FEDERAL HOUSING FINANCE AGENCY
Office of the Director

April 16, 2009

Honorable Christopher Dodd
Chairman Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd:

I am transmitting our fifth report in accordance with Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA), titled *Assistance to Homeowners*. Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA) directs Federal Property Managers (FPM) to develop and implement plans to maximize assistance for homeowners and encourage servicers of underlying mortgages to take advantage of programs to minimize foreclosures. FHFA is a designated FPM in its role as conservator for Fannie Mae and Freddie Mac. Each FPM is also required to report to Congress about the number and types of loan modifications and the number of foreclosures during the reporting period.

As you will read in the attached, preventing avoidable foreclosures through loan modifications is a top priority at FHFA. We will continue to update, elaborate and expand FHFA's plan to maximize assistance for home owners and minimize preventable foreclosures consistent with the intent of EESA.

Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHF Oversight Board

Attachment

Federal Housing Finance Agency

Federal Property Managers Report No.5

April 16, 2009

New FHFA Activities

I am pleased to announce that Fannie Mae and Freddie Mac modified nearly 24,000 loans during the fourth quarter of 2008, an increase of 76 percent over the third quarter. The modifications, along with the suspension of foreclosures that began November 26, 2008, reduced the number of foreclosures by nearly 27 percent during the quarter. In addition to loan modifications, foreclosure prevention options include forbearance plans, payment plans, delinquency advances, short sales and deeds-in-lieu. Actions that led to resolution of delinquent accounts, which means the account was either reinstated or removed from the portfolio, increased 15 percent in the last quarter of 2008. Fewer homeowners are losing their homes as a result of the foreclosure prevention efforts, and we expect the numbers of those getting relief to grow further as the *Making Home Affordable* program picks up speed in coming months.

As I reported last month, the FHFA was pleased to work on the development of the Administration's *Making Home Affordable* plan, announced in February and published in detail on March 4, 2009. It is a major step forward in reducing preventable foreclosures and stabilizing the housing market. It aggressively builds on the FDIC's and our streamlined mortgage modification programs. On March 19, 2009, the FHFA testified before the House Financial Services Committee, Subcommittee on Housing and Community Opportunity, to discuss the Administration's *Making Home Affordable* Plan. During the testimony, we explained to the Committee the key elements of the plan which include:

1. *Home Affordable Refinance* plan**.** Fannie Mae and Freddie Mac will provide access to low-cost refinancing for loans they own or guarantee. This will help homeowners reduce their monthly payments and avoid foreclosure. It is designed for borrowers who are current in their payments and seek to refinance at a lower rate or into a safer mortgage but who have experienced difficulties due to declining home values and limited availability of mortgage insurance.
2. *Home Affordable Modification* plan**.** A $75 billion program will establish a national standard for loan modifications. Treasury will share a portion of the costs, which will provide financial incentives to borrowers, lenders and servicers. The Enterprises will monitor servicer compliance with the plan's rules, and for those loans owned or guaranteed by Fannie Mae or Freddie Mac, the Enterprise will bear the full costs of the modifications.
3. Treasury will support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac. The Treasury Department has announced it will double the size of its Preferred Stock Purchase Agreements to $200 billion each. This increase should remove any possible concerns that investors in debt and mortgage-backed securities have about the strong commitment of the U.S. Government to support Fannie Mae and Freddie Mac. In addition, the Treasury Department announced it will continue to purchase Fannie and Freddie MBS, and increased each GSE's allowable mortgage portfolios by $50 billion to $900 billion, and will make corresponding increases in allowable Enterprise debt outstanding.

Taken together, these three elements comprise an important step toward achieving a recovery for housing markets and the entire economy.

Monitoring and Oversight of the *Making Home Affordable* Plan

While I have described the plans that have been made and the progress in implementing them, what really count are the results. We have several ways of tracking the impact the plan is having on foreclosures and the economy through required reporting procedures. In our role as the Enterprises' regulator, we are in a unique position to oversee the implementation of this plan and monitor its results.

Beyond continuing with our regular comprehensive examination work, FHFA will also be establishing a special team of trained examiners with expertise in key areas to pay careful attention to the implementation and results of the plan. Fannie Mae has a critical reporting role in this program and will be systematically collecting data, which FHFA will also review, about the loans made under this program, including re-default rates. We are hopeful that this information can be used to improve the program. For example, information on the performance of loans made under this program could be used to improve the underwriting standards and the Net Present Value (NPV) model. Statistics on servicer participation could be used to address other challenges that the servicers of loans bundled in private-label securities are facing. Starting on April 15, 2009, information for participating servicers and servicers interested in participating in the *Making Home Affordable Modification* plan can be found at http://www.hmpadmin.com.

