

Financial Crisis Alert: Agencies Consider Reduction of Fannie Mae and Freddie Mac Debt Risk

10/15/2008

Federal banking regulators are seeking public comment on the proposed reduction of the risk weight, which is used to calculate risk-weighted total assets for bank capital adequacy purposes, from 20% to 10% on all credit exposures to Fannie Mae and Freddie Mac. Credit exposure includes senior and subordinated debt and counterparty credit risk exposures but will not include preferred or common stock. A reduction in the risk weight would aid banks in improving their capital ratios since a lower risk investment will allow banks to reserve less capital to cover potential losses. The regulators believe the reduction in risk weight is appropriate given the financial support the Treasury Department has agreed to provide to Fannie Mae and Freddie Mac through senior preferred stock purchase agreements. The 10% risk weight will apply so long as the agreements remain in effect.

Mintz Levin will continue to monitor the banking regulators' actions with respect to capital adequacy and other bank safety and soundness requirements. For the latest developments, visit Financial Crisis Central at Mintz.com.

For assistance in this area, please contact one of the attorneys listed below or any member of your Mintz Levin client service team.

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