IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DAVID JACOBS and GARY HINDES, on behalf of themselves and all others similarly situated, and derivatively on behalf of the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, *Plaintiffs*, v. THE FEDERAL HOUSING FINANCE AGENCY, in its capacity as Conservator of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, and THE UNITED STATES DEPARTMENT OF THE TREASURY, *Defendants*, and THE FEDERAL NATIONAL MORTGAGE ASSOCIATION and THE FEDERAL HOME LOAN MORTGAGE CORPORATION, *Nominal Defendants.*	Civil Action No.: 15-708-GMS **CLASS ACTION** **<u>JURY TRIAL DEMANDED</u>**

PLAINTIFFS' MOTION FOR JUDICIAL NOTICE OF DOCUMENTS OR, IN THE ALTERNATIVE, TO STRIKE CERTAIN ARGUMENTS IN DEFENDANTS' BRIEFING IN SUPPORT OF THEIR MOTIONS TO DISMISS

Plaintiffs David Jacobs and Gary Hindes hereby move the Court to take judicial notice of documents described below that are relevant to Defendants' pending motions to dismiss (D.I. 65 and 67) or, in the alternative, to strike factual arguments set forth in Defendants' briefs in support of their respective motions to dismiss in view of documents made public after the parties completed briefing on Defendants' motions that contradict Defendants' statements in their briefs.

On August 17, 2015, Plaintiffs, on behalf of themselves and all others similarly situated, and derivatively on behalf of Federal National Mortgage Association ("Fannie") and Federal Home Loan Mortgage Corporation ("Freddie," and, together with Fannie, the "Companies"), filed a Class Action and Derivative Complaint in this Court against Defendants Federal Housing Finance Agency ("FHFA"), in its capacity as conservator of the Companies, and United States Department of the Treasury ("Treasury"). With the Court's approval, Plaintiffs docketed their First Amended Class Action and Derivative Complaint (the "First Amended Complaint," D.I. 62) on March 16, 2017. FHFA and Treasury each moved to dismiss the First Amended Complaint and filed an opening brief in support thereof on April 17, 2017 (D.I. 65-68). Plaintiffs responded to Defendants' motions to dismiss on June 16, 2017 (D.I. 69), and Defendants filed their reply briefs on July 17, 2017 (D.I. 70 and 71). There has not been a Federal Rule of Civil Procedure 16 scheduling conference nor has discovery commenced. The documents that form the basis of this motion were made public on or about July 19, 2017, more than a month after Plaintiffs submitted their brief in opposition to Defendants' motions to dismiss and after briefing on those motions was complete.

This case concerns amendments to the constitutive documents of Fannie and Freddie known as the "Net Worth Sweep." In 2012, Fannie and Freddie, both of which are publicly traded, stockholder-owned corporations, were on the verge of earning hundreds of billions of dollars when FHFA, their conservator, and Treasury, the owner of their senior preferred stock and warrants for 80% of their common stock, implemented the Net Worth Sweep, pursuant to which Treasury took the Companies' retained net worth and any and all profits the Companies earn each quarter from that point forward *in perpetuity*. D.I. 62 at ¶¶ 14-15. Neither the Companies nor their private stockholders received any meaningful consideration in exchange for the Net Worth Sweep, which expropriates to the government all of the economic interests held by the Companies' private stockholders and makes it impossible for the Companies to rebuild their capital reserves, exit conservatorship, and return to normal operations. D.I. 62 at ¶ 16.

As explained below, the documents that recently were disclosed to the public demonstrate that Defendants knew that the Net Worth Sweep would be tremendously profitable for Treasury. And it has: as Defendants knew would happen, since 2012, the Companies have been "generating large revenues…enabling them to pay [far more than] the 10% annual dividend." Due to the Net Worth Sweep, "every dollar" of those record setting profits has been paid to Treasury. But these payments have not reduced the Companies' obligation to Treasury under the senior preferred stock by even one dollar, and the Companies must continue to pay all of their net worth each quarter to Treasury in perpetuity. D.I. 62 at ¶ 17. This action challenges the validity and enforceability of the Net Worth Sweep. Plaintiffs claim that the Net Worth Sweep violates Delaware and Virginia law.[1] D.I. 62 at ¶¶ 50-55.

Defendants' briefs filed in support of their motions to dismiss argue, among other things, that the Net Worth Sweep was necessary because the Companies were unlikely to ever be able to generate earnings sufficient to pay quarterly cash dividends to Treasury at an annual rate of 10% of their respective liquidation preferences and thus would be forced to borrow funds from Treasury in order to pay the dividends back to Treasury, thereby perpetually increasing the liquidation preferences and, in turn, their future dividend obligations. *See* D.I. 66 at 7-9; D.I. 68 at 9. Recently disclosed information, however, shows that their contention is false and that Defendants did not even believe it when they implemented the Net Worth Sweep.

[1] In the interest of judicial economy, Plaintiffs do not rehash the arguments and facts presented in the First Amended Complaint or the parties' briefing on the motions to dismiss except to the extent such facts are directly relevant to Plaintiffs' motion.

A number of documents produced under seal by Defendants in a related action challenging the Net Worth Sweep, *Fairholme Funds, Inc. v. United States*, C.A. No. 13-465C (Fed. Cl.), became publicly available on or about July 19, 2017. The recently released documents, which are available at http://fanniefreddiesecrets.org/resources/, show that Defendants actually believed that the Companies would be able to cover the 10% annual cash dividend and that Defendants considered such dividend to be discretionary. The documents further show that the real reason for implementing the Net Worth Sweep was to extract an even greater windfall from the Companies and to achieve the illicit policy objective of eliminating the Companies.

In view of the recently released documents, there is no basis for Defendants' factual argument regarding the necessity of the Net Worth Sweep. The Court should take judicial notice of these documents when deciding Defendants' motions to dismiss.[2] In the alternative, Defendants' argument should be stricken.

The Court Should Take Judicial Notice Of Documents That Belie Defendants' Argument That The Companies Could Not Afford The 10% Annual Cash Dividend

Federal Rule of Evidence 201 allows the Court to take judicial notice of facts "not subject to reasonable dispute because [they] (1) [are] generally known within the trial court's territorial jurisdiction; or (2) can be accurately and readily determined from sources whose accuracy cannot reasonably be questioned." Fed. R. Evid. 201(b). Here, documents that have been made public

[2] With respect to the procedural posture of this motion, the Court can consider publicly available documents when addressing a motion to dismiss. *In re Fisker Auto. Holdings, Inc. S'holder Litig.*, C.A. No. 13-2100-SLR, 2015 WL 6039690, at *8 (D. Del. Oct. 15, 2015) ("[A] court may consider the pleadings, public record, orders, exhibits attached to the complaint, and documents incorporated into the complaint by reference.").

show that Defendants' justification for implementing the Net Worth Sweep is not accurately stated in Defendants' briefs supporting their motions to dismiss.

In their opening briefs in support of their motions to dismiss the First Amended Complaint, Defendants argue that the Net Worth Sweep was necessary to end the practice by which the Companies had to continually borrow more money from Treasury to pay 10% dividends back to Treasury, which borrowing would increase Treasury's liquidation preference and in turn increase the amount of future dividends owed to Treasury. For example, in its opening brief, Treasury contended the Net Worth Sweep was justified to avoid a never-ending cycle of debt for the Companies:

> Prior to the Third Amendment, the enterprises paid dividends at an annual rate of ten percent of their respective liquidation preferences. Ex. B, Fannie Mae Senior Preferred Stock Certificate § 5; Freddie Mac Senior Preferred Stock Certificate § 5 (cited in Am. Compl. ¶ 36). (The quarterly dividend payment thus amounted to 2.5% of the liquidation preference.) Treasury would provide funds to the enterprises to cure both enterprises' negative net worth, which was caused in part by the payment of dividends to Treasury. *See* Am. Compl. ¶ 37. However, each instance of Treasury providing funds to the enterprises to pay quarterly dividend obligations back to Treasury increased the liquidation preference even further. *Id.* In turn, this increased future quarterly dividend payments. *Id.*

D.I. 66 at 7-9; *see also* D.I. 68 at 9.[3] With this background, Treasury argued that the Net Worth Sweep was necessary to end "the practice of the enterprises drawing funds from Treasury in order to pay fixed dividends to Treasury." D.I. 66 at 9.

FHFA made a similar argument in its opening brief. D.I. 68 at 9 ("The Third Amendment thus exchanged future payments in an uncertain amount (a variable dividend equal to profits earned) for relief from future obligations (fixed dividends and periodic commitment

[3] Defendants' previous briefs in support of their motions to dismiss the original complaint made similar arguments. D.I. 18 at 7-8; D.I. 20 at 7-8.

fee). The Enterprises' annual earnings historically averaged less than . . . the amount owed under the pre-Third Amendment fixed dividend.").

The newly released documents contradict Defendants' factual position – which is not based on allegations in the First Amended Complaint – that the Companies' need to draw funds from Treasury to pay the 10% fixed dividend would continue, resulting in a never-ending cycle of increasing quarterly dividend payments and further borrowing, and that the Net Worth Sweep was necessary to end such cycle.

On June 24, 2012, less than two months before Defendants announced the Net Worth Sweep (D.I. 62 at ¶ 15), FHFA Acting Director Edward DeMarco met with Treasury Secretary Timothy Geithner. Their meeting was memorialized in a memorandum prepared that day, which states: "DeMarco no longer sees the urgency of amending the PSPAs this year. He has raised two competing reasons for this new position: (1) the GSEs will be generating large revenues over the coming years, thereby enabling them to pay the 10% annual dividend well into the future even with the caps; and, (2) instituting a net worth sweep in place of the dividend will further extend the lives of the GSEs to such an extent that it would remove the urgency for Congress to act on long-term housing finance reform." Ex. A. Other documents confirm that Treasury also knew the Companies would be able to pay the 10% annual cash dividend going forward as Defendants prepared to impose the Net Worth Sweep, and believed that the Net Worth Sweep would ultimately pay Treasury far more than the 10% annual cash dividend would have paid. An internal Treasury email discussing a draft of a press release to be issued in connection with the Net Worth Sweep states: "We are making sure that each of these entities pays the taxpayer *<u>every dollar of profit they make</u>*, not just a 10% dividend. . . . The taxpayer will thus <u>ultimately collect more money with the changes</u>." Ex. B (emphasis in original). A similar internal Treasury email recognizes the likelihood of the Net Worth Sweep "being a better outcome for taxp[ayers]." Ex. C. Another draft of the internal Treasury "PSPA Amendment Q&A" states that the Net Worth Sweep "will likely exceed the amount that would have been paid if the 10% [dividend] was still in effect." Ex. D. Thus, contrary to the purported justification articulated in Defendants' briefs, Defendants have long known that the Net Worth Sweep was not needed to prevent continuing deterioration of the financial condition of Fannie and Freddie and that it would result in an even bigger windfall for Treasury than the fixed 10% annual cash dividend.

Notwithstanding that Defendants' argument cited above is belied by the contemporaneous documents, Defendants' argument is not tied to the factual allegations of Plaintiffs' First Amended Complaint. Rather, Defendants' argument is meant to provide a new factual justification for the Net Worth Sweep, untethered to any allegations in the First Amended Complaint, without addressing Plaintiffs' valid claims that the Net Worth Sweep violates Delaware and Virginia law. Accordingly, Defendants' factual arguments are not relevant to the pending motions to dismiss. Defendants, however, indicated at the meet and confer on this motion that they will continue to rely on these arguments going forward.[4] For the reasons stated herein, the Court should take judicial notice of the newly released documents which belie the arguments made in Defendants' briefs or strike such arguments.

The Court Should Also Take Judicial Notice Or Strike Defendants' Argument Because Defendants Never Intended To Preserve The Companies.

Defendants' argument regarding the necessity of the Net Worth Sweep is further belied by the recently available documents showing that Defendants did not seek to preserve the

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[4] Plaintiffs met and conferred with Defendants pursuant to Local Rule 7.1.1 before filing this motion. Plaintiffs and Defendants could not reach agreement on the relief sought.

Companies but rather sought to wind them down while ensuring that as much of their value as possible would be passed to Treasury. Yet again, the documents show that Defendants' justification for the Net Worth Sweep is merely a cover for the government's true objectives.

The recently released documents show that Defendants recognized that "FHFA as conservator is required to preserve assets," (Ex. E at 12), and that one of the "[l]egal [c]onstraints" imposed on FHFA is its "mandate[ ] to 'conserve assets'" (Ex. F; *see also* Ex. G at 7 (acknowledging that FHFA "has a responsibility to take such actions as may be necessary to put the Enterprises in a sound and solvent condition and to preserve and conserve their assets and property")). Contrary to those acknowledged constraints and to the factual arguments Defendants made in their briefs, the recently released documents reveal Defendants' objective of winding down the Companies and preventing them from rebuilding their capital buffers through implementation of the Net Worth Sweep. For instance, an internal Treasury email states that the Net Worth Sweep is part of an "overall set of changes" pursuant to which the Companies "will NOT be allowed to return to profitable entities . . . , but instead [will be] wound down and replaced . . . ." Ex. B. Similarly, a "PSPA Next Steps" document shows that Defendants' rationales for the Net Worth Sweep were to wind the GSEs down faster, to prevent them from building capital, and to not allow them to "return to their past state." Ex. H ("The GSEs will be wound down faster and will not return to their past state. GSEs will not be allowed to build capital and exit conservatorship in their prior form.").

These recently unsealed documents further contradict Defendants' factual position that implementing the Net Worth Sweep was necessary to preserve the Companies and in keeping with FHFA's statutory mandate to "preserve and conserve" them. The Court should take judicial notice of these documents or strike Defendants' arguments to the contrary.

* * *

Although Defendants' incorrect arguments are proven false by the contemporaneous documents cited above, that should be no surprise to Defendants because Plaintiffs' First Amended Complaint makes the very allegations that are proven true by the recently released documents. Paragraph 14 of the First Amended Complaint explains that by mid-2012, the Companies returned to profitability and that the Companies would eventually be able to generate cash for distribution to stockholders. D.I. 62 at ¶ 14. The First Amended Complaint further alleges that Defendants used this new profitability not to preserve the Companies, but rather to benefit Treasury. D.I. 62 at ¶ 15-16. These are the very allegations that Defendants attempt to call into question when they contend in their briefs that the Net Worth Sweep was necessary. Defendants' factual arguments to the contrary are inappropriate in the first instance because "the Court must accept [a] Complaint's factual allegations as true." *Molina Info. Sys., LLC v. Unisys Corp.*, C.A. No. 12-1022-RGA, 2014 WL 4365278, at *2 (D. Del. Sept. 2, 2014). Now, in view of the recently released documents, Defendants' arguments should be disregarded for the additional reason that they are refuted by Defendants' own contemporaneous documents. Accordingly, Plaintiffs respectfully request that the Court take judicial notice of the documents or order Defendants to correct the statements made in their moving papers. To the extent Defendants continue to assert these arguments in support of their motions to dismiss, whether at oral argument or otherwise, the Court should take the attached exhibits into account when deciding Defendants' motions and assessing the reliability of other statements made in Defendants' briefs.

POTTER ANDERSON & CORROON LLP

By: *__/s/ Myron T. Steele______________*

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Dated: September 8, 2017
5384072/42717

EXHIBIT A

To: Mary Miller
From: Michael Stegman
Subj.: FHFA-Related Discussion at June 25 Morning Meeting
Date: June 25, 2012

The Secretary provided an overview of his and your previous day's meeting with Ed DeMarco. This is the essence of the discussion that took place.

[redacted]

- While he told us he would be directing Freddie Mac to provide same streamlined refinancing benefits to <80% LTV current borrowers that apply to >80% HARP 2.0 borrowers, he no longer thinks the benefits of doing so are worth the costs.

- He has reduced from a major new initiative to a small pilot a rebuild-equity refinancing program for current underwater borrowers. Since he viewed the at-scale program to counter moral hazard of a GSE HAMP-PRA program, shrinking this initiative may signal FHFA's decision not to do principal reduction.

- He is losing interest in REO-to-Rental, saying that the GSE retail REO execution is so efficient and attracting good prices, it's not worth the resources and efforts to do bulk sales.

- His schedule for rep and warranty reform for new books of business has also slipped. While he has announced his intention to direct the GSEs to adopt new reps and warrants featuring 36 month liability for material violations other than fraud, there is no time table for this.

- Through weeks of negotiating terms of possible amendments to the PSPAs, he never questioned the need to adjust the dividend schedule this year. Since the Secretary raised the possibility of a PR covenant, DeMarco no longer sees the urgency of amending the PSPAs this year. He has raised two competing reasons for this new position: (1) the GSEs will be generating large revenues over the coming years, thereby enabling them to pay the 10% annual dividend well into the future even with the caps; and, (2) instituting a net worth sweep in place of the dividend will further extend the lives of the GSEs to such an extent that it would remove the urgency for Congress to act on long-term housing finance reform. He now sees the PSPA amendments as a backdoor way of keeping the GSEs alive—getting to an Option 3-type plan without the need for legislation.

[redacted]

EXHIBIT B

From: Parrott, Jim <James_M_Parrott@who.eop.gov>
Sent: Monday, August 13, 2012 6:26 PM
To: Bowler, Timothy
Subject: FW: So read this when you have a chance
Attachments: PSPA Press Release 8-13-2012 JP.docx

From: Parrott, Jim
Sent: Monday, August 13, 2012 6:03 PM
To: Deese, Brian C.
Subject: So read this when you have a chance

Three things:

1. Attached are my edits to PR. let me know if you want to add, rearrange, etc. Should get back to them.

2. Q&A on buffer:

   Possible frames (hard to resist):

   - *Administration Goes Overboard in Refi Fixation*: Gives GSEs 0% loan and $3b Each in Walk-Around Money.
   - *So Much for Wind-Down*: Administration Gives Away Billions More in Taxpayer Money to Keep GSEs Alive.

   Response:

   - We are making sure that each of these entities pays the taxpayer back *every dollar of profit they make*, not just a 10% dividend.
   - The buffer is simply to help the entities manage their short term losses, so that they ultimately don't cost the taxpayers still more money.
   - The taxpayer will thus ultimately collect more money with the changes.
   - With the overall set of changes we have removed any doubt about the long term fate of these entities: they will NOT be allowed to return to profitable entities at the center of our housing finance system, but instead wound down and replaced with a system driven by private capital and lower risk to the taxpayer.

3. Any luck w Kathy on Tony West?

From: Parrott, Jim
Sent: Monday, August 13, 2012 5:54 PM
To: Deese, Brian C.
Subject: PSPA Press Release 8-13-2012 JP

a few thoughts on pspa pr.

EXHIBIT C

From: Stegman, Michael
Sent: Friday, July 20, 2012 4:44 PM
To: Mlynarczyk, Beth
Subject: FW: PSPA Points July 19 (4pm)

Michael A. Stegman
Counselor for Housing Finance Policy
Tel: 202 622 0481

From: Woolf, Andrew
Sent: Friday, July 20, 2012 4:43 PM
To: Stegman, Michael; Bowler, Timothy
Subject: RE: PSPA Points July 19 (4pm)

Is there a point to make that this is not a real dividend since they're just borrowing the money.

