



Federal Housing Finance Agency

Foreclosure Prevention Report

**Disclosure and Analysis of
Fannie Mae and Freddie Mac
Mortgage Loan Data for
Third Quarter 2008**

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INTRODUCTION

This Federal Housing Finance Agency (FHFA) *Foreclosure Prevention Report* (formerly titled the *Mortgage Metrics Report*) for the third quarter of 2008 presents key performance data on first lien residential mortgages serviced on behalf of the Federal National Mortgage Association, or **Fannie Mae**, and the Federal Home Loan Mortgage Corporation, or **Freddie Mac**. Fannie Mae and Freddie Mac are referred to in this report as “the Enterprises.”

The report focuses on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 Enterprise-approved servicers. As of September 30, 2008, a total of 30.7 million first lien residential mortgages with total outstanding balances of \$4.5 trillion had been serviced for Fannie Mae and Freddie Mac. The combined Enterprise portfolios had a weighted average FICO¹ score of 723 at origination, a weighted average loan-to-value at origination of 72 percent, and a weighted average mark-to-market loan-to-value ratio of 68 percent. Roughly 84 percent of the mortgages were classified as *prime*.

In addition to providing important information to the public, data gathering for this report supports FHFA’s supervision of the Enterprises. The *Foreclosure Prevention Report* serves as an additional tool to assess emerging trends, identify differences, compare the Enterprises to other industry participants, evaluate asset quality and loan-loss reserves, assess the scope of borrower assistance and loss mitigation actions, and identify opportunity for further actions. FHFA works closely with the HOPE NOW Alliance and other financial regulators and industry participants to refine and standardize nonperforming loan definitions and metrics.

Although this report is comprehensive, it is inappropriate to draw conclusions about overall conditions in mortgage lending from Enterprise data. Loan data and related metrics vary. In addition, some servicers report mortgages to more than one entity; e.g., HOPE NOW and the Enterprises, so the data reported is not mutually exclusive. A mortgage metrics comparison table is included in the appendix to this report on page 32.

¹ The standard measure of consumer credit risk, developed by the Fair Isaac Corporation.

KEY FINDINGS

Overall Mortgage Portfolio

As of September 30, 2008, the Enterprises' combined first lien residential mortgages totaled 30.7 million loans with outstanding balances of \$4.5 trillion. This was an increase of 0.4 percent in loans over second quarter 2008 (124,244 mortgages). However, prime first-lien residential mortgages increased by 0.8 percent, while nonprime first lien residential mortgages decreased by 1.5 percent. This is indicative of both Enterprises' initiatives to increase the credit quality of new business.

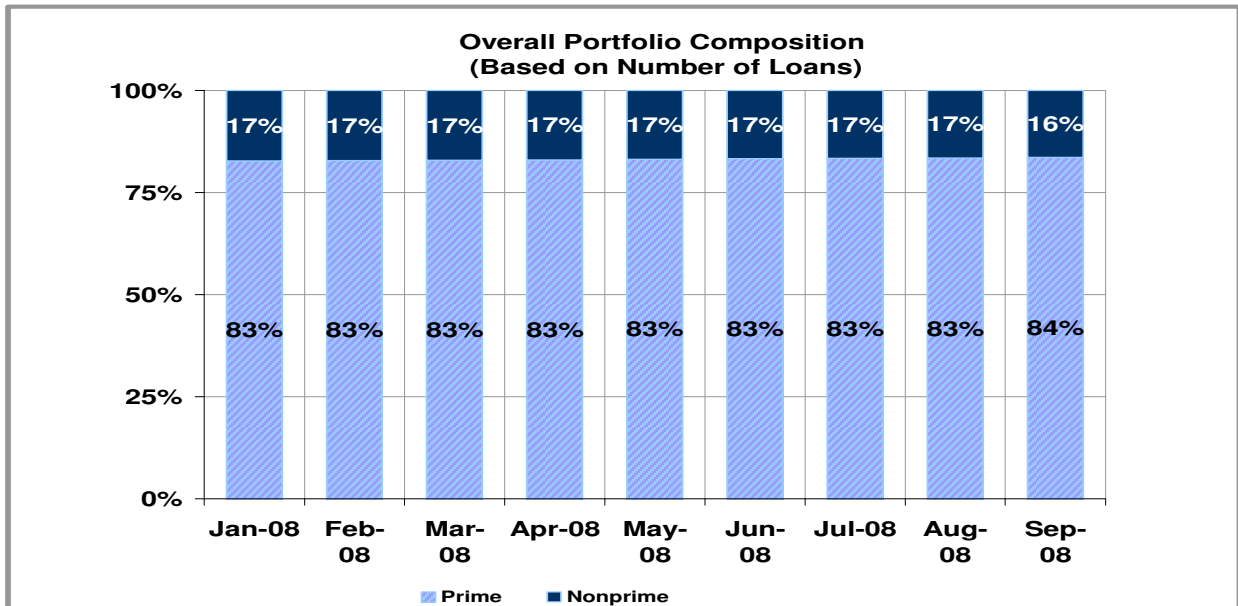
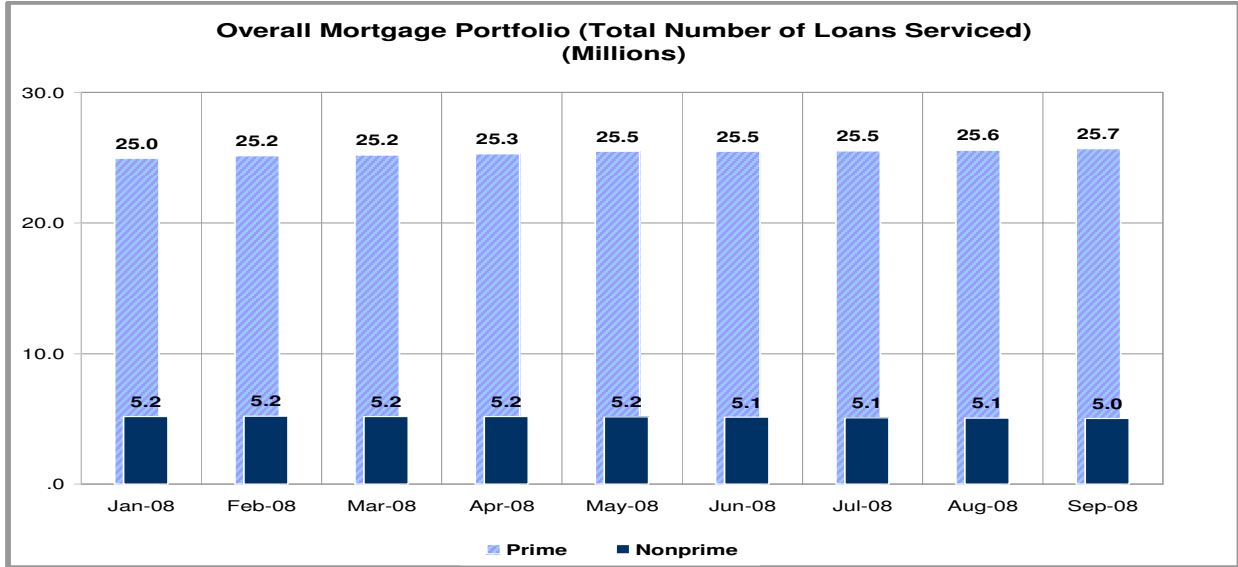
Of the 30.7 million total mortgages, 25.7 million (84 percent) were prime and 5.0 million (16 percent) were nonprime. Those percentages remained relatively unchanged over the reporting period.

A nonprime mortgage is a mortgage with either a FICO² score less than 660 or with no FICO score at origination. Other industry participants may categorize these mortgages as Alt-A, subprime, or other.

Table 1. Overall Mortgage Portfolio (Number of Loans)

	8-Jul	8-Aug	8-Sep
Prime	25,533,099	25,581,750	25,700,544
Nonprime	5,090,308	5,068,444	5,043,591
Total Servicing	30,623,407	30,650,194	30,744,135

² The standard measure of consumer credit risk, developed by the Fair Isaac Corporation.



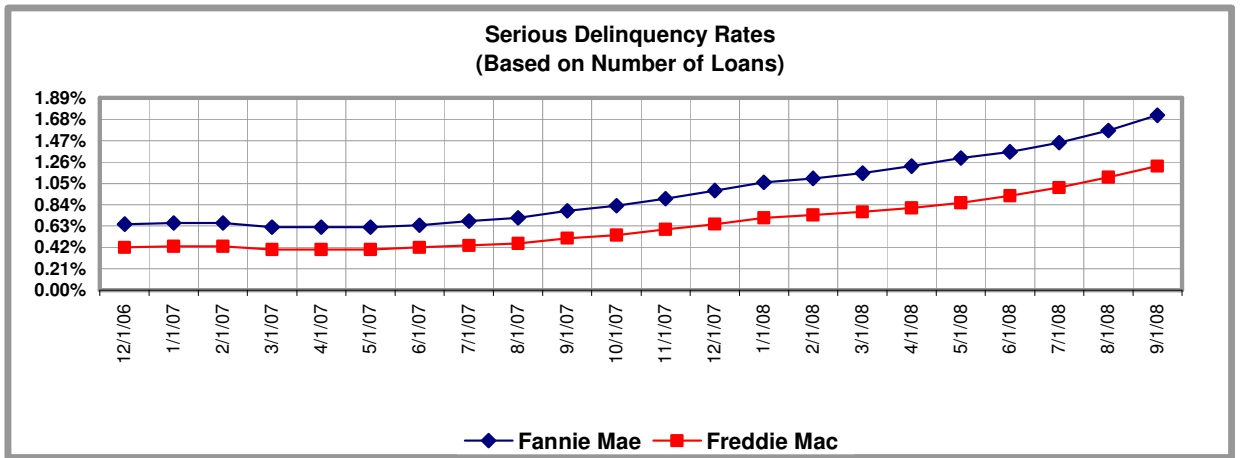
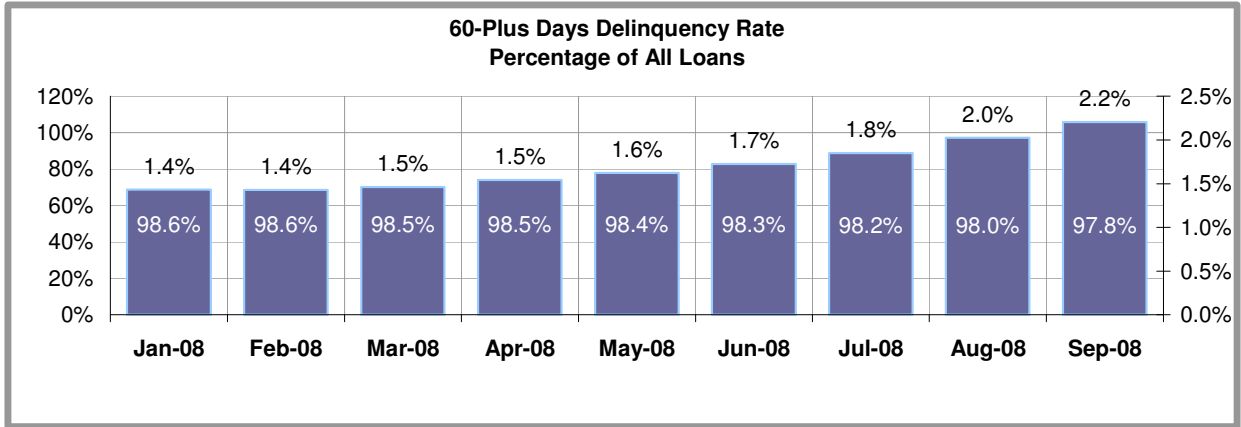
Delinquent Mortgages

As of September 30, 2008, 30.1 million of the total loans serviced (97.8 percent) were current or less than 60 days delinquent. The proportion of 60-plus-days delinquent mortgages in the total portfolios was 2.21 percent. The proportion of 60-plus-days delinquent prime mortgages in the prime portfolio was at 1.34 percent. The proportion of 60-plus-days delinquent nonprime mortgages in the nonprime portfolio was 6.60 percent, or 5 times that of prime mortgages.

