here is the breakdown of the cases Bill Ackman shorted

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## Case 1: MBIA Inc.

\*\*Reasoning for Short Position (Details):\*\*

1. \*\*Excessive Leverage:\*\*

\* \*\*Detail:\*\* Capital-to-guarantee ratio of 140-to-1, leaving almost no margin for error.

\* \*\*Method:\*\* Financial statement analysis (reading 10-Ks, 10-Qs).

2. \*\*Fragile Triple-A Rating & Business Model Dependence:\*\*

\* \*\*Detail:\*\* The entire business model relied on maintaining the AAA rating; even small losses ($900M mentioned) could trigger a downgrade, causing cascading negative effects (impaired ability to write new business, devaluation of own insured bonds in investment portfolio, potential liquidity crisis in SPVs).

\* \*\*Method:\*\* Analysis of business model, rating agency criteria, statements by MBIA executives (Budnick), analysis of investment portfolio holdings, analysis of SPV structures (Triple-A One Funding).

3. \*\*Inadequate Reserves & Hidden/Deferred Losses:\*\*

\* \*\*Detail:\*\* Believed reserves were insufficient for the risks taken, particularly in structured finance. Identified specific instances where losses appeared hidden or deferred rather than recognized promptly.

\* AHERF bankruptcy loss (1998) masked by a questionable reinsurance transaction structured more like a loan.

\* Capital Asset Research Management ("Caulis Negris" / "Black Hole") losses obscured through securitization and gradual write-downs of nearly worthless assets (tax liens on derelict properties).

\* Restructuring troubled credits to avoid immediate defaults/claims.

\* \*\*Method:\*\* Analysis of financial statements (reserving methodology, loss recognition), investigation of specific deals (AHERF reinsurance structure analysis, forensic accounting by Kroll Zolfo Cooper), document review (Heitmeyer letter), evidence gathering (Capital Asset videotape), on-the-ground research (Pittsburgh property review for Caulis Negris).

4. \*\*Aggressive/Misleading Accounting & Disclosure:\*\*

\* \*\*Detail:\*\* Accounting practices designed to smooth earnings (e.g., AHERF reinsurance). Lack of transparency regarding off-balance-sheet SPVs (like Triple-A One) and their risky contents (subprime auto/home equity loans). Misleading statements in regulatory filings (re: derivatives). Massive discrepancies between internal/reported mark-to-market values on CDOs and market/dealer estimates. Late disclosure of significant CDO-squared exposure. Misleading statements on conference calls.

\* \*\*Method:\*\* Reading financial statements and footnotes over time, comparing disclosures year-to-year, analyzing regulatory filings, obtaining dealer quotes for CDO marks (Deutsche Bank, Lehman), analyzing conference call transcripts, reviewing specific transaction documents.

5. \*\*Risky Expansion into Structured Finance (CDOs/CDSs):\*\*

\* \*\*Detail:\*\* Moving beyond core municipal business into guaranteeing complex CDOs, often backed by risky assets like subprime mortgages, frequently using CDS. Underestimated correlation risk and adverse selection risk in these portfolios. Super-senior tranches, while appearing safe, were vulnerable given the underlying collateral quality and structure. Significant, undisclosed risk related to CDS termination triggers upon downgrade/insolvency.

\* \*\*Method:\*\* Analysis of portfolio composition disclosed in filings, discussions with CDS traders/dealers, understanding CDO structures, analysis of underlying collateral trends (subprime), reviewing CDS contract terms (where possible), applying stress tests via models (Open Source Model).

6. \*\*Circumvention of Regulations:\*\*

\* \*\*Detail:\*\* Using "orphaned" SPVs (LaCrosse Financial Products) to effectively guarantee CDSs, which NY insurance law prohibited insurers from doing directly with insurance capital.

\* \*\*Method:\*\* Analysis of SPV structures, legal analysis (attempted via Fried Frank), discussions with regulators (NYS Insurance Dept.).

7. \*\*Flawed Business Model & "Confidence Game":\*\*

\* \*\*Detail:\*\* Reliance on "zero-loss" underwriting myth despite evidence of losses. Dependence on potentially flawed statistical models (Monte Carlo). The municipal business relied heavily on implicit taxpayer guarantees ("moral obligation") rather than the insurer's standalone strength, exacerbated by the dual municipal/corporate rating scale.

\* \*\*Method:\*\* Analysis of MBIA public statements/philosophy, review of rating agency methodologies, understanding municipal finance practices, discussions with industry participants, analysis of historical performance vs. claims.

8. \*\*Conflicts of Interest & Management Issues:\*\*

\* \*\*Detail:\*\* Rating agencies and auditors had financial incentives not to challenge MBIA. Wall Street needed MBIA for deal facilitation. Management compensation incentivized short-term stock performance. Aggressive tactics used against critics.

\* \*\*Method:\*\* Observing market dynamics, analyzing relationships between MBIA and its service providers/partners, reviewing executive compensation disclosures, direct experience with MBIA's response to criticism (prompting investigations).