In addition, FHFA publishes information related to Treasury's and the Federal Reserve's purchase of senior preferred stock and mortgage-backed securities, and use of the GSE credit facility with weekly updates. In September, FHFA began publishing *Foreclosure Prevention Reports*, which are transparent reviews of key performance data on foreclosure prevention efforts. These monthly and quarterly reports present data from more than 3,000 approved servicers on 30.7 million first-lien residential mortgages serviced on behalf of Fannie Mae and Freddie Mac, of which 84 percent are prime. FHFA will continue to release these reports and monitor the progress and results of the *Making Home Affordable* plan.

New Fannie Mae and Freddie Mac Activities

The *Making Home Affordable* plan is now in the implementation stage. As of April 1, 2009, both Fannie Mae and Freddie Mac are participating in the *Home Affordable Modification* program for the loans that they own or guarantee and as administrators on behalf of the Treasury Department for all other loan modifications under this program. Fannie Mae and Freddie Mac are the only participants in the *Home Affordable Refinance* program, which includes new refinancing flexibilities for homeowners whose loans are owned by each of the Enterprises. The Enterprises have already issued guidance for their participation in these programs.

As an administrator of the modification program, Fannie Mae is working on guidance to seller/servicers that would address loans owned by Fannie Mae and Freddie Mac, and those owned by investors in private-label securities. Many of these securities have pooling agreements that require that servicers can modify loans only if they follow industry standards. Fannie Mae will be issuing new standards for servicers of private label securities, setting these new standards. This overcomes a major obstacle to loan modification. We expect these developments, along with the incentives offered to servicers to modify loans instead of foreclosing on homes, will motivate servicers, especially those related to private-label securities, to help American homeowners.

Each Enterprise has other key roles in the implementation of this program. Fannie Mae has a paying agent role to provide the incentive payments to servicers who have modified loans. Incentives for modifications on loans that Fannie Mae and Freddie Mac already own will be paid out of their funds, while incentive payments on loans owned by other investors will be paid with TARP funds. In addition, Fannie Mae will be required to maintain data and report on how many loans are refinanced or modified, as well as relevant statistics about those loans.

Freddie Mac has an important audit and compliance role with the modification program. It will take a lead role in reviewing servicers' compliance with the program guidelines and ensuring that noncompliance is reported and handled, including required reporting, documentation and on-site visits to the servicers. Both Enterprises are hiring or transferring the necessary staff to conduct their respective roles in the program. And both Enterprises are developing appropriate systems, confidentiality standards and firewalls to ensure that this program has the highest integrity. FHFA is confident that both Fannie Mae and Freddie Mac have fully embraced their roles and are on track in developing the necessary infrastructure to ensure that the *Making Home Affordable* plan is a success.

The modification plan requires that servicers modifying loans use a NPV model to determine if the borrower is eligible. FHFA has been working with experts from Fannie Mae, Freddie Mac, the FDIC and Treasury to put this model in place. The model includes acceptable discount rates, property valuation methodologies, house price appreciation assumptions, as well as foreclosure costs and timelines and borrower cure and redefault rate assumptions. This underwriting process will help reduce the possibility of redefault and mortgage fraud, which are concerns to everyone.

Federal Housing Finance Agency's House Price Index

U.S. home prices rose 1.7 percent on a seasonally-adjusted basis from December to January, according to the Federal Housing Finance Agency's monthly House Price Index. December's previously reported 0.1 percent increase was revised to a 0.2 percent decline. For the 12 months ending in January, U.S. prices fell 6.3 percent. The U.S. index is 9.6 percent below its April 2007 peak. The FHFA monthly index is calculated using purchase prices of houses backing mortgages that have been sold to or guaranteed by Fannie Mae or Freddie Mac. For the nine Census Divisions, seasonally-adjusted monthly price changes from December to January ranged from –0.9 percent in the Pacific Division to +3.9 percent in the East North Central Division.

Month-to-month changes in the geographic mix of sales activity explain most of the unexpected rise in prices in January. The January home sales reflected in the FHFA data disproportionately occurred in areas with the strongest markets. While it is difficult to perfectly control for changing geographic mix in estimating house price indexes, the data suggest that if one were to remove those effects, the change in home prices in January, while still positive, would have been far less dramatic. It also should be noted that sales volumes, in absolute terms, were relatively low in the month. Accordingly, the estimation imprecision associated with the January estimate is relatively large and subsequent revisions to the monthly figure could be significant.