For anyone looking at this, you're giving up 10% for the risk of the earnings sweep

But they're borrowing the 10% to pay the 10%. All we do is refer to the circular process.

Also I assume there's nothing we can say about projections and likelihood of this being a better outcome for taxp?

From: Stegman, Michael
Sent: Friday, July 20, 2012 4:39 PM
To: Woolf, Andrew
Subject: FW: PSPA Points July 19 (4pm)

I think Tim's edits/redline are right-on, and would accept them all.

Mike

Michael A. Stegman
Counselor for Housing Finance Policy
Tel: 202 622 0481

From: Bowler, Timothy
Sent: Friday, July 20, 2012 4:36 PM
To: Woolf, Andrew; Stegman, Michael; Massad, Timothy
Cc: Miller, Mary
Subject: RE: PSPA Points July 19 (4pm)

Some quick suggestions / thoughts

From: Woolf, Andrew
Sent: Friday, July 20, 2012 4:23 PM
To: Stegman, Michael; Bowler, Timothy; Massad, Timothy
Cc: Miller, Mary
Subject: PSPA Points July 19 (4pm)

Revised to reflect comments from this team. Please review and send back any further comments as soon as possible.

Thank you.

Andrew

Andrew Woolf
202-622-0488 (office)
202-834-7980 (mobile)

EXHIBIT D

DRAFT
Sensitive and Pre-Decisional

PSPA Amendment Q&A

GENERAL:

[Adam] What are the current terms of the Senior Preferred Stock Purchase Agreements (PSPAs)?

- The current capacity on Treasury's funding commitment under the PSPAs equals $200 billion plus the cumulative net worth deficits experienced during 2010, 2011, and 2012, less any surplus remaining as of December 31, 2012.

- At the end of 2012, the funding commitment capacity under the PSPAs will be fixed permanently, and the remaining PSPA capacity will be limited to approximately $149 billion for Freddie Mac and $125 billion for Fannie Mae. The remaining capacity is different for each GSE since it reflects the $200 billion commitment less the draws prior to 2010.

- Any subsequent draws whether to fund a net loss and/or dividend payments to Treasury would reduce the limited remaining PSPA capacity available to each GSE.

[Adam] What does this agreement change and why?

- *Replace the fixed 10 percent dividend with a net worth sweep dividend* - Quarterly dividend payments starting in 2013 will equal the positive net worth of the GSEs (i.e., GAAP assets less liabilities at quarter end), less a defined Applicable Capital Reserve Amount.

- *Accelerate the wind-down of the retained investment portfolios* - The required reduction rate for the retained investment portfolios will be increased from 10 percent per annum to 15 percent beginning at year-end 2013 until such time that each GSE's portfolio reaches a target $250 billion balance ($250 billion was set in the original PSPA).

- *Require an annual risk management plan be delivered to Treasury* - On an annual basis, each GSE will submit to Treasury a plan that details the steps it will take to reduce the financial and operational risk profile associated with both their mortgage guarantee and retained investment portfolio businesses in order to help protect taxpayers from future losses.

[Eric & Matt] What is the purpose, necessity and meaning of these changes?

- This proposed modification would have three primary benefits.
    - First, it would eliminate the circularity of Treasury funding the GSE's dividends payments ~~back~~ to Treasury since dividends are causing net worth deficits.
    - Second, it would capture all future positive earnings at the GSEs to help pay back taxpayers for their investment in those firms.
    - Finally, it would reduce future draws under the PSPAs so that such draws would only be made when needed to fund quarterly net losses.

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- In making these changes, Treasury has sought to support three key objectives: (1) winding down Fannie Mae and Freddie Mac; (32) protecting taxpayer interests; and (3) ensuring the continued flow of mortgage credit during a responsible transition.

- Our commitment to ensuring Fannie Mae and Freddie Mac have sufficient capital to honor ~~any~~ all guarantees issued now or in the future and meet ~~any~~all ~~of~~ of their debt obligations remains unchanged.

- The Administration will not pursue policies or reforms in a way that would impair the ability of Fannie Mae and Freddie Mac to honor their obligations or diminish confidence in the solvency of Fannie Mae and Freddie Mac.

[Adam] How does the full income sweep operate?

- Beginning with the financial results as of 1Q 2013, and each quarter thereafter, all positive net worth above the Applicable Capital Reserve Amount at ~~the~~ each GSE~~s~~ will be transferred to Treasury in the form of a dividend.
  - Net worth is defined as net assets minus net liabilities (per GAAP)
  - No dividends are paid when there is a net worth deficit or a positive net worth below the Applicable Capital Reserve Amount

- Over time, this will result in all positive net income generated by the GSEs is paid to the government and will likely exceed the amount that would have been paid if the 10% was still in effect. Furthermore, this amendment eliminates the circularity of payments and preserves for the GSEs their respective PSPA draw capacity~~being returned to the taxpayer~~.

[Beth – need Peter to review]] What are the enforcement mechanisms to ensure the GSEs meet these new requirements?

- The PSPAs and their amendments constitute legally binding contracts between the GSEs and Treasury. Therefore, these amendments, like the rest of the agreements are a valid and legally binding obligation of the GSEs to fulfill.

- [If either party to the contract – the GSEs or Treasury – do not fulfill their obligations, they are enforceable in court.]

- There are laws of general applicability, such as bankruptcy and insolvency laws, that could supersede in court and limit enforceability. [However, these are limited in nature and typical of financial contracts between two parties.]

[Beth] How will this plan help families seeking mortgage credit, troubled homeowners, and the broader housing market?

- Although there are signs of housing market stabilization, there are many troubled borrowers who continue to face hardship. These amendments help support the continued flow of mortgage credit, troubled borrowers, and bring greater stability to the housing market in several ways.

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- It helps to ensure that mortgage credit remains available on reasonable terms because market participants will continue to have confidence in the GSEs ability to meet its guarantee obligations. Until the private sector reemerges as a significant source of financing for the mortgage market,~~,~~ the GSEs will ~~have to play~~ serve the~~a~~ critical role ~~in~~ of providing mortgage credit to first time homebuyers as well as those borrowers looking to refinance into a lower rate loan.
  - It is important that credit worthy first time homebuyers are able to access mortgage credit so that they can help reduce excess housing inventory in many communities.
  - Refinancing helps put more money in families' pockets so they can pay off debt or use for other expenses.
- [The risk management plan required of each GSE on an annual basis is expected to encourage activities that help troubled borrowers with loans guaranteed by Fannie Mae or Freddie Mac. This could include asset sales of troubled loans to specialty servicers, which are better equipped to assist borrowers with a mortgage modification or find other ways to keep families in their homes.]

[Beth] How will these changes help bring private capital back to the mortgage market?

- These changes in combination with other commitments by FHFA, such as gradually increasing guarantee fees, will help bring pricing in line with private market participants so that they begin to again take mortgage credit risk.
- As part of these changes, Fannie Mae and Freddie Mac will be required to ~~present~~ submit a risk management action plan each year that will provide clear goals and timetables for the GSEs to reduce the risk of the mortgages they guarantee as well as their mortgages they hold as investments in their retained portfolios.
- We expect these plans to include ways that risk can be sold or moved to the private sector in order to better protect taxpayers as well as attract private investors back into the market.
- These changes will also help ensure that private mortgage investors who purchase Fannie Mae and Freddie Mac mortgage backed securities (MBS) will continue to have confidence in their guarantees. These investors provide an important funding source for mortgage credit.

[Adam] When will these changes become effective?

- The amendment is effective immediately, and the dividend payment changes will become effective starting with the first quarter 2013 earnings.

[Adam] Without this amendment, do you think the Enterprises would become insolvent? If so, when?

- The earnings outlook at the GSEs is difficult to forecast and is subject to speculation.

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- However, given our intent to wind-down the GSEs over time, the existing 10 percent dividend structure could potentially become unsustainable. Therefore, we made the appropriate change to change dividend to a full net worth~~income~~ sweep.
- This will help ensure financial stability of GSEs and that the taxpayer will be the beneficiary of the income.

[Ankur] What were the previous amendments to the PSPAs and why were those made?

- Over last several years Treasury has taken steps to ensure financial stability of GSEs and help the housing market most effectively.
- On September 6, 2008, FHFA, as regulator of the GSEs, placed both into conservatorship.
  - At that time, their combined guaranteed mortgage-backed securities (MBS) ~~and debt~~ outstanding totaled more than $5.4 trillion and their share prices had fallen sharply.
  - The goals of conservatorship, as stated by FHFA, included helping to restore confidence in the GSEs, enhancing the GSEs capacity to fulfill their missions, and mitigating the systemic risk that had contributed directly to instability in the housing market.
- At the same time that FHFA placed the GSEs into conservatorship, Treasury provided capital support by entering into a Senior Preferred Stock Purchase Agreement (PSPA) with each GSE, acting through FHFA as their conservator. The PSPAs were intended to provide confidence to the market that the GSEs would remain solvent.
  - The initial Treasury funding commitment was $100 billion for each GSE.
  - In May 2009, Treasury increased the funding commitment caps to $200 billion for each GSE.
  - In December 2009, Treasury replaced the fixed $200 billion cap with a formulaic cap that increases the amount of capital support available through the PSPAs by the amount of draws between January 1, 2010 and December 31, 2012.

[Adam] What are the reasons Treasury and FHFA did not get this right in December 2009? Why must we revisit this issue again?

- Treasury believes the steps taken in 2009 were appropriate to best maintain the financial stability of the GSEs in order to best allow them to continue operating effectively.
- Given their improvement in operating performance and our intention to wind them down, we think the current steps being taken are appropriate.

[Ankur] Can Treasury make further amendments to the PSPAs? If so, until when?

- Treasury and FHFA have authority to make changes to legal agreements, except for the amount of funding that can be provided.

  - Funding authority was fixed in December of 2009 with the expiration of Treasury's authority under HERA.

- Treasury and FHFA do not anticipate additional changes at this time but the Administration will continue to monitor the situation and consider whether any additional changes to the PSPAs would be appropriate.

What power does Treasury actually have over Fannie Mae and Freddie Mac?

- Under the Conservatorship mandate, Treasury has the responsibility for approving transactions at the GSEs that fall outside the ordinary course of business; however, Treasury does not control Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are under the conservatorship of their regulator, FHFA.

- As a member of the Federal Housing Finance Oversight Board (FHFOB), the Secretaries of Treasury and HUD provide policy guidance and recommendations to FHFA on a range of matters related to Fannie Mae and Freddie Mac.

FINANCIAL / TAXPAYER IMPACT

[Adam] How does this change impact taxpayers and the federal budget?

- The federal ~~B~~budget will continue to maintain the existing non-budgetary presentation for Fannie Mae and Freddie Mac, as it does for the other GSEs.
  - This is consistent with Governmental~~financial~~ ~~a~~Accounting ~~s~~Standards that do not require consolidation if ownership control is temporary.

- All ~~of the~~ federal programs that provide direct support to Fannie Mae and Freddie Mac, including the Senior Preferred Stock Purchase Agreements (PSPAs), are shown on-budget.

[Adam] How does OMB's estimate of Fannie Mae and Freddie Mac's deficit impact differ from CBO's approach?

- The 2013 Budget maintains the existing non-budgetary presentation for Fannie Mae and Freddie Mac.
  - This is consistent with ~~g~~Governmental ~~financial a~~Accounting ~~s~~Standards that do not require consolidation of an entity if ownership control is temporary, as it is for Fannie Mae and Freddie Mac during the period of their conservatorship.
  - However, all ~~of the~~ federal programs that provide direct support to Fannie Mae and Freddie Mac, including the Senior Preferred Stock Purchase Agreements (PSPAs), are shown on-budget.

- As we understand it, CBO's estimates of the deficit impact of Fannie Mae and Freddie Mac are considerably higher than the Administration's because CBO defines the budget impact as capturing what a private entity would require as compensation for assuming Fannie Mae and Freddie Mac's commitments.

- The compensation is represented in CBO's description as the difference in market value between Fannie Mae and Freddie Mac's assets and their liabilities on a "risk adjusted" basis.
- This "risk premium" assigned by CBO does not constitute a federal outlay, and is not comparable to the budgetary estimates of Fannie Mae and Freddie Mac's costs included in the President's Budget.
- The Administration presents the budget impact as the estimated amount attributable to transactions between Treasury and Fannie Mae and Freddie Mac under the PSPAs.

[Adam] How much PSPA capacity is remaining for each GSE?

- After 2012, the funding commitment cap under the PSPAs will be fixed permanently, and the remaining PSPA capacity will be limited to approximately $149 billion for Freddie Mac and $125 billion for Fannie Mae.

[Adam] How much has the government's investment in Fannie Mae and Freddie Mac cost taxpayers to date? What is the expected lifetime cost?

- Through June 30, 2012, Fannie Mae has drawn $116.2 billion and Freddie Mac had drawn $71.3 billion, excluding the initial $1.0 billion liquidation preference for which the GSEs did not receive cash proceeds.
- Fannie Mae has paid $25.4 billion in dividends back to Treasury and Freddie Mac has paid $20.1 billion in dividends back to Treasury.
- As a result, the current net investment in the GSEs is $142.0 billion – $90.8 billion for Fannie Mae and $51.2 billion for Freddie.
- The overall expected lifetime costs are inherently uncertain. Treasury will continue to work with FHFA and the GSEs to ensure taxpayers are appropriately compensated for investments to date.
- The proposed modifications ~~would~~ are not projected to result in the Government receiving less funds from Fannie Mae or Freddie Mac on a net basis over time.

[Beth] How does this change impact other preferred and common shareholders, including community banks? Does this mean their investments are worthless?

- The preferred and common stock of the GSEs do not have rights while the GSEs are in conservatorship. These amendments do not change that.
- Because all positive net worth will be swept to Treasury going forward, preferred and common shareholders should not expect to receive any ~~material~~ dividends or economic gains while the PSPAs are in effect.

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- Most community banks have previously written-down their preferred stock holdings and therefore these changes should not affect community banks financial positions. [Can we add a citation here to a third-party source???]

[Beth] Doesn't this change mean you could give the GSEs a bigger bailout by providing more headroom under the PSPAs?

- These changes do not change the maximum cap of PSPA support for either GSE. However, it preserves the remaining capacity for true business activity and other financial losses – its original intended use - rather than using the capacity in a circular fashion to pay ~~the~~ Treasury the 10% dividend.

- By sweeping the full income of the GSEs each quarter, Treasury will receive no less from the GSEs as we would have under the previous 10 percent dividend. Essentially, ~~I~~it will ~~simply~~ stop the GSEs from *drawing from* Treasury in order to *pay* Treasury the 10% dividend~~in any given quarter~~ (note: it's actually more complicated).

[Ankur] Why are you providing the GSEs with a capital buffer under this agreement? How does the buffer work?

- The declining capital buffer, initially set to $3 billion, is ~~being~~ provided ~~simply~~ to avoid extraneous quarterly draws on ~~[~~Treasury~~/taxpayer] funds~~ that would otherwise occur as a result of the volatility in earnings arising from the GSEs' normal course of business. The capital buffer will be declining each year going forward and reach zero by 2018. Thus, within six years, the entire capital buffer will be eliminated and paid ~~returned~~ to ~~[~~Treasury~~/the taxpayer]~~.

HOUSING FINANCE REFORM

[Beth] Will this change reduce the urgency for fundamental long-term housing finance reform? Moreover, now that the GSEs are profitable again, can they just continue operating indefinitely as a public utility?

- These changes are consistent with Treasury's policy to wind-down the GSEs. ~~By s~~Sweeping the GSEs' ~~full~~ positive net worth~~income, it~~ helps ensure that the GSEs will not be able to rebuild capital as they are wound down.

- Furthermore, this provides a framework for the GSEs to be --transitioned to- a future housing finance system that is more reliant on private capital. This agreement sets out clear targets by requiring the GSEs to reducing the size of the mortgage holdings in their retained portfolios by 15 percent per year,- a faster pace than before. And it forces the management of the GSEs to set concrete goals and timetables to reduce the operational and financial risk of the enterprises by requiring an annual risk management action plan. In other words, this effectively operationalizes our commitment to wind down the GSEs.

- However, we also recognize the housing market is still fragile and private capital has not yet returned in a robust manner. These changes strike an important balance. They -will allow the

GSEs to continue to play a critical role supporting the housing market in the near-term, but provide a road map for how they will be wound down going forward.

- Along with other commitments by FHFA to increase guarantee fees, these changes should encourage the return private capital to the housing financing market and reduce the GSEs' market share.

[Beth] How long is a reasonable transition?

- Treasury supports a transition to a long-term housing finance system as soon as practicable. We look forward to working with Congress to determine what that end-state should look like and the steps needed to get there.

[Beth] What information will be included in the "Annual Report on Taxpayer Protection" that Fannie Mae and Freddie Mac submit to Treasury? What is the purpose of the report? Does it have any enforcement or accountability mechanisms?

- The annual report will contain steps that Fannie Mae and Freddie Mac plan to take in order to reduce the risk profiles of both the mortgages they guarantee businesses as well as those they hold as investments in their retained portfolios. They will have to lay out, in reasonable detail, specific goals, targets and timetables so both management and the conservator has a clear understanding of the wind-down strategy. We expect that these plans will change over time, but would include steps to reduce their risk profile.
    - For their Credit Guarantee businesses, the plan could include sales of mortgage credit risk to private investors so that taxpayers bear less of the burden.
    - For the GSEs retained portfolios, we expect the plans to indicate aggressive managing down their legacy assets in order to reduce risk of non-performing loans, complex securities, and other hard to manage assets to reduce the portfolio's risk over time.
- FHFA, as the GSEs' regulator and conservator, will oversee the implementation of the steps outlined in the report. In addition, each GSE will be required to assess the progress it has made in meeting the goals and timetables in the plans set forth in the previous year.

[Eric & Matt] When is the Obama Administration going to submit a long-term housing finance reform plan?

- As Secretary Geithner has stated, we're continuing to work to identify a bi-partisan path forward on housing finance reform.
- At the same time, we'll continue to put in place measures right now – including today's announcement -- that help ensure continued access to mortgage credit for American families, promote a responsible transition, and protect taxpayer interests

[Adam] What is the current status of the other housing finance initiatives Treasury and FHFA are working on, including REO-to-Rental, NPL sales, credit risk syndication, and others.

- Treasury remains committed to our broader efforts that will restart the private mortgage market, shrink the government's footprint in housing finance, and protect the long-term interests of taxpayers.
- Treasury continues to help FHFA and the GSEs think through the important challenges and questions raised by these efforts.

HOMEOWNER IMPACT

[Beth] How will these changes affect the cost and availability of mortgage credit?

