Fannie Mae's historical mission is to provide liquidity, stability and affordability to the U.S. housing finance system, in all communities, under all economic conditions – in good times and especially in challenging times such as those we face today.

In September 2008, the federal government placed the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac into conservatorship and committed significant financial resources to their operations. These actions have enabled Fannie Mae to help millions of Americans buy, refinance and rent affordable housing in the midst of the worst housing downturn since the Great Depression.

Working with our partners, we also helped borrowers avoid losing their homes to foreclosure and helped stabilize neighborhoods hurt by the housing crisis. These efforts are essential to bring about recovery in the housing market.

We take our mission and mandate very seriously. Our 6,000-plus employees are focused on – and motivated by – the work we do to help struggling families and communities.

Given the government's unprecedented support for Fannie Mae, we feel it is appropriate to describe our efforts to support the market. This report covers our activities in 2009.

Our efforts will continue as we work with our housing partners and the government to restore the health of America's housing market.
The government has provided significant financial assistance to the GSEs under conservatorship, underscoring the critical role we play in the recovery of the housing market and the economy as a whole. Through Fannie Mae, Freddie Mac and the Federal Housing Administration, families are able to get new mortgages, refinance existing mortgages or obtain affordable rental housing.

As other sources of liquidity have left the market, Fannie Mae has continued to buy or securitize mortgage loans originated by credit unions, community banks, commercial banks and other institutions. Many of these loans are packaged into mortgage-backed securities (MBS) and sold to investors.

The U.S. Treasury and the Federal Reserve purchased our MBS to keep single-family mortgage rates affordable and help stabilize the housing market, resulting in interest rates for single-family loans at about 5 percent or below, among the lowest in history.

Mortgage rates for multifamily loans, about 6 percent or below for 10-year loans during 2009, have also remained steady during the downturn through the stabilizing impact of Fannie Mae and Freddie Mac. This has helped assure adequate debt financing for rental housing.

In addition to providing financial support, the government has mandated that Fannie Mae not only continue our day-to-day activities in support of the market, but also undertake extraordinary efforts to help bring about a housing recovery.
Support for Markets
Fannie Mae provided $823.6 billion in funding, or “liquidity,” to keep the single-family and multifamily mortgage markets operating during 2009. Fannie Mae was responsible for more than 40 percent of the mortgage-related securities issuances, which made funds available for people to buy and refinance homes. We also provided over 40 percent of financing for rental housing.

Through this funding, Fannie Mae provided financing that helped:

- 600,000 borrowers buy homes during the tightest mortgage credit market in decades,
- 2.5 million borrowers refinance into loans with lower payments, better terms or to meet other needs, and many borrowers were able to refinance despite having lost equity, and
- Purchase, refinance or rehabilitate 372,000 rental units.

In addition, more than 160,000 borrowers with Fannie Mae-owned loans were able to keep their homes through loan modification or other loan assistance.

Support for Making Home Affordable
In February 2009, the Administration announced the Making Home Affordable Program – the most aggressive housing relief effort in decades – and gave Fannie Mae two distinct and central roles in the program:

- **Loan modification:** The U.S. Treasury appointed Fannie Mae as its agent to administer the Home Affordable Modification Program (HAMP). This program helps struggling borrowers – those whose loans are owned or securitized by Fannie Mae or Freddie Mac and those financed by other institutions – to modify their loans and avoid losing their homes to foreclosure.

- **Loan refinancing:** Under the Home Affordable Refinance Program (HARP), which is available to borrowers with GSE-owned or guaranteed loans, Fannie Mae offers many of our borrowers the opportunity to refinance into better loans, even if the value of their homes has declined to the point where they owe more than their homes are worth. Such low or negative equity normally is a barrier to refinancing.
I. Liquidity to Keep Financing Flowing

Investor capital is essential to a functioning mortgage market. As home prices, home sales, housing starts and mortgage originations fell sharply during the housing downturn, many mortgage investors left the market.

