Financial Crisis:
Update on Housing Finance & Regulations

National Intergovernmental Audit Forum

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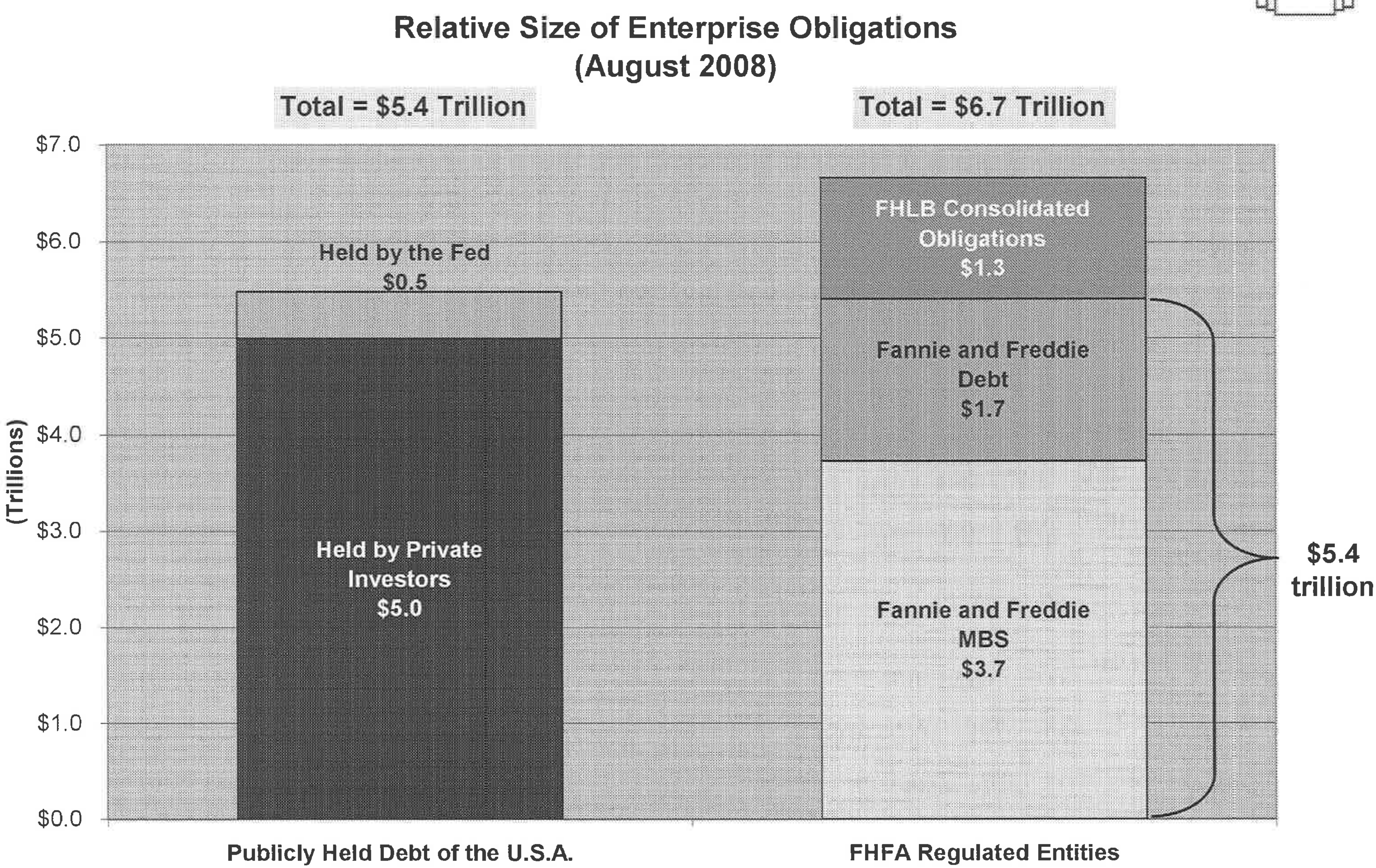
Housing GSEs Exceed the Public U.S. Debt



Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries, TreasuryDirect.gov, Federal Reserve H.4.1 Release.

