
From: Mercer, Robert
Sent: Wednesday, June 22, 2011 12:27 PM
To: Bjarnason, Paul; Satriano, Nicholas; Galeano, Andre D.
Subject: RE: 2Q11 Forecast as of 17 June 2011

I agree with Paul's comments. **I think they understand our concern and will react appropriately.** FYI – I know banks have had similar issues where their models indicate the LLR should reduce but their intuition and fear of the unknown (GSE repurchase risk and government mandates) prompted them to leave the reserve at a higher level.

Our worst scenario would be to allow the GSEs to lower reserve and have to increase it later because the impact of present unknown risks (loss severity and transition rates related the foreclosure slowdown).

Bob

From: Bjarnason, Paul
Sent: Tuesday, June 21, 2011 10:04 PM
To: Satriano, Nicholas; Galeano, Andre D.
Cc: Mercer, Robert
Subject: RE: 2Q11 Forecast as of 17 June 2011

Indeed, it would be. But, I believe that FRE had not yet concluded regarding making a management adjustment, a.k.a., "on top", to the model output, as of the end of the 2nd quarter. The FRE credit folks told us that they recognize as an issue the fact their total expected loss models have not projected a reduction in expected losses, which is in contradiction to the NEO model output for the GAAP reserves. The GAAP reserves and the total expected loss reconciliation (or rationalization) is part of the process of getting a "management best estimate", which is what the ALL is. **Bob told Mike Smith and I told Tom Stuber, at last week's meeting, that FRE would face some hard questioning from FHFA, should they decide to take down the reserves in the current climate.**

Bob – would you care to comment on what I said?

Bj

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From: Satriano, Nicholas
Sent: Tuesday, June 21, 2011 9:16 PM
To: Galeano, Andre D.; Bjarnason, Paul
Subject: RE: 2Q11 Forecast as of 17 June 2011

Hi

I would say the \$700 includes the effect of the ALL change.

Cheers,

Nick

From: Galeano, Andre D.
Sent: Tuesday, June 21, 2011 1:25 PM
To: Satriano, Nicholas; Bjarnason, Paul
Subject: FW: 2Q11 Forecast as of 17 June 2011

fyi

From: Galeano, Andre D.
Sent: Tuesday, June 21, 2011 1:24 PM
To: Tagoe, Naa Awaa
Cc: Williams, John; Sciacca, Christie; Mercer, Robert
Subject: RE: 2Q11 Forecast as of 17 June 2011

Naa Awaa:

Thanks for the below. We have a concern with FRE's projected reduction of \$1 billion for the ALLL. FRE reporting better transition rates in sdq – however given slowdowns in foreclosures (which may cause better transition rates), price declines, and higher LTV, we do not believe there is a basis for reducing the ALLL. While we will ask FRE the following, your group might be the more appropriate group: is the projected .7billion draw from Treasury net of the benefit of reducing the ALLL by \$1 billion?

Andre

From: Tagoe, Naa Awaa
Sent: Tuesday, June 21, 2011 10:05 AM
To: Ugoletti, Mario; Dickerson, Chris; Lawler, Patrick; Burns, Meg; Sciacca, Christie; Galeano, Andre D.
Cc: Calhoun, Peter; Williams, John
Subject: Fw: 2Q11 Forecast as of 17 June 2011

From: Williams, John
Sent: Monday, June 20, 2011 08:42 PM
To: Tagoe, Naa Awaa; Calhoun, Peter
Subject: 2Q11 Forecast as of 17 June 2011

Attached is the latest 2Q11E weekly forecast information for your review.

HIGHLIGHTS

Fannie Mae

- 2Q11E Net Income – (\$6.3)B
- 2Q11E Net Worth - (\$8.1)B

2Q11E Net Loss is primarily due to the following:

- the provision for credit losses of \$7.8B, driven by charge-offs and increased foreclosures (the reduction from the prior week reflects the impact of fewer delinquencies and lower interest rates, partially offset by higher than forecasted modifications, given data through the end of May),
- derivative losses of \$2.6B due to the decline in long-term swap rates, and
- REO expenses of \$0.9B.

2Q11E negative Net Worth is primarily driven by net losses and dividends paid to the Treasury.

Given the projected negative Net Worth of \$8.1B for 2Q11, Fannie Mae currently projects a senior preferred Treasury draw related to 2Q11 of \$8.1B. (Cumulative Senior Preferred Treasury Draw would increase to \$106.8B.)

Freddie Mac

- 2Q11E Net Income – (\$1.7)B
- 2Q11E Net Worth – (\$0.7)B

2Q11E Net Income is primarily due to the following:

- the provision for credit losses of \$2.0B, (the reduction from prior week reflects improvement in transition rates and a decrease in severity given data through the end of May), and
- derivative losses of \$4.0B driven by the decline in long-term swap rates.

2Q11E negative Net Worth is driven by net losses and dividends paid to the Treasury, partially offset by a reduction in AOCI losses driven by the decline in interest rates.

Given the projected negative Net Worth of \$0.7B for 2Q11, Freddie Mac currently projects a senior preferred Treasury draw related to 2Q11 of \$0.7B. (Cumulative Senior Preferred Treasury Draw would remain the same at \$64.4B.)

Thanks,

John

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