and thus can be objectively verified, carries more weight than projections of future taxable income

[3] Refer to the *Assessment of Investments in AFS Securities As a Source of Taxable Income and Related Valuation Allowance Considerations* memo, dated January 14, 2013, for additional information.

- Positive evidence should be of sufficient quantity and quality to outweigh the negative evidence

- In addition to the guidance noted above, the SEC Division of Corporate Finance Staff provided the following additional factors at the 2012 Conference on Current SEC and PCAOB Developments that should be considered when determining whether to release all or a portion of a valuation allowance related to DTAs:

  - Magnitude and duration of past losses
  - The magnitude and duration of current profitability
  - Changes in the above two factors that drove losses in the past and those currently driving profitability.

  Further, registrants should bear in mind that the goal of the assessment is to determine whether sufficient positive evidence outweighs existing negative evidence. The SEC emphasized the importance of evidence that is objectively verifiable and noted that it carries more weight than evidence that is not. In addition, in performing an analysis, registrants should (1) asses the sustainability of profits in the current economic environment and (2) consider their track record of accurately forecasting future financial results. The SEC noted that any doubt about sustainability of profitability in a period of economic uncertainty may give rise to evidence that is less objectively verifiable. Likewise, an entity's poor track record of accurately forecasting future results would also result in future profit projections that are less objectively verifiable. Thus such evidence would carry less weight in a valuation allowance assessment.

Question 4: What positive and negative evidence is relevant to Fannie Mae's fact pattern?

- Refer to Appendix A for a more detailed analysis. The results of the analysis in Appendix A suggest that the following evidence will need to be evaluated to determine if we have a sufficient source of taxable income:

Type of Evidence	Positive Factor Supporting Release	Negative Factor Against Release
Cumulative Pre-Tax Book Income	Cumulative earnings in recent years	Cumulative losses in recent years
Taxable Income	Positive	Negative
Forecast	Earnings expected in early future years	Losses expected in early future years
Business Model	Certainty (no known loss contingencies or unsettled circumstances)	Uncertainty (unsettled circumstances that, if unfavorably resolved, would adversely affect future operations
Credit Losses	Low	High

Note that the table above only incorporates evidence that is relevant to the Company's fact pattern and does not incorporate all evidence noted in Appendix A. If the Company's fact pattern changes, additional evidence as indicated in Appendix A would need to be evaluated.

Question 5: When evaluating the positive and negative evidence, what is the first factor that should be considered?

- ASC 740-10-30-21 indicates that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses in recent years should be the first factor that should be considered.

- ASC 740 deliberately does not define "cumulative losses in recent years". However, in practice, a 3 year period is the most common benchmark used to analyze pretax accounting income or loss from continuing operations (adjusted for permanent differences)[4]

    - 3 year period is made up of the current year and the two immediately preceding years (i.e. 12 trailing quarters)

At the AICPA's National Conference on Current SEC and PCAOB Developments, the SEC's Division of Corporate Finance reminded registrants that in assessing the realizability of DTAs, they should consider cumulative losses in recent years to be significant negative evidence and that to avoid recognizing a valuation allowance they would need to overcome such evidence with significant objective and verifiable positive evidence. Although under U.S. GAAP it is theoretically possible to do so, overcoming negative evidence presented by cumulative losses is difficult.

Question 6: What is the bottom line on the weighting of evidence?

In order to release a portion or all of our valuation allowance, Fannie Mae should consider all available positive and negative evidence. The weight to be assigned to a particular piece of positive or negative evidence depends on the extent to which it is objectively verifiable. Examples of positive and negative evidence that may be applicable to the Company's current fact pattern include:

- Cumulative losses in recent years

- Unsettled circumstances that if favorably resolved would adversely affect profit levels on a continuing basis in future years

- Estimations of future income on the basis of objectively verifiable evidence, which should consider how various factors impact our business. Below are a few factors that the Company should consider (note that this list is not all inclusive and the Company should consider any other factors that are relevant to our fact pattern):

[4] D&T ASC 740-10-30 (Q&A 39) and Section 5.1.3.1 of PWC Guide to Accounting for Income taxes, 2012 Edition

- The amount of profitability that the Company would maintain based on existing business if no new business is generated.
- Forecast needs to support positive taxable income in the short and medium-term.
- Sensitivity of our forecasted results to key economic, business or regulatory assumptions, such as changes in Home Price Index or guarantee fees.

Disclosure

Question 7: When should the Company disclose a potential release of a portion or all of its valuation allowance in its financial statements?

- In accordance with ASC 275-10-50-8 , disclosure regarding an estimate shall be made when known information available before the financial statements are issued or are available to be issued indicates that both of the following criteria are met:

  a. It is at least reasonably possible[5] that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term[6] due to one or more future confirming events.

  b. The effect of the change would be material to the financial statements.

- Therefore, in the period that the Company determines it is reasonably possible that a portion of its DTA valuation allowance will be released and has established a timeline for when the release may occur (not to exceed one year from the date of the financial statements), the disclosure should be made in the Company's financial statements.

- In the period that the Company has significant improvements in its actual or projected financial results or facts that impacted the decision to record the valuation allowance, "early warning" language should be included in the Company's annual or quarterly filing with the SEC.

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[5] The term reasonably possible as used in this Subtopic is consistent with its use in ASC 450-20 to mean that the change of a future transaction or event occurring is more than remote but less than likely.
[6] ASC 275-10-20 defines near term as a period of time not to exceed one year from the date of the financial statements.

Release of Valuation Allowance

Question 8: Our deferred tax asset is comprised of several different tax attributes. What evidence will our forecast have to support in order to release the valuation allowance associated with each tax attribute?

The following table displays the various tax attributes that the Company has generated as of December 31, 2012 and provides documentation of the evidence required in order to assert that they will be realized in the future such that the valuation allowance associated with these tax attributes should be released. Note that the amounts provided in the table are for informational purposes only and do not support our conclusions or analysis.

Tax Deduction/Credit	Amount/ Expire	Description	Evidence Required to Release Valuation Allowance
NOL carryforward	$8.1 billion Expire between 2030-2031	The NOL can be used as a deduction in a different tax period when the Company has taxable income, resulting in a reduction to the Company's tax liability. At January 1, 2012, Fannie Mae had NOL carryforward of approximately $18.7 billion. During 2012, Fannie Mae had estimated taxable income of approximately $10.5 billion, which allowed for the utilization of approximately $10.5 billion of our NOL carryforward in 2012. Fannie Mae has already utilized the carryback period allowed for NOLs and therefore currently only has a NOL carryforward.	In order to realize any NOL carryforwards, Fannie Mae will need to have taxable income in future years. Therefore, the forecast will need to demonstrate sufficient future taxable income to allow for the realization of the NOL carryforwards prior to their expiration. Internal Revenue Code (IRC) Section 172(b)(2) states that the entire amount of the NOL shall be carried to the earliest taxable year in which it can be used. Therefore, the NOL will start to be utilized in the first year that we have taxable income.

Tax Deduction/Credit	Amount/ Expire	Description	Evidence Required to Release Valuation Allowance
Partnership tax credits Note that these partnership tax credits are separated into pre 2008 credits and post 2007 credits. The majority of the credits relate to the pre 2008 credits.	$5.9 million Expire in various years through 2031	*<u>Post 2007 Partnership Tax Credits:</u>* The post 2007 partnership tax credits were generated as a result of the Company's investments in low income housing and are equal to a percentage of the cost incurred for the development of low-income housing units in a rental project. These partnership tax credits were established as a result of the Housing and Economic Recovery Act (HERA) of 2008 and relate to properties placed in service after 2007. *<u>Pre 2008 Partnership Tax Credits:</u>* The pre 2008 partnership tax credits were generated as a result of the Company's investments in low income housing and are equal to a percentage of the cost incurred for the development of low-income housing units in a rental project. These partnership tax credits relate to properties placed in service prior to 2008.	Partnership tax credits that relate to any properties placed in service after 2007 can be utilized to offset AMT tax liability. In order to utilize all other partnership tax credits that relate to properties placed in service prior to 2008, once all NOL carryforwards are utilized, Fannie Mae must have regular tax above AMT tax in order to utilize these partnership tax credits.
Capital loss carryforward	$1.5 billion Expire between 2014-2017	These deductions were generated when the Company recognized capital losses on its' tax return. A corporation may use capital losses to only offset capital gains and can not use them to offset ordinary income. Any net capital loss may be carried back three years and carried forward five years. Fannie Mae does not have anymore carryback available for capital losses at this time.	In order to assert the realizability of the capital loss carryforward, Fannie Mae will need to show expectations of capital gains (i.e. from the sale of LIHTC, MRB, Liquid Investment portfolio) prior to the expiration of these capital loss carryforwards.

Tax Deduction/Credit	Amount/ Expire	Description	Evidence Required to Release Valuation Allowance
AMT credits	$347 million No expiration	To the extent that AMT exceeds regular income tax, a future credit is generated.	AMT credits can be used to offset future regular tax to the extent that AMT does not apply in a future year. Therefore, in order to assert that the AMT credits will be utilized, Fannie Mae will need to demonstrate sufficient regular future tax to allow for the realization of the credit. Note that upon utilization of all of our NOL carryforward, Fannie Mae will be a regular tax payer rather than an AMT tax payer, which will allow for the utilization of the AMT credits. Therefore, upon utilization of the NOL, the VA on the AMT credits is no longer required.

Appendix A – Illustrative Examples of Positive and Negative Evidence

Note that the amounts provided in the table are for informational purposes only and do not support our conclusions or analysis.

Positive Evidence	Negative Evidence	Analysis
Cumulative earnings in recent years	Cumulative losses in recent years	Over the past few years, Fannie Mae has had cumulative losses, which were primarily attributed to increased credit losses, which indicates negative evidence. However, to the extent that we are able to demonstrate that the negative evidence associated with cumulative losses has been overcome by positive evidence of future profitability on the basis of objectively verifiable evidence to assert that it is more likely than not that sufficient taxable income will be available in the future against which a deferred tax asset may be used, less weight will be placed on the cumulative losses in recent years.
History of using all operating loss and tax credit carryforward before they expire	History of operating loss and tax credit carryforwards expiring unused	Fannie Mae has not had operating loss or tax credits carryforwards expire unused.
Long carryback/carryforward periods (e.g., two-year carryback and 20-year carryforward periods under U.S. tax law for operating losses)	Brief carryback/carryforward periods (e.g. tax laws in some jurisdictions provide carryback and carryforward periods of less than five years for certain types of losses)	As of December 31, 2012, we have \$8.1 billion of NOL carryforwards that expire in 2030 through 2031, \$5.9 billion of partnership tax credit carryforwards that expire in various years through 2031, and \$347 million of AMT credit carryforwards that have an indefinite carryforward period (these carryforwards would not appear to limit the realization of the tax benefits). In addition, we have capital loss carryforwards of \$1.5 billion that expire in 2014 through 2017. Due to the nature of the capital loss carryforwards, the DTA associated with them will need to

		be analyzed separately from our other carryforwards such as NOL and LIHTC.
Earnings expected in early future years	Losses expected in early future years	The Company's January 2013 BOD forecast, which is subject to macroeconomic conditions, currently supports that we do not expect losses in future years. However, to the extent that the forecast does show expected losses in future years, this would result in negative evidence
No known loss contingencies or unsettled circumstances	Unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years	Due to the Company being in conservatorship, there is uncertainty regarding the Company's business model and the form that we will continue to maintain in the marketplace. Therefore, Fannie Mae should continue to monitor the regulatory and legislative impact regarding the GSEs and consider whether any resulting regulatory/legislative decisions result in positive or negative evidence.
Low credit losses expected	High credit losses expected	The Company's January 2013 BOD forecast, supports a decrease in credit losses, which do not adversely impact profitability, indicating positive evidence. However, to the extent that the BOD forecast supports an increase in credit losses or credit losses that would have an adverse impact on profitability, there would be an indication of negative evidence.

EXHIBIT 10

FannieMae

Subject:	4th Quarter 2012 Valuation Allowance Conclusion
Date:	March 25, 2013
Prepared by:	Vicki Lyons, VP for Tax
Approved by:	Chryssa Halley – VP & Asst Controller for Capital Markets & Operations Greg Fink – SVP & Controller, Finance
Primary Interpretive Guidance:	• Accounting Standards Codification 740, *Income Taxes* ("ASC 740")
Attachments:	Appendix A – 4Q12 Valuation Allowance Memo sent to SEC Appendix B-Accounting Policy Framework sent to SEC Appendix C-Presentation to SEC Appendix D - FHFA Deferred Tax Presentation Appendix E-Confirmation Letter Appendix F-Comparison of Weighting Tables

EXECUTIVE SUMMARY

Fannie Mae ("We/Us" or the "Company") has deferred income tax assets ("DTAs") of $59.0 billion as of December 31, 2012. The Company has concluded, as of December 31, 2012, that, based on the weight of available positive and negative evidence, it is more likely than not that substantially of all of the DTAs will not be realized. Therefore, the Company will continue to record a valuation allowance against its DTA except for certain DTAs and deferred tax liabilities ("DTLs") related to unrealized gains and losses in our available-for-sale ("AFS") securities portfolio.

The Company arrived at this conclusion after substantial analysis conducted since the beginning of January when 2012 results were being generated, and discussions with the Federal Housing Finance Agency ("FHFA" or the "Conservator") and the Securities and Exchange Commission ("SEC"). The Company provided a comprehensive analysis on February 28, 2013 to the United States Securities and Exchange Commission ("SEC") which supported its initial position to release the valuation allowance as of December 31, 2012 After a series of discussions, the SEC did not object to the Company's position of releasing the valuation allowance as of December 31, 2012 but also suggested that other reasonable people reviewing the same set of facts and evidence may come to another conclusion and that they did not object to releasing the allowance in a future period. After these events, the Company reconsidered its initial analysis, reviewed the weighing of the evidence, and had further discussions with FHFA.

In subsequent discussions, FHFA clarified its view on conservatorship and the amount of available capital necessary for the Company. In a presentation provided to the Company on March 14, 2013 (see Appendix D) FHFA indicated that releasing the valuation allowance and causing a reduction in available capital of $34 billion (the amount of reduction in available capital if the Company released the valuation allowance as of December 31, 2012) would force the Conservator to take certain actions. The Conservator advised us that, if the amount of funds available under the agreement was reduced as a result of our releasing the valuation allowance in the fourth quarter of 2012, they would need to ensure the preservation of our remaining capital and undertake regulatory actions that could severely restrict our operations, increase our costs, or otherwise substantially limit or change our business in order to ensure the continued safety and soundness of our operations.

While the evidence related to our limitation of the amount of funds available for future draws was included in the original analysis as negative evidence, FHFA's specific actions to limit certain business activities to preserve capital had not been previously provided to the Company. Based on this new objective negative evidence of the consequences from a reduction in our capital, an increased negative weighting on our recent profitability highlighted by our SEC discussion combined with the evidence previously considered, the Company's updated analysis of all available evidence provided that the negative evidence outweighed the positive evidence and therefore we concluded that it is not more likely than not that we will we realize our DTA amounts as of December 31, 2012.

I. BACKGROUND

After completing the initial analysis and having extensive discussions with senior management as well as the audit committee and the entire Board of Directors, management sought to consult with the SEC. We provided the SEC with our fourth quarter 2012 Valuation Allowance memorandum as of February 26, 2013 (see Appendix A), our accounting policy framework for evaluating the release of the valuation allowance (see Appendix B), and a presentation of the summary of the facts and evidence considered (see Appendix C). This included stress testing of our book and other market factors, future projections, and actual 2012 results. Three discussions were held with the SEC.

In the initial meeting on February 28, 2013, based on facts known at that time, the Company presented an analysis to release the valuation allowance as of December 31, 2012 and requested that the SEC provide a viewpoint on the analysis provided. The second meeting via telephone conference call on March 5, 2013 was to answer follow-up questions from the SEC. These questions were related to the credit models and our process on forecasting.

The third meeting was via telephone conference on Friday March 8, 2013 in which the SEC provided their conclusion to Fannie Mae and FHFA. The SEC did not object with the Company's position to release the valuation allowance in the fourth quarter of 2012, but suggested that a reasonable person could come to an alternate conclusion. The basis for an alternate conclusion is that a reasonable person could weigh evidence differently and therefore, the SEC would not object to a later period. The SEC suggested that different weight could be applied to 1) the three year cumulative pre-tax book loss, 2) the recent nature of positive financial results, and 3) the status of the Company in conservatorship and the impact that could have on the Company's business. The SEC said that they would provide a "no objection" confirming letter to the Company based on the final conclusion arrived at with FHFA.

On March 14, 2013, the Conservator presented the Company with key factors in their analysis (see Appendix D) of the need for a valuation allowance against the DTA. They provided new information for the Company to review in its analysis. The key points in their analysis included:

- Reduction to capital was the key driver for their concerns. The reduction in capital capacity from the U.S. Treasury and the Senior Preferred Stock Purchase Agreement ("SPSPA") agreements places undue risk on the future of the Company in conservatorship. FHFA will require the Company to further curtail our current and future business activities and reduce the risk in the existing book commensurate with sharply reduced capital levels. Any capital constrained entity would be required to limit new business, improve risk adjusted returns, and initiate actions to preserve the franchise value, thus, a change to the business model.
- The Conservator would need to take action if the Company has a reduction in available capital. The specific array of actions that would be possible is not known.
- In their view, the Treasury credit facility under the SPSPA can no longer be amended.

The Company's management met with the Audit Committee and Board of Directors several times to discuss the analysis and process. These included meetings or calls on:

February 24, 2013 – Audit Committee Conference Call regarding DTA and Discussion of FHFA feedback
March 12, 2013 – Board of Directors Conference Call regarding 10-K Filing Status Update
March 19, 2013 – Audit Committee Conference Call regarding 10-K Filing Status Update
March 20, 2013 – Audit Committee Meeting regarding 10-K Filing Status Update

The Board of Directors supported the Company's position that was presented to the SEC but the Board of Directors thought the company should take into consideration all of the points raised by the SEC and confirm the Company's position. In the Audit committee meeting on march 20, 2013, the Company presented its revised analysis which included the table in the analysis section of this memo and the audit Committee supported the assessment presented that the Company should not release the valuation allowance on the DTAs as of December 31, 2013.

II. ANALYSIS AND CONCLUSION

Given the feedback from FHFA and the SEC, the Company reassessed the weight ascribed to each piece of evidence and updated the chart used to weigh the available evidence in determining whether it is more likely than not that the DTA will or will not be realized. The chart identifies the objective and subjective evidence weighed by the Company. In this memo we enhanced our original analysis by employing not only a qualitative assessment of the evidence but also a quantitative weighing of the evidence by creating a numerical scale for each type and weight of evidence. Objective evidence was weighted 50% higher than subjective which we believe was sufficient to comply with the guidance that ascribes more weight to objective evidence. Additionally, we reduced and condensed the list of evidence to categories which we believe represented the most critical factors in making a determination.

Deferred Tax Asset – Evidence Grid
For the period ended December 31, 2012

	Rating				Weighted	Max	
Objective Factors	**Description**		**#**	**Weight**	**Rating**	**Weight**	**%**
Positive book and tax results	Positive	High	3.00	1.50	4.50	4.50	
Recent profitability	Negative	Medium	(2.00)	1.50	(3.00)	4.50	
Good book	Positive	High	3.00	1.50	4.50	4.50	
Bad book	Negative	Medium	(2.00)	1.50	(3.00)	4.50	
Existing revenue streams	Positive	High	3.00	1.50	4.50	4.50	
State of housing market	Negative	Low	(1.00)	1.50	(1.50)	4.50	
Cumulative 3 year pretax book gain/loss	Negative	Low	(1.00)	1.50	(1.50)	4.50	
Declining DTA balance (use of tax attributes)	Positive	Low	1.00	1.50	1.50	4.50	
Reduction in capital available	Negative	High	(3.00)	1.50	(4.50)	4.50	
Conservatorship	Negative	Medium	(2.00)	1.50	(3.00)	4.50	
Subjective Factors							
Positive forecast	Positive	High	3.00	1.00	3.00	3.00	
Uncertainty about forecast	Negative	Low	(1.00)	1.00	(1.00)	3.00	
Uncertainty in economy	Negative	Low	(1.00)	1.00	(1.00)	3.00	
Limited availability of federal draw	Negative	Medium	(2.00)	1.00	(2.00)	3.00	
Average for objective factors			(0.10)		(0.15)	4.50	
Average for subjective factors			(0.25)		(0.25)	3.00	
Average for objective and subjective factors			**(0.14)**		**(0.18)**	**4.07**	**45.61%**

The most significant changes of the evidence in the revised analysis from the original analysis provided to the SEC and managements initial conclusion is the Conservator's view of the Company's access to available capital, the reduction of capital due to the release of the valuation allowance in the fourth quarter of 2012, and the actions that the Conservator would take in response to a fourth quarter release to constrain the Company's business which in turn would impact the Company's positive financial results and make future projections of income no longer supportable. This is significant evidence which we weigh as a high negative as of December 31, 2012.

The Company added additional negative weight to the recent nature of our profits. Additionally, we changed the rating of the declining DTA balance (use of tax attributes) to a low positive because the tax attributes only comprise approximately 10 percent of the overall DTA. The Conservator provided its input on the weighting of other evidence and suggested that more negative weight should be assigned to the three-year cumulative pre-tax book loss as of December 31, 2012. While we considered this change, we ultimately did not change the weight primarily because this has been addressed through adding additional negative weight given to recent profitability. As of the date of our final conclusion, the three-year cumulative pre-tax book loss (calculated on a basis of twelve rolling quarters) is currently in a three-year cumulative pre-tax book income. This will be the Company's fifth quarter with pre-tax book income. For a complete list of original factors and a comparison to the new table see Appendix F.

Based on the weighing of the evidence as shown in the above evidence grid, the Company believes that the negative evidence slightly outweighs the positive evidence as of December 31, 2012. Thus it is more likely than not that the DTA will not be realized and a valuation allowance will be maintained.

We will continue to evaluate the recoverability of our deferred tax assets each quarter. Our evaluation in future quarters will be made by reviewing all relevant factors as of the end of those periods, including the factors discussed above to the extent applicable. Releasing all of a portion of the valuation allowance after December 31, 2012 will not reduce the funding available to us under the SPSPA. In addition, we expect that, as of the first quarter of 2013, we will no longer be in a three-year cumulative loss position. Accordingly, we believe that we may release the valuation allowance as early as the first quarter of 2013.

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Appendix A – 4Q12 Valuation Allowance Memo sent to SEC

SEC_VA Memo_2-26-2013.pdf

Appendix B-Accounting Policy Framework sent to SEC

Framework - Release of Valuation Allowanc

Appendix C-Presentation to SEC

SEC_Deck_2_26_2013.pdf

Appendix D - FHFA Deferred Tax Presentation

Appendix D - FHFA Presentation_FNM_D

Appendix E-Confirmation Letter

Appendix E - SEC Confirmation Letter.P

Appendix F-Comparison of Weighting Tables

Appendix F - Comparison of Weigh

EXHIBIT 11

Grant Thornton

November 8, 2011

Ms. Carole Banks
1500 Pennsylvania Avenue, N.W.
Met Square Room 6253
Washington, D.C. 20220

Re: Valuation of Treasury's Holdings of the Senior Preferred Stock of the Federal National Mortgage Association as of September, 30, 2011

Dear Ms. Banks,

As requested, we have determined the fair value of the Senior Preferred Stock, as defined further within our attached detailed report, that the U.S. Department of the Treasury received from the Federal National Mortgage Association pursuant to the Senior Preferred Stock Purchase Agreement dated September 7, 2008.

We understand that you will use our valuation for the purpose of your financial reporting for the fiscal year ended September 30, 2011, and that the appropriate value measure is fair value as determined in accordance with generally accepted accounting principles of the United States, in particular, ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 codified, effective July 1, 2009, Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, and other related authoritative guidance of the Financial Accounting Standards Board and the Securities and Exchange Commission on fair value measurement. Under ASC 820, fair value is the price that would be received to sell asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Based upon the information and financial data provided by the Federal National Mortgage Association, as well as trading data that we gathered and analyses we performed, it is our opinion that the fair value of the Senior Preferred Stock is $77,909,000,000.

The conclusions and opinions expressed in this letter and the accompanying detailed report are contingent upon the qualifying factors set forth in the Assumptions and Limiting Conditions attached to this report. Our analyses, opinions, and conclusions were developed in conformity with the 2008 American Institute of Certified Public Accountants Statement of Standards for Valuation Services No. 1.

If you have any questions concerning this report and the conclusions it contains, please contact Anne Eberhardt at 212.542.9698.

Very truly yours,

E. Bradley Wilson, CPA
Managing Partner of Audit – Global Public Sector
Grant Thornton LLP

GT007252

Grant Thornton

Fair Value of the U.S. Department of Treasury's Holdings of Senior Preferred Stock Series 2008-2 of The Federal National Mortgage Association (Fannie Mae)

As of September 30, 2011

Prepared by Grant Thornton LLP on November 8, 2011
Certified Public Accountants
A U.S. member firm of Grant Thornton International Limited

Contents

Exhibits

Introduction

On September 7, 2008, the U.S. Department of the Treasury ("Treasury") and the Federal National Mortgage Association ("Fannie Mae" or the "Company"), through the Federal Housing Finance Agency, the conservator of Fannie Mae ("FHFA" or the "conservator"), entered into the Senior Preferred Stock Purchase Agreement ("PSPA"). In accordance with the terms of the PSPA, Fannie Mae issued variable liquidation preference Senior Preferred Stock to Treasury (the "Senior Preferred Stock" or the "Stock"). We have been asked to estimate the fair value of Treasury's holding of the Senior Preferred Stock as of September 30, 2011.

We understand that Treasury will use this valuation with regard to its financial reporting for the fiscal year ended on September 30, 2011. It also is our understanding that fair value must be determined in accordance with U.S. generally accepted accounting principles, in particular, in accordance with ASC 820, *Fair Value Measurements and Disclosures*, which, effective July 1, 2009, codified the Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, and other related authoritative guidance issued by the Financial Accounting Standards Board and the Securities and Exchange Commission ("ASC 820"). Under ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We are independent of Treasury. Our fee for this engagement was in no way influenced by the results of our valuation analysis.

Sources of Information

As a basis for our valuation, we used financial statements and other public filings issued by the Company, including PSPA documentation, and independent research regarding high yield bond and preferred stock trading, Treasury press releases, and other information pertinent to the valuation. We accepted without verification financial statements and other information provided by the Company as accurately reflecting the results of operations and the financial and business conditions of Fannie Mae for the respective periods. In addition, we sought input from representatives within Treasury's Office of Domestic Finance to inform us of the assumptions and conditions surrounding a hypothetical transaction.

The Business and Organization of Fannie Mae

Business

Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability, and affordability in the secondary mortgage market, in which existing mortgage-related assets are purchased and sold. Its charter does not permit the Company to originate loans and lend money directly to consumers in the primary mortgage market. Fannie Mae achieves its mission primarily through two forms of activities:

- immediately securitizing mortgage loans originated by primary lenders into Fannie Mae mortgage-backed securities, with Fannie Mae guaranteeing principal and interest payments on the underlying loans, and
- acquiring mortgage loan packages originated by lenders in the primary market, which it either retains as investments or warehouses for future securitization, into Fannie Mae mortgage-backed securities for which the Company will guarantee principal and interest on the underlying loans.

Fannie Mae acquires mortgage loans with the proceeds of debt securities it issues in domestic and international capital markets. Based on the U.S. government's support of Fannie Mae, its debt securities sell and trade at a small premium over U.S. Treasury yields. The stock of Fannie Mae (ticker: FNMA.OB) currently trades on the OTC Bulletin Board. It previously traded under the ticker FNM on the New York Stock Exchange before the conservator directed the Company to delist the stock on June 16, 2010.

As of June 30, 2011, the Company managed a credit book (i.e., loan guarantee exposures and mortgage loan asset exposures) of $2.93 trillion related to residential mortgage loans. As of that date, Fannie Mae held $3.196 trillion of assets and owed $3.201 trillion under various liabilities (see Table 1 for a summary of the Company's 2002 to June 2011 income, assets, and equity).[1] After adopting Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets: an amendment to FASB No. 140* (ASC 860), and Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810), Fannie Mae consolidated $2.595 trillion of mortgage loans and $2.442 trillion of debt that previously was held in off-balance sheet trusts that managed Fannie Mae mortgage-backed securities. The consolidation of these assets and liabilities did not change the Company's credit book. The consolidation converted guarantee exposures into loan exposures. Because of favorable accounting treatments and the comparatively lower expenses that must be recognized, Fannie Mae has purchased most nonperforming loans out of the trusts for which it provided a guarantee rather than make payments of principal and interest under its guarantee.

Table 1

Income, Assets, and Equity, 2002 to June 30, 2011
($ in millions)

Year	Net Income (Loss)	Assets	Equity (Shareholder Deficit)
2002	4,619	887,515	16,288
2003	8,081	1,022,275	32,268
2004	4,967	1,020,934	38,902
2005	6,347	834,168	39,302
2006	4,059	843,936	41,506
2007	(2,050)	882,547	44,011
2008	(58,707)	912,404	(15,314)
2009	(71,969)	869,141	(15,372)
2010	(14,014)	3,221,972	(2,599)
6 mos. 2011	(9,363)	3,196,112	(5,087)

As a federally chartered organization, Fannie Mae is regulated by the Federal Housing Finance Agency ("FHFA"). It is also subject to extensive regulation, supervision, or examination by other federal agencies, including the Department of the Treasury, the Department of Housing and Urban Development, and the Securities and Exchange Commission.

Following the collapse of the national residential real estate market, the Obama administration has increasingly relied upon both Fannie Mae and Freddie Mac to implement its policy in federal home retention

[1] At June 30, 2011, total liabilities exceeded total assets by $5.087 billion, which resulted in the Federal Housing Finance Agency's request for an additional $5.1 billion under Treasury's funding commitment pursuant to its Senior Preferred Stock Purchase Agreement. The Company expects to request an additional $7.8 billion for losses incurred in the quarter ending September 30, 2011.

programs, particularly mortgage loan refinancing under the Home Affordable Refinance Program and loan modifications, repayment plans, and forbearance under the Home Affordable Modification Program.

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as the conservator of Fannie Mae in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (collectively the "GSE Act"). The conservatorship is a statutory process designed to preserve and conserve Fannie Mae's assets and property and help return the Company to a sound and solvent condition.

The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether Fannie Mae will continue in its current form following conservatorship, or what changes to its business structure will be made during or following the conservatorship. Upon its appointment, the conservator immediately succeeded to all rights, titles, powers, and privileges of Fannie Mae, and of any shareholder, officer, or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to the books, records, and assets of any other legal custodian of Fannie Mae. The conservator has since delegated specified authorities to the Company's Board of Directors and has delegated to Fannie Mae's management the authority to conduct the Company's day-to-day operations.

The GSE Act authorizes the Director of FHFA to place the Company into receivership directly from the conservatorship, with FHFA acting as the receiver. The Director of FHFA must place the Company into receivership if the Director determines that the Company's liabilities exceed its assets for sixty days or the Company has not been paying its debts as they become due for sixty days.

<u>The Senior Preferred Stock Purchase Agreement</u>

The day after placing Fannie Mae into conservatorship, on Sunday September 7, 2008, Treasury and Fannie Mae, through its conservator FHFA, entered into the PSPA transaction. In exchange for the Warrant and Senior Preferred Stock issued by Fannie Mae to Treasury with a liquidation preference of $1 billion, Treasury provided a financing Commitment to the Company with an initial maximum amount of $100 billion. The liquidity commitment was increased to $200 billion by an amendment on May 6, 2009 and was increased again to an amount that effectively is $200 billion plus the difference of additional deficit amounts incurred during the calendar years 2010 through 2012, less any positive GAAP-based shareholders' equity as of December 31, 2012. Under the Commitment, Treasury remits cash to the Company in the amount (rounded) of any GAAP-based shareholders' deficit ("deficit amount") at the end of any quarterly or annual reporting period. Payments made by Treasury under the Commitment ("liquidity payments") result in an increase in the amount of the liquidation preference of the Senior Preferred Stock. The Warrant grants Treasury the right to purchase 79.9 percent of the common stock of the Company on a fully diluted basis. The Senior Preferred Stock is described in the following section of this report.

On September 7, 2008, Treasury Secretary Henry Paulson and FHFA Director James Lockhart made a joint statement concerning actions taken with respect to Fannie Mae and Freddie Mac (collectively the "government-sponsored entities" or "GSEs").[2] Mr. Paulson made it clear that Treasury had demanded the GSEs be placed into conservatorship before it would extend a liquidity commitment to them. Mr. Paulson described the intent of the PSPA as follows:

> First, Treasury and FHFA have established Preferred Stock Purchase Agreements, contractual agreements between the Treasury and the conserved entities. Under these agreements [the PSPA, the secured lending facility, and the program to purchase GSE MBS], 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 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.

From the effective date of the PSPA until such time as the Senior Preferred Stock is repaid or redeemed in full, unless it has the prior written consent of Treasury:

- The Company shall not declare or pay any dividend or make any other distribution with respect to any of its other equity issues, or set aside any money for that purpose.
- The Company shall not sell equity interests of any kind, other than the sale and issuance of the Senior Preferred Stock and Warrant and common stock upon exercise of the Warrant.
- The Company shall not do anything to terminate the conservatorship, other than in connection with a receivership pursuant to §1367 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended.[3]
- The Company shall not sell, transfer, lease, or otherwise dispose of all or any portion of its assets whether now owned or subsequently acquired, other than certain dispositions for fair value.
- The Company shall not become liable for (i) any indebtedness that would cause its aggregate indebtedness to exceed 110 percent of its aggregate indebtedness as of June 30, 2008 or (ii) any indebtedness if such indebtedness is subordinated to any other indebtedness of the Company.
- The Company shall not (i) merge into or consolidate with any other entity, (ii) effect a reorganization or recapitalization involving its common stock, or (iii) purchase, lease or otherwise acquire all or substantially all of the assets of another entity.
- The Company shall not own mortgage assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90 percent of the mortgage assets as of December 31 of the immediately preceding year, subject to a floor of $250 billion in mortgage assets.
- The Company shall not engage in any transaction with an affiliate unless such transaction is (i) pursuant to the PSPA, the Senior Preferred Stock, or the Warrant, (ii) upon terms no less favorable to the Company than would be obtained in an arm's-length transaction, or (iii) a transaction undertaken in the ordinary course of business or pursuant to a contractual obligation.

[2] A transcript of Mr. Paulson's statement may be found at http://www.treasury.gov/press-center/press-releases/Pages/hp1129.aspx.
[3] This act is the authority for the conservatorship.

The Company must provide on a timely basis to Treasury all the reports and filings required by the Securities and Exchange Commission, certificates of compliance with the PSPA covenants, and certain other notices and information. In addition, the Company cannot, without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury, enter into new compensation arrangements of certain executive officers of the Company.

Draw downs against the funding commitment of the PSPA do not result in the issuance of additional shares of Senior Preferred Stock; instead, the liquidation preference of the initial one million shares is increased by the amount of the draw down.

Beginning in 2011, under the terms of the amended PSPA, the Company was required to begin paying a quarterly commitment fee to Treasury. However, Treasury may, at its discretion, elect to waive the commitment fee for up to a year at a time, "based on adverse conditions in the United Sates mortgage market." To date, Treasury has elected to waive all commitment fees, and in our calculation of future deficiency amounts, our calculations have included the assumption that Treasury will continue to waive the fee because, as with the case with the dividend (as we described in the Fannie Mae Liquidity Commitment report), the payment of the commitment fee would be funded by additional purchases of Senior Preferred shares.

On December 24, 2009, the maximum Commitment of the PSPA was amended and is currently unlimited through December 31, 2012. At that point, the maximum actual and future total payments under the Commitment will be $200 billion, plus deficiencies incurred during the calendar years 2010 through 2012, less any surplus on December 31, 2012. For purposes of the PSPA, a deficiency exists when total liabilities exceed total assets on a GAAP basis, and a surplus exists when total assets exceed total liabilities on a GAAP basis. Generally, the Company may request a liquidity payment when it has a deficiency, and the request would be granted in the dollar amount of that deficiency.

Variable Liquidation Preference Senior Preferred Stock Series 2008-2

The Certificate of Designation of Terms of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 was signed by the Director of FHFA on September 7, 2008.

The number of shares initially constituting the perpetual Senior Preferred Stock is 1,000,000. Shares of Senior Preferred Stock have no par value and have a stated value and initial liquidation preference per share equal to $1,000, subject to adjustment as described below. The Senior Preferred Stock ranks prior to common stock of the Company and shall rank, as to both dividends and distributions upon dissolution, liquidation, or winding up of the Company, prior to (i) the preferred shares of the Company existent as of September 7, 2008, (ii) any other capital stock of the Company outstanding as of September 7, 2008, and (iii) any capital stock of the Company that may be issued after September 7, 2008.

Dividends on the Senior Preferred Stock are cumulative, paid in cash, and payable in arrears when declared by the Board of Directors quarterly on March 31, June 30, September 30, and December 31 of each year, commencing on December 31, 2008. Holders of outstanding shares on the date of declaration as they appear on the books and records of the Company receive these dividends ratably. The dividend rate is 10 percent. However, if the Company fails to pay the dividend in cash in a timely manner, the dividend rate immediately increases to 12 percent and remains at that rate until the Company has paid in cash the full amount of the cumulative dividends. To date, Fannie Mae has always paid the dividends in cash and has indicated to us that it will continue to pay in cash because of the adverse compounding effect of non-cash dividend payments.

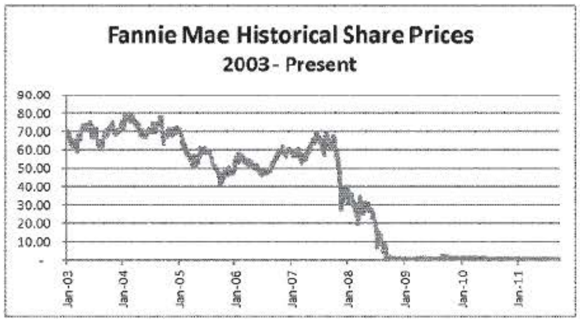
The liquidation preference of each share shall be the initial amount of $1,000, plus its ratable share of (i) any liquidity payments pursuant to the commitment of the PSPA, (ii) any cumulative dividends not paid in cash, and (iii) any commitment fee related to the commitment of the PSPA not paid in cash; less its ratable share of any pay downs of liquidity preference by the Company.

The Company may make optional or voluntary pay downs of the liquidity preference, and in certain circumstances, the Company is mandated to make pay downs. Following termination of the Commitment, the Company at its discretion may pay down the liquidity preference in whole or in part. If the Company issues any shares of capital stock in exchange for cash at any time while the Senior Preferred Stock is outstanding, then the net proceeds of that stock issuance must be used to pay down the liquidity preference of the Stock. Both voluntary and mandatory pay downs shall be applied first to any unpaid dividends, then to any unpaid commitment fees, if assessed, and lastly to the liquidation preference related to liquidity payments. When and if the liquidity preference has been paid in full, the Senior Preferred Stock shall be deemed to be redeemed as of the date of such payment, and the shares of the Stock shall no longer be deemed to be outstanding, and all rights of the holders of Senior Preferred Stock shall cease.

The shares of the Senior Preferred Stock are transferable and have no voting powers, either general or special. The holders of shares of the Senior Preferred Stock have no right to convert such shares into or exchange such shares for any other class of stock or obligations of the Company and have no preëmptive right to purchase or subscribe for any other shares, rights, options, or other securities of the Company which at any time may be sold or offered for sale.

The Company has the right at any time after September 7, 2008 to authorize, create, and issue one or more additional classes or series of stock of the Company. Such stock may not rank prior to or on parity with the Senior Preferred Stock without the prior written consent of the holders of at least two-thirds of the shares of Stock.

Trading History of Fannie Mae Common Stock



As noted above, Fannie Mae's common shares traded on the New York Stock Exchange (ticker: FNM) until July 8, 2010, when the shares began trading on the OTC Bulletin Board. The trading prices of Fannie Mae's common shares from January 2003 through March 2011 are presented in the chart.

Common share prices for Fannie Mae have declined precipitously since they began to recognize credit losses from the high-risk loans that were originated from 2005 through most of 2008, following the nationwide drop in home prices and the increase in unemployment.

More recently, common share prices took several additional adverse shocks: the dilution of existing shareholders' positions related to the Warrant on September 7, 2008; FHFA's June 16, 2010 announcement that the GSEs would be delisted; and the start of trading through the OTC Bulletin Board on July 8, 2010. The chart below highlights trading of the common shares during this period.

Recent Financial History of Fannie Mae

Historically, Fannie Mae charged from 10 bps to 80 bps annually on the dollar amount of underlying mortgage loans that it guaranteed.[4] This fee schedule adequately compensated the Company for its credit losses and contributed to its profitability until the Company had to recognize the effects from its acquisition of loans with higher risk characteristics during the calendar years 2005 through 2008.

Compared to earlier loan acquisitions (and post-2008 acquisitions), the 2005 to 2008 loans had higher risk characteristics across the board, including higher loan-to-value ratios, lower FICO scores, and a much higher level of low documentation and no documentation (Alt-A) loans, interest-only loans, and negative amortization loans. According to the 2011 Second Quarter Credit Supplement, 41.2 percent of the loans in the portfolio the Company acquired from 2005 to 2008 have mark-to-market LTV ratios that were greater than 100 percent as of June 30, 2011.

Table 2
Fannie Mae Selected Financial Indicators
($ in billions)

Reporting Date	Equity (Deficit)*	Change in Equity (Deficit)	Treasury PSPA Funding	Credit Loss Provision	Earnings
31-Dec-04	38.90	6.63	0.00	0.35	4.97
31-Dec-05	39.30	0.40	0.00	0.44	6.35
31-Dec-06	41.51	2.21	0.00	0.59	4.06
31-Dec-07	44.01	2.50	0.00	4.56	(2.05)
30-Jun-08	41.23	(2.78)	0.00	8.16	(4.49)
31-Dec-08	(15.31)	(59.32)	0.00	27.95	(58.71)
31-Dec-09	(72.80)	(57.49)	59.90	72.63	(71.97)
31-Dec-10	(80.03)	(7.22)	27.70	24.70	14.01
30-Jun-11	(89.12)	(9.09)	11.10	16.39	(9.36)

** Excludes PSPA stock purchase receipts and PSPA stock dividend payments*
Sources: Fannie Mae quarterly and annual public filings

As shown in Table 2, beginning in 2007 the Company began to recognize provisions for credit losses that far exceeded historical loss rates. Between 2003 and 2006, the credit loss ratio increased steadily from 0.9 to 2.2 bps as a percentage of the Company's average mortgage credit book of business. According to the FHFA House Price Index, housing prices continued to rise through July 2006 and then began a steady decline until

[4] Bps is an acronym for basis points. One basis point is 0.01 percent, or 1/10,000.

January 2009, as illustrated in the chart below. By 2007, the combination of home price declines and the risky 2005 to 2008 loans resulted in higher delinquency rates and increased loss severities. Consequently, Fannie Mae began to recognize unprecedented provisions for credit losses. The credit loss ratio reached 77.4 bps as a percentage of the Company's average mortgage credit book in 2010.

In the midst of home price declines and increasing credit loss provisions, nearly all of which related to the 2005 to 2008 loans, Fannie Mae was placed into conservatorship and entered into, through FHFA as its conservator, the PSPA. Table 2 illustrates the Company's rapid decline from a profitable entity with more than $40 billion in shareholders' equity into an entity that was losing substantial amounts of money and, absent the injection of $99.7 billion in capital by Treasury under the PSPA through June 30, 2011, would have had total liabilities well in excess of total assets. Additional details concerning GAAP-based shareholders' equity (deficit) are presented by quarter-end from March 2007 through June 2011 in Appendix A.

Valuation Approach

Accounting guidance

Under ASC 820, the fair value of the Senior Preferred Stock is the price that would be received by Treasury to sell the Senior Preferred Stock in an orderly transaction with market participants at the measurement date. In valuing the Senior Preferred Stock, we have considered the nature of this equity instrument, including its liquidation preference relative to debt and other equity, the price in a hypothetical transaction, the principal market, and the perspective of potential market participants.

