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The 2014 Strategic plan for the Conservatorships of Fannie Mae and Freddie Mac

United States: Federal Housing Finance Agency (FHFA)

THE 2014 STRATEGIC PLAN FOR THE CONSERVATORSHIPS OF FANNIE MAE AND FREDDIE MAC

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Division of Conservatorship

TABLE OF CONTENTS

About the Federal Housing Finance Agency and the Conservatorships of Fannie Mae and Freddie Mac.

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System, which includes 12 Banks and the Office of Finance. The agency's mission is to ensure that these regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment.

As part of HERA, Congress granted the Director of FHFA the discretionary authority to appoint FHFA as conservator or receiver of Fannie Mae, Freddie Mac (together, the "Enterprises"), or any of the Federal Home Loan Banks upon determining that specified criteria had been met. On September 6, 2008, FHFA exercised this authority and placed Fannie Mae and Freddie Mac into conservatorships. Since they were placed into conservatorships, Fannie Mae and Freddie Mac together have received $187.5 billion in taxpayer support under the Senior Preferred Stock Purchase Agreements executed with the U.S. Department of the Treasury. FHFA continues to oversee these conservatorships.

FHFA's authority as both conservator and regulator of the Enterprises is based upon statutory mandates enacted by Congress, which include the following conservatorship authorities granted by HERA:

> "(D) …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."
>
> 12 U.S.C. § 4617(b)(2)(D).

Carrying on the business of the Enterprises in conservatorships incorporates the following regulatory responsibilities also given to FHFA in HERA:

> "(B) to ensure that--
>
> > (i) each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls;
> >
> > (ii) the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities);
> >
> > (iii) each regulated entity complies with this chapter and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;
> >
> > (iv) each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with this chapter and the authorizing statutes; and
> >
> > (v) the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest."
>
> 12 U.S.C. § 4513(a)(1)(B).

Additionally, under the Emergency Economic Stabilization Act of 2008 (EESA), FHFA has a statutory responsibility to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of…available programs to minimize foreclosures." 12 U.S.C. § 5220(b)(1).

FHFA, acting as conservator and regulator, must follow the mandates assigned to it by statute and the missions assigned to the Enterprises by their charters until such time as Congress revises those mandates and missions.

FHFA's Strategic Goals In Context.

The 2014 Strategic Plan provides an updated vision for FHFA's implementation of its obligations as conservator of the Enterprises. FHFA has issued two prior documents detailing the agency's approach to the conservatorships of Fannie Mae and Freddie Mac. On February 2, 2010, FHFA sent a letter to Congress outlining the agency's understanding of its conservatorship obligations and how it planned to fulfill those obligations. On February 21, 2012, FHFA sent Congress a "Strategic Plan for Enterprise Conservatorships: The Next Chapter in a Story that Needs an Ending" that set three strategic goals for conservatorship and elaborated on how FHFA planned to meet its conservatorship obligations.

Since January 6, 2014, FHFA has conducted an ongoing assessment of its obligations and statutory mandates in an effort to update the Strategic Plan released in 2012. FHFA's 2014 Strategic Plan reflects this assessment and, as a result, three reformulated strategic goals are set forth here:

1. **Maintain,** in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.

2. **Reduce** taxpayer risk through increasing the role of private capital in the mortgage market.

3. **Build** a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

These reformulated strategic goals take into account two major factors. First, both the February 2, 2010 letter to Congress and the February 21, 2012 Strategic Plan heavily reflected that the Enterprises were generating losses with a highly uncertain outlook for future losses and that actions were necessary to stabilize the Enterprises. Second, FHFA's statutory responsibilities as conservator do not involve making policy decisions on the future of housing finance reform. That future will be decided by Congress. Consequently, FHFA's 2014 Strategic Plan adheres to its existing statutory mandate of overseeing the conservatorships of the Enterprises in their current state and ensuring that the Enterprises' infrastructure meets the needs of their current credit guarantee businesses and other operations.

The following sections of the 2014 Strategic Plan provide an overview for each of the agency's strategic goals for the conservatorships. Each section discusses how FHFA's work since 2012 has established a foundation that continues to support the agency's agenda. That foundation includes important efforts related to improvements to the Representation and Warranty Framework, foreclosure prevention efforts, structures for sharing risk with the private sector, the development of the Common Securitization Platform, and data standards. Further, each section includes additional steps that FHFA believes are necessary and prudent in light of changes that have occurred since Fannie Mae and Freddie Mac were placed into conservatorships.

