Fannie Mae Third Quarter 2017 Earnings Media Call Remarks Adapted from Comments Delivered by Timothy J. Mayopoulos, President and CEO, Fannie Mae, Washington, DC November 2, 2017

Operator:
Welcome and thank you for standing by. At this time, participants are in a listen-only mode until the question-and-answer session. Today's conference is also being recorded. If you have any objections you may disconnect. I will now turn it over to your host, Maureen Davenport, Fannie Mae's Senior Vice President and Chief Communications Officer.

Maureen Davenport:
Thank you, operator, and thank you all for joining the media call and webcast to discuss Fannie Mae's Third 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 strategy. Future events may turn out to be very different from these statements. The "Risk Factors" and "Forward-looking Statements" sections in the company's Third Quarter 2017 Form 10-Q, filed today, and its 2016 Form 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 a recording may be posted on the company's website. We ask that you do not record this call for public broadcast and that you do not publish any full transcript thereof.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 call over to Fannie Mae's President and CEO Tim Mayopoulos.

Tim Mayopoulos:
Good morning, everyone. Thanks for joining us. Let me start with an overview of our third-quarter 2017 financial results and the drivers of those results. We reported $3.0 billion in net income and $3.0 billion in comprehensive income for the quarter. These compare with net income of $3.2 billion and comprehensive income of $3.1 billion for the second quarter of this year.

I want to call out two items that affected our third-quarter results. First, we recognized an approximately $1.0 billion (pre-tax) provision for estimated credit losses related to loans affected by Hurricanes Harvey, Irma, and Maria. This provision is based on a number of assumptions and our estimate will likely change in the future as more information becomes available. Approximately 80 percent of the estimate relates to loans in Puerto Rico. I will share more on our response to the hurricanes in a moment.

The other item I want to note is the increase in fee and other income driven by approximately $975 million (pre-tax) from a settlement to resolve legal claims relating to private-label mortgage-related securities Fannie Mae purchased. This settlement partially offset our credit-related expense in the quarter. That expense was also offset by lower fair value losses, and higher net interest income driven by higher guaranty fee income.

Overall, the third quarter saw another solid performance by our Single-Family and Multifamily businesses. We provided approximately $150 billion in liquidity to the mortgage market in the third quarter through our guarantees and loan purchases that enable families to buy, refinance, or rent a home. This supported approximately 358,000 home purchases, 229,000 home refinances, and financing for approximately 189,000 multifamily housing units.

Our Multifamily business volume in the first nine months of the year was $46.8 billion and our Multifamily book continues to display solid credit quality as it grows. Lastly, the serious delinquency rate of our Single-Family book was 1.01 percent at the end of September. We expect our Single-Family SDQ rate will fall over the long term, though at a more modest rate, and period-to-period fluctuations are possible. Our Single-Family SDQ rate is likely to increase in the short term due to the hurricanes. Detailed information regarding the drivers of our third-quarter results can be found in our press release and quarterly report on Form 10-Q, which we filed today.

Looking ahead, we expect to remain profitable on an annual basis for the foreseeable future. However, as we have discussed in the past, fluctuations and 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.

Meanwhile, we will pay Treasury another $3.0 billion dividend in December if FHFA declares a dividend in this amount. This would bring our total dividend payments to Treasury to $168.8 billion.

Before taking your questions, let me address Fannie Mae's readiness to serve the market going forward.

As FHFA Director Mel Watt said in his Senate Banking Committee testimony in May, we have undergone significant reform the last nine years. Fannie Mae has stronger underwriting standards, and we created industry-leading loss mitigation and foreclosure prevention programs. We reduced our mortgage portfolio below the cap required under our agreement with Treasury a year ahead of schedule. We no longer have a stand-alone investment business, and our guaranty business now drives more than 75 percent of our net interest income.

Fannie Mae remained the largest issuer of mortgage-related securities in the third quarter. In addition, however, we are also the largest distributor of mortgage credit risk in today's market. Our credit risk transfer activities are now a normal part of our business, moving risk away from taxpayers and pulling in private capital. These reforms have made housing finance stronger, and they have put Fannie Mae in a strong position to serve the market going forward.

One example is our work so far in responding to this year's tragic hurricanes, which ravaged communities in Texas, Florida, Puerto Rico, the Virgin Islands, and other parts of the Southeast. Hurricanes begin as a weather crisis, but for families in their path, the result is often a housing crisis. The recent storms put millions out of their homes and Fannie Mae mobilized quickly in response.

We are ensuring that our Single-Family and Multifamily customers have the information, tools, and flexibility they need to help affected homeowners and renters. Fannie Mae authorizes servicers, for example, to suspend or reduce a homeowner's mortgage payment for up to 90 days without any contact with the homeowner where the servicer believes the homeowner has been affected by a disaster.

We are also providing transparency for investors by giving them frequent updates and tools to understand the storms' potential impacts. We understand that the damage from the storms will be with us for a long time. We are committed to working with our customers, partners, and federal and local authorities to help families and communities recover in the months and years ahead. We will be there during the recovery and after the recovery.