As further explained below, we have estimated the value of the Stock in accordance with a hypothetical transaction, set out in ASC 820 as follows:

> The transaction to sell the asset…is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset…

ASC 820-10-20 defines market participants as buyers and sellers in the principal (or most advantageous) market for the asset or liability who possess all of the following characteristics:

- Independent of the reporting entities (that is, they are not related parties)
- Knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary
- Able to transact for the asset or liability
- Willing to transact for the asset or liabilities (that is, they are motivated but not forced or otherwise compelled to do so)

ASC 820-10-35-9 further states that

> The fair value of the asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity should identify characteristics that distinguish market participants generally, considering factors specific to all of the following:
>
> a. The asset or liability
> b. The principal (or most advantageous) market for the asset or liability
> c. Market participants with whom the reporting entity would transact in that market.

It is not likely that Fannie Mae would repurchase the Senior Preferred Stock. However, the stock may be offered to third parties because (i) the Stock is transferable and (ii) the Company is obligated by the terms of the certificate of designation of the stock to keep a record of current holders. In addition, each stock has its ratable share of the total liquidation preference, which facilitates the sale of the Stock to multiple market participants.

Market and regulatory environment of the GSEs

In February of this year, Treasury and the Department of Housing and Urban Development jointly issued a report to Congress entitled *Reforming America's Housing Finance Market.* In this report, to which we will refer hereinafter as the "white paper," the following paragraph was contained in the introduction:

> The Administration will work with the Federal Housing Finance Agency ("FHFA") to develop a plan to responsibly reduce the role of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") in the mortgage market and, ultimately, wind down both institutions. We recommend FHFA employ a number of policy levers – including increased guarantee fee pricing, increased down payment requirements, and other measures – to bring private capital back into the mortgage market and reduce taxpayer risk. As the market improves and Fannie Mae and Freddie Mac are wound down, it should be clear that the government is committed to ensuring that Fannie Mae and Freddie Mac have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations. We believe that under our current Preferred Stock Purchase Agreements (PSPAs), there is sufficient funding to ensure the orderly and deliberate wind down of Fannie Mae and Freddie Mac, as described in our plan.[5]

In a conference call with reporters on the day the white paper was released, Treasury Secretary Geithner commented that the transition to a new housing finance system would likely take five to seven years.[6] The white paper listed a number of policy goals that the Administration would seek to achieve through reform of the housing finance system, including:

- Winding down Fannie Mae and Freddie Mac on a responsible timeline by
  - Increasing guarantee fees to bring in more private capital

[5] "Reforming America's Housing Finance Market: A Report to Congress," U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development, February 2011, pg. 2.
[6] Woellert, Lorraine and Rebecca Christie, "Treasury Report Calls for Winding Down Fannie, Freddie," Bloomberg *Businessweek*, February 11, 2011.

 - Increasing private capital ahead of Fannie Mae and Freddie Mac guarantees
 - Reducing conforming loan limits
 - Winding down the investment portfolios of Fannie Mae and Freddie Mac
- Returning FHA to its traditional role as targeted lender of affordable mortgages
- Ensuring FHLB support for small- and medium-sized financial institutions
- Improving coordination among existing governmental housing finance programs[7]

The white paper expressed a commitment to preserving the position of the holders of debt issued by the GSEs, but it was virtually silent on the subject of preserving the value of the senior preferred stock.

More recently, Acting Director Edward DeMarco of FHFA addressed the American Mortgage Conference on the future of the conservatorship.[8] In his address, he stated:

> It ought to be clear to everyone at this point, given the Enterprises' losses since being placed into conservatorship and the terms of the Treasury's financial support agreements, that the Enterprises will not be able to earn their way back to a condition that allows them to emerge from conservatorship. In any event, the model on which they were built is broken beyond repair. Conservatorship allows the Enterprises to continue serving their public purpose while lawmakers determine the ultimate resolution of the conservatorships and the future legal structure for housing finance.
>
> Yet, after three years, there still is no clear direction as to what legal and institutional structures will replace the Enterprises and their central position in the housing finance market. (pp. 5-6)

He announced a number of initiatives that FHFA had taken to improve the functioning of the housing finance system while at the same time working to reduce the risks that exist beyond the normal business risks associated with guaranteeing new mortgages.

> One way to mitigate this risk is for the Enterprises' market presence to shrink, not only the size of their retained portfolio, which we are doing, but also the size of their credit guarantee book....
>
> ...[A] logical next step in conservatorship is to continue down the path already started of gradually increasing guarantee fee pricing to better reflect that which would be anticipated in a private, competitive market. Two words of caution are required. First, there is substantial effort long underway to bring stability to housing and housing finance, so such increases should not undermine those efforts. Second, we can model and make educated guesses about the price a purely competitive, private market would charge for a given set of mortgage credit characteristics presented by any given borrower, but we can't know this with certainty. For these reasons, it is my view that a series of periodic, gradual price increases makes more sense than one or two large price adjustments. (pp. 7-8)

Estimated value of the Senior Preferred Stock

We estimated the value of the Senior Preferred Stock using a discounted cash flow analysis. A discounted cash flow analysis requires a forecast of future periodic net cash flows over the discounted cash flow analysis

[7] White paper, pp. 12-15
[8] "The Conservatorships of Fannie Mae and Freddie Mac: Current and Future Operations," Edward J. DeMarco, Acting Director, Federal Housing Finance Agency speech before the American Mortgage Conference, Raleigh, North Carolina, September 19, 2011.

horizon, a discount rate from which present value factors are calculated, and, frequently, a capitalization rate to determine residual value at the end of the discounted cash flow analysis horizon.[9]

Cash flows
In our calculation of Fannie Mae's liquidity commitment, we analyzed and extended the forecasted cash flows for 2011 to 2015 that Fannie Mae provided to FHFA in September, based on input we received from Fannie Mae's forecasting team along with additional, more granular financial data for supporting the figures comprising economic net interest margin and credit losses. The Company forecasts its performance and anticipated need for financial assistance under three scenarios based on Moody's house price paths – a base case, an optimistic or "stronger near-term recovery" case, and a stress or "deeper second recession" case.

Moody's describes the optimistic scenario as being consistent with "a 10 percent probability that the economy will perform better than this scenario…and a 90 percent probability that it will perform worse." Similarly, the stress scenario is consistent with "a 90 percent probability that the economy will perform better…and a 10 percent probability that it will perform worse."[10] Because the base case is by definition the most likely outcome, we have used those forecasts as the foundation for our valuation of the Senior Preferred Stock. We are not aware of anything that would indicate that the Moody's house price forecasts have changed since the time of their release in a manner that would have a material impact on the forecasts.

Building on the forecasted cash flows provided by Fannie Mae's forecasting team, we extended the cash flows from September 30, 2015 through Treasury's second quarter of 2026 (March 31, 2026), when we estimate the maximum liquidity commitment to the Company will become entirely depleted. We assumed the final dividend payment will be made three months later (i.e., on June 30, 2026) and that one year after, or June 30, 2027, a recovery will be realized on the buyers' liquidation preference.

A complicating issue for the Senior Preferred Stock is the interaction between liquidity payments and the ongoing liquidity preference of the Stock and the amount of dividends associated with that liquidity preference. We have assumed that the potential buyer would acquire the dividend stream related to the balance of the liquidity preference as it existed on the measurement date. Based on discussions with representatives within Treasury's Office of Domestic finance, we further assumed that Treasury would agree not to charge a commitment fee to the Company in order to increase the amount it receives for converting the dividend receipt stream to current cash.

We have attached as Exhibit 1 an excerpt from the Liquidity Commitment memo illustrating the expected cash flows, including net comprehensive income, changes in the Senior Preferred shares, Senior Preferred dividend payments, and shareholders' deficit. The Company will eventually be forced into receivership, with FHFA acting as the receiver, once the liquidity commitment becomes exhausted and the Company is no longer able to generate sufficient cash to pay the Senior Preferred dividend. The Director of FHFA must place the Company into receivership if the Director determines that the Company's liabilities exceed its assets for sixty days or the Company has not been paying its debts as they become due for sixty days.

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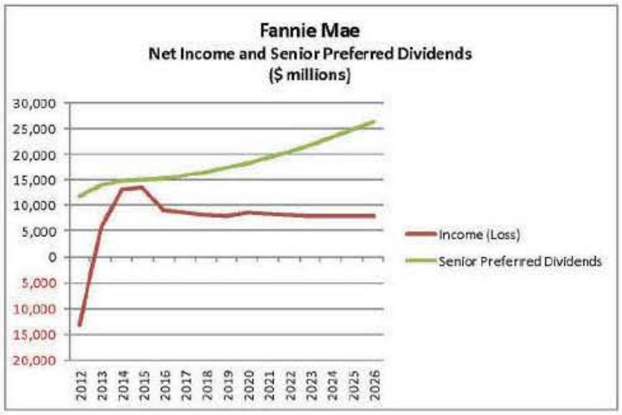
[9] In a horizon analysis, the timeframe of the discounted cash flows is for a period of time that ends on a date (the horizon) that differs from the investment's contractual maturity.
[10] *Projections of the Enterprises' Financial Performance*, released by the Federal Housing Finance Agency, October 2010, pg. 6.

The liquidation preference of the Senior Preferred Stock was $104.8 billion as of September 30, 2011. In the contemplated hypothetical transaction, we assumed the buyers would acquire the dividend stream associated with $104.8 billion of liquidation preference until the time when the Company no longer would be able to pay the dividends on the Senior Preferred Stock because the Company will have exhausted its liquidity commitment funding. It is reasonable to expect that Fannie Mae will continue its existing policy of paying dividends in cash because the maximum amount of the Commitment otherwise would be reached at an earlier date.

Discount Rate

From the measurement date through December 31, 2012, Treasury has no limit on its Commitment to the Company. Effectively, the Company's dividend obligation is guaranteed by the U.S. government during this period, and we used the Treasury rate as the discount rate for this period.



From December 31, 2012 through September 30, 2018, we assume the buyer would conclude that the forecasted remaining liquidity commitment at December 31, 2012 of $128 billion[11] would mitigate risk during this period of time.

Forecasted net interest income gradually shrinks as the Company's mortgage assets portfolio decreases in fulfillment of the terms of the PSPA, and the Company's net income remains flat. From 2019 forward, earnings are increasingly overwhelmed by dividend payments as the Company is forced to draw on the liquidity commitment to fund the Senior Preferred dividend payments. The chart above illustrates forecasted income and dividends until the exhaustion of the liquidity commitment.

During the time from 2013 to September 2018, though the Company is not in imminent danger of depleting its remaining liquidity commitment, it nonetheless faces a high degree of uncertainty surrounding the timing and circumstances of its exit from conservatorship. To reflect this risk, we used a discount rate of 7.755 percent, which is consistent with the average yield on financial service sector preferred shares based on the Bank of America Merrill Lynch U.S. Preferred Stock Fixed Rate Index at the valuation date. (See Exhibit 2 for a calculation of the discount rate and the underlying data.)

After September 30, 2018, we used a discount rate of 14.568 percent to reflect the higher degree of uncertainty of forecasted earnings, the increased likelihood of exhausting the Treasury maximum liquidity commitment, and the vulnerability of the Company to highly uncertain political and economic conditions. To determine the discount rate, we summarized data from the Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index, adjusting for tenor and the preferred tax benefit. Exhibit 3 contains the

[11] $264.5 billion total liquidity commitment less $136.5 billion of cumulative drawdowns at 12.31.2012

calculation of the discount rate and our adjustment for tenor. The underlying data are provided in Appendix B.

We reviewed market instruments for corporate issuers that were highly correlated to the performance of the residential mortgage market as a means of comparison for the long-term risk of Fannie Mae's performance on the Senior Preferred shares. We noted that the mortgage guarantee companies, Mortgage Guaranty Insurance Company and Radian Group, had credit default swap contracts quoted at annual spreads of 1825 bps and 2475 bps, respectively.

In addition, we noted Bank of America's issuance of $5 billion of series T 6 percent preferred shares in August 2011. Based on the terms of the transaction, we calculated an implied dividend yield of approximately 18.69 percent.[12] The rates on these instruments are not inconsistent with the long-term yield we used in our cash flow model.

Recovery Value

At the end of the cash flow horizon, we have included a recovery of part of the buyers' liquidation preference. We estimate the recovery at approximately $13.7 billion, or 13.1 percent of the amount of liquidity preference sold to the buyer. This value may be realized through distributions made by a receiver or by the buyers selling their interest in allocable residual cash flows after the ten percent dividend of the senior preferred stock has been renegotiated or set aside by the receiver. For the period of time from 1982 through 2008, Moody's estimated recovery rates of 11.7 percent in 2008 and 13.1 percent for non-trust preferred stocks, as measured by post-default prices.[13] Our 13.1 percent recovery rate estimate is consistent with Moody's estimates.

We estimated recovery based on our projection of the Company's forecasted annual cash flow at the time of the expected default using a 14.568 percent yield requirement, described in the *Discount Rate* section of this report, for disposition of this residual interest and the amount of total Senior Preferred liquidation preference at the time of default. Assuming annual cash flow of $7.8 billion, which approximates the annual income Fannie Mae is expected to earn at the time of its exit from conservatorship, we estimate a 13.1 percent recovery as shown in the table to the right.[14]

Liquidation Preference Recovery
($ in millions)

Ongoing pretax income	A	7,800
Income taxes	B=A* tax rate	2,730
Ongoing net income	C=A-B	5,070
Required yield	D	14.568%
Value of the senior preferred shares	E=C/D	34,802
Liquidation preference	F	265,500
Recovery rate	G=E/F	13.108%
Liquidation preference sold to buyer	H	104,800
Recovery of buyer's liquidation preference	J=G*H	13,737

Valuation

With input from the Company's forecasting team, we extended the cash flows for the amount of

[12] The calculation assumes $700 million in 10-year warrants with a $7.14 strike price valued at $4.85 per share.
[13] "Corporate Default and Recovery Rates, 1920 – 2008," Exhibit 5, Moody's Investors Service, February 2009. In its February 2011 version of this annual default study, Moody's did not provide any information for preferred stocks.
[14] In our projections, we assumed that income taxes prior to default will e offset by tax loss carry-forwards and that the Company will accrue and pay income taxes after default.

dividends associated with the Senior Preferred Shares at the measurement date until the liquidity commitment is exhausted, which occurs in 2026, according to our calculations described in the Liquidity Commitment memo. As summarized in Exhibit 4, we estimate that buyers would receive $168 billion in dividends and $13.7 billion in residual value or recovery. We discounted these projected cash flows to present values using the three discount rates representing three separate periods of risk, as described above in the *Discount Rate* section. The result of our valuation is $77,909,000,000.

We also performed an analysis of the Company's projected cash flows assuming that the dividend preference were eliminated and dividends on the PSPA were reduced to levels equal to expected future earnings. Because of the much higher level of uncertainty associated with dividends in such a scenario, we used a risky rate, commensurate with returns of common stock, for the entire time horizon. The discounted value under this second scenario provides a value of about $53 billion, without consideration for the payment of federal income taxes. However, because there have been no changes to the terms of the PSPA that would eliminate the dividend preference, nor have there been any formal policies that would make such an outcome likely, we have not placed any weight on this calculation.

Other issues considered

Control premium

The holders of the Senior Preferred Stock have no voting powers and cannot control the company. In addition, no control premium exists unless there is a benefit of control. It is widely accepted that the following are among the prerogatives of control ownership:

- setting policy and changing the course of business;
- acquiring or liquidating assets;
- making acquisitions, liquidating, dissolving, selling out, or recapitalizing the company;
- selling or acquiring treasury shares;
- registering the company's stock for a public offering;
- declaring and paying dividends, changing the articles of incorporation or bylaws.[15]

These prerogatives of control ownership would not inure to a buyer of the Senior Preferred Stock. FHFA, acting as conservator, retains most of the usual control powers. In addition, the Company operates under a federal charter, which includes certain missions that are incompatible with conventional for-profit objectives, and the terms of the PSPA include numerous prohibitions that usurp many control prerogatives.

The Company is under conservatorship, with FHFA acting as conservator. The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether the Company will continue in its current form following conservatorship, or what changes to its business structure will be made during or following the conservatorship. The rights of the shareholders are suspended during the conservatorship, and the conservator may take any actions it determines are necessary and appropriate to carry on the Company's business and preserve and conserve its assets and property. The conservator's powers include the ability to transfer or sell its assets or liabilities, generally without any approval, assignment of rights, or consent of any party.

[15] For example, see Pratt, Shannon P., *The Market Approach to Valuing Businesses*, John Wiley & Sons, 2001, pp. 137-138.

There is no assurance that the Company will be able to repay Treasury's liquidity payments or otherwise terminate the PSPA or retire the Senior Preferred shares. Treasury's Senior Preferred shares have a liquidation preference to the common and preferred shareholders. As noted above in the *Senior Preferred Stock Purchase Agreement* section, the PSPA contains covenants that significantly restrict the Company's business activities and require the prior written consent of Treasury before it can take certain actions.

In terms of adding value through the ability to change or control the Company's operations, no control premium is supportable based on the factors discussed above, and accordingly, we did not assign a control premium to the Treasury's holdings of the Senior Preferred shares.

Dilution
The Senior Preferred Stock has a priority both as to dividend and distributions over all other classes of equity. In addition, the covenants of the PSPA prevent any unauthorized action that would disfavor the Stock, including limits on indebtedness, prohibition of asset sales, prohibition of the issuance of equity interests (except those related to the PSPA), and prohibition of mergers and acquisitions. The current Senior Preferred shares will be diluted by future advances, and our methodology captures this dilution in the way we quantify the final recovery at the time the Company exhausts the liquidity commitment.

FHFA lawsuits against leading financial institutions
In late July and early September, FHFA filed lawsuits against 18 financial institutions, certain of their officers, and various unaffiliated lead underwriters, alleging violations of federal securities laws and common law in the sale of residential private-label mortgage-backed securities to the GSEs. Collectively these lawsuits seek billions of dollars in damages on behalf of the GSEs, but as of the measurement date, there was insufficient certainty as to the outcome of the lawsuits, and we did not consider the impact of any potential settlements on behalf of Fannie Mae in our valuation of the Senior Preferred shares.

Federal income taxes
We have assumed that the Company will not pay federal income taxes, and the Company is exempt from state and local taxes. Because of the Company's improved earnings forecasts, we considered including within our valuation a reduction of earnings by the estimated income taxes the Company might be required to pay after tax loss carry-forwards were exhausted. We did not perform a detailed review of the Company's current income tax position, but we believe it would be very unlikely that any federal income taxes would be paid prior to 2017. The payment of taxes would affect the payment of dividends by shortening the number of years that dividends could be paid before the liquidity commitment is depleted because the Company would draw liquidity payments to pay both dividends and federal taxes. Our sensitivity testing demonstrated that the effect on the valuation of the Senior Preferred shares was minimal because of the very low value of cash flows at the end of the time horizon, and because of the high degree of uncertainty surrounding the future status of the Company, we did not include calculations of federal income taxes in our valuation.

Valuation Qualifications

E. Bradley Wilson, Managing Partner of Audit – Global Public Sector, Grant Thornton LLP
Mr. Wilson is the Managing Partner of Audit in Grant Thornton's Global Public Sector, with over thirty years of experience in the audit and evaluation of federal government and commercial entities' financial statements, internal controls, accounting, financial management systems, and operations. This includes evaluating

business processes, procedures, and systems for effectiveness of internal controls and compliance with laws and regulations. He has extensive experience in financial management with respect to reporting, accounting, budgeting, and disbursing.

Mr. Wilson was elected to the Grant Thornton U.S. partnership board for two terms, where his responsibilities included providing governance and direction to the Firm. For two years he served as the Chief Administrative Officer of Grant Thornton, following a number of years of serving as the top technical partner in the Minneapolis office of Grant Thornton.

Mr. Wilson was awarded a B.S. degree from Brigham Young University and an M.B.A. degree from Harvard University.

Justin Burchett, Ph.D., Senior Manager, Grant Thornton LLP
Justin has over ten years of experience in the financial services industry. He is responsible for the analysis and valuation of a variety of financial instruments for clients in the financial services industry, including hedge funds, banks, private equity firms, real estate investment trusts, and specialty finance companies.

Prior to joining Grant Thornton, Justin was a Managing Director and founding partner at Structured Credit Holdings, where he was responsible for business development and asset origination of structured finance securities and fixed income derivatives. Prior to his work at Structured Credit, he was a Vice-president at Radian Group in the Global Structured Products department where he structured, originated, and valued a variety of credit instruments, including collateralized debt obligations, credit derivatives, asset-backed securities, and mortgage-backed securities. Justin was also an Associate at Hanover Capital Mortgage Holdings, a residential mortgage Real Estate Investment Trust. While at Hanover, Mr. Burchett modeled and analyzed non-Agency residential mortgage-backed securities.

Justin was awarded a B.A. degree from Pomona College and an M.A. degree and Ph.D. from Stanford University.

Anne Eberhardt, Senior Manager, Grant Thornton LLP
Anne has been the manager of Grant Thornton's valuation services to Treasury since the inception of the PSPA. She has confirmed valuations of preferred stock and warrants issued pursuant to TARP for Grant Thornton's audit clients nationwide. She also assists with complex valuations, credit models, and valuation of distressed loan assets.

Anne has extensive experience with the GSEs, having performed a year-long specialized assessment of all single-family loan programs for one of the GSEs, reviewing its contracts with primary loan originators, loan service providers, and trusts. In addition, she developed and maintained the information-tracking system to manage the assets of four failed financial institutions in the Firm's capacity as the receiver/liquidator. She also has experience with evaluating limited partnerships organized under the Low Income Housing Tax Credit program to determine the FIN 46 consolidation requirements of the sponsoring entity.

Anne was awarded a B.S. degree and an M.B.A. degree from Brigham Young University.

Appraiser Certification

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this detailed appraisal report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the assumptions and limiting conditions reported herein, and represent our personal, impartial, independent, unbiased, objective professional analyses, opinions, and conclusions.
- We have no present or prospective financial or other interest in the business or property that is the subject of this report, and we have no personal financial or other interest with respect to the business, property or parties involved.
- We have no bias with respect to the business or property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is fee-based and is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the outcome of this valuation, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that data.
- Our analyses, opinions, conclusions and this comprehensive appraisal report were developed in conformity with the 2008 American Institute of Certified Public Accountants *Statement of Standards for Valuation Services No. 1* and the 2010-2011 Uniform Standards of Professional Appraisal Practice.
- The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
- The valuation analyst has no obligation to update the report or the opinion of value for information that comes to his/her attention after the date of the report.
- This report and analysis were prepared under the direction of Brad Wilson, Partner, with significant professional assistance from David Dufendach, Partner, Justin Burchett, Senior Manager, and Anne Eberhardt, Senior Manager.
- No one other than the staff of Grant Thornton LLP provided any professional assistance to the individual(s) signing this report.

E. Bradley Wilson, CPA
Managing Partner of Audit – Global Public Sector
Grant Thornton LLP

Assumptions and Limiting Conditions

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this detailed appraisal report (report) are summarized below. Other assumptions are cited elsewhere in this report.

1 The conclusion of value arrived at herein pertains only to the subject financial instrument, the stated value standard (fair value), as of the stated valuation date, and only for the stated valuation purpose(s).

2 Financial statements and other related information provided by the Company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. Grant Thornton has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3 Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

4 If prospective financial information approved by the Company's management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected; achievement of the forecast results is dependent on actions, plans, and assumptions of management.

5 The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

6 This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. The Treasury Department may present to parties directly involved in the audit of its financial statements, subject to confidentiality. Our work and this report may not be used for any other purpose or by any other party for any purpose without our prior written consent.

7 Grant Thornton LLP will not provide consent to be a named expert in any filings, including, without limitation, any filings with the U.S. Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended.

8 The report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of Grant Thornton, based on information furnished to them by the Company and other sources.

9 The asset that is the subject of this value estimate is unique both as to its nature and size and is without any known regular arm's length market; accordingly, there is considerable uncertainty both as to how it would be disposed of and the value at which it could be sold.

10 Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication, including but not limited to the Securities and Exchange Commission or other governmental agency or regulatory body, without the prior written consent and approval of Grant Thornton.

11 Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of Grant Thornton unless previous arrangements have been made in writing.

12 Grant Thornton is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. Grant Thornton does not conduct or provide environmental assessments and has not performed one for the subject property.

13 Grant Thornton has not determined independently whether the Company is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) or the scope of any such liabilities. Grant Thornton's valuation takes no such liabilities into account, except as they have been reported to Grant Thornton by the Company or by an environmental consultant working for the Company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, Grant Thornton has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

14 Grant Thornton has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

15 No change of any item in this appraisal report shall be made by anyone other than Grant Thornton, and we shall have no responsibility for any such unauthorized change.

16 Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

17 We have conducted interviews with the current management of the Company concerning the past, present, and prospective operating results of the company.

18 Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

19 Unless otherwise stated in the appraisal, the valuation has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the valuation date.

20 We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

21 Unless stated otherwise in this report, we express no opinion as to: 1) the tax consequences of any transaction which may result, 2) the effect of the tax consequences of any net value received or to be received as a result of a transaction, and 3) the possible impact on the market value resulting from any need to effect a transaction to pay taxes.

22 Our work was performed and this report is in compliance with the reporting standards under the AICPA's *Statement of Standards for Valuation Services No. 1*.

Exhibits

Exhibit 1
Estimated Cash Flows - Fannie Mae
Fiscal Years Ending September 30, 2011 to 2026
($ in millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Economic net interest margin	14,318.5	16,061.2	17,854.6	16,680.8	15,473.4	14,074.5	13,535.1	13,069.5	12,936.9	13,576.9	13,444.5	13,159.7	13,088.0	13,077.7	13,090.7	12,996.7
Fee and other income	962.3	590.1	738.7	776.9	802.5	841.0	881.4	923.7	968.0	1,014.5	1,063.2	1,114.2	1,167.7	1,223.7	1,282.5	1,344.0
OTTI	(158.3)	(20.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) from partnerships	(37.9)	24.5	19.9	(0.5)	231.0	231.0	231.0	231.0	231.0	231.0	231.0	231.0	231.0	231.0	231.0	231.0
Provision for credit losses	(28,769.1)	(26,298.2)	(10,124.6)	(1,654.5)	(516.1)	(3,576.2)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)	(3,575.0)
Administrative expenses	(2,459.0)	(2,546.9)	(2,152.1)	(1,879.9)	(1,749.8)	(1,784.8)	(1,820.5)	(1,856.9)	(1,894.1)	(1,931.9)	(1,970.6)	(2,010.0)	(2,050.2)	(2,091.2)	(2,133.0)	(2,175.7)
Other non-interest expenses	(1,002.8)	(1,001.2)	(909.4)	(839.6)	(712.4)	(726.7)	(741.2)	(756.0)	(771.2)	(786.6)	(802.3)	(818.4)	(834.7)	(851.4)	(868.5)	(885.8)
Net comprehensive income (loss)	(17,146.2)	(13,090.4)	5,427.1	13,083.2	13,528.5	9,058.8	8,510.7	8,036.2	7,895.6	8,528.8	8,390.8	8,101.5	8,026.7	8,014.8	8,027.7	7,935.2
Beginning shareholders' equity (deficit)	(2,447.2)	(10,035.9)	(6,228.8)	(3,416.8)	(2,243.5)	(2,497.5)	(1,638.7)	(1,883.0)	(2,256.8)	(2,436.2)	(2,539.9)	(2,889.1)	(3,252.6)	(3,553.4)	(3,963.6)	(4,298.4)
Comprehensive income (loss)	(17,146.2)	(13,090.4)	5,427.1	13,083.2	13,528.5	9,058.8	8,510.7	8,036.2	7,895.6	8,528.8	8,390.8	8,101.5	8,026.7	8,014.8	8,027.7	7,935.2
Change in senior preferred	18,700.0	28,700.0	11,400.0	2,900.0	1,200.0	7,000.0	7,100.0	8,200.0	9,400.0	9,800.0	10,700.0	12,100.0	13,500.0	14,800.0	16,400.0	7,500.0
Senior preferred dividends	(9,142.5)	(11,802.5)	(14,015.0)	(14,810.0)	(14,982.5)	(15,200.0)	(15,855.0)	(16,610.0)	(17,475.0)	(18,432.5)	(19,440.0)	(20,565.0)	(21,827.5)	(23,225.0)	(24,762.5)	(26,282.5)
Ending shareholders' equity (deficit)	(10,035.9)	(6,228.8)	(3,416.8)	(2,243.5)	(2,497.5)	(1,638.7)	(1,883.0)	(2,256.8)	(2,436.2)	(2,539.9)	(2,889.1)	(3,252.6)	(3,553.4)	(3,963.6)	(4,298.4)	(15,145.7)
Drawdowns at 9.30.2010	85,100															
Senior preferred cumulative drawdowns	103,800	132,500	143,900	146,800	148,000	155,000	162,100	170,300	179,700	189,500	200,200	212,300	225,800	240,600	257,000	264,500
Amended commitment limit	n.a	n.a	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500	264,500

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Exhibit 2

The Bank of America Merrill Lynch U.S. Preferred Stock Fixed Rate Index

Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yield to Worst
'01903Q20'	US01903Q2075	ALLIED CAP CORP	ARCC	6.875	4/15/2047	230.00	89.40	7.885
'04010L20'	US04010L2025	ARES CAPITAL COR	ARCC	7.750	10/15/2040	200.00	97.60	8.109
'05518T20'	US05518T2096	BAC CAP TR VIII	BAC	6.000	8/25/2035	530.00	77.88	8.171
'05518E20'	US05518E2028	BAC CAP TRST III	BAC	7.000	8/15/2032	500.00	85.80	8.557
'05518520'	US0551852017	BAC CAP TRST IV	BAC	5.875	5/3/2033	375.00	76.92	8.276
'05518720'	US0551872072	BAC CAP TRUST I	BAC	7.000	12/15/2031	575.00	86.40	8.440
'05518820'	US0551882055	BAC CAP TRUST II	BAC	7.000	2/1/2032	900.00	85.88	8.598
'05518420'	US0551842042	BAC CAP TRUST V	BAC	6.000	11/3/2034	517.50	77.64	8.273
'05518920'	US0551892039	BAC CAP TRUST X	BAC	6.250	3/29/2055	900.00	78.56	8.031
'05633T20'	US05633T2096	BAC CAPITAL TR	BAC	6.875	8/2/2055	862.50	83.84	8.360
'06050560'	US0605056094	BANK OF AMER CRP	BAC	5.875	12/15/2033	157.50	87.63	7.000
'06050550'	US0605055005	BANK OF AMER CRP	BAC	5.500	7/15/2033	125.00	83.84	7.060
'06050540'	US0605054016	BANK OF AMER CRP	BAC	6.500	10/15/2032	225.00	92.80	7.297
'06739F39'	US06739F3901	BARCLAYS BK PLC	BACR	6.625	12/31/2049	750.00	78.20	8.504
'06739H36'	US06739H3628	BARCLAYS BK PLC	BACR	8.125	12/31/2049	2,650.00	92.44	8.824
'06739H51'	US06739H5110	BARCLAYS BK PLC	BACR	7.750	12/31/2049	1,150.00	88.24	8.817
'06739H77'	US06739H7769	BARCLAYS BK PLC	BACR	7.100	12/31/2049	1,375.00	84.56	8.428
'05531B20'	US05531B2016	BB&T CAP TRST VI	BBT	9.600	8/1/2064	575.00	106.20	7.773
'05531H20'	US05531H2085	BB&T CAP TST VII	BBT	8.100	11/1/2064	350.00	103.60	7.277
'05530J20'	US05530J2050	BB&T CAPITAL TRU	BBT	8.950	9/15/2063	450.00	105.00	8.524
'14041L20'	US14041L2043	CAPITAL ONE CAP	COF	7.500	6/15/2066	345.00	100.88	7.459
'17311U20'	US17311U2006	CITIGROUP CAP	C	7.250	8/15/2067	569.30	97.00	7.503
'17310L20'	US17310L2016	CITIGROUP CAP	C	6.450	12/31/2066	953.70	88.28	7.326
'17306620'	US1730662004	CITIGROUP CAP IX	C	6.000	2/14/2033	846.90	86.63	7.313
'17306420'	US1730642055	CITIGROUP CAP X	C	6.100	9/30/2033	368.90	86.38	7.356
'17310G20'	US17310G2021	CITIGROUP CAP XV	C	6.500	9/15/2066	630.30	90.28	7.239
'17308520'	US1730852001	CITIGROUP CAP XX	C	7.875	12/15/2067	442.70	100.80	7.479
'17306N20'	US17306N2036	CITIGROUP CAPVII	C	7.125	7/31/2031	896.90	96.16	7.590
'17309E20'	US17309E2000	CITIGROUP CAPXIV	C	6.875	6/30/2066	305.70	94.32	7.299
'17306R20'	US17306R2040	CITIGROUP VIII	C	6.950	9/15/2031	1,091.30	93.80	7.585
'17311H20'	US17311H2094	CITIGROUP XVII	C	6.350	3/15/2067	701.20	88.52	7.215
'22238E20'	US22238E2063	COUNTRYWIDE IV	BAC	6.750	4/1/2033	500.00	77.80	9.331
'22238820'	US2223882091	COUNTRYWIDE V	BAC	7.000	11/1/2036	1,495.00	77.64	9.461
'22544820'	US2254482084	CREDIT SUISSE GU	CS	7.900	12/31/2049	1,525.00	102.13	6.641
'25153U20'	US25153U2042	DB CAP FNDG VIII	DB	6.375	12/31/2049	600.00	84.25	7.684
'25154D10'	US25154D1028	DB CAP FNDG X	DB	7.350	12/31/2049	805.00	89.63	8.231
'25153X20'	US25153X2080	DB CAP TRST II	DB	6.550	12/31/2049	800.00	81.75	8.080
'25154A10'	US25154A1088	DB CAP TRUST III	DB	7.600	12/31/2049	1,975.00	95.12	8.059
'25150L10'	US25150L1089	DB CONT CAP TR V	DB	8.050	12/31/2049	1,385.00	97.52	8.257

Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yield to Worst
'25153Y20'	US25153Y2063	DEUTSCHE BK CAP	DB	6.625	12/31/2049	1,150.00	84.56	7.901
'31678V20'	US31678V2060	FIFTH THIRD CAP	FITB	7.250	11/15/2057	862.50	100.88	7.187
'31678W20'	US31678W2044	FIFTH THIRD CAP	FITB	7.250	8/15/2057	575.00	100.60	7.207
'33889X20'	US33889X2036	FLEET CAP T VIII	BAC	7.200	3/15/2032	534.00	86.88	8.602
'33889Y20'	US33889Y2019	FLEET CAP TR IX	BAC	6.000	8/1/2033	175.00	80.80	7.958
'38144X50'	US38144X5005	GOLDMAN SACHS GP	GS	6.200	12/31/2049	800.00	96.13	6.509
'41456720'	US4145672063	HARRIS PFD CAP	HARRIS	7.375	12/31/2049	250.00	100.88	7.312
'40429C60'	US40429C6075	HSBC FINANCE	HSBC	6.360	12/31/2049	575.00	82.00	7.783
'49327Q20'	US49327Q2049	KEYCORP CAP IX	KEY	6.750	12/15/2066	330.80	100.50	5.748
'49327R10'	US49327R1032	KEYCORP CAPITAL	KEY	8.000	3/15/2068	568.10	101.00	7.526
'55292C20'	US55292C2035	M&T CA TR IV	MTB	8.500	1/31/2068	350.00	102.38	6.920
'55266J20'	US55266J2006	MBNA CAPITAL D	BAC	8.125	10/1/2032	300.00	95.00	8.861
'55270B20'	US55270B2016	MBNA CAPITAL E	BAC	8.100	2/15/2033	200.00	96.38	8.577
'59019920'	US5901992041	MER LYNCH CAP TR	BAC	6.450	12/15/2066	1,050.00	77.96	8.330
'59025D20'	US59025D2071	MER LYNCH CAP TR	BAC	7.375	9/15/2062	750.00	84.04	8.830
'59024T20'	US59024T2033	MERRILL LYNCH CA	BAC	6.450	6/15/2062	950.00	74.36	8.674
'59021F20'	US59021F2065	ML CAP TRUST III	BAC	7.000	12/31/2049	750.00	83.75	8.360
'59021G20'	US59021G2049	ML CAP TRUST IV	BAC	7.120	12/31/2049	400.00	83.64	8.515
'59021K20'	US59021K2050	ML CAP TRUST V	BAC	7.280	12/31/2049	850.00	85.20	8.547
'61750K20'	US61750K2087	MORGAN ST CAP TR	MS	6.600	10/15/2066	1,100.00	86.24	7.795
'61746620'	US6174662063	MORGAN ST CAP V	MS	5.750	7/15/2033	500.00	81.24	7.635
'61746120'	US6174612076	MORGAN ST CAP VI	MS	6.600	2/1/2046	862.50	88.36	7.653
'61746020'	US6174602093	MORGAN ST CP III	MS	6.250	3/1/2033	880.00	83.32	7.925
'61746220'	US6174622059	MORGAN ST CP IV	MS	6.250	4/1/2033	620.00	83.28	7.865
'61753R20'	US61753R2004	MORGAN STANLEY	MS	6.450	4/15/2067	825.00	87.20	7.531
'63540U20'	US63540U2078	NAT CITY CAP IV	PNC	8.000	8/30/2067	517.50	101.88	7.852
'63540X20'	US63540X2018	NATL CITY CAP TR	PNC	6.625	5/25/2067	500.00	101.76	6.510
'63540T20'	US63540T2006	NATL CITY CAP TR	PNC	6.625	11/15/2036	750.00	101.12	6.552
'69350H20'	US69350H2022	PNC CAPIAL TRST	PNC	6.125	12/15/2033	300.00	100.25	6.127
'69350S20'	US69350S2086	PNC CAPITAL TRST	PNC	7.750	3/15/2068	450.00	103.24	5.662
'693475AK'	US693475AK12	PNC FINANCIAL	PNC	6.750	8/1/2021	1,000.00	95.77	7.359
'80281R70'	US80281R7061	SANTANDER FIN PF	SANTAN	6.800	12/31/2049	161.80	89.88	7.566
'80281R80'	US80281R8051	SANTANDER FIN PF	SANTAN	6.500	12/31/2049	109.50	78.96	8.347
'78442P30'	US78442P3047	SLM CORP	SLMA	6.000	12/15/2043	300.00	80.48	7.660
'80282K20'	US80282K2050	SOVEREIGN BANCRP	SANTAN	7.300	12/31/2049	113.90	92.00	8.016
'87227320'	US8722732067	TCF CAPITAL I	TCB	10.750	8/15/2068	115.00	103.28	9.620
'92856Q20'	US92856Q2030	VNB CAPITAL TRST	VLY	7.750	12/15/2031	152.30	101.13	7.673
'92977V20'	US92977V2060	WACHOVIA PFD FND	WFC	7.250	12/31/2049	750.00	102.25	6.962
'94979P20'	US94979P2039	WELLS FARGO CAP	WFC	5.625	4/8/2034	500.00	100.20	5.607
'94974687'	US9497468796	WELLS FARGO CO	WFC	8.000	12/31/2049	2,150.40	110.32	6.061
		Average			11/8/2048			7.755

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Exhibit 3
Preferred Stock Return and Bond Return Equivalency Calculation
Source: The Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index

Average CCC bond yield	**A**	17.306
Tax rate	**B**	0.350
Taxes	**C=A*B**	6.057
After tax return	**D=A-C**	11.249
Tax adjusted yield for preferred stocks	**E=D/(1-0.105)[1]**	12.568
Additional spread for specific risk	**F**	2.000
Concluded yield	**G**	14.568
Proof:		
Preferred stock yield	**H**	12.568
Special tax deduction rate	**J**	0.700
Special tax deduction	**K=H*J**	8.798
Taxable investment return	**L=H-K**	3.770
Tax rate	**B**	0.350
Tax on investment return	**M=L*B**	1.320
After tax return	**N=H-M = D**	11.249

[1] 0.105 = (1-0.7)*0.35

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Exhibit 4
Valuation of Treasury's Senior Preferred Stock in Fannie Mae, as of September 30, 2011
($ in millions)

Date	Discount Period (in years)	Projected Liquidity Payments	Liquidity Preference[1]	Total Dividends	Dividends Assigned to Buyer(s)	Liquidation Preference Recovery	Buyers' Cash Flows	Treasury Rate[2]	Discount Rate	Present Value Factor	Present Values
30-Sep-11			104,800								
30-Sep-12	0.63	28,700	133,500	11,803	10,480	-	10,480	0.068%	0.068%	0.99957	10,476
31-Dec-12	1.25	4,000	137,500	3,504	2,620	-	2,620	0.153%	0.153%	0.99808	2,615
30-Sep-13	1.75	7,400	144,900	10,511	7,860	-	7,860	0.212%	7.755%	0.87737	6,896
30-Sep-14	2.63	2,900	147,800	14,810	10,480	-	10,480	0.338%	7.755%	0.82182	8,613
30-Sep-15	3.63	1,200	149,000	14,983	10,480	-	10,480	0.535%	7.755%	0.76267	7,993
30-Sep-16	4.63	7,000	156,000	15,200	10,480	-	10,480	0.808%	7.755%	0.70768	7,416
30-Sep-17	5.63	7,100	163,100	15,855	10,480	-	10,480	1.078%	7.755%	0.65671	6,882
30-Sep-18	6.63	8,200	171,300	16,610	10,480	-	10,480	1.316%	7.755%	0.60945	6,387
30-Sep-19	7.63	9,400	180,700	17,475	10,480	-	10,480	1.514%	14.568%	0.35427	3,713
30-Sep-20	8.63	9,800	190,500	18,433	10,480	-	10,480	1.671%	14.568%	0.30913	3,240
30-Sep-21	9.63	10,700	201,200	19,440	10,480	-	10,480	1.843%	14.568%	0.26980	2,827
30-Sep-22	10.63	12,100	213,300	20,565	10,480	-	10,480	1.957%	14.568%	0.23549	2,468
30-Sep-23	11.63	13,500	226,800	21,828	10,480	-	10,480	2.022%	14.568%	0.20555	2,154
30-Sep-24	12.63	14,800	241,600	23,225	10,480	-	10,480	2.089%	14.568%	0.17936	1,880
30-Sep-25	13.64	16,400	258,000	24,763	10,480	-	10,480	2.158%	14.568%	0.15654	1,641
30-Jun-26	14.51	7,500	265,500	19,712	7,500	-	7,500	2.223%	14.568%	0.13900	1,042
30-Jun-27	15.51	-	265,500	-	-	13,737	13,737	2.297%	14.568%	0.12132	1,667
		160,700		268,714	154,220		167,957				77,909

[1] Includes the original $1 billion liquidity preference
[2] Treasury rates are contained in Appendix C.