I. MAINTAIN, in a Safe and Sound Manner, Foreclosure Prevention Activities and Credit Availability for New and Refinanced Mortgages to Foster Liquid, Efficient, Competitive and Resilient National Housing Finance Markets.

The first item on FHFA's Strategic Plan is to maintain credit availability and foreclosure prevention activities in the housing finance market in a safe and sound manner. A healthy housing finance market requires liquidity and access across different market segments to provide homeownership opportunities to creditworthy borrowers, sensible and appropriate loss mitigation options when borrowers fall into economic distress, and affordable rental housing options. In addition, to meet this goal the Enterprises must be able to attract and retain staff, and to continue to invest in their operational capability. These objectives are at the core of FHFA's statutory mandates under HERA and EESA, as well as the Enterprises' charters. The following three subsections of the Strategic Plan address each of these priorities.

A. Improve the Enterprises' Single-Family Credit Guarantee Business.

After suffering the worst collapse since the Great Depression, housing markets have stabilized. By maintaining broad liquidity in the secondary mortgage market – $6.4 trillion since 2009 – the Enterprise conservatorships have been fundamental to the continued operation of the housing finance market. Additionally, by implementing innovative foreclosure prevention and refinance programs, the Enterprises have stemmed losses and provided opportunities for many homeowners to remain in their homes.

Despite progress, however, housing finance market conditions are far from what could reasonably be considered satisfactory or normal. One factor limiting access to credit is the change in credit standards required by mortgage market participants. Prudent standards are essential to stable markets, as the excesses of the last decade made clear, and the Enterprises significantly tightened their credit standards after the financial crisis. However, some originators and mortgage insurers have placed additional conditions – such as higher minimum credit score requirements – on top of the acceptable credit standards of each Enterprise. These credit overlays result in the rejection of many loans that would otherwise meet Enterprise credit standards.

In this current market context, FHFA is required to meet its statutory obligation of enabling "liquid, efficient, competitive, and resilient national housing finance markets" while ensuring the Enterprises meet their fundamental safety and soundness obligations. As both conservator and regulator of the Enterprises, FHFA's responsibilities of housing finance market liquidity and safety and soundness are inherently intertwined. Where these obligations are aligned, the agency will evaluate policies and take appropriate action to promote both goals.

Provide Clarity Concerning the Enterprises' Representation and Warranty Framework. In an effort to provide greater market certainty, FHFA will evaluate – and, where appropriate, act on – changes to the Enterprises' Representation and Warranty Framework. On each loan that the Enterprises purchase, mortgage originators provide origination and servicing representations and warranties. Through this process, lenders pledge compliance with Enterprise loan origination standards and future compliance with servicing requirements. Lack of clarity about these representation and warranty requirements can contribute to decisions by lenders to add credit overlays that can unnecessarily limit access to credit. Greater certainty regarding both origination and servicing obligations should help increase lenders' willingness to more fully provide credit within the Enterprises' underwriting standards.

As part of this Strategic Plan, FHFA will continue to work with the Enterprises, lenders and other stakeholders to evaluate ways to improve the Representations and Warranty Framework. This evaluation will build upon improvements directed by FHFA in 2012 for loans delivered on or after January 1, 2013. Next steps include implementing refinements to the changes announced in 2012 and evaluating other measures to bring greater certainty to this area for lenders and for the Enterprises.

Work with Small Lenders, Rural Lenders, and Housing Finance Agencies. Having a housing finance market that provides liquidity throughout the country requires strong participation by a breadth of lenders, including small lenders and lenders serving rural areas. In addition, state and local Housing Finance Agencies (HFAs) have historically provided access to credit and lower down payment lending for lower- and moderate-income families and have proven, strong performance records. Access to the secondary mortgage market is vital for these institutions, and FHFA expects the Enterprises to strengthen their outreach to small and rural lenders as well as HFAs. Moving forward, FHFA expects that the Enterprises will build or strengthen relationships with these institutions.

