Blueprint for Restoring Safety and Soundness to the GSEs

June 2017

This presentation summarizes the Blueprint for Restoring Safety and Soundness of the GSEs. The Blueprint was developed by Moelis & Company LLC as financial advisors to certain non-litigating preferred stockholders of Fannie Mae and Freddie Mac.

Safety and Soundness Blueprint
Executive Summary

Blueprint for Restoring Safety and Soundness to the GSEs

1. Protects Taxpayers from Future Bailouts
2. Promotes Home Ownership and Preserves 30 Year Mortgage
3. Repositions the GSEs as Single-Purpose Insurers
4. Enables Rebuild of Equity Capital while Winding Down the Government Backstop
5. Repays the Government in Full from 2008 Crisis
6. Produces Additional $75 to $100 Billion of Profits for Taxpayers
7. Implements Reform under Existing Authority

Safety and Soundness Blueprint

Core Principles

The Administration has laid out two core principles to reforming the GSEs:

1. Protecting the taxpayer, ensuring there will not be another bailout of the GSEs
2. Maintaining liquidity and stability in the mortgage market

"We can't put taxpayers at risk. We can't have a system where we have a bailout of housing finance"

"...liquidity in the 30 year mortgage, that's been very important for the middle income in terms of being able to have homeownership"

Treasury Secretary
Steve Mnuchin
April 2017

Safety and Soundness Blueprint
Blueprint Components

Key components of the Blueprint that achieve the Administration's goals include:

- Continuation of existing reforms
- Enhanced regulatory capital framework
- Robust private capital build
- Government exit from the GSEs
- Wind down of taxpayer support

The Blueprint builds capital at Fannie Mae and Freddie Mac as shareholder-owned insurers, focused on their core mortgage guarantee business, substantially de-levered, and held to the highest regulatory standards with diminished investment portfolios

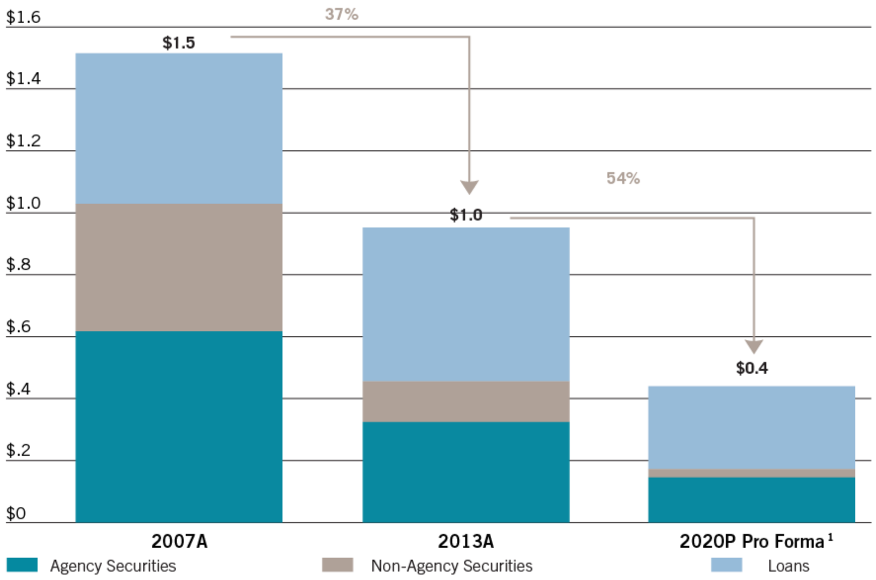
Safety and Soundness Blueprint
Continuation of Existing Reforms

GSE Reforms to Date: Key Game Changers

- Improved Mortgage Quality
- Consumer protection rules
- HERA
- Introduction of FHFA
- Mandated reductions in investment portfolio size

