

FOR IMMEDIATE RELEASE

Press Contact: Josephine Nicholas, CMPS Institute
888-608-9800 or josephine@cmepsinstitute.org

How Does Government Takeover of Fannie and Freddie Benefit Consumers?

Ann Arbor, MI September 8, 2008 – “There are two major parts of the government takeover of Fannie Mae and Freddie Mac that will benefit consumers,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers.

#1 - Treasury Will Purchase Fannie and Freddie Mortgage Bonds

The US Treasury will purchase approximately 5 billion dollars of mortgage bonds in the next 30 days in order to address the following situation: Fannie and Freddie currently purchase over 70% of all new home mortgages issued in the United States. They then pool these mortgages together and issue bonds on the bond market. These bonds are purchased by investors such as mutual fund companies, pension funds and foreign governments. In recent weeks and months, demand for Fannie and Freddie mortgage bonds has gone down dramatically as many investors have slowed down their purchasing of these bonds. “The lack of mortgage bond buyers in the market has dried up liquidity for mortgage lenders, driving mortgage rates higher and limiting mortgage options,” said Nicholas. “Now that the US government will be creating more demand in the marketplace by purchasing Fannie and Freddie mortgage bonds, homeowners and buyers should start seeing lower mortgage rates and enhanced mortgage options.”

These activities will add to the growing federal budget deficit as the US Treasury will be using borrowed funds to invest in Fannie and Freddie bonds. However, taxpayers will profit from the spread between US government debt and debt issued by Fannie and Freddie. “The US government is currently only paying around 4% when they borrow money by issuing long term Treasury securities,” said Nicholas. “If the government invests these borrowed funds by purchasing Fannie and Freddie bonds at say 6%, they will earn a 2% profit on the difference between their cost of funds and the return on investment. Therefore, consumers benefit twice from this plan: first from lower mortgage rates, and second, from the government making a profit on their investment.”

#2 – Fannie and Freddie Are Being Placed Under Conservatorship

The US government, through an agency called the Federal Housing Finance Board, is officially taking over the management and control of Fannie and Freddie in order to put the companies in a sound and solvent condition. “Leaving control of the companies in the hands of shareholders, executives or the board of directors would have resulted in too much risk for the taxpayers,” said Nicholas. “Government conservatorship fully protects taxpayer funds from any conflicts of

interest that may arise between taxpayers and the current management or shareholders.”

As part of the conservatorship:

- Taxpayers, through the US Treasury, will receive \$1 billion of senior preferred stock in each company effective immediately, with an option to buy up to a 79.9% ownership stake in the companies at a nominal price at some point in the future. The US Treasury will receive dividends of 10% per year on the senior preferred stock.
- Future taxpayer funds to be invested in the companies' stock could total \$200 billion (\$100 billion investment in each company)
- All other shareholders will bear any losses ahead of the government, and all dividends being paid to current shareholders will be completely eliminated, saving Fannie and Freddie over \$2 billion per year
- Fannie and Freddie will continue to operate their businesses as normal, albeit under the direct management and supervision of the government
- All political activities, including all lobbying, will be halted immediately; this is especially important as Fannie and Freddie have spent approx. \$170 million on government lobbying activities over the past 10 years

“The interesting thing is that the government expressly acknowledged that they themselves were to blame for the ‘inherent conflict and flawed business model’ of the companies,” said Nicholas. “The one major flaw in the government takeover plan is the lack of a clearly defined exit strategy. The government did not set a timetable for breaking up and privatizing Fannie and Freddie and has effectively pushed off this necessary but politically undesirable task on to the next Congress and Presidential administration.”

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.

Press Contact:
Josephine Nicholas
CMPS Institute
888-608-9800