



BRIEFING

CONTACT:
John Hall
(202) 663-5473
jhall@aba.com

September 11, 2008

QUESTIONS & ANSWERS: THE TAKEOVER OF FANNIE MAE AND FREDDIE MAC

Q: What do Fannie Mae and Freddie Mac do?

A: Fannie Mae and Freddie Mac buy mortgages from banks and other lenders to generate more cash for those lenders to make more home loans. Together they hold or guarantee \$5.4 trillion of mortgages, about half of the nation's home loans outstanding.

Q: Why did Treasury and the Federal Housing Finance Agency (FHFA) place Fannie Mae and Freddie Mac into conservatorship and take other actions?

A: To bring stability to the financial markets, including the mortgage market, and to protect the taxpayer to the maximum extent possible. This action should help stabilize the housing market, ultimately benefiting consumers, financial institutions and the U.S. economy.

Q: Why should I care?

A: If the government hadn't stepped in, and Fannie Mae and Freddie Mac had failed, the damage to the mortgage and housing markets would have been huge. The overall financial system and the nation's economy also could have been hurt badly. In addition, the federal government actions confirm that they will now directly support debt issued by Fannie and Freddie.

Q: What actions did the FHFA take?

A: The FHFA placed Fannie and Freddie into a *conservatorship* that removes the companies' board of directors and their CEOs. The FHFA appointed new CEOs to run the companies. Fannie and Freddie are continuing to operate as usual, buying mortgages from lenders and securitizing them for sale or to hold in their own portfolios. They will continue to raise funding in the marketplace through bond offerings.

Q: What actions did the Treasury Department take?

A: The Treasury Department purchased \$1 billion of *senior preferred stock* in each company and exercised warrants for the purchase of 79.9 percent of each company's common stock. The companies will pay a 10 percent dividend on the senior preferred stock. No dividends will be paid on the preferred or common stock. Treasury also created a *credit facility* for short-term borrowing by Fannie, Freddie and the Federal Home Loan banks, to be repaid with interest. Treasury will begin purchasing new *mortgage backed securities* later this month and can hold the MBS to maturity, based on market conditions. Additional stock will be purchased as needed.

Q: What will be the effect on banks holding Fannie and Freddie's preferred and/or common stock?

A: A small number of banks are estimated to hold large amounts of Fannie and

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Freddie preferred and/or common stock. While the preferred and common stocks are still trading, they have lost most of their value. Recognition of the diminished value may cause smaller banks holding the securities to fall out of compliance with regulatory capital requirements. Federal banking regulators have announced their intention to work with institutions to develop capital restoration plans consistent with capital regulations.

Q: How does the takeover of Fannie and Freddie affect bank customers?

A: Home buying can continue. If you already have a mortgage, nothing will change. If you are thinking of buying a home or refinancing a mortgage, the government takeover will help stabilize rates. With explicit government backing, Fannie and Freddie can continue to buy mortgages, hold them in portfolio or sell them into a functioning mortgage market. Mortgage rates nationally have already come down, making it easier for homebuyers to qualify and for homeowners to refinance high-priced loans.

Q: How much will this cost taxpayers?

A: It depends. Because the Treasury has become a major stockholder in these organizations, taxpayers have a large stake in their future value. In the end, the ultimate cost to the taxpayer will depend on the business results of Fannie and Freddie going forward.

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