

Fannie Mae (FNMA) & Freddie Mac (FMCC): The \$7 Trillion Question

Executive Summary

Fannie Mae and Freddie Mac—the twin pillars of the \$13 trillion U.S. housing finance system—have been in federal conservatorship since September 2008, making this an 18-year saga. The Trump administration has been actively exploring an IPO or partial privatization, but momentum has stalled dramatically in early 2026. Both stocks have plunged over 60% from their September 2025 highs as privatization timelines get pushed further out, and as of March 27, 2026, FNMA trades at \$4.81 and FMCC at \$4.45 ([Perplexity Finance](#)). This remains one of the most binary, politically-driven speculations in the market—a lottery ticket dressed up in a suit.

Current Market Snapshot

Metric	FNMA (Fannie Mae)	FMCC (Freddie Mac)
Price (3/27/26)	\$4.81	\$4.45
Market Cap	\$5.57B	\$2.89B
52-Week High	\$15.99	\$14.99
52-Week Low	\$3.60	\$3.40
Avg Volume	6.3M shares	3.0M shares
Common Shares Outstanding	~1.16B	~650M

Source: [Perplexity Finance FNMA](#), [Perplexity Finance FMCC](#)

The stocks traded around \$1.00 in early 2024, surged to nearly \$16 (FNMA) and \$15 (FMCC) by September 2025 on privatization euphoria, and have since given back roughly 70% of those gains. The chart is a textbook boom-bust pattern driven entirely by political headlines.

The History: How We Got Here

The 2008 Bailout

Fannie Mae (created 1938) and Freddie Mac (created 1970) were government-sponsored enterprises (GSEs) that operated as publicly traded, shareholder-owned companies with an implicit government guarantee. Together they back approximately 70% of all U.S. home mortgages—roughly \$7.6 trillion in assets ([AmeriSave](#)).

When the subprime mortgage crisis hit in 2008, both enterprises became insolvent. On September 6, 2008, the Federal Housing Finance Agency (FHFA) placed both into

conservatorship — effectively a government takeover ([Wikipedia](#)). The U.S. Treasury ultimately injected \$187 billion to prevent their collapse.

What Treasury Got in Return

The bailout terms were punishing for existing shareholders ([FHFA](#)):

1. **Senior Preferred Stock:** \$1 billion initially in each company, with a 10% coupon. Treasury's commitment eventually rose to unlimited support.
2. **Warrants:** The right to purchase 79.9% of each company's common stock at a nominal price of \$0.00001 per share, expiring September 7, 2028.
3. **The Net Worth Sweep (2012):** The Third Amendment changed the dividend from a fixed 10% to a "sweep" of virtually all profits to Treasury each quarter. This was the most controversial move — it meant shareholders got nothing while Treasury collected hundreds of billions.

The Numbers That Matter

As of the latest available data ([CBO](#), [AmeriSave](#)):

Item	Fannie Mae	Freddie Mac	Combined
Net Worth (YE 2025)	\$109B	\$70.4B	\$179.4B
2025 Net Income	\$14.4B	\$10.7B	\$25.1B
Treasury Senior Preferred Liquidation Preference	~\$216B	~\$132B	~\$348B
Treasury Warrants (79.9% ownership)	Expires Sept 2028	Expires Sept 2028	—
ERCF Capital Requirement	~\$187B+	~\$141B+	~\$328B+
Current Capital Shortfall	~\$78B+	~\$106B+	~\$149-181B
Junior Preferred Stock Outstanding	—	—	~\$35B combined

The key tension: Treasury's liquidation preference (\$348B) theoretically sits ahead of all common and junior preferred shareholders. This is the mountain that must be moved before existing common stock has real value.

The Privatization Push: Where Things Stand

The Trump Administration's Evolving Position

The timeline of key events tells the story of rising and then fading hopes:

- **May 2025:** Trump posted on Truth Social giving "very serious consideration" to privatization, stating the government would maintain implicit guarantees ([FTI Communications](#)).
- **March 2025:** FHFA Director Bill Pulte appointed himself chairman of both GSEs, removed 14 board members — a dramatic power consolidation ([AmeriSave](#)).
- **October 2025:** Pulte indicated IPO could happen in early 2026 ([MPA Magazine](#)).
- **November 2025:** Bill Ackman declared IPO "not feasible or desirable" at this time, proposed instead uplisting to NYSE and a walk-before-you-run approach ([Reuters](#)).
- **January 2026:** Trump ordered \$200B in mortgage bond purchases; Pulte said Trump would decide on IPO in "next month or two" ([Reuters](#)).
- **February 2026:** Pulte walked back full privatization, saying "We're discussing an IPO ... but we could proceed with that while keeping them in conservatorship" ([NPR](#)).
- **March 2026:** Shares plunged 30%+ in a single week. Wedbush cut price targets (FNMA to \$8 from \$13, FMCC to \$12 from \$13.35), saying no action expected until after November midterms "if at all" ([Investing.com](#)).

