



**Fannie Mae's Role in Affordable Housing Finance:
Connecting World Capital Markets and
America's Homebuyers**

**Presentation for HUD Assistant Secretary Albert Trevino
January 10, 2003**



Overview of the Presentation

- **Introduction to Fannie Mae**
- **HUD Housing Goals**
- **Challenge of 2002 HUD Goals**
- **Fannie Mae's Own Goals**
- **How We Achieve Our Goals**
- **Areas for Possible Collaboration**

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Fannie Mae at a Glance

- **Founded in 1938; privatized in 1968 Act**
- **New York Stock Exchange company (FNM)**
- **Total book of business (3Q 2002) = \$1.7 trillion**
- **Gross mortgage portfolio (3Q 2002) = \$751 billion**
- **Outstanding MBS (3Q 2002) = \$990 billion**

*Fannie Mae is in two basic businesses:
We help primary market lenders manage
interest rate risk and credit risk*

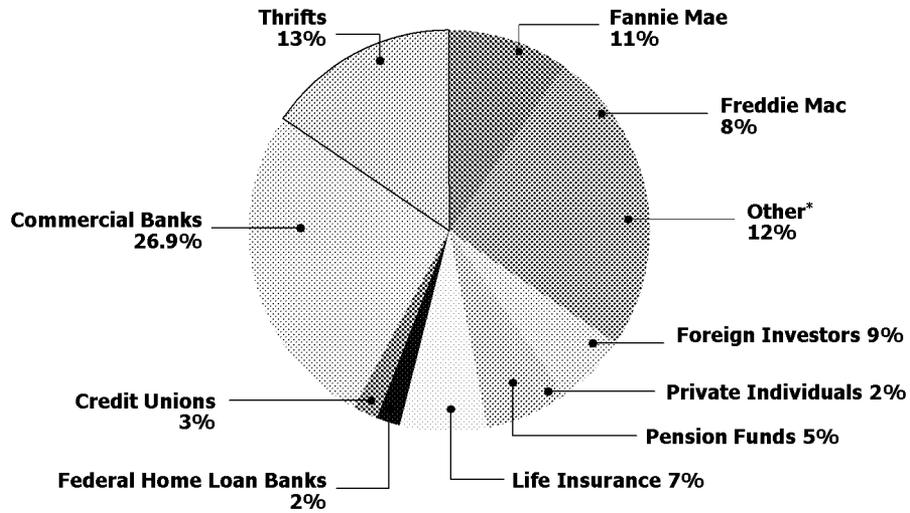
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Fannie Mae is a Mission-Driven Company

*Fannie Mae is in the American Dream business.
Our mission is to tear down barriers, lower costs, and
increase the opportunities for homeownership and
affordable rental housing for all Americans.
Because having a safe place to call home strengthens
families, communities, and our nation as a whole.*

Fannie Mae is Only One of Many Holders of Residential Mortgage Assets

\$6.5 trillion as of June 30, 2002



*Other includes mutual funds, REITs, MBS dealer inventory, and other mortgage debt holders not elsewhere classified.

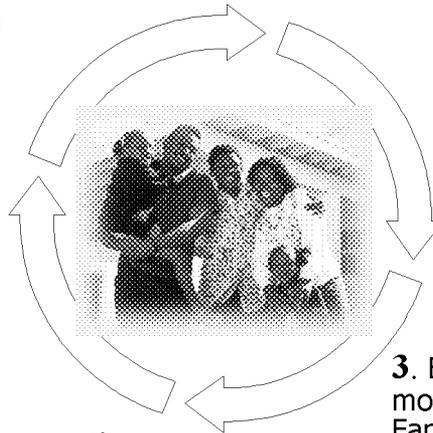
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How Fannie Mae Helps to Finance Homes

1. A family goes to its local lender to obtain a home mortgage.

5. The cycle begins again as mortgage lenders make other loans to homebuyers.

4. Fannie Mae finances the loans and MBS it buys for its own portfolio by the sale of debt securities in the global capital markets.



2. The lender can hold the mortgage as an investment, sell the loan to other investors like Fannie Mae, or exchange the loan for securities like a Fannie Mae MBS.

3. By choosing to sell the mortgage or MBS to Fannie Mae, lenders have new funds to make more home mortgage loans, thereby assuring a continual supply of mortgage credit.

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In 1998 we purchased or guaranteed a record \$409 billion of home mortgages from nearly 1,400 mortgage lenders to help finance homes for 4.1 million families

In 1999 it was \$370 billion of home mortgages from 1,146 mortgage lenders to help 3.7 million families

We are one of the largest issuers of debt after the U.S. Treasury. We issued a record \$1.1 trillion in short-term debt and \$139 billion in long-term debt in 1999.

