Asymmetry
BY PORTER & CO.

# TRUMP'S BIGGEST DEAL EVER

## BREAKING GOVERNMENT SHACKLES FROM THE HOME MORTGAGE SECTOR

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Automotive titan Henry Ford hated "bankers" and "the Jews."

He also hated his former business manager, James Couzens, who'd abruptly quit Ford Motor Co. in 1915 after hearing Henry's increasingly unhinged anti-Semitic rants.

Then, 18 years later, Couzens – now a respected U.S. senator from Michigan, home of Ford's auto company – was sitting across from Henry and begging him to save, of all things, a bank.

Really... how did he *think* that was going to go?

It was February 13, 1933, the depths of the Great Depression. Four years after the 1929 stock market crash, banks across the U.S. were running low on reserves as cash-strapped customers yanked out their money and took it home to stuff under mattresses. And President Herbert Hoover's Reconstruction Finance Corporation (RFC), meant to provide emergency funding to financial institutions, wasn't helping the distressed institutions very much.

Couzens wanted deep-pocketed Ford to put up collateral to keep Union Guardian Trust, a major Detroit bank, from going under. If Union Guardian went down, Couzens warned, a bank panic might spread across Michigan.

Rather than bail out the bankers he despised – or listen to the equally despised Couzens – Ford threatened to withdraw the $7 million cash that he held in the Detroit banking system and stuff it under his own mattress.

And if the banks failed as a result? Ford's response: "Everyone would have to get to work a little sooner."

The next day – before Ford could take out his $7 million – Michigan Governor William Comstock declared a state "bank holiday," freezing all funds in place.

And when Michigan's banks froze over, all hell broke loose...

Over the next several days, people in the neighboring states of Ohio, Indiana, and Illinois – spooked by Michigan's preemptive strike – started withdrawing cash from their own banks. Maryland declared a copycat, state-wide bank holiday... and then other banks began shutting down, trying to stem the outflow of gold.

After three weeks, various banks in all 48 states were closed, and the Federal Reserve Bank of New York had hemorrhaged more than $150 million worth of gold reserves, reducing its gold holdings to just 24% of its original level.

It was starting to look like the country was screwed.

Then, on March 4, 1933, Franklin Delano Roosevelt, the 32nd President of the United States, took office.

And suddenly, the country was *really* screwed.

## The Raw Deal

The outgoing Herbert Hoover – a classical liberal, what we'd call a conservative today – was a hands-off president who proclaimed at his 1928 inauguration, "Every step of bureaucratizing of the business of our country poisons the very roots of liberalism."

FDR, however, strongly believed that the government should be responsible for citizens' well-being. He campaigned on the promise of a New Deal that extended Locke's classic rights of life, liberty, and property to include "rights" to medical care, education, a decent home, and protection from economic fear… all subsidized by the U.S. federal government, of course.

And from the moment he stepped into office he was determined to change America – to run the country like a monarch and radically expand the power of government.

Today, media pundits shriek about President Donald Trump's gaffes, like his (supposed) joke about being "a dictator on day one." They act shocked to see him taking decisive action during the first weeks of his presidency, trimming fat and signing executive orders right out of the gate. There's no precedent for this, they cry.

Well, actually, there is. FDR was the original "dictator" president… and the powers he assumed were truly chilling.

(Just *imagine* if Trump had shut down every bank in the country during his first week in office.)

That's exactly what FDR did.

"All the News That's Fit to Print."

The New York Times.

LATE CITY EDITION

NEW YORK, MONDAY, MARCH 6, 1933.

ROOSEVELT ORDERS 4-DAY BANK HOLIDAY, PUTS EMBARGO ON GOLD, CALLS CONGRES

HITLER BLOC WINS A REICH MAJORITY; RULES IN PRUSSIA

JAPANESE PUSH ON IN FIERCE FIGHTING; CHINA CLOSES WALL

BANKS HERE ACT AT ONCE

City Scrip to Be Ready Today or Tomorrow to

The President's Bank Proclamation

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President Takes Under Sweepin of War Tim

On March 5, one day after he'd taken the oath of office, Roosevelt took the bank shutdown decisions out of the states' purview. He declared a nationwide, four-day-long bank holiday, which was then extended by three more days. No one could take out or deposit any money. Stock exchanges were shuttered. The flow of money instantly dried up across all 48 states.

