



Federal Housing Finance Agency

Conservator's Report
on the Enterprises' Financial Performance

Third Quarter 2010

Contents

| | |
|---|----|
| Executive Summary..... | 3 |
| 1. Mortgage Markets and the Enterprises' Market Presence..... | 4 |
| 2. Credit Quality of New Single-Family Business..... | 6 |
| 3. Capital..... | 9 |
| 4. Single-Family Credit Guarantee Segment Results..... | 11 |
| 5. Investments and Capital Markets Segment Results..... | 14 |
| 6. Loss Mitigation Activity..... | 16 |

The purpose of this report is to provide an overview of key aspects of the financial condition of Fannie Mae and Freddie Mac during conservatorship. The data in this report are derived primarily from the Enterprises' SEC filings and other publicly available sources. In some cases, FHFA adjusted the classification of certain data to provide comparability between the Enterprises. In other cases, the Enterprises' reporting methodologies changed over time. Therefore, the data in this report may not match exactly published figures.

Executive Summary

Mortgage Markets and the Enterprises' Market Presence

Conventional, conforming mortgages accounted for the majority of mortgages originated through September of this year. The Enterprises continue to account for the majority of secondary market issuance. Together with Ginnie Mae they guaranteed 96 percent of single-family mortgages issued in the first nine months of 2010.

Credit Quality of New Single-Family Business

Purchase quality in 2010 through September remained high. The average FICO credit score of new single-family business was 760 during this period and purchases of higher-risk products remain low.

Capital

The Single-Family Credit Guarantee segment continues to drive capital reduction, accounting for \$175 billion, or 76 percent of combined charges against capital of \$229 billion since the end of 2007. During the third quarter, losses from the Single-Family Credit Guarantee segment were largely offset by the performance of the Investments and Multifamily Segments.

Single-Family Credit Guarantee Segment Results

Credit-related expenses continue to drive losses in the Single-Family Credit Guarantee segment. Nontraditional and higher-risk mortgages concentrated in the 2006 and 2007 vintages account for a disproportionate share of credit losses. However, house price declines and prolonged economic weakness have taken a toll on the credit performance of traditional mortgages.

Investments and Capital Markets Segment Results

The Investments and Capital Markets segment accounts for \$12 billion, or 5 percent, of capital reduction from the end of 2007 through the third quarter of 2010. Losses in the Investments and Capital Markets segment stemmed from impairments of private-label securities, fair-value losses on securities, and fair-value losses on derivatives (used for hedging interest rate risk).

Loss Mitigation Activity

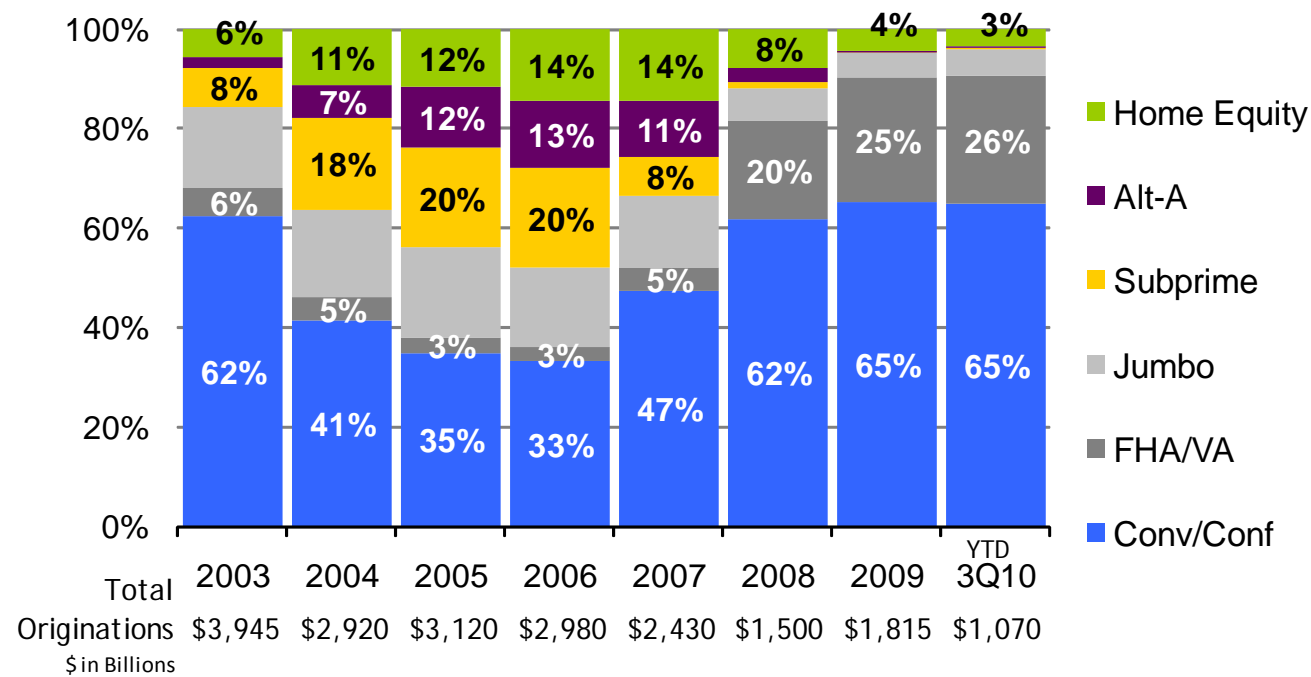
Since 2008, the Enterprises have enhanced their standard loss mitigation programs to address the needs of delinquent borrowers in this credit cycle. Implementation of the Making Home Affordable program in 2009, together with the Enterprises' enhanced loss mitigation programs, expanded the options available to delinquent borrowers to retain or give up their homes while avoiding foreclosure.

