From: Foster, Jeff
Sent: Monday, February 06, 2012 8:59 PM
To: Joseph Tracy (Joseph.Tracy@ny.frb.org); patricia.mosser@ny.frb.org
Subject: Draft Housing Finance Reform Proposal
Attachments: HFR 1 25 12.doc

Joe/Trish – Good to see you tonight. Attached is the draft housing finance / GSE reform proposal. We have shared this with the Secretary. Would like to find a time to discuss with you in the next week or so. Hopefully this will be a good starting point for discussion.

Please keep this close for now, and let's discuss who else should potentially review and provide input.

Thx,
Jeff

HOUSING FINANCE REFORM – WORKING DRAFT PROPOSAL FOR COMMENT

We support reform of the mortgage finance market for single family and multifamily mortgages that draws on the best functional aspects of our existing mortgage market, including many of the services provided by Fannie Mae and Freddie Mac (the GSEs), but which more closely reflects the regulatory structure and key strengths of our banking system.

The GSEs' business model was inappropriately structured, and ultimately failed in three fundamental respects: (i) lack of sufficient regulatory oversight and prudential underwriting standards, (ii) excessive leverage and lack of sufficient capital to support the guarantees and loans on the GSEs' books, and (iii) lack of an explicit relationship with the government to both compensate and protect the taxpayer in the event of failure. Moreover, the perception of government support for the GSEs allowed the institutions to grow in size and systemic importance that would have never been possible for private companies, leading to a significant concentration of mortgage credit risk.

Going forward, we believe that any reformed mortgage finance system should address these fundamental flaws and adhere to the following core principles:

1. Private sector activities, which include credit underwriting and primary "first loss" guarantees, should be fully separate from public sector activities that require the use of the government's balance sheet.
2. Government support, which can include the provision of a catastrophic "second loss" guarantee to support liquidity and stable funding, should be explicitly charged for, both on an ex-ante and ex-post basis. Guarantees should be limited in nature and apply only to securities that support mortgage funding and not to financial institutions. Taxpayer funds should only be drawn upon after an institution has failed and been taken into receivership.
3. Any entities which benefit from access to government support should be subject to (i) stronger oversight through federal regulation, (ii) enhanced prudential underwriting standards, and (iii) capital requirements consistent with those required of banks. All federally regulated financial institutions should be on a level playing field and capital and regulatory arbitrage opportunities should be minimized.
4. Mortgage credit risk should be widely dispersed throughout the financial system and supported through lower barriers to entry for competition, specific concentration limits, and requirements to syndicate credit risk into the capital markets.

There are a number of ways to structure a mortgage finance system that follows these principles and supports the continued availability of mortgage credit, including long-term fixed rate mortgages. The reform proposal detailed in this memo seeks to meet these principles in an effective and balanced way. It builds upon discussions with you and a two-year interagency working group process, which has included participation from Treasury, HUD, NEC, CEA, DPC, and input from the Federal Reserve. This memo builds upon the concepts and presentations discussed with you leading up to and following the release of the Administration's Housing Finance Reform White

Paper, and attempts to address your questions and requests. The specific terms of the proposal are preliminary and meant to be indicative. Further discussions with the interagency group are. Finally, we would expect that any public presentation or discussion would be at a much higher level and would leave room for input and feedback from market participants and a broad range of stakeholders on how best to structure the future system.

Overview of Reform Proposal

The proposed mortgage finance system would replace the current GSE duopoly with a broad set of Private Mortgage Guarantors (PMGs) and a single government Securitization Utility. Well-capitalized and regulated PMGs would fully guarantee the payment of principal and interest on eligible single family and multifamily mortgages (i.e., future "conforming" mortgages). The Securitization Utility would provide liquidity through securitization support (i.e. pooling and potentially tranching) and an explicit government guarantee, or "reinsurance", on mortgage-backed securities (MBS) collateralized by PMG insured mortgages.

The proposed structure is similar to the existing relationship between the Federal Housing Administration (FHA) and Ginnie Mae (GNMA). In addition, the Federal Housing Finance Agency (FHFA) or another independent agency (possibly the FDIC or a new agency) would serve as the Reinsurer and establish a reserve fund similar to the deposit insurance fund (DIF) to support the government guarantee and protect taxpayers in the event of a PMG failure. This new financing channel is not intended to support non-conforming mortgages and FHA would continue to play its traditional role as a provider of mortgage credit for low income and high LTV borrowers.

For single family and multifamily mortgage borrowers, the process for obtaining a mortgage will remain substantially similar to the process today. The proposed reforms would support the continued wide availability of long-term fixed-rate mortgages, including the to-be-announced (TBA) securities market, which allows borrowers to lock in mortgage rates in advance of purchasing a home and allows investors to access a deep and liquid investment market. Borrowers will have to pay higher guarantee fees, as the new PMGs will be required to hold higher levels of capital against their guarantees than the GSEs held in the past. However, if this approach is executed soundly, the financial system and its institutions will be stronger and pose less risk to the economy.

In the reformed system, PMGs would be limited to four key activities: (i) guaranteeing conforming mortgages, (ii) pooling and warehousing conforming mortgages before delivery to the Securitization Utility, (iii) funding and administering loss mitigation activities, and (iv) syndicating first loss securities to the market, when appropriate. PMGs could be established to support single family and/or multifamily lending. PMGs could be either monoline companies or affiliates/ subsidiaries of banks. PMGs would be required to be separately capitalized and appropriately ring-fenced from all other subsidiaries.

To support strong oversight, regulatory consistency and a level playing field with banks (including capital standards), PMGs would be chartered as a subsidiary of a Bank Holding Company (BHC).

PMGs would be subject to a dual regulatory mandate, with oversight provided by FHFA and the Federal Reserve (and potentially the Reinsurer, if it is a different entity). The BHC approach supports a more integrated and consolidated approach to oversight of the financial services sector and reduces capital and regulatory arbitrage opportunities. (The proposed regulatory framework is outlined in greater detail later in the memorandum.)

In addition to a robust regulatory structure, safety and soundness will be supported by:

- Capital standards broadly similar to those required of insured depositories under Basel III.
- Economic and regulatory incentives to distribute first loss credit risk to the capital markets.
- Concentration limits set to minimize the systemic risk posed by the failure of a single PMG.

Mortgage Funding in the Proposed System

Historically, mortgage originators, many of which are already subsidiaries of BHCs, have relied on two main options to fund mortgages, whether for single family homes or multifamily properties:

1. *Portfolio Lending* – Portfolio lending relies upon funding from (i) deposits, (ii) secured financing in the form of Federal Home Loan Bank (FHLB) advances, or (iii) general unsecured debt issued by the bank. Most portfolio lending generally occurs through a BHC's Insured Depository Institution (IDI), whereby the originator retains four forms of mortgage risk on its balance sheet (credit risk, funding risk, interest rate risk and prepayment risk). Banks have tended not to retain long-term fixed-rate mortgages in their portfolios due to interest-rate risk and costs associated with holding long duration assets. Most portfolio loans tend to be adjustable rate mortgages.

