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FANNIE AND FREDDIE PREFERRED STOCK**

On October 29, 2008 the Internal Revenue Service released Revenue Procedure 2008-64, providing guidance on when gain or loss from indirect ownership of Fannie Mae and Freddie Mac preferred stock can be treated as ordinary income and loss. This follows the extension of ordinary tax treatment to the gain or loss of certain financial institutions on the sale or exchange of direct investments in Fannie and Freddie preferred stock by the Emergency Economic Stabilization Act of 2008.

Rev. Proc. 2008-64 provides guidance describing when eligible financial institutions can receive ordinary treatment on gains and losses on:

1. Fannie and Freddie preferred stock recognized by a partnership in which the financial institution is a partner;
2. the sale of an interest in a partnership that owns preferred stock;
3. the sale of preferred stock that the financial institution received in a distribution from a partnership;
4. preferred stock recognized by certain subsidiaries of financial institutions; and the sale of preferred stock that the financial institution received in certain "transferred basis" transactions.

FOR MORE INFORMATION:

Please contact any member of the Financial Markets Crisis Team to determine how this development may affect you. Click on the links below for direct access to the Treasury Department Web site and Revenue Procedure 2008-64.

Treasury Department Press Release October 29, 2008: "Treasury, IRS Issue Guidance on Indirect Ownership of Fannie and Freddie Preferred Stock"

<http://www.treas.gov/press/releases/hp1242.htm>

Rev. Proc. 2008-64

<http://www.treas.gov/press/releases/reports/rev%20%20proc%20200864.pdf>

This *Financial Markets Crisis Team E-Alert* provides general information about recent legislative and regulatory developments. It should not be construed as legal advice or a legal opinion. Readers should seek legal counsel concerning specific factual situations confronting them.