1. Mortgage Markets and the Enterprises' Market Presence

1.1. Primary Mortgage Market Trends—Mortgage Originations

- Peaking in 2006 at a third of all mortgages originated, the volume of Alt-A and subprime mortgages was extraordinarily high between 2004 and 2007. In 2005 and 2006, conventional, conforming mortgages accounted for approximately one-third of all mortgages originated.
- During the first nine months of 2010, conventional, conforming mortgages accounted for the majority of mortgages originated.

Figure 1.1. Mortgage Originations by Product Type

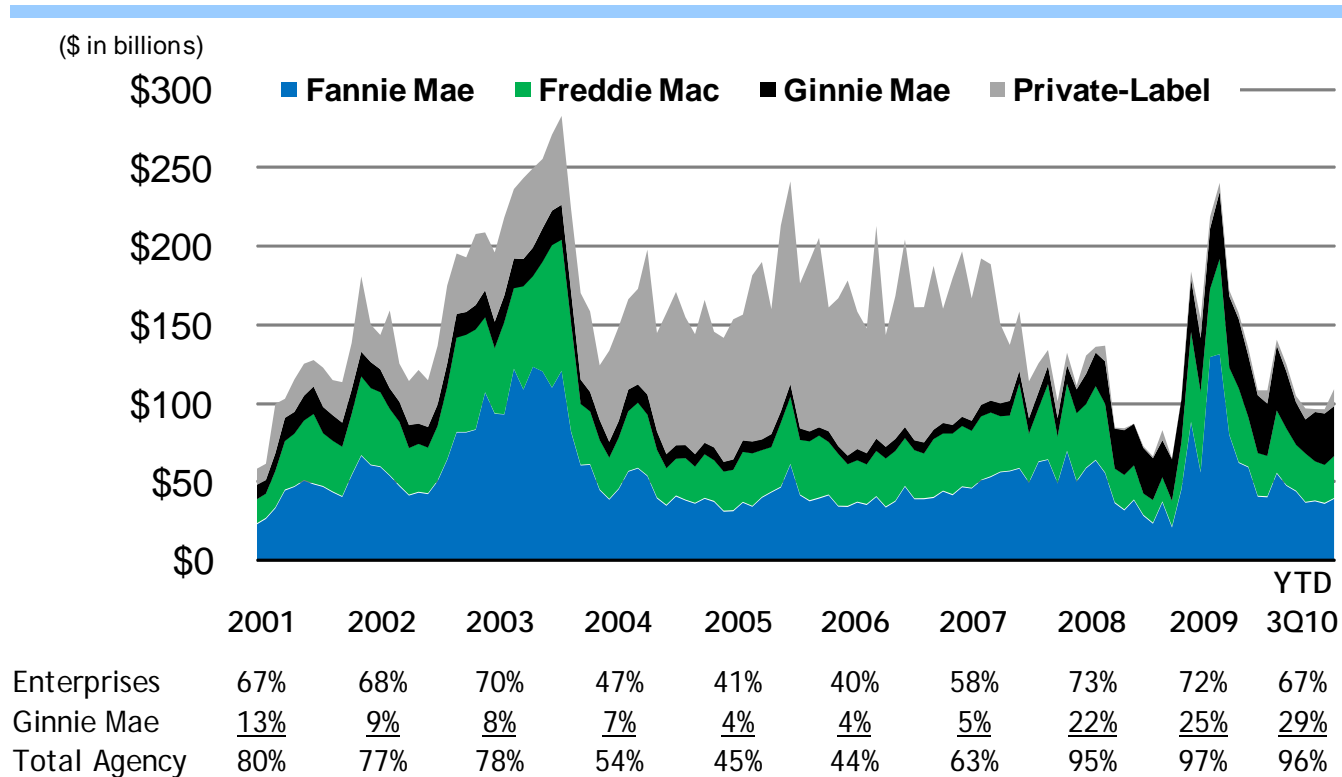


Source:
Inside Mortgage Finance.

1.2. Secondary Mortgage Market Trends—Mortgage-Backed Securities Issued

- Private-label issuers played a large role in securitizing higher-risk mortgages from early 2004 to mid-2007 while the Enterprises continued to guarantee primarily traditional mortgages. Consequently, the Enterprises lost market share of mortgage-backed securities (MBS) issuance. Through the first nine months of the year, the Enterprises and Ginnie Mae continued to account for almost all issuances of mortgage-backed securities. The Enterprises' market share has declined with Ginnie Mae's increasing market presence.

Figure 1.2. Enterprises' Market Share - MBS Issuance Volume



Sources:

Inside Mortgage Finance, Inside MBS & ABS, Enterprise Monthly Volume Summaries.
Issuance figures exclude MBS issued backed by assets previously held in the Enterprises' portfolios.

