

# NEW AMERICA FOUNDATION



**James B. Lockhart III, Chairman**  
**November 13, 2008**  
**Washington, DC**

# FHFA



- On July 30, 2008, President Bush signed the Housing and Economic Recovery Act of 2008 (HERA), creating the Federal Housing Finance Agency to supervise the Federal Home Loan Banks, Fannie Mae and Freddie Mac.

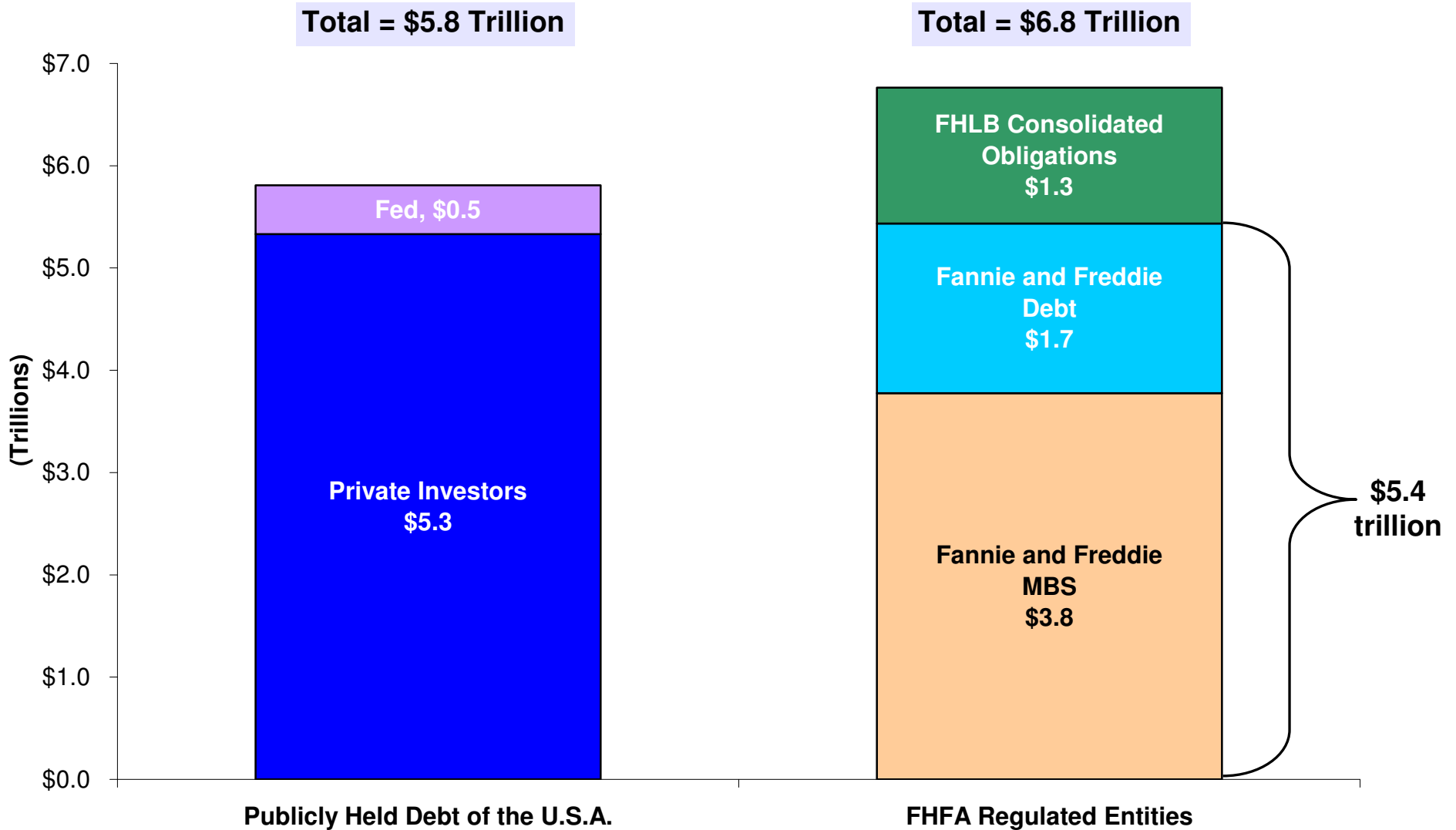


- The three houses represent in our new logo the merger of Office of Federal Housing Enterprise Oversight, the Federal Housing Finance Board and Mission including HUD's team.

