FANNIE MAE

2009 ANNUAL HOUSING ACTIVITIES REPORT

and

ANNUAL MORTGAGE REPORT

SUBMITTED TO:

THE FEDERAL HOUSING FINANCE AGENCY (FHFA)

THE COMMITTEE ON FINANCIAL SERVICES
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES

THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
OF THE
UNITED STATES SENATE

PURSUANT TO

The Federal National Mortgage Association
Charter Act

MARCH 15, 2010

INTRODUCTION

Fannie Mae is required under the Charter Act to submit a report on its annual mortgage purchases to the Director of the Federal Housing Finance Agency ("FHFA") and to its oversight committees in the House of Representatives and the Senate.

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator "to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market."[1] The conservatorship is a statutory process designed to preserve and conserve our assets and property, and put the company in a sound and solvent condition.

The housing market downturn that began in the third quarter of 2006 continued through 2009. Several factors dramatically reduced the number of goals-eligible loans in the marketplace. These factors included rising unemployment, the reduced eligibility of mortgage insurance, tighter underwriting standards, the increasing role of FHA in today's market, and volatility in the multifamily market.

In response to market volatility, FHFA reset the housing goals targets for 2009. In August, FHFA issued the final 2009 housing goals rule that lowered the housing goals and the home purchase subgoals, and increased the multifamily special affordable subgoal. The final rule also provided housing goals credit for loan modifications initiated under the Making Home Affordable ("MHA") program, and excluded the purchase of loans above the nationwide conforming loan limits in the continental United States (e.g., $417,000 for 1-unit properties) from the housing goals calculation.

Set forth below are Fannie Mae's housing goals scores for 2009 as calculated by Fannie Mae. Final scores will be calculated and published by FHFA.

Goal Summary	2009 Goal	2009 Result
Housing Goals		
Low- and Moderate-Income	43%	47.74%
Underserved Areas	32%	28.77%
Special Affordable	18%	20.75%
Home Purchase Subgoals		
Low- and Moderate-Income	40%	51.82%
Underserved Areas	30%	31.07%
Special Affordable	14%	23.19%
Multifamily Special Affordable Subgoal		
	$6.56 billion	$6.47 billion

[1] Statement of FHFA Director James B. Lockhart, September 7, 2008.

CHARTER ACT REQUIREMENTS

Fannie Mae's Charter Act specifies the information that must be included in the Annual Housing Activities Report. Set forth below is each statutory requirement, followed by Fannie Mae's response for 2009.

1. Include, in aggregate form and by appropriate category, statements of the dollar volume and number of mortgages on owner occupied and rental properties purchased which relate to each of the annual housing goals established under subpart B of part 2 of subtitle A of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

The dollar volume and number of mortgages on owner occupied properties which relate to each of the housing goals are set forth on Annual Mortgage Report ("AMR") Tables 1 and 1A attached hereto.

The dollar volume and number of mortgages on rental properties which relate to each of the housing goals are set forth on AMR Tables 1, 1B (Single Family Rental) and 1C (Multifamily) attached hereto.

2. Include, in aggregate form and by appropriate category, statements of the number of families served by the corporation, the income class, race, and gender of homebuyers served, the income class of tenants of rental housing (to the extent such information is available), the characteristics of the census tracts, and the geographic distribution of the housing financed.

In 2009, Fannie Mae's purchases of mortgages served 3,923,803 families, as measured by the number of units financed. Fannie Mae's purchases financed a total of 1,745,486 units that met the low- and moderate-income goal and 304,561 mortgages that met the low- and moderate-income home purchase subgoal. Fannie Mae's purchases financed a total of 1,053,723 units that met the underserved areas goal and 182,528 mortgages that met the underserved areas home purchase subgoal. Fannie Mae's purchases financed a total of 758,888 units that met the special affordable housing goal and 136,297 mortgages that met the special affordable housing home purchase subgoal.

The income class, race, and gender of homebuyers served, the characteristics of the census tracts, and the geographic distribution of the housing financed are set forth on AMR Tables 1, 1A, 1B, 1C, 1D, 2, 3, 4, 7A, 7B, 10, 11, 12, 13 and 14.

3. Include a statement of the extent to which the mortgages purchased by the corporation have been used in conjunction with public subsidy programs under Federal law.

