

1999 National Advisory Council



FannieMae

March 22, 1999



The HUD Housing Goals for Fannie Mae and Freddie Mac

Fannie Mae's Position
National Advisory Council
Barry Zigas
March 22, 1999

Our Housing Goals are Unique in the Industry

- Established by statute: Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("FHEFSSA")
- "FHEFSSA's purpose is to establish a new regulatory framework for the GSEs that reflects their unique status as shareholder-owned corporations that receive substantial public benefits."
- Three Goals:
 - Low- and Moderate-Income Housing Goal
 - Geographically Targeted Goal, known also as the Underserved Goal
 - Special Affordable Housing Goal

Goals are Set by HUD Through Regulation

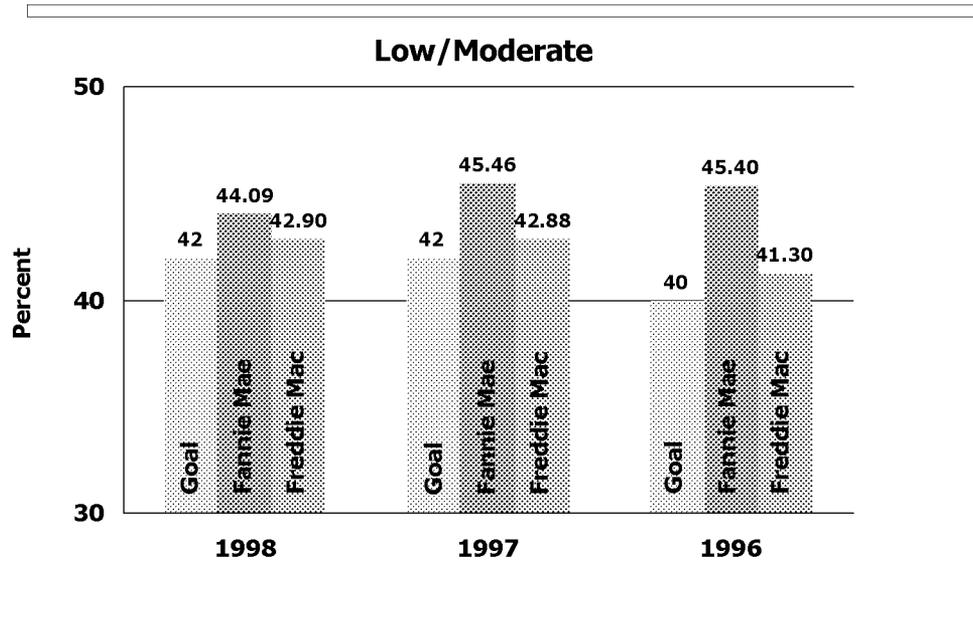
- Current goals established in 1995 are effective for 1996 through 1999

	GOALS
Low/Mod	42%
Underserved	24%
Special Affordable	14%
Multifamily Minimum Special Affordable	1.29 billion