To help support the market, Fannie Mae receives assistance from the U.S. government in three ways:

- Funding commitment from the U.S. Treasury to support our net worth,
- U.S. Treasury and Federal Reserve programs to purchase GSE debt and MBS, and
- Availability of a U.S. Treasury credit facility (which was never used).

The purchase programs are set to be completed by March 31, 2010, and the credit facility expired on December 31, 2009. (The funding commitment from the U.S. Treasury does not expire.)

With this infusion of financial support, Fannie Mae has been able to provide mortgage lenders with funds to lend to homebuyers, refinance loans and finance multifamily housing at affordable rates.

Fannie Mae financing reaches the market through our three complementary businesses: Single-Family Mortgage Business, Housing and Community Development (Multifamily) and Capital Markets. Single-Family and Multifamily acquire mortgage loans from lenders and, in most cases, package them into Fannie Mae MBS. Stamped with our credit guaranty, the MBS become more marketable and thus support lower interest rates. Capital Markets serves as the interface between Fannie Mae and the open markets by issuing debt securities that are purchased by investors, which raises capital to fund housing and mortgage markets.

**Financing for Homebuyers and Homeowners**

Fannie Mae’s role as a consistent provider of liquidity to the single-family mortgage market has contributed to a lower mortgage rate for 30-year fixed-rate conforming mortgages relative to “jumbo” mortgage loans (loans above our current $417,000 limit in most markets). During 2009, millions of borrowers took advantage of the lowest rates in 50 years to buy and refinance homes. As previously noted:

- Fannie Mae worked with more than 1,000 lender partners – customers large and small – to provide financing for 600,000 borrowers to buy homes and for 2.5 million homeowners to refinance their loans.
- Fannie Mae introduced “Refi Plus,” a streamlined refinancing process, in April 2009, which served 329,000 of our borrowers.
Support for Housing Finance Agencies
State and local housing finance agencies (HFAs) are one of the largest sources of affordable lending for working families to buy homes and to build and preserve affordable rental housing. Over the years, HFAs have served more than six million families. The agencies finance their lending primarily by issuing housing bonds for sale to investors. The financial crisis, however, disrupted HFAs’ access to investor capital, restricting their efforts.

In October 2009, the U.S. Treasury launched an initiative to return liquidity to the HFAs. Fannie Mae and Freddie Mac were asked to design and implement the HFA Initiative by the end of 2009. Fannie Mae’s long-standing partnership with HFAs enabled us to move quickly, mobilizing specialists from across the company to launch the $23.5 billion initiative in just 70 days. As a result:

- HFAs can access $15.3 billion in new tax-exempt capital available through U.S. Treasury purchases, and leverage an additional $7.7 billion.
- HFAs can stabilize their balance sheets using $8.2 billion in new temporary credit and liquidity facilities.

With funding provided through the HFA Initiative, HFAs are expected to help more than 200,000 households buy or rent affordable homes. Lending by HFAs in 2010 could equal the peak years of 2006 and 2007. Fannie Mae also provided the HFAs with access to $958 million for single-family lending in 2009 above and beyond the HFA Initiative. We also developed single-family affordable lending options tailored for HFAs.

Financing for Multifamily Rental Housing
As the multifamily rental market faced a challenging year in 2009, Fannie Mae remained the primary source of liquidity for multifamily borrowers.

- We were responsible for over 40 percent of financing in the multifamily market — more than any other private or government-sponsored enterprise. More than 80 percent of this financing came through packaging and securitizing loans into MBS.
- We provided $19.8 billion in permanent financing for the purchase, refinance or rehabilitation of approximately 372,000 rental units. Of those, 87 percent were affordable units for low- and moderate-income families.

Fannie Mae helps stabilize multifamily interest rates as a consistent and reliable source of financing, which helps to create affordable rental housing even in challenging times.

