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March 12, 2010

CAMDEN R. FINE
President and CEO

The Honorable Timothy Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Secretary Geithner:

On behalf of the 5,000 members of the Independent Community Bankers of America I urge prompt Treasury action to remedy the status of preferred shareholders of the Government Sponsored Enterprises Fannie Mae and Freddie Mac. As the Administration and Treasury continue to control Fannie Mae and Freddie Mac in conservatorship and seek resolution to this unique GSE status, it is imperative that community bank GSE preferred shareholders are made whole to bolster capital and lending levels in this challenging financial and economic environment.

The abrupt action by then Treasury Secretary Henry Paulson to seize Fannie and Freddie through conservatorship was unjustly done in a way that needlessly crushed the value of GSE preferred shares, injuring over a thousand community banks that purchased these shares as a safe AAA-rated investment at the encouragement of their bank regulators. Since banks received special regulatory capital treatment for them and since banks are generally prohibited from investing in stock of other corporations, Fannie and Freddie preferred stock were important investments with full regulatory blessing.

Shockingly, Secretary Paulson fully acknowledges in his new book On the Brink that this action constituted an “ambush.” It took place shortly after he and the GSE regulators issued statements that supported the ongoing viability and capital levels of the GSEs in their current form as “shareholder-owned companies,” in order to “calm the market fears of a government takeover that would wipe out shareholders.” Now there is no doubt the government’s action was indeed an unjustified “ambush” structured in a way that continues to have detrimental consequences on many community banks that relied on the guidance of Treasury and bank regulators and were intentionally deceived on their Fannie and Freddie preferred holdings.

Americans expect and demand much better from their government and leaders. The ICBA urges the Treasury to help restore the value of the Fannie and Freddie community bank preferred share holdings to levels prior to the abrupt conservatorship of Fannie and Freddie. Preferred Fannie and Freddie shareholders should be compensated for the government’s action of eliminating all dividend payments and placing the preferred shares in a second position.

Rather than help stabilize the financial sector and boost lending, this government “ambush” further hurt banks’ capital levels, weakened the banks and reduced available credit. Such rogue changing of the rules governing preferred stock contracts also sent the entire market for financial

preferred shares into a freefall, making it even more difficult for financial firms to raise needed capital. Notably, nearly \$36 billion in Fannie and Freddie preferred stock was outstanding prior to their conservatorship. An estimated \$15 to \$20 billion was held by the banking sector and almost one-third of banks reported holdings including many Main Street community banks.

The Troubled Asset Relief Fund devoted \$700 billion to help restoring financial sector credit and to increase lending with mixed use and results to date. However, if we truly want to help stabilize the financial sector, boost small business credit and economic growth, Treasury must also restore a reasonable value to GSE preferred stock so that affected banks can again increase their lending.

ICBA urges immediately restoring the dividend payments on Fannie and Freddie preferred shares and paying injured holders the amount of suspended dividends from September 7, 2008 on an estimated \$20 billion in GSE preferred holdings. As the Administration works to remove the GSEs from conservatorship ICBA urges it be done in a way that will restore a reasonable value to the preferred shares. Helping restore the \$15 to \$20 billion in community banks capital value crushed by the unwarranted Treasury actions perpetrated on preferred shares can foster \$150 billion to \$200 billion in new lending as banks can leverage this capital.

Sadly, the Treasury and policymakers were forewarned of the distress and fallout that unnecessarily crushing GSE preferred shares would cause. For example, the attached letter dated August 27th, 2008 specifically warned of the community banks' significant GSE preferred holdings that typically pay a fixed dividend and take priority over common stock. Unfortunately, Treasury chose to ignore the warnings when they turned the GSE preferred stock upside down when placing Fannie and Freddie into conservatorship on September 7, 2008. Mr. Paulson acknowledges in his book that he ambushed Fannie and Freddie shareholders in part to help satisfy the Chinese government, which owned billions of dollars in Fannie and Freddie bonds. Mr. Paulson notes that he called "my old friend Zhou Xiaochuan," the head of the Central Bank of China, and China's key financial leaders and said: "I always said we'd live up to our obligations." ICBA believes it is now time to live up to United States obligations and help spur lending by compensating Fannie and Freddie preferred shareholders for the unjust actions of the government.

Sincerely,

/s/

Camden R. Fine
President and CEO

cc: The Honorable David Axelrod, Assistant to the President and Senior Advisor
The Honorable Lawrence Summers, Assistant to the President for Economic Policy and Director, National Economic Council
The Honorable Eric Holder, Jr., U.S. Attorney General
The Honorable Michael Barr, Assistant Secretary for Financial Institutions
The Honorable Herb Allison, Jr, Assistant Secretary for Financial Institutions
The Honorable Barney Frank, Chairman, House Financial Services Committee
The Honorable Spencer Bachus, Ranking Member House Financial Services Committee
The Honorable Chris Dodd, Chairman, Senate Committee on Banking
The Honorable Richard Shelby, Ranking Member, Senate Committee on Banking

ATTACHMENT (1) August 27, 2008 ICBA Letter to Treasury Secretary Henry Paulson



**INDEPENDENT COMMUNITY
BANKERS of AMERICA**

August 27, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson:

The housing markets and broad financial services sector continue to work through a challenging correction. The road to economic recovery must travel through housing. The recent Housing and Economic Recovery Act promoted by the Treasury was an important and timely measure enacted to retain the private sector operation of the major housing Government Sponsored Enterprises Fannie Mae and Freddie Mac.

The operations of these GSEs remain vital to the viability of the mortgage markets and they are currently one of the few sources supplying much-needed liquidity to the housing finance sector. As the Treasury supports the important private sector role of the GSEs, it is also important to note the position of community banks in the process. The community banking sector supports Fannie Mae and Freddie Mac with substantial holdings of preferred stock. Importantly, preferred stock typically pays a fixed dividend and takes priority over common stock.

Community banks largely avoided the subprime debacle and are common sense lenders that continue to lend during this challenging environment. The ongoing strength of the community banking sector and its ability to supply credit to individuals and small businesses is critical to the growth of our economy. As the Treasury continues to work with Fannie Mae and Freddie Mac it is imperative to safeguard the strength of our nation's community banks and be mindful of the significance of their preferred stock investments supporting the GSEs.

Sincerely,

Camden R. Fine
President and CEO

cc: The Honorable Chris Dodd, Chairman, Senate Committee on Banking, Housing and Urban Affairs
The Honorable Richard Shelby, Ranking Member, Senate Committee on Banking, Housing and Urban Affairs
The Honorable Barney Frank, Chairman, House Committee on Financial Services
The Honorable Spencer Bachus, Ranking Member, House Committee on Financial Services

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