

National Association of Home Builders

2008 International Builders' Show

Remarks by Daniel H. Mudd **Fannie Mae President and Chief Executive Officer**

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Let me take this opportunity to update you on what Fannie Mae is doing to help the housing market through this crisis, and by doing so, maybe we can find opportunities to do more together.

First, we've ramped up our Single-Family and Multifamily guaranty businesses to help keep the mortgage market liquid, stable, and affordable.

- Our Single-Family guaranty business is working full tilt. As the housing market began to decline last year and private label guarantors walked away, we stepped up to keep up with market demand, and we grew this business in the double digits.
- Our Multifamily guaranty business is also stepping up. As commercial investors pulled back, our Multifamily business grew by 10 percent last year and financed about \$60 billion in rental housing. This was a record in the multifamily industry for annual production. And the vast majority—88 percent—of the units we financed were priced at or below their area median income.

Second, within our mortgage portfolio and capital constraints, we're purchasing multifamily and other mortgage assets from other segments of the market that need liquidity as loans currently on our books pay off and roll off.

Third, we're ramping up to implement the temporary increase in the GSE loan limits in high-cost areas that the President is signing into law today. We appreciate the Home Builders' support for the measure. It will allow us to purchase or guaranty loans up to \$729,750 in high-cost areas where so-called jumbo mortgages are really for working families. We've already begun reaching out to our lenders to begin financing these jumbo-conforming loans as soon as possible.

The next two items are all about reaching out to homeowners in need, helping them refinance into new loans, modifying existing loans, and when all else fails, giving them an exit with dignity; in other words, avoiding foreclosures at all costs.

So the *fourth* item on my list is our HomeStay™ initiative, which helps borrowers refinance their short-reset subprime ARMs into safer fixed-rate loans.

The 2/28 and 3/27 “teaser” ARMs with low initial rates that kick up after 24 or 36 months are a big driver of the wave of delinquencies and foreclosures. So helping borrowers who can qualify for long-term financing will help prevent more loss of homes. So far we’ve refinanced more than 68,000 subprime borrowers into prime-fixed loans, about \$13 billion in loans, and we expect to do many more as the next wave of short-reset ARMs originated in 2006 begin to adjust at higher levels this spring.

And like the Home Builders, we also support the Bush Administration’s Hope Now initiative.

- We’ve contributed about \$9 million so far to support nonprofit organizations that provide information and counseling for borrowers who are in trouble.
- We also support the Hope Now “teaser freezer” initiative to give borrowers with short-reset ARMs some time to refinance into cheaper loans.
- We are reimbursing our servicers when they refer delinquent homeowners to the Hope Now hotline for counseling.
- Just yesterday, the Administration and six Hope Now lenders announced Project Lifeline, which would pause the foreclosure process for seriously delinquent borrowers to give them time to work out their loans—and we support that too.

Fifth, we’ve vastly beefed up our own foreclosure-prevention operations in Dallas.

We set up this operation during the California and New England recessions in the mid-1990s, so we now have more than 10 years of experience working with our loan servicers to help delinquent borrowers work out their loans and stay in their homes. Since this housing crisis hit, we’ve stepped up our foreclosure-prevention efforts in several ways.

- We have added staff, systems investment, and seasoned managers to our Dallas operations, and our senior leaders review operations and results continually.
- We placed our own credit operations staff at the offices of our largest loan servicers—those are the ones who handle about 85 percent of our loans—so we can help guide loss mitigation decisions and adherence to our policies. Speaking of our policies, over last fall and winter, our servicers pointed out 18 policies they said were slowing things down. We took another look and realized we could change all 18 to better serve our customers.
- We’ve increased some of our incentive fees for loan servicers to offer workout solutions instead of foreclosure. And last year we began offering foreclosure attorneys incentives to do workouts instead of executing a foreclosure.
- We’ve also just launched a new option for our loan servicers to help delinquent homeowners catch up. It’s called HomeSaver Advance, and it’s aimed at homeowners who’ve fallen behind because of a temporary life event or hardship.