2. Credit Quality of New Single-Family Business

2.1 Credit Characteristics of the Enterprises' New Single-Family Business

- Pre-conservatorship: As the mix of mortgage originations in the primary market shifted toward higher-risk mortgages, the Enterprises guaranteed and purchased an increased amount of nontraditional and higher-risk mortgages. However, during this period, the Enterprises continued to guarantee primarily traditional mortgages.
- Post-conservatorship: Purchases of nontraditional and higher-risk mortgages are down dramatically. The average FICO credit score and loan-to-value ratio (LTV) of new single-family business has improved. While the percentage of new business with LTVs greater than 90 percent increased in 2010, the bulk of this relates to the Home Affordable Refinance Program.

Figure 2.1. Characteristics of Single-Family Mortgage Acquisitions

Percent of New Single-Family Business¹
(Categories overlap and are not additive)

| | Fannie Mae | | | | | Freddie Mac | | | | |
|----------------------|------------|------|------|------|----------------|-------------|------|------|------|----------------|
| | 2006 | 2007 | 2008 | 2009 | YTD Sep '10 | 2006 | 2007 | 2008 | 2009 | YTD Sep '10 |
| Alt-A ² | 22% | 17% | 3% | 1% | 1% | 18% | 22% | 7% | 0% | 1% |
| Interest-Only | 15% | 15% | 6% | 1% | 2% | 17% | 21% | 6% | 0% | 0% |
| Credit Score <620 | 6% | 6% | 3% | 0% | 1% | 5% | 6% | 3% | 1% | 1% |
| LTV >90 Percent | 10% | 16% | 10% | 4% | 7% | 6% | 11% | 9% | 4% | 9% |
| Average LTV | 73% | 75% | 72% | 67% | 69% | 73% | 74% | 71% | 67% | 70% |
| Average Credit Score | 716 | 716 | 738 | 761 | 760 | 720 | 718 | 734 | 756 | 752 |

Notes

¹ New business is defined as issuance of MBS/PC plus purchases of whole loans and does not include purchases of mortgage-related securities.

² Refer to sources for Alt-A definitions. Freddie Mac's year-to-date figures include Alt-A purchases of \$1.5 billion due to a long-term standby commitment termination and a subsequent PC issuance. There was no change to the Alt-A exposure on these mortgages as a result of these transactions. Fannie Mae newly originated Alt-A loans acquired in 2009 and 2010 consist of the refinance of existing Alt-A loans.

Sources:

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

2.2 Performance of Nontraditional and Higher-Risk Mortgages (mostly purchased pre-conservatorship)

- Declines in house prices and weakness in the broader economy over the past few years have contributed to deteriorating credit performance of mortgages in general and of nontraditional and higher-risk mortgages in particular. Serious delinquency rates remain high but have fallen this year as the Enterprises continue to address the backlog of delinquent loans.

Figure 2.2. Single-Family Serious Delinquency Rates

| | Fannie Mae | | | | Freddie Mac | | | |
|--|------------|-------|-------|-------|-------------|-------|-------|-------|
| | 4Q07 | 4Q08 | 4Q09 | 3Q10 | 4Q07 | 4Q08 | 4Q09 | 3Q10 |
| Product Type¹ | | | | | | | | |
| Alt-A | 2.2% | 7.0% | 15.6% | 13.8% | 1.9% | 5.6% | 12.3% | 12.0% |
| Interest-Only | 2.0% | 8.4% | 20.2% | 18.0% | 2.0% | 7.6% | 17.6% | 17.9% |
| Credit Score | | | | | | | | |
| <620 | 4.7% | 9.0% | 18.2% | 14.7% | 3.4% | 7.8% | 14.9% | 13.8% |
| Loan-to-Value Ratio | | | | | | | | |
| >90 Percent | 3.0% | 6.3% | 13.1% | 10.4% | 1.9% | 4.8% | 9.1% | 7.9% |
| Risk-Layering | | | | | | | | |
| Credit score <620 & LTV >90 Percent | 8.6% | 16.0% | 28.0% | 21.8% | 5.4% | 11.5% | 19.0% | 17.1% |
| Total Single-Family | 1.0% | 2.4% | 5.4% | 4.6% | 0.7% | 1.8% | 4.0% | 3.8% |

Notes

¹ Loans with multiple product features may be in more than one category. Refer to sources for Alt-A definition.