# Housing GSEs Exceed the Public U.S. Debt



Relative Size of Enterprise Obligations  
(September 2008)

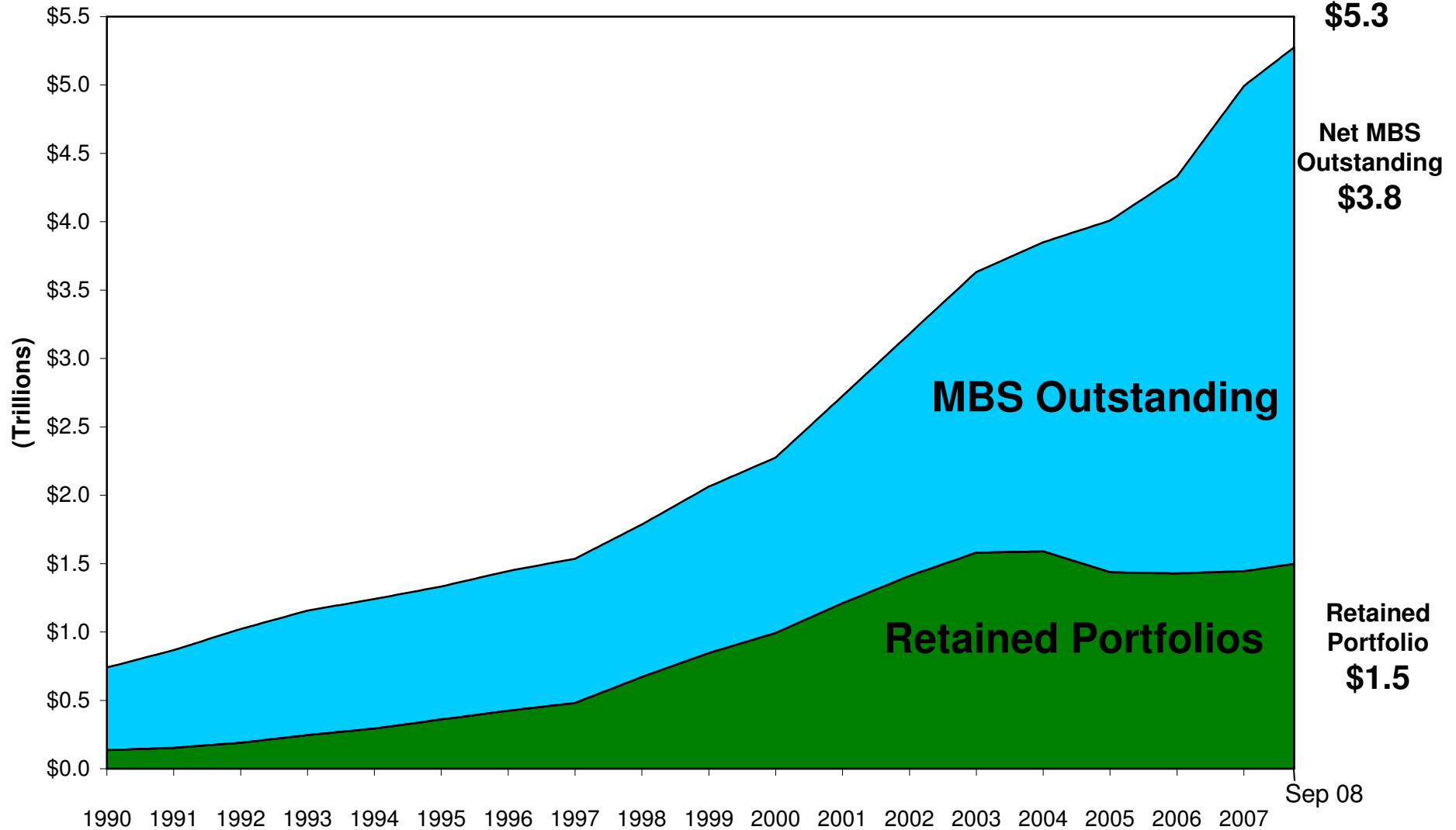


Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries, TreasuryDirect.gov, Federal Reserve H.4.1 Release.