- These changes will help to ensure that mortgage credit remains available and on reasonable terms because private investors will continue to have confidence that Fannie Mae and Freddie Mac obligations – including their credit guarantees on their MBS – will be fulfilled.

[Ankur] Will these changes in the PSPAs make it easier for families to buy a home by lowering the average FICO scores or high downpayment requirements currently required by lenders?

- We believe that the agreements should give mortgage market participants continued confidence that the GSEs will ~~be able to~~ fulfill their future obligations as they are wound down. That should enable them to continue to play a critical role supplying mortgage credit to families in the near term until more private capital returns to the market. However, access to mortgage credit remains tempered by still-fragile housing market and an economic recovery that is not as fast as anyone would like.
- We are very attuned to the challenge faced by many families seeking to refinance or obtain a mortgage, especially lower income and first time homebuyers. And we are exploring way to ease the situation.
- That is also why we are seeking to balance our desire to wind-down the GSEs as soon as practicable with the need for a responsible transition to a mortgage market that is more reliant on private capital. Any changes to the system should be taken with great sensitivity to both of these concerns.

[Adam] FHFA recently announced it plans to raise GSE mortgage guarantee fees by the end of the year. Why is it necessary to raise the cost of mortgage loans when the market is still struggling to recover?

- The GSEs are gradually raising guarantee fees to help restart the private mortgage market, shrink the government's footprint in housing finance, and protect the long-term interests of taxpayers.
- We will work to ensure, however, that the increases occur at a measured pace, allowing borrowers to adjust to the new market, preserving widespread access to affordable mortgages for creditworthy borrowers including lower-income Americans, and supporting, rather than threatening, the health of our nation's economic recovery.

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IMPACT ON THE HOUSING MARKET AND THE GSES

[Adam] How will the net worth sweep reassure investors in GSE debt and help maintain investor confidence?

- Treasury anticipates the financial markets will scrutinize the GSEs' expected losses and dividend payments relative to the level of available PSPA funding that remains.
- ~~Given our intent to wind-down the GSEs over time,~~ Since the existing 10 percent dividend structure could ~~potentially~~ become unsustainable~~,. Therefore,~~ we made the appropriate change to the~~change~~ dividend with the~~to full income~~ positive net worth sweep.
- This will help ensure financial stability of GSEs and that the taxpayer will be the beneficiary of the income.
- The GSEs continue to generate the bulk of their profits not in the single-family segments but in the investment portfolio segments which generate interest income on securities and whole loans financed by debt.
    - In 2Q 2012, the portfolio segment for Freddie Mac generated a net income of $2.5bn (versus $0.2bn for the single-family segment). For Fannie Mae the investment portfolio generated $1.5bn (versus what would have been $1.3bn in the single-family business if the reduction in reserves was not recorded as income).

[Beth] Why are you giving up your leverage by agreeing to make this change without further concessions? Shouldn't you have used this as leverage to get the GSEs to do more to help homeowners (e.g. principal reduction and/or greater opportunities to refinance)?

- Treasury ~~C~~continues to remain actively engaged with FHFA in exploring ways to help troubled homeowners.
    - For ~~instance~~ example, FHFA and Treasury have seen tremendous success with HARP changes, with a significant pickup in HARP refinancing activity since Treasury worked with FHFA to improve the program in the Fall of 2011.
- At this point in time, Treasury remains disappointed with FHFA's decision to not have the GSEs participate in the HAMP PRA program. However, as an independent regulator and conservator of the two GSEs, FHFA is solely responsible for the ultimate decision whether the GSEs can participate or not.

[Ankur] What does this change mean for employees at the GSEs? When you say "wind down," what do you mean by that if the GSEs can still keep their systems, still retain people and still have a capital reserve?

- We believe that ~~E~~employees of the GSEs should ~~will~~ not be affected by the latest PSPA amendment. Treasury has consistently stated its intention to wind down the GSEs, and the latest PSPA amendment merely formalizes one aspect of the process by which that long-standing goal can be achieved.

- Winding down the GSEs is not inconsistent with allowing them to retain the basic infrastructure required to conduct their day-to-day operations, as this will allow the GSEs to effectively conduct business and completely repay the funds it has ~~borrowed~~ received from Treasury/the taxpayer.

[Adam] Will accelerating the wind down of GSEs' retained portfolio adversely impact those firms' operations or the housing market?

- We do not believe this modification will adversely impact the GSEs or the broader housing market. However, we anticipate that the GSEs will have lower earnings from their retained portfolios due to the lower allowable annual balance.

[Adam] Will these changes trigger any accounting revisions at the GSEs?

- Treasury does not believe this change will trigger any accounting revisions at the GSEs.

[Adam] Will any of the changes affect Freddie Mac differently from Fannie Mae, and if so, why, and is this good or problematic?

- Both GSEs will be required to implement these changes.

TIMING / STRATEGY

[Adam] How long will it take to wind down Fannie Mae and Freddie Mac? Why not unwind Fannie Mae and Freddie Mac at a faster pace? Why did you not come out with a specific proposal for pace of unwind?

- The pace will depend on market conditions.
- We cannot forget that while we have made important progress stabilizing the housing market, this critical sector of the economy remains fragile.
- Private capital has not yet fully returned to the market, and the government continues to play an outsized – though unfortunately necessary role – in ensuring the availability of mortgage credit.
- Proposals that prematurely constrain Fannie Mae and Freddie Mac's ability to guarantee loans could limit the availability of mortgage credit, shock the economy, and expose taxpayers to greater losses on the loans already guaranteed by Fannie Mae and Freddie Mac.

[Adam] Why make this change now, particularly after the GSEs had such a profitable quarter?

- Given our intent to wind-down the GSEs over time, the existing 10 percent dividend structure could potentially become unsustainable. Therefore, we made the appropriate dividend change from 10% ~~to change dividend~~ to a~~full~~positive net worth ~~income~~ sweep.

- This will help ensure financial stability of GSEs and that the taxpayer will be the beneficiary of the income.

[Ankur] Who had to sign off on this change? When did that happen?

- The latest PSPA amendment was signed ~~off on~~ by the Secretary of the Treasury, Timothy Geithner, and as the Conservator for each GSE, the Acting Director of FHFA, Edward DeMarco.

- While the formal document execution~~sign-off took place~~ occurred on [Friday, August 17], the amendment had been jointly drafted and reviewed by Treasury and FHFA.

[Beth] How is your working relationship with FHFA? Did the negotiations over principal reduction complicate this agreement on the PSPAs?

- Treasury and FHFA are currently working on many different issues in a productive manner. These include credit risk syndication, REO-to-rental initiatives, federal short sale programs, as well as other steps to reduce taxpayer risk and bring back private capital.

- Both Treasury and FHFA were required to consent to this transaction.

[Beth] Why does this agreement exclude any requirement for principal reduction at the GSEs?

- Treasury already pursued a course of action to encourage principal reduction by the GSEs as part of their loan modification programs. Because the PSPAs are contracts between Treasury and the GSEs (through FHFA as their ~~regulator and~~ conservator), all changes to the PSPAs needed to receive support and agreement from all parties.

[Adam] Can Treasury dictate terms of PSPA amendments? What is role of each GSE and what is the role of FHFA?

- The Housing and Economic Recovery Act of 2008 amended the charter acts of the GSEs to give Treasury the authority to purchase obligations and other securities issued by the GSEs, and to exercise, at any time, rights received in connection with such purchases.

- The PSPAs are the contracts under which Treasury purchased the senior preferred stock certificates issued by Fannie Mae and Freddie Mac.

- In the PSPAs, Treasury received the right to amend the PSPAs, with the GSEs' agreement.

- The terms of the senior preferred stock certificates authorize the GSEs, with the consent of two-thirds of the holders of the senior preferred stock (i.e., Treasury), to amend the terms of the senior preferred stock certificates.

[Adam] Why are GSEs allowed to keep portfolios of $250 billion each in 2018 if they are to be wound down?

- The GSEs provide important services to the mortgage market, in particular small lenders through their cash window and other warehousing. The GSEs also need to use their investment portfolios to fund delinquent loans bought out of trusts.

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- Given this fact pattern, we ~~did not think that it made sense to require a~~maintained the $250 billion level as the maximum retained portfolio size~~wind-down of the portfolios lower than $250 billion~~.
- Until such time there is a decision on the ultimate resolution of the GSE's we think this is an appropriate figure.

[Adam] When did Treasury first think about these changes? When did we approach FHFA? What was their reaction?

- Within the context of the Administration's goal of winding down the GSEs, we began exploring alternatives to the 10 percent dividend, knowing that the 10 percent dividend was likely to be unstable as the businesses were reduced.
- We have been evaluating the GSEs financial profile since conservatorship. It has remained an ongoing focus for us to help make sure that the GSEs have sufficient capital support.
- We don't comment on discussions between Treasury and independent regulators.

EXHIBIT E

SENSITIVE / PRE-DECISIONAL / DRAFT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
[December 12, 2011]

INFORMATION MEMORANDUM FOR SECRETARY GEITHNER

FROM: Mary John Miller, Assistant Secretary for Financial Markets

SUBJECT: Potential GSE Restructuring and Transition Options

Over the coming year, the Administration will face a number of key decisions with respect to the operational and financial challenges of Fannie Mae and Freddie Mac (the GSEs). The GSEs have been under the conservatorship of the Federal Housing Finance Agency (FHFA) for over three years. Given the challenges associated with conservatorship, a range of stakeholders are calling for a transition plan and more comprehensive reform. Moreover, at the end of 2012, the funding caps under the Senior Preferred Stock Purchase Agreements (PSPAs) will be permanently fixed based on the 9/30/12 financial results of the GSEs. After this date, the Administration's ability to restructure the GSEs may be more constrained.

As such, the Administration will need to consider how best to (i) ensure that the GSEs continue to be able to meet current and legacy obligations after the funding caps are fixed at the end of 2012; (ii) establish a more robust plan to end conservatorship of the GSEs and start the process of transition to a mortgage finance system more reliant on private capital, and (iii) manage and resolve the pool of troubled legacy assets on the GSEs' balance sheets.

To address these challenges, this memo presents policy options, which taken together could serve as the basis of a comprehensive non-legislative Administration reform proposal. These options are described in detail below.

Policy Option 1 – Restructure the calculation of Treasury's dividend payments from a fixed 10 percent annual rate to a variable payment based on available positive net worth (i.e. establish an income sweep). This will ensure that remaining PSPA funding capacity is not reduced in the future by draws to pay dividends.

Policy Option 2 – Develop a plan with FHFA to transition the GSEs from their current business model of direct guarantor to a model more aligned with our longer term vision of housing finance. Additional covenants should also be added to the PSPA funding agreements that require the GSEs to take certain specific transition steps, including guarantee price increases and credit risk syndication, over the next five to seven years.

Policy Option 3 – Transfer NPLs and legacy assets to a special purpose vehicle or joint venture (i.e., creation of a "bad bank") at fair market value (FMV) to accelerate the wind down of those legacy assets and recognize a portion of the GAAP / FMV differences. The size of this transfer could be scaled up or down depending on the objectives of the transfer. Today, a transfer of all non-performing loans at fair market value could result in as much as a $62 billion PSPA draw.[1]

If structured appropriately, this combined effort could help accomplish several key objectives:

1) *Address capital adequacy issues* – restructuring the dividend payments and recognizing some portion of the unreserved FMV/GAAP differences prior to 2012 when remaining funding capacity will be limited to $275 billion in aggregate would help reduce concerns about Treasury's ability to support the capital position of the GSEs.

2) *Wind down the GSEs* – Establishing a clear transition plan and addressing legacy troubled assets would reduce the amount of new direct credit risk the GSEs can assume going forward, provide a series of specific, contractual transition steps that can give the financial markets increased clarity and clearly indicate to the taxpayers that the GSEs will be wound down.

3) *Reduce operational risks and increase efficiency* – moving legacy assets into the private market reduces the level of reliance on the operational expertise of the GSEs and concentration of risk. This is particularly salient as the GSEs could face future challenges retaining the human capital needed to manage these assets.

4) *Support the housing market recovery* – Recognizing a portion of losses upfront or putting troubled loans in the hands of private investors can incentivize and accelerate (i) loan modifications, (ii) principal reduction, and (iii) healthy transitions (through short sales, foreclosures, NPL/REO sales, etc) as well as provide the GSEs with greater flexibility in their own approach to loss mitigation management.

This memo evaluates the proposed alternatives based on accounting, corporate finance, financial market and economic considerations. Of course, these policy options would also need to be evaluated from a sequencing, messaging and congressional affairs perspective, which this memo does not specifically address. All actions would require FHFA agreement and approval.[2]

We present the potential policy actions in detail below after a brief review of the current status of the GSE capital position, projections and expected need for further Treasury support. Appendix A also presents additional non-legislative and legislative options which could be considered. (take out appendix?)

Current Projections and GSE Capital Imbalances

As amended on December 24, 2009, the cap on Treasury's financial commitment under the PSPAs equals the greater of $200 billion or $200 billion plus the cumulative net worth deficits experienced during 2010, 2011, and 2012, less any surplus remaining as of December 31, 2012.

[1] While the funds would originate from existing PSPA authority, the capital would be drawn from Treasury borrowings and would therefore count against the federal debt ceiling.

[2] FHFA agreement and approval is required because the PSPA agreements were signed between Treasury and the GSEs with FHFA acting as the GSEs duly appointed conservator.

Since 2008, Fannie Mae and Freddie Mac have made total gross draws of $111.6 billion and $71.2 billion (Total aggregate gross draws of $182.8 billion). Once accounting for dividends paid back to Treasury, the net draws are $94.4 billion and $56.3 billion, respectively (for a total aggregate net draw of $150.7 billion). Under FHFA's base case stress test forecast, by 2012, total gross draws are expected to reach more than $210 billion in aggregate ($135.0 billion at Fannie Mae and $75.8 billion at Freddie Mac).

At the end of 2012, Treasury's aggregate funding capacity will be capped at $275 billion ($150 billion at Freddie Mac and $125 billion at Fannie Mae).[3] [footnote the math behind this] We anticipate the market will closely evaluate the amount of expected losses still to come and level of dividend payments necessary at the GSEs in relation to the level of available funding that remains.

Minimizing additional draws after 2012 will be important to maintain investor confidence in the sufficiency of US Government support. The expected level of preferred stock outstanding at the end of 2012 is projected to require annual dividends of $11.8 billion and $7.3 billion for Fannie Mae and Freddie Mac, respectively. While Freddie is expected to be net income positive by the end of 2012 and Fannie by the end of 2013, both institutions will struggle to make sufficient income to pay the 10% required dividend over time. This is the result of the high nominal dividends required on a year basis after 2012 and the likely reduction in income at the GSEs over time. The reduced income in the GSE will be driven primarily in the reduction in the size of their investment portfolios which need to be reduce to $250B respectively over the course of the next [eight years].

While the amount of income from the guarantee businesses are projected to increase in size as loan losses decline and fee increases are implemented, it will ultimately be insufficient to cover the lost portfolio investment income and the required dividends under the current projections.

Note: For the purposes of this memo and the analysis presented throughout, the financial models shown assume a 10 basis point guarantee fee increase is made in 2013, which is consistent with calls from the President and Acting Director DeMarco. Additional increases in the guarantee fees would increase the amount of net income that could potentially be generated. To the degree the GSEs could sell first loss credit risk to the market, this guarantee fee income would be offset by a reduction in the portfolios' risk profile and thus, profit of the GSEs. That interplay was not considered for the purpose of this analysis.

The table at the top of the next page shows the expected net income under the FHFA base case forecasts, required dividends (assuming a 10 percent dividend rate on outstanding senior preferred stock) and forecasted gross and net draws from 2012 through 2023.

[3] Math behind the statement....

Projected Net Comprehensive Income (Loss)

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Base Case Net Income (Loss)												
Fannie Mae	($13.1)	$5.4	$13.1	$13.5	$9.1	$8.5	$8.0	$7.9	$8.5	$8.4	$8.1	$8.0
Freddie Mac	$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	**($6.4)**	**$14.9**	**$23.7**	**$19.5**	**$14.6**	**$14.0**	**$13.7**	**$13.2**	**$14.0**	**$13.8**	**$13.5**	**$13.4**
Stressed Case Net Income (Loss)												
Fannie Mae	($49.0)	($8.8)	$12.9	$18.6	$9.3	$8.7	$8.2	$8.0	$8.7	$8.5	$8.2	$8.1
Freddie Mac	($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	**($56.8)**	**($2.2)**	**$21.8**	**$24.7**	**$14.9**	**$14.2**	**$13.9**	**$13.4**	**$14.1**	**$14.0**	**$13.6**	**$13.4**
Inc. (Dec.) from Base Case	*($50.4)*	*($17.1)*	*($1.9)*	*$5.2*	*$0.3*	*$0.2*	*$0.2*	*$0.2*	*$0.1*	*$0.1*	*$0.1*	*$0.1*

Projected Dividend Draws (Repayment)

