Keys to Recovery Initiatives

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn. The initiatives include:

Refinancing "Underwater" Borrowers

With home prices declining in many areas of the country and lending standards tightening as a result of the ongoing turmoil in the housing finance system, many borrowers find themselves with mortgages that exceed the value of their homes and are locked out of refinancing into safer loans that would allow them to sustain their mortgage payments.

In order to assist borrowers whose home equity is "underwater," reduce foreclosures, and support sustained homeownership, Fannie Mae will purchase refinanced loans the company owns for up to 120% of the current property value provided the borrower is current with their mortgage payments.

HFA Investment

Housing finance agencies (HFAs) exist to provide affordable homeownership and rental housing opportunities within their states. The majority of HFA single-family business is for first-time home buyers who have received borrower counseling and down payment and/or closing cost assistance from the government.

Fannie Mae has maintained a long-term agreement with the National Council of State Housing Agencies (NCSHA) to purchase loans generated by the HFAs. The company is renewing and expanding its agreement with NCHSA to purchase up to $10 billion in HFA loans by the end of 2009. In addition, the company will provide access to low down payment mortgage products at competitive prices, resulting in more advantageous financing opportunities for first-time home buyers.

Neighborhood Stabilization

In order to minimize the neighborhood impact of foreclosed properties, Fannie Mae will support an initiative with Self-Help in partnership with local nonprofits to purchase foreclosed homes in hard-hit neighborhoods. The nonprofits would acquire and rehab the properties, and then sell them to qualified borrowers or enter into a customized lease-purchase agreement. The initiative will be geared toward borrowers who have the income to qualify for the home purchase, but need additional time to improve creditworthiness. Participants choosing the rent-to-own option would be granted up to five years to qualify for the mortgage and receive extensive credit counseling during the lease period.

Jumbo-Conforming Loans

Following passage of the Economic Stimulus Act of 2008, Fannie Mae is temporarily able to purchase loans greater than the conventional-conforming loan limit of $417,000. In certain high-cost areas as designated by HUD, the company is able to purchase jumbo-conforming loans up to $729,750 in the continental U.S. The company is now accepting deliveries of 15-year and 30-year fixed-rate (FRM), and certain adjustable-rate (ARM), jumbo-conforming mortgages.

In order to bolster liquidity in the jumbo-conforming market and help reduce rates for jumbo-conforming mortgages in high-cost areas, the company now:

- Prices new jumbo-conforming loans flat to conforming for portfolio asset acquisition through the end of the year. Although jumbos are not TBA-eligible, we price them as if they were.
- Allows for cash-out, jumbo-conforming loan refinancings.
- Offers expanded loan-to-value (LTV) criteria for jumbo-conforming purchase loans and limited cash-out refinancings.
- Offers expanded jumbo-conforming FRM and ARM options.

Under the Housing and Economic Recovery Act of 2008, a new permanent loan limit formula takes effect January 1, 2009. Using current calculations, the formula would result in a loan limit of up to $625,500 in high-cost areas.

HomeStay

The company's Keys to Recovery™ efforts build on Fannie Mae's HomeStay® initiative announced last year. The company is working with lenders, loan servicing companies, and policy makers to respond to the housing and mortgage market crisis with a goal to minimize the impact on families and communities by preventing foreclosures, supporting counseling efforts, and providing market stability.

Through HomeStay®, since the beginning of 2007, the company has:

- Helped more than 200,000 at-risk homeowners refinance into safer loans or work out their loans, including nearly $28 billion in refinancings for subprime borrowers.
- Provided more than $10 million in grants – and hundreds of employee volunteer hours – to support foreclosure prevention counseling and workshops since the housing crisis deepened last year.
- Worked with loan servicers to emphasize work-outs for delinquent loans, instituted attorney incentive fees for workouts, provided HomeSaver Advance™ loans that allow borrowers to catch up on their delinquent mortgage payments, deployed staff to work on-site with our largest servicers, and made dozens of operational changes and enhanced servicer authorities to allow for easier modifications and work-outs.
- Supported HOPE NOW initiatives and public policies to give at-risk and delinquent borrowers a better chance to afford their mortgages.

