SPEECH by James B. Lockhart III
Director, Federal Housing Finance Agency

Asian Real Estate Association of America
National Association of Hispanic Real Estate Professionals
Real Estate and Policy Conference
Washington, D.C.
March 13, 2009

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Thank you for the kind introduction. It is an honor to be here with you.

This afternoon I would like to talk to you about what Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are doing to help spur economic recovery and make housing more affordable and the work we are doing to keep people in their homes and staunch the bleeding in the mortgage markets.

Today, the biggest challenge we all face is stabilizing the housing market. FHFA has a four-pronged strategy to ensure the housing government-sponsored enterprises (GSEs) meet this challenge and fulfill their mission of providing liquidity, stability, and affordability to the housing market. First, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks must support the market in a safe and sound manner, with special emphasis on affordable housing. Second, we are working with our governmental partners to get mortgage interest rates down. Third, we are working with the Enterprises and other groups to set best practices for the whole mortgage market. Finally, we are actively working with the Administration, Treasury, the Department of Housing and Urban Development (HUD), the Federal Deposit Insurance Corporation (FDIC), and the GSEs on foreclosure prevention to help homeowners in trouble.

Before I discuss these four strategies in detail, let me try to put the housing GSEs in perspective for you:

<u>Putting the GSEs in Perspective</u>

(SLIDE 2) The GSEs are incredibly large—their combined debt outstanding and guaranteed mortgage-backed securities (MBS) are $6.7 trillion. Despite the very rapid growth in Treasury issuance, they still exceed the publicly held debt of the United States by $ 300 billion.

(SLIDE 3) Fannie Mae and Freddie Mac have two businesses: (1) guaranteeing residential and multifamily mortgage-backed securities (MBS)—in blue; and (2) investing in whole mortgage loans and MBS, including their own—in green. We capped the growth of those portfolios after discovering those serious accounting and internal control problems at the Enterprises. As part of the conservatorship, the cap has been raised to $900 billion for each this year. Their MBS guarantee business will continue to grow with no restrictions to support the market.

(SLIDE 4) This slide shows the history of the mortgage market over the past 12 years. From 1997-2003, Fannie Mae's and Freddie Mac's market share of mortgage originations gradually grew to almost 55 percent. From 2004-2006, the private mortgage market predominated, and Fannie's and Freddie's business sank pretty dramatically, with their market share dropping below

35 percent. Then as the private market started to freeze up in 2007, Fannie’s and Freddie's market share took off—up to 73 percent in 2008. However, as you will note, that is a larger share of a much smaller market. The market share of mortgages insured by FHA/VA (Federal Housing Administration/Veterans Administration),which are generally pooled into Ginnie Mae (Government National Mortgage Association) mortgage-backed securities, has risen even more dramatically, rising from 3 percent in 2006 to 20 percent for 2008, but even more startling, to 35 percent in the fourth quarter of 2008.

(SLIDE 5) The Federal Home Loan Banks also play an important role in the mortgage market by providing secured advances to banks, credit unions, and insurance companies. Federal Home Loan Bank advances hit the trillion dollar mark in October of 2008. Historically, we have always thought of the Federal Home Loan Banks as providing low-cost funding to small and medium-sized banks, but the top four banks represent a third of their advances. In total, the Federal Home Loan Banks have almost $1.4 trillion in assets. Only 5 percent is in private-label mortgage-backed securities, but these have turned out to be very high risk, even though they were originally rated AAA.

How We Got Here

During the boom times, virtually everyone involved in home mortgage lending—builders, borrowers, brokers, Realtors®, lenders, mortgage insurers, credit rating agencies, the Enterprises, other secondary market investors, and yes, us regulators—failed to fully appreciate the likelihood of a severe house price correction. The pricing models of Fannie Mae and Freddie Mac, for example, assumed that house prices would just continue to go up.

Well, prices did not rise forever, as this chart shows. **(SLIDE 6)** From January 2000 through July 2006 (peak), the more volatile S&P/Case-Shiller house price index rose by 106 percent only to fall by 27 percent since then. The less volatile FHFA House Price Index, which reflects Fannie Mae’s and Freddie Mac’s books of business, peaked later, and has since declined 10.9 percent from its peak.

For years Fannie Mae, Freddie Mac, and FHA set the standards for prudent mortgage underwriting and credit practices. Those standards were adopted by the private, prime jumbo market, and largely prevailed until the ascendance of the private-label securities market. As the private market gained leadership—driven primarily by the Wall Street distribution model, rating agency criteria, and over-enthusiastic investors—the credit bar was lowered. Eventually, in response to declining market share, Fannie Mae and Freddie Mac began to follow suit, not only lowering their own underwriting standards, but also buying hundreds of billions worth of AAA private-label MBS.

Borrowers with payment option adjustable rate mortgages (ARMS) or with low initial teaser interest rate ARMs experienced payment shock when their interest rates and principal adjusted. They could no longer afford their mortgage payments. Because many had increasingly taken on more debt and spent the money, they defaulted on their mortgages.

(SLIDE 7) Over the past two years, serious delinquencies of 90-days or more have risen across the board. For subprime mortgages, serious delinquencies are 23 percent, and those subprime

ARMs are 34 percent seriously delinquent. Serious delinquencies are far lower at Fannie Mae and Freddie Mac at about 2 percent, which is even lower than the prime market at 3.7 percent or the whole market at 6.3 percent. Serious delinquencies across all categories are continuing to rise.

A large proportion of subprime, Alt-A, and other nontraditional mortgages was financed with private-label MBS, and increasingly complex derivative instruments. In late 2006 and 2007, rising delinquency and default rates on recently-originated subprime mortgages made investors aware of the extent of poor underwriting in subprime lending. In the second half of 2007, these factors led to a virtual collapse of the primary and secondary markets for subprime and nontraditional mortgages. Those private-label securities have continued to deteriorate rapidly since then **(SLIDE 8).** As an example, well over half of Fannie's and Freddie's $178 billion of once AAA securities are now below investment grade.

Yet since mortgage assets had always been considered safe, the 1992 law that established OFHEO required the agency to deem the GSEs adequately capitalized even if their mortgage credit exposure to capital was more than 100 to 1. We recognized the systemic risk posed by Fannie Mae and Freddie Mac. OFHEO worked for many years to obtain legislation to give us greater authority over their capital requirements and the size of their portfolios. It was my top priority.

The Housing and Economic Recovery Act, or HERA as we call it, was finally enacted July 30th last summer. Before HERA, we had tenaciously used all the powers OFHEO had and then some. We imposed an extra 30 percent capital requirement on the GSEs because of their accounting problems. We capped their portfolios in 2006. We stopped them from investing in below AAA-rated private-label securities and other risky activities. We encouraged them to conserve capital and to raise additional capital. They did raise more than $20 billion, but it was not nearly enough.

By September, the facts made it clear that there was no other choice than conservatorship if the Enterprises were going to be able to continue to fulfill their critical mission of providing stability, liquidity, and affordability to the market. We made the decision working closely with the Treasury Secretary and the Chairman of the Federal Reserve. It was a very tough, but right, decision. If we had not put the Enterprises in conservatorship, the downward spiral in the housing market would have accelerated, because the Enterprises would have had to pull back dramatically from the market.

Government Support for the GSEs

HERA created the tools that made it possible for the Enterprises to operate in conservatorship. It gave the Treasury Department authority to support Freddie and Fannie and fund them in a variety of ways. **(SLIDE 9)** We could not have put Fannie and Freddie into conservatorship without Treasury's Senior Preferred Stock facility, which provides an *effective guarantee* of the Enterprises' debt and mortgage-backed securities by ensuring each Enterprise has a positive net worth. That facility was originally $100 billion each, but it has since been increased to $200 billion each. In return, Treasury received from each Enterprise a billion dollars in senior preferred stock and warrants for 79.9 percent of the common stock. This facility protects not only present senior and subordinated debt holders and MBS holders but also any future debt and

MBS holders. It lasts until the facility is fully used or until all debt and mortgage-backed securities are paid off.

(SLIDE 10) Two additional facilities were also implemented when the conservatorships began. Under the first, Treasury has purchased $107 billion in mortgage-backed securities and has made it clear it will continue to be an active buyer. The second is an unlimited secured credit facility that acts as a liquidity backstop for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, but it has not been needed.

