FEDERAL HOUSING FINANCE AGENCY
Office of the Director

March 16, 2009

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd:

I am transmitting our fourth report in accordance with Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA), titled *Assistance to Homeowners.* Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA) directs Federal Property Managers (FPM) to develop and implement plans to maximize assistance for homeowners and encourage servicers of underlying mortgages to take advantage of programs to minimize foreclosures. FHFA is a designated FPM in its role as conservator for Fannie Mae and Freddie Mac. Each FPM is also required to report to Congress about the number and types of loan modifications and the number of foreclosures during the reporting period.

As you will read in the attached, preventing avoidable foreclosures through loan modifications is a top priority at FHFA. We will continue to update, elaborate and expand FHFA's plan to maximize assistance for home owners and minimize preventable foreclosures consistent with the intent of EESA.

Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHF Oversight Board

Attachments

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Federal Housing Finance Agency

Federal Property Managers Report No.4

March 16, 2009

New FHFA Activities

The FHFA was pleased to work with the White House, the Treasury Department, the Department of Housing and Urban Development, other regulators, and Fannie Mae and Freddie Mac in the development of the *Making Home Affordable* loan modification program that Treasury announced on March 4, 2009. The *Making Home Affordable* modification program will help up to 3 to 4 million at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. This program is a major step forward in reducing preventable foreclosures and stabilizing the housing market. This program will work in tandem with an expanded and improved Hope for Homeowners program.

In conjunction with the announcement of President Obama's housing program, FHFA agreed to Fannie Mae and Freddie Mac initiatives for refinancing certain high loan-to-value (LTV) mortgages. The *Home Affordable Refinance* program will be available to 4 to 5 million homeowners who have a solid payment history on an existing mortgage owned by Fannie Mae or Freddie Mac, but have a loan-to-value ratio of 80% to 105%. The initiative is premised on the unusual and exigent market circumstances that preclude such homeowners from refinancing to a lower rate mortgage because of the combined effects of the decline in house prices and limited availability of mortgage insurance. The refinance initiative is akin to a loan modification for charter purposes as it affects loans for which an Enterprise already holds the credit risk. By creating an avenue for the borrower to reap the benefit of lower mortgage rates in the market, the credit risk of that mortgage to the Enterprise diminishes; thus, this is a loss-mitigation initiative in this very troubled time in housing finance. It has the added benefit of helping many households strengthen their own financial situation and enhance their commitment to their home and community. With the goal of assisting borrowers that, in turn, will lower their credit risk, this initiative fits within existing charter goals of providing market stability and assisting home ownership while meeting safety and soundness concerns. Thus, FHFA determined that the Enterprises' request for this limited authority does not run contrary to their charters nor does it represent a new product. The *Home Affordable Refinance* program ends in June 2010 and the FHFA will maintain its oversight over the initiative as part of its safety and soundness responsibilities.

In addition, the Treasury announced the support of low mortgage rates through strengthening confidence in Fannie Mae and Freddie Mac by increasing the Preferred Stock Purchase Agreements to $200 billion each. We have encouraged all homeowners that are having serious difficulties making their mortgage payments to contact their mortgage servicer. With the concerted effort of mortgage servicers, mortgage insurers, Fannie Mae, Freddie Mac and all other holders of first and second mortgages, we will be able to prevent millions of foreclosures. Taken together, these are extremely important steps toward achieving a recovery for housing markets and the entire economy.

New Fannie Mae and Freddie Mac Activities

Both Fannie Mae and Freddie Mac announced support for the new national *Home Affordable Modification* modification program which begins on April 1, 2009 and is designed to help more at-risk borrowers achieve successful homeownership by lowering their monthly payments.

Fannie Mae and Freddie Mac will also undertake *Home Affordable Refinance*, a program that is designed to reduce mortgage rates for 4 to 5 million people whose loans are owned or guaranteed by Fannie Mae or Freddie Mac. In addition, since our last report, both Fannie Mae and Freddie Mac announced that it will extend its suspension of evictions from Fannie Mae-owned single-family properties through March 31, 2009. The suspension applies to all single-family properties including owner-occupied properties that have been foreclosed upon as well as foreclosed properties occupied by renters.

Freddie Mac also launched a program on March 5, 2009, called REO Rental Initiative that gives qualified tenants and former owners the option to lease their recently foreclosed properties on a month-to-month basis. Fannie Mae had announced a similar program in December.