National Down Payment Policy

On May 16, 2008, the company announced a new, single down payment policy in all communities across the nation for conventional, conforming mortgages the company will purchase or guarantee. Starting with loan applications taken on June 1, 2008, Fannie Mae will accept up to 97 percent loan-to-value ratios for conventional, conforming mortgages processed through its Desktop Underwriter® automated underwriting system, and 95 percent loan-to-value ratios for loans underwritten outside of Desktop Underwriter, in all geographic locations in the United States.

This new national down payment policy will supersede the "Maximum Financing in Declining Markets Policy" Fannie Mae adopted in December 2007, which required higher down payments in markets where home prices are declining. The new policy now equalizes down payment requirements across the country, regardless of local market conditions.

Affordable Rental Housing

Demand for affordable rental housing is accelerating during the downturn in the housing market. Population growth is expected to add still more demand in coming years. While the need is growing, production of affordable rental housing continues its five-year decline.

Fannie Mae, as the nation's largest investor in affordable multifamily housing, has a responsibility for this vital segment of the market. It has committed to providing more financing for small rental properties. It will continue to be the leading source of financing for seniors housing, including assisted living, independent living, and Alzheimer's facilities. The company will purchase bonds that fund housing for members of the military and make financing available for housing that is eligible for state and federal subsidies.

Streamlined Refinancing for "Underwater" Borrowers

Many homeowners want – or need – to refinance their homes and lower or stabilize their monthly payments. But in communities where home prices are falling, many homeowners have mortgages that exceed the value of their homes, keeping them from refinancing or requiring them to come up with thousands of dollars in cash to make up the difference. The housing finance system has a vested interest in their success – both to protect these homeowners, and to stabilize home prices by preventing more foreclosed properties from coming onto the market.

Fannie Mae's response: The company will help lenders offer existing Fannie Mae borrowers with a good payment history a streamlined refinance option for up to 120 percent of the property's current value. That means, for example, if a borrower owes $240,000 on a Fannie Mae loan, and is current on the loan, but the value of his home has fallen to $200,000, Fannie Mae will refinance the full $240,000 loan at the company's favorable, conventional, conforming terms. The streamlined refinancing could help as many as 150,000 households obtain more stable and affordable mortgages, and protect their homes.

Aid to Housing Recovery

- Borrowers may be able to reduce their monthly mortgage payments, refinance into a more stable and affordable mortgage, and make homeownership more sustainable for the long-term
- Borrowers can refinance their loans in a streamlined process by contacting their current servicer
- Streamlined refinancing is available for borrowers moving into fixed-rate mortgages or longer-term, fixed-period adjustable-rate loans
- Fannie Mae will purchase loans through its Capital Markets Sales Desk starting August 1, 2008, and will be able to provide MBS execution at a later date

Result: *More homeowners are able to stay in their homes over the long term, resulting in fewer foreclosures and homes going back on the market.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.

Expanding the Reach of State Housing Finance Agencies

Home prices are falling in many areas, but with the tightening of mortgage credit and reduced availability of affordable mortgage financing, many working families with modest incomes and good credit have been cut out of the home-buying market. However, State Housing Finance Agencies (HFAs) have a long and successful track record of providing homeownership to first-time home buyers, as well as creating affordable rental housing and solving housing issues within their individual states. They are key partners in support of the housing market recovery.

Fannie Mae's response: The company is expanding its partnership with the National Council of State Housing Agencies to provide flexible financing options to enable them to expand their service to first-time home buyers of modest means. Fannie Mae is pledging to purchase up to $10 billion in mortgages with favorable terms from the agencies through 2009, potentially serving 80,000 families. Working families are the backbone – and future – of the housing market. Providing first-time home buyers of modest means the flexible financing they can afford will support the sale of homes, and help the housing market recover.