Help for Smaller Lenders
The credit crunch has hit small and mid-sized lenders especially hard. Lines of credit have dried up and investors interested in buying loans are hard to find. Lack of credit leaves many lenders without funds to continue making loans to homebuyers.

Fannie Mae’s Capital Markets group offers options to smaller lenders to bolster their cash flow:

- We buy a lender’s whole loans, principally for the purpose of securitizing them. We securitized about $83 billion in loans bought for cash in 2009.
- We speed up access to funds so a lender receives quicker payment for loans exchanged for Fannie Mae MBS. Our early funding totaled $103 billion in 2009.
II. Stability for Homeowners and Communities

The economic downturn that hurt families and communities all over the country affected Fannie Mae borrowers as well. We own or guarantee 18 million mortgages, about one in every four in America. About 5 percent of our borrowers were three months or more behind in their payments as of December 31, 2009. While our rate of serious delinquency is lower than the market as a whole, which is facing a serious delinquency rate of 10 percent, every default creates pain for the borrower and a financial loss for us.

We work to help struggling families stay in their homes and avoid foreclosure, which reduces our credit losses and reduces the burden on the taxpayers who now fund our enterprise. Making Home Affordable (MHA) offers important tools: HAMP, the modification program, and HARP, which provides access to refinancing.

For borrowers unable to stay in their homes, we also offer options that help homeowners make a smooth transition to other housing.

Helping Troubled Borrowers

Under the HAMP loan modification initiative, all loans owned or guaranteed by Fannie Mae or Freddie Mac – as well as non-GSE loans handled by more than 100 mortgage servicers participating in the program – must be evaluated to see if they are eligible for HAMP workouts before a foreclosure sale can occur.

The U.S. Treasury has reported that 902,000 borrowers started HAMP trial modifications in 2009. About 330,000 were Fannie Mae borrowers. Borrowers must successfully make modified payments for a trial period of at least three months before a permanent modification takes effect. According to the U.S. Treasury, about 66,000 borrowers received permanent loan modifications. The median savings for the borrowers was more than $500 per month.

When a borrower with a Fannie Mae-owned loan does not qualify for HAMP, we offer other workout options through our servicers. In 2009, Fannie Mae provided more than 75,000 of our borrowers with non-HAMP modifications and helped another 62,000 borrowers keep their homes through repayment plans, payment forbearance or an unsecured personal loan used to bring the mortgage loan current.
Special Refinancing
Of the 2.5 million borrowers who refinanced their mortgages with Fannie Mae financing in 2009, 329,000 refinanced through our streamlined process, including 104,000 Fannie Mae borrowers who refinanced through HARP. HARP borrowers, who had low or negative equity, reduced their payments by an average of $155 per month and a combined annual total of $190 million in mortgage payments. They also benefited from reduced mortgage insurance requirements.

We created an online loan look-up tool where borrowers can find out if Fannie Mae owns their loan, a key step in determining eligibility for HARP. About six million borrowers used the tool in 2009, which is available on fanniemae.com.

Other Options for Fannie Mae Borrowers
As more borrowers face longer-term economic hardships and negative home equity, there is a growing need for foreclosure alternatives for borrowers who cannot keep their homes. Fannie Mae offers our borrowers options that can help them avoid the foreclosure process even if they must give up their homes. In 2009, about 40,000 borrowers took advantage of these options:

- **Deed-for-Lease**, introduced by Fannie Mae in 2009, gives borrowers who voluntarily turn over the deed to their home the opportunity to rent that home for up to 12 months. This allows families to complete the school year and plan for other housing.

- **Deed-in-lieu of foreclosure** offers borrowers the opportunity to voluntarily convey the property to Fannie Mae and avoid the negative impact on their credit that would result from a foreclosure.

- **Pre-foreclosure** or “short” sale is an option for borrowers who must sell their home and owe more than the home is worth. Servicers may elect to settle the mortgage debt for a lesser amount. This can reduce the impact of foreclosure on the borrower’s credit and financial situation.