Delinquencies have been rising since year-end May 2007. The 60-plus-days delinquency rate increased from 1.35 percent as of December 31, 2007, to 1.46 percent as of March 31, 2008, and to 1.73 percent as of June 30, 2008. The 90-plus-days delinquency rate (also called the *serious delinquency rate*) increased from 0.84 percent as of December 31, 2007, to 0.98 percent as of March 31, 2008 to 1.18 percent as of June 30, 2008, and to 1.51 percent as of September 30, 2008.

Table 2. Delinquent Mortgage Composition (Number of Loans)

	7/31/2008	8/31/2008	9/30/2008
Current and Less Than 60 Days Delinquent	30,057,488	30,029,133	30,065,661
<i>Prime</i>	25,248,601	25,268,254	25,355,167
<i>Nonprime</i>	4,808,887	4,760,879	4,710,494
60-Plus Days Delinquent	565,919	621,061	678,474
<i>Prime</i>	284,498	313,496	345,377
<i>Nonprime</i>	281,421	307,565	333,097
90-Plus Days Delinquent	387,654	421,391	464,898



New Foreclosures Initiated

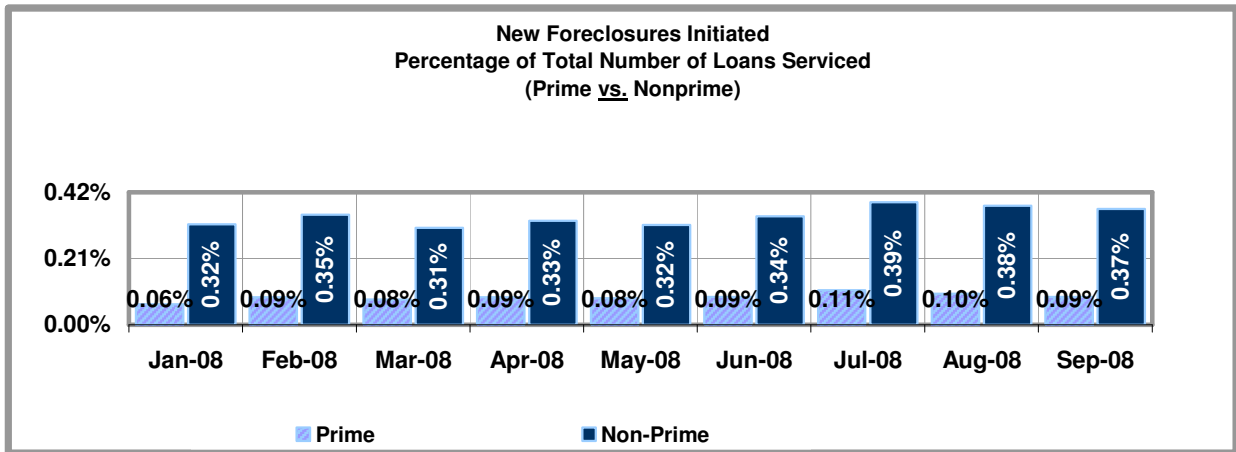
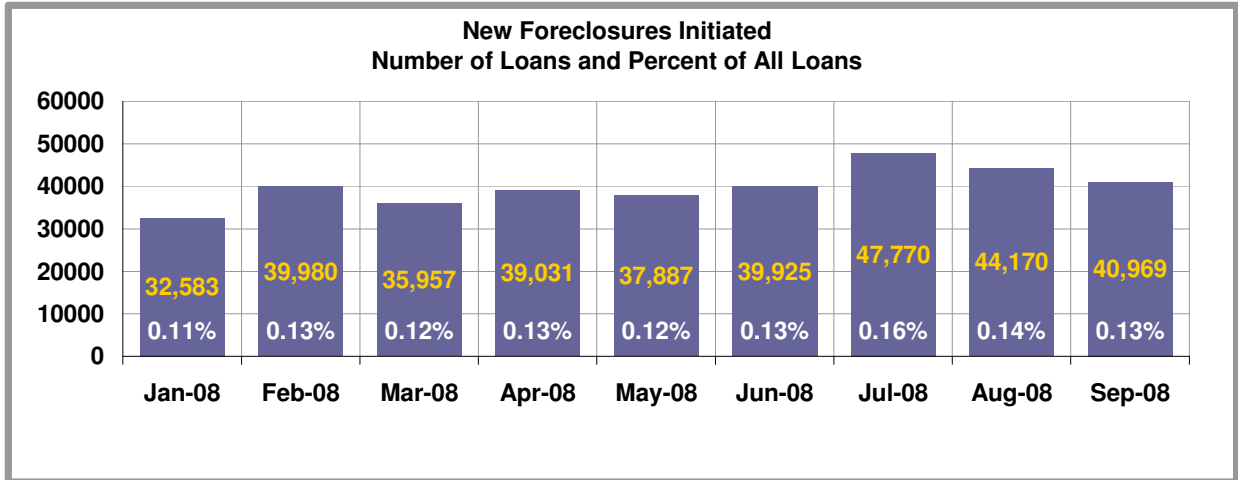
During third quarter 2008, monthly new foreclosures initiated averaged 44,303 with 25,192 classified as prime and 19,111 classified as nonprime. New foreclosures initiated for all mortgages were 13.8 percent greater than the second quarter 2008 monthly average. New foreclosures initiated for prime mortgages were 14.7 percent over the second quarter 2008 monthly average, while new foreclosures initiated for nonprime mortgages were 12.6 percent over the second quarter 2008 monthly average.

Table 3. New Foreclosures Initiated (Number of Loans)

	1Q Avg	2Q Avg	8-Jul	8-Aug	8-Sep	3Q Avg
Prime	19,316	21,973	27,998	25,082	22,495	25,192
Nonprime	16,857	16,975	19,772	19,088	18,474	19,111
Total	36,173	38,948	47,770	44,170	40,969	44,303

As of September 30, 2008, 0.13 percent of mortgages in the Enterprises' mortgage portfolios had foreclosure initiated. The proportion of prime mortgages in the prime portfolio for which foreclosure was initiated was 0.09 percent. The proportion of nonprime mortgages in the nonprime portfolio for which foreclosure was initiated was 0.37 percent, roughly 4 times more than prime mortgages.

The foreclosure initiation rate has been steadily rising since year-end 2007. The foreclosure initiation rate increased from to 0.12 percent as of March 31, 2008, and 0.13 percent as of June 30, 2008. The foreclosure initiation rate for the prime portfolio increased from to 0.08 percent as of March 31, 2008, and 0.09 percent as of June 30, 2008, and September 30, 2008. For the nonprime portfolio, it increased from to 0.31 percent as of March 31, 2008, to 0.34 percent as of June 30, 2008, and 0.37 percent as of September 30, 2008. The foreclosure initiation rate for prime mortgages has remained steady, but for nonprime mortgages it has increased.

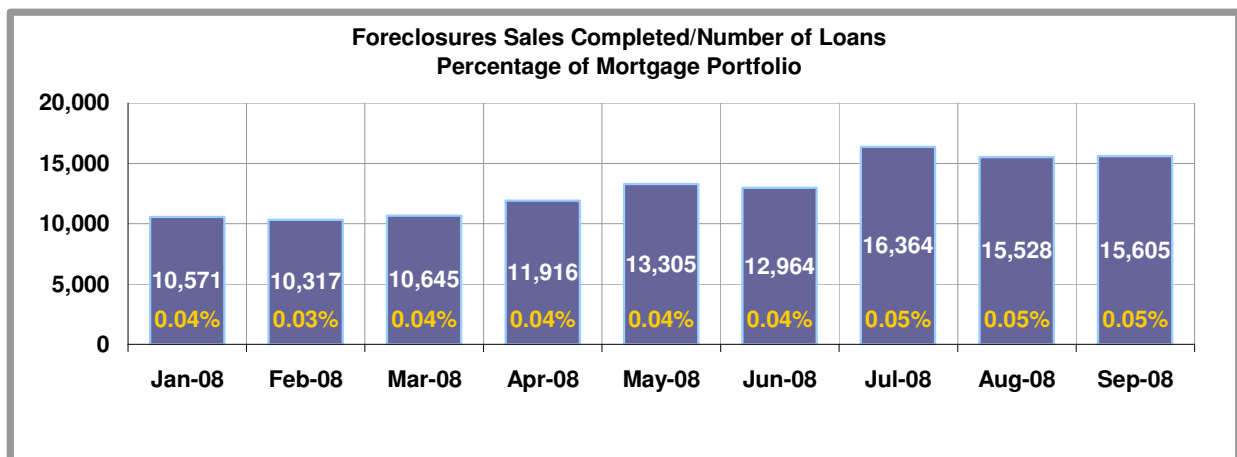


Foreclosures Completed

During second quarter 2008, foreclosures completed averaged 12,728 per month, with 7,285 classified as prime and 5,443 classified as nonprime. During third quarter 2008, foreclosures completed were 24.4 percent over the second quarter 2008 monthly average. The total monthly average was 15,832, with 9,522 classified as prime and 6,311 classified as nonprime. Foreclosures completed for prime mortgage properties averaged 30.7 percent over the second quarter 2008 monthly average, while foreclosures completed for nonprime mortgage properties averaged 15.9 percent over the second quarter 2008 monthly average.

Table 4. Foreclosure Sales Completed (Percentage of Loans)

	1Q Avg	2Q Avg	8-Jul	8-Aug	8-Sep	3-mo Avg
Prime	10,511	12,728	16,364	15,528	15,605	15,832
Nonprime	5,735	7,285	9,929	9,242	9,394	9,522
Total	4,776	5,443	6,435	6,286	6,211	6,311



Foreclosure was completed for an average of about 0.04 percent of mortgages during second quarter 2008 and 0.05 percent during third quarter 2008. Foreclosure was completed for 0.03 percent of prime mortgages during second quarter 2008 and 0.04 percent during third quarter 2008. The proportion of nonprime mortgages in the nonprime portfolio for which foreclosure was completed was 0.11 percent in second quarter 2008 and 0.12 percent in third quarter 2008. This shows the foreclosure completion rate for nonprime mortgages was roughly 3 times that of prime mortgages.