Aid to Housing Recovery

For Borrowers

- Low- and moderate-income families with good credit receive either down payment assistance or a below market-rate loan through their state HFA to help them obtain affordable financing to buy a home
- Home buyers with good credit will be able to purchase homes with affordable financing and flexible down payments
- Pre-purchase home-buyer education for all buyers

For State Housing Finance Agencies

- Access to low down payment mortgage products at competitive prices
- The potential to further their mission and create opportunities for first-time home buyers by taking advantage of credit flexibilities, including the ability to underwrite loans manually or through Desktop Underwriter®
- Access to affordable mortgage products that can help them serve borrowers with good credit in communities across the country
- Favored-customer access to Fannie Mae's whole loan sale and mortgage securitization executions

Result: *Home buyers can obtain flexible financing in a tight market, while home builders and sellers will find a larger pool of potential buyers who have limited means but the demonstrated willingness and ability to afford the mortgage.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.

Financing to Stabilize Hard-Hit Neighborhoods

Certain neighborhoods across the United States have been hit particularly hard by the housing downturn. Extensive foreclosures and empty homes have further depressed home values and the ability of markets to recover. These neighborhoods need to get families back into the homes rather than allowing the homes to deteriorate. At the same time, working families struggling with the housing downturn need an affordable place to live and potentially to own.

Fannie Mae's response: The company is providing up to $200 million in financing to Self-Help, the nation's oldest and largest self-help housing organization, to turn foreclosed properties into homeownership opportunities. Self-Help will work with nonprofit partners to purchase, rehabilitate, and sell foreclosed properties to qualified buyers, or enter into rent-to-own agreements with borrowers who have the income but lack the credit history to qualify. The rent-to-own agreement gives the tenant/borrower up to five years to qualify for a mortgage. Extensive counseling will also be provided to the tenant/borrower during this time.

How the Fannie Mae/Self-Help initiative works: Fannie Mae has long provided Self-Help with flexible home financing, low down payments, and better terms for borrowers with lower incomes and less than perfect credit.

In this initiative:

- Fannie Mae will provide a custom rent-to-own variance
- Self-Help will identify and work with a nonprofit organization to purchase foreclosed homes and act as property manager under a rent-to-own agreement
- The nonprofit would then acquire, rehabilitate, and sell the properties to qualified buyers or enter into a rent-to-own agreement with borrowers who have the income, but lack the credit history, to qualify for conventional, conforming financing
- The rent-to-own agreement gives the tenant/borrower up to five years to qualify for a mortgage
- The nonprofit will also provide extensive counseling to the tenant/borrower

Aid to Housing Recovery

- Help the housing industry and communities deal with the wave of home foreclosures, which is expected to continue through 2008
- Help neighborhoods – many formerly at risk – to avoid "turning back the clock" and regressing due to empty properties
- Encourage other potential home buyers to move into foreclosure-hit neighborhoods

***Result:** Restoring neighborhoods hit hard by foreclosures by enabling families to rent, and eventually own, empty homes, putting the houses back into service – and stabilizing local communities.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.

Expanded Financing for High-Cost Communities

Families in high-cost communities continue to struggle to obtain financing to buy homes or refinance into more affordable mortgages. In the wake of the housing crisis, funding for "jumbo" lending – loans above the $417,000 GSE limit – was curtailed, rates increased significantly, availability of loans decreased, or qualifications were more restrictive. Home buying in high-cost areas stalled – and home sales fell.

As a remedy, The Economic Stimulus Act of 2008 provides a temporary increase to the GSE conventional loan limit, permitting Fannie Mae to purchase loans above $417,000 in HUD-designated high-cost areas. On April 1, 2008, Fannie Mae began purchasing loans up to the new "jumbo-conforming" limit of $729,750 in those high-cost areas.