# Fannie and Freddie Continue to Grow



Enterprises' Combined Total Book of Business  
1990 - September 2008

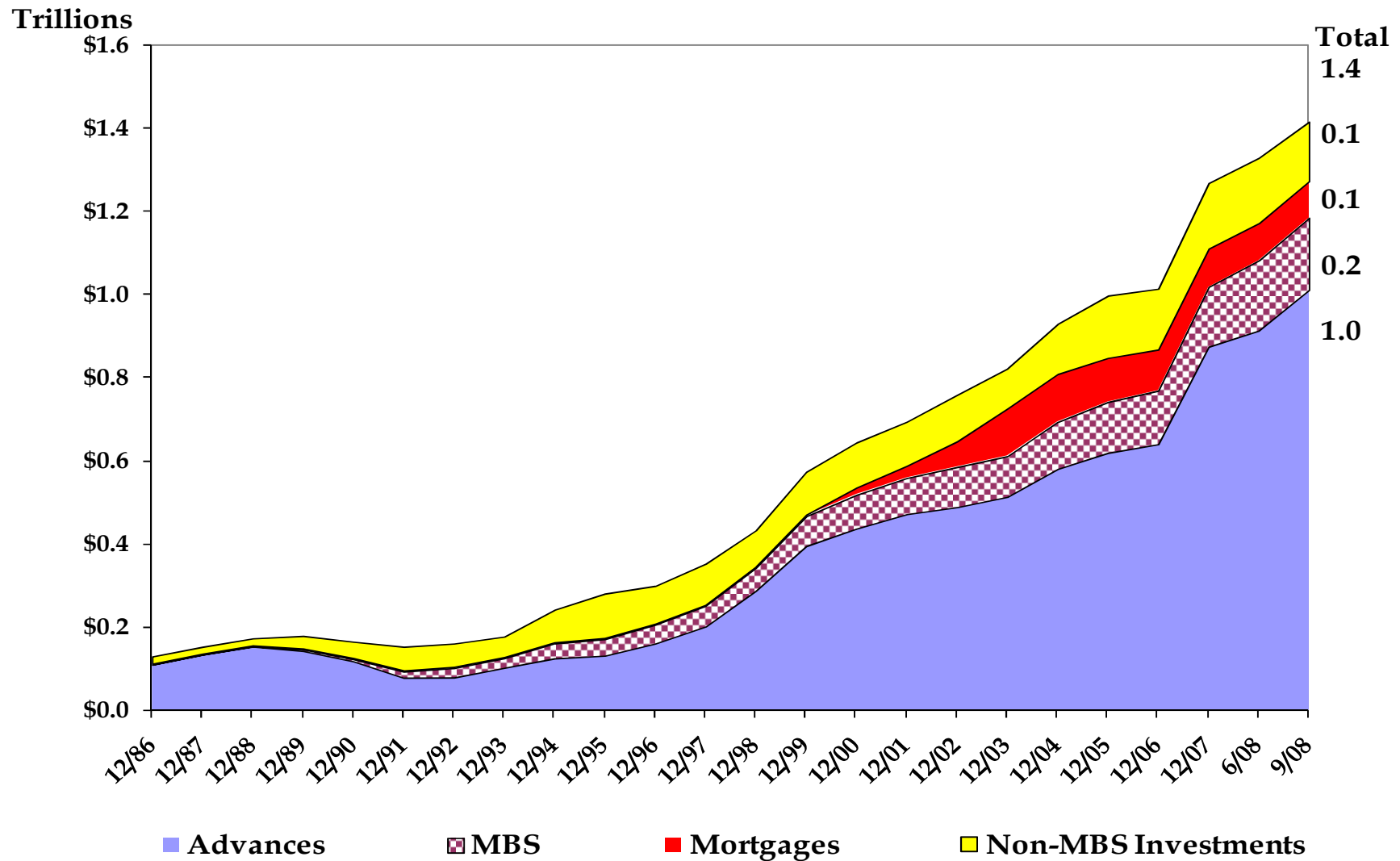


Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries and 2007 OFHEO Report to Congress.