Reducing Mortgage Rates

The Federal Reserve Bank announced two critically important programs in November to reduce mortgage rates. In the first, it will purchase $500 billion or more in Fannie Mae, Freddie Mac, and Ginnie Mae MBS. Since the beginning of January, they have already purchased $190 billion. The second program is a purchase of up to $100 billion in Fannie Mae, Freddie Mac, and Federal Home Loan Bank debt. To date, the Federal Reserve has purchased more than $42 billion in Fannie, Freddie, and Federal Home Loan Bank notes.

When you add this all up, the U.S. government has made it critically clear to every investor that it is standing behind Fannie Mae, Freddie Mac, and the Federal Home Loan Banks That is why I call it an *effective guarantee*. These programs have had a very positive impact on mortgage rates, which have fallen more than 100 basis points. **(SLIDE 11)**They even dropped below 5 percent for 30 year rates at one point, but crept back up to 5.03 percent in Freddie Mac's weekly report yesterday. If spreads return to more normal levels with a return of confidence, we could see even lower rates.

Setting Best Practices

(SLIDE 12) Now turning to instilling best practices in the mortgage market, Fannie and Freddie have to take a leadership role with all mortgage participants to never let the abuses of the 2004 to 2007 period recur. We all need to work together to develop much higher standards. Actions they have taken include guidance on nontraditional and subprime mortgages, mortgage fraud guidance and loan level indicators of originators and appraisers to reduce fraud.

In late December, FHFA announced Fannie Mae and Freddie Mac will implement a revised Home Valuation Code of Conduct, effective May 1, 2009. The code enhances protections for the independence of appraisers while maintaining lenders' ability to address unprofessional appraisal practices and ensure appraisal quality. The code also requires appraisal quality control testing, reporting on appraiser misconduct, and the creation of the Independent Valuation Protection Institute.

Affordable Housing Mission and Goals

For the first time, HERA added affordable housing and mission enforcement to the responsibilities of the safety and soundness regulator of Fannie Mae and Freddie Mac. HERA also requires, for the first time, that FHFA establish housing goals for the 12 Federal Home Loan Banks. To establish these housing goals, FHFA must consider the mission and cooperative ownership structure of the Federal Home Loan Banks.

Enforcement of the Enterprises' affordable housing goals, once HUD's responsibility, is now up to FHFA. While ensuring liquidity in the mortgage marketplace has necessarily been a primary focus, ensuring that low and moderate income persons and underserved areas have ready access to affordable mortgage loans remains a critical responsibility of the Enterprises. I know that home ownership ambitions have now become controversial, but I think we all can agree that responsible home ownership is a very important part of the "American Dream."

Fannie Mae and Freddie Mac are important to the secondary market for multifamily loans, and multifamily lending is critical to the affordable housing mission of the Enterprises. I am determined to ensure both Enterprises remain dedicated to, and actively involved in, multifamily lending while they are in conservatorship. Just a few days after the Enterprises entered conservatorship, I released a statement to this effect to assure market participants that the Enterprises would continue to be a source of underwriting and financing for multifamily loans.

In the near-term, the Enterprises have been charged with meeting the very ambitious goals set by HUD in 2004, a year in which the mortgage marketplace looked far, far different than it does today. In 2007, they missed two of the affordable housing subgoals. **(SLIDE 13)**

For 2008, it now looks like they missed almost all of the goals set by HUD in 2004. Nonetheless, over half the units financed qualified for the low- and moderate-income housing goal, well over a third of those financed will qualify for the underserved area goal, and approximately a quarter of units will qualify as filling the special affordable goal. Although these goals may not have been feasible in 2008 given market conditions, I can assure you that I expect each Enterprise to develop and implement ambitious plans to support the borrowers and markets targeted by the goals.

As we set the annual housing goals for 2009 based on current market conditions, it seems likely that the income-based affordable housing goals for 2009 will look more like the goals HUD set in 2004 and 2005 when subprime and nontraditional mortgages were not major factors in the home purchase mortgage marketplace.

Some very basic changes in the mortgage marketplace explain why the affordable housing goals will need to be adjusted. Fannie Mae and Freddie Mac by charter cannot make new loans at higher than 80 percent loan-to-value. Due to their credit losses, the sharply restrictive standards of private mortgage insurers make it difficult for the Enterprises to make high loan-to-value mortgages, which often benefit low- and moderate-income borrowers. The much greater role of FHA in the marketplace also limits the ability of the GSEs to meet the housing goals, as does the near total collapse of the private-label securities market. Sharply decreased multifamily activity and an expected increase in refinancings—two factors which historically have meant fewer low-and moderate income beneficiaries—also play a role. Additionally, we need to ensure that the Enterprises receive credit for benefitting low-and moderate-income persons and underserved areas and for keeping them in their homes through loan modifications.

In 2010, HERA requires a wholesale restructuring of the affordable housing goals. In that year, the Enterprises will have four single-family goals and one multifamily special affordable goal. HERA also requires the Enterprises to provide market leadership—a "duty to serve"—with respect to manufactured housing, affordable housing preservation, and rural housing. As we develop a final rule to be published toward the end of the year, we have begun to meet with a wide variety of stakeholder groups to hear their views, and I encourage your input.

Our activities in the housing mission and goals areas are not limited to ensuring compliance with affordable housing goals. Since last year, we have been very active in ensuring that the Enterprises play an appropriate role in such areas as the Low Income Housing Tax Credit market and working with hard-pressed housing finance agencies.

The 12 Federal Home Loan Banks also have a significant role to play in affordable housing. HERA amended the Federal Home Loan Bank Act by adding a provision that requires the FHFA to allow the Federal Home Loan Banks, until July 30, 2010, to use subsidy funds from their Affordable Housing Program (AHP) to refinance low- and moderate-income households' first mortgage loans on their primary residences. AHP is funded by 10 percent of the Federal Home Loan Banks' earnings and provides subsidies to help provide rental and owner-occupied housing for very low-income and low- and moderate-income households. This year, we expect approximately $200 million in AHP subsidies to be available nationwide. In October, I approved a regulation that allows the Federal Home Loan Banks to set aside a portion of this amount to assist households that qualify for refinancing under the FHA's Hope for Homeowners program when additional subsidy is needed to bring down the household's mortgage debt-to-income ratio to an affordable level. I plan to extend the refinancing set-aside program to include households that are being assisted by housing finance agencies' refinancing programs. I also plan to enhance the capacity of the Federal Home Loan Banks to use AHP subsidies to assist public and private efforts to purchase and rehabilitate foreclosed properties for sale or rental to stabilize local communities.

The Federal Home Loan Banks' investments in obligations of state and local housing finance agency and municipalities are leveraging the capacity of state and local governments to deal with the hardest hit communities and take full advantage of federal funding under the Community Stabilization Program. As Craig Nickerson knows, both Enterprises look forward to working with the new National Community Stabilization Trust.

Before I turn to the Make Home Affordable programs, I want to highlight a couple of issues that I know are of particular concern to your associations and to the GSEs. The first is the very constrained capital situation of the private mortgage insurers (MIs). Statistics cited by NAHREP indicate that prior to the subprime explosion, private mortgage insurance and guaranty programs covered 42% of mortgage purchase loans made to African American and Hispanic borrowers and 44% of the purchase loans to borrowers with incomes below the median income for their area. **(SLIDE 14)** Due to their credit losses, the private mortgage insurers presence in the market has shrunken dramatically from more than 80 percent of all insured mortgages in 2007 to 22 percent by the fourth quarter of 2008. FHFA has been actively working with the Treasury Department to secure support for the MIs through Treasury's Troubled Asset Relief Program.

Another area of mutual concern is short sales as the last stop before foreclosures. I appreciate the efforts of the Realtors® to streamline the system for short sales, so that mutually beneficial transactions can be completed as quickly as possible. I understand that your associations are working with the Enterprises to ensure that the most up-to-date pricing information through local Multiple Listing Services is available. And, as you know, the Enterprises support the Realtors®' concern that terms of a listing agreement are honored in short sale transactions. Now let me turn to the crucial issue of foreclosure prevention.

Foreclosure Prevention

I began today by telling you our biggest challenge is to stabilize the housing market. Keeping people in their homes has to be a cornerstone of that effort. As conservator of the Enterprises, FHFA has not only taken strong action to ensure the maximum effort by the Enterprises to modify loans to prevent foreclosures but also has taken a leading role in efforts to address the foreclosure crisis in the private-label securities market. **(SLIDE 15)** As you can see in these pie charts, while Fannie Mae and Freddie Mac own or guarantee almost 31 million mortgages, about 56 percent of all single-family mortgages, the mortgages they own or guarantee only represent 20 percent of serious delinquencies. Private-label mortgage-backed securities represent 15 percent of the mortgages but 50 percent of the serious delinquencies.