Federal Housing Finance Agency Foreclosure Prevention Reports

In accordance with the reporting requirements of Section 110(b)(5), please find attached our FHFA monthly *Foreclosure Prevention Report*, which reports on loan modifications and foreclosure activities of the Enterprises through January 31, 2009. FHFA also publishes a quarterly report with detailed analysis. The most recent quarterly report is posted to our website at www.fhfa.gov. The FHFA *Foreclosure Prevention Reports* summarize data provided by Fannie Mae and Freddie Mac and gives a comprehensive view of their efforts to assist borrowers through forbearance, payment plans, and loan modification, and other alternatives to foreclosure such as short sales and deeds-in-lieu. The reports cover 30.7 million mortgages and focus on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers.

FHFA Quarterly Foreclosure Prevention Report – Forth Quarter 2008

The FHFA Quarterly Foreclosure Prevention Report indicates that during the fourth quarter, based on data for the Enterprises' more than 30 million residential mortgages:

- Modifications represented 34.0 percent of fourth quarter loss mitigation actions up from 22.2 percent of the third quarter.
- Completed payment plans represented 19.0 percent of fourth quarter loss mitigation actions compared to 24.2 percent of the third quarter.
- Short sales represented 8.9 percent of fourth quarter loss mitigation actions compared to 7.7 percent of third quarter.
- Deeds in lieu represented 0.8 percent of fourth quarter loss mitigation actions compared to 0.7 percent in the third quarter.

As a result of increased loss mitigation efforts and the foreclosure suspensions, the overall loss mitigation performance ratio (loss mitigation actions as a percentage of mortgages for which foreclosure was likely) for mortgages serviced on behalf of Fannie Mae and Freddie Mac, increased from 55 percent during the third quarter of 2008 to 65.7 percent in the fourth quarter. For prime loans, the ratio increased from 45.1 to 54.2 percent, and for nonprime loans from 64.7 percent in the third quarter to 75.3 percent in the fourth quarter.

Suspensions gave servicers more time to work with borrowers in foreclosure who were eligible for the Streamlined Modification Program introduced in early November. The impact of the suspensions caused December numbers for completed foreclosure and third-party sales to decline and for total loans, 60-plus, and 90-plus-days delinquent loans to increase.

When adjusted to account for foreclosure suspensions, the month-over-month change in the delinquency rates actually decreased. The month-over-month change in the 60-plus-days delinquency rate from October to November was an increase of 14.39 percent. The month-over-month change from November to December was an increase of 9.31 percent.

FHFA Monthly Foreclosure Prevention Report – January, 2009

The FHFA Monthly Foreclosure Prevention Report indicates that during or at the end of January, based on data for the Enterprises' more than 30 million residential mortgages:

- The top five identified reasons for default were curtailment of income (34.1 percent), excessive obligations (19.8 percent), unemployment (8.1 percent), illness of the principal mortgagor or a family member (6.5 percent) and marital difficulties (3.5 percent). This is a new metric introduced this month.

- Loans 90-plus-days delinquent (including those in bankruptcy and foreclosure) as a percent of all loans, increased from 1.67 percent as of October 31 to 2.14 percent as of December 31 and 2.45 percent of January 31.

- Loans in bankruptcy proceedings represented 0.16 percent of all loans serviced. This is a new metric introduced this month.

- Loans for which the foreclosure process was started as a percent of loans 60-plus-days delinquent declined from 6.38 percent in December to 6.12 percent in January. During 2008, foreclosure starts as a percent of 60-plus-days delinquent loans ranged from a low of 5.25 percent in November to a high of 9.22 percent in February 2008 and averaged 7.33 percent.

- Loans for which the foreclosure process was completed through a completed foreclosure or third party sale as a percent of loans 60-plus-days delinquent decreased from 2.43 percent for October, 1.79 percent for November, 0.40 percent for December and 0.28 percent for January.

- 8,953 loan modifications were completed in January compared to 8,688 in December and the prior 3-month average of 7,926. This represents a 3 percent increase in loan modifications by Fannie Mae and Freddie Mac from the December 2008 to January 2009. Of the modifications completed, 65.2 percent required an interest rate reduction and term extension, 19.5 percent a term extension only, and 5.3 percent an interest rate reduction only. Descriptions of modification types were expanded this month.

