FEDERAL HOUSING FINANCE AGENCY
Office of the Director

May 18, 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 sixth 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

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Federal Housing Finance Agency

Federal Property Managers Report No.6

May 18, 2009

New FHFA Activities

Fannie Mae and Freddie Mac's completed foreclosure prevention actions increased 9 percent in February with loan modifications growing 26 percent and repayment plans increasing 38 percent. As the Enterprises intensified their loan modification efforts, loan modifications accounted for 43 percent of all completed foreclosure prevention actions in February, up from 38 percent in January. Approximately 70 percent of loan modifications completed in February involved both interest rate reductions and term extensions. Short sales and deeds-in-lieu, alternatives to foreclosure, accounted for approximately 9 percent of all completed foreclosure prevention actions. 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 the coming months.

On April 28, the U.S. Treasury Department announced the Second Lien Program component of the *Making Home Affordable* program to make it possible for people with second mortgages to modify the second when the first loan has been modified under the program. Statistics show that about half of all at-risk mortgages have second liens and 15 percent have more than one additional mortgage. This new program removes the stumbling block of the second liens that some feared would reduce the numbers of borrowers eligible for *Making Home Affordable* modifications. Now when a modification is initiated on a first lien, participating servicers in the second lien program will automatically reduce the second lien's payments so that the second lien holders also support the overriding objective of keeping people in their homes. The Treasury is also working on short sale and deed-in-lieu programs as the last steps before foreclosure, which are planned to be announced this month.

<u>Monitoring and Oversight of the *Making Home Affordable* Plan</u>

FHFA is tracking the impact the *Making Home Affordable* plan is having on foreclosures and the economy through required reporting procedures. Beyond continuing with our regular examination work, FHFA will also be establishing a special team of trained examiners with expertise in key areas to assess implementation, progress, issues 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.

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.

Fannie Mae's and Freddie Mac's New Activities

As agents of the U.S. Treasury, both Fannie Mae and Freddie Mac play major roles in and have assumed responsibilities for the implementation and ongoing oversight of the modification program. Those responsibilities include transaction processing, distribution of cash flows, payment of incentives, program compliance oversight, and on-site reviews. Given the Enterprise role in the industry as leaders in establishing best practices and standards, their involvement brings accountability, which is appropriate for any federal program supported with taxpayer dollars.

Although the *Making Home Affordable* programs are still in their early stages, the Enterprises have reached some key milestones already. The Enterprises have signed up 13 servicers representing 75 percent of the market to participate in the programs, and they are now contacting more than 1,300 small servicers to increase participation. Information for servicers interested in participating in the *Making Home Affordable* programs can be found at http://www.hmpadmin.com. In addition, Treasury has put a tutorial program for participating servicers on its Web site.

In the coming weeks, many more administrative milestones are pending. Freddie Mac, as the contractor for the government to oversee the program will send teams out to examine loan-level transactions. By late June, a data validation process will be up and running to verify that individual loan modifications have been successful in their three-month trial periods before servicers will receive the cash incentives. And by early August, Fannie Mae (on behalf of Treasury) expects to have a program administrator and a paying agent in place.

Although these programs may have a short-term cost from an accounting standpoint to the Enterprises; foreclosures are much more costly directly and indirectly. With a $5.4 trillion mortgage book, stabilizing the mortgage market is critical to the long-term profitability of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have strong incentives to increase the volume of loan modifications and refinance activity, as do all mortgage holders. Increases in delinquency rates are driving higher expectations of future credit losses. In recent quarters both Enterprises have increased their provisions for losses substantially to build their loan loss reserves. Increases in REO (real estate owned) properties are also generating higher foreclosure-related expenses and contributing to downward pressure on house prices. Higher levels of credit-related expenses and losses are a primary driver of net losses at both Enterprises. Refinancing and modifying loans improves borrowers' ability to stay current which ultimately reduces expectations of future credit losses.

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 February 28, 2009. FHFA also publishes a quarterly report with detailed analysis. The most recent quarterly report is posted at www.fhfa.gov. The FHFA *Foreclosure Prevention Reports* summarize data provided by Fannie Mae and Freddie Mac and give a comprehensive view of their efforts to assist borrowers through forbearance, payment plans, loan modification, and other alternatives to foreclosure such as short sales and deeds-in-lieu. The reports cover 30.2 million mortgages and focus on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers.

FHFA Monthly *Foreclosure Prevention Report* – February, 2009

The FHFA's *Foreclosure Prevention Report* for February 2009 indicates significant foreclosure prevention activity.

