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Proposal and Comment Information

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Please publish the below letter dealing with ending the 17-year conservatorship of Fannie Mae and Freddie Mac. Thank you. Brian Reilly

ENDING THE GSE CONSERVATORSHIP – THE LARGEST SHAREHOLDER RIP-OFF IN AMERICAN HISTORY

To end the conservatorship of Fannie Mae and Freddie Mac, the GSEs, the United States Treasury must cancel the senior preferred stock and the 79.9% warrant for all GSE common stock. They should also return \$100 billion of excess cash taken from these companies by Treasury. The GSE bailout back in 2008 was \$191.4 billion and it was repaid in 6 years during which time interest rates were near zero. Treasury kept taking cash and has booked a combined profit according to SEC filings of about \$110 billion. Litigation between the GSEs and the banks that delivered the toxic mortgages to them resulted in settlements totaling \$38.5 billion in 2012 and 2013 according to the FHFA, the GSE conservator. Treasury took that cash. The Temporary Payroll Tax Cut Continuation Act of 2011 directed a 10-basis point annual fee to be levied on all residential mortgages held by Fannie and Freddie. Through December 31, 2024, those fees as reported on GSE operating statements total \$50 billion and were paid to Treasury. They continue today averaging more than \$6 billion a year. Treasury cash profit on the bailout of the GSEs is approximately \$200 billion ignoring interest earned on the money which would add about \$40 billion more. With interest rates near zero during the payback period, the Treasury cost of capital to finance the bailout was below \$3 billion. A fair profit to taxpayers is below \$50 billion, not \$200 billion. Ask any banker. Bottom line, taxpayers have been more than fully compensated for the bailout, and the United States Treasury is screwing the GSE shareholders. In addition, the GSEs paid \$45 billion in federal income tax over the past 7 years and they pay the operating costs of the FHFA as reported on their financial statements.

The FHFA was found guilty of abusing Fannie and Freddie in a unanimous jury decision at the DC District court (case number 1:13-mc-01238) in August of 2023. In 2012 the FHFA and Treasury implemented the Net Worth Sweep which took 100% of all GSE cash flow in perpetuity. The FHFA's assignment as conservator was to help the GSEs become sound and solvent with the goal to release them back to private ownership. The Net Worth Sweep did the opposite. Go figure! The court assessed a penalty against the FHFA of more than \$800 million including interest.

The centerpiece, however, of Treasury abuse of GSE shareholders is the two securities they created back in 2008: the 10% cumulative senior preferred stock and the warrant that gives Treasury 79.9% of all Fannie and Freddie common stock. The senior preferred started at \$2 billion in 2008 and at 2024-year end is a whopping \$341 billion as reported in SEC filings. It grows each year by the amount of GSE earnings until Fannie and Freddie have adequate capital and at that point the dividend becomes payable to the Treasury in cash. The current dividend exceeds \$34 billion and grows about \$2.5 billion each year. Annual GSE earnings for the past 6 years are flat at \$25 billion. How does that work? It doesn't! This security renders all common and all 36 preferred stock issues of both companies basically worthless, including the 79.9% Treasury warrant. If Treasury does not cancel both securities, litigation is likely. You cannot take \$200 billion in cash plus all the equity of both GSEs. The impact on shareholders of these 2 securities is identical to the Net Worth Sweep impact. Both wipe out all shareholders and a jury would see through it as they did with the FHFA Net Worth Sweep litigation.

Hundreds of banks were bailed out in 2008. These five, according to ProPublica research, Citigroup, Bank of America, JP Morgan, Wells Fargo, and GMAC received \$156 billion. It was repaid and Treasury profit was \$25 billion. Their assets and stock were left intact. Conversely, Treasury is off loading cash and securities valued near \$500 billion from Fannie and Freddie.

In summary, here is what needs to be done to end the conservatorship. The senior preferred stock and the Treasury warrant, as mentioned above, must be cancelled. \$100 billion of cash should be returned to the GSEs to reduce their capital shortfall which exceeds \$300 billion according to the conservator. The 10-basis point fee currently running at over \$6 billion annually can continue as compensation for government (taxpayer) support. Sound mortgage underwriting standards must be maintained by banks and the GSEs. Doing the above will end the largest shareholder rip-off in American history and will avoid serious future shareholder litigation. I'm optimistic the new administration in Washington will finally end this 17-year conservatorship and do it fairly.

Brian M Reilly, GSE shareholder.

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