2. *Securitization-Based Origination* – If a mortgage originator cannot or does not want to retain the credit risk, funding risk, interest rate risk and prepayment risk of a mortgage in its portfolio, it can utilize off-balance sheet securitizations to fund mortgages. Through securitization, the originator passes on all four mortgage risks to the market (subject to certain "representation and warranty" put-back risks) and earns an origination/securitization fee for the transaction.[1] Historically, the originator would either (i) sell the mortgage to the GSEs who would then retain the credit risk and pass on the funding, interest rate and prepayment risks to Agency MBS investors, (ii) obtain FHA mortgage insurance and securitize MBS through Ginnie Mae where the government assumed credit risk and investors assumed all other risks, or (iii) sell to the private label securities (PLS) market (where investors assumed all four risks directly).

The GSE and FHA guarantor model has historically been the only way for private mortgage originators to access government or quasi-government liquidity and support securitization-based mortgage lending (and by extension the long-term fixed rate mortgage). This created an extra step of financial intermediation in the mortgage origination process. This is in contrast to a bank's

[1] As well as any retained mortgage servicing rights that may be associated with the contract.

ability to directly access government deposit insurance to support deposit-based lending activities. In addition to substituting the GSE monoline guarantor model with new monoline PMGs (which would continue to support Securitization-Based Origination), the proposed system reforms will provide mortgage lenders with a third, additional channel to fund and support their mortgage business: PMG-based securitization, in which the credit risk is *retained* by an originating BHC's subsidiary, but the funding, interest rate and pre-payment risk is transferred to MBS investors.

Proposed Reform of the Mortgage Finance System

In the reformed mortgage system, PMG-based mortgage funding could follow two basic models that are not mutually exclusive:

1. *PMG as an Acquirer of Third Party Originated Mortgages (Traditional Model):* Monoline PMGs would retain a similar function to the roles Fannie Mae and Freddie Mac play today. They would provide secondary market liquidity for mortgage originators who are not affiliated with a PMG. This structure would allow mortgage originators to continue to utilize the Securitization-Based Origination model (similar to the way smaller lenders access the GSEs' cash window today). The viability of independent PMGs could serve as an important vehicle to provide other entities, including community and regional banks, a source of liquidity via a third party if they do not have the size/scale/desire to independently operate a PMG.
2. *PMGs Supporting Affiliated Lender Origination (Integrated Model):* Allows a bank to access USG supported liquidity directly to support their funding of longer duration mortgages. A BHC with both a commercial bank and a PMG would retain credit risk (similar to Portfolio Lending). However, it would fund those mortgages through the MBS market with securities that carry an explicit USG reinsurance guarantee, thereby transferring funding, interest rate and pre-payment risk to investors (similar to Securitization-Based Origination). The USG guarantee is analogous in many ways to the way a bank utilizes stable FDIC-backed deposit funding to support consumer, commercial real estate and business lending. Additionally, a BHC would be required to hold sufficient risk capital against retained mortgages, whether they are funded through its IDI or PMG activities.

The expansion of this funding option for mortgage originators and the democratization of the liquidity support from the USG to a broader set of financial institutions (relative to the past duopoly) will have several benefits. These include increasing access to credit, reducing concentration of credit risk, increasing competition, and improving operational efficiencies in the mortgage market. The PMG financing channel will preserve many of the critical functions of the current system (including the presence of the TBA market) and simultaneously reduce the government's direct risk exposure. Moreover, lower barriers to entry for financial institutions to participate as a PMG and access government securitization and liquidity support should also facilitate participation in the mortgage finance market by both community banks and multifamily lenders.

Key Terms of Reform Plan

Private Mortgage Guarantors

- PMGs would be chartered as a subsidiary of a Bank Holding Company (BHC), similar to a wholesale or limited purpose bank.
  - Could be part of a Diversified Financial Institution (DFI), which would likely have an Insured Depository Institution (IDI) as its dominant business; or
  - Could be a monoline, i.e., the PMG is the single dominant subsidiary of the BHC.
- PMGs guarantee 100% of the principal and interest on insured loans.
  - All loans are recourse to the PMG's entire capital base (all guaranteed loans are fully cross-collateralized and equally supported by the capital of the PMG).
  - USG reinsurance will be tapped only if capital levels of a PMG are insufficient and the PMG goes into receivership, similar to the way bank receivership currently works.
  - PMGs will be qualified risk retainers for the requirements of the Dodd-Frank Act, under Section 941.
- Any BHC may apply for a PMG charter.
  - Standards / requirements of the charter would be established by statute and regulation.
  - Independently capitalized and ring-fenced from other subsidiaries (the IDI, broker-dealer, foreign subs, etc).
  - Similar restrictions on capital transfers and affiliated transactions as required by an IDI.
- Balance sheet funding and the ability to borrow at the PMG will be restricted
  - Generally constrained to short-term warehousing of loans (pre-securitization) and the funding of non-performing loans that have defaulted.
  - Some level of longer-term portfolio funding may be needed for multifamily mortgages, given the more heterogeneous nature of that asset class, but this remains an open question.
  - *Note: Given that a PMG will be a subsidiary of a BHC, most of the warehouse funding will likely be most efficient through a bank's IDI.*
- Existing mortgage insurers, new firms or other financial institution subsidiaries could apply to become a PMG.
  - The same standards outlined above will apply to these "monoline" PMGs.
  - Parts of Fannie Mae and Freddie Mac could be converted/sold to become PMGs.
- Lower barriers to entry in the mortgage guarantee business than in the past supports increased access to credit, greater competition and reduced concentration of credit risk.

Regulatory Structure

- Joint FHFA/Federal Reserve oversight, similar to the FDIC/Federal Reserve structure for BHCs.
  - FHFA provides specific oversight over PMG and their capital reserves, operations, etc.

  - Federal Reserve provides oversight over BHC and overall capital standards and solvency.
  - Reinsurer (if separate from FHFA) could provide an additional level of oversight.
- The BHC structure would be relied upon in part to ensure that capital standards and prudential regulations are not weakened in the future, and a level playing field between mortgage guarantors and the traditional banking sector is maintained.

Government Guarantee/Single National Securitization Utility

- A single, government-backed Securitization Utility could be formed through existing GNMA operations, with modified responsibilities, and, to the extent additive, take parts of the GSEs' businesses (and human capital/systems).
- The Securitization Utility would be aggregate and structure loans into securities that carry an explicit USG guarantee.
  - All "conforming loans" that are insured by PMGs, as well as FHA and VA, will be eligible to be securitized through this utility.
  - Responsible for creating TBA eligible securities.
  - Administers payments to bond investors and charges explicit USG reinsurance guarantee fee (as set by FHFA as regulator/reinsurer).
- MBS wrapped by the Securitization Utility will be deliverable into TBA market. Standards will be set by the Securitization Utility in conjunction with market participants to maintain a liquid and robust TBA market.
  - Securitization Utility will allow some level of specified pooling to the extent that it does not adversely impact TBA liquidity.
  - Further work regarding pooling and aggregation at the PMG and Securitization Utility level will need to be completed with the FHFA and market participants.

