FEDERAL HOUSING FINANCE AGENCY

Office of the Director

June 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 seventh 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.7

June 18, 2009

FHFA Activities

Fannie Mae and Freddie Mac modified nearly 37,000 loans during the first quarter of 2009. It is an increase of 57 percent over the fourth quarter of 2008 and more than double the number of modifications in the first quarter of last year. The use of loan modifications by Fannie Mae and Freddie Mac has risen dramatically and as a result, more homeowners are seeing payments significantly reduced and fewer people are losing their homes.

The mortgage portfolio credit quality of the Enterprises continued to decline with the prolonged downturn in the economy, however foreclosure prevention activity increased and more importantly, the nature of foreclosure prevention actions[1] is changing to emphasize more appropriate forms of actions for extended hardship situations and to provide more assistance to borrowers.

Completed actions to prevent foreclosure rose substantially in the first quarter of 2009 to over 87,000, an increase of 20 percent over the prior quarter and more than double the volume in a comparable prior year period. Home retention actions, actions that result in borrowers retaining their homes, accounted for 90 percent of these actions completed during the first quarter consistent with the proportions of foreclosure prevention actions completed over the past year. The remaining 10 percent of actions were non-foreclosure home forfeiture actions, which resulted in borrowers forfeiting their homes through short sales and deeds in lieu of foreclosure.

The need to provide viable options to a growing number of borrowers experiencing long-term hardship, such as curtailment of income, contributed to a renewed focus on the foreclosure prevention alternative that addresses that type of hardship. Loan modifications, which allow servicers to reduce borrowers' payments of principal and interest by modifying the terms of the loan, are a more suitable alternative for addressing long term hardship than repayment plans or delinquency advances, which increase borrowers' payments.

Making Home Affordable Program

On May 14, 2009, the Administration announced program updates to the Making Home Affordable (MHA) program, including details on Foreclosure Alternatives and Home Price Decline Protection Incentives. Foreclosure Alternatives will help to prevent costly foreclosures by providing incentives for servicers and borrowers to pursue short sales and deeds-in-lieu of foreclosure in cases where a borrower is eligible for a MHA modification but unable to complete the modification process. This program will assist homeowners who cannot afford to stay in their homes by helping them to avoid foreclosure and relocate to homes they can afford. Building on insights developed by the FDIC, Home Price Decline Protection Incentives will provide additional payments based on recent home price declines, and, therefore, will incentivize additional modifications in areas where home prices have been falling. By increasing MHA modifications and the use of alternatives to foreclosure, we will reduce the negative impact of foreclosure, minimizing damaging costs for financial institutions, borrowers and communities.

[1] Foreclosure prevention actions include loan modifications, repayment plans, forbearance plans, charge-offs in lieu of foreclosure, delinquency advances, short sales and deeds in lieu of foreclosure.

Home Price Decline Protection Incentives and Foreclosure Alternatives, together with the other comprehensive elements of the MHA program, will help to stabilize property values for homeowners in neighborhoods hardest hit by foreclosures. Based on estimates of the relationship between foreclosures and home prices, the MHA program could help to bolster home values for the average homeowner by as much as $6,000.

FHFA is tracking the impact the MHA program 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.

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 MHA program. These roles include:

- Both Enterprises are participating in the 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-the administrator of the MHA program-is working on guidance to seller/servicers to address loans owned by Fannie Mae and Freddie Mac, and those owned by investors in private-label securities.
- Freddie Mac has an audit and compliance role with the MHA program. Freddie Mac is leading reviews of servicers' compliance with the program guidelines and ensuring that noncompliance is reported and handled.

The Enterprises' continue to expand their efforts to assist more of their borrowers. However, the population at greatest risk is those borrowers whose loans are in private-label securities, and not subject to the Enterprises' contractual requirements. The Enterprises have worked with other industry participants to identify barriers to broad adoption of the MHA programs by the private-label securities community. FHFA has also worked on specific barriers to broader acceptance of the modification program including developing and testing a net present value model for first mortgage modifications that meets the requirements of most private-label securities pooling and servicing agreements.