Foreclosure Prevention Actions:

- Completed foreclosure prevention actions increased 9 percent in February with completed loan modifications growing 26 percent. Repayment plans grew 38 percent.
- As the Enterprises intensified their loan modification efforts, loan modifications accounted for 43 percent of all completed foreclosure prevention actions in February, up from 38 percent in January. Approximately 70 percent of loan modifications completed in February involved both interest rate reductions and term extensions.
- Alternatives to foreclosure – short sales and deeds in lieu – accounted for approximately 9 percent of all completed foreclosure prevention actions.

Mortgage Performance:

- Credit quality continued to decline as approximately 41,000 more loans became 60 days or more delinquent in February. Loans 60 days+ delinquent increased approximately 4 percent in February to 1.1 million.
- One in 10 nonprime loans was 60 days+ delinquent at the end of February compared with two in 100 prime loans. Non-prime loans were 16 percent of the total 30.2 million loans.

Foreclosures:

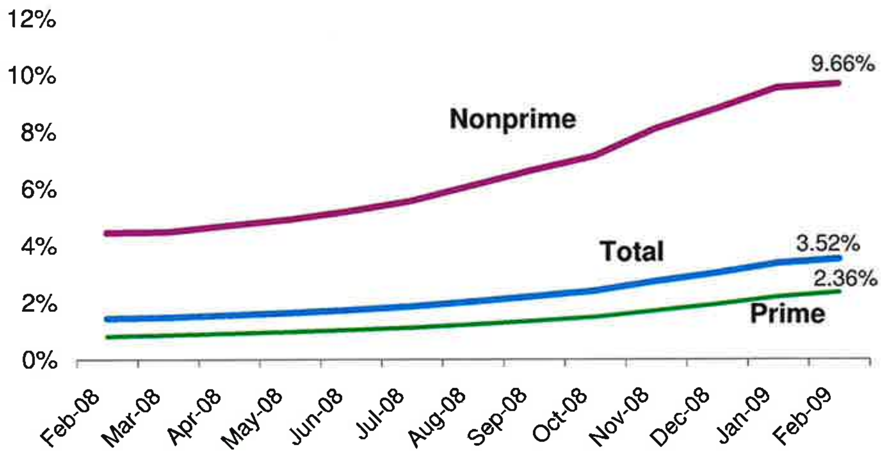
- The Enterprises temporarily suspended all foreclosure sales on owner-occupied properties during the periods November 26, 2008 through January 31, 2009 and the last two weeks of February 2009. The suspension led to a substantial reduction in completed foreclosure sales in December 2008 and January 2009. However, completed foreclosure sales surged to 28,897 in February (from 3,222 in January) when the moratorium on foreclosures was lifted during the first half of February, 2009. The moratorium ended on March 6, 2009.

Federal Housing Finance Agency

Foreclosure Prevention Report
February 2009

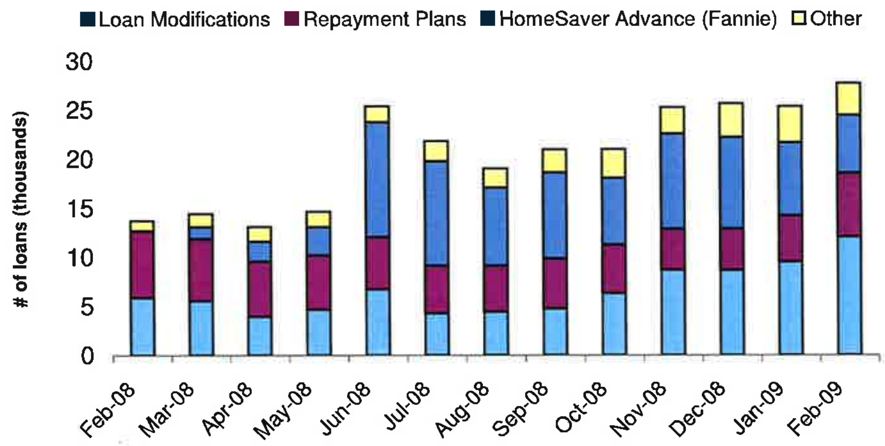
60 Days+ Delinquency Rates

Credit quality continues to deteriorate...