# FHLBanks Also Continuing to Grow



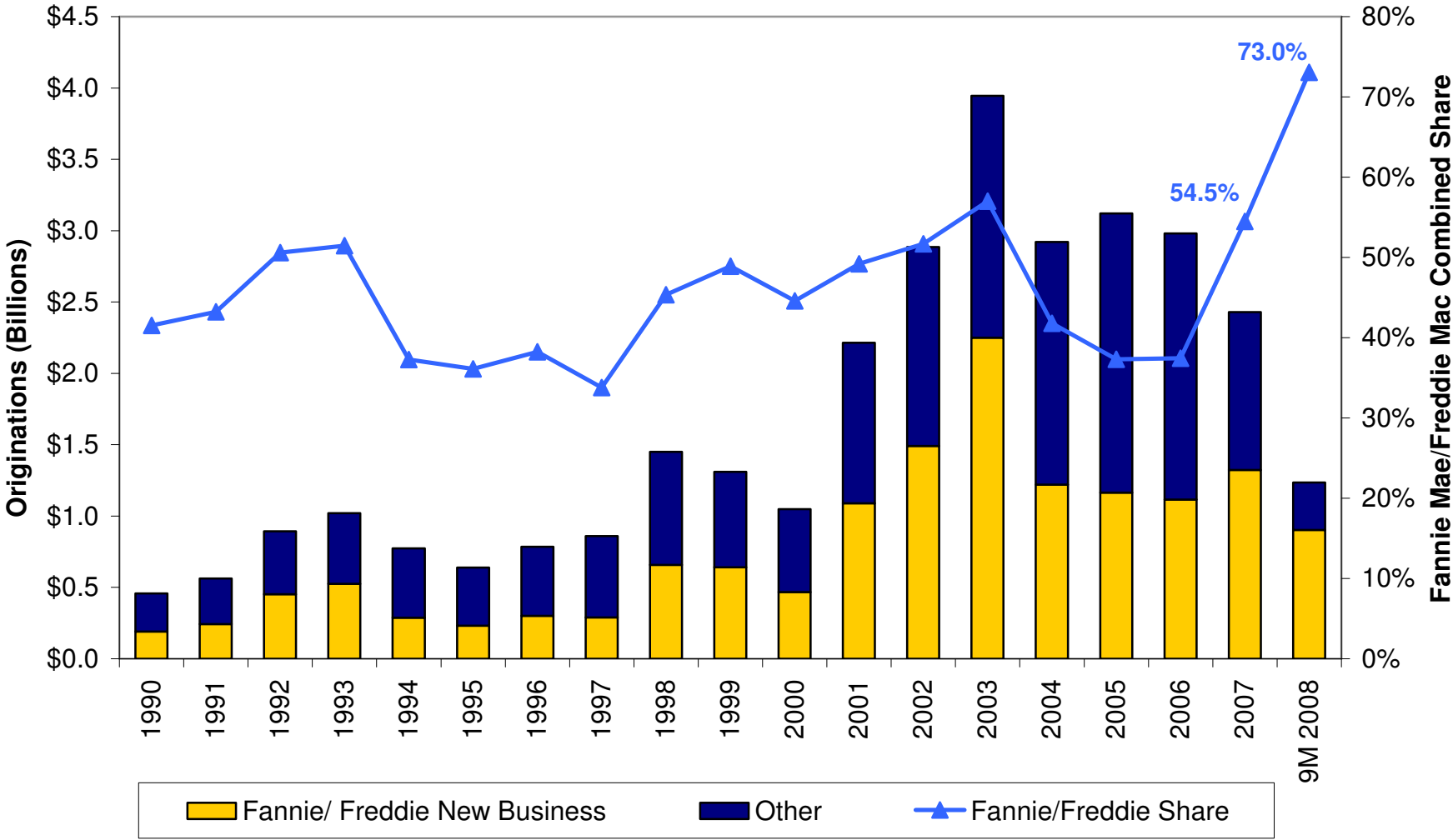
1987 - September 2008



# Enterprise Share of Mortgage Originations



Fannie Mae and Freddie Mac New Business as a Share of Mortgage Originations  
1990 - 2008Q3

