

U.S. 2008 Takeover of Fannie Mae and Freddie Mac: FAQs

Frequently Asked Questions About U.S. Takeover of Fannie Mae and Freddie Mac

How will the government's takeover of Fannie Mae and Freddie Mac affect mutual fund shareholders?

Shareholders in money market funds and bond funds may benefit, because the Treasury Department's action will make funds' investments in the mortgage giants' bonds and other debt securities more secure.

Shareholders in equity funds that own Fannie and Freddie stock could see further losses in their funds' values. The Treasury Department's plan puts existing holders of common and preferred shares first in line to absorb the companies' business losses. Of course, mutual funds are generally highly diversified across a range of stocks. Therefore, declines in Fannie's and Freddie's stock could be offset if the government action builds confidence in the financial markets and other stocks gain in value.

Any decline in funds' net asset value (NAV) is not likely to be precipitate. Funds adjust their NAV every day, and so any earlier declines in the price of Fannie and Freddie shares is already reflected in fund values.

How much of Fannie's and Freddie's debt was held by funds?

As of March 31, 2008 long-term mutual funds held about \$370 billion in debt and mortgage pools issued by Fannie and Freddie, according to Morningstar data. Exchange-traded funds, closed-end funds, and unit investment trusts had additional, but much smaller, holdings.

Will the debt of Fannie and Freddie remain qualified for money market fund investments?

Yes, so long as the companies' credit ratings are not reduced. That's not likely. Even before the takeover, Fannie's and Freddie's paper was rated highly enough to qualify as investments for money market funds. And the government takeover should make the debt more secure, because it is now effectively backed by the credit of the U.S. government.

How much stock did mutual funds hold in Fannie and Freddie?

As of March 31, 2008 mutual funds held \$27 billion in common and preferred stock in the two companies. That valuation is based on their prices at the time, when Fannie Mae common stock was trading at \$26.32 a share and Freddie Mac common stock was priced at \$25.32. The value of funds' holdings has changed, of course, as the stock prices changed and as funds traded in and out of the stocks.

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