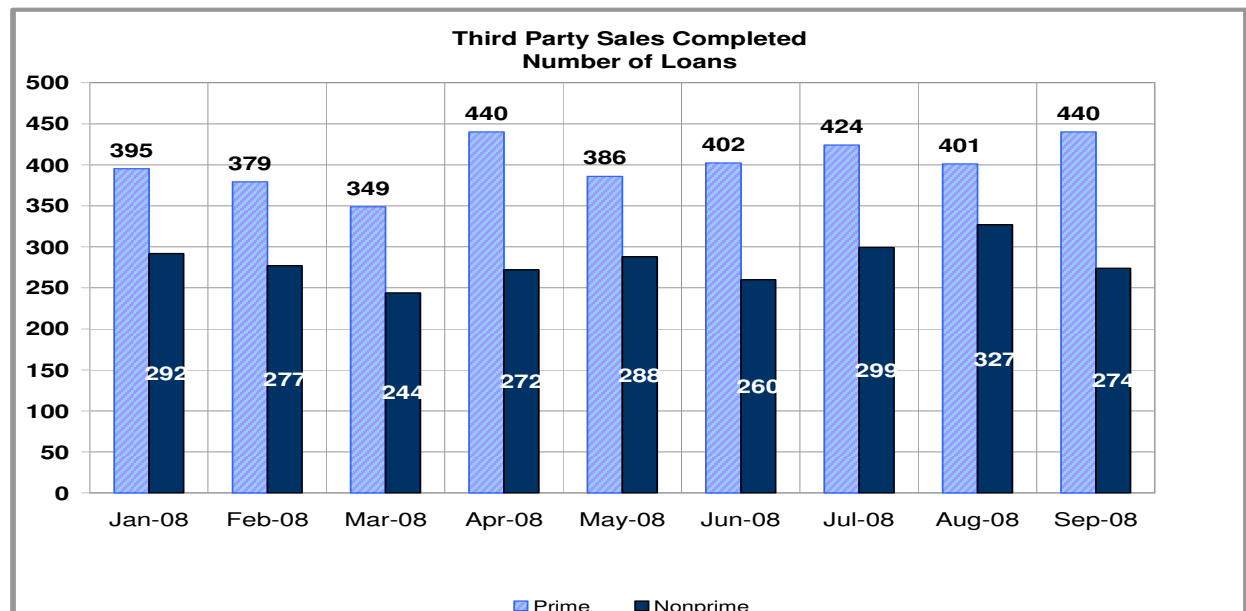
Third-Party Sales Completed

A third-party sale is the sale of the mortgaged property to a third party at the foreclosure auction. The borrower loses the property to foreclosure, but ownership of (deed to) the property transfers to a new owner and not to the mortgage servicer. The property is not added to the servicer's real estate owned (REO) inventory as a new acquisition.

Table 5. Third-Party Sales Completed (Number of Loans)

	1Q Avg	2Q Avg	8-Jul	8-Aug	8-Sep	3Q Avg
Prime	374	409	424	401	440	422
Nonprime	271	273	299	327	274	300
Total	645	683	723	728	714	722

During second quarter 2008, third-party sales averaged 683 per month, with 409 classified as prime and 273 classified as nonprime mortgage properties. During third quarter 2008, the monthly average of all third-party sales increased by 5.7 percent over the second quarter 2008 to 722, with 422 classified as prime and 300 classified as nonprime mortgage properties. Third-party sales of prime mortgage properties increased by 3.0 percent over the second quarter 2008 monthly average, while third-party sales of nonprime mortgage properties increased by 9.8 percent.

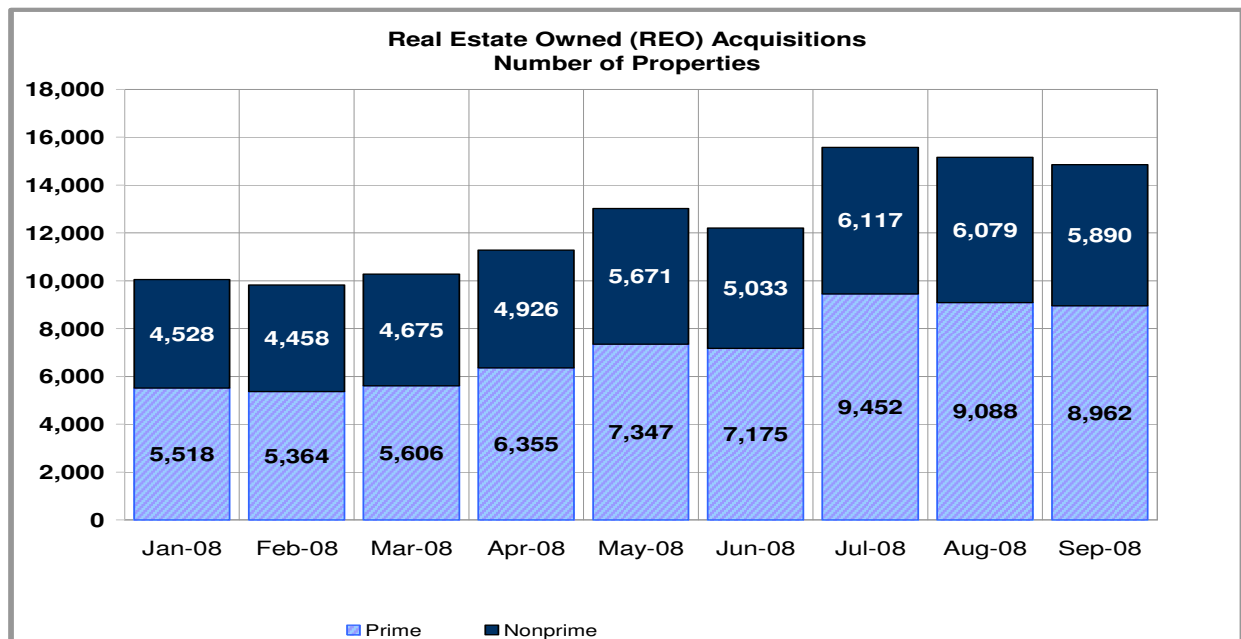


Real Estate Owned (REO) Acquisitions

During second quarter 2008, REO acquisitions averaged 12,169 per month, with 6,959 classified as prime and 5,210 classified as nonprime mortgage properties. During third quarter, REO acquisitions increased by 24.9 percent over the second quarter 2008 monthly average. REO acquisitions averaged 15,196 with 9,167 classified as prime and 6,029 classified as nonprime mortgage properties. REO acquisitions for prime mortgage properties increased by 31.7 percent over the second quarter 2008 monthly average, while REO acquisitions for nonprime mortgage properties increased by 15.7 percent.

Table 6. REO Acquisitions (Number of Properties)

	1Q Avg	2Q Avg	8-Jul	Aug-08	8-Sep	3-mo Avg
Prime	5,496	6,959	9,452	9,088	8,962	9,167
Nonprime	4,554	5,210	6,117	6,079	5,890	6,029
Total	10,050	12,169	15,569	15,167	14,852	15,196



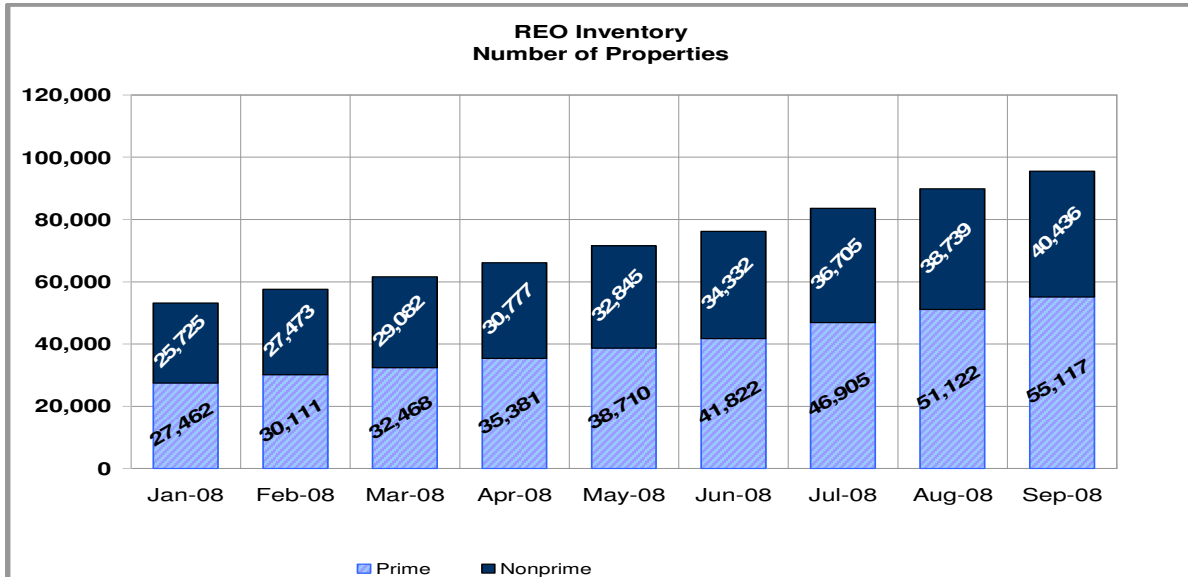
Real Estate Owned (REO) Inventory

Real estate owned (REO) inventory rose from 76,154 on June 30, 2008, to 95,553 as of September 30, 2008 — an increase of 19,399 properties, or 25.5 percent, during third quarter 2008. REO inventory of prime mortgage properties increased by 13,295 properties, or 31.8 percent, to 55,117 properties, while nonprime mortgage properties increased by 6,104, or 17.8 percent, to 40,436 properties.

As of September 30, 2008, prime mortgage properties represented 58 percent and nonprime mortgage properties represented 42 percent of REO inventory.

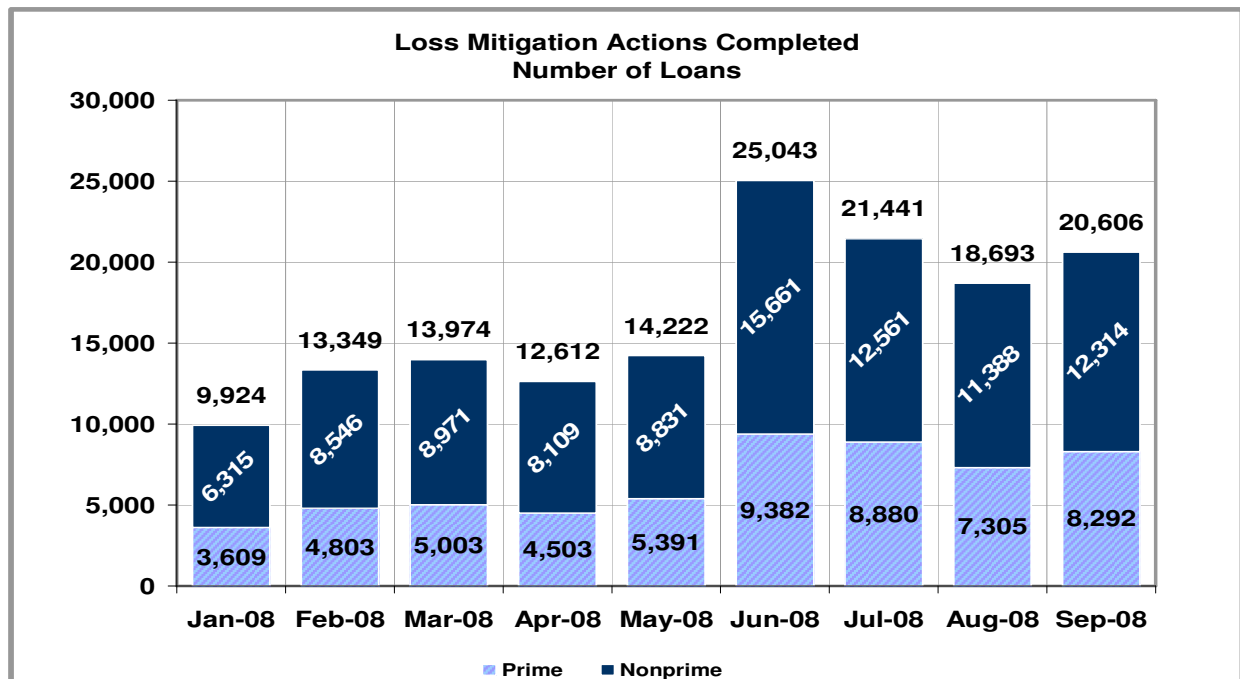
Table 7. REO Inventory at Month end (Number of Properties)