And that was just the opening salvo. FDR not only shut down the banks – he seized executive power over all financial institutions in the U.S., in a shocking move that makes Elon Musk's actions with the Department of Government Efficiency ("DOGE") look like a mildly irritating visit from middle management.

In his new piece of legislation – the Emergency Banking Act of 1933 – FDR appropriated powers that, up till then, it would have been unthinkable for the government, particularly the executive branch, to wield…

Those powers included carte blanche for the government to fund and bail out banks – a provision that laid the groundwork for the Federal Deposit Insurance Corporation ("FDIC"), which would be founded later that year…

The ability for FDR to personally regulate "any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin"…

License for FDR to create his own fiat money, divorced from the gold standard… paving the way for an executive order just one month later that would criminalize the possession of gold for any American citizen…

And finally, *conservatorship*, which allowed the government to seize control of and run any financial institution it wanted.

Conservatorship built on an older, established power called receivership, which allowed the government to *help* a failing bank wrap up its affairs during the process of bankruptcy. But conservatorship allowed government officials to step in, take the reins, and "parent" a functional bank or financial institution in perpetuity.

It was an unprecedented flex of executive muscle – as the New York Fed would later describe it, one that "granted the President near dictatorial powers."

Taken together, the Emergency Banking Act of 1933 was designed to convince the American public that the government had control over the banking system – that our financial institutions were backed by "the full faith and credit of the United States government," and that Big Daddy Roosevelt had everything taken care of.

As Roosevelt gently explained in his first radio-broadcast "fireside chat" on March 12 – where, kind of like Trump on Twitter or Truth Social many years later, he spoke directly and intimately to the American people…

> ***"The new law allows the 12 Federal Reserve banks to issue additional currency on good assets and thus the banks that reopen will be able to meet every legitimate call. The new currency is being sent out by the Bureau of Engraving and Printing to every part of the country… I can assure you that it is safer to keep your money in a reopened bank than under the mattress."***

It didn't matter that none of it was true.

There was no way the government could step in and accurately assess the health of around 15,000 banks nationwide during a scant week-long bank holiday. And there was certainly not enough gold in reserve to make depositors good should they all choose to redeem it. It was smoke and mirrors – plus a bravura performance from FDR.

But the American people – worn down by four grueling years of depression – listened to that honeyed voice on the radio… and they bought it.

FDR's inaugural fireside chat somehow restored the nation's faith in the banking system. When the banking holiday ended on March 13, Americans lined up to put cash back in financial institutions, with about two-thirds of the withdrawn money re-deposited. The New York Stock Exchange reopened on March 15 and jumped 15.3%, in its single largest (at the time) one-day leap. The banking holiday, coupled with the Emergency Banking Act of 1933, has been described by the New York Fed as the act that "broke the back of the Depression."

Hard times would continue for the next few years – but now Americans had an all-powerful, parental government to "help"…

## Enough Is Enough

Now that FDR had gotten Americans hooked on the teat of big government, he leaned hard into his newfound dictatorial powers and launched a slew of welfare programs as part of his New Deal – with $793 billion in today's dollars spent on make-work projects and subsidies during the remainder of the 1930s.

During FDR's New Deal years, he signed hundreds of pieces of legislature, laying the ground for a massive web of bloated government structures and programs that our tax dollars are still paying for today (like the FDIC, the Securities and Exchange Commission, the Federal Housing Administration, the Federal Communications Commission, and, of course, the granddaddy of them all, Social Security).

And that initial, infamous Banking Act of 1933? It created some of the longest-lasting, and most wasteful tangles of all…

Remember conservatorship? The government's power to take over and run any financial institution it chooses?

In 1933, after the Banking Act passed, the government seized and retained control of some 1,100 U.S. banks. Then government interest in conservatorship tapered off for many years… until Fannie Mae and Freddie Mac, two huge, "too big to fail" financial vehicles, foundered during the Global Financial Crisis of 2008.

Thanks to the precedent FDR established in 1933, it was easy for the Obama administration to take over operations at Fannie and Freddie and, in the words of the conservatorship order, to "put the regulated entity in a sound and solvent condition … carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity." And then, it was easy for the government to keep micromanaging that business, long after Fannie and Freddie were recovered and solvent.

