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**Fannie Mae Preferred Stocks**

**Keywords:** fannie mae preferred stocks, fannie mae preferred shares, fannie mae preferreds

# Fannie Mae Preferred Stock: A Harsh Lesson In Preferreds

Fannie Mae preferred stock - also called Fannie Mae preferred shares or Fannie Mae preferreds - became front-page news in September 2008, following the government's takeover of the entity and its counterpart, Freddie Mac.

As part of the deal, the two mortgage giants were placed into a conservatorship and the Treasury Department bought senior preferred shares issued by both Fannie Mae and Freddie Mac. The deal meant that billions of dollars in equity for holders of Fannie Mae and Freddie Mac's common and preferred stock were essentially wiped out overnight, leaving investors facing a harsh lesson on preferred stock ownership.

Preferred shares may have gained favor with investors over the years but, as evidenced by Fannie Mae and Freddie Mac, they are not without risk.

By definition, preferred shares constitute a mix of stocks and bonds, and are rated by the major credit-rating companies. Investors who hold preferred shares have a higher claim to a company's cash than common stock holders. If the issuing company of the preferred shares goes bust, repayment begins with creditors, followed by bond holders and then preferred stock holders. Common stock holders are at the end of the line when it comes to claims on a company's assets in times of bankruptcy.

Many people turn to preferred stocks as a way to establish regular income via a preferred dividend. However, just as in the case of common stock shares, dividends on preferred shares also can come to a halt at anytime.

There are other risks associated with preferred shares, including the fact that they tend to have more volatility than bonds. Moreover, finding reliable information on preferred stock issues in general can be difficult.

In the case of Fannie Mae, investors holding preferred shares have filed a number of lawsuits against the company, as well as the brokerages that sold investments connected to a certain series preferred stock offerings. Specifically, prior to the near-collapse of Fannie Mae, the company announced plans to raise $6 billion in capital with an offering of 8.25% Non-Cumulative Preferred Stock, Series T.

As it turns out, the offering itself could never sufficiently satisfy Fannie Mae's rapidly deteriorating financial health. Those deficiencies, however, allegedly were never discussed with preferred investors.

When the Treasury Department announced its takeover plans for Fannie Mae in September 2008, the price of the Fannie Mae Series T Preferred Stock fell more than 88% from the time of its initial offering price of $25 per share on May 13, 2008, to $3 per share on Sept. 8, 2008.

Similar legal issues concern Freddie Mac's preferred shares and an offering known as Series Z. The offering itself was underwritten by investment firms such as Goldman Sachs, J.P. Morgan and Citigroup Global Markets, as well as others.

In their complaints, investors allege that circulars associated with the offering failed to reveal a number of risks related to Freddie Mac's preferred shares and, more important, did not disclose the fact that Freddie Mac was severely undercapitalized because of its exposure to mortgage-related losses.