



September 10, 2008

## **U.S. Government Takes Control of Fannie and Freddie**

Dear Friends,

In a widely anticipated move, the U.S. government seized Fannie Mae and Freddie Mac on Sunday. That's when the Federal Housing Finance Agency (FHFA) assumed direct responsibility for these two financial giants, which together provide funding for roughly 75 percent of new home mortgages.

The FHFA acted after federal officials determined the two government-sponsored enterprises (GSEs) did not have sufficient capital to survive impending losses. Since the beginning of 2007, Fannie and Freddie have lost a combined \$10.6 billion.

The move is expected to do what a series of interest-rate cuts from the Federal Reserve failed to do: Provide stimulus to the moribund housing market and prompt rates on new mortgages to fall from their current levels. To further bolster the mortgage market, the Treasury Department has said it will buy at least \$5 billion of new mortgage-backed securities issued by Fannie and Freddie on the open market.

But while borrowers may benefit from the takeover, over the longer term, taxpayers will feel the impact of financing the bailout. In addition, while debt and equity holders remain whole, common shareholders will lose their voting rights – and both classes are likely to see the value of their shares decline.

While unfortunate, the government's move was, we believe, necessary to protect the financial system and support the flailing mortgage market. At the same time, it's important to remember that these two enterprises are markedly different from other financial institutions – and that reaching conclusions about other lenders based on the fate of Fannie and Freddie would be a mistake. Indeed, as Treasury Secretary Henry Paulson put it,

"By stabilizing the GSEs so they can better perform their mission, today's action should accelerate stabilization in the housing market, ultimately benefiting financial institutions."

Please give Jon a call at (813) 221-1956 or email [wallerandwax@raymondjames.com](mailto:wallerandwax@raymondjames.com) if you have any questions about the fate of Fannie and Freddie – or about any other issues that may affect your portfolio.

Best regards,



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