Fannie Mae and Freddie Mac: Consolidated Retained Mortgage Portfolio

$ Trillions



Source: Company filings, Moelis estimates

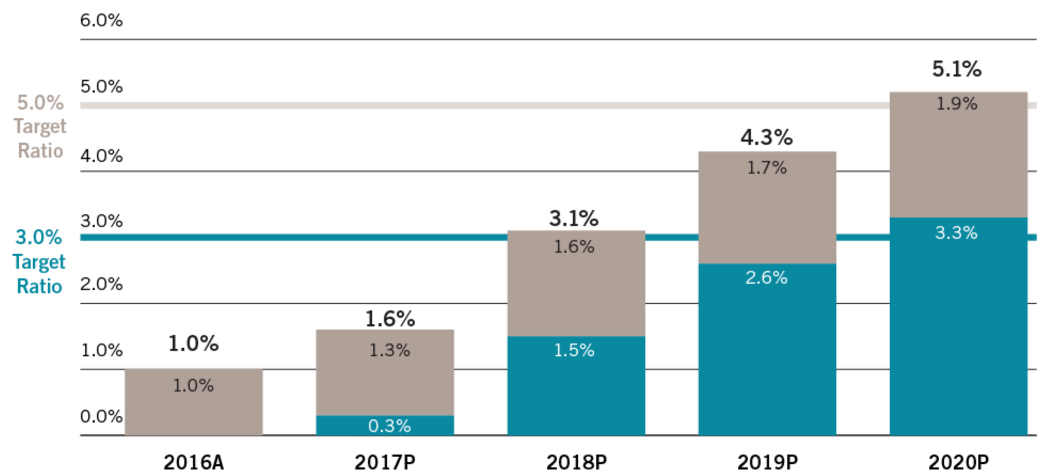
1. 2020 pro forma retained mortgage portfolio allocation based on year-end 2016 pro rata

Continuation of crisis-era reforms greatly mitigate ongoing risk and restrict any potential return to past mistakes. The Blueprint envisions a continuation of these reforms

Safety and Soundness Blueprint
Enhanced Regulatory Capital Framework

	Capital	Minimum Threshold
Primary Leverage Ratio	Core Capital	**3.0%** of Total Assets
Secondary Leverage Ratio	Core Capital plus Outstanding CRT	**5.0%** of Total Assets

Projected Consolidated Leverage Ratio
$ Billions at December 31,



	2016A	2017P	2018P	2019P	2020P
Core Capital[1]	($188)	$12	$75	$131	$167
CRT Capital[2]	54	67	78	88	97

The Blueprint envisions $155 to $180 billion in permanent core capital built within 4 years

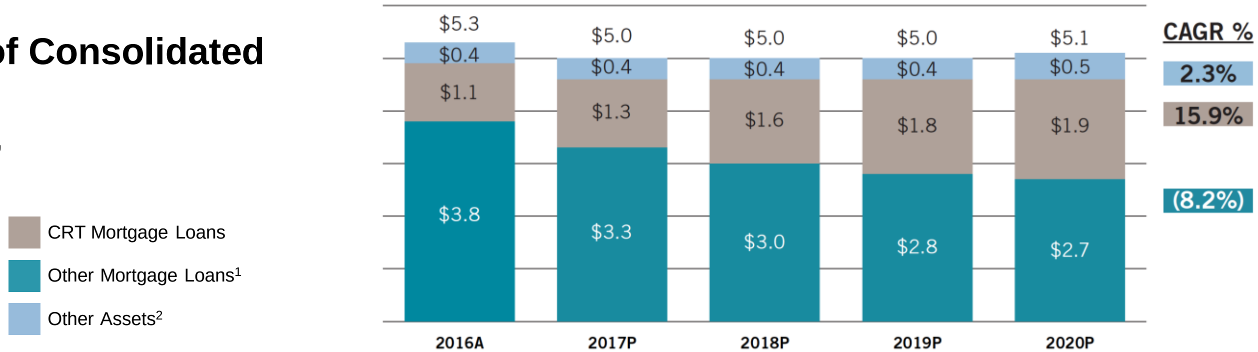
Source: Company filings, Moelis estimates
1. Core Capital includes Common Equity and Junior Preferred Stock
2. CRT Capital includes CRT debt issued and outstanding to third parties

Safety and Soundness Blueprint
Risk-Based Capital Requirements

Risk-Based Capital ("RBC")

Risk Based Capital Requirement	8.5% x Risk-Weighted Assets
Mortgage Guarantee Risk Weights	50%
Hedged Mortgage Guarantee Risk Weights	20%

Projected Evolution of Consolidated GSE Balance Sheets
$ Trillions at December 31,



	2016A	2017P	2018P	2019P	2020P
Standard Mortgage Risk Weight	50.0%	50.0%	50.0%	50.0%	50.0%
Hedged Mortgage Risk Weight	20.0%	20.0%	20.0%	20.0%	20.0%
Blended Total Risk Weight	**42.5%**	**40.4%**	**38.8%**	**37.4%**	**36.3%**
(x) Minimum RBC Requirement	8.5%	8.5%	8.5%	8.5%	8.5%
Implied RBC Requirement	**3.6%**	**3.4%**	**3.3%**	**3.1%**	**3.0%**