- HUD is currently considering goals for 2000 and thereafter

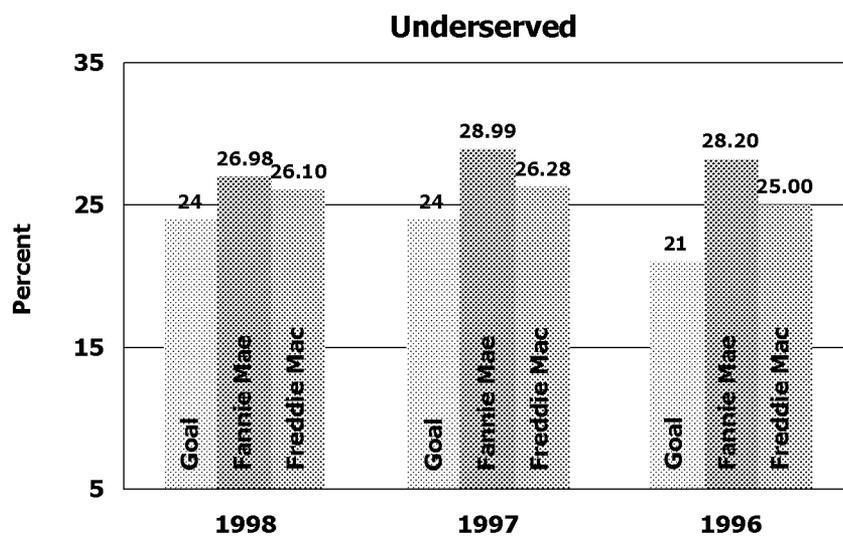
- Both Fannie Mae and Freddie Mac are subject to specific housing goals that are established by HUD.
- These goals were mandated in the 1992 legislation. HUD last promulgated a regulation for the goals in 1995, covering the period 1996-1999.
- All of the goals are based on units financed. The goals are the same for both Fannie and Freddie. Both single family and rental units count under the goals.
- The low mod goal measures units we finance that serve households with incomes at or below 100 percent of the area median.
- The underserved areas goal measures units we finance in specific low-mod and minority Census tracts
- The Special Affordable Housing goal measures units we finance for very low and low income borrowers.
- HUD is currently in the process of considering what goals to set for the year 2000 and beyond.
- Fannie and Freddie have both met with HUD to discuss the goals in broad, general terms. HUD has not provided either us of with any indication of their direction or thinking at this time.
- HUD has consistently slipped in its stated schedule. The earliest a proposed regulation might be issued now is most likely May.

Fannie Mae Has Exceeded Every Goal



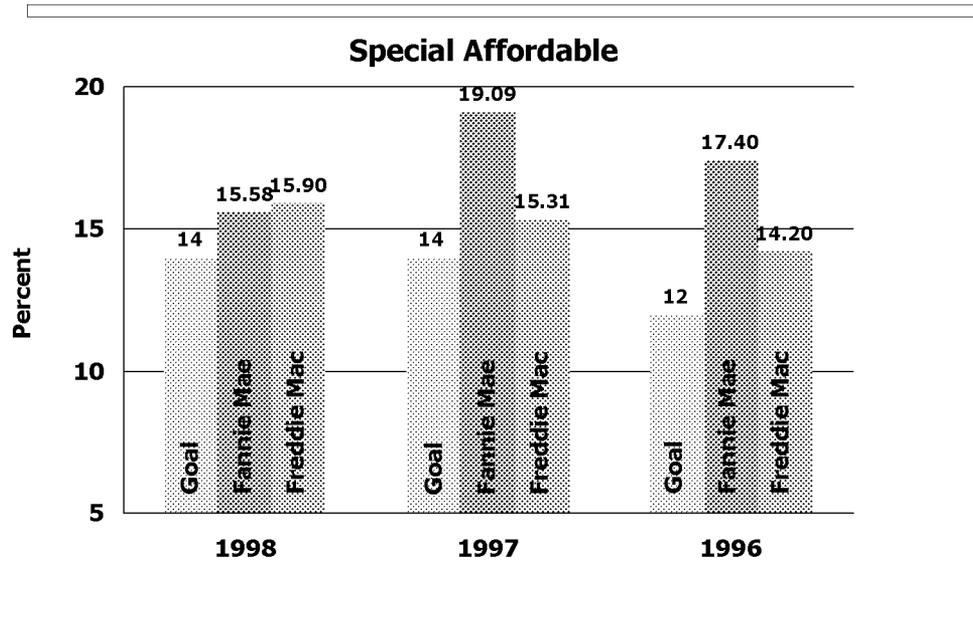
- Fannie Mae has exceeded every goal set by HUD since 1994.
- These are not a slam dunk -- reaching these levels has required us to stretch
- 1998 proved to be a very challenging year, due to the refi tsunami that engulfed everyone in the industry. The single family business was less goals rich than in prior years, and the influence of multifamily, which is highly goals rich, was significantly diluted because of the huge single family volumes.