Fannie Mae's response: Starting May 7, 2008, Fannie Mae began buying new jumbo-conforming loans and MBS at flat to conforming pricing for portfolio asset acquisition, and will continue to provide this improved pricing through the end of the year. Fannie Mae urges its lender customers to pass its improved pricing to borrowers in their all-in financing costs. Fannie Mae has also significantly expanded its eligibility (now allowing cash-out refinances and lowering the down payments for ARMs and limited cash-out refinances) and increased the product offerings for jumbo-conforming mortgages. The favored pricing covers all of Fannie Mae's jumbo-conforming product offerings (those previously offered as well as the additional products now offered) and includes all transaction types: for purchase, limited cash-out, and cash-out refinances.

The Housing and Economic Recovery Act of 2008 set a permanent loan limit formula for certain high-cost areas effective January 1, 2009. Given the current conforming loan limit of $417,000, the formula would result in a loan limit of up to $625,500 in those high-cost areas. Higher limits may apply to loans from Alaska, Hawaii, Guam, and the Virgin Islands.

Aid to Housing Recovery

- Further stimulate the flow of affordable home loans with significantly lower rates and reasonable down payments for working families in high-cost areas
- Enable home sales, which can help to stabilize home prices
- Provide working families with affordable financing so they can purchase homes where the average price surpasses what an average income can afford

Result: *Working families in areas where the average home loan exceeds $417,000 – the conventional, conforming loan limit – will have better access to financing, at the most affordable terms and rates in the market today. The goal is to promote homeownership, particularly in areas that have stalled for a lack of financing at favorable rates and terms.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.

Serving Today's Challenging Housing Market

Fannie Mae works with lenders, loan servicers, nonprofits, and policy makers to minimize the impact of the housing crisis on families and communities. The company's HomeStay® initiative focuses resources on preventing foreclosures, supporting outreach and counseling, and speeding the recovery by providing a steady flow of affordable mortgage funds to lenders and home buyers.

As the nation's largest purchaser of home mortgages, Fannie Mae provides stability, liquidity, and affordability under all economic conditions. The company responds to market needs in four ways:

Keeping People in their Homes by Preventing Foreclosure

Everyone benefits when homeowners avoid foreclosure, which also hurts mortgage lenders, communities, and the housing market. Fannie Mae works with lenders and servicers to help struggling borrowers work out or refinance their loans. As the number of troubled loans grows, Fannie Mae's HomeStay efforts to prevent foreclosure are keeping pace. Those efforts include:

- **Greater flexibility** provided to servicers to assist borrowers. Fannie Mae instituted 18 operational changes requested by servicers to help them work more effectively with borrowers. As a result, servicers now make 80 percent of mitigation decisions.
- **Increased incentive fees** for lenders who work out loans or refer borrowers to counseling. The company also offers incentives for attorneys who work out loans rather than foreclose.
- **HomeSaver Advance™,** a personal loan available through servicers to help borrowers who are delinquent due to a temporary hardship catch up on payments.
- **Support for Project Lifeline,** an initiative by major lenders that offers delinquent borrowers more time to find alternatives to foreclosure.

Result: *Fannie Mae has helped more than 255,000 borrowers keep their homes, including 95,000 who worked out manageable loan terms and 160,000 who refinanced into sustainable loans totaling $31 billion. Thousands of loan work-outs are completed each week. [Data as of 6-30-08]*

Empowering Homeowners and Counselors

Millions of homeowners have fallen behind on their mortgage payments, but many avoid foreclosure by getting timely assistance. Through grants, Fannie Mae supports nonprofit organizations that reach at-risk and delinquent homeowners with information and counseling that can help them stay in their homes.

Fannie Mae support includes:

- **HOPE hotline** (1-888-995-HOPE). Fannie Mae is the largest corporate sponsor of the hotline. Its $5 million contribution supports counseling and outreach in partnership with the Homeownership Preservation Foundation and NeighborWorks® America.
- **National and community-based nonprofit organizations** and state housing finance authorities that counsel at-risk borrowers to seek ways to avoid foreclosure. Support includes grants for collateral materials, outreach efforts, and capacity-building.
- **Foreclosure prevention workshops** that bring together borrowers, counselors, and servicers to resolve delinquent loans. Hundreds of Fannie Mae volunteers support the workshops.