Fannie Mae purchased 65,270 single family mortgages and 226 multifamily mortgages with an aggregate unpaid principal balance ("UPB") of approximately $12.1 billion and $1.32 billion, respectively, that were originated in conjunction with "public subsidy programs" in 2009.[2]

[2] Because some loans may have been made in conjunction with more than one public subsidy program, there may be a small amount of overlap. The multifamily mortgages consist of 193 mortgages, with UPB of approximately $1.252 billion, from the Multifamily channel and 33 mortgages, with UPB of approximately $64 million, from the Community Lending channel. For purposes of this AHAR, Fannie Mae has included in "public subsidy programs:" certain single family and multifamily HUD-related and Rural Housing Service-related programs and other government insured and/or related programs; Fannie Mae's Multifamily Affordable Housing execution; mortgage purchases from housing finance agencies that benefit from Federal tax exemption; bond credit enhancements; and mortgages that benefit from low-income housing tax credits.

4. **Include statements of the proportion of mortgages on housing consisting of 1 to 4 dwelling units purchased by the corporation that have been made to first-time homebuyers, as soon as providing such data is practicable, and identifying any special programs (or revisions to conventional practices) facilitating homeownership opportunities for first-time homebuyers.**

AMR Table 9 sets forth the proportion of single family owner occupied mortgages purchased by Fannie Mae that provide financing to first-time homebuyers.[3] Fannie Mae utilizes tools and initiatives that are not exclusively for first-time homebuyers; but because they remove barriers to homeownership, such as a lack of affordability or funds for down payment, they increase a borrower's ability to purchase a first home.

Set forth on the following table are certain Fannie Mae products that assist first-time homebuyers and the proportion of first-time homebuyers that utilized the program in 2009 as compared to all homebuyers that utilized the program.

Products and Initiatives	**Percentage of Mortgages Made to First-Time Homebuyers**
MyCommunityMortgage®	80%
Flexible Product Line	73%

5. **Include, in aggregate form and by appropriate category, the data provided to the Director under subsection (m)(1)(B); (the loan-to-value ratios of purchased mortgages at the time of origination).**

Confidential AMR Table 6 provides the loan-to-value ("LTV") ratio of single family owner occupied mortgages purchased by Fannie Mae.

6. **Compare the level of securitization versus portfolio activity.**

In 2009, Fannie Mae securitized $807.9 billion in mortgages and purchased $327.6 billion for its portfolio.

7. **Assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending.**

Fannie Mae has an ongoing comprehensive fair lending risk assessment program that is designed to ensure that its underwriting standards, business practices, repurchase requirements, pricing policies, fee structures, and procedures comply with the fair lending laws and promote fair and responsible lending.

Fannie Mae considers service to low- and moderate-income families to be an important part of its mission. Fannie Mae designs its underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures to balance the company's multiple objectives of serving low- and moderate-income families, meeting its liquidity mission, and appropriately addressing credit risk.

[3] This percent excludes purchases of manufactured housing, for which first-time homebuyer data is not typically collected by lenders. Fannie Mae relied on information provided by its customers to identify units occupied by first-time homebuyers. Fannie Mae's Single Family Selling Guide defines a first-time homebuyer as "an individual who: (1) is purchasing the security property; (2) will reside in the security property; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. In addition, an individual who is a displaced homemaker or single parent also will be considered a first-time homebuyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period."