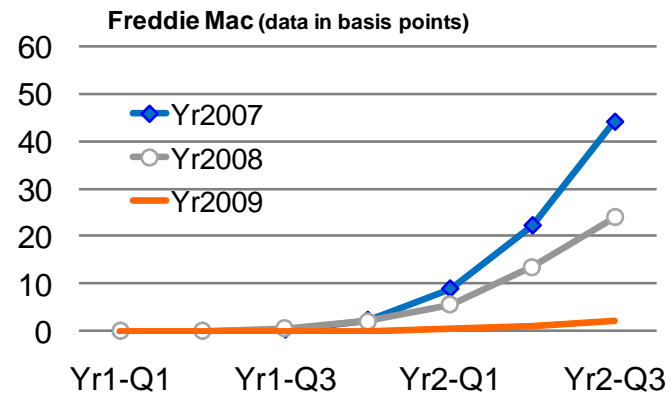
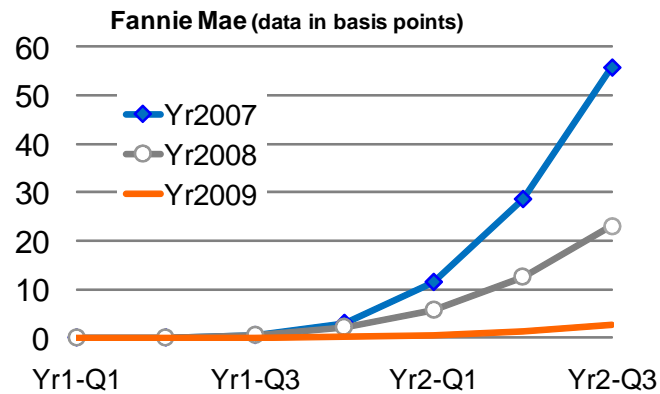
Sources:

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

2.3 Performance of Post-Conservatorship Business

- While not necessarily indicative of the ultimate performance, the improved credit characteristics of new post-conservatorship business is reflected in substantially lower cumulative default rates for the 2009 vintage compared to the years leading up to conservatorship.

Figure 2.3. Cumulative Default Rate by Origination Year



Notes
¹ Defaults include loan liquidations other than through voluntary pay-off or repurchase by lenders and include loan foreclosures, preforeclosure sales, sales to third parties and deeds-in-lieu of foreclosure. Cumulative Default Rate is the total number of single-family conventional loans in the guarantee book of business originated in the identified year that have defaulted, divided by the total number of single-family conventional loans in Fannie Mae's guarantee book of business originated in the identified year.
² Rates are calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, divided by the number of loans in Freddie Mac's single-family credit guarantee portfolio relative to origination.

Cumulative Default Rate by Origination Year (data in basis points)

| Vintage | Time Since Beginning of Origination Year Fannie Mae ¹ | |
|---------|---|-------|
| | Yr1Q4 | Yr2Q3 |
| 2002 | 0.35 | 5.86 |
| 2003 | 0.36 | 4.51 |
| 2004 | 0.70 | 8.02 |
| 2005 | 0.66 | 8.72 |
| 2006 | 1.27 | 23.05 |
| 2007 | 3.00 | 55.84 |
| 2008 | 2.17 | 23.08 |
| 2009 | 0.09 | 2.74 |

| Vintage | Time Since Origination Freddie Mac ² | |
|---------|--|-------|
| | Yr1Q4 | Yr2Q3 |
| 2002 | 0.31 | 4.79 |
| 2003 | 0.16 | 2.28 |
| 2004 | 0.35 | 3.61 |
| 2005 | 0.21 | 3.57 |
| 2006 | 0.57 | 13.42 |
| 2007 | 2.30 | 44.13 |
| 2008 | 2.11 | 24.00 |
| 2009 | 0.12 | 2.34 |

Source:
Enterprises' quarterly credit supplements.

3. Capital

3.1 Capital Changes: January 1, 2008 – September 2010

- At the end of 2007, the Enterprises had \$71 billion of combined capital. From the end of 2007 through the third quarter of 2010, the Enterprises' combined charges against capital have totaled \$229 billion, requiring Treasury support of \$151 billion through draws under the Preferred Stock Purchase Agreements. The Single-Family Credit Guarantee segment has been the largest contributor to charges against capital, accounting for \$175 billion, or 76 percent, of capital reduction to date.

Figure 3.1. Capital Changes: January 1, 2008 - September 30, 2010

| <i>\$ in billions</i> | Fannie Mae | | Freddie Mac | | Combined | |
|---|------------|------|-------------|------|-------------|------|
| Beginning Capital ¹ | \$44 | | \$27 | | \$71 | |
| Equity Issuance ² | <u>7</u> | | <u>0</u> | | <u>7</u> | |
| Available Capital | \$51 | | \$27 | | \$78 | |
| Capital Erosion | | | | | | |
| Single-Family Guarantee Earnings | (\$114) | 82% | (\$61) | 67% | (\$175) | 76% |
| Multifamily Earnings | (11) | 8% | 0 | 0% | (11) | 5% |
| Investments Contribution ³ | (5) | 4% | (6) | 7% | (12) | 5% |
| Consolidation Accounting Adjustment | 3 | -2% | (12) | 13% | (8) | 4% |
| Other | (4) | 3% | (3) | 3% | (7) | 3% |
| Senior Preferred dividends | <u>(8)</u> | 6% | <u>(8)</u> | 9% | <u>(16)</u> | 7% |
| Total Capital Erosion ⁴ | (\$139) | 100% | (\$90) | 100% | (\$229) | 100% |
| Capital deficit | (\$88) | | (\$63) | | (\$151) | |
| Treasury Senior Preferred draw ⁵ | \$88 | | \$63 | | \$151 | |

Sources

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods.

Freddie Mac's 2008 and 2009 segment earnings revised to reflect methodology effective in the first quarter of 2010 SEC disclosure.

Notes

Totals may not sum due to rounding.

¹ Capital is defined as stockholders' equity.