Source: Company filings, Moelis estimates

1. Includes unhedged mortgage loans held for investment, loans held for sale, allowance for loan losses, and cost basis and fair value adjustments. Gross mortgage loans are risk-weighted at 50%. Risk-weights are not applicable for allowance for loan losses, or cost basis and fair value adjustments
2. Includes cash, fed funds purchased and securities purchased under repurchase agreements, investment securities, accrued interest, derivatives, other real estate owned, deferred tax assets, and other assets. Risk-weights applied on asset specific basis in accordance with U.S. Basel III standardized risk-weighting (including notional derivative adjustments)

The Blueprint envisions continued CRT, incented by the dual leverage ratio and risk-based capital relief for approved risk transfer structures

Safety and Soundness Blueprint
Rebuilding a Fortress Balance Sheet

$ Billions

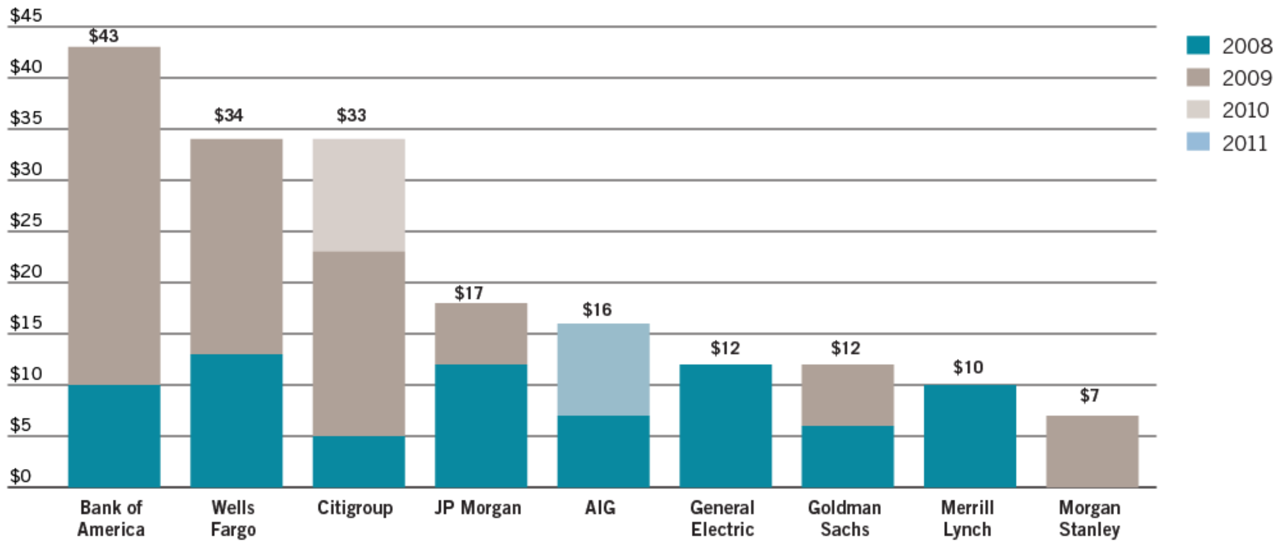
		REBUILDING CORE CAPITAL	% ASSETS[1]
Adj. 2016A Core Capital	SPS principal reduced to reflect original contractual terms, with any remainder exchanged into equity	$1B	+0.0%
Retained Earnings[2]	Dividends suspended until capital build is completed	$62B	+1.2%
Common Equity Raised	2018 relisting, 2019 offering(s)	*Initial* $40B; *Follow-on* $40B	+1.6%
Preferred Stock Issuances	2020 issuances augment existing junior preferred stock (to the extent not converted)	$25B	+0.5%
2020P Core Capital	Dividends resume	$167B	3.25%

Source: Company filings, Moelis estimates
1. Based on 2020 projected total assets of $5.1 trillion
2. Retained earnings net of common and preferred dividends

The Blueprint builds capital through retained earnings, partial conversion of existing preferred stock, and new issuance of common and preferred stock

Safety and Soundness Blueprint
Feasibility of the Capital Build

Selected Cumulative 2008 - 2011 Financial Institution Jumbo Offerings
$ Billions



Source: Bloomberg
Note: Jumbo offering defined as single offerings greater than $5 billion in size

Equity offerings of this magnitude are infrequent, but they are not without precedent for large financial institutions