Let me pause on these pie charts for a moment, because they represent the problem we face in foreclosure prevention. If we are going to stabilize the housing market, we have to address that PLS 50 percent. We believe Fannie Mae and Freddie Mac must be leaders in improving, promoting, and enforcing industry standards and best practices for all mortgages.

In November, I announced the new streamlined modification program (SMP) developed jointly with the U.S. Treasury, HUD, Fannie Mae, Freddie Mac, and HOPE NOW's members. Building upon SMP, FHFA has been working directly with the White House, the Treasury Department, HUD, and the Enterprises in the development of the Homeowner Affordability and Stability Plan (HASP). The Home Affordable Modification program builds upon the streamlined program.

Homeowner Affordability and Stability Plan

We believe the Homeowner Affordability and Stability Plan is a major step in reducing preventable foreclosures and stabilizing the housing market. The Treasury Department estimates it will help up to 7 to 9 million families refinance or modify their mortgages. It also aggressively builds on FDIC's foreclosure prevention efforts.

(SLIDE 16) The key elements of the plan are:

1. In the Home Affordable Refinance initiative, Fannie Mae and Freddie Mac will provide access to low-cost refinancing for responsible homeowners with loans the Enterprises already own or guarantee. This will help up to 4 to 5 million homeowners avoid foreclosure and reduce their monthly payments. This program is designed for current borrowers who want or need to

refinance at a lower rate or into a safer mortgage product but who have experienced difficulties due to declining home values. Because Fannie Mae or Freddie Mac already hold the credit risk on these mortgages, no additional credit enhancements, such as mortgage insurance, will be required. Existing mortgage insurance will be rolled into the new mortgage. Borrowers will be eligible for a refinanced mortgage with a current loan-to-value of up to 105 percent. Servicers should already have most of the needed documentation. In many cases, appraisals will not be needed. The idea is to make the refinancing process quick, relatively easy, and cheaper for both the homeowner and the mortgage lender. To make refinancing work, second mortgages holders will have to resubordinate those seconds. By creating an avenue for the borrower to benefit from current lower mortgage rates, the Enterprise's credit risk on the first mortgage and credit risk on the second mortgage should both diminish. It has the added benefit of helping many households strengthen their own financial situation by freeing up cash for other expenses. This program will be in place until June 2010.

2. The Home Affordable Modification initiative is a comprehensive $75 billion loan modification plan designed to reach up to 3 to 4 million at-risk homeowners. This program will help homeowners stay in their homes and protect neighborhoods. It will be paired with the expanded and improved FHA Hope for Homeowners program. Importantly, there will be a national standard for loan modifications that will be applied to borrowers uniformly. It will reduce a borrower's monthly housing expense to 31 percent of his/her gross income through a combination of capitalization of past due payments, interest rate reductions, term extensions, principal forbearance, and/or principal forgiveness. Servicers can lower rates to as little as 2 percent, and extend loan maturities to 40 years. After five years of reduction, payments will increase gradually – at no more than 1 percentage point per year up to the Freddie Mac rate at the time of the mortgage origination, which as I said, is about 5 percent now. Borrowers who have owner-occupied properties and unpaid principal balances up to the maximum conforming loan limit are eligible. Modifications under this program may be made until the end of 2012.

Troubled Assets Relief Program (TARP) and Enterprise-funded incentives to borrowers, servicers, lenders and investors and will increase the willingness of all industry participants to engage in aggressively assisting borrowers at risk. The borrower will receive "pay for performance" incentives of $1,000 per year in principal reductions for up to five years as an incentive for keeping his/her account current. The servicer will receive an incentive of $1,000 for each completed modification and an additional $500 if it reached the borrower early—before the account becomes seriously delinquent. In addition, the servicer will receive "pay for success" incentives of $1,000 per year for up to three years as an incentive for servicing the account in a way that encourages the borrower to keep the modified loan current. The lender (or investor) will receive an incentive of $1,500 to reach the borrowers early. In addition, the lender (or investor) will be reimbursed at half the cost of the borrower's monthly payment reduction from 38 percent to 31 percent. Finally, 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.

As agents of the Treasury, both Fannie Mae and Freddie Mac will play key roles and assume responsibilities in the implementation and on-going oversight of the modification program. Those responsibilities include transaction processing, distribution of cash flows, payment of incentives, and program compliance oversight and on-site reviews. Given the Enterprise role in the industry as leaders in establishing best practices and standards, their involvement brings the necessary accountability as would be required for any federal program supported with taxpayer dollars.

3. Treasury's actions will strengthen the mortgage markets and confidence in Fannie Mae and Freddie Mac. Treasury's actions to strengthen confidence in Fannie Mae and Freddie Mac will continue to support lower mortgage interest rates, which will continue to support the overall housing market. In addition to doubling the potential Treasury investment in each Enterprise to $200 billion, the cap on their mortgage portfolios has been raised by $50 billion to $900 billion.

I will close here with a final note that all market participants, the government, and the GSEs, have to be creative and work together to help the U.S. economy and housing market recover. The fall in mortgage rates that the Treasury and Federal Reserve's purchases have triggered are very important steps in stabilizing the mortgage market. **(SLIDE 17)** Housing affordability has reached an all-time high. The recently passed stimulus package, the new Financial Stability Plan, and the Homeowner Affordability and Stability Plan are all extremely important next steps to recovery for the housing markets and the U.S. economy.

Thank you. I will be happy to answer questions.