Our goal is to help a significant portion of borrowers who are seriously delinquent—at least three payments behind—to stay in their homes. We work out more than 100 loans a day, and last year we helped about 43,000 homeowners work out their loans.

But if we exhaust all of these efforts to work out our delinquent loans, our real estate team comes in and prepares the home to put it on the market. Here we have several options to minimize the impact on the home, the borrower’s finances and neighborhood, and the local housing stock.

- We help engineer a private sale of the home for the full amount of the loan.
- We also can negotiate a short sale, which means we agree to accept less than we're owed so we can avoid foreclosure, which costs the most.
- We can offer a deed-in-lieu of foreclosure, which means the borrower signs the house back over to us.
- And we offer cash incentives to help borrowers transition to new housing.

Last year we sold more than half of the properties that came into our inventory to another homeowner, which means it doesn't sit on the market driving down local home prices and property values.

Our *sixth* major response to the housing crisis is to take some tough but prudent steps to make sure that Fannie Mae can weather this crisis ourselves and continue helping to keep the mortgage market stable, liquid, and affordable.

Thankfully, we avoided most of the shaky subprime mortgages that are going south right now. But the housing market is so tough in places like California, Nevada, Florida, and the industrial Midwest that even our relatively conservative borrowers are struggling. So we've seen our delinquencies and credit losses go up in the past year. And that can affect our capital, which is a critical underpinning of our company, especially in a turbulent, uncertain market like this.

I think we're in much better shape than some of the other big financial companies you read about that have tens of billions of dollars in subprime write-downs to swallow. But the housing correction is expected to continue playing out through this year and maybe into next. So we've taken several steps to prepare for that.

- First, we've *bolstered our capital* cushion by issuing \$7 billion in preferred stock, which is expensive, and by cutting our dividend, which didn't make our shareholders very happy.
- Second, we *tightened our credit standards* on mortgage products that are most vulnerable to the downturn.
- Third, by *beefing up our credit loss mitigation* as I mentioned earlier, we reduce the impact of the housing correction on our capital reserves.
- Finally, we had to *raise our credit guaranty fees*. Not willy-nilly, not to get while the getting is good, but because—as we all know—the credit risk in the market has vastly increased.

We're like an insurance company—the risk goes up, the losses go up, the cost of managing that risk goes up. And every loan that goes south, every delinquent loan we pull out of our securities to work out, winds up as a hit on capital. Too many hits on capital, and we have to go into a defensive crouch instead of putting our capital to work, keeping the market stable, liquid, and affordable.

Let me add that it looks like GSE regulatory reform legislation is moving again, which is also good for us in the long haul. I appreciate the Home Builders' statement submitted to the Senate Banking Committee last week. You've been right from the start on this issue. The GSEs need a strong, modern regulator. We also need the flexibility to respond to the changing—and sometimes volatile—housing and mortgage markets, like the one we're going through today, and for the better days tomorrow.

I want to thank Brian Catalde—not only for everything he does for you and your membership—but for his honest engagement and the valuable contribution he has made to Fannie Mae’s National Housing Advisory Council. His candid comments throughout 2007 were insightful and spot-on with what we are all facing in today's housing market. I am thrilled he will be back for another year.

The Home Builders also have some interesting proposals to strengthen the mortgage revenue bond program ... to protect the rental housing tax incentives ... to provide tax relief to sellers of affordable rentals to ensure they stay affordable ... to make “green building” more doable ... and to ease barriers to building affordable housing. All good ideas to help get this market moving.

For now, there’s no silver bullet to resolve the housing crisis. We just need to work through this correction—and the faster the better. We still have at least another tough year to get through. We have a lot more tunnel before there’s light. But there is light.

This correction is all about getting back to the strong and healthy fundamentals of the housing market and returning to the basic forces of supply and demand for homes to house the nation. And over the next ten years, the country is expected to grow by 26 million people, both through immigration and old fashioned procreation. These new families are going to create 15 million new households. And in the fullness of time we will need about two million more homes built each year.

So long term, I am bullish about housing. Fannie Mae is committed to helping the housing market to weather the correction, so we can get to that better future faster. We can’t stop the weather, but we can take steps to protect the house. Once again, thank you.