Making Home Affordable Loan Modification Program

Fannie Mae and Freddie Mac will participate in the *Making Home Affordable* modification program both for their loans that they own or guarantee and as administrators on behalf of the Treasury Department for all other loan modifications under this program. Borrowers that are in default and imminent default are eligible. Some of the key initiatives of the *Making Home Affordable* loan modification program include:

- The government would pay mortgage servicers a $1,000 one-time fee to modify a mortgage. The servicer must reduce the borrowers' payments to 38% of their income for five years. The government would then match the cost of further interest-rate reductions or other measures intended to bring mortgage payments down to 31% of borrowers' income.
- Interest rates can be reduced to as low as 2% under the program. After five years, mortgage servicers can begin to raise the rate, but only as high as the market rate prevailing at the time the loan was modified.
- The government would pay servicers up to $1,000 a year for up to three years if borrowers stay in the program. Meanwhile, borrowers would receive up to $1,000 annually for five years for staying current on the loan. In addition, the government would pay $1,500 to mortgage investors and $500 to servicers for modifying loans under the program guidelines that are not delinquent. The lender (or investor) will receive compensation to offset probable losses from expected house price declines. This will be structured as a simple cash payment on each modified mortgage while the loan remains active in the program.
- The payments to servicers, investors and borrowers will kick in only after a loan modification survives a 90-day trial period, during which all foreclosure actions would be suspended temporarily.
- Any foreclosure action will be temporarily suspended during the trial period, or while borrowers are considered for alternative foreclosure prevention options. In the event that the *Making Home Affordable* loan modification or alternative foreclosure prevention options fail, the foreclosure action may be resumed. Compensation will be provided to servicers and borrowers in order to facilitate short sales or deeds-in-lieu in those cases in which borrowers either fail the net present value test or fail to qualify for, or default under, the modification program.

Home Affordable Refinance Program

Both Fannie Mae and Freddie Mac will initiate the *Home Affordable Refinance* program which includes new refinancing flexibilities for homeowners whose loans are owned by each of the Enterprises. Most borrowers refinancing an existing Fannie Mae or Freddie Mac loan will not be required to buy new or additional mortgage insurance if the loan at the time of the refinance is more than 80 percent of a home's value. Any existing mortgage insurance should be carried forward to the new loan. In addition, the Enterprises can refinance loans up to 105 percent of a home's value with this new flexibility, so even borrowers who owe more than their home is worth, may be able to refinance. This will expand the number of borrowers able to take advantage of lower interest rates that reduce monthly payments, or refinance into a more sustainable mortgage. The *Home Affordable Refinance* can be used to replace an adjustable rate mortgage, or balloon/reset mortgage with a 15, 20 or 30-year fixed-rate mortgage. Millions of responsible homeowners who put money down and made their mortgage payments on time have, through no fault of their own, seen the value of their homes drop low enough to make them unable to take advantage of these lower rates. As a result, the Obama Administration's program will provide the opportunity for up to 4 to 5 million responsible homeowners who took out loans owned or guaranteed by Freddie Mac and Fannie Mae to refinance through the two institutions over time.

Federal Housing Finance Agency's House Price Index

Housing price declines continued in the fourth quarter although not as rapidly as some had expected. We are hopeful the housing initiatives announced in February by President Obama will begin to provide much-needed stability to the housing markets.

According to the Federal Housing Finance Agency's House Price Index (HPI), the seasonally-adjusted purchase-only house price index, based on data from homesales, was 3.4 percent lower on a seasonally-adjusted basis in the fourth quarter than in the third quarter. This decline was greater than the 2.0 percent decline in the third quarter and the largest in the purchase-only index's 18-year history. Over the past year, seasonally-adjusted prices fell 8.2 percent from the fourth quarter of 2007 to the fourth quarter of 2008. FHFA's all-transactions House Price Index, which includes data from home sales and appraisals for refinancings, showed significantly less weakness over the latest quarter than the purchase-only index. The all-transactions HPI fell 0.2 percent in the latest quarter. It was down 4.5 percent over the four-quarter period, the largest four-quarter drop in the index, which extends back to 1975. These data reflect trends as of December 31, 2008. While the national purchase-only house price index fell 8.2 percent between the fourth quarters of 2007 and 2008, prices of other goods and services rose 1.4 percent. Accordingly, the inflation-adjusted price of homes fell approximately 9.6 percent over the latest year.