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Base Case Fannie Mae:												
Gross 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
Dividend	($11.8)	($14.0)	($14.8)	($15.0)	($15.2)	($15.9)	($16.6)	($17.5)	($18.4)	($19.4)	($20.6)	($21.8)
Net Draw	$16.9	($2.6)	($11.9)	($13.8)	($8.2)	($8.8)	($8.4)	($8.1)	($8.6)	($8.7)	($8.5)	($8.3)
Stressed Case Fannie Mae:												
Gross Draw	$58.1	$34.3	$11.3	$4.5	$18.6	$14.5	$16.5	$18.4	$19.9	$8.7	$0.0	$0.0
Dividend	($12.9)	($18.6)	($21.1)	($21.9)	($22.2)	($23.7)	($25.2)	($26.9)	($28.8)	($30.7)	($31.0)	($31.0)
Net Draw	$45.2	$15.7	($9.8)	($17.4)	($3.6)	($9.2)	($8.7)	($8.5)	($8.9)	($22.0)	($31.0)	($31.0)
Inc. (Dec.) from Base Case	*$28.3*	*$18.3*	*$2.1*	*($3.6)*	*$4.6*	*($0.4)*	*($0.3)*	*($0.5)*	*($0.3)*	*($13.2)*	*($22.5)*	*($22.6)*
Base Case Freddie Mac:												
Gross 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
Dividend	($7.3)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.9)	($8.2)	($8.4)	($8.7)
Net Draw	$3.2	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($7.7)	($6.2)	($5.4)	($5.6)	($5.4)	($5.4)
Stressed Case Freddie Mac:												
Gross 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
Dividend	($7.6)	($8.8)	($9.0)	($9.1)	($9.4)	($9.7)	($10.2)	($10.6)	($11.2)	($11.7)	($12.4)	($13.1)
Net Draw	$13.1	($6.5)	($8.4)	($6.4)	($5.8)	($5.7)	($5.8)	($5.5)	($5.7)	($5.5)	($5.6)	($5.6)
Inc. (Dec.) from Base Case	*$10.0*	*$1.2*	*($0.8)*	*$1.3*	*$1.9*	*$1.9*	*$1.9*	*$0.7*	*($0.2)*	*$0.0*	*($0.1)*	*($0.1)*
Base Case Combined:												
Gross Draw	$39.2	$11.4	$2.9	$1.2	$7.0	$7.1	$8.2	$10.9	$12.3	$13.3	$15.1	$16.8
Dividend	($19.1)	($21.7)	($22.5)	($22.6)	($22.9)	($23.5)	($24.3)	($25.2)	($26.3)	($27.6)	($29.0)	($30.6)
Net Draw	$20.1	($10.3)	($19.6)	($21.4)	($15.9)	($16.4)	($16.1)	($14.3)	($14.0)	($14.3)	($13.9)	($13.8)
Stressed Case Combined:												
Gross Draw	$78.8	$36.6	$11.8	$7.2	$22.2	$18.5	$20.9	$23.5	$25.4	$14.9	$6.8	$7.5
Dividend	($20.5)	($27.4)	($30.1)	($30.9)	($31.6)	($33.4)	($35.4)	($37.6)	($40.0)	($42.4)	($43.3)	($44.0)
Net Draw	$58.4	$9.2	($18.2)	($23.7)	($9.4)	($14.9)	($14.5)	($14.1)	($14.6)	($27.5)	($36.5)	($36.5)
Inc. (Dec.) from Base Case	*$38.3*	*$19.5*	*$1.4*	*($2.3)*	*$6.5*	*$1.5*	*$1.6*	*$0.2*	*($0.6)*	*($13.2)*	*($22.6)*	*($22.8)*
Cum. Base Case Gross PSPA Draw	$210.8	$222.2	$225.1	$226.3	$233.3	$240.4	$248.6	$259.5	$271.8	$285.1	$300.2	$317.0
Cum. Stress Case Gross PSPA Draw	$250.4	$287.0	$298.8	$306.0	$328.2	$346.7	$367.6	$391.1	$416.5	$431.4	$438.2	$445.7
Inc. (Dec.) from Base Case	*$39.6*	*$64.8*	*$73.8*	*$79.8*	*$95.0*	*$106.4*	*$119.1*	*$131.7*	*$144.8*	*$146.4*	*$138.1*	*$128.8*
Cum. Base Case Net PSPA Draw[1]	$159.6	$149.3	$129.7	$108.3	$92.4	$76.0	$59.9	$45.7	$31.6	$17.3	$3.4	($10.4)
Cum. Stress Case Net PSPA Draw[1]	$197.9	$207.1	$188.8	$165.1	$155.7	$140.8	$126.3	$112.2	$97.6	$70.2	$33.6	($2.9)
Inc. (Dec.) from Base Case	*$38.3*	*$57.7*	*$59.1*	*$56.8*	*$63.3*	*$64.8*	*$66.4*	*$66.6*	*$66.0*	*$52.8*	*$30.2*	*$7.4*
Base Case PSPA Capacity Left	$275.0	$263.6	$260.7	$259.5	$252.5	$245.4	$237.2	$226.3	$214.0	$200.7	$185.6	$168.8
Stress Case PSPA Capacity Left	$275.0	$238.4	$226.6	$219.4	$197.2	$178.7	$157.8	$134.3	$108.9	$94.0	$87.2	$79.7
Inc. (Dec.) from Base Case	*$0.0*	*($25.2)*	*($34.1)*	*($40.1)*	*($55.3)*	*($66.7)*	*($79.4)*	*($92.0)*	*($105.1)*	*($106.7)*	*($98.4)*	*($89.1)*

[1] Accounts for cumulative dividends paid back to U.S. Treasury.
Source: Grant Thorton, U.S. Department of the Treasury

As shown in the combined gross draw line above, the GSEs continue to draw upon the PSPAs throughout the forecast period to pay required dividends to Treasury. Consequently, once the caps are fixed in 2012, the collective PSPA capacity is forecasted to decrease by over $100 billion within the next ten years.

The table above also illustrates a stressed scenario where near term deficiencies are significantly higher than forecasted in the base case. Under the stressed scenario, $195 billion of PSPA capacity is utilized, leaving the GSEs with only $80 billion of remaining capacity. This downside scenario emphasizes the need for reform.

While the GSEs are expected to become net income positive after 2013, net income will still be reduced by the continued realization of losses from the legacy assets on the GSEs books. The current GAAP book values of mortgage loans, securities and REO on the GSEs balance sheets are $182 billion higher than fair market values. This difference includes a component of model forecasted losses (approximately $67 billion) for both performing and non-performing loans that are not yet reserved due to GAAP accrual standards (see Appendix D).

Detailed Description of Policy Options for Consideration

Policy Option 1: Restructure the PSPA agreements to a variable dividend payment

Concept: Subject to the consultation described below, Treasury could restructure the PSPA agreements to replace the current 10 percent fixed dividend with a permanent "net worth sweep." Going forward, all positive net worth would be paid as a dividend to Treasury.

Key Benefits / Risks: This would (i) apply all future net income/profits as reimbursement to taxpayers; (ii) underscore the government will not recapitalize the GSEs in their current form; and (iii) eliminate the need for the GSEs to make gross draws to pay dividends to Treasury, thereby retaining the maximum amount of PSPA funding and thus, Treasury's flexibility to available to offset future operating losses.

Since both Fannie Mae and Freddie Mac are expected to be net income positive (before dividends) on a stable, ongoing basis after 2012, this change would prevent Treasury from incurring additional future draws unless there was either (i) an unexpected downturn in the housing market, or (ii) there was a significant restructuring of the balance sheets of Fannie Mae or Freddie Mac, such as a NPL sale program or separation of assets into a good bank/bad bank structure or receivership (discussed further below).

Path to Execution: This change is relatively straightforward and could be completed by amending the PSPAs and resetting the Periodic Commitment Fee (PCF) to establish a net worth sweep. The PCF was part of the original PSPA, however, Treasury has elected to waive setting the fee since the PSPAs were established. Under the terms of the PSPAs, the PCF must be set by agreement with FHFA serving as conservator of the GSEs and in consultation with the Fed.

Restructuring the dividend payment calculation would require consultation and agreement with the following three entities (i) FHFA, per the agreements currently in place, (ii) the Federal Reserve, with respect to establishing the PCF, and (iii) the Department of Justice (DOJ), because there is a general prohibition on waiving vested contract rights to receive funds owed to the government, so giving up the right to certain amount of money (fixed dividends) for an uncertain amount (a dividend sweep) may require DOJ approval. More work must be done with the DOJ to determine the feasibility of this option.

Costs / Capital Adequacy Considerations: The table at the top of the next page shows the combined impact on draws and dividends paid to Treasury when the dividend payments are converted to a cash flow sweep. The analysis is shown under a base case scenario and a stressed scenario where the losses in 2012 are significantly higher. As shown in the table, the net income before preferred dividends would remain the same under this scenario. Modifying the dividend payment to a cash flow sweep would enable the GSEs to retain the full $275 billion PSPA capacity as it would eliminate any potential gross draws required to fund dividend payments to Treasury.

Base case with 10% dividend versus positive net worth sweep

	Base Case				Stress Case			
	Current 9/30/2011	FY2012	FY2017	FY2022	Current 9/30/2011	FY2012	FY2017	FY2022
Cumulative Gross Draw under 10% dividend	$172	$211	$240	$300	$172	$250	$347	$438
Cumulative Gross Draw under net worth sweep	$172	$211	$211	$211	$172	$250	$266	$266
Increase (Decrease)	***$0***	***$0***	***($30)***	***($89)***	***$0***	***$0***	***($81)***	***($172)***
Cumulative Net Draw under 10% dividend	$140	$160	$76	$3	$140	$198	$141	$34
Cumulative Net Draw under net worth sweep	$140	$160	$76	$3	$140	$198	$141	$34
Increase (Decrease)	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***	***$0***
Remaining PSPA Capacity under 10% dividend	$275	$275	$245	$186	$275	$275	$179	$87
Remaining PSPA Capacity under net worth sweep	$275	$275	$275	$275	$275	$275	$259	$259
Increase (Decrease)	***$0***	***$0***	***$30***	***$89***	***$0***	***$0***	***$81***	***$172***

Similar to the base case scenario, Treasury's realized net cash proceeds remain the same and the taxpayer's investment is still repaid by 2023 (on a net draw basis); however, the PSPA funding capacity is not reduced through gross draws incurred to pay dividends.

Policy Option 2: Increase the contractual obligations under the PSPAs to facilitate wind down and accelerate transition to a more private mortgage market

Concept: Amend the PSPAs to add additional contractual obligations for the GSEs and FHFA associated with transition. These would include:

- *Guarantee fee price increases* – pricing for direct GSE guarantees could be increased by a minimum of five to ten basis points per annum (or at a pace determined annually by FHFA and Treasury) until pricing reaches levels that are consistent with those charged by private financial institutions with Basel III capital standards and a specified return on capital. This provision is similar in concept to a bill Representative Neugebauer (HR 1222) introduced in March 2011. This process could also be required to take place within a five-to-seven year period, with guarantee fees gradually approaching 60 to 80 basis points, depending on the profile of the mortgage. The phasing of such increases should also take into account the current housing market.

- *Risk syndication* – Consistent with the phase-in period of guarantee fee increases, the GSEs could be required to sell a first-loss position (or the majority of the credit risk) to the private market on all of their new guarantee book business within a five- or seven-year time period. It is important to note that risk syndication would likely reduce the earnings capacity of the GSEs (similar to how the winding down of the retained portfolios also limits income generation). This further highlights the importance of modifying the PSPAs, as described in policy option 1, and potentially recognizing some level of legacy asset losses, as described in policy option 3, so transition actions such as the ones described in this option are less constrained.

- *Single TBA delivery* – Require the GSEs to align payment standards and issuance processes to establish a fungible TBA market for common delivery of Fannie Mae and Freddie Mac securities. This step would increase the overall liquidity of the TBA market, increase the amount of interchangeable securities in the market and reduce overall rates for borrowers.

- *Additional transition requirements* – additional requirements could also be considered, such as down payment levels, faster retained portfolio wind down (particularly for further growth in NPLs), etc.

Key Benefits / Risks: The policy options above would help facilitate wind down and transition of the GSEs. They will help facilitate a return of private capital to the mortgage market as the policies will help create a clearer and more quantifiable framework to evaluate "mortgage" capital allocation decisions.

Path to execution: Treasury has certain protections and approval rights under the PSPAs with respect to transition and organizational changes to the GSEs. While these are not affirmative rights, Treasury could pre-approve a broad transition plan that would be executed by FHFA. More legal analysis and work with FHFA would be required. In any and all circumstances, the steps outlined above would require FHFA approval and consent as conservator. **(Jeff to redo paragraph).**

Policy Option 3: Initiate an NPL disposition program and transfer legacy assets to a special purpose vehicle (SPV) or joint venture (JV) that manages loss mitigation activities

Concept: Have Fannie Mae and Freddie Mac form a joint venture to manage and streamline loss mitigation activities . Under this proposal, Fannie Mae and Freddie Mac would remain under the conservatorship of FHFA but jointly contribute NPLs and REO into a new special purpose vehicle or joint venture co-owned by the GSEs. In return, the Enterprises would receive a pro-rata share of the SPV/JV's equity.

The SPV would be responsible for all loss mitigation activities of the contributed assets and would be able to partner with private market participants to help reduce the operational and financial risks. The SPV would also be responsible for managing a REO and NPL disposition program to move legacy assets back to the private market via bulk sales and partner transactions (similar to the approach FHFA in consultation with Treasury is taking with the "REO to Rental" program). To avoid adverse effects in the broader housing market, the GSEs could also include certain covenants/restrictions in the sales documents that would restrict the usage of REO property sales for a period of time.

Key Benefits / Risks: This is a form of a "good bank/bad bank" strategy that would allow the GSEs to structurally partner with private market participants and separate their legacy assets from their post conservatorship business in a way that generates greater stability and maximizes operational expertise. It would also be an additional measure the Administration could point to in 2012 to show that the GSEs are being wound down.

Path to execution: The Enterprises would need to set up the SPV/JV structure because the Government Corporation Control Act prohibits Treasury from forming SPVs. Lawyers at the GSEs and FHFA would need to determine the legal basis under their respective charters that would authorize them to establish SPVs. An exercise of such authority would most likely require FHFA approval and direction, as conservator.[4]

Other potential solutions include creating a new Resolution Corporation (ResCo) owned or controlled by FHFA and Treasury (Appendix A discusses this option in more detail) or having the GSEs retain the troubled legacy assets, but having these assets marked to market and internally separated such as to create a "bad bank subsidiary". As with policy option 3, a ResCo would fully move troubled legacy assets off the GSEs' balance sheets. However, a ResCo approach would require congressional approval because of the Government Corporation Control Act. (The Government Corporation Control Act prohibits an agency from establishing or acquiring a corporation to act as an agent except when specifically authorized to do so by law.[5] If transferring assets off balance sheet is too operationally and legally complex to complete in the near term, the GSEs could take a less aggressive approach by transferring assets to a wholly owned resolution subsidiary and reclassifying NPLs from "held for investment" to "held for sale." This strategy would result in the assets being marked to market and could potentially ease operational and accounting barriers to a more accelerated disposition of troubled assets.

Regardless of whether the GSEs or FHFA create the entity, Treasury would recommend staffing and coordinating the effort with employees from the GSEs, FHFA, FDIC and Treasury. Fannie Mae would likely manage the venture's core operations given the size of its operations and percentage ownership of REO that would be contributed to the SPV/JV.

Costs / Capital Adequacy Considerations: The GSEs currently classify nearly all of their NPLs

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[4] GSE charter limitations, and the FHFA mandate of conservatorship, may also require that the legacy entities remain in place. Under their charter acts, Fannie Mae and Freddie Mac continue to exist and may only be dissolved by an act of Congress (12 USC 1717(a)(2)(B)). Even if FHFA places both GSEs into receivership, FHFA is prohibited by law from terminating the charters, and the limited-life regulated entities succeed to the charters by operation of law. There is also an implication in the wording of the receivership provisions of the law that FHFA may not establish one limited-life regulated entity for both GSEs, but only FHFA's interpretation of the wording of that statutory provision would be dispositive. Consequently, combining the assets from both GSEs into an SPV/JV and leaving the chartered GSEs behind could be viewed as a violation of the charter acts. More work with FHFA and the GSEs would be required to determine the feasibility of this option.

[5] Unlike the Emergency Economic Stabilization Act, which provided Treasury with such authority for purposes of the Troubled Asset Relief Program, the legislation that authorized the PSPAs – the Housing and Economic Recovery Act – did not provide Treasury with such authority.

as "held for investment" rather than "held for sale" on their balance sheets. Such asset sales and/or transfers would be subject to FHFA approval and, under the PSPAs, subject to Treasury approval.[6]

By contributing the NPLs to a SPV/JV and selling them at fair market value, the GSEs would be required to account for the valuation difference. If the entire portfolio of non-performing loans were contributed, for example, the GSEs may be required to draw up to $62 billion of capital in 2012. Further analysis and accounting work with FHFA and the GSEs would be required to fully analyze the impact of such a transfer and its cost. The economics of a more accelerated troubled asset disposition strategy are complex and widely debated. In summary, it is hard to evaluate the longer term economic impact associated with an accelerated restructuring and/or cleansing of troubled inventory versus continuing the current path of one off modification and/or sales. This analysis will need to be completed before any large scale program is started. If a large scale program is too challenging to move forward with in 2012, smaller transfers to a SPV/JV could be initiated at the inception of the program with further transfers made over time. Regardless of whether a small or large scale NPL/REO program is undertaken, combining this with a restructuring of the dividend as discussed in policy option 1 would help to further reduce concerns over capital adequacy due to the acceleration of losses into 2012.

Note: Based on the accounting practices currently applied and the estimated funding PSPA cycle time, GSE restructuring actions that results in a one-time funding requirement would likely need to be completed prior to 9/30/12. This will ensure any draws under the PSPAs occur prior to the establishment of the permanent funding caps. Treasury staff is currently assessing whether it is possible to account for any changes after 9/30/12 and still complete the modification before the funding levels are fixed at the end of 2012.

The table below shows the impact on draws and dividends paid to Treasury from such a change, assuming the full $62 billion is drawn. This is for illustrative purposes only and the actual amount would depend on a number of factors, including the amount of assets initially transferred and the accounting treatment for the entities, among other things. Net income at year-end 2012 would decrease relative to the base case because of the requisite charge from transferring the NPLs at fair market value; however, the GSEs would earn back roughly 70 percent of the accounting charge over time through higher net income (as only the expected loss portion of the FMV difference would be realized if the loans were held to maturity).

[6] More work is required to see whether transfers of such a substantial portion of a GSE's assets would violate any of the financial covenants in their debt indentures or charter requirements.

Base case with 10% dividend versus positive net worth sweep and NPL disposition program

	Base Case				Stress Case			
	Current 9/30/2011	FY2012	FY2017	FY2022	Current 9/30/2011	FY2012	FY2017	FY2022
Cumulative Gross Draw under 10% dividend	$172	$211	$240	$300	$172	$250	$347	$438
Cumulative Gross Draw under net worth sweep and NPL	$172	$260	$260	$260	$172	$300	$310	$310
Increase (Decrease)	***$0***	***$49***	***$20***	***($40)***	***$0***	***$49***	***($37)***	***($129)***
Cumulative Net Draw under 10% dividend	$140	$160	$76	$3	$140	$198	$141	$34
Cumulative Net Draw under net worth sweep and NPL	$140	$209	$100	$18	$140	$247	$165	$48
Increase (Decrease)	***$0***	***$49***	***$24***	***$15***	***$0***	***$49***	***$24***	***$15***
Remaining PSPA Capacity under 10% dividend	$275	$275	$245	$186	$275	$275	$179	$87
Remaining PSPA Capacity under net worth sweep and NPL	$275	$275	$275	$275	$275	$275	$265	$265
Increase (Decrease)	***$0***	***$0***	***$30***	***$89***	***$0***	***$0***	***$86***	***$178***

To the extent that NPLs are sold to third parties, a greater portion of the accounting charge would not be recovered. Note: there is no consideration given to the positive or negative effects on the housing market that may be realized by migrating legacy assets to the private sector or the benefits from joint ventures and other public/private partnerships.

Appendix A: Additional options which could be considered: (Jeff to slot in and delete appendix)

There are a number of other alternatives that could be considered to wind down GSEs.

Alternative 1: Pursue limited legislation to create a Resolution Corporation vehicle for legacy assets, allow Ginnie Mae (GNMA) to explicitly guarantee GSE MBS in exchange for a fee, and explicitly establish a transition path to reduce the direct credit risk exposure of the GSEs over time.