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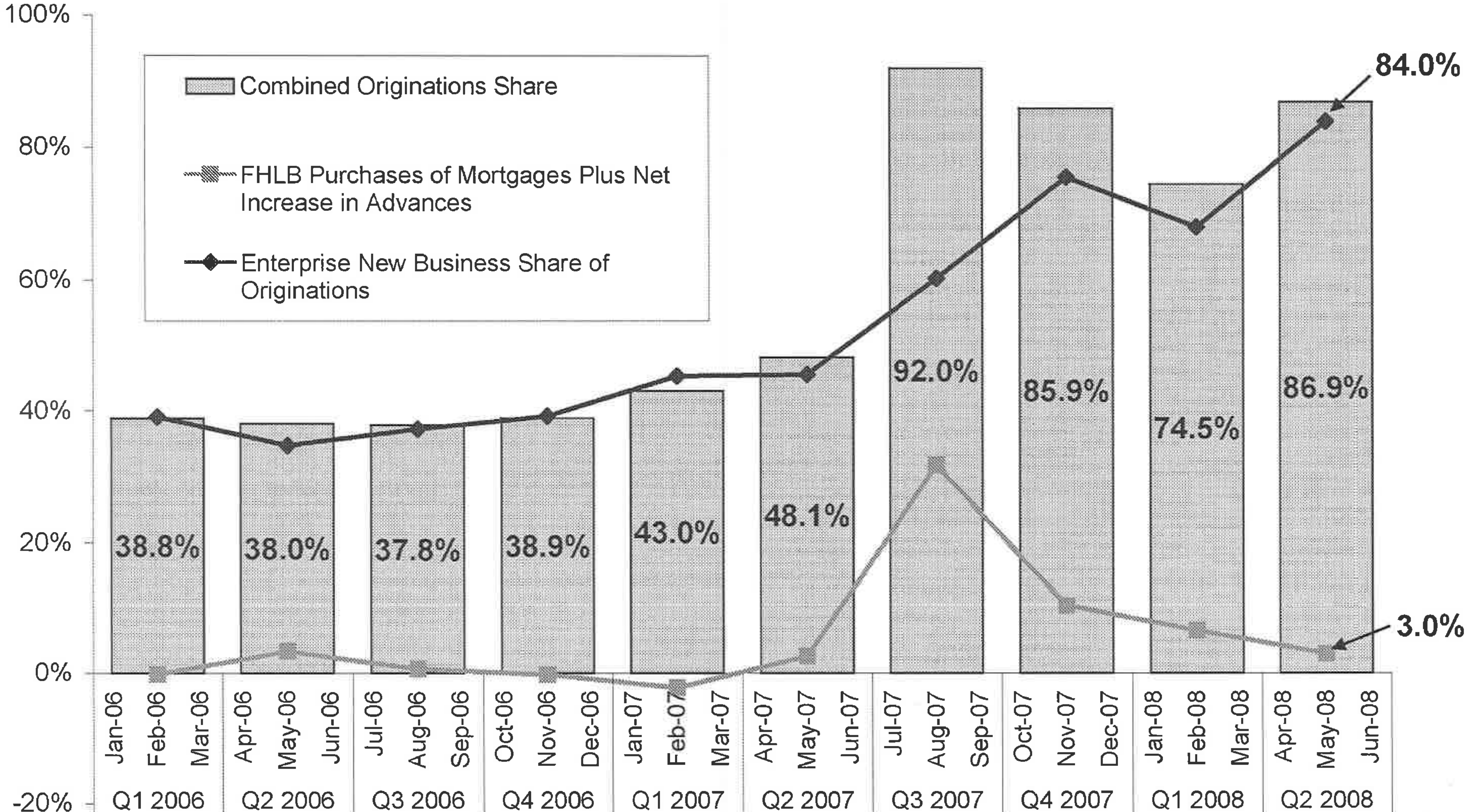
Enterprise and FHLB Shares of Originations

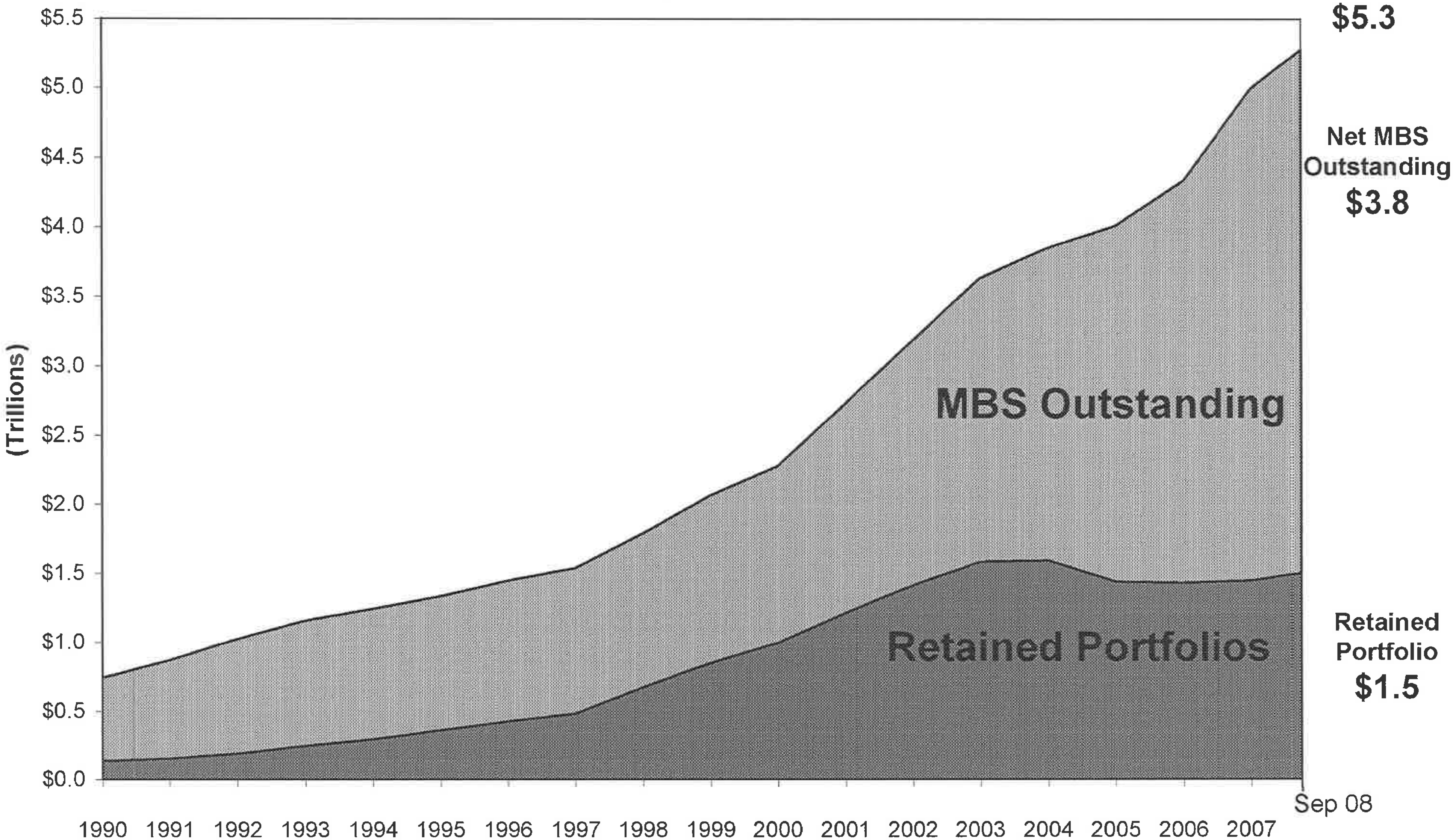
Fannie Mae, Freddie Mac, and FHLB Shares of Mortgage Originations
January 2006 - June 2008