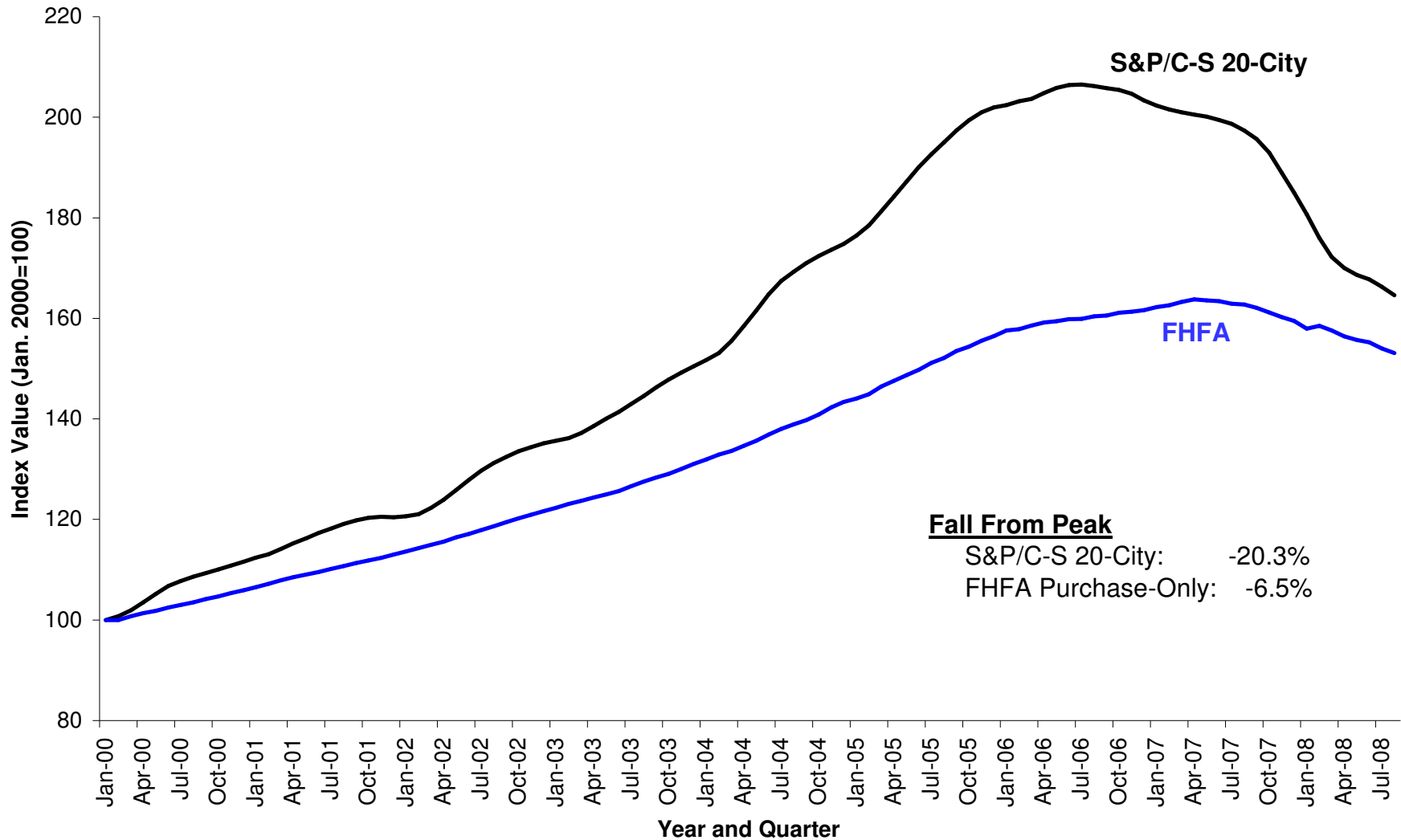


Sources: Inside Mortgage Finance, Enterprise Monthly Volume Summaries.