Concept: A limited legislative proposal could be pursued to support the transition of the GSEs from primary mortgage guarantors to more limited reinsurers/securitization utilities and the wind down of their legacy assets. Representatives Hensarling and Garrett and Senators Corker and Isakson have all proposed legislation which focuses on transition and wind down of the GSEs. The Administration could seek to find an interim transition solution which achieves our medium term objectives, but leaves the final end state debate open. However, it may be preferable to seek more comprehensive legislation that addresses a housing finance system end-state. In addition to generally executing on the policy options laid out above, a limited legislative proposal could include:

The creation of a new Resolution Corporation (ResCo), which would manage and resolve the troubled legacy assets of the GSEs. This entity would have explicit funding authority and be under the control of both FHFA and Treasury. This type of vehicle, similar to the Resolution Trust Corporation established by Congress to address the savings and loan crisis, would increase flexibility and effectiveness for the Government, as opposed to a SPV formed jointly by the GSEs.

Explicitly guaranteeing all GSE liabilities through a tender exchange for GNMA wrapped pools, in exchange for a fee. Despite the explicit capital support of the PSPAs, due to capital treatment of GSE liabilities under Basel III,[7] GSE mortgage backed securities (MBS) trade roughly two to three points lower than GNMA MBS. In exchange for full faith and credit wrap by GNMA, the government could charge GSE MBS investors a portion of this price difference and as a result receive a meaningful upfront value.

Alternative 2: Initiate receivership

Concept: Ask FHFA to exercise its discretion and place the Enterprises into receivership.

Benefits: If FHFA appoints itself as receiver of one or both Enterprises, then as in the case of conservatorship, FHFA immediately succeeds to all rights and powers of the Enterprise and of all the officers, directors, and stockholders of the Enterprise.[8] But unlike the case with conservatorship, the appointment of FHFA as receiver automatically *terminates* all rights and

[7] GSE MBS receive a 20 percent asset risk weighting and are currently expected to be treated as a level 2 asset under the liquidity coverage and net stable funding ratios.
[8] 12 U.S.C. § 4617(b)(2)(A).

claims that the stockholders and creditors may have against the assets or charter of the Enterprise, except for their right to payment, resolution, or other satisfaction of their claims as determined by FHFA as receiver.[9] Additionally, unlike the case with conservatorship, FHFA as receiver would be required to place the Enterprise in liquidation and proceed to realize upon the assets of the Enterprise by sale of the assets or transfer of the assets to a limited-life regulated entity established by FHFA.[10]

Considerations: First, in conservatorship the entities are treated as going concerns, and FHFA as conservator is required to preserve assets. In receivership, the entities would be in wind-down, and FHFA as receiver would be looking to sell the assets for as much money as it could. Additionally, while the definition of the deficiency amount used to calculate draws includes a paragraph about how the deficiency amount is to be calculated even when a GSE is in receivership, it is unclear whether Treasury's preferred stock would be wiped out in receivership.

[9] 12 U.S.C. § 4617(b)(2)(K).
[10] 12 U.S.C. § 4617(b)(2)(E).

Appendix B: Scenario Analysis

Stressed Base Case Scenario as described on page 4 of the memo

Stressed Base Case: Net Comprehensive Income (Loss)

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Net Income (Loss)												
Fannie Mae	($49.0)	($8.8)	$12.9	$18.6	$9.3	$8.7	$8.2	$8.0	$8.7	$8.5	$8.2	$8.1
Freddie Mac	($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	($56.8)	($2.2)	$21.8	$24.7	$14.9	$14.2	$13.9	$13.4	$14.1	$14.0	$13.6	$13.4

Stressed Base Case: Dividend Draws (Repayment)

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Fannie Mae:												
Gross Draw	$58.1	$34.3	$11.3	$4.5	$18.6	$14.5	$16.5	$18.4	$19.9	$8.7	$0.0	$0.0
Dividend	($12.9)	($18.6)	($21.1)	($21.9)	($22.2)	($23.7)	($25.2)	($26.9)	($28.8)	($30.7)	($31.0)	($31.0)
Net Draw	$45.2	$15.7	($9.8)	($17.4)	($3.6)	($9.2)	($8.7)	($8.5)	($8.9)	($22.0)	($31.0)	($31.0)
Freddie Mac:												
Gross 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
Dividend	($7.6)	($8.8)	($9.0)	($9.1)	($9.4)	($9.7)	($10.2)	($10.6)	($11.2)	($11.7)	($12.4)	($13.1)
Net Draw	$13.1	($6.5)	($8.4)	($6.4)	($5.8)	($5.7)	($5.8)	($5.5)	($5.7)	($5.5)	($5.6)	($5.6)
Combined:												
Gross Draw	$78.8	$36.6	$11.8	$7.2	$22.2	$18.5	$20.9	$23.5	$25.4	$14.9	$6.8	$7.5
Dividend	($20.5)	($27.4)	($30.1)	($30.9)	($31.6)	($33.4)	($35.4)	($37.6)	($40.0)	($42.4)	($43.3)	($44.0)
Net Draw	$58.4	$9.2	($18.2)	($23.7)	($9.4)	($14.9)	($14.5)	($14.1)	($14.6)	($27.5)	($36.5)	($36.5)
Beginning PSPA Stock	$171.6	$250.4	$287.0	$298.8	$306.0	$328.2	$346.7	$367.6	$391.1	$416.5	$431.4	$438.2
Total Gross Draw	$78.8	$36.6	$11.8	$7.2	$22.2	$18.5	$20.9	$23.5	$25.4	$14.9	$6.8	$7.5
Ending PSPA Stock	$250.4	$287.0	$298.8	$306.0	$328.2	$346.7	$367.6	$391.1	$416.5	$431.4	$438.2	$445.7
Implied Dividend Rate	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Beg. Net PSPA Stock	$139.5	$197.9	$207.1	$188.8	$165.1	$155.7	$140.8	$126.3	$112.2	$97.6	$70.2	$33.6
Net Draw / Repayment	$58.4	$9.2	($18.2)	($23.7)	($9.4)	($14.9)	($14.5)	($14.1)	($14.6)	($27.5)	($36.5)	($36.5)
Cum. Net PSPA Draw	**$197.9**	**$207.1**	**$188.8**	**$165.1**	**$155.7**	**$140.8**	**$126.3**	**$112.2**	**$97.6**	**$70.2**	**$33.6**	**($2.9)**
Cum. Gross PSPA Draw	**$250.4**	**$287.0**	**$298.8**	**$306.0**	**$328.2**	**$346.7**	**$367.6**	**$391.1**	**$416.5**	**$431.4**	**$438.2**	**$445.7**
PSPA Capacity Left	**$275.0**	**$238.4**	**$226.6**	**$219.4**	**$197.2**	**$178.7**	**$157.8**	**$134.3**	**$108.9**	**$94.0**	**$87.2**	**$79.7**

Source: Grant Thorton

Appendix B: Scenario Analysis (Cont'd)

Base case forecast for change under Policy Option 1

Recommendation 1: Net comprehensive income (loss)

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Net Income (Loss)	($6.4)	$14.9	$23.7	$19.5	$14.6	$14.0	$13.7	$13.2	$14.0	$13.8	$13.5	$13.4
NI Difference From Base Case	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*

Recommendation 1: Restructure the PSPA agreements and move to a variable dividend payment

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Base Case Gross Draw	*$39.2*	*$11.4*	*$2.9*	*$1.2*	*$7.0*	*$7.1*	*$8.2*	*$10.9*	*$12.3*	*$13.3*	*$15.1*	*$16.8*
Total Gross Draw	$39.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Dividend	($19.1)	($10.3)	($19.6)	($21.4)	($15.9)	($16.4)	($16.1)	($14.3)	($14.0)	($14.3)	($13.9)	($13.8)
Net Draw	$20.1	($10.3)	($19.6)	($21.4)	($15.9)	($16.4)	($16.1)	($14.3)	($14.0)	($14.3)	($13.9)	($13.8)
Beginning PSPA Stock	$171.6	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8
Total Gross Draw	$39.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Ending PSPA Stock	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8	$210.8
Implied Dividend Rate	*10.0%*	*4.9%*	*9.3%*	*10.2%*	*7.5%*	*7.8%*	*7.6%*	*6.8%*	*6.7%*	*6.8%*	*6.6%*	*6.5%*
Cum. Net PSPA Draw	**$159.6**	**$149.3**	**$129.7**	**$108.3**	**$92.4**	**$76.0**	**$59.9**	**$45.7**	**$31.6**	**$17.3**	**$3.4**	**($10.4)**
Cum. Gross PSPA Draw	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**	**$210.8**
PSPA Capacity Left	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**

Source: Grant Thorton, U.S. Department of Treasury

Stress case forecast for change under Policy Option 1

Recommendation 1: Net comprehensive income (loss)

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Net Income (Loss)	($56.8)	($2.2)	$21.8	$24.7	$14.9	$14.2	$13.9	$13.4	$14.1	$14.0	$13.6	$13.4
NI Dif. From Base Stress Case	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*

Recommendation 1: Restructure the PSPA agreements and move to a variable dividend payment

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Base Stress Case Gross Draw	*$78.8*	*$36.6*	*$11.8*	*$7.2*	*$22.2*	*$18.5*	*$20.9*	*$23.5*	*$25.4*	*$14.9*	*$6.8*	*$7.5*
Total Gross Draw	$78.8	$15.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Dividend	($20.5)	($6.5)	($18.2)	($23.7)	($9.4)	($14.9)	($14.5)	($14.1)	($14.6)	($27.5)	($36.5)	($36.5)
Net Draw	$58.4	$9.2	($18.2)	($23.7)	($9.4)	($14.9)	($14.5)	($14.1)	($14.6)	($27.5)	($36.5)	($36.5)
Beginning PSPA Stock	$171.6	$250.4	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1
Total Gross Draw	$78.8	$15.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Ending PSPA Stock	$250.4	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1	$266.1
Implied Dividend Rate	*9.7%*	*2.5%*	*6.8%*	*8.9%*	*3.5%*	*5.6%*	*5.4%*	*5.3%*	*5.5%*	*10.3%*	*13.7%*	*13.7%*
Cum. Net PSPA Draw	**$197.9**	**$207.1**	**$188.8**	**$165.1**	**$155.7**	**$140.8**	**$126.3**	**$112.2**	**$97.6**	**$70.2**	**$33.6**	**($2.9)**
Cum. Gross PSPA Draw	**$250.4**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**	**$266.1**
PSPA Capacity Left	**$275.0**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**	**$259.3**

Source: Grant Thorton, U.S. Department of Treasury

Appendix B: Scenario Analysis (Cont'd)

Base case forecast for change under Policy Option 1 and 3

Recommendation 3: Dividend Sweep and Pull NPL Forward

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Net Income (Loss)	($55.8)	$22.1	$29.6	$24.4	$18.6	$17.3	$16.4	$15.4	$15.9	$15.4	$14.5	$13.4
NI Difference From Base Case	*($49.4)*	*$7.1*	*$5.9*	*$4.9*	*$4.0*	*$3.3*	*$2.7*	*$2.2*	*$1.9*	*$1.5*	*$1.0*	*$0.0*

Recommendation 3: Dividend Sweep and Pull NPL Forward

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Base Case Gross Draw	*$39.2*	*$11.4*	*$2.9*	*$1.2*	*$7.0*	*$7.1*	*$8.2*	*$10.9*	*$12.3*	*$13.3*	*$15.1*	*$16.8*
Gross Draw	$88.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Dividend	($19.1)	($17.4)	($25.5)	($26.3)	($19.9)	($19.7)	($18.8)	($16.5)	($15.9)	($15.8)	($14.9)	($13.8)
Net Draw	$69.5	($17.4)	($25.5)	($26.3)	($19.9)	($19.7)	($18.8)	($16.5)	($15.9)	($15.8)	($14.9)	($13.8)
Beginning PSPA Stock	$171.6	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2
Gross Draw	$88.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Ending PSPA Stock	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2	$260.2
Implied Dividend Rate	*8.8%*	*6.7%*	*9.8%*	*10.1%*	*7.6%*	*7.6%*	*7.2%*	*6.4%*	*6.1%*	*6.1%*	*5.7%*	*5.3%*
Cum. Net PSPA Draw	**$209.0**	**$191.6**	**$166.1**	**$139.8**	**$120.0**	**$100.2**	**$81.4**	**$64.9**	**$49.0**	**$33.2**	**$18.2**	**$4.5**
Cum. Gross PSPA Draw	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**	**$260.2**
PSPA Capacity Left	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**	**$275.0**

Source: Grant Thorton, U.S. Department of Treasury

Stress case forecast for change under Policy Option 1 and 3

Recommendation 3: Dividend Sweep and Pull NPL Forward

$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Net Income (Loss)	($106.2)	$4.9	$27.7	$29.6	$18.9	$17.6	$16.6	$15.6	$16.0	$15.5	$14.6	$13.4
NI Difference From Base Stress Case	*($49.4)*	*$7.1*	*$5.9*	*$4.9*	*$4.0*	*$3.3*	*$2.7*	*$2.2*	*$1.9*	*$1.5*	*$1.0*	*$0.0*

Recommendation 3: Dividend Sweep and Pull NPL Forward

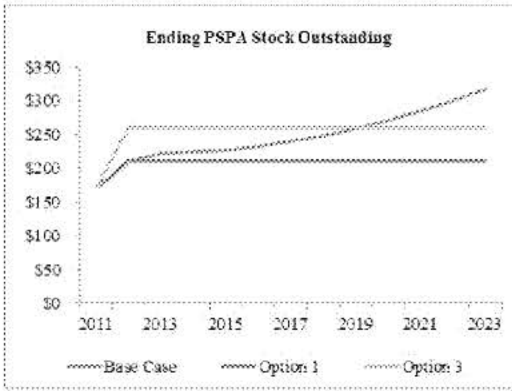
$ in billions	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Combined:												
Base Stress Case Gross Draw	*$78.8*	*$36.6*	*$11.8*	*$7.2*	*$22.2*	*$18.5*	*$20.9*	*$23.5*	*$25.4*	*$14.9*	*$6.8*	*$7.5*
Gross Draw	$128.2	$9.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Dividend	($20.5)	($7.9)	($24.1)	($28.6)	($13.4)	($18.2)	($17.2)	($16.3)	($16.5)	($29.0)	($37.6)	($36.5)
Net Draw	$107.8	$2.0	($24.1)	($28.6)	($13.4)	($18.2)	($17.2)	($16.3)	($16.5)	($29.0)	($37.6)	($36.5)
Beginning PSPA Stock	$171.6	$299.8	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7
Gross Draw	$128.2	$9.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Ending PSPA Stock	$299.8	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7	$309.7
Implied Dividend Rate	*8.8%*	*6.7%*	*9.8%*	*10.1%*	*7.6%*	*7.6%*	*7.2%*	*6.4%*	*6.1%*	*6.1%*	*5.7%*	*5.3%*
Cum. Net PSPA Draw	**$247.3**	**$249.3**	**$225.2**	**$196.6**	**$183.2**	**$165.0**	**$147.8**	**$131.5**	**$115.0**	**$86.0**	**$48.4**	**$11.9**
Cum. Gross PSPA Draw	**$299.8**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**	**$309.7**
PSPA Capacity Left	**$275.0**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**	**$265.1**

Source: Grant Thorton, U.S. Department of Treasury

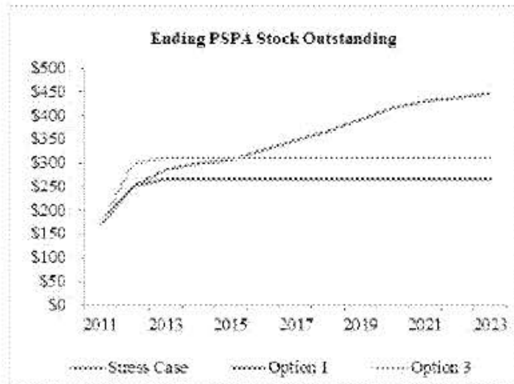
Appendix C: Graphical Forecasts of Policy Actions

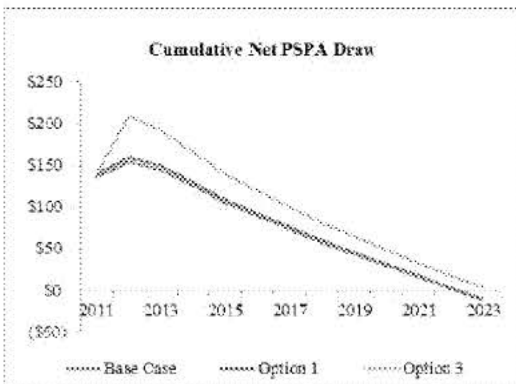
Gross and Net PSPA Draws

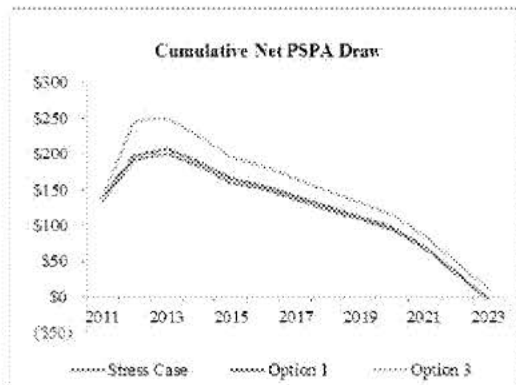
Base Case



Stress Case







Key for the charts above:

1) Base Case – base case forecast as provided by FHFA and Grant Thorton
2) Stress Case – stress case forecast as provided by FHFA and Grant Thorton
3) Option 1 – Restructure the PSPA agreements to a variable dividend payment
4) Option 2 – Not applicable
5) Option 3 – Initiate an NPL disposition program and contribute legacy assets into a special purpose vehicle (SPV) or joint venture (JV) that manages loss mitigation activities

