

How to Save Fannie and Freddie

July 15, 2008



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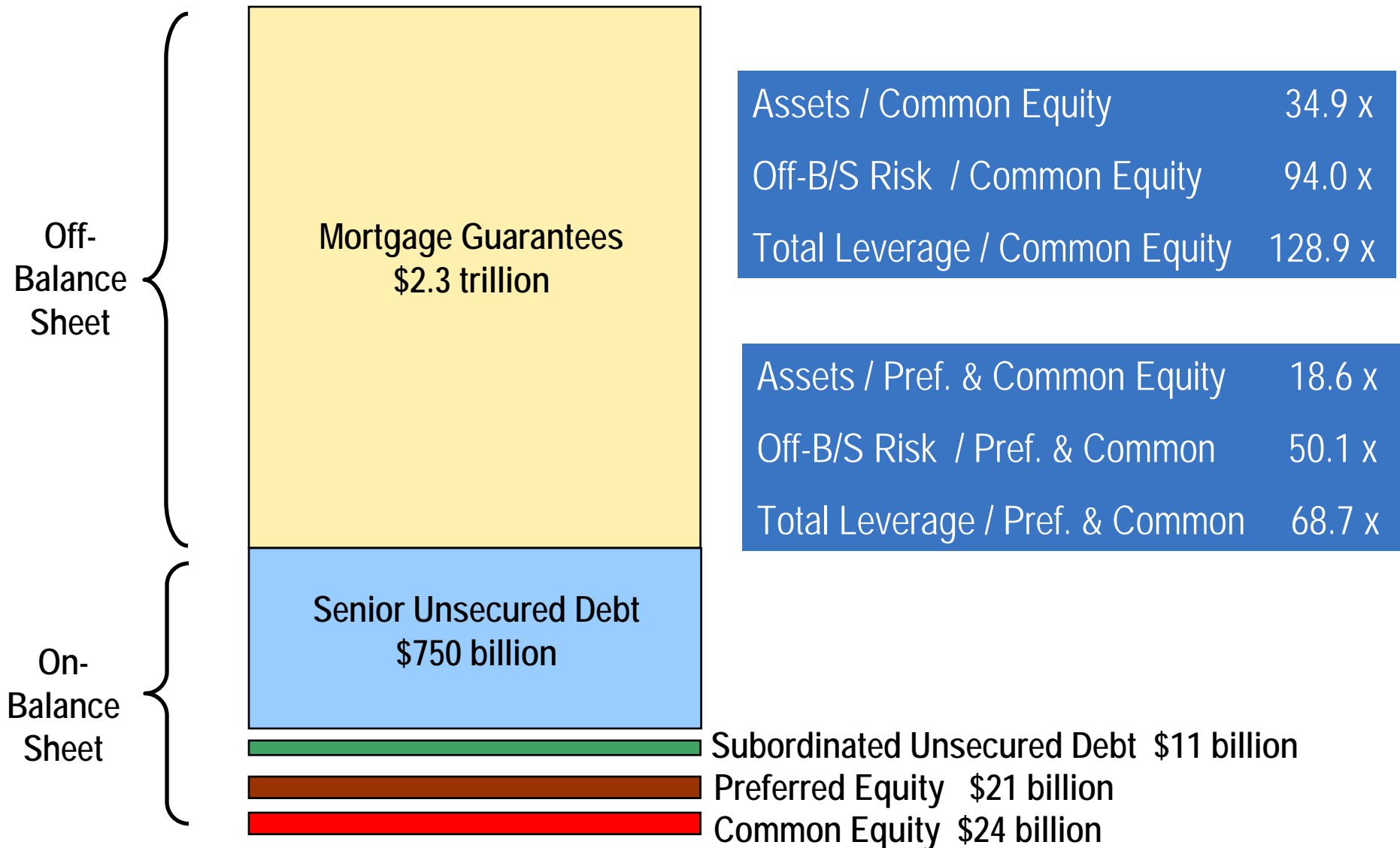
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In the following slides, we use Fannie Mae as an example, but the same logic applies to Freddie Mac