Sources: Enterprise Monthly Volume Summaries, FHLB Office of Finance, Inside Mortgage Finance.

Book of Business Continues to Grow

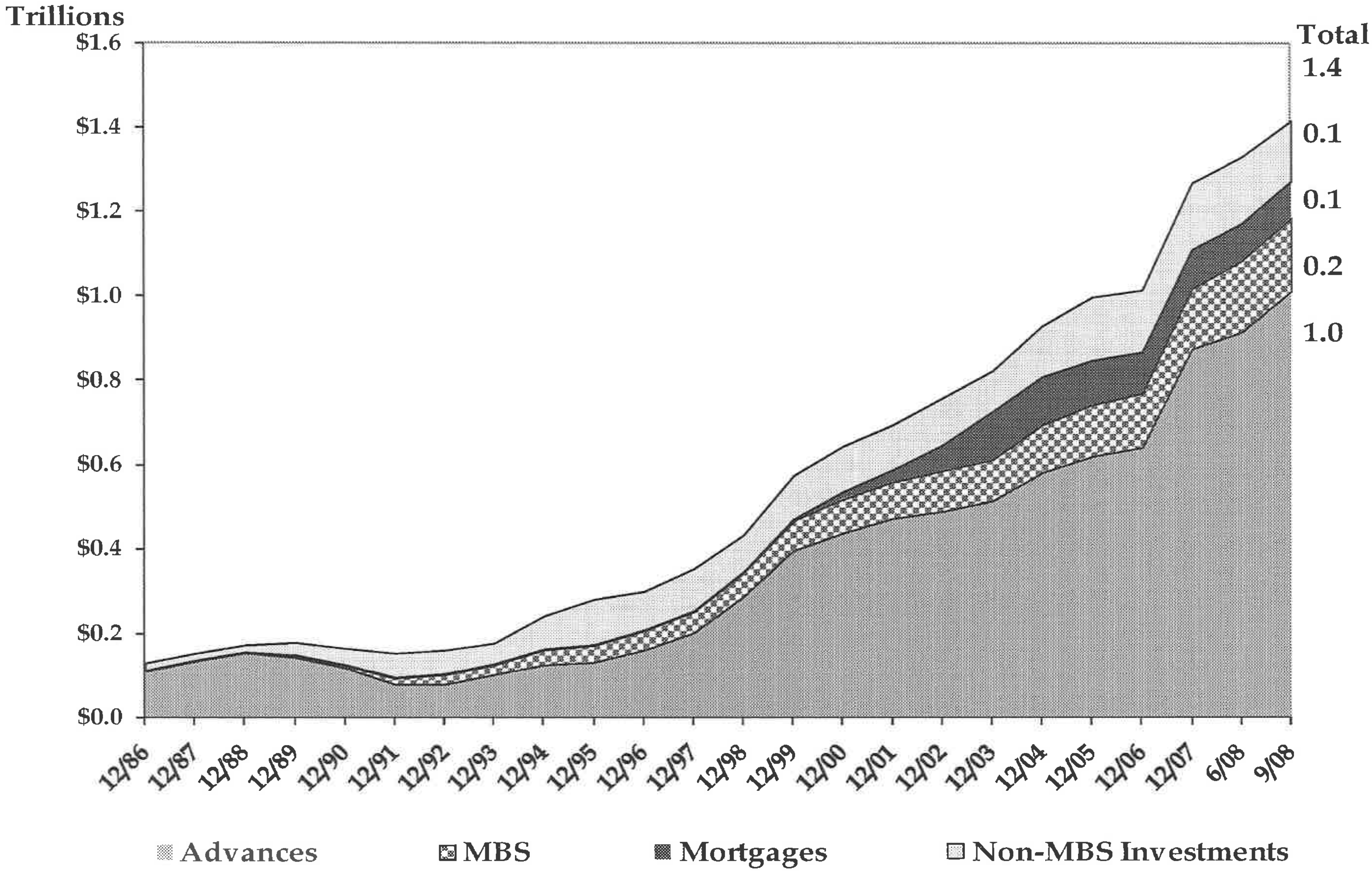
Enterprises' Combined Total Book of Business 1990 - September 2008



Sources: Fannie Mae and Freddie Mac Monthly Volume Summaries and 2007 OFHEO Report to Congress.