Since late November 2008, the Enterprises had suspended foreclosure sales and evictions scheduled in December and January. These suspensions, which ended March 31, 2009, allowed servicers additional time to work with borrowers in foreclosure who were eligible for the Streamlined Modification Program (SMP). The impact of the suspensions caused completed foreclosure sales and third party sales to decline from the prior three-month average of 16,342 to 3,711 in December and 3,391 in January. All loans 60-plus-days delinquent increased from 834,831 as of November 30 to 1,229,051 as of January 31, representing an increase of 47.2 percent over the period. However, prime loans 60-plus-days delinquent increased by 69.6 percent while nonprime loans increased by 22.5 percent.

	2008 Aver/Mo	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	2009 YTD Aver/Mo
Number of Loans (at period end)											
Total	30,548,420	30,634,428	30,586,564	30,666,221	30,576,555						30,576,555
Prime	25,462,927	25,680,402	25,666,584	25,765,149	25,701,916						25,701,916
Nonprime	5,085,493	4,954,026	4,919,980	4,901,072	4,874,639						4,874,639
60 Days+ Delinquency (at period end)											
Total	596,928	730,971	834,831	925,836	1,229,051						1,229,051
Prime	300,655	379,785	438,630	497,131	743,686						743,686
Nonprime	296,273	351,186	396,201	428,705	485,365						485,365
60 Days+ Delinquency (percent of total loans)											
Total	1.95%	2.39%	2.73%	3.02%	4.02%						4.02%
Prime	1.18%	1.48%	1.71%	1.93%	2.89%						2.89%
Nonprime	5.83%	7.09%	8.05%	8.75%	9.96%						9.96%
90 Days+ Delinquency (percent of total loans)											
Total	1.34%	1.67%	1.88%	2.14%	2.45%						2.45%
In Bankruptcy (percent of total loans)											
Total	NR	NR	NR	NR	0.16%						0.16%
Top Five Reasons for Default											
Curtailment of Income	NR	NR	NR	NR	34.11%						34.11%
Excessive obligations	NR	NR	NR	NR	19.75%						19.75%
Unemployment	NR	NR	NR	NR	8.14%						8.14%
Illness of principal mortgagor or family member	NR	NR	NR	NR	6.48%						6.48%
Marital Difficulties	NR	NR	NR	NR	3.55%						3.55%
Foreclosure Starts											
Total	42,354	47,086	43,827	59,068	75,230						75,230
Prime	23,896	26,808	25,456	35,040	44,182						44,182
Nonprime	18,458	20,278	18,371	24,028	31,048						31,048

	2008 Aver/Mo	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	2009 YTD Aver/Mo
Completed Foreclosure Sales											
Total	12,672	17,008	14,408	3,430	3,222						3,222
Prime	7,398	10,226	8,769	2,153	2,104						2,104
Nonprime	5,274	6,782	5,639	1,277	1,118						1,118
Completed Foreclosure Sales (Percentage of Starts)											
Total	29.9%	36.1%	32.9%	5.8%	4.3%						4.3%
Prime	31.0%	38.1%	34.4%	6.1%	4.8%						4.8%
Nonprime	28.6%	33.4%	30.7%	5.3%	3.6%						3.6%
Completed Foreclosure Sales (Percentage of Starts with a 6-month lag)											
Total	36.5%	43.6%	38.0%	8.6%	6.7%						6.7%
Prime	40.1%	46.6%	40.6%	9.6%	7.5%						7.5%
Nonprime	32.1%	39.7%	34.6%	7.3%	5.7%						5.7%
HomeSaver Advance (Fannie Mae Only)											
Total	5,914	6,800	9,692	9,296	7,403						7,403
Prime	2,041	1,998	3,113	3,011	2,502						2,502
Nonprime	3,873	4,802	6,579	6,285	4,901						4,901
Borrower Workout Plans (Repayment Plans Initiated + Modifications Plans Completed)											
Total	30,763	35,836	35,023	37,794	37,058						37,058
Prime	11,987	14,423	14,240	15,571	15,146						15,146
Nonprime	18,776	21,413	20,783	22,223	21,912						21,912
Formal Repayment Plans Initiated											
Total	25,071	29,482	26,288	29,106	28,105						28,105
Prime	10,127	12,197	11,235	13,104	11,614						11,614
Nonprime	14,944	17,285	15,053	16,002	16,491						16,491

