Remarks

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Thank you for the opportunity to be here today. I would like to start off with a brief review of FHFA's responsibilities as Conservator of Fannie Mae and Freddie Mac, or "the Enterprises" as I will refer to them. I will then spend some time on a few of the current topics in real estate and then take a look at the future of housing finance and how we might get there.

FHFA as Conservator

The Housing and Economic Recovery Act of 2008, which created FHFA, specified two conservator powers, stating that the Agency may "take such action as may be:

(i) necessary to put the regulated entity in a sound and solvent condition; and
(ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity."

From the outset, FHFA stated that the goals of the conservatorships were to help restore confidence in the companies, enhance their capacity to fulfill their mission, and mitigate the systemic risk that contributed directly to instability in financial markets.

Today, FHFA is balancing three responsibilities: preserve and conserve assets, ensure market stability and liquidity, and prepare the Enterprises for an uncertain future. While the long-term course of housing finance is being debated and ultimately determined, FHFA meets these responsibilities by overseeing the Enterprises' management of, and limiting cost to taxpayers from, the Enterprises' $5 trillion position in the market.

As Conservator of Fannie Mae and Freddie Mac, FHFA has sought to address barriers to the nation's housing recovery, including preventing foreclosures through loss mitigation, facilitating refinancing at today's low interest rates, and initiating a Real Estate-Owned (REO) sales program. The Enterprises have ensured ongoing liquidity in the mortgage market so new mortgages and refinance activity continue to take place. They have also upgraded the credit quality of their new business and improved the risk-based pricing of that business, thereby benefiting taxpayers while promoting market liquidity. Today I will also describe important steps they have been taking toward the future.

Current Issues

In contrast to how they are sometimes portrayed, the Enterprises are playing a leading role in providing assistance to homeowners. Wherever possible, FHFA, Fannie Mae, and Freddie Mac seek to avoid foreclosure for it is well understood that foreclosure typically causes more harm to borrowers, neighborhoods and investors alike than do the various foreclosure alternatives that so many of us have been promoting.

Let me put the efforts of Fannie Mae and Freddie Mac with regard to foreclosure prevention in some context for you.

On a nationwide basis, Fannie Mae and Freddie Mac own or guarantee 60 percent of the mortgages outstanding, but they account for only 29 percent of seriously delinquent loans, obviously a much lower proportion than their share of the market.

Even though the Enterprises have a smaller share of seriously delinquent loans than other market participants, they account for just over half of all Home Affordable Modification Program, or HAMP modifications. Between HAMP modifications and their own proprietary loan modifications, Fannie Mae and Freddie Mac have completed more than 1.1 million loan modifications since the fourth quarter of 2008.

It has been well-publicized that there is one form of loan modification that FHFA has not embraced, that being principal forgiveness. To be clear, the disagreement is not about helping borrowers. FHFA, with the Enterprises, has been making great efforts to assist troubled homeowners with underwater mortgages who have the ability to make a mortgage payment and a willingness to do so. While we are currently evaluating the recent Treasury changes to HAMP regarding principal forgiveness, I would like to explain the position we have taken to date.

The fundamental point of a loan modification is to adjust the borrower's monthly payment to an affordable level. We have seen repeatedly that what matters most in successfully helping borrowers is a meaningful reduction in the monthly payment to an amount that helps stabilize the family's finances. Indeed, we have found that payment reduction, not loan-to-value, is the key indicator of success in loan modifications.

For many underwater borrowers, we achieve this by forbearing on principal – that is, charging a zero rate of interest on the forbearance amount and deferring its repayment. This focus on making the monthly mortgage payment affordable is an efficient way to provide assistance to the borrower and keep them in their home. If the borrower remains successful in this modified loan, this approach preserves for taxpayers an ultimate recovery on the debt.

Stated differently, the principal forbearance mod being used by Fannie Mae and Freddie Mac produces the same, lower monthly payment as a modification based on principal forgiveness. If the borrower ends up defaulting even with the modification, the loss to the taxpayer is the same either way. But if the borrower is successful, the taxpayer retains the opportunity to benefit from the upside – a reasonable deal given the support the taxpayer has provided to assist the family in keeping their home.