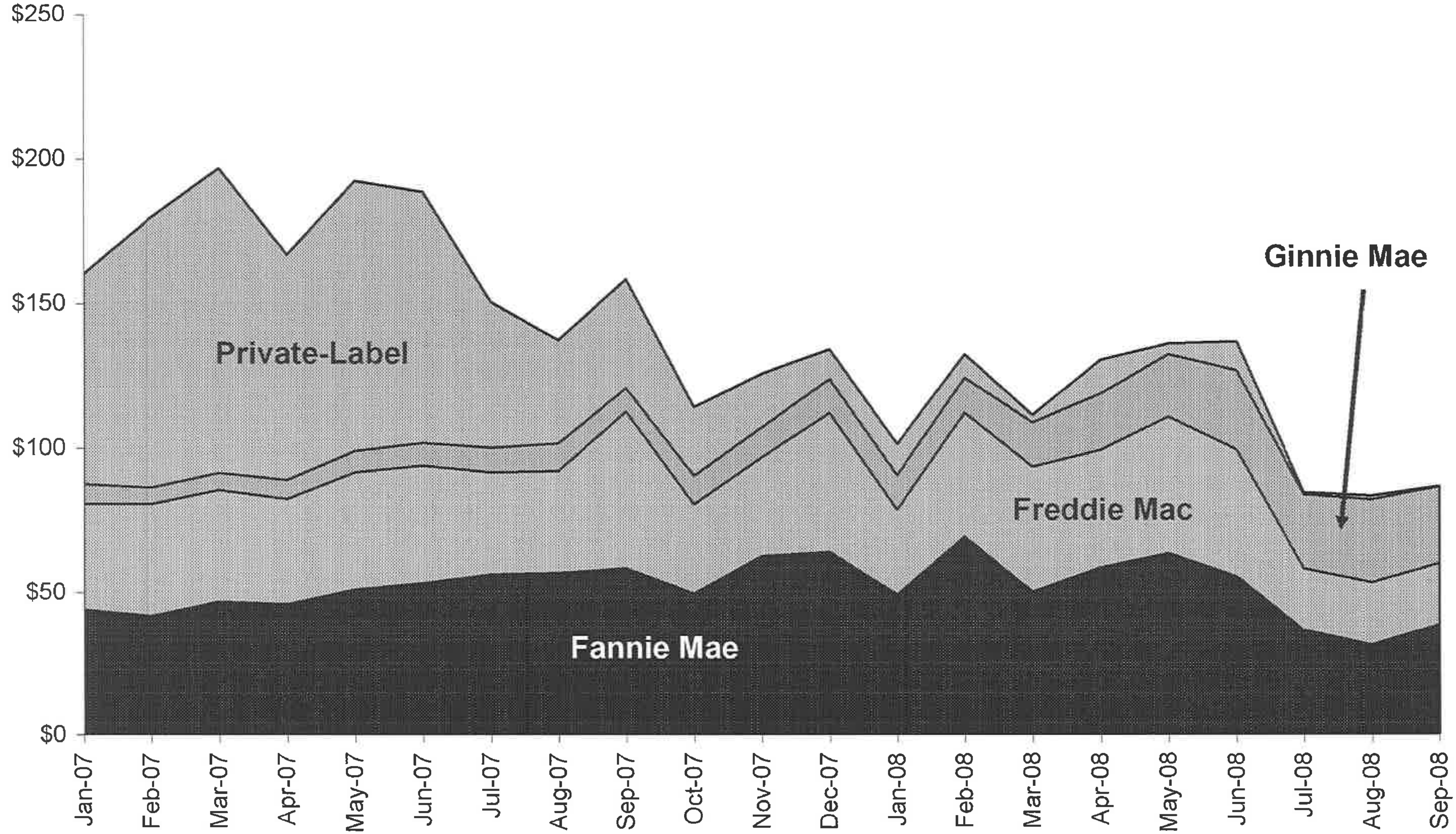
Portfolio Composition of the FHLBanks

1987 - September 2008



MBS Issuance by Issuer

MBS Issuance by Issuer, in Billions
January 2007 - September 2008

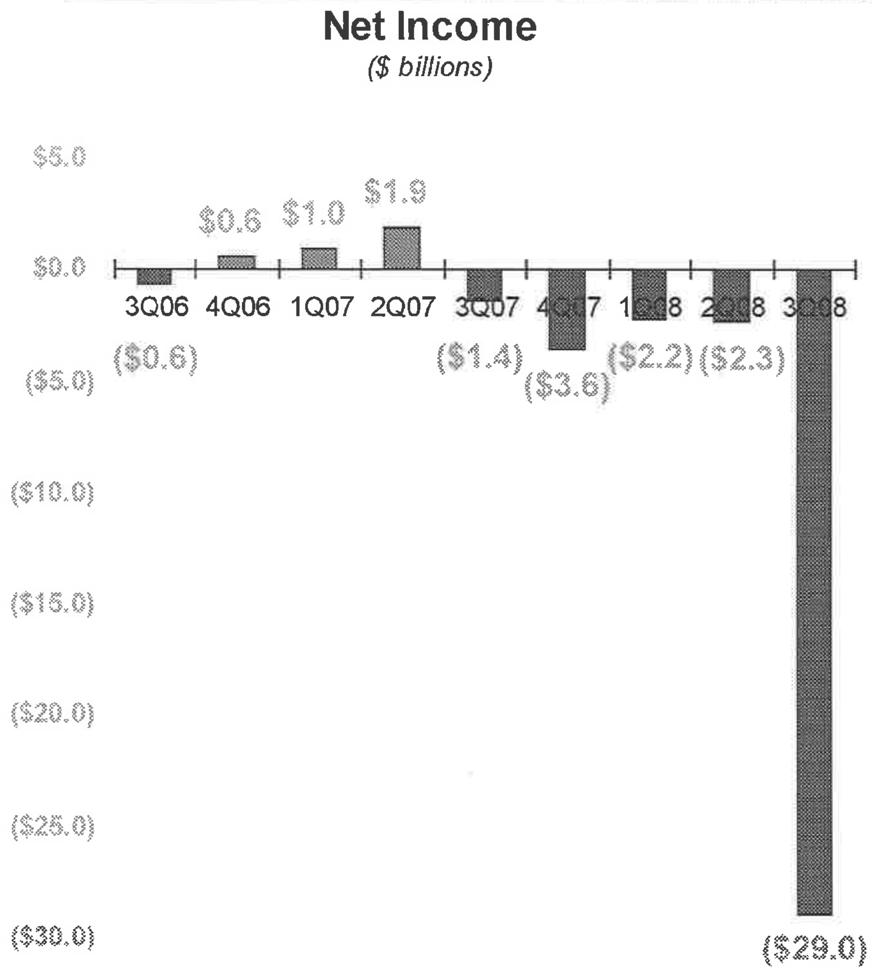


Sources: Inside Mortgage Finance Publications and Fannie Mae and Freddie Mac Monthly Volume Summaries.