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Appendix A

Quarterly Financial Information

January 1, 2007 through June 30, 2011

Appendix A

Fannie Mae Quarterly Shareholders' Equity (Deficit), Net Income (Loss), and Cash Provided by (Used in) Operations, January 1, 2007 through June 30, 2011

($ in millions)

					Consolidation of Trusts					Conservatorship					LiquidityCrisis			
Description	**30-Jun-11**	**31-Mar-11**	**31-Dec-10**	**30-Sep-10**	**30-Jun-10**	**31-Mar-10**	**31-Dec-09**	**30-Sep-09**	**30-Jun-09**	**31-Mar-09**	**31-Dec-08**	**30-Sep-08**	**30-Jun-08**	**31-Mar-08**	**31-Dec-07**	**30-Sep-07**	**30-Jun-07**	**31-Mar-07**
Opening shareholders' deficit	(8,500)	(2,599)	(2,527)	(1,482)	(8,451)	(15,372)	(15,065)	(10,710)	(19,066)	(15,314)	9,276	41,226	38,836	44,011	39,922	39,670	41,431	41,506
Accounting changes	-	-	-	-	-	3,298	-	-	2,964	-	-	-	-	55	-	-	-	4
Non-controlling interests	81	82	80	71	80	91	105	108	137	157	-	-	-	-	-	-	-	-
Adjusted opening balance	(8,419)	(2,517)	(2,447)	(1,411)	(8,371)	(11,983)	(14,960)	(10,602)	(15,965)	(15,157)	9,276	41,226	38,836	44,066	39,922	39,670	41,431	41,510
Net income (loss)	(2,892)	(6,471)	65	(1,331)	(1,223)	(11,529)	(15,173)	(18,884)	(14,780)	(23,185)	(25,227)	(28,994)	(2,300)	(2,186)	(3,559)	(1,399)	1,947	961
Change in available-for-sale securities	-	179	(453)	705	1,484	1,318	(4,034)	3,116	1,675	4,179	1,253	(2,470)	(1,931)	(2,339)	633	1,205	(2,725)	343
Other-than-temporary impairment, net	-	-	9	213	92	155	4,937	1,728	(245)	-	-	-	-	-	-	-	-	-
Common stock dividends	-	-	-	-	-	-	-	-	-	-	-	(54)	(343)	(344)	(489)	(489)	(490)	(390)
Preferred stock dividends	-	-	-	-	-	-	-	-	-	-	-	(413)	(303)	(322)	(141)	(119)	(114)	(129)
Senior preferred dividends	(2,282)	(2,216)	(2,152)	(2,118)	(1,909)	(1,527)	(1,150)	(886)	(409)	(25)	(31)	-	-	-	-	-	-	-
Common stock issued	20	-	-	-	-	-	-	-	-	-	-	-	2,526	-	-	-	-	-
Preferred stock issued (retired)	(1,074)	-	-	-	-	-	-	-	-	-	-	-	4,685	-	7,821	990	-	-
Preferred stock redeemed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(400)	(700)
Senior preferred stock issued	8,500	2,600	2,500	1,500	8,400	15,300	15,000	10,700	19,000	15,200	-	1,000	-	-	-	-	-	-
Common stock warrants issued	-	-	-	-	-	-	-	-	-	-	-	3,518	-	-	-	-	-	-
Treasury commitment	-	-	-	-	-	-	-	-	-	-	-	(4,518)	-	-	-	-	-	-
Other	1,059	6	(39)	(5)	116	(105)	99	(132)	122	59	(585)	(19)	56	(39)	(176)	64	21	(164)
Closing equity (deficit)	(5,088)	(8,419)	(2,517)	(2,447)	(1,411)	(8,371)	(15,281)	(14,960)	(10,602)	(18,929)	(15,314)	9,276	41,226	38,836	44,011	39,922	39,670	41,431
Non-controlling interests	81	81	82	80	71	80	91	105	108	137	-	-	-	-	-	-	-	-
Closing shareholders' equity (deficit)	(5,169)	(8,500)	(2,599)	(2,527)	(1,482)	(8,451)	(15,372)	(15,065)	(10,710)	(19,066)	(15,314)	9,276	41,226	38,836	44,011	39,922	39,670	41,431
Components of net income (loss):																		
Net interest income	4,972	4,960	4,637	4,776	4,207	2,789	3,697	3,830	3,735	3,248	2,680	2,355	2,057	1,690	1,136	1,058	1,193	1,194
Guaranty fee income	-	-	45	51	52	54	1,877	1,923	1,659	1,752	2,786	1,475	1,608	1,752	1,621	1,232	1,120	1,098
Investment gain (loss)	171	75	75	82	23	166	6,148	785	(45)	(5,430)	(4,602)	(1,624)	(883)	(111)	(1,130)	136	(594)	356
Other-than-temporary impairments, net	(56)	(44)	(23)	(326)	(137)	(236)	(8,169)	(939)	(753)	-	-	-	-	-	-	-	-	-
Fair value gain (loss)	(1,634)	289	366	525	303	(1,705)	(638)	(1,536)	823	(1,460)	(12,322)	(3,947)	517	(4,377)	(3,222)	(2,244)	1,916	(563)
Provision for credit losses	(5,802)	(10,587)	(3,772)	(4,696)	(4,295)	(11,939)	(12,171)	(21,896)	(18,225)	(20,334)	(11,030)	(8,763)	(5,085)	(3,073)	-	-	-	-
Benefit (provision) for guaranty losses	(735)	33	(83)	(78)	(69)	36	-	-	-	-	-	-	-	-	(2,794)	(1,087)	(434)	(249)
Foreclosed property income (expenses)	478	(488)	(463)	(787)	(487)	19	251	(64)	(559)	(538)	(946)	(478)	(264)	(170)	(179)	(113)	(84)	(72)
Administrative expenses	(569)	(605)	(592)	(730)	(670)	(605)	(612)	(562)	(510)	(523)	(554)	(401)	(512)	(512)	(651)	(660)	(660)	(698)
Tax (provision) benefit	93	(2)	15	9	(9)	67	242	143	(23)	623	(142)	(17,011)	476	2,928	2,623	582	(187)	73
Other noninterest income (loss)	222	250	100	86	57	(3)	(5,142)	(337)	(564)	(244)	(525)	(335)	69	48	(650)	(188)	(216)	(83)
Other expenses and losses	(32)	(352)	(240)	(243)	(198)	(172)	(656)	(231)	(318)	(279)	(292)	(170)	(250)	(360)	(301)	(118)	(104)	(92)
Extraordinary gains (losses), net of tax effect	-	-	-	-	-	-	-	-	-	-	(280)	(95)	(33)	(1)	(12)	3	(3)	(3)
Total net income	(2,892)	(6,471)	65	(1,331)	(1,223)	(11,529)	(15,173)	(18,884)	(14,780)	(23,185)	(25,227)	(28,994)	(2,300)	(2,186)	(3,559)	(1,399)	1,947	961
Non-controlling interest	(1)	-	(8)	8	(5)	1	2	(12)	(26)	(17)	-	-	-	-	-	-	-	-
Fannie Mae net income	(2,891)	(6,471)	73	(1,339)	(1,218)	(11,530)	(15,175)	(18,872)	(14,754)	(23,168)	(25,227)	(28,994)	(2,300)	(2,186)	(3,559)	(1,399)	1,947	961
Cash provided by (used in) operations		2,566	8,451	13,793	(16,736)	(32,903)	(7,386)	(10,986)	(37,192)	(30,345)	(24,277)	10,197	(185)	30,118	26,003	20,026	649	(3,729)

NOTES:

1. As of January 1, 2010 Fannie adopted SFAS 166, Accounting for Transfers of Financial Assets, and SFAS 167, Amendment to FIN 46(R), resulting in Retained earnngs - 6,706, ACOI - (3,394, noncontrolling - (14).
2. In April 2009 Fannie adopted FASB Staff Bulletin 115-2 and 124-2 regarding investment impairment, resulting in Retained earnngs - 8,520 and AOCI - (5,556).
3. As of January 1, 2008 Fannie Adopted SFAS 159, Fair Value Option for Financial Asset and Financial Liabilities. Previouly, Fair value gain (loss) was limited to derivatives.
4. Prior to January 1, 2008, Fannie only reported Provision for credit losses (not broken out between loans and guaranties), which is included on the Provision for guaranty losses line.
5. In Q4 2009, Fannie wrote off its investment in LIHTC partnerships, resulting in Losses from Partnership investment of 6,735, which is included in Other.

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Appendix B

The Bank of America Merrill Lynch

U.S. High Yield CCC and Lower Rated Index

Appendix B
The Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index

Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'62912PAC'	US62912PAC59	NGC CORP CAP TR	DYN	8.316	6/1/2027	200.00	36.00	24.287
'66989LAA'	US66989LAA70	NOVASEP HLDG	NOVASP	9.750	12/15/2016	150.00	48.00	32.057
'69344MAH'	US69344MAH43	PMI GROUP INC	PMI	6.000	9/15/2016	250.00	35.00	34.001
'69344MAJ'	US69344MAJ09	PMI GROUP INC	PMI	6.625	9/15/2036	150.00	35.00	19.287
'873168AL'	US873168AL29	TXU CORP	TXU	5.550	11/15/2014	397.70	61.50	23.665
'882330AG'	US882330AG87	TEXAS COMP/TCEH	TXU	10.250	11/1/2015	1,292.00	37.00	45.476
'882330AF'	US882330AF05	TEXAS COMP/TCEH	TXU	10.250	11/1/2015	1,873.00	37.50	44.918
'882330AH'	US882330AH60	TEXAS COMP/TCEH	TXU	10.500	11/1/2016	1,483.30	42.00	31.02
'552075AA'	US552075AA16	WILLIAM LYON INC	WLS	10.750	4/1/2013	138.80	20.50	174.178
'EI381785'	XS0532990750	BTA BANK JSC	BTASKZ	7.200	7/1/2025	496.60	21.60	34.772
'184502AD'	US184502AD42	CLEAR CHANNEL	CCMO	6.875	6/15/2018	175.00	40.25	26.255
'184502AA'	US184502AA03	CLEAR CHANNEL	CCMO	7.250	10/15/2027	300.00	35.25	22.027
'184502AP'	US184502AP71	CLEAR CHANNEL	CCMO	5.750	1/15/2013	312.10	89.00	15.465
'184502AS'	US184502AS11	CLEAR CHANNEL	CCMO	4.900	5/15/2015	250.00	50.00	27.575
'184502AV'	US184502AV40	CLEAR CHANNEL	CCMO	5.500	9/15/2014	541.50	56.50	28.125
'184502AX'	US184502AX06	CLEAR CHANNEL	CCMO	5.500	12/15/2016	250.00	37.00	30.261
'184502BB'	US184502BB76	CLEAR CHANNEL	CCMO	10.750	8/1/2016	796.20	51.75	30.393
'184502BE'	US184502BE16	CLEAR CHANNEL	CCMO	11.000	8/1/2016	829.80	50.50	31.606
'247907AC'	US247907AC23	DELTA PETROLEUM	DPTR	7.000	4/1/2015	150.00	75.00	16.723
'629121AC'	US629121AC89	NGC CORP	DYN	7.625	10/15/2026	175.00	56.00	15.108
'629121AF'	US629121AF11	NGC CORP	DYN	7.125	5/15/2018	175.00	58.50	18.132
'777774AF'	US777774AF75	DYN-RSTN/DNKM PT	DYN	7.670	11/8/2016	550.40	55.00	23.131
'26816LAT'	US26816LAT98	DYNEGY HOLDINGS	DYN	8.375	5/1/2016	1,046.80	60.50	22.658
'26816LAX'	US26816LAX01	DYNEGY HOLDINGS	DYN	7.500	6/1/2015	550.00	64.00	22.386
'26816LAW'	US26816LAW28	DYNEGY HOLDINGS	DYN	7.750	6/1/2019	1,099.90	60.50	17.21
'277461BD'	US277461BD00	EASTMAN KODAK CO	EK	7.250	11/15/2013	250.00	44.00	55.085
'370290AF'	US370290AF58	GENERAL MARITIME	GMR	12.000	11/15/2017	300.00	35.75	41.626
'420122AB'	US420122AB91	HAWKER BEECHCRAF	HAWKER	8.500	4/1/2015	182.90	42.50	40.719
'420122AF'	US420122AF06	HAWKER BEECHCRAF	HAWKER	8.875	4/1/2015	302.60	41.75	42.154
'420122AH'	US420122AH61	HAWKER BEECHCRAF	HAWKER	9.750	4/1/2017	145.10	32.50	42.162
'413627AU'	US413627AU44	HARRAHS OPER CO	HET	5.625	6/1/2015	311.30	60.00	22.091
'413627AW'	US413627AW00	HARRAHS OPER CO	HET	5.750	10/1/2017	144.00	48.00	21.627
'413627BE'	US413627BE92	HARRAHS OPER CO	HET	10.750	2/1/2016	470.50	72.50	20.631
'413627BB'	US413627BB53	HARRAHS OPER CO	HET	10.000	12/15/2015	165.70	90.00	13.159

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'413627BG'	US413627BG41	HARRAHS OPER CO	HET	10.000	12/15/2018	393.90	59.50	21.191
'413627BM'	US413627BM19	HARRAHS OPER CO	HET	10.000	12/15/2018	3,311.60	59.50	21.191
'413627BD'	US413627BD10	CAESARS ENT OPER	HET	10.000	12/15/2018	779.40	56.00	22.644
'442488AY'	US442488AY88	K HOVNANIAN ENTR	HOV	6.250	1/15/2016	173.20	37.00	36.256
'442488BK'	US442488BK75	K HOVNANIAN ENTR	HOV	11.875	10/15/2015	137.60	45.25	40.47
'442488AZ'	US442488AZ53	K HOVNANIAN ENTR	HOV	7.500	5/15/2016	172.30	35.00	38.73
'442488BA'	US442488BA93	K HOVNANIAN ENTR	HOV	8.625	1/15/2017	195.90	35.25	37.653
'53218MAB'	US53218MAB46	LIFECARE HOLDING	LTACH	9.250	8/15/2013	119.30	77.50	24.984
'172909AF'	US172909AF02	CIRCUS CIRCUS	MGM	7.625	7/15/2013	150.00	97.50	9.159
'75605EAW'	US75605EAW03	REALOGY CORP	REALOG	12.375	4/15/2015	188.60	77.00	22.064
'75605EBC'	US75605EBC30	REALOGY CORP	REALOG	11.500	4/15/2017	491.80	66.50	22.327
'75605EBF'	US75605EBF60	REALOGY CORP	REALOG	12.000	4/15/2017	129.60	68.00	22.346
'89421EAB'	US89421EAB92	TRAVELPORT LLC	TPORT	9.875	9/1/2014	438.00	65.50	27.907
'89421EAC'	US89421EAC75	TRAVELPORT LLC	TPORT	11.875	9/1/2016	247.20	39.50	41.71
'89421JAB'	US89421JAB89	TRAVELPORT LLC	TPORT	9.000	3/1/2016	250.00	58.50	25.041
'608328AP'	US608328AP55	MOHEGAN TRIBAL	TRIBAL	7.125	8/15/2014	219.20	50.00	36.676
'608328AR'	US608328AR12	MOHEGAN TRIBAL	TRIBAL	6.875	2/15/2015	150.00	48.00	33.866
'873168AQ'	US873168AQ16	TXU CORP	TXU	6.550	11/15/2034	744.30	37.00	18.247
'873168AN'	US873168AN84	TXU CORP	TXU	6.500	11/15/2024	739.50	38.00	20.002
'882330AK'	US882330AK99	TEXAS COMP/TCEH	TXU	15.000	4/1/2021	1,186.10	61.00	26.238
'00081TAB'	US00081TAB44	ACCO BRANDS CORP	ABD	7.625	8/15/2015	260.30	96.75	8.625
'043436AH'	US043436AH70	ASBURY AUTO GRP	ABG	7.625	3/15/2017	143.20	95.50	8.676
'008911AP'	US008911AP44	AIR CANADA	ACACN	12.000	2/1/2016	200.00	93.50	14.039
'043436AK'	US043436AK00	ASBURY AUTO GRP	ABG	8.375	11/15/2020	200.00	96.50	8.942
'00088JAA'	US00088JAA16	ACL I CORP	ACLI	10.625	2/15/2016	264.20	78.00	17.73
'004010AA'	US004010AA24	ACADEMY LTD	ACASPO	9.250	8/1/2019	450.00	93.00	10.582
'00828BAB'	US00828BAB18	AFFINIA GROUP	AFFGRP	9.000	11/30/2014	367.40	96.50	10.315
'00828DAJ'	US00828DAJ00	AFFINION GROUP I	AFFINI	11.500	10/15/2015	355.50	78.00	19.632
'008294AB'	US008294AB62	AFFINION GROUP	AFFINI	11.625	11/15/2015	325.00	77.00	20.069
'00126VAB'	US00126VAB62	AGY HOLDING COR	AGYH	11.000	11/15/2014	172.00	72.50	23.981
'EI202282'	XS0495755646	ALLIANCE BANK	ALLIBK	10.500	3/25/2017	615.10	69.00	20.076
'001669AQ'	US001669AQ34	AMC ENTERTAINMEN	AMC	8.000	3/1/2014	300.00	96.50	9.652
'019736AA'	US019736AA58	ALLISON TRANS	ALTRAN	11.000	11/1/2015	478.00	103.50	9.109
'019736AC'	US019736AC15	ALLISON TRANS	ALTRAN	7.125	5/15/2019	500.00	90.50	8.863
'00165AAD'	US00165AAD00	AMC ENTERTAINMEN	AMC	9.750	12/1/2020	600.00	90.50	11.445
'02378JAR'	US02378JAR95	AM AIRLN PT TRST	AMR	6.977	5/23/2021	177.70	68.00	12.856
'02744LAC'	US02744LAC46	AMERICAN MEDIA	AMRMED	13.500	6/15/2018	104.90	85.00	17.354

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'009037AM'	US009037AM44	AINSWORTH LUMBER	ANSCN	11.000	7/29/2015	404.30	65.00	24.631
'02932XAA'	US02932XAA46	AMERICAN ROCK	AMRSLT	8.250	5/1/2018	175.00	87.50	10.961
'03216NAD'	US03216NAD57	AMSCAN HLDGS INC	APY	8.750	5/1/2014	175.00	98.25	9.524
'019645AE'	US019645AE05	ALLIS-CHALMERS E	ARCHER	8.500	3/1/2017	205.70	98.00	8.971
'038101AM'	US038101AM36	APPLETON PAPERS	APPPAP	11.250	12/15/2015	161.80	97.00	12.17
'051620AA'	US051620AA01	AURORA DIAGN HLD	ARDX	10.750	1/15/2018	200.00	97.00	11.423
'04523XAB'	US04523XAB38	ASPECT SOFTWARE	ASPECT	10.625	5/15/2017	250.00	100.50	10.479
'00191AAA'	US00191AAA43	ARD FINANCE SA	ARGID	11.125	6/1/2018	345.00	81.00	15.131
'05539YAA'	US05539YAA29	B-CORP MERGER	BAKERC	8.250	6/1/2019	240.00	90.00	10.154
'08782TAD'	US08782TAD54	BEVERAGES & MORE	BEVMO	9.625	10/1/2014	125.00	99.25	9.92
'109178AE'	US109178AE33	BRIGHAM EXPLORE	BEXP	8.750	10/1/2018	300.00	107.00	7.064
'109178AF'	US109178AF08	BRIGHAM EXPLORE	BEXP	6.875	6/1/2019	300.00	97.50	7.304
'09069NAC'	US09069NAC20	BIOSCRIP INC	BIOS	10.250	10/1/2015	225.00	100.00	10.25
'121207AA'	US121207AA29	BURGER KING CORP	BKC	9.875	10/15/2018	796.20	103.00	9.117
'090613AE'	US090613AE04	LVB ACQUISITION	BMET	11.625	10/15/2017	1,015.00	103.75	10.46
'45073HAA'	US45073HAA77	IVD ACQUISITION	BLUD	11.125	8/15/2019	400.00	97.25	11.663
'081361AA'	US081361AA50	BEMAX RESOURCES	BMXAU	9.375	7/15/2014	175.00	93.93	11.983
'057112AA'	US057112AA29	BAKER & TAYLOR	BTACMG	11.500	7/1/2013	165.00	75.50	30.509
'EI380584'	XS0532989588	BTA BANK JSC	BTASKZ	10.750	7/1/2018	2,082.40	44.00	32.998
'10801PAA'	US10801PAA21	BRICKMAN GRP HLD	BRKMAN	9.125	11/1/2018	250.00	87.00	11.887
'114535AC'	US114535AC17	BROOKSTONE CO	BRSTNE	13.000	10/15/2014	115.60	70.50	28.021
'103304BD'	US103304BD25	BOYD GAMING CORP	BYD	6.750	4/15/2014	215.70	86.00	13.436
'09689RAA'	US09689RAA77	BOYD GAMING CORP	BYD	7.125	2/1/2016	240.80	73.50	15.789
'12046QAA'	US12046QAA13	BUMBLE BEE HOLDC	BUMBLE	9.625	3/15/2018	150.00	80.25	14.425
'12429TAB'	US12429TAB08	BWAY HOLDING CO	BWY	10.000	6/15/2018	205.00	105.00	8.676
'12429WAB'	US12429WAB37	BWAY PARENT CO	BWY	10.125	11/1/2015	158.40	96.50	11.211
'171871AM'	US171871AM82	CINC BELL INC	CBB	8.750	3/15/2018	625.00	88.75	11.246
'184502BG'	US184502BG63	CLEAR CHANNEL	CCMO	9.000	3/1/2021	1,750.00	74.25	14
'12513GAJ'	US12513GAJ85	CDW LLC/CDW FIN	CDWC	12.535	10/12/2017	721.50	95.50	13.651
'12513NAA'	US12513NAA28	CDW ESCROW	CDWC	8.500	4/1/2019	1,175.00	88.00	10.882
'15941RAF'	US15941RAF73	CHAPARRAL ENERGY	CHAPAR	8.875	2/1/2017	325.00	97.00	9.601
'15941RAN'	US15941RAN08	CHAPARRAL ENERGY	CHAPAR	9.875	10/1/2020	300.00	100.00	9.875
'15942RAB'	US15942RAB50	CHAPARRAL ENERGY	CHAPAR	8.250	9/1/2021	400.00	91.25	9.638
'670823AB'	US670823AB93	O'CHARLEYS INC	CHUX	9.000	11/1/2013	115.20	97.00	10.634
'19686TAC'	US19686TAC18	COLT DEFENSE/FIN	CLTDEF	8.750	11/15/2017	246.20	66.25	18.078
'231082AB'	US231082AB41	CUMULUS MEDIA	CMLS	7.750	5/1/2019	610.00	84.25	10.847
'12618MAC'	US12618MAC47	CPI INTL INC	CPII	8.000	2/15/2018	215.00	90.00	10.166

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'170032AQ'	US170032AQ94	CHIQUITA BRANDS	CQB	7.500	11/1/2014	156.40	98.75	7.961
'14888TAC'	US14888TAC80	CATALYST PAPER C	CTLCN	11.000	12/15/2016	280.40	65.00	22.797
'14888TAD'	US14888TAD63	CATALYST PAPER C	CTLCN	11.000	12/15/2016	110.00	65.00	22.797
'15671BAB'	US15671BAB71	CENVEO CORP	CVO	10.500	8/15/2016	170.00	80.00	16.639
'147448AF'	US147448AF10	CASELLA WASTE	CWST	7.750	2/15/2019	200.00	94.50	8.776
'23833NAG'	US23833NAG97	DAVE & BUSTERS	DAB	11.000	6/1/2018	200.00	99.25	11.155
'25212WAA'	US25212WAA80	DEX ONE CORP	DEXO	12.000	1/29/2017	300.00	21.00	68.754
'25456NAA'	US25456NAA37	DIRECTBUY HLDG	DIRBUY	12.000	2/1/2017	335.00	31.50	48.185
'23327BAC'	US23327BAC72	DJO FINANCE LLC	DJO	9.750	10/15/2017	300.00	83.50	13.87
'095699AA'	US095699AA20	BLUE MERGER SUB	DLM	7.625	2/15/2019	1,300.00	84.50	10.715
'281023AN'	US281023AN10	EDISON MISSION	EIX	7.500	6/15/2013	500.00	93.00	12.149
'281023AR'	US281023AR24	EDISON MISSION	EIX	7.750	6/15/2016	500.00	67.00	18.552
'269722AA'	US269722AA22	EAGLE PARENT INC	EGLPT	8.625	5/1/2019	465.00	90.50	10.469
'281023AU'	US281023AU52	EDISON MISSION	EIX	7.000	5/15/2017	1,196.10	59.50	19.032
'281023AX'	US281023AX91	EDISON MISSION	EIX	7.200	5/15/2019	800.00	57.00	17.677
'281023BA'	US281023BA89	EDISON MISSION	EIX	7.625	5/15/2027	700.00	55.00	15.252
'277461BH'	US277461BH14	EASTMAN KODAK CO	EK	9.750	3/1/2018	500.00	70.00	17.762
'277461BK'	US277461BK43	EASTMAN KODAK CO	EK	10.625	3/15/2019	250.00	71.00	17.793
'12513PAA'	US12513PAA75	CDRT MERGER SUB	EMS	8.125	6/1/2019	950.00	92.50	9.521
'29270UAN'	US29270UAN54	ENERGY PARTNERS	EPL	8.250	2/15/2018	210.00	92.00	9.972
'29843XAA'	US29843XAA54	EURAMAX INTL INC	EURAMX	9.500	4/1/2016	375.00	79.75	15.981
'302106AD'	US302106AD16	EXOPACK HOLDNG	EXOPAC	10.000	6/1/2018	235.00	93.50	11.412
'30066AAA'	US30066AAA34	EXAMWORKS GROUP	EXAM	9.000	7/15/2019	250.00	93.50	10.226
'30040PAB'	US30040PAB94	EVERTEC INC	EVRTEC	11.000	10/1/2018	220.00	104.00	9.965
'319963AP'	US319963AP91	FIRST DATA CORP	FDC	9.875	9/24/2015	560.60	83.75	15.497
'319963AT'	US319963AT14	FIRST DATA CORP	FDC	10.550	9/24/2015	747.50	83.25	16.451
'319963AR'	US319963AR57	FIRST DATA CORP	FDC	9.875	9/24/2015	197.80	83.25	15.692
'319963AY'	US319963AY09	FIRST DATA CORP	FDC	8.250	1/15/2021	2,000.00	79.00	12.065
'319963AZ'	US319963AZ73	FIRST DATA CORP	FDC	8.750	1/15/2022	1,000.00	79.00	12.414
'319963BA'	US319963BA14	FIRST DATA CORP	FDC	12.625	1/15/2021	3,000.00	74.00	18.59
'345143AA'	US345143AA96	FORBES ENERGY	FES	9.000	6/15/2019	280.00	92.50	10.434
'35687MAX'	US35687MAX56	FREESCALE SEMICO	FSL	8.050	2/1/2020	743.90	90.50	9.73
'35687MAV'	US35687MAV90	FREESCALE SEMICO	FSL	10.750	8/1/2020	487.40	100.00	10.743
'382410AD'	US382410AD01	GOODRICH PETROLE	GDP	8.875	3/15/2019	275.00	96.50	9.54
'367905AD'	US367905AD87	GAYLORD ENT	GET	6.750	11/15/2014	152.20	98.00	7.476
'37990VAC'	US37990VAC90	GLB AVTN HLDG IN	GLAH	14.000	8/15/2013	149.50	69.00	38.669
'38470RAD'	US38470RAD35	GRAHAM PACK/GPC	GRAHAM	9.875	10/15/2014	354.50	100.88	8.966

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'37247AAB'	US37247AAB89	GENTIVA HEALTH	GTIV	11.500	9/1/2018	325.00	79.50	16.583
'44332LAB'	US44332LAB62	HUB INTL HOLDING	HBGCN	9.000	12/15/2014	305.00	96.00	10.491
'44332LAC'	US44332LAC46	HUB INTL HOLDING	HBGCN	10.250	6/15/2015	395.00	92.50	12.843
'403777AB'	US403777AB12	GYMBOREE CORP	GYMB	9.125	12/1/2018	400.00	74.00	15.195
'427093AB'	US427093AB59	HERCULES OFFSHOR	HERO	10.500	10/15/2017	300.00	94.50	11.796
'43162RAB'	US43162RAB06	HILLMAN GROUP	HILCOS	10.875	6/1/2018	150.00	99.00	11.084
'41146AAB'	US41146AAB26	HARBINGER GROUP	HRG	10.625	11/15/2015	350.00	97.50	11.393
'428303AJ'	US428303AJ06	HEXION US/NOVA	HXN	8.875	2/1/2018	1,000.00	82.50	13.008
'428303AM'	US428303AM35	HEXION US/NOVA	HXN	9.000	11/15/2020	439.80	73.25	14.342
'45072PAC'	US45072PAC68	IASIS HEALTHCARE	IAS	8.375	5/15/2019	850.00	81.00	12.279
'45840JAB'	US45840JAB35	INTERACTIVE DATA	IDC	10.250	8/1/2018	698.10	106.50	8.573
'44981UAA'	US44981UAA25	INC RESEARCH INC	INCRES	11.500	7/15/2019	300.00	89.25	13.783
'464592AG'	US464592AG95	ISLE OF CAPRI	ISLE	7.000	3/1/2014	357.30	90.88	11.421
'46262EAC'	US46262EAC93	IPAYMENT INC	IPMT	10.250	5/15/2018	400.00	91.50	12.148
'469815AG'	US469815AG95	JACOBS ENTERTAIN	JACENT	9.750	6/15/2014	210.00	97.75	10.717
'46612HAE'	US46612HAE53	J CREW GROUP	JCG	8.125	3/1/2019	399.90	83.75	11.43
'255099AA'	US255099AA18	DIVERSEY HLDGS	JONDIV	10.500	5/15/2020	262.50	127.25	2.921
'518613AC'	US518613AC89	LAUREATE EDUCATI	LAUR	11.750	8/15/2017	286.40	102.50	10.931
'518613AA'	US518613AA24	LAUREATE EDUCATI	LAUR	10.000	8/15/2015	260.00	98.00	10.636
'518613AB'	US518613AB07	LAUREATE EDUCATI	LAUR	10.250	8/15/2015	565.50	98.50	10.725
'226566AG'	US226566AG25	CRICKET COMMUNIC	LEAP	10.000	7/15/2015	300.00	99.25	10.234
'226566AM'	US226566AM92	CRICKET COMMUNIC	LEAP	7.750	10/15/2020	1,200.00	87.00	9.964
'226566AN'	US226566AN75	CRICKET COMMUNIC	LEAP	7.750	10/15/2020	400.00	86.00	10.152
'51508KAA'	US51508KAA34	LANDRY'S HOLDING	LNY	11.500	6/1/2014	110.00	92.50	15.019
'52078PAC'	US52078PAC68	LAWSON SOFTWARE	LWSN	11.500	7/15/2018	560.00	89.00	14.053
'57773AAJ'	US57773AAJ16	MAXCOM TELECOMUN	MAXTEL	11.000	12/15/2014	199.50	65.00	28.267
'552953AG'	US552953AG66	MGM MIRAGE	MGM	5.875	2/27/2014	508.90	91.25	10.055
'552953AR'	US552953AR22	MGM MIRAGE	MGM	6.625	7/15/2015	872.50	84.75	11.716
'552953AW'	US552953AW17	MGM MIRAGE	MGM	6.750	4/1/2013	476.10	97.00	8.931
'552953AY'	US552953AY72	MGM MIRAGE	MGM	6.875	4/1/2016	237.90	85.00	11.21
'552953BB'	US552953BB60	MGM MIRAGE	MGM	7.625	1/15/2017	743.00	85.75	11.268
'552953BC'	US552953BC44	MGM MIRAGE	MGM	7.500	6/1/2016	732.70	86.75	11.218
'412690AB'	US412690AB58	HARLAND CLARKE	MFW	9.500	5/15/2015	270.80	74.00	19.892
'55303QAB'	US55303QAB68	MGM RESORTS	MGM	10.000	11/1/2016	500.00	94.75	11.383
'55303QAA'	US55303QAA85	MGM MIRAGE	MGM	11.375	3/1/2018	475.00	100.00	11.37
'59870WAA'	US59870WAA09	MILAGRO OIL & GA	MILEXP	10.500	5/15/2016	250.00	80.00	16.892
'594073AB'	US594073AB43	MICHAEL FOODS	MIKL	9.750	7/15/2018	430.00	103.25	8.895

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'62546RAB'	US62546RAB78	MULTIPLAN INC	MLTPLN	9.875	9/1/2018	675.00	99.00	10.076
'60877UAT'	US60877UAT43	MOMENTIVE PERFOR	MOMENT	12.500	6/15/2014	200.00	102.00	11.426
'552848AA'	US552848AA12	MGIC INVT CORP	MTG	5.375	11/1/2015	245.00	68.25	16.325
'554273AC'	US554273AC69	MACDERMID INC	MRD	9.500	4/15/2017	350.00	92.50	11.359
'644274AA'	US644274AA02	NEW ENTERPRISE	NEENST	11.000	9/1/2018	250.00	79.25	16.071
'639888AA'	US639888AA42	NEEDLE MERGER	NEEDLE	8.125	3/15/2019	450.00	87.00	10.698
'640096AD'	US640096AD52	NEFF RENTAL/FIN	NEFF	9.625	5/15/2016	200.00	83.50	14.654
'62910TAA'	US62910TAA34	NFR ENERGY LLC	NFREGY	9.750	2/15/2017	200.00	88.00	12.908
'62910TAD'	US62910TAD72	NFR ENERGY LLC	NFREGY	9.750	2/15/2017	150.00	88.00	12.908
'676220AF'	US676220AF38	OFFICE DEPOT INC	ODP	6.250	8/15/2013	400.00	96.75	8.15
'674215AA'	US674215AA68	OASIS PETROLEUM	OAS	7.250	2/1/2019	400.00	97.00	7.792
'67102BAA'	US67102BAA98	ONO FINANCE II	ONOSM	10.875	7/15/2019	225.00	70.00	18.218
'695459AB'	US695459AB34	PAETEC HOLDING	PAET	9.500	7/15/2015	300.00	104.00	7.068
'695459AF'	US695459AF48	PAETEC HOLDING	PAET	9.875	12/1/2018	450.00	104.75	8.708
'72347QAC'	US72347QAC78	PINNACLE FOOD FI	PFHC	9.250	4/1/2015	625.00	99.25	9.507
'72347QAD'	US72347QAD51	PINNACLE FOOD FI	PFHC	10.625	4/1/2017	199.00	100.25	10.538
'72347QAG'	US72347QAG82	PINNACLE FOOD FI	PFHC	8.250	9/1/2017	400.00	97.50	8.798
'716016AC'	US716016AC41	PETCO ANIMAL SUP	PETC	9.250	12/1/2018	500.00	100.00	9.244
'729416AQ'	US729416AQ02	PLY GEM INDS	PGEM	8.250	2/15/2018	800.00	81.50	12.547
'629360AB'	US629360AB49	NPC INTL INC	PIZA	9.500	5/1/2014	175.00	98.25	10.281
'700677AN'	US700677AN75	PARK-OHIO INDS	PKOH	8.125	4/1/2021	250.00	93.50	9.164
'72147KAA'	US72147KAA60	PILGRIM'S PRIDE	PPC	7.875	12/15/2018	500.00	76.25	13.053
'698657AG'	US698657AG82	PANTRY INC	PTRY	7.750	2/15/2014	247.00	98.00	8.694
'74920AAC'	US74920AAC36	RAAM GLOBAL ENER	RAMGEN	12.500	10/1/2015	150.00	102.00	11.786
'750236AH'	US750236AH49	RADIAN GROUP	RDN	5.625	2/15/2013	250.00	75.50	28.371
'750236AJ'	US750236AJ05	RADIAN GROUP	RDN	5.375	6/15/2015	250.00	60.00	21.588
'750492AD'	US750492AD26	RADNET MGMT INC	RDNT	10.375	4/1/2018	200.00	92.50	12.073
'880394AD'	US880394AD38	TENNECO PACKAGNG	REYNOL	8.125	6/15/2017	299.70	85.00	11.805
'761735AA'	US761735AA72	REYNOLDS GROUP	REYNOL	8.500	5/15/2018	1,000.00	84.50	12.505
'74959GAC'	US74959GAC42	REYNOLDS GROUP	REYNOL	9.000	4/15/2019	1,500.00	85.00	12.086
'74959HAB'	US74959HAB42	REYNOLDS GROUP	REYNOL	9.875	8/15/2019	1,000.00	88.00	12.29
'880394AB'	US880394AB71	TENNECO PACKAGNG	REYNOL	7.950	12/15/2025	276.40	71.50	12.222
'880394AE'	US880394AE11	TENNECO PACKAGNG	REYNOL	8.375	4/15/2027	200.00	79.00	11.267
'761735AE'	US761735AE94	REYNOLDS GROUP	REYNOL	8.250	2/15/2021	1,000.00	79.00	12.045
'03852UAA'	US03852UAA43	ARAMARK HOLDINGS	RMK	8.625	5/1/2016	600.00	98.50	9.028
'74965WAA'	US74965WAA53	ROC FINANCE LLC	ROCFIN	12.125	9/1/2018	380.00	101.00	11.875
'76010RAC'	US76010RAC25	RSC EQUIP RENTAL	RRR	9.500	12/1/2014	503.00	99.50	9.678

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'78108AAC'	US78108AAC80	RSC EQUIP RENTAL	RRR	10.250	11/15/2019	200.00	98.00	10.619
'750323AB'	US750323AB31	RADIATION THERAP	RTSX	9.875	4/15/2017	360.00	85.25	13.764
'78108AAE'	US78108AAE47	RSC EQUIP RENTAL	RRR	8.250	2/1/2021	647.90	86.50	10.555
'781749AA'	US781749AA41	RURAL METRO CORP	RURL	10.125	7/15/2019	200.00	95.00	11.091
'78375PAL'	US78375PAL13	RYERSON INC	RYI	12.000	11/1/2015	376.20	100.00	11.986
'75524DAN'	US75524DAN03	RBS GLOBAL/REXNO	RXN	8.500	5/1/2018	1,145.00	95.75	9.377
'86881RAA'	US86881RAA14	SURGICAL CARE AF	SCAFF	8.875	7/15/2015	164.80	96.00	10.165
'86881RAB'	US86881RAB96	SURGICAL CARE AF	SCAFF	10.000	7/15/2017	150.00	95.00	11.189
'867363AL'	US867363AL73	SUNGARD DATA SYS	SDSINC	10.250	8/15/2015	1,000.00	101.00	9.64
'816196AJ'	US816196AJ85	SELECT MEDICAL	SEM	7.625	2/1/2015	345.00	86.63	12.657
'816074AG'	US816074AG36	SEITEL INC	SELA	9.750	2/15/2014	275.00	91.50	14.072
'823777AH'	US823777AH07	SHERIDAN GRP INC	SHERDN	12.500	4/15/2014	149.40	86.00	19.765
'83066RAC'	US83066RAC16	SKILLED HEALTHCA	SKH	11.000	1/15/2014	130.00	95.50	13.323
'828732AA'	US828732AA56	SIMMONS FOODS	SIMFOO	10.500	11/1/2017	265.00	86.50	13.849
'78428EAB'	US78428EAB56	SITEL LLC	SITEL	11.500	4/1/2018	300.00	79.00	16.954
'830146AA'	US830146AA45	SIZZLING PLATTER	SIZPLT	12.250	4/15/2016	135.00	98.50	12.691
'833312AB'	US833312AB79	SNOQUALMIE	SNOENT	9.125	2/1/2015	200.00	96.25	10.477
'860340AC'	US860340AC28	STEWART & STEVEN	SNS	10.000	7/15/2014	150.00	100.00	9.96
'84762LAE'	US84762LAE56	SPECTRUM BRANDS	SPB	12.000	8/28/2019	245.00	108.25	8.684
'817492AD'	US817492AD31	SERENA SOFTWARE	SRNA	10.375	3/15/2016	134.30	102.00	9.439
'784662AC'	US784662AC20	SSI INV/CO-ISSR	SSIINV	11.125	6/1/2018	309.90	99.50	11.226
'78464RAA'	US78464RAA32	STERLING MERGER	SRX	11.000	10/1/2019	400.00	95.00	11.964
'817609AB'	US817609AB66	SERVICEMASTER CO	SVMSTR	7.450	8/15/2027	195.00	74.00	10.934
'117777AA'	US117777AA01	BUCCANEER MERGER	SVR	9.125	1/15/2019	475.00	98.00	9.507
'870755AB'	US870755AB18	SWIFT SVCS HLDGS	SWFT	10.000	11/15/2018	500.00	89.00	12.361
'87952VAE'	US87952VAE65	TELESAT CANADA/L	TELSAT	11.000	11/1/2015	692.80	107.00	7.86
'87952VAF'	US87952VAF31	TELESAT CANADA/L	TELSAT	12.500	11/1/2017	217.20	112.00	8.045
'89855VAB'	US89855VAB62	TUBE CITY IMS	TMS	9.750	2/1/2015	223.00	95.50	11.399
'15721AAC'	US15721AAC71	CEVA GROUP PLC	TNTLOG	11.625	10/1/2016	210.00	97.75	12.24
'125182AB'	US125182AB10	CEVA GROUP PLC	TNTLOG	11.500	4/1/2018	701.80	92.00	13.381
'82934HAC'	US82934HAC51	SINO-FOREST CORP	TRECN	10.250	7/28/2014	399.50	25.00	81.629
'82934HAF'	US82934HAF82	SINO-FOREST CORP	TRECN	6.250	10/21/2017	600.00	25.00	39.841
'89620JAA'	US89620JAA97	TRILOGY INTL PAR	TRIINT	10.250	8/15/2016	370.00	98.00	10.782
'785905AB'	US785905AB66	SABRE HOLDINGS	TSG	6.350	3/15/2016	400.00	81.75	13.988
'882491AQ'	US882491AQ64	TEXAS INDUSTRIES	TXI	9.250	8/15/2020	649.90	77.75	13.644
'90266DAB'	US90266DAB73	UCI INTL INC	UCII	8.625	2/15/2019	400.00	92.63	10.062
'903293AR'	US903293AR91	USG CORP	USG	6.300	11/15/2016	500.00	73.25	13.739

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'913016AC'	US913016AC51	UNITED SURGICAL	USPI	8.875	5/1/2017	240.00	100.00	8.871
'903293AS'	US903293AS74	USG CORP	USG	7.750	1/15/2018	500.00	80.38	14.616
'913016AF'	US913016AF82	UNITED SURGICAL	USPI	9.250	5/1/2017	197.50	100.00	9.245
'92201QAA'	US92201QAA40	PGS SOLUTIONS	VANGNT	9.625	2/15/2015	183.70	104.25	4.429
'04226QAA'	US04226QAA04	ARMORED AUTO	VIKACQ	9.250	11/1/2018	275.00	80.25	13.688
'92834UAB'	US92834UAB89	VISANT CORP	VISANT	10.000	10/1/2017	750.00	92.50	11.778
'92531XAF'	US92531XAF96	VERSO PAPER	VRS	11.375	8/1/2016	300.00	72.50	20.607
'918436AD'	US918436AD85	VWR FUNDING INC	VWRINT	10.250	7/15/2015	713.00	99.00	10.567
'950590AG'	US950590AG46	WENDY'S INTL	WEN	7.000	12/15/2025	100.00	85.50	8.806
'950590AK'	US950590AK57	WENDY'S INTL	WEN	6.200	6/15/2014	225.00	101.75	5.491
'952355AF'	US952355AF22	WEST CORP	WSTC	11.000	10/15/2016	449.60	103.00	9.83
'983055AA'	US983055AA25	WYLE SERVICES	WYLE	10.500	4/1/2018	175.00	97.00	11.161
'984756AD'	US984756AD89	YANKEE CANDLE CO	YCC	9.750	2/15/2017	188.00	92.25	11.728
'98418GAC'	US98418GAC87	XINERGY CORP	XRGCN	9.250	5/15/2019	200.00	89.50	11.339
'984211AB'	US984211AB80	YCC HLDGS/YANKEE	YCC	10.250	2/15/2016	315.00	85.00	15.044
'812141AN'	US812141AN92	SEALY MATTRESS	ZZ	8.250	6/15/2014	268.90	94.25	10.744
'74837NAC'	US74837NAC74	QUIKSILVER INC	ZQK	6.875	4/15/2015	400.00	89.00	10.687
'00430XAF'	US00430XAF42	ACCELLENT INC	ACCINC	10.000	11/1/2017	315.00	85.25	13.64
'01660NAA'	US01660NAA63	ALGOMA ACQ CORP	ALGCN	9.875	6/15/2015	384.70	77.50	18.512
'01881PAA'	US01881PAA49	ALLIANT HOLDINGS	ALIANT	11.000	5/1/2015	265.00	101.75	10.038
'029227AA'	US029227AA38	AMER RENAL ASSOC	AMRLHD	9.750	3/1/2016	135.00	97.25	10.54
'053499AE'	US053499AE92	AVAYA INC	AV	9.750	11/1/2015	700.00	73.00	19.66
'053499AF'	US053499AF67	AVAYA INC	AV	10.125	11/1/2015	833.80	73.25	20.005
'121579AF'	US121579AF32	BURLINGTON COAT	BCFACT	10.000	2/15/2019	450.00	85.00	13.242
'085791AG'	US085791AG63	BERRY PLASTICS	BERRY	10.250	3/1/2016	241.00	87.00	14.314
'085790AU'	US085790AU74	BERRY PLASTICS	BERRY	9.500	5/15/2018	500.00	85.00	12.934
'085790AW'	US085790AW31	BERRY PLASTICS	BERRY	9.750	1/15/2021	800.00	85.00	12.52
'12120QAA'	US12120QAA04	BK CAP HLDG/FINA	BKC	-	4/15/2019	685.00	54.75	12.719
'07556QAN'	US07556QAN51	BEAZER HOMES USA	BZH	6.875	7/15/2015	172.50	67.50	19.356
'07556QAQ'	US07556QAQ82	BEAZER HOMES USA	BZH	8.125	6/15/2016	172.90	66.75	19.142
'07556QAV'	US07556QAV77	BEAZER HOMES USA	BZH	9.125	6/15/2018	300.00	61.50	19.698
'12500VAA'	US12500VAA98	CCS INC	CCSINC	11.000	11/15/2015	312.00	92.00	13.587
'12500VAB'	US12500VAB71	CCS INC	CCSINC	11.000	11/15/2015	299.90	92.00	13.587
'178760AC'	US178760AC83	CITYCENTER HLDGS	CCTRH	10.750	1/15/2017	633.30	90.75	13.138
'15114VAA'	US15114VAA08	CELL C PTY LTD	CELLSA	11.000	7/1/2015	157.20	95.50	12.526
'156779AC'	US156779AC47	CERIDIAN CORP	CEN	11.250	11/15/2015	824.90	82.50	17.352
'156779AF'	US156779AF77	CERIDIAN CORP	CEN	12.250	11/15/2015	505.90	80.50	19.304