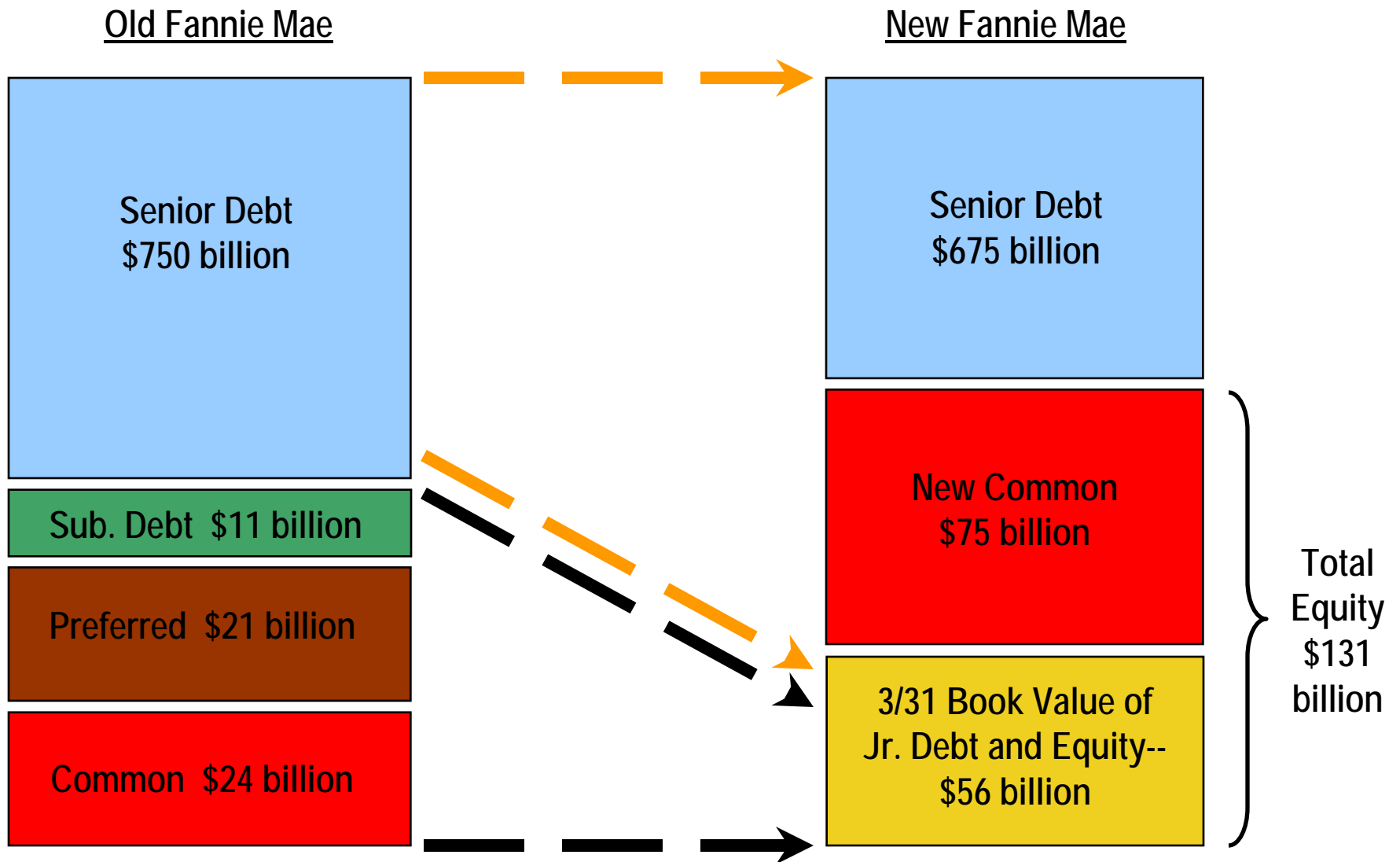
FNM: High On- and Off-Balance Sheet Leverage