Identify Additional Opportunities to Reach Underserved, Creditworthy Borrowers. In an effort to strengthen liquidity in the housing finance markets, FHFA expects the Enterprises to assess whether there are additional opportunities to reach underserved creditworthy borrowers. FHFA is not requiring any changes at this time and will review the Enterprises' analysis and consult with stakeholders as part of the process to evaluate further measures in this area.

Fulfill Additional HERA Requirements. Other important statutory responsibilities include the Duty to Serve and Affordable Housing Goal requirements for the Enterprises. FHFA issued a proposed Duty to Serve rule in 2010, but this regulation has not been finalized. Moving forward, FHFA will revisit this HERA obligation. Additionally, FHFA's current Affordable Housing Goals rule extends only through 2014 and FHFA will issue an updated rule that will go into effect for 2015.

B. Refine and Improve Foreclosure Prevention and Servicing Initiatives for Distressed Borrowers and Communities.

FHFA's 2014 Strategic Plan requires the Enterprises to continue – and improve upon – servicing standards and loss mitigation outcomes for borrowers. Since the onset of the foreclosure crisis, an unprecedented number of borrowers have found themselves at risk of foreclosure and in need of foreclosure prevention options. As directed by FHFA, the Enterprises have completed approximately 2.6 million foreclosure prevention actions that have helped troubled homeowners stay in their homes. This includes nearly 1.6 million permanent loan modifications, of which over 600,000 are from the Home Affordable Modification Program (HAMP), which is administered by the Enterprises for the U.S. Department of the Treasury. Similarly, FHFA has also worked to ensure that eligible homeowners, including those whose mortgages exceed the value of their home, can lower their monthly payments by refinancing their mortgage through the Home Affordable Refinance Program (HARP). FHFA worked with the Treasury Department and stakeholders to develop improvements to HARP, which were announced in October 2011. Since April 2009, over 3 million borrowers with mortgages backed by one of the Enterprises have refinanced mortgages through HARP. Additionally, there have been 16 million non-HARP refinances of loans guaranteed by Fannie Mae and Freddie Mac during this same time period.

As conservator, FHFA launched the Servicing Alignment Initiative to make the Enterprises' servicing and loss mitigation efforts more effective. Instead of having different servicing and loss mitigation approaches at each of the Enterprises, the Servicing Alignment Initiative has resulted in one improved set of servicing requirements. This process has produced new guidelines for short sales, deeds-in-lieu, loan modifications, servicing standards and compensatory fees, which have provided borrowers additional foreclosure prevention loss mitigation options.

Improve Servicing Standards and Target Loss Mitigation Efforts. While FHFA has established a solid foundation for servicing standards and loss mitigation efforts, more work can be done to address particular issues and better target these efforts. Going forward, FHFA expects the Enterprises to make further strides to refine and improve their loss mitigation outcomes and servicing standards. In overseeing this process, FHFA will continue to work with the Enterprises' servicing teams, review data provided by the Enterprises, and solicit feedback from the public.

Additionally, FHFA expects the Enterprises to plan for post-HAMP and post-HARP servicing, streamlined refinance and loss mitigation standards. FHFA previously directed the Enterprises to extend the HAMP and HARP programs through the end of 2015, instead of the previous 2013 deadline. FHFA will work with the Enterprises to develop next steps to ensure that borrowers and the Enterprises continue to benefit from loss mitigation options, where appropriate, after 2015.

Two examples of issues on which FHFA and the Enterprises will continue to focus in 2014 include:

- **Lender-placed insurance evaluations:** When borrowers fail to keep their hazard insurance current on loans guaranteed by Fannie or Freddie (which often coincides with a borrower being unable to pay the mortgage), the Enterprises require servicers to buy hazard insurance on the borrower's behalf in order to protect the property. Certain features or practices associated with lender-placed insurance policies have been the subject of documented abuse and overcharging. FHFA took several steps in 2013 to address these concerns and has directed the Enterprises to evaluate and suggest further improvements in this area.

- **HARP program outreach:** FHFA and the Enterprises are evaluating ways to retarget HARP outreach efforts in markets with the highest incidence of borrowers who would benefit from HARP refinancing. As mortgage interest rates increase, fewer borrowers benefit from streamlined refinances such as HARP. This makes targeted outreach efforts even more necessary in order to reach borrowers who can benefit from a HARP refinance.