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'17037NAC'	US17037NAC48	CHOCTAW RESORT	CHOCTW	7.250	11/15/2019	123.00	60.25	16.221
'12562TAA'	US12562TAA97	CKE HOLDINGS	CKR	10.500	3/14/2016	211.30	87.50	14.474
'648053AD'	US648053AD80	NEW PLAN EXCEL	CNPAU	5.300	1/15/2015	100.00	89.00	9.25
'648053AF'	US648053AF39	NEW PLAN EXCEL	CNPAU	5.250	9/15/2015	125.00	89.00	8.587
'12621PAC'	US12621PAC23	CRC HEALTH CORP	CRCHEA	10.750	2/1/2016	177.30	98.75	11.112
'15671BAA'	US15671BAA98	CENVEO CORP	CVO	7.875	12/1/2013	296.30	70.00	27.024
'233707AA'	US233707AA68	DAE AVIATION	DAEAVI	11.250	8/1/2015	325.00	101.00	10.616
'280148AC'	US280148AC15	EDGEN MURRAY COR	EDNMUR	12.250	1/15/2015	465.00	89.63	16.435
'291228AA'	US291228AA25	EMIGRANT BANCORP	EMIBNC	6.250	6/15/2014	200.00	89.15	10.984
'319963AV'	US319963AV69	FIRST DATA CORP	FDC	11.250	3/31/2016	2,406.90	67.50	23.288
'351647AA'	US351647AA04	FOX ACQUISITION	FOXACQ	13.375	7/15/2016	200.00	105.00	11.219
'35687MAM'	US35687MAM91	FREESCALE SEMICO	FSL	8.875	12/15/2014	294.10	101.50	7.533
'757344AF'	US757344AF37	REDDY ICE CORP	FRZ	13.250	11/1/2015	139.40	68.50	26.254
'37932JAD'	US37932JAD54	GLOBAL CROSSING	GLBC	9.000	11/15/2019	150.00	118.50	4.002
'38011MAK'	US38011MAK45	GMX RESOURCES	GMXR	11.375	2/15/2019	200.00	72.00	18.465
'389375AE'	US389375AE65	GRAY TELE INC	GTN	10.500	6/29/2015	365.00	90.50	13.835
'099599AJ'	US099599AJ16	BORDEN INC	HXN	7.875	2/15/2023	188.40	77.00	11.557
'45820EAH'	US45820EAH53	INTELSAT	INTEL	6.500	11/1/2013	353.60	100.50	6.237
'45661YAA'	US45661YAA82	INEOS GRP HLDG	INEGRP	8.500	2/15/2016	677.50	74.00	17.188
'45820EAX'	US45820EAX04	INTELSAT JACKSON	INTEL	11.250	6/15/2016	1,032.90	102.00	10.368
'458204AJ'	US458204AJ37	INTELSAT BERMUDA	INTEL	11.500	2/4/2017	1,648.80	86.00	15.433
'458204AH'	US458204AH70	INTELSAT BERMUDA	INTEL	11.250	2/4/2017	2,805.00	86.75	14.927
'46112NAC'	US46112NAC11	INTERTAPE POLYM	ITPCN	8.500	8/1/2014	115.60	89.00	13.271
'486668AA'	US486668AA44	KAZKOMMERTSBK	KKB	9.200	11/9/2015	100.00	60.00	25.44
'516807AA'	US516807AA24	LAREDO PETROLEUM	LARPET	9.500	2/15/2019	350.00	105.00	8.323
'501786AC'	US501786AC11	LBI MEDIA INC	LBIMED	8.500	8/1/2017	228.80	63.00	19.34
'53956RAA'	US53956RAA14	LOCAL TV FINANCE	LOCAL	9.250	6/15/2015	230.90	92.00	11.975
'283831AK'	US283831AK11	EL POLLO LOCO	LOCO	17.000	1/1/2018	105.00	89.50	19.677
'52729NBS'	US52729NBS80	LEVEL 3 COMM INC	LVLT	11.875	2/1/2019	605.20	95.00	12.955
'527297AA'	US527297AA36	LEVEL 3 ESCROW	LVLT	8.125	7/1/2019	1,200.00	88.38	10.334
'584705AA'	US584705AA58	MEDIMPACT HLDNGS	MEDIMP	10.500	2/1/2018	230.00	93.25	12.046
'63688RAD'	US63688RAD98	NATL MENTOR HLDG	MENTOR	12.500	2/15/2018	250.00	91.00	14.714
'594087AM'	US594087AM02	MICHAELS STORES	MIK	11.375	11/1/2016	399.90	101.25	10.879
'594087AP'	US594087AP33	MICHAELS STORES	MIK	13.000	11/1/2016	376.00	103.00	11.406
'594087AR'	US594087AR98	MICHAELS STORES	MIK	7.750	11/1/2018	800.00	93.50	9.009
'14985VAA'	US14985VAA98	CCM MERGER INC	MOTOR	8.000	8/1/2013	269.50	94.50	11.393
'60877UAM'	US60877UAM99	MOMENTIVE PERFOR	MOMENT	11.500	12/1/2016	381.90	84.00	16.171

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'60877UAW'	US60877UAW71	MOMENTIVE PERFOR	MOMENT	9.000	1/15/2021	635.00	68.50	15.501
'624758AB'	US624758AB40	MUELLER WATER	MWA	7.375	6/1/2017	420.00	78.00	12.97
'640820AA'	US640820AA41	NES RENTALS HLDG	NESRH	12.250	4/15/2015	150.00	83.50	18.839
'640204AH'	US640204AH65	NEIMAN MARCUS	NMG	10.375	10/15/2015	499.90	101.00	9.817
'67090FAB'	US67090FAB22	NUVEEN INVEST	NUVINV	5.500	9/15/2015	300.00	81.00	11.626
'67090FAD'	US67090FAD87	NUVEEN INVESTM	NUVINV	10.500	11/15/2015	785.00	92.25	12.977
'67090FAE'	US67090FAE60	NUVEEN INVESTM	NUVINV	10.500	11/15/2015	150.00	91.25	13.316
'65336YAE'	US65336YAE32	NEXSTAR BROADC	NXST	7.000	1/15/2014	112.60	95.00	9.471
'68371PAC'	US68371PAC68	OPEN SOLUTIONS	OPENSL	9.750	2/1/2015	325.00	51.50	35.735
'74044PAC'	US74044PAC14	PREGIS CORP	PREGIS	12.375	10/15/2013	150.00	91.00	17.82
'767754BM'	US767754BM54	RITE AID CORP	RAD	8.625	3/1/2015	500.00	88.75	12.785
'576442AA'	US576442AA52	RARE RESTAURANT	RARERG	9.250	5/15/2014	100.00	71.50	24.607
'767754BQ'	US767754BQ68	RITE AID CORP	RAD	9.375	12/15/2015	410.00	86.00	13.867
'767754BT'	US767754BT08	RITE AID CORP	RAD	9.500	6/15/2017	808.70	79.00	15.111
'780097AS'	US780097AS09	ROYAL BK SCOTLND	RBS	6.990	10/5/2017	563.70	63.50	18.176
'759219AA'	US759219AA63	REICHHOLD IND	REICHH	9.000	8/15/2014	195.00	68.00	25.316
'76113BAE'	US76113BAE92	RESIDENTIAL CAP	RESCAP	6.875	6/30/2015	112.20	83.00	14.949
'76113BAR'	US76113BAR06	RESIDENTIAL CAP	RESCAP	6.500	4/17/2013	473.40	95.00	12.14
'76114EAH'	US76114EAH53	RESIDENTIAL CAP	RESCAP	9.625	5/15/2015	2,120.50	77.50	18.39
'75040PAP'	US75040PAP36	RADIO ONE INC	ROIAK	15.000	5/24/2016	305.90	89.50	18.12
'75524DAD'	US75524DAD21	RBS GLOBAL/REXNO	RXN	11.750	8/1/2016	300.00	102.00	10.896
'861642AG'	US861642AG19	STONE ENERGY	SGY	6.750	12/15/2014	200.00	96.00	8.188
'82459AAA'	US82459AAA97	SHINGLE SPRINGS	SHINGL	9.375	6/15/2015	450.00	58.50	28.062
'834260AB'	US834260AB79	SOLO CUP CO	SOLOC	8.500	2/15/2014	325.00	87.00	15.217
'817320AR'	US817320AR58	SEQUA CORP	SQA	13.500	12/1/2015	258.00	106.00	10.368
'817320AP'	US817320AP92	SEQUA CORP	SQA	11.750	12/1/2015	500.00	105.00	9.175
'852862AB'	US852862AB73	STANADYNE CORP	STANAD	10.000	8/15/2014	160.00	94.00	12.54
'86800HAB'	US86800HAB96	SUNSTATE EQP CO	SUNST	12.000	6/15/2016	170.00	90.00	15.022
'87922RAJ'	US87922RAJ14	TELCORDIA TECH	TELCOR	11.000	5/1/2018	350.00	124.50	3.115
'87255MAA'	US87255MAA80	TL ACQUISITIONS	TLACQ	10.500	1/15/2015	1,215.60	64.00	27.88
'87255MAD'	US87255MAD20	TL ACQUISITIONS	TLACQ	13.250	7/15/2015	233.60	57.00	34.298
'90333HAE'	US90333HAE18	USI HOLDINGS CP	USIH	9.750	5/15/2015	175.00	90.00	13.308
'02152FAB'	US02152FAB40	ALTEGRITY INC	USINV	11.750	5/1/2016	150.00	92.00	14.174
'02152FAA'	US02152FAA66	ALTEGRITY INC	USINV	10.500	11/1/2015	290.00	93.00	12.744
'91728CAE'	US91728CAE30	US FOODSERVICE	USFOOD	8.500	6/30/2019	400.00	90.25	10.35
'914906AK'	US914906AK86	UNIVISION COMM	UVN	8.500	5/15/2021	815.00	78.00	12.487
'46122EAA'	US46122EAA38	INVENTIV HEALTH	VTIV	10.000	8/15/2018	275.00	88.00	12.66

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'46122EAD'	US46122EAD76	INVENTIV HEALTH	VTIV	10.000	8/15/2018	390.00	88.00	12.66
'960887AB'	US960887AB34	WESTMORELAND CO	WLB	10.750	2/1/2018	150.00	98.00	11.192
'95816QAA'	US95816QAA40	WESTERN EXPRESS	WSTEXP	12.500	4/15/2015	285.00	67.00	27.704
'00104BAC'	US00104BAC46	AES EASTERN ENER	AES	9.000	1/2/2017	181.00	55.50	24.479
'00104BAF'	US00104BAF76	AES EASTERN ENER	AES	9.670	1/2/2029	268.00	57.00	17.704
'016275AF'	US016275AF64	ALION SCIENCE	ALISCI	10.250	2/1/2015	248.00	61.00	29.327
'00846NAA'	US00846NAA54	AGFC CAP TRUST I	AMGFIN	6.000	1/15/2017	350.00	45.00	25.485
'03841XAB'	US03841XAB01	AQUILEX HOLDINGS	AQUILE	11.125	12/15/2016	224.00	44.00	35.311
'00208JAE'	US00208JAE82	ATP OIL & GAS	ATPG	11.875	5/1/2015	1,498.20	69.63	25.221
'09852TAA'	US09852TAA43	BONTEN MEDIA ACQ	BONTEN	9.000	6/1/2015	123.60	74.25	19.059
'07556QAY'	US07556QAY17	BEAZER HOMES USA	BZH	9.125	5/15/2019	250.00	63.50	18.138
'16946LAA'	US16946LAA44	CHINA FORESTRY	CHTREE	7.750	11/17/2015	180.00	60.00	26.842
'179584AC'	US179584AC10	CLAIRE'S STORES	CLE	9.250	6/1/2015	223.00	77.00	18.083
'179584AJ'	US179584AJ62	CLAIRE'S STORES	CLE	10.500	6/1/2017	259.60	71.00	19.076
'179584AL'	US179584AL19	CLAIRE'S STORES	CLE	8.875	3/15/2019	450.00	72.00	15.295
'18538TAD'	US18538TAD19	CLEARWIRE COMM	CLWR	12.000	12/1/2017	500.00	60.25	24.924
'65653RAG'	US65653RAG83	NORSKE SKOG CANA	CTLCN	7.375	3/1/2014	250.00	23.00	91.042
'340627AB'	US340627AB42	FLORIDA EAST COA	FECRC	10.500	8/1/2017	136.90	94.00	11.949
'35687MAP'	US35687MAP23	FREESCALE SEMICO	FSL	10.125	12/15/2016	764.30	101.75	9.469
'413627AX'	US413627AX82	HARRAHS OPER CO	HET	6.500	6/1/2016	246.70	55.50	22.313
'12768RAA'	US12768RAA59	HARRAHS OPER CO	HET	12.750	4/15/2018	750.00	67.75	22.358
'539439AA'	US539439AA71	LLOYDS BANKING	LLOYDS	6.267	11/14/2016	397.70	44.00	28.69
'539439AD'	US539439AD11	LLOYDS BANKING	LLOYDS	5.920	10/1/2015	213.30	44.00	31.496
'539439AF'	US539439AF68	LLOYDS BANKING	LLOYDS	6.657	5/21/2037	434.40	44.00	16.405
'50217BAF'	US50217BAF67	LSP ENERGY LP	LSPBAT	8.160	7/15/2025	176.00	71.75	12.505
'573011AA'	US573011AA19	MARSICO HLDG LLC	MARSIC	10.625	1/15/2020	603.60	35.00	34.703
'55276GAA'	US55276GAA31	MBIA INS CO	MBI	14.000	1/15/2013	940.00	45.00	96.937
'58470TAA'	US58470TAA34	MEDIMEDIA USA	MEDIME	11.375	11/15/2014	150.00	88.00	16.422
'499040AN'	US499040AN33	KNIGHT RIDDER	MNI	4.625	11/1/2014	111.40	83.00	11.304
'499040AP'	US499040AP80	KNIGHT RIDDER	MNI	5.750	9/1/2017	336.60	56.00	18.193
'499040AL'	US499040AL76	KNIGHT RIDDER	MNI	6.875	3/15/2029	276.20	43.00	17.321
'65338LAA'	US65338LAA70	NCO GROUP INC	NCOG	11.875	11/15/2014	200.00	91.00	15.608
'652366AA'	US652366AA38	NEWPORT TV/NTV F	NTVF	13.000	3/15/2017	278.90	94.00	15.013
'67105EAB'	US67105EAB83	OSI RESTAURANT	OSI	10.000	6/15/2015	247.10	99.75	10.073
'729416AN'	US729416AN70	PLY GEM INDS	PGEM	13.125	7/15/2014	150.00	94.88	15.428
'767754AD'	US767754AD64	RITE AID CORP	RAD	6.875	8/15/2013	184.80	94.75	10.01
'767754AJ'	US767754AJ35	RITE AID CORP	RAD	7.700	2/15/2027	295.00	64.00	13.232

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'767754AR'	US767754AR50	RITE AID CORP	RAD	6.875	12/15/2028	128.00	59.00	12.835
'749274AA'	US749274AA41	RBS CAP TRUST I	RBS	4.709	7/1/2013	317.60	45.00	61.316
'74927PAA'	US74927PAA75	RBS CAP TRUST II	RBS	6.425	1/3/2034	393.60	45.00	15.552
'74927QAA'	US74927QAA58	RBS CAP TR III	RBS	5.512	9/30/2014	356.50	45.00	37.659
'75601RAF'	US75601RAF29	REAL MEX RESTAUR	REALMX	14.000	1/1/2013	130.00	73.50	43.465
'75605EBU'	US75605EBU38	REALOGY CORP	REALOG	7.875	2/15/2019	700.00	75.50	13.163
'783754AB'	US783754AB06	RYERSON HOLDING	RYI	-	2/1/2015	483.00	43.00	26.992
'852863AB'	US852863AB56	STANDYN HOLD INC	STANAD	12.000	2/15/2015	100.00	95.50	13.696
'608328AT'	US608328AT77	MOHEGAN TRIBAL	TRIBAL	6.125	2/15/2013	250.00	62.50	45.807
'608328AU'	US608328AU41	MOHEGAN GAMING	TRIBAL	11.500	11/1/2017	200.00	91.00	13.723
'292680AC'	US292680AC97	ENERGY FUTURE	TXU	10.875	11/1/2017	180.60	80.50	15.999
'292680AD'	US292680AD70	ENERGY FUTURE	TXU	11.250	11/1/2017	376.70	83.50	15.963

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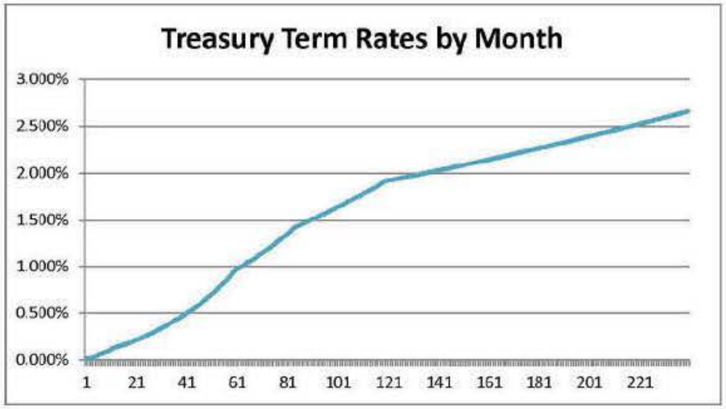
Appendix C

Treasury Term Rates by Month

September 30, 2011

Appendix C
Treasury Term Rates by Month as of September 30, 2011

Month	CMT Rates - Nominal	Interpola-tion Factor	Treasury Term Rates by Month	Monthly Change
1	0.020%		0.020%	
2			0.020%	0.00000%
3	0.020%	-	0.020%	0.00000%
4			0.029%	0.00884%
5			0.042%	0.01276%
6	0.060%	*0.44225*	0.060%	0.01840%
7			0.068%	0.00825%
8			0.078%	0.00939%
9			0.088%	0.01068%
10			0.100%	0.01215%
11			0.114%	0.01382%
12	0.130%	*0.13754*	0.130%	0.01572%
13			0.137%	0.00728%
14			0.145%	0.00769%
15			0.153%	0.00812%
16			0.162%	0.00857%
17			0.171%	0.00905%
18			0.180%	0.00956%
19			0.190%	0.01010%
20			0.201%	0.01066%
21			0.212%	0.01126%
22			0.224%	0.01189%
23			0.237%	0.01256%
24	0.250%	*0.05601*	0.250%	0.01326%
25			0.261%	0.01105%
26			0.273%	0.01153%
27			0.285%	0.01204%
28			0.297%	0.01257%
29			0.310%	0.01313%
30			0.324%	0.01371%
31			0.338%	0.01432%
32			0.353%	0.01495%
33			0.369%	0.01561%
34			0.385%	0.01630%
35			0.402%	0.01702%
36	0.420%	*0.04418*	0.420%	0.01777%
37			0.435%	0.01472%
38			0.450%	0.01523%
39			0.466%	0.01577%
40			0.482%	0.01632%
41			0.499%	0.01689%
42			0.516%	0.01749%
43			0.535%	0.01810%
44			0.553%	0.01873%



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Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
45			0.573%	0.01939%
46			0.593%	0.02007%
47			0.613%	0.02077%
48			0.635%	0.02150%
49			0.657%	0.02225%
50			0.680%	0.02303%
51			0.704%	0.02384%
52			0.729%	0.02468%
53			0.754%	0.02554%
54			0.781%	0.02644%
55			0.808%	0.02736%
56			0.836%	0.02832%
57			0.866%	0.02931%
58			0.896%	0.03034%
59			0.927%	0.03140%
60	0.960%	*0.03505*	0.960%	0.03250%
61			0.976%	0.01607%
62			0.992%	0.01634%
63			1.009%	0.01662%
64			1.026%	0.01689%
65			1.043%	0.01718%
66			1.061%	0.01746%
67			1.078%	0.01776%
68			1.096%	0.01805%
69			1.115%	0.01836%
70			1.133%	0.01866%
71			1.152%	0.01898%
72			1.172%	0.01929%
73			1.191%	0.01962%
74			1.211%	0.01995%
75			1.232%	0.02028%
76			1.252%	0.02062%
77			1.273%	0.02096%
78			1.294%	0.02131%
79			1.316%	0.02167%
80			1.338%	0.02203%
81			1.361%	0.02240%
82			1.383%	0.02278%
83			1.406%	0.02316%
84	1.430%	*0.01674*	1.430%	0.02355%
85			1.442%	0.01175%
86			1.454%	0.01185%
87			1.466%	0.01195%
88			1.478%	0.01204%
89			1.490%	0.01214%
90			1.502%	0.01224%
91			1.514%	0.01234%

Month	CMT Rates - Nominal	Interpola-tion Factor	Treasury Term Rates by Month	Monthly Change
92			1.527%	0.01245%
93			1.539%	0.01255%
94			1.552%	0.01265%
95			1.565%	0.01275%
96			1.578%	0.01286%
97			1.591%	0.01297%
98			1.604%	0.01307%
99			1.617%	0.01318%
100			1.630%	0.01329%
101			1.643%	0.01340%
102			1.657%	0.01351%
103			1.671%	0.01362%
104			1.684%	0.01373%
105			1.698%	0.01384%
106			1.712%	0.01396%
107			1.726%	0.01407%
108			1.740%	0.01419%
109			1.755%	0.01430%
110			1.769%	0.01442%
111			1.784%	0.01454%
112			1.798%	0.01466%
113			1.813%	0.01478%
114			1.828%	0.01490%
115			1.843%	0.01502%
116			1.858%	0.01515%
117			1.873%	0.01527%
118			1.889%	0.01540%
119			1.904%	0.01552%
120	1.920%	*0.00822*	1.920%	0.01565%
121			1.925%	0.00522%
122			1.930%	0.00524%
123			1.936%	0.00525%
124			1.941%	0.00527%
125			1.946%	0.00528%
126			1.952%	0.00529%
127			1.957%	0.00531%
128			1.962%	0.00532%
129			1.968%	0.00534%
130			1.973%	0.00535%
131			1.978%	0.00537%
132			1.984%	0.00538%
133			1.989%	0.00540%
134			1.994%	0.00541%
135			2.000%	0.00543%
136			2.005%	0.00544%
137			2.011%	0.00546%
138			2.016%	0.00547%

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Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
139			2.022%	0.00548%
140			2.027%	0.00550%
141			2.033%	0.00551%
142			2.038%	0.00553%
143			2.044%	0.00554%
144			2.049%	0.00556%
145			2.055%	0.00558%
146			2.061%	0.00559%
147			2.066%	0.00561%
148			2.072%	0.00562%
149			2.077%	0.00564%
150			2.083%	0.00565%
151			2.089%	0.00567%
152			2.094%	0.00568%
153			2.100%	0.00570%
154			2.106%	0.00571%
155			2.112%	0.00573%
156			2.117%	0.00574%
157			2.123%	0.00576%
158			2.129%	0.00578%
159			2.135%	0.00579%
160			2.140%	0.00581%
161			2.146%	0.00582%
162			2.152%	0.00584%
163			2.158%	0.00585%
164			2.164%	0.00587%
165			2.170%	0.00589%
166			2.176%	0.00590%
167			2.181%	0.00592%
168			2.187%	0.00593%
169			2.193%	0.00595%
170			2.199%	0.00597%
171			2.205%	0.00598%
172			2.211%	0.00600%
173			2.217%	0.00602%
174			2.223%	0.00603%
175			2.229%	0.00605%
176			2.235%	0.00606%
177			2.242%	0.00608%
178			2.248%	0.00610%
179			2.254%	0.00611%
180			2.260%	0.00613%
181			2.266%	0.00615%
182			2.272%	0.00616%
183			2.278%	0.00618%
184			2.285%	0.00620%
185			2.291%	0.00621%

Month	CMT Rates - Nominal	Interpola-tion Factor	Treasury Term Rates by Month	Monthly Change
186			2.297%	0.00623%
187			2.303%	0.00625%
188			2.310%	0.00627%
189			2.316%	0.00628%
190			2.322%	0.00630%
191			2.328%	0.00632%
192			2.335%	0.00633%
193			2.341%	0.00635%
194			2.348%	0.00637%
195			2.354%	0.00639%
196			2.360%	0.00640%
197			2.367%	0.00642%
198			2.373%	0.00644%
199			2.380%	0.00646%
200			2.386%	0.00647%
201			2.393%	0.00649%
202			2.399%	0.00651%
203			2.406%	0.00653%
204			2.412%	0.00654%
205			2.419%	0.00656%
206			2.425%	0.00658%
207			2.432%	0.00660%
208			2.439%	0.00662%
209			2.445%	0.00663%
210			2.452%	0.00665%
211			2.458%	0.00667%
212			2.465%	0.00669%
213			2.472%	0.00671%
214			2.479%	0.00672%
215			2.485%	0.00674%
216			2.492%	0.00676%
217			2.499%	0.00678%
218			2.506%	0.00680%
219			2.512%	0.00682%
220			2.519%	0.00683%
221			2.526%	0.00685%
222			2.533%	0.00687%
223			2.540%	0.00689%
224			2.547%	0.00691%
225			2.554%	0.00693%
226			2.561%	0.00695%
227			2.568%	0.00697%
228			2.575%	0.00699%
229			2.582%	0.00700%
230			2.589%	0.00702%
231			2.596%	0.00704%
232			2.603%	0.00706%

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
233			2.610%	0.00708%
234			2.617%	0.00710%
235			2.624%	0.00712%
236			2.631%	0.00714%
237			2.638%	0.00716%
238			2.646%	0.00718%
239			2.653%	0.00720%
240	2.660%	*0.00272*	2.660%	0.00722%
241			2.662%	0.00192%
242			2.664%	0.00192%
243			2.666%	0.00192%
244			2.668%	0.00192%
245			2.670%	0.00192%
246			2.672%	0.00192%
247			2.673%	0.00192%
248			2.675%	0.00193%
249			2.677%	0.00193%
250			2.679%	0.00193%
251			2.681%	0.00193%
252			2.683%	0.00193%
253			2.685%	0.00193%
254			2.687%	0.00193%
255			2.689%	0.00193%
256			2.691%	0.00194%
257			2.693%	0.00194%
258			2.695%	0.00194%
259			2.697%	0.00194%
260			2.699%	0.00194%
261			2.701%	0.00194%
262			2.702%	0.00194%
263			2.704%	0.00195%
264			2.706%	0.00195%
265			2.708%	0.00195%
266			2.710%	0.00195%
267			2.712%	0.00195%
268			2.714%	0.00195%
269			2.716%	0.00195%
270			2.718%	0.00196%
271			2.720%	0.00196%
272			2.722%	0.00196%
273			2.724%	0.00196%
274			2.726%	0.00196%
275			2.728%	0.00196%
276			2.730%	0.00196%
277			2.732%	0.00197%
278			2.734%	0.00197%
279			2.736%	0.00197%

Month	CMT Rates - Nominal	Interpola-tion Factor	Treasury Term Rates by Month	Monthly Change
280			2.738%	0.00197%
281			2.740%	0.00197%
282			2.742%	0.00197%
283			2.744%	0.00197%
284			2.746%	0.00198%
285			2.748%	0.00198%
286			2.750%	0.00198%
287			2.752%	0.00198%
288			2.754%	0.00198%
289			2.756%	0.00198%
290			2.757%	0.00198%
291			2.759%	0.00199%
292			2.761%	0.00199%
293			2.763%	0.00199%
294			2.765%	0.00199%
295			2.767%	0.00199%
296			2.769%	0.00199%
297			2.771%	0.00199%
298			2.773%	0.00200%
299			2.775%	0.00200%
300			2.777%	0.00200%
301			2.779%	0.00200%
302			2.781%	0.00200%
303			2.783%	0.00200%
304			2.785%	0.00200%
305			2.787%	0.00201%
306			2.789%	0.00201%
307			2.791%	0.00201%
308			2.793%	0.00201%
309			2.795%	0.00201%
310			2.797%	0.00201%
311			2.799%	0.00201%
312			2.802%	0.00202%
313			2.804%	0.00202%
314			2.806%	0.00202%
315			2.808%	0.00202%
316			2.810%	0.00202%
317			2.812%	0.00202%
318			2.814%	0.00202%
319			2.816%	0.00203%
320			2.818%	0.00203%
321			2.820%	0.00203%
322			2.822%	0.00203%
323			2.824%	0.00203%
324			2.826%	0.00203%
325			2.828%	0.00203%
326			2.830%	0.00204%

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
327			2.832%	0.00204%
328			2.834%	0.00204%
329			2.836%	0.00204%
330			2.838%	0.00204%
331			2.840%	0.00204%
332			2.842%	0.00205%
333			2.844%	0.00205%
334			2.846%	0.00205%
335			2.848%	0.00205%
336			2.850%	0.00205%
337			2.852%	0.00205%
338			2.854%	0.00205%
339			2.856%	0.00206%
340			2.859%	0.00206%
341			2.861%	0.00206%
342			2.863%	0.00206%
343			2.865%	0.00206%
344			2.867%	0.00206%
345			2.869%	0.00206%
346			2.871%	0.00207%
347			2.873%	0.00207%
348			2.875%	0.00207%
349			2.877%	0.00207%
350			2.879%	0.00207%
351			2.881%	0.00207%
352			2.883%	0.00207%
353			2.885%	0.00208%
354			2.888%	0.00208%
355			2.890%	0.00208%
356			2.892%	0.00208%
357			2.894%	0.00208%
358			2.896%	0.00208%
359			2.898%	0.00209%
360	2.900%	*0.00072*	2.900%	0.00209%

Source: Federal Reserve statistical release H.15 (510) Selected Interest Rates dated October 3, 2011.

EXHIBIT 12

Grant Thornton

November 8, 2011

Ms. Carole Banks
1500 Pennsylvania Avenue, N.W.
Met Square Room 6253
Washington, D.C. 20220

Re: Valuation of Treasury's Holdings of the Senior Preferred Stock of the Federal Home Loan Mortgage Corporation as of September, 30, 2011

Dear Ms. Banks,

As requested, we have determined the fair value of the Senior Preferred Stock, as defined further within our attached detailed report, that the U.S. Department of the Treasury received from the Federal Home Loan Mortgage Corporation pursuant to the Senior Preferred Stock Purchase Agreement dated September 7, 2008.

We understand that you will use our valuation for the purpose of your financial reporting for the fiscal year ended September 30, 2011, and that the appropriate value measure is fair value as determined in accordance with generally accepted accounting principles of the United States, in particular, ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 codified, effective July 1, 2009, Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, and other related authoritative guidance of the Financial Accounting Standards Board and the Securities and Exchange Commission on fair value measurement. Under ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Based upon the information and financial data provided by the Federal Home Loan Mortgage Corporation, as well as trading data that we gathered and analyses we performed, it is our opinion that the fair value of the Senior Preferred Stock is $53,624,000,000.

The conclusions and opinions expressed in this letter and the accompanying detailed report are contingent upon the qualifying factors set forth in the Assumptions and Limiting Conditions attached to this report. Our analyses, opinions, and conclusions were developed in conformity with the 2008 American Institute of Certified Public Accountants Statement of Standards for Valuation Services No. 1.

If you have any questions concerning this report and the conclusions it contains, please contact Anne Eberhardt at 212.542.9698.

Very truly yours,

E. Bradley Wilson, CPA
Managing Partner of Audit – Global Public Sector
Grant Thornton LLP

GT007328

Grant Thornton

Fair Value of the U.S. Department of Treasury's Holdings of Senior Preferred Stock, The Federal Home Loan Mortgage Company (Freddie Mac)

As of September 30, 2011

Prepared by Grant Thornton LLP on November 8, 2011
Certified Public Accountants
A U.S. member firm of Grant Thornton International Limited

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Exhibits and Appendices

Introduction

On September 7, 2008, the U.S. Department of the Treasury ("Treasury") and the Federal Home Loan Mortgage Company ("Freddie Mac" or the "Company"), through the Federal Housing Finance Agency, the conservator of Freddie Mac ("FHFA" or the "conservator"), entered into the Senior Preferred Stock Purchase Agreement ("PSPA"). In accordance with the terms of the PSPA, Freddie Mac issued variable liquidation preference Senior Preferred Stock to Treasury (the "Senior Preferred Stock" or the "Stock"). We have been asked to estimate the fair value of Treasury's holding of the Senior Preferred Stock as of September 30, 2011.

We understand that Treasury will use this valuation with regard to its financial reporting for the fiscal year ended on September 30, 2011. It also is our understanding that fair value must be determined in accordance with U.S. generally accepted accounting principles, in particular, in accordance with ASC 820, *Fair Value Measurements and Disclosures*, which, effective July 1, 2009, codified the Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, and other related authoritative guidance issued by the Financial Accounting Standards Board and the Securities and Exchange Commission ("ASC 820"). Under ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We are independent of Treasury. Our fee for this engagement was in no way influenced by the results of our valuation analysis.

Sources of Information

As a basis for our valuation, we used financial statements and other public filings issued by the Company, including PSPA documentation, and independent research regarding high yield bond and preferred stock trading, Treasury press releases, and other information pertinent to the valuation. We accepted without verification financial statements and other information provided by the Company as accurately reflecting the results of operations and the financial and business conditions of Freddie Mac for the respective periods. In addition, we sought input from representatives within Treasury's Office of Domestic Finance to inform us of the assumptions and conditions surrounding a hypothetical transaction.

The Business and Organization of Freddie Mac

Business

Freddie Mac is a government-sponsored enterprise that was chartered by Congress in 1970 to support liquidity, stability, and affordability in the secondary mortgage market, in which existing mortgage-related assets are purchased and sold. Its charter does not permit the Company to originate loans and lend money directly to consumers in the primary mortgage market. Freddie Mac achieves its mission primarily through two forms of activities:

- immediately securitizing mortgage loans originated by primary lenders into Freddie Mac mortgage-backed securities, with Freddie Mac guaranteeing principal and interest payments on the underlying loans, and
- acquiring mortgage loan packages originated by lenders in the primary market, which it either retains as investments or warehouses for future securitization, into Freddie Mac mortgage-backed securities for which the Company will guarantee principal and interest on the underlying loans.

Freddie Mac acquires mortgage loans with the proceeds of debt securities it issues in domestic and international capital markets. Based on the U.S. government's support of Freddie Mac, its debt securities sell and trade at a small premium over U.S. Treasury yields. The stock of Freddie Mac (ticker: FMCC.OB) currently trades on the OTC Bulletin Board. It previously traded under the ticker FRE on the New York Stock Exchange before the conservator directed the Company to delist the stock on June 16, 2010.

As of June 30, 2011, the Company managed a credit book (i.e., loan guarantee exposures and mortgage loan asset exposures) of $1.84 trillion related to residential mortgage loans. As of that date, Freddie Mac held $2.196 trillion of assets and owed $2.197 trillion under various liabilities (see Table 1 for a summary of the Company's 2003 to June 2011 income, assets, and equity).[1] After adopting Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets: an amendment to FASB No. 140* (ASC 860), and Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810), Freddie Mac consolidated $1.781 trillion of mortgage loans and $1.566 trillion of debt that previously was held in off-balance sheet trusts that managed Freddie Mac mortgage-backed securities. The consolidation of these assets and liabilities did not change the Company's credit book. The consolidation converted guarantee exposures into loan exposures. Because of favorable accounting treatments and the comparatively lower expenses that must be recognized, Freddie Mac has purchased most nonperforming loans out of the trusts for which it provided a guarantee rather than make payments of principal and interest under its guarantee.

Table 1

Income, Assets, and Equity, 2003 to June 30, 2011
($ in millions)

Year	Net Income (Loss)	Assets	Equity (Shareholder Deficit)
2003	4,816	803,449	31,487
2004	2,937	795,284	31,416
2005	2,113	806,222	25,691
2006	2,327	804,910	26,914
2007	(3,094)	794,368	26,905
2008	(50,119)	850,963	(30,634)
2009	(21,553)	841,784	4,372
2010	(14,025)	2,261,780	(401)
6 mos. 2011	(1,463)	2,195,795	(1,478)

As a federally chartered organization, Freddie Mac is regulated by the Federal Housing Finance Agency ("FHFA"). It is also subject to extensive regulation, supervision, or examination by other federal agencies, including the Department of the Treasury, the Department of Housing and Urban Development, and the Securities and Exchange Commission.

Following the collapse of the national residential real estate market, the Obama administration has increasingly relied upon both Freddie Mac and Fannie Mae to implement its policy in federal home retention

[1] At June 30, 2011, total liabilities exceeded total assets by $1.478 billion, which resulted in the Federal Housing Finance Agency's request for an additional $1.5 billion under Treasury's funding commitment pursuant to its Senior Preferred Stock Purchase Agreement. The Company expects to request an additional $6 billion for losses incurred in the quarter ending September 30, 2011.

programs, particularly mortgage loan refinancing under the Home Affordable Refinance Program and loan modifications, repayment plans, and forbearance under the Home Affordable Modification Program.

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as the conservator of Freddie Mac in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (collectively the "GSE Act"). The conservatorship is a statutory process designed to preserve and conserve Freddie Mac's assets and property and help return the Company to a sound and solvent condition.

The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether Freddie Mac will continue in its current form following conservatorship, or what changes to its business structure will be made during or following the conservatorship. Upon its appointment, the conservator immediately succeeded to all rights, titles, powers, and privileges of Freddie Mac, and of any shareholder, officer, or director of Freddie Mac with respect to Freddie Mac and its assets, and succeeded to the title to the books, records, and assets of any other legal custodian of Freddie Mac. The conservator has since delegated specified authorities to the Company's Board of Directors and has delegated to Freddie Mac's management the authority to conduct the Company's day-to-day operations.

The GSE Act authorizes the Director of FHFA to place the Company into receivership directly from the conservatorship, with FHFA acting as the receiver. The Director of FHFA must place the Company into receivership if the Director determines that the Company's liabilities exceed its assets for sixty days or the Company has not been paying its debts as they become due for sixty days.

The Senior Preferred Stock Purchase Agreement

The day after placing Freddie Mac into conservatorship, on Sunday September 7, 2008, Treasury and Freddie Mac, through its conservator FHFA, entered into the PSPA transaction. In exchange for the Warrant and Senior Preferred Stock issued by Freddie Mac to Treasury with a liquidation preference of $1 billion, Treasury provided a financing Commitment to the Company with an initial maximum amount of $100 billion. The liquidity commitment was increased to $200 billion by an amendment on May 6, 2009 and was increased again to an amount that effectively is $200 billion plus the difference of additional deficit amounts incurred during the calendar years 2010 through 2012, less any positive GAAP-based shareholders' equity as of December 31, 2012. Under the Commitment, Treasury remits cash to the Company in the amount (rounded) of any GAAP-based shareholders' deficit ("deficit amount") at the end of any quarterly or annual reporting period. Payments made by Treasury under the Commitment ("liquidity payments") result in an increase in the amount of the liquidation preference of the Senior Preferred Stock. The Warrant grants Treasury the right to purchase 79.9 percent of the common stock of the Company on a fully diluted basis. The Senior Preferred Stock is described in the following section of this report.

On September 7, 2008, Treasury Secretary Henry Paulson and FHFA Director James Lockhart made a joint statement concerning actions taken with respect to Freddie Mac and Fannie Mae (collectively the "government-sponsored entities" or "GSEs").[2] Mr. Paulson made it clear that Treasury had demanded the GSEs be placed into conservatorship before it would extend a liquidity commitment to them. Mr. Paulson described the intent of the PSPA as follows:

> First, Treasury and FHFA have established Preferred Stock Purchase Agreements, contractual agreements between the Treasury and the conserved entities. Under these agreements [the PSPA, the secured lending facility, and the program to purchase GSE MBS], 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 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.

From the effective date of the PSPA until such time as the Senior Preferred Stock is repaid or redeemed in full, unless it has the prior written consent of Treasury:

- The Company shall not declare or pay any dividend or make any other distribution with respect to any of its other equity issues, or set aside any money for that purpose.
- The Company shall not sell equity interests of any kind, other than the sale and issuance of the Senior Preferred Stock and Warrant and common stock upon exercise of the Warrant.
- The Company shall not do anything to terminate the conservatorship, other than in connection with a receivership pursuant to §1367 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended.[3]
- The Company shall not sell, transfer, lease, or otherwise dispose of all or any portion of its assets whether now owned or subsequently acquired, other than certain dispositions for fair value.
- The Company shall not become liable for (i) any indebtedness that would cause its aggregate indebtedness to exceed 110 percent of its aggregate indebtedness as of June 30, 2008 or (ii) any indebtedness if such indebtedness is subordinated to any other indebtedness of the Company.
- The Company shall not (i) merge into or consolidate with any other entity, (ii) effect a reorganization or recapitalization involving its common stock, or (iii) purchase, lease or otherwise acquire all or substantially all of the assets of another entity.
- The Company shall not own mortgage assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90 percent of the mortgage assets as of December 31 of the immediately preceding year, subject to a floor of $250 billion in mortgage assets.
- The Company shall not engage in any transaction with an affiliate unless such transaction is (i) pursuant to the PSPA, the Senior Preferred Stock, or the Warrant, (ii) upon terms no less favorable to the Company than would be obtained in an arm's-length transaction, or (iii) a transaction undertaken in the ordinary course of business or pursuant to a contractual obligation.

[2] A transcript of Mr. Paulson's statement may be found at http://www.treasury.gov/press-center/press-releases/Pages/hp1129.aspx.
[3] This act is the authority for the conservatorship.

The Company must provide on a timely basis to Treasury all the reports and filings required by the Securities and Exchange Commission, certificates of compliance with the PSPA covenants, and certain other notices and information. In addition, the Company cannot, without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury, enter into new compensation arrangements of certain executive officers of the Company.

Draw downs against the funding commitment of the PSPA do not result in the issuance of additional shares of Senior Preferred Stock; instead, the liquidation preference of the initial one million shares is increased by the amount of the draw down.

Beginning in 2011, under the terms of the amended PSPA, the Company was required to begin paying a quarterly commitment fee to Treasury. However, Treasury may, at its discretion, elect to waive the commitment fee for up to a year at a time, "based on adverse conditions in the United Sates mortgage market." To date, Treasury has elected to waive all commitment fees, and in our calculation of future deficiency amounts, our calculations have included the assumption that Treasury will continue to waive the fee because, as with the case with the dividend (as we described in the Freddie Mac Liquidity Commitment report), the payment of the commitment fee would be funded by additional purchases of Senior Preferred shares.

On December 24, 2009, the maximum Commitment of the PSPA was amended and is currently unlimited through December 31, 2012. At that point, the maximum actual and future total payments under the Commitment will be $200 billion, plus deficiencies incurred during the calendar years 2010 through 2012, less any surplus on December 31, 2012. For purposes of the PSPA, a deficiency exists when total liabilities exceed total assets on a GAAP basis, and a surplus exists when total assets exceed total liabilities on a GAAP basis. Generally, the Company may request a liquidity payment when it has a deficiency, and the request would be granted in the dollar amount of that deficiency.