Safety and Soundness Blueprint
Implementation

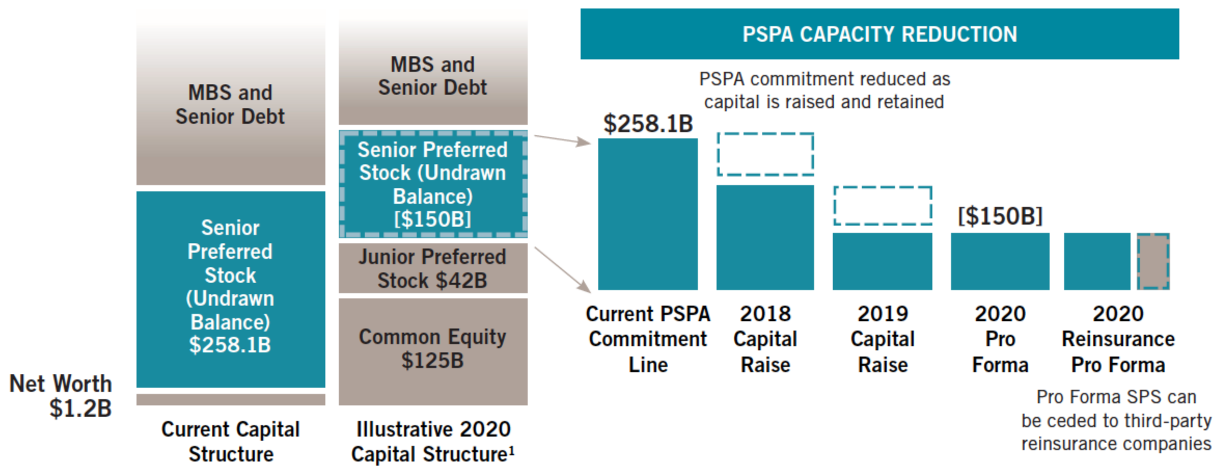
	2017 Q2	2017 Q3	2017 Q4	2018	2019	2020	$ Capital	% Assets[1]
▪ Turn off Net Worth Sweep and retain earnings until regulated minimum first-loss equity is built[2]	◆						$62B	+1.2%
▪ Adjust SPS balance to reflect original contractual terms		◆						
▪ Agree to terms to equitize remaining SPS balance, and partially equitize JPS[3]			◆					
▪ Establish regulatory framework and mechanics for G-fees			◆					
▪ Announce **future**, not immediate, exit from conservatorship			◆					
▪ Companies issue primary common equity through an IPO				◆			$40B	+0.8%
▪ Companies issue primary equity through a follow-on offering					◆		$40B	+0.8%
▪ Companies issue new junior preferred stock						◆	$25B	+0.5%
▪ Treasury sells remaining equity interest via secondary offerings								
▪ **GSEs emerge as rebuilt organizations and taxpayers profitably exit their only remaining financial crisis federal financial assistance program**						✓	**$167B**	**3.25%**

Source: Company filings, estimates

1. Based projected 2020 consolidated total assets of $5.1 trillion
2. Retained earnings net of common and preferred dividends
3. Conversion price and terms can be pre-established (consistent with the approach used by Treasury in AIG), or can be set at the IPO price

Safety and Soundness Blueprint
Explicit, But Truly Limited, Government Support

Preferred Stock Purchase Commitment: Illustrative Wind Down
$ Billions



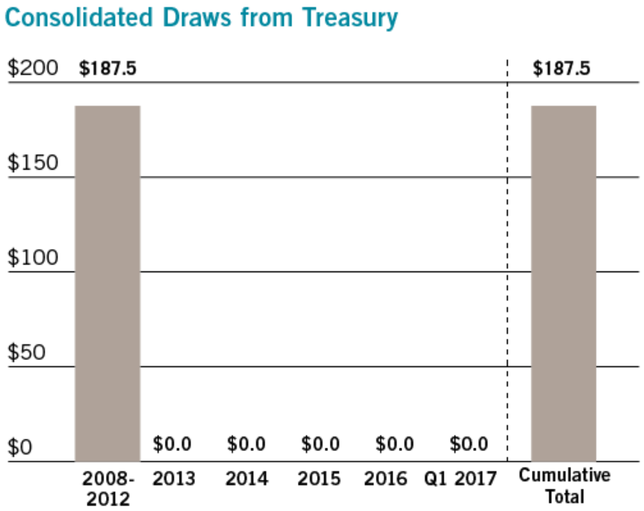
Source: Company filings, Moelis estimates