FHFA's Regulatory Role

- FHFA would continue as an independent regulatory agency with an independent, Senate confirmed director. Changes would include:
  - Stronger supervision and capital standards group,
  - Stronger modeling, research, and analytics, and
  - Market supervision and oversight of the Agency MBS market and the credit risk syndication securities market.
- FHFA, in conjunction with the Federal Reserve, would oversee the solvency and capital adequacy of PMGs. In the event of insolvency or inadequate capital, FHFA would act as the receiver of the troubled PMG.
  - FHFA will follow resolution guidelines similar to the Orderly Liquidation Authority (OLA). The FDIC could also be relied upon to administer resolution proceedings.
  - Specific resolution guidelines and processes (and their interaction with an IDI or BHC) will need to be discussed with the Federal Reserve and the FDIC.

- The stringency and uniformity of capital, liquidity, risk management and underwriting standards across PMGs will need to be carefully monitored by federal regulators.
    - Avoid "race to the bottom" in standards to gain share.
    - Ensure solvency through periods of stress.

Reinsurance Agency

- The Reinsurer would be responsible for setting the reinsurance fee, which will be paid by the PMG, but likely passed onto the borrower.
    - Actuarially priced reinsurance for tail risk (based on Treasury borrowing cost), available in both normal markets and in times of stress.
    - Reinsurance fee is expected to be approximately 5 – 10 basis points, depending on the risk scenario the regulator wants to guard against on an ex-ante basis.
    - Reinsurance fee would be a flat rate applied equally to any PMG guaranteed mortgages
- The Reinsurer would also maintain and administer a Reserve Fund similar to the DIF/FDIC.
    - Securitization Utility draws funds as needed to make bond payments when a PMG is in receivership and no longer has resources to make payments.
- Taxpayer Protection: Reserve fund with additional auto-recoupment mechanism for any unexpected losses (similar to the way the DIF and its assessments are managed by FDIC).
- Reinsurance fees could be raised in times of market strength to increase reserves or act as a counter cyclical tool to reduce government footprint.
- Policy makers will need to decide who is best suited to serve as the Reinsurer and administrator of the Reserve Fund (FHFA, FDIC, or potentially a new entity).

Capital Standards and Risk Syndication

- Capital standards at the PMGs will be set jointly by FHFA and the Federal Reserve.
    - Minimum 300 basis points leverage ratio (~six times the historical GSE level).
    - In addition, PMGs would be required to hold additional risk based capital, as determined by regulators in a manner consistent with Basel III.
- The amount of equity capital the PMG must hold can be reduced through the sale of first loss securities to the capital markets due to the reduction in credit exposure the PMG retains.
    - For example, a 10 percent first loss security on a pool of mortgages held by a PMG could reduce capital reserve requirement by 65 - 85 percent (e.g., from 300 basis points down to 100 – 50 basis points). FHFA and the Federal Reserve must jointly determine how capital relief can be achieved via risk distribution to the capital markets.
    - Syndicated first loss securities will not be explicitly or implicitly guaranteed by the USG under any circumstance. In the event a PMG fails, holders of the first loss security would not receive any recovery from the USG.

- The interaction with the 5 percent leverage ratio requirement in order to be a "well capitalized" BHC will be an important issue to work through with the Federal Reserve.
    - This issue could potentially be addressed if some level of regulatory capital relief and accounting consolidation was possible upon a sufficient level of risk syndication by the PMG.

PMG Pricing/Guarantee Fees

- Risk-based pricing at the loan level will be explicitly allowed. This will include adjustments for credit risks such as LTV and DTI levels, as well as geographic considerations (such as accounting for a market which may be overheating / riskier or which has weaker enforcement laws).
    - Access considerations for risk-based pricing must be carefully considered by policy makers and duty-to-serve or anti-redlining policy may merit consideration.
- PMGs, subject to bank-like capital requirements, are likely to charge 75 – 125 basis points for their guarantee (relative to 15 – 25 basis points historically charged by the GSEs) depending on risk level and the extent credit risk has been sold to the capital markets.
    - Given lower pre-tax return requirements of fixed income investors relative to equity investors in "levered" financial institutions[2], credit risk syndication should help to facilitate a reduction in the guarantee fees charged by the PMG.
- There will no longer be the need for Private Mortgage Insurance, which was traditionally required for loans above 80 percent LTV, due to the ability of PMGs to apply risk-base pricing and hold capital according to risk.[3] The PMGs will have the ability to charge higher fees on higher LTV loans. This should enhance system efficiency.
- Despite higher guarantee fees, the impact to the borrower may be muted by a number of factors.
    - Explicit nature of the USG guarantee and improved liquidity from a more centralized TBA market should improve MBS spreads by 20-40 basis points.
        - Today, GNMA securities trade approximately 40-50 basis points lower in yield than Fannie Mae and Freddie Mac securities.
    - Increased access to government liquidity and greater competition may also help improve mortgage origination competition, which would help narrow the primary – secondary origination spread (currently at ~100 basis points, which compares to its historic average of ~50 basis points).

Concentration limits/restrictions to reduce systemic risk

- No PMG that is a subsidiary of a DFI substantially engaged in other banking activities may guarantee more than [10-15] percent of the total amount of PMG guaranteed securities.

[2] Investors in levered financial institutions look for 15% – 20% pre-tax ROEs (10% – 13% after tax) relative to the 7% – 12% pre-tax return generally required by unlevered fixed income investors who would invest in a first loss transaction.

[3] Subject to a minimum LTV requirement.

    - Any DFI PMG that guarantees more than [2.5-5] percent of the system assets must fully syndicate the first loss credit risk to the capital markets before assuming additional incremental exposure.
- No monoline PMG may guarantee more than [20-25] percent of the total amount of PMG guaranteed securities.
    - Any monoline PMG that guarantees more than [5-10] percent of the PMG system assets must fully syndicate first loss credit risk to the capital markets to take on incremental exposure.
    - This will ensure that the majority of the credit risk taken on by larger PMGs is distributed to the capital markets during normal times. This will reduce the systemic risk posed by any PMG and also ensure that pricing of the guarantee is reflective of market signals.
- Monoline PMGs would be allowed to have higher system concentration in order to allow them to gain sufficient economies of scale to be competitive with DFIs and ensure smaller mortgage originators have a viable securitization option.
- To preserve competition in mortgage markets, concentration limits should apply separately to single-family and multifamily mortgages.
- FHFA and the Federal Reserve could make adjustments to these restrictions depending on overall market share, loan volumes in the PMG system, and prevailing market and economic conditions.
- The combination of a PMG's private capital funding and concomitant ROE expectations with explicit concentration limits should support price stability and discipline that prevents the PMGs from competing exclusively on price at the expense of capital adequacy (and help avoid sparking a race-to-the-bottom).

