



Federal Housing Finance Agency

Conservator's Report
on the Enterprises' Financial Performance

Fourth Quarter 2010

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The purpose of this report is to provide an overview of key aspects of the financial condition of Fannie Mae and Freddie Mac during conservatorship. The data in this report are derived primarily from the Enterprises' SEC filings and other publicly available sources. In some cases, FHFA adjusted the classification of certain data to provide comparability between the Enterprises. In other cases, the Enterprises' reporting methodologies changed over time. Therefore, the data in this report may not match exactly published figures.

Executive Summary

Mortgage Markets and the Enterprises' Market Presence

Primary mortgage market activity, measured by the volume of mortgages originated, declined by 13 percent in 2010 compared to 2009 driven by fewer home purchases and mortgage refinances. Refinance activity increased in the fourth quarter as mortgage rates remained near historic lows. The Enterprises continued to purchase or guarantee the bulk of mortgages originated, accounting for 70 percent of single-family mortgages securitized in 2010.

Credit Quality of New Single-Family Business

The quality of new business remained high in the fourth quarter and throughout the year. The average FICO credit score of new single-family business during 2010 remained high at greater than 750. Purchases of non-traditional mortgages remained very low.

Capital

Combined Treasury support as a result of financial performance in 2010 declined to \$28.0 billion from \$66.1 billion in 2009. The Single-Family Credit Guarantee segment continues to drive losses as credit-related expenses remain high. Investments segment results were positive in 2010, partially offsetting Single-Family Credit Guarantee segment performance. As the Investments segment generates positive results, the Single-Family Credit Guarantee segment accounts for a growing proportion of total cumulative charges against capital.

The Single-Family Credit Guarantee segment accounts for \$181 billion, or 78 percent of combined charges against capital of \$232 billion since the end of 2007.

Single-Family Credit Guarantee Segment Results

Credit-related expenses continue to drive segment financial results; however, loan loss reserves increased at a slower pace in 2010, reducing credit-related expenses relative to 2009. Slower inflows of seriously delinquent loans in 2010 contributed to more gradual increases in loss reserves compared to the prior year. Loss mitigation activity contributed to fewer inflows of seriously delinquent loans.

Investments and Capital Markets Segment Results

The financial performance of the Investments and Capital Markets segment improved during 2010 from a number of factors. Funding costs remained low as a result of the interest rate environment and pricing of private-label securities and commercial mortgage-backed securities improved.

Loss Mitigation Activity

Loss mitigation workouts increased substantially in 2010. Completed loan modifications tripled compared to a year ago. Repayment plans, forbearance plans and short sales also increased significantly year over year.

Projections of Financial Performance

FHFA published initial projections of the Enterprises' financial performance in October 2010. In the October 2010 projections, combined projected Treasury draws for the Enterprises for the second half of 2010 ranged from \$24 billion to \$48 billion. The actual combined Treasury draw for the second half of 2010 was \$6 billion.

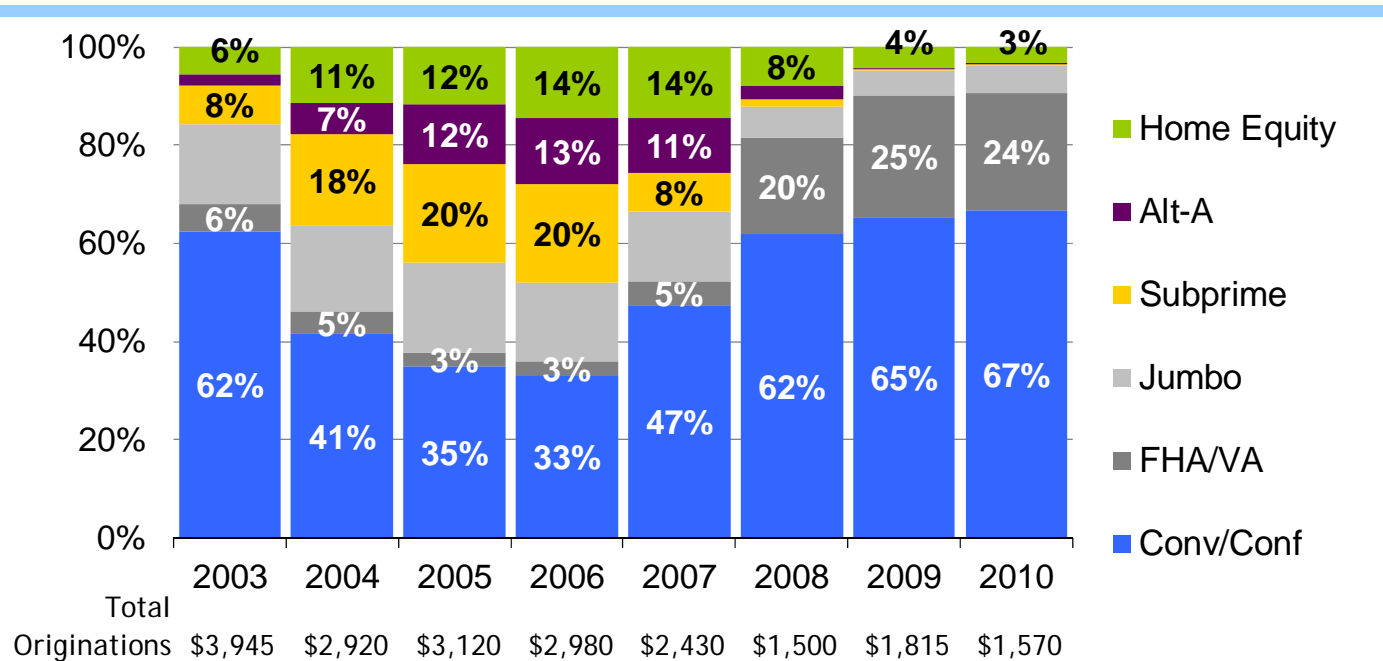
Actual Treasury draws for the second half of 2010 were lower than projected because non-performing loans and mortgage defaults were lower than projected in the second half of 2010. Fewer non-performing loans and mortgage defaults resulted in higher revenue and lower credit-related expenses than projected, increasing net income and lowering Treasury draws compared to the projections.