2009 Changes

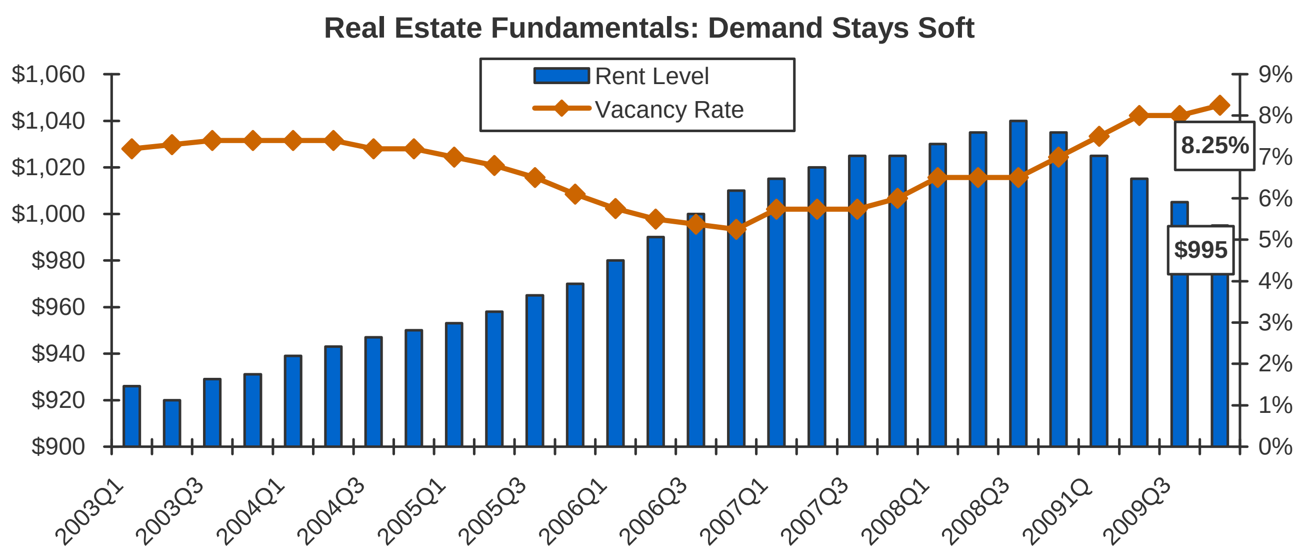
Fannie Mae implemented certain changes to its underwriting and business practices in 2009, including the following:

- Fannie Mae implemented Desktop Underwriter® (DU®) 8.0, and made changes to manual underwriting to align Fannie Mae's eligibility and underwriting requirements with the DU risk tolerance.
- Fannie Mae initiated eligibility, underwriting, and pricing changes with a specific focus on current market conditions. These changes included adjustments to underwriting documentation requirements, increasing the minimum credit score and updating the maximum debt-to-income ratio applicable to all loans; and limiting or eliminating certain loan products.
- In order to continue providing refinance opportunities for existing Fannie Mae borrowers, particularly those who may no longer be eligible under the company's revised underwriting guidelines or in light of current market conditions, Fannie Mae announced the DU Refi Plus™ and Refi Plus™ initiatives. These initiatives provide expanded eligibility and higher maximum LTV (up to 125%) while requiring the borrower to receive a benefit in the form of a reduced mortgage payment or movement to a more stable product (e.g., ARM to Fixed-Rate). This initiative includes the mortgage insurance flexibilities provided to Fannie Mae by FHFA as part of the Home Affordable Refinance Program.

8. Describe trends in both the primary and secondary multifamily housing mortgage markets, including a description of the progress made, and any factors impeding progress toward standardization and securitization of mortgage products for multifamily housing.