Variable Liquidation Preference Senior Preferred Stock

The Certificate of Designation of Terms of Variable Liquidation Preference Senior Preferred Stock was signed by the Director of FHFA on September 7, 2008.

The number of shares initially constituting the perpetual Senior Preferred Stock is 1,000,000. Shares of the Senior Preferred Stock have no par value and have a stated value and initial liquidation preference per share equal to $1,000, subject to adjustment as described below. The Senior Preferred Stock ranks prior to common stock of the Company and shall rank, as to both dividends and distributions upon dissolution, liquidation, or winding up of the Company, prior to (i) the preferred shares of the Company existent as of September 7, 2008, (ii) any other capital stock of the Company outstanding as of September 7, 2008, and (iii) any capital stock of the Company that may be issued after September 7, 2008.

Dividends on the Senior Preferred Stock are cumulative, paid in cash, and payable in arrears when declared by the Board of Directors quarterly on March 31, June 30, September 30, and December 31 of each year, commencing on December 31, 2008. Holders of outstanding shares on the date of declaration as they appear on the books and records of the Company receive these dividends ratably. The dividend rate is 10 percent. However, if the Company fails to pay the dividend in cash in a timely manner, the dividend rate immediately increases to 12 percent and remains at that rate until the Company has paid in cash the full amount of the cumulative dividends. To date, Freddie Mac has always paid the dividends in cash and has indicated to us that it will continue to pay in cash because of the adverse compounding effect of non-cash dividend payments.

The liquidation preference of each share shall be the initial amount of $1,000, plus its ratable share of (i) any liquidity payments pursuant to the commitment of the PSPA, (ii) any cumulative dividends not paid in cash, and (iii) any commitment fee related to the commitment of the PSPA not paid in cash; less its ratable share of any pay downs of liquidity preference by the Company.

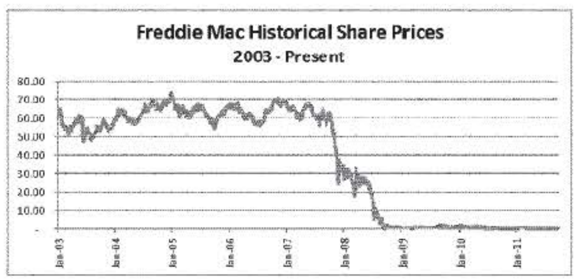
The Company may make optional or voluntary pay downs of the liquidity preference, and in certain circumstances, the Company is mandated to make pay downs. Following termination of the Commitment, the Company at its discretion may pay down the liquidity preference in whole or in part. If the Company issues any shares of capital stock in exchange for cash at any time while the Senior Preferred Stock is outstanding, then the net proceeds of that stock issuance must be used to pay down the liquidity preference of the Stock. Both voluntary and mandatory pay downs shall be applied first to any unpaid dividends, then to any unpaid commitment fees, if assessed, and lastly to the liquidation preference related to liquidity payments. When and if the liquidity preference has been paid in full, the Senior Preferred Stock shall be deemed to be redeemed as of the date of such payment, and the shares of the Stock shall no longer be deemed to be outstanding, and all rights of the holders of Senior Preferred Stock shall cease.

The shares of the Senior Preferred Stock are transferable and have no voting powers, either general or special. The holders of shares of the Senior Preferred Stock have no right to convert such shares into or exchange such shares for any other class of stock or obligations of the Company and have no preëmptive right to purchase or subscribe for any other shares, rights, options, or other securities of the Company which at any time may be sold or offered for sale.

The Company has the right at any time after September 7, 2008 to authorize, create, and issue one or more additional classes or series of stock of the Company. Such stock may not rank prior to or on parity with the Senior Preferred Stock without the prior written consent of the holders of at least two-thirds of the shares of Stock.

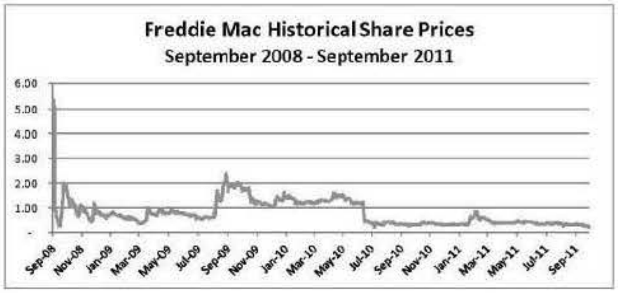
Trading History of Freddie Mac Common Stock

As noted above, Freddie Mac's common shares traded on the New York Stock Exchange (ticker: FRE) until July 8, 2010, when the shares began trading on the OTC Bulletin Board. The trading prices of Freddie Mac's common shares from January 2003 through March 2011 are presented in the chart.



Common share prices for Freddie Mac have declined precipitously since they began to recognize credit losses from the high-risk loans that were originated from 2005 through most of 2008, following the nationwide drop in home prices and the increase in unemployment.

More recently, common share prices took several additional adverse shocks: the dilution of existing shareholders' positions related to the Warrant on September 7, 2008; FHFA's June 16, 2010 announcement that the GSEs would be delisted; and the start of trading through the OTC Bulletin Board on July 8, 2010. The chart below highlights trading of the common shares during this period.



Recent Financial History of Freddie Mac

Historically, Freddie Mac charged from 10 bps to 80 bps annually on the dollar amount of underlying mortgage loans that it guaranteed.[4] This fee schedule adequately compensated the Company for its credit losses and contributed to its profitability until the Company had to recognize the effects from its acquisition of loans with higher risk characteristics during the calendar years 2005 through 2008.

Compared to earlier loan acquisitions (and post-2008 acquisitions), the 2005 to 2008 loans had higher risk characteristics across the board, including higher loan-to-value ratios, lower FICO scores, and a much higher level of low documentation and no documentation (Alt-A) loans, interest-only loans, and negative amortization loans. According to the 2011 Second Quarter Credit Supplement, 45.7 percent of the loans in the portfolio the Company acquired from 2005 to 2008 had mark-to-market LTV ratios that were greater than 100 percent as of June 30, 2011.

Table 2
Freddie Mac Selected Financial Indicators
($ in billions)

Reporting Date	Equity (Deficit)*	Change in Equity (Deficit)	Treasury PSPA Funding	Credit Loss Provision	Earnings
31-Dec-04	31.42	(0.85)	0.00	0.14	2.94
31-Dec-05	27.19	(4.23)	0.00	0.25	2.13
31-Dec-06	28.30	1.11	0.00	0.22	2.21
31-Dec-07	26.72	(1.58)	0.00	2.85	(3.09)
30-Jun-08	12.95	(13.77)	0.00	3.78	(0.97)
31-Dec-08	(44.36)	(57.31)	13.80	16.43	(50.12)
31-Dec-09	(42.05)	2.31	36.90	29.53	(21.55)
31-Dec-10	(53.58)	(11.52)	12.50	17.22	(14.03)
30-Jun-11	(51.93)	1.65	0.50	2.53	(2.14)

** Excludes PSPA stock purchase receipts and PSPA stock dividend payments*
Sources: Freddie Mac quarterly and annual public filings

As shown in Table 2, beginning in 2007 the Company began to recognize provisions for credit losses that far exceeded historical loss rates. Between 2003 and 2006, the credit loss ratio increased steadily from 0.7 to 1.1 bps as a percentage of the Company's average mortgage credit book of business. According to the FHFA House Price Index, housing prices continued to rise through July 2006 and then began a steady decline until January 2009, as illustrated in the chart below. By 2007, the combination of home price declines and the risky

[4] Bps is an acronym for basis points. One basis point is 0.01 percent, or 1/10,000.

2005 to 2008 loans resulted in higher delinquency rates and increased loss severities. Consequently, Freddie Mac began to recognize unprecedented provisions for credit losses. The credit loss ratio reached 76.2 bps as a percentage of the Company's average mortgage credit book in 2010.

In the midst of home price declines and increasing credit loss provisions, nearly all of which related to the 2005 to 2008 loans, Freddie Mac was placed into conservatorship and entered into, through FHFA as its conservator, the PSPA. Table 2 illustrates the Company's rapid decline from a profitable entity with more than $30 billion in shareholders' equity into an entity that was losing substantial amounts of money and, absent the injection of $64.7 billion in capital by Treasury under the PSPA through June 30, 2011, would have had total liabilities well in excess of total assets. Additional details concerning GAAP-based shareholders' equity (deficit) are presented by quarter-end from March 2007 through June 2011 in Appendix A.

Valuation Approach

Accounting guidance

Under ASC 820, the fair value of the Senior Preferred Stock is the price that would be received by Treasury to sell the Senior Preferred Stock in an orderly transaction with market participants at the measurement date. In valuing the Senior Preferred Stock, we have considered the nature of this equity instrument, including its liquidation preference relative to debt and other equity, the price in a hypothetical transaction, the principal market, and the perspective of potential market participants.

As further explained below, we have estimated the value of the Stock in accordance with a hypothetical transaction, set out in ASC 820 as follows:

> The transaction to sell the asset…is a hypothetical transaction at the measurement date, considered from the perspective of a market participant…

ASC 820-10-20 defines market participants as buyers and sellers in the principal (or most advantageous) market for the asset or liability who possess all of the following characteristics:

- Independent of the reporting entities (that is, they are not related parties)
- Knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary
- Able to transact for the asset or liability
- Willing to transact for the asset or liabilities (that is, they are motivated but not forced or otherwise compelled to do so)

ASC 820-10-35-9 further states that

> The fair value of the asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity should identify characteristics that distinguish market participants generally, considering factors specific to all of the following:
>
> a. The asset or liability
> b. The principal (or most advantageous) market for the asset or liability
> c. Market participants with whom the reporting entity would transact in that market.

It is not likely that Freddie Mac would repurchase the Senior Preferred Stock. However, the stock may be offered to third parties because (i) the Stock is transferable and (ii) the Company is obligated by the terms of the certificate of designation of the stock to keep a record of current holders. In addition, each stock has its ratable share of the total liquidation preference, which facilitates the sale of the Stock to multiple market participants.

Market and regulatory environment of the GSEs

In February of this year, Treasury and the Department of Housing and Urban Development jointly issued a report to Congress entitled *Reforming America's Housing Finance Market*. In this report, to which we will refer hereinafter as the "white paper," the following paragraph was contained in the introduction:

> The Administration will work with the Federal Housing Finance Agency ("FHFA") to develop a plan to responsibly reduce the role of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") in the mortgage market and, ultimately, wind down both institutions. We recommend FHFA employ a number of policy levers – including increased guarantee fee pricing, increased down payment requirements, and other measures – to bring private capital back into the mortgage market and reduce taxpayer risk. As the market improves and Fannie Mae and Freddie Mac are wound down, it should be clear that the government is committed to ensuring that Fannie Mae and Freddie Mac have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations. We believe that under our current Preferred Stock Purchase Agreements (PSPAs), there is sufficient funding to ensure the orderly and deliberate wind down of Fannie Mae and Freddie Mac, as described in our plan.[5]

In a conference call with reporters on the day the white paper was released, Treasury Secretary Geithner commented that the transition to a new housing finance system would likely take five to seven years[6] The white paper listed a number of policy goals that the Administration would seek to achieve through reform of the housing finance system, including:

- Winding down Fannie Mae and Freddie Mac on a responsible timeline by
  - Increasing guarantee fees to bring in more private capital

[5] "Reforming America's Housing Finance Market: A Report to Congress," U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development, February 2011, pg. 2.
[6] Woellert, Lorraine and Rebecca Christie, "Treasury Report Calls for Winding Down Fannie, Freddie," Bloomberg *Businessweek*, February 11, 2011.

- Increasing private capital ahead of Fannie Mae and Freddie Mac guarantees
- Reducing conforming loan limits
- Winding down the investment portfolios of Fannie Mae and Freddie Mac

- Returning FHA to its traditional role as targeted lender of affordable mortgages
- Ensuring FHLB support for small- and medium-sized financial institutions
- Improving coordination among existing governmental housing finance programs[7]

The white paper expressed a commitment to preserving the position of the holders of debt issued by the GSEs, but it was virtually silent on the subject of preserving the value of the senior preferred stock.

More recently, Acting Director Edward DeMarco of FHFA addressed the American Mortgage Conference on the future of the conservatorship.[8] In his address, he stated:

> It ought to be clear to everyone at this point, given the Enterprises' losses since being placed into conservatorship and the terms of the Treasury's financial support agreements, that the Enterprises will not be able to earn their way back to a condition that allows them to emerge from conservatorship. In any event, the model on which they were built is broken beyond repair. Conservatorship allows the Enterprises to continue serving their public purpose while lawmakers determine the ultimate resolution of the conservatorships and the future legal structure for housing finance.
>
> Yet, after three years, there still is no clear direction as to what legal and institutional structures will replace the Enterprises and their central position in the housing finance market. (pp. 5-6)

He announced a number of initiatives that FHFA had taken to improve the functioning of the housing finance system while at the same time working to reduce the risks that exist beyond the normal business risks associated with guaranteeing new mortgages.

> One way to mitigate this risk is for the Enterprises' market presence to shrink, not only the size of their retained portfolio, which we are doing, but also the size of their credit guarantee book....
>
> ...[A] logical next step in conservatorship is to continue down the path already started of gradually increasing guarantee fee pricing to better reflect that which would be anticipated in a private, competitive market. Two words of caution are required. First, there is substantial effort long underway to bring stability to housing and housing finance, so such increases should not undermine those efforts. Second, we can model and make educated guesses about the price a purely competitive, private market would charge for a given set of mortgage credit characteristics presented by any given borrower, but we can't know this with certainty. For these reasons, it is my view that a series of periodic, gradual price increases makes more sense than one or two large price adjustments. (pp. 7-8)

Estimated value of the Senior Preferred Stock

We estimated the value of the Senior Preferred Stock using a discounted cash flow analysis. A discounted cash flow analysis requires a forecast of future periodic net cash flows over the discounted cash flow analysis

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[7] White paper, pp. 12-15

[8] "The Conservatorships of Fannie Mae and Freddie Mac: Current and Future Operations," Edward J. DeMarco, Acting Director, Federal Housing Finance Agency speech before the American Mortgage Conference, Raleigh, North Carolina, September 19, 2011.

horizon, a discount rate from which present value factors are calculated, and, frequently, a capitalization rate to determine residual value at the end of the discounted cash flow analysis horizon.[9]

Cash flows

In our calculation of Freddie Mac's liquidity commitment, we analyzed and extended the forecasted cash flows for 2011 to 2014 that Freddie Mac provided to FHFA in September, based on input we received from Freddie Mac's forecasting team. The Company forecasts its performance and anticipated need for financial assistance under three scenarios based on Moody's house price paths – a base case, an optimistic or "stronger near-term recovery" case, and a stress or "deeper second recession" case.

Moody's describes the optimistic scenario as being consistent with "a 10 percent probability that the economy will perform better than this scenario…and a 90 percent probability that it will perform worse." Similarly, the stress scenario is consistent with "a 90 percent probability that the economy will perform better…and a 10 percent probability that it will perform worse."[10] Because the base case is by definition the most likely outcome, we have used those forecasts as the foundation for our valuation of the Senior Preferred Stock. We are not aware of anything that would indicate that the Moody's house price forecasts have changed since the time of their release in a manner that would have a material impact on the forecasts.

Building on the forecasted cash flows provided by Freddie Mac's forecasting team, we extended the cash flows from September 30, 2014 through Treasury's second quarter of 2039 (March 31, 2039), when we estimate the maximum liquidity commitment to the Company will become entirely depleted. We assumed the final dividend payment will be made three months later (i.e., on June 30, 2039) and that one year after, or June 30, 2040, a recovery will be realized on the buyers' liquidation preference.

A complicating issue for the Senior Preferred Stock is the interaction between liquidity payments and the ongoing liquidity preference of the Stock and the amount of dividends associated with that liquidity preference. We have assumed that the potential buyer would acquire the dividend stream related to the balance of the liquidity preference as it existed on the measurement date. Based on discussions with representatives within Treasury's Office of Domestic Finance, we further assumed that Treasury would agree not to charge a commitment fee to the Company in order to increase the amount it receives for converting the dividend receipt stream to current cash.

We have attached as Exhibit 1 an excerpt from the Liquidity Commitment memo illustrating the expected cash flows, including net comprehensive income, changes in the Senior Preferred shares, Senior Preferred dividend payments, and shareholders' deficit. The Company will eventually be forced into receivership, with FHFA acting as the receiver, once the liquidity commitment becomes exhausted and the Company is no longer able to generate sufficient cash to pay the Senior Preferred dividend. The Director of FHFA must place the Company into receivership if the Director determines that the Company's liabilities exceed its assets for sixty days or the Company has not been paying its debts as they become due for sixty days.

The liquidation preference of the Senior Preferred Stock was $66.2 billion as of September 30, 2011. In the contemplated hypothetical transaction, we assumed the buyers would acquire the dividend stream associated

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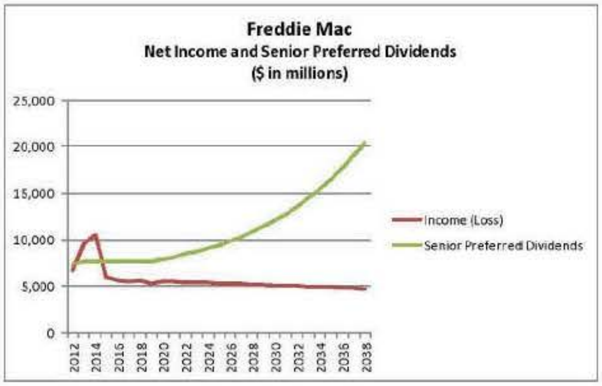
[9] In a horizon analysis, the timeframe of the discounted cash flows is for a period of time that ends on a date (the horizon) that differs from the investment's contractual maturity.

[10] *Projections of the Enterprises' Financial Performance*, released by the Federal Housing Finance Agency, October 2010, pg. 6.

with $66.2 billion of liquidation preference until the time when the Company no longer would be able to pay the dividends on the Senior Preferred Stock because the Company will have exhausted its liquidity commitment funding. It is reasonable to expect that Freddie Mac will continue its existing policy of paying dividends in cash because the maximum amount of the Commitment otherwise would be reached at an earlier date.

Discount Rate

From the measurement date through December 31, 2012, Treasury has no limit on its Commitment to the Company. Effectively, the Company's dividend obligation is guaranteed by the U.S. government during this period, and we used the Treasury rate as the discount rate for this period.



From December 31, 2012 through September 30, 2018, Freddie Mac is not projected to draw on the liquidity commitment to make its dividend payments because of increased earnings driven by significantly reduced credit losses in 2012 and 2014. However, net interest income gradually shrinks the Company's earning ability as the mortgage assets portfolio decreases in fulfillment of the terms of the PSPA, and by 2018, the Company is once again drawing on the liquidity commitment in order to fund its dividend payments. The chart above illustrates forecasted income and dividends until the exhaustion of the liquidity commitment. During the time from 2013 to September 2018, though the Company does not draw upon the liquidity commitment to fund its dividend payments, it nonetheless faces a high degree of uncertainty surrounding the timing and circumstances of its exit from conservatorship. To reflect this risk, we used a discount rate of 7.755 percent, which is consistent with the average yield on financial service sector preferred shares based on the Bank of America Merrill Lynch U.S. Preferred Stock Fixed Rate Index at the valuation date. (See Exhibit 2 for a calculation of the discount rate and the underlying data.)

After September 30, 2018, we used a discount rate of 14.568 percent to reflect the higher degree of uncertainty of forecasted earnings, the increased likelihood of exhausting the Treasury maximum liquidity commitment, and the vulnerability of the Company to highly uncertain political and economic conditions. To determine the discount rate, we summarized data from the Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index, adjusting for tenor and the preferred tax benefit. Exhibit 3 contains the calculation of the discount rate and our adjustment for tenor. The underlying data are provided in Appendix B.

We reviewed market instruments for corporate issuers that were highly correlated to the performance of the residential mortgage market as a means of comparison for the long-term risk of Freddie Mac's performance on the Senior Preferred shares. We noted that the mortgage guarantee companies, Mortgage Guaranty Insurance Company and Radian Group, had credit default swap contracts quoted at annual spreads of 1825 bps and 2475 bps, respectively.

In addition, we noted Bank of America's issuance of $5 billion of series T 6 percent preferred shares in August 2011. Based on the terms of the transaction, we calculated an implied dividend yield of approximately 18.69 percent.[11] The rates on these instruments are not inconsistent with the long-term yield we used in our cash flow model.

Recovery Value

At the end of the cash flow horizon, we have included a recovery of part of the buyers' liquidation preference. We estimate the recovery at approximately $6 billion, or 9.056 percent of the amount of liquidity preference sold to the buyer. This value may be realized through distributions made by a receiver or by the buyers selling their interest in allocable residual cash flows after the ten percent dividend of the senior preferred stock has been renegotiated or set aside by the receiver. For the period of time from 1982 through 2008, Moody's estimated recovery rates of between 11.7 percent and 13.1 percent for non-trust preferred stocks, as measured by post-default prices.[12] Our 9.056 percent recovery rate estimate is consistent with Moody's estimates.

We estimated recovery based on the Company's forecasted annual cash flow at the time of the expected default using the 14.568 percent yield requirement, described above in the *Discount Rate* section of this report, for disposition of the residual interest and the amount of total Senior Preferred liquidation preference at the time of default. Assuming annual cash flow of $4.5 billion, which approximates the annual income Freddie Mac is expected to earn at the time of its exit from conservatorship, we estimate a 9.056 percent recovery as shown in the table below.[13]

Liquidation Preference Recovery ($ in millions)		
Ongoing pretax income	A	4,500
Income taxes	B=A* tax rate	1,575
Ongoing net income	C=A-B	2,925
Required yield	D	14.568%
Value of the senior preferred shares	E=C/D	20,078
Liquidation preference	F	221,696
Recovery rate	G=E/F	9.056%
Liquidation preference sold to buyer	H	66,179
Recovery of buyer's liquidation preference	J=G*H	5,993

Valuation

With input from the Company's forecasting team, we extended the cash flows for the amount of dividends associated with the Senior Preferred Shares at the measurement date until the liquidity commitment is exhausted, which occurs in 2039, according to our calculations described in the Liquidity Commitment

[11] The calculation assumes $700 million in 10-year warrants with a $7.14 strike price valued at $4.85 per share.
[12] "Corporate Default and Recovery Rates, 1920 – 2008," Exhibit 5, Moody's Investors Service, February 2009. In its February 2011 version of this annual default study, Moody's did not provide any information for preferred stocks.
[13] In our projections, we assumed that income taxes prior to default will be offset by tax loss carry-forwards and that the Company will accrue and pay income taxes after default.

memo. As summarized in Exhibit 4, we estimate that the buyers would receive $190 billion in dividends and $6 billion in residual value or recovery. We discounted these projected cash flows to present values using the three discount rates representing three separate periods of risk, as described above in the *Discount Rate* section. The result of our valuation is $53,624,000,000.

We also performed an analysis of the Company's projected cash flows assuming that the dividend preference were eliminated and dividends on the PSPA were reduced to levels equal to expected future earnings. Because of the much higher level of uncertainty associated with dividends in such a scenario, we used a risky rate, commensurate with returns of common stock, for the entire time horizon. The discounted value under this second scenario provides a value of about $47 billion, without consideration for the payment of federal income taxes. However, because there have been no changes to the terms of the PSPA that would eliminate the dividend preference, nor have there been any formal policies that would make such an outcome likely, we have not placed any weight on this calculation.

Other issues considered

Control premium

The holders of the Senior Preferred Stock have no voting powers and cannot control the company. In addition, no control premium exists unless there is a benefit of control. It is widely accepted that the following are among the prerogatives of control ownership:

- setting policy and changing the course of business;
- acquiring or liquidating assets;
- making acquisitions, liquidating, dissolving, selling out, or recapitalizing the company;
- selling or acquiring treasury shares;
- registering the company's stock for a public offering;
- declaring and paying dividends, changing the articles of incorporation or bylaws.[14]

These prerogatives of control ownership would not inure to a buyer of the Senior Preferred Stock. FHFA, acting as conservator, retains most of the usual control powers. In addition, the Company operates under a federal charter, which includes certain missions that are incompatible with conventional for-profit objectives, and the terms of the PSPA include numerous prohibitions that usurp many control prerogatives.

The Company is under conservatorship, with FHFA acting as conservator. The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether the Company will continue in its current form following conservatorship, or what changes to its business structure will be made during or following the conservatorship. The rights of the shareholders are suspended during the conservatorship, and the conservator may take any actions it determines are necessary and appropriate to carry on the Company's business and preserve and conserve its assets and property. The conservator's powers include the ability to transfer or sell its assets or liabilities, generally without any approval, assignment of rights, or consent of any party.

There is no assurance that the Company will be able to repay Treasury's liquidity payments or otherwise terminate the PSPA or retire the Senior Preferred shares. Treasury's Senior Preferred shares have a

[14] For example, see Pratt, Shannon P., *The Market Approach to Valuing Businesses*, John Wiley & Sons, 2001, pp. 137-138.

liquidation preference to the common and preferred shareholders. As noted above in the *Senior Preferred Stock Purchase Agreement* section, the PSPA contains covenants that significantly restrict the Company's business activities and require the prior written consent of Treasury before it can take certain actions.

In terms of adding value through the ability to change or control the Company's operations, no control premium is supportable based on the factors discussed above, and accordingly, we did not assign a control premium to the Treasury's holdings of the Senior Preferred shares.

Dilution

The Senior Preferred Stock has a priority both as to dividend and distributions over all other classes of equity. In addition, the covenants of the PSPA prevent any unauthorized action that would disfavor the Stock, including limits on indebtedness, prohibition of asset sales, prohibition of the issuance of equity interests (except those related to the PSPA), and prohibition of mergers and acquisitions. The current Senior Preferred shares will be diluted by future advances, and our methodology captures this dilution in the way we quantify the final recovery at the time the Company exhausts the liquidity commitment.

FHFA lawsuits against leading financial institutions

In late July and early September, FHFA filed lawsuits against 18 financial institutions, certain of their officers, and various unaffiliated lead underwriters, alleging violations of federal securities laws and common law in the sale of residential private-label mortgage-backed securities to the GSEs. Collectively these lawsuits seek billions of dollars in damages on behalf of the GSEs, but as of the measurement date, there was insufficient certainty as to the outcome of the lawsuits, and we did not consider the impact of any potential settlements on behalf of Freddie Mac in our valuation of the Senior Preferred shares.

Federal income taxes

We have assumed that the Company will not pay federal income taxes, and the Company is exempt from state and local taxes. Because of the Company's improved earnings forecasts, we considered including within our valuation a reduction of earnings by the estimated income taxes the Company might be required to pay after tax loss carry-forwards were exhausted. We did not perform a detailed review of the Company's current income tax position, but we believe it would be very unlikely that any federal income taxes would be paid prior to 2017. The payment of taxes would affect the payment of dividends by shortening the number of years that dividends could be paid before the liquidity commitment is depleted because the Company would draw liquidity payments to pay both dividends and federal taxes. Our sensitivity testing demonstrated that the effect on the valuation of the Senior Preferred shares was minimal because of the very low value of cash flows at the end of the time horizon, and because of the high degree of uncertainty surrounding the future status of the Company, we did not include calculations of federal income taxes in our valuation.

Valuation Qualifications

E. Bradley Wilson, Managing Partner of Audit – Global Public Sector, Grant Thornton LLP

Mr. Wilson is the Managing Partner of Audit in Grant Thornton's Global Public Sector, with over thirty years of experience in the audit and evaluation of federal government and commercial entities' financial statements, internal controls, accounting, financial management systems, and operations. This includes evaluating business processes, procedures, and systems for effectiveness of internal controls and compliance with laws and regulations. He has extensive experience in financial management with respect to reporting, accounting, budgeting, and disbursing.

Mr. Wilson was elected to the Grant Thornton U.S. partnership board for two terms, where his responsibilities included providing governance and direction to the Firm. For two years he served as the Chief Administrative Officer of Grant Thornton, following a number of years of serving as the top technical partner in the Minneapolis office of Grant Thornton.

Mr. Wilson was awarded a B.S. degree from Brigham Young University and an M.B.A. degree from Harvard University.

Justin Burchett, Ph.D., Senior Manager, Grant Thornton LLP
Justin has over ten years of experience in the financial services industry. He is responsible for the analysis and valuation of a variety of financial instruments for clients in the financial services industry, including hedge funds, banks, private equity firms, real estate investment trusts, and specialty finance companies.

Prior to joining Grant Thornton, Justin was a Managing Director and founding partner at Structured Credit Holdings, where he was responsible for business development and asset origination of structured finance securities and fixed income derivatives. Prior to his work at Structured Credit, he was a Vice-president at Radian Group in the Global Structured Products department where he structured, originated, and valued a variety of credit instruments, including collateralized debt obligations, credit derivatives, asset-backed securities, and mortgage-backed securities. Justin was also an Associate at Hanover Capital Mortgage Holdings, a residential mortgage Real Estate Investment Trust. While at Hanover, Mr. Burchett modeled and analyzed non-Agency residential mortgage-backed securities.

Justin was awarded a B.A. degree from Pomona College and an M.A. degree and Ph.D. from Stanford University.

Anne Eberhardt, Senior Manager, Grant Thornton LLP
Anne has been the manager of Grant Thornton's valuation services to Treasury since the inception of the PSPA. She has confirmed valuations of preferred stock and warrants issued pursuant to TARP for Grant Thornton's audit clients nationwide. She also assists with complex valuations, credit models, and valuation of distressed loan assets.

Anne has extensive experience with the GSEs, having performed a year-long specialized assessment of all single-family loan programs for one of the GSEs, reviewing its contracts with primary loan originators, loan service providers, and trusts. In addition, she developed and maintained the information-tracking system to manage the assets of four failed financial institutions in the Firm's capacity as the receiver/liquidator. She also has experience with evaluating limited partnerships organized under the Low Income Housing Tax Credit program to determine the FIN 46 consolidation requirements of the sponsoring entity.

Anne was awarded a B.S. degree and an M.B.A. degree from Brigham Young University.

Appraiser Certification

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this detailed appraisal report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the assumptions and limiting conditions reported herein, and represent our personal, impartial, independent, unbiased, objective professional analyses, opinions, and conclusions.
- We have no present or prospective financial or other interest in the business or property that is the subject of this report, and we have no personal financial or other interest with respect to the business, property or parties involved.
- We have no bias with respect to the business or property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is fee-based and is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the outcome of this valuation, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that data.
- Our analyses, opinions, conclusions and this comprehensive appraisal report were developed in conformity with the 2008 American Institute of Certified Public Accountants *Statement of Standards for Valuation Services No. 1* and the 2010-2011 Uniform Standards of Professional Appraisal Practice.
- The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
- The valuation analyst has no obligation to update the report or the opinion of value for information that comes to his/her attention after the date of the report.
- This report and analysis were prepared under the direction of Brad Wilson, Partner, with significant professional assistance from David Dufendach, Partner, Justin Burchett, Senior Manager, and Anne Eberhardt, Senior Manager.
- No one other than the staff of Grant Thornton LLP provided any professional assistance to the individual(s) signing this report.

E. Bradley Wilson, CPA
Managing Partner of Audit – Global Public Sector
Grant Thornton LLP

Assumptions and Limiting Conditions

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this detailed appraisal report (report) are summarized below. Other assumptions are cited elsewhere in this report.

1 The conclusion of value arrived at herein pertains only to the subject financial instrument, the stated value standard (fair value), as of the stated valuation date, and only for the stated valuation purpose(s).

2 Financial statements and other related information provided by the Company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. Grant Thornton has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3 Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

4 If prospective financial information approved by the Company's management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected; achievement of the forecast results is dependent on actions, plans, and assumptions of management.

5 The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

6 This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. The Treasury Department may present to parties directly involved in the audit of its financial statements, subject to confidentiality. Our work and this report may not be used for any other purpose or by any other party for any purpose without our prior written consent.

7 Grant Thornton LLP will not provide consent to be a named expert in any filings, including, without limitation, any filings with the U.S. Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended.

8 The report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of Grant Thornton, based on information furnished to them by the Company and other sources.

9 The asset that is the subject of this value estimate is unique both as to its nature and size and is without any known regular arm's length market; accordingly, there is considerable uncertainty both as to how it would be disposed of and the value at which it could be sold.

10 Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication, including but not limited to the Securities and Exchange Commission or other governmental agency or regulatory body, without the prior written consent and approval of Grant Thornton.

11 Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of Grant Thornton unless previous arrangements have been made in writing.

12 Grant Thornton is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. Grant Thornton does not conduct or provide environmental assessments and has not performed one for the subject property.

13 Grant Thornton has not determined independently whether the Company is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) or the scope of any such liabilities. Grant Thornton's valuation takes no such liabilities into account, except as they have been reported to Grant Thornton by the Company or by an environmental consultant working for the Company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, Grant Thornton has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

14 Grant Thornton has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

15 No change of any item in this appraisal report shall be made by anyone other than Grant Thornton, and we shall have no responsibility for any such unauthorized change.

16 Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

17 We have conducted interviews with the current management of the Company concerning the past, present, and prospective operating results of the company.

18 Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

19 Unless otherwise stated in the appraisal, the valuation has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the valuation date.

20 We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

21 Unless stated otherwise in this report, we express no opinion as to: 1) the tax consequences of any transaction which may result, 2) the effect of the tax consequences of any net value received or to be received as a result of a transaction, and 3) the possible impact on the market value resulting from any need to effect a transaction to pay taxes.

22 Our work was performed and this report is in compliance with the reporting standards under the AICPA's *Statement of Standards for Valuation Services No. 1*.

Exhibits

Exhibit 1
Estimated Cash Flows - Freddie Mac
Fiscal Years Ending September 30, 2011 to 2039
($ in millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GAAP net interest margin	14,582.4	12,479.3	15,485.2	14,810.3	9,451.3	9,047.5	9,045.0	8,718.0	8,423.6	8,635.4
Net non-interest income (loss)	1,194.5	1,300.1	1,167.4	1,083.9	700.0	679.0	658.6	638.9	619.7	601.1
OTTI	(3,975.6)	(1,950.0)	(1,000.0)	(650.0)	(500.0)	(500.0)	(500.0)	-	-	-
Provision for credit losses	(11,190.6)	(2,908.9)	(4,156.5)	(2,959.7)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)
Administrative expenses	(1,514.6)	(1,512.6)	(1,341.3)	(1,187.6)	(1,200.0)	(1,224.0)	(1,248.5)	(1,273.4)	(1,298.9)	(1,324.9)
REO Expense	(721.7)	(738.5)	(664.9)	(486.9)	(300.0)	(294.0)	(288.1)	(282.4)	(276.7)	(271.2)
Net comprehensive income (loss)	(1,625.5)	6,669.5	9,489.8	10,609.9	5,985.9	5,543.1	5,501.6	5,635.6	5,302.3	5,475.0
Beginning shareholders' equity (deficit)	(401.4)	(6,390.9)	3,467.8	5,291.6	8,235.6	6,555.4	4,432.5	2,268.1	237.8	(658.5)
Comprehensive income (loss)	(1,625.5)	6,669.5	9,489.8	10,609.9	5,985.9	5,543.1	5,501.6	5,635.6	5,302.3	5,475.0
Change in senior preferred	**2,079.0**	**10,481.0**	-	-	-	-	-	-	**1,500.0**	**2,500.0**
Senior preferred dividends	(6,443.0)	(7,291.8)	(7,666.0)	(7,666.0)	(7,666.0)	(7,666.0)	(7,666.0)	(7,666.0)	(7,698.5)	(7,908.5)
Ending shareholders' equity (deficit)	(6,390.9)	3,467.8	5,291.6	8,235.6	6,555.4	4,432.5	2,268.1	237.8	(658.5)	(592.0)
Drawdowns at 9.30.2010	63,100.0									
Senior preferred cumulative drawdowns	65,179	75,660	75,660	75,660	75,660	75,660	75,660	75,660	77,160	79,660
Amended commitment limit	n.a	n.a	220,696	220,696	220,696	220,696	220,696	220,696	220,696	220,696

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Exhibit 1
Estimated Cash Flows - Freddie Mac
Fiscal Years Ending September 30, 2011 to 2039
($ in millions)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
GAAP net interest margin	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4
Net non-interest income (loss)	583.1	565.6	548.6	532.2	516.2	500.7	485.7	471.1	457.0	443.3
OTTI	-	-	-	-	-	-	-	-	-	-
Provision for credit losses	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)
Administrative expenses	(1,351.4)	(1,378.4)	(1,406.0)	(1,434.1)	(1,462.8)	(1,492.0)	(1,521.9)	(1,552.3)	(1,583.4)	(1,615.0)
REO Expense	(265.8)	(260.4)	(255.2)	(250.1)	(245.1)	(240.2)	(235.4)	(230.7)	(226.1)	(221.6)
Net comprehensive income (loss)	5,435.9	5,396.7	5,357.4	5,317.9	5,278.2	5,238.4	5,198.4	5,158.0	5,117.5	5,076.6
Beginning shareholders' equity (deficit)	(592.0)	(714.6)	(751.4)	(840.0)	(1,008.1)	(1,098.4)	(1,253.5)	(1,321.1)	(1,451.6)	(1,607.6)
Comprehensive income (loss)	5,435.9	5,396.7	5,357.4	5,317.9	5,278.2	5,238.4	5,198.4	5,158.0	5,117.5	5,076.6
Change in senior preferred	**2,600.0**	**3,000.0**	**3,300.0**	**3,600.0**	**4,100.0**	**4,500.0**	**5,100.0**	**5,600.0**	**6,200.0**	**6,800.0**
Senior preferred dividends	(8,158.5)	(8,433.5)	(8,746.0)	(9,086.0)	(9,468.5)	(9,893.5)	(10,366.0)	(10,888.5)	(11,473.5)	(12,113.5)
Ending shareholders' equity (deficit)	(714.6)	(751.4)	(840.0)	(1,008.1)	(1,098.4)	(1,253.5)	(1,321.1)	(1,451.6)	(1,607.6)	(1,844.4)
Drawdowns at 9.30.2010										
Senior preferred cumulative drawdowns	82,260	85,260	88,560	92,160	96,260	100,760	105,860	111,460	117,660	124,460
Amended commitment limit	220,696	220,696	220,696	220,696	220,696	220,696	220,696	220,696	220,696	220,696

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Exhibit 1
Estimated Cash Flows - Freddie Mac
Fiscal Years Ending September 30, 2011 to 2039
($ in millions)

	2031	2032	2033	2034	2035	2036	2037	2038	2039
GAAP net interest margin	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4	8,635.4
Net non-interest income (loss)	430.0	417.1	404.6	392.4	380.7	369.2	358.2	347.4	337.0
OTTI	-	-	-	-	-	-	-	-	-
Provision for credit losses	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)	(2,165.4)
Administrative expenses	(1,647.3)	(1,680.3)	(1,713.9)	(1,748.2)	(1,783.1)	(1,818.8)	(1,855.2)	(1,892.3)	(1,930.1)
REO Expense	(217.1)	(212.8)	(208.5)	(204.4)	(200.3)	(200.0)	(200.0)	(200.0)	(200.0)
Net comprehensive income (loss)	5,035.5	4,994.0	4,952.1	4,909.9	4,867.2	4,820.4	4,772.9	4,725.1	4,676.8
Beginning shareholders' equity (deficit)	(1,844.4)	(2,032.5)	(2,252.0)	(2,490.9)	(2,734.6)	(2,988.4)	(3,374.0)	(3,709.5)	(4,035.4)
Comprehensive income (loss)	5,035.5	4,994.0	4,952.1	4,909.9	4,867.2	4,820.4	4,772.9	4,725.1	4,676.8
Change in senior preferred	**7,600.0**	**8,400.0**	**9,300.0**	**10,300.0**	**11,400.0**	**12,500.0**	**13,900.0**	**15,400.0**	**7,436.2**
Senior preferred dividends	(12,823.5)	(13,613.5)	(14,491.0)	(15,453.5)	(16,521.0)	(17,706.0)	(19,008.5)	(20,451.0)	(21,897.8)
Ending shareholders' equity (deficit)	(2,032.5)	(2,252.0)	(2,490.9)	(2,734.6)	(2,988.4)	(3,374.0)	(3,709.5)	(4,035.4)	(13,820.2)
Drawdowns at 9.30.2010									
Senior preferred cumulative drawdowns	132,060	140,460	149,760	160,060	171,460	183,960	197,860	213,260	220,696
Amended commitment limit	220,696	220,696	220,696	220,696	220,696	220,696	220,696	220,696	220,696

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Exhibit 2

The Bank of America Merrill Lynch U.S. Preferred Stock Fixed Rate Index

Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yield to Worst
'01903Q20'	US01903Q2075	ALLIED CAP CORP	ARCC	6.875	4/15/2047	230.00	89.40	7.885
'04010L20'	US04010L2025	ARES CAPITAL COR	ARCC	7.750	10/15/2040	200.00	97.60	8.109
'05518T20'	US05518T2096	BAC CAP TR VIII	BAC	6.000	8/25/2035	530.00	77.88	8.171
'05518E20'	US05518E2028	BAC CAP TRST III	BAC	7.000	8/15/2032	500.00	85.80	8.557
'05518520'	US0551852017	BAC CAP TRST IV	BAC	5.875	5/3/2033	375.00	76.92	8.276
'05518720'	US0551872072	BAC CAP TRUST I	BAC	7.000	12/15/2031	575.00	86.40	8.440
'05518820'	US0551882055	BAC CAP TRUST II	BAC	7.000	2/1/2032	900.00	85.88	8.598
'05518420'	US0551842042	BAC CAP TRUST V	BAC	6.000	11/3/2034	517.50	77.64	8.273
'05518920'	US0551892039	BAC CAP TRUST X	BAC	6.250	3/29/2055	900.00	78.56	8.031
'05633T20'	US05633T2096	BAC CAPITAL TR	BAC	6.875	8/2/2055	862.50	83.84	8.360
'06050560'	US0605056094	BANK OF AMER CRP	BAC	5.875	12/15/2033	157.50	87.63	7.000
'06050550'	US0605055005	BANK OF AMER CRP	BAC	5.500	7/15/2033	125.00	83.84	7.060
'06050540'	US0605054016	BANK OF AMER CRP	BAC	6.500	10/15/2032	225.00	92.80	7.297
'06739F39'	US06739F3901	BARCLAYS BK PLC	BACR	6.625	12/31/2049	750.00	78.20	8.504
'06739H36'	US06739H3628	BARCLAYS BK PLC	BACR	8.125	12/31/2049	2,650.00	92.44	8.824
'06739H51'	US06739H5110	BARCLAYS BK PLC	BACR	7.750	12/31/2049	1,150.00	88.24	8.817
'06739H77'	US06739H7769	BARCLAYS BK PLC	BACR	7.100	12/31/2049	1,375.00	84.56	8.428
'05531B20'	US05531B2016	BB&T CAP TRST VI	BBT	9.600	8/1/2064	575.00	106.20	7.773
'05531H20'	US05531H2085	BB&T CAP TST VII	BBT	8.100	11/1/2064	350.00	103.60	7.277
'05530J20'	US05530J2050	BB&T CAPITAL TRU	BBT	8.950	9/15/2063	450.00	105.00	8.524
'14041L20'	US14041L2043	CAPITAL ONE CAP	COF	7.500	6/15/2066	345.00	100.88	7.459
'17311U20'	US17311U2006	CITIGROUP CAP	C	7.250	8/15/2067	569.30	97.00	7.503
'17310L20'	US17310L2016	CITIGROUP CAP	C	6.450	12/31/2066	953.70	88.28	7.326
'17306620'	US1730662004	CITIGROUP CAP IX	C	6.000	2/14/2033	846.90	86.63	7.313
'17306420'	US1730642055	CITIGROUP CAP X	C	6.100	9/30/2033	368.90	86.38	7.356
'17310G20'	US17310G2021	CITIGROUP CAP XV	C	6.500	9/15/2066	630.30	90.28	7.239
'17308520'	US1730852001	CITIGROUP CAP XX	C	7.875	12/15/2067	442.70	100.80	7.479
'17306N20'	US17306N2036	CITIGROUP CAPVII	C	7.125	7/31/2031	896.90	96.16	7.590
'17309E20'	US17309E2000	CITIGROUP CAPXIV	C	6.875	6/30/2066	305.70	94.32	7.299
'17306R20'	US17306R2040	CITIGROUP VIII	C	6.950	9/15/2031	1,091.30	93.80	7.585
'17311H20'	US17311H2094	CITIGROUP XVII	C	6.350	3/15/2067	701.20	88.52	7.215
'22238E20'	US22238E2063	COUNTRYWIDE IV	BAC	6.750	4/1/2033	500.00	77.80	9.331
'22238820'	US2223882091	COUNTRYWIDE V	BAC	7.000	11/1/2036	1,495.00	77.64	9.461
'22544820'	US2254482084	CREDIT SUISSE GU	CS	7.900	12/31/2049	1,525.00	102.13	6.641
'25153U20'	US25153U2042	DB CAP FNDG VIII	DB	6.375	12/31/2049	600.00	84.25	7.684
'25154D10'	US25154D1028	DB CAP FNDG X	DB	7.350	12/31/2049	805.00	89.63	8.231
'25153X20'	US25153X2080	DB CAP TRST II	DB	6.550	12/31/2049	800.00	81.75	8.080
'25154A10'	US25154A1088	DB CAP TRUST III	DB	7.600	12/31/2049	1,975.00	95.12	8.059
'25150L10'	US25150L1089	DB CONT CAP TR V	DB	8.050	12/31/2049	1,385.00	97.52	8.257