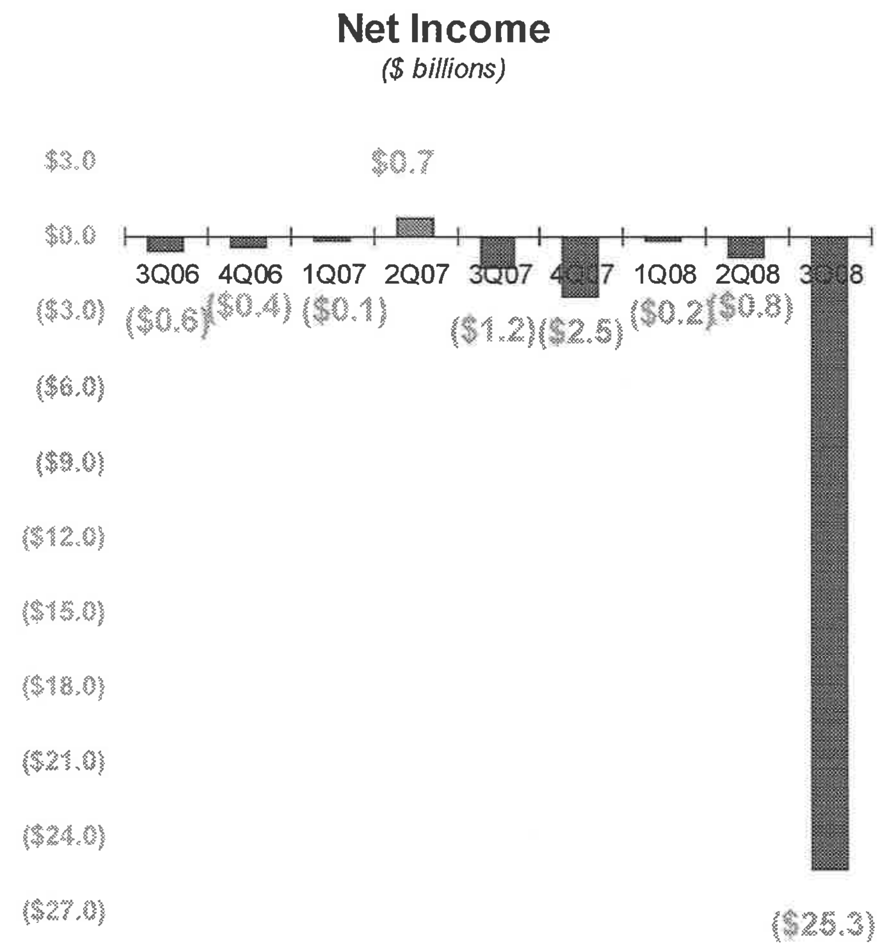
Quarterly Net Income for 2006Q3 through 2008Q3

Both Enterprises reported net losses in each of the last five quarters, including record losses in the third quarter of 2008.

Fannie Mae



Freddie Mac



Sources: Fannie Mae 2008 Q3 10-Q, Freddie Mac 2008 Q3 10-Q.