Although the MHA programs are still in their early stages, the Enterprises have reached some key milestones already, which include:

- To date, sixteen of the largest servicers representing roughly 75 percent of first mortgages nationwide have signed a Participation Agreement for the Home Affordable Modification Program (HAMP). The agreement requires that servicers review every potentially eligible borrower who inquires about program consideration. Servicers have been directed to suspend foreclosure on owner-occupied properties until a borrower's eligibility for the HAMP has been verified.

- Fannie Mae and Freddie Mac have acquired thousands of refinancings for high LTV borrowers under the Home Affordable Refinance Program (HARP).

    - Since the launch of its new automated underwriting system on April 4, Fannie Mae has had over 233,000 eligible refinance applications through DU Refi Plus, with over 51,000 of these having LTV's between 80 and 105%. These application volumes indicate the desire of homeowners to take advantage of the Administration's program. A total of 10,661 HARP loans have been closed and delivered to Fannie Mae.
    - Since Freddie Mac implemented HARP, a total of 8,894 Home Affordable Refinance loans have closed and been delivered to Freddie Mac. These figures do not include material deliveries from Freddie Mac's largest lenders; we anticipate that these customers will begin making substantial deliveries within the next 60 days.

- Since the Treasury released guidelines for servicers under the MHA program on March 4, close to 3 million borrowers have accessed Fannie Mae and Freddie Mac loan look-up tools online to see if they have a loan eligible for refinancing.

Federal Housing Finance Agency *Foreclosure Prevention Reports*

In accordance with the reporting requirements of Section 1lO(b) (5), FHFA has prepared the Quarterly *Foreclosure Prevention Report,* which reports on loan modifications and foreclosure activities of the Enterprises through March 31, 2009. The most recent quarterly report is posted at www.fhfa.gov. The FHFA *Foreclosure Prevention Report* summarizes data provided by Fannie Mae and Freddie Mac and provides 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 focuses on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers.

FHFA *Quarterly Foreclosure Prevention Report* - March 31. 2009

The FHFA's *Foreclosure Prevention Report* for the quarter ended March 31, 2009 indicates that of the Enterprises' 30 million residential mortgages:

- Modifications represented 43 percent of all completed foreclosure prevention actions in the first quarter of 2009, up from 33 percent in the prior quarter.

- Modifications with more than 20 percent reduction in monthly payments rose from 2 percent in the first quarter of last year to 52 percent in the first quarter of this year.

- Completed actions to prevent foreclosure, including modifications, forbearance, repayment plans and other measures, rose substantially in the first quarter. Approximately 87,000 of these actions were completed in the quarter, an increase of 20 percent over the prior quarter and more than double the volume in a comparable prior year period.
- Home retention actions, actions that result in a borrower keeping his or her home, accounted for 90 percent of these actions completed during the first quarter consistent with the proportions of foreclosure prevention actions completed over the past year.
- Fannie Mae and Freddie Mac own or guarantee 56 percent of all mortgages outstanding but only 20 percent of all seriously delinquent loans.
- Although the Enterprises' mortgage delinquencies continued to increase during the first quarter of 2009, the rate of delinquency is consistently lower than the industry average. As of March 31, 2009, the percentage of Enterprises' mortgage loans that were at least two payments past due (60 plus days delinquent) was 3.7 percent, compared with 6.1 percent for VA loans, 10.2 percent for FHA loans and 9.2 percent for industry average.

Foreclosures

Foreclosure starts increased very substantially in the first quarter, up by 63 percent over the prior quarter to 244,000, reflecting increases in the number of delinquencies and transition to later stage delinquency. The increase in the number of foreclosure starts on prime borrowers versus for nonprime borrowers reveals the impact of the deteriorating economy on borrowers that were previously considered higher credit quality. Compared to the first quarter of 2008, foreclosure starts on prime borrowers increased by 2.6 times whereas foreclosure starts on nonprime borrowers increased by 1.8 times.

Notwithstanding the temporary suspension of foreclosure sales on owner-occupied properties for the greater part of the first quarter of 2009, completed foreclosure sales and third party sales during the quarter increased by 17 percent over the prior quarter to 42,000.