SENSITIVE / PRE-DECISIONAL / DRAFT

Appendix D: GAAP and FMV Balance Sheet Reserves

				C-D					E+F+G	D+H	C-D-H		C-D-G	
A	B	C	D	J	K	E	F	G	H	I	L	M	N	O
							Fair Market Value					*Carrying Value*		
Total GSE	**Count**	**UPB**	**GAAP Allowance**	**GAAP Carry Value**	***% of UPB***	**Capital Costs**	**Market Discount**	**Expected Losses**	**Total FMV Allowance**	**Total Allowance**	**FMV Carry Value**	***% of UPB***	**FMV Ex-Capital/Mrkt**	***% of UPB***
Performing	27,051,977	$4,117.6	$33.5	$4,084.1	*99.2%*	$54.8	$5.7	$47.6	$108.0	$141.6	$3,976.1	*96.6%*	$4,036.6	*98.0%*
Sub-Performing	756,904	108.1	10.3	97.8	*90.4%*	3.6	5.9	3.3	12.8	23.1	85.0	*78.6%*	94.4	*87.4%*
Non-Performing	1,372,769	263.7	65.7	198.0	*75.1%*	7.8	37.7	16.3	61.8	127.4	136.3	*51.7%*	181.7	*68.9%*
Totals	29,181,650	4,489.4	109.5	4,379.9	*97.6%*	66.2	49.2	67.2	182.6	292.1	4,197.3	*93.5%*	4,312.7	*96.1%*
% of Total														
Performing	*92.7%*	*91.7%*	*30.6%*	*93.2%*		*82.8%*	*11.5%*	*70.8%*	*59.2%*	*48.5%*	*94.7%*		*93.6%*	
Sub-Performing	*2.6%*	*2.4%*	*9.4%*	*2.2%*		*5.4%*	*12.0%*	*5.0%*	*7.0%*	*7.9%*	*2.0%*		*2.2%*	
Non-Performing	*4.7%*	*5.9%*	*60.0%*	*4.5%*		*11.8%*	*76.5%*	*24.2%*	*33.8%*	*43.6%*	*3.2%*		*4.2%*	
Totals	*100.0%*	*100.0%*	*100.0%*	*100.0%*		*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*		*100.0%*	
Fannie Mae	**Count**	**UPB**	**GAAP Allowance**	**GAAP Carry Value**	***% of UPB***	**Capital Costs**	**Market Discount**	**Expected Losses**	**Total FMV Allowance**	**Total Allowance**	**FMV**	***% of UPB***	**FMV Ex-Capital/Mrkt**	***% of UPB***
Performing	16,064,713	$2,481.2	$25.9	$2,455.3	*99.0%*	$28.2	$0.0	$25.6	$53.8	$79.7	$2,401.5	*96.8%*	$2,429.7	*97.9%*
Sub-Performing	465,489	64.6	4.9	59.7	*92.4%*	2.1	4.1	3.8	9.9	14.8	49.8	*77.1%*	56.0	*86.6%*
Non-Performing	886,111	166.2	39.6	126.6	*76.2%*	5.6	30.4	13.6	49.7	89.3	77.0	*46.3%*	113.1	*68.0%*
Totals	17,416,313	2,712.1	70.4	2,641.7	*97.4%*	35.9	34.5	43.0	113.4	183.8	2,528.3	*93.2%*	2,598.7	*95.8%*
% of Fannie Mae														
Performing	*92.2%*	*91.5%*	*36.8%*	*92.9%*		*78.5%*	*0.0%*	*59.6%*	*47.4%*	*43.4%*	*95.0%*		*93.5%*	
Sub-Performing	*2.7%*	*2.4%*	*6.9%*	*2.3%*		*5.8%*	*11.8%*	*8.8%*	*8.8%*	*8.1%*	*2.0%*		*2.2%*	
Non-Performing	*5.1%*	*6.1%*	*56.2%*	*4.8%*		*15.7%*	*88.2%*	*31.6%*	*43.8%*	*48.6%*	*3.0%*		*4.4%*	
Totals	*100.0%*	*100.0%*	*100.0%*	*100.0%*		*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*		*100.0%*	
Freddie Mac	**Count**	**UPB**	**GAAP Allowance**	**GAAP Carry Value**	***% of UPB***	**Capital Costs**	**Market Discount**	**Expected Losses**	**Total FMV Allowance**	**Total Allowance**	**FMV**	***% of UPB***	**FMV Ex-Capital/Mrkt**	***% of UPB***
Performing	10,987,264	$1,636.5	$7.6	$1,628.9	*99.5%*	$26.6	$5.7	$22.0	$54.3	$61.9	$1,574.6	*96.2%*	$1,606.9	*98.2%*
Sub-Performing	291,415	43.5	5.4	38.0	*87.5%*	1.5	1.8	(0.4)	2.9	8.3	35.2	*80.9%*	38.5	*88.5%*
Non-Performing	486,658	97.5	26.1	71.4	*73.3%*	2.2	7.2	2.7	12.1	38.2	59.3	*60.9%*	68.7	*70.5%*
Totals	11,765,337	1,777.4	39.1	1,738.3	*97.8%*	30.3	14.7	24.2	69.2	108.3	1,669.1	*93.9%*	1,714.0	*96.4%*
% of Freddie Mac														
Performing	*93.4%*	*92.1%*	*19.4%*	*93.7%*		*88.0%*	*38.6%*	*90.7%*	*78.4%*	*57.1%*	*94.3%*		*93.7%*	
Sub-Performing	*2.5%*	*2.4%*	*13.9%*	*2.2%*		*4.9%*	*12.3%*	*(1.8%)*	*4.1%*	*7.7%*	*2.1%*		*2.2%*	
Non-Performing	*4.1%*	*5.5%*	*66.7%*	*4.1%*		*7.1%*	*49.1%*	*11.1%*	*17.5%*	*35.2%*	*3.6%*		*4.0%*	
Totals	*100.0%*	*100.0%*	*100.0%*	*100.0%*		*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*		*100.0%*	

EXHIBIT F

DRAFT / SENSITIVE / PRE-DECISIONAL

SUBJECT TO OGC REVIEW

Transition Options - Potential Near and Medium Term Transition Steps

End State Objectives:

- Government to provide net worth support to government-owned Securitization Utility so as to provide liquidity, standardization, efficiency, and FDIC-like tail risk insurance to residential mortgage backed security market
    - Explicit guarantee by government-owned Securitization Utility of securities to end investor
    - The utility to be subject to national [FHFA] regulatory oversight
- The first loss and most of the credit risk shall be taken by the private sector through well-capitalized First-Loss Providers (FLPs)
    - FLPs will be subject to rigorous counterparty assessments from the securitization utility and also will be subject strong prudential regulation [FHFA]
- Securitization Utility and FLPs to be subject to same capital (Basel III) and supervision standards as banking sector, so as to create level playing field and minimize distortion
- Strong regulation/governance
- Increased transparency and better availability of data

Legal Constraints:

- FHFA mandate is to "conserve assets" while the GSES are in conservatorship
- Treasury has to approve any asset sales and other actions out of the ordinary course
- Existing legislation, HERA, fos1992 Act, [FIRREA], [FHLB Act], and other non-GSE specific legislation
- Incremental amounts available under the PSPAs after 2012 limited to $275 billion
- More work remains to evaluate constraints to Treasury and FHFA action. Follow-up document to come

Potential actions which could be taken in the short and intermediate terms [1]:

1. **Clear plan for ending FNM and FRE in their current form: Corporate Reorganization**
    - GSEs could be restructured into three distinct corporate entities, a credit enhancement/mortgage insurance entity, a securitization utility, and a "bad bank"
    - Even before new corporate entities are established, the GSEs can start engaging in internal cost accounting and management organizational changes
    - Consider additional asset sales of non-core businesses and outsourcing non-core functions to third-party contractors
    - Management retention to ensure that human capital does not flee the GSEs
        - Clear communication with management about the transition path
        - Structuring of appropriate retention packages
    - *Note: A complete reorganization may require FHFA to trigger receivership*

[1] Note – these actions are for brainstorming purposes only and are subject to legal review. FHFA as conservator would need to determine what was most appropriate for their mandate as prudential regulator and conservator of the GSEs while in conservatorship.

a. **Credit Enhancement/Mortgage Insurance Entity**
   i. Timeline
      1. [Within 6 months] – FHFA lays out detailed restructuring plan
      2. [1 year] - Human capital and physical infrastructure from FNM and FRE's credit analysis teams contributed to newly formed subsidiary ("GMIE")
      3. [3-5 years] - GMIE is either sold to private MI or taken public
         a. Once sold, these businesses will become fully private, receiving no government support and would not be attached to the existing charters
         b. GMIE(s) will be subject to ongoing regulation by [FHFA]
         c. Proceeds from the sale of this business will be returned to the taxpayer and help the process of recouping losses
         d. Potentially maintain some level of legacy debt/obligation/tax to repay assistance which was provided by the taxpayer
   ii. Consider transforming multifamily businesses into dedicated multifamily guarantors that could also be privatized as separate entities

b. **Securitization Utility** will be a separate division, clean of all legacy assets and liabilities of the old FNM and FRE
   i. Will retain keep-wells from the old FNM/FRE (or other form of support from the Treasury) to ensure that investors will be made whole on the securities that they purchase
   ii. Retains the charters from the old corporate entities
   iii. Timeline
      1. [6 months] – FHFA lays out detailed restructuring plan
      2. [1 year] - Human capital and physical infrastructure from FNM and FRE's securitization teams contributed to newly formed subsidiary
      3. [1.5 years] – FNM wraps all of FRE's securities to increase liquidity in the market and begin migration to a single security and TBA market
      4. Post-legislation: FNM and FRE securitization utilities will be merged with GNMA

c. **"Bad bank"** consisting of retained portfolio, legacy guaranty liabilities and 3rd party debt (equivalent of discontinued ops from accounting and management function)
   i. Bad bank will continue as a division of the securitization utility, so as to retain support of PSPAs
   ii. Timeline
      1. [3 months] – Operational plan of how to split up legacy assets
      2. [within 1 year] – clear timetable established for rundown and establish method for disposition
         a. Option 1: legacy assets remain in FNM and FRE corporate shell and employees are given retention packages to manage the unwind
         b. Option 2: Private money manager (e.g. PPIP-like manager) is contracted out to manage the assets and oversee the unwind

c. Option 3 (could occur in either of above scenarios) Consider structured sale to ensure taxpayers retain some equity-like upside

3. [within 2 years] – Consider other block asset sales
    a. NPLs, REO, etc.
    b. These sales would potentially realize a loss
4. [within 2 years] - In order to ensure that Bad Bank is adequately capitalized for all future net worth deficiencies, consider revaluing full portfolio to disposition value – this would set the stage for faster recovery in value and could push more inventory of credit through resolution process

d. Consolidation of other assets
    i. Consider managing certain assets of FNM and FRE jointly (REO, etc) to realize economies of scale
    ii. Potentially merge management of retained portfolios and bad bank assets

e. [Accounting / Fiscal Consolidation]
    i. Mark to market accounting
    ii. USG accounting treatment

2. Steps to Privatize the Mortgage Market

- The Administration is committed to privatizing the mortgage market.
- Transition should be managed at a measured pace that does not disrupt the still fragile housing market recovery

a. Capital standard changes
    i. Work with Fed to establish new risk-weighting for mortgage assets which are consistent w/ Basel III, where higher LTV mortgages require a greater capital charge.
    ii. Capital standards and g-fees become enforcement mechanisms for new "conforming" loan standards
    iii. The desired end state is 300-400 basis points of capital, which implies a 70-100 basis point g-fee. This capital level will be a floor if Basel implies lower required capital levels.

b. Pricing Changes
    i. Slowly phase in Basel III capital requirements over a [5] year time period to the credit enhancement entities by raising G-fees to private market levels
        1. Consider different mechanisms/triggers for price increases to ensure that fragile housing markets are allowed to continue to heal
            a. [No pricing/capital changes will occur before [4] consecutive quarters of national house price increases]
    ii. Allow credit enhancement entities to implement more highly differentiated LLPAs pricing to allow true credit risk pricing – including differences between states to capture the differences in the foreclosure process across state lines.

c. Credit Risk Syndication
    i. Slowly lower government attachment point to bring more equity into housing finance system from private sector – either through down payment

at borrower level or other forms of credit enhancement at financing level, such as increasing amount of PMI or syndicating risk to capital markets through cat bonds, CMOs or other method

d. Encourage Other Private Sector Participation
    i. Establish clear guidelines and incentives for private mortgage insurers to opt into [FHFA] regulation to gain access to the securitization utility and encourage additional entities to enter the market to provide credit protection

3. Taxpayer recoupment

Potential methods for taxpayer recoupment of their investment in FNM and FRE

a. Increase g-fee on new originations
b. Disposition of non-core assets, such as multifamily, shared services, etc.
c. Better than expected disposition of REO through realizing economies of scale of consolidation and NPL disposition
d. Sale of credit enhancement entities to the private markets
e. Residual fee – RTC like solution of a [10] basis point tax on the securitization utility

4. FHA and FHLB Reform

Reforms to ensure FHA and the FHLBs do not become the cheapest sources of funding for mortgages

a. FHA, limit footprint through:
    i. Pricing/required ROEs - price FHA to be competitive to private market with some level of required return or market matched pricing
    ii. Restrict eligible borrowers (FHA credit box)
b. FHLBs – limit level of advances which can be made available to banking sector
c. Consider other "non-core" reforms
    i. FHA - governance changes
    ii. FHLBs – single district membership

5. Increase Transparency

a. Establish central mortgage data repository where both GSEs [and other mortgages insurers] are required feed data into and all members of the private sector have access to the data – (work with OFR)

6. Servicing

a. Establish true "master servicing" and fee for service model to help eliminate misalignment of incentives in the servicing industry and eliminate problems associated with MSRs
b. Securitization Utilities would only wrap loans where the master servicing in a fee for service model sits with the entity that held that first loss credit risk
c. If entire market switched to fee for service model, "fee for service securities" would become TBA eligible.

7. Consider other initiatives to reform the mortgage contract and embed best practices further into the system

a. Standardized mortgage contracts with binding arbitration
b. Simple terms and fact sheets for consumer protection

Key Questions/Open Items for Further Exploration:

- What should be done with the multifamily businesses of the GSEs?
- Can the dividends be adjusted such that we are not drawing to pay ourselves?
- Are there restrictions on where the charter can sit and what entities the charter will be tied to upon emergence from receivership?
- Further exploration of the opportunities for public/private partnerships to sell some of the retained portfolio assets to ensure that the taxpayers retain some equity-like upside in the deal.
- Can the commitment fee be set such that it is equal to the positive net income from the GSEs in every year in the future?
- More detailed modeling work around taxpayer recoupment
  - What is the appropriate fee the securitization utility should charge to raise money, but not price itself out of the market?
  - Over what time horizon will taxpayers be paid back?
    - RTC was set as a 30yr bond, but paid back in 20 years, which was palatable.
- Are there alternative ways to capitalize/pre-fund the newly constituted "good" entities?
- How will we ultimately merge the FNM and FRE securitization utilities into GNMA?

EXHIBIT G

Draft 11-07-11

FHFA STRATEGIC PLAN
2012-2016

MISSION

Ensure that the Housing GSEs are safe and sound so that they serve as a reliable source of liquidity and funding for housing finance and community investment.

VISION

A reliable, stable, and liquid housing finance system

FHFA's VALUES

Respect	***We strive to act with respect for each other, promote diversity, share information and resources, work together in teams, and collaborate to solve problems even when we disagree.***
Excellence	***We aspire to excel in every aspect of our work and to seek better ways to accomplish our mission and goals.***
Integrity	***We are committed to the highest ethical and professional standards.***
Diversity	***We seek the full inclusion of all segments of our population in our business endeavors and at the entities we regulate.***

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FHFA's STRATEGIC GOALS 2012-2016

STRATEGIC GOAL 1
SAFE AND SOUND HOUSING GSES

PERFORMANCE GOAL 1.1: IDENTIFY RISKS AND REQUIRE TIMELY REMEDIATION OF WEAKNESSES

PERFORMANCE GOAL 1.2: IMPROVE THE CONDITION OF THE REGULATED ENTITIES

STRATEGIC GOAL 2
EFFECTIVE CONSERVATORSHIP OPERATIONS

PERFORMANCE GOAL 2.1: MINIMIZE LOSSES ON THE LEGACY PORTFOLIOS AND DISRUPTION TO FINANCIAL MARKETS.

PERFORMANCE GOAL 2.2: EXECUTE AN ORDERLY REDUCTION OF THE ENTERPRISES' MORTGAGE PORTFOLIOS AS MARKET CONDITIONS PERMIT

PERFORMANCE GOAL 2.3: ENSURE APPROPRIATE UNDERWRITING OF THE ENTERPRISES' NEW BUSINESS

STRATEGIC GOAL 3
STABILITY, LIQUIDITY, AND ACCESS IN HOUSING FINANCE

PERFORMANCE GOAL 3.1: MITIGATE SYSTEMIC RISK AND CONTRIBUTE TO RECOVERY OF HOUSING AND FINANCIAL MARKETS

PERFORMANCE GOAL 3.2: ASSURE LIQUIDITY IN MORTGAGE MARKETS

PERFORMANCE GOAL 3.3: EXPAND ACCESS TO HOUSING FINANCE BY DIVERSE FINANCIAL INSTITUTIONS AND BORROWERS

PERFORMANCE GOAL 3.4: IMPROVE THE CURRENT SYSTEM OF HOUSING FINANCE AND PREPARE FOR THE FUTURE

STRATEGIC GOAL 1

SAFE AND SOUND HOUSING GSES

PERFORMANCE GOAL 1.1: IDENTIFY RISKS AND REQUIRE TIMELY REMEDIATION OF WEAKNESSES

FHFA, as regulator for Fannie Mae, Freddie Mac (the Enterprises), and, the Federal Home Loan Banks (collectively "Housing GSEs") is responsible for examining and regulating their operations to promote their safe and sound operations and condition. As a prudential regulator, FHFA must anticipate, identify, and respond appropriately to risks to the regulated entities and ensure the regulated entities effectively manage risks, irrespective of the sources of risk. In identifying risk and evaluating the Housing GSEs' risk management, FHFA will rely on its full complement of supervisory tools and authorities. FHFA will also monitor corrective action by the regulated entities to remediate weaknesses to ensure any remedy is both timely and effective.

PERFORMANCE GOAL 1.2: IMPROVE THE CONDITION OF THE REGULATED ENTITIES

The Enterprises have been operating under conservatorship since September 2008. As conservator, FHFA will improve the condition of the Enterprises by restricting new risk-taking, requiring improved underwriting in their new book of business, and preserving and conserving assets from their pre-conservatorship book of business. Certain FHLBanks have been subject to supervisory actions designed to improve risk management and ensure preservation of capital as they deal with troubled real estate related investments, principally dating from 2005-2008. FHFA will continue to require any troubled FHLBanks to preserve capital and to build retained earnings to levels sufficient to support the par value of their capital stock.

STRATEGIC GOAL 1- MEANS AND STRATEGIES

- ***Conduct annual examinations, and, as warranted, special or horizontal reviews of the regulated entities.*** Annual on-site examinations are a critical means to identify operational and financial risks that could threaten the safety and soundness of the Housing GSEs. FHFA examiners use a risk-based approach designed to 1) identify existing and potential risks that could adversely affect the regulated entity; 2) evaluate the overall integrity and effectiveness of each entities' risk management systems and controls; and 3) determine compliance with laws and regulations. FHFA will periodically conduct focused reviews on specific programs or issues, known as "horizontal reviews," of the Enterprises or the FHLBanks.

- ***Identify matters requiring attention of the boards of directors of the regulated entities and monitor their remediation for both timeliness and efficacy.*** Timely resolution of issues that threaten the financial and operational condition of the housing GSEs is essential to their safety and soundness. FHFA's full complement of supervisory programs includes on-site examinations; program reviews over a cross-section of entities (horizontal reviews); regulatory and supervisory guidance; performance monitoring; supervisory compliance and enforcement; market surveillance; and, when appropriate, supervisory or enforcement actions. Through these means, FHFA will identify issues that could compromise the safe and sound operations of the Housing GSEs. FHFA will communicate findings, recommendations, and any required corrective actions to the regulated entity's board of directors and management. FHFA examiners will obtain a commitment from the board and management to correct weaknesses or deficiencies in a timely manner and will monitor remediation and verify the effectiveness of corrective actions. When deficiencies are sufficiently severe, FHFA will pursue enforcement actions such as a memorandum of understanding, board resolution, written agreement, or a cease and desist order – as appropriate.