Until, possibly, this very moment in history.

Today, in some ways, America has made a 180-degree turn as a nation. Almost a century after FDR's 12-year reign, Donald Trump is wielding executive power not to expand government, but to slash it.

It's not the New Deal. It's the Art of the Deal.

And as the new administration slowly works to untangle 90-plus years of pork, waste, overreach, and coercive government control…

We believe Trump's *yugest* deal just may be the long-overdue privatization of ol' Fannie and Freddie… and the release of a massive influx of cash to American investors as the unnecessary conservatorship finally unwinds.

## How Fannie And Freddie Were "Conserved"

**The Federal National Mortgage Association ("Fannie Mae," OTC: FNMA)** and **The Federal Home Loan Mortgage Corporation ("Freddie Mac," OTC: FMCC)** were created – in 1938 and 1970, respectively – to support the U.S. mortgage market. These government-sponsored entities ("GSE") convert relatively illiquid mortgage debt into highly-liquid mortgage-backed securities ("MBS"), while also providing insurance on the underlying mortgages.

Their role in providing liquidity enabled the widespread availability of the 30-year fixed-rate mortgage, a cornerstone of American homeownership. And today, Fannie and Freddie together guarantee around 70% of the U.S. residential mortgage market.

However, over time these entities strayed from their core business of guaranteeing relatively safe mortgages. And by the mid-2000s, both Fannie and Freddie had expanded into deep subprime lending and speculative fixed-income arbitrage, accumulating more than $1.6 trillion in risky assets.

When the housing market collapsed in 2008, Fannie and Freddie were pushed to the brink of bankruptcy.

(Longtime followers of Porter's work may recall he was among the first financial analysts to identify the huge problems lurking in the MBS market. In fact, in June 2008, he famously warned that "Freddie Mac and Fannie Mae are going to zero" – just weeks before they were ultimately bailed out – a call that earned him praise in *Barron's* magazine and allowed his readers to generate returns of up to 1,500%.)

Porter Stansberry's
**Investment Advisory**

June 2008; Volume IX; 11

**Freddie Mac and Fannie Mae Are Going to Zero**

***How to Protect Yourself from the Greatest Financial Calamity of our Lives***

But unlike many of the banks in a similar position, the GSEs didn't qualify for the relatively favorable terms of Obama's Troubled Asset Relief Program ("TARP") bailout. Instead, the Feds placed Fannie and Freddie in a conservatorship and created a new entity – the Federal Housing Finance Agency ("FHFA") – to oversee them.

Under this arrangement, the government injected $191 billion into the GSEs through Preferred Stock Purchase Agreements, which granted it warrants for 79.9% of the two companies' common shares and generous dividends of 10% per year (which was double what banks had to pay under TARP).

Under the FHFA, Fannie and Freddie were required to phase out the riskier aspects of their business, which included winding down their exposure to subprime mortgages and exiting the fixed-income arbitrage business. The GSEs also increased guarantee fees on mortgages – the primary source of revenue from their core business – from around 20 basis points to 60 basis points.

By 2012, these higher fees began paying dividends… literally. After several years of losses following the crisis, the GSEs' core businesses were once again generating profits, allowing them to start paying the required 10% annual coupons to the U.S. Treasury.

This arrangement was meant to be temporary. In September 2008, FHFA Director James Lockhart noted that the conservatorship was designed "with the objective of *returning the entities to normal business operations*. FHFA will act as the conservator to operate the Enterprises *until they are stabilized*."

## Obama Changes The Rules

Of course, as famed economist Milton Friedman once said, "Nothing is so permanent as a temporary government program."

And unfortunately, around the same time that Fannie and Freddie were stabilizing, the federal government found itself on the verge of what would ultimately be the first of several "debt ceiling" standoffs over the next several years.

The suddenly-cash-strapped Obama administration in 2012 decided to change the rules and demanded the GSEs turn over *all of their profits* to the government, not just the 10% dividend legally required – in what is known as the New Worth Sweep – effectively nationalizing the firms completely.

This unprecedented decision left Fannie and Freddie's private shareholders with minimal equity, even though the GSEs ultimately paid back every penny of the government's $191 billion bailout – a move that federal judge Royce Lamberth later called "blatant theft."