Develop Neighborhood Stabilization Solutions for Hardest Hit Communities. Property values have begun to recover in many parts of the country, but some communities continue to face severe housing market and economic impacts from the ongoing foreclosure crisis. To address these impacts and to further the goals of this Strategic Plan, FHFA will work with the Enterprises to provide targeted loss mitigation efforts in these hardest hit communities.

As part of this effort, FHFA is encouraging the Enterprises to develop a Neighborhood Stabilization Initiative in partnership with approved organizations. The objectives of this initiative include stabilizing local markets, providing targeted assistance to eligible homeowners, and mitigating credit losses to the Enterprises. Three approaches that will be included in initiative efforts are:

- Increasing the number of families able to stay in their current homes through loan modifications tailored to the targeted community;
- Matching real-estate owned (REO) properties with responsible non-profits to ensure that these properties become occupied where possible instead of abandoned and vacant; and
- Assisting distressed communities in executing building demolition plans.

To launch the first phase of the initiative, FHFA and the Enterprises are currently working with partners in Detroit, Michigan. FHFA and the Enterprises will use best practices learned from the Detroit experience in future efforts with hardest hit communities in other states. Additionally, FHFA and the Enterprises will adjust strategies to reflect the unique challenges faced in different parts of the country.

C. Ongoing Multifamily Purchases for Rental Housing Needs.

Fannie Mae and Freddie Mac play a significant role in supporting multifamily housing needs, particularly for low-income households, and FHFA expects the Enterprises to continue to play an ongoing role in this area. While the single-family business is the largest part of each Enterprises' operations, their multifamily activities are important for families unable to become homeowners or who prefer the flexibility of renting.

Before conservatorship, the Enterprises' combined annual share of the multifamily finance market averaged about 30 to 35 percent. Following the financial crisis and market contraction, the Enterprises significantly increased their combined market share to roughly three-quarters of the market, providing substantial countercyclical liquidity for the multifamily housing sector. Through the crisis, serious delinquency rates never exceeded one percent. As private lending has reestablished its presence in the multifamily sector since the crisis, the Enterprises' current combined market share has reduced to less than 40 percent, which is closer to their historic levels.

FHFA's strategic goal for the Enterprises is to maintain a multifamily liquidity presence in all geographic areas with a focus on the affordable segment of the market. FHFA will continue to impose a production cap on the Enterprises' multifamily business, but one that does not require contracting their multifamily business. In addition, that cap will provide flexibility for certain mission-related activities by not counting them toward this cap. This includes targeted affordable rental housing, buildings with less than 50 units and manufactured rental housing communities.

Current market trends suggest that actual production will not meet the current production caps due to private market competition. If the Enterprises' multifamily production falls below the cap and they continue to meet their mission requirements, FHFA would view such an outcome favorably because it would signal that other market participants are willing to make multifamily loans at reasonable interest rates.

II. REDUCE Taxpayer Risk through Increasing the Role of Private Capital in the Mortgage Market.

FHFA's 2014 Strategic Plan establishes a "Reduce" goal for the Enterprises, which requires Fannie Mae and Freddie Mac to reduce taxpayer risk by increasing the role of private capital in the mortgage market. There are four core aspects to this objective: 1) deepening credit risk transfers for the Enterprises' single-family credit guarantee businesses; 2) continuing the Enterprises' multifamily transactions that share credit risk with private market participants; 3) ongoing reduction of the Enterprises' retained portfolios, with a focus on the sale of their less liquid assets; and 4) ensuring the stability of mortgage insurance companies that are counterparties of the Enterprises.

The "Reduce" goal builds upon and reformulates the prior "Contract" goal used in the 2012 Strategic Plan. The objective here is to shift risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit.

A. Deepen Credit Risk Transfers for Single-Family Credit Guarantee Business.

The Enterprises' current securitization programs, which provide funding and liquidity for mortgages, assume the ultimate credit risk for those loans. The Enterprises charge a guarantee fee to assume this credit risk and create guaranteed mortgage-backed securities. This activity currently exposes the taxpayer to inherent credit risk.