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Our Success Has Required Focus

- Trillion Dollar Commitment
- Outreach
- Underwriting Experiments
- Success with Partners to Reach New Markets
- Aggressive Multifamily Initiatives

1992 Legislation Mandates the HUD Housing Goal-setting Process

HUD must take six factors into consideration

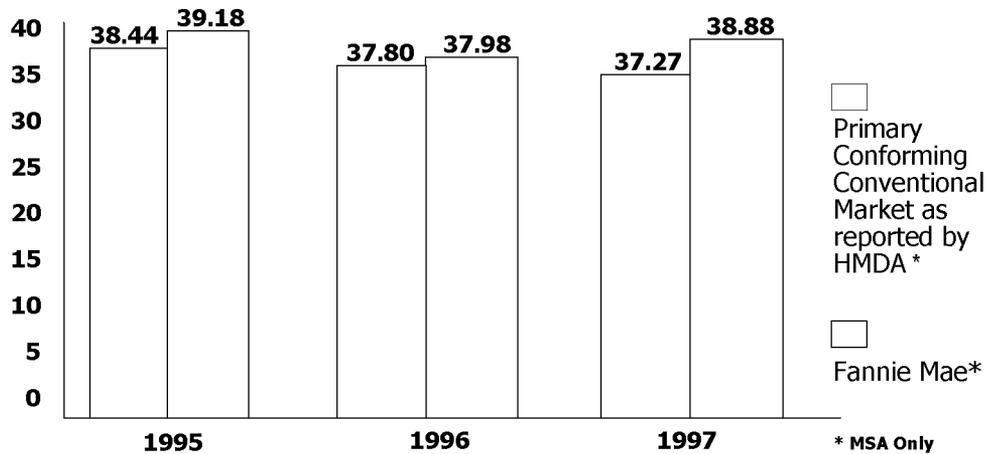
- National housing needs
- Economic, housing, and demographic conditions
- Enterprises' performance and effort toward achieving housing goals in previous years
- The size of the conventional low/mod market relative to overall conventional mortgage market
- Enterprises' ability to "lead the industry" in making mortgage credit available for low/mod families
- The need to maintain the sound financial condition of the enterprises

Fannie Mae is to "Lead the Industry"

- "Leading the industry" involves two aspects:
 - Measuring Fannie Mae's performance against others in the conventional conforming mortgage market
 - Fannie Mae's leadership role in creating and marketing new products, making innovations widely available, and standardizing underwriting to encourage lending and broaden outreach
- Fannie Mae leads the industry in both respects

Fannie Mae's Low- and Moderate-Income Lending Results

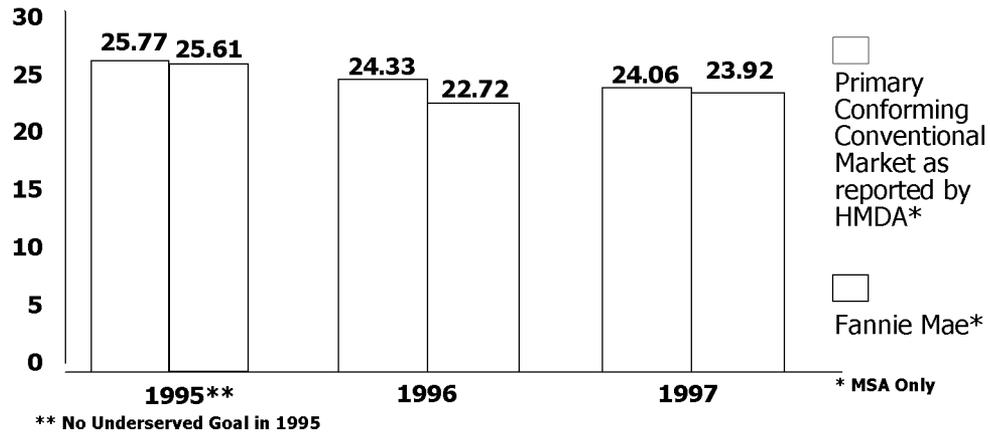
Percent of Home Purchase Loans Serving Low/Mod Households



- Fannie Mae is a market leader.
- This slide compares Fannie Mae's performance in reaching low-mod borrowers to the 1997 originations market, the latest year for which we have HMDA data.
- How you define the market is a very important point. This chart compares "apples to apples": conventional, conforming home purchase loans in MSAs.
- We applied these filters to get the most consistent comparison.
- Home purchases because buying homes is what this is all about, and refis are an unpredictable influence in the market that fluctuates widely year to year
- MSAs only because HMDA data is notoriously weak outside of metropolitan areas
- Conforming conventional only because this is the market we serve. This excludes government lending -- which by law does not count in our goals at all -- as well as subprime lending and jumbo lending. We've used a list of lenders supplied by HUD to exclude subprime.
- When you make these appropriate adjustments to both Fannie Mae's information and the HMDA data, you see that we consistently purchase a higher percentage of our business serving low-mod borrowers than the market is producing in originations.

