Fannie Mae Second Quarter 2017 Earnings Media Call Remarks Adapted from Comments Delivered by Timothy J. Mayopoulos, President and CEO, Fannie Mae, Washington, DC

Operator:
Hello and welcome to Fannie Mae's Second Quarter Financial Results Media Call and Webcast. At this time all participants are in a listen-only mode until the question and answer session. If you would like to ask a question today, please press Star followed by 1 on your touch tone phone. You will be prompted to record your first and last name.

This call is being recorded. If you have any objections, you may disconnect at this time. I will now turn it over to your host, Maureen Davenport, Fannie Mae's Senior Vice President and Chief Communications Officer. Thank you ma'am.

Maureen Davenport:
Thank you and thank you everyone for joining the media call and Webcast to discuss Fannie Mae's second quarter 2017 financial results. Please note that this call may include forward-looking statements, including statements about the company's future performance and actions, business plans and strategies.

Future events may turn out to be very different from these statements. The risk factors and forward-looking statements section in the company's second quarter 2017 Form 10-Q filed today and its 2016 10-K filed February 17, 2017 describe factors that may lead to different results.

As a reminder this call is being Webcast and recorded by Fannie Mae and the recording may be posted on the company's Web site. We ask that you do not record this call for public broadcast and that you do not publish any full transcript thereof. I'd now like to turn the media conference call over to Fannie Mae's President and Chief Executive Office, Tim Mayopoulos.

Tim Mayopoulos:
Thanks Maureen. Good morning everyone. Thanks for joining us. Let me start with an overview of our second quarter 2017 financial results and the drivers of those results. We reported net income of $3.2 billion and comprehensive income of $3.1 billion. These compare with $2.8 billion of both net income and comprehensive income in the first quarter of this year.

The main drivers of the change in net income were an increase in credit-related income as well as a shift to investment gains from investment losses. These were partially offset by higher fair value losses on the derivatives that we use to manage risk from interest rate changes. Detailed information regarding the drivers of our results can be found in our press release and quarterly report on Form 10-Q which we filed today.

Our second quarter results reflect another strong quarter in our single-family and multifamily businesses. We've provided approximately $135 billion in liquidity for the mortgage market in the second quarter through our guaranties and loan purchases. This supported approximately 316,000 home purchases, 222,000 home refinances, and financing for approximately 162,000 multifamily housing units.

We have remained the largest provider of mortgage market liquidity in the quarter as well as the largest issuer of mortgage related securities. Our multifamily business volume in the first half of the year was a robust $30.6 billion and we continue to lead the market in multifamily green financing with $10.8 billion in production through the first half of 2017.

We also continued to improve our serious delinquency rate in our single-family business which has dropped for 29 straight quarters to 1.01% as of the end of June. We will pay Treasury another $3.1 billion dividend in September if FHFA declares a dividend in this amount. This would bring our total dividend payments to Treasury to $165.8 billion. For more information on our dividend payments, I encourage you to read the relevant disclosures in today's Form 10-Q.

We also expect to remain profitable on an annual basis for the foreseeable future. However, as we have discussed in the past, fluctuations in factors beyond our control, such as interest rates and home prices, make our quarterly results potentially volatile. These factors combined with our dwindling capital cushion could require further draws from Treasury in the event of a quarterly loss.

In addition, as we describe in our filing, a significant reduction in the corporate tax rate would require us to record a substantial reduction in the value of our deferred tax assets. We expect this would result in a significant net loss and net worth deficit for the quarter in which the reduction is enacted, and could potentially result in a net loss for that year.

Let me provide an update on our important work to serve our customers and the housing finance system. First, for all practical purposes, we have completed Fannie Mae's change to a company whose income is driven largely by our guaranty business instead of our investment portfolio. Our guaranty business accounted for more than 75% of our net interest income for the first half of 2017. This shift represented a significant change in our business model, one that makes the company stronger.

Second, the maturation of our credit risk transfer capabilities represents another positive shift for our business. In our credit-risk transfer transactions, we transfer a portion of the mortgage credit risk on our loans, in effect paying for credit risk protection where appropriate.

The unpaid principal balance of loans covered by a credit risk transfer deal measured as of the time of the deal has now passed the $1 trillion mark. This quarter, *GlobalCapital*, an international financial trade publication, recognized our expertise in this area with the Best Overall Issuer award based on a vote by our peers and investors.

We have also announced plans for an innovative new kind of security that more types of investors can participate such as real estate investment trusts and foreign investors. The expansion of our credit risk transfer capabilities continues our change from being a company that buys and holds credit risk to one that also intelligently syndicates and distributes risk to private capital.

With the growth of this new market, private capital plays a bigger role, taxpayers bear less risk, and with a broader investor base, housing finance is more resilient.