1. Mortgage Markets and the Enterprises' Market Presence

1.1. Primary Mortgage Market Trends—Mortgage Originations

- The number of mortgages originated in 2010 declined by 13 percent compared to 2009 reflecting historically low levels of home purchases and subdued refinance activity in spite of low mortgage rates.
- Conventional, conforming mortgages accounted for the majority of mortgages originated in 2010 and their share of all mortgages originated rose for the fourth consecutive year.
- Less than one percent of all mortgages originated in 2010 were Alt-A and subprime mortgages, a comparable level to 2009.

Figure 1.1 Mortgage Originations by Product Type (\$ in billions)

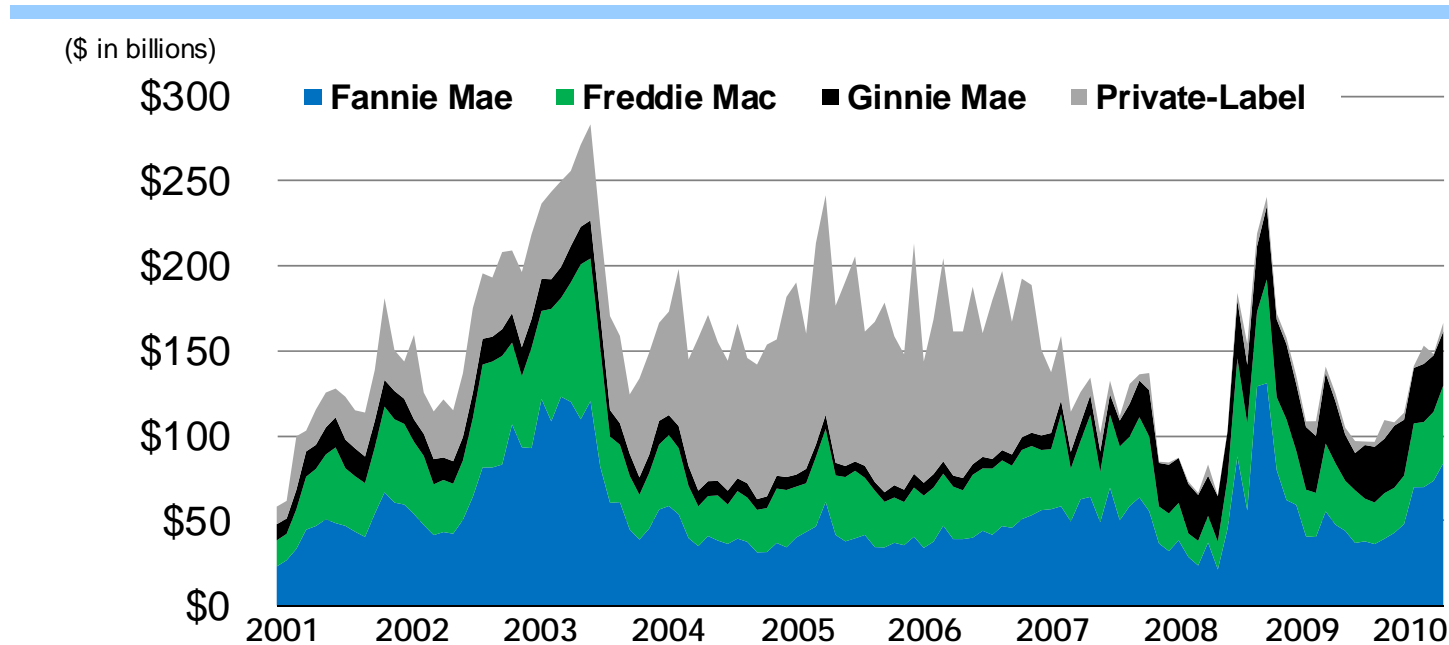


Source:
Inside Mortgage Finance.

1.2. Secondary Mortgage Market Trends—Mortgage-Backed Securities Issued

- The Enterprises' market share of mortgage-backed securities (MBS) issuances in 2010 remained in a comparable range to the prior two years; however, their market share has declined slightly since 2008 with Ginnie Mae's increasing market presence. Private-label issuers have not returned in any significance to the secondary mortgage market since mid-2007. The Enterprises and Ginnie Mae continued to account for almost all issuances of mortgage-backed securities.

Figure 1.2 Enterprises' Market Share – MBS Issuance Volume



Enterprises	67%	68%	70%	47%	41%	40%	58%	73%	72%	70%
Ginnie Mae	<u>13%</u>	<u>9%</u>	<u>8%</u>	<u>7%</u>	<u>4%</u>	<u>4%</u>	<u>5%</u>	<u>22%</u>	<u>25%</u>	<u>26%</u>
Total Agency	80%	77%	78%	54%	45%	44%	63%	95%	97%	96%

Sources:

Inside Mortgage Finance, Inside MBS & ABS, Enterprises' Monthly Volume Summaries.

