



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-93-2008
September 18, 2008

STATEMENT ON INVESTMENTS IN FANNIE MAE AND FREDDIE MAC EQUITY SECURITIES

Summary: The Federal Deposit Insurance Corporation (FDIC) will work with the limited number of institutions that have significant holdings of common or perpetual preferred shares in Fannie Mae and Freddie Mac to develop Capital Restoration Plans pursuant to federal regulations. These equity investments should be reported as available-for-sale equity securities, if not held for trading purposes, and any net unrealized losses should be deducted from regulatory capital. Attached is the FDIC's "Statement on Investments in Fannie Mae and Freddie Mac Equity Securities."

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Financial Officer

Related Topics:

Investments
Capital

Attachment:

FDIC's "Statement on Investments in Fannie Mae and Freddie Mac Equity Securities"

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Note:

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Highlights:

- On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship.
- The federal banking agencies issued a press release on September 7, 2008, stating the agencies will work with the limited number of institutions that have significant holdings of Fannie Mae or Freddie Mac equity securities in relation to their capital (see PR-78-2008).
- Institutions are reminded that investments in perpetual preferred stock and common stock with readily determinable fair values, if not held for trading purposes, should be reported as available-for-sale equity securities and that any net unrealized losses on these securities are deducted from regulatory capital.
- The FDIC is committed to a flexible supervisory approach and will work with institutions that are required to develop a Capital Restoration Plan under the Prompt Corrective Action guidelines. The FDIC will also be flexible in considering requests for waivers from brokered deposit restrictions for institutions that have become adequately capitalized.
- Minority Depository Institutions with significant holdings of Fannie Mae or Freddie Mac equity securities in relation to their capital are encouraged to request technical assistance from the FDIC, pursuant to Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

Statement on Investments in Fannie Mae and Freddie Mac Equity Securities

On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship. This action, while disruptive in the near term, was deemed necessary to provide stability to domestic and global financial markets, support the availability of mortgage credit, and protect taxpayers. The FDIC believes that these government-sponsored enterprises are important to the home mortgage market.

The federal banking agencies issued a statement on September 7th indicating that they will work with the limited number of smaller institutions that have significant holdings of Fannie Mae or Freddie Mac common and preferred shares in relation to their capital (see PR-78-2008). Consistent with this interagency press release, the FDIC reminds institutions that investments in perpetual preferred stock and common stock with readily determinable fair values, if not held for trading purposes, should be reported as available-for-sale equity securities and that any net unrealized losses on these securities are deducted from regulatory capital.

For the limited number of smaller institutions with Fannie Mae or Freddie Mac equity securities that are significant compared to their capital, the FDIC is committed to a flexible supervisory approach and will work with institutions that need to develop a Capital Restoration Plan under the Prompt Corrective Action guidelines (Part 325, Subpart B, of the FDIC's regulations). The FDIC will also take into account the unique nature of this situation when considering requests for waivers from brokered deposit restrictions.

Furthermore, Minority Depository Institutions are reminded that technical assistance is available from the FDIC, pursuant to Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

APPENDIX

The following guidance and information should be consulted for additional details about matters discussed in this Financial Institution Letter.

Supervision

- *Consolidated Reports of Condition and Income, Schedule RC-B, Securities*, June 2008, Federal Financial Institutions Examination Council, <http://www.fdic.gov/regulations/resources/call/crinst/2008-06/608RC-B063008.pdf>
- *Statement of Financial Accounting Standards No. 115*, as amended, 2008, Financial Accounting Standards Board, http://www.fasb.org/pdf/aop_FAS115.pdf
- *Accounting News: Other-Than-Temporary Impairment of Investment Securities*, FDIC Supervisory Insights Journal, Summer 2005, http://www.fdic.gov/regulations/examinations/supervisory/insights/sisum05/accounting_news.html
- *Part 325, Subpart B, of the FDIC's Rules and Regulations – Prompt Corrective Action*, <http://www.fdic.gov/regulations/laws/rules/2000-4400.html>
- *Part 337.6 of the FDIC's Rules and Regulations – Brokered Deposits*, <http://www.fdic.gov/regulations/laws/rules/2000-5900.html#2000part337.6>
- *FDIC Policy Statement Regarding Minority Depository Institutions*, <http://www.fdic.gov/regulations/resources/minority/sop5-only.PDF>