Access for borrowers

- Several policies should help promote mortgage financing access to creditworthy single family and multifamily borrowers in a variety of communities.
- Reforms would be structured such that community reinvestment, fair lending and other antidiscrimination laws would extend to PMGs as they do to other banks.
    - This approach would be more efficient than the past affordability goal-based lending measures required by the GSEs.
    - Providing liquidity and funding support directly to BHCs should increase the ability to meet CRA requirements.
    - Additional conversations on how CRA requirements would apply to a PMG would need to take place with the Federal Reserve.
- To ensure transparency and effective monitoring, PMGs would also be required to collect and publicly disclose timely data on the mortgages they buy, subject to the Home Mortgage Disclosure Act (HMDA).

Access for small banks and community lenders

- Community banks could potentially form their own PMGs, either separately or cooperatively; or might be able to sell mortgages to another PMG.
- The combination of concentration limits and lower barriers to entry would likely promote competition among PMGs and encourage them to partner with community bank lenders.
  - This is particularly relevant because the limits will likely restrict large Affiliated PMGs to a substantially smaller market share than the largest lenders have today.
- To prevent larger entities from undercutting small and medium BHCs competition, PMGs could also be required to comply with further restrictions, including prohibitions on volume discount offers to mortgage origination partners.
  - However, these requirements may also lead to unintended market distortions and any potential pricing restrictions should be carefully evaluated.

Support for Multifamily Mortgages

- PMGs will be allowed to specialize in multifamily mortgage guarantees. The multifamily market often requires a more customized execution so PMGs might apply different strategies, structures and relationships – such as risk sharing with originating lenders and specific securitization processes – to accommodate the distinctive characteristics of multifamily mortgages.
- Compared with single-family mortgages, common multifamily mortgage characteristics include lower overall market volume, large average mortgage size, relative heterogeneity, more detailed underwriting, and appeal to investors willing to understand the loan(s) in each security, and loan servicing practices.
- Allowing a bank to gain more direct access to government liquidity and funding support for eligible multifamily mortgages should also help facilitate increased multifamily lending and increased product innovation, given the bespoke nature of multifamily underwriting.
- Competition and specialization would also likely benefit smaller multifamily properties (where one-third of multifamily renters live but the GSEs and FHA under-serve) and the development and preservation of affordable housing. However, such housing will continue to require attention as the plan develops and is implemented.

<u>Preliminary Transition Steps</u>

Below is an indicative transition path that could be followed to reach the proposed structure.

Step 1

- Establish plan to gradually increase guarantee fees to private market levels over time.
- Begin to syndicate risk from GSEs to capital markets in form of first loss securities to investors to establish a market for mortgage credit risk.
- Implement servicing compensation reforms and transition to "fee for service" model. Restructure PSPAs to allow for variable dividend payment based on positive net worth.
- Potentially merge the GSEs' legacy assets into a single run-off business.
    - Establish good bank / bad bank for legacy assets at GSEs.
    - Contribute NPLs and high risk assets into single SPV or Resolution Company.

Step 2

- Create single liquid, fungible TBA market for legacy and new GSE books of business.
- Consider additional GSE asset sales of non-core businesses and outsource non-core functions to third-party contractors.
- Establish clear data transparency and access to GSE IT systems (DU/LP) and historical data for eventual new entrants (i.e., PMG).

Step 3

- Prior to any corporate divestment/separation, GSEs could be restructured into three distinct divisions: a mortgage guarantor entity, a securitization utility and a legacy retained portfolio.
    - Allows for clearer delineation of function and purpose of GSE activities.
    - Even before new corporate entities are established, the GSEs can start engaging in internal cost accounting and management organizational changes.
- Management retention to ensure that human capital is retained.
    - Clear communication with management about the transition path.
    - Structuring of appropriate retention packages.

Step 4

- Divest Fannie Mae and Freddie Macs' mortgage guarantor businesses.
    - Potentially privatized as new PMGs, subject to Fed and FHFA supervision.
    - PMG concentration limits will be phased in over a 10 year period.
- Establish a charter process for new applicants / entrants.
    - Potentially give a window for capital relief or special treatment to attract new entrants.
- Merge Fannie Mae and Freddie Mac securitization functions with GNMA to create a single Securitization Utility.
    - GNMA to potentially explicitly guarantee legacy GSE MBS securities.
- Retained portfolio businesses combined and operated from a legacy asset wind down vehicle.

Step 5

- Establish new reinsurer to manage on-going credit reinsurance; parts of Fannie and Freddie to be contributed.

Other Key Parts of Plan

Note: Additional detail for the points below will be developed further in separate memos.

Affordability initiatives: Affordability initiatives are paid for and delivered in a separate and transparent way. To complement other existing affordable housing programs administered by HUD, state HFAs and other agencies, the Affordable Housing Trust (AHT) and Capital Magnet Fund (CMF) will be funded by a direct fee on the mortgage finance system. A portion of the funding could also be allocated to support other new initiatives (potentially including matched savings). There are open questions on how any direct fees will be assessed and what level of funding is appropriate. The fee could be assessed on (1) all MBS explicitly guaranteed by the USG, (2) all securitized MBS, or (3) all mortgages originated. This question is discussed in detail in a separate memo. FHA will continue to provide credit to lower-income and first time home buyers.

Single Family Conforming Loan Standards: In the February 2011 Housing Reform White Paper, the Administration signaled that down payments would need to be higher and loan sizes would need to be smaller for future "conforming" loans. We will need to determine what specific conforming loan standards/limitations should apply to government liquidity and securitization funding support for single family loans. The narrower the range of products offered by PMGs, the easier it will be for regulators, investors and market participants to track the risks that the PMGs are taking. Similarly, more complex products provide greater opportunities for firms to arbitrage capital requirements and take on unseen risks. Limiting the types of products offered can reduce excessive risk taking, but needs to be balanced against the possibility that it will hinder the ability to obtain shorter duration mortgages during periods of cyclically high rates. We will also need to consider the interplay between the PMG conforming loan standards and the FHA conforming loan standards and how differences (if any) will influence FHA market share and government risk.

Multifamily Conforming Loan Standards: Government liquidity and securitization funding support for the multifamily market should be limited to (i) non-luxury (class B and C[4]) properties for lower- and middle-income renters, including small unit properties (5 - 49 unit properties), (ii) the development and preservation of affordable properties, and (iii) properties in underserved communities. Class A luxury properties would not be eligible.

Regulators should set minimum prudent multifamily mortgage product and underwriting standards, including: maximum LTVs, minimum debt service coverage, amortization periods, interest rate features and tenure restrictions.