We continue to work on tools to ease the departure for borrowers when there are no other options to retain the property.
Administering Home Affordable Modification Program
When the U.S. Treasury appointed Fannie Mae to administer HAMP, it gave us responsibility to help educate borrowers about the program, train and support servicers who modify the loans and provide reliable systems support and payment processing.

Fannie Mae supported the U.S. Treasury's campaign to reach struggling borrowers in 2009. We visited 20 cities hit hard by foreclosures, part of a 40-city effort that continues through 2010. On Treasury's behalf, we held foreclosure prevention workshops where borrowers could meet with mortgage servicers and/or housing counselors approved by the U.S. Department of Housing and Urban Development (HUD) to learn about loan modification and other options to avoid foreclosure.

More than 130,000 borrowers called the Fannie Mae Call Center with questions about MHA in 2009. To address the need for borrower information, we supported the U.S. Treasury's partnership with the Homeowner's HOPE Hotline. Through the Hotline, borrowers can determine their basic eligibility for Making Home Affordable Program assistance and receive free HUD-approved housing counseling. That number is 888-995-HOPE.

Fannie Mae employees have volunteered to support borrower outreach efforts. Over 1,000 employees volunteered days, nights and weekends at foreclosure prevention workshops or talked with distressed borrowers who called the Call Center. Members of our Hispanic Employee Resource Group helped Spanish-speaking borrowers. This was part of Fannie Mae's overall volunteer effort in 2009, when nearly 2,500 employees volunteered almost 33,000 hours to help nearly 300 organizations and schools in their communities.

While implementing a program of the unprecedented breadth of HAMP has been challenging, the number of homeowners receiving payment relief and converting from trial to permanent modifications continues to rise.

Initially, many mortgage servicers lacked the capacity to modify large numbers of mortgages and to make trial modifications permanent. Many borrowers were not able to fulfill the modification terms in the trial stage or deliver the financial documents needed to complete the process. The U.S. Treasury provided guidance, implemented by Fannie Mae, to address these issues, which has included:

- Streamlining documentation requirements and providing temporary extensions giving borrowers more time to complete and submit documents,
- Sending Fannie Mae loan specialists to work alongside mortgage servicers to expedite modifications, and
- Giving servicers rapid assistance through a dedicated Web site, a servicer call center and a variety of training opportunities.
Maintaining Neighborhood Stability

Foreclosure prevention efforts are having an impact, yet some foreclosures are unavoidable. Fannie Mae seeks to stabilize neighborhoods by keeping the homes we acquire after foreclosure in good condition and putting them back into service as rapidly as possible. In 2009, we invested $182 million to make significant repairs to nearly 38,000 properties and another $267 million to maintain properties. We sold more than 120,000 homes, including 82,000 to owner-occupants in 2009.

We have taken a variety of steps to put our properties back in use, including:

- Launching HomePath.com where visitors can search more than 56,000 properties by zip code and learn about special financing. The site is also available in Spanish.
- Creating “First Look,” a Fannie Mae initiative that offers an advantage to owner-occupants, public entities and nonprofit buyers who seek to purchase our properties. During the first 15 days a property is listed, we only consider offers from buyers who will use the homes as their primary residence or those who will use public programs to buy them. We consider offers from investors only after those initial 15 days.

New Life for Foreclosed Homes

One option for getting foreclosed homes back into productive use is to turn them into affordable housing. The Neighborhood Stabilization Program (NSP), created by HUD, is a major funding source and ambitious effort to help public entities, nonprofits and other purchasers rehab and resell foreclosed properties and to provide down payment assistance to homebuyers. NSP grants totaling $6 billion are making that happen.

