Housing Goals Forecast

Alignment Meeting

June 22, 2007

Confidential – Highly Restricted

FannieMae

- Update the 2007 housing goals forecast with April performance numbers
- Present Plans A, B, and C
- Plan A is what it would take to make all the goals and subgoals
- Plan B is a plan based on the legislation that passed the House of Representatives last week, using a 3-yr rolling average to define the market
- Plan C is a proposal that we developed to focus on meeting only the enforceable goals and subgoals
- Objective is to go through all three options and then summarize the pros and cons of each at the end

2007 Housing Goals Forecast

	HUD Goals/Subgoals	2007 Goal	YTD May 2007	YTD Actual May 2007 Overage/Shortage	Total Estimated Year End Overage/ Shortage
Base Goals	Low-Mod	55.0%	53.07%	-28,137	-71,000
	Special Affordable	25.0%	24.09%	-13,300	-34,000
	Underserved	38.0%	42.56%	71,008	138,000
Subgoals	Low-Mod	47.0%	42.14%	-21,489	-60,000
	Special Affordable	18.0%	15.53%	-10,930	-30,000
	Underserved	33.0%	34.03%	4,564	10,000

Key Assumptions (Confirmed with Key Stakeholders)			
Single-Family	$611 B	Single-Family PMM Richness	6-month average (Dec to May) for non-initiative business
MCM	$20.6 B	PLS	$20 B
Multifamily (2007 Richness)	$26.7 B	HFA Volume	PMM LMI/SA = 10,000/7,000
CMBS	$15.0 B	Investor Channel	PMM LMI/SA = 13,000/8,000

Continued weakness in the SF goals richness, the fall off in the PLS market, and fewer MF units per billion in deliveries have eroded our base goals performance.

- **New forecast is depressing. As SF volumes rise, gaps between our performance and subgoals are also rising. Forecast assumes $21 billion in MCM production, $24.9 billion in MF production, and $15 billion in CMBS purchases**
- **Most notably, we are now also projecting a small 3,000 unit deficit on the base goals** 1

Plan A – Meet Base Goals

Category		Volume ($B)	Opportunity Cost ($MM)*	Incremental Affordable	Incremental Special Affordable
Fixed Costs	SF Business Non-SI (includes deferrals)	$586.0	$14.8	(368,000)	(237,000)
	MCM (net of MCM overlap)	$18.0	$560.0	42,000	22,000
	HFA	$3.1	$70.6	10,000	6,000
	DU Boost (net of MCM overlap)	$4.0	$53.6	14,000	7,000
	Fixed Total	$611.0	$699.0	(302,000)	(202,000)
Variable Costs	Multifamily/ CBMS	$41.7	NA	211,000	158,000
	Investor Channel	$4.5	$92.8	11,000	7,000
	Private Label Securities	$20.0	NA	2,000	(5,000)
	Manufactured Housing	$0.8	$25.3	7,000	9,000
	Total	$678.0	$817.1	(71,000)	(34,000)

Shortfalls in the base goals exist despite significant opportunity costs already incurred year to date and projected costs under the current plan.

* - Based on 4.5 present value. New model coming from CW 2.10 will change cost estimates

Options for Meeting Base Goals

- CMBS: Production above $15 billion and greater unit yields per transaction
- Multifamily: Production above $27 billion and greater yields per transaction
- Private Label Securities: Structure deals to focus on base goals (refis and SF rentals)
- Investor Channel:
  - Revisit prior deals for rural and refinance
  - Structure deals to maximize for base goals (refis and SF rentals)
- Manufactured housing: Current plan is $800 million
  - Revisit prior deals for rural
- Missing Data: Collect multifamily rental data/maximize proxy
- Missing Data: Collect single-family rents or propose new single-family rental proxy
- Policy: Continue to press HUD for AMI relief (10,000 units)

Plan B – Optimize for Special Affordable Subgoal

Category		Volume ($B)	Opportunity Cost (MM)*	Incremental PMM Affordable Subgoal = 47%	Incremental PMM Special Affordable Subgoal = 18%
Fixed Total (includes deferrals)		$611.0	$699.0	-92,000	-50,000
Variable Costs	Investor Channel	$2.56	$52.76	6,000	10,000
	Private Label Securities	$5.0	NA	4,000	6,000
	Manufactured Housing	$0.5	$15.94	7,000	10,000
	Total	$619.4	$767.7	-75,000	-24,000
			Richness	40.9%	16.6%

Adjusting the current plan to focus on the special affordable PMM subgoal that HUD considers enforceable, would incur additional costs and still fall short. Strategy increases the challenge of meeting the base goal.

* - Based on 4.5 present value. New model coming from CW 2.10 will change cost estimates

Plan C - Reach 3-Yr HMDA Average for Market

Category		Volume ($B)	Opportunity Cost (MM)*	Incremental PMM Special Affordable Three-year average = 15.4%
Fixed Total (includes deferrals)		$611.0	$ 699.0	-19,000
Variable Costs	Investor Channel	$4.5	$92.8	8,000
	Private Label Securities	$20.0	NA	3,000
	Manufactured Housing	$0.8	$25.3	10,000
Total		$636.0	$817.1	2,000
Richness				15.58%

The current plan would exceed the 3-yr HMDA average (the House-passed standard) for the special affordable subgoal but would miss the LMI and underserved subgoal.

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Engagement with HUD on Subgoals

- Subgoals misaligned with the market
  - 2005 HMDA: Shows significant decline in market since rule was finalized
  - 2006 Lender LARS reinforce view that market opportunity is still below subgoal levels (Ongoing analysis, anticipated results)
  - Regression against National Association of Realtors® affordability index suggests that poor market conditions persist in 2007 for meeting subgoal levels (Ongoing analysis, anticipated results)
  - Subgoals performance this year should lead the market

- Fannie Mae has turned over every stone to identify goals opportunities
  - MCM volume expected to exceed two times 2006 production levels
  - We have pursued a robust list of special Initiatives to identify goals units
    - PLS market is drying up.
    - Number of goals-rich portfolios available for pruchase has fallen as a result of our activities to meet the subgoals over the previous two years.
    - Vanderbilt Mortgage portfolio opportunities that were key to 2005 and 2006 performance are not available at the same levels.

- Charter sets "reasonable rate of return, but less than the return on other business" standard
  - Costs of targeted goals activities exceeding reasonable standard
  - Fannie Mae will need to identify significant costs – first day loses – as a result of goals activities in 2006 financial disclosures
  - Activities year to date to meet goals will likely exceed the 2006 first day loss levels
  - Paying up for lender portfolios has minimum impact on the value proposition for consumers