Nearly \$9.1 trillion of funds flowed through Fannie Mae in 1999, approximately equal to the Gross Domestic Product of the U.S.

The Fannie Mae Ledger

Advantages

- No State or local taxes***
- Exemption from MBS and debt registration**
- Debt trades in U.S. agency market**

Restrictions

- Confined to U.S. mortgages under \$322,700**
- Required to operate in all markets at all times**
- Must meet percent-of-business goals for affordable housing**
- Rigorous risk-based capital test**

*2001 provision for Federal income taxes was \$2.2 billion

Fannie Mae is Well Regulated

HUD

- Mission
- Affordable Housing Goals

OFHEO

- Safety and Soundness
- Capital Regulations

Congress

- General Oversight

Treasury

- Debt Issuance

SEC

- Market Disclosures

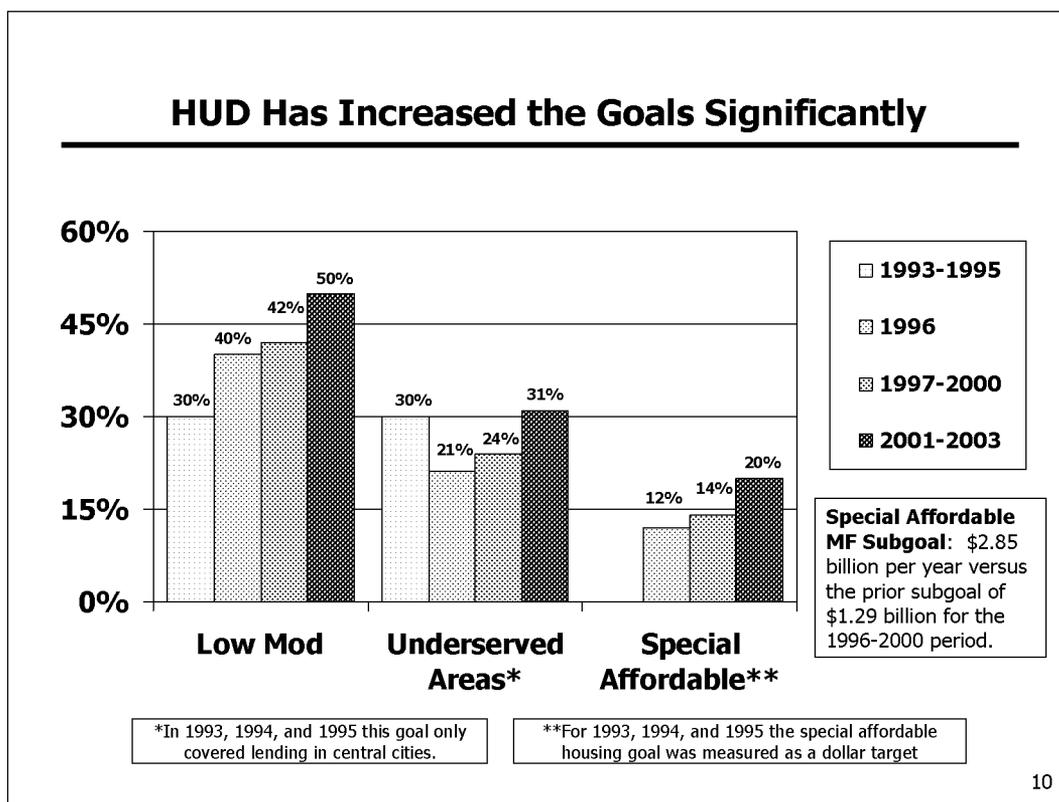
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HUD Sets Affordable Housing Goals

- **Fannie Mae must meet three *percent of business* goals that are *unique* in the financial services industry:**
 - *Low- and moderate-income*
(below area median income)
 - *Underserved areas*
(lower income/high minority census tracts)
 - *Special affordable housing*
(more targeted by income and location)
- **Goals apply to entire loan purchase business**
 - Purchase money and refinance loans
 - Single-family owner-occupied, investor, and multifamily rental
 - Seasoned loan purchases (except that special affordable housing loan purchases are subject to a “recycling” test)
 - Tax credit investments, other equity investments, government-insured, and MRB purchases do not count