Issuance figures exclude MBS issued backed by assets previously held in the Enterprises' portfolios.

2. Credit Quality of New Single-Family Business

2.1 Credit Characteristics of the Enterprises' New Single-Family Business

- The credit quality of new Single-Family business in 2010 remained high for the second consecutive year. Purchases of nontraditional and higher-risk mortgages were very low, the average FICO credit score was over 750 at both Enterprises and the average loan-to-value ratio (LTV) remained below 70 percent at both Enterprises. The increase in the percentage of new business with LTVs greater than 90 percent in 2010 primarily relates to the Home Affordable Refinance Program.

Figure 2.1 Characteristics of Single-Family Mortgage Acquisitions

	Fannie Mae					Freddie Mac				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Alt-A ²	22%	17%	3%	0%	1%	18%	22%	7%	0%	0%
Interest-Only	15%	15%	6%	1%	1%	17%	21%	6%	0%	0%
Credit Score <620	6%	6%	3%	0%	0%	5%	6%	3%	1%	1%
LTV >90 Percent	10%	16%	10%	4%	7%	6%	11%	9%	4%	9%
Average LTV	73%	75%	72%	67%	68%	73%	74%	71%	67%	69%
Average Credit Score	716	716	738	761	762	720	718	734	756	755

Percent of New Single-Family Business¹
(Categories overlap and are not additive)

Notes

¹ New business is defined as issuance of MBS/PC plus purchases of whole loans and does not include purchases of mortgage-related securities.

² Refer to sources for Alt-A definitions. Freddie Mac's 2010 figures include Alt-A purchases of \$1.5 billion due to a long-term standby commitment termination and a subsequent PC issuance. There was no change to the Alt-A exposure on these mortgages as a result of these transactions. Fannie Mae newly originated Alt-A loans acquired in 2009 and 2010 consist of the refinance of existing Alt-A loans.

Sources:

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

2.2 Performance of Nontraditional and Higher-Risk Mortgages (mostly purchased pre-conservatorship)

- Serious delinquency rates remain high for the Enterprises' Single-Family credit guarantee portfolios; however, serious delinquency rates declined in 2010 for most product categories as delinquent loans were resolved through loss mitigation activities or foreclosure. Nontraditional and higher-risk mortgages, which account for a relatively small portion of the credit guarantee portfolios, continue to show substantially higher serious delinquency rates than for traditional mortgages.

Figure 2.2 Single-Family Serious Delinquency Rates

Product Type ¹	Fannie Mae				Freddie Mac				Notes
	4Q07	4Q08	4Q09	4Q10	4Q07	4Q08	4Q09	4Q10	
Alt-A	2.2%	7.0%	15.6%	13.9%	1.9%	5.6%	12.3%	12.2%	¹ Loans with multiple product features may be in more than one category. Refer to sources for Alt-A definition.
Interest-Only	2.0%	8.4%	20.2%	17.9%	2.0%	7.6%	17.6%	18.4%	
Credit Score <620	4.7%	9.0%	18.2%	14.6%	3.4%	7.8%	14.9%	13.9%	
Loan-to-Value Ratio >90 Percent	3.0%	6.3%	13.1%	10.0%	1.9%	4.8%	9.1%	7.8%	
Risk-Layering Credit score <620 & LTV >90 Percent	8.6%	16.0%	28.0%	21.4%	5.4%	11.5%	19.0%	17.1%	
Total Single-Family	1.0%	2.4%	5.4%	4.5%	0.7%	1.8%	4.0%	3.8%	