Moreover, this approach recognizes that three out of every four deeply underwater borrowers in Fannie Mae's and Freddie Mac's book of business today are current on their loans. These borrowers are demonstrating a continued willingness to meet their mortgage obligations. This should be recognized and encouraged, not dampened with incentives for people to not continue paying. As I have stated previously, we are currently evaluating the recent Treasury Department proposal to HAMP regarding principal forgiveness and expect a decision this month.

As you all know, loan modifications are not the solution for every troubled borrower. In addition to the 1.1 million loan modifications done by Fannie Mae and Freddie Mac, together, the two companies have done over 1 million foreclosure prevention transactions with troubled borrowers. These range from forbearance plans for the unemployed or those facing temporary income disruptions, to repayment plans for those in need of some time to catch up, to short sales and deeds-in-lieu of foreclosure for those lacking the ability or the desire to stay in their home. Altogether, that makes more than 2.1 million families with troubled mortgages backed by Fannie Mae or Freddie Mac that have avoided foreclosure through these measures.

We have also made great strides in improving mortgage servicing standards. The Servicing Alignment Initiative, which FHFA announced last year, focuses servicers' resources and attention on moving all borrowers into alternatives to foreclosure, quickly, efficiently, and aggressively. The Initiative aligned the requirements of the Enterprises to remove inconsistencies that could cause servicers confusion and delay.

Importantly, under SAI, the focus is on reaching out to borrowers from the first missed payment. The sooner a borrower can be contacted, their situation assessed, and an appropriate remedy offered, the better the chance for a successful outcome. The servicing requirements we have put in place under SAI represent an important advancement toward workable national servicing standards. Because of our coordination with the banking regulators and the network of state attorneys general last summer, the servicing requirements in the recent 49-state attorneys general settlement line up well with the SAI servicing standards.

Fannie Mae and Freddie Mac are at the forefront of refinance activity for current borrowers. Since April 1, 2009, the Enterprises have completed more than 10.4 million refinances. The Home Affordable Refinance Program, or HARP, provides refinancing opportunities to borrowers who might otherwise be unable to refinance due to house price declines. This program is directly targeted at the 75 percent of underwater Fannie Mae and Freddie Mac borrowers who are current on their mortgages.

Most recently, the Enterprises have upgraded their automated underwriting systems to process "HARP 2.0" applications from all loan originators, not just the original lender. Early market indications regarding the changes to HARP are quite encouraging. This is one of the most promising tools we have to assist underwater homeowners.

Despite these efforts, some delinquent mortgages end up in foreclosure, leaving the Enterprises with properties to return to the marketplace. In February, FHFA announced the first transaction in our REO Initiative pilot program. This transaction includes approximately 2,500 properties, divided into 8 sub-pools by geographic area.

By targeting those markets with a strong rental demand and a large supply of foreclosed properties, we can respond to these market conditions by facilitating the conversion of some of these properties to rental.

We also want to enhance the opportunity for smaller-scale investors to bid on properties, and obtain financing, should initial efforts to market the properties to owner-occupants fail. We anticipate further announcements in this regard shortly.

Looking to the Future

Virtually all of our collective attention the past three years has been focused on mortgages made in the past. But we can't just be looking back – it really is time for us to start thinking about, and working toward, a renewed and more vibrant housing finance system for the future.

At FHFA we are starting to prepare for that future.

Last month I submitted to Congress a Strategic Plan for the next chapter of Conservatorship. You may find this plan on our website.

The plan sets forth three strategic goals:

1. **Build.** Build a new infrastructure for the secondary mortgage market.
2. **Contract.** Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations.
3. **Maintain.** Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

Achieving these strategic goals will fulfill the statutory responsibilities Congress assigned FHFA as Conservator and also prepare the foundation for a new, stronger housing finance system in the future. Although that future may not include Fannie Mae and Freddie Mac, at least as they are known today, this important work in conservatorship can be a lasting, positive legacy for the country and its housing system.

