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Fannie Mae Presentation- The HUD Housing Goals

Federal National Mortgage Association (Fannie Mae)

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The HUD Housing Goals



• The policy initiatives are policy offense. Now I want to turn to policy defense. Policy defense is about risk management – defending against adverse policy actions and protecting our good name against those who would seek to tarnish it. The first issue I want to talk about is the HUD housing goals.

Goals are Set by HUD Through Regulation

- Current goals published in October 2000 and are effective through the end of 2003

	GOALS
Low/Mod	50%
Underserved	31%
Special Affordable	20%
Multifamily Special Affordable	\$2.85 billion

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• At the risk of telling you stuff you already know, let me begin the story by reminding ourselves that we have three housing goals – Low mod, underserved and special affordable.



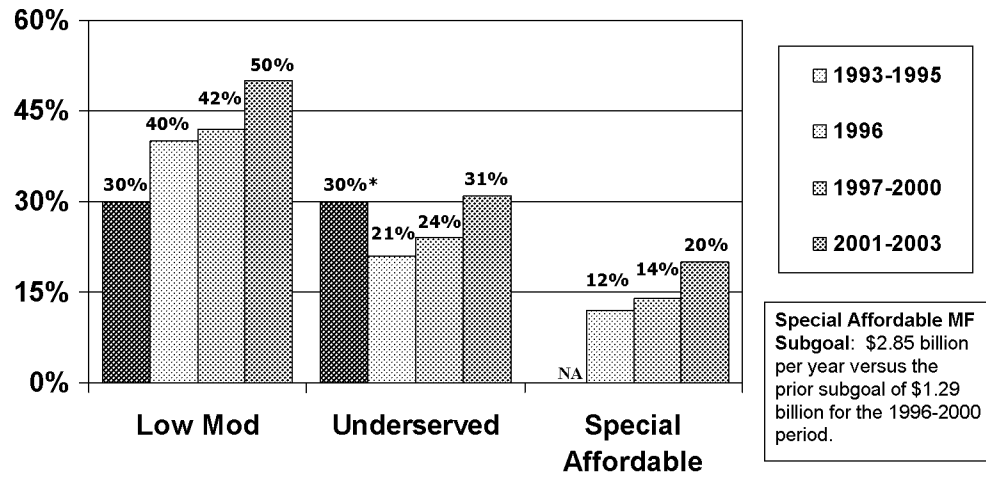
Goals Are Unique and Challenging

- Goals must be met as percent of mortgage financings *every* year
- Only mortgage financings count
- LIHTC investments *don't* count
- Community development investments through ACF *don't* count

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. The goals are unique in the financial services industry: They are quantitative, measured in units as a percentage of our business measured in units. Units in both Single family and multifamily mortgages count. But equity – tax credits or ACF does not.

Goals Have Increased Substantially

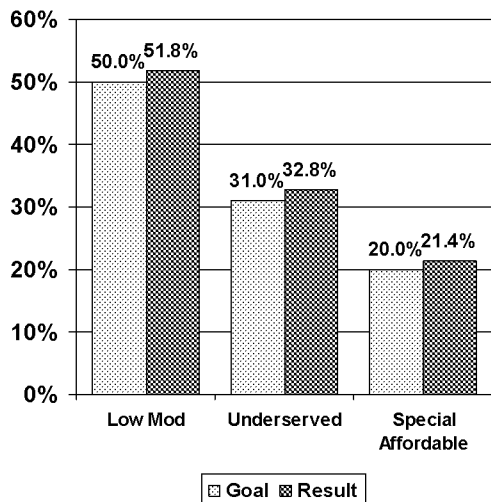


*In 1993 and 1994, this goal covered lending in central cities.

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- As you can see from this next table, HUD has increased the goals several times over the years and significantly increased Fannie Mae's affordable housing goals in October 2000.
- The low- and moderate-income goal increased from 42 percent to 50 percent. The underserved areas goal increased from 24 percent to 31 percent. The special affordable housing goal increased from 14 percent to 20 percent.
- The new goals represented a stretch based on our historical performance. Fannie Mae agreed to the new goals and agreed to step up to the challenge.