Result: *Fannie Mae has provided more than $10 million in grants and hundreds of employee volunteer hours to support foreclosure prevention efforts. [Data as of 6-30-08]*

Helping Stabilize the Housing and Mortgage Markets

The housing correction has slowed the flow of funds to the mortgage market. This lack of liquidity can make it more difficult and more expensive to obtain mortgage financing, so Fannie Mae has increased the amount of mortgage financing flowing to its lender partners and home buyers.

Fannie Mae provides stable funding for:

- **Buying a home.** Lenders deliver mortgage loans to Fannie Mae to replenish their supply of funds available to make more loans. Fannie Mae packages loans into mortgage-backed securities that are sold to investors or holds them in its portfolio.
- **Refinancing.** By replenishing lenders' funds, Fannie Mae helps lenders serve homeowners who refinance into sustainable loans or take advantage of low mortgage rates.
- **High-cost areas.** Fannie Mae purchases or guarantees loans up to $729,750 in specified high-cost areas under a temporary loan limit increase authorized by Congress. Under terms of the Housing and Economic Recovery Act of 2008, a new permanent loan limit formula takes effect January 1, 2009. Using current calculations, the formula would result in a loan limit of up to $625,500 in high-cost areas.
- **Rental housing.** The housing correction has increased demand for affordable rental housing. Fannie Mae purchases and securitizes multifamily housing loans that finance apartment buildings and other rental housing.

Result: *Mortgages are available for home buyers with good credit and reasonable down payments. To meet the need for liquidity, the company has purchased or guaranteed more than $1.1 trillion in single family and multifamily housing loans since the housing crisis deepened. [Data as of 6-30-08]*

Making Housing More Affordable

While prices are falling in many areas, finding affordable housing remains a challenge for working families. Renting can be an option, but reasonably priced units are scarce.

Fannie Mae supports affordable housing through:

- **Affordable, sustainable lending.** Fannie Mae provides lenders with affordable mortgage products that balance prudent risk with sustainable terms.
- **Multifamily rental housing.** Fannie Mae invests through loans and equity participation in affordable rental housing.
- **Community development.** Fannie Mae works with housing finance agencies to provide financing for workforce housing and purchase affordable mortgage loans.
- **Being in all markets at all times.** Fannie Mae responds when extraordinary circumstances create a housing crisis. Since hurricanes in the Gulf Coast destroyed or severely damaged 300,000 homes in 2005, the company has helped the region rebuild and increased financing available for mortgages in affected areas.

Result: *Last year alone, Fannie Mae helped finance affordable housing for nearly 1.3 million low- and moderate-income home buyers and more than one million renters.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.

National Down Payment Policy

As the housing crisis has accelerated, the mortgage industry has been reminded of the importance of homeowners' equity. Equity, credit history, and the buyer's capacity to pay the mortgage over the long haul remain the best predictors of successful, sustainable homeownership – especially in markets where home prices are declining. At the same time, higher down payment requirements can force some borrowers with good credit histories to "wait on the sidelines."

Fannie Mae's response: On May 16, 2008, the company announced a new, single down payment policy in all communities across the nation for conventional, conforming mortgages the company will purchase or guarantee. Starting with loan applications taken on June 1, 2008, Fannie Mae will accept up to 97 percent loan-to-value ratios for conventional, conforming mortgages processed through its Desktop Underwriter® automated underwriting system, and 95 percent loan-to-value ratios for loans underwritten outside of Desktop Underwriter, in all geographic locations in the United States. This new national down payment policy will supersede the "Maximum Financing in Declining Markets Policy" Fannie Mae adopted in December 2007, which required higher down payments in markets where home prices are declining. The new policy now equalizes down payment requirements across the country, regardless of local market conditions.