² Fannie Mae's figure includes common and preferred stock issuance pre-conservatorship.

³ Investments contribution equals the sum of investments segment earnings, the change in the accumulated other comprehensive income (AOCI) component of stockholders' equity (excluding the consolidation adjustment related to AOCI), and the impact of accounting changes for securities impairments.

⁴ Included in total capital erosion for both Enterprises are losses attributable to the writedown of low income housing tax credits (LIHTC) investments to zero in the fourth quarter of 2009. \$5 billion of these LIHTC losses for Fannie Mae are included in Multifamily earnings and \$3 billion of losses for Freddie Mac are included in Other. Also included in total capital erosion but spread among the business segments is the establishment of a deferred tax asset valuation allowance which reduced capital by \$21 billion for Fannie Mae and \$14 billion for Freddie Mac in 2008.

⁵ Total draws include amounts relating to the third quarter of 2010.

3.2 Capital Changes: Third Quarter 2010

- During the third quarter of 2010, losses from the Single-Family segment were largely offset by the performance of the Investments and Multifamily Segments.

Figure 3.2. Capital Changes: June 30, 2010 - September 30, 2010

| <i>\$ in billions</i> | Fannie Mae | Freddie Mac | Combined |
|---|--------------|--------------|--------------|
| Available Capital ¹ | \$0.1 | \$0.1 | \$0.2 |
| Capital Erosion | | | |
| Single-Family Guarantee Earnings | (\$5.5) | (\$3.1) | (\$8.6) |
| Multifamily Earnings | 0.2 | 0.4 | 0.6 |
| Investments Contribution ² | 5.7 | 4.2 | 10.0 |
| Other | <u>(0.9)</u> | <u>(0.0)</u> | <u>(0.9)</u> |
| Capital increase (decrease) pre-dividends | (\$0.4) | \$1.4 | \$1.0 |
| Senior Preferred dividends | <u>(2.1)</u> | <u>(1.6)</u> | <u>(3.7)</u> |
| Total Capital Erosion | (\$2.5) | (\$0.1) | (\$2.7) |
| Capital deficit | (\$2.4) | (\$0.1) | (\$2.5) |
| Treasury Senior Preferred draw ³ | \$2.5 | \$0.1 | \$2.6 |

Notes

Totals may not sum due to rounding.

¹ Capital is defined as stockholders' equity. Available capital is defined as beginning capital plus treasury draw related to prior quarter's deficit.

² Equals the sum of investments segment earnings and the change in the accumulated other comprehensive income component of stockholders' equity.

³ Reflects requested treasury draws related to current quarter deficit, to be received during the next quarter.

Sources

Fannie Mae and Freddie Mac SEC Form 10-Q for the quarter ended September 30, 2010.

4. Single-Family Credit Guarantee Segment Results**4.1 Single-Family Credit Guarantee Segment Results**

- Losses from the Single-Family segment have been driven by substantial provisions for credit losses as rising delinquencies caused the Enterprises to build their loan loss reserves.

Figure 4.1. Single-Family Credit Guarantee Segment Results

| <i>\$ in billions</i> | Fannie Mae | | | | Freddie Mac | | | | Combined | |
|--|------------|--------|---------|---------|-------------|--------|---------|--------|---------------|---------|
| | 2008 | 2009 | YTD | | 2008 | 2009 | YTD | | 2008 - YTD | Sep '10 |
| | | | Sep '10 | Total | | | Sep '10 | Total | | |
| Revenue ¹ | \$9 | \$9 | \$1 | \$19 | \$5 | \$4 | \$4 | \$13 | \$32 | |
| Provision for credit losses ² | (26) | (50) | (21) | (97) | (16) | (29) | (15) | (61) | (158) | |
| Foreclosed Property Expenses | (2) | (1) | (1) | (4) | (1) | (0) | (0) | (2) | (6) | |
| Credit-related expenses | (28) | (51) | (22) | (101) | (17) | (29) | (16) | (63) | (163) | |
| SOP 03-3 Losses ³ | (2) | (20) | (0) | (23) | (2) | (5) | (0) | (6) | (29) | |
| Other expenses ⁴ | (2) | (3) | (2) | (7) | (1) | (1) | (2) | (4) | (10) | |
| Pre-tax income (loss) | (22) | (65) | (23) | (111) | (15) | (31) | (14) | (60) | (170) | |
| (Provision) benefit for taxes | (5) | 1 | 0 | (3) | (5) | 4 | 1 | (1) | (4) | |
| Net income (loss) | (\$27) | (\$64) | (\$23) | (\$114) | (\$20) | (\$27) | (\$13) | (\$61) | (\$175) | |

Notes

Totals may not sum due to rounding.

¹ Consists of guarantee fee income, trust management income, net interest income, and other income. Guarantee fee revenue of \$5.4 billion for Fannie Mae year-to-date was offset by net interest expense of \$4.4 billion related to forgone interest on nonperforming loans.

² The provision for credit losses is the recognition of estimated incurred losses and increases the loan loss reserve. Fannie Mae's figures have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts.

³ Losses on credit-impaired loans acquired from MBS/PC Trusts.

⁴ Consists of investment gains (losses), administrative expenses, and other expenses.