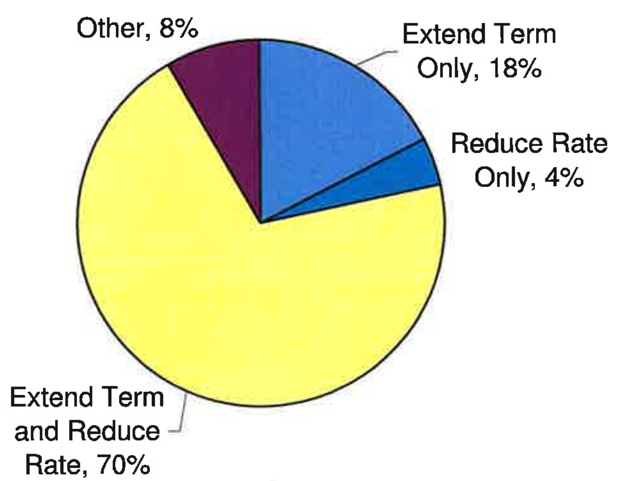
Foreclosure Prevention Actions Completed

...however, loan modifications and repayment plans are increasing.



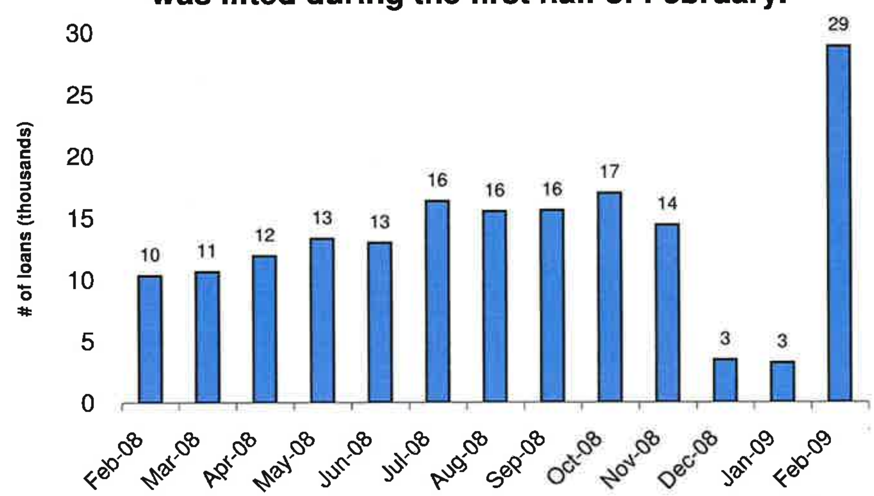
Loan Modifications by Type - February 2009

The bulk of loan modifications involve both rate reductions and term extensions.



Foreclosure Sales Completed

...surged as the moratorium on foreclosures was lifted during the first half of February.



Please see glossary on page 7

1 - Mortgage Performance *(at period end)*

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Number of Loans *(thous)*	30,141	30,190	30,269	30,481	30,459	30,479	30,527	30,626	30,497	30,495	30,536	30,372	30,226
Prime	24,963	25,036	25,132	25,353	25,369	25,419	25,485	25,608	25,571	25,595	25,657	25,521	25,416
Nonprime	5,178	5,153	5,138	5,128	5,090	5,061	5,042	5,018	4,926	4,900	4,879	4,851	4,810
60 Days+ Delinquent *(thous)*	434	445	470	497	529	566	621	678	731	835	926	1,024	1,065
Prime	203	214	229	245	264	284	313	345	380	439	497	562	600
Nonprime	231	231	241	252	265	281	308	333	351	396	429	462	465
60 Days+ Delinquent *(%)*	1.44%	1.47%	1.55%	1.63%	1.74%	1.86%	2.03%	2.22%	2.40%	2.74%	3.03%	3.37%	3.52%
Prime	0.81%	0.86%	0.91%	0.97%	1.04%	1.12%	1.23%	1.35%	1.49%	1.71%	1.94%	2.20%	2.36%
Nonprime	4.45%	4.48%	4.70%	4.91%	5.21%	5.56%	6.10%	6.64%	7.13%	8.09%	8.79%	9.53%	9.66%
90 Days+ Delinquent *(%)*	0.95%	0.99%	1.05%	1.12%	1.18%	1.27%	1.38%	1.52%	1.67%	1.88%	2.14%	2.45%	2.63%
In Bankruptcy *(%)*												0.24%	0.25%
Top Five Reasons for Default													
Curtailment of Income												34%	35%
Excessive obligations												20%	19%
Unemployment												8%	8%
Illness of principal mortgagor or family member												6%	6%
Marital Difficulties												4%	3%

