Update on Fannie Mae’s Housing Goals Performance

Presentation to the U.S. Department of Housing and Urban Development
Monday October 31, 2005
**Where Are We On The Goals?**

<table>
<thead>
<tr>
<th>Year To Date Performance</th>
<th>September YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005 Goal</td>
</tr>
<tr>
<td>Base Goals</td>
<td></td>
</tr>
<tr>
<td>Low Mod</td>
<td>52.0%</td>
</tr>
<tr>
<td>Underserved</td>
<td>37.0%</td>
</tr>
<tr>
<td>Special Affordable</td>
<td>22.0%</td>
</tr>
<tr>
<td>Home Purchase Subgoals</td>
<td></td>
</tr>
<tr>
<td>Low Mod</td>
<td>45.0%</td>
</tr>
<tr>
<td>Underserved</td>
<td>32.0%</td>
</tr>
<tr>
<td>Special Affordable</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

Note: Scores include new SF-OO proxy. Subgoal scores exclude reverse mortgages.
Scores include new SF proxy and exclude reverse mortgages.
Why Are We Behind?

Huge Home Price Gains Relative to Incomes...

Have Driven Affordability Issues...

Driving Consumers to Exotic Products...

...Being Sold into the Private Label Markets.

Fannie Mae Proprietary and Confidential
Affordability is Related to Subgoal Performance

**Washington DC MSA**

**Phoenix MSA**

**Chicago MSA**

**Los Angeles/Long Beach MSA**

* Four quarter moving average.
Source: NAR and Fannie Mae HGW

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# Deliveries from Most Top Lenders Do Not Meet Subgoal

## Top Ten Lenders’ Performances

<table>
<thead>
<tr>
<th>Lender</th>
<th>Special Affordable PMM Subgoal</th>
<th>2005 HUD Goal = 17%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YTD 2005</td>
<td>Aug-OS</td>
</tr>
<tr>
<td>1</td>
<td>12.86%</td>
<td>11.31%</td>
</tr>
<tr>
<td>2</td>
<td>13.17%</td>
<td>12.26%</td>
</tr>
<tr>
<td>3</td>
<td>15.98%</td>
<td>14.17%</td>
</tr>
<tr>
<td>4</td>
<td>13.28%</td>
<td>12.81%</td>
</tr>
<tr>
<td>5</td>
<td>15.41%</td>
<td>16.76%</td>
</tr>
<tr>
<td>6</td>
<td>8.34%</td>
<td>9.52%</td>
</tr>
<tr>
<td>7</td>
<td>20.43%</td>
<td>21.43%</td>
</tr>
<tr>
<td>8</td>
<td>15.57%</td>
<td>17.32%</td>
</tr>
<tr>
<td>9</td>
<td>17.86%</td>
<td>17.34%</td>
</tr>
<tr>
<td>10</td>
<td>12.77%</td>
<td>11.01%</td>
</tr>
</tbody>
</table>

Note: Top ten lenders determined by low mod denominator. Scores are without missing data proxy adjustments.
What Are We Doing About It?

**Sharper Organizational Focus**
- New Community and Multicultural Lending unit created in Single Family
- New SVP for Regulatory and Corporate Goals
- New Risk Transformation Group
- Consolidated Technology Functions

**Focused Business Strategies**
- Aggressive Business Strategies in Subprime, Manufactured, Affordable lending
- Sales Incentive Program
- MyCommunityMortgage Enhancements
## Deal Pipeline Presents Challenges

<table>
<thead>
<tr>
<th>STAGE</th>
<th>Deal Count</th>
<th>UPS</th>
<th>Est. UPS PMM Spcl: Afford.</th>
<th>Range: Incremental PMM Sp: Afford Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipeline</td>
<td>10</td>
<td>$20,448,044,286</td>
<td>$2,012,778,183</td>
<td>12,724</td>
</tr>
<tr>
<td>Bid</td>
<td>4</td>
<td>$721,577,160</td>
<td>$311,738,107</td>
<td>855</td>
</tr>
<tr>
<td>Won*</td>
<td>6</td>
<td>$2,531,612,480</td>
<td>$634,821,125</td>
<td>2,845</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>$32,899,233,026</td>
<td>$3,479,338,014</td>
<td>16,424</td>
</tr>
</tbody>
</table>

- **Transaction A:**
  - $18 billion from their portfolio, including $9 billion in option ARMs
  - Bid MBS on goals rich portion – 3,600 incremental special affordable PMM loans
  - Lender wants long-term standby bid on remaining loans for risk-based capital relief

- **Transaction B:**
  - $126 million manufactured housing deal – chattel with full recourse
  - 3,700 incremental special affordable
  - Presence of mandatory arbitration and servicing and counterparty issues

- **Transaction C:**
  - Cash bid on 1,300 incremental special affordable loans
  - Loans are 700-800 bps underwater – will need par bid to win deal
  - Approximately $10 million subsidy required

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Preliminary Mid-September scores for base regulatory goals are up for Affordable and Underserved, down for Special Affordable:

- Base Affordable: 44.8% up from 44.3% in August
- Base Special Affordable: 16.2% down from 17.9% in August
- Base Underserved: 37.7% up from 35.6% in August
### Undesirable Tradeoffs Necessary to Meet Goals

#### Credit Risk
- Incremental business opportunities carry significant additional credit risk
- Having to compromise credit standards and reduce or waive credit enhancement requirements
- Credit enhancement costs at desired levels are too high to win deals

#### Negative Returns
- Deal economics are well below target returns; some deals are producing negative cash flows
  - Competition driving G-fees to zero on some goals-rich deals
  - Back-end credit enhancement costs more than total G-fee received (e.g. $16,000 per incremental special affordable loan)
  - G-fees may not cover expected losses

#### Liquidity to Questionable Products
- Buying exotic product encourages continuation of risky lending
- Many products in market present with significant risk-layering
- Consumers are at risk of payment shock and loss of equity
- Potential need to waive our responsible lending policies to get goals business
  - For example: MH loans with mandatory arbitration clauses

#### Conflicting Goals
- Income and minority objectives often conflict
- Pursuing subgoals undermines efforts to increase minority PMMs, especially for Hispanics
2006 Could Get Worse

All base goals, Low/Mod and Underserved PMM subgoals increase in 2006

Loan limit increase adds billions of negative loan volume

Deliveries of Alt-A, Interest Only, and ARMs with poor scores could increase

Affordability trends worsen, widening the gap for goals-rich borrowers

Subprime share of minority and low-income PMM loans continue to increase

SF volumes do not grow significantly

SF refinance share continues projected fall from 52% to 39% -- reducing drag on base goals performance

Market moves back to produce more 30-year FRM

Multifamily share of total business expected to remain favorable