Aid to Housing Recovery

For Borrowers

- Lower down payments of three to five percent for loans to purchase one- and two-unit, principal residences
- Continued acceptance of qualified down payment assistance programs
- Available to all communities across the country

For Lenders

- Fannie Mae will accept up to 97 percent loan-to-value ratios for conventional, conforming mortgages underwritten through Desktop Underwriter
- Fannie Mae will accept up to 95 percent loan-to-value ratios for loans underwritten outside of Desktop Underwriter
- Fannie Mae will accept up to 90 percent loan-to-value and combined loan-to-value for jumbo-conforming loans
- New policy supersedes the "Maximum Financing in Declining Markets Policy"
- Fannie Mae will continue to purchase loans with Community Seconds® up to a maximum 105 percent combined loan-to-value ratio. Community Seconds allows a second-lien mortgage to help cover down payment and closing costs, with funding typically provided by a state or local housing agency, an employer, or a nonprofit organization
- Fannie Mae will continue to make available MyCommunityMortgage® and Flexible Mortgage products, which permit down payment assistance programs in the form of gifts and grants
- Lenders and home builders will have access to a larger pool of potential buyers who can afford a mortgage but not a substantial down payment

***Result:** Home buyers can obtain financing under more flexible terms and, with equity in their homes at closing, they are more likely to remain homeowners over the long term. Lenders have another option for potential home buyers.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.

Investing in Affordable Rental Housing

An estimated one-third of Americans rent their homes or apartments. As foreclosures increase and home sales stall in many areas, the number of renters is growing along with the demand for affordable rental housing. In 2007, the number of renter households surged four times faster than in previous years. Population growth will continue to drive demand for rentals. According to a recent report by Harvard University's Joint Center for Housing Studies, households should grow rapidly over the next several years, increasing by 14.4 million from 2010 to 2020. Many new and existing households will need affordable rental housing or will choose to rent because it meets their needs. Yet construction of multifamily rental units has declined for five consecutive years.

Fannie Mae's response: As the nation's largest investor in multifamily rental housing, Fannie Mae financed $60 billion in multifamily housing in 2007, an industry record. About 88 percent of those units were affordable to families at or below the median income of their communities. To help meet the demand for rentals and to help stabilize the rental market, Fannie Mae is focusing on key areas of the business. The focus includes:

Small Loans
- Fannie Mae will purchase more loans up to $3 million, or $5 million in certain high cost markets, that finance small multifamily properties.
- Fannie Mae has expanded its network of small-loan lenders and is helping lenders increase their lending to finance affordable properties, especially in urban areas near public transportation.

Seniors Housing
- Fannie Mae invests in the development, renovation, acquisition, and refinancing of rental housing for seniors, including assisted living, independent living, and Alzheimer's facilities.
- Despite challenging credit and market conditions, Fannie Mae plans to continue to be the largest investor serving this important market.

Military Housing Bonds
- Fannie Mae will help restore stability to the military housing bond market by purchasing up to $1 billion in bonds that finance the renovation of existing on-base housing and construction of new housing.

Multifamily Affordable Housing and Bond Credit Enhancements
- Fannie Mae works with lenders to provide financing or refinancing for properties that receive state and federal subsidies, including Low Income Housing Tax Credits (LIHTC), tax abatements, and rental subsidies in order to create or preserve affordable housing. The company also helps to restore liquidity to the affordable multifamily bond market by continuing to offer its Bond Credit Enhancement product, which provides credit enhancement for tax-exempt bonds issued by state and local housing finance agencies and is often used to finance LIHTC properties and preserve older HUD-assisted properties.

***Result**: As the need for rental housing becomes more critical, the steady flow of investments in this market will assure that working families, retirees, members of the military, and others can find housing that is safe, convenient, and affordable.*

Fannie Mae's Keys to Recovery™ initiatives are geared toward providing liquidity, stability, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective home buyers with home purchases, and stabilize communities impacted by the mortgage market downturn.