Please see glossary on page 7

FHFA Foreclosure Prevention Report - February 2009

2 - Foreclosure Prevention Actions Completed *(# of loans)*

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Full Year 2008	Jan-09	Feb-09	YTD 2009
Repayment Plans	6,777	6,314	5,595	5,504	5,294	4,897	4,720	5,093	4,927	4,147	4,235	62,560	4,702	6,506	11,208
Forbearance Plans	366	467	484	459	336	379	326	394	572	658	886	5,692	836	827	1,663
Charge-offs in Lieu	42	70	41	49	66	73	57	72	97	75	101	799	98	61	159
HomeSaver Advance *(Fannie)*	11	1,233	2,052	2,881	11,725	10,599	7,914	8,764	6,800	9,692	9,296	70,967	7,403	5,903	13,306
Loan Modifications	5,886	5,541	3,969	4,677	6,741	4,265	4,446	4,777	6,354	8,735	8,688	68,307	9,558	12,067	21,625
Home Retention Actions	**13,082**	**13,625**	**12,141**	**13,570**	**24,162**	**20,213**	**17,463**	**19,100**	**18,750**	**23,307**	**23,206**	**208,325**	**22,597**	**25,364**	**47,961**
Short Sales	556	704	850	1,056	1,156	1,492	1,465	1,717	2,103	1,828	2,261	15,704	2,608	2,228	4,836
Deeds in Lieu	84	122	107	62	67	118	138	171	156	150	234	1,511	188	161	349
Foreclosure Alternatives - Home Forfeiture Actions	**640**	**826**	**957**	**1,118**	**1,223**	**1,610**	**1,603**	**1,888**	**2,259**	**1,978**	**2,495**	**17,215**	**2,796**	**2,389**	**5,185**
Total Foreclosure Prevention Actions	**13,722**	**14,451**	**13,098**	**14,688**	**25,385**	**21,823**	**19,066**	**20,988**	**21,009**	**25,285**	**25,701**	**225,540**	**25,393**	**27,753**	**53,146**
% of Total Foreclosure Prevention Actions															
Repayment Plans	49%	44%	43%	37%	21%	22%	25%	24%	23%	16%	16%	28%	19%	23%	21%
Forbearance Plans	3%	3%	4%	3%	1%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%
Charge-offs in Lieu	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
HomeSaver Advance *(Fannie)*	0%	9%	16%	20%	46%	49%	42%	42%	32%	38%	36%	31%	29%	21%	25%
Loan Modifications	43%	38%	30%	32%	27%	20%	23%	23%	30%	35%	34%	30%	38%	43%	41%
Home Retention Actions	**95%**	**94%**	**93%**	**92%**	**95%**	**93%**	**92%**	**91%**	**89%**	**92%**	**90%**	**92%**	**89%**	**91%**	**90%**
Short Sales	4%	5%	6%	7%	5%	7%	8%	8%	10%	7%	9%	7%	10%	8%	9%
Deeds in Lieu	1%	1%	1%	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Foreclosure Alternatives - Home Forfeiture Actions	**5%**	**6%**	**7%**	**8%**	**5%**	**7%**	**8%**	**9%**	**11%**	**8%**	**10%**	**8%**	**11%**	**9%**	**10%**