Sources

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods. Effective in the first quarter 2010, Fannie Mae changed the presentation of segment financial information; prior periods were not revised.

Freddie Mac segment earnings for 2008 and 2009 revised to reflect reporting methodology effective in the first quarter of 2010 SEC disclosure.

2010 segment results for both Enterprises are not comparable with prior periods due to the adoption of new accounting standards for consolidations.

4.2 Loan Loss Reserves

- The Enterprises have increased loan loss reserves substantially since the end of 2007, with the bulk of the increase attributed to the single-family book. Charge-offs have been low compared to provisions for credit losses, but their relative magnitude continues to increase.

Figure 4.2. Loan Loss Reserves

| <i>\$ in billions</i> | Fannie Mae | | | | Freddie Mac | | | |
|---|------------|----------|----------|----------|-------------|------------|------------|----------|
| | 2008 | 2009 | YTD | | 2008 | 2009 | YTD | |
| Single-Family Loss Reserve | | | Sep '10 | Total | | | Sep '10 | Total |
| Beginning balance ¹ | \$3 | \$24 | \$62 | | \$3 | \$15 | \$33 | |
| Provision for credit losses ^{2,3} | 26 | 50 | 21 | 97 | 16 | 29 | 15 | 61 |
| Charge-offs, net ³ | (5) | (13) | (19) | (36) | (2) | (7) | (10) | (20) |
| Adoption of New Accounting Standards ¹ | - | - | (11) | | - | - | (0) | |
| Other | <u>0</u> | <u>0</u> | <u>4</u> | | <u>(1)</u> | <u>(4)</u> | <u>(0)</u> | |
| Ending balance ¹ | \$24 | \$62 | \$58 | | \$15 | \$33 | \$38 | |
| Credit Losses - Single-Family | | | | | | | | |
| Charge-offs ³ | \$5 | \$13 | \$19 | \$36 | \$2 | \$7 | \$10 | \$20 |
| Other ⁴ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Foreclosed Property Expense | <u>2</u> | <u>1</u> | <u>1</u> | <u>4</u> | <u>1</u> | <u>0</u> | <u>0</u> | <u>2</u> |
| Total ³ | \$6 | \$13 | \$20 | \$40 | \$4 | \$8 | \$11 | \$23 |

Sources

SEC disclosures for the relevant time periods.

Notes

Totals may not sum due to rounding.

¹ Fannie Mae's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and allowance for preforeclosure property taxes and insurance receivable. Freddie Mac's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and forgone interest on loans placed on non-accrual status.

² Freddie Mac's figures represent Segment Earnings provision for credit losses, which is generally higher than that recorded under GAAP, primarily due to recognized provision associated with forgone interest income on loans placed on non-accrual status, which is not recognized under GAAP.

³ Fannie Mae's provision for credit losses have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts. Additionally, the effect of losses from credit-impaired loans acquired from MBS trusts on charge-offs and foreclosed property expense has been reflected as an adjustment to total credit losses and charge-offs, net.

⁴ Freddie Mac's figures include charge-offs related to certain loans purchased under financial guarantees.

4.3 Credit Losses

- Nontraditional and higher-risk mortgages concentrated in the 2006 and 2007 vintages, and mortgages originated in California, Florida, Arizona and Nevada continue to account for a disproportionate share of credit losses (charge-offs and foreclosed property expenses).

Figure 4.3. Credit Losses

(Percent of Total Credit Losses)

| | Fannie Mae | | | | Freddie Mac | | | |
|-------------------------------|---------------------------------------|------|------|-------------------|---------------------------------------|------|------|-------------------|
| | as of Dec 31, 2008 ¹ | 2008 | 2009 | YTD Sep '10 | as of Dec 31, 2008 ¹ | 2008 | 2009 | YTD Sep '10 |
| by State | | | | | | | | |
| California | 16% | 25% | 24% | 23% | 14% | 30% | 32% | 26% |
| Florida | 7% | 11% | 16% | 18% | 7% | 10% | 15% | 19% |
| Arizona | 3% | 8% | 11% | 10% | 3% | 9% | 11% | 11% |
| Nevada | 1% | 5% | 7% | 6% | 1% | 4% | 6% | 5% |
| by Product² | | | | | | | | |
| Alt-A | 11% | 46% | 40% | 36% | 10% | 50% | 44% | 38% |
| Interest-Only | 8% | 34% | 33% | 30% | 9% | 50% | 47% | 38% |
| by Vintage | | | | | | | | |
| 2006 | 14% | 35% | 31% | 30% | 15% | 41% | 35% | 31% |
| 2007 | 20% | 28% | 36% | 36% | 19% | 25% | 36% | 34% |
| 2008 | 16% | 1% | 5% | 7% | 15% | 0% | 5% | 6% |
| 2009 | n/a | n/a | 0% | 0% | n/a | n/a | 0% | 0% |

Notes

¹ Represents each category's share of the respective Enterprise's single-family book of business, which is based on the unpaid principal balance of all single-family mortgages held by the Enterprises and those underlying MBS/PCs as of December 31, 2008. Freddie Mac's figures include loans held by the company underlying structured securities less structured securities backed by Ginnie Mae certificates.

² Product categories overlap.