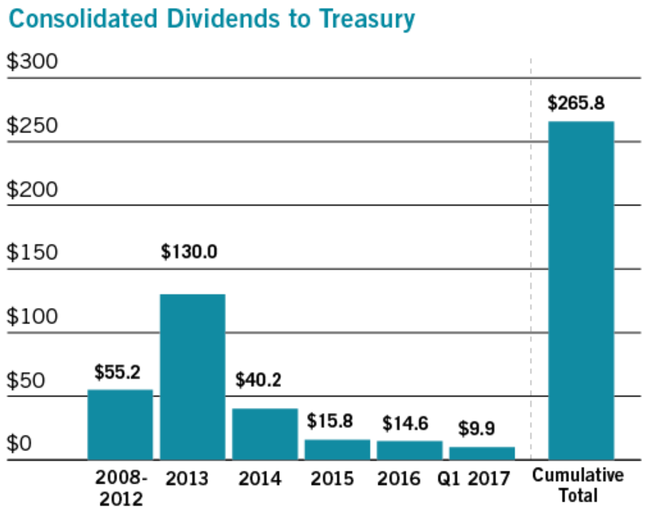
1. Illustrative capital structure reflects $167 billion of core capital (i.e., common equity plus junior preferred stock) consistent with our mid-point target capital level (3.25%), as used elsewhere in this whitepaper. Assumes pro forma preferred stock balance of $42 billion based on $25 billion of new issuance plus, for illustrative purposes only, $17 billion of outstanding legacy junior preferred stock (pro forma for an illustrative 50% equitization)

The Blueprint does not call for a full government guarantee, instead maintaining market stability by utilizing the existing PSPA commitment, which winds down as capital is built. The Blueprint provides explicit, paid for, but truly limited, support

Safety and Soundness Blueprint
Repays the Government in Full

Consolidated GSE Treasury Draws and Dividends Paid
$ Billions





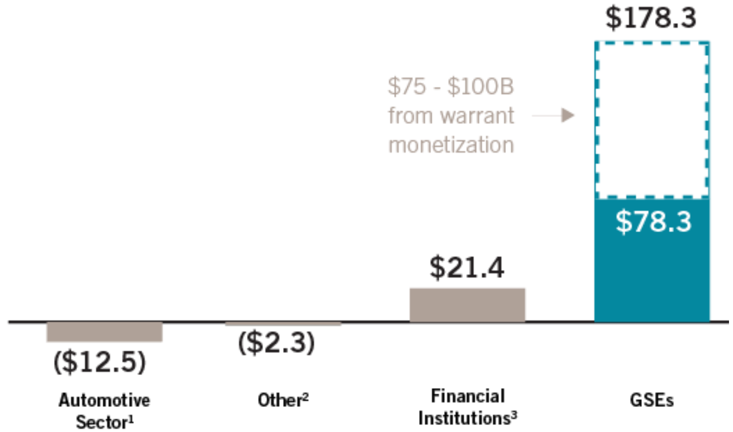
Source: Company filings, Bloomberg

As of the end of the first quarter of 2017, the GSEs have paid $265.8 billion to Treasury, nearly $80 billion in excess of Treasury's investment in Fannie Mae and Freddie Mac

Safety and Soundness Blueprint
Stakeholder Benefits

Treasury’s Cash Profits from Federal Financial Assistance Programs

$ Billions



	Automotive Sector[1]	Other[2]	Financial Institutions[3]	GSEs
% of total funds dispersed	9.9%	4.2%	55.8%	30.1%
% of Treasury cash profits	(14.7%)	(2.7%)	25.2%	92.2%
Multiple on Invested Capital	0.8x	0.9x	1.1x	1.4x - 2.0x
Government exit complete?[4]	✔	✔	✔	✖

Source: Pro Publica, Company filings, Moelis estimates

1. General Motors Company and Chrysler Group LLC
2. Includes investment funds, state housing organizations, TALF, SBA security purchases and the FHA refinance program fund
3. Includes banks, financial services organizations, insurance companies, and mortgage servicers
4. Excludes the approximately $290 million of remaining TARP investments held by Treasury as of April 2017

Highlights	
10%	Annualized return (IRR-basis) on taxpayer investment, to date
15%	Annualized return projected, pro-forma for monetization of warrants
$366B	Total cash payments projected to be received by Treasury, on an initial investment of $187.5bn
2.0x	Projected multiple received on invested capital including monetization of warrants

The biggest winner is the American taxpayer, who owns warrants through the Treasury that could be worth $75 to 100 billion