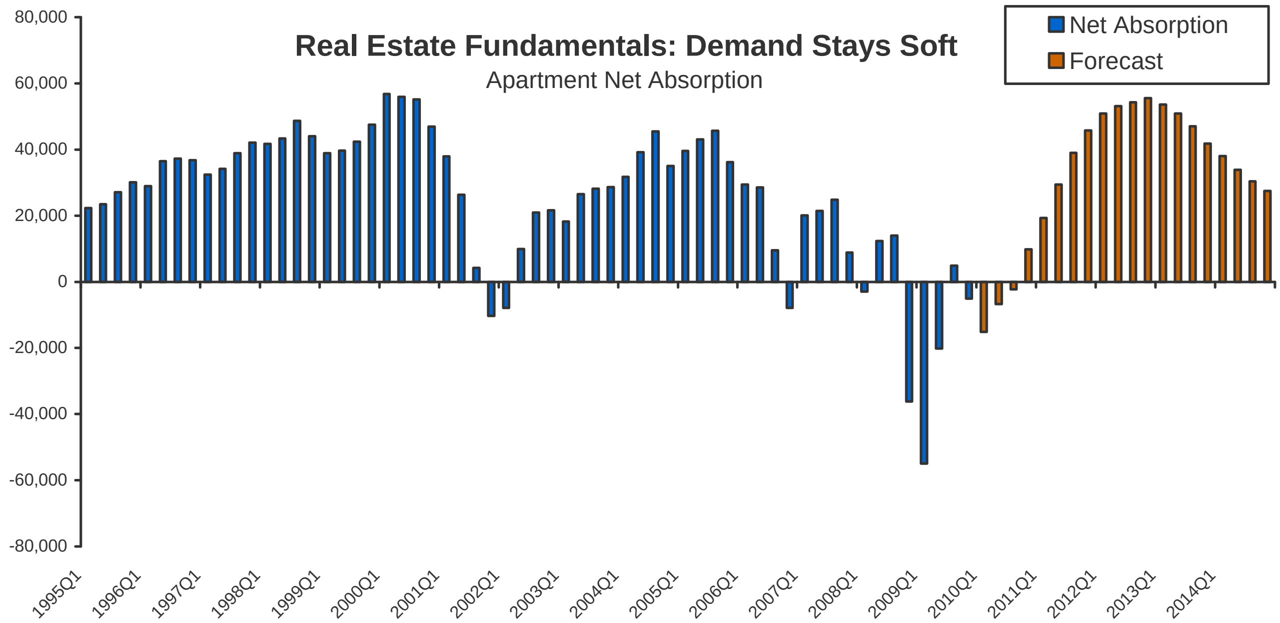
Primary and Secondary Market Trends

The primary multifamily housing market is influenced by a variety of economic and demographic conditions. These conditions impact the demand for, and absorption of, additional units. Set forth below are charts illustrating trends that impact the market for multifamily mortgage originations.



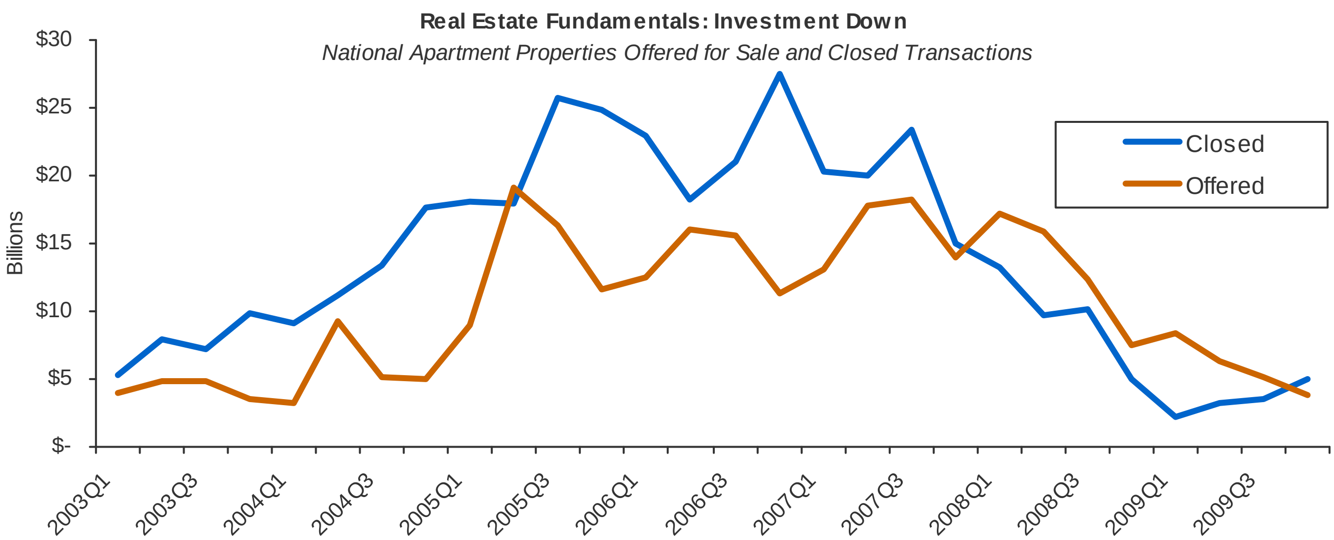
Source: Fannie Mae HCD Market Research **4Q2009 Projected*

As seen in the chart above, based on preliminary fourth quarter 2009 information from various third-party data vendors, rental demand for institutional investment-type multifamily properties was soft throughout the year. It seems likely that multifamily vacancy levels climbed another 25 basis points during the fourth quarter, resulting in an estimated national vacancy rate of 8.25% as of year end 2009. In addition, estimated asking rents likely fell throughout the year, declining by an estimated -4% for all of 2009.



Source: Property & Portfolio Research

As seen in the chart above, multifamily net absorption has remained negative since the fourth quarter of 2008. More importantly, national multifamily net absorption is projected to remain negative through third quarter 2010.



Source: Real Capital Analytics (www.rcanalytics.com) Based on properties and portfolios $5 million and greater.