Foreclosure Prevention Report

In accordance with the reporting requirements of Section 110(b)(5), please find attached our FHFA monthly *Foreclosure Prevention Report*, which reports on loan modifications and foreclosure activities of the Enterprises as of December 31, 2008. FHFA also publishes a quarterly report with detailed analysis. The most recent quarterly report is posted to our website at www.fhfa.gov. The FHFA *Foreclosure Prevention Reports* summarize data provided by Fannie Mae and Freddie Mac and gives a comprehensive view of their efforts to assist borrowers through forbearance, payment plans, and loan modification, and other alternatives to foreclosure such as short sales and deeds-in-lieu. The reports cover 30.7 million mortgages and focus on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers.

As of December 31, 2008, the report shows that of the Enterprises' 30.7 million residential mortgages:

- Loans 60+ days delinquent (including those in bankruptcy and foreclosure) as a percent of all loans increased from 1.46 percent as of March 31, 1.73 percent as of June 30, and 2.21 percent as of September 30 to 3.02 percent as of December 31. When adjusted for the suspension of foreclosure sales, the rate would have been 2.98 percent.
- Loans 90+ days delinquent (including those in bankruptcy and foreclosure) as a percent of all loans increased from 1.00 percent as of March 31, 1.19 percent as of June 30, 1.52 percent as of September 30 to 2.14 percent as of December 31. When adjusted for the suspension of foreclosure sales, the rate would have been 2.10 percent.
- Loans for which the foreclosure process was started as a percent of loans 60+ days delinquent declined from 8.29 for the first quarter, 7.81 percent for the second quarter, 7.20 percent for the third quarter to 6.44 percent for October 2008, 5.25 percent for November 2008 and 6.38 percent for December. When adjusted for the suspension of foreclosure sales, the rate would have been 6.46 percent. During 2008, February represented the peak at 9.22 percent.
- Loans for which the foreclosure process was completed as a percent of loans 60+ days delinquent decreased from 2.41 percent for the first quarter, 2.55 percent for the second quarter, 2.56 percent for the quarter to 2.33 percent for October, 1.73 percent for November, and .37 percent for December. When adjusted for the suspension of foreclosure sales, the rate would have been 1.27 percent. During 2008, July represented the peak at 2.89 percent.
- Modifications completed totaled 8,688 in December. This represents an increase over the 2007 monthly average of 2,884, the November 2008 year-to-date average of 5,420, and the prior three-month average of 6,622.
- Both short sales and deeds-in-lieu were at their highest volumes for the year. Short sales were reported at 2,261 versus a low of 516 reported for January, and the prior three-month average of 1,883. Deeds-in-lieu were reported at 234 versus a low of 62 reported for May, and the prior three-month average of 159. Compared to the prior year, 2008 total loss mitigation actions averaged 18,321 monthly which was 2.33 times the 2007 average of 7,858.
- The loss mitigation ratio for December was 87.0 percent, and the year-to-date loss mitigation ratio was 57.8 percent. When adjusted for suspension of foreclosure sales, the December ratio would have been 62.4 percent, and the year-to-date loss mitigation ratio would be been 56.25 percent. The loss mitigation ratio is calculated as the total mitigation activities (payment plans, delinquency advances, loan modifications, short sales, deeds in

lieu, assumptions, and charge-offs) divided by the total of loss mitigation activities plus foreclosures completed and third-party sales. This ratio allows for comparison of loss mitigation performance over time – irrespective of delinquency rates.