And despite at least eight separate shareholder lawsuits challenging this move, the Net Worth Sweep would remain in place for seven years – generating $301 billion in dividends to the U.S. Treasury. This is roughly $25 billion more than would have been paid under the original 10% dividend rate, *and more than the government made from every other mortgage crisis bailout combined*.

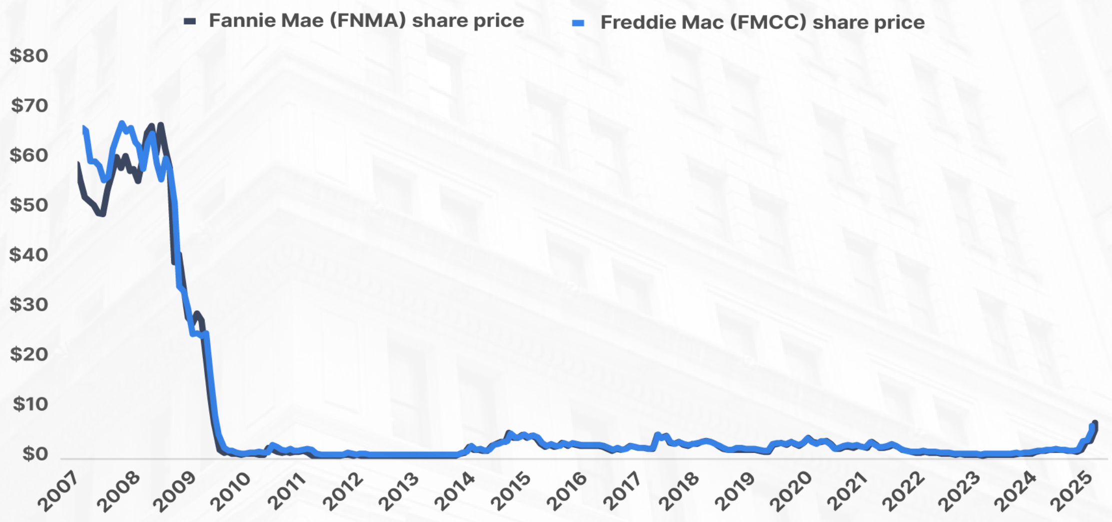
## GSEs Treated Differently Than Other Bailout Recipients

| Company | Government Investment ($billions) | Government Net Profit [1] ($billions) | Government Net Profit [1] (%) | Year Exited [2] |
|---|---|---|---|---|
| AIG | $182 | $23 | 12% | 2012 |
| General Motors | $50 | ($11) | (21%) | 2013 |
| citi | $45 | $12 | 27% | 2011 |
| Bank of America | $45 | $4 | 9% | 2010 |
| JPMorganChase | $25 | $2 | 7% | 2009 |
| Wells Fargo | $25 | $2 | 9% | 2010 |
| Chrysler | $11 | ($1) | (12%) | 2011 |
| FannieMae / Freddie Mac | $191 | $110 | 57% | Ongoing |

*Source: Company and government filings.*
*(1)Proceeds received from principal repayment, dividends, interest, and gains on sale of common stock and other securities less government investment. (2) Year of last repayment or last sale of government-owned securities.*

Meanwhile, shareholders have been forced to sit idly by as shares of both companies have been dead money for years.

## Fannie Mae And Freddie Mac Go Nowhere




*Source: Bloomberg*

## The Beginning Of The End Of Conservatorship

President Trump laid the groundwork for the privatization of the GSEs during his first term.

Most notably, Treasury Secretary Steven Mnuchin officially suspended the Net Worth Sweep in 2019, allowing Fannie Mae and Freddie Mac to once again retain earnings. As of the end of 2024, this had enabled the companies to rebuild more than $130 billion in combined capital.

However, early stonewalling by FHFA Director Mel Watt, followed by the economic shutdown due to the COVID-19 pandemic, stalled progress on this initiative, and the Trump administration simply ran out of time to complete it.