Fannie Mae Exceeded All Goals in 2002 Despite Significant Challenges



- 2002 market produced the most difficult goals environment yet
- Low interest rates were positive for housing
- But, resultant SF volumes made goals more difficult
- Goals challenge ran right up against liquidity mission

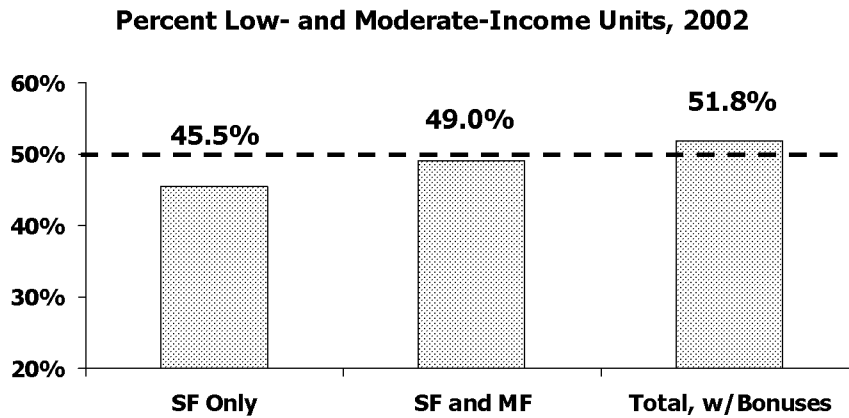
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In 2002, Fannie Mae exceeded all our goals for the 9th straight year. But it was probably the most challenging environment we've ever faced.

Meeting the goals required heroic 4th quarter efforts on the part of many across the company. Vacations were cancelled. The midnight oil was burned.

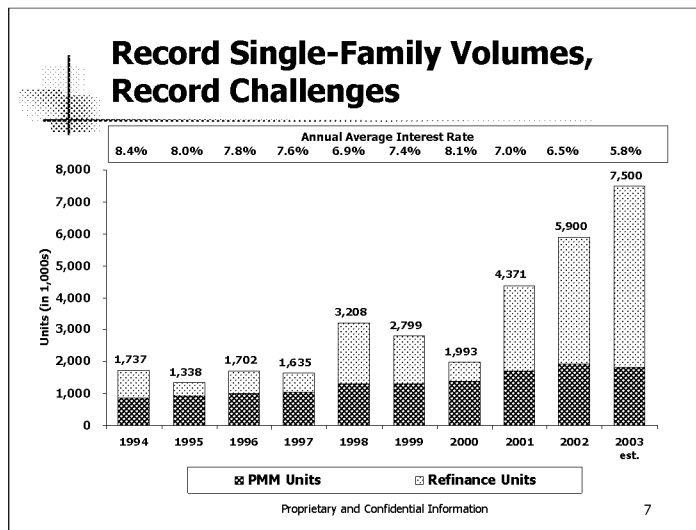
Moreover the challenge freaked out the business side of the house. Especially because the tenseness around meeting the goals meant that we considered not doing deals – not fulfilling our liquidity function – and did deals at risks and prices we would not have otherwise done.

Single-Family, Multifamily, and Bonuses Required to Meet the Goals



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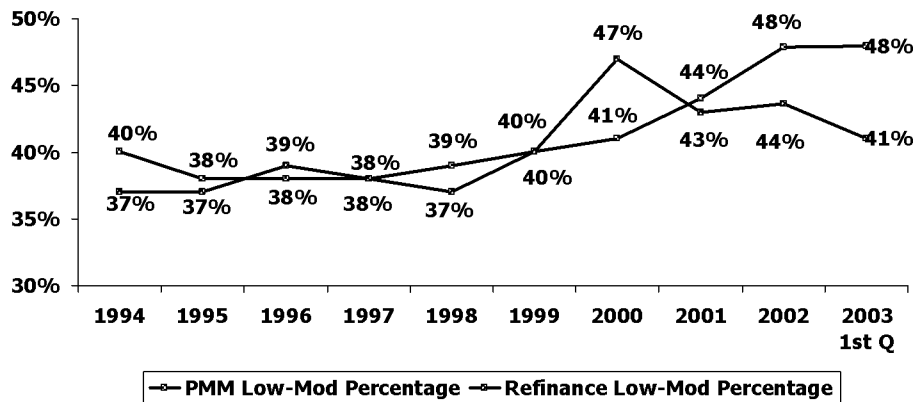
- We cannot meet the current goals without efforts of both single-family and multifamily.
- And last year, we would not have made the goals if it were not for the bonuses.