FHFA Foreclosure Prevention Report
January through December 2008

	2007 Aver/Mo	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	2008 YTD Aver/Mo
Number of Loans (at period end)														
Total		30,135,490	30,367,051	30,408,771	30,483,080	30,661,811	30,619,891	30,623,407	30,650,194	30,744,135	30,634,428	30,586,564	30,666,221	30,548,420
Prime		24,952,459	25,153,692	25,217,229	25,307,364	25,498,551	25,498,297	25,533,099	25,581,750	25,700,544	25,680,402	25,666,584	25,765,149	25,462,927
Nonprime		5,183,031	5,213,359	5,191,542	5,175,716	5,163,260	5,121,594	5,090,308	5,068,444	5,043,591	4,954,026	4,919,980	4,901,072	5,085,494
60 Days+ Delinquency (at period end)														
Total		431,310	433,613	444,902	470,139	497,316	528,764	565,919	621,061	678,474	730,971	834,831	925,836	596,928
Prime		193,930	203,069	214,262	228,667	245,311	263,699	284,498	313,496	345,376	379,785	438,630	497,131	300,655
Nonprime		237,380	230,544	230,640	241,472	252,005	265,065	281,421	307,565	333,098	351,186	396,201	428,705	296,274
60 Days+ Delinquency (percent of total loans)														
Total		1.43%	1.43%	1.46%	1.54%	1.62%	1.73%	1.85%	2.03%	2.21%	2.39%	2.73%	3.02%	1.95%
Prime		0.78%	0.81%	0.85%	0.90%	0.96%	1.03%	1.11%	1.23%	1.34%	1.48%	1.71%	1.93%	1.18%
Nonprime		4.58%	4.42%	4.44%	4.67%	4.88%	5.18%	5.53%	6.07%	6.60%	7.09%	8.05%	8.75%	5.83%
90 Days+ Delinquency (percent of total loans)														
Total		0.92%	0.95%	1.00%	1.05%	1.12%	1.19%	1.27%	1.38%	1.52%	1.67%	1.88%	2.14%	1.34%
Foreclosure Starts														
Total	22,545	32,583	39,980	35,957	39,031	37,887	39,925	47,770	44,170	40,969	47,086	43,827	59,068	42,354
Prime	10,604	16,096	21,832	20,021	21,965	21,579	22,374	27,998	25,082	22,495	26,808	25,456	35,040	23,896
Nonprime	11,942	16,487	18,148	15,936	17,066	16,308	17,551	19,772	19,088	18,474	20,278	18,371	24,028	18,459
Completed Foreclosure Sales														
Total	6,408	10,571	10,317	10,645	11,916	13,305	12,964	16,364	15,528	15,605	17,008	14,408	3,430	12,672
Prime	3,226	5,786	5,623	5,797	6,715	7,514	7,626	9,929	9,242	9,394	10,226	8,769	2,153	7,398
Nonprime	3,182	4,785	4,694	4,848	5,201	5,791	5,338	6,435	6,286	6,211	6,782	5,639	1,277	5,274
Completed Foreclosure Sales (Percentage of Starts)														
Total	28.4%	32.4%	25.8%	29.6%	30.5%	35.1%	32.5%	34.3%	35.2%	38.1%	36.1%	32.9%	5.8%	29.9%
Prime	30.4%	35.9%	25.8%	29.0%	30.6%	34.8%	34.1%	35.5%	36.8%	41.8%	38.1%	34.4%	6.1%	31.0%
Nonprime	26.6%	29.0%	25.9%	30.4%	30.5%	35.5%	30.4%	32.5%	32.9%	33.6%	33.4%	30.7%	5.3%	28.6%
Completed Foreclosure Sales (Percentage of Starts with a 6-month lag)														
Total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	50.2%	38.8%	43.4%	43.6%	38.0%	8.6%	36.5%
Prime	n/a	n/a	n/a	n/a	n/a	n/a	n/a	61.7%	42.3%	46.9%	46.6%	40.6%	9.6%	40.1%
Nonprime	n/a	n/a	n/a	n/a	n/a	n/a	n/a	39.0%	34.6%	39.0%	39.7%	34.6%	7.3%	32.1%
HomeSaver Advance (Fannie Mae Only)														
Total	n/a	0	11	1233	2,052	2,881	11,725	10,599	7,914	8,764	6,800	9,692	9,296	5,914
Prime	n/a	0	3	343	545	856	4,459	4,285	2,747	3,134	1,998	3,113	3,011	2,041
Nonprime	n/a	0	8	890	1,507	2,025	7,266	6,314	5,167	5,630	4,802	6,579	6,285	3,873