Bill Ackman's Proposal

Pershing Square, which holds over 210 million shares combined and is the largest common shareholder, has advocated a specific plan ([Yahoo Finance](#), [Reuters](#)):

1. Acknowledge prior payments as repayment for senior preferred stock
2. Treasury exercises warrants → 79.9% common stock ownership
3. Uplist from OTC to NYSE (weeks, not months)
4. Reduce capital requirements from 4.5% of guarantees
5. Estimated combined valuation: ~\$400-500 billion
6. Government stake worth ~\$300 billion, to be sold over time

This plan would be extremely favorable to existing common shareholders — which is exactly why Ackman is pushing it. The government would effectively forgive the \$348B liquidation preference in exchange for the 79.9% common stake.

The Legal Landscape

The \$812 Million Jury Verdict

In August 2023, a jury found that the FHFA breached the implied covenant of good faith and fair dealing through the Net Worth Sweep, awarding \$612.4 million to shareholder classes. The court ultimately entered final judgment of \$812 million including pre-judgment interest ([BLBG Law](#)). In March 2025, Judge Lamberth upheld the verdict, finding "ample evidence."

The Fairholme Appeal

FHFA has appealed this verdict. Oral arguments are scheduled for April 21, 2026 — less than a month away ([Inside Mortgage Finance](#)). This is a significant near-term catalyst. A favorable ruling for shareholders would strengthen the hand of common/preferred holders in any restructuring negotiations.

Takings Claims Largely Defeated

A separate Fifth Amendment "takings" claim was dismissed by the Federal Circuit in August 2025, affirming that Congress gave FHFA broad authority as conservator, including prioritizing public interests over shareholders ([Orrick](#)). This was a blow to shareholders hoping the courts would force the government's hand.

Scenario Analysis: The Odds

Here are the realistic scenarios for existing common shareholders, with estimated probabilities based on current political dynamics, legal landscape, and market conditions:

Scenario 1: Prolonged Conservatorship / Status Quo (35% probability)

What happens: The administration gets distracted by other priorities (tariffs, elections, budget fights). No IPO, no restructuring. GSEs continue building capital in conservatorship indefinitely.

Impact on common stock: Shares drift back toward \$1-3 range. Without a catalyst, the OTC-traded common has minimal intrinsic value — no dividends, no voting rights, no path to value realization.

Target Price: \$1.50 - \$3.00

Why this is likely: Wedbush's analyst explicitly stated no action is expected until after November midterms "if at all." Trump's attention is elsewhere. The complexity of the deal is enormous. Pulte's recent walkbacks from "privatization" to "IPO while keeping them in conservatorship" suggest diminishing ambition.

Scenario 2: Partial IPO / Capital Raise While in Conservatorship (25% probability)

What happens: Treasury sells a small stake (3-6%) via IPO while keeping the GSEs in conservatorship. Treasury Secretary Bessent's "\$30 billion deal" scenario ([NPR](#)). The government maintains control and the implicit guarantee.

Impact on common stock: Modest positive. Establishes a market price and creates a path, but massive dilution from the 799% warrant overhang. Existing common stockholders own only ~20.1% pre-IPO at best, and new shares from the capital raise dilute further. Could see shares at \$6-10 initially, but long-term value depends on subsequent steps.

Target Price: \$5.00 - \$10.00

Why possible: This is the "split the baby" approach. Gets a political win for the administration, generates revenue, establishes a market valuation. Pulte explicitly mentioned this option.

Scenario 3: The Ackman Dream — Full Restructuring Favorable to Common (15% probability)

What happens: Treasury forgives the \$348B senior preferred liquidation preference, exercises warrants for 79.9% common ownership, and sells that stake over time. Junior preferred converted at par or near par. Capital requirements reduced. NYSE uplisting.

Impact on common stock: This is the moonshot. If combined enterprise value approaches \$400-500B (Ackman's estimate) and existing common retains ~20.1% before any new issuance, that implies \$80-100B of value for all existing common shares. With ~1.8B shares outstanding (combined), that's \$44-56 per share.

Target Price: \$25 - \$50+

Why unlikely at this probability: Requires the government to effectively give up \$348B in claims, which is politically toxic. The CBO analysis shows only ~60% of scenarios produce enough value to fully repay Treasury (CBO). Congress would likely need to be involved. No bipartisan consensus exists.

Scenario 4: Treasury Converts SPS to Common — Massive Dilution (20% probability)

What happens: Treasury converts its \$348B senior preferred into common shares AND exercises its 79.9% warrants. This gives Treasury ~95-99% ownership. Existing common shareholders are diluted to 1-5% of the company.

Impact on common stock: The worst realistic outcome short of zero. If the combined entity is worth \$400B, existing common shareholders' 1-5% stake equals \$4-20B total. With ~1.8B shares outstanding, that's \$2.20-\$11 per share.