Properly implemented, this Strategic Plan should benefit all stakeholders, including:

- Homeowners, by ensuring continued emphasis on foreclosure prevention and credit availability;
- Taxpayers, by furthering efforts to limit losses from past activities while simplifying risk management and reducing future risk exposure;
- Market participants, by creating a path by which the Enterprises' role in the mortgage market is gradually reduced while maintaining market stability and liquidity; and
- Lawmakers, by building a foundation on which they may develop new legal frameworks and institutional arrangements for a sound and resilient secondary mortgage market of the future.

More broadly, I would like to see the mortgage market of the future become more competitive than it is today. We have seen a great deal of concentration in mortgage origination and in mortgage servicing in recent years. This has come, in part, at the expense of small and local banks and thrifts, institutions with both local market knowledge and direct and multiple relationships with borrowers. I think that policymakers need to think hard about where and how regulatory requirements contribute to this growing concentration in the marketplace, and what might be done to reverse this.

Let's take a closer look at the three strategic goals, especially the first two.
The first strategic goal – building for the future – recognizes that the country lacks the infrastructure for trillions of dollars in mortgage securitization in the absence of Fannie Mae and Freddie Mac. So the goal here is to have Fannie Mae and Freddie Mac start building that infrastructure so that it can continue to function even if they do not.

Central to achieving this goal is developing a new securitization platform for the future. For the platform to have long-term value it should have an open architecture that will permit multiple future issuers of mortgage-backed securities to access the platform and it should be flexible enough to permit a wide array of securities and mortgage structures. Since this platform could become a type of public utility that would outlast the Enterprises as we know them today, input from all market stakeholders will be sought.

The intended outcome of such an important infrastructure investment is to provide a sound securitization platform on which to rebuild the country's secondary mortgage market. The platform itself will be one way American taxpayers realize a return on their substantial investment in the Enterprises while also making it possible to retire the Enterprises' proprietary systems and programs from the marketplace. The platform will be designed to issue securities supported with or without a government guarantee.

Importantly for all of you, it appears that whatever role the government decides to play, it will be looking to private market participants to absorb some portion of mortgage credit risk and all of the interest rate and prepayment risk. That is why two elements of building this securitization platform will be a clear and robust pooling and servicing agreement and loan-level disclosures that are regularly updated throughout the life of the security.

A standardized pooling and servicing agreement would replace the Enterprises' current Servicer Participation Agreement. We intend for it to correct the many shortcomings found in the pooling and servicing agreements used in the private-label mortgage-backed securities (MBS) market before the housing bubble burst. We also intend to solicit broad public input to build a better standard for the future. Such input from investors and a careful review of applicable Securities and Exchange Commission rules and best practices will be essential in this endeavor.

Work has already been underway on loan-level disclosures. The goal remains providing MBS investors with detailed, timely, and reliable loan-level data at the time a mortgage-backed security is issued and throughout the life of the security. Such transparency is a prerequisite for private capital to bear a meaningful portion of mortgage credit risk.

With the second strategic goal – contracting the Enterprises' footprint in the mortgage market – we want to gradually shift some portion of mortgage credit risk from the Enterprises to other market participants in a manner that is not disruptive to the current market. We also are looking to eliminate the direct funding of mortgages by Fannie Mae and Freddie Mac and to continue to shrink and simplify their operations while in conservatorship.

Achieving the second strategic goal will involve, among other things, some mix of continued, gradual increases in guarantee fee pricing, some greater reliance on private mortgage insurance, and a use of loss-sharing tools such as securitization structures that move some portion of mortgage credit risk away from the Enterprises.

There is a great deal of work involved in achieving these first two strategic goals, and each will take time to implement. While work on some aspects of these goals has been going on for a while, we have a long way to go. Still, we are serious about getting moving on these initiatives. Many of you may be aware that we published a Conservator's Scorecard for 2012, which sets forth specific milestones this year in furtherance of these goals. A portion of executive compensation at the two companies is now tied to achieving these milestones.