	2007 Aver/Mo	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	2008 YTD Aver/Mo
Borrower Workout Plans (Repayment Plans Initiated + Modifications Plans Completed)														
Total	52,188	28,911	24,695	25,805	25,806	24,622	31,402	30,347	33,952	34,960	35,836	35,023	37,794	30,763
Prime	16,976	10,262	9,105	9,498	9,774	9,431	12,032	12,011	13,645	13,849	14,423	14,240	15,571	11,987
Nonprime	35,212	18,649	15,590	16,307	16,032	15,191	19,370	18,336	20,307	21,111	21,413	20,783	22,223	18,776
Formal Repayment Plans Initiated														
Total	17,585	24,683	18,809	20,264	21,837	19,945	24,661	26,082	29,506	30,183	29,482	26,288	29,106	25,071
Prime	6,061	8,946	7,244	7,696	8,571	7,786	10,022	10,506	12,094	12,120	12,197	11,235	13,104	10,127
Nonprime	11,524	15,737	11,565	12,568	13,266	12,159	14,639	15,576	17,412	18,063	17,285	15,053	16,002	14,944
Modifications Completed														
Total	34,603	4,228	5,886	5,541	3,969	4,677	6,741	4,265	4,446	4,777	6,354	8,735	8,688	5,692
Prime	10,915	1,316	1,861	1,802	1,203	1,645	2,010	1,505	1,551	1,729	2,226	3,005	2,467	1,860
Nonprime	23,688	2,912	4,025	3,739	2,766	3,032	4,731	2,760	2,895	3,048	4,128	5,730	6,221	3,832
Modifications by Type (EESA Section 110)														
Interest Rate Reduction	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	3,973	6,620	6,202	NR
Reduction in Loan Principal	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	-	-	-	NR
Other	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	2,381	2,115	1,076	NR
Modifications as a Percent of Workout Plans														
Total	66.3%	14.6%	23.8%	21.5%	15.4%	19.0%	21.5%	14.1%	13.1%	13.7%	17.7%	24.9%	23.0%	18.5%
Prime	64.3%	12.8%	20.4%	19.0%	12.3%	17.4%	16.7%	12.5%	11.4%	12.5%	15.4%	21.1%	15.8%	15.5%
Nonprime	67.3%	15.6%	25.8%	22.9%	17.3%	20.0%	24.4%	15.1%	14.3%	14.4%	19.3%	27.6%	28.0%	20.4%
Borrower Workout Plans (Repayment Plans Initiated + Modifications Completed) as a Percent of Completed Foreclosure Sales														
Total	814%	273%	239%	242%	217%	185%	242%	185%	219%	224%	211%	243%	1102%	243%
Prime	526%	177%	162%	164%	146%	126%	158%	121%	148%	147%	141%	162%	723%	162%
Nonprime	1107%	390%	332%	336%	308%	262%	363%	285%	323%	340%	316%	369%	1740%	356%
Short Sales Completed														
Total	335	516	556	704	850	1,056	1,156	1,492	1,465	1,717	2,103	1,828	2,261	1,309
Prime	172	303	341	425	525	677	754	1,000	1,033	1,200	1,489	1,323	1,671	895
Nonprime	163	213	215	279	325	379	402	492	432	517	614	505	590	414
Deeds-in-Lieu Completed														
Total	69	102	84	122	107	62	67	118	138	171	156	150	234	126
Prime	48	62	61	93	82	42	44	80	114	118	123	113	180	93
Nonprime	21	40	23	29	25	20	23	38	24	53	33	37	54	33

	2007 Aver/Mo	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	2008 YTD Aver/Mo
Charge-Offs in Lieu of Foreclosure Completed														
Total	40	56	42	70	41	49	66	73	57	72	97	75	101	67
Prime	14	24	11	28	16	20	27	34	25	28	39	32	47	28
Nonprime	26	32	31	42	25	29	39	39	32	44	58	43	54	39
Total Loss Mitigation Actions Completed (# of Loans)														
Payment Plans Completed	4,531	5,057	6,777	6,314	5,595	5,504	5,294	4,897	4,720	5,093	4,927	4,147	4,235	5,213
HomeSaver Advance (Fannie Mae Only)	-	-	11	1,233	2,052	2,881	11,725	10,599	7,914	8,764	6,800	9,692	9,296	5,914
Loan Modifications Completed	2,884	4,228	5,886	5,541	3,969	4,677	6,741	4,265	4,446	4,777	6,354	8,735	8,688	5,692
Short Sales Completed	335	516	556	704	850	1,056	1,156	1,492	1,465	1,717	2,103	1,828	2,261	1,309
Deeds-in-Lieu Completed	69	102	84	122	107	62	67	118	138	171	156	150	234	126
Assumptions Completed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charge-offs in Lieu of Foreclosure Completed	40	56	42	70	41	49	66	73	57	72	97	75	101	67
Total	7,858	9,959	13,356	13,984	12,614	14,229	25,049	21,444	18,740	20,594	20,437	24,627	24,815	18,321
Foreclosure Sales Completed	6,408	10,571	10,317	10,645	11,916	13,305	12,964	16,364	15,528	15,605	17,008	14,408	3,430	12,672
Third Party Sales	42	686	659	594	713	677	662	725	729	716	775	515	281	644
Total	6,450	11,257	10,976	11,239	12,629	13,982	13,626	17,089	16,257	16,321	17,783	14,923	3,711	13,316
Total Loss Mitigation Actions, Foreclosure Sales, and Third Party Sales	14,309	21,216	24,332	25,223	25,243	28,211	38,675	38,533	34,997	36,915	38,220	39,550	28,526	31,637
Loss Mitigation Performance Ratio	54.9%	46.9%	54.9%	55.4%	50.0%	50.4%	64.8%	55.7%	53.5%	55.8%	53.5%	62.3%	87.0%	57.9%