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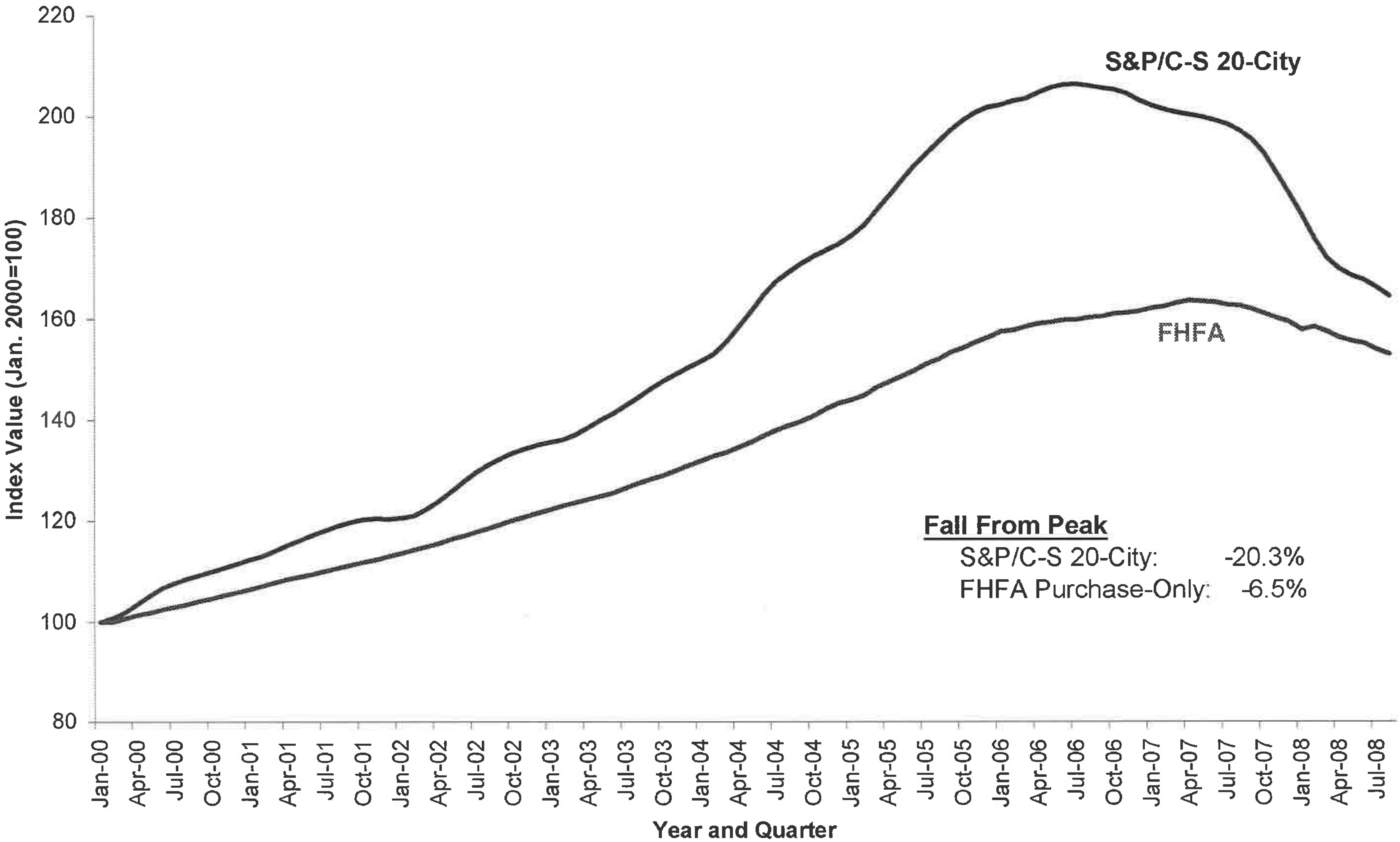
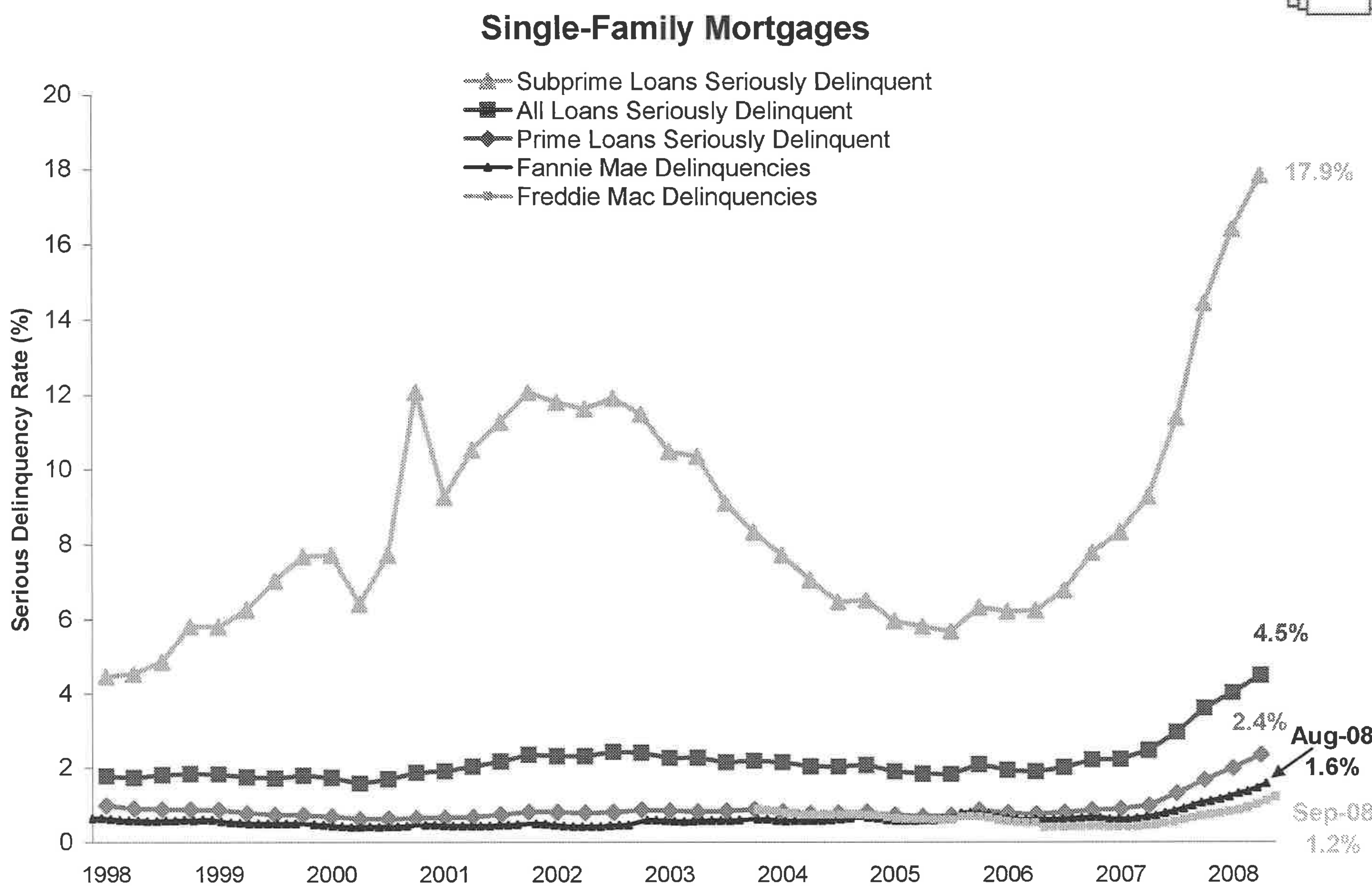
House Prices Continue to Fall