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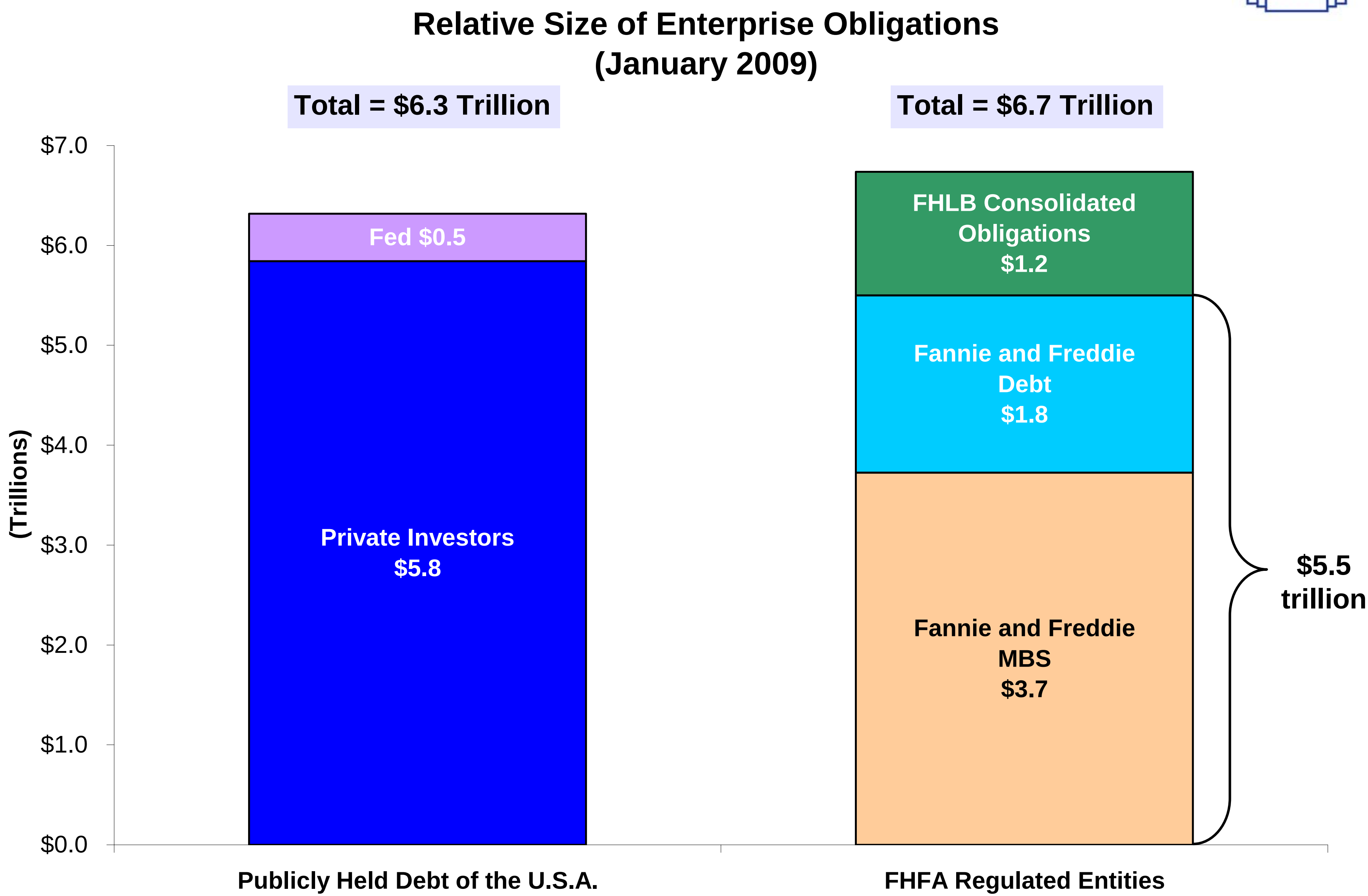
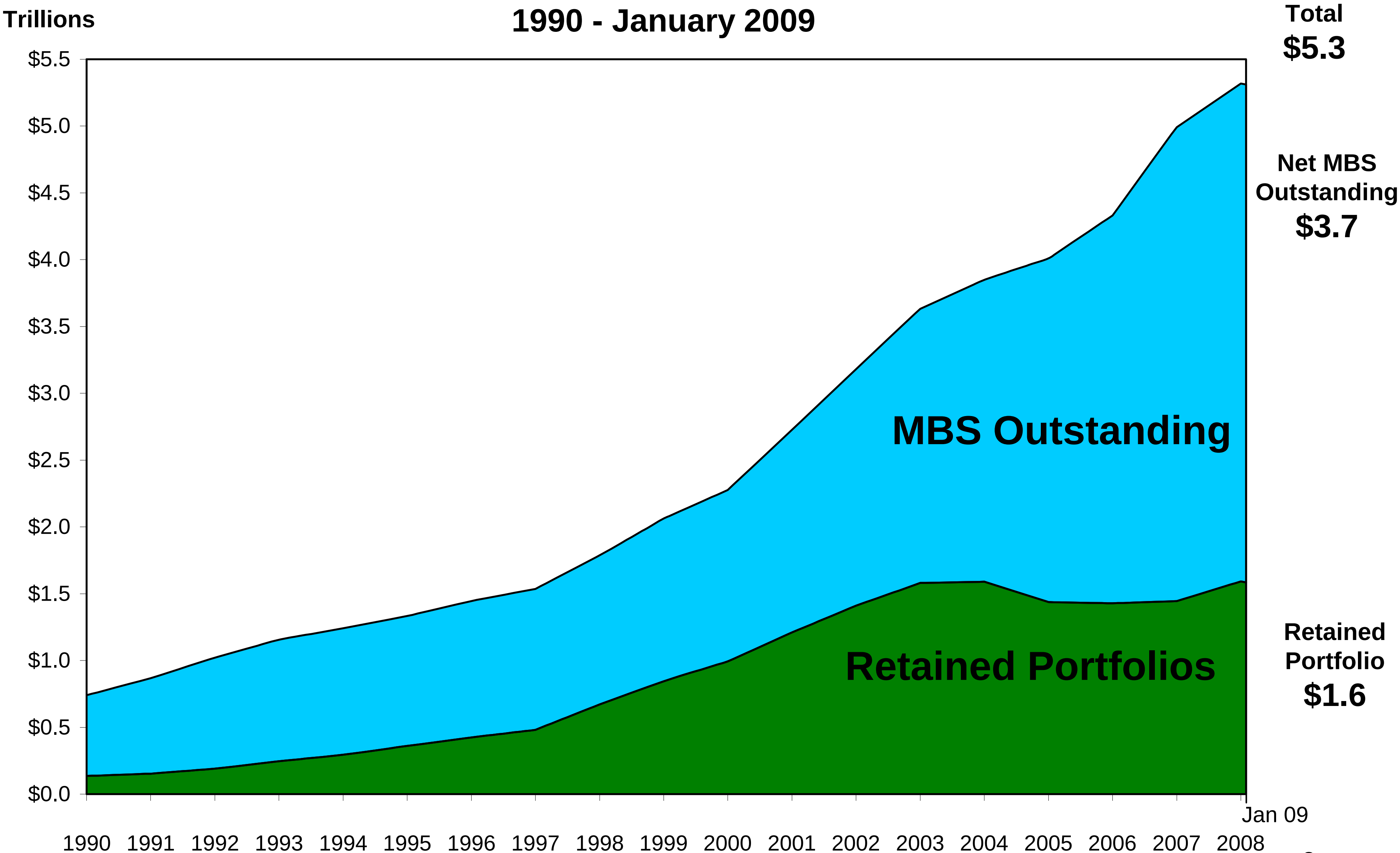
Housing GSEs Exceed the Public U.S. Debt