Last year, Fannie Mae sold over 1,000 foreclosed homes to NSP and other publicly funded buyers. For example:

- The City of Milwaukee used NSP funds to purchase properties and provide homebuyers with down payment assistance to buy Fannie Mae homes in targeted neighborhoods.
- In Minneapolis/St. Paul, a multi-agency housing collaborative used NSP and other funds to buy and rehabilitate 68 Fannie Mae homes for resale to homeowners.
- In Cleveland, the Cuyahoga County Land Bank used NSP funds to buy 25 Fannie Mae homes. Twenty-four will be demolished to reduce the inventory of excess housing in the county. Fannie Mae contributed $3,500 per unit towards demolition costs.
Protecting Tenants Affected by Foreclosure
When Fannie Mae acquires foreclosed homes used as rental properties, we try to ease the impact on tenants living in the homes as we prepare the homes for sale. Going beyond the requirements of the Protecting Tenants at Foreclosure Act of 2009, we offer eligible tenants the option of signing a new 12-month lease with Fannie Mae as well as relocation assistance at the end of the lease.

Warning Homeowners About Foreclosure Scams
Scam artists prey on vulnerable borrowers with phony foreclosure “rescue” offers. Fannie Mae is teaming with NeighborWorks America, other non-profits, government agencies, Freddie Mac and the Lawyers’ Committee for Civil Rights Under Law to provide borrowers with information on how to recognize and report fraud through the LoanScamAlert.org and PreventLoanScams.org Web sites.

When Natural Disaster Threatens Stability
Hurricanes Katrina and Rita ravaged the Gulf Coast five years ago, their winds and water leaving nearly 300,000 homes unlivable, destroying much of the region’s housing infrastructure. The local economy came to a virtual halt, and investment capital threatened to disappear from the housing market. In effect, nobody wanted to finance homes in the region.

Fannie Mae’s mission to ensure funding under all economic conditions can be vital when catastrophic disaster strikes. After hurricanes Katrina and Rita devastated the region, Fannie Mae kept mortgage funds and affordable housing investment capital flowing to the communities. We also worked with our disaster partners, including the American Red Cross, to help stabilize neighborhoods and communities via grant and volunteer assistance.

Since 2005, we have provided more than $60 billion in financing for single-family mortgage loans and more than $4 billion in financing for multifamily rental apartments in the Gulf Coast. Five years later, Fannie Mae continues to be one of the largest sources of mortgage financing in the region.
Fannie Mae’s responsibility is to provide financing that helps make it possible for Americans to buy or rent decent, affordable housing. In 2009, Fannie Mae supported lending that served more than 1.7 million low- and moderate-income families, more than one million families living in underserved communities and nearly 760,000 very low-income households. In accordance with our statutory housing goals, some loans were counted in more than one of these categories.

We also provided affordable financing for specific housing needs, which helped make homebuying or refinancing possible for:

• 232,000 families in rural counties,
• 182,000 first-time buyers earning low- to moderate-incomes; including modifications that helped these buyers retain their homes,
• 6,500 buyers of manufactured homes. After HUD, Fannie Mae is one of the largest investors in loans for manufactured homes backed by real estate, and
• 1,400 Native Americans purchasing homes on tribal lands. Fannie Mae is virtually the only source of secondary financing for these loans, outside of HUD. A team of Fannie Mae lending specialists focuses on housing opportunities for this community.

Eighty-seven percent of our multifamily rental housing financing served low- and moderate-income renters. Our financing supported production, preservation or rehabilitation of:

• 31,000 units of rent-restricted housing for people earning 60 percent or less of area median income,
• 19,000 affordable rental apartments that might otherwise have been demolished or converted to market-rate rentals,
• 11,000 rental apartments specifically designed for senior citizens, and
• 1,700 units of public housing for families earning less than 30 percent of area median income.