Please see glossary on page 7

3 - Home Retention Actions Completed by Risk Category

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Full Year 2008	Jan-09	Feb-09	YTD 2009
Home Retention Actions	13,082	13,625	12,141	13,570	24,162	20,213	17,463	19,100	18,750	23,307	23,206	208,269	22,597	25,364	47,961
Prime	4,551	4,672	4,098	4,875	8,724	7,974	6,310	7,119	6,442	8,045	8,468	74,665	8,560	9,685	18,245
Nonprime	8,531	8,953	8,043	8,695	15,438	12,239	11,153	11,981	12,308	15,262	14,738	133,604	14,037	15,679	29,716
Repayment Plans	6,777	6,314	5,595	5,504	5,294	4,897	4,720	5,093	4,927	4,147	4,235	62,560	4,702	6,506	11,208
Prime	2,528	2,315	2,132	2,156	2,090	1,979	1,857	2,076	1,972	1,584	1,713	24,323	1,886	2,569	4,455
Nonprime	4,249	3,999	3,463	3,348	3,204	2,918	2,863	3,017	2,955	2,563	2,522	38,237	2,816	3,937	6,753
Forbearance Plans	366	467	484	459	336	379	326	394	572	658	886	5,692	836	827	1,663
Prime	148	184	202	198	138	171	130	152	207	311	408	2,399	386	401	787
Nonprime	218	283	282	261	198	208	196	242	365	347	478	3,293	450	426	876
Charge-Offs in Lieu	42	70	41	49	66	73	57	72	97	75	101	799	98	61	159
Prime	11	28	16	20	27	34	25	28	39	32	47	331	52	26	78
Nonprime	31	42	25	29	39	39	32	44	58	43	54	468	46	35	81
HomeSaver Advance *(Fannie)*	11	1,233	2,052	2,881	11,725	10,599	7,914	8,764	6,800	9,692	9,296	70,967	7,403	5,903	13,306
Prime	3	343	545	856	4,459	4,285	2,747	3,134	1,998	3,113	3,011	24,494	2,502	1,958	4,460
Nonprime	8	890	1,507	2,025	7,266	6,314	5,167	5,630	4,802	6,579	6,285	46,473	4,901	3,945	8,846
Loan Modifications	5,886	5,541	3,969	4,677	6,741	4,265	4,446	4,777	6,354	8,735	8,688	68,307	9,558	12,067	21,625
Prime	1,861	1,802	1,203	1,645	2,010	1,505	1,551	1,729	2,226	3,005	3,289	23,142	3,734	4,731	8,465
Nonprime	4,025	3,739	2,766	3,032	4,731	2,760	2,895	3,048	4,128	5,730	5,399	45,165	5,824	7,336	13,160
Type of Modifications *(# of loans)*															
Extend Term Only													1,732	2,120	3,852
Reduce Rate Only													531	493	1,024
Extend Term and Reduce Rate													6,366	8,440	14,806
Extend Term, Reduce Rate, and Forbear Principal													-	-	-
Other													929	1,014	1,943
Type of Modifications *(%)*															
Extend Term Only													18%	18%	18%
Reduce Rate Only													6%	4%	5%
Extend Term and Reduce Rate													67%	70%	68%
Extend Term, Reduce Rate, and Forbear Principal													0%	0%	0%
Other													10%	8%	9%

Please see glossary on page 7

4 - Home Forfeiture Actions completed by Risk Category

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Full Year 2008	Jan-09	Feb-09	YTD 2009
Home Forfeiture Actions	11,616	12,065	13,586	15,100	14,849	18,699	17,860	18,209	20,042	16,901	6,206	177,064	6,177	32,213	38,390
Prime	6,416	6,693	7,781	8,641	8,855	11,467	10,816	11,180	12,350	10,533	4,210	105,511	4,319	20,676	24,995
Nonprime	5,242	5,442	5,846	6,508	6,060	7,305	7,101	7,101	7,789	6,443	2,097	72,296	1,956	11,598	13,554
Short Sales	556	704	850	1,056	1,156	1,492	1,465	1,717	2,103	1,828	2,261	15,704	2,608	2,228	4,836
Prime	341	425	525	677	754	1,000	1,033	1,200	1,489	1,323	1,671	10,741	1,923	1,669	3,592
Nonprime	215	279	325	379	402	492	432	517	614	505	590	4,963	685	559	1,244
Deeds in Lieu	84	122	107	62	67	118	138	171	156	150	234	1,511	188	161	349
Prime	61	93	82	42	44	80	114	118	123	113	180	1,112	145	117	262
Nonprime	23	29	25	20	23	38	24	53	33	37	54	399	43	44	87
Third Party Sales	659	594	713	677	662	725	729	716	775	515	281	7,732	159	927	1,086
Prime	380	350	443	388	404	424	402	440	473	296	159	4,553	95	605	700
Nonprime	279	244	270	289	258	301	327	276	302	219	122	3,179	64	322	386
Foreclosure Sales	**10,317**	**10,645**	**11,916**	**13,305**	**12,964**	**16,364**	**15,528**	**15,605**	**17,008**	**14,408**	**3,430**	**152,061**	**3,222**	**28,897**	**32,119**
Prime	5,623	5,797	6,715	7,514	7,626	9,929	9,242	9,394	10,226	8,769	2,153	88,774	2,104	18,259	20,363
Nonprime	4,694	4,848	5,201	5,791	5,338	6,435	6,286	6,211	6,782	5,639	1,277	63,287	1,118	10,638	11,756
Foreclosure Alternatives - Home Forfeiture Actions [1]	**640**	**826**	**957**	**1,118**	**1,223**	**1,610**	**1,603**	**1,888**	**2,259**	**1,978**	**2,495**	**17,215**	**2,796**	**2,389**	**5,185**
Prime	402	518	607	719	798	1,080	1,147	1,318	1,612	1,436	1,851	11,877	2,068	1,786	3,854
Nonprime	238	308	350	399	425	530	456	570	647	542	644	5,338	728	603	1,331
Foreclosure Starts	39,980	35,957	39,031	37,887	39,925	47,770	44,170	40,969	47,086	43,827	59,068	508,253	75,230	80,103	155,333
Prime	21,832	20,021	21,965	21,579	22,374	27,998	25,082	22,495	26,808	25,456	35,040	286,746	44,182	51,483	95,665
Nonprime	18,148	15,936	17,066	16,308	17,551	19,772	19,088	18,474	20,278	18,371	24,028	221,507	31,048	28,620	59,668