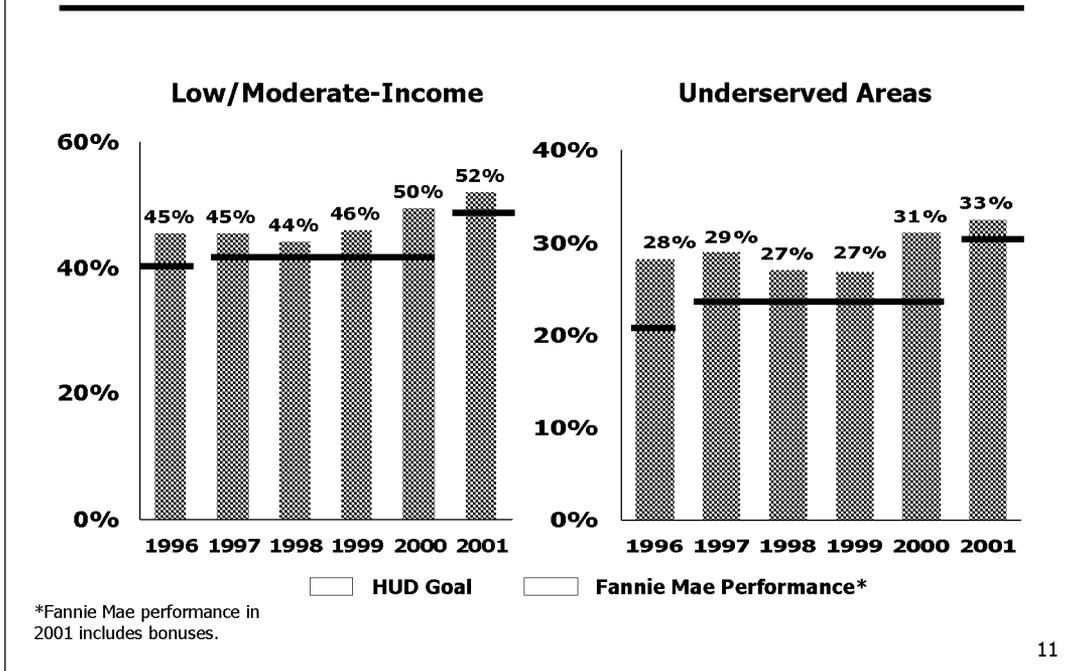
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- The draft of the paper mis-characterizes our three goals. HUD establishes a low- and moderate-income goal, an underserved areas goal, and a more targeted special affordable housing goal.
- The paper does not address the low/mod goal which measures our business below area median income. It also splits the single special affordable housing goal into two parts for analysis purposes.
- The biggest challenge in meeting the goals is that the goals are measured in “units” as a percentage of our business. HUD counts all of our mortgage purchases, including refinance and purchase money mortgages; flow as well as seasoned loans; and single-family rental and multifamily rental units.
- Not every activity counts toward the goals. For example, we are the largest investor in low-income housing tax credits which, by law, only serve very low-income households. We do not get to count these investments toward our housing goals.