Third, we're putting our customers at the center of everything we do so that they can better serve their customers, the individuals and families looking to buy and rent homes. Our customer-centric approach means that we look at every move we make through the lens of our lenders, servicers, investors, and taxpayers.

We are actively listening to our customers so that we can better understand their pain points and address them. We are working with our customers every day on innovations that will allow them to provide a better, safer, and more efficient experience.

I have spoken on previous calls about recent innovations such as our Day 1 Certainty initiative, our work in multifamily green financing, and our student debt initiatives. All of that work is continuing to build momentum, but those are just examples of a broader focus on innovation that is permeating our company. The sharper focus on innovation has us looking at new ways to encourage sustainable lending for example.

We are testing new innovations and evaluating how we can extend credit in prudent ways in light of the economic environment. Our focus on innovation is leading us to test how we can best serve changing housing markets such as the single-family rental market. We are also exploring new technology partnerships that hold the potential to improve the mortgage process and make the entire mortgage system better for borrowers, lenders, and investors.

We are still early in this journey. In the coming months, you can expect that Fannie Mae will be testing a number of new ideas with small pilot projects. We will carefully measure and monitor these pilots, and we will use the results to improve ideas that are promising, scale those ideas that work, and discontinue ones that do not.

These pilots do not represent a change in Fannie Mae's risk appetite. As we innovate we will operate in a safe and sound way to protect taxpayers. But these pilots do represent a change in our willingness to think, act, and partner in different ways so that we can meet the challenges of today's and tomorrow's market.

And like the changes to our business model, they are a tangible expression of our fundamental commitment to provide liquidity in all markets and at all times.

In summary, we had a strong quarter backed by strong business fundamentals in our guaranty business. Our improved business model is making our company and housing finance more resilient and durable. We are committed to continuing to deliver value to our customers and we will continue to innovate so that we can make our company and the system stronger and find new ways to safely and sustainably create housing opportunities that are affordable to more Americans. With that, I'm happy to open the lines up for your questions.

Operator:
Thank you. At this time, if you are a reporter and would like to ask a question, please press Star and then 1 on your telephone. All lines will be muted unless you are asking a question. One moment while your participants queue up.

Once again if you would like to ask a question please press Star and then 1. You will be prompted to record your name.

Operator:
The first question is from Brad Finkelstein. Sir your line is open.

Brad Finkelstein:
Hi. During the call you said "if FHA declares a dividend." Is that an indication? Is that semantics? Are you expecting them to declare a dividend as they have been in the past? Or are you expecting a change in policy?

Tim Mayopoulos:
Brad, thanks for the question. Every quarter FHFA makes a determination as to whether to declare a dividend or not. When they do declare a dividend, they direct us to pay it to the Treasury Department. I'm not aware of any change in policy at FHFA.

Director Watt will make his decision this quarter as he does in every quarter as to whether to direct us to make that payment or not. Obviously if he directs us, we'll make the payment. But that's FHFA's decision to make.

Brad Finkelstein:
Okay. Thanks.

Operator:
Thank you sir. We have a question from Joe Light. Your line is open.

Joe Light:
Hi, good morning. Thanks for taking the question. I was wondering if you could talk a little bit about the decline in your serious delinquency rate, basically how much further you think that might go and at what point, especially looking at your post-2008 book versus your pre-2008 book, will the declining rate start to indicate that you guys, I guess, aren't taking on as much risk as you could or aren't getting delivered the loan from as many borrowers as you should be getting. Thanks.

Tim Mayopoulos:
Thanks Joe for the question. As I noted, our serious delinquency rate has declined for 29 straight quarters. I think that reflects obviously the fact that we're acquiring some new loans. Some old

loans are paying off. They're liquidating. That also reflects a very aggressive loss mitigation program that we've had in place for a number of years to try to, you know, bring borrowers current and avoid foreclosures.

We would expect that our rate would continue to gradually and slowly continue to decline, that that SDQ rate would continue to go down. I don't know that it will actually go down at the same pace as what we've seen in the past. I think it's moderating. But we would expect that to continue to go down.

You know, if you go back and look at, you know, what delinquency rates were like, you know, in the early 2000s in what people might consider to be a more normal housing environment, you know, rates in the neighborhood of 60-70 basis points were kind of what was normal then.

So I would expect kind of a slow gradual glide path back to that general vicinity. And, you know, that's what we would expect to happen. That might still take another, you know, another year or two to get there.

Joe Light:
Thanks.

Operator:
If anyone else would like to ask a question at this time, please press Star followed by 1 and you'll be announced in the conference. There are no further questions. I'll turn it back over to you sir for closing remarks.

Tim Mayopoulos:
Okay well thank you all for your attention and thanks for your questions. I hope you all have a great day. We'll talk to you another quarter. Thanks.