In an effort to reduce this risk, FHFA has directed the Enterprises to establish risk transfer programs in which the private sector assumes a significant proportion of the credit risk in exchange for receiving a portion of the Enterprises' guarantee fee. In the 2013 Scorecard goals, FHFA required each Enterprise to transfer a substantial portion of the credit risk on a minimum of $30 billion of new mortgage securitizations. Both Enterprises met their targets by using a combination of structured product sales in the capital markets and different types of insurance-based transactions. In each transaction, the Enterprises retained a small first loss position in the underlying loans, sold a significant portion of the risk beyond the initial loss and then retained the catastrophic risk in the event losses exceeded the private capital support.

The 2014 Strategic Plan requires the Enterprises to continue the strategic goal of reducing taxpayer risk and increasing private capital's role by deepening the amount of credit risk transferred by the Enterprises. In addition to increasing the amount of risk transferred, FHFA will also encourage the Enterprises to engage in multiple types of risk transfer transactions. Despite investor demand for recent credit-risk products issued by the Enterprises, the long-term prospects of a robust investor base are yet to be tested. Executing multiple types of risk-sharing transactions will improve the prospects of a broad, diversified and sustainable investor base. It will also enable the Enterprises to develop transaction structures that are scalable and possible to execute in different market conditions.

To implement this effort in 2014, FHFA is requiring each Enterprise to transfer a substantial portion of the credit risk on $90 billion of new mortgage-backed securitizations, triple the credit risk transferred compared to last year's requirement. In 2014, FHFA will also expect each Enterprise to execute a minimum of two different types of transactions. All activities undertaken in fulfillment of these objectives are required to be conducted consistent with safety and soundness.

B. Continue Credit Risk Transfers for Multifamily Credit Guarantee Business.

In this Strategic Plan, FHFA will require the Enterprises to continue using credit risk transfers for their multifamily business, which result in the private market sharing in potential credit losses. The Enterprises already use two different models of credit risk transfers. Fannie Mae uses loss-sharing transactions through a delegated underwriting system, which has produced low losses since it was first offered in 1988 and was successful in providing liquidity during the housing crisis. Freddie Mac has a capital markets execution that transfers the vast bulk of its credit risk, but it has a shorter track record and its ability to attract private capital is less tested in times of market stress. While the two models have their own relative strengths and weaknesses, both approaches align interests between the Enterprises and lenders to manage complex credit decisions and limit losses. The results of these models have been positive, as confirmed by the Enterprises' multifamily portfolio performance even through the crisis and by the broad liquidity available to most segments of the market.

Additionally, FHFA will explore whether transfers of additional risk can be achieved within the Enterprises' multifamily business models by evaluating whether private capital is willing to share additional credit risk for multifamily mortgages and at what cost. FHFA is not requiring either Enterprise to change its basic transaction structure as part of this evaluation. FHFA will review the results of this analysis and will consult stakeholders to determine whether FHFA should consider making changes in Fannie Mae's and Freddie Mac's multifamily credit risk transfer models.

C. Shrink the Enterprises' Retained Portfolios with Focus on Less Liquid Assets.

Before the mortgage crisis, Fannie Mae and Freddie Mac accumulated very large portfolios of mortgages and mortgage-backed securities funded by unsecured debt issued by the Enterprises. In large part, the Enterprises used their retained portfolios to hold investments on their books in order to generate income. However, the Enterprises' retained portfolios also exposed them to significant and unnecessary credit, asset liquidity and interest rate risks. Beyond leveraging their portfolios for investment purposes, the Enterprises also use their portfolios for core single-family guarantee business purposes such as aggregating loans through a cash window for individual loan purchases and purchasing non-performing loans out of mortgage-backed securities to make investors whole and facilitate loss mitigation.

Consistent with the Senior Preferred Stock Purchase Agreements, as amended, FHFA is directing the Enterprises to submit plans for approval that reduce the retained portfolio assets to $250 billion by December 31, 2018. Freddie Mac's retained portfolio was $867 billion as of March 2009 and Fannie Mac's portfolio was $784 billion. As of March 2014, Freddie Mac's portfolio stood at $434 billion and Fannie Mae's was $468 billion. FHFA is requiring the Enterprises to include contingency plans to meet the 2018 objective even under adverse market conditions, such as rising interest rates or falling house prices. Reducing these retained portfolios continues to shift credit, asset liquidity and interest rate risks from the Enterprises and onto private investors.