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yield to Worst
'25153Y20'	US25153Y2063	DEUTSCHE BK CAP	DB	6.625	12/31/2049	1,150.00	84.56	7.901
'31678V20'	US31678V2060	FIFTH THIRD CAP	FITB	7.250	11/15/2057	862.50	100.88	7.187
'31678W20'	US31678W2044	FIFTH THIRD CAP	FITB	7.250	8/15/2057	575.00	100.60	7.207
'33889X20'	US33889X2036	FLEET CAP T VIII	BAC	7.200	3/15/2032	534.00	86.88	8.602
'33889Y20'	US33889Y2019	FLEET CAP TR IX	BAC	6.000	8/1/2033	175.00	80.80	7.958
'38144X50'	US38144X5005	GOLDMAN SACHS GP	GS	6.200	12/31/2049	800.00	96.13	6.509
'41456720'	US4145672063	HARRIS PFD CAP	HARRIS	7.375	12/31/2049	250.00	100.88	7.312
'40429C60'	US40429C6075	HSBC FINANCE	HSBC	6.360	12/31/2049	575.00	82.00	7.783
'49327Q20'	US49327Q2049	KEYCORP CAP IX	KEY	6.750	12/15/2066	330.80	100.50	5.748
'49327R10'	US49327R1032	KEYCORP CAPITAL	KEY	8.000	3/15/2068	568.10	101.00	7.526
'55292C20'	US55292C2035	M&T CA TR IV	MTB	8.500	1/31/2068	350.00	102.38	6.920
'55266J20'	US55266J2006	MBNA CAPITAL D	BAC	8.125	10/1/2032	300.00	95.00	8.861
'55270B20'	US55270B2016	MBNA CAPITAL E	BAC	8.100	2/15/2033	200.00	96.38	8.577
'59019920'	US5901992041	MER LYNCH CAP TR	BAC	6.450	12/15/2066	1,050.00	77.96	8.330
'59025D20'	US59025D2071	MER LYNCH CAP TR	BAC	7.375	9/15/2062	750.00	84.04	8.830
'59024T20'	US59024T2033	MERRILL LYNCH CA	BAC	6.450	6/15/2062	950.00	74.36	8.674
'59021F20'	US59021F2065	ML CAP TRUST III	BAC	7.000	12/31/2049	750.00	83.75	8.360
'59021G20'	US59021G2049	ML CAP TRUST IV	BAC	7.120	12/31/2049	400.00	83.64	8.515
'59021K20'	US59021K2050	ML CAP TRUST V	BAC	7.280	12/31/2049	850.00	85.20	8.547
'61750K20'	US61750K2087	MORGAN ST CAP TR	MS	6.600	10/15/2066	1,100.00	86.24	7.795
'61746620'	US6174662063	MORGAN ST CAP V	MS	5.750	7/15/2033	500.00	81.24	7.635
'61746120'	US6174612076	MORGAN ST CAP VI	MS	6.600	2/1/2046	862.50	88.36	7.653
'61746020'	US6174602093	MORGAN ST CP III	MS	6.250	3/1/2033	880.00	83.32	7.925
'61746220'	US6174622059	MORGAN ST CP IV	MS	6.250	4/1/2033	620.00	83.28	7.865
'61753R20'	US61753R2004	MORGAN STANLEY	MS	6.450	4/15/2067	825.00	87.20	7.531
'63540U20'	US63540U2078	NAT CITY CAP IV	PNC	8.000	8/30/2067	517.50	101.88	7.852
'63540X20'	US63540X2018	NATL CITY CAP TR	PNC	6.625	5/25/2067	500.00	101.76	6.510
'63540T20'	US63540T2006	NATL CITY CAP TR	PNC	6.625	11/15/2036	750.00	101.12	6.552
'69350H20'	US69350H2022	PNC CAPIAL TRST	PNC	6.125	12/15/2033	300.00	100.25	6.127
'69350S20'	US69350S2086	PNC CAPITAL TRST	PNC	7.750	3/15/2068	450.00	103.24	5.662
'693475AK'	US693475AK12	PNC FINANCIAL	PNC	6.750	8/1/2021	1,000.00	95.77	7.359
'80281R70'	US80281R7061	SANTANDER FIN PF	SANTAN	6.800	12/31/2049	161.80	89.88	7.566
'80281R80'	US80281R8051	SANTANDER FIN PF	SANTAN	6.500	12/31/2049	109.50	78.96	8.347
'78442P30'	US78442P3047	SLM CORP	SLMA	6.000	12/15/2043	300.00	80.48	7.660
'80282K20'	US80282K2050	SOVEREIGN BANCRP	SANTAN	7.300	12/31/2049	113.90	92.00	8.016
'87227320'	US8722732067	TCF CAPITAL I	TCB	10.750	8/15/2068	115.00	103.28	9.620
'92856Q20'	US92856Q2030	VNB CAPITAL TRST	VLY	7.750	12/15/2031	152.30	101.13	7.673
'92977V20'	US92977V2060	WACHOVIA PFD FND	WFC	7.250	12/31/2049	750.00	102.25	6.962
'94979P20'	US94979P2039	WELLS FARGO CAP	WFC	5.625	4/8/2034	500.00	100.20	5.607
'94974687'	US9497468796	WELLS FARGO CO	WFC	8.000	12/31/2049	2,150.40	110.32	6.061
		Average			**11/8/2048**			**7.755**

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Exhibit 3
Preferred Stock Return and Bond Return Equivalency Calculation
Source: The Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index

Average CCC bond yield	**A**	17.306
Tax rate	**B**	0.350
Taxes	**C=A*B**	6.057
After tax return	**D=A-C**	11.249
Tax adjusted yield for preferred stocks	**E=D/(1-0.105)[1]**	12.568
Additional spread for specific risk	**F**	2.000
Concluded yield	**G**	14.568
Proof:		
Preferred stock yield	**H**	12.568
Special tax deduction rate	**J**	0.700
Special tax deduction	**K=H*J**	8.798
Taxable investment return	**L=H-K**	3.770
Tax rate	**B**	0.350
Tax on investment return	**M=L*B**	1.320
After tax return	**N=H-M = D**	11.249

[1] **0.105 = (1-0.7)*0.35**

GT007357

Exhibit 4
Valuation of Treasury's Senior Preferred Stock in Freddie Mac, as of September 30, 2011
($ in millions)

Date	Discount Period (in years)	Projected Liquidity Payments	Liquidity Preference[1]	Total Dividends	Dividends Assigned to Buyer(s)	Liquidation Preference Recovery	Buyers' Cash Flows	Treasury Rate[2]	Discount Rate	Present Value Factor	Present Value - Dividends
30-Sep-11			66,179								
30-Sep-12	0.63	10,481	76,660	7,292	6,618	-	6,618	0.068%	0.068%	0.99957	6,615
31-Dec-12	1.25	-	76,660	1,917	1,654	-	1,654	0.153%	0.153%	0.99808	1,651
30-Sep-13	1.75	-	76,660	5,750	4,963	-	4,963	0.212%	7.755%	0.87737	4,355
30-Sep-14	2.63	-	76,660	7,666	6,618	-	6,618	0.338%	7.755%	0.82182	5,439
30-Sep-15	3.63	-	76,660	7,666	6,618	-	6,618	0.535%	7.755%	0.76267	5,047
30-Sep-16	4.63	-	76,660	7,666	6,618	-	6,618	0.808%	7.755%	0.70768	4,683
30-Sep-17	5.63	-	76,660	7,666	6,618	-	6,618	1.078%	7.755%	0.65671	4,346
30-Sep-18	6.63	-	76,660	7,666	6,618	-	6,618	1.316%	7.755%	0.60945	4,033
30-Sep-19	7.63	1,500	78,160	7,699	6,618	-	6,618	1.514%	14.568%	0.35427	2,345
30-Sep-20	8.63	2,500	80,660	7,909	6,618	-	6,618	1.671%	14.568%	0.30913	2,046
30-Sep-21	9.63	2,600	83,260	8,159	6,618	-	6,618	1.843%	14.568%	0.26980	1,786
30-Sep-22	10.63	3,000	86,260	8,434	6,618	-	6,618	1.957%	14.568%	0.23549	1,558
30-Sep-23	11.63	3,300	89,560	8,746	6,618	-	6,618	2.022%	14.568%	0.20555	1,360
30-Sep-24	12.63	3,600	93,160	9,086	6,618	-	6,618	2.089%	14.568%	0.17936	1,187
30-Sep-25	13.64	4,100	97,260	9,469	6,618	-	6,618	2.158%	14.568%	0.15654	1,036
30-Sep-26	14.64	4,500	101,760	9,894	6,618	-	6,618	2.229%	14.568%	0.13663	904
30-Sep-27	15.64	5,100	106,860	10,366	6,618	-	6,618	2.303%	14.568%	0.11926	789
30-Sep-28	16.64	5,600	112,460	10,889	6,618	-	6,618	2.380%	14.568%	0.10407	689
30-Sep-29	17.64	6,200	118,660	11,474	6,618	-	6,618	2.458%	14.568%	0.09082	601
30-Sep-30	18.64	6,800	125,460	12,114	6,618	-	6,618	2.540%	14.568%	0.07928	525
30-Sep-31	19.64	7,600	133,060	12,824	6,618	-	6,618	2.624%	14.568%	0.06919	458
30-Sep-32	20.64	8,400	141,460	13,614	6,618	-	6,618	2.673%	14.568%	0.06038	400
30-Sep-33	21.64	9,300	150,760	14,491	6,618	-	6,618	2.697%	14.568%	0.05270	349
30-Sep-34	22.64	10,300	161,060	15,454	6,618	-	6,618	2.720%	14.568%	0.04600	304
30-Sep-35	23.64	11,400	172,460	16,521	6,618	-	6,618	2.744%	14.568%	0.04015	266
30-Sep-36	24.64	12,500	184,960	17,706	6,618	-	6,618	2.767%	14.568%	0.03503	232
30-Sep-37	25.64	13,900	198,860	19,009	6,618	-	6,618	2.791%	14.568%	0.03057	202
30-Sep-38	26.64	15,400	214,260	20,451	6,618	-	6,618	2.816%	14.568%	0.02669	177
30-Jun-39	27.52	7,436	221,696	16,423	4,963	-	4,963	2.838%	14.568%	0.02369	118
30-Jun-40	28.52	-	221,696	-	-	5,993	5,993	2.863%	14.568%	0.02068	124
		155,517		314,014	183,647	5,993	189,640				53,624

[1] Includes the original $1 billion liquidity preference
[2] Treasury rates are contained in Appendix C.

Appendix A

Quarterly Financial Information

January 1, 2007 through June 30, 2011

Appendix A
Freddie Mac Quarterly Financial Information, January 1, 2007 through June 30, 2011
($ in millions)

	Consolidation of Trusts						Conservatorship						LiquidityCrisis					
Description	30-Jun-11	31-Mar-11	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10	31-Dec-09	30-Sep-09	30-Jun-09	31-Mar-09	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07	31-Mar-07
Opening shareholders' deficit	1,236	(402)	(59)	(1,739)	(10,615)	4,277	10,310	8,137	(6,104)	(30,731)	(13,795)	12,948	16,024	26,724	24,433	24,423	28,387	28,301
Prior period accounting changes										97	(1)				-	-	-	(1,387)
Adj. opening balance - changes in 2005	1,236	(402)	(59)	(1,739)	(10,615)	4,277	10,310	8,137	(6,104)	(30,634)	(13,796)	12,948	16,024	26,724	24,433	24,423	28,387	26,914
Accounting changes	-	-	-	-	-	(11,701)	-	-	5,065	-	-	-	-	173	-	-	-	181
Non-controlling interests					(89)	(5)	(1)	(1)	(1)	(1)	-	-	-	-	-	-	-	-
Adjusted opening balance	1,236	(402)	(59)	(1,739)	(10,704)	(7,429)	10,309	8,136	(1,040)	(30,635)	(13,796)	12,948	16,024	26,897	24,433	24,423	28,387	27,095
Net income (loss)	(2,139)	676	(113)	(2,511)	(4,713)	(6,688)	(7,458)	(5,012)	768	(9,851)	(23,851)	(25,295)	(821)	(151)	(1,618)	(2,029)	764	(211)
Change in available-for-sale securities	1,039	2,064	1,097	3,781	4,097	4,646	2,492	8,267	3,222	3,844	(6,473)	(1,318)	(2,358)	(10,467)	(2,023)	1,435	(4,288)	1,168
Other-than-temporary impairment, net			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock dividends			-	-	-	-	-	-	-	-	-	-	(165)	(164)	(163)	(326)	(328)	(335)
Preferred stock dividends			-	-	-	-	-	-	-	-	-	-	(231)	(272)	(112)	(102)	(95)	(89)
Senior preferred dividends	(1,617)	(1,605)	(1,603)	(1,561)	(1,293)	(1,292)	(1,292)	(1,294)	(1,149)	(370)	(172)		-	-	-	-	-	
Common stock issued	-	-	1	1	5	59	3	2	9	78	6	8	18	31	12	(241)	(730)	15
Preferred stock issued			-	-	-	-	-	-	-	-	-	-	-	-	6,000	1,000	500	1,100
Preferred stock redeemed			-	-				-	-	-	-	-	-	-	-	-	-	(600)
Increase in Sr. Preferred liquidation preference	-	500	100	1,800	10,600	-	-	-	6,100	30,800	13,800	1,000	-	-	-	-	-	-
Common stock warrants issued			-	-	-	-	-	-	-	-	-	2,304	-	-	-	-	-	-
Treasury commitment			-	-	-	-	-	-	-	-	-	(3,304)	-	-	-	-	-	-
Other	2	3	175	170	180	84	222	211	226	126	(245)	(138)	481	150	195	273	213	244
Closing equity (deficit)	(1,479)	1,236	(402)	(59)	(1,828)	(10,620)	4,276	10,310	8,136	(6,008)	(30,731)	(13,795)	12,948	16,024	26,724	24,433	24,423	28,387
Non-controlling interests				-	(89)	(5)	(1)		(1)	96	-	-	-	-	-	-	-	
Closing shareholders' equity (deficit)	(1,479)	1,236	(402)	(59)	(1,739)	(10,615)	4,277	10,310	8,137	(6,104)	(30,731)	(13,795)	12,948	16,024	26,724	24,433	24,423	28,387
Components of net income (loss):																		
Net interest income	4,561	4,540	4,316	4,279	4,136	4,125	4,497	4,462	4,255	3,859	2,625	1,844	1,529	798	161	987	973	978
Guaranty fee income	-	-	-	-	-	-	743	800	710	780	992	832	757	789	1,181	520	474	460
Investment gain (loss)	209	(120)	(76)	(503)	(257)	(416)	7,383	2,605	797	(4,944)	(4,253)	(9,747)	(3,327)	1,219	1,777	(932)	(368)	(183)
Other-than-temporary impairments, net	(352)	(1,193)	(2,270)	(1,100)	(428)	(510)	(7,797)	(1,187)	(2,213)	-	-	-	-	-	-	-	-	-
Fair value gain (loss)	(3,844)	(508)	1,623	(1,496)	(3,294)	(4,338)	(503)	(4,013)	1,564	648	(12,022)	(1,580)	684	(1,630)	(1,507)	(150)	281	(528)
Benefit (provision) for credit losses	(2,529)	(1,989)	(3,066)	(3,727)	(5,029)	(5,396)	(7,963)	(7,577)	(5,199)	(8,791)	(6,953)	(5,702)	(2,537)	(1,240)	(1,158)	(1,197)	(320)	(179)
Foreclosed property income (expenses)	(27)	(257)	(217)	(337)	40	(159)	(88)	96	(9)	(306)	(291)	(333)	(265)	(208)	(125)	(51)	(16)	(14)
Administrative expenses	(384)	(361)	(388)	(376)	(387)	(395)	(463)	(433)	(383)	(372)	(396)	(308)	(404)	(397)	(401)	(428)	(442)	(403)
Tax (provision) benefit	232	74	56	411	286	103	(440)	149	184	937	967	(7,971)	1,031	423	1,177	1,380	(113)	439
Other	(5)	490	(91)	338	220	297	(2,826)	85	1,061	(1,662)	(4,521)	(2,330)	1,711	95	(2,723)	(2,158)	295	(781)
Total net income	(2,139)	676	(113)	(2,511)	(4,713)	(6,689)	(7,457)	(5,013)	767	(9,851)	(23,852)	(25,295)	(821)	(151)	(1,618)	(2,029)	764	(211)
Non-controlling interest	-	-	-	-	-	(1)	1	(1)	(1)	-	-	-	-	-	-	-	-	-
Freddie Mac net income	(2,139)	676	(113)	(2,511)	(4,713)	(6,688)	(7,458)	(5,012)	768	(9,851)	(23,852)	(25,295)	(821)	(151)	(1,618)	(2,029)	764	(211)

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Appendix B

The Bank of America Merrill Lynch

U.S. High Yield CCC and Lower Rated Index

Appendix B

The Bank of America Merrill Lynch U.S. High Yield CCC and Lower Rated Index

Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'62912PAC'	US62912PAC59	NGC CORP CAP TR	DYN	8.316	6/1/2027	200.00	36.00	24.287
'66989LAA'	US66989LAA70	NOVASEP HLDG	NOVASP	9.750	12/15/2016	150.00	48.00	32.057
'69344MAH'	US69344MAH43	PMI GROUP INC	PMI	6.000	9/15/2016	250.00	35.00	34.001
'69344MAJ'	US69344MAJ09	PMI GROUP INC	PMI	6.625	9/15/2036	150.00	35.00	19.287
'873168AL'	US873168AL29	TXU CORP	TXU	5.550	11/15/2014	397.70	61.50	23.665
'882330AG'	US882330AG87	TEXAS COMP/TCEH	TXU	10.250	11/1/2015	1,292.00	37.00	45.476
'882330AF'	US882330AF05	TEXAS COMP/TCEH	TXU	10.250	11/1/2015	1,873.00	37.50	44.918
'882330AH'	US882330AH60	TEXAS COMP/TCEH	TXU	10.500	11/1/2016	1,483.30	42.00	31.02
'552075AA'	US552075AA16	WILLIAM LYON INC	WLS	10.750	4/1/2013	138.80	20.50	174.178
'EI381785'	XS0532990750	BTA BANK JSC	BTASKZ	7.200	7/1/2025	496.60	21.60	34.772
'184502AD'	US184502AD42	CLEAR CHANNEL	CCMO	6.875	6/15/2018	175.00	40.25	26.255
'184502AA'	US184502AA03	CLEAR CHANNEL	CCMO	7.250	10/15/2027	300.00	35.25	22.027
'184502AP'	US184502AP71	CLEAR CHANNEL	CCMO	5.750	1/15/2013	312.10	89.00	15.465
'184502AS'	US184502AS11	CLEAR CHANNEL	CCMO	4.900	5/15/2015	250.00	50.00	27.575
'184502AV'	US184502AV40	CLEAR CHANNEL	CCMO	5.500	9/15/2014	541.50	56.50	28.125
'184502AX'	US184502AX06	CLEAR CHANNEL	CCMO	5.500	12/15/2016	250.00	37.00	30.261
'184502BB'	US184502BB76	CLEAR CHANNEL	CCMO	10.750	8/1/2016	796.20	51.75	30.393
'184502BE'	US184502BE16	CLEAR CHANNEL	CCMO	11.000	8/1/2016	829.80	50.50	31.606
'247907AC'	US247907AC23	DELTA PETROLEUM	DPTR	7.000	4/1/2015	150.00	75.00	16.723
'629121AC'	US629121AC89	NGC CORP	DYN	7.625	10/15/2026	175.00	56.00	15.108
'629121AF'	US629121AF11	NGC CORP	DYN	7.125	5/15/2018	175.00	58.50	18.132
'777774AF'	US777774AF75	DYN-RSTN/DNKM PT	DYN	7.670	11/8/2016	550.40	55.00	23.131
'26816LAT'	US26816LAT98	DYNEGY HOLDINGS	DYN	8.375	5/1/2016	1,046.80	60.50	22.658
'26816LAX'	US26816LAX01	DYNEGY HOLDINGS	DYN	7.500	6/1/2015	550.00	64.00	22.386
'26816LAW'	US26816LAW28	DYNEGY HOLDINGS	DYN	7.750	6/1/2019	1,099.90	60.50	17.21
'277461BD'	US277461BD00	EASTMAN KODAK CO	EK	7.250	11/15/2013	250.00	44.00	55.085
'370290AF'	US370290AF58	GENERAL MARITIME	GMR	12.000	11/15/2017	300.00	35.75	41.626
'420122AB'	US420122AB91	HAWKER BEECHCRAF	HAWKER	8.500	4/1/2015	182.90	42.50	40.719
'420122AF'	US420122AF06	HAWKER BEECHCRAF	HAWKER	8.875	4/1/2015	302.60	41.75	42.154
'420122AH'	US420122AH61	HAWKER BEECHCRAF	HAWKER	9.750	4/1/2017	145.10	32.50	42.162
'413627AU'	US413627AU44	HARRAHS OPER CO	HET	5.625	6/1/2015	311.30	60.00	22.091
'413627AW'	US413627AW00	HARRAHS OPER CO	HET	5.750	10/1/2017	144.00	48.00	21.627
'413627BE'	US413627BE92	HARRAHS OPER CO	HET	10.750	2/1/2016	470.50	72.50	20.631
'413627BB'	US413627BB53	HARRAHS OPER CO	HET	10.000	12/15/2015	165.70	90.00	13.159

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'413627BG'	US413627BG41	HARRAHS OPER CO	HET	10.000	12/15/2018	393.90	59.50	21.191
'413627BM'	US413627BM19	HARRAHS OPER CO	HET	10.000	12/15/2018	3,311.60	59.50	21.191
'413627BD'	US413627BD10	CAESARS ENT OPER	HET	10.000	12/15/2018	779.40	56.00	22.644
'442488AY'	US442488AY88	K HOVNANIAN ENTR	HOV	6.250	1/15/2016	173.20	37.00	36.256
'442488BK'	US442488BK75	K HOVNANIAN ENTR	HOV	11.875	10/15/2015	137.60	45.25	40.47
'442488AZ'	US442488AZ53	K HOVNANIAN ENTR	HOV	7.500	5/15/2016	172.30	35.00	38.73
'442488BA'	US442488BA93	K HOVNANIAN ENTR	HOV	8.625	1/15/2017	195.90	35.25	37.653
'53218MAB'	US53218MAB46	LIFECARE HOLDING	LTACH	9.250	8/15/2013	119.30	77.50	24.984
'172909AF'	US172909AF02	CIRCUS CIRCUS	MGM	7.625	7/15/2013	150.00	97.50	9.159
'75605EAW'	US75605EAW03	REALOGY CORP	REALOG	12.375	4/15/2015	188.60	77.00	22.064
'75605EBC'	US75605EBC30	REALOGY CORP	REALOG	11.500	4/15/2017	491.80	66.50	22.327
'75605EBF'	US75605EBF60	REALOGY CORP	REALOG	12.000	4/15/2017	129.60	68.00	22.346
'89421EAB'	US89421EAB92	TRAVELPORT LLC	TPORT	9.875	9/1/2014	438.00	65.50	27.907
'89421EAC'	US89421EAC75	TRAVELPORT LLC	TPORT	11.875	9/1/2016	247.20	39.50	41.71
'89421JAB'	US89421JAB89	TRAVELPORT LLC	TPORT	9.000	3/1/2016	250.00	58.50	25.041
'608328AP'	US608328AP55	MOHEGAN TRIBAL	TRIBAL	7.125	8/15/2014	219.20	50.00	36.676
'608328AR'	US608328AR12	MOHEGAN TRIBAL	TRIBAL	6.875	2/15/2015	150.00	48.00	33.866
'873168AQ'	US873168AQ16	TXU CORP	TXU	6.550	11/15/2034	744.30	37.00	18.247
'873168AN'	US873168AN84	TXU CORP	TXU	6.500	11/15/2024	739.50	38.00	20.002
'882330AK'	US882330AK99	TEXAS COMP/TCEH	TXU	15.000	4/1/2021	1,186.10	61.00	26.238
'00081TAB'	US00081TAB44	ACCO BRANDS CORP	ABD	7.625	8/15/2015	260.30	96.75	8.625
'043436AH'	US043436AH70	ASBURY AUTO GRP	ABG	7.625	3/15/2017	143.20	95.50	8.676
'008911AP'	US008911AP44	AIR CANADA	ACACN	12.000	2/1/2016	200.00	93.50	14.039
'043436AK'	US043436AK00	ASBURY AUTO GRP	ABG	8.375	11/15/2020	200.00	96.50	8.942
'00088JAA'	US00088JAA16	ACL I CORP	ACLI	10.625	2/15/2016	264.20	78.00	17.73
'004010AA'	US004010AA24	ACADEMY LTD	ACASPO	9.250	8/1/2019	450.00	93.00	10.582
'00828BAB'	US00828BAB18	AFFINIA GROUP	AFFGRP	9.000	11/30/2014	367.40	96.50	10.315
'00828DAJ'	US00828DAJ00	AFFINION GROUP I	AFFINI	11.500	10/15/2015	355.50	78.00	19.632
'008294AB'	US008294AB62	AFFINION GROUP	AFFINI	11.625	11/15/2015	325.00	77.00	20.069
'00126VAB'	US00126VAB62	AGY HOLDING COR	AGYH	11.000	11/15/2014	172.00	72.50	23.981
'EI202282'	XS0495755646	ALLIANCE BANK	ALLIBK	10.500	3/25/2017	615.10	69.00	20.076
'001669AQ'	US001669AQ34	AMC ENTERTAINMEN	AMC	8.000	3/1/2014	300.00	96.50	9.652
'019736AA'	US019736AA58	ALLISON TRANS	ALTRAN	11.000	11/1/2015	478.00	103.50	9.109
'019736AC'	US019736AC15	ALLISON TRANS	ALTRAN	7.125	5/15/2019	500.00	90.50	8.863
'00165AAD'	US00165AAD00	AMC ENTERTAINMEN	AMC	9.750	12/1/2020	600.00	90.50	11.445
'02378JAR'	US02378JAR95	AM AIRLN PT TRST	AMR	6.977	5/23/2021	177.70	68.00	12.856
'02744LAC'	US02744LAC46	AMERICAN MEDIA	AMRMED	13.500	6/15/2018	104.90	85.00	17.354

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'009037AM'	US009037AM44	AINSWORTH LUMBER	ANSCN	11.000	7/29/2015	404.30	65.00	24.631
'02932XAA'	US02932XAA46	AMERICAN ROCK	AMRSLT	8.250	5/1/2018	175.00	87.50	10.961
'03216NAD'	US03216NAD57	AMSCAN HLDGS INC	APY	8.750	5/1/2014	175.00	98.25	9.524
'019645AE'	US019645AE05	ALLIS-CHALMERS E	ARCHER	8.500	3/1/2017	205.70	98.00	8.971
'038101AM'	US038101AM36	APPLETON PAPERS	APPPAP	11.250	12/15/2015	161.80	97.00	12.17
'051620AA'	US051620AA01	AURORA DIAGN HLD	ARDX	10.750	1/15/2018	200.00	97.00	11.423
'04523XAB'	US04523XAB38	ASPECT SOFTWARE	ASPECT	10.625	5/15/2017	250.00	100.50	10.479
'00191AAA'	US00191AAA43	ARD FINANCE SA	ARGID	11.125	6/1/2018	345.00	81.00	15.131
'05539YAA'	US05539YAA29	B-CORP MERGER	BAKERC	8.250	6/1/2019	240.00	90.00	10.154
'08782TAD'	US08782TAD54	BEVERAGES & MORE	BEVMO	9.625	10/1/2014	125.00	99.25	9.92
'109178AE'	US109178AE33	BRIGHAM EXPLORE	BEXP	8.750	10/1/2018	300.00	107.00	7.064
'109178AF'	US109178AF08	BRIGHAM EXPLORE	BEXP	6.875	6/1/2019	300.00	97.50	7.304
'09069NAC'	US09069NAC20	BIOSCRIP INC	BIOS	10.250	10/1/2015	225.00	100.00	10.25
'121207AA'	US121207AA29	BURGER KING CORP	BKC	9.875	10/15/2018	796.20	103.00	9.117
'090613AE'	US090613AE04	LVB ACQUISITION	BMET	11.625	10/15/2017	1,015.00	103.75	10.46
'45073HAA'	US45073HAA77	IVD ACQUISITION	BLUD	11.125	8/15/2019	400.00	97.25	11.663
'081361AA'	US081361AA50	BEMAX RESOURCES	BMXAU	9.375	7/15/2014	175.00	93.93	11.983
'057112AA'	US057112AA29	BAKER & TAYLOR	BTACMG	11.500	7/1/2013	165.00	75.50	30.509
'EI380584'	XS0532989588	BTA BANK JSC	BTASKZ	10.750	7/1/2018	2,082.40	44.00	32.998
'10801PAA'	US10801PAA21	BRICKMAN GRP HLD	BRKMAN	9.125	11/1/2018	250.00	87.00	11.887
'114535AC'	US114535AC17	BROOKSTONE CO	BRSTNE	13.000	10/15/2014	115.60	70.50	28.021
'103304BD'	US103304BD25	BOYD GAMING CORP	BYD	6.750	4/15/2014	215.70	86.00	13.436
'09689RAA'	US09689RAA77	BOYD GAMING CORP	BYD	7.125	2/1/2016	240.80	73.50	15.789
'12046QAA'	US12046QAA13	BUMBLE BEE HOLDC	BUMBLE	9.625	3/15/2018	150.00	80.25	14.425
'12429TAB'	US12429TAB08	BWAY HOLDING CO	BWY	10.000	6/15/2018	205.00	105.00	8.676
'12429WAB'	US12429WAB37	BWAY PARENT CO	BWY	10.125	11/1/2015	158.40	96.50	11.211
'171871AM'	US171871AM82	CINC BELL INC	CBB	8.750	3/15/2018	625.00	88.75	11.246
'184502BG'	US184502BG63	CLEAR CHANNEL	CCMO	9.000	3/1/2021	1,750.00	74.25	14
'12513GAJ'	US12513GAJ85	CDW LLC/CDW FIN	CDWC	12.535	10/12/2017	721.50	95.50	13.651
'12513NAA'	US12513NAA28	CDW ESCROW	CDWC	8.500	4/1/2019	1,175.00	88.00	10.882
'15941RAF'	US15941RAF73	CHAPARRAL ENERGY	CHAPAR	8.875	2/1/2017	325.00	97.00	9.601
'15941RAN'	US15941RAN08	CHAPARRAL ENERGY	CHAPAR	9.875	10/1/2020	300.00	100.00	9.875
'15942RAB'	US15942RAB50	CHAPARRAL ENERGY	CHAPAR	8.250	9/1/2021	400.00	91.25	9.638
'670823AB'	US670823AB93	O'CHARLEYS INC	CHUX	9.000	11/1/2013	115.20	97.00	10.634
'19686TAC'	US19686TAC18	COLT DEFENSE/FIN	CLTDEF	8.750	11/15/2017	246.20	66.25	18.078
'231082AB'	US231082AB41	CUMULUS MEDIA	CMLS	7.750	5/1/2019	610.00	84.25	10.847
'12618MAC'	US12618MAC47	CPI INTL INC	CPII	8.000	2/15/2018	215.00	90.00	10.166

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'170032AQ'	US170032AQ94	CHIQUITA BRANDS	CQB	7.500	11/1/2014	156.40	98.75	7.961
'14888TAC'	US14888TAC80	CATALYST PAPER C	CTLCN	11.000	12/15/2016	280.40	65.00	22.797
'14888TAD'	US14888TAD63	CATALYST PAPER C	CTLCN	11.000	12/15/2016	110.00	65.00	22.797
'15671BAB'	US15671BAB71	CENVEO CORP	CVO	10.500	8/15/2016	170.00	80.00	16.639
'147448AF'	US147448AF10	CASELLA WASTE	CWST	7.750	2/15/2019	200.00	94.50	8.776
'23833NAG'	US23833NAG97	DAVE & BUSTERS	DAB	11.000	6/1/2018	200.00	99.25	11.155
'25212WAA'	US25212WAA80	DEX ONE CORP	DEXO	12.000	1/29/2017	300.00	21.00	68.754
'25456NAA'	US25456NAA37	DIRECTBUY HLDG	DIRBUY	12.000	2/1/2017	335.00	31.50	48.185
'23327BAC'	US23327BAC72	DJO FINANCE LLC	DJO	9.750	10/15/2017	300.00	83.50	13.87
'095699AA'	US095699AA20	BLUE MERGER SUB	DLM	7.625	2/15/2019	1,300.00	84.50	10.715
'281023AN'	US281023AN10	EDISON MISSION	EIX	7.500	6/15/2013	500.00	93.00	12.149
'281023AR'	US281023AR24	EDISON MISSION	EIX	7.750	6/15/2016	500.00	67.00	18.552
'269722AA'	US269722AA22	EAGLE PARENT INC	EGLPT	8.625	5/1/2019	465.00	90.50	10.469
'281023AU'	US281023AU52	EDISON MISSION	EIX	7.000	5/15/2017	1,196.10	59.50	19.032
'281023AX'	US281023AX91	EDISON MISSION	EIX	7.200	5/15/2019	800.00	57.00	17.677
'281023BA'	US281023BA89	EDISON MISSION	EIX	7.625	5/15/2027	700.00	55.00	15.252
'277461BH'	US277461BH14	EASTMAN KODAK CO	EK	9.750	3/1/2018	500.00	70.00	17.762
'277461BK'	US277461BK43	EASTMAN KODAK CO	EK	10.625	3/15/2019	250.00	71.00	17.793
'12513PAA'	US12513PAA75	CDRT MERGER SUB	EMS	8.125	6/1/2019	950.00	92.50	9.521
'29270UAN'	US29270UAN54	ENERGY PARTNERS	EPL	8.250	2/15/2018	210.00	92.00	9.972
'29843XAA'	US29843XAA54	EURAMAX INTL INC	EURAMX	9.500	4/1/2016	375.00	79.75	15.981
'302106AD'	US302106AD16	EXOPACK HOLDNG	EXOPAC	10.000	6/1/2018	235.00	93.50	11.412
'30066AAA'	US30066AAA34	EXAMWORKS GROUP	EXAM	9.000	7/15/2019	250.00	93.50	10.226
'30040PAB'	US30040PAB94	EVERTEC INC	EVRTEC	11.000	10/1/2018	220.00	104.00	9.965
'319963AP'	US319963AP91	FIRST DATA CORP	FDC	9.875	9/24/2015	560.60	83.75	15.497
'319963AT'	US319963AT14	FIRST DATA CORP	FDC	10.550	9/24/2015	747.50	83.25	16.451
'319963AR'	US319963AR57	FIRST DATA CORP	FDC	9.875	9/24/2015	197.80	83.25	15.692
'319963AY'	US319963AY09	FIRST DATA CORP	FDC	8.250	1/15/2021	2,000.00	79.00	12.065
'319963AZ'	US319963AZ73	FIRST DATA CORP	FDC	8.750	1/15/2022	1,000.00	79.00	12.414
'319963BA'	US319963BA14	FIRST DATA CORP	FDC	12.625	1/15/2021	3,000.00	74.00	18.59
'345143AA'	US345143AA96	FORBES ENERGY	FES	9.000	6/15/2019	280.00	92.50	10.434
'35687MAX'	US35687MAX56	FREESCALE SEMICO	FSL	8.050	2/1/2020	743.90	90.50	9.73
'35687MAV'	US35687MAV90	FREESCALE SEMICO	FSL	10.750	8/1/2020	487.40	100.00	10.743
'382410AD'	US382410AD01	GOODRICH PETROLE	GDP	8.875	3/15/2019	275.00	96.50	9.54
'367905AD'	US367905AD87	GAYLORD ENT	GET	6.750	11/15/2014	152.20	98.00	7.476
'37990VAC'	US37990VAC90	GLB AVTN HLDG IN	GLAH	14.000	8/15/2013	149.50	69.00	38.669
'38470RAD'	US38470RAD35	GRAHAM PACK/GPC	GRAHAM	9.875	10/15/2014	354.50	100.88	8.966

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'37247AAB'	US37247AAB89	GENTIVA HEALTH	GTIV	11.500	9/1/2018	325.00	79.50	16.583
'44332LAB'	US44332LAB62	HUB INTL HOLDING	HBGCN	9.000	12/15/2014	305.00	96.00	10.491
'44332LAC'	US44332LAC46	HUB INTL HOLDING	HBGCN	10.250	6/15/2015	395.00	92.50	12.843
'403777AB'	US403777AB12	GYMBOREE CORP	GYMB	9.125	12/1/2018	400.00	74.00	15.195
'427093AB'	US427093AB59	HERCULES OFFSHOR	HERO	10.500	10/15/2017	300.00	94.50	11.796
'43162RAB'	US43162RAB06	HILLMAN GROUP	HILCOS	10.875	6/1/2018	150.00	99.00	11.084
'41146AAB'	US41146AAB26	HARBINGER GROUP	HRG	10.625	11/15/2015	350.00	97.50	11.393
'428303AJ'	US428303AJ06	HEXION US/NOVA	HXN	8.875	2/1/2018	1,000.00	82.50	13.008
'428303AM'	US428303AM35	HEXION US/NOVA	HXN	9.000	11/15/2020	439.80	73.25	14.342
'45072PAC'	US45072PAC68	IASIS HEALTHCARE	IAS	8.375	5/15/2019	850.00	81.00	12.279
'45840JAB'	US45840JAB35	INTERACTIVE DATA	IDC	10.250	8/1/2018	698.10	106.50	8.573
'44981UAA'	US44981UAA25	INC RESEARCH INC	INCRES	11.500	7/15/2019	300.00	89.25	13.783
'464592AG'	US464592AG95	ISLE OF CAPRI	ISLE	7.000	3/1/2014	357.30	90.88	11.421
'46262EAC'	US46262EAC93	IPAYMENT INC	IPMT	10.250	5/15/2018	400.00	91.50	12.148
'469815AG'	US469815AG95	JACOBS ENTERTAIN	JACENT	9.750	6/15/2014	210.00	97.75	10.717
'46612HAE'	US46612HAE53	J CREW GROUP	JCG	8.125	3/1/2019	399.90	83.75	11.43
'255099AA'	US255099AA18	DIVERSEY HLDGS	JONDIV	10.500	5/15/2020	262.50	127.25	2.921
'518613AC'	US518613AC89	LAUREATE EDUCATI	LAUR	11.750	8/15/2017	286.40	102.50	10.931
'518613AA'	US518613AA24	LAUREATE EDUCATI	LAUR	10.000	8/15/2015	260.00	98.00	10.636
'518613AB'	US518613AB07	LAUREATE EDUCATI	LAUR	10.250	8/15/2015	565.50	98.50	10.725
'226566AG'	US226566AG25	CRICKET COMMUNIC	LEAP	10.000	7/15/2015	300.00	99.25	10.234
'226566AM'	US226566AM92	CRICKET COMMUNIC	LEAP	7.750	10/15/2020	1,200.00	87.00	9.964
'226566AN'	US226566AN75	CRICKET COMMUNIC	LEAP	7.750	10/15/2020	400.00	86.00	10.152
'51508KAA'	US51508KAA34	LANDRY'S HOLDING	LNY	11.500	6/1/2014	110.00	92.50	15.019
'52078PAC'	US52078PAC68	LAWSON SOFTWARE	LWSN	11.500	7/15/2018	560.00	89.00	14.053
'57773AAJ'	US57773AAJ16	MAXCOM TELECOMUN	MAXTEL	11.000	12/15/2014	199.50	65.00	28.267
'552953AG'	US552953AG66	MGM MIRAGE	MGM	5.875	2/27/2014	508.90	91.25	10.055
'552953AR'	US552953AR22	MGM MIRAGE	MGM	6.625	7/15/2015	872.50	84.75	11.716
'552953AW'	US552953AW17	MGM MIRAGE	MGM	6.750	4/1/2013	476.10	97.00	8.931
'552953AY'	US552953AY72	MGM MIRAGE	MGM	6.875	4/1/2016	237.90	85.00	11.21
'552953BB'	US552953BB60	MGM MIRAGE	MGM	7.625	1/15/2017	743.00	85.75	11.268
'552953BC'	US552953BC44	MGM MIRAGE	MGM	7.500	6/1/2016	732.70	86.75	11.218
'412690AB'	US412690AB58	HARLAND CLARKE	MFW	9.500	5/15/2015	270.80	74.00	19.892
'55303QAB'	US55303QAB68	MGM RESORTS	MGM	10.000	11/1/2016	500.00	94.75	11.383
'55303QAA'	US55303QAA85	MGM MIRAGE	MGM	11.375	3/1/2018	475.00	100.00	11.37
'59870WAA'	US59870WAA09	MILAGRO OIL & GA	MILEXP	10.500	5/15/2016	250.00	80.00	16.892
'594073AB'	US594073AB43	MICHAEL FOODS	MIKL	9.750	7/15/2018	430.00	103.25	8.895