Sources

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

5. Investments and Capital Markets Segment Results**5.1 Investments and Capital Markets Segment Results**

- Losses in the Investments and Capital Markets segment stemmed from impairments of private-label securities and fair-value losses on securities. Fair-value losses on derivatives used to hedge interest rate risk contributed to investment segment losses, however certain offsetting changes in the fair value of hedged assets and liabilities are not reflected in earnings or equity. Improvements in securities prices contributed to the positive performance of this segment in 2009 and year-to-date.

Figure 5.1. Investments and Capital Markets Segment Results

| <i>\$ in billions</i> | Fannie Mae | | | | Freddie Mac | | | | Combined |
|---|------------|------------|------------|------------|-------------|------------|----------|------------|-----------------------|
| | 2008 | 2009 | YTD | | 2008 | 2009 | YTD | | 2008 - YTD Sep '10 |
| | | | Sep '10 | Total | | | Sep '10 | Total | |
| Revenue ¹ | \$8 | \$13 | \$10 | \$31 | \$3 | \$8 | \$4 | \$15 | \$46 |
| Derivatives gains (losses) | (15) | (6) | (3) | (25) | (13) | 5 | (5) | (13) | (38) |
| Trading gains (losses) | (7) | 4 | 3 | (0) | 1 | 5 | (1) | 5 | 4 |
| Other gains (losses) ² | 2 | 1 | 2 | 5 | 2 | (0) | 1 | 2 | 8 |
| Other-than-temporary impairments | (7) | (10) | (1) | (18) | (17) | (10) | (2) | (29) | (46) |
| Other expenses ³ | <u>(1)</u> | <u>(1)</u> | <u>(0)</u> | <u>(2)</u> | <u>(2)</u> | <u>(1)</u> | <u>1</u> | <u>(1)</u> | <u>(3)</u> |
| Pre-tax income (loss) | (21) | 1 | 11 | (8) | (26) | 7 | (2) | (21) | (29) |
| (Provision) benefit for taxes ⁴ | <u>(9)</u> | <u>(0)</u> | <u>0</u> | <u>(9)</u> | <u>(2)</u> | <u>(1)</u> | <u>0</u> | <u>(2)</u> | <u>(11)</u> |
| Net income (loss) | (\$29) | \$1 | \$11 | (\$17) | (\$28) | \$6 | (\$1) | (\$23) | (\$40) |
| Unrealized gains (losses) on AFS ⁵ | (6) | 11 | 4 | 9 | (20) | 19 | 13 | 11 | 20 |
| Accounting change for Impairments | <u>0</u> | <u>3</u> | <u>0</u> | <u>3</u> | <u>0</u> | <u>5</u> | <u>0</u> | <u>5</u> | <u>8</u> |
| Investments Contribution | (\$36) | \$15 | \$15 | (\$5) | (\$48) | \$30 | \$12 | (\$6) | (\$12) |

Notes

Totals may not sum due to rounding.

¹ Consists of guarantee fee expense, trust management income, net interest income, and other income.

² Figures consist of debt extinguishment losses, debt foreign exchange gains (losses), debt fair-value losses, investment gains (losses), and hedged mortgage assets gains, net.

³ Consists of administrative expenses and other expenses.

⁴ Includes extraordinary losses/noncontrolling interest.

⁵ Includes unrealized gains (losses) on available for sale securities. Effective April 2009, also includes adjustments for other-than-temporary impairments included in accumulated other comprehensive income for FSP FAS 115-2.

Sources

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods. Effective in the first quarter 2010, Fannie Mae changed the presentation of segment financial information; prior periods were not revised. Freddie Mac segment earnings for 2008 and 2009 revised to reflect business segment reporting methodology effective in the first quarter of 2010 SEC disclosure.

5.2 Security Impairments

- Alt-A and subprime securities acquired in 2006 and 2007 continue to account for the bulk of security impairments. Security impairments have slowed year-to-date compared to last year.