A key objective of these portfolio reduction plans will be to improve the composition of the retained portfolio assets over time so that the December 31, 2018 retained portfolio is highly liquid. Therefore, FHFA is directing the Enterprises to prioritize selling their less liquid portfolio assets – such as non-agency securities – in a economically sensible manner via a transparent sales process that is auction-based where appropriate. Proactively selling less liquid assets, particularly the non-agency securities, into the current strong investor demand, helps reduce taxpayer risk. These sales would generally remove mark-to-market accounting exposure and transfer the asset liquidity, credit and other risks to private investors. As part of its planning process, FHFA will expect the Enterprises to take into account how the sale of less liquid assets would impact both the overall market and neighborhood stability.

D. Strengthen Mortgage Insurance Counterparty Standards.

The Enterprises, upon FHFA's direction, will take steps to strengthen counterparty standards for mortgage insurers in order to ensure that the Enterprises' mortgage insurer counterparties are able to fulfill their intended role of providing private capital, even in adverse market conditions. The Enterprises are required under their charters to have additional credit enhancement to support mortgages with loan-to-value ratios in excess of 80 percent. Private mortgage insurance has historically provided the main mechanism for the Enterprises to meet this credit enhancement requirement. However, the financial crisis exposed counterparty weaknesses, both from a financial and operational perspective, that were not adequately addressed in the Enterprises' standards for mortgage insurer counterparties.

Two efforts are underway to address these concerns. The first effort is related to mortgage insurer master polices. Many of the master policies involved in these transactions had not been updated since the mid-1990s. In 2012, the Enterprises worked with FHFA to develop new policies that addressed filing timelines for claims, loss mitigation issues, claim calculations, claim curtailments, and certainty of coverage. In December 2013, the Enterprises approved each insurer's master policy, and the mortgage insurance companies filed those polices with state regulators for approval. FHFA expects the master policies to be approved and operational in 2014.

The second effort is related to mortgage insurer eligibility standards. Past eligibility standards, which were based in part on a ratings agency approach, resulted in a number of mortgage insurers not satisfying their financial commitments over the last few years. FHFA and the Enterprises have been working to update mortgage insurer eligibility standards in a number of areas. These include financial strength requirements that incorporate a risk-based approach considering asset quality, updated business and quality control requirements, and standards for performance evaluation and remediation. FHFA and the Enterprises are undertaking a consultative process with state insurance commissioners on the Enterprises' mortgage insurer eligibility standards in light of the important regulatory role the commissioners play. FHFA will seek broader public input on the mortgage insurer eligibility standards in 2014.

III. BUILD a New Single-Family Securitization Infrastructure for Use by the Enterprises and Adaptable for Use by Other Participants in the Secondary Market in the Future.

Building a new infrastructure for the securitization functions of the Enterprises remains an important priority in the 2014 Strategic Plan. This includes ongoing work to develop the Common Securitization Platform (CSP) infrastructure and to improve the liquidity of Enterprise securities. The 2014 Strategic Plan refines the scope of these endeavors to reduce the risk associated with this project. Additionally, this Strategic Plan also continues FHFA's work to build more accurate and uniform mortgage data standards used by the Enterprises along with other market participants.

A. Develop a Common Securitization Platform that Improves Secondary Market Liquidity.

Beginning with a white paper issued in October 2012, FHFA has worked with the Enterprises to develop a Common Securitization Platform. This project is a multi-year effort to create a shared securitization infrastructure that will undertake the securitization functions currently executed in-house by both Fannie Mae and Freddie Mac. The single-family business of the Enterprises can be viewed as having several distinct components, and the CSP focuses solely on the securitization component. Other functions – such as setting underwriting standards, establishing loss mitigation and servicing standards, loan sourcing, and executing loan aggregation and loan delivery – are not encompassed by the CSP and will remain with each Enterprise.

Ongoing development of the CSP will focus on making the new shared system operational for existing Enterprise single-family securitization activities. Meeting this objective requires the Enterprises to work on five modules: 1) data validation, 2) issuance support, 3) disclosure, 4) master servicing operations, and 5) bond administration. Developing this shared infrastructure will require modifying the Enterprises' current securitization systems, software and processes so that they can effectively integrate with the CSP. This investment is necessary for securitization functionality.