\*\*Research Methods Used (Summary for MBIA):\*\*

\* \*\*Document Analysis:\*\* Extensive review of SEC filings (10-Ks, 10-Qs), annual reports, conference call transcripts, rating agency reports, prospectuses, trustee reports, legal filings, industry publications.

\* \*\*Interviews/Meetings:\*\* Direct meetings with MBIA management, CDS dealers, equity analysts, rating agencies (S&P, Moody's, Fitch), regulators (NYSID, NYAG, SEC), auditors (PwC CEO), potential allies (Icahn, Buffett, Dimon, Ross, Frank, Spitzer, Blumenthal), whistleblowers (Heitmeyer), affected parties (Farner/UPMC), reporters.

\* \*\*Quantitative/Financial Analysis:\*\* Calculating leverage, estimating mark-to-market values (using dealer quotes), developing and using sophisticated loss projection models (Open Source Model with Credit Suisse).

\* \*\*Forensic Accounting:\*\* Hiring Kroll Zolfo Cooper (Siefert) to analyze specific transactions (AHERF) and reserving practices.

\* \*\*Legal Analysis:\*\* Assessing compliance with insurance regulations (attempted via Fried Frank).

\* \*\*On-the-Ground Research:\*\* Visiting Pittsburgh to assess properties underlying Caulis Negris tax liens.

\* \*\*Public Advocacy & Pressure:\*\* Publishing research reports, writing letters to stakeholders, presenting at conferences, engaging with media, Congressional testimony.

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## Case 2: Farmer Mac (Federal Agricultural Mortgage Corporation)

\*\*Reasoning for Short Position (Details):\*\*

1. \*\*Misleading Association & Rating Perception:\*\*

\* \*\*Detail:\*\* Market treated it as implicitly AAA due to government charter, but it had no official rating and no explicit government guarantee.

\* \*\*Method:\*\* Observing market pricing/spreads, confirming lack of official rating.

2. \*\*Precarious Financial State:\*\*

\* \*\*Detail:\*\* Low reserves compared to risk profile; rising loan delinquencies.

\* \*\*Method:\*\* Financial statement analysis.

3. \*\*Excessive Leverage & Liquidity Risk:\*\*

\* \*\*Detail:\*\* High dependence on rolling over short-term commercial paper weekly to fund long-term, illiquid farm loans. Vulnerable if market access was disrupted.

\* \*\*Method:\*\* Analysis of cash flow statements, debt structure analysis.

4. \*\*Misleading Disclosure:\*\*

\* \*\*Detail:\*\* Changing the definition of "delinquent" loans over time to make metrics look better. General lack of transparency.

\* \*\*Method:\*\* Comparing financial statement disclosures across different periods.

5. \*\*Poor Corporate Governance:\*\*

\* \*\*Detail:\*\* Excessive management compensation (35% of shares set aside). Board lacked independence, dominated by affiliates/clients.

\* \*\*Method:\*\* Review of proxy statements and governance disclosures.

6. \*\*Risky Business Practices:\*\*

\* \*\*Detail:\*\* Offering "long-term stand-by purchase commitments" which likely attracted lower-quality loans (adverse selection) and created contingent liabilities. Failure to fulfill mission of creating a secondary market for farm MBS.

\* \*\*Method:\*\* Analysis of business lines described in filings, discussions with management.

\*\*Research Methods Used (Summary for Farmer Mac):\*\*

\* \*\*Document Analysis:\*\* Reading SEC filings (historical), analyzing cash flow statements, reviewing governance documents.

\* \*\*Interviews/Meetings:\*\* Direct meeting with Farmer Mac CEO and CFO.

\* \*\*Collaboration:\*\* Discussing the idea and findings with other investors (Tilson, Spier).

\* \*\*Public Advocacy & Pressure:\*\* Publishing detailed research reports ("Buying the Farm"), engaging with press (NYT).

\* \*\*Regulatory Engagement:\*\* Contacting GAO and SEC, meeting with GAO, offering to pay for a credit rating.

\* \*\*Trading:\*\* Shorting stock and purchasing CDS contracts.

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## Case 3: Fannie Mae / Freddie Mac

\*\*Reasoning for Short Position (Details):\*\*

1. \*\*Inadequate Capital Structure:\*\*

\* \*\*Detail:\*\* Companies were overly leveraged with too much debt relative to their equity base, making them vulnerable to losses in the mortgage market.

\* \*\*Method:\*\* (Implied) Analysis of balance sheets and capital structure leading to the proposed restructuring plan.

2. \*\*Overvalued Equity:\*\*

\* \*\*Detail:\*\* Given the leverage and potential losses, the existing common stock was likely worthless.

\* \*\*Method:\*\* (Implied) Valuation analysis based on assessment of liabilities vs. assets/equity.

\*\*Research Methods Used (Summary for Fannie/Freddie):\*\*

\* \*\*(Implied) Financial/Structural Analysis:\*\* Developing a recapitalization plan (wipe out equity, convert debt) indicates analysis of their precarious state.

\* \*\*Public Advocacy:\*\* Presenting the recapitalization plan on CNBC.

\* \*\*Trading:\*\* Taking short positions in common stock and subordinated debt.

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