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

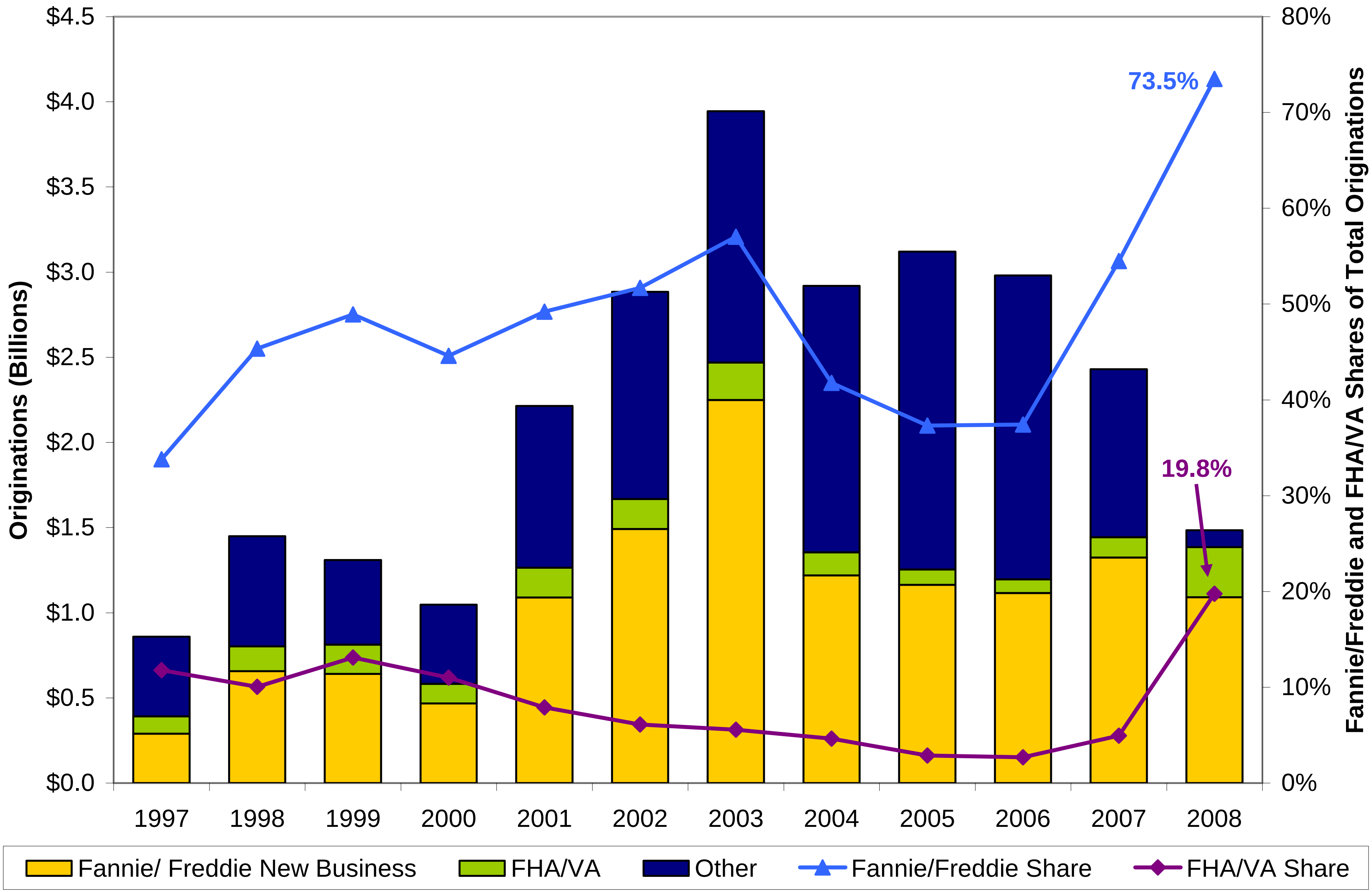
Fannie and Freddie Continue to Grow

Enterprises' Combined Total Book of Business
1990 - January 2009



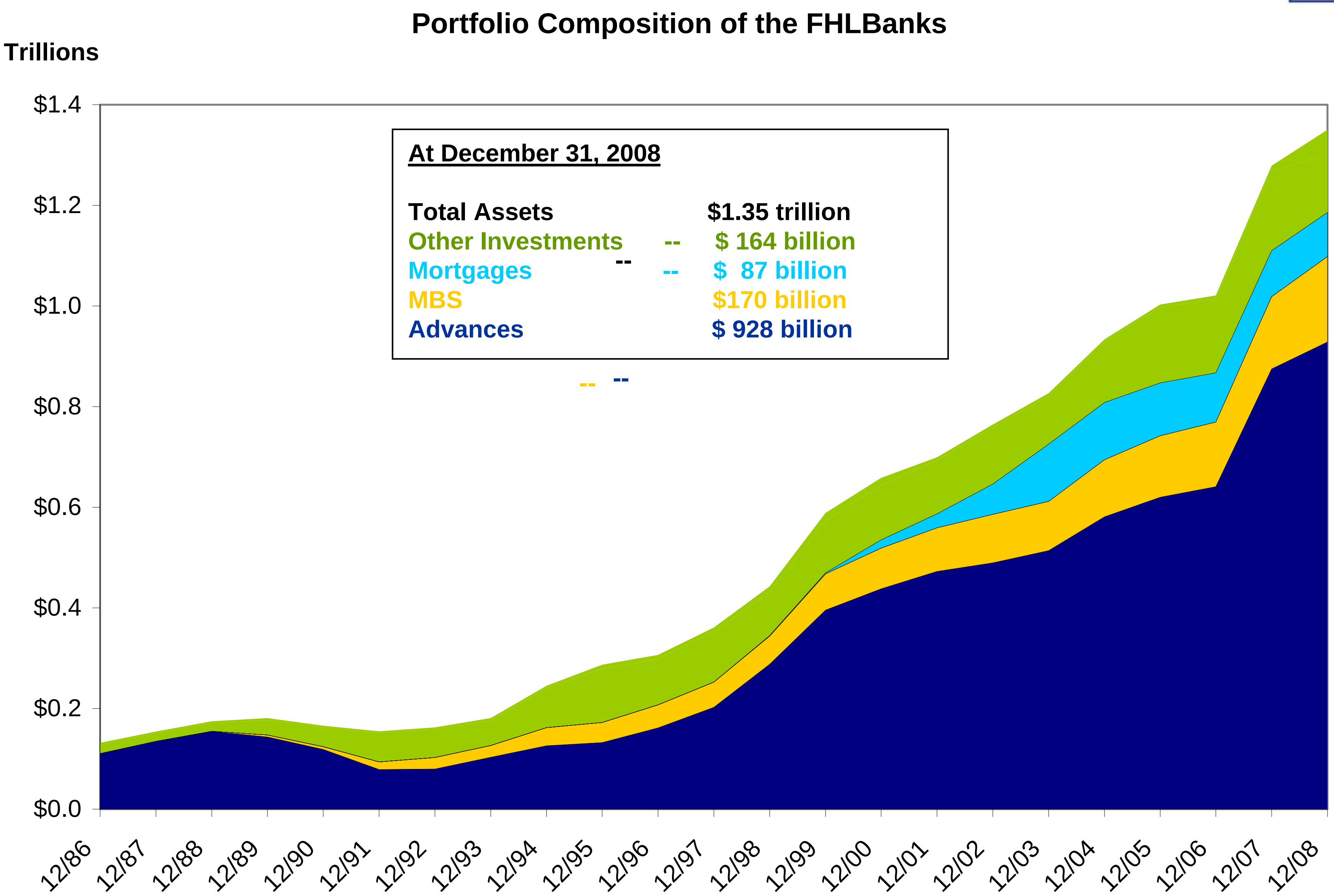
Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries and 2007 OFHEO Report to Congress.

Enterprise and FHA/VA Shares of Originations

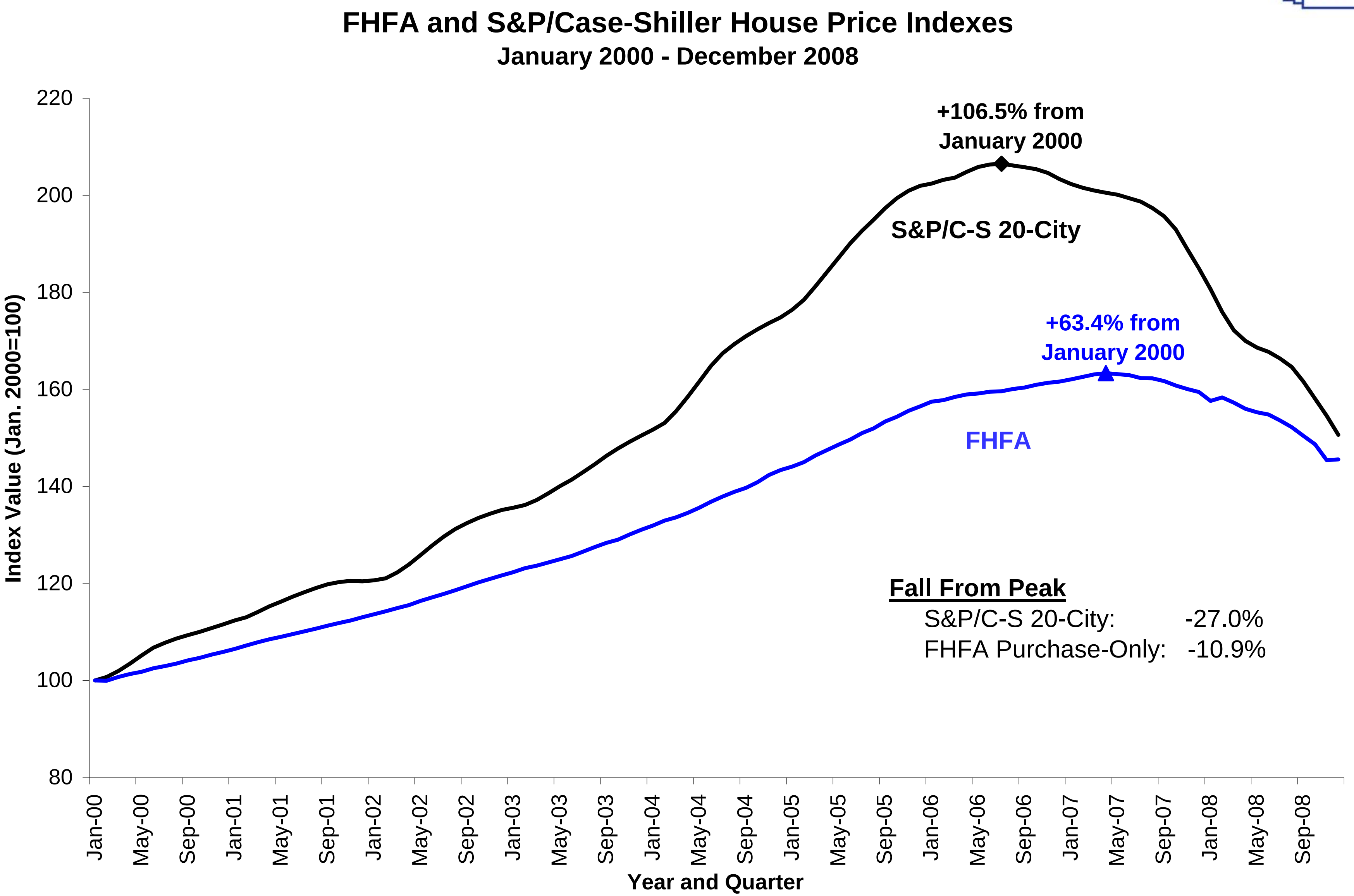


Sources: Inside Mortgage Finance, Enterprise Monthly Volume Summaries.