Limit FHA and FHLB system as a provider of subsidized financing: Absent parallel reforms, FHA and the FHLBs would become relatively cheap sources of mortgage financing if GSE successors are required to hold Basel III equivalent levels of capital.

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[4] Class A properties represent the highest quality buildings in a market. They are generally the best looking buildings with the best construction, and possess high quality building infrastructure. Class B properties are generally a little older, but still have good quality management and tenants. Class C properties are the lowest classification of an office building. They are very old buildings, are located in less desirable areas and need extensive renovation.

FHA: FHA reform will ensure that FHA has a more targeted single family footprint in normal times (from 30 percent+ today to, ideally, 10 - 15 percent in normal markets). The FHA footprint should be reduced through higher pricing and greater restrictions on eligible borrowers (changes in loan limits and perhaps means testing). The maximum FHA combined loan-to-value (CLTV) cap should be reduced to 95 percent (down from 97.5 percent today). Further reforms, such as converting FHA into a government corporation to increase flexibility and independence, can also be considered. FHA would support affordable multifamily housing, especially for construction and rehabilitation properties, federally assisted properties, and smaller properties through risk-sharing, as well as serving as a back-stop in times of market stress.

FHLB system and Covered Bonds: Taxpayer exposure and potential systemic risk should be reduced by structural reform. The February 2011 Housing White Paper included specific FHLB reforms such as establishing advance caps, returning to single-district membership, and imposing portfolio restrictions on investment securities. As a funding alternative to advances for large institutions (who have sufficient access to capital markets), covered bond legislation could be included as part of FHLB reform. The key open question is how covered bonds should be treated in receivership and the relationship to the Deposit Insurance Fund (DIF).

Fee for Service Master Servicing Model: Future PMGs could follow a fee for service model at a rate determined by the private market. As the holder of credit risk, the PMGs will retain master servicing rights and contract back servicing to sub-servicers, such as the originator, independents, special servicers, etc. A fee for service model will reduce the presence of MSRs on originators' balance sheets, as well as align incentives with credit investors. GSEs can migrate to a fee for service model in the near-term, which will change the industry model in advance of broader reform.

National Servicing Standards and Borrower Bill of Rights: Basic servicing standards will be set through (i) global settlement process underway, (ii) CFPB, (iii) further regulatory action and (iv) specific legislative recommendations as part of the reform process.

Lien Priority: First lien enforcement rights should be increased and the Garn–St. Germain Depository Institutions Act of 1982 should be repealed and/or modified so that Second Liens cannot be incurred without either (i) permission of the First Lien or (ii) falling inside the original LTV of the First Lien, 80% of current value, or the original balance of the First Lien at time of origination.

Foreclosure Laws: Establish model foreclosure rules for states. While this is still an open item, Treasury staff continues to work on the best way to implement this reform.

Mortgage Title Registry: We would like to develop a national mortgage title registry system to upgrade or replace the Mortgage Electronic Registration System (MERS) and develop statutory requirements that support such a system. The new system would be funded by industry participants.

Tax Code/MID: We recognize the government supports housing through the tax code, primarily through the mortgage interest tax deduction. This plan does not consider changes to the tax code, but this is an area that should be explored in a subsequent discussion regarding fiscal and tax policy.

Areas for Further Analysis

In addition to developing further policy recommendations around other key parts of the reform plan, the following questions and topics are areas which will require further analysis and discussion, in particular with the Federal Reserve, FHFA, and the FDIC as the plan is developed:

1) Description and consideration of how the securitizer will handle TBA pooling and rules around the TBA market.
2) Analysis of the interplay of proposed reforms with existing regulatory structures and arrangements, including how Basel 3 capital standards will be applied to PMGs and the implications of the 5% leverage ratio.
3) How will firewalls, conflict of interest, and cross-subsidization be managed by BHCs with a PMG subsidiary?
4) Discussion on how the resolution of a failing PMG will be handled, including the role of various regulatory agencies and interplay between other affiliates of a BHC.
5) What limitations on risk based pricing and ability to selectively offer guarantees should be required? Should there be any form of duty to serve beyond CRA?
6) Further analysis and consideration of structure and application of the USG explicit reinsurance guarantee, including how to set and apply the fee, how the reserve fund will be managed (including what to do with any excess funds over time), budgetary treatment and regulatory structure
7) Consideration and explanation of how the proposed system will perform and respond at various points over the economic/business cycle, including a discussion of how best to design the system to be counter-cyclical.
8) Expected market shares of PMGs over time in both a steady and stressed market environment.
9) Additional analysis discussing QRM/QM/Conforming Loan standards, including QRM versus PLS market share over time under both a steady state and under stress.
10) Description and consideration of how small, medium and large financial institutions will participate in the proposed market mortgage system and how market access would work for first time home buyers, move-up borrowers and investor properties.
11) Description and consideration of the source of equity and debt capital for PMGs and the composition of their capital structure.
12) Comparison to alternative market structures, such as a new duopoly, a New York Fed type Co-op, or Federal Reserve run system, as well as models proposed through congressional legislation (such as the Miller-McCarthy national utility, Campbell-Peters PMG model, and Isakson bill).
13) Description and consideration of how the proposed system will impact the cost of mortgage financing for borrowers, including a comparison to other proposed mortgage reform plans.
14) Discussion of how monoline PMGs will be competitive with affiliated PMGs.

Message

From:	Martin, Bradford [/O=FHFA/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=MARTINB]
Sent:	7/13/2012 3:36:21 PM
To:	DeMarco, Edward [edward.demarco@fhfa.gov]; Greenlee, Jon [jon.greenlee@fhfa.gov]; DeLeo, Wanda [wanda.deleo@fhfa.gov]; Pollard, Alfred [alfred.pollard@fhfa.gov]; Ugoletti, Mario [mario.ugoletti@fhfa.gov]; Burns, Meg [meg.burns@fhfa.gov]; Lawler, Patrick [patrick.lawler@fhfa.gov]; Spohn, Jeffrey [jeffrey.spohn@fhfa.gov]
CC:	Johnson, Mary [mary.johnson@fhfa.gov]; Keyes, Robert [robert.keyes@fhfa.gov]; Highfill, Owen [owen.highfill@fhfa.gov]; Bungenstock, Lindsey [lindsey.bungenstock@fhfa.gov]; Anderson, Philip [philip.anderson@fhfa.gov]; Martin, Bradford [bradford.martin@fhfa.gov]
Subject:	Fannie Mae Executive Management Meeting on July 9, 2012
Attachments:	Agenda 7.9.12 MC Meeting.pdf; Strategy Update - July 2012_070612_v1.pptx; Item IV.b ASF WhitePaper2012.pdf; Item IV.c.2012 FHFA Scorecard May Assessment and FHFA Summary Combined 7-5-12.pdf; Item IV.d. May 2012 Financial Update_Forecast v6.pdf

Fannie Mae Executive Management Meeting on July 9, 2012

Tim Mayopoulos began by welcoming Pascal Boillat as a new committee member to replace Ed Watson. Tim then recited a list of recent activities. He thought last week's joint Fannie/Freddie/FHFA meeting comparing notes on securitization efforts was both productive and illuminating. Fannie had pursued a technology focus whereas Freddie had concentrated on larger 'ecosystem' issues involving rules, guides and standards posed by the new regime. In many ways, the two approaches were "very additive". While Fannie would wait for FHFA to set up the next meeting, he wondered when Fannie might share with Freddie what they were actively building.