	6/30/2008	7/31/2008	8/31/08	9/30/2008
Prime	41,822	46,905	51,122	55,117
Nonprime	34,332	36,705	38,739	40,436
Total	76,154	83,610	89,861	95,553

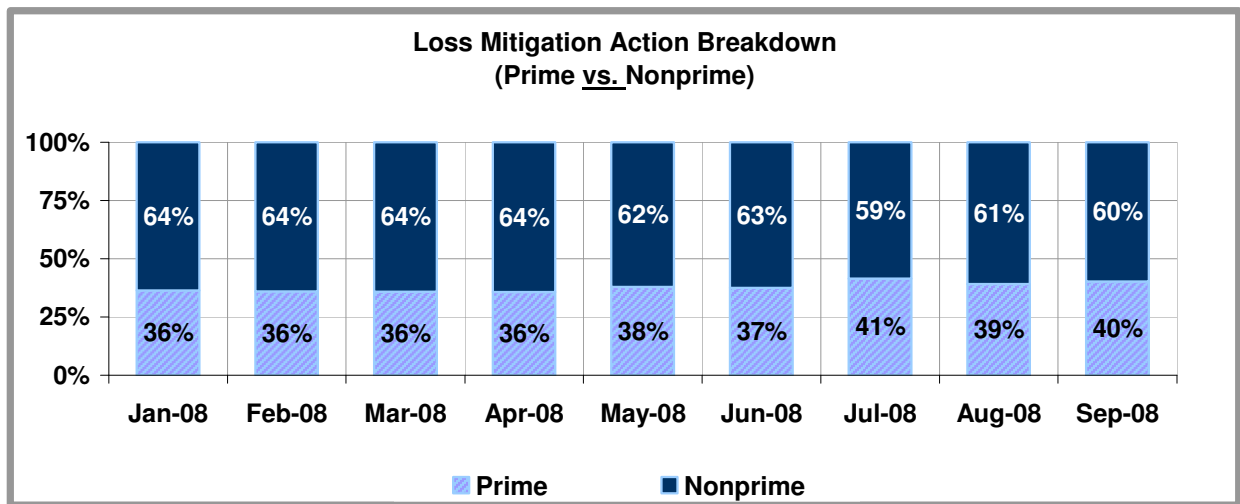


Loss Mitigation Actions

Loss mitigation actions include a number of options — forbearance plans, payment plans, delinquency advances, loan modifications, short sales, deeds in lieu, charge-offs in lieu of foreclosure, and assumptions. Workout options that lead to a resolution of the delinquency include all but forbearance plans. Resolution means the account is brought current (reinstated) or is removed from the portfolio before foreclosure is completed.



Workout options (excluding forbearance plans) increased from a second quarter 2008 monthly average of 17,292 to 20,247, a 17.1 percent jump for third quarter 2008. The use of workout options for prime borrowers increased from a second quarter 2008 monthly average of 6,425 to 8,159, an increase of 1,734 or 27 percent. The use of workout options for nonprime borrowers has increased from a second quarter 2008 monthly average of 10,867 to 12,088 for third quarter 2008, an increase of 1,221 or 11.2 percent. As a percent of workout options completed, prime mortgages averaged 37.2 percent in the second quarter 2008 and 40.3 percent in third quarter 2008. Nonprime mortgages averaged 62.8 percent in second quarter 2008 and 59.7 percent during third quarter 2008.



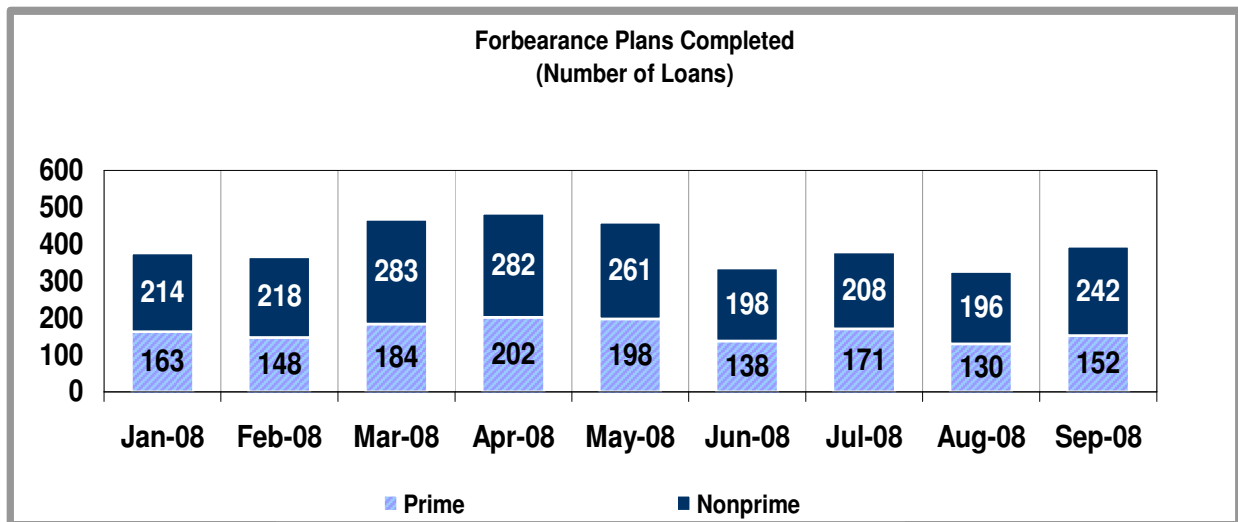
Delinquency advances represented 32.1 percent of second quarter and 44.9 percent of third quarter 2008 loss mitigation actions. Completed payment plans represented 31.6 percent of second quarter and 24.2 percent of third quarter 2008 loss mitigation actions. Loan modifications represented 29.6 percent of second quarter and 22.1 percent of third quarter 2008 loss mitigation actions. Short sales represented 5.9 percent of second quarter and 7.7 percent of third quarter 2008 loss mitigation actions. Deeds in lieu represented 0.5 percent of second quarter 2008 loss mitigation actions, and 0.7 percent of third quarter 2008 loss mitigation actions. Charge-offs in lieu of foreclosure represented 0.3 percent of loss mitigation actions for both the second and third quarters 2008. No assumptions were completed.

Another change was an increase in short sales from 3,062 in second quarter 2008 to 4,674 in third quarter 2008 – an increase of 1,612 short sales or 52.6 percent.

Forbearance Plans

A forbearance plan allows a short-term change in the monthly payment amount. It gives the borrower the opportunity to address the current situation and allows him or her to pay less than the regular monthly payment. At the end of the forbearance, the borrower is required to bring the account current or to enter into another loss mitigation action, such as a payment plan or a loan modification. Forbearance is most frequently used to address unexpected, catastrophic events, such as Hurricane Katrina.

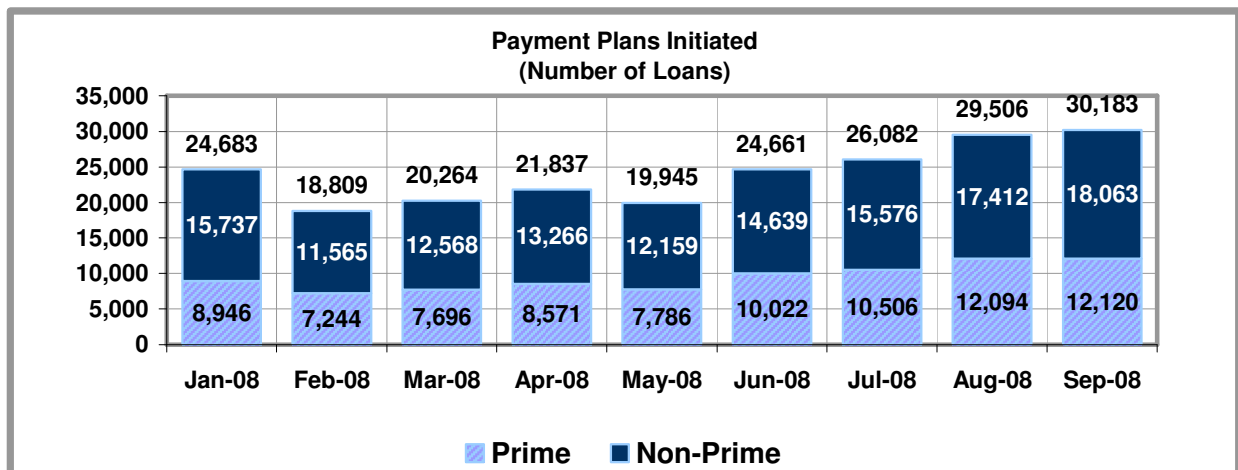
Completed forbearance plans decreased from the second quarter 2008 monthly average of 426 to 366 during third quarter 2008, a decrease of 14.1 percent. Completed forbearance plans for prime borrowers decreased from the second quarter 2008 monthly average of 179 to 151 during the third quarter 2008, a decrease of 15.8 percent. Completed forbearance plans for nonprime borrowers decreased from the second quarter 2008 monthly average of 247 to 215 during third quarter 2008, a 12.8 percent decrease. Prime mortgages averaged 42.1 percent of all completed forbearance plans in second quarter 2008 and 41.2 percent in third quarter 2008. Nonprime mortgages averaged 57.9 percent in second quarter 2008 and 58.8 percent in third quarter 2008.



Payment Plans – Initiated

A payment plan (or repayment plan) allows a short-to-medium term increase in the borrower’s monthly payment to bring the past due mortgage current. It requires the borrower to pay the regular monthly payment *plus* an additional amount.