FHLBanks Also Continuing to Grow

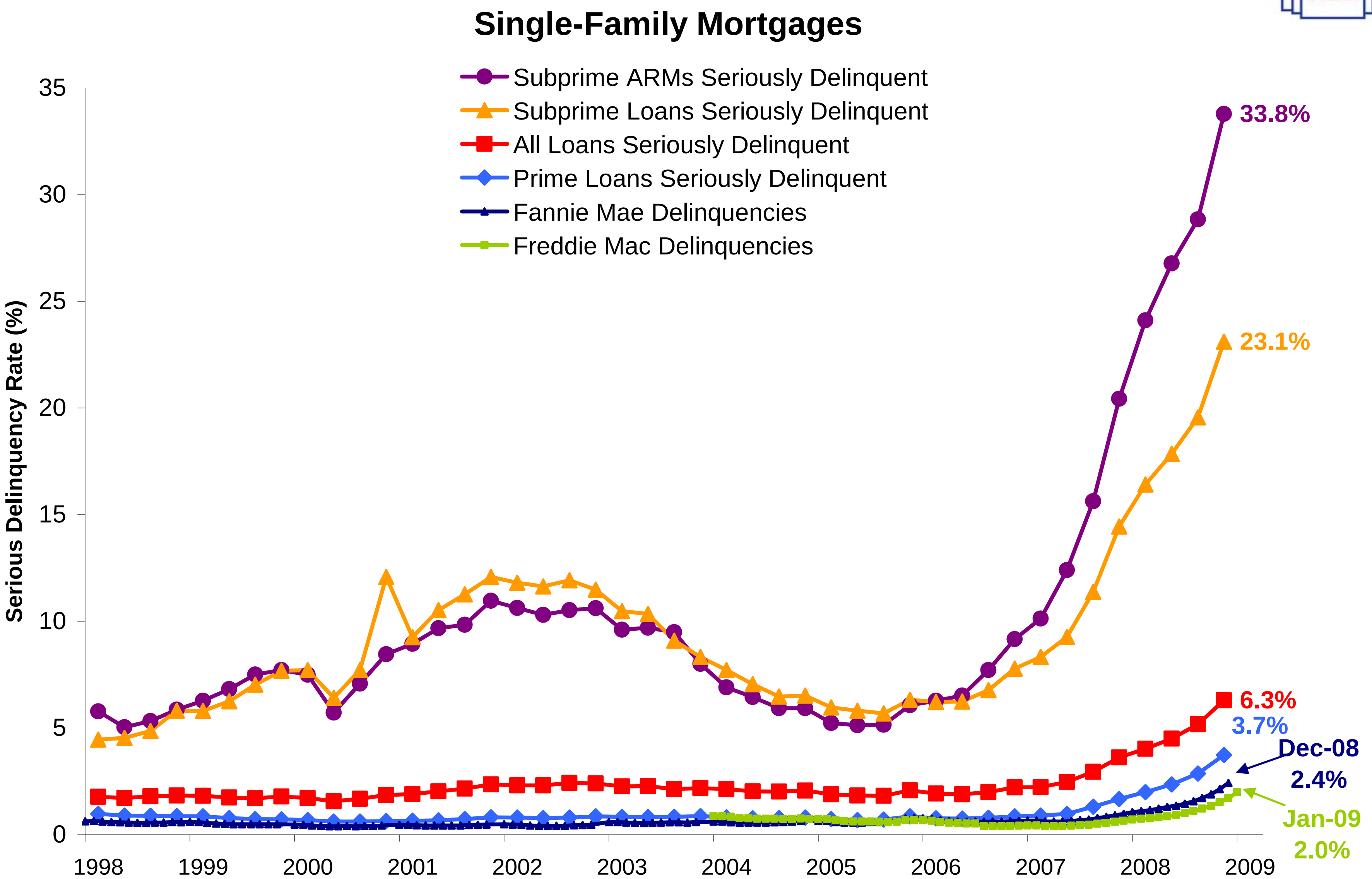


House Prices Continue to Fall



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)