- ***Identify emerging risk areas and adjust supervisory strategies as appropriate.*** The FHFA's regulated entities may need to operate in markets characterized by uncertainty, volatility, and changing processes and practices. As a prudential regulator, FHFA must respond to changing conditions, ensure the regulated entities identify areas of possible or emerging risk, and adjust its supervisory strategies as appropriate to respond to market developments and identified risks.

- ***Maintain and regularly improve examination standards and procedures.*** As the environment in which the Housing GSEs operate changes and different financial and operational risks arise, FHFA will refine and enhance its examination standards, procedures, and processes in response to market developments and emerging risks.

- ***Use off-site monitoring to strengthen supervision.*** Off-site monitoring and surveillance programs supplement and support on-site examinations with cross-disciplinary resources that can lead to a more comprehensive understanding of a problem by systematically and simultaneously evaluating data across an array of institutions and thereby expanding options considered for problem resolution. The full complement of FHFA's supervisory staff includes examiners, financial analysts, policy analysts, accountants, and economists. Off-site analyses include reviews of monthly and quarterly call report data, daily changes in interest rates and rate spreads, and published financial reports. The analyses address such issues as financial market conditions, interest rate changes and their effects on the regulated entities, financial condition, management of troubled real estate assets, executive compensation, and the disclosures in financial statements and reports filed with the Securities and Exchange Commission. Through off-site monitoring systems, FHFA will perform ongoing monitoring of financial trends and emerging risks with a potential to impact the safety and soundness of the Housing GSEs.

- ***Develop regulatory policies and supervisory guidance to improve the Housing GSEs' risk management, governance, pricing, and asset quality.*** As a result of recent legislation, including the Housing and Economic Recovery Act of 2008 (HERA) and the Dodd-Frank Act of 2010 (Dodd-Frank), FHFA has promulgated a series of new or revised regulations and guidance. Some have been finalized, others proposed, and others are still being drafted. In light of changing economic conditions, particularly affecting housing and finance, and market volatility, FHFA will complete required rulemakings and develop additional regulations or guidance, as needed. Regulations and guidance will generally require improvements to the Housing GSEs' risk management practices and governance consistent with prudential management and operating standards. FHFA regulations and guidance also anticipates that the Housing GSEs' policies on asset acquisition, pricing, and retention will be consistent with safe and sound practices and will support housing finance.

- ***Require the Housing GSEs to focus new business on core mission activities.*** During the period leading up to the crisis in the mortgage and financial markets, the Enterprises and some of the FHLBanks acquired mortgage assets and made certain unsecured investments that resulted in charges against income and other risk management challenges. The Enterprises and the FHLBanks each have core mission activities, which have served them well over time. FHFA will expect that an increased share of the regulated entities' new business be concentrated in core mission activities.

- ***Use quality assurance reviews to enhance the effectiveness of supervision.*** FHFA's quality assurance program provides objective assessments of FHFA examinations and supervision practices; identifies potential areas to improve or enhance existing processes; and strives for disciplined and consistent supervisory processes. FHFA will monitor identified areas for improvement, monitor remediation of identified deficiencies, and respond constructively to quality assurance assessments.

- ***Evaluate and monitor compensation and incentives at the regulated entities for adherence to prudential standards.*** FHFA expects the Housing GSEs to adhere to effective practices in corporate governance and defend against inappropriate risk taking. FHFA will supplement its on-site examinations by evaluating the quality of corporate governance at the regulated entities through targeted examinations or horizontal reviews of corporate incentives, as warranted. FHFA will review executive compensation and incentives at the regulated entities for adherence to prudential standards and compliance with statutory mandates that compensation be reasonable and comparable to similarly-situated institutions.

- ***Strengthen training and development of examination staff.*** FHFA will establish an examiner accreditation program. FHFA will continue to assess the capacity of its supervision staff and examiners, monitor the development and implementation of an examiner accreditation program, supplement any shortfalls in examination capacity, track progress in addressing identified shortfalls, and report its progress in FHFA's annual Report to Congress.

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STRATEGIC GOAL 2

EFFECTIVE CONSERVATORSHIP OPERATIONS AT THE ENTERPRISES

PERFORMANCE GOAL 2.1: MINIMIZE LOSSES ON THE LEGACY PORTFOLIOS AND DISRUPTION TO FINANCIAL MARKETS.

As conservator of the Enterprises, FHFA has a responsibility to take such actions as may be necessary to put the Enterprises in a sound and solvent condition and to preserve and conserve their assets and property. The Enterprises will not be restored to solvency in the foreseeable future. The continued operation of the Enterprises has been made possible by support from the U.S. Department of Treasury (Treasury) through the Senior Preferred Stock Purchase Agreement with FHFA and through two Treasury credit facilities, which are used to purchase the Enterprises' mortgage-backed securities and GSE debt. Controlling further losses to the taxpayer renders the preservation and conservation of Enterprise assets a high priority for FHFA.

To preserve and conserve Enterprise assets, FHFA seeks to minimize losses on the Enterprises' "legacy portfolio," which consists of their respective books of business entered into prior to being placed under conservatorship. The legacy portfolio includes a large volume of mortgages owned or guaranteed by the Enterprises that are delinquent or in foreclosure. To encourage home retention by borrowers and minimize losses to the Enterprises, FHFA will work with the Administration and the Enterprises to keep, to the extent possible, borrowers from defaulting on their loans by working with lenders and servicers to offer prudent loan refinancing and modification programs. In addition, FHFA has determined that many of the mortgages in the legacy portfolio were poorly underwritten and the contracts were in breach of the sellers' representations and warranties to the Enterprises. The enforcement of these contracts is essential to minimizing taxpayer losses and improving underwriting for future transactions. The FHFA will also ensure that the Enterprises pursue enforcement of their existing contracts.

PERFORMANCE GOAL 2.2: EXECUTE AN ORDERLY REDUCTION OF THE ENTERPRISES' MORTGAGE PORTFOLIOS AS MARKET CONDITIONS PERMIT

Under the terms of the Senior Preferred Stock Purchase Agreements entered into by the FHFA with the Treasury Department in 2008, each GSE's retained mortgage and mortgage-backed securities portfolio shall decline by 10 percent per year until the balance of holdings reaches $250 billion. The reduction of the Enterprises' retained portfolios has been executed under conditions of significant market uncertainty. Housing markets have been weak, the financial sector cautious, and the national economy has not rebounded as quickly as anticipated. Under these conditions, FHFA must seek to reduce the portfolio without disruption to market liquidity. FHFA will continue to reduce the risk of additional losses to taxpayers by reducing the Enterprises' portfolio. To ensure an orderly reduction of the portfolio, the pace of the reduction may be moderated by conditions in the housing and financial markets.

PERFORMANCE GOAL 2.3: ENSURE APPROPRIATE UNDERWRITING OF THE ENTERPRISES' NEW BUSINESS

FHFA has taken steps to improve the quality of mortgages purchased by the Enterprises. FHFA precludes the Enterprises from offering new products or engaging in new business activities that would either present unfamiliar risk or divert their resources from their core business and mission. FHFA believes that the Enterprises should move toward a sustainable business model similar to what would be expected of private companies. To achieve this goal, FHFA will establish appropriate underwriting standards and risk-based pricing of guarantee fees. FHFA will also ensure that the new mortgages acquired by the Enterprises are soundly underwritten and priced to provide an appropriate return, encourage market competition, and promote the return of the private capital to the housing markets.

STRATEGIC GOAL 2 - MEANS AND STRATEGIES

- ***Establish Baseline Standards and Targets to Measure the Effectiveness of Modification and Refinancing Initiatives.*** FHFA will establish standards and targets as benchmarks to monitor Enterprise loan modification and refinancing portfolios to ensure that the Enterprises adhere to program standards and that the programs achieve their targets.

- ***Reduce the Enterprises' Legacy Portfolio.*** FHFA will encourage an orderly transition of the Enterprise legacy portfolio through effective loss mitigation programs, monitoring market conditions, and identifying the near-term and long-term impact of the disposition of assets. To ensure an orderly reduction of the portfolio, the pace of the reduction may be moderated by conditions in the housing and financial markets. This strategy is designed to reduce the Enterprise portfolio and provide the best return to the taxpayer while minimizing market disruption. FHFA will also monitor the portfolio for consistency with the requirements of the Senior Preferred Stock Purchase Agreement.

- ***Pursue Cost-Effective Alternatives to the Disposition of Enterprises' REO Portfolios.*** FHFA has been working with the Enterprises to explore alternatives to the past practice of selling real estate owned (REO) properties one at a time. This initiative will be informed by ideas generated through a Request for Information (RFI), issued by FHFA in consultation with the U.S. Department of Housing and Urban Development and the U.S. Department of the Treasury. The RFI solicited views from the public on REO disposition alternatives, requesting comment on how the Enterprises could improve loss recoveries compared to individual sales, help stabilize neighborhoods, and, where feasible and appropriate, improve the supply of rental housing. As a result of this effort, FHFA plans to develop pilot transactions to test alternatives to individual sales, will evaluate their progress, and would likely use these as a basis for broader programs.

- ***Align Guarantee Fees to Risk.*** The Enterprises pre-conservatorship guarantee pricing was characterized by cross-subsidization across product types and preferential treatment for loans with certain characteristics. To attract private capital and reduce Enterprise risk exposure, FHFA will direct the Enterprises to price guarantee fees to levels that align pricing with actual risk as if they were being priced in a private, competitive market. FHFA will also evaluate and improve the adequacy of models used to estimate prepayments and set guarantees.

- ***Examine Modeling Assumptions.*** Modeling assumptions will require continual evaluation and improvement. FHFA will examine Enterprise prepayment and guarantee models and evaluating their adequacy. Examination findings of weaknesses in Enterprise models will be designated as Matters Requiring Attention (MRAs) and the Enterprises will be required to correct the deficiencies.

- ***Ensure Appropriate Underwriting of New Business:*** FHFA has directed the Enterprises to reduce their risk exposure in their underwriting and product standards. FHFA will continue these efforts and will ensure that the Enterprises enforce the representations and warranties in their contracts with mortgage suppliers.

- ***Promote Risk-Sharing.*** Risk-sharing between the Enterprises and other market participants can be helpful in providing feedback to the Enterprises' on their guarantee fee pricing. For example, if the market price to absorb a portion of the Enterprises' risk exposure is greater than the price being charged on the guarantee fee, this might be a signal that prices would need to increase to attract private capital. More accurate price discovery would then be established through market competition. FHFA intends to evaluate different options for the Enterprises to share risk among various parties to a transaction.

STRATEGIC GOAL 3

STABILITY, LIQUIDITY, AND ACCESS IN HOUSING FINANCE

PERFORMANCE GOAL 3.1: PROMOTE STABILITY IN HOUSING MARKETS BY MITIGATING SYSTEMIC RISK AND CONTRIBUTING TO THE RECOVERY OF HOUSING AND FINANCIAL MARKETS.

Mitigate Systemic Risk. The Dodd-Frank Act established the Financial Stability Oversight Council (FSOC) to identify risks to the financial stability of the United States that could arise from the financial distress, failure, or activities, of large financial institutions; to promote market discipline; and to respond to emerging threats to the stability of the nation's financial system. FHFA, as a voting member, will continue to work closely with FSOC and its member agencies to identify emerging risks and mitigate systemic threats to the financial system. FHFA will contribute to market stability through ongoing market surveillance and timely dissemination of information on housing markets.

Promote Stability in Housing Markets. Home retention initiatives, such as loan modification and refinancing programs, could allow eligible borrowers to realize more favorable rates or terms on their mortgages and potentially reduce the scale of defaults and foreclosures. Such initiatives can reduce losses to the Enterprises and can lead to greater stability and liquidity in housing markets. FHFA will be actively engaged in developing prudent home retention programs and foreclosure alternatives including refinements to the Home Affordable Modification Program (HAMP) and Home Affordable Refinancing Program (HARP) that offer troubled homeowners loan modifications, refinancing opportunities or other foreclosure alternatives. A successful home retention program would enhance access to finance by borrowers; reduce risk exposure to the Enterprises, thereby minimizing their losses; and stabilize housing finance. FHFA will also work with the Department of Housing and Urban Development (HUD) and Treasury to consider alternatives in disposing of REO properties owned by the Enterprises and the Federal Housing Administration (FHA) using approaches that are tailored to the needs and economic conditions of local communities.

PERFORMANCE GOAL 3.2: ASSURE LIQUIDITY IN MORTGAGE MARKETS

Federal Home Loan Banks: The FHLBanks' core mission is to serve as a reliable source of liquidity for their member institutions in support of housing finance. The importance of the FHLBanks as a source of liquidity for member financial institutions became evident during the financial credit and liquidity crisis that began in 2007. FHLBank advances to members increased from a pre-crisis level of $640 billion on June 30, 2007 to an all-time high of $1.01 trillion on September 30, 2008. Subsequently, liquidity conditions in financial and banking markets changed dramatically as deposits grew at depository institutions while loan demand diminished as a result of weak economic conditions. As a consequence, member use of FHLBank advances fell significantly at each of the FHLBanks. Advances to member institutions declined 60 percent from their peak in September 2008 to $400 billion in September 2011. FHFA will ensure that the FHLBanks continue to fulfill their statutory mission of providing liquidity to their members.

The Enterprises: Although the Enterprises are under conservatorship, the Enterprises must continue to serve as a reliable source of liquidity for housing finance, principally through their mortgage securitization programs. FHFA's Strategic Plan envisions the Enterprises in conservatorship supporting housing finance, but also anticipates initiatives that contribute to an increase in the role of private sources of capital in housing finance, ultimately diminishing the role of direct and indirect government support. While Fannie Mae and Freddie Mac are in conservatorship FHFA will work with the Department of the Treasury to assure that they continue to provide liquidity to the secondary markets in a manner consistent with the objective of eventually withdrawing government support.

PERFORMANCE GOAL 3.3: EXPAND ACCESS TO HOUSING FINANCE BY DIVERSE FINANCIAL INSTITUTIONS AND BORROWERS

Even in liquid markets, some qualified financial institutions and borrowers may face barriers to finance as a result of imperfect information, insufficient market activity, or inability to attract capital due to their size or area of specialization. Especially during times of market uncertainty, some smaller or niche financial institutions may face disruption in their access to finance. FHFA is committed to assuring that qualified financial intermediaries and other entities have fair and equitable access to finance and to those services offered by the Housing GSEs for which they are eligible. In particular, minority- and women-owned instiutions should be included in the activities of the Housing GSEs.

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PERFORMANCE GOAL 3.4: IMPROVE THE CURRENT SYSTEM OF HOUSING FINANCE AND PREPARE FOR THE FUTURE

Reform the Current System. The mortgage and financial crisis revealed many weaknesses throughout the entire chain of single-family mortgage finance. As a result of the housing crisis, the operating environment and roles of housing market participants have changed. Many firms have withdrawn from the market or hesitate to more fully participate. To improve the current system of housing finance and set improved standards for the future, FHFA has introduced a series of initiatives to ensure a safer, more effective, and efficient housing finance system. FHFA expects that these improvements, which include changes to mortgage servicing, servicer compensation, and improved data and transparency, will promote greater confidence among potential market participants and will result in increased liquidity from private sources of capital. ~~In the coming years,~~ FHFA will work toward~~be~~ perfecting these initiatives as market conditions evolve. As described in the following sections, FHFA intends to develop a series of initiatives and strategies that will lead to greater predictability in mortgage markets and, consequently, greater confidence among stakeholders. FHFA expects to evaluate and either adjust or improve upon these initiatives as market conditions change.

Prepare for the Future. The nation's system of housing finance is currently undergoing a period of transition that will require both short-term and long-term reform strategies. There are significant public policy questions and choices ahead on how to achieve an appropriate~~the right~~ balance between the role of the private sector and the role of government as housing finance conditions change. As part of the deliberative process, FHFA will examine a variety of options across the housing delivery system with the objective of reducing the Enterprises' role in the secondary mortgage market and facilitating the reentry of the private sector. Toward that end, FHFA will conduct such as activities as developing Enterprise transition plans and evaluating the plans prepared by others; analyzing evolving market conditions; and identifying and recommending initiatives or policies that would lead to an improved system of housing finance. To measure the effectiveness of its strategies, FHFA will continue to improve on its housing information systems. FHFA will actively participate in public policy deliberations on housing finance reform and will be available to serve as a resource to the executive and legislative branches.

Comment [A1]:

Comment [A2]: wondering if some of this is a bit more activist than Ed indicated in Thursday's testimony??

STRATEGIC GOAL 3 - MEANS AND STRATEGIES

- ***Collaborate with other federal regulators to identify and address risk and other emerging issues.*** Consistent with the Government Performance and Results Modernization Act of 2010, which requires Federal agencies to develop a coordinated and crosscutting approach to achieve results, FHFA works closely with other federal regulators, for example, through its participation on the Financial Stability Oversight Council and the Federal Housing Finance Oversight Board. FHFA will work closely with these regulators to identify and address risk and to coordinate, where appropriate, ~~their~~ supervision of entities under their examination and supervision. This collaboration will provide FHFA with additional perspectives on emerging or existing risks that are identified outside of FHFA's own supervisory programs. FHFA will also contribute to the Federal Housing Finance Oversight Board's assessment on the safety and soundness and performance of FHFA's regulated entities in FHFA's *Annual Report to Congress* (12 U.S.C. §4521.)

- ***Monitor Housing Markets***. FHFA's reports to the Federal Housing Finance Oversight Board and the FSOC and its members will address mortgage and financial market trends that affect the financial condition and performance of the Housing GSEs. To enhance its program for monitoring housing markets, FHFA will work to develop a rigorous housing market information system. At a minimum, FHFA's market reports will include the results from the Monthly Survey of Mortgage Originations pursuant to Section 1125 of ~~HERA.~~ the Housing and Economic Recovery Act.

Comment [A3]: ?Is this the mandated monthly survey that we're not yet doing?

- ***Enhance Home Retention Programs and Initiatives.*** In the fall of 2011, FHFA launched a series of improvements to the Home Affordable Refinance Program (HARP). ~~The~~ HARP provides an opportunity to refinance their mortgages to those homeowners whose loans are owned by the Enterprises and who are current on their mortgage payments but whose mortgages exceed the value of their homes, limiting their ability to ~~and cannot~~ refinance. FHFA expects to be actively engaged in home retention programs, such as HARP and the Home Affordable Modification Program (HAMP) as well as any successor programs. ~~as well as their successor programs~~. In addition, FHFA will encourage the Enterprises' to engage in their own proprietary loan modification programs for borrowers who are ineligible under HAMP.

