Conservatorship: Senior Preferred Stock Purchase Agreements

Webpage

United States: Federal Housing Finance Agency (FHFA)

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Fannie Mae and Freddie Mac continue to operate under conservatorship, as they have since 2008. The U.S. Department of the Treasury (Treasury) provides Fannie Mae and Freddie Mac with financial support through the Senior Preferred Stock Purchase Agreements (SPSPAs), which were executed on September 7, 2008, one day after Fannie Mae and Freddie Mac entered conservatorships ("Original Agreements").

The SPSPAs were designed to ensure that Fannie Mae and Freddie Mac, respectively: (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer.

In exchange for Treasury’s financial support, the SPSPAs require Fannie Mae and Freddie Mac, among other things, to make quarterly dividend payments to Treasury, provide Treasury with a Liquidation Preference, and beginning in 2010 pay Treasury a periodic commitment fee that reflects the market value of the outstanding Treasury commitment, as well as Stock Warrants for the purchase of common stock representing 79.9% of the common stock of Fannie Mae and Freddie Mac, respectively, on a diluted basis.

The Original Agreements were amended and restated on September 28, 2008 ("the Amended and Restated Senior Preferred SPSPAs"). Subsequently, the Amended and Restated SPSPAs were amended again on May 6, 2009 ("First Amendment"); December 24, 2009 ("Second Amendment"); and August 17, 2012 ("Third Amendment").

First Amendment

On May 6, 2009 Treasury and the Enterprises amended the SPSPAs, increasing Treasury’s commitment of financial support from $100,000,000,000, respectively, to $200,000,000,000, respectively.

Second Amendment

On December 24, 2009 Treasury and the Enterprises again amended the SPSPAs, replacing Treasury’s $200,000,000,000 commitments with new formulaic commitments.

Third Amendment

On August 17, 2012, Treasury and the Enterprises amended the SPSPAs. The Third Amendment recalibrated the calculation of the quarterly dividends the Enterprises pay to Treasury. Rather than use 10% (or in some cases 12%) of the liquidation preference to calculate the Dividend Amounts - a practice which was contributing to the Enterprises need to draw on Treasury’s commitment of financial support - the Third Amendment based the Dividend Amounts on net worth. This helped ensure financial stability, fully captured financial benefits for taxpayers, and eliminated the need for Fannie Mae and Freddie Mac circularly to borrow from Treasury only then to pay dividends back to Treasury.
The Third Amendment suspended the periodic commitment fee for so long as the Dividend Amounts were based on net worth. The Third Amendment also eliminated the requirement that the Enterprises obtain Treasury consent for asset dispositions with a fair market value (individually or in aggregate) of less than $250 million, but required the Enterprises to submit annual risk management plans to Treasury.

2017 Letter Agreements on Capital Reserves

On December 21, 2017, letter agreements between Treasury and each Enterprise changed the terms of the respective Senior Preferred Stock Certificates, issued under the SPSPAs, to permit each Enterprise to retain a $3 billion capital reserve, quarterly. Under the 2017 letter agreements, each Enterprise paid a dividend to Treasury equal to the amount its net worth at the end of each quarter exceeded $3 billion. Those terms applied to the December 31, 2017 dividend payment and the dividend payments for each quarter thereafter, until the execution of the September 30, 2019 letter agreements. FHFA Director Mel Watt issued a statement on the 2017 letter agreements, when they were announced.

2019 Letter Agreements on Capital Reserves

On September 30, 2019, Treasury and the Federal Housing Finance Agency (FHFA), acting as Conservator to Fannie Mae and Freddie Mac, announced amendments to the respective Senior Preferred Stock Certificates that will permit Fannie Mae and Freddie Mac to retain earnings beyond the $3 billion capital reserves previously allowed through the letter agreements of 2017. Fannie Mae and Freddie Mac are now permitted to maintain capital reserves of $25 billion and $20 billion, respectively. These changes were recommended in the Treasury Housing Reform Plan released on September 5, 2019. FHFA Director Mark Calabria issued a statement on the 2019 letter agreements, when they were announced.

Senior Preferred Stock Purchase Agreements and Amendments

Fannie Mae

Third Amendment to Fannie Mae’s Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (August 17, 2012)

Second Amendment to Fannie Mae's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (December 24, 2009)

First Amendment to Fannie Mae's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (May 6, 2009)

Fannie Mae's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (September 26, 2008)

Fannie Mae's Senior Preferred Stock Purchase Agreement with Treasury (September 7, 2008)

Freddie Mac
Third Amendment to Freddie Mac's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (August 17, 2012)

Second Amendment to Freddie Mac's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (December 24, 2009)

First Amendment to Freddie Mac's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (May 6, 2009)

Freddie Mac's Amended and Restated Senior Preferred Stock Purchase Agreement with Treasury (September 26, 2008)

Freddie Mac's Senior Preferred Stock Purchase Agreement with Treasury (September 7, 2008)

Senior Preferred Stock Certificates and Amendments

Fannie Mae

Third Amendment - Fannie Mae Amended and Restated Certificate (as amended on September 30, 2019)

Second Amendment - Fannie Mae Amended and Restated Certificate (as amended on January 1, 2018)

First Amendment - Fannie Mae Amended and Restated Certificate (as amended on August 27, 2012)

Freddie Mac

Third Amendment - Freddie Mac Amended and Restated Certificate (as amended on September 30, 2019)

Second Amendment - Freddie Mac Amended and Restated Certificate (as amended on January 1, 2018)

First Amendment - Fannie Mae Amended and Restated Certificate (as amended on August 27, 2012)

Letter Agreements

Fannie Mae

2021 Fannie Mae Letter Agreement (January 14, 2021)

2019 Fannie Mae Letter Agreement (September 27, 2019)


Freddie Mac

2021 Freddie Mac Letter Agreement (January 14, 2021)

2019 Freddie Mac Letter Agreement (September 27, 2019)

2017 Freddie Mac Letter Agreement (December 21, 2017)
Warrants

Fannie Mae

Treasury Warrant to Purchase Fannie Mae Common Stock

Freddie Mac

Treasury Warrant to Purchase Freddie Mac Common Stock

Related Links

Treasury Department and FHFA Amend Terms of Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac (1/14/2021)

FHFA and Treasury Allow Fannie Mae and Freddie Mac to Continue to Retain Earnings (1/14/2021)

Treasury Department and FHFA Modify Terms of Senior Preferred Stock Purchase Agreement for Fannie Mae and Freddie Mac (9/30/2019)

Statement from FHFA Director Mark Calabria on Letter Agreement with Treasury to Increase Fannie, Freddie Capital Retention (9/30/2019)

Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities

Statement of FHFA Acting Director Edward J. DeMarco on Changes to Fannie Mae and Freddie Mac Senior Preferred Stock Purchase Agreements (8/17/2012)

Frequently Asked Questions: Treasury Senior Preferred Stock Purchase Agreement

Fact Sheet: Senior Preferred Stock Purchase Agreement

FHFA Mortgage Market Note 10-1: U.S. Treasury Support for Fannie Mae and Freddie Mac

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