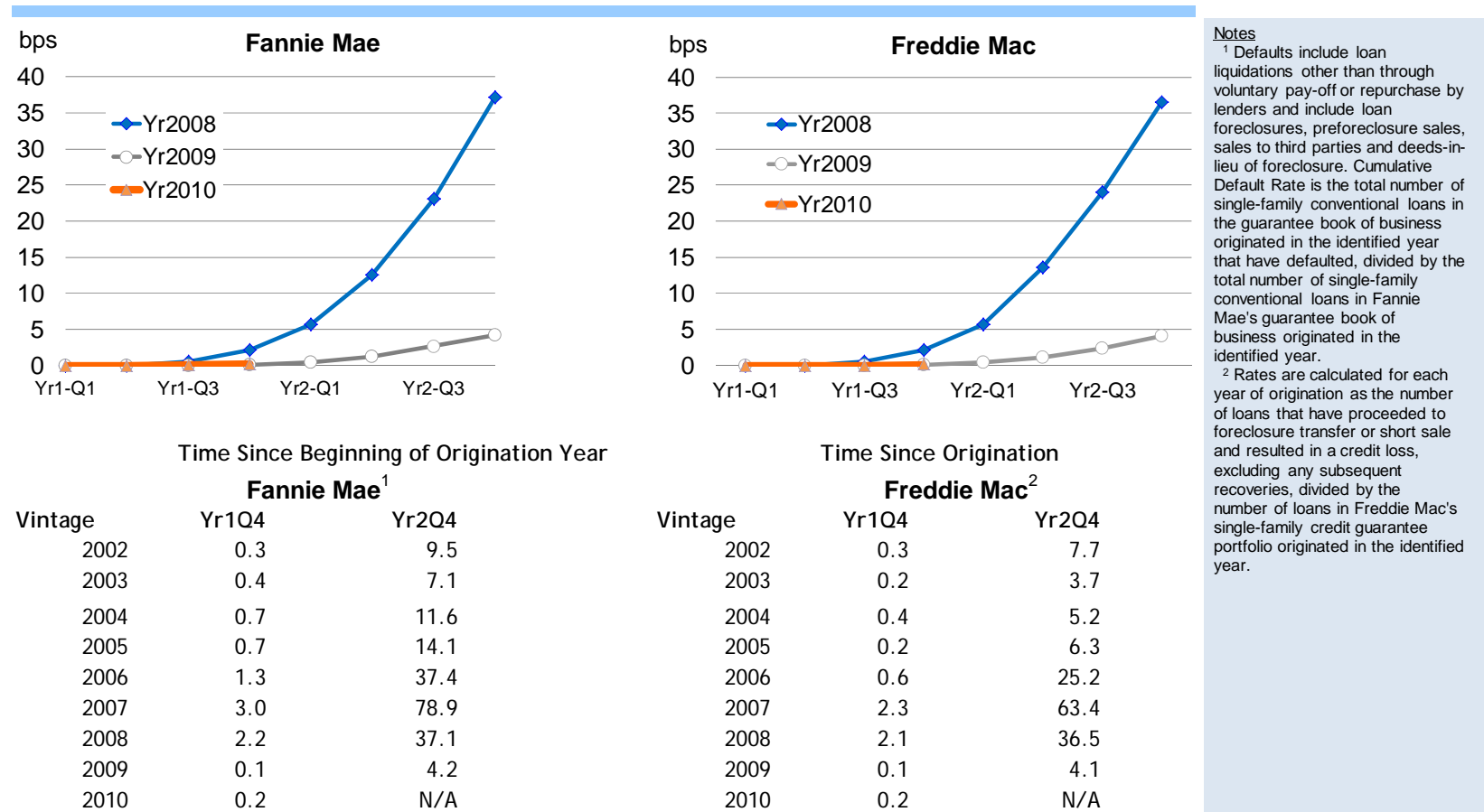
Sources:

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

2.3 Performance of Post-Conservatorship Business

- While not necessarily indicative of the ultimate performance, the improved credit characteristics of the new post-conservatorship business is reflected in substantially lower cumulative default rates for the 2009 and 2010 vintages compared to the years leading up to conservatorship.

Figure 2.3 Cumulative Default Rate by Origination Year (in basis points)



Source:
Enterprises' quarterly credit supplements.

3. Capital**3.1 Capital Changes: January 1, 2008 – December 31, 2010**

- At the end of 2007, the Enterprises had \$71 billion of combined capital. From the end of 2007 through the fourth quarter of 2010, the Enterprises' combined charges against capital have totaled \$232 billion, requiring Treasury support of \$154 billion through draws under the Preferred Stock Purchase Agreements. The Single-Family Credit Guarantee segment has been the largest contributor to charges against capital, accounting for \$181 billion, or 78 percent, of capital reduction to date. In 2009 and 2010, the Investments segment was a positive contributor to capital, nearly offsetting Investments segment losses that occurred in 2008.

Figure 3.1 Capital Changes: January 1, 2008 – December 31, 2010 (\$ in billions)

	Fannie Mae		Freddie Mac		Combined	
Beginning Capital ¹	\$44		\$27		\$71	
Equity Issuance ²	<u>7</u>		<u>0</u>		<u>7</u>	
Available Capital	\$51		\$27		\$78	
Capital Erosion						
Single-Family Guarantee Earnings	(\$118)	83%	(\$64)	70%	(\$181)	78%
Multifamily Earnings ³	(6)	4%	0	0%	(6)	2%
Investments Contribution ^{3,4}	(0)	0%	(2)	3%	(3)	1%
Consolidation Accounting Adjustment	3	-2%	(12)	13%	(8)	4%
Other	(11)	7%	(3)	3%	(13)	6%
Senior Preferred dividends	<u>(10)</u>	7%	<u>(10)</u>	11%	<u>(20)</u>	9%
Total Capital Erosion ⁵	(\$141)	100%	(\$91)	100%	(\$232)	100%
Capital deficit	(\$90)		(\$64)		(\$154)	
Treasury Senior Preferred draw ⁶	\$90		\$64		\$154	

Sources

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods.

Freddie Mac's 2008 and 2009 segment earnings were revised to reflect methodology changes effective in the first quarter of 2010 SEC disclosure.

Notes

Totals may not sum due to rounding.

¹ Capital is defined as stockholders' equity.

² Fannie Mae's figure includes common and preferred stock issuance pre-conservatorship.

³ Freddie Mac includes net interest income on investments in multifamily loans and commercial mortgage backed securities in Multifamily Earnings, while Fannie Mae includes these items in Investments Contribution.

⁴ Investments contribution equals the sum of investments segment earnings, the change in unrealized losses on available for sale securities, the impact of accounting changes for securities impairments and at Freddie Mac the change in unrealized gains (losses) related to cash flow hedge relationships.

⁵ Included in total capital erosion for both Enterprises are losses attributable to the writedown of low income housing tax credits (LIHTC) investments to zero in the fourth quarter of 2009. The writedown of these LIHTC losses for Fannie Mae and Freddie Mac were \$5 billion and \$3 billion, respectively, and are included in Other. The establishment of a deferred tax asset valuation allowance, which reduced capital by \$21 billion for Fannie Mae and \$14 billion for Freddie Mac in 2008, is also contributing to the total capital erosion (valuation allowance has been allocated across segments).