# House Prices Continue to Fall



**FHFA and S&P/Case-Shiller House Price Indexes**  
January 2000 - August 2008

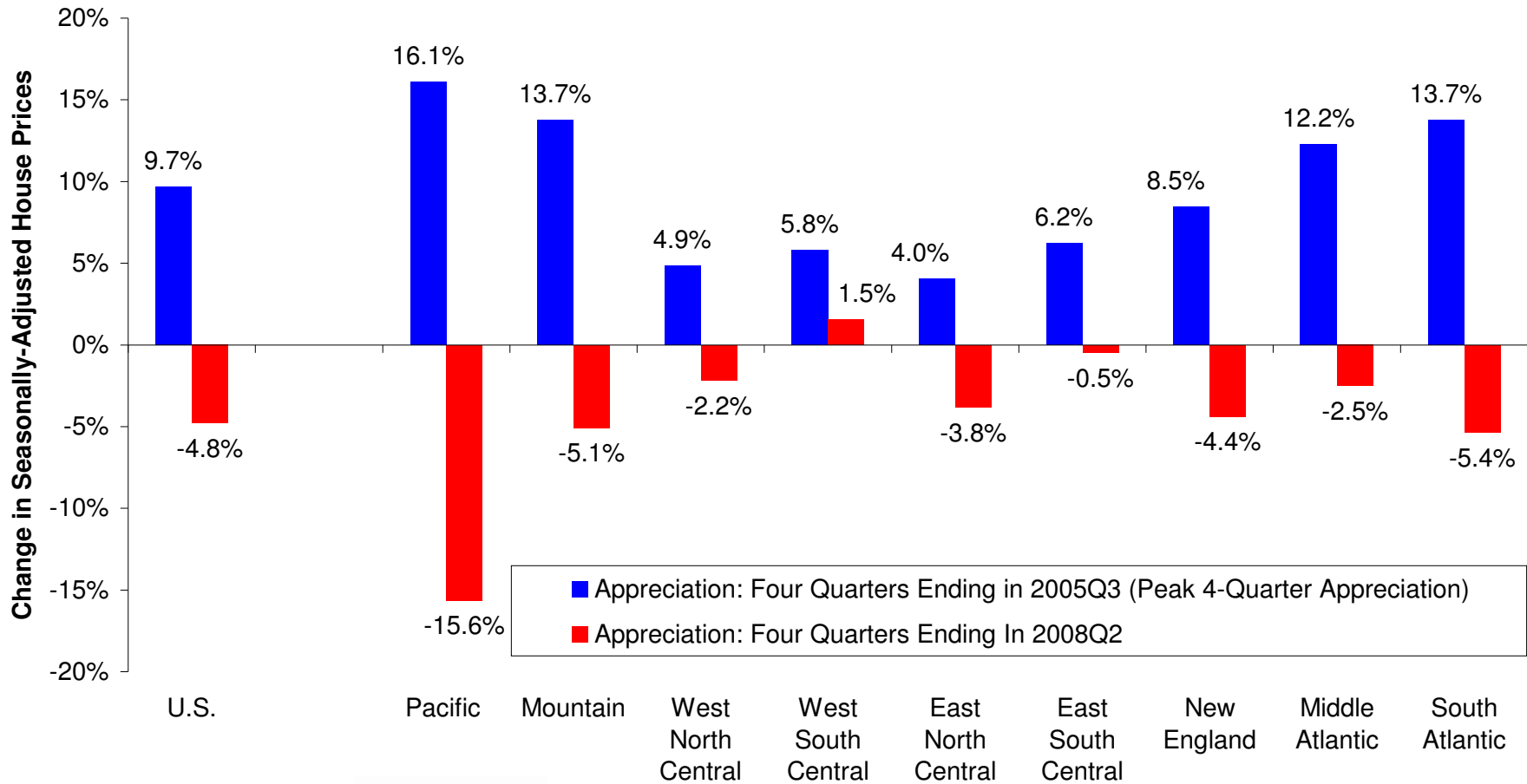


Note: For purposes of comparison, the FHFA purchase-only index has been re-based to January 2000=100 (the standard series is set so that January 1991=100)

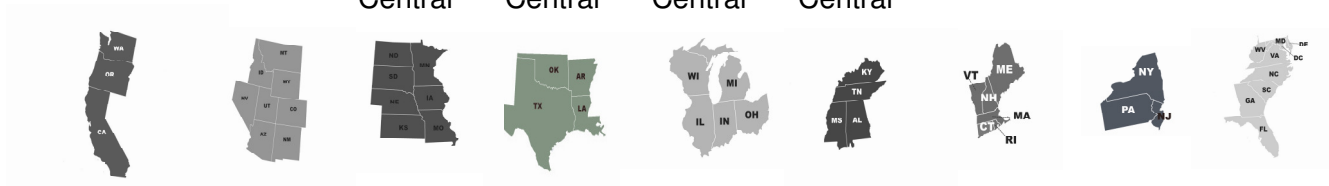
# Appreciation Rates at Fastest Point and in Most Recent Period



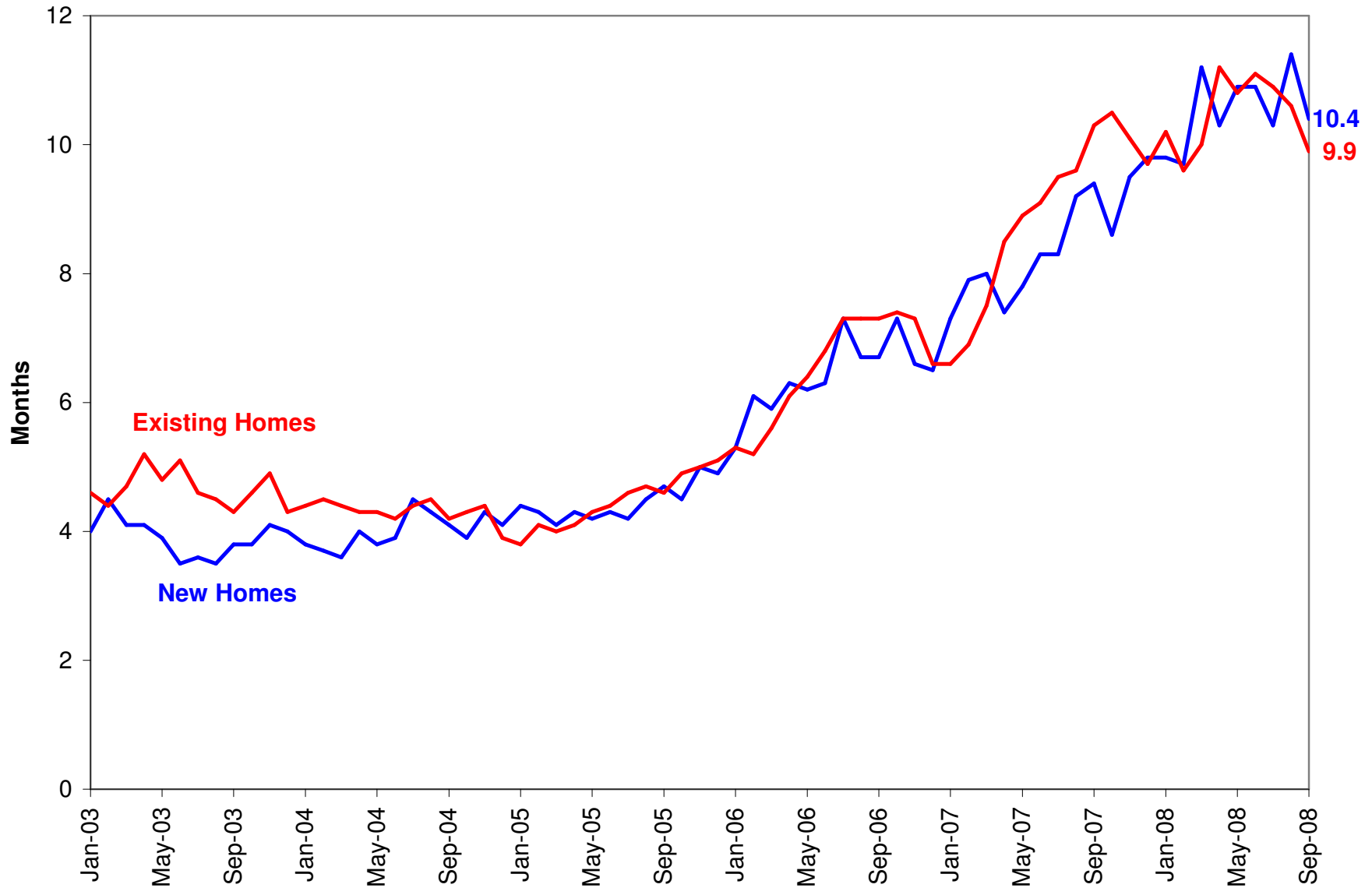
Appreciation of FHFA Quarterly Purchase-Only House Price Index:  
Four Quarters Ending 2005Q3 and Four Quarters Ending 2008Q2