Fannie Mae's Underserved Lending Results

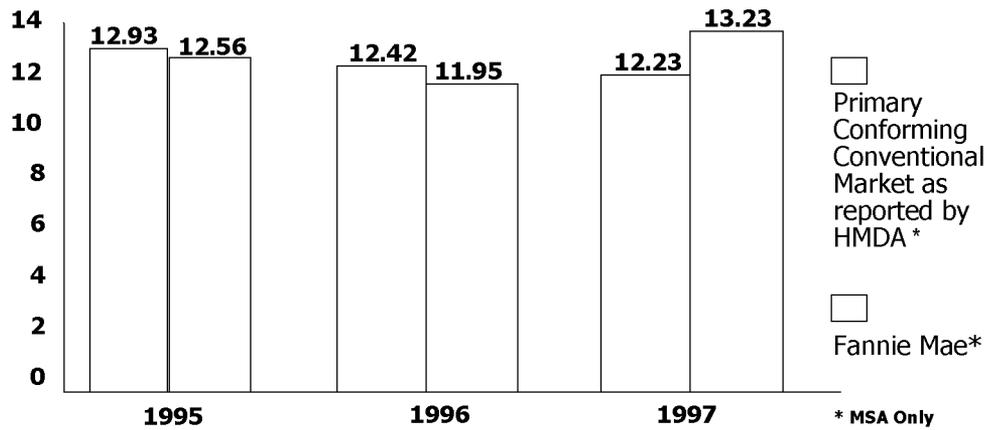
Percent of Home Purchase Loans Serving Underserved Households



- This slide shows the same comparison for lending in underserved areas in MSAs.
- You see here that over the 3-year period Fannie Mae has performed comparably to the marketplace.

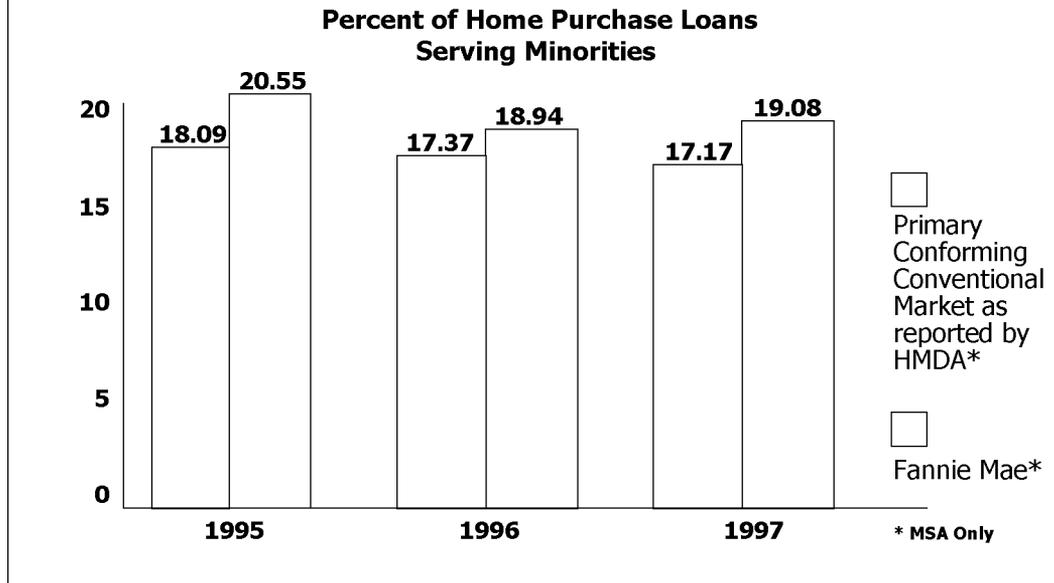
Fannie Mae's Special Affordable Lending Results

Percent of Home Purchase Loans Serving Special Affordable Households



-- And again, here in Special Affordable, Fannie Mae has moved to a leadership position in 1997.

