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3-17-2008

Daniel Mudd Email including OFHEO & GSE Announcement Draft

Daniel Mudd

James B. Lockhart

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From: Mudd, Daniel H
To: Lockhart, James;
Steel, RobertDisabled;
cc: Dick Syron;
Subject: announcement draft
Date: Monday, March 17, 2008 6:23:10 PM
Attachments: 2008 March 17 Statemen.pdf

Gentlemen: here is a statement Dick and I hope reflects our combined intentions, and the best interest of the market. Speaking only for Fannie (though Dick probably has the same issue), I do have to disclaim that there are portions of this agreement that would be subject to the approval of my Board. As ever, thanks, Dan

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“OFHEO and GSE’S ANNOUNCE INITIATIVE TO INCREASE MORTGAGE MARKET LIQUIDITY”

Several Hundred Billion Dollars to Support Mortgage Market

OFHEO, Freddie Mac and Fannie Mae today announced a major initiative to increase liquidity in support of the US mortgage market. The initiative is expected to provide up to several hundred billion dollars of immediate liquidity to the mortgage-backed securities market.

To support growth and further restore market liquidity, OFHEO announced that it would permit a significant portion of the GSEs’ 30 percent capital surplus to be invested in mortgages and MBS. As part of the understanding, both companies indicated that they planned to raise additional capital over time as needed that would be accretive to shareholders. Both companies also said they would maintain overall capital levels in excess of statutory minimums while the mortgage market recovers in order to ensure market confidence.

OFHEO announced that Fannie Mae is in full compliance with its Consent Order and therefore will be lifting the Consent Order, and that Freddie Mac has one remaining requirement that is scheduled to be resolved this summer. In view of this progress, the public purpose of the two companies, and ongoing market conditions, OFHEO concluded that it is appropriate to immediately reduce the OFHEO-directed capital surplus by 50 percent.

“Fannie Mae and Freddie Mac have played a very important and beneficial role in the mortgage markets over the last year,” OFHEO Director James J. Lockhart. “Let me be clear: Both companies are well capitalized and have adequate reserves. However, we believe they can play an even more positive role in providing the stability and liquidity the markets need right now. OFHEO will remain vigilant in supervising the safe and sound operations of these companies, and will act quickly to address any deficiencies that may arise. Furthermore, we recognize the need to ensure that their capital levels are strong, protecting them from unforeseen risks as the market recovers.”

“It is important that the housing GSE’s step up to provide liquidity in the critical mortgage markets,” said Treasury Secretary Paulson. “They must be a key part of the solution.”

Fannie Mae President and Chief Executive Officer Dan Mudd added that, “We are working with our customers, regulators and policy makers to minimize foreclosures, increase affordability – and as of today – to restore liquidity in the market. This is a progressive, sustainable plan, and Fannie Mae appreciates the leadership OFHEO and Treasury have shown.”

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Freddie Mac Chairman and Chief Executive Officer Dick Syron said “The recent environment demonstrates the benefits of the GSE’s to the U.S. economy. This approach allows us to continue to create these benefits in a way that balances our mission to provide stability, liquidity, affordability consistent with safety and soundness while preserving the interests of shareholders.”