FHFA and S&P/Case-Shiller House Price Indexes
January 2000 - August 2008



Note: For purposes of comparison, the FHFA purchase-only index has been re-based to January 2000=100 (the standard series is set so that January 1991=100)

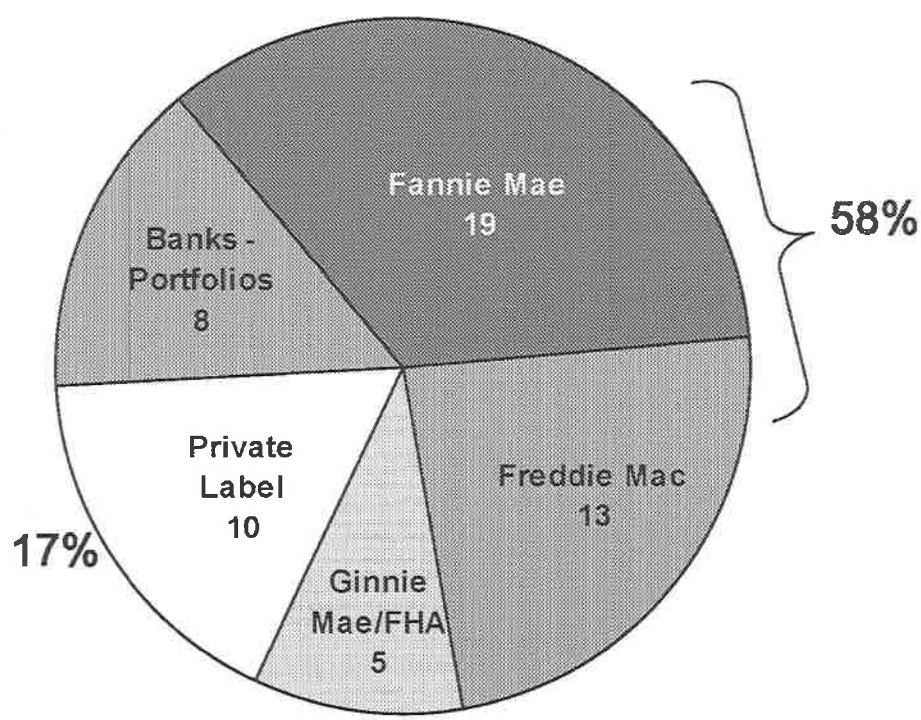
Serious Delinquencies Rising



Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac.

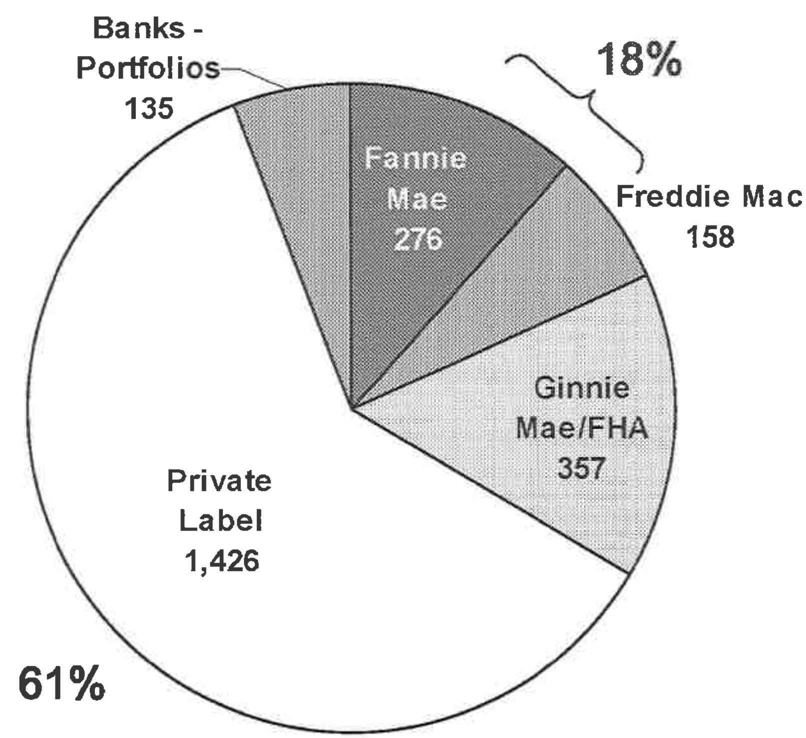
Mortgages and Seriously Delinquent Universe (90 Days)

Mortgages Outstanding (millions)



Total: 54.8 million

Seriously Delinquent Mortgages (thousands)



Total: 2.4 million

Conservatorship to Support Mission

- Conservatorship is a legal process to stabilize a troubled institution with the objective of returning the GSEs to normal business operations. Structure was flawed.
- FHFA as conservator has broad authority to oversee the GSEs until stabilized and returned to shareholders.
- New CEOs appointed.
- Non-executive Chairmen appointed, who will reconstitute boards.
- FHFA is working with the Enterprises on supporting their mission – stability, liquidity and affordability.

