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Recent Developments
Fannie Mae and Freddie Mac

September 12, 2008

On Sunday, September 7, 2008, the U.S. Department of Treasury (the “Treasury”) placed Fannie Mae and Freddie Mac into conservatorship. The Federal Housing Finance Agency (FHFA), the regulator of the Government Sponsored Enterprises (GSEs), took over the management of the two companies effective immediately following the announcement. We at Advised Assets Group, LLC (AAG) have prepared the following answers to address some of the questions being asked regarding these GSEs.

Q. Why did the Treasury take this action?

The Treasury is attempting to stabilize the world financial markets and assist in the recovery of the U.S. housing market.

Q. What does the Federal takeover mean to the debt and the mortgage backed securities guaranteed by Fannie Mae and Freddie Mac?

Timely payment of principal and interest on the senior and subordinated debt and agency Mortgage Backed Securities (MBS) is ensured by FHFA. While not providing an explicit guarantee, the Treasury will provide support through capital infusion, thereby eliminating capital adequacy concerns, and also created a financing facility as a liquidity backstop to Fannie Mae and Freddie Mac.

Q. How has the bond market reacted to the rescue plans for the two agencies?

The bond markets have responded very favorably to the rescue plan. Spreads on the debt and on Agency MBS of the GSEs (a good proxy for risk) have tightened significantly as investors’ credit concerns are reduced. In essence, bond investors believe that the greater Government involvement enhances the implicit guarantee of the Government and brings it much closer to an explicit guarantee.

Q. What are the ratings of the debt and Mortgage Backed Securities guaranteed by Fannie Mae and Freddie Mac?

All obligations of the GSEs continue to be rated AAA as provided by Moody’s/S&P, which is the highest rating.

Q. What have the Treasury's actions meant to the stock of Fannie Mae and Freddie Mac?

The stock of both the GSEs is currently trading at approximately $1.00 as of 9/12/08. The federal government announced that payments to common and preferred shareholders have been suspended indefinitely. The GSEs are still private companies because common and preferred shares remain outstanding, but with the government as a shareholder and managed by the regulator (FHFA) and the Treasury.

Q. Based on above comments, is it fair to conclude that the Treasury's actions were good for the bond holders but bad for the stockholders?

Judging from the initial reactions of the financial markets, that seems to be the case.

Q. Can you provide some more details of the Treasury plan?

1) The FHFA controls and oversees Fannie Mae and Freddie Mac, and is charged with keeping the companies solvent. The GSEs will be able to grow their guaranteed mortgage book with no limits, and grow their retained portfolios within set constraints.

2) The Treasury will provide capital to keep the GSEs' GAAP net worth positive. In return, Treasury will receive new senior preferred stock and warrants on the GSEs' common stock.

3) The Treasury established a new secured lending facility (GSECF) for Fannie Mae and Freddie Mac.

4) The Treasury established a program to purchase agency MBS.

* Information derived from a variety of financial publications and economic reporting companies, including the Wall Street Journal, Moody's, S&P, etc.