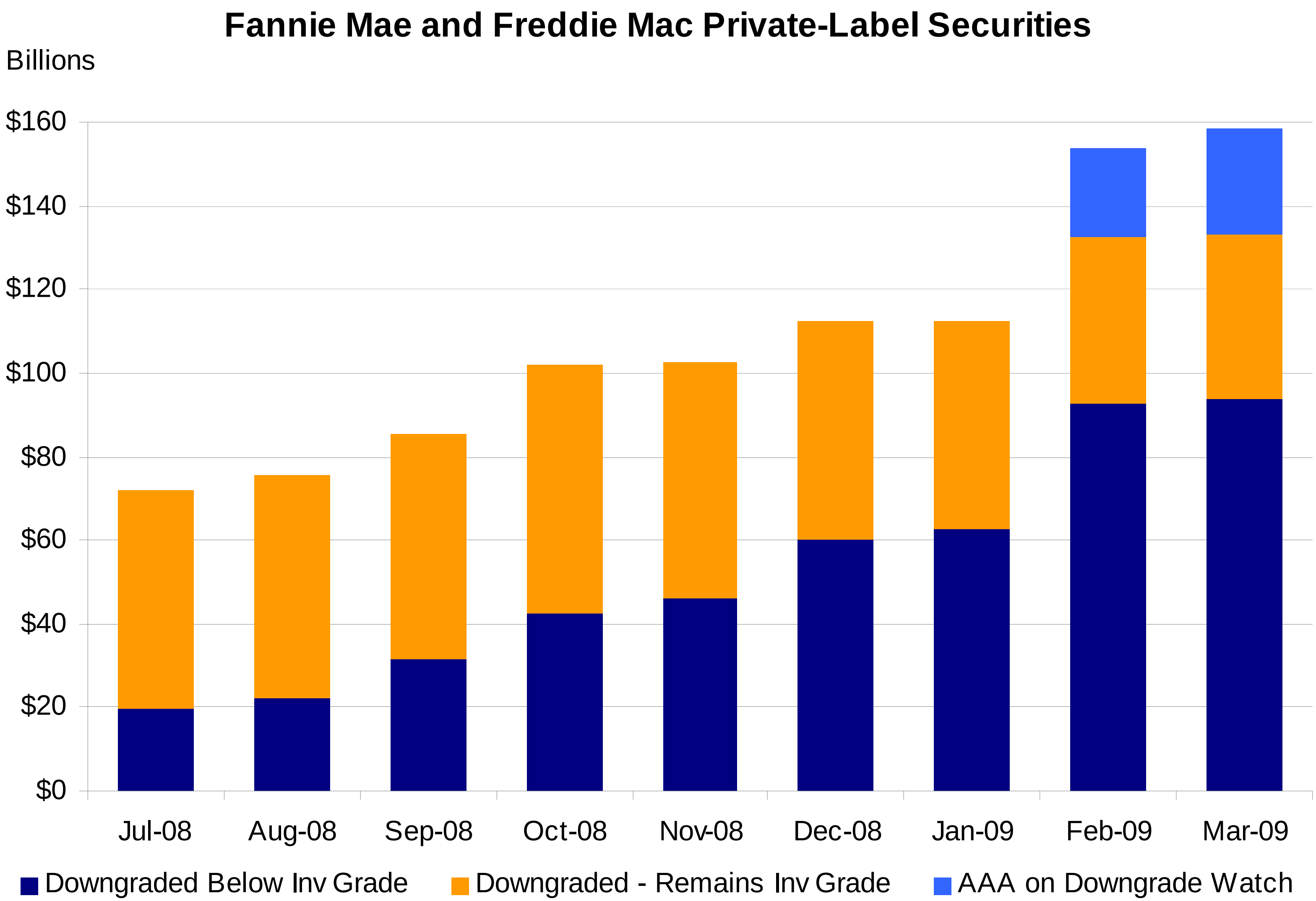
Serious Delinquencies Rising Rapidly



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

Private Label Securities Under Ratings Actions

Total Holdings: $178 Billion
as of December 2008



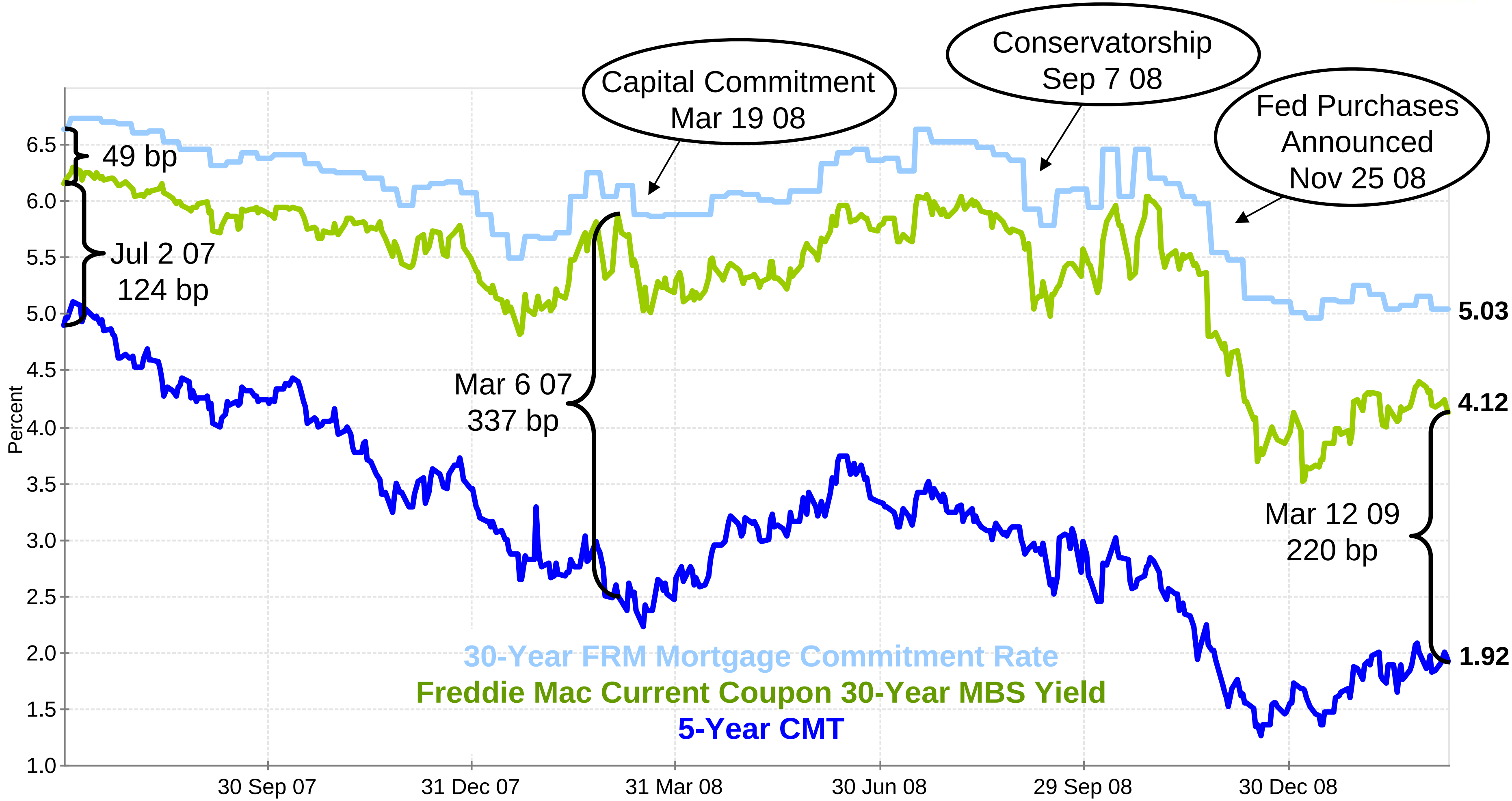
Treasury Provides Effective Guarantee

- **Senior Preferred Stock Purchase Agreement – no expiration date.**
  - Binding legal agreement that ensures that GSEs maintain a positive net worth through Treasury purchases of up to $200 billion of senior preferred stock each.
  - Enterprises each paid Treasury $1 billion in senior preferred stock and warrants for 79.9 % of common stock.
  - Existing and future holders of MBS, senior debt and subordinated debt, including all maturities 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 or
    - GSE satisfies all its liabilities.

Strong GSE Financial Support

- **Treasury - GSE MBS Purchase Program**
  - Treasury purchases Fannie Mae and Freddie Mac MBS in open market. Almost $107 billion purchased.
- **Treasury - GSE Credit Facility**
  - Unlimited secured funding provided directly to Fannie Mae, Freddie Mac and FHLBanks by Treasury as a backstop. Not used.
- **Federal Reserve – Agency MBS Purchase Program**
  - $500 billion of Fannie, Freddie and Ginnie MBS. $190 billion purchased.
- **Federal Reserve – GSE Debt Purchase Program**
  - $100 billion of Fannie, Freddie and FHLB debt via auctions. $42 billion purchased.

Mortgage Rates Falling, But Spreads are Wide



Provided by Credit Suisse LOCuS

Sources: Credit Suisse, Freddie Mac, and Federal Reserve Board H15.

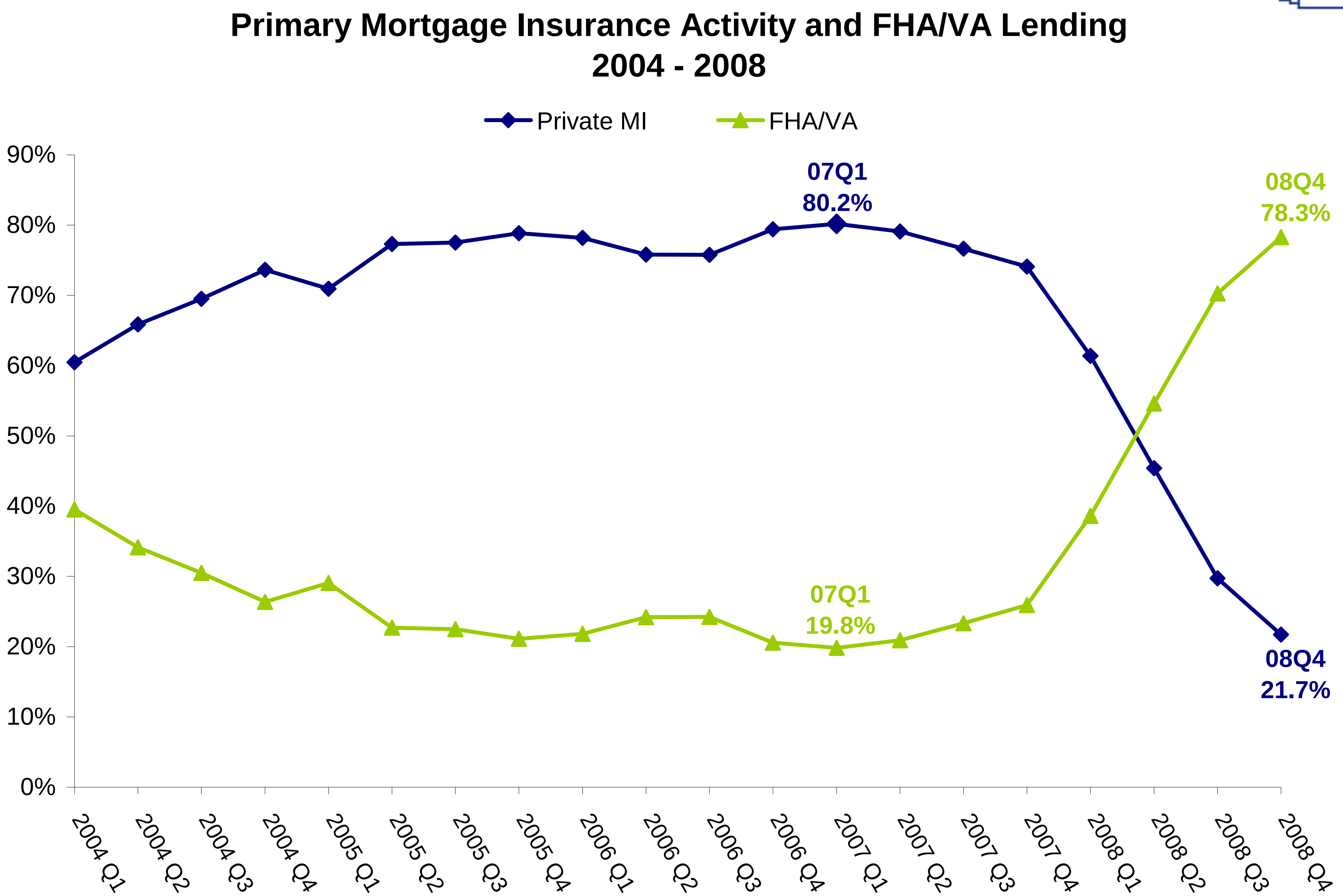
Best Practices

- Guidance on Nontraditional and Subprime Mortgages
- Guidance on Mortgage Fraud
- Loan Level Identifiers – originators and appraisers
- Appraiser Code of Conduct

Affordable Housing Goals: 2004 and 2008

Housing Goals	Target		2008 Actual (As reported by the Enteprises)	
Goals	**2004**	**2008**	**Fannie**	**Freddie**
Low-and Moderate-Income	50%	56%	53.6%	51.5%
Underserved Areas	31%	39%	39.4%	37.7%
Special Affordable	20%	27%	26.0%	23.0%