But a 2021 letter from Trump to Senator Rand Paul of Kentucky confirmed that privatizing the GSEs remained a top priority even after he had left office, noting…

> *"[H]ad I controlled FHFA from the beginning of my administration, as the Constitution required… I would have fired [Mel Watt] from his position as director and would have ordered FHFA to release these companies from conservatorship. My administration would have also sold the government's common stock in these companies at a huge profit and fully privatized the companies. The idea that the government can steal money from its citizens is socialism and is a travesty brought to you by the Obama/Biden administration. My administration was denied the time it needed to fix the problem because of the unconstitutional restriction on firing Mel Watt."*

Again, the 2008 conservatorship was never meant to be permanent. Privatization was the original goal, and while there are no guarantees, we're increasingly optimistic that the president will get the job done this time.

## The Stars Are Aligning For Privatization

On January 2, outgoing Treasury Secretary Janet Yellen and FHFA Director Sandra Thompson amended the Preferred Stock Purchase Agreements to restore the Treasury's right to consent to a release from conservatorship, which had been previously overturned by the Biden administration in 2021.

That action clears a path to ending the conservatorship that is relatively straightforward and doesn't require congressional approval.

Fannie and Freddie can now exit conservatorship by simple approval from the Treasury Department and the FHFA. And the new Treasury Secretary Scott Bessent has specifically stated his support for this move while nominated FHFA Director Bill Pulte has been called "a private-equity guy who is willing to carry the free-market gospel to the FHFA."

The Trump administration also has political momentum in its favor. Deregulation was a key part of the president's platform, and privatization aligns perfectly with those goals. It would allow the GSEs to continue to support the liquidity and affordability of the mortgage market, while minimizing government involvement in the housing sector and protecting taxpayers from bearing the full cost of a potential housing downturn.

It would also create significant profit for taxpayers. Privatization could ultimately generate another $300 billion through warrant monetization – on top of the $301 billion the Treasury has already received in dividends – while simultaneously removing up to $8 trillion in mortgage-related liabilities from the government's off-balance-sheet obligations.

The outlook for reform is so positive that Mark Calabria, the former FHFA director during Trump's first term, recently put the odds of privatization within the next couple of years at around 70%.

## The Privatization Blueprint

While the Trump administration has not yet detailed a specific plan to bring Fannie and Freddie out of conservatorship, it's likely to include a few key steps.

The administration will first need to clean up the existing capital structure.

Bill Ackman, founder of hedge fund Pershing Square Capital and one of the largest institutional holders of Fannie and Freddie shares, believes this would best be done by retiring the Treasury's senior preferred shares, as the government has already recouped all of its original investment plus $25 billion in excess of what it was legally owed.

Former Trump administration officials have also been sympathetic to this view, noting that taxpayers have already been made whole. The government could retain its warrants for 79.9% of the common stock, which could then be gradually sold down over the next several years.

FHFA would also need to update Fannie and Freddie's minimum capital requirements. Prior to the 2008 bailout, these entities were subject to a capital requirement of just 0.45%, meaning they were only required to hold around $32 billion in capital against a combined total of around $7 trillion in mortgage guarantees.

The agency has since increased the GSE's capital requirement to 4% – or $280 billion on $7 trillion in guarantees – a level on par with banks. If this 4% capital requirement is maintained, the GSEs would likely need to raise guarantee fees significantly to earn an adequate return, which in turn would make mortgages more expensive for the public at a time when mortgage rates are already at multi-year highs and home affordability is at record lows.

Because the GSE's core guarantee business is significantly less risky than traditional mortgage lending, we suspect FHFA is more likely to reduce these capital requirements prior to privatization instead.

**Fannie and Freddie Should Have Lower Capital Requirements Than Banks**

| Traditional Mortgages | Banks | Reformed GSEs |
|---|---|---|
| Credit Risk | Medium | Low |
| Interest Rate Risk | ✔ | ✖ |
| Liquidity Risk | ✔ | ✖ |
| Jumbo And Alternative Mortgage Products | ✔ | ✖ |
| Minium Common Equity Requirement | 3.5% - 4.7% (1) | ? |

*Source: Company filings and Pershing Square estimates*
*(1) Equity requirements for banks based on 50% risk-weighting for residential to Tier 1 common equity ratio. On the low end, 7% is the minimum Tier 1 capital ratio required under Basel III. On the high end. 9.4% is the average required Tier 1 capital ratio of the 32 largest banks in the United States as of October 2024.*

For example, Ackman notes that a 2.5% capital requirement would provide Fannie and Freddie with roughly $170 billion of capital to support their mortgage guarantees – a healthy balance sheet equivalent to 6.2 times the GSEs' cumulative losses (excluding subprime MBS) during the 2008 crisis – while still generating a solid (low double-digit) return on capital.

