Treasury Department and FHFA Modify Terms of Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac

United States: Department of the Treasury
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Washington – The U.S. Department of the Treasury and the Federal Housing Finance Agency (FHFA) today agreed to a set of modifications to the terms of the Preferred Stock Purchase Agreements (PSPAs). The agreement allows Fannie Mae and Freddie
Mac to maintain a limited capital buffer in an amount that should be sufficient to cover income fluctuations in the normal course of business.

Under the modifications announced today, Fannie Mae and Freddie Mac will be allowed to maintain a capital buffer of $3 billion each. The dividend payment owed to Treasury will be calculated each quarter using the $3 billion capital buffer as a baseline. To compensate taxpayers for the dividends they would have received absent these letter agreements, Treasury’s liquidation preference for the Preferred Stock held in Fannie Mae and Freddie Mac will increase by $3 billion as of December 31, 2017. Additionally, any failure by Fannie Mae or Freddie Mac to declare and pay a full quarterly dividend will result in the automatic, immediate termination of its capital buffer.

“Treasury’s first duty is to ensure that taxpayers are being protected,” said Treasury Secretary Steven T. Mnuchin. “This agreement balances the concerns of the FHFA with compensation for taxpayers. The Administration looks forward to working with Congress on comprehensive housing finance reform, a top priority in the year ahead.”

In a statement today, FHFA Director Mel Watt indicated that he believed that a $3 billion capital reserve is necessary to cover ordinary income fluctuations. Treasury consented to this request in agreeing to this modification. Further, the FHFA contemplates that the dividends will be declared and paid beyond the $3 billion capital buffer in the absence of exigent circumstances. Both the Treasury and the FHFA believe that a draw on the Treasury funding commitment may be required given tax reform legislation and the write-down of the deferred tax assets held on the balance sheets of Fannie Mae and Freddie Mac.

Copies of the agreements can be viewed here:

First Letter Agreement

Second Letter Agreement
Over One Million American Workers Receiving Bonuses in Response to Tax Reform

Statement by Secretary Mnuchin on Over One Million American Workers Receiving Bonuses in Response to the Tax Cuts & Jobs Act

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