From: DeMarco, Edward
Sent: Friday, August 17, 2012 11:40 AM
To: Ugoletti, Mario; Brereton, Peter
Subject: RE: Statement of FHFA Acting Director Edward J. DeMarco On Changes to Fannie Mae and Freddie Mac PSPAs

Yup. Mario can talk with Chris if that helps.

From: Ugoletti, Mario
Sent: Friday, August 17, 2012 11:39 AM
To: Brereton, Peter; DeMarco, Edward
Subject: RE: Statement of FHFA Acting Director Edward J. DeMarco On Changes to Fannie Mae and Freddie Mac PSPAs

Main Points:

This is not a reduction in the dividend (i.e., from 10% to say 5%), but rather changes the fixed dividend to one that essentially sweeps all the Enterprises' net worth to benefit taxpayers.
It eliminates the perverse aspect of the current PSPAs of the Enterprises having to borrower from Treasury to pay dividends.
At the same time it captures benefits for the taxpayers of the Enterprises' earnings if they earn more than the current 10% dividend payment.
It also, other than a transitory buffer, does not allow the Enterprises to build up retained surplus, which may give the impression that they are healthy institutions.

Mario.

From: Brereton, Peter
Sent: Friday, August 17, 2012 11:06 AM
To: DeMarco, Edward; Ugoletti, Mario
Subject: FW: Statement of FHFA Acting Director Edward J. DeMarco On Changes to Fannie Mae and Freddie Mac PSPAs

FYI. Any thoughts on how you would like us to respond?

From: Russell, Chris [mailto:Chris.Russell@mail.house.gov]
Sent: Friday, August 17, 2012 10:59 AM
To: Cowell, Jennifer
Cc: Brereton, Peter; Schroeder, Jeannine
Subject: RE: Statement of FHFA Acting Director Edward J. DeMarco On Changes to Fannie Mae and Freddie Mac PSPAs

Kind of runs counter to his testimony last July (11):

- H.R. 2436 codifies the September 2008 agreement between the Treasury Department and the GSEs to ensure that the taxpayers' investment in Fannie Mae and Freddie Mac will be repaid.
  - "It is only fair that the taxpayers receive some return for the literally hundreds of billions of dollars that they provide to the bankrupt GSEs." Testimony of Mr. David John, Senior Research Fellow in Retirement Security and Financial Institutions, Heritage Foundation, **May 25, 2011 Legislative Hearing.**

- **The 10% dividend rate because "is compensation of the taxpayer for providing the capital that is allowing our secondary mortgage market to function today." Mr. Edward Demarco, Acting Director of** Federal Housing Finance Agency (FHFA) **May 25, 2011 Legislative Hearing.**

- While the preferred-stock purchase agreements (PSPAs) require the 10% dividend payments and Mr. Demarco has testified that "FHFA has no plans to seek a change in the dividend rate," the current dividend rate may be changed at any time by agreement between the FHFA and Treasury. With reports that Fannie Mae and Freddie Mac are lobbying for a reduction in the dividend rate, this legislation is desperately needed to ensure that the taxpayers continue to be repaid for their investments in the enterprises.

- A reduction in the dividend payments that Fannie Mae and Freddie Mac make to the federal government would serve no policy purpose and amount to a gift from taxpayers to the investors who owned Fannie Mae and Freddie Mac when the firms required a $164 billion (and growing) taxpayer bailout.

  - Rather than paying back the taxpayers, a reduction of the dividend would benefit the pre-conservatorship common and preferred stockholders. In fact, there have been reports that hedge funds are buying up preferred shares in Fannie Mae and Freddie Mac in hopes that the dividend will be reduced and the entities will again become profitable. The prices of these shares have increased four-fold since the beginning of the year. We need to ensure that the taxpayers are repaid, not reward speculative investors.

  - The dividend rate is entirely reasonable given the incredible capital injected into the enterprises by the government. Mr. Demarco, **Acting Director of FHFA, testified that "[i]f these companies were to be operating today with private capital that private capital would be substantial and that private capital would expect a return certainly of 10% or more."**

- Reducing the dividend could prevent or delay repayment to the American taxpayers and could give the impression that Fannie Mae and Freddie Mac are healthy institutions that should be restored to their previous status.

  - Fixing the dividend rate at 10 percent "limit(s) the ability of the Enterprises to build retained surplus and exit from conservatorship." **Mr. Edward Demarco, Acting Director of FHFA, May 25, 2011 Legislative Hearing.**

From: Cowell, Jennifer [mailto:Jennifer.Cowell@fhfa.gov]
Sent: Friday, August 17, 2012 9:24 AM
To: Cowell, Jennifer
Subject: Statement of FHFA Acting Director Edward J. DeMarco On Changes to Fannie Mae and Freddie Mac PSPAs

Please click on the link below to read FHFA's statement regarding changes to Fannie Mae and Freddie Mac Preferred Stock Purchase Agreements.

http://www.fhfa.gov/webfiles/24203/FINAL_FHFA_PSPA_8172012.pdf

If you have any questions, feel free to contact Jeannine Schroeder (202-649-3029) or Jennifer Cowell (202-649-3025).

Jennifer Cowell
Congressional Affairs Specialist
Federal Housing Finance Agency

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