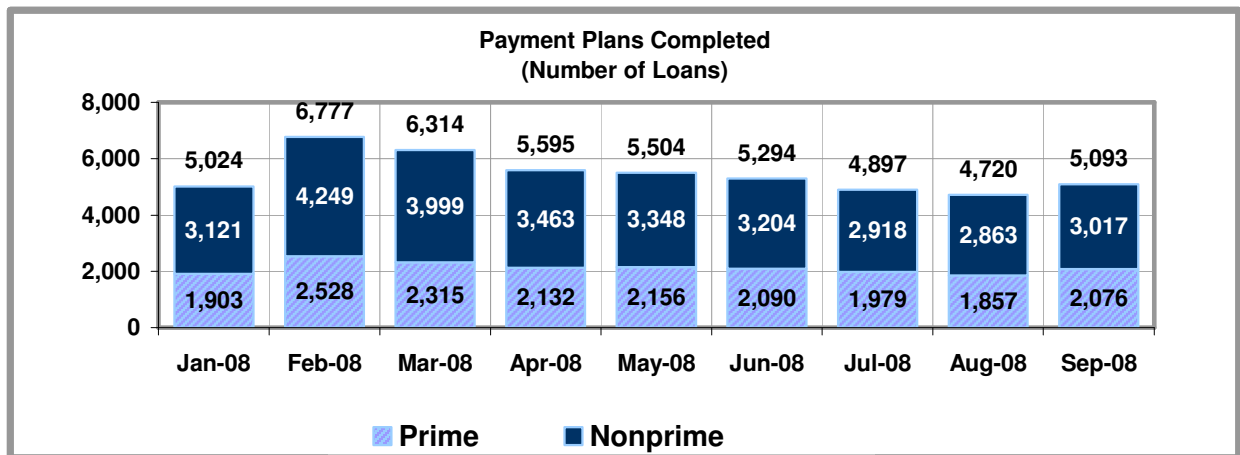
Payment plans initiated increased from the second quarter 2008 monthly average of 22,148 to 28,590 in the third quarter 2008, an increase of 6,443, or 29.1 percent. Payment plans initiated for prime borrowers also increased from the second quarter 2008 monthly average of 8,793 to 11,573 during third quarter 2008, an increase of 31.6 percent. Payment plans initiated for nonprime borrowers increased from the second quarter 2008 monthly average of 13,355 to 17,017 in third quarter 2008, a 27.4 percent increase. As a percent of all initiated payment plans, prime mortgages averaged 39.7 percent in second quarter 2008 and 40.5 percent in third quarter 2008. Nonprime mortgages averaged 60.3 percent in second quarter 2008 and 59.5 percent in third quarter 2008.



Payment Plans – Completed

Completed payment plans decreased 10.3 percent from the second quarter 2008 monthly average of 5,464 to 4,903 for third quarter 2008. For prime mortgages, completed payment plans decreased 7.3 percent from the second quarter 2008 monthly average of 2,126 to 1,971 during third quarter 2008. Completed payment plans for nonprime mortgages decreased from the second quarter 2008 monthly average of 3,338 to 2,933 during third quarter 2008, or by 12.2 percent. As a percent of all completed payment plans, prime mortgages averaged 38.9 percent in second quarter 2008 and 40.2 percent in third quarter 2008. Nonprime mortgages averaged 61.1 percent in the second quarter of 2008 and 59.8 percent in third quarter 2008.

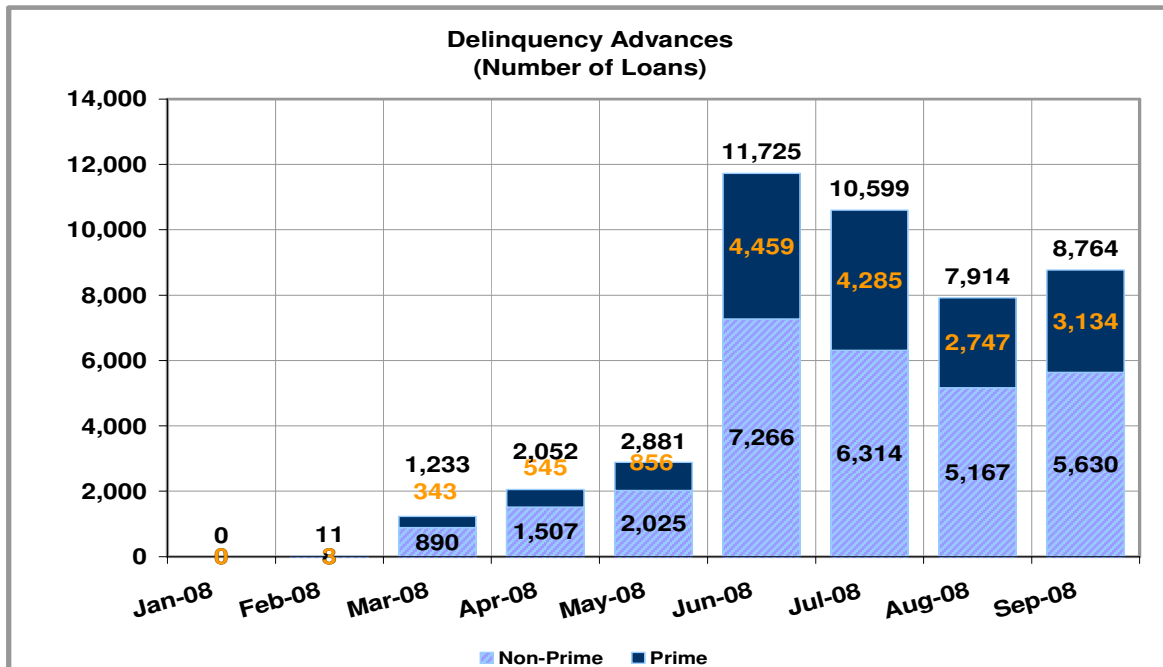
Completed payment plans represented 24.7 percent of initiated payment plans in second quarter 2008 and 17.2 percent of initiated payment plans in third quarter 2008. Completed payment plans for prime mortgages represented 24.2 percent of initiated payment plans for prime mortgages in second quarter 2008 and 17.0 percent of initiated payment plans for prime mortgages in third quarter 2008. Completed payment plans for nonprime mortgage represented 25.0 percent of initiated payment plans for nonprime mortgages in second quarter 2008 and 17.2 percent of initiated payment plans for nonprime mortgages in third quarter 2008.



Delinquency Advances

A delinquency advance allows a qualified borrower to bring the mortgage account current with a new unsecured loan advanced by the Enterprise. The term of the new unsecured loan is 15 years.

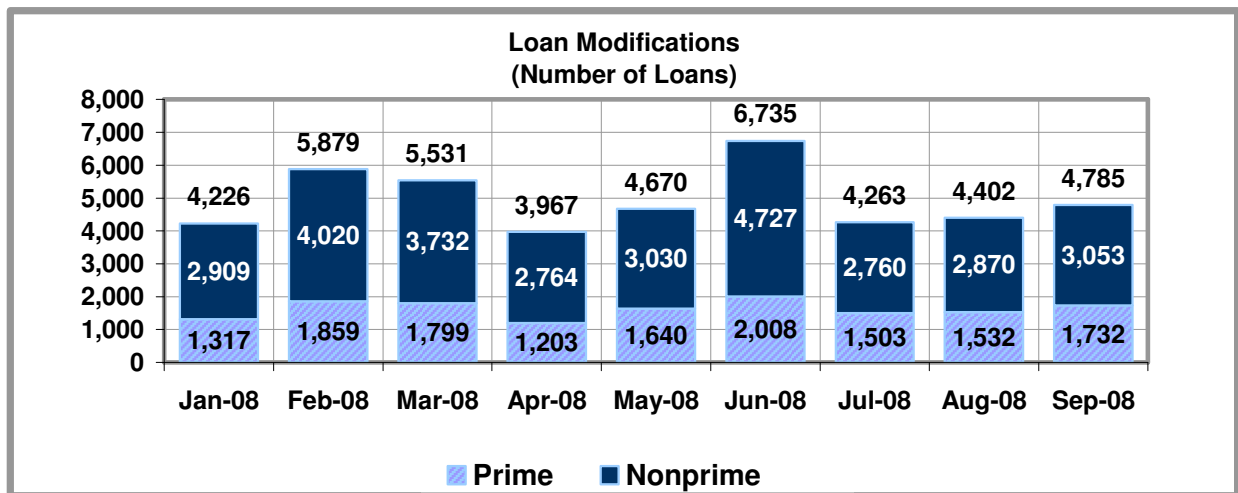
Delinquency advances increased from the second quarter 2008 monthly average of 5,553 to 9,092 during third quarter 2008, an increase of 3,540, or 63.7 percent. Delinquency advances for prime mortgages increased from an average of 1,953 in the second quarter to 3,389 in the third quarter 2008, an increase of 1435, or 73.5 percent. Delinquency advances for nonprime mortgages increased from an average of 3,599 in the second quarter to 5,704 in the third quarter 2008, an increase of 2,104, or 58.5 percent. As a percent of delinquencies advances, prime mortgages averaged 35.2 percent in second quarter 2008 and 37.3 percent in third quarter 2008. Nonprime mortgages averaged 64.8 percent in the second quarter 2008 and 62.7 percent in the third quarter of 2008.



Loan Modifications

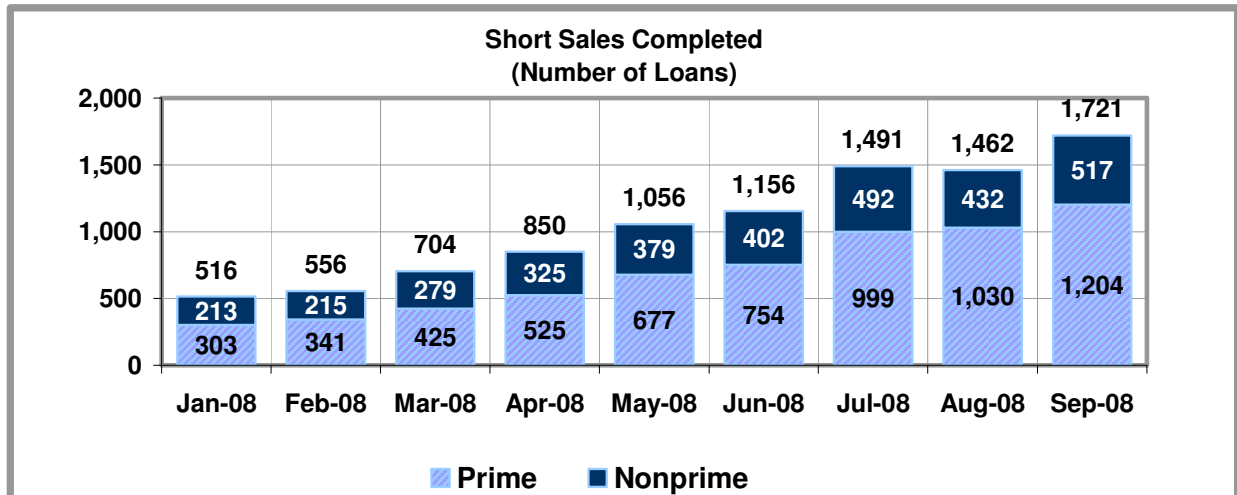
Loan modifications are changes to the original mortgage terms, which may include a change to the product (e.g., adjustable rate mortgage to a fixed-rate product), interest rate, term and maturity date, amortization term, or amortized balance.

Completed loan modifications decreased from the second quarter 2008 monthly average of 5,124 to 4,483 during third quarter 2008, a decrease of 641, or 12.5 percent. Completed loan modifications for prime mortgages decreased from an average of 1,617 in the second quarter to 1,589 in the third quarter 2008, a decrease of 28, or 1.7 percent. Completed loan modifications for nonprime mortgages decreased from the second quarter 2008 monthly average of 3,507 to 2,894 for third quarter 2008, a decrease of 613, or 17.5 percent. As a percent of all completed loan modifications, prime mortgages averaged 31.6 percent in second quarter 2008 and 35.4 percent in third quarter 2008. Nonprime mortgages averaged 68.4 percent in the second quarter 2008 and 64.6 percent in the third quarter of 2008.



