



SENIOR PREFERRED STOCK PURCHASE AGREEMENTS

Fannie Mae and Freddie Mac continue to operate under conservatorship, as they have since 2008. The U.S. Department of the Treasury provides Fannie Mae and Freddie Mac with financial support through the Senior Preferred Stock Purchase Agreements, established at the same time as Fannie Mae and Freddie Mac entered conservatorships.

The Senior Preferred Stock Purchase Agreements were designed to ensure Fannie Mae and Freddie Mac maintained positive net worth, be able to meet its outstanding obligations, and continue providing liquidity to the mortgage market.

2017 Letter Agreements on Capital Reserves

On December 21, 2017, FHFA and the Department of the Treasury agreed to reinstate a \$3 billion capital reserve amount for each Enterprise. In a [letter agreement](#) to each of the Enterprises, Treasury and FHFA as Conservator agreed to change the terms of the Senior Preferred Stock certificate to permit each Enterprise to retain a \$3 billion capital reserve each quarter. As a result of these agreements, an Enterprise will only pay a dividend to Treasury if the net worth at the end of a quarter is more than \$3 billion. These terms apply to any quarterly dividend paid for the fourth quarter of 2017 and each quarter thereafter. FHFA Director Mel Watt issued a [statement](#) on this change.

2012 Changes to SPSPAs

In August 2012, Treasury and FHFA changed the Senior Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac.

In addition to requiring a faster wind-down of their portfolios, the 10 percent fixed-rate dividend was replaced with a variable structure, essentially directing all net income to the Treasury. Replacing the current fixed dividend in the agreements with a variable dividend based on net worth helps ensure stability, fully captures financial benefits for taxpayers, and eliminates the need for Fannie Mae and Freddie Mac to borrow from the Treasury Department to pay dividends.

As Fannie Mae and Freddie Mac shrink, the continued payment of a fixed dividend could have called into question the adequacy of the financial commitment in the preferred stock agreements. The accelerated decrease of the retained mortgage portfolio reduces risk exposure.

The changes also give a level of certainty to Fannie Mae, Freddie Mac, and market participants.

Dividends

Instead of paying the Treasury a 10 percent dividend on outstanding senior preferred stock as was the case prior to 2012, Fannie Mae and Freddie Mac will pay Treasury a quarterly net worth sweep, based on a formula.

In many quarters the payment will equal quarterly net profits. This change eliminates the possibility of the Enterprises having to borrow from Treasury to pay dividends, which could have eroded market confidence. This change also ensures all the Enterprises' earnings are used to benefit taxpayers.

Periodic Commitment Fee

In 2012 the periodic commitment fee was suspended in light of the new dividend formula. Previously, Fannie Mae and Freddie Mac were supposed to pay a quarterly periodic commitment fee beginning in 2010, but Treasury had waived the fee every quarter.

Mortgage Asset Reduction

Another key change in 2012 was the requirement to contract Fannie Mae's & Freddie Mac's portfolios at an annual rate of 15 percent—an increase from the 10 percent reduction previously required. This reduces both Fannie Mae's and Freddie Mac's retained portfolios to \$250 billion by 2018.

Treasury Consent for Enterprise Actions

Although Fannie Mae and Freddie Mac must obtain Treasury approval for certain actions, the original agreements allowed exceptions. In 2012, an additional exception was added. Fannie Mae and Freddie Mac no longer need Treasury consent for asset disposition as long as the fair market value of the asset is less than \$250 million.

Risk Management Plans

Fannie Mae and Freddie Mac are each now required to submit an annual risk management plan to Treasury under FHFA direction. Each plan must support a well-managed wind-down and include how they plan to reduce taxpayer losses. In 2012, Fannie Mae and Freddie Mac submitted these plans to FHFA.

Senior Preferred Stock Purchase Agreements

Fannie Mae

[Letter Agreement \(December 21, 2017\)](#)

[Third Amendment to Fannie Mae's Senior Preferred Stock Purchase Agreement with Treasury \(August 2012\)](#)

[Second Amendment to Fannie Mae's Senior Preferred Stock Purchase Agreement with Treasury \(December 2009\)](#)

[First Amendment to Fannie Mae's Senior Preferred Stock Purchase Agreement with Treasury \(May 2009\)](#)

[Fannie Mae's Senior Preferred Stock Purchase Agreement with Treasury \(September 2008\)](#)

Freddie Mac

[Letter Agreement \(December 21, 2017\)](#)

[Third Amendment to Freddie Mac's Senior Preferred Stock Purchase Agreement with Treasury \(August 2012\)](#)

[Second Amendment to Freddie Mac's Senior Preferred Stock Purchase Agreement with Treasury \(December 2009\)](#)

[First Amendment to Freddie Mac's Senior Preferred Stock Purchase Agreement with Treasury \(May 2009\)](#)

[Freddie Mac's Senior Preferred Stock Purchase Agreement with Treasury \(September 2008\)](#)

Related Links

[Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities](#)

[Statement of FHFA Acting Director Edward J. DeMarco on Changes to Fannie Mae and Freddie Mac Preferred Stock Purchase Agreements \(8/17/2012\)](#)

[Frequently Asked Questions: Treasury Senior Preferred Stock Purchase Agreement](#)

[Fact Sheet: Treasury Senior Preferred Stock Purchase Agreement](#)

[FHFA Mortgage Market Note 10-1: U.S. Treasury Support for Fannie Mae and Freddie Mac](#)

[Fannie Mae Preferred Stock Certificate](#)

[Freddie Mac Preferred Stock Certificate](#)