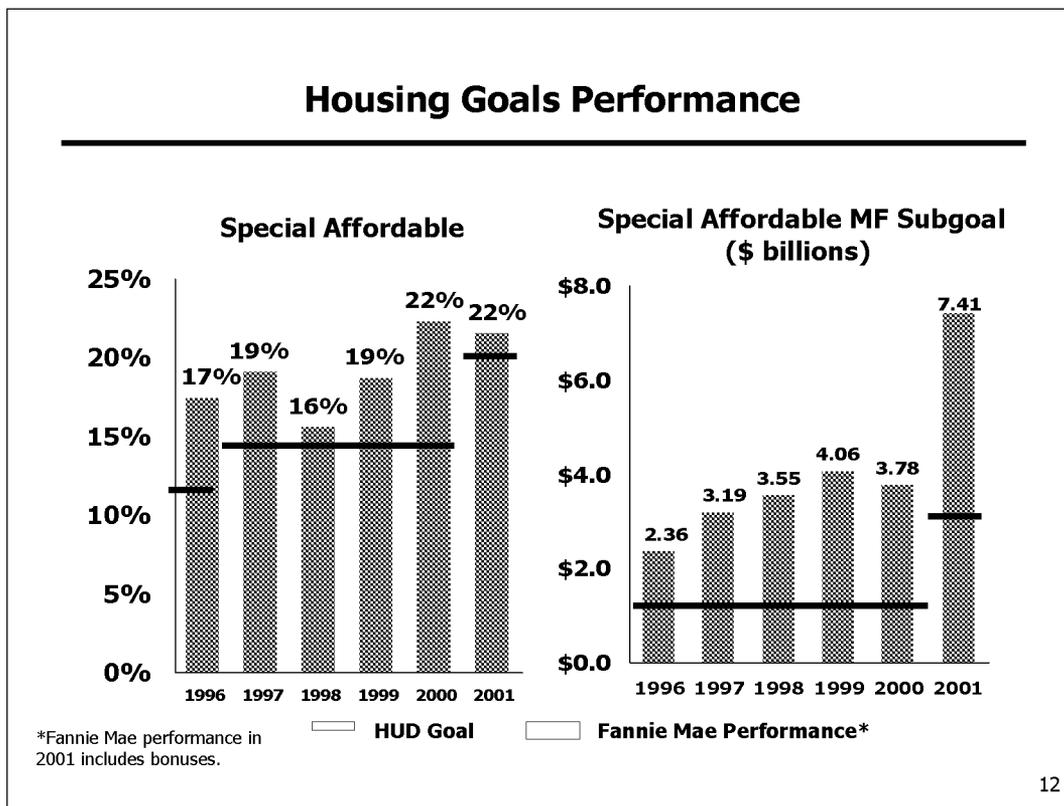


- As you can see from this next table, HUD has increased our goals three times since Congress created the current structure in 1992, and HUD significantly increased Fannie Mae's affordable housing goals in October 2000.
- The low- and moderate-income income goal increased from 42 percent to 50 percent. The underserved areas goal increased from 24 percent to 31 percent. The special affordable housing goal increases from 14 percent to 20 percent.
- The new rules cover 2001-2003. Because the new goals begin with the 2001 period, we believe it critical that you include 2001 data in your study. Your paper will become part of the rule-making process and part of the advocacy environment around the next rewrite of the goals.
- However, unless it includes 2001 data, it will not measure the critical year for which we have data under the new housing goals regime.

Housing Goals Performance



- Fannie Mae has exceeded all of our goals every year since 1994. The red lines on this slide shows the goals levels for the Low/Mod and Underserved Goals
- Note that the slide indicates that in anticipation of the new housing goals rule in 2001, Fannie Mae began increasing its goals performance in 2000.



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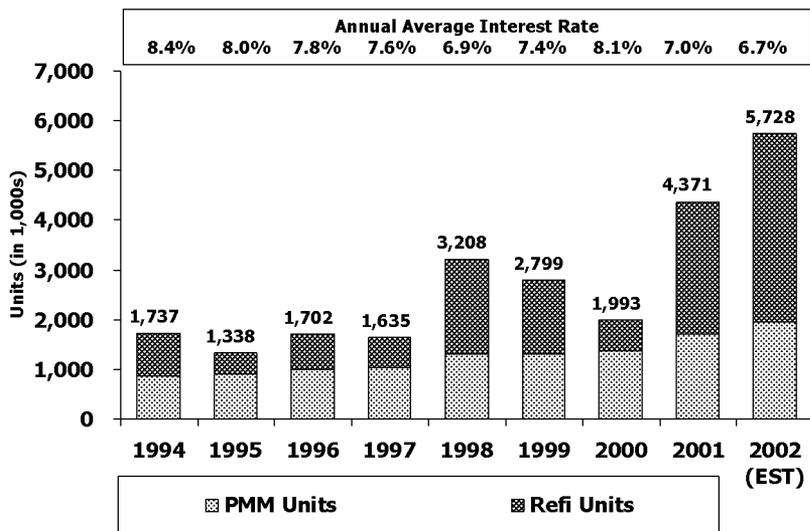
- This next slide shows our performance against the special affordable housing goal and our performance against the multifamily subgoal under the special affordable goal.
- In this instance you can again observe marked increases in our goals performance for 2000 and 2001 in the special affordable housing category.
- We had an exceptional year in targeted multifamily lending in 2001, too.
- These achievements have required great focus by the company across a variety of different market conditions.

2002 Has Been a Particularly Challenging Goals Year

- **Goals are difficult when multifamily share of total units drops.**
- **In 2002:**
 - Single-family volumes have soared with low interest rates
 - Single-family continued to become more goals rich, but refinance loans usually lower goals performance
 - Multifamily business was strong, but down from last year
 - Multifamily reached record low percentage of business