Tim told members that he had initiated a series of personal introduction calls to all key customers. A similar introductory letter would soon go out to all 1,400 business heads. As a prelude to next week's Board meeting, Phil Laskawy would attend this week's Operating Committee meeting.

GSE Strategy Update

Dave Benson walked through a draft copy of next week's Board strategy planning discussion intended to review areas where Fannie might facilitate the ongoing secondary market transition. The discussion was divided into three sections: (a) recap of current open questions (the existence and form of guarantee, prospects for private capital, potential business models); (b) the strategic goal of building a new infrastructure (the 'engine on the bench' plus integration of surrounding securitization functions); and (c) promoting public support for the goals of conservatorship through defined initiatives (e.g., credit risk transfer; REO-to-rental). Dave focused on the GSEs return to profitability as a key factor in building public support for the conservatorship. Current projections show that cumulative GSE dividends paid will surpass cumulative GSE Treasury draws by 2020. He referred to the next 8 years as likely to be "the golden years of GSE earnings". How the government divests itself of the GSEs is not yet clear – the legacy GSE debt and MBS book cannot be fully privatized. Dave intends to close by noting that SPSA amendments might be used to better serve conservatorship goals.

ASF Single Security White Paper

Dave Benson gave a brief recap of the American Securitization Forum's recent white paper – published "as a resource to FHFA" – that outlines somewhat disparate originator, investor and dealer views on a unified agency security. To achieve the goal of making GSE securities "fungible", all parties agree on the need for Fannie/Freddie standardization of : (1) underwriting guidelines; (2) loan delivery and pooling requirements; (3) payment and remittance schedules; (4) servicing standards and loan repurchase policies; (5) data disclosure policies; and (6) refinance programs terms. However, originators and investors disagree on the need for uniform guarantee pricing and public identification of GSE guarantor. Originators want fee competition, investors want identical terms. Investors want to know the counterparty, originators want a joint credit guarantee. Dave found it "fascinating" that the white paper promoted a near-term solution whereby Freddie Mac would outsource its loan delivery mechanism to Fannie Mae which would then issue a Single Agency Security.

2012 FHFA Scorecard Update

Susan McFarland summarized a thick packet on scorecard status to be presented at next week's Board meeting. She said that all items are either "on track or haven't yet started". When pressed, she agreed that several items could quickly turn to yellow or even red (i.e., initiate new risk sharing transactions) if FHFA were to disagree with Fannie Mae's prioritization proposals. The packet highlighted areas where Fannie required further guidance from FHFA to define the actual 2012 scorecard deliverable. Andrew Bon Salle mentioned that completion of the state-level pricing grid now rests entirely with FHFA.

Financial Forecast Update

Ann Gehring discussed highlights of the latest financial forecast. She noted that Q2's record projected income of $6.2 billion [since reduced to $5.5 billion] was twice the first quarter's and was all due to improved credit-related expenses. A planned new loss model release should make Q3 and Q4 results look better than previously forecast. Comprehensive income is now expected to be sufficient to cover the dividend obligation throughout 2012. Small Treasury draws are forecast throughout 2013. Cumulative 2012-2016 income is now forecast at $ 56.6 billion, $12.3 billion higher than the last projection. Given this large change from the prior forecast, Tim Mayopoulos wondered whether the Board might question the credibility of management's financial projections. He noted that the models seem to lag or underestimate both downturns and upturns. Ann explained that projections are closely tied to recent history and thus aren't well suited to capturing accelerating trends. Terry Edwards reminded members that a 1% change in home price projections produces a $6 - $7 billion income delta. As regards home prices, Anne said that Fannie Mae's projections have been shown to be consistently more accurate than other sources. Terry noted that the housing market seems to be improving despite the fact the shadow inventory is still massive – "it's as if the market is saying that it's going to remain out there and not flow through". Susan McFarland added that Jon Greenlee believes that a more conservative approach to projecting future market conditions may be warranted given the limited number of improved data points.

Roundtable Discussion

Zach Oppenheimer said that June loan deliveries topped $63 billion with 25% coming through the cash window. Total mortgage originations for the full year are now estimated at $1.5 trillion. Fannie Mae had about a 50% share of the $762 billion originated in the year's first half. Zach noted that the average charged guarantee fee had increased by another 2.5 bps to a level of 42.5 bps in June. With most of the increases hitting larger lenders, the favorable gap enjoyed by large lenders had now declined to about 1.7 bps. Despite offering some of the highest mortgage rates, Zach said that BofA still appeared to be volume constrained.

Jeff Hayward said that multifamily volumes are on track to hit $25 billion for the year, up from around $20 billion last year. The average charged fee is now 80 bps. Jeff said that this fee level reflected market price levels, mentioning Freddie as the other market player. Some expressed concern that banks and life insurance companies seemed to be largely out of the market. John Nichols wondered whether their absence might indicate that the market was getting a bit frothy.

Dave Benson said that BlackRock's Green Package analytic software was now up and running. Fannie Mae's June lender conduit activity was a record $500 million.

John Nichols relayed that 11 MRAs had been submitted for closeout in June.

Pascal Boillat said that Fannie's main campus, unlike Freddie's, had not experienced any power problems during the recent storms.

Andrew Bon Salle said that HARP deliveries totaled 61,000 loans in June, up from 40,000 in May. More than 21,000 of these were from >125% LTV borrowers. Andrew noted that most of these came through the Quicken / Seterus pipeline which investors recognize as showing faster prepay speeds and should therefore tighten the Fannie/Freddie price spread.

Susan McFarland said that internal audit had completed its exam of the forecasting process with the finding that senior management should be more involved given that the forecast impacts financial statements.

Meeting Adjourned.

***** PLEASE DO NOT FORWARD EXECUTIVE MEETING MINUTES *****

Brad Martin

Principal Advisor

Office of Conservatorship Operations

From: Ugoletti, Mario
Sent: Thursday, August 09, 2012 10:52 AM
To: DeMarco, Edward; Pollard, Alfred; Laponsky, Mark; Spohn, Jeffrey; Greenlee, Jon; Lawler, Patrick; DeLeo, Wanda; Satriano, Nicholas
Cc: Brown, Jan
Subject: PSPA Alert

Close Hold

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

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

From:	Parrott, Jim <James_M_Parrott@who.eop.gov>
Sent:	Friday, August 17, 2012 8:46 AM
To:	Bowler, Timothy; Miller, Mary
Subject:	FW: Nice - I like it

all the investors will get this very quickly.