Fannie Mae's Minority Lending Results

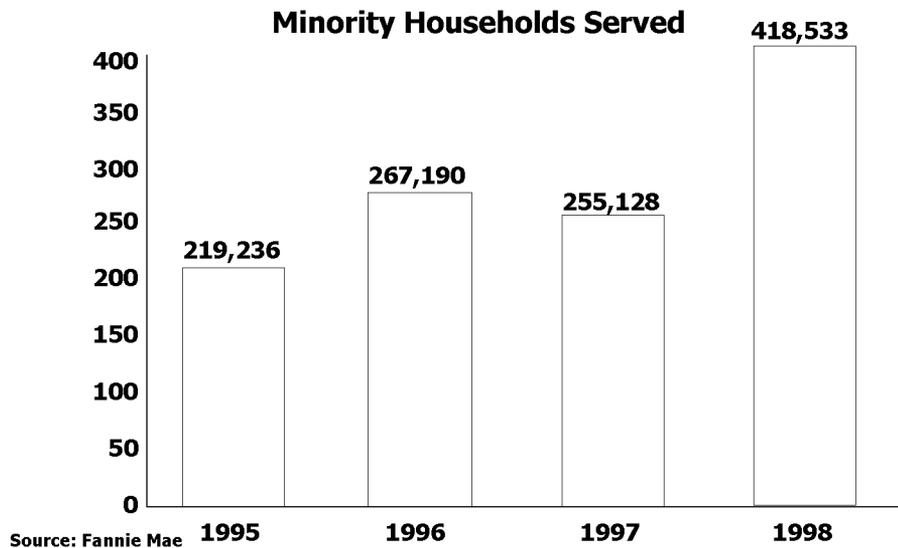


-- Although it is not a HUD goal, there is appropriate attention paid to our service to minority homebuyers.

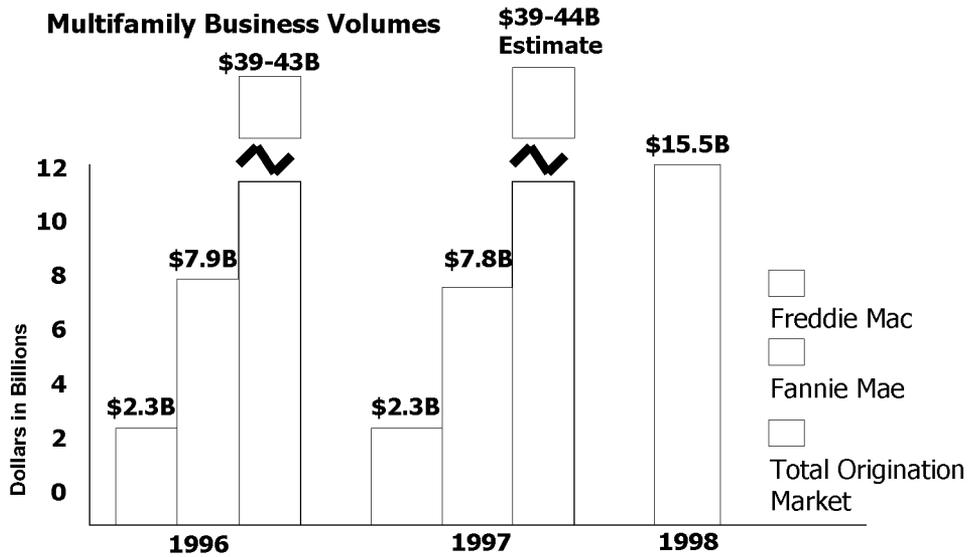
-- This chart tells the same, consistent story: a higher percentage of the home purchase loans that we financed in 1997 served minority borrowers than was produced in the originations market.