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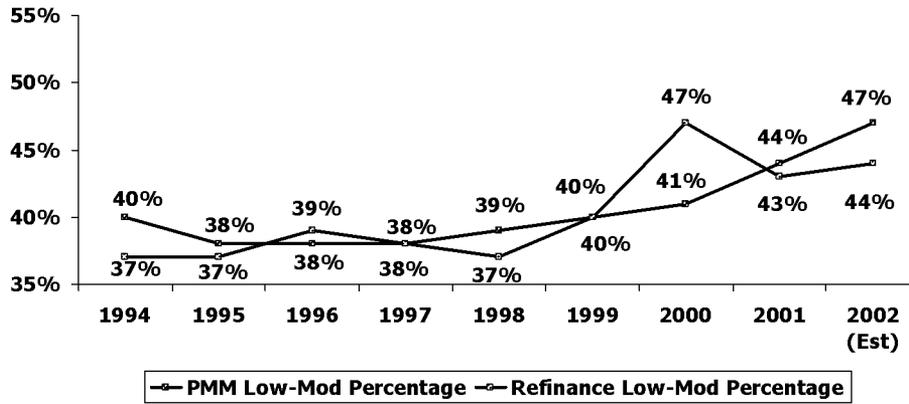
Single-Family Volumes Have Soared: 2002 Projected To Surpass 2001 Record



Source: FMIS Total SF Units, Standard Business.

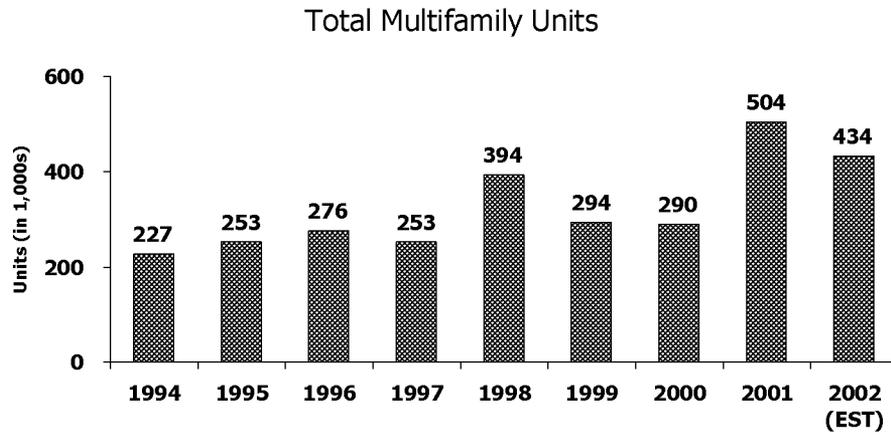
Single-Family Has Become More Goals Rich But Refinances Usually Lower Overall Performance

Low-Mod Percentage



Source: FMIS Total SF Units, Standard Business. Treats all missing data as not affordable and excludes bonus.

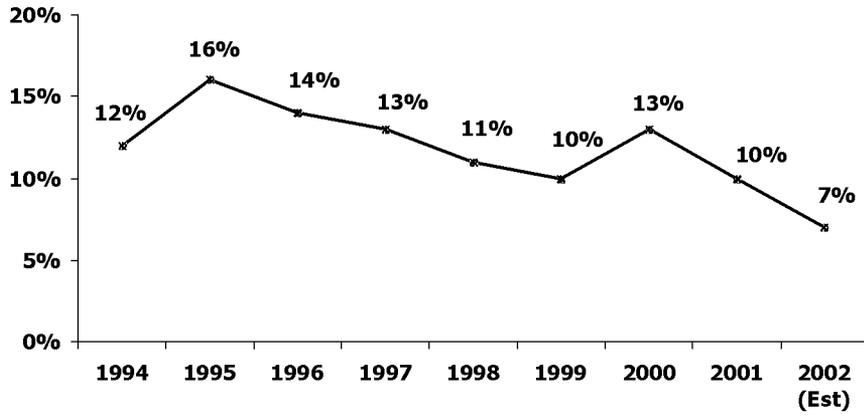
2002 Multifamily Business was Strong, But Down Somewhat From Last Year



Source: FMIS Total SF Units, Standard Business.

Record Single-Family Volume in 2002 Means Record Low Multifamily Share

Multifamily Share of Total Units

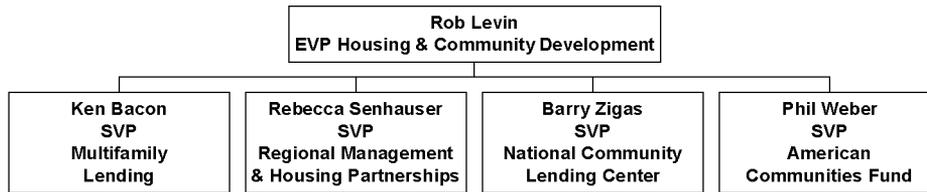


Source: FMIS Total SF Units, Standard Business.
Treats all missing data as not affordable and
excludes bonus.



