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T R O U B L E D   C O M P A N Y   R E P O R T E R

Monday, April 4, 2016, Vol. 20, No. 95

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FANNIE MAE & FREDDIE MAC: Josh Angel Revisits Implicit Guarantee

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Fannie Mae and Freddie Mac preferred shareholder Joshua J. Angel expressed his opposition in *In re Third Amendment Litigation*, MDL No. 2713 (J.P.M.L.), Friday to the government's request for transfer and consolidation of current and future lawsuits challenging the on-going Net Worth Sweep of the housing finance giants' profits. Ms. Angel opposes FHFA's move because, he doesn't plan to sue to unwind the Third Amendment. He plans to sue Fannie and Freddie's directors because they've failed to treat similarly situated pre-conservatorship preferred shareholders equally.

Once again, Mr. Angel hits hard on the government's breach of the GSEs' preferred shares' implicit guarantee. Central to Mr. Angel's response are these three concepts:

- (A) the government's implicit guarantee of preferred shares has always been in place;
- (B) that implicit guarantee did not change when the GSEs were placed into conservatorship; and
- (C) the guaranty is still in place today.

Mr. Angel's decades of corporate restructuring experience tell him there's significant economic value in the GSEs' preferred securities and speculative Fifth Amendment taking value in the GSEs' common stock. And Mr. Angel isn't speaking hypothetically or otherwise pontificating. He has his own money invested in Fannie and Freddie's preferred securities and he expects the U.S. government to honor its contractual obligations. Mr. Angel points to a variety of government documents which we'll examine in tomorrow's newsletter.

On Mar. 1, 2016, Mr. Angel sent letters to each of Fannie and Freddie's directors urging them to "seek and obtain clarification from outside counsel regarding your duties and liabilities . . . and to begin taking steps to behave as an informed, active board." Mr. Angel's received nothing in response -- not even FHFA general counsel's one-page form letter saying HERA prohibits shareholder lawsuits.

At [http://gselinks.com/pdf/Govt\\_Perfidy\\_Angel.pdf](http://gselinks.com/pdf/Govt_Perfidy_Angel.pdf) is a copy of Mr. Angel's paper entitled "Government Perfidy and Mismanagement of the

GSEs in Conservatorship" released in late-Feb. 2016 and provided by Mr. Angel to each current GSE director on Mar. 1.

It is interesting to us that Mr. Angel is the only party focused on the government's implicit guarantee of the GSE's preferred shares. It's surprising to us their aren't more shareholders expressing outrage at what Mr. Angel labels "Animal Farm equality, where all preferred shareholders are equal, but some are more equal than others."

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Monday's edition of the TCR delivers a list of indicative prices for bond issues that reportedly trade well below par. Prices are obtained by TCR editors from a variety of outside sources during the prior week we think are reliable. Those sources may not, however, be complete or accurate. The Monday Bond Pricing table is compiled on the Friday prior to publication. Prices reported are not intended to reflect actual trades. Prices for actual trades are probably different. Our objective is to share information, not make markets in publicly traded securities. Nothing in the TCR constitutes an offer or solicitation to buy or sell any security of any kind. It is likely that some entity affiliated with a TCR editor holds some position in the issuers public debt and equity securities about which we report.

Each Tuesday edition of the TCR contains a list of companies with insolvent balance sheets whose shares trade higher than \$3 per share in public markets. At first glance, this list may look like the definitive compilation of stocks that are ideal to sell short. Don't be fooled. Assets, for example, reported at historical cost net of depreciation may understate the true value of a firm's assets. A company may establish reserves on its balance sheet for liabilities that may never materialize. The prices at which equity securities trade in public market are determined by more than a balance sheet solvency test.

On Thursdays, the TCR delivers a list of recently filed Chapter 11 cases involving less than \$1,000,000 in assets and liabilities delivered to nation's bankruptcy courts. The list includes links to freely downloadable images of these small-dollar petitions in Acrobat PDF format.

Each Friday's edition of the TCR includes a review about a book of interest to troubled company professionals. All titles are available at your local bookstore or through Amazon.com. Go to <http://www.bankrupt.com/books/> to order any title today.

Monthly Operating Reports are summarized in every Saturday edition

of the TCR.

The Sunday TCR delivers securitization rating news from the week then-ending.

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S U B S C R I P T I O N   I N F O R M A T I O N

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