-- In 1997, we led the market for every reported racial group except Native Americans. In 1995 and 1996 we led the market in service to Hispanics and Asian-Americans, and were comparable to the market in serving African-Americans.

Fannie Mae's Minority Lending

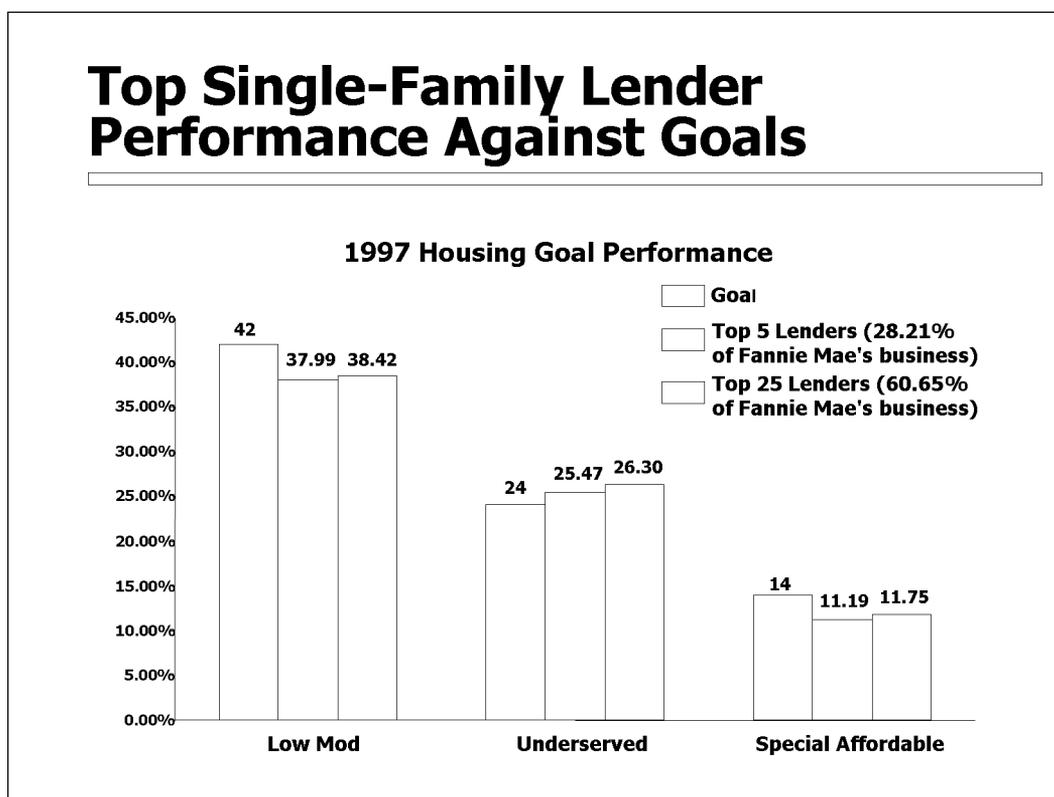


Fannie Mae in the Multifamily Market



- We are also leaders in the multifamily finance field.
- Many of you know that during the credit crunch last year, Fannie Mae stepped in to provide a steady and stable supply of financing for rental housing.
- We don't expect to be able to reach last year's levels again in 1999, but we do expect to have a big year.

Top Single-Family Lender Performance Against Goals



-- My final chart is important to all of you in the industry.

-- The first bar in each group shows what our current HUD-mandated goals are. The second bar shows what percentage of the deliveries we received from our top 5 lenders met the goal, and the third bar shows the same for our top 25 lenders, who account for almost two-thirds of our total single family business.

-- In the case of low-mod and special affordable, you can see that these deliveries alone are not enough to even meet the current goals. We obviously make up the difference through deliveries from our smaller lenders, whose percentages are slightly higher, and through our multifamily lending results.

-- My point here is this: If HUD raises the goals even further, we have only one place to turn to generate more production: our lenders. If HUD sets these goals too high, you could be faced with a real dilemma: either increase significantly your own production serving these groups, or have to deal with Fannie Mae aggressively managing your deliveries to us to insure we meet the goals. This could mean our declining to do non-goals business, forcing you to use less economic and profitable executions.