⁶ Total draws include amounts relating to the fourth quarter of 2010 to be received in the first quarter 2011.

3.2 Capital Changes: Fourth Quarter 2010

- During the fourth quarter of 2010, positive contributions to capital from the Investments segment offset losses from the Single-Family Credit Guarantee segment.

Figure 3.2 Capital Changes: September 30, 2010 – December 31, 2010 (\$ in billions)

	Fannie Mae	Freddie Mac	Combined
Available Capital ¹	\$0.1	\$0.0	\$0.1
Capital Erosion			
Single-Family Guarantee Earnings	(\$3.6)	(\$3.0)	(\$6.6)
Multifamily Earnings ²	(0.2)	0.2	0.0
Investments Contribution ^{2,3}	4.3	4.0	8.2
Other	<u>(0.9)</u>	<u>0.0</u>	<u>(0.9)</u>
Capital increase (decrease) pre-dividends	(\$0.4)	\$1.2	\$0.7
Senior Preferred dividends	<u>(2.2)</u>	<u>(1.6)</u>	<u>(3.8)</u>
Total Capital Erosion	(\$2.6)	(\$0.4)	(\$3.0)
Capital deficit	(\$2.5)	(\$0.4)	(\$2.9)
Treasury Senior Preferred draw ⁴	\$2.6	\$0.5	\$3.1

Sources

Fannie Mae and Freddie Mac SEC disclosures for the quarter ended December 31, 2010.

Notes

Totals may not sum due to rounding.

¹ Capital is defined as stockholders' equity. Available capital is defined as beginning capital plus treasury draw related to prior quarter's deficit.² Freddie Mac includes net interest income on investments in multifamily loans and commercial mortgage backed securities in Multifamily Earnings, while Fannie Mae includes these items in Investments Contribution.³ Equals the sum of investments segment earnings, the change in unrealized losses on available for sale securities and at Freddie Mac, the change in unrealized gains (losses) related to cash flow hedge relationships.⁴ Reflects requested Treasury draws related to current quarter deficit, to be received during the next quarter. Enterprises' draw requests are rounded up to the nearest \$100 million.

4. Single-Family Credit Guarantee Segment Results**4.1 Single-Family Credit Guarantee Segment Results**

- Losses from the Single-Family Credit Guarantee segment remained substantial in 2010, but declined considerably from the prior year. Provisions for credit losses returned to 2008 levels in 2010 after doubling in 2009. Furthermore, the implementation of consolidation accounting in 2010 largely eliminated charges through earnings on credit-impaired loans acquired from MBS and PC trusts (SOP 03-3 losses). These items accounted for the bulk of improved segment performance.

Figure 4.1 Single-Family Credit Guarantee Segment Results (\$ in billions)

	Fannie Mae				Freddie Mac				Combined
	2008	2009	2010	Total	2008	2009	2010	Total	2008 - 2010
Revenue ¹	\$9	\$9	\$2	\$20	\$5	\$4	\$5	\$14	\$35
Provision for credit losses ²	(26)	(50)	(25)	(100)	(16)	(29)	(19)	(64)	(165)
Foreclosed Property Expenses	(2)	(1)	(2)	(4)	(1)	(0)	(1)	(2)	(6)
Credit-related expenses	(28)	(51)	(26)	(105)	(17)	(29)	(19)	(66)	(171)
SOP 03-3 Losses ³	(2)	(20)	(0)	(23)	(2)	(5)	(0)	(6)	(29)
Other expenses ⁴	(2)	(3)	(2)	(7)	(1)	(1)	(2)	(4)	(11)
Pre-tax income (loss)	(22)	(65)	(27)	(114)	(15)	(31)	(17)	(63)	(177)
(Provision) benefit for taxes	(5)	1	0	(3)	(5)	4	1	(1)	(4)
Net income (loss)	(\$27)	(\$64)	(\$27)	(\$118)	(\$20)	(\$27)	(\$16)	(\$64)	(\$181)

Notes

Totals may not sum due to rounding.

¹ Consists of guarantee fee income, trust management income, net interest income, and other income. Guarantee fee revenue of \$7.2 billion for Fannie Mae year-to-date was offset by net interest expense of \$5.4 billion related to forgone interest on nonperforming loans.

² The provision for credit losses is the recognition of estimated incurred losses and increases the loan loss reserve. Fannie Mae's figures have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts.

³ Losses on credit-impaired loans acquired from MBS/PC Trusts.

⁴ Consists of investment gains (losses), administrative expenses, other expenses, and at Freddie Mac, segment adjustments.

Sources

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods. Effective in the first quarter 2010, Fannie Mae changed the presentation of segment financial information; prior periods were not revised.

Freddie Mac segment earnings for 2008 and 2009 were revised to reflect reporting methodology changes effective in the first quarter of 2010 SEC disclosure.

2010 segment results for both Enterprises are not comparable with prior periods due to the adoption of new accounting standards for consolidations.

4.2 Loan Loss Reserves

- After increasing substantially in 2009 with growing serious delinquencies, loan loss reserves remained in a fairly narrow range during 2010 as slower inflows to serious delinquency reduced provisions for credit losses. Charge-offs increased substantially for the second consecutive year as aged delinquent loans moved to foreclosure.