Target Price: \$2 - \$8

Why possible: This is the path most aligned with maximizing taxpayer recovery. FHFA Director Pulte himself stated in May 2025: "I cannot envision a scenario where the President relinquishes control" — which only works if Treasury converts to maintain majority ownership (Reddit/FNMA_FMCC_Exit). The AIG/GM precedent supports this approach.

Scenario 5: Adverse Outcome — Recap and Zero for Common (5% probability)

What happens: Restructuring or legislative action wipes out existing common equity entirely. New shares are issued to meet capital requirements, and existing common stock is cancelled or diluted to near-zero.

Impact on common stock: Total loss.

Target Price: \$0 - \$0.50

Why unlikely: While legally possible, it would trigger massive lawsuits and political backlash. The administration has explicitly discussed protecting shareholder value. But the risk is nonzero, especially if Congress legislates a restructuring.

Summary Odds Table

Scenario	Probability	Target Range	Expected Value per FNMA Share
1. Status Quo / Conservatorship continues	35%	\$1.50 - \$3.00	\$0.79
2. Partial IPO (in conservatorship)	25%	\$5.00 - \$10.00	\$1.88
3. Ackman Dream (full restructuring)	15%	\$25.00 - \$50.00	\$5.63
4. SPS Conversion (heavy dilution)	20%	\$2.00 - \$8.00	\$1.00
5. Adverse / Wipeout	5%	\$0.00 - \$0.50	\$0.01
Weighted Expected Value			\$9.31

The probability-weighted expected value of ~\$9.31 vs. the current price of ~\$4.81 suggests roughly 93% upside in an expected-value framework. However, this is misleading in the way all binary bets are — the most likely single outcome (Scenario 1, 35%) produces a loss. The positive expected value is driven entirely by the 15% moonshot scenario.

Key Catalysts to Watch

- 1. Fairholme Appeal oral arguments — April 21, 2026:** Nearest-term catalyst. A ruling upholding the \$812M verdict strengthens shareholder hand in negotiations.
- 2. Trump's IPO Decision:** Pulte said "month or two" in January 2026. Three months have passed. The longer the silence, the more Scenario 1 becomes the base case.
- 3. November 2026 Midterm Elections:** Wedbush expects no action until after midterms. Any privatization that raises mortgage rates would be political suicide before elections.
- 4. Treasury Warrant Expiration — September 7, 2028:** The warrants have a hard expiration date. This creates a forcing function — if Treasury doesn't exercise by then, the 799% ownership claim evaporates. This is the single most important date on the calendar for long-term holders.
- 5. ERCF Capital Requirement Changes:** If the administration reduces capital requirements (as Ackman advocates), it dramatically changes the math for privatization feasibility.

The Phil Davis Take: Position Sizing for "Entertainment Value"

Given that Pstas is looking at this for "old times' sake" with a small entertainment position, here's the framework:

What You're Really Buying

This is a political option, not a stock in the traditional sense. The companies are massively profitable (\$25B+ combined annual earnings), but none of that accrues to common shareholders under conservatorship. You're betting on:

- The Trump administration executing one of the most complex financial restructurings in history
- A favorable treatment of existing common shareholders despite \$348B in senior claims
- The warrants being exercised without destroying existing equity value
- All of this happening before the political window closes

Position Sizing Guidelines

Given the binary nature:

- **"Entertainment" allocation:** No more than 1-2% of portfolio value
- **Entry:** Current levels (\$4.81 FNMA / \$4.45 FMCC) are substantially off the highs and near the bottom of the recent range (52-week lows: \$3.60 / \$3.40)
- **Preferred vehicle:** FNMA has more liquidity (6.3M avg volume vs. 3M for FMCC) and a slightly larger market cap
- **Risk management:** Treat this as a position where you're comfortable losing the entire investment. No stop-losses — the volatility will shake you out. Either the thesis plays out over 1-3 years or it doesn't.

The Junior Preferred Alternative

Some sophisticated investors prefer the junior preferred shares (various series trade OTC) over common. The reasoning: in several restructuring scenarios, junior preferred would be converted at or near par value (\$25/share) while common could be diluted to near-zero. The junior preferreds currently trade at significant discounts to par and have a stronger legal claim in the capital stack. The \$812M jury verdict was awarded specifically to junior preferred classes. However, liquidity in individual preferred series is very thin.

Bottom Line

FNMA and FMCC at ~\$5 are priced for significant doubt that anything will happen in the near term — and that doubt is well-founded. The stocks have round-tripped most of their 2024-2025 gains. The weighted expected value math is modestly favorable, but the distribution of outcomes is wildly asymmetric. This is a 1-3 year speculation on whether the U.S. government will execute the largest financial restructuring in history in a way that doesn't destroy existing common equity.

For "entertainment value" and a small position? The current price at least gives you a much better entry than the \$10-16 level where the euphoria peaked. Just don't let the position grow to

the point where it keeps you up at night — because the one thing you can count on is that this will be a wild ride driven by political headlines, not fundamentals.