From: Mary Goodman [mailto:Mary.Goodman@jaecredit.com]
Sent: Friday, August 17, 2012 8:45 AM
To: Parrott, Jim
Subject: Nice - I like it

Nice - I like it. The assessment I shared with my colleagues is below - FWIW.

*****
Key issues:

- Faster reduction of mortgage portfolios (not clear whether this implies net sales or whether would be consistent with runoff)
- Ends the payment of high-coupon dividends on USG pref shares – replaces that with a "full income sweep" quarterly – so no chance that GSEs recap themselves through higher earnings

This should have the effect of stretching out the $$$ which the USG has pledged in the backstops to the GSEs. The total $$$ amount on those backstops gets locked in at the end of this year. By ending the high-coupon dividend payments, Treasury reduces the "draws" on the backstops from any quarterly loss. So it leaves more money in the backstop to cover any future real losses that might materialize. (That money could also cover any losses that were materialized through some sort of future restructuring operation in coming years.)

The principle of 'full income sweep of all future earnings to benefit taxpayers" should lay to rest permanently the idea that the outstanding privately held pref will ever get turned back on.

From: Mary Goodman
Sent: Friday, August 17, 2012 8:35 AM
To: Robert Miller; Frederic Ryser; Daniel Gish; Randy Masel; Simon Park; Eugene Burger; Richard Labriola; Dylan Minert
Subject: Treasury Announcement

Treasury Department Announces Further Steps to Expedite Wind Down of Fannie Mae and Freddie Mac

8/17/2012
Page Content

Modifications to Preferred Stock Purchase Agreements Will Make Sure That Every Dollar of Earnings Fannie Mae and Freddie Mac Generate Will Benefit Taxpayers

Announcement Will Support the Continued Flow of Mortgage Credit during a Responsible Transition to a Reformed Housing Finance Market

WASHINGTON -- The U.S. Department of the Treasury today announced a set of modifications to the Preferred Stock Purchase Agreements (PSPAs) between the Treasury Department and the Federal Housing Finance Agency (FHFA) as conservator of Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs) that will help expedite the wind down of Fannie Mae and Freddie Mac, make sure that every dollar of earnings each firm generates is used to benefit taxpayers, and support the continued flow of mortgage credit during a responsible transition to a reformed housing finance market.

"With today's announcement, we are taking the next step toward responsibly winding down Fannie Mae and Freddie Mac, while continuing to support the necessary process of repair and recovery in the housing market," said Michael Stegman, Counselor to the Secretary of the Treasury for Housing Finance Policy. "As we continue to work toward bi-partisan housing finance reform, we are committed to putting in place measures right now that support continued access to mortgage credit for American families, promote a responsible transition, and protect taxpayer interests."

The modifications to the PSPAs announced today are consistent with FHFA's strategic plan for the conservatorship of Fannie Mae and Freddie Mac that it released in February 2012. The modifications include the following key components:

Accelerated Wind Down of the Retained Mortgage Investment Portfolios at Fannie Mae and Freddie Mac

The agreements require an accelerated reduction of Fannie Mae and Freddie Mac's investment portfolios. Those portfolios will now be wound down at an annual rate of 15 percent – an increase from the 10 percent annual reduction required in the previous agreements. As a result of this change, the GSEs' investment portfolios must be reduced to the $250 billion target set in the previous agreements four years earlier than previously scheduled.

Annual Taxpayer Protection Plan

To support a thoughtfully managed wind down, the agreements require that on an annual basis, each GSE will – under the direction of their conservator, the Federal Housing Finance Agency – submit a plan to Treasury on its actions to reduce taxpayer exposure to mortgage credit risk for both its guarantee book of business and retained investment portfolio.

Full Income Sweep of All Future Fannie Mae and Freddie Mac Earnings to Benefit Taxpayers for Their Investment

The agreements will replace the 10 percent dividend payments made to Treasury on its preferred stock investments in Fannie Mae and Freddie Mac with a quarterly sweep of every dollar of profit that each firm earns going forward.

This will help achieve several important objectives, including:

- Making sure that every dollar of earnings that Fannie Mae and Freddie Mac generate will be used to benefit taxpayers for their investment in those firms.
- Ending the circular practice of the Treasury advancing funds to the GSEs simply to pay dividends back to Treasury.
- Acting upon the commitment made in the Administration's 2011 White Paper that the GSEs will be wound down and will not be allowed to retain profits, rebuild capital, and return to the market in their prior form.
- Supporting the continued flow of mortgage credit by providing borrowers, market participants, and taxpayers with additional confidence in the ability of the GSEs to meet their commitments while operating under conservatorship.
- Providing greater market certainty regarding the financial strength of the GSEs.

For a copy of the modification agreements for the PSPAs, please visit, link and link.

###

SHARE

From: Bowler, Timothy
Sent: Friday, August 17, 2012 3:42 PM
To: Parrott, Jim

I focused on contract and build....

FHFA identifies three strategic goals for the next phase of the conservatorships:

- **Build.** Build a new infrastructure for the secondary mortgage market;
- **Contract.** Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations; and
- **Maintain.** Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Friday, August 17, 2012 3:20 PM
To: Bowler, Timothy
Subject: RE: Garrett Statement on Treasury Decision to Amend Terms of Fannie and Freddie Bailout

will call him, but this the right answer?

we've closed off possibility that they every go (pretend) private again and sped up the clock on the wind-down of their portfolio, all while increasing the stability of the market by removing concern that these guys run out of support before we have a place to which to transition.

from below seems like you'd want to give up on some or all of that to force Congress to make a decision. strikes me as mighty high risk (and pessimistic about the prospects that we, collectively, would want to sort this out).

From: Russell, Chris [mailto:Chris.Russell@mail.house.gov]
Sent: Friday, August 17, 2012 2:34 PM
To: Parrott, Jim
Subject: Re: Garrett Statement on Treasury Decision to Amend Terms of Fannie and Freddie Bailout

Preference is not to have two defacto public utilities with a $274 bill capital cushion

Where is the impetus now to deal with the issue? The dividends were initially set like that for a reason

In regards to them keeping additional profits, in my mind that is only an accounting issue, gov recoups now (per new method) or later when we liquidate them and then realize those gains for the taxpayer

As far as market perception, I don't think current yields on agencies indicate any additional concerns by investors - and I think it's a good thing if investors realize they won't always have 90 percent of mortgage market going through government, then there might be incentives for market participants to develop some new methods to get mortgages to investors

If I am a potential issuer now, what incentive do j have with a higher regulatory burden via dfa and higher costs vs gse's?? None

Does this make sense?