- This chart shows why these significant efforts are necessary.
- Historically low interest rates are driving the third record originations year in a row.
- Record SF originations projected to be more than \$1 trillion dollars in business.
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Not All Loan Types Reach the Market to the Same Depth

Low-Mod Share of Single-Family Units

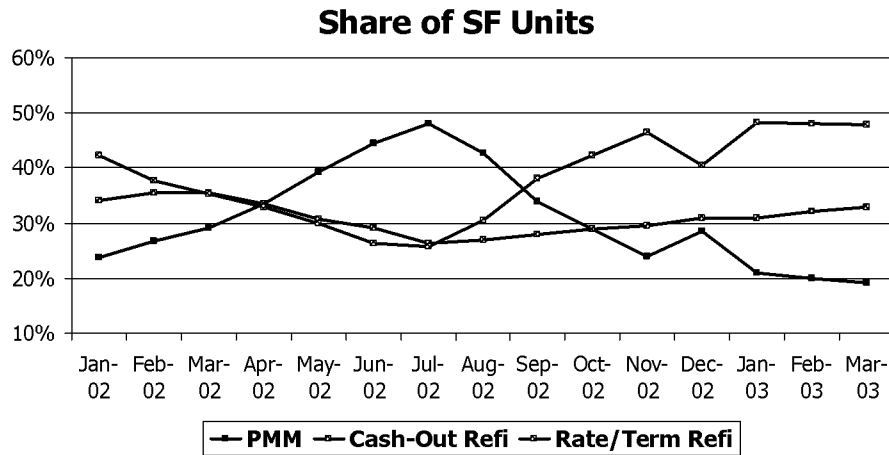


Source: FMIS Total SF Units, Standard Business. Treats all missing data as not affordable and excludes bonus.

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- The good news is a refinance boom means record business. The bad news is that it makes the goals much harder.
- First, this is because refinances tend to run below PMMs. Yellow PMMS in the first quarter were rich. Refinances were not.

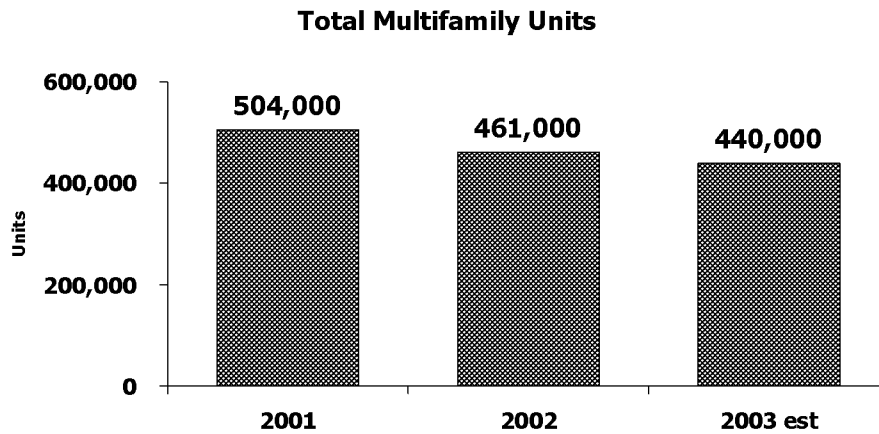
Record SF Volumes are Driven by Rate and Term Refinances



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- As you can see, our PMM share has decreased from about a 30% share in December 2002 to 20% in March 2003.
- Our cash out refis have shown a slight trend upward.
- But rate and term refinances are currently about 50% of our SF units. This is the highest share over the previous 15 months.
- This business mix is a drag on our performance because these units penetrate the markets at differential rates.