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'62546RAB'	US62546RAB78	MULTIPLAN INC	MLTPLN	9.875	9/1/2018	675.00	99.00	10.076
'60877UAT'	US60877UAT43	MOMENTIVE PERFOR	MOMENT	12.500	6/15/2014	200.00	102.00	11.426
'552848AA'	US552848AA12	MGIC INVT CORP	MTG	5.375	11/1/2015	245.00	68.25	16.325
'554273AC'	US554273AC69	MACDERMID INC	MRD	9.500	4/15/2017	350.00	92.50	11.359
'644274AA'	US644274AA02	NEW ENTERPRISE	NEENST	11.000	9/1/2018	250.00	79.25	16.071
'639888AA'	US639888AA42	NEEDLE MERGER	NEEDLE	8.125	3/15/2019	450.00	87.00	10.698
'640096AD'	US640096AD52	NEFF RENTAL/FIN	NEFF	9.625	5/15/2016	200.00	83.50	14.654
'62910TAA'	US62910TAA34	NFR ENERGY LLC	NFREGY	9.750	2/15/2017	200.00	88.00	12.908
'62910TAD'	US62910TAD72	NFR ENERGY LLC	NFREGY	9.750	2/15/2017	150.00	88.00	12.908
'676220AF'	US676220AF38	OFFICE DEPOT INC	ODP	6.250	8/15/2013	400.00	96.75	8.15
'674215AA'	US674215AA68	OASIS PETROLEUM	OAS	7.250	2/1/2019	400.00	97.00	7.792
'67102BAA'	US67102BAA98	ONO FINANCE II	ONOSM	10.875	7/15/2019	225.00	70.00	18.218
'695459AB'	US695459AB34	PAETEC HOLDING	PAET	9.500	7/15/2015	300.00	104.00	7.068
'695459AF'	US695459AF48	PAETEC HOLDING	PAET	9.875	12/1/2018	450.00	104.75	8.708
'72347QAC'	US72347QAC78	PINNACLE FOOD FI	PFHC	9.250	4/1/2015	625.00	99.25	9.507
'72347QAD'	US72347QAD51	PINNACLE FOOD FI	PFHC	10.625	4/1/2017	199.00	100.25	10.538
'72347QAG'	US72347QAG82	PINNACLE FOOD FI	PFHC	8.250	9/1/2017	400.00	97.50	8.798
'716016AC'	US716016AC41	PETCO ANIMAL SUP	PETC	9.250	12/1/2018	500.00	100.00	9.244
'729416AQ'	US729416AQ02	PLY GEM INDS	PGEM	8.250	2/15/2018	800.00	81.50	12.547
'629360AB'	US629360AB49	NPC INTL INC	PIZA	9.500	5/1/2014	175.00	98.25	10.281
'700677AN'	US700677AN75	PARK-OHIO INDS	PKOH	8.125	4/1/2021	250.00	93.50	9.164
'72147KAA'	US72147KAA60	PILGRIM'S PRIDE	PPC	7.875	12/15/2018	500.00	76.25	13.053
'698657AG'	US698657AG82	PANTRY INC	PTRY	7.750	2/15/2014	247.00	98.00	8.694
'74920AAC'	US74920AAC36	RAAM GLOBAL ENER	RAMGEN	12.500	10/1/2015	150.00	102.00	11.786
'750236AH'	US750236AH49	RADIAN GROUP	RDN	5.625	2/15/2013	250.00	75.50	28.371
'750236AJ'	US750236AJ05	RADIAN GROUP	RDN	5.375	6/15/2015	250.00	60.00	21.588
'750492AD'	US750492AD26	RADNET MGMT INC	RDNT	10.375	4/1/2018	200.00	92.50	12.073
'880394AD'	US880394AD38	TENNECO PACKAGNG	REYNOL	8.125	6/15/2017	299.70	85.00	11.805
'761735AA'	US761735AA72	REYNOLDS GROUP	REYNOL	8.500	5/15/2018	1,000.00	84.50	12.505
'74959GAC'	US74959GAC42	REYNOLDS GROUP	REYNOL	9.000	4/15/2019	1,500.00	85.00	12.086
'74959HAB'	US74959HAB42	REYNOLDS GROUP	REYNOL	9.875	8/15/2019	1,000.00	88.00	12.29
'880394AB'	US880394AB71	TENNECO PACKAGNG	REYNOL	7.950	12/15/2025	276.40	71.50	12.222
'880394AE'	US880394AE11	TENNECO PACKAGNG	REYNOL	8.375	4/15/2027	200.00	79.00	11.267
'761735AE'	US761735AE94	REYNOLDS GROUP	REYNOL	8.250	2/15/2021	1,000.00	79.00	12.045
'03852UAA'	US03852UAA43	ARAMARK HOLDINGS	RMK	8.625	5/1/2016	600.00	98.50	9.028
'74965WAA'	US74965WAA53	ROC FINANCE LLC	ROCFIN	12.125	9/1/2018	380.00	101.00	11.875
'76010RAC'	US76010RAC25	RSC EQUIP RENTAL	RRR	9.500	12/1/2014	503.00	99.50	9.678

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'78108AAC'	US78108AAC80	RSC EQUIP RENTAL	RRR	10.250	11/15/2019	200.00	98.00	10.619
'750323AB'	US750323AB31	RADIATION THERAP	RTSX	9.875	4/15/2017	360.00	85.25	13.764
'78108AAE'	US78108AAE47	RSC EQUIP RENTAL	RRR	8.250	2/1/2021	647.90	86.50	10.555
'781749AA'	US781749AA41	RURAL METRO CORP	RURL	10.125	7/15/2019	200.00	95.00	11.091
'78375PAL'	US78375PAL13	RYERSON INC	RYI	12.000	11/1/2015	376.20	100.00	11.986
'75524DAN'	US75524DAN03	RBS GLOBAL/REXNO	RXN	8.500	5/1/2018	1,145.00	95.75	9.377
'86881RAA'	US86881RAA14	SURGICAL CARE AF	SCAFF	8.875	7/15/2015	164.80	96.00	10.165
'86881RAB'	US86881RAB96	SURGICAL CARE AF	SCAFF	10.000	7/15/2017	150.00	95.00	11.189
'867363AL'	US867363AL73	SUNGARD DATA SYS	SDSINC	10.250	8/15/2015	1,000.00	101.00	9.64
'816196AJ'	US816196AJ85	SELECT MEDICAL	SEM	7.625	2/1/2015	345.00	86.63	12.657
'816074AG'	US816074AG36	SEITEL INC	SELA	9.750	2/15/2014	275.00	91.50	14.072
'823777AH'	US823777AH07	SHERIDAN GRP INC	SHERDN	12.500	4/15/2014	149.40	86.00	19.765
'83066RAC'	US83066RAC16	SKILLED HEALTHCA	SKH	11.000	1/15/2014	130.00	95.50	13.323
'828732AA'	US828732AA56	SIMMONS FOODS	SIMFOO	10.500	11/1/2017	265.00	86.50	13.849
'78428EAB'	US78428EAB56	SITEL LLC	SITEL	11.500	4/1/2018	300.00	79.00	16.954
'830146AA'	US830146AA45	SIZZLING PLATTER	SIZPLT	12.250	4/15/2016	135.00	98.50	12.691
'833312AB'	US833312AB79	SNOQUALMIE	SNOENT	9.125	2/1/2015	200.00	96.25	10.477
'860340AC'	US860340AC28	STEWART & STEVEN	SNS	10.000	7/15/2014	150.00	100.00	9.96
'84762LAE'	US84762LAE56	SPECTRUM BRANDS	SPB	12.000	8/28/2019	245.00	108.25	8.684
'817492AD'	US817492AD31	SERENA SOFTWARE	SRNA	10.375	3/15/2016	134.30	102.00	9.439
'784662AC'	US784662AC20	SSI INV/CO-ISSR	SSIINV	11.125	6/1/2018	309.90	99.50	11.226
'78464RAA'	US78464RAA32	STERLING MERGER	SRX	11.000	10/1/2019	400.00	95.00	11.964
'817609AB'	US817609AB66	SERVICEMASTER CO	SVMSTR	7.450	8/15/2027	195.00	74.00	10.934
'117777AA'	US117777AA01	BUCCANEER MERGER	SVR	9.125	1/15/2019	475.00	98.00	9.507
'870755AB'	US870755AB18	SWIFT SVCS HLDGS	SWFT	10.000	11/15/2018	500.00	89.00	12.361
'87952VAE'	US87952VAE65	TELESAT CANADA/L	TELSAT	11.000	11/1/2015	692.80	107.00	7.86
'87952VAF'	US87952VAF31	TELESAT CANADA/L	TELSAT	12.500	11/1/2017	217.20	112.00	8.045
'89855VAB'	US89855VAB62	TUBE CITY IMS	TMS	9.750	2/1/2015	223.00	95.50	11.399
'15721AAC'	US15721AAC71	CEVA GROUP PLC	TNTLOG	11.625	10/1/2016	210.00	97.75	12.24
'125182AB'	US125182AB10	CEVA GROUP PLC	TNTLOG	11.500	4/1/2018	701.80	92.00	13.381
'82934HAC'	US82934HAC51	SINO-FOREST CORP	TRECN	10.250	7/28/2014	399.50	25.00	81.629
'82934HAF'	US82934HAF82	SINO-FOREST CORP	TRECN	6.250	10/21/2017	600.00	25.00	39.841
'89620JAA'	US89620JAA97	TRILOGY INTL PAR	TRIINT	10.250	8/15/2016	370.00	98.00	10.782
'785905AB'	US785905AB66	SABRE HOLDINGS	TSG	6.350	3/15/2016	400.00	81.75	13.988
'882491AQ'	US882491AQ64	TEXAS INDUSTRIES	TXI	9.250	8/15/2020	649.90	77.75	13.644
'90266DAB'	US90266DAB73	UCI INTL INC	UCII	8.625	2/15/2019	400.00	92.63	10.062
'903293AR'	US903293AR91	USG CORP	USG	6.300	11/15/2016	500.00	73.25	13.739

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'913016AC'	US913016AC51	UNITED SURGICAL	USPI	8.875	5/1/2017	240.00	100.00	8.871
'903293AS'	US903293AS74	USG CORP	USG	7.750	1/15/2018	500.00	80.38	14.616
'913016AF'	US913016AF82	UNITED SURGICAL	USPI	9.250	5/1/2017	197.50	100.00	9.245
'92201QAA'	US92201QAA40	PGS SOLUTIONS	VANGNT	9.625	2/15/2015	183.70	104.25	4.429
'04226QAA'	US04226QAA04	ARMORED AUTO	VIKACQ	9.250	11/1/2018	275.00	80.25	13.688
'92834UAB'	US92834UAB89	VISANT CORP	VISANT	10.000	10/1/2017	750.00	92.50	11.778
'92531XAF'	US92531XAF96	VERSO PAPER	VRS	11.375	8/1/2016	300.00	72.50	20.607
'918436AD'	US918436AD85	VWR FUNDING INC	VWRINT	10.250	7/15/2015	713.00	99.00	10.567
'950590AG'	US950590AG46	WENDY'S INTL	WEN	7.000	12/15/2025	100.00	85.50	8.806
'950590AK'	US950590AK57	WENDY'S INTL	WEN	6.200	6/15/2014	225.00	101.75	5.491
'952355AF'	US952355AF22	WEST CORP	WSTC	11.000	10/15/2016	449.60	103.00	9.83
'983055AA'	US983055AA25	WYLE SERVICES	WYLE	10.500	4/1/2018	175.00	97.00	11.161
'984756AD'	US984756AD89	YANKEE CANDLE CO	YCC	9.750	2/15/2017	188.00	92.25	11.728
'98418GAC'	US98418GAC87	XINERGY CORP	XRGCN	9.250	5/15/2019	200.00	89.50	11.339
'984211AB'	US984211AB80	YCC HLDGS/YANKEE	YCC	10.250	2/15/2016	315.00	85.00	15.044
'812141AN'	US812141AN92	SEALY MATTRESS	ZZ	8.250	6/15/2014	268.90	94.25	10.744
'74837NAC'	US74837NAC74	QUIKSILVER INC	ZQK	6.875	4/15/2015	400.00	89.00	10.687
'00430XAF'	US00430XAF42	ACCELLENT INC	ACCINC	10.000	11/1/2017	315.00	85.25	13.64
'01660NAA'	US01660NAA63	ALGOMA ACQ CORP	ALGCN	9.875	6/15/2015	384.70	77.50	18.512
'01881PAA'	US01881PAA49	ALLIANT HOLDINGS	ALIANT	11.000	5/1/2015	265.00	101.75	10.038
'029227AA'	US029227AA38	AMER RENAL ASSOC	AMRLHD	9.750	3/1/2016	135.00	97.25	10.54
'053499AE'	US053499AE92	AVAYA INC	AV	9.750	11/1/2015	700.00	73.00	19.66
'053499AF'	US053499AF67	AVAYA INC	AV	10.125	11/1/2015	833.80	73.25	20.005
'121579AF'	US121579AF32	BURLINGTON COAT	BCFACT	10.000	2/15/2019	450.00	85.00	13.242
'085791AG'	US085791AG63	BERRY PLASTICS	BERRY	10.250	3/1/2016	241.00	87.00	14.314
'085790AU'	US085790AU74	BERRY PLASTICS	BERRY	9.500	5/15/2018	500.00	85.00	12.934
'085790AW'	US085790AW31	BERRY PLASTICS	BERRY	9.750	1/15/2021	800.00	85.00	12.52
'12120QAA'	US12120QAA04	BK CAP HLDG/FINA	BKC	-	4/15/2019	685.00	54.75	12.719
'07556QAN'	US07556QAN51	BEAZER HOMES USA	BZH	6.875	7/15/2015	172.50	67.50	19.356
'07556QAQ'	US07556QAQ82	BEAZER HOMES USA	BZH	8.125	6/15/2016	172.90	66.75	19.142
'07556QAV'	US07556QAV77	BEAZER HOMES USA	BZH	9.125	6/15/2018	300.00	61.50	19.698
'12500VAA'	US12500VAA98	CCS INC	CCSINC	11.000	11/15/2015	312.00	92.00	13.587
'12500VAB'	US12500VAB71	CCS INC	CCSINC	11.000	11/15/2015	299.90	92.00	13.587
'178760AC'	US178760AC83	CITYCENTER HLDGS	CCTRH	10.750	1/15/2017	633.30	90.75	13.138
'15114VAA'	US15114VAA08	CELL C PTY LTD	CELLSA	11.000	7/1/2015	157.20	95.50	12.526
'156779AC'	US156779AC47	CERIDIAN CORP	CEN	11.250	11/15/2015	824.90	82.50	17.352
'156779AF'	US156779AF77	CERIDIAN CORP	CEN	12.250	11/15/2015	505.90	80.50	19.304

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'17037NAC'	US17037NAC48	CHOCTAW RESORT	CHOCTW	7.250	11/15/2019	123.00	60.25	16.221
'12562TAA'	US12562TAA97	CKE HOLDINGS	CKR	10.500	3/14/2016	211.30	87.50	14.474
'648053AD'	US648053AD80	NEW PLAN EXCEL	CNPAU	5.300	1/15/2015	100.00	89.00	9.25
'648053AF'	US648053AF39	NEW PLAN EXCEL	CNPAU	5.250	9/15/2015	125.00	89.00	8.587
'12621PAC'	US12621PAC23	CRC HEALTH CORP	CRCHEA	10.750	2/1/2016	177.30	98.75	11.112
'15671BAA'	US15671BAA98	CENVEO CORP	CVO	7.875	12/1/2013	296.30	70.00	27.024
'233707AA'	US233707AA68	DAE AVIATION	DAEAVI	11.250	8/1/2015	325.00	101.00	10.616
'280148AC'	US280148AC15	EDGEN MURRAY COR	EDNMUR	12.250	1/15/2015	465.00	89.63	16.435
'291228AA'	US291228AA25	EMIGRANT BANCORP	EMIBNC	6.250	6/15/2014	200.00	89.15	10.984
'319963AV'	US319963AV69	FIRST DATA CORP	FDC	11.250	3/31/2016	2,406.90	67.50	23.288
'351647AA'	US351647AA04	FOX ACQUISITION	FOXACQ	13.375	7/15/2016	200.00	105.00	11.219
'35687MAM'	US35687MAM91	FREESCALE SEMICO	FSL	8.875	12/15/2014	294.10	101.50	7.533
'757344AF'	US757344AF37	REDDY ICE CORP	FRZ	13.250	11/1/2015	139.40	68.50	26.254
'37932JAD'	US37932JAD54	GLOBAL CROSSING	GLBC	9.000	11/15/2019	150.00	118.50	4.002
'38011MAK'	US38011MAK45	GMX RESOURCES	GMXR	11.375	2/15/2019	200.00	72.00	18.465
'389375AE'	US389375AE65	GRAY TELE INC	GTN	10.500	6/29/2015	365.00	90.50	13.835
'099599AJ'	US099599AJ16	BORDEN INC	HXN	7.875	2/15/2023	188.40	77.00	11.557
'45820EAH'	US45820EAH53	INTELSAT	INTEL	6.500	11/1/2013	353.60	100.50	6.237
'45661YAA'	US45661YAA82	INEOS GRP HLDG	INEGRP	8.500	2/15/2016	677.50	74.00	17.188
'45820EAX'	US45820EAX04	INTELSAT JACKSON	INTEL	11.250	6/15/2016	1,032.90	102.00	10.368
'458204AJ'	US458204AJ37	INTELSAT BERMUDA	INTEL	11.500	2/4/2017	1,648.80	86.00	15.433
'458204AH'	US458204AH70	INTELSAT BERMUDA	INTEL	11.250	2/4/2017	2,805.00	86.75	14.927
'46112NAC'	US46112NAC11	INTERTAPE POLYM	ITPCN	8.500	8/1/2014	115.60	89.00	13.271
'486668AA'	US486668AA44	KAZKOMMERTSBK	KKB	9.200	11/9/2015	100.00	60.00	25.44
'516807AA'	US516807AA24	LAREDO PETROLEUM	LARPET	9.500	2/15/2019	350.00	105.00	8.323
'501786AC'	US501786AC11	LBI MEDIA INC	LBIMED	8.500	8/1/2017	228.80	63.00	19.34
'53956RAA'	US53956RAA14	LOCAL TV FINANCE	LOCAL	9.250	6/15/2015	230.90	92.00	11.975
'283831AK'	US283831AK11	EL POLLO LOCO	LOCO	17.000	1/1/2018	105.00	89.50	19.677
'52729NBS'	US52729NBS80	LEVEL 3 COMM INC	LVLT	11.875	2/1/2019	605.20	95.00	12.955
'527297AA'	US527297AA36	LEVEL 3 ESCROW	LVLT	8.125	7/1/2019	1,200.00	88.38	10.334
'584705AA'	US584705AA58	MEDIMPACT HLDNGS	MEDIMP	10.500	2/1/2018	230.00	93.25	12.046
'63688RAD'	US63688RAD98	NATL MENTOR HLDG	MENTOR	12.500	2/15/2018	250.00	91.00	14.714
'594087AM'	US594087AM02	MICHAELS STORES	MIK	11.375	11/1/2016	399.90	101.25	10.879
'594087AP'	US594087AP33	MICHAELS STORES	MIK	13.000	11/1/2016	376.00	103.00	11.406
'594087AR'	US594087AR98	MICHAELS STORES	MIK	7.750	11/1/2018	800.00	93.50	9.009
'14985VAA'	US14985VAA98	CCM MERGER INC	MOTOR	8.000	8/1/2013	269.50	94.50	11.393
'60877UAM'	US60877UAM99	MOMENTIVE PERFOR	MOMENT	11.500	12/1/2016	381.90	84.00	16.171

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'60877UAW'	US60877UAW71	MOMENTIVE PERFOR	MOMENT	9.000	1/15/2021	635.00	68.50	15.501
'624758AB'	US624758AB40	MUELLER WATER	MWA	7.375	6/1/2017	420.00	78.00	12.97
'640820AA'	US640820AA41	NES RENTALS HLDG	NESRH	12.250	4/15/2015	150.00	83.50	18.839
'640204AH'	US640204AH65	NEIMAN MARCUS	NMG	10.375	10/15/2015	499.90	101.00	9.817
'67090FAB'	US67090FAB22	NUVEEN INVEST	NUVINV	5.500	9/15/2015	300.00	81.00	11.626
'67090FAD'	US67090FAD87	NUVEEN INVESTM	NUVINV	10.500	11/15/2015	785.00	92.25	12.977
'67090FAE'	US67090FAE60	NUVEEN INVESTM	NUVINV	10.500	11/15/2015	150.00	91.25	13.316
'65336YAE'	US65336YAE32	NEXSTAR BROADC	NXST	7.000	1/15/2014	112.60	95.00	9.471
'68371PAC'	US68371PAC68	OPEN SOLUTIONS	OPENSL	9.750	2/1/2015	325.00	51.50	35.735
'74044PAC'	US74044PAC14	PREGIS CORP	PREGIS	12.375	10/15/2013	150.00	91.00	17.82
'767754BM'	US767754BM54	RITE AID CORP	RAD	8.625	3/1/2015	500.00	88.75	12.785
'576442AA'	US576442AA52	RARE RESTAURANT	RARERG	9.250	5/15/2014	100.00	71.50	24.607
'767754BQ'	US767754BQ68	RITE AID CORP	RAD	9.375	12/15/2015	410.00	86.00	13.867
'767754BT'	US767754BT08	RITE AID CORP	RAD	9.500	6/15/2017	808.70	79.00	15.111
'780097AS'	US780097AS09	ROYAL BK SCOTLND	RBS	6.990	10/5/2017	563.70	63.50	18.176
'759219AA'	US759219AA63	REICHHOLD IND	REICHH	9.000	8/15/2014	195.00	68.00	25.316
'76113BAE'	US76113BAE92	RESIDENTIAL CAP	RESCAP	6.875	6/30/2015	112.20	83.00	14.949
'76113BAR'	US76113BAR06	RESIDENTIAL CAP	RESCAP	6.500	4/17/2013	473.40	95.00	12.14
'76114EAH'	US76114EAH53	RESIDENTIAL CAP	RESCAP	9.625	5/15/2015	2,120.50	77.50	18.39
'75040PAP'	US75040PAP36	RADIO ONE INC	ROIAK	15.000	5/24/2016	305.90	89.50	18.12
'75524DAD'	US75524DAD21	RBS GLOBAL/REXNO	RXN	11.750	8/1/2016	300.00	102.00	10.896
'861642AG'	US861642AG19	STONE ENERGY	SGY	6.750	12/15/2014	200.00	96.00	8.188
'82459AAA'	US82459AAA97	SHINGLE SPRINGS	SHINGL	9.375	6/15/2015	450.00	58.50	28.062
'834260AB'	US834260AB79	SOLO CUP CO	SOLOC	8.500	2/15/2014	325.00	87.00	15.217
'817320AR'	US817320AR58	SEQUA CORP	SQA	13.500	12/1/2015	258.00	106.00	10.368
'817320AP'	US817320AP92	SEQUA CORP	SQA	11.750	12/1/2015	500.00	105.00	9.175
'852862AB'	US852862AB73	STANADYNE CORP	STANAD	10.000	8/15/2014	160.00	94.00	12.54
'86800HAB'	US86800HAB96	SUNSTATE EQP CO	SUNST	12.000	6/15/2016	170.00	90.00	15.022
'87922RAJ'	US87922RAJ14	TELCORDIA TECH	TELCOR	11.000	5/1/2018	350.00	124.50	3.115
'87255MAA'	US87255MAA80	TL ACQUISITIONS	TLACQ	10.500	1/15/2015	1,215.60	64.00	27.88
'87255MAD'	US87255MAD20	TL ACQUISITIONS	TLACQ	13.250	7/15/2015	233.60	57.00	34.298
'90333HAE'	US90333HAE18	USI HOLDINGS CP	USIH	9.750	5/15/2015	175.00	90.00	13.308
'02152FAB'	US02152FAB40	ALTEGRITY INC	USINV	11.750	5/1/2016	150.00	92.00	14.174
'02152FAA'	US02152FAA66	ALTEGRITY INC	USINV	10.500	11/1/2015	290.00	93.00	12.744
'91728CAE'	US91728CAE30	US FOODSERVICE	USFOOD	8.500	6/30/2019	400.00	90.25	10.35
'914906AK'	US914906AK86	UNIVISION COMM	UVN	8.500	5/15/2021	815.00	78.00	12.487
'46122EAA'	US46122EAA38	INVENTIV HEALTH	VTIV	10.000	8/15/2018	275.00	88.00	12.66

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'46122EAD'	US46122EAD76	INVENTIV HEALTH	VTIV	10.000	8/15/2018	390.00	88.00	12.66
'960887AB'	US960887AB34	WESTMORELAND CO	WLB	10.750	2/1/2018	150.00	98.00	11.192
'95816QAA'	US95816QAA40	WESTERN EXPRESS	WSTEXP	12.500	4/15/2015	285.00	67.00	27.704
'00104BAC'	US00104BAC46	AES EASTERN ENER	AES	9.000	1/2/2017	181.00	55.50	24.479
'00104BAF'	US00104BAF76	AES EASTERN ENER	AES	9.670	1/2/2029	268.00	57.00	17.704
'016275AF'	US016275AF64	ALION SCIENCE	ALISCI	10.250	2/1/2015	248.00	61.00	29.327
'00846NAA'	US00846NAA54	AGFC CAP TRUST I	AMGFIN	6.000	1/15/2017	350.00	45.00	25.485
'03841XAB'	US03841XAB01	AQUILEX HOLDINGS	AQUILE	11.125	12/15/2016	224.00	44.00	35.311
'00208JAE'	US00208JAE82	ATP OIL & GAS	ATPG	11.875	5/1/2015	1,498.20	69.63	25.221
'09852TAA'	US09852TAA43	BONTEN MEDIA ACQ	BONTEN	9.000	6/1/2015	123.60	74.25	19.059
'07556QAY'	US07556QAY17	BEAZER HOMES USA	BZH	9.125	5/15/2019	250.00	63.50	18.138
'16946LAA'	US16946LAA44	CHINA FORESTRY	CHTREE	7.750	11/17/2015	180.00	60.00	26.842
'179584AC'	US179584AC10	CLAIRE'S STORES	CLE	9.250	6/1/2015	223.00	77.00	18.083
'179584AJ'	US179584AJ62	CLAIRE'S STORES	CLE	10.500	6/1/2017	259.60	71.00	19.076
'179584AL'	US179584AL19	CLAIRE'S STORES	CLE	8.875	3/15/2019	450.00	72.00	15.295
'18538TAD'	US18538TAD19	CLEARWIRE COMM	CLWR	12.000	12/1/2017	500.00	60.25	24.924
'65653RAG'	US65653RAG83	NORSKE SKOG CANA	CTLCN	7.375	3/1/2014	250.00	23.00	91.042
'340627AB'	US340627AB42	FLORIDA EAST COA	FECRC	10.500	8/1/2017	136.90	94.00	11.949
'35687MAP'	US35687MAP23	FREESCALE SEMICO	FSL	10.125	12/15/2016	764.30	101.75	9.469
'413627AX'	US413627AX82	HARRAHS OPER CO	HET	6.500	6/1/2016	246.70	55.50	22.313
'12768RAA'	US12768RAA59	HARRAHS OPER CO	HET	12.750	4/15/2018	750.00	67.75	22.358
'539439AA'	US539439AA71	LLOYDS BANKING	LLOYDS	6.267	11/14/2016	397.70	44.00	28.69
'539439AD'	US539439AD11	LLOYDS BANKING	LLOYDS	5.920	10/1/2015	213.30	44.00	31.496
'539439AF'	US539439AF68	LLOYDS BANKING	LLOYDS	6.657	5/21/2037	434.40	44.00	16.405
'50217BAF'	US50217BAF67	LSP ENERGY LP	LSPBAT	8.160	7/15/2025	176.00	71.75	12.505
'573011AA'	US573011AA19	MARSICO HLDG LLC	MARSIC	10.625	1/15/2020	603.60	35.00	34.703
'55276GAA'	US55276GAA31	MBIA INS CO	MBI	14.000	1/15/2013	940.00	45.00	96.937
'58470TAA'	US58470TAA34	MEDIMEDIA USA	MEDIME	11.375	11/15/2014	150.00	88.00	16.422
'499040AN'	US499040AN33	KNIGHT RIDDER	MNI	4.625	11/1/2014	111.40	83.00	11.304
'499040AP'	US499040AP80	KNIGHT RIDDER	MNI	5.750	9/1/2017	336.60	56.00	18.193
'499040AL'	US499040AL76	KNIGHT RIDDER	MNI	6.875	3/15/2029	276.20	43.00	17.321
'65338LAA'	US65338LAA70	NCO GROUP INC	NCOG	11.875	11/15/2014	200.00	91.00	15.608
'652366AA'	US652366AA38	NEWPORT TV/NTV F	NTVF	13.000	3/15/2017	278.90	94.00	15.013
'67105EAB'	US67105EAB83	OSI RESTAURANT	OSI	10.000	6/15/2015	247.10	99.75	10.073
'729416AN'	US729416AN70	PLY GEM INDS	PGEM	13.125	7/15/2014	150.00	94.88	15.428
'767754AD'	US767754AD64	RITE AID CORP	RAD	6.875	8/15/2013	184.80	94.75	10.01
'767754AJ'	US767754AJ35	RITE AID CORP	RAD	7.700	2/15/2027	295.00	64.00	13.232

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Cusip	ISIN number	Description	Ticker	Par Wtd Coupon	Maturity Date	Face Value LOC	Price	Yld to Worst
'767754AR'	US767754AR50	RITE AID CORP	RAD	6.875	12/15/2028	128.00	59.00	12.835
'749274AA'	US749274AA41	RBS CAP TRUST I	RBS	4.709	7/1/2013	317.60	45.00	61.316
'74927PAA'	US74927PAA75	RBS CAP TRUST II	RBS	6.425	1/3/2034	393.60	45.00	15.552
'74927QAA'	US74927QAA58	RBS CAP TR III	RBS	5.512	9/30/2014	356.50	45.00	37.659
'75601RAF'	US75601RAF29	REAL MEX RESTAUR	REALMX	14.000	1/1/2013	130.00	73.50	43.465
'75605EBU'	US75605EBU38	REALOGY CORP	REALOG	7.875	2/15/2019	700.00	75.50	13.163
'783754AB'	US783754AB06	RYERSON HOLDING	RYI	-	2/1/2015	483.00	43.00	26.992
'852863AB'	US852863AB56	STANDYN HOLD INC	STANAD	12.000	2/15/2015	100.00	95.50	13.696
'608328AT'	US608328AT77	MOHEGAN TRIBAL	TRIBAL	6.125	2/15/2013	250.00	62.50	45.807
'608328AU'	US608328AU41	MOHEGAN GAMING	TRIBAL	11.500	11/1/2017	200.00	91.00	13.723
'292680AC'	US292680AC97	ENERGY FUTURE	TXU	10.875	11/1/2017	180.60	80.50	15.999
'292680AD'	US292680AD70	ENERGY FUTURE	TXU	11.250	11/1/2017	376.70	83.50	15.963

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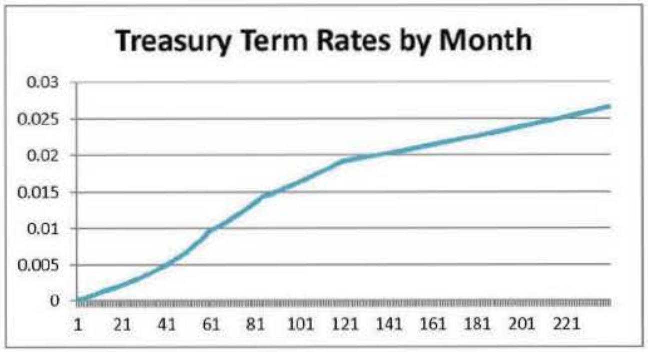
Appendix C

Treasury Term Rates by Month

September 30, 2011

Appendix C
Treasury Term Rates by Month as of September 30, 2011

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
1	0.020%		0.020%	
2			0.020%	0.00000%
3	0.020%	-	0.020%	0.00000%
4			0.029%	0.00884%
5			0.042%	0.01276%
6	0.060%	0.44225	0.060%	0.01840%
7			0.068%	0.00825%
8			0.078%	0.00939%
9			0.088%	0.01068%
10			0.100%	0.01215%
11			0.114%	0.01382%
12	0.130%	0.13754	0.130%	0.01572%
13			0.137%	0.00728%
14			0.145%	0.00769%
15			0.153%	0.00812%
16			0.162%	0.00857%
17			0.171%	0.00905%
18			0.180%	0.00956%
19			0.190%	0.01010%
20			0.201%	0.01066%
21			0.212%	0.01126%
22			0.224%	0.01189%
23			0.237%	0.01256%
24	0.250%	0.05601	0.250%	0.01326%
25			0.261%	0.01105%
26			0.273%	0.01153%
27			0.285%	0.01204%
28			0.297%	0.01257%
29			0.310%	0.01313%
30			0.324%	0.01371%
31			0.338%	0.01432%
32			0.353%	0.01495%
33			0.369%	0.01561%
34			0.385%	0.01630%
35			0.402%	0.01702%
36	0.420%	0.04418	0.420%	0.01777%
37			0.435%	0.01472%
38			0.450%	0.01523%
39			0.466%	0.01577%
40			0.482%	0.01632%
41			0.499%	0.01689%
42			0.516%	0.01749%
43			0.535%	0.01810%
44			0.553%	0.01873%



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Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
45			0.573%	0.01939%
46			0.593%	0.02007%
47			0.613%	0.02077%
48			0.635%	0.02150%
49			0.657%	0.02225%
50			0.680%	0.02303%
51			0.704%	0.02384%
52			0.729%	0.02468%
53			0.754%	0.02554%
54			0.781%	0.02644%
55			0.808%	0.02736%
56			0.836%	0.02832%
57			0.866%	0.02931%
58			0.896%	0.03034%
59			0.927%	0.03140%
60	0.960%	*0.03505*	0.960%	0.03250%
61			0.976%	0.01607%
62			0.992%	0.01634%
63			1.009%	0.01662%
64			1.026%	0.01689%
65			1.043%	0.01718%
66			1.061%	0.01746%
67			1.078%	0.01776%
68			1.096%	0.01805%
69			1.115%	0.01836%
70			1.133%	0.01866%
71			1.152%	0.01898%
72			1.172%	0.01929%
73			1.191%	0.01962%
74			1.211%	0.01995%
75			1.232%	0.02028%
76			1.252%	0.02062%
77			1.273%	0.02096%
78			1.294%	0.02131%
79			1.316%	0.02167%
80			1.338%	0.02203%
81			1.361%	0.02240%
82			1.383%	0.02278%
83			1.406%	0.02316%
84	1.430%	*0.01674*	1.430%	0.02355%
85			1.442%	0.01175%
86			1.454%	0.01185%
87			1.466%	0.01195%
88			1.478%	0.01204%
89			1.490%	0.01214%
90			1.502%	0.01224%

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Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
91			1.514%	0.01234%
92			1.527%	0.01245%
93			1.539%	0.01255%
94			1.552%	0.01265%
95			1.565%	0.01275%
96			1.578%	0.01286%
97			1.591%	0.01297%
98			1.604%	0.01307%
99			1.617%	0.01318%
100			1.630%	0.01329%
101			1.643%	0.01340%
102			1.657%	0.01351%
103			1.671%	0.01362%
104			1.684%	0.01373%
105			1.698%	0.01384%
106			1.712%	0.01396%
107			1.726%	0.01407%
108			1.740%	0.01419%
109			1.755%	0.01430%
110			1.769%	0.01442%
111			1.784%	0.01454%
112			1.798%	0.01466%
113			1.813%	0.01478%
114			1.828%	0.01490%
115			1.843%	0.01502%
116			1.858%	0.01515%
117			1.873%	0.01527%
118			1.889%	0.01540%
119			1.904%	0.01552%
120	1.920%	*0.00822*	1.920%	0.01565%
121			1.925%	0.00522%
122			1.930%	0.00524%
123			1.936%	0.00525%
124			1.941%	0.00527%
125			1.946%	0.00528%
126			1.952%	0.00529%
127			1.957%	0.00531%
128			1.962%	0.00532%
129			1.968%	0.00534%
130			1.973%	0.00535%
131			1.978%	0.00537%
132			1.984%	0.00538%
133			1.989%	0.00540%
134			1.994%	0.00541%
135			2.000%	0.00543%
136			2.005%	0.00544%

GT007377

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
137			2.011%	0.00546%
138			2.016%	0.00547%
139			2.022%	0.00548%
140			2.027%	0.00550%
141			2.033%	0.00551%
142			2.038%	0.00553%
143			2.044%	0.00554%
144			2.049%	0.00556%
145			2.055%	0.00558%
146			2.061%	0.00559%
147			2.066%	0.00561%
148			2.072%	0.00562%
149			2.077%	0.00564%
150			2.083%	0.00565%
151			2.089%	0.00567%
152			2.094%	0.00568%
153			2.100%	0.00570%
154			2.106%	0.00571%
155			2.112%	0.00573%
156			2.117%	0.00574%
157			2.123%	0.00576%
158			2.129%	0.00578%
159			2.135%	0.00579%
160			2.140%	0.00581%
161			2.146%	0.00582%
162			2.152%	0.00584%
163			2.158%	0.00585%
164			2.164%	0.00587%
165			2.170%	0.00589%
166			2.176%	0.00590%
167			2.181%	0.00592%
168			2.187%	0.00593%
169			2.193%	0.00595%
170			2.199%	0.00597%
171			2.205%	0.00598%
172			2.211%	0.00600%
173			2.217%	0.00602%
174			2.223%	0.00603%
175			2.229%	0.00605%
176			2.235%	0.00606%
177			2.242%	0.00608%
178			2.248%	0.00610%
179			2.254%	0.00611%
180			2.260%	0.00613%
181			2.266%	0.00615%
182			2.272%	0.00616%

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
183			2.278%	0.00618%
184			2.285%	0.00620%
185			2.291%	0.00621%
186			2.297%	0.00623%
187			2.303%	0.00625%
188			2.310%	0.00627%
189			2.316%	0.00628%
190			2.322%	0.00630%
191			2.328%	0.00632%
192			2.335%	0.00633%
193			2.341%	0.00635%
194			2.348%	0.00637%
195			2.354%	0.00639%
196			2.360%	0.00640%
197			2.367%	0.00642%
198			2.373%	0.00644%
199			2.380%	0.00646%
200			2.386%	0.00647%
201			2.393%	0.00649%
202			2.399%	0.00651%
203			2.406%	0.00653%
204			2.412%	0.00654%
205			2.419%	0.00656%
206			2.425%	0.00658%
207			2.432%	0.00660%
208			2.439%	0.00662%
209			2.445%	0.00663%
210			2.452%	0.00665%
211			2.458%	0.00667%
212			2.465%	0.00669%
213			2.472%	0.00671%
214			2.479%	0.00672%
215			2.485%	0.00674%
216			2.492%	0.00676%
217			2.499%	0.00678%
218			2.506%	0.00680%
219			2.512%	0.00682%
220			2.519%	0.00683%
221			2.526%	0.00685%
222			2.533%	0.00687%
223			2.540%	0.00689%
224			2.547%	0.00691%
225			2.554%	0.00693%
226			2.561%	0.00695%
227			2.568%	0.00697%
228			2.575%	0.00699%

GT007379

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
229			2.582%	0.00700%
230			2.589%	0.00702%
231			2.596%	0.00704%
232			2.603%	0.00706%
233			2.610%	0.00708%
234			2.617%	0.00710%
235			2.624%	0.00712%
236			2.631%	0.00714%
237			2.638%	0.00716%
238			2.646%	0.00718%
239			2.653%	0.00720%
240	2.660%	*0.00272*	2.660%	0.00722%
241			2.662%	0.00192%
242			2.664%	0.00192%
243			2.666%	0.00192%
244			2.668%	0.00192%
245			2.670%	0.00192%
246			2.672%	0.00192%
247			2.673%	0.00192%
248			2.675%	0.00193%
249			2.677%	0.00193%
250			2.679%	0.00193%
251			2.681%	0.00193%
252			2.683%	0.00193%
253			2.685%	0.00193%
254			2.687%	0.00193%
255			2.689%	0.00193%
256			2.691%	0.00194%
257			2.693%	0.00194%
258			2.695%	0.00194%
259			2.697%	0.00194%
260			2.699%	0.00194%
261			2.701%	0.00194%
262			2.702%	0.00194%
263			2.704%	0.00195%
264			2.706%	0.00195%
265			2.708%	0.00195%
266			2.710%	0.00195%
267			2.712%	0.00195%
268			2.714%	0.00195%
269			2.716%	0.00195%
270			2.718%	0.00196%
271			2.720%	0.00196%
272			2.722%	0.00196%
273			2.724%	0.00196%
274			2.726%	0.00196%

GT007380

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
275			2.728%	0.00196%
276			2.730%	0.00196%
277			2.732%	0.00197%
278			2.734%	0.00197%
279			2.736%	0.00197%
280			2.738%	0.00197%
281			2.740%	0.00197%
282			2.742%	0.00197%
283			2.744%	0.00197%
284			2.746%	0.00198%
285			2.748%	0.00198%
286			2.750%	0.00198%
287			2.752%	0.00198%
288			2.754%	0.00198%
289			2.756%	0.00198%
290			2.757%	0.00198%
291			2.759%	0.00199%
292			2.761%	0.00199%
293			2.763%	0.00199%
294			2.765%	0.00199%
295			2.767%	0.00199%
296			2.769%	0.00199%
297			2.771%	0.00199%
298			2.773%	0.00200%
299			2.775%	0.00200%
300			2.777%	0.00200%
301			2.779%	0.00200%
302			2.781%	0.00200%
303			2.783%	0.00200%
304			2.785%	0.00200%
305			2.787%	0.00201%
306			2.789%	0.00201%
307			2.791%	0.00201%
308			2.793%	0.00201%
309			2.795%	0.00201%
310			2.797%	0.00201%
311			2.799%	0.00201%
312			2.802%	0.00202%
313			2.804%	0.00202%
314			2.806%	0.00202%
315			2.808%	0.00202%
316			2.810%	0.00202%
317			2.812%	0.00202%
318			2.814%	0.00202%
319			2.816%	0.00203%
320			2.818%	0.00203%

GT007381

Month	CMT Rates - Nominal	Interpolation Factor	Treasury Term Rates by Month	Monthly Change
321			2.820%	0.00203%
322			2.822%	0.00203%
323			2.824%	0.00203%
324			2.826%	0.00203%
325			2.828%	0.00203%
326			2.830%	0.00204%
327			2.832%	0.00204%
328			2.834%	0.00204%
329			2.836%	0.00204%
330			2.838%	0.00204%
331			2.840%	0.00204%
332			2.842%	0.00205%
333			2.844%	0.00205%
334			2.846%	0.00205%
335			2.848%	0.00205%
336			2.850%	0.00205%
337			2.852%	0.00205%
338			2.854%	0.00205%
339			2.856%	0.00206%
340			2.859%	0.00206%
341			2.861%	0.00206%
342			2.863%	0.00206%
343			2.865%	0.00206%
344			2.867%	0.00206%
345			2.869%	0.00206%
346			2.871%	0.00207%
347			2.873%	0.00207%
348			2.875%	0.00207%
349			2.877%	0.00207%
350			2.879%	0.00207%
351			2.881%	0.00207%
352			2.883%	0.00207%
353			2.885%	0.00208%
354			2.888%	0.00208%
355			2.890%	0.00208%
356			2.892%	0.00208%
357			2.894%	0.00208%
358			2.896%	0.00208%
359			2.898%	0.00209%
360	2.900%	*0.00072*	2.900%	0.00209%

Source: Federal Reserve Statistical Release H.15 (510) Selected Interest Rates dated October 3, 2011.

GT007382

EXHIBIT 13

IN THE UNITED STATES COURT OF FEDERAL CLAIMS

\- x

FAIRHOLME FUNDS, INC., et al., |

Plaintiffs, |

vs. |

THE UNITED STATES, |

Defendant. |

Case No. 13-465C |

\- x

DEPOSITION OF ANNE EBERHARDT

Wednesday, July 8, 2015

New York, New York

Deposition of ANNE EBERHARDT, taken by plaintiffs, at the offices of Baker Botts, LLP, 30 Rockefeller Plaza, New York, New York, before Christina Diaz, a Certified Realtime and Registered Merit Reporter and Notary Public within and for the State of New York.