- Fannie Mae is a mission-driven company.
- We have a history as a leader in affordable housing lending. In 1994 and then again in 2000, Fannie Mae has stepped up and made very public commitments to increase our lending to targeted communities. Every March 15, we go back to the public and report on how we are doing on these commitments.
- Our Housing and Community Development Division now employs over 600 people -- dedicated to meeting the big goals we set for ourselves. We are currently working on a pledge to provide \$2 trillion in lending to serve 18 million underserved families.
- I submit that few private sector participants can match this history of commitment to this cause.

Housing and Community Development: Fannie Mae's Special Effort



HCD wants to be the partner of choice for anyone who cares about housing and communities. We will tackle the toughest housing problems in America.

Fannie Mae Partnership and Regional Offices (As of August 2002)



American Dream Commitment: 6 Key Initiatives

- **Mortgage Consumer Rights Agenda**
- **National Minority Homeownership Initiative**
- **“Opportunity for All” Strategy**
- **eHomeownership**
- **America’s Living Communities Plan**
- **Affordable Rental Housing Leadership**



Investing \$2 trillion over 10 years to serve 18 million targeted households, close homeownership gaps, and strengthen communities.

The American Dream Commitment

2002 Results (Oct YTD)

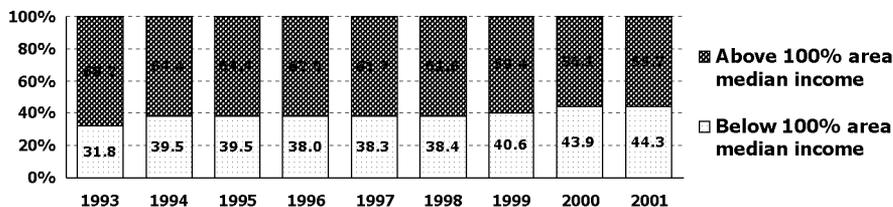
Targeted Lending:	\$1.15 trillion
Families Served:	10.3 million
CRA business:	\$18.6 billion
Minority Households:	1.7 million
Minority Lending:	\$220 billion



Concerted Effort Results in More Financing for Lower-Income Borrowers

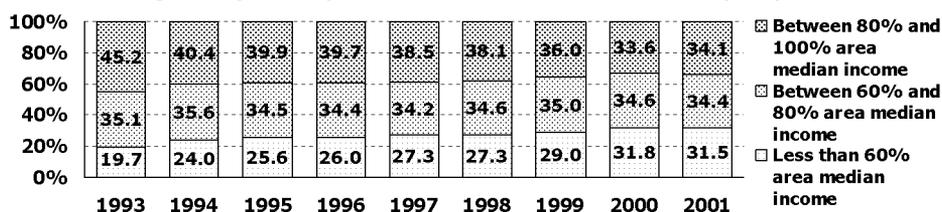
The share of Fannie Mae's business serving borrowers with incomes below 100 percent of AMI is increasing over time.

Fannie Mae Single Family Loan Acquisitions (Units)



And the share of loans going to very low-income borrowers is also increasing.

Fannie Mae Single Family Loan Acquisitions Below 100% Area Median Income (Units)

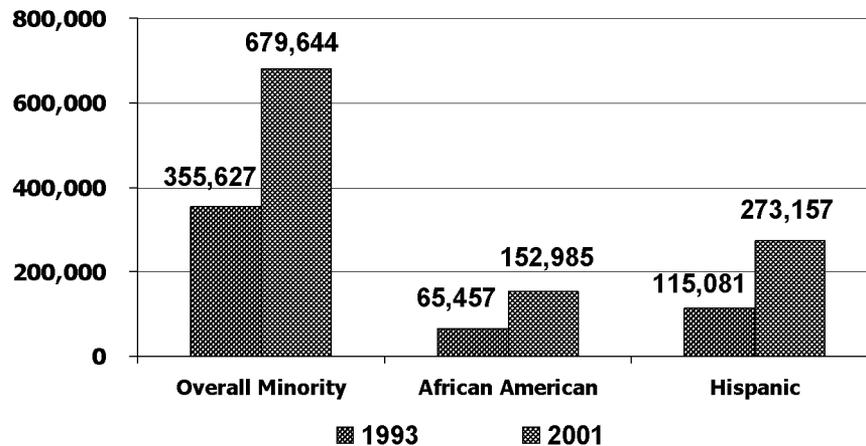


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- Our efforts to expand markets have paid off for our lender customers and for lower income homebuyers.
- As you can see from this slide, the percent of Fannie Mae business serving people in lower-income tranches has steadily grown since 1993 -- the year prior to our making our first big public pledge -- the *American Dream Commitment*.

