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Federal Housing Finance Agency  
Fourth Floor, 1700 G Street, NW  
Washington, DC 20552  
Attention: Alfred M. Pollard, General Counsel

Re: Submission of Public Comments on RIN 2590-AA23

Ladies and Gentlemen:

As a current owner of a significant number of shares of many series of preferred stock of Fannie Mae and Freddie Mac (the "GSEs"), I have been following the business and financial performance of the GSEs closely. I appreciate the opportunity to submit my comments on RIN 2590-AA23 regarding the future of the GSEs, and urge the Federal Housing Finance Agency ("FHFA") to alter the terms of its conservatorship over the GSEs to build a more sustainable capital structure for the GSEs.

Specifically, I urge the FHFA to consider taking the following steps, which I believe would signal a commitment to private sector investment:

- reducing the annual 10 percent dividend on the senior preferred stock held by the U.S. Treasury to 5 percent; and
- reducing government ownership of the GSEs, to be accomplished by converting some of the senior preferred stock held by the U.S. Treasury into common stock and issuing equity securities in a series of private offerings to the private sector.

In aggregate, these measures would improve the capital structure of the GSEs, reduce the cost of capital, preserve cash resources at a time when the GSEs are being rehabilitated, and allow the GSEs to build capital. Improving the stability of the GSEs is crucial to the overall economic recovery of the housing industry and capital markets. In addition, these steps would also rebuild investor confidence, strengthen the role of the private sector in the GSEs, and foster stability in an uncertain market.

A significant consensus has developed that the GSEs are crucial to economic recovery. This year, in view of the housing market decline, Fannie and Freddie, along with Ginnie Mae, have been behind 98 percent of U.S. mortgages. See Andrew Ross Sorkin, *New York Times*, August 16, 2010. Addressing uncertainties about the future of the GSEs will provide support and liquidity to the secondary mortgage market, increase the supply of affordable housing and, in turn, assist in the recovery of the U.S. economy.

The terms of conservatorship established by FHFA in 2008 provided for an initial issuance of \$1 billion of senior preferred stock with a 10 percent quarterly dividend, including warrants representing ownership of 79.9 percent of each GSE. See Federal National Mortgage Association Form 10-Q, filed on August 5, 2010, page 75; see also Federal Home Loan Mortgage Corp. Form 10-Q, filed on August 9, 2010, pages 56 and 197.

Although this commitment of capital from the government was directed at maintaining the positive net worth of the GSEs, the senior preferred dividends paid to the U.S. Treasury now slow their recovery. Freddie Mac attributed its second quarter losses primarily to its "net loss of \$4.7 billion and the \$1.3 billion dividend payment to Treasury on the senior preferred stock." See Federal Home Loan Mortgage Corp. Form 10-Q, filed on August 9, 2010, page 1. Like Freddie Mac, Fannie Mae made a \$1.9 billion dividend payment on the senior preferred stock owned by the U.S. Treasury during the second quarter of 2010. See Federal National Mortgage Association Form 10-Q, filed on August 5, 2010, page 7.

Reducing the dividend payments to 5 percent would substantially reduce quarterly losses and bring the dividend payments owed by the GSEs into alignment with payments under the Troubled Asset Relief Program ("TARP"). In addition to reducing the burdensome quarterly dividend payments, Treasury ownership of the GSEs should be reduced over time, consistent with the objectives of achieving a balance of private sector investment. As an investor in both Fannie and Freddie, I believe that the differences in financial performance at these two enterprises should be duly reflected in the terms of any combination of the GSEs.

Reducing government ownership of the GSEs is a realistic objective that has been achieved by other financial institutions. In June 2010, First BanCorp entered into an agreement with the FDIC to improve its financial condition by (1) issuing equity in a series of private offerings and (2) converting preferred stock that is held by the U.S. Treasury into common stock. The stated goals of these transactions are to enhance long-term stability of First BanCorp, to improve its ability to operate in the current economic environment, and to absorb future credit losses. See First BanCorp Amendment No. 4 to Form S-4 on Form S-1, filed on July 16, 2010, page 4. Allowing the GSEs to effect similar capital raising transactions could achieve similar objectives.

I urge the FHFA to consider these measures as it plans out the conservatorship and receivership of the GSEs. Reducing the dividend rate imposed on senior preferred stock held by the U.S. Treasury and reducing government ownership of the GSEs will help to ensure the future of these enterprises and will demonstrate to investors the firm commitment of the FHFA to a more stable housing finance system that better protects private sector investment as well as American taxpayers.

Sincerely,

Lloyd I. Miller, III