Figure 4.2 Loan Loss Reserves (\$ in billions)

	Fannie Mae				Freddie Mac			
	2008	2009	2010	Total	2008	2009	2010	Total
Single-Family Loss Reserve								
Beginning balance ¹	\$3	\$24	\$62		\$3	\$15	\$33	
Provision for credit losses ^{2,3}	26	50	25	100	16	29	19	64
Charge-offs, net ³	(5)	(13)	(21)	(39)	(2)	(7)	(13)	(22)
Adoption of Accounting Standards ¹	-	-	(11)		-	-	(0)	
Other	<u>0</u>	<u>0</u>	<u>5</u>		<u>(1)</u>	<u>(4)</u>	<u>0</u>	
Ending balance ¹	\$24	\$62	\$60		\$15	\$33	\$39	
Credit Losses - Single-Family								
Charge-offs ³	\$5	\$13	\$21	\$39	\$2	\$7	\$13	\$22
Other ⁴	0	0	0	0	0	0	1	1
Foreclosed Property Expense	<u>2</u>	<u>1</u>	<u>2</u>	<u>4</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>2</u>
Total ³	\$6	\$13	\$23	\$43	\$4	\$8	\$14	\$26

Sources

SEC disclosures for the relevant time periods.

Notes

Totals may not sum due to rounding.

¹ Fannie Mae's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and allowance for preforeclosure property taxes and insurance receivable. Freddie Mac's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and forgone interest on loans placed on non-accrual status.

² Freddie Mac's figures represent Segment Earnings provision for credit losses, which is generally higher than that recorded under GAAP, primarily due to recognized provision associated with forgone interest income on loans placed on non-accrual status, which is not recognized under GAAP.

³ Fannie Mae's provision for credit losses have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts. Additionally, the effect of losses from credit-impaired loans acquired from MBS trusts on charge-offs and foreclosed property expense has been reflected as an adjustment to total credit losses and charge-offs, net.

⁴ Freddie Mac's figures include charge-offs related to certain loans purchased under financial guarantees.

4.3 Credit Losses

- Nontraditional and higher-risk mortgages concentrated in the 2006 and 2007 vintages, and mortgages originated in California, Florida, Arizona and Nevada continue to account for a disproportionate share of credit losses (charge-offs and foreclosed property expenses). However, the proportion of losses coming from nontraditional products declined in 2010 as these vintages aged.

Figure 4.3 Credit Losses (Percent of total credit losses)

	Fannie Mae				Freddie Mac				Notes	
	% of UPB as of Dec 31, 2008 ¹	2008	2009	2010	% of UPB as of Dec 31, 2008 ¹	2008	2009	2010		
by State										
California	16%	25%	24%	23%	14%	30%	32%	26%	¹ Represents each category's share of the respective Enterprise's single-family book of business, which is based on the unpaid principal balance of all single-family mortgages held by the Enterprises and those underlying MBS/PCs as of December 31, 2008. Freddie Mac's figures include loans held by the company underlying structured securities less structured securities backed by Ginnie Mae certificates. ² Product categories overlap.	
Florida	7%	11%	16%	18%	7%	10%	15%	19%		
Arizona	3%	8%	11%	10%	3%	9%	11%	11%		
Nevada	1%	5%	7%	6%	1%	4%	6%	6%		
by Product²										
Alt-A	11%	46%	40%	33%	10%	50%	44%	37%		
Interest-Only	8%	34%	33%	29%	9%	50%	47%	37%		
by Vintage										
2006	14%	35%	31%	29%	15%	41%	35%	30%		
2007	20%	28%	36%	36%	19%	25%	36%	34%		
2008	16%	1%	5%	7%	15%	0%	5%	7%		
2009	N/A	N/A	0%	0%	N/A	N/A	0%	0%		

Sources

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

5. Investments and Capital Markets Segment Results**5.1 Investments and Capital Markets Segment Results**

- The Investments and Capital Markets segment was a positive contributor to capital for the second consecutive year. Stabilizing prices of private-label securities and improving prices of commercial mortgage-backed securities generated unrealized gains on investment securities.

Figure 5.1 Investments and Capital Markets Segment Results (\$ in billions)

	Fannie Mae				Freddie Mac				Combined	<u>Notes</u> Totals may not sum due to rounding.
	2008	2009	2010	Total	2008	2009	2010	Total	2008 - 2010	
Revenue ¹	\$8	\$13	\$13	\$34	\$3	\$8	\$6	\$17	\$51	¹ Consists of guarantee fee expense, trust management income, net interest income, and other income.
Derivatives gains (losses)	(15)	(6)	(3)	(25)	(13)	5	(2)	(10)	(35)	² Figures consist of debt extinguishment losses, debt foreign exchange gains (losses), debt fair-value losses, investment gains (losses), and hedged mortgage assets gains, net.
Trading gains (losses)	(7)	4	3	(0)	1	5	(1)	4	4	³ Consists of administrative expenses, other expenses, and at Freddie Mac, segment adjustments.
Other gains (losses) ²	2	1	4	6	2	(0)	1	3	9	⁴ Includes extraordinary losses /noncontrolling interest.
Other-than-temporary impairments	(7)	(10)	(1)	(18)	(17)	(10)	(4)	(31)	(48)	⁵ Includes changes in unrealized losses on available for sale securities and at Freddie Mac, the change in unrealized gains (losses) related to cash flow hedge relationships. Effective April 2009, includes adjustments for other-than-temporary impairments included in accumulated other comprehensive income due to a new accounting standard.
Other expenses ³	<u>(1)</u>	<u>(1)</u>	<u>(0)</u>	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>	<u>1</u>	<u>(1)</u>	<u>(3)</u>	
Pre-tax income (loss)	(21)	1	16	(4)	(26)	7	1	(18)	(22)	
(Provision) benefit for taxes ⁴	<u>(9)</u>	<u>(0)</u>	<u>0</u>	<u>(9)</u>	<u>(2)</u>	<u>(1)</u>	<u>0</u>	<u>(2)</u>	<u>(11)</u>	
Net income (loss)	(\$29)	\$1	\$16	(\$12)	(\$28)	\$6	\$1	(\$20)	(\$33)	
Unrealized gains (losses) on AFS ⁵	(6)	11	4	9	(20)	19	14	13	22	
Accounting change for Impairments	<u>0</u>	<u>3</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>5</u>	<u>8</u>	
Investments Contribution	(\$35)	\$15	\$20	(\$0)	(\$48)	\$30	\$16	(\$2)	(\$3)	

