

**Testimony of Herbert M. Allison, Jr.**  
**President and Chief Executive Officer**  
**Fannie Mae**  
**Hearing before the House Committee on Financial Services**  
**Washington, D.C.**  
**Thursday, Sept. 25, 2008**  
(Opening Statement as Submitted to the Committee)

**"Oversight Hearing to Examine Recent Treasury and FHFA Actions Regarding the GSEs"**

Chairman Frank, Ranking Member Bachus and members of this committee, thank you for inviting me to testify today.

The Federal Housing Finance Agency placed Fannie Mae into conservatorship on Sept. 6. As Director Lockhart announced the following day, this step was taken to stabilize Fannie Mae and ensure its safety, soundness and solvency, and to reduce the growing systemic risks to the mortgage finance system.

You asked me to address how we are pursuing our mission to support the mortgage market, provide liquidity, and prevent foreclosures since the conservatorship began.

The government's actions have given Fannie Mae the responsibility and the flexibility to expand our service to the market and provide more liquidity. Under this conservatorship our job is to balance the needs of safety and soundness and taxpayer protection with the imperative that we provide the most support possible to the mortgage market. We are acutely aware of our public purpose.

We have been working closely with our conservator, Treasury and the Federal Reserve to achieve this balance. We are committed to being as transparent as possible with Congress and the American public about our actions and results.

We are focused on meeting the goals of the conservatorship — conserving our assets, restoring sound operations and meeting our mission. We communicate daily with FHFA and have been assuring that their needs for Fannie Mae data and planning are met. With this foundation and with the Department of the Treasury's backstop, we are mindful that we need to operate in a safe and sound manner and we need to move quickly to perform our role as a core stabilizing factor in the markets.

Let me respond to the specific matters you asked me to address.

**The Past Three Weeks**

At the outset of the conservatorship, our top priority was to ensure our business continued uninterrupted, and to make clear to our customers and the market that Fannie Mae is open for business.

- In spite of extreme market turbulence and disruption, we continued to provide a steady supply of funding to U.S. single-family and multifamily lenders during this period. We securitized about \$31 billion in single-family mortgages during the first three weeks of September, an amount roughly equal to our securitization volume in the first three weeks of August, despite a much more challenging market during this month.
- Days after the conservatorship became effective, we sold \$7 billion in two-year Benchmark Note debt securities to global investors, allowing us to make additional mortgage purchases to support the market. This was the largest debt issuance of this kind in our history, and the rates we received were substantially better than the rates before the conservatorship. The result demonstrated renewed market confidence in the GSEs following the government's action.
- Our multifamily business has continued unabated. Director Lockhart made clear in his statement of September 12 that our continued leadership in, and support for, affordable rental properties is a key component of the conservatorship. We are committed to meeting that directive.
- A key test of our market impact is mortgage rates – the cost of financing a home. Primary mortgage market rates, especially for 30-year fixed rate conforming loans, fell in the days after the conservatorship commenced. We are working to build on this so that the tightening of yields seen in the mortgage-backed securities market results in savings to consumers.
- We are continuing our contractual relationships, which has assured both investors and contractors of our stability and ongoing business plans.
- Lastly, we have an excellent non-executive chairman who is working on reconstituting our board to provide advice and guidance to the firm in line with the obligations of the conservatorship.

### **Keeping People in Their Homes**

Let me take this opportunity to report briefly on some of the steps Fannie Mae has taken to help reduce home foreclosures and provide liquidity to the market:

- Because preventing foreclosures is a staff-intensive, high-touch business, we have increased staffing in our servicing operations center in Dallas, Texas. We are currently working with our major servicers to ensure as few loans as possible go to foreclosure referral, and not before all alternatives to foreclosure, such as repayment plans, forbearance and modifications, are fully explored.
- We are in the process of increasing our use of specialty servicers skilled in problem loan workouts, and have revamped all of our servicer incentives to

encourage them to change their own processes so no borrower who needs help falls through bureaucratic cracks.

- We have also provided bridge loans this year to nearly 38,000 homeowners who fell behind because of a serious illness, job loss or other temporary issue.
- Finally, Fannie Mae has provided \$1 trillion of liquidity through its guaranty and purchases since early last year, or about \$3 billion a day. Our share of new single-family mortgage-backed securities issued was 48 percent for the first half of the year.