Achieving Results: More Minority Families Served

Fannie Mae, 1993 and 2001

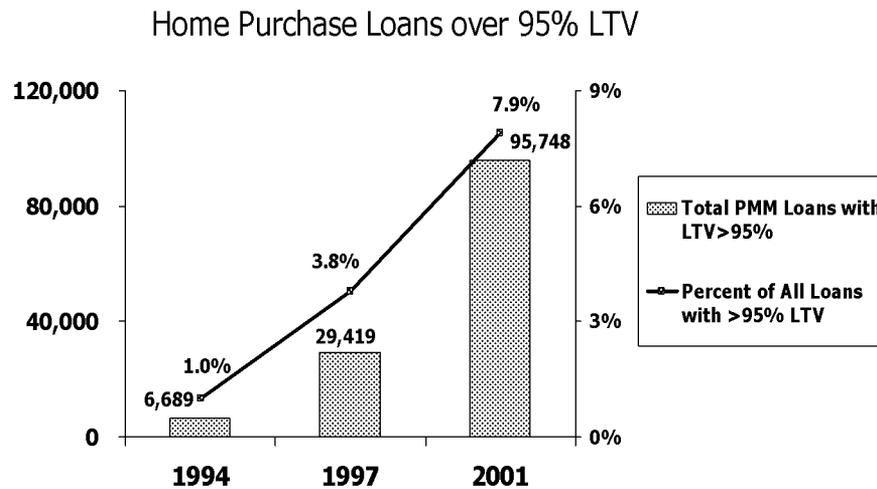


Source: Fannie Mae single-family data

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- Our efforts to expand minority homeownership have also paid off. Minority homeownership rates have grown over the decade.
- At the same time, Fannie Mae has significantly increased its service to minority families.
- The secret of our success has been a lot of hard work with our lenders -- expanding product offerings and lowering costs -- and through partnerships with civil rights groups and nontraditional lenders.
- And, we recently stepped up again, pledging to the White House that we would provide over \$700 billion in mortgage financing to minority households over the decade.

Increasing Low Down Payment Lending

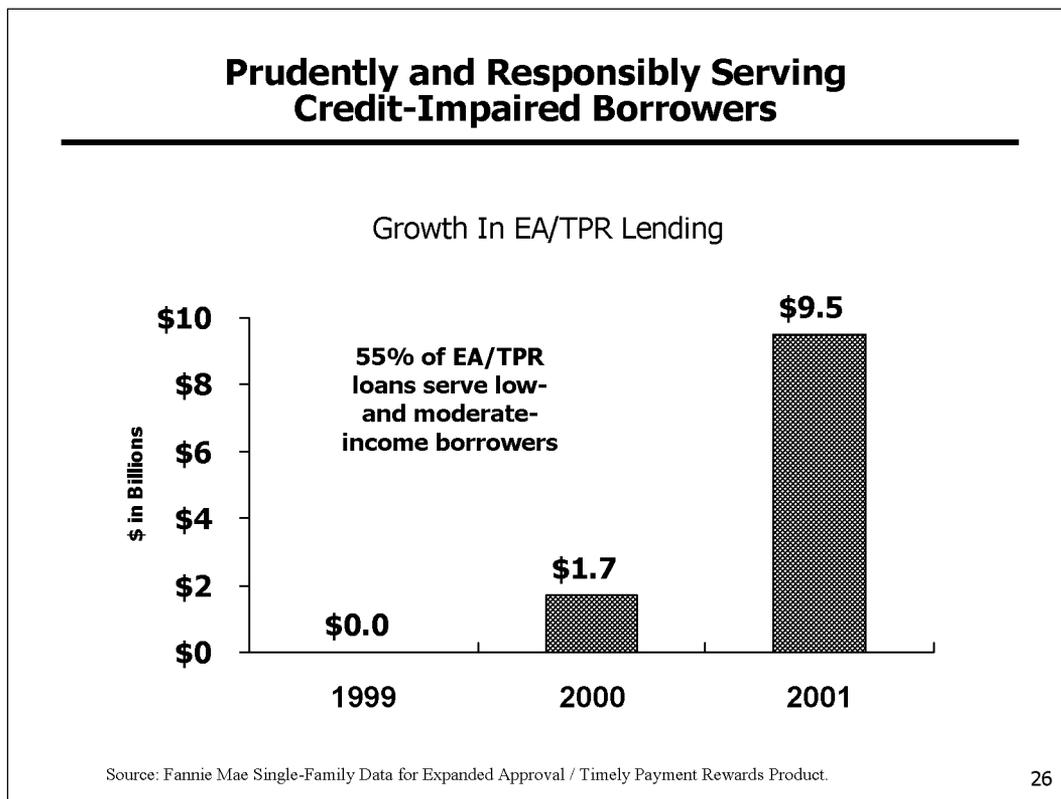


Source: Fannie Mae Single Family Owner-Occupied Purchase Mortgages in MSAs.