Multifamily Business is Projected to Decline Slightly from Record Levels



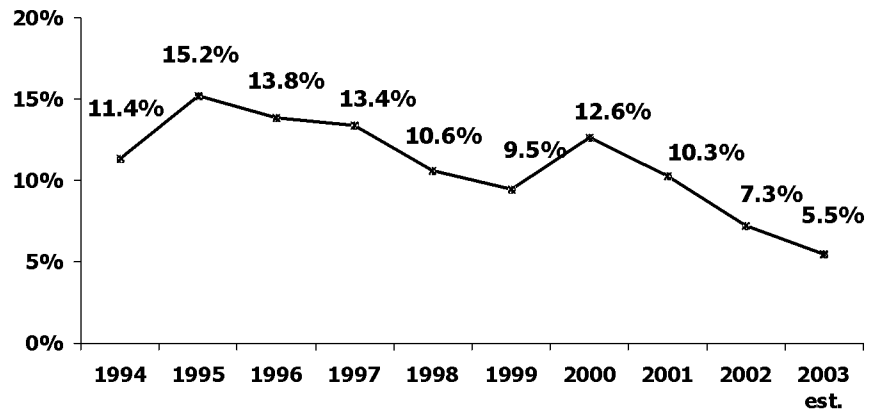
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- While SF is growing MF is going down.
- Different market: yield maintenance agreements.
- 2001 and 2002 were our biggest MF years ever. This strong MF volume helped offset some of the SF refinance volume.
- Our current MF forecast suggest another strong year. However, in 2003, SF is projected to increase by approximately 27% while MF is projected to decline.

Strong MF Levels Will Not Prevent a Decline in the MF Share of Units

Multifamily Share of Total Units



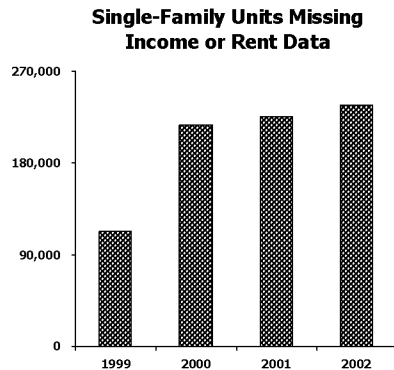
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- Historically low percentage.

•NOTE: Standard MF terms are 10 year term, 5 year lock out, and 9.5 yield maintenance.

Missing Data Is a Drag on Housing Goals Performance

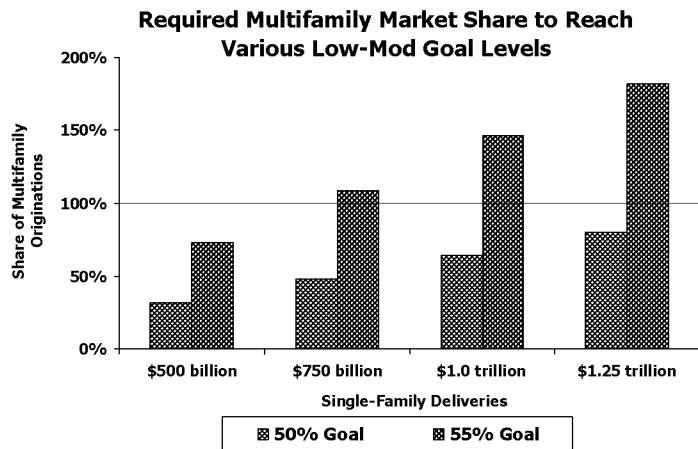


- Most missing income and rent data counts against our score
- Missing data is increasing feature of the market
- New products and underwriting processes will exacerbate this problem

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- Alt A, Low Documentation, and streamline refinance lending are a growing part of SF mortgage lending landscape. Availability of income data has fallen. Issue is also present with respect to rent data on seasoned MF loan purchases.
- Loans missing income or rent data in the denominator depress Fannie Mae performance. High cost in going back to lenders to acquire income data but as goals have increased, increasing incentive to make lenders bear these costs.
- HUD recognized an issue in 2000. Allowed 5 percent proxy for multifamily and a 1% exclusion of owner-occupied loans missing income data if these loans are located in low-mod census census.
- You can see in this chart that the 1% exclusion provides only marginal relief from this problem. This data pulls down our low-mod score by up to one percentage point.
- HUD should recognize changing nature of data collection in the industry and provide proxy on SF rental units and increased exclusion for owner-occupied units.