Sources

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods. Effective in the first quarter 2010, Fannie Mae changed the presentation of segment financial information; prior periods were not revised. Freddie Mac segment earnings for 2008 and 2009 were revised to reflect methodology changes effective in the first quarter of 2010 SEC disclosure.

5.2 Security Impairments

- Alt-A and subprime securities acquired in 2006 and 2007 continue to account for the bulk of security impairments. Security impairments were substantially lower in 2010 compared to the prior year as a result of adopting an accounting change in the second quarter of 2009 that resulted in only the credit portion of security impairments being recognized in earnings.

Figure 5.2 Security Impairments (\$ in billions)

											<u>Notes</u>
											Totals may not sum due to rounding.
											¹ Vintage of private-label securities is based on security issue date.
											² The adoption of a new accounting standard in April 2009 required the Enterprises to begin recognizing only the credit portion of impairments in their statement of operations. This new accounting standard did not require the Enterprises to revise previously recorded amounts in their statements of operations but did result in an equity increase of \$5 billion and \$3 billion for Freddie Mac and Fannie Mae, respectively, which is not reflected in Figure 5.2. For the full year of 2008 and a portion of 2009, amounts include both credit and non-credit-related security impairments.
Fannie Mae											
	2008			2009			2010				
Vintage ¹	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	Total	
Alt-A/Option ARM Alt-A	\$3.0	\$1.8	\$4.8	\$1.7	\$2.3	\$4.0	\$0.2	\$0.1	\$0.3	\$9.1	
Subprime	1.9	-	1.9	5.6	0.1	5.7	0.4	0.0	0.4	8.0	
Other	<u>0.0</u>	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.5</u>	
Total ²	\$4.9	\$2.0	\$7.0	\$7.3	\$2.6	\$9.9	\$0.6	\$0.2	\$0.7	\$17.6	
Freddie Mac											
	2008			2009			2010				
Vintage ¹	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	Total	
Alt-A	\$2.1	\$1.8	\$4.0	\$0.9	\$0.8	\$1.7	\$0.5	\$0.2	\$0.7	\$6.4	
Subprime	3.4	0.2	3.6	6.4	0.1	6.5	1.7	0.0	1.8	11.9	
CMBS	-	-	-	0.1	0.0	0.1	0.1	0.0	0.1	0.2	
Option ARM	6.0	1.6	7.6	1.4	0.4	1.7	1.2	0.2	1.4	10.8	
Other	<u>1.1</u>	<u>0.4</u>	<u>1.4</u>	<u>0.8</u>	<u>0.1</u>	<u>0.9</u>	<u>0.3</u>	<u>0.1</u>	<u>0.3</u>	<u>2.7</u>	
Total ²	\$12.6	\$4.0	\$16.6	\$9.6	\$1.5	\$11.0	\$3.8	\$0.5	\$4.3	\$32.0	