- ***Pursue Cost-Effective Alternatives for~~to the~~ Disposition of the Enterprises' Real-Estate Owned (REO) Portfolios:*** FHFA has been working with the Enterprises to explore alternatives to selling foreclosed~~individual~~ properties one at a time. This initiative will be informed by ideas generated through FHFA's Request for Information (RFI), issued in August of 2011 and prepared in consultation with the U.S. Department of Housing and Urban Development and the U.S. Department of the Treasury. The RFI requested comment on how the Enterprises could improve loss recoveries compared to individual sales, help stabilize neighborhoods, and, where feasible and appropriate, improve the supply of rental housing. As a result of this effort, FHFA expects to develop ~~one or two~~ pilot transactions to test alternatives to individual sales and will evaluate their progress~~,~~ and potential to serve~~plans to use these~~ as a basis for broader programs.

- ***Monitor each FHLBank's capital, retained earnings, operations, and debt issuance.*** Ensure FHLBanks can continue to provide advances safely and soundly. FHFA will examine the FHLBanks' operations, internal controls, and strategic assumptions and will ensure that there are no unnecessary impediments to their ability to efficiently and competitively provide liquidity for housing markets through normal or stressed markets and during expansion and contraction cycles. In addition, FHFA will assess and monitor the potential impact to the FHLBanks resulting from the revised framework for capital rules and new liquidity requirements under the Basle III accord.

- ***Closely oversee Enterprise operations while in conservatorship.*** To promote markets stability and ensure liquidity in the secondary markets FHFA will assure that while the Enterprises are under conservatorship they will operate in a safe and sound manner and focus on their core business lines.

- ***Ensure Fair and Impartial Access to the Enterprises' Products and Services.*** To ensure fair and impartial access to Enterprise products and services, FHFA will require that the Enterprises reverse any unwarranted policies or practices that favor large institutions to the disadvantage of smaller institutions.

- ***Foster Fair Access to FHLBank Advances for all Qualified Lenders and Intermediaries.*** To ensure fair access to advances among member institutions, FHFA will examine FHLBanks for compliance with regulations requiring that they administer their affairs fairly and impartially and without discrimination in favor or against any member. FHFA analyses will include consideration of:

    - *Community Financial Institutions*
    - *Community Development Financial Institutions*
    - *State Housing Finance Agencies (HFAs)*

- ***Monitor Access to Housing Markets.*** Using its housing statistics data system, FHFA will produce reports on housing market conditions, identify barriers to mortgage lending and other types of finance and identify options that maximize consumer choice in both rental and homeowner housing, inclusive of lower-income residents.

- ***Oversee the Housing GSEs' Affordable Housing Programs.*** Under the AHP and CIP, FHLBank member institutions must meet certain standards of community support and provide assistance to first-time homebuyers. As part of its examination program, FHFA will continue to monitor and examine the FHLBank-s' activities in support of these programs. FHFA will also monitor and enforce Enterprise housing goals. The FHLBanks are also required to meet similar housing goals for their mortgage loan purchase programs. FHFA published a rule implementing the FHLBank goals program (75 FR 81096), which became effective in January of 2011.

Comment [A4]: Should we say something about overseeing and enforcing any applicable FHLB housing goals? –sounds odd to give no indication of that, despite its absence of applicability now.

- ***Ensure Minority and Women Inclusion in the Activities of the Housing GSEs.*** Section 1116 of HERA requires FHFA, Fannie Mae, Freddie Mac and the FHLBanks to promote diversity and inclusion of women and minorities in all activities. Pursuant to FHFA's final rule, which became effective on January 27, 2011 (75 FR 248), FHFA will take the following steps: 1) develop diversity standards for employment, management and the business activities of the regulated entities; 2) provide guidance and training; 3) secure status reports in accordance with prescribed formats; 4) develop policies and procedures to assess compliance with the standards; and 5) identify appropriate remedies in the event of non-compliance.

Comment [A5]: Do we do all this for the GSEs as well as FHFA?

- ***Facilitate the Reentry of the Private Sector into Housing Markets.*** FHFA believes that reliable price discovery and consumer choice are enhanced by transparent and open competition. FHFA will identify barriers to the entry of a cross-section of market participants and will identify options that encourage their entry into housing markets. FHFA is aware of the competitive advantage that government-supported institutions can potentially have in the marketplace and is committed to monitoring the impact of Enterprise policies and practices so that they do not result in an unfair competitive advantage over the private sector. To monitor private sector involvement in markets, FHFA will track the mortgage market share of private originations and the issuance of mortgage-backed securities. FHFA will also discourage unsound or harmful industry practices that could jeopardize market reentry by responsible market participants.

Comment [A6]: I may be overly critical here, but this sounds a bit OTT to me, given the broad understanding that government- connected entities seriously underprice for risk

- ***Improve Mortgage Processes:*** FHFA intends to fully implement and monitor the following improvements to mortgage processes:

    - ***Uniform Mortgage Data Program.*** FHFA's Uniform Mortgage Data Program is designed to improve the consistency, quality, and uniformity of data collected at the front end of the mortgage origination process. This data program will reveal potential defects at the front end of the mortgage process, enabling the Enterprises to improve the quality of mortgage purchases, while also reducing the mortgage repurchase risk for originators. FHFA expects to continually evaluate its mortgage data program.

- ***Increased~~Improve~~ Transparency and Disclosures.*** For market participants to make fully informed decisions and to better evaluate and price risk exposure, the underlying terms for critical aspects of a transaction need to be transparent and fully disclosed. Toward this end, FHFA will require the Enterprises to improve their loan-level disclosures from the point when a mortgage is originated until the securities derived from that loan are extinguished. FHFA also intends to ensure the alignment of contracts.

- ***Joint Servicing Compensation Initiative.*** The Joint Servicing Compensation Initiative seeks to improve compensation structures for servicers to incent timely and appropriate performance ~~in mortgage modifications~~. In the near-term, the joint initiative should improve service for borrowers, reduce financial risk for servicers, and provide flexibility for guarantors so that they can better manage non-performing loans. In the long-term, this initiative should foster greater standardization of mortgage servicing practices, which will carry forward to a successor system of housing finance. Improved servicer compensation is expected to attract new entrants to this market and thereby enhance competition. FHFA will evaluate alternative~~the~~ servicer compensation structures~~alternatives~~, with the benefit of industry feedback received in response to our request for ~~for~~ comments. ~~maintaining a servicing platform and will to solicit industry feedback on the appropriate platform~~. FHFA will periodically evaluate loan servicing practices to assure that they continue to meet the Agency's objectives.

- ***~~Implement the Joint~~ Servicing Alignment Initiative.*** The Enterprises are in the process of streamlining and expediting modifications of delinquent or at-risk mortgages. Currently, each Enterprise uses its own servicing standards. Lead by FHFA, the Joint Servicing Alignment Initiative will create parallel and uniform loan modification protocols for servicers, thereby reducing confusion about standards. Alignment of protocols benefits borrowers by preventing simultaneous and conflicting foreclosure and modification processes. FHFA expects to review and, as necessary seek to improve upon these procedures as they are adopted in the marketplace.

- ***Contribute to Housing Finance Reform.*** T~~he t~~ransition to a different system of housing finance is inevitable. To address the nation's housing needs, various parties have developed housing reform proposals for discussion, with~~. More proposals are likely to come forward and it is likely that their policy recommendations will have~~ varying

Comment [A7]: We have a better paragraph on this initiative iin a speech or testimony; will find it & send. I'm terrified of moving away from this doc now!

Comment [A8]: I think there's also a better paragraph Ed has used on this; will find & send.

Comment [A9]: This paragraph doesn't seem to hit the right notes. I think Mario can do a much better job on it; will ask him in the morning.

implications for the roles of the Housing GSEs, the federal government, and the private sector. FHFA intends to actively participate in the housing reform debate. To inform the deliberative process and facilitate adoption of~~assist in the national transition to~~ an improved system of housing finance of the future, FHFA intends to disseminate its own studies and evaluate and comment on research developed by outside parties. FHFA anticipates presenting testimony on the future of housing finance, as requested, and will prepare reports and other communications for consideration by the legislative branch, the executive branch and FHFA's stakeholders.

- ***Develop and Analyze Alternative Enterprise Transition Plans.*** The post-conservatorship status of the Enterprises will depend on future public policies. As a point of departure, FHFA will ensure that the operations of the Enterprises are supported by standards and processes essential to successful housing finance transactions. In doing so, FHFA expects to increase confidence among market participants. To assist in the policy deliberations on the future of the Enterprises, FHFA will identify and evaluate alternative transition plans and respond to plans proposed by stakeholders.

Comment [A10]: ?policymakers

- ***Establish the Future Roles for the FHLBanks.*** In identifying future roles for the FHLBanks, FHFA is committed to ~~both~~ preserve~~ing~~ and capitalize~~ing~~ on their strengths ~~of the FHLBanks~~. As liquidity providers with about 8,000 member financial institutions, the FHLBanks are an important source of liquidity in the housing markets and they have nationwide linkages to lenders and their communities. The FHLBanks can serve an important role in coordinating and aggregating resources to deliver to their members. Through their housing and community investment programs, the FHLBanks also have a broad network of community-based institutions. FHFA intends to identify ways the FHLBank System can further the objectives of a safer, more effective and efficient housing finance system that provides broad and inclusive access to finance. As part of the housing reform debate, FHFA intends to evaluate ways in which the FHLBanks can support the transition to a more liquid, safer system of housing finance.

Comment [A11]: I know this is your territory. On first read, this par. sounds just a bit too 'we will fight to preserve our regulatees' to me. But your call...

RESOURCE MANAGEMENT STRATEGIES

Managing FHFA's resources successfully is critical to goal and mission achievement. Strategic Goals and expected outcomes cannot be achieved without prudent and effective management of resources to ensure that the right people, funds, supplies, physical space, and technology are in place. In addition, achievement of FHFA's goals requires collaboration and coordination by all staff and across all offices and divisions within FHFA.

FHFA has developed three resource performance goals that cut across the Agency's strategic goals that will involve staff at all levels across the Agency. These performance goals are intended to provide our examination and mission program staffs with all of the skills, tools, and materials they need in a timely and seamless manner so that they are able to achieve their individual performance goals and, thus, FHFA's strategic goals unimpeded by resource shortfalls.

EXPECTATIONS OF EMPLOYEES

FHFA expects its employees to conduct themselves consistent with FHFA's values and for every employee to:

- **Contribute to improving the agency's operations and working environment;**
- **Offer conclusions and solutions supported by analysis that takes into consideration facts, context, and alternate views, free of undue or inappropriate influence; and**
- **Treat each other with courtesy and respect, irrespective of grade or position**

ANTICIPATE RESOURCE NEEDS

Careful and collaborative planning is necessary to ensure that FHFA's Strategic Plan for 2012-2016 is supported and Agency resources are available to support planned activities. FHFA management, technical and program support personnel, and administrative staff will work together to develop long-term workforce, acquisition, and technology plans as well as logistical plans for space, supplies, and transportation that align with strategic and annual plans. These plans will be modified as necessary to remain relevant in the face of shifting priorities or unanticipated external events and will identify the skills, funding, and all resources necessary to achieve planned FHFA results and specify the timeframes for acquiring the needed resources.

Acquire Resources in a Timely and Efficient Manner That Promotes Diversity and Inclusion

FHFA acquires its resources through numerous administrative delivery systems. The recruitment system identifies and hires employees with the necessary skills; the contracting system is in place to purchase the technology, goods and services required for FHFA to get its job done; and the financial and budgeting systems makes sure FHFA has the money to hire people and purchase what it needs and to account for its expenditures. Options exist within these administrative systems that can be used to tailor the acquisition approach to the situation. For example, if timeframes are tight, a very different approach might be taken when the required resource is scarce; or, traditional approaches might need to be altered to be certain all segments of society are included in FHFA's contracting and hiring. FHFA management and administrative staffs will develop and execute the most timely and efficient acquisition strategies that consider all aspects of the resource need, including FHFA's objective to achieve diversity.

Apply Consistent Policies and Internal Controls to Operations

Acquiring the necessary resources to achieve FHFA's goals and mission is costly in terms of time, energy, and money; and, once in place, resources must be managed throughout their life cycles to optimize contributions to achieving FHFA's goals and mission. Defined policies and processes are tools that help managers ensure quality and timeliness through systematic operations as well as equitability in the management of our human resources and contracting efforts. Such policies and processes also help to clarify expectations for employees and contract staff in terms of what their roles and responsibilities are in achieving FHFA's goals and missions and help managers to evaluate progress and results in a consistent manner. FHFA will develop and institutionalize policies and standardize processes to be applied in the course of examination work across the entire agency, and the work and results achieved by FHFA will be evaluated systematically to determine if resources are being utilized most effectively and identify improvement opportunities.

STRATEGIC PLANNING PROCESS

~~Strategic Planning is an~~ The FHFA's *Strategic Plan 2012-2016* was developed through an inclusive process ~~iterative on-going process~~ within FHFA. With guidance from the Acting Director, the strategic goals for FHFA's *Strategic Plan 2012-2016* were deliberated during a two-day retreat that included FHFA managers and subject matter experts. An initial draft of the plan was published for comment on FHFA's website over a 30-day period during July of 2011. The posting of the plan, taking into consideration employee and stakeholder comments, was then followed by robust consultation and meetings within FHFA to produce a strategic plan that would enable FHFA to meet the many challenges ahead. Goal achievement will be carried through FHFA's Annual Performance Plans. To monitor progress toward goal achievement, FHFA senior management will meet on a periodic basis to identify obstacles that might prevent a goal from being achieved. In addition, each FHFA employee will have a job performance plan and individual development plan aligned to achieving FHFA's strategic plan objectives.

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Comment [SM12]: Need to verify what these were.

~~In February 2011, FHFA began the process to revise and update its Strategic Plan to provide direction and focus in achieving its mission as a result of several legislation actions including the Dodd-Frank Act. The guidance provided in this strategic plan provides a much needed basis for defining FHFA's current and future roles as conservator. The plan aims to provide the most realistic four year framework for FHFA focusing on preserving and conserving assets, ensuring market stability and liquidity, and preparing the Enterprises for an uncertain future.~~

~~The process began with a review of other agencies' strategic plans as well as working through the newly established Government Performance and Results Modernization Act of 2010 (GPRA). The strategic goals and performance goals from the FHFA FY 2011 Annual Performance Plan as well as content from several of the Acting Director's speeches were used to provide background and direction for the strategic planning process.~~

~~After a large internal reorganization, this four-year Strategic Plan will provide direction and focus to FHFA management and staff. To ensure accountability of managers and staff for goal achievement, FHFA uses a variety of mechanisms to review progress toward achieving annual performance goals outlined in more detail in the Annual Performance Plan. FHFA's senior management meets on a quarterly basis, to discuss any obstacles or issues that would prevent a goal from being achieved. Every FHFA employee's annual job performance plan and individual development plan is aligned in support of the Annual Performance Plan (APP). In addition, FHFA employees are rated annually based on their performance in achieving results that lead to the achievement of the FHFA's goals.~~

CONSULTATION AND OUTREACH

Draft 11-07-11

~~FHFA's management was provided with an opportunity to provide input to the development of this strategic plan. In addition, FHFA requested comment from employees and other stakeholders and the public on the current FHFA *Strategic Plan, 2012-2016*, through a posting on our website over a 30-day period in July 2011. All comments and suggestions were carefully reviewed and incorporated into this updated plan where appropriate.~~

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EXHIBIT H

PSPA Next Steps

Term Sheet: Recommended Changes

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

Timing

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

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

Rationale

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

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DAVID JACOBS and GARY HINDES, on behalf of themselves and all others similarly situated, and derivatively on behalf of the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, *Plaintiffs*, v. THE FEDERAL HOUSING FINANCE AGENCY, in its capacity as Conservator of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, and THE UNITED STATES DEPARTMENT OF THE TREASURY, *Defendants*, and THE FEDERAL NATIONAL MORTGAGE ASSOCIATION and THE FEDERAL HOME LOAN MORTGAGE CORPORATION, *Nominal Defendants.*	Civil Action No.: 15-708-GMS **CLASS ACTION** **<u>JURY TRIAL DEMANDED</u>**

<u>RULE 7.1.1 CERTIFICATION</u>

Pursuant to Rule 7.1.1 of the Local Rules of the United States District Court for the District of Delaware, I hereby certify that counsel for Plaintiffs has made reasonable efforts to reach agreement with opposing counsel regarding Plaintiffs' Motion for Judicial Notice of Documents or, in the Alternative, to Strike Certain Arguments in Defendants' Briefing in Support of Their Motions to Dismiss. The parties were unable to reach agreement on the relief sought in Plaintiffs' motion.

POTTER ANDERSON & CORROON LLP

By: /s/ Myron T. Steele
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Attorneys for Plaintiffs

Dated: September 8, 2017
5384107

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DAVID JACOBS and GARY HINDES, on behalf of themselves and all others similarly situated, and derivatively on behalf of the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, *Plaintiffs*, v. THE FEDERAL HOUSING FINANCE AGENCY, in its capacity as Conservator of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, and THE UNITED STATES DEPARTMENT OF THE TREASURY, *Defendants*, and THE FEDERAL NATIONAL MORTGAGE ASSOCIATION and THE FEDERAL HOME LOAN MORTGAGE CORPORATION, *Nominal Defendants.*	Civil Action No.: 15-708-GMS **CLASS ACTION** **JURY TRIAL DEMANDED**

[PROPOSED] ORDER ON PLAINTIFFS' MOTION FOR JUDICIAL NOTICE OF DOCUMENTS OR, IN THE ALTERNATIVE, TO STRIKE CERTAIN ARGUMENTS IN DEFENDANTS' BRIEFING IN SUPPORT OF THEIR MOTIONS TO DISMISS

WHEREAS, Plaintiffs David Jacobs and Gary Hindes filed their Motion for Judicial Notice of Documents or, in the Alternative, to Strike Certain Arguments in Defendants' Briefing in Support of Their Motions to Dismiss ("the Motion"); and

WHEREAS the Court has considered the parties' arguments;

IT IS HEREBY ORDERED on this ____ day of ___________, 2017 as follows:

1. That Plaintiffs' Motion is GRANTED;

2. The Court hereby takes judicial notice of the documents cited in Plaintiff's Motion; and

3. That Defendants are precluded from arguing in support of their motions to dismiss (D.I. 65 and 67) that the Net Worth Sweep was necessary because the Companies would never be able to generate earnings sufficient to pay quarterly cash dividends to Treasury at an annual rate of 10% of their respective liquidation preferences and thus would be forced to borrow funds from Treasury in order to pay the dividends back to Treasury, thereby perpetually increasing the liquidation preferences and, in turn, their future dividend obligations (*See* D.I. 66 at 7-9; D.I. 68 at 9), and such arguments are hereby stricken from the record.

____
United States District Court Judge

5384106