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- Automated underwriting in turn, has allowed a major expansion in mortgage lending.
- Analyses of the market demonstrate that the greatest barrier to homeownership for most renters are related to wealth -- the lack of money for a downpayment. Fannie Mae addressed this barrier by introducing new low downpayment products over the decade. Today, we have a Fannie Mae 100 mortgage: With \$500 a borrower with good credit can get into a home.
- Our low-downpayment lending -- negligible until 1994 -- has grown considerably. It is a key part of our strategy to serve low-income and minority borrowers. With these products, we are providing liquidity for primary market lenders who offer these products to their low-wealth customers.

Prudently and Responsibly Serving Credit-Impaired Borrowers



- After down payments, credit is the next most significant barrier to homeownership.
- In October, 2000, we launched a new mortgage product called Timely Payment Rewards and followed on that soon after with our Expanded Approval options.
- Timely Payment Rewards allows the credit impaired borrower to realize considerable savings relative to the subprime market and achieve an automatic 1 percentage point reduction in rate if the borrower pays on time for 24 months. These tools provided our lender customers with a product for credit-impaired borrowers that was eligible for delivery to Fannie Mae.
- This data also serves to reemphasize the point that prior to 2001, Fannie Mae was not participating in the market that targeted credit impaired borrowers.
- We have now entered that market, but want to do so prudently and responsibly: While our 2001 volumes seem high they still represent only a small share of our overall business -- less than 3 percent -- and a very small share of the overall market.

Leading in Innovation

New Products and Services

MyCommunityMortgage
Community Solutions
eZAccess
Timely Payment Rewards
Underwriting Experiments to
Combat Predatory Lending
Section 8 Homeownership
Smart Commute
HomeChoice for Special Needs
Home Counselor Online

Lender and Community Partnerships

\$35 billion J.P. Morgan/Chase
\$12.5 billion Bank One
\$12 billion Citimortgage
\$10 billion First Horizon
WOW Initiative, AFL-CIO, ACORN,
NAHREP, NRC, Enterprise Foundation,
and others
54 Partnership Offices
American Communities Fund

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- Timely Payment Rewards is but one of a long list of new products and services that target affordable housing markets. We are a leader in mortgage innovation. Each of these products has helped to increase market opportunities for low-income borrowers or has been a critical piece in helping to address a local community challenge -- such as combating predatory lending, or helping to alleviate congested roads through Smart Commute.
- One issue you raise in your paper is whether our presence in the market leads to increased affordable housing lending by our lenders. Frankly, we were not surprised. It is exactly because our top lenders do not deliver enough affordable housing product to meet our goals, that we have developed other channels and strategies like Self-Help.
- In recent years, we have invested a great deal in creating intense affordable housing partnerships with our lenders. These include common product and marketing strategies. However, not all of our customers have the ability, interest, demand, or capacity to take advantage of these various products and services.

Fannie Mae Commitment to White House Minority Homeownership Initiative

- 1. Provide \$700 billion in minority lending over the decade**
- 2. New mortgage flexibility for New Americans**
- 3. Leverage Section 8 for homeownership**
- 4. Commit to purchase *Renewing the Dream Tax Credits***
- 5. \$100 million *Housing Solutions Initiative* for rental tax credits**
- 6. Establish 100 faith-based partnerships**
- 7. Provide Home Counselor On-Line to non-profits and others**
- 8. Develop model marketing kits in different languages**
- 9. Create 100 employer-assisted housing alliances per year**
- 10. Market products to rescue borrowers from predatory lending**

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Other Possible Areas of Collaboration with HUD and/or Policy Development Research

- **Increase efficiency of Section 108**
- **Anti-predatory lending**
- **Smart Commute and environmentally-responsible lending**
- **Reducing regulatory barriers**
- **Improving the efficacy of housing counseling assistance**
- **Enactment of President's *Renewing the Dream Tax Credit***
- **Shared research agendas on minority homeownership**

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Thank You

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