Short Sales

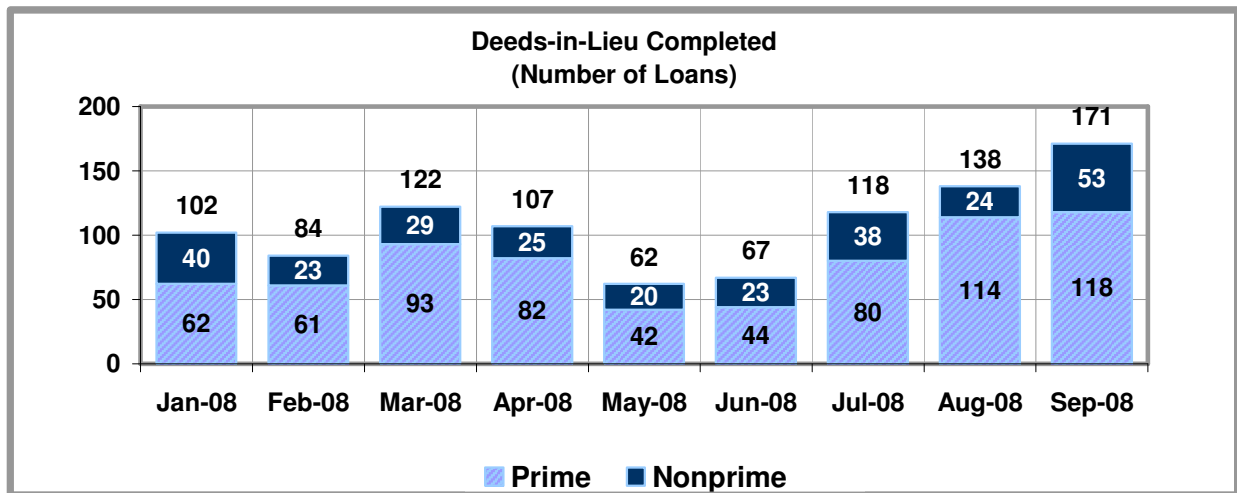
A short sale (also called a preforeclosure sale) is the sale of a mortgaged property at a price that nets less than the total amount due on the mortgage (e.g., the sum of the unpaid principal balance, accrued interest, advanced escrows, late fees, and delinquency charges.) The servicer and borrower negotiate payment of the difference between the net sales price and the total amount due on the mortgage.



Completed short sales increased to 1,558 during third quarter 2008 from the second quarter 2008 monthly average of 1,021, an increase of 537, or 52.6 percent. Completed short sales for prime mortgages increased from the second quarter 2008 monthly average of 652 to 1,078 in third quarter 2008, an increase of 426, or 65.3 percent. Completed short sales for nonprime mortgages increased from the second quarter 2008 monthly average of 369 to 480 for third quarter 2008, an increase of 112, or 30.3 percent. As a percent of all completed short sales, prime mortgages averaged 63.9 percent in second quarter 2008 and 69.2 percent in third quarter 2008. Nonprime mortgages averaged 36.1 percent in second quarter 2008 and 30.8 percent in third quarter 2008.

Deeds in Lieu

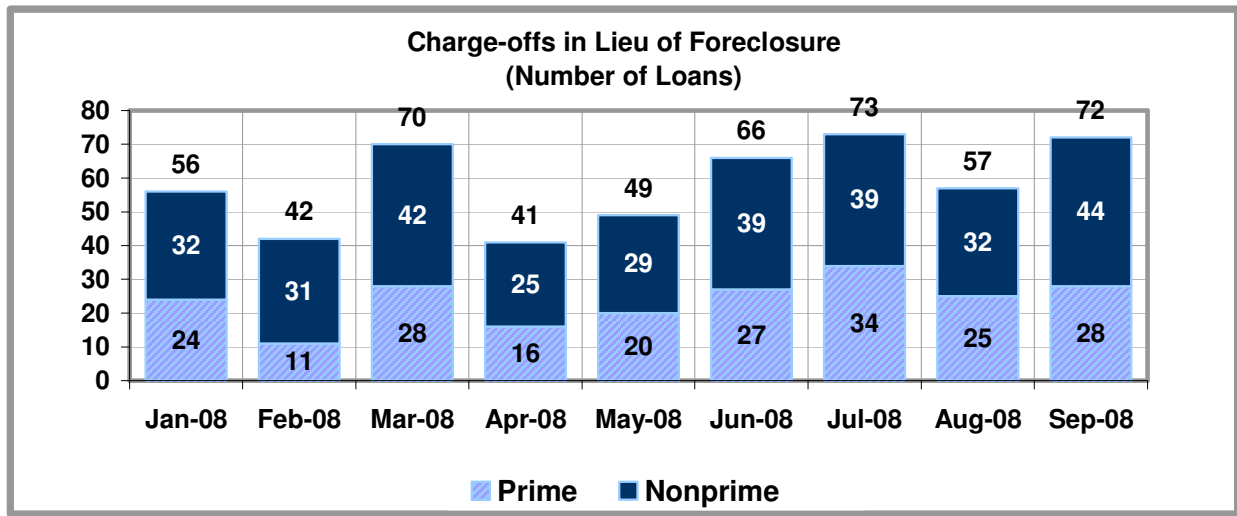
In a deed-in-lieu action, the borrower gives the deed (property ownership) to the servicer to fulfill the obligation to repay the debt. In exchange, the borrower avoids a deficiency judgment. Generally, the servicer's acceptance of a deed in lieu requires that the mortgaged property be free and clear of subordinate liens. Servicers are usually not able to accept deeds in lieu on properties with second mortgages or other liens. By accepting a deed in lieu, servicers avoid having to expend time, effort, and money to foreclose.



During the second quarter of 2008, completed deeds in lieu averaged 79, but during the third quarter, that number increased 80.9 percent to 142. Completed deeds in lieu for prime mortgages increased from the second quarter 2008 monthly average of 56 to 104 for the third quarter 2008, or 85.7 percent. Completed deeds in lieu for nonprime mortgages increased from the second quarter 2008 monthly average of 23 to 38 during the third quarter, or 69.1 percent. As a percent of all completed deeds in lieu, prime mortgages averaged 71.2 percent in second quarter 2008 and 73.1 percent during third quarter 2008. Nonprime mortgages averaged 28.8 percent in second quarter 2008 and 26.9 percent in third quarter 2008.

Charge-Offs in Lieu of Foreclosure

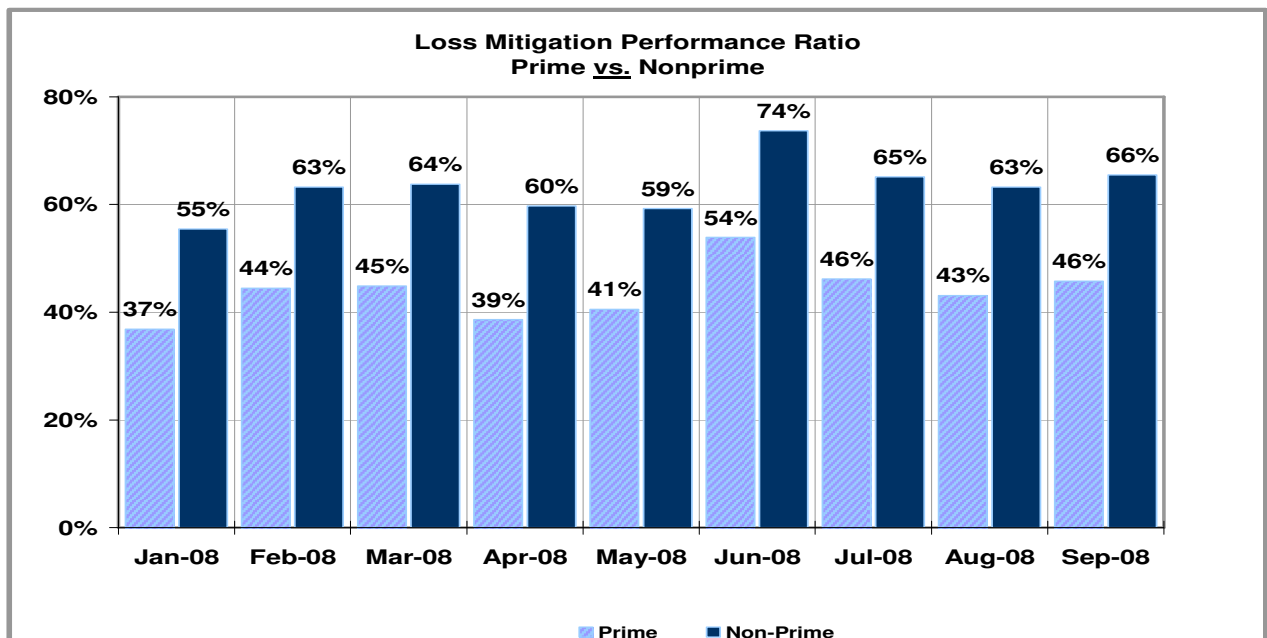
A charge-off in lieu of foreclosure occurs when a servicer charges off the mortgage debt rather than completing foreclosure and taking the property title. The borrower retains the property. The unpaid mortgage balance becomes a lien on the borrower's property, which must be satisfied when the borrower transfers ownership.



Completed charge-offs in lieu of foreclosure increased from the second quarter 2008 monthly average of 52 to 67 in the third quarter 2008, an increase of 15, or 29.5 percent. Completed charge-offs in lieu of foreclosure for prime mortgages increased by 8, or 38.1 percent from a second quarter 2008 monthly average of 21 to 29 during the third quarter 2008. Completed charge-offs in lieu of foreclosure for nonprime mortgages increased from the second quarter 2008 monthly average of 31 to 38 during third quarter 2008, an increase of 7 or 23.7 percent. As a percent of all completed charge-offs in lieu of foreclosure, prime mortgages averaged 40.4 in second quarter 2007 and 43.1 percent in third quarter 2008. Nonprime mortgages averaged 59.6 percent in second quarter 2008 and 56.9 percent during third quarter 2008.