Even with all the new work involved with the first two goals, it is important that no one at FHFA or at Fannie Mae and Freddie Mac lose sight of the third goal – continuing to ensure full effort is made to assist troubled borrowers and ensuring that market liquidity is maintained. Together, the Enterprises purchase or guarantee roughly $100 billion in home purchase and refinanced mortgages each month. Market confidence in the Enterprises' ongoing ability to provide this stable, liquid flow of mortgage-backed securities to investors is essential to stabilizing house prices and ensuring stability in the value of nearly $3.9 trillion in outstanding Enterprise mortgage-backed securities.

Other ongoing Enterprise activities that must be continued and enhanced include:

- Successful implementation of the HARP, including the significant program changes announced in October 2011.

- Renewed focus on short sales, deeds-in-lieu, and deeds-for-lease options that enable households and the Enterprises to avoid foreclosure. The frictions and barriers to more successful use of these tools should be identified and removed using the same renewed focus brought to HARP last year. Enhanced use of these foreclosure avoidance tools may have important benefits for borrowers, neighborhoods, and taxpayers. Given the large backlog of pending foreclosures, renewed focus on these alternatives is a near-term priority.

At FHFA, we welcome your thoughts and feedback on these goals and how best to achieve them. We also welcome your thoughts on how smaller and mid-sized institutions might more competitively and efficiently sell mortgages into the secondary market.

Before closing, I want to mention several aspects of this Strategic Plan that particularly focus on mortgage origination and mortgage servicing issues.

With regard to originations, FHFA first announced the Uniform Mortgage Data Program in May of 2010, when we directed Fannie Mae and Freddie Mac to develop uniform standards for data reporting on mortgage loans and appraisals. The initiative is designed to improve the consistency, quality, and uniformity of data collected at the front-end of the mortgage process. By identifying potential defects as early in the origination and delivery process as possible, the Enterprises will improve the quality of mortgage purchases, which should reduce repurchase risk for originators.

Since that announcement nearly two years ago, we've made a lot of progress. On March 19, use of the Uniform Collateral Data Portal became mandatory, ensuring that all lenders are now submitting standard appraisal forms and appraisal data electronically, allowing Fannie Mae and

Freddie Mac to evaluate the information in a more seamless and efficient manner. We're very pleased with the transition to the new tool and believe that the benefits of the standardized data and electronic transmission will be shared across the industry.

The next major milestone under the initiative will be the availability of the Enterprises updated selling and delivery systems to support the Uniform Loan Data Delivery (ULDD) requirements. April 23, lenders will be allowed to submit using the new ULDD file, which becomes mandatory on July 23, 2012 for all loans with application received dates on or after December 1, 2011. Some lenders have already been testing the loan delivery process using ULDD. We encourage all lenders to begin early transition to ULDD and take advantage of the opportunity to perfect their submissions prior to the July 23 ULDD mandatory date.

We believe that this effort paves the way for the future, offering an integrated and efficient way for basic loan-level information to be made available to mortgage investors.

As we think about building for the future, national mortgage servicing standards and mortgage servicing compensation also are on our mind.

We need standardized, transparent servicing requirements that define mortgage servicers' responsibilities to borrowers and investors across a spectrum of issues including delinquent loan servicing, solicitation for refinance or loan modifications, and servicing transfers. I've already discussed our work on the Servicing Alignment Initiative, which works to this end.

We also need a servicing compensation structure that promotes competition for, rather than concentration of, mortgage servicing. Such a structure would take full account of mortgage servicers' costs and requirements, and consider the appropriate interaction between origination and servicing revenue. FHFA has published two discussion papers on this topic and we continue to work on it.

In closing, while FHFA will keep our focus on foreclosure alternatives, refinancing, and REO disposition, it is time for policymakers to begin work in earnest on the future housing finance system. As I said, that system is not likely to include Fannie Mae and Freddie Mac, at least as we know them today. But it does require a legal and institutional framework that brings the power of global capital markets to the benefit of local lenders and borrowers around the country. Importantly, we must remember the importance of competition in the marketplace.

Thank you. I would be happy to answer a few questions.