Blueprint for Restoring Safety and Soundness to the GSEs

June 2017

This memorandum provides a detailed plan (the "Blueprint") for restoring safety and soundness to Fannie Mae and Freddie Mac while protecting taxpayers and maintaining stability in the secondary mortgage market. This Blueprint was developed by Moelis & Company LLC as financial advisors to certain non-litigating preferred stockholders of Fannie Mae and Freddie Mac.

This Safety and Soundness Blueprint:

1. **Protects Taxpayers from Future Bailouts.**

   This Blueprint protects taxpayers by restoring safety and soundness to two of the largest insurance companies in the United States, Fannie Mae and Freddie Mac. This is achieved by (a) rebuilding a substantial amount of first-loss private capital, (b) imposing rigorous new risk and leverage-based capital standards, (c) facilitating the government's exit from ownership in both companies, and (d) providing a mechanism to substantially reduce the government's explicit backstop commitment facility over time.

2. **Promotes Homeownership and Preserves the 30-Year Mortgage.**

   This Blueprint ensures that adequate mortgage market liquidity is maintained, the GSE debt markets continue to function without interruption, and the affordable 30-year fixed-rate conventional mortgage remains widely accessible for every eligible American.

3. **Repositions the GSEs as Single-Purpose Insurers.**

   Given the substantial reforms implemented by the Federal Housing Finance Agency ("FHFA") since 2008, the GSEs can now be repositioned and safely operated as single-purpose insurers, bearing mortgage credit risk in exchange for guarantee fees with limited retained investment portfolios beyond that necessary for securitization "inventory" and loan purchases.

4. **Enables Rebuild of Equity Capital while Winding Down the Government Backstop.**

   The Net Worth Sweep served the purpose of dramatically accelerating the payback of Treasury's investment in both companies. The focus must now turn to protecting taxpayers by rebuilding Fannie Mae's and Freddie Mac's equity capital and winding down the government's backstop.

5. **Repays the Government in Full for its Investment during the Great Recession.**

   Treasury has retained all funds received to date during the conservatorships. The government has recouped the entire $187.5 billion that it originally invested, plus an additional $78.3 billion in profit, for total proceeds of $265.8 billion. Treasury's profits to date on its investment in the GSEs are ***five times*** greater than the combined profit on all other investments initiated by Treasury during the financial crisis.

6. **Produces an Additional $75 to $100 Billion of Profits for Taxpayers.**

   Treasury can realize an estimated $75 to $100 billion in additional cash profits by exercising its warrants for 79.9% of each company's common stock and subsequently selling those shares through secondary offerings. This monetization process, which follows the proven path of Treasury's AIG and Ally Bank (GMAC) stock dispositions, could bring total government profits to $150 to $175 billion, the largest single U.S. government financial investment return in history.

7. **Implements Reform Under Existing Authority.**

   This Blueprint articulates a feasible path to achieving the Administration's GSE reform objectives with the least amount of execution risk. It can be fully implemented during the current presidential term by FHFA in collaboration with Treasury utilizing their existing legal authorities. Congress could build on these reforms to develop an integrated national housing finance policy that accounts for the Federal Housing Administration, the Department of Veterans Affairs, and Rural Housing Service, and emphasizes (i) affordable housing, (ii) safety and soundness, and (iii) universal and fair access to mortgage credit for all Americans.