	2008 Aver/Mo	Oct-08	Nov-08	Dec-08	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	2008 YTD Aver/Mo
Modifications Completed											
Total	5,692	6,354	8,735	8,688	8,953						8,953
Prime	1,860	2,226	3,005	2,467	3,532						3,532
Nonprime	3,832	4,128	5,730	6,221	5,421						5,421
Modifications by Type (#) (EESA Section 110)											
Extend Term Only	n/a	n/a	n/a	n/a	1,745						1,745
Reduce Rate Only	n/a	n/a	n/a	n/a	471						471
Extend Term and Reduce Rate	n/a	n/a	n/a	n/a	5,834						5,834
Extend Term, Reduce Rate and Forbear Principal	n/a	n/a	n/a	n/a	-						-
Other (includes Capitalization of Arrearages)	n/a	n/a	n/a	n/a	903						903
Modifications by Type (%) (EESA Section 110)											
Extend Term Only	n/a	n/a	n/a	n/a	19.5%						0
Reduce Rate Only	n/a	n/a	n/a	n/a	5.3%						0
Extend Term and Reduce Rate	n/a	n/a	n/a	n/a	65.2%						1
Extend Term, Reduce Rate and Forbear Principal	n/a	n/a	n/a	n/a	0.0%						-
Other (includes Capitalization of Arrearages)	n/a	n/a	n/a	n/a	10.1%						0
Modifications as a Percent of Workout Plans											
Total	18.5%	17.7%	24.9%	23.0%	24.2%						24.2%
Prime	15.5%	15.4%	21.1%	15.8%	23.3%						23.3%
Nonprime	20.4%	19.3%	27.6%	28.0%	24.7%						24.7%

	2008 Aver/Mo	Oct-08	Nov-08	Dec-08	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	2008 YTD Aver/Mo
Borrower Workout Plans (Repayment Plans Initiated + Modifications Completed) as a Percent of Completed Foreclosure Sales											
Total	243%	211%	243%	1102%	1150%						1150%
Prime	162%	141%	162%	723%	720%						720%
Nonprime	356%	316%	369%	1740%	1960%						1960%
Short Sales Completed											
Total	1,309	2,103	1,828	2,261	2,608						2,608
Prime	895	1,489	1,323	1,671	1,923						1,923
Nonprime	414	614	505	590	685						685
Deeds-in-Lieu Completed											
Total	126	156	150	234	188						188
Prime	93	123	113	180	145						145
Nonprime	33	33	37	54	43						43
Charge-Offs in Lieu of Foreclosure Completed											
Total	67	97	75	101	98						98
Prime	28	39	32	47	52						52
Nonprime	39	58	43	54	46						46
Total Loss Mitigation Actions Completed (# of Loans)											
Payment Plans Completed	5,213	4,927	4,147	4,235	4,702						4,702
HomeSaver Advance (Fannie Mae Only)	5,914	6,800	9,692	9,296	7,403						7,403
Loan Modifications Completed	5,692	6,354	8,735	8,688	8,953						8,953
Short Sales Completed Deeds-in-	1,309	2,103	1,828	2,261	2,608						2,608
Lieu Completed	126	156	150	234	188						188
Charge-offs in Lieu of Foreclosure Completed	67	97	75	101	98						98
Total	18,321	20,437	24,627	24,815	23,952						23,952

	2008 Aver/Mo	Oct-08	Nov-08	Dec-08	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	2008 YTD Aver/Mo
Total Loss Mitigation Actions Completed (# of Loans)											
Payment Plans Completed	28.5%	24.1%	16.8%	17.1%	19.6%						0
HomeSaver Advance (Fannie Mae Only)	32.3%	33.3%	39.4%	37.5%	30.9%						0
Loan Modifications Completed	31.1%	31.1%	35.5%	35.0%	37.4%						0
Short Sales Completed Deeds-in-	7.1%	10.3%	7.4%	9.1%	10.9%						0
Lieu Completed	0.7%	0.8%	0.6%	0.9%	0.8%						0
Charge-offs in Lieu of Foreclosure Completed	0.4%	0.5%	0.3%	0.4%	0.4%						0
Total	100.0%	100.0%	100.0%	100.0%	100.0%						1
Foreclosure Sales Completed	12,672	17,008	14,408	3,430	3,222						3,222
Third Party Sales	644	775	515	281	169						169
Total	13,316	17,783	14,923	3,711	3,391						3,391
Total Loss Mitigation Actions, Foreclosure Sales, and Third Party Sales	31,637	38,220	39,550	28,526	27,343						27,343
Loss Mitigation Performance Ratio	57.9%	53.5%	62.3%	87.0%	87.6%						87.6%