Treasury Facilities Provide Effective Guarantee

- **Senior Preferred Stock Purchase Agreement – no expiration date.**
  - Binding legal agreement that ensures that each GSE maintain a positive net worth through Treasury purchases of senior preferred stock.
  - Capacity of $100 billion each – over three times statutory minimum capital requirement.
  - Enterprises each paid Treasury $1 billion in senior preferred stock and warrants for 79.9 % of common stock.
  - Portfolios allowed to grow to $850 billion to support mortgage market and then shrink 10 percent p.a starting 2010.

Treasury Facilities Provide Effective Guarantee

- **Senior Preferred Stock Purchase Agreement (continued)**
  - Existing and future holders of MBS, senior debt and subordinated debt, including all maturities and future issuances are effectively guaranteed by the U. S. Treasury as facility can only terminate if:
    - Facility is fully funded,
    - GSE liquidates and Treasury has topped up net worth deficiency, if any, or
    - GSE satisfies all its liabilities.
- **GSE MBS Purchase Program – Expires 12/31/09.**
  - Treasury purchases Fannie Mae and Freddie Mac MBS in open market. Over $15 billion purchased.
- **GSE Credit Facility – Expires 12/31/09.**
  - Unlimited secured funding provided directly to Fannie Mae, Freddie Mac and FHLBanks by Treasury as a backstop.

Emergency Economic Stabilization Act

- TARP (Troubled Asset Relief Program) - $700 billion.
- Broad, flexible power to allow Treasury to purchase troubled assets, provide guarantees and provide capital.
  - $250 billion in Bank Preferred Stock
  - Other financial institutions eligible
  - Investment managers for Private Label MBS, whole mortgages
- Provides for heightened mortgage modification activities to avoid preventable foreclosures.
- Strong oversight established

Streamlined Loan Modification

ELIGIBILITY

- Originated on or before 1/1/08
- Account > 90 days past due and not in bankruptcy
- Single family property -- not vacant or abandoned
- Owner-occupied, primary residence
- Current mark-to-market LTV > 90%
- Affordable payment at 38% housing ratio. May require fixed rate product, term extension, interest rate reduction, and/or principal forbearance
- Borrower counseling encouraged

REQUIRED FROM BORROWER

- Hardship statement – reason for default / change in financial circumstances
- Documented gross household income
- Signed Modification Agreement with 1st payment at modified terms

MODIFICATION COMPLETE WHEN …

- Three payments made at the modified terms, and
- Account current on day 90 at the modified terms.

Federal Housing Finance Agency

FHFB + OFHEO + HUD

mission compliance

Federal Housing Finance Agency

- **Single, unified and independent GSE regulator**
  - FHFB and OFHEO
  - HUD's mission and new product authority

- **Enhanced safety and soundness authorities**
  - More complete set of regulatory and enforcement authorities
  - Authorities based on safety and soundness, not just capital
  - Flexibility to adjust capital requirements – minimum and risk based

- **Focus on mission**
  - Combines safety and soundness, charter compliance, and affordable housing goals in one agency
  - Establish criteria governing the Enterprises' retained portfolios

Agency Structure

Independent Agency

Director

- 5-year term
- Current OFHEO Director serves until successor is appointed and confirmed
- Oversees the operations of each regulated entity and any joint office of the FHLBanks
- Ensures safety and soundness
- Ensures regulated entities comply with applicable laws, regulations, orders and guidelines, and that they carry out their missions only through permissible activities

Deputy Directors oversee:

- Fannie Mae and Freddie Mac
- Federal Home Loan Banks
- Housing Mission and Goals -- mission functions of all the GSEs, including their respective affordable housing goals and programs

New Authorities Given to FHFA

Fannie/Freddie Regulation

- Prudential Management and Operations Standards
- Portfolio Limits
- Expanded Enforcement Authorities
- Capital Regulation
  - Risk-based
  - Minimum Capital
- Prompt Corrective Action broadened
- Receivership

New Authorities Given to FHFA

- **FHLBank Regulation**
  - Prudential Management and Operations Standards
  - Risk-based Capital Requirements
  - Capital Classification for Prompt Corrective Action
  - Temporary authority to provide letters of credit for tax-exempt bonds
  - Conservatorship/ Receivership Authority

New Authorities Given to FHFA

- **Mission Supervision**
  - Combines FHFB oversight of Affordable Housing Program and Community Investment Program and HUD's setting of affordable housing goals
  - New product approval for all GSEs

Setting Up the New Agency

- Developing organizational structure and culture
- Personnel Policies
- Integrated, unified accounting system
  - Investment Review Board
- Inspector General
- Internal Controls
  - Executive Committee on Internal Controls
- Performance Management
  - Strategic Plan
  - Annual Performance Goals and Measures
- President's Management Agenda

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FEDERAL HOUSING FINANCE AGENCY

FHFA