Loss Mitigation Performance

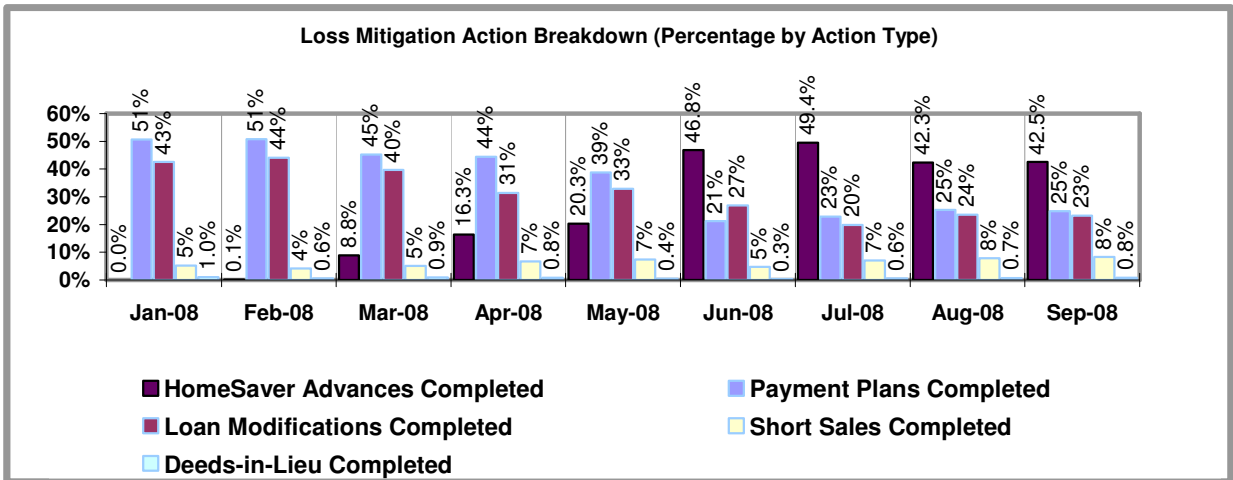
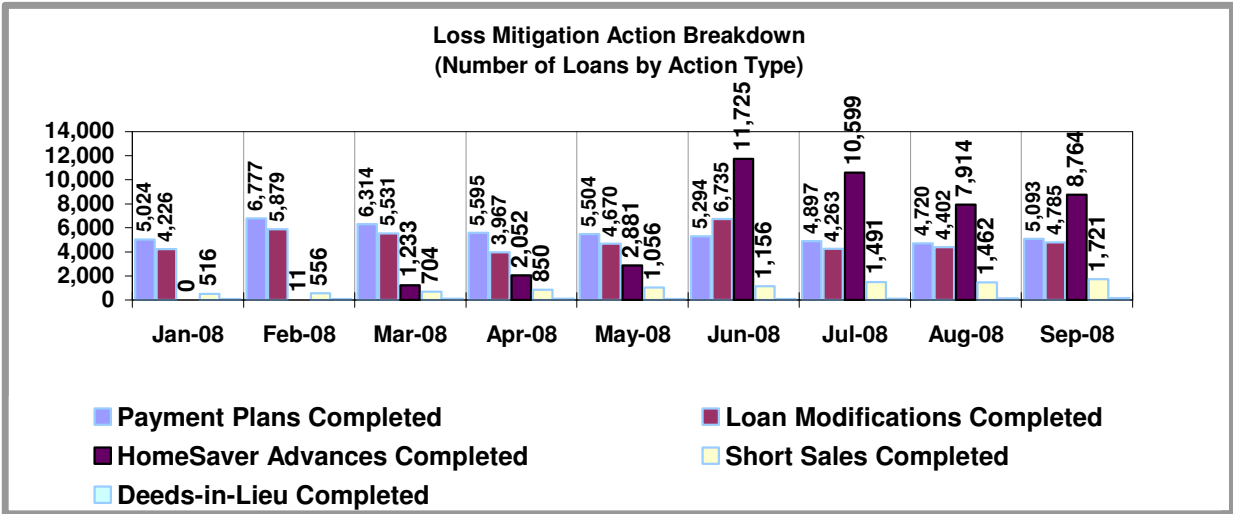
FHFA calculates the loss mitigation performance ratio to measure specific loss mitigation actions as a percent of all mortgages for which foreclosure was likely. The loss mitigation actions we measured included completed payment plans, delinquency advances, loan modifications, short sales, deeds in lieu, charge-offs in lieu of foreclosure, and assumptions. Mortgages identified as likely to be foreclosed include the sum of completed payment plans, delinquency advances, loan modifications, short sales, deeds in lieu, charge-offs in lieu of foreclosure, and assumptions *plus* completed foreclosure sales *plus* completed third-party sales.



FHFA's loss mitigation overall performance ratio decreased from 56.3 percent during second quarter 2008 to 55.0 percent in third quarter 2008 (see pages 27 and 28).

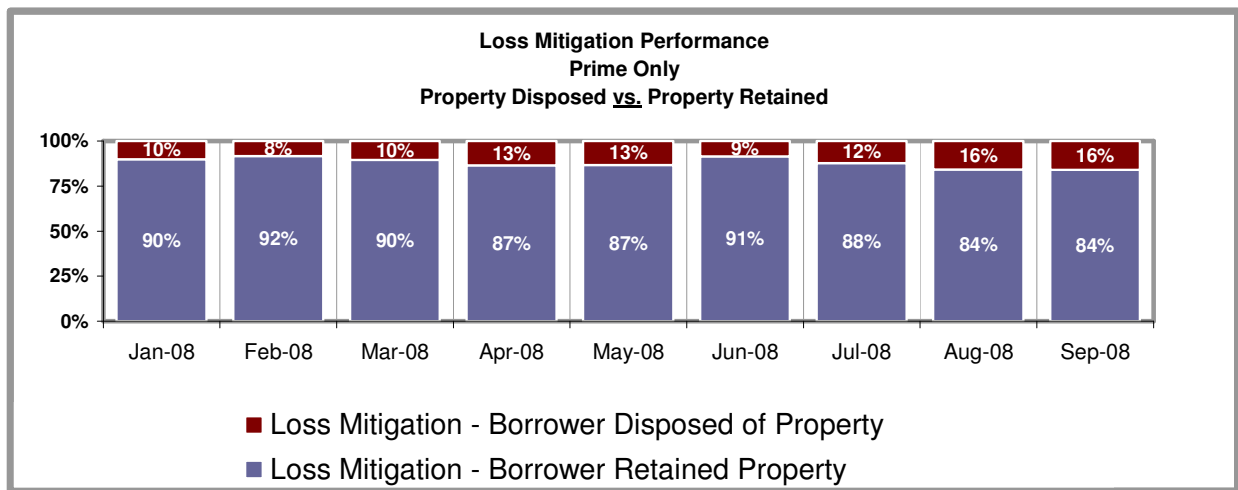
Loss mitigation actions that allow the borrower to avoid foreclosure and retain the property — payment plans, delinquency advances, loan modifications, and charge-offs — represented 93.6 percent of second quarter 2008 loss mitigation actions and 91.6 percent of such actions in third quarter 2008. Loss mitigation actions that allowed the borrower to avoid foreclosure and protect his or her credit rating while disposing of the property, such as short sales, deeds in lieu, and assumptions, represented 6.4 percent of second quarter 2008 loss mitigation actions

and 8.4 percent of those in third quarter 2008. The percent of loss mitigation actions that allowed borrowers to avoid foreclosure and retain the property declined, while the percent of loss mitigation actions that allowed the borrower to avoid foreclosure and protect his or her credit rating while disposing of the property increased.



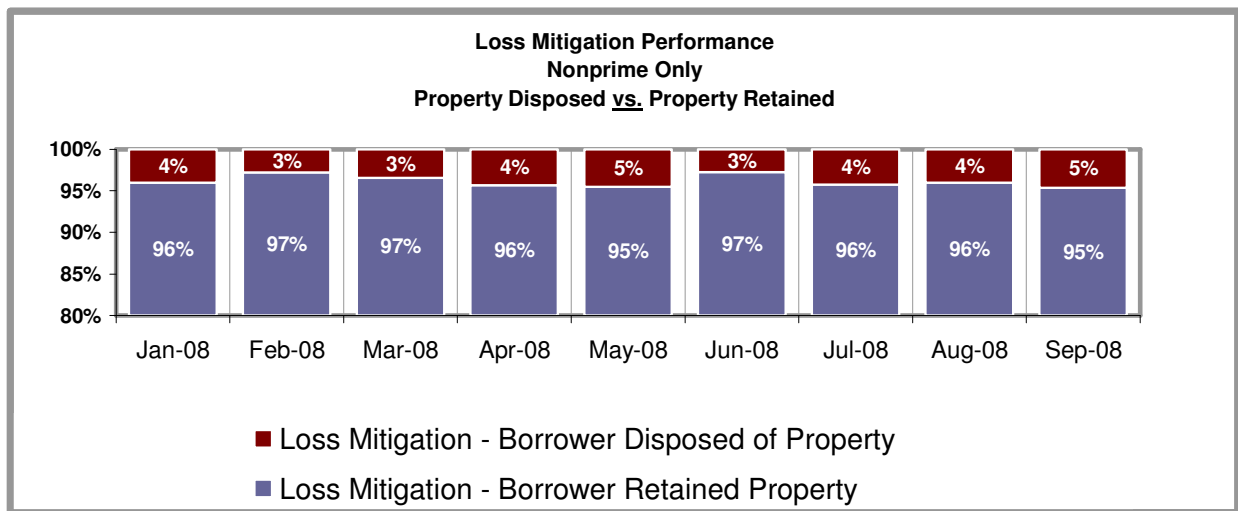
Loss Mitigation Performance – Prime Mortgages Only

The loss mitigation performance ratio for prime mortgages decreased from 45.5 percent in the second quarter 2008 to 45.1 percent in the third quarter 2008. Loss mitigation actions that allowed prime borrowers to avoid foreclosure and retain the property, such as payment plans, delinquency advances, loan modifications, and charge-offs, represented 89 percent of second quarter 2008 loss mitigation actions and 85.5 percent of loss mitigation actions in third quarter 2008. Loss mitigation actions that allowed the prime borrower to avoid foreclosure and protect his or her credit rating while disposing of the property, such as short sales, deeds in lieu, and assumptions, represented 11 percent of second quarter 2008 loss mitigation activities and 14.5 percent of those in third quarter 2008.



Loss Mitigation Performance – Nonprime Mortgages Only

The loss mitigation performance ratio for nonprime mortgages decreased from 65.5 percent in the second quarter 2008 to 64.6 percent during the third quarter 2008. Loss mitigation actions that allowed nonprime borrowers to avoid foreclosure and retain the property, including payment plans, delinquency advances, loan modifications, and charge-offs, represented 96.4 percent of second quarter 2008 loss mitigation actions and 95.7 percent of loss mitigation actions during third quarter 2008. Loss mitigation actions that allowed the nonprime borrower to avoid foreclosure and protect his or her credit rating while disposing of the property, such as short sales, deeds in lieu, and assumptions, represented 3.6 percent of second quarter 2008 loss mitigation activities and 4.3 percent of those in third quarter 2008.



OBJECTIVE, SCOPE AND METHODOLOGY

Objective

On July 30, 2008, the Housing and Economic Recovery Act of 2008 (HERA) was enacted, creating FHFA with the combined responsibilities of the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board, and the HUD GSE mission team. The legislation gave FHFA added authorities to ensure the stability of the nation's housing finance system by regulating Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks.

However, prior to passage of that law in early 2008, OFHEO had initiated efforts to analyze the work the Enterprises were doing to prevent foreclosures by using all available techniques to modify loans where feasible. The agency's original objective, which continues under FHFA, was to publish monthly reports and quarterly reports with more detailed information to present a broader picture over time of Enterprise performance in loss mitigation. FHFA's responsibility to oversee and report on Enterprise loan modification efforts was further reinforced in its capacity as conservator for the Enterprises as detailed in Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA).

Scope

This report addresses only data provided by Fannie Mae and Freddie Mac. This report does not include information on the 12 Federal Home Loan banks.

Methodology

FHFA works with the Enterprises to evaluate and refine data collected and over time may expand the universe of reported data as well as the analysis. Data submissions may be adjusted in subsequent reports because of timing and updates. This report includes revised data for the first two quarters of 2008 that has been submitted by the Enterprises. The revised data includes corrections identified by the Enterprises and FHFA, reflecting the ongoing efforts to improve data collection and accuracy. FHFA identifies adjustments to previously published data that represent a significant discrepancy or material change. Adjustments to previously reported data were increased in the number of loans that were 60+ days delinquent, the number of third party sales, and the number of

loan modifications. In addition, Fannie Mae delinquency advances under Fannie Mae's HomeSaver Advance program (HSA) have been included.

