

U.S. DEPARTMENT OF THE TREASURY

Press Center

Treasury, IRS Issue Guidance on Indirect Ownership of Fannie and Freddie Preferred Stock

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Washington, DC--The Treasury Department and the Internal Revenue Service today issued Revenue Procedure 2008-64 (Rev. Proc. 2008-64), which provides that certain gains and losses from indirect ownership of Fannie Mae and Freddie Mac preferred stock can be treated as ordinary income and loss.

The Emergency Economic Stabilization Act of 2008 (EESA) provided banks and certain financial institutions ordinary treatment for gains and losses on direct investments in preferred stock of Fannie Mae and Freddie Mac. It also directed the Treasury Department to issue guidance with respect to the treatment of these gains or losses when realized indirectly through certain investment vehicles.

Rev. Proc. 2008-64 provides banks and certain other financial institutions the benefit of ordinary treatment on gains and losses that they are experiencing on certain indirect investments in this preferred stock.

Many financial institutions have invested in Fannie Mae and Freddie Mac preferred stock indirectly through certain adjustable rate preferred programs and other vehicles. Pursuant to the authority granted in EESA, the revenue procedure includes guidance describing when these financial institutions receive ordinary treatment on:

- gains and losses on this stock recognized by a trust or other entity taxed as a partnership in which the financial institution is a partner;
- gains and losses on the sale of an interest in a partnership that owns this stock;
- gains and losses on the sale of this stock that the financial institution received in a distribution from a partnership;
- gains and losses on this stock recognized by certain subsidiaries of financial institutions; and
- gains and losses on the sale of this stock that the financial institution received in certain "transferred basis" transactions.

Rev. Proc. 2008-64 is effective immediately and includes rules for application to transactions that occurred prior to issuance of the revenue procedure. The revenue procedure also requests comments from taxpayers regarding the guidance.

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- [Rev. Proc. 2008-64](#)