### **Preparing to Do More**

However, given the scale of the current crisis, these actions clearly are not enough. The responsibility entrusted by the government to us when it provided the capital and liquidity facilities requires that we do far more to stabilize the market, prevent foreclosures and provide liquidity so that creditworthy borrowers continue to have access to affordable mortgages.

We are looking at every aspect of our business, with the goal of improving our funding, pricing, trading, risk management and foreclosure-prevention efforts. New initiatives that take greater advantage of Fannie Mae's breadth and size may entail risks and costs in the short-run, but will have long-run benefits to the country and Fannie Mae by helping staunch the flow of foreclosures, encourage homeowners to ride out the cycle, and help put a floor under home prices.

To that end, we are:

- Examining our underwriting and pricing standards to assure that the appropriate balance is struck between expanding our activities and safeguarding the interests of taxpayers.
- Increasing purchases of mortgage-backed securities to bolster market liquidity, so that new mortgages remain available and affordable. Treasury and FHFA are counting on us to do this, and we will.
- Working closely with our loan servicers to come up with new and better foreclosure prevention solutions to keep people in their homes. We have begun a comprehensive effort to reduce the flow of delinquent loans being referred to foreclosure.
- Evaluating how we can participate in the FHA Hope for Homeowners program to reduce principal loan balances, once the rules of the program are finalized. A good number of Fannie Mae borrowers may benefit from this program.

- As Director Lockhart has said, we are in discussions with IndyMac and the FDIC to evaluate how we can best integrate the FDIC-announced streamlined loan modification program into our own loss-mitigation efforts related to those loans IndyMac services.
- Developing new plans to perform on our obligation to serve low-income and underserved borrowers and renters. Our binding affordable housing goals are ambitious, and in this market may be unattainable. But we will not shirk responsibility to do all we can to achieve them.
- Finally, we are working closely with FHFA and Treasury to find ways Fannie Mae can assist in government efforts, including the mortgage asset liquidity fund proposed by Secretary Paulson, to deal with mortgage asset quality in a broader way by modifying mortgages, preventing foreclosures, and keeping more people in their homes.

### **Actions by the Treasury and Federal Reserve**

Last week's actions by the Federal Reserve and the Treasury to support our discount notes and to purchase our mortgage-backed securities should help improve the liquidity of the mortgage market and ensure access to affordable new mortgages.

Together with FHFA's directive to increase purchases of mortgage-backed securities, these actions are primarily designed to keep mortgage rates as low as possible. Treasury's proposal for a government liquidity vehicle for illiquid mortgage-related securities should help in this regard, so that the troubles of the non-agency market can begin to be addressed and the global flow of capital and credit, upon which the secondary mortgage market depends, can continue.

While these actions have helped, the credit markets remain unsettled. Treasury has said that our senior and subordinated debt holders, as well as holders of our MBS, are protected without regard to when those securities were issued or guaranteed. We are working with the investment community to better their understanding of the long-term soundness of our debt securities, and the binding legal obligation to support those securities provided by the Treasury Department.

### **Moving Forward**

Lastly, with the close supervision of FHFA, we are undertaking a full re-examination of the company's risk posture and controls, both in the context of safety and soundness and in the context of providing maximum liquidity support for affordable mortgage lending during this extraordinary period.

We are reviewing all of our mortgage guaranty pricing and underwriting standards. Now that our capital base is secure, we can reevaluate our pricing for credit risk. This means we will reexamine the pricing of our guaranty fee in light of current conditions and the

needs of the market today. Done correctly, this should have long-term benefits for the mortgage market and Fannie Mae.

I have initiated a full review of our operations, technology, governance and management structure to align the company with the new reality of the marketplace and the goals of the conservatorship. We are going to examine all of our operating costs with an eye on delivering service more effectively and efficiently. Our resources will be targeted on the fulfillment of our mission, which is:

- To enhance the liquidity of the secondary markets for conventional mortgages;
- To make mortgages and rental housing as affordable as possible for low-and-moderate-income families;
- To prevent foreclosures; and,
- To safely and responsibly deliver reasonably priced credit for mortgages that are sustainable over the long haul.

Our goals are to realign Fannie Mae to deliver on this mission, to develop realistic plans to achieve sustainability, and to eventually remove the need for government assistance.

Thank you again, Mr. Chairman, for this opportunity. You and this committee have provided valuable leadership on GSE and housing policy, and I look forward to working with you through this difficult period for our housing markets and our country. I will be happy to take any questions from the committee.