

Context of FHFA Dir. Calabria's Latest Comments... The Non-Fake-News Version:

It is our view that both Bloomberg and Politico appear to have mis-contextualized FHFA Director Calabria's comments of yesterday morning:

- a. Both have substantively stated:
 - i. ** FHFA'S CALABRIA: GSES COULD SEE PUBLIC OFFERING IN 2021-2022;*
 - ii. ** CAPITAL RULE IS PREREQUISITE TO GSE PUBLIC OFFERING: CALABRIA;*
 - iii. ** GSES COULD BE FREED BY 2022-23 IF ALL GOES WELL, CALABRIA SAYS.*
- b. These reporters comments demonstrate:
 - i. Dir. Calabria's comments were ambiguous as to whether "GSEs could be freed" refers to:
 1. An exit from conservatorship; or
 2. The ultimate termination of expected consent-decree agreements which would be placed on the GSEs before exiting conservatorships and remain in effect until around the time that the GSEs have accessed the capital markets and have reached FHFA's forthcoming regulatory capital requirements;
 - ii. Because the PSPA/liquidation-preference allows Treasury to bar any sales of new GSE equity, failure to act in a timely manner

would mean that a future UST can prevent the GSEs from ever accessing capital markets, frustrating Dir. Calabria's stated goals;

1. Further, a failure of the current FHFA and UST to act expeditiously would provide a future President the ability to replace the FHFA Director and would undermine FHFA's intent to carry out its statutory obligations;
 2. The longer this process takes, the greater the risk the capital markets will close before the GSEs have recapitalized to regulatory capital, undercutting Dir. Calabria's position that "you have to fix the roof while the sun is shining".
- c. **However**, proper context reminds us that Dir. Calabria has previously and publicly stated;
- i. He expects, at least until they reach regulatory capital, the GSEs would operate under a consent decree after release from conservatorship;
 - ii. The timing of equity capital raises will be up to each GSE.
- ci. If our analysis is correct there is nothing new or inherently inconsistent in Dir. Calabria's comments. Rather, it appears reporters have not provided the proper historical context of Dir. Calabria's comments:
- i. Dir. Calabria again stated the GSEs should retain earnings for 1-1.5 yrs. But the context of this statement appears to have been lost

in the reporting- the GSEs have been retaining earnings since April 1 and by Q1'20 they will be at a year of retained capital;

- ii. The PSPA amendments and Capital Rule are likely to be done sometime in the 1st quarter. As a prerequisite for the GSEs to meet the expected benchmarks for full release from government control the PSPAs must address the periodic commitment fee payments for ongoing UST backstop support and, to allow the Enterprises to eventually be able to access the capital markets, it must address the write-down UST's liquidation preferences (which would essentially moot plaintiff suits against the Government);
- iii. Only after these milestones have been met could the GSEs be directed to provide FHFA with Capital Restoration Plans (30-days for GSEs to respond to request, ~60-days for FHFA to approve or disapprove);
- iv. Upon eventual approval of these restoration plans the GSEs could enter into consent decrees that place limitations on their activities as public companies;
- v. Although reaching regulatory capital requirements is not a legal requirement to exit conservatorship having approved capital restoration plans are functionally requirements. Upon approval of CRP, and agreement on consent decrees, the GSEs could be

released from conservatorship and begin their own process of deciding how/when to go to the capital markets;

vi. The GSEs would likely continue to operate under consent decrees until at least the time they reach regulatory capital – at which time they will be “freed” in one sense of that word.

vii. It is important to note:

1. If the liquidation preference is written down and/or the GSEs are allowed to put the DTAs on balance-sheet (consistent with GAAP accounting for APIC) they would already be at statutory capital today;
2. Even without full credit for the DTAs/prepaid-asset the GSEs should achieve retained sufficient capital to reach statutory capital requirements by around the time of the Presidential elections;

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