Source: FHFA Quarterly Purchase-Only House Price Index (Seasonally Adjusted).



# Months Supply of New and Existing Homes

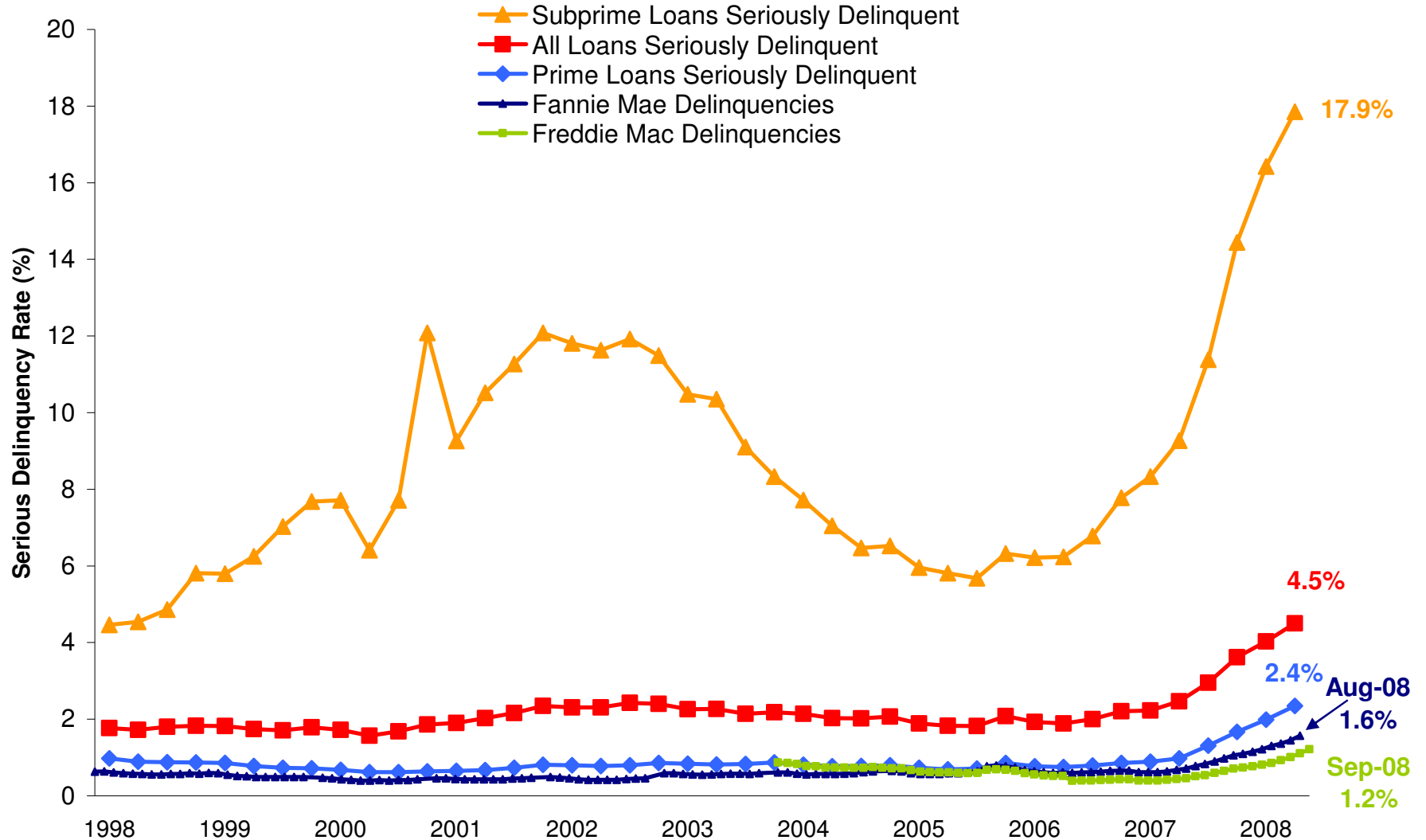


Sources: National Association of Realtors and Census Bureau.