We base our analysis on 42 data elements each Enterprise provides monthly. We used some of the standard industry terms found in recent mortgage metrics reports published by the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS),³ and the HOPE NOW Alliance.⁴ However, in several instances, FHFA definitions vary slightly. For more information, see the table of comparisons of FHFA data against data found in the above referenced reports in the appendix to this report found on page 32.

Definitions

FHFA's definitions for standard terms used in this report, as contrasted against previously cited reports from other agencies or organizations, are as follows:

Prime versus Nonprime Mortgages. FHFA categorizes mortgages as either *prime* or *nonprime*. For mortgage metrics reporting, OCC and OTS categorize loans as *prime*, *subprime*, *Alt-A product* and *other*. There are no standard industry definitions for subprime or Alt – A products, so like OCC and OTS, we define *prime* as mortgages with FICO scores of 660 or higher and categorize all other loans as *nonprime*.

Aggregate versus Loan-Level Data. We analyze only aggregate data submitted by the Enterprises and do not use loan-level data. FHFA examiners validate data submitted against internal management reports.

The HOPE NOW Alliance in its report used aggregate data on 53.4 million loans submitted by 26 servicers. That data was then extrapolated to an estimated industry aggregate for each mortgage metric reported, so HOPE NOW metrics may not reflect the same results as actual loan-level data.

OCC and OTS analyze loan-level data submitted by 14 bank and thrift servicers on 34.6 million loans. Enterprise data is compared to the OCC and OTS joint report for third quarter 2008, published December

³ Joint report of Office of the Comptroller of the Currency and Office of Thrift Supervision, *OCC and OTS Mortgage Metrics Report: Disclosure of National Bank and Federal Thrift Mortgage Loan Data, Third Quarter 2008*, Washington, DC, December 22, 2008.

⁴ HOPE NOW, *Mortgage Loss Mitigation Statistics Industry Extrapolations*, January – October 2008, <http://www.hopenow.com/upload/data/files/July%202008%20Industry%20Extrapolations.pdf>, last accessed December 18, 2008.

22, 2008. Loan data and related metrics can vary, depending on the methods used by the organization doing the reviews. In addition, some servicers report mortgages to more than one entity; e.g. HOPE NOW and the Enterprises, which means data reported is not mutually exclusive and can overlap.

Delinquency Reporting. FHFA presents delinquency information at two levels – all loans at 60-plus-days delinquent and all loans at 90-plus-days delinquent. Both levels include mortgages for which a bankruptcy or foreclosure is in process.

HOPE NOW defines delinquency as 60-plus-days past due. OCC and OTS define serious delinquency as 60-plus-days delinquent *plus* bankruptcy mortgages at 30-plus-days delinquent. Mortgages in the foreclosure process are not included. Unlike OCC and OTS, the Enterprises each define serious delinquency as mortgages which are 90-plus-days delinquent — including mortgages in foreclosure.

Loss Mitigation Actions. FHFA reports on all loss mitigation actions, not just payment plans and modifications, to give a comprehensive view of the Enterprises' borrower assistance efforts. Each loss mitigation action type — forbearance plan, short sale, deed in lieu, assumption, charge-off in lieu of foreclosure, and delinquency advance — represents a different outcome that could impact the borrower's credit record and ability to keep his or her home, as well as the servicer's ability to legally pursue the borrower for a deficiency judgment.

Loss Mitigation Performance. FHFA's loss mitigation performance ratio measures the extent of Enterprise efforts to assist borrowers at risk of losing their homes to foreclosure. This metric allows for a ready comparison of loss mitigation performance over time, regardless of changes to underlying delinquency rates.

While the Enterprises' credit portfolios represent roughly 60 percent of all resident first liens outstanding, they represent only 20 percent of the serious delinquencies in the overall mortgage population. Therefore, the characteristics of all Enterprise outstanding first lien residential mortgages may differ from the overall mortgage population. A comparison of HOPE NOW Alliance and OCC/OTS metrics demonstrate that difference.

Appendix

Mortgage Metrics Comparison

The table below compares FHFA metrics against those reported in the *OCC and OTS Mortgage Metrics Report: Disclosure of National Bank and Federal Thrift Mortgage Loan Data, Third Quarter 2008* and HOPE NOW's *Mortgage Loss Mitigation Statistics Industry Extrapolations*. Additional explanatory information appears after the table.

COMPARISON TABLE

	1Q2008			2Q2008			3Q2008		
	HN	GSEs	OCC & OTS	HN	GSEs	OCC & OTS	HN	GSEs	OCC & OTS
OVERALL MORTGAGE PORTFOLIO									
Total Servicers Reporting	22	3000+	14	22	3000+	14	26	3000+	14
Total Servicing (# of Loans)	53,205,000	30,408,771	34,606,619	53,438,000	30,619,891	34,749,256	53,438,000	30,744,135	34,643,526
Average Loan Balance	NR	\$143,923	\$175,634	NR	\$146,160	\$176,218	NR	\$147,180	\$176,570
Composition of Total Loans (% of Loans)									
Prime	87.7%	82.9%	65.6%	87.8%	83.3%	66.5%	87.8%	83.6%	66.6%
Non-Prime	12.3%	17.1%	34.4%	12.2%	16.7%	33.5%	12.2%	16.4%	33.4%
DELINQUENT MORTGAGE COMPOSITION									
60+ Days Delinquent Including FIPs (# of Loans)	1,695,000	444,902	1,410,121	1,768,000	528,764	1,576,361	2,060,000	678,474	1,845,309
60+ Days Delinquency Including FIPs as a Percentage of Loans	3.19%	1.46%	4.07%	3.31%	1.73%	4.54%	3.85%	2.21%	5.33%
90+ Days Delinquent Including FIPs (# of Loans)	NR	299,495	952,682	NR	361,551	1,030,985	NR	464,898	1,206,041
90+ Days Delinquency Including FIPs as a Percentage of Loans	NR	0.98%	2.75%	NR	1.18%	2.97%	NR	1.51%	3.48%
NEW FORECLOSURES INITIATED									
New Foreclosures Initiated (# of Loans)	526,000	108,520	280,161	575,000	116,843	288,689	565,000	132,909	281,298
New Foreclosures Initiated as a Percentage of Loans	0.33%	0.12%	0.27%	0.36%	0.13%	0.28%	0.35%	0.14%	0.27%
New Foreclosures Initiated as a Percentage of 90+ Days Delinquent Loans Including FIPs	NR	12.4%	9.8%	NR	11.5%	9.3%	NR	12.2%	7.8%
FORECLOSURES COMPLETED									
Foreclosures Completed (# of Loans)	203,000	31,533	107,134	246,000	38,185	118,316	264,000	47,497	127,738
Foreclosures Completed as a Percentage of Loans	0.13%	0.03%	0.10%	0.15%	0.04%	0.11%	0.16%	0.05%	0.12%
New Foreclosures Completed as a Percentage of 90+ Days Delinquent Loans Including FIPs	NR	3.6%	3.7%	NR	3.7%	3.8%	NR	4.4%	3.5%
Foreclosures Completed as a Percentage of Foreclosures Initiated	38.6%	29.1%	38.2%	42.8%	32.7%	41.0%	46.7%	35.7%	45.4%
PAYMENT PLANS INITIATED									
Payment Plans Initiated (# of Loans)	312,000	63,756	136,874	303,000	66,443	139,186	336,000	85,771	154,649
Payment Plans Initiated as a Percentage of 60+ Days Delinquent Including FIPs	6.13%	4.87%	3.24%	5.71%	4.44%	2.94%	5.44%	4.60%	2.79%
Payment Plans Initiated as a Percentage of 90+ Days Delinquent Loans Including FIPs	NR	7.29%	4.79%	NR	6.51%	4.50%	NR	7.87%	4.27%
LOAN MODIFICATIONS COMPLETED									
Loan Modifications Completed (# of Loans)	170,000	15,636	72,877	220,000	15,372	114,439	257,000	13,450	133,106
Loan Modifications Completed as a Percentage of 60+ Days Delinquent Including FIPs	3.34%	1.19%	1.72%	4.15%	1.03%	2.42%	4.16%	0.72%	2.40%
Loan Modifications Completed as a Percentage of 90+ Days Delinquent Loans Including FIPs	NR	1.79%	2.55%	NR	1.51%	3.70%	NR	1.23%	3.68%
SHORT SALES COMPLETED									
Short Sales Completed (# of Loans)	NR	1,776	5,834	NR	3,062	8,222	NR	4,674	13,254
Short Sales Completed as a Percentage of 60+ Days Delinquent Including FIPs	NR	0.14%	0.14%	NR	0.20%	0.17%	NR	0.25%	0.24%
Short Sales Completed as a Percentage of 90+ Days Delinquent Loans Including FIPs	NR	0.20%	0.20%	NR	0.30%	0.27%	NR	0.43%	0.37%
DEEDS-IN-LIEU COMPLETED									
Deeds-in-Lieu Completed (# of Loans)	NR	308	1,074	NR	236	807	NR	427	843
Deeds-in-Lieu Completed as a Percentage of 60+ Days Delinquent Including FIPs	NR	0.02%	0.03%	NR	0.02%	0.02%	NR	0.02%	0.02%
Deeds-in-Lieu Completed as a Percentage of 90+ Days Delinquent Loans Including FIPs	NR	0.04%	0.04%	NR	0.02%	0.03%	NR	0.04%	0.02%

Key:

NR = Not Report HN = HOPE NOW GSEs = Fannie Mae and Freddie Mac OCC = Office of the Comptroller of the Currency OTS = Office of Thrift Supervision

- Prime loans as a percentage of the total mortgage portfolio were 83.6 percent for the Enterprises, 87.8 percent for HOPE NOW and 66.6 percent for OCC/OTS combined.
- 90-plus-day delinquent mortgages (including mortgages in the foreclosure process) totaled 464,898 for the Enterprises and 1,206,041 for OCC/OTS combined. The Enterprises' 90-plus-day delinquency rate was 1.51 percent and the OCC/OTS combined was 3.48 percent. HOPE NOW does not report on 90-plus-day delinquent mortgages.
- New foreclosures initiated during the quarter as a percent of 90-plus-day delinquent loans was 12.2 percent for the Enterprises, and 7.8 percent for OCC/OTS combined. HOPE NOW does not report on 90-plus-day delinquent mortgages.
- Payment plans initiated during the quarter as a percent of 90-plus-day delinquent loans was 7.87 percent for the Enterprises and 4.27 percent for OCC/OTS combined. HOPE NOW does not report on 90-plus-day delinquent mortgages.
- Loan modifications completed during the quarter as a percent of 90-plus-day delinquent loans (including foreclosures in process) was 1.23 percent for the Enterprises, and 3.68 percent for OCC/OTS combined. HOPE NOW does not report 90-plus-day delinquent mortgages.
- Foreclosures completed during the quarter totaled 47,497 for the Enterprises, 264,000 for HOPE NOW and 127,738 for OCC/OTS combined. Foreclosures completed as a percent of all mortgages was 0.05 percent for the Enterprises, 0.16 percent for HOPE NOW and 0.12 percent for OCC/OTS combined. Foreclosures completed as a percent of foreclosures initiated was 35.7 percent for the Enterprises, 46.7 for HOPE NOW and 45.4 percent for OCC/OTS combined.