

THE DELAWARE BAY COMPANY ^{LLC}

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To my partners:

New Year's Eve commentary

I hope you all had a good holiday.

I enclose a report on **Fannie Mae** and **Freddie Mac** issued earlier this month. While I am not familiar with the author, it is probably the most comprehensive and up-to-date analysis of the situation out there. It is very informative and will answer many of your questions.

With respect to Fannie and Freddie, items 1, 2, and 3 cited in last year's New Year's Eve commentary have been accomplished; item #4 "*ending the net worth sweep and declaring the government's preferred stock repaid*" will hopefully be put in place by January 20, when Treasury Secretary **Steven Mnuchin** leaves office. It is, of course, imperative that this be done, for without a resolution, it will be impossible to raise the many billions of dollars which will be necessary to put private capital in front of the taxpayer. As I understand it, Secretary Mnuchin and Federal Housing Finance Agency director **Mark Calabria** are negotiating the final details, and as I recently wrote, [the notion that the government has not been repaid](#) is simply ludicrous. At this point I find it difficult to believe that they will drop the ball on the one-yard line.

Despite the significant progress, **Mr. Market** still doesn't care; the preferreds ended down about 25 percent for the year. As I explained in item #5 of last year's letter, "*re-listing the companies on a major stock exchange*" is the single most important factor needed to get the share prices up, as trading in "pink sheet" stocks is generally prohibited by most major institutional investors and mutual funds. (They are the ones who will be putting new capital into the companies.) Look to see strong competition between the **NYSE** and **NASDAQ** for the listings.

That leaves item #6: "*exiting conservatorship and operating under a Consent Decree . . .*". As Dr. Calabria could very well see himself out of a job as early as June (see item #7, "*continued pressure on the government from the lawsuits*"), I expect this to occur before that happens. Both a consent decree and declaring the government's preferred stock repaid are steps which will be virtually impossible to reverse by the new Administration.

The market behavior (i.e., “pricing inefficiency”) is not unlike that which we experienced with **Meritor** and before that, **Continental Illinois**, and as was the case with them, Mr. Market will eventually wake from his slumber. In the meantime, those who don’t already own (as well as those who wish to add to their positions) can still buy in at a 65 percent discount to their \$25 par values.

As always, call or write with your questions.

Happy New Year!



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