Targeting the CSP development to the Enterprises' current functions will allow FHFA and the Enterprises to appropriately manage the risk of launching this new joint venture. Each of the five securitization modules involves multiple variables. Broadening the CSP scope to include, for example, private-label securities functions would add layers of complexity and risk. While the 2014 Strategic Plan requires the Enterprises to build the new infrastructure for use by both companies, it also requires that the CSP be adaptable for use by additional market participants in the future. As a result, the Enterprises and CSP team will continue to focus on leveraging industry-standard interfaces, industry software, and industry data standards where possible.

In order to leverage CSP efforts fully, FHFA is also prioritizing ways to improve the overall liquidity of the Enterprises' securities. This includes working towards the development of a single common security, which should reduce the trading value disparities between Fannie Mae and Freddie Mac securities. The Enterprises currently issue two different mortgage securities that are not interchangeable with one another, and Freddie Mac's security has historically traded less favorably compared to Fannie Mae's security. As part of its effort to create a common security, FHFA and the Enterprises will define parameters for a single common security, including security characteristics and disclosure requirements.

While considerable strides have been made in building and developing the CSP, FHFA expects that completing it will require a multi-year effort. Throughout this process, FHFA will solicit feedback not just from the Enterprises but also from other stakeholder groups.

B. Improve Mortgage Data Standards for the Enterprises and Other Market Participants.

As part of its 2014 Strategic Plan, FHFA is continuing efforts with the Uniform Mortgage Data Program, which the agency launched in 2010. Developing and implementing mortgage data standards is essential to improving accuracy, increasing transparency, effectively assessing risk, and creating efficiencies for the Enterprises and mortgage industry participants. Improved data collection in the earliest stages of the mortgage process will help the Enterprises identify potential problems and improve the quality of the mortgages they purchase. Past work on the Uniform Mortgage Data Program has involved two subject matter areas:

- **Appraisal Data:** FHFA and the Enterprises have finalized a standardized dataset and a portal for submitting appraisal information. The Uniform Appraisal Dataset defines all of the data fields required for an appraisal submission and standardizes inputs for property valuation and characteristics. The Uniform Collateral Data Portal® is a web-based interface that allows lenders or their agents to submit the appraisal data fields prior to delivering a mortgage to the Enterprises.

- **Loan Delivery Data:** The Enterprises and FHFA established the Uniform Loan Delivery Dataset for over 600 data fields related to the loan delivery process, which established a common usage for a majority of the loan delivery data elements, minimizing differences whenever possible.

Next steps for the Uniform Mortgage Data Program include addressing data standards and technology in three areas:

- **Loan Application Data:** FHFA will work with the Enterprises to develop the Uniform Loan Application Dataset. This will update the existing form and create a set of data fields to ensure that new data needs are captured and outdated fields are removed.

- **Mortgage Closing Data:** FHFA began work with the Enterprises to create a Uniform Closing Dataset in 2013 in anticipation of the Consumer Financial Protection Bureau's final Integrated Mortgage Disclosure requirements, which will go into effect in August 2015. The Uniform Closing Dataset involves creating standard data fields to collect the information on this disclosure and identifying how market participants should collect and submit this data to the Enterprises. This work will continue in

2014 with the goal of publishing the Uniform Closing Dataset in 2015, and collecting the data at a date still to be determined.

- **Mortgage Servicing Data:** FHFA and the Enterprises began the Servicing Data and Technology Initiative in March 2014 to improve and standardize the collection of mortgage servicing data. This project will proceed in three stages: 1) the Enterprises will conduct discussions with stakeholders to identify servicing data and technology priorities for market participants; 2) based on these findings, the Enterprises will work with FHFA to develop recommendations and strategies to improve servicing data standards and technology; and 3) following any approval of recommendations, FHFA will work with the Enterprises to implement the approved strategy.

CLOSING

In this Strategic Plan, FHFA has identified three goals – **MAINTAIN**, **REDUCE** and **BUILD** – that will guide the conservatorships of Fannie Mae and Freddie Mac. These strategic goals focus on the agency's statutory mandates to manage the present state of Enterprise conservatorships, including ensuring safety and soundness and housing finance market liquidity. As FHFA implements this Strategic Plan, the agency will seek public input about core aspects of the conservatorships. FHFA looks forward to working with the Enterprises and all stakeholders to achieve the objectives detailed in this Strategic Plan.