Figure 5.2. Security Impairments

\$ in billions

| Fannie Mae | 2008 | | | 2009 | | | YTD Sep '10 | | | Total 2008-3Q10 | Notes | |
|------------------------|----------------|-------------------|------------|----------------|-------------------|------------|----------------|-------------------|------------|--------------------|---|--|
| | 2006 & 2007 | Other vintages | Total | 2006 & 2007 | Other vintages | Total | 2006 & 2007 | Other vintages | Total | | | |
| Vintage ¹ | | | | | | | | | | | | |
| Alt-A/Option ARM Alt-A | \$3.0 | \$1.8 | \$4.8 | \$1.7 | \$2.3 | \$4.0 | \$0.2 | \$0.1 | \$0.3 | \$9.1 | <p>Totals may not sum due to rounding.</p> <p>¹ Vintage of private-label securities is based on security issue date.</p> <p>² The adoption of FSP FAS 115-2 in April 2009 required the Enterprises to begin recognizing only the credit portion of impairments in their statement of operations. This new accounting standard did not require the Enterprises to revise previously recorded amounts in their statements of operations but did result in an equity increase of \$5 billion and \$3 billion for Freddie Mac and Fannie Mae, respectively, which is not reflected in Figure 5.2.</p> | |
| Subprime | 1.9 | - | 1.9 | 5.6 | 0.1 | 5.7 | 0.4 | 0.0 | 0.4 | 8.0 | | |
| Other | <u>0.0</u> | <u>0.2</u> | <u>0.2</u> | <u>0.0</u> | <u>0.2</u> | <u>0.2</u> | <u>-</u> | <u>0.0</u> | <u>0.0</u> | <u>0.5</u> | | |
| Total ² | \$4.9 | \$2.0 | \$7.0 | \$7.3 | \$2.6 | \$9.9 | \$0.6 | \$0.1 | \$0.7 | \$17.6 | | |
| Freddie Mac | | | | | | | | | | | | |
| Vintage ¹ | | | | | | | | | | | | |
| Alt-A | \$2.1 | \$1.8 | \$4.0 | \$0.9 | \$0.8 | \$1.7 | \$0.3 | \$0.1 | \$0.3 | \$6.0 | | |
| Subprime | 3.4 | 0.2 | 3.6 | 6.4 | 0.1 | 6.5 | 0.5 | 0.0 | 0.6 | 10.7 | | |
| CMBS | - | - | - | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.2 | | |
| Option ARM | 6.0 | 1.6 | 7.6 | 1.4 | 0.4 | 1.7 | 0.6 | 0.1 | 0.7 | 10.1 | | |
| Other | <u>1.1</u> | <u>0.4</u> | <u>1.4</u> | <u>0.8</u> | <u>0.1</u> | <u>0.9</u> | <u>0.3</u> | <u>0.0</u> | <u>0.3</u> | <u>2.7</u> | | |
| Total ² | \$12.6 | \$4.0 | \$16.6 | \$9.6 | \$1.5 | \$11.0 | \$1.8 | \$0.2 | \$2.0 | \$29.7 | | |

Sources

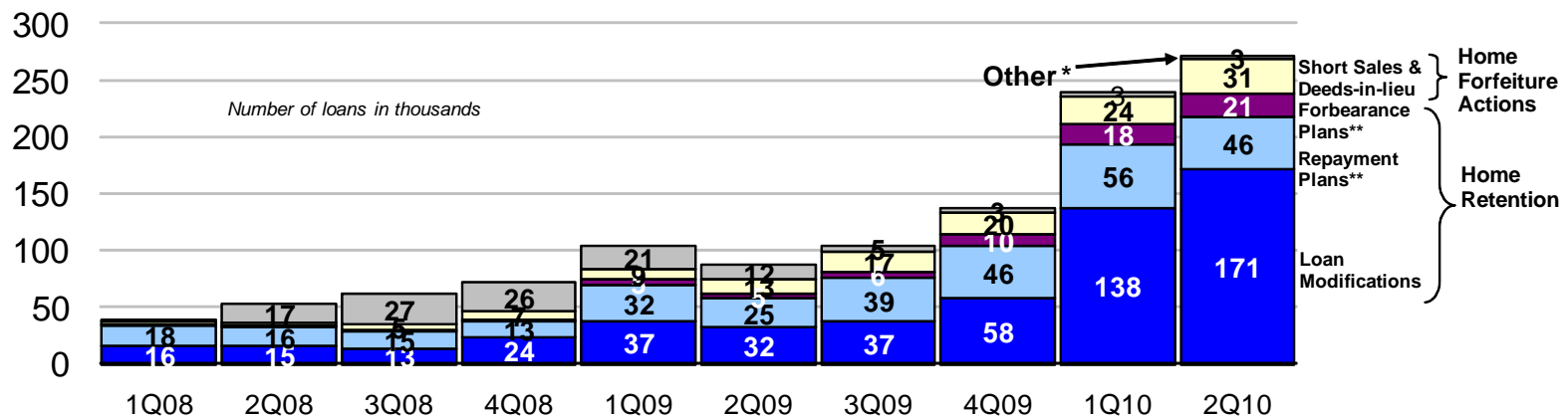
Fannie Mae and Freddie Mac management reports.

6. Loss Mitigation Activity

- The Enterprises have traditionally worked with delinquent borrowers to mitigate credit losses in situations where the borrower demonstrates the willingness and ability to cure the delinquency. Loss mitigation actions include loan modifications, repayment plans, forbearance plans, short sales and deeds-in-lieu.
- As the volume of delinquencies increased in 2008 and 2009, the Enterprises enhanced their standard loss mitigation programs to address the needs of delinquent borrowers in this credit cycle.
- Implementation of the Making Home Affordable program announced by the Administration in early 2009, together with the Enterprises' enhanced loss mitigation programs, expanded the options available to delinquent borrowers to retain or give up their homes while avoiding foreclosure.
- At the end of the third quarter of 2010 approximately 202,000 of the Enterprises' loans were in the trial period of the Home Affordable Modification Program (HAMP). (Note, this is not reflected in Figure 6.)
- More information on the Enterprises' loss mitigation activities can be found in [FHFA Second Quarter 2010 Foreclosure Prevention & Refinance Report](#).

Figure 6. Loss Mitigation Activity

Enterprises' Foreclosure Prevention Actions



* Consists of HomeSaver Advance (Fannie Mae), charge-offs in lieu and deeds-in-lieu.

** Include loans that were 30-plus days delinquent at initiation of the plan. Completed forbearance plans exclude Home Affordable Modification Program Loans.