Any privatization plan would also require FHFA to clarify the nature of the government backstop. Granting a direct, explicit guarantee would likely be problematic. It would require the U.S. government to add the GSE's guarantees to its balance sheet. This would effectively add another $7 trillion to the existing $36 trillion national debt, something President Trump is likely unwilling to do. It would also require legislation from Congress.

On the other hand, the administration is also unlikely to endorse a return to the implicit guarantee the GSEs held prior to conservatorship.

One alternative proposed by Ackman would be to modify the terms of the government's Preferred Stock Purchase Agreements to act as a government backstop. This would essentially allow the U.S. Treasury's existing funding commitment of $445 billion to act as an explicit guarantee without risking additional taxpayer money.

GSE losses would then be guaranteed to more than $600 billion – the sum of the GSEs $170 billion in required capital plus the Treasury's $445 billion – or more than 20 times their combined cumulative losses (excluding subprime) during the 2008 crisis.

The final step required to privatize would be an Initial Public Offering ("IPO") to raise capital. Given the GSEs' current combined capital of around $130 billion and targeted IPOs by year-end 2027, Fannie and Freddie would need to raise roughly $20 billion – $5 billion and $15 billion, respectively – to meet the minimum capital requirements necessary to exit conservatorship. These aren't insignificant sums, but they're relatively small compared to the largest IPOs in recent decades.

### Fannie And Freddie vs. The Top 10 Global IPOs Of The Last 50 Years

| Company | Proceeds ($billions) | Year of IPO |
|---|---|---|
| أرامكو السعودية saudi aramco | $29 | 2019 |
| Alibaba.com | $25 | 2014 |
| SoftBank | $24 | 2018 |
| AIA | $21 | 2010 |
| VISA | $20 | 2008 |
| GM General Motors | $18 | 2010 |
| NTT docomo | $18 | 1998 |
| Enel | $17 | 1999 |
| ICBC | $16 | 2007 |
| facebook | $16 | 2012 |
| Freddie Mac | $15 | 2027 |
| FannieMae | $5 | 2026 |

*Source: Bloomberg. The companies shown comprise the largest global IPOs in the last 50 years. / Note: Proceeds include overallotment. General Motors represents the IPO of GM Motors Co. in 2010.*

## A Windfall For Taxpayers... A Multi-Bagger For Investors... And A Big Win For Trump

The privatization of Fannie and Freddie would be a great deal for U.S. taxpayers. The U.S. Treasury could earn $300 billion or more from the sale of its outstanding warrants – which give it the right to buy the companies' stock at a specific price within a set time period. And this is in addition to the $301 billion the Treasury has already been paid in dividends, far exceeding the $191 billion spent on the 2008 bailout.

However, equity investors could do even better. Given the assumptions above – and a reasonable multiple of around 15x earnings – Fannie and Freddie shares could trade at $35 and $39, respectively, or better, by the end of 2027. That represents a gain of 428% and 544% or more from current prices.

And, of course, privatizing Fannie and Freddie would solidify President Trump's legacy as the King of Dealmaking...

Earning $300-plus billion in profit for taxpayers would rank among the most lucrative transactions in history... protecting the availability and affordability of the 30-year mortgage would make the president a hero to the middle class... and successfully overcoming 17 years of entrenched bureaucracy would immortalize him as the leader who transformed a "too big to fail" liability into an engine of wealth creation.

**Action to Take: Buy Fannie Mae (OTC: FNMA) up to $8.50 per share and Freddie Mac (OTC: FMCC) up to $7.50 per share**

***Please note:*** While we believe privatization is likely, it is not guaranteed. If the deal should be delayed or fall through again, Fannie and Freddie are likely to both fall back from current levels of around $6 per share into the range they've traded in for much of the past 17 years... between roughly $1 and $3 per share. Be sure to take this into consideration when position sizing and don't risk more than you can afford to lose. Still, we believe this is a fantastic asymmetric opportunity where we can risk $1 to potentially make $5 or more over the next few years.

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**