1 Sum of short sales and deeds in lieu

Please see glossary on page 7

Glossary

Section 1: Mortgage Performance

Number of Loans - Total conventional active book of business, excluding loans that were liquidated during the month.
Prime Borrowers - FICO score greater than or equal to than 660
Nonprime Borrowers - FICO score less than 660
60 Days+ Delinquent - Loans two or more payments delinquent, including loans in relief, in the process of foreclosure, or in the process of bankruptcy. Calculated as total loans minus loans current and performing, as well as those 30 to 59 days delinquent.
90 Days+ Delinquent - Loans three or more payments delinquent, including loans in relief, in the process of foreclosure, and in the process of bankruptcy.
In Bankruptcy - Loans in the process of bankruptcy; includes all delinquency status.
Delinquency Reason Codes - Includes only loans three months or more delinquent and also in relief, foreclosure, or bankruptcy.

Section 2: Completed Foreclosure Prevention Actions

Home Retention Actions - Repayment plans, forbearance plans, charge-offs in lieu of foreclosure, Home Saver Advances, and loan modifications. Home retention actions allow borrowers to retain ownership/occupancy of their homes while attempting to return loans to current and performing status.
Repayment Plans - Number of loans for which borrowers completed the terms of a formal repayment plan during the month.
Forbearance Plans - Number of loans for which terms have been completed (become current) under a forbearance plan that had previously authorized suspension of payments or had agreed to accept periodic payment of less than the borrower's scheduled monthly payment, periodic payments at different intervals, etc., to give the borrower and servicer additional time to determine and implement the most appropriate way to cure the delinquency.
Charge-Offs in Lieu of Foreclosure - A delinquent loan for which collection efforts or legal actions against the borrower are agreed to be not in the Enterprises' best interests (because of reduced property value, a low outstanding mortgage balance, or presence of certain environmental hazards).
Home Saver Advance (Fannie Mae) - An unsecured personal loan to a qualified borrower to cure his or her payment defaults under a mortgage loan the Enterprises own or guarantee. The borrower must be able to resume regular monthly payments on his or her mortgage.
Loan Modifications - Number of modified, renegotiated, or restructured loans, regardless of performance-to-date under the plan during the month. Terms of the contract between the borrower and the lender are altered with the aim of curing the delinquency (30 days or more past due).
Foreclosure Alternatives - Home Forfeiture Actions- Short sales and deeds in lieu of foreclosure. These actions require borrowers to give up their homes. Although homes are forfeited, foreclosure alternatives generally have less adverse impact on borrowers and their credit reports than foreclosure.
Short Sales - A payoff of less than the full amount of loan debt to avoid the expense of foreclosure proceedings.
Deed(s) in Lieu of Foreclosure - A loan for which the borrower voluntarily conveys the property to the lender to avoid a foreclosure proceeding.

Section 3: Loan Modification Types

Extend Term Only - Remaining term of the loan is longer after modification.
Reduce Rate Only - Loan's rate is lower after modification.
Extend Term and Reduce Rate - Loan's rate reduced and term extended.
Extend Term, Rate Reduction, and Forbear Principal - Modification includes term extension, rate reduction, and forbearance of principal.
Other - A modification that does not fit in any of the above categories. The majority of these loans are capitalized modifications.

Section 4: Third Party Sales and Foreclosures

Third Party Sales - A third party entity purchases the property at the foreclosure sale/auction above the initial bid set forth by Fannie Mae or Freddie Mac.
Foreclosure Starts - The total number of loans referred to an attorney to initiate the legal process of foreclosure during the month. These are loans measured as not being in foreclosure in the previous month but referred to foreclosure in the current month.
Foreclosure Sales - The number of loans that went to foreclosure (sheriff's) sale during the month.