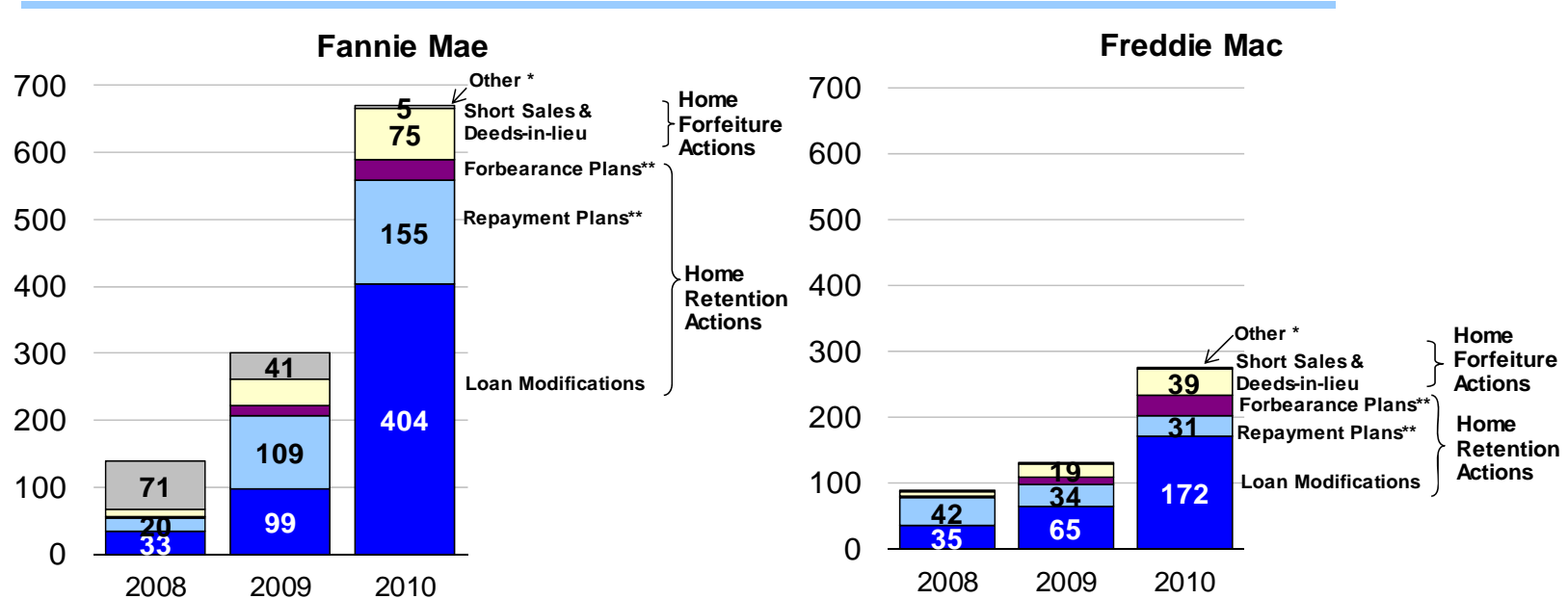
Sources

Fannie Mae and Freddie Mac management reports.

6. Loss Mitigation Activity

- The Enterprises have traditionally worked with delinquent borrowers to mitigate credit losses in situations where the borrower demonstrates the willingness and ability to cure the delinquency. Loss mitigation actions include home retention actions (loan modifications, repayment plans and forbearance plans), and home forfeiture actions (short sales and deeds-in-lieu).
- In 2010, loss mitigation activity increased substantially for all home retention actions with the greatest increase attributable to increases in loan modifications. Combined Enterprise loan modifications more than tripled compared to 2009.
- More information on the Enterprises' loss mitigation activities can be found in [FHFA's Fourth Quarter 2010 Foreclosure Prevention & Refinance Report](#).

Figure 6 Enterprises' Foreclosure Prevention Actions (Number of loans in thousands)



* Consists of HomeSaver Advance (Fannie Mae) and charge-offs in lieu of foreclosure.

** Includes loans that were 30-plus days delinquent at initiation of the plan.

Completed forbearance plans exclude Home Affordable Modification Program Loans.

7. Comparison of Actual Results to Projections of the Enterprises' Financial Performance

7.1 Comparison of Actual Results to Projections of the Enterprises' Financial Performance

- FHFA published initial projections of the Enterprises' financial performance in October 2010. More information on the purpose and approach of these projections can be found in [FHFA's Projections of the Enterprises' Financial Performance, October 2010](#).
- The October 2010 projections were not expected outcomes, but rather modeled projections in response to “what if” exercises based on assumptions about Enterprise operations, financial market conditions, and house prices.
- The combined projected Treasury draws for the Enterprises for the second half of 2010 ranged from \$24 billion to \$48 billion. The actual combined Treasury draw for the second half of 2010 was \$6 billion.
- The difference between projected and actual results reflects differences between the projection assumptions and actual outcomes. In some of the scenarios, non-performing loans and mortgage defaults were lower than projected in the second half of 2010. Fewer non-performing loans and mortgage defaults resulted in higher revenue and lower credit-related expenses than projected, increasing net income and lowering Treasury draws compared to the projections.

Figure 7.1 Actual versus Projected Treasury Draws for the second half of 2010 (\$ in billions)

	Cumulative Treasury Draw	Projected Draw 2H10 Scenario 1		Projected Draw 2H10 Scenario 2		Projected Draw 2H10 Scenario 3		Actual Draw Second Half 2010	
	As of 6/30/10	Additional Draw	Cumulative Draw as of 12/31/2010	Additional Draw	Cumulative Draw as of 12/31/2010	Additional Draw	Cumulative Draw as of 12/31/2010	Additional Draw	Cumulative Draw as of 12/31/2010
Fannie Mae	\$85	\$17	\$102	\$19	\$104	\$28	\$113	\$5	\$90
Freddie Mac	<u>63</u>	<u>7</u>	<u>70</u>	<u>10</u>	<u>73</u>	<u>20</u>	<u>83</u>	<u>1</u>	<u>64</u>
Total	\$148	\$24	\$172	\$29	\$177	\$48	\$196	\$6	\$154

Comparison of Actual Results to Projections of the Enterprises' Financial Performance (continued)

- The observed pace of mortgage defaults was generally slower than would be expected given continued weakness in the housing and mortgage markets.
 - A factor contributing to the observed slower pace is the pause in foreclosures triggered by the discovery of deficiencies in servicers' foreclosure processes.
- Loss reserves were lower than previously projected, improving the financial performance of the Enterprises.
 - Many borrowers with high current loan-to-value (LTV) ratios have transitioned to delinquency at a slower pace than previous projections, which were based on historical experience.
 - The performance of modified loans through 2010 is better than previously projected, though future performance of modified loans could be better or worse.

7.2 Impact of Actual Results on Future Projections of the Enterprises' Financial Performance

- Mortgage defaults pushed out to later periods could reduce projected losses if home prices improve or increase projected losses if home prices worsen.
- Lower than projected Treasury draws for the second half of 2010 will result in lower dividends paid to the Treasury through 2013.
- The Enterprises' future financial performance is heavily dependent on the performance of the U.S. housing market. Trends observed in the second half of 2010 should not be used to extrapolate future projections.