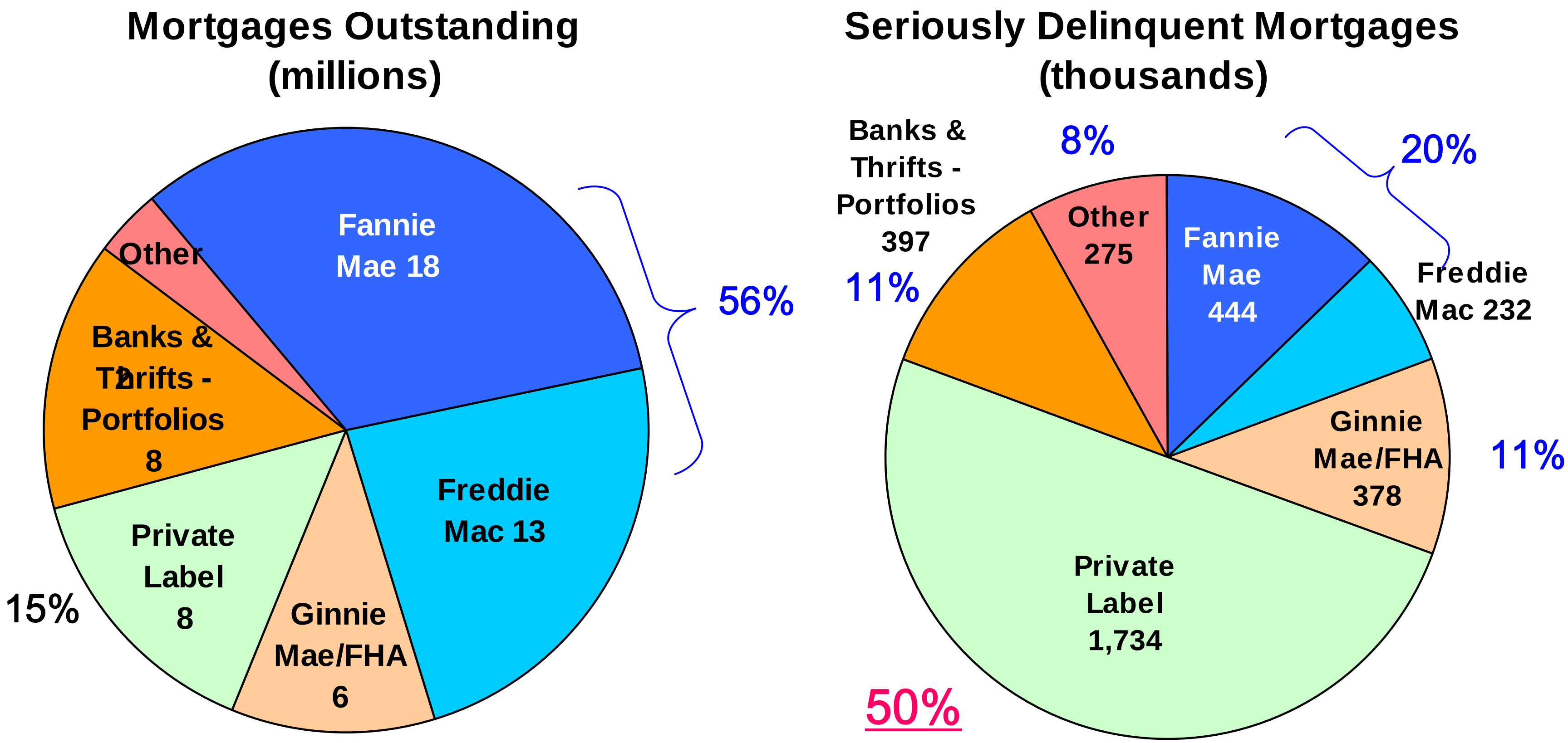
FHA and VA Have Rapidly Gained Market Share



Sources: Inside Mortgage Finance Publications, Mortgage Insurance Companies of America, and Radian Group.

PLS Modifications Key to Foreclosure Prevention

Q4 2008



Total: 55 million

Total: 3.5 million

Source: Freddie Mac.

Homeowner Affordability and Stability Plan

Home Affordable Refinance

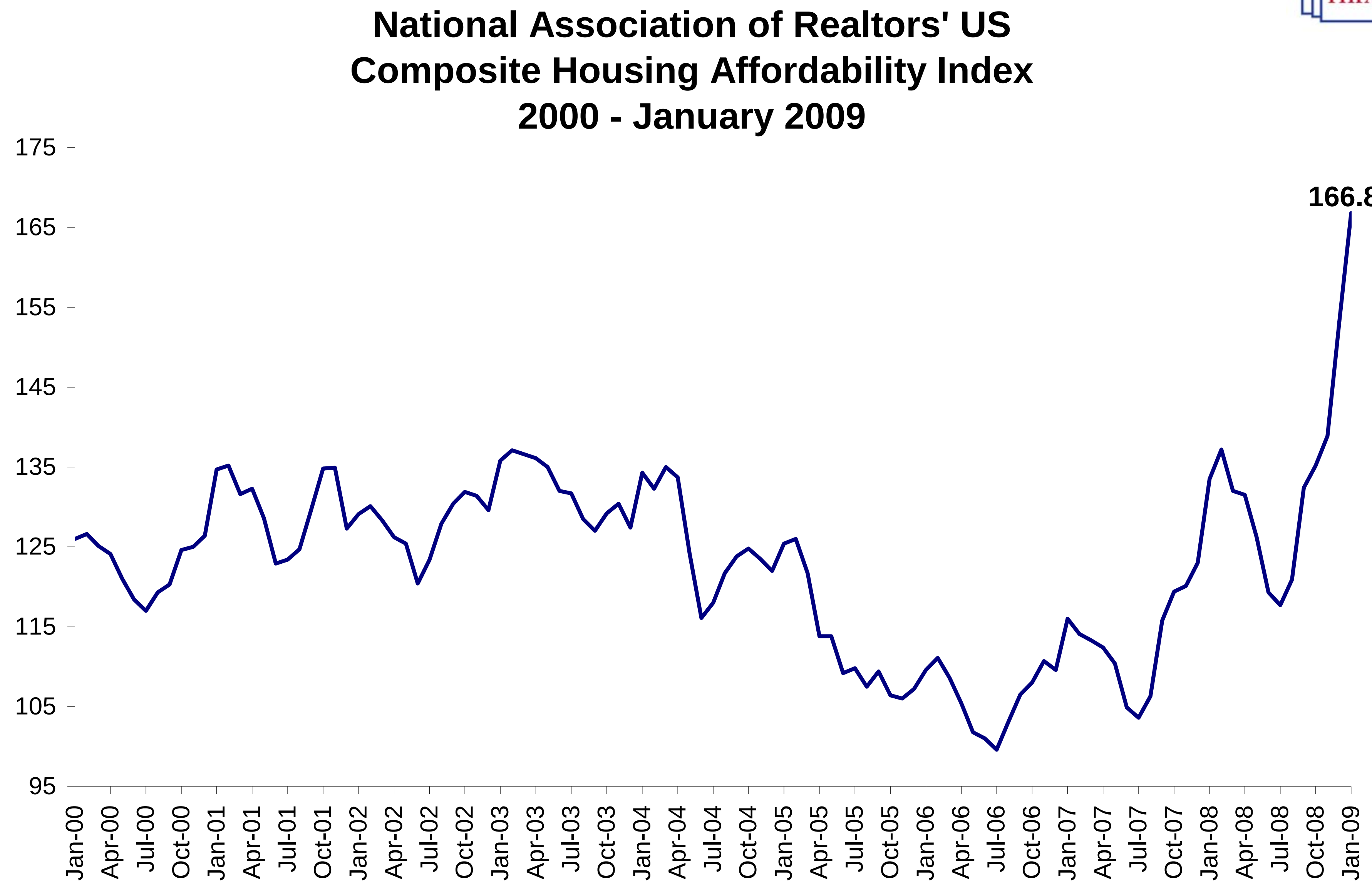
- Fannie Mae and Freddie Mac refinance responsible homeowners - 4 to 5 million

Home Affordable Modification

- $75 billion Aggressive Loan Modification Program – 3 to 4 million

- Support Low Mortgage Rates by strengthening confidence in Fannie Mae and Freddie Mac

Housing Affordability is Recovering



Source: National Association of Realtors

WWW.FHFA.GOV