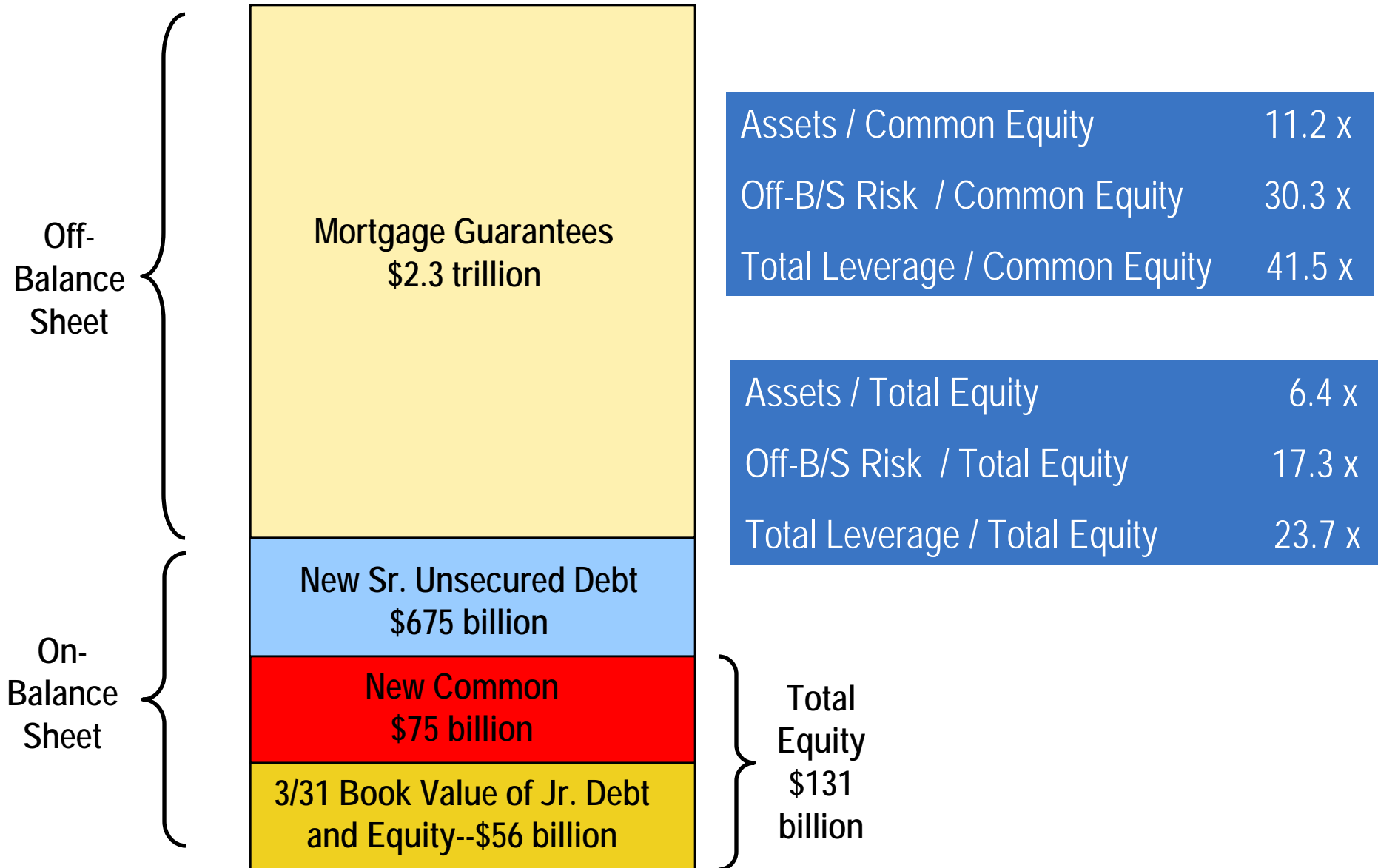
How Might A Restructuring Work?

- ▶ **Common and Preferred Equity extinguished**
- ▶ **Subordinated Debt exchanged for equity warrants**
- ▶ **For every \$1.00 of Senior Unsecured Debt, Holder would receive:**
 - \$0.90 in New Senior Unsecured Debt
 - \$0.10 in value of New Common Equity
- ▶ **U.S. Government stand-by purchase commitment for New Common at initial value for period of 3 years**
 - Put price reduced by any dividends paid on Common
- ▶ **Company can issue Subordinated Debt or Preferred Stock if capital needed in the future**

Hypothetical Restructuring



New Fannie Mae: "Fortress Balance Sheet"



New Fannie Mae Business Plan

- ▶ **New Fannie takes advantage of new capital and current hard market conditions to expand mortgage guarantee writings**
- ▶ **New Fannie earnings power and cash flow can absorb losses and reduce balance sheet leverage**
- ▶ **As market conditions improve, New Fannie shrinks balance sheet through sales of mortgage assets**
- ▶ **New Fannie examines pricing of mortgage guarantees to ensure adequate long-term rate of return**
- ▶ **Fannie creates new employee restricted stock compensation program to align interests with all stakeholders**
- ▶ **New Fannie board contains representatives of Senior Debt Holders, Federal officials, and independent shareholders**