# Serious Delinquencies Rising



## Single-Family Mortgages



Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac.

# Conservatorship to Support Mission

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- ❑ Conservatorship is a legal process to stabilize a troubled institution with the objective of returning the GSEs to normal business operations. Structure was flawed.
- ❑ FHFA as conservator has broad authority to oversee the GSEs until stabilized and returned to shareholders.
- ❑ New CEOs appointed.
- ❑ Non-executive Chairmen appointed, who will reconstitute boards.
- ❑ FHFA is working with the Enterprises on supporting their mission – stability, liquidity and affordability.

# Treasury Facilities Provide Effective Guarantee

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- ❑ **Senior Preferred Stock Purchase Agreement – no expiration date.**
  - ❑ Binding legal agreement that ensures that each GSE maintain a positive net worth through Treasury purchases of senior preferred stock.
  - ❑ Capacity of \$100 billion each – over three times statutory minimum capital requirement.
  - ❑ Enterprises each paid Treasury \$1 billion in senior preferred stock and warrants for 79.9 % of common stock.
  - ❑ Portfolios allowed to grow to \$850 billion to support mortgage market and then shrink 10 percent p.a starting 2010.

# Treasury Facilities Provide Effective Guarantee

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- ❑ **Senior Preferred Stock Purchase Agreement (continued)**
  - ❑ Existing and future holders of MBS, senior debt and subordinated debt, including all maturities and future issuances are effectively guaranteed by the U. S. Treasury as facility can only terminate if:
    - ❑ Facility is fully funded,
    - ❑ GSE liquidates and Treasury has topped up net worth deficiency, if any, or
    - ❑ GSE satisfies all its liabilities.
- ❑ **GSE MBS Purchase Program – Expires 12/31/09.**
  - ❑ Treasury purchases Fannie Mae and Freddie Mac MBS in open market. Over \$15 billion purchased.
- ❑ **GSE Credit Facility – Expires 12/31/09.**
  - ❑ Unlimited secured funding provided directly to Fannie Mae, Freddie Mac and FHLBanks by Treasury as a backstop.

# Mortgage Market Assistance

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- ❑ Fannie Mae and Freddie Mac both cancelled the planned doubling of an adverse market delivery fee
  
- ❑ In order to assist the national foreclosure prevention efforts the GSEs have:
  - ❑ Completed over 125,000 foreclosure prevention workouts\*
  - ❑ Streamlined workout processes for the servicers and helped reduce/eliminate expenses associated with modification/workouts
  - ❑ Developed and introduced several innovative programs to help troubled borrowers
  - ❑ Recruited and trained additional staff for in-house borrower assistance efforts
  - ❑ Worked closely with industry representatives and Hope Now; developed streamlined modification programs
  
- ❑ Enterprises continue to be a source of financing for multifamily loans to support the nation's rental market
  
- ❑ FHFA directed Enterprises to increase MBS purchase program – have purchased about half of originations; FHLB Chicago partnership

\* January through August 2008 - includes extended repayment plans, modifications, forbearance plans, pre-foreclosure sales, deed-in-lieu and other workouts

# Streamlined Modification Program

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- ❑ Designed to greatly reduce preventable foreclosures
  - ❑ Starts December 15
  - ❑ Over 2.3 million borrowers are 90 days delinquent
- ❑ Fast track streamlined loan modification program to make monthly mortgage payments affordable for the highest risk borrowers
- ❑ As Fannie Mae and Freddie Mac own or guarantee 58 percent of mortgages, it sets a new standard building on FDIC model
  - ❑ Hope Now and Banks adopted
  - ❑ Expect servicers of private label securities to begin adopting new standards
  - ❑ \$800 payment per modification will help servicers under stress
- ❑ Gives trouble borrowers the chance to save their homes and rebuild their credit

# Streamlined Loan Modification

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## **ELIGIBILITY**

- Originated on or before 1/1/08
- Account > 90 days past due and not in bankruptcy
- Single family property -- not vacant or abandoned
- Owner-occupied, primary residence
- Current mark-to-market LTV > 90%
- Documented gross household income and hardship statement
- Borrower counseling encouraged

## **MODIFICATION TO REACH AFFORDABLE PAYMENT**

- 38 percent housing expense to gross income
- Can include fixed rate product, term extension, interest rate reduction, and/or principal forbearance

## **MODIFICATION COMPLETE WHEN ...**

- Three payments made at the modified terms, and
- Account current on day 90 at the modified terms.