REPORTED BY:

Christina Diaz, CRR, RMR, CSR, CLR

Job No.: 59168

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Q. Or 2008?
A. I don't.
Q. Okay. Were you told -- was Grant Thornton told by Treasury to use the stress test, give it some weight?
MS. ACEVEDO: Again, objection. Form as to time.
MR. HARPER: Go ahead if you understand the timeframe that he's covering in the question.
A. I don't believe that Treasury told us in 2011 to do that.
BY MR. THOMPSON:
Q. Did they in 2012?
A. I don't believe they did.
Q. Okay. And what about 2008?
A. I don't believe they existed in 2008.
Q. Okay. All right. We can put that aside. And this may or may not help, but you should assume, Ms. Eberhardt, that my questions today, unless I specifically say otherwise, relate to the two timeframes that the government is insisting that I limit my questions to. Okay? And if I ask you a question and it's a different answer, whether it's 2008 or 2011 or 2012, then

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just please say, "Okay. Well, let me break it down." Okay? But otherwise, I'm going to assume that it's for those time periods. Okay?
A. (Nodding affirmatively).
MR. THOMPSON: Thank you. Now, we're going to move on to Eberhardt 8, which has a Bates number of UST 444007.
(Eberhardt Exhibit 8, e-mail dated 7/19/11 bearing Production Nos. UST 444007 through 444008, was marked for identification)
BY MR. THOMPSON:
Q. So this is an e-mail at the bottom from Alan Goldblatt. And he was at Fannie Mae, right?
A. In 2011, yes.
Q. Okay. And the e-mail is dated July 15th, 2011, subject, "Grant Thornton Forecast Discussion." You're one of the recipients of the e-mail.
Do you recall the types of things that were talked about at these forecast discussions?
A. Yes.
Q. Okay. What sort of things were discussed?
A. Generally, we had received a forecast

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from the GSEs, from, in this case, Fannie Mae. They had forecasted typically four or five years. We needed to look at cash flows beyond that scenario, that timeframe. We would ask them questions about assumptions we made toward extending those forecasts beyond their timeframe and ask them whether our assumptions were reasonable or not.
Q. Do you recall any instances in which there was disagreement between where Grant Thornton ultimately came out as reflected in the valuations as of September 30, 2011 and where the Fannie and Freddie internal teams thought you should be?
MS. ACEVEDO: Objection to form.
A. Fannie Mae and Freddie Mac were not consulted on our valuation, only the projections. We asked them about the projections only. So they would not have known how we ended up. We asked for their input.
BY MR. THOMPSON:
Q. That's a helpful clarification. Thank you.
So with respect to the projections and the assumptions that went into those projections, do you recall any instance in which the Fannie and

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Freddie in-house forecasting teams thought that Grant Thornton's ultimate projections were based on assumptions that were unfounded?
MS. ACEVEDO: Objection to form.
A. It's difficult to put it in those terms. We would have asked them whether our assumptions were reasonable. They said -- they decided if our assumption was unreasonable. We would have asked them what they would have thought was reasonable, and we would have very likely taken their counsel or taken their comments under advisement.
BY MR. THOMPSON:
Q. Okay. And do you recall that coming up?
A. There were times in the meetings when, yes, beyond their forecast period, we asked for their input and we accepted their comments.
Q. Okay. And was there a skepticism at Fannie and Freddie about the ability to project cash flows in any sort of accurate way out to 2039?
MS. ACEVEDO: Objection to form.
A. Are you asking me what Fannie Mae or Freddie Mac thought about --
BY MR. THOMPSON:
Q. Well, what they told you. I'm not asking you to be a mind reader, but do you know?

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MR. HARPER: Thank you for the clarification.
A. I recall for their own forecasting purposes they didn't go out very far because they didn't know what their -- there were discussions where they felt that they couldn't say beyond a certain time period.
BY MR. THOMPSON:
Q. With any sort of reasonable degree of certainty, is that the point?
MS. ACEVEDO: Objection to form.
A. I think their comments were more related to their own forecasts.
BY MR. THOMPSON:
Q. Yes.
A. They understood we had a task that was different than theirs. And our request of them was to help us complete our task with the best information they could give us at the time and they tried to be helpful.
Q. Did you always want the most up-to-date information when you were doing your valuation analysis?
MS. ACEVEDO: Objection to form.
MR. HARPER: Join. And lack of

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foundation.
A. For the purposes of valuation, we wanted to have a short -- an updated forecast.
BY MR. THOMPSON:
Q. Why?
A. We wanted the valuation to reflect what was going on at that time for Treasury to record on its books. We expected inflows from the preferred stock purchase agreement.
Q. And I know this is a super basic question, so I apologize. But why, as someone who's working on this valuation team, was it important to the team to have up-to-date information as opposed to stale information?
MS. ACEVEDO: Objection to form and foundation.
A. You would have to speak with a valuation expert on this. Closer to the valuation date for the purpose of the valuation, you want, I believe, the information -- the closer to the valuation date for the purpose of the valuation the better.
BY MR. THOMPSON:
Q. And the more accurate?
MS. ACEVEDO: Objection to form.
MR. HARPER: Objection.

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A. I couldn't say that.
BY MR. THOMPSON:
Q. Okay. You said it would be better. Better in what way; more reliable?
MS. ACEVEDO: Objection to form. Foundation.
MR. HARPER: Same objection.
A. Again, that's really a valuation technical issue that I don't really feel qualified to speak about.
BY MR. THOMPSON:
Q. Yes. But you said it would be better. How would it be better?
A. It's important, closer to the valuation date for valuation to reflect what a third party would see and know at that date.
MR. THOMPSON: The next one is going to be Eberhardt 9. It has a Bates number of UST 476954.
(Eberhardt Exhibit 9, e-mail dated 8/1/11 with attachment bearing Production Nos. UST 476954 through 476962, was marked for identification)
BY MR. THOMPSON:
Q. This document says, subject, "GT

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Methodology Discussion."
What types of issues were being discussed about GT's methodology as of August 1, 2011?
A. My memory is that GT methodology was one of our deliverables for Treasury, so they would have a document explaining our approach to the valuation.
Q. Okay. And there was a discussion about that. Do you recall any of the types of things that were discussed, like how far out are the cash flows going to be projected?
A. In any given time, I don't remember specifically without seeing the document what the issues were.
Q. Okay. Would Grant Thornton's methodology have been something that was discussed with FHFA at all?
A. I don't think so.
Q. Well, would it have been discussed with the companies at all?
A. I don't think so.
Q. And I'm not necessarily asking about this particular meeting, but do you recall generally the types of issues that were discussed

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with Treasury about Grant Thornton's methodology in 2011?
A. One of them would very likely have been the question of do we use the Black Scholes model to value the warrant this year or not. It was probably the same most years or every year maybe, but that would have been part of the methodology.
Q. And there was a discussion about that?
MR. HARPER: Objection as to form.
Go ahead.
A. I think the discussion was with the auditors of Treasury, whether they would agree that our methodology would be acceptable to them.
BY MR. THOMPSON:
Q. So Black Scholes was one thing that would have been discussed with the --
A. Yes.
Q. -- Treasury auditors?
Was that KPMG?
A. Yes.
Q. Okay. And what other types of issues were being discussed in connection with the 2011 valuation report? Would the discount rate have been something that came up?
A. It's likely, yes, how will we come up

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with the discount rate for the calculation of the senior preferred.
Q. Would another question have been, "Well, do we take the cash flows out to the time that the funding commitment expires?" Is that another methodological question that was discussed?
MS. ACEVEDO: Objection to form.
A. I don't recall that being directly an issue. I think the models were accepted at that point.
BY MR. THOMPSON:
Q. Do you recall any other methodological issues that were being discussed with KPMG in this timetable, or Treasury?
A. I don't recall.
MR. THOMPSON: We're going to go onto Eberhardt 10.
(Eberhardt Exhibit 10, e-mail string beginning with e-mail dated 8/24/11 bearing Production No. UST 406207, was marked for identification)
MR. THOMPSON: And this has a Bates number of UST 406207.
BY MR. THOMPSON:
Q. Now, this is an e-mail chain between you

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and Jeff Foster. And if we look at the e-mail, the first one in time, so the one on the bottom of the chain --
A. (Nodding affirmatively).
Q. -- it's dated August 24, 2011, 5:28 p.m., to Mr. Foster and Ms. Mlynarczyk. And you write, "Is there any literature you can forward to me that expresses Treasury's most recent position on charging quarterly commitment fees for the PSPA?"
Was there prior literature they had provided you on that topic?
A. I don't remember any literature in the past.
Q. Okay. Do you have any understanding at the time as to how Treasury thought about pricing the periodic commitment fee?
A. No.
Q. Did anyone at Grant Thornton know that?
A. No. We asked them.
Q. Did anyone at the Treasury ever tell Grant Thornton that the periodic commitment fee would be incalculably large?
MS. ACEVEDO: Objection.
A. I don't recall that conversation.

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BY MR. THOMPSON:
Q. Okay. Was there any conversation with Treasury about setting the periodic commitment fee and how it would be set?
MS. ACEVEDO: Objection to form.
A. Our question was really do you continue to waive it or no.
BY MR. THOMPSON:
Q. What did they say?
A. I think, in every case, they said they would waive it.
Q. Okay. And do you know why that was?
A. I don't remember if it came up in conversation specifically.
Q. Well, do you have a general recollection?
A. My memory was that the PSPA or charging a commitment fee would be adding onto the 10 percent dividend, and that that was -- the 10 percent dividend was already big enough. They didn't want to add additional burden to the 10 percent.
MR. THOMPSON: Fine. Let's go to our next exhibit, which will be Eberhardt 11. It has a Bates number of FHFA 23117.

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what was done. It sounds like it was an exercise to see what cash flows would be if the liquidity commitment wasn't being drawn every quarter to pay dividends. Right?
BY MR. THOMPSON:
Q. Yes. But that all the earnings were being swept. Is that the way you read this?
MS. ACEVEDO: Objection. Lack of foundation, form.
A. If all of the dividends that were being -- yes. If they were paying dividends based on their earnings and not based on a 10 percent dividend, yes.
BY MR. THOMPSON:
Q. And was this something that was discussed with Treasury, this scenario?
MR. HARPER: Objection to form.
A. I don't remember. I had forgotten that we even did this until now, so I don't recall how the topic came up.
BY MR. THOMPSON:
Q. Okay. Do you recall discussing this with the companies at all?
MR. HARPER: Objection to form.
A. I will say we didn't discuss our

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projections with the companies once they informed us how -- once they gave us input as to how we should build them up. We didn't share with them what we did.
BY MR. THOMPSON:
Q. Why not? Couldn't you have benefited from their expertise?
MR. HARPER: Objection as to form. Go ahead.
A. They were not a party to our valuation report. So we didn't want -- it wouldn't have been appropriate for us to share our models with them once they were completed. We asked for their input. We showed them sections and asked for their input about our underlying assumptions, but we didn't show them our report or talk to them about our valuation process.
BY MR. THOMPSON:
Q. The next statement is about "Control Premium." And it says in the second sentence under that heading, "It is widely accepted that the following are among the prerogatives of control ownership: Setting policy and changing the course of the business, acquiring or liquidating assets."
Is it your understanding when you were

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working on this report that Treasury controlled acquiring or liquidating the assets?
MS. ACEVEDO: Objection. Calls for speculation and objection as to form, scope. Calls for a legal conclusion.
A. It's my understanding that they did not, that Treasury did not make these decisions.
BY MR. THOMPSON:
Q. It had no say over selling or liquidating assets?
MS. ACEVEDO: Objection. Calls for speculation and a legal conclusion. Also objection as to form. Vague.
A. I couldn't know from day-to-day what Treasury was doing or what they were able to do at the GSEs. I think the point of this paragraph is to make the case because Treasury was not doing this -- it was our understanding that Treasury was not engaging in these activities. It would not have been appropriate to assign a control premium to the valuation of the senior preferred shares.
BY MR. THOMPSON:
Q. Wasn't it true that, in fact, the companies were not able to raise capital without Treasury's approval?

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MS. ACEVEDO: Objection to form and foundation. Calls for speculation and a legal conclusion. Asked and answered.
A. Again, I think that would have been outlined -- those rules are outlined in the PSPA.
BY MR. THOMPSON:
Q. Did you understand at the time you were working on this report that these companies could not go out and do an IPO and raise the money to pay off Treasury?
MR. HARPER: Same objections.
MS. ACEVEDO: Objection. Calls for a legal conclusion.
A. I would have to reread them. I don't remember precisely the terms of --
BY MR. THOMPSON:
Q. I'm asking what your understanding was. I'm not asking what in fact they say. The documents will speak for themselves. But I'm asking -- as you were putting this together, you had clearly an understanding of the PSPAs. And I'm just asking, did you know or have a view as to whether the companies could raise capital or not?
MR. HARPER: Same objections. Lack of foundation and whatever you want to offer.

MS. ACEVEDO: Calls for speculation and a legal conclusion.
A. Again, I think this paragraph was an argument for not assigning control premium. I don't know what -- I don't remember exactly what they could or could not do, what the GSEs could or could not do. It seems that there were some restrictions on what they could do according to the PSPA as far as getting capital, floating debt. I don't remember the specifics.
BY MR. THOMPSON:
Q. If we turn to the next page, 17. We've talked a little bit about these FHFA lawsuits, and I apologize if you've answered this question. But in this document, there's zero value attributed to the lawsuits against financial institutions.
Do you recall whether in the placeholder report that you were working on through September 30, 2012 whether there was value attributed to these lawsuits in that report?
MS. ACEVEDO: Objection to form.
A. I don't remember in 2012.
BY MR. THOMPSON:
Q. The next section says, "Federal Income Taxes. We have assumed that the companies will not

pay federal income taxes."
Was that because of the tax loss carry forwards at least in the early years?
MS. ACEVEDO: Objection. Form and foundation, calls for speculation and a legal conclusion.
MR. HARPER: I'll join. Lack of foundation in particular.
Go ahead.
A. Before I can answer your question, I want to read the entire paragraph.
BY MR. THOMPSON:
Q. That's fine. Please take your time.
A. (Witness reviewing document).
Okay.
Q. Okay. So my question is: Obviously, this states Grant Thornton assumed the company will not pay federal income taxes. Was that in part based on the assumption that the companies would utilize and exhaust their NOLs?
MR. HARPER: Same objections.
MS. ACEVEDO: Objection to form and foundation.
BY MR. THOMPSON:
Q. As stated in the second sentence of this

paragraph.
MS. ACEVEDO: Calls for a legal conclusion.
A. Okay. It seems, according to this paragraph, that we did consider the effect of paying taxes, what that would have been to the value of the senior preferred shares, and concluded that by the time those cash flows have been received after tax, the difference in the valuation was minimal. And accordingly, we decided -- we at Grant Thornton decided that we could essentially ignore it for this year's valuation.
BY MR. THOMPSON:
Q. And that was premised on an understanding that the companies would utilize their NOLs, right?
MR. HARPER: Objection as to lack of foundation and form.
Go ahead.
A. I believe that's correct, yes.
BY MR. THOMPSON:
Q. All right. Now, let's look at page 20, 7737. This is, "Assumptions and Limiting Conditions." And we've got number one, "The conclusion of value arrived at herein pertains only

to the subject financial instrument, the stated value standard (fair value) as of the stated valuation date and only for the stated valuation purposes."
Was the valuation information contained in this report intended to be valid 11 months later?
MR. HARPER: Objection as to form.
MS. ACEVEDO: Objection as to foundation, and outside the scope.
A. I would say no.
BY MR. THOMPSON:
Q. All right. Number six, "This report and conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein." Then it goes on to say later on in that paragraph, "Our work in this report may not be used for any other purpose or by any other party for any purpose without our prior written consent."
Do you know whether Grant Thornton ever gave written consent for the United States Treasury to rely on these projected cash flows in deciding to do the net worth sweep?
MS. ACEVEDO: Objection to form and

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foundation, calls for speculation, lack of personal knowledge, calls for a legal conclusion.
A. And I don't know what happened.
BY MR. THOMPSON:
Q. Who would have been asked for that consent at Grant Thornton? If I wanted to get to the person at Grant Thornton who would know the answer to the question I just posed, who would be that person?
MS. ACEVEDO: Objection. Calls for speculation.
A. That year, it could have been Bradley Wilson because his name is on the report. I don't know if it would have been the contracting person at the global public sector office. I don't really know who would have received a request for written consent.
BY MR. THOMPSON:
Q. Let's look at the projected future earnings themselves, which start on 7741. Now, in 2020, there's net interest margin of $8.635 billion. That's the first row.
Do you see that?
A. Yes.

Page 211

Q. And it stays exactly the same for the next 19 years.
A. Okay.
Q. Was this just a pure extrapolation?
MR. HARPER: Objection as to form.
If you understand the question.
BY MR. THOMPSON:
Q. I guess what I'm trying to ask is: Did Grant Thornton make an independent analysis and say, "You know what, we think, for 20 years in a row, they're going to make exactly the same net interest margin," or did they simply extrapolate the 2020 numbers out into the future?
MR. HARPER: Objection. Lack of foundation.
MS. ACEVEDO: Objection. Calls for speculation. Can you refer me again to where you're reading from?
MR. THOMPSON: 7741.
MS. ACEVEDO: Yes.
MR. THOMPSON: In the top right-hand column, the first row.
MS. ACEVEDO: Yes.
BY MR. THOMPSON:
Q. There's GAAP Net Interest Margin, 8.635

Page 212

billion. And then that's the exact same number for every year through 2039.
A. My memory is the underlying figures, so these were probably a little more nuanced than that. But without seeing them, I can't remember exactly how we -- the team came up with these figures.
Q. I'm sorry. I'm not understanding what you're saying. You're saying there is a model that had different results than this?
A. This model -- no. The model -- I believe there were underlying figures supporting GAAP net interest margin. But in 2011, I don't remember for sure. And I don't recall the reasons for holding GAAP net interest margin constant as you say from 2020 forward. There may be language within the report that describes that reason. I just don't remember.
Q. If you look at the next page for a moment, 7742, it shows administrative expenses growing year by year, and that's true through 2039. Why were administrative expenses growing while the entities were being wound down?
MS. ACEVEDO: Objection.
MR. HARPER: Objection.

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MS. ACEVEDO: Form, foundation, mischaracterizes the document.
A. I believe there might have been a section within the report that describes administrative expenses being subject to an inflationary growth. We might have assumed that there was a certain level of administrative expenses that were necessary no matter what happened and that those would grow by some rate. And that's probably described somewhere in the report, but I don't recall exactly where.
BY MR. THOMPSON:
Q. What is OTTI, O-T-T-I, which is in the third row?
A. It's an accounting term for "other than temporary impairment."
Q. I'm sorry, but could you translate that into lay terms?
A. You need an accountant.
Q. Well, what's your understanding?
A. More of an accountant than I am. If certain securities are being held and they become impaired and it's determined that they're more or less permanently impaired, the company is required under, I think, certain accounting standards to

EXHIBIT 14

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation *(State or other jurisdiction of incorporation or organization)*	**52-0883107** *(I.R.S. Employer Identification No.)*
3900 Wisconsin Avenue, NW Washington, DC *(Address of principal executive offices)*	**20016** *(Zip Code)*

Registrant's telephone number, including area code:
(202) 752-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
(Title of class)
8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share
(Title of class)
8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1 stated value $50 per share
(Title of class)
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share
(Title of class)
7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share
(Title of class)
6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series O, stated value $50 per share
(Title of class)
5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value $100,000 per share
(Title of class)
5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share
(Title of class)
4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share
(Title of class)
5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share
(Title of class)
5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share
(Title of class)
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share
(Title of class)
5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share
(Title of class)
5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2011 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $383 million.

As of January 31, 2012, there were 1,158,072,058 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The information required by Item 11 in Part III will be included in an amendment to this annual report on Form 10-K filed on or before April 30, 2012.

We remained a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 21% of the outstanding debt on multifamily properties as of September 30, 2011 (the latest date for which information was available).

Summary of Our Financial Performance for 2011

Our financial results for 2011 reflect the continued weakness in the housing and mortgage markets, which remain under pressure from high levels of unemployment and underemployment, and the prolonged decline in home prices since their peak in the third quarter of 2006. Our credit-related expenses continue to be a key driver of our net losses for each period presented. The substantial majority of our credit-related expenses are from single-family loans we acquired prior to 2009, which decreased as a percentage of our single-family guaranty book of business to 47% as of December 31, 2011 from 60% as of December 31, 2010. Our credit-related expenses vary from period to period primarily based on changes in home prices, borrower payment behavior, the types and volumes of loss mitigation activities completed, and actual and estimated recoveries from our lender and mortgage insurer counterparties.

In addition, the decline in interest rates during 2011 resulted in significant fair value losses on our derivatives. These fair value losses on our derivatives were offset by fair value gains during 2011 related to our mortgage investments; however, only a portion of these investments is recorded at fair value in our financial statements. Derivative instruments are an integral part of how we manage interest rate risk and an inherent part of the cost of funding and hedging our mortgage investments. We expect high levels of period-to-period volatility in our results because our derivatives are recorded at fair value in our financial statements while some of the instruments they hedge are not recorded at fair value in our financial statements.

Total Comprehensive Loss

We recognized a total comprehensive loss of $16.4 billion for 2011, consisting of a net loss of $16.9 billion and other comprehensive income of $447 million. In comparison, our total comprehensive loss for 2010 was $10.6 billion, consisting of a net loss of $14.0 billion and other comprehensive income of $3.4 billion.

The increase in our net loss in 2011, as compared with 2010, was primarily due to an increase in net fair value losses and credit-related expenses, which were partially offset by an increase in net interest income. The primary drivers of these changes were:

- a $6.1 billion increase in net fair value losses primarily driven by losses on our risk management derivatives in 2011 due to a significant decline in swap rates during the period;
- a $2.9 billion increase in net interest income driven by lower interest expense on debt, which was partially offset by lower interest income on loans and securities;
- an $884 million increase in credit-related expenses primarily driven by a decline in actual and projected home prices.

The $3.0 billion decline in our other comprehensive income was primarily driven by lower gains on the fair value of our available-for-sale securities due to widening credit spreads in 2011 compared with narrowing spreads in 2010.

See “Consolidated Results of Operations” for more information on our results.

Net Worth

Our net worth deficit of $4.6 billion as of December 31, 2011 reflects the recognition of our total comprehensive loss of $1.9 billion and our payment to Treasury of $2.6 billion in senior preferred stock dividends during the fourth quarter of 2011. The Acting Director of FHFA will submit a request to Treasury on our behalf for $4.6 billion to eliminate our net worth deficit.

In the fourth quarter of 2011, we received $7.8 billion in funds from Treasury to eliminate our net worth deficit as of September 30, 2011. Upon receipt of the additional funds requested to eliminate our net worth deficit as of

EXHIBIT 15

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No.: 0 50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation *(State or other jurisdiction of incorporation or organization)*	**52-0883107** *(I.R.S. Employer Identification No.)*
3900 Wisconsin Avenue, NW **Washington, DC** *(Address of principal executive offices)*	**20016** *(Zip Code)*

Registrant's telephone number, including area code:
(202) 752-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§ 232 405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 2b 2 of the Exchange Act

Large accelerated filer ☐ Accelerated filer ☑ Non accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act) Yes ☐ No ☑

As of March 31, 2012, there were 1,158,069,699 shares of common stock of the registrant outstanding.

- We helped over 1,000,000 homeowners retain their homes or otherwise avoid foreclosure from January 1, 2009 through March 31, 2012, which helped to support neighborhoods, home prices and the housing market Moreover, borrowers' ability to pay their modified loans has improved in recent periods as we have enhanced the structure of our modifications One year after modification, 74% of the modifications we made in the first quarter of 20 were current or paid off, compared with 65% of the modifications we made in the first quarter of 2010
- We helped borrowers refinance loans through our Refi Plus™ initiative, which includes loans refinanced under the Obama Administration's Home Affordable Refinance Program ("HARP") The Refi Plus initiative provides expanded refinance opportunities for eligible Fannie Mae borrowers From April 1, 2009, the date we began accepting delivery of Refi Plus loans, through March 31, 2012, we have acquired approximately 2,000,000 loans refinanced under our Refi Plus initiative Refinances delivered to us through Refi Plus in the first quarter of 20 2 reduced borrowers' monthly mortgage payments by an average of $191 Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an adjustable rate mortgage to a fixed rate mortgage, or to switch from an interest only mortgage to a fully amortizing mortgage
- We support affordability in the multifamily rental market Over 85% of the multifamily units we financed from 2009 through 2011 were affordable to families earning at or below the median income in their area
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short term financing and other activities These activities are described in more detail in our 2011 Form 10 K in "Business Business Segments Capital Markets."

2012 Acquisitions and Market Share

In the first quarter of 2012, we purchased or guaranteed approximately $221 billion in loans, measured by unpaid principal balance, which includes $14.2 billion in delinquent loans we purchased from our single family MBS trusts These activities enabled our lender customers to finance approximately 934,000 single family conventional loans and loans for approximately 117,000 units in multifamily properties during the first quarter of 2012

We remained the largest single issuer of mortgage related securities in the secondary market during the first quarter of 20 2, with an estimated market share of new single family mortgage related securities issuances of 5 % Our estimated market share of new single family mortgage related securities issuances was 54% in the fourth quarter of 2011 and 49% in the first quarter of 2011.

We remained a constant source of liquidity in the multifamily market We owned or guaranteed approximately 21% of the outstanding debt on multifamily properties as of December 3 , 20 (the latest date for which information was available)

Summary of Our Financial Performance for the First Quarter of 2012

We experienced a significant improvement in our financial results in the first quarter of 2012 compared with the first quarter of 2011, even though our results continued to be impacted by weakness in the housing and mortgage markets

Total Comprehensive Income (Loss)

We recognized total comprehensive income of $3 billion in the first quarter of 20 2, consisting of net income of $2 7 billion and other comprehensive income of $362 million. In comparison, we recognized a total comprehensive loss of $6.3 billion in the first quarter of 2011, consisting of a net loss of $6.5 billion and other comprehensive income of $181 million

The significant improvement in our financial results in the first quarter of 2012 compared with the first quarter of 2011 was due to an $8.7 billion decrease in our credit related expenses, primarily driven by: (1) a less significant decline in home prices as the housing market continued to stabilize; we estimate that home prices declined by

EXHIBIT 16

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**52-0883107**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3900 Wisconsin Avenue, NW Washington, DC	**20016**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(202) 752-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of June 30, 2012, there were 1,158,069,699 shares of common stock of the registrant outstanding.

Comprehensive Income (Loss)

Quarterly Results

We recognized comprehensive income of $5.4 billion in the second quarter of 2012, consisting of net income of $5.1 billion and other comprehensive income of $328 million. In comparison, our comprehensive loss and net loss for the second quarter of 2011 were $2.9 billion.

The significant improvement in our second quarter results was primarily due to recognition of a benefit for credit losses of $3.0 billion in the second quarter of 2012 compared with a provision for credit losses of $6.5 billion in the second quarter of 2011. This benefit for credit losses was due to a decrease in our total loss reserves driven primarily by an improvement in the profile of our single-family book of business resulting from an increase in actual home prices, including the sales prices of our REO properties. In addition, our single-family serious delinquency rate continued to decline, driven in large part by the quality and growth of our new single-family book of business, our modification efforts and current period foreclosures. Key factors impacting our credit-related results include:

- Home prices increased by 3.2% in the second quarter of 2012 compared with 1.2% in the second quarter of 2011. We historically see seasonal improvement in home prices in the second quarter; however, the home price increase in the second quarter of 2012 was larger than expected and the largest quarterly increase we have seen in the last few years. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default.
- Sales prices on dispositions of our REO properties improved in the second quarter of 2012 as a result of strong demand. We received net proceeds from our REO sales equal to 59% of the loans' unpaid principal balance in the second quarter of 2012, compared with 56% in the first quarter of 2012 and 54% in the second quarter of 2011.
- Our single-family serious delinquency rate declined to 3.53% as of June 30, 2012 from 3.67% as of March 31, 2012 and 4.08% as of June 30, 2011.
- In addition to the reasons described above, the cash flow projections on our individually impaired loans improved due to accelerated expected prepayment speeds as a result of lower mortgage interest rates: the average 30-year fixed-rate mortgage interest rate was 3.68% in June 2012, compared with 3.95% in March 2012 and 4.51% in June 2011, according to Freddie Mac's Primary Mortgage Market Survey®. The accelerated expected prepayment speeds reduced the expected lives of modified loans and thus reduced the expected expense related to the concessions we have granted to borrowers.

As discussed below in "Our Expectations Regarding Future Loss Reserves and Credit-Related (Income) Expenses," due to the large size of our guaranty book of business, even small changes in home prices, economic conditions and other variables can result in significant volatility in the amount of credit-related expenses or income we recognize from period to period.

The improvement in our credit results in the second quarter of 2012 was partially offset by fair value losses of $2.4 billion, compared with fair value losses of $1.6 billion in the second quarter of 2011. Our fair value losses in the second quarter of 2012 were primarily due to risk management derivative losses on pay-fixed swaps, primarily driven by a decrease in swap rates in the quarter. Derivative instruments are an integral part of how we manage interest rate risk and an inherent part of the cost of funding and hedging our mortgage investments. We expect high levels of period-to-period volatility in our results because our derivatives are recorded at fair value in our financial statements while some of the instruments they hedge are not recorded at fair value in our financial statements.

Year-to-Date Results

Our comprehensive income for the first half of 2012 was $8.5 billion, consisting of net income of $7.8 billion and other comprehensive income of $690 million. In comparison, we recognized a comprehensive loss of $9.2 billion in the first half of 2011, consisting of a net loss of $9.4 billion and other comprehensive income of $183 million.

The significant improvement in our financial results was primarily due to recognizing a benefit for credit losses of $1.0 billion in the first half of 2012 compared with a provision of $17.1 billion in the first half of 2011. The improvement was a result of the same factors that impacted the second quarter of 2012, which are described above. The improvement in our credit results was partially offset by higher fair value losses on risk management derivatives.

See "Consolidated Results of Operations" for more information on our results.

Net Worth

Our net worth of $2.8 billion as of June 30, 2012 reflects our comprehensive income of $8.5 billion offset by our payment to Treasury of $5.8 billion in senior preferred stock dividends during the first half of 2012.

EXHIBIT 17

Fannie Mae Update

Treasury Meeting

August 9, 2012

A253

UST00532137

FannieMae

Agenda

- Introduction of Fannie Mae Management Team
- Corporate Financial Update
- Status of Key Initiatives
- Discussion

FannieMae

A255

Fannie Mae Corporate Update

The Fannie Mae forecasts included in these materials are forward-looking statements, and actual outcomes may differ materially from these forecasts as a result of numerous factors, including the assumptions contained in this analysis, changes in macro-economic variables, government policy, the housing and credit markets, and actions we take in the future and the success of those actions, as well as those discussed in Fannie Mae's most recent Form 10-Q and Form 10-K filed with the Securities and Exchange Commission.

FannieMae

2012 Quarterly Earnings

($'s in billions)

10 bp pay to net fee)

	Actual				Forecast [1]		
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Full Year 2012
Net interest income - portfolio and other	3.9	2.7	3.7	3.7	3.5	3.3	14.2
Net interest income - MBS guaranty fee	1.3	1.5	1.5	1.8	1.6	1.7	6.5
Other revenues	0.3	0.4	0.4	0.4	0.3	0.3	1.3
Net revenues	**$ 5.5**	**$ 4.5**	**$ 5.6**	**$ 5.8**	**$ 5.4**	**$ 5.2**	**$ 22.1**
Credit losses	(4.5)	(5.2)	(5.1)	(3.9)	(4.5)	(5.2)	(18.6)
(Build) / reduction in allowance	(0.9)	(1.3)	2.3	6.6	2.6	(0.5)	11.0
SOP 03-3	0.5	1.0	0.4	0.4	0.5	0.4	1.7
Credit-related (expenses) / benefit	**$ (4.9)**	**$ (5.5)**	**$ (2.3)**	**$ 3.1**	**$ (1.4)**	**$ (5.3)**	**$ (5.9)**
Other expenses	(1.2)	(0.7)	(0.8)	(1.4)	(1.1)	(1.1)	(4.3)
(Loss) / earnings before mark-to-market activity	**$ (0.6)**	**$ (1.7)**	**$ 2.4**	**$ 7.6**	**$ 3.0**	**$ (1.1)**	**$ 11.9**
Fair value (losses) / gains, net	(4.5)	(0.8)	0.3	(2.4)	0.1	0.1	(1.9)
Accumulated other comprehensive income change	(0.2)	0.5	0.4	0.3	0.1	0.1	0.9
Mark-to-market	(4.7)	(0.3)	0.6	(2.1)	0.2	0.2	(1.0)
Total comprehensive (loss) / income	**$ (5.3)**	**$ (1.9)**	**$ 3.1**	**$ 5.4**	**$ 3.2**	**$ (0.9)**	**$ 10.9**
Cumulative infusion received, plus new draw	$ 111.6	$ 116.1	$ 116.1	$ 116.1	$ 116.1	$ 116.8	$ 116.8
Dividends	$ (2.5)	$ (2.6)	$ (2.8)	$ (2.9)	$ (2.9)	$ (2.9)	$ (11.6)

[1] Forecast periods reflect July 2012 BoD corporate forecast updated for actuals through June 2012

Note Numbers may not foot due to rounding.

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2012 – 2016 Annual Earnings

($'s in billions)

			Forecast [1]		
	2012	**2013**	**2014**	**2015**	**2016**
Net interest income - portfolio and other	14.2	12.5	11.3	10.3	8.9
Net interest income - MBS guaranty fee	6.5	7.0	7.5	8.0	8.6
Other revenues	1.3	1.0	0.9	0.9	1.0
Net revenues	**$ 22.1**	**$ 20.5**	**$ 19.8**	**$ 19.3**	**$ 18.4**
Credit losses	(18.6)	(19.0)	(17.7)	(13.3)	(9.5)
Reduction in allowance	11.0	7.5	11.0	9.0	7.7
SOP 03-3	1.7	1.9	1.6	1.1	0.8
Credit-related expenses	**$ (5.9)**	**$ (9.6)**	**$ (5.1)**	**$ (3.2)**	**$ (1.0)**
Other expenses	(4.3)	(3.9)	(4.1)	(4.2)	(4.1)
Earnings before mark-to-market activity	**$ 11.9**	**$ 6.9**	**$ 10.5**	**$ 11.9**	**$ 13.4**
Fair value (losses) / gains, net	(1.9)	0.5	0.5	0.5	0.4
Accumulated other comprehensive income change	0.9	0.1	0.1	0.1	0.1
Mark-to-market	(1.0)	0.6	0.5	0.5	0.5
Total comprehensive income	**$ 10.9**	**$ 7.5**	**$ 11.0**	**$ 12.5**	**$ 13.9**
Cumulative infusion received, plus new draw	$ 116.8	$ 121.2	$ 122.4	$ 122.4	$ 122.4
Dividends	$ (11.6)	$ (11.8)	$ (12.2)	$ (12.3)	$ (12.3)

[1] Forecast periods reflect July 2012 BoD corporate forecast updated for actuals through June 2012

Note: Numbers may not foot due to rounding.

assumes
no mks on derivat
no taxes

no hedge
accounting
volatility
means some
times drawing
more + higher
paying dividends

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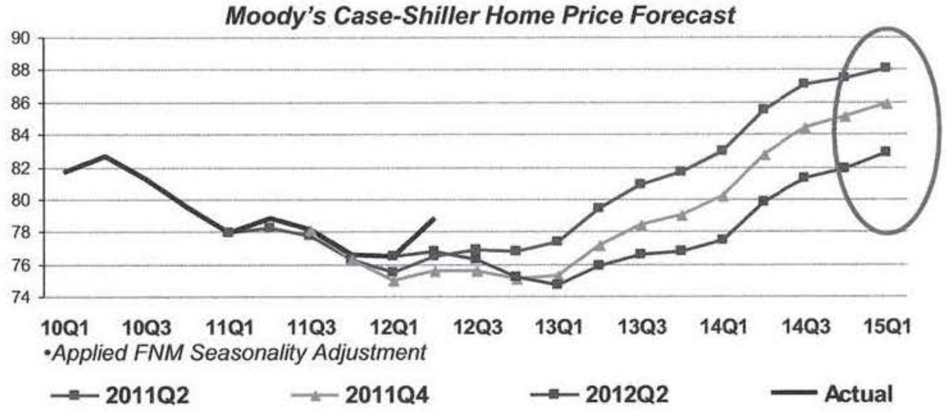
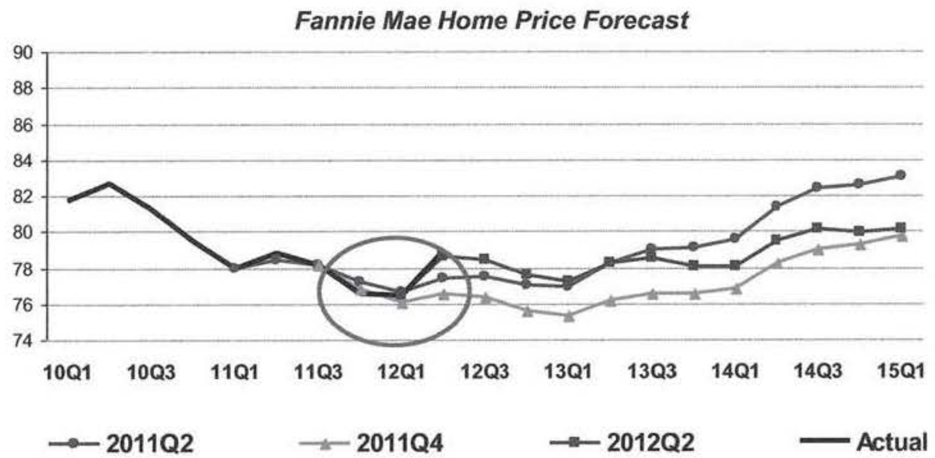
Fannie Mae vs. Moody's Case-Shiller Home Price Forecasts



Case-Shiller forecast updates reflect significant variability



With more up to date data, FNM is able to capture the most recent trends

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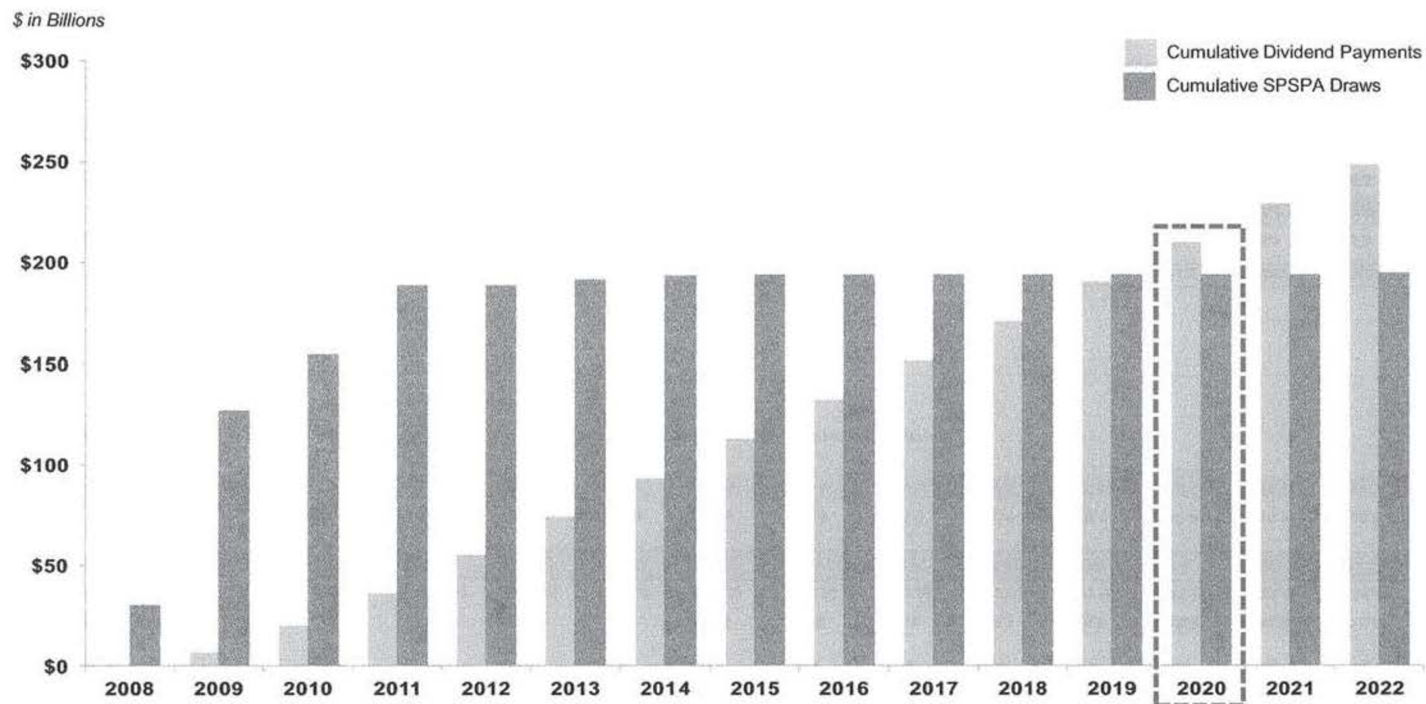
Cumulative GSE Dividend Payments vs. Cumulative SPSPA Draws



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
SPSPA Draws Less Dividends ($B)	($30)	($120)	($134)	($152)	($134)	($118)	($100)	($81)	($61)	($42)	($22)	($2)	$17	$36	$53
Residual Equity ($B)	-	-	-	-	$0	$0	$2	$4	$7	$10	$11	$10	$8	$7	$6

Note: Figures above based on extended earnings forecast for both Fannie Mae and Freddie Mac. Forecast incorporates actual results through May 2012 for Fannie Mae and through 2011 for Freddie Mac.

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Annual Detail of Cumulative Dividends and SPSPA Draws

Fannie Mae

($ in Billions)	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		11.6	7.5	11.0	12.5	13.9	13.2	12.2	11.4	10.9	10.5	10.5
Preferred Dividend Payment	19.8	11.6	11.8	12.1	12.2	12.2	12.2	12.2	12.2	12.2	12.3	12.5
Residual Equity	0.0	0.0	0.0	0.0	0.2	1.8	2.8	2.7	1.9	0.5	0.0	0.0
Cumulative Dividends	19.8	31.4	43.2	55.3	67.6	79.8	92.1	104.3	116.6	128.8	141.1	153.6
Cumulative SPSPA Draws	(116.1)	(116.1)	(119.0)	(121.2)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(122.9)	(124.8)
Cumulative Dividends Less Draws	*(96.3)*	*(84.7)*	*(75.8)*	*(65.9)*	*(53.9)*	*(41.7)*	*(29.4)*	*(17.2)*	*(4.9)*	*7.3*	*18.3*	*28.8*
SPSPA Funding Cap	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9
Remaining Funding under SPSPA	124.8	124.8	122.0	119.7	119.5	119.5	119.5	119.5	119.5	119.5	118.1	116.1

Note: 2012-2016 figures from Fannie Mae July BOD corporate forecast. 2017-2022 figures are based on simplifying assumptions derived from trends observed within the 2012-2016 horizon.

Freddie Mac

($ in Billions)	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		11.6	7.5	8.2	8.6	9.0	8.7	8.3	7.7	7.1	6.7	6.5
Preferred Dividend Payment	16.3	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Residual Equity	0.0	0.0	0.4	1.7	3.5	5.6	6.9	7.9	8.1	7.9	7.2	6.3
Cumulative Dividends	16.3	23.7	31.1	38.4	45.8	53.2	60.6	68.0	75.4	82.8	90.2	97.6
Cumulative SPSPA Draws	(72.2)	(116.1)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)
Cumulative Dividends Less Draws	*(55.9)*	*(92.4)*	*(41.9)*	*(34.5)*	*(27.1)*	*(19.7)*	*(12.3)*	*(4.9)*	*2.5*	*9.9*	*17.3*	*24.7*
SPSPA Funding Cap	220.5	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3
Remaining Funding under SPSPA	148.3	105.2	148.3	148.3	148.3	148.3	148.3	148.3	148.3	148.3	148.3	148.3

Note: 2012-2022 figures are based on simplifying assumptions derived from Fannie Mae forecast trends and observed relationships between key Fannie Mae and Freddie Mac performance metrics. Reported 2011 results re-aligned as necessary to correspond to Fannie Mae management reporting.

Note: Numbers may not foot due to rounding

Status of Key Initiatives

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Status of Key Initiatives

Securitization and Pooling & Servicing Agreement

Fannie Mae and Freddie Mac will draft a white paper for public comment. A plan for a securitization platform and model PSA will be completed by both Enterprises incorporating the resulting industry commentary by the end of the year.

REO Sales

Obtained bids for potential REO joint venture deal and presented to Pricing Committee, FHFA and the US Treasury in June. FHFA announced the winning bidders on July 3, 2012. Targeted execution of REO joint transaction in Q3 2012 (dependent upon FHFA approval).

Credit Risk Transfer

Currently projecting to complete first transaction in early 2013.

Non-Performing Loan Sales

Preparing a pilot transaction for the competitive disposition of NPA and announcing transaction to the market by the end of 2012.

Credit Pricing Update

Focused on a 10bps average guaranty fee price increase across both Enterprises.

Rep & Warrant Changes

Selling Rep & Warrant framework, expected to become effective January 1, 2013, eliminates liability after 36 months of timely payments.

HARP 2.0

Significant increase in volume in June and July is attributable to the release of the MBS execution for the greater-than 125 LTV category, resulting in 35K loans delivered in this bucket for June and July, representing 31% of total volume in these months.