Executive Summary

The Administration has clearly stated its goals for GSE reform – taxpayer protection and maintaining mortgage market liquidity and stability. There is an achievable and effective means of achieving these goals, utilizing proven in-place processes within this Administration's current term. This Blueprint provides a detailed path forward, incorporating elements of current leading industry proposals such as: building safe and sound capital levels at the GSEs to protect taxpayers; relying on existing infrastructure – as opposed to new and untested systems – to ensure stability and liquidity in the mortgage markets; continuing existing regulatory reforms enacted under the Housing and Economic Recovery Act ("HERA") so that the GSEs can never revert to their pre-crisis investment business models; and preserving core GSE functions (e.g., duty to serve, affordable housing goals, level playing field for originators) to ensure that access to homeownership for middle-class and working-class Americans remains intact access to homeownership remains intact.

Protect Taxpayers

Successful housing finance reform cannot put taxpayers at risk. The end-state system must be one that is "absolutely safe," where Fannie Mae and Freddie Mac cannot "get taken over again."[1]

Maintain Mortgage Liquidity and Stability

Any comprehensive reform must not "eliminate capital from the housing market," and must preserve housing market liquidity by maintaining the availability of the 30-year fixed-rate conventional mortgage.[2]

The approach outlined in this Blueprint brings a shareholder perspective to the ongoing policy discussion. Our goal is to facilitate an end to ongoing litigation on positive terms for all stakeholders, not the least of which is the government (and thereby the American taxpayer) which owns warrants that can be realized for value on the order of an additional estimated $75 to $100 billion.

This approach is unique in its feasibility. It lays out a clear path to build safe and sound levels of capital in less than four years at the GSEs using existing legal authority, and facilitates the development and implementation of additional housing finance reform through congressional action. Furthermore, this Blueprint represents the first proposal based on detailed financial projections and analysis, and establishes a reference point for any discussion of capital requirements, corporate valuation, issuance mechanics, and government exit timeline and profitability projections.

This Blueprint provides a clear and pragmatic path to achieve important public policy goals in a manner that will both protect taxpayers for years to come and respects the property rights of shareholders. Ending the GSE conservatorship and putting Fannie Mae and Freddie Mac on sound footing remains the final piece of outstanding crisis-era financial reform.

We welcome the opportunity to be a part of the solution.

Overview of the Safety and Soundness Blueprint

This Blueprint would build capital at Fannie Mae and Freddie Mac as shareholder-owned insurers, refocused on their core conventional mortgage guarantee business, substantially de-levered, and held to the highest regulatory standards. Key Blueprint components include:

Capital Build

The Blueprint envisions a robust capital build, up to a total of $155 to $180 billion of core capital, through a combination of retained earnings, existing shareholder participation (e.g., conversion and/or participation in a rights offering), and third-party primary equity raises.

Enhanced Capital Standards

The Blueprint envisions a three-pronged approach to establishing robust minimum capital requirements, with a risk-based capital minimum (8.5% of risk-weighted assets), leverage ratio requirements (3.0% of total assets, and 5.0% of total assets when credit risk transfer outstanding to third-parties is included in the calculation of capital), and stress testing (providing an additional layer of oversight relative to the pre-crisis regulatory regime).

These illustrative capital requirements, which equate to roughly four times the GSEs' pre-crisis requirements, are broadly consistent with approaches applied to other large financial institutions, and represent reasonable estimates of capital standards for the Enterprises. The Blueprint uses an open–architecture capital raising model that is flexible by design and can easily accommodate increases or decreases to regulatory capital requirements which would be established by the FHFA.

Government Exit from Ownership

Under the Blueprint, Treasury retains all $266 billion that it has received to date from both companies. Treasury also retains and exercises its warrants for 79.9% of common stock and sells its common shares through secondary offerings in 2019 and 2020. This process follows the proven path of Treasury's AIG and Ally Financial (GMAC) stock dispositions, and is estimated to generate $75 to $100 billion in additional cash proceeds, raising total government profits to as high as $175 billion.

Wind Down of Taxpayer Support

The Blueprint does not envision an open-ended government guarantee, but instead utilizes the existing framework of explicit but limited government support to maintain market stability without necessitating new legislation as a prerequisite. The existing PSPA commitments are transformed into catastrophic support protected by $155 to $180 billion in subordinated private capital, for which Treasury is paid a market-based commitment fee.

Further, the Blueprint provides a plan to partially wind down these PSPA commitment facilities over time. This wind down would be effectuated first by reducing the size of the commitment line as permanent equity capital is built, and then by implementing a mechanism that transfers a portion of Treasury's catastrophic risk to the insurance markets via reinsurance of the PSPA commitment line.

Strengthened Regulatory Oversight

In addition to imposing substantially enhanced capital standards, the Blueprint continues existing GSE reforms that have de-risked the Enterprises. This includes the continued wind down of the GSEs' investment portfolios (focusing the companies on their core mortgage guarantee business), and use of capital markets and insurance risk-transfer structures (reducing risk in their guarantee portfolio). Further, the Blueprint maintains a strong independent regulator, the FHFA, and grants them the continued oversight of guarantee fees.

Continuity of Existing Infrastructure, and Responsibilities

The Blueprint preserves the To-Be-Announced ("TBA") market, ensuring the continued availability of America's most popular, and affordable, mortgage product – the 30-year fixed-rate conventional mortgage. It also maintains core GSE functions (e.g., the duty to serve and affordable housing goals, which are crucial to middle-class and working-class access to homeownership), and preserves existing GSE operational infrastructure and corporate structures. Together with reduced ongoing support, this infrastructure will ensure stability in the approximately $5 trillion market for GSE mortgage-backed securities and agency debt.

Shareholder Support

Importantly, this Blueprint does not envision that the government will write a check or otherwise transfer funds to any shareholders or to the Enterprises. The financial markets, and not the government, should determine the appropriate value of privately held shares of Fannie Mae and Freddie Mac in the context of a capital building plan that meets the government's policy goals. In fact, existing shareholders representing substantial private capital are prepared to help the GSEs build capital as outlined in this Blueprint.