-- Fannie Mae believes the current goals are accomplishing their purpose. We are leading the market in key results. These results have been achieved through focus and determination. And they have been achieved during a time of unprecedented economic stability. If HUD sets goals significantly higher, it will affect not only Fannie Mae, but all of you who do business with us.

Value to Our Lenders

- **Liquidity**
 - We are in every market, in every community, every day
- **Standardization**
 - Underwriting and Servicing guidelines, asset quality, uniform forms and documentation,
- **Product innovation**
- **Technology innovation**
 - Rapid response time, streamlined documentation, workflow re-engineering, efficiencies and cost savings
- **Risk sharing**
- **Consumer information**
 - Printed materials and Internet site with lender links for referrals

Value to the Real Estate Community

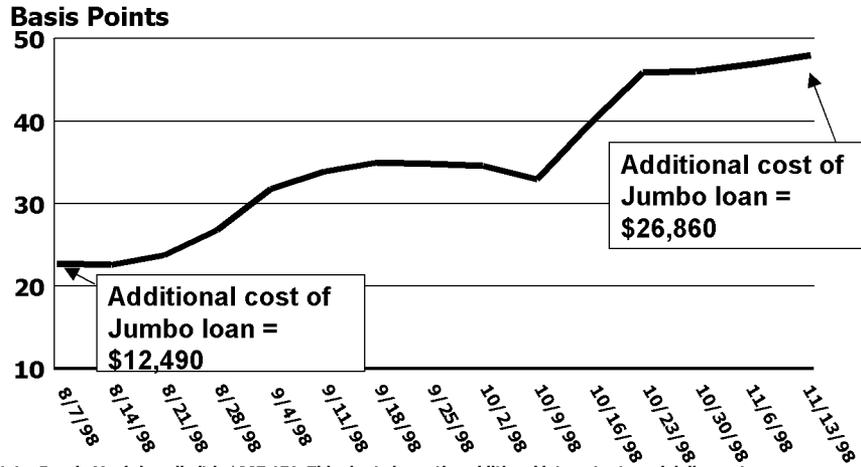
- **Liquidity in the residential mortgage credit markets**
 - Mortgage credit is available in every community, every day
- **Lower interest rates for borrowers in conforming market versus jumbo market**
- **Standardization**
 - Underwriting guidelines
 - Forms and documentation
- **Mortgage product innovation to meet consumer needs**
 - Including low down payment products, home improvement
- **Consumer education to promote qualified buyers**
 - Counseling industry support and referrals--HomePath Advisor
 - Educational materials and HomePath.com consumer site

Value to Consumers

- **Liquidity in the residential mortgage credit markets**
 - Mortgage credit is available in every community, every day
- **Lower interest rates for borrowers Fannie Mae serves versus those in the jumbo market**
- **New products to overcome obstacles**
 - Low down payments, home improvement, reverse mortgages for seniors, loans for people with disabilities
- **Standardization**
 - Underwriting guidelines, forms and documentation
- **Consumer counseling and access to information**
 - Counseling--HomePath hotline, Desktop Home Counselor, Guide to Homeownership, Credit Scoring brochure
 - Internet access to mortgage product information--HomePath.com

Consumers Benefit From Lower Conforming Interest Rates

Spread Between Conforming Fixed-Rate Mortgages and Jumbo Fixed-Rate Mortgages -- August-November 1998



Note: Fannie Mae's loan limit is \$227,150. This chart shows the additional interest rate and dollar cost over the life of the loan a borrower in the Jumbo market would pay.

Key Issues

- Current goal levels are appropriate
- Success has required focus
 - Trillion Dollar Commitment
 - Outreach
 - Underwriting Experiments
 - Success with Partners to Reach New Markets
 - Aggressive Multifamily Initiatives
- If Fannie Mae's purchases/securitizations already exceed the proportion available in the marketplace, higher goals or more subgoals could require credit allocation

Key Issues

- Subgoals are not needed
- They will add to management complexity without adding substantive value
- Creating too many market slices could force Fannie and Freddie to allocate credit in order to meet the goals

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