Sent from my iPhone

On Aug 17, 2012, at 2:05 PM, "Parrott, Jim" <James_M_Parrott@who.eop.gov> wrote:

> your preference would be to continue to have them pay a dividend that in any given month either requires them to eat into their headroom under the caps (after next year), scaring the hell out of the market, or pays less than their profits in that quarter, allowing them to recapitalize? idea being, I guess, that the former will force congress to act?
>
> **From:** Russell, Chris [mailto:Chris.Russell@mail.house.gov]
> **Sent:** Friday, August 17, 2012 1:57 PM
> **To:** Parrott, Jim
> **Subject:** Re: Garrett Statement on Treasury Decision to Amend Terms of Fannie and Freddie Bailout
>
> It MIGHT be net positive WHEN they r turning a profit
>
> But based on the discussions I had this morning with other experts in the field, the consensus is that this essentially removes any pressure points to do something eventually with them and puts it well after 16. As u well know, politicians sometimes don't act unless they are forced to
>
> Happy to talk with u on it whenever
>
> 202-870-8348
>
> Sent from my iPhone
>
> On Aug 17, 2012, at 1:37 PM, "Parrott, Jim" <James_M_Parrott@who.eop.gov> wrote:
>
>> must say that this caught me by surprise. we're not reducing their dividend but including in it every dime these guys make going forward and ensuring that they can't recapitalize.
>>
>> if there's any misunderstanding give me a shout- glad to loop you into cap markets folks to clarify.
>>
>> **From:** Rice, Adam [mailto:Adam.Rice@mail.house.gov]
>> **Sent:** Friday, August 17, 2012 12:52 PM
>> **To:** Rice, Adam
>> **Subject:** Garrett Statement on Treasury Decision to Amend Terms of Fannie and Freddie Bailout
>>
>> <image001.jpg>
>>
>> FOR IMMEDIATE RELEASE
>> August 17, 2012
>>
>> Contact: Amy Smith
>> Phone: 202-225-4465

Garrett Statement on Treasury Decision to Amend Terms of Fannie and Freddie Bailout

WASHINGTON, DC – Rep. Scott Garrett (R-NJ), Chairman of the House Financial Services Subcommittee on Capital Markets and Government-Sponsored Enterprises issued the following statement today after the Treasury Department announced a plan to reduce the dividend rate paid to the Secretary of the Treasury on senior preferred stock of Fannie Mae and Freddie Mac:

"Today's announcement from the Treasury Department is yet another example of the Obama Administration continuing to kick-the-can on important policy decisions instead of working with Congress to enact meaningful reform. The reduction of the dividend payments for Fannie Mae and Freddie Mac will ensure the American taxpayers remain on the hook for the bailout of these two failed institutions for the foreseeable future. The crony-capitalism that has become a centerpiece of the Administration's failed economic policy must come to an end. This decision is a slap in the face to the hardworking American taxpayers who deserve to be compensated and fully repaid for their dollars that fueled the government takeover of the mortgage twins. Instead of devoting time and energy towards prolonging bailouts, the Obama Administration should work with Congress to wind these companies down and create a new and sustainable housing finance system where taxpayers are not at risk."

###

From: Bowler, Timothy
Sent: Saturday, August 18, 2012 8:09 AM
To: james_m_parrott@who.eop.gov
Subject: Re: Great job

Thanks Jim

----- Original Message -----
From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Saturday, August 18, 2012 08:06 AM
To: Miller, Mary; LeCompte, Jenni; Stegman, Michael; Bowler, Timothy; Anderson, Matthew; Weideman, Christian; Moore, Megan; Chepenik, Adam; Dash, Eric
Subject: Great job

Team Tsy,

You guys did a remarkable job on the PSPAs this week. You delivered on a policy change of enormous importance that's actually being recognized as such by the outside world (or the reasonable parts anyway), and as a credit to the Secretary and the President. It was a very high risk exercise, which could have gone sideways on us any number of ways, but it didn't- great great work.

From: Parrott, Jim <James_M_Parrott@who.eop.gov>
Sent: Saturday, August 18, 2012 10:37 AM
To: Bowler, Timothy
Subject: Re: PSPAs

K- thx.

----- Original Message -----
From: Timothy.Bowler@treasury.gov [mailto:Timothy.Bowler@treasury.gov]
Sent: Saturday, August 18, 2012 10:24 AM
To: Parrott, Jim
Subject: RE: PSPAs

-----Original Message-----
From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Saturday, August 18, 2012 10:23 AM
To: Bowler, Timothy
Subject: Re: PSPAs

----- Original Message -----
From: Timothy.Bowler@treasury.gov [mailto:Timothy.Bowler@treasury.gov]
Sent: Saturday, August 18, 2012 10:09 AM
To: Parrott, Jim
Subject: RE: PSPAs

-----Original Message-----
From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Friday, August 17, 2012 11:07 PM
To: Bowler, Timothy
Subject: Fw: PSPAs

----- Original Message -----
From: Peter J. Wallison [mailto:PWallison@AEI.org]
Sent: Friday, August 17, 2012 10:59 PM
To: Parrott, Jim
Subject: RE: PSPAs

That could be a problem. From the perspective of the budget, if Congress were to eliminate them it would be eliminating a revenue source. If principal were amortized that problem would eventually go away.

Peter J. Wallison
Arthur F. Burns Fellow in Financial Policy Studies American Enterprise Institute
(o) 202-862-5864
(f) 202-862-4875

-----Original Message-----
From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Friday, August 17, 2012 10:53 PM
To: Peter J. Wallison; 'Timothy.Bowler@treasury.gov'
Subject: Re: PSPAs

No principal is written down no matter what the quartely payment is. Dividend is variable, set at whatever profit for quarter is, eliminating ability to pay down principal (so they can"t repay their debt and escape as it were).

----- Original Message -----
From: Peter J. Wallison [mailto:PWallison@AEI.org]
Sent: Friday, August 17, 2012 09:36 PM
To: Parrott, Jim; 'Timothy.Bowler@treasury.gov' <Timothy.Bowler@treasury.gov>
Subject: RE: PSPAs

One question: Do the dividend payments amortize principal, and if so how? For example, if the 10% dividend rate were in effect, a payment of more than 10% would amortize principal, but from the press release it sounds as though the profits that are swept into Treasury are replacing the 10% dividend.

Peter

Peter J. Wallison
Arthur F. Burns Fellow in Financial Policy Studies American Enterprise Institute
(o) 202-862-5864
(f) 202-862-4875

-----Original Message-----
From: Parrott, Jim [mailto:James_M_Parrott@who.eop.gov]
Sent: Friday, August 17, 2012 8:30 AM
To: Alex J. Pollock; Peter J. Wallison; Edward Pinto
Cc: 'Timothy.Bowler@treasury.gov'
Subject: PSPAs

Hey guys. If you're interested, be glad to talk you through the changes we're announcing on pspas today.

Feel like fellow travelers at this point so I owe it to you.

Just let me know, and suggest a few times. I'm also looping Tim, who runs the capital markets show over at Tsy and is more adept at the mechanics should we want to go there.