



Q&A: Fannie Mae and Freddie Mac Conservatorship

On Sunday, September 7, 2008, U.S. Treasury Secretary Paulson announced that the federal government is placing Fannie Mae and Freddie Mac (the “Companies”) in conservatorship, which establishes government control of both entities.

Secretary Paulson outlined three main objectives:

- Provide stability to financial markets
- Support the availability of mortgage finance
- Protect taxpayers both by minimizing near term costs and by setting policymakers on course to correcting the structure of Government Sponsored Entities (“GSEs”), including Fannie Mae and Freddie Mac

Are Fannie Mae and Freddie Mac at risk of failure?

No. In fact, by placing Fannie Mae and Freddie Mac in conservatorship, the U.S. Treasury has sent a clear signal to investors and the credit markets and has significantly enhanced the ability of the companies to meet their obligations. This action is expected to result in a positive reaction by the financial markets.

Do any of ICMA-RC’s sponsored proprietary funds have any debt holdings in Fannie Mae or Freddie Mac?

Yes. As of July 31, 2008, approximately 18 percent of VantageTrust PLUS Fund’s holdings are invested in Fannie Mae and Freddie Mac mortgage-backed securities (MBS) (\$1.3 billion, as of July 31, 2008) and less than 0.2 percent (\$9.0 million, as of July 31, 2008) of the total PLUS Fund holdings were in senior and subordinated debt issued by Fannie Mae and Freddie Mac.

As of July 31, 2008, six of our other proprietary funds contain mortgage-backed securities (except as noted) guaranteed by and senior debt issued by Fannie Mae and Freddie Mac in the following amounts: Vantagepoint Asset Allocation Fund (0.3 percent), Vantagepoint Inflation Protected Securities Fund (5.1 percent), the Vantagepoint Low Duration Bond Fund (10.4 percent), the Vantagepoint Discovery Fund (11.8 percent), the Vantagepoint Diversified Assets Fund (16.6 percent held in senior debt only), and the Vantagepoint Core Bond Index Fund (42.4 percent).

Are these mortgage-backed securities and debt holdings negatively impacted by the U.S. Treasury action?

No. The Fannie Mae and Freddie Mac mortgage-backed securities, senior and subordinated debt are backed by the full faith and credit of the U.S. Treasury as a result of the conservatorship.

Will the funds that hold these types of fixed income investments lose value as a result of the takeover of Fannie Mae and Freddie Mac?

No one can predict future performance; however the values of the Fannie Mae and Freddie Mac mortgage-backed securities and the companies' debt are expected to initially benefit from the U.S. Treasury's actions. Overall fund performance will reflect the performance of the individual securities held by each fund.

Do any of ICMA-RC's sponsored proprietary funds have any equity holdings in Fannie Mae or Freddie Mac?

Yes. Seven of our sub-advised equity Vantagepoint Funds also hold Fannie Mae and/or Freddie Mac stock and we continue to monitor the situation. These equity funds and their respective allocations to Fannie Mae and Freddie Mac stock include the Vantagepoint Broad Market Index Fund (0.12 percent), the Vantagepoint Asset Allocation Fund (0.13 percent), the Vantagepoint 500 Stock Index Fund (0.16 percent), Vantagepoint Equity Income Fund (0.28 percent), the Vantagepoint Aggressive Opportunities Fund (0.36 percent), the Vantagepoint Growth & Income Fund (0.42 percent), and the Vantagepoint Growth Fund (0.49 percent), as of July 31, 2008.

Are these stock holdings negatively impacted?

Yes. There has been a negative impact on the market prices of Fannie Mae and Freddie Mac stock associated with the suspension of the companies' stock dividends and the creation of a preferred share class that is senior to the existing preferred and common equity share classes, resulting in a dilution of ownership. However, no one can predict what the impact will be on the value of the companies' stock holdings as time progresses. The ultimate impact on stock values will be determined by each company's future profitability.

Will my holdings in these Vantagepoint Equity Funds lose value as a result of the takeover of Fannie Mae and Freddie Mac?

While the value of each Fund's holdings of Fannie Mae and Freddie Mac stock has lost value, these losses may or may not be offset by gains on the Fund's investments in other securities. The value of the each Fund reflects the value of each Fund's individual holdings. Each Fund is diversified, holding hundreds of stocks in a variety of industries and companies. Therefore, it is impossible to predict how each Fund will perform on a composite basis.

How will the U.S. Treasury support Fannie Mae and Freddie Mac?

The Treasury's purchase of preferred shares in Fannie Mae and Freddie Mac provides liquidity necessary to stabilize markets, prevent disruptions in mortgage availability and protect the taxpayer. In addition, the U.S. Treasury is establishing a secured lending credit facility to support Fannie Mae and Freddie Mac, and will, on a temporary basis, purchase MBS from Fannie Mae and Freddie Mac.

How does the U.S. Treasury's action compare to the Federal Reserve's brokered sale of Bear Stearns to JPMorgan Chase?

Although both are huge and unprecedented government intervention into publicly held companies, the big difference is that Bear Stearns was at imminent risk of failure and Fannie Mae and Freddie Mac were not.

Do Ginnie Mae securities have credit risks similar to those Fannie Mae and Freddie Mac had prior to the new conservatorship?

The Government National Mortgage Association (Ginnie Mae) is a U.S. Government owned corporation within the U.S. Department of Housing and Urban Development (HUD). Similar to Fannie Mae and Freddie Mac, it provides guarantees on mortgage-backed securities, mainly loans issued by the Federal Housing Administration (FHA), the Department of Veterans Affairs and several other federal agencies.

Do ICMA-RC sponsored proprietary funds have any debt holdings in Ginnie Mae?

Yes. As of July 31, 2008, approximately 2.2 percent of the VantageTrust PLUS Fund's holdings are insured by Ginnie Mae. In addition, three of ICMA-RC's other proprietary funds contain mortgage-backed securities guaranteed by Ginnie Mae in the following amounts: Vantagepoint Core Bond Index Fund (3.6 percent), Vantagepoint Discovery Fund (4.1 percent) and Vantagepoint Low Duration Bond Fund (2.7 percent).

Are these mortgage backed securities impacted by the U.S. Treasury Department action concerning Fannie Mae and Freddie Mac?

No, they are not affected. Since its creation in 1968, Ginnie Mae has been backed by the full faith and credit of the U.S. government.

Do any ICMA-RC sponsored proprietary funds have equity holdings in Ginnie Mae?

No. As a government-owned corporation, Ginnie Mae does not issue stock.

Summary

The deterioration of the mortgage market, precipitated by the subprime credit crisis, has severely impacted the financial sector, which includes banks, insurance, and mutual fund companies, and has compromised the future of the two most prominent GSEs, Fannie Mae and Freddie Mac.

Together, Fannie Mae and Freddie Mac own or guarantee about half of all U.S. home loans. Shares in both these GSEs have plummeted 90 percent in the last year and they reported over \$14 billion in losses in the last four quarters.

The U.S. Treasury's action should reassure investors and credit markets should view this as a positive step.