**Preserving Rental Affordability**

HUD’s Section 8 housing program provides rental subsidies that help more than 1.4 million very low-income households afford privately owned rental housing. When Section 8 housing contracts expire, property owners can elect to raise rents to market rates. As part of our commitment to preserve affordable housing and in support of our government mandate, Fannie Mae is a significant source of financing to preserve Section 8 housing.
**Affordable Housing Goals**

Fannie Mae is required to meet affordable housing goals established for the GSEs by our regulator, the Federal Housing Finance Agency (FHFA). In 2009, the goals focused on affordable lending for (1) low- and moderate-income families, (2) underserved areas, including certain urban neighborhoods and rural areas, and (3) low-income families living in low-income areas and very low-income families, a goal defined as “special affordable housing.” These goals also included subgoals.

FHFA recently proposed new affordable housing goals for 2010. Three single-family purchase money goals will cover mortgages affordable to low-income and very low-income families and families in low-income areas. Other goals address single-family low-income refinance mortgages and mortgages that finance multifamily housing units affordable to low-income and very low-income families. The single-family goals will be percentage of business goals. The multifamily goals will be measured in units.

**New “Duty to Serve” Requirements**

In addition to affordable housing goals, the Housing and Economic Recovery Act of 2008 requires the GSEs to provide market leadership in three specific areas – affordable housing preservation, manufactured housing and rural areas, effective in 2010. Known as the “Duty to Serve Underserved Markets,” these are distinct from the affordable housing goals noted above.

**Supporting Sustainable Homeownership**

One of the lessons learned from the housing crisis is that putting people in homes they cannot afford for the long term hurts the homeowner, the community and the housing market as a whole.

In that light, Fannie Mae strengthened our underwriting standards in 2009 to help ensure that homeownership is successful and sustainable. We now require higher credit scores and a lower proportion of overall household debt.

While these stronger standards may mean that some aspiring homeowners are unable to obtain a Fannie Mae-backed mortgage right now, the company is striving to ensure that their path to sustainable homeownership is clear. We are joining with housing and personal finance counselors to provide homebuyers with information about successful homeownership. Fannie Mae offers free, Web-based information for housing counselors, lenders and mortgage brokers to help them help consumers understand and prepare for the mortgage loan process.
Finding Solutions to Homelessness

For those who are homeless or risk losing their home, the economic crisis has been devastating. More families are facing financial hardship because of lost wages and other challenges, and sources of funding for much-needed affordable and supportive housing are becoming harder to find.

Fannie Mae has worked for many years to fund the development of permanent supportive housing and help end homelessness through our investments and fundraising.

- In 2009, the Jericho Project, a New York-based nonprofit that provides housing and supportive services for formerly homeless men and women, proceeded with construction of 132 housing units for homeless and low-income veterans and their families in the Bronx. The Jericho Project received financing through the New York City Acquisition Fund, in which Fannie Mae has a $20 million, multi-year commitment to help provide financing for supportive housing.

- Fannie Mae’s 22nd Annual Help the Homeless campaign, the nation’s largest fundraising effort focused on homelessness, raised $5.8 million in 2009 for 134 homeless service providers in the Washington, DC metropolitan area. More than 117,000 people supported the effort by joining the Help the Homeless Walkathon on the National Mall and taking part in 657 community “mini-walks.”
IV. Looking Ahead

As of this report, glimmers of recovery have begun to appear in the housing market. But most observers – including Fannie Mae’s economics team – caution that the market has a long way to go before it reaches stability. Millions of homeowners are behind on their mortgage payments and struggling to keep their homes. Funding is tight for rental housing construction and rehabilitation. Housing inventories remain high. Home prices continue to seek equilibrium.

All of this means Fannie Mae has a lot of work to do to help put housing back on track. Our priorities for 2010 include helping homeowners keep their homes, putting empty homes back into service to stabilize neighborhoods, providing funds so that homeowners can refinance into better loans and helping mortgage lenders offer borrowers the financing they need to become homeowners.

We appreciate the government’s support for our mission to provide liquidity, stability and affordability to the U.S. housing finance system, and we are committed to getting the job done.