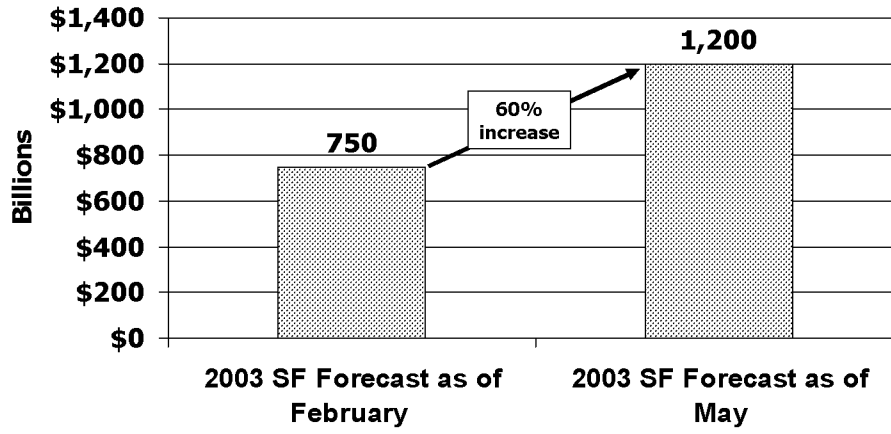
High Goals Put Pressure on Multifamily



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- SF / MF mix matters. Years with single-family refinance booms skew this mix and makes goals more difficult to meet.
- This chart shows that as single-family volume increases in a refi boom like we are currently experiencing, we would need to eat into more and more of the multifamily market just to meet the goals.
- At higher goals levels there would not be enough multifamily to fill the gap without accessing lenders' portfolios.

SF Volume Forecast has Increased Dramatically



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1Q 2003 Results Call For Stronger Steps

	Preliminary 1Q 2003
Low-Mod	45.8%
Underserved	28.0%
Special Affordable	18.0%

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- Our **preliminary** results for 1Q are comparable to the results we observed during the latter part of 2002.
- The factors that drove the performance in the latter part of 2002, are similar in 1Q. Let me walk you through that comparison.
- As you will see later in my presentation, just like we undertook significant efforts in December to ensure we would meet the housing goals in 2002, we are now focused on taking significant actions to meet the goals by yearend.

We Are Implementing a 12 Point Plan to Address This Gap

- Plan contains 3 phases:

Current Efforts Underway

- High performance, good economics, no disruption to current plan

Additional Efforts

- High performance, economic impact unknown, slight disruption to current plan

Potential Efforts

- High performance, potential financial, franchise risk

- Both Multifamily/Single-Family are key

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How Can You Help?

- Identify owner-occupied 2-4 unit transactions or MF 5-50 unit transactions Fannie Mae could acquire
- Help with Missing Data
- Increase production of targeted products like My Community Mortgage and Closer Look
- Be ready to enroll partners around various policy issues when the time comes

How we can help you:

- Keep you informed about your market
- Identify lost opportunities by lender and region



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Key Issues To Consider for Future of Housing Goals

- 2002/2003 experience shapes our approach
- Economic and market conditions can affect goals
 - Strong single-family market or weak multifamily market can make goals achievement difficult
- Extreme pressure on liquidity mission
 - Single-family refinance boom places goals in conflict with other charter purposes
- Secondary market goals impact primary market
 - Requirements imposed through housing regulations are passed through to the primary market
- Higher goals force us deeper into FHA and Subprime

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What's Key?

- **Retain current goals structure and levels**
 - Current goals are tough, especially with SF/MF market volatility
 - Rising goals raise unintended consequences
- **Extend bonuses**
 - Provide incentives to participate in difficult markets
 - Ending bonuses would make current goals tougher
- **Expand treatment for missing data**
 - Current treatment artificially depresses performance
 - Expand 1% SF owner-occupied exclusion and MF proxy
 - Create new proxy for SF rental
- **Extend goals through 2009**
 - Align goals term with White House Initiative
 - Remove uncertainty and cost of current 3-year cycle

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Thank You

Questions?
Please Contact Paul Weech
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