The reforms we have put in place have also put us in a stronger position to deliver value for customers in the broader housing finance system. Today's Fannie Mae puts our customers at the center of everything we do. We are taking on our customers' challenges as our challenges. We are listening to customer feedback and using it to make the solutions we offer better and smarter.

We have a commercial mindset, a drive to innovate, and a bias for action. Two weeks ago, we introduced additional solutions to help our customers wring time and costs from the mortgage process and to help them deliver a better mortgage experience for borrowers. We introduced Single Source Validation. This will allow lenders to validate many borrowers' income, assets, and employment by running a single asset report instead of two or three. This will save our customers time and money, and also make borrowers' lives easier. Single Source is now in pilot, and we plan to roll it out as an option for all of our customers next year.

We also introduced a new Application Program Interface platform. Our API platform will provide customers with a quick and convenient way to plug into our data and technology. We will start by introducing DU® messages API in early 2018. This provides lenders large and small with all the information they need from Desktop Underwriter® to originate a loan.

Finally, next month we will launch a new Servicing Marketplace. This will start to provide sellers and servicers with more certainty, transparency, and efficiency for servicing transfers when a loan is sold to us.

Taken together, these innovations will mean less cost, less time, and more transparency and certainty for our customers.

In conclusion, we had another strong quarter backed by strong business fundamentals in our guaranty business. We are also delivering a steady stream of innovative solutions for our customers. These solutions represent meaningful steps toward a fully digitized mortgage process that is faster and easier for everyone. They help our customers cut costs and give them the ability to lend with certainty to more creditworthy borrowers, including first-time homeowners. And they help make our housing finance system stronger, safer, and smarter.

Now, I am happy to open it up to take your questions. Thanks.

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. The first question comes from Joe Light. Sir, your line is open.

Joe Light:
Hi. Good morning. Thanks for taking the question. I was wondering if you could talk a little bit more about Puerto Rico; I guess, whether you guys have been able to, you know, you've got people on the ground actually inspecting your properties, and what you know and don't know at this point about potential damages there?

Tim Mayopoulos:
Thanks, Joe, for the question. I'll give a couple comments and then turn it over to Dave Benson, our CFO, who is here with me. What I'd say is that we have taken steps to gather up as much information as is available in Puerto Rico. Unfortunately, the amount of information that is available is pretty limited at this point.

A hurricane occurred relatively late in the quarter and so we haven't had as much time to get information from servicers as we would ideally like to have. But we expect that information to be coming in over the coming months, and we would expect to be making further evaluations of the provision that we've taken. But with that, I'll turn it over to Dave and he can give you some of the more granular details.

Dave Benson:
Yes. Hi, Joe. To your point, you know we've begun to get some information from the ground in terms of having people look at some of the properties in particular. We have REO in the area and begun to do some work to be able to understand the conditions there. But it's been pretty difficult to get a comprehensive view from the ground given, you know, the difficulty getting to various parts of the island and being able to get through everything. It's just there hasn't been enough time.

The storm hit I think in the third week of September, Hurricane Maria, and so it's pretty limited in terms of that information. We started to use some technologies, such as drones, to be able to get some read on what the damage looks like from above in some of these areas. But as you can imagine, it's kind of sketchy information, so we're doing the best we can. We'll obviously be learning a lot more in the days and weeks ahead as we get through the information as it comes through.

Coordinator:
The next question comes from Bonnie Sinnock. Your line is open.

Bonnie Sinnock:
Hi. I was kind of surprised, it sounds like Puerto Rico is, if I heard you right, 80 percent of the estimate the provisions for the damages from the hurricanes. I wondered what made that sort of the – is some of that kind of uncertainty and not kind of overestimating at this point potentially? Or is it severity? Number of loans? I don't know if you can give me a sense of that.

Tim Mayopoulos:
Sure. So I think what we've done here is we've obviously used past hurricanes as an important set of data with respect to how to estimate the potential losses coming out of these three hurricanes – Harvey, Irma, and Maria. I would say that none of the past hurricanes is a perfect proxy for any of these three storms, but the storms of Harvey and Irma I think are more consistent with what we've experienced in the past with storms such as Sandy and Andrew. You know, with respect to Maria, we would say that it had more qualities like the Katrina storm, but probably worse in many respects than Katrina.

And in addition, as we just talked about, the amount of information that's currently available is far from perfect. So as a result, I think we feel more confident about the likely accuracy of the estimates we made for Harvey and Irma, and it's just much more uncertainty with respect to Maria. So we did our best to make a reasonable estimate of what we think the likely losses are there, but there's no doubt that that estimate will be adjusted either up or down depending on what the facts end up showing over time.

Operator:
Thank you. Currently there are no questions in queue.

Tim Mayopoulos:
Okay. Well, thank you all for your participation this morning. Thanks for your questions. We hope you have a great day. We'll talk to you in another quarter. Thanks.

Operator:
Thank you for your participation in today's conference. Participants, you may disconnect.