This chart illustrates that apartment property sales remained depressed throughout 2009. As a result, apartment property offerings continued to outpace sales.

Standardization and Securitization

Securitization of multifamily mortgages relies on standardization. Over the past two decades, standardization has been advanced by a number of factors: the growth of the market for CMBS, including those backed by multifamily mortgage loans; the introduction of and enhancements to Fannie Mae's Delegated Underwriting and Servicing (DUS®) product line; efforts to standardize commercial securitization and offering documents, spearheaded by the Commercial Mortgage Securities Association; and the issuance by the Securities and Exchange Commission of Regulation AB in 2005, which established uniform disclosure requirements for all publicly registered CMBS transactions.

The Government Sponsored Enterprises ("GSEs") and the federal government have also historically played a role in the multifamily mortgage market, acting as "standard setter for underwriting and pooling loans, managing properties, and servicing and workout practices."[4] Fannie Mae began securitizing multifamily loans through its DUS program in 1994. From 1999 to 2009, of Fannie Mae's total multifamily production of approximately $256 billion, the company has issued over $64 billion in DUS MBS/DMBS securities, which has been viewed as an attractive investment vehicle for multifamily loans.

The erosion of credit underwriting prevalent in the CMBS market in recent years has shaken investor confidence and, as a result, has caused a number of issuers to leave the securitization market. As multifamily loans refinance over the next several years, "investors will likely demand the kind of uniform standards and transparency in underwriting more associated with the GSEs than CMBS."[5]

In 2009, Fannie Mae placed greater emphasis on its multifamily securitization activities and used MBS as its preferred execution method to provide liquidity and stability to the multifamily market. As a result, issuance of Fannie Mae Multifamily MBS increased to approximately $16 billion in 2009 from nearly $3 billion in 2008.

9. Describe trends in the delinquency and default rates of mortgages secured by housing for low- and moderate-income families that have been purchased by the corporation, including a comparison of such trends with delinquency and default information for mortgage products serving households with incomes above the median level that have been purchased by the corporation, and evaluate the impact of such trends on the standards and levels of risk of mortgage products serving low- and moderate-income families.

Delinquency and Default Trends Based on 2008 Performance Data[6]

The following table illustrates the increased likelihood that loans made to low- and moderate-income families[7] became 90 days delinquent and/or defaulted as compared to loans made to families with higher incomes.[8] For example, in 2008, loans made to low- and moderate-income families were 1.5 times more likely to become 90 days delinquent and 1.4 times more likely to default than loans made to families with higher incomes. This analysis is based on income relative to area median income and does not control for other risk dimensions, such as LTV or credit history.

---

[4] Joint Center For Housing Studies, "Harvard University, Meeting Multifamily Housing Finance Needs During And After The Credit Crisis: A Policy Brief" at iii (Jan. 2009).

[5] *Id.* at 13

[6] 90 day delinquency information is based on acquisitions through September 2008. Default performance is based on acquisitions through December 2008. Performance is observed through September 2009.

[7] Low- and moderate income is defined as a household earning less than or equal to the area median income.

[8] Higher income is defined as incomes above the area median income.

Increased Likelihood of 90 Days Delinquency/Default for Low- and Moderate-Income Families

Acquisition Year	90 Days Delinquent[9]	Default[10]
2000	1.7x	2.1x
2001	1.6x	2.2x
2002	2.0x	2.7x
2003	2.4x	2.9x
2004	2.4x	2.5x
2005	2.1x	1.6x
2006	1.9x	1.2x
2007	1.4x	1.3x
2008	1.5x	1.4x

Sample: Unseasoned, conforming, conventional, first liens, non-reverse mortgages, excludes Growing-Equity Mortgages and Graduated Payment Mortgages

10. Describe in the aggregate the seller and servicer network of the corporation, including the volume of mortgages purchased from minority-owned, women-owned, and community-oriented lenders, and any efforts to facilitate relationships with such lenders.

Fannie Mae has selling and servicing relationships with 3,108 single family and 129 multifamily primary market lenders through which the company both purchases loans for its portfolio and issues MBS.

The following table sets forth the volume of mortgages purchased in 2009 from single family and multifamily lenders identified as minority- or women-owned lenders, women-owned lenders and community-oriented lenders.

Seller/Servicer Type	Volume of Mortgages
Minority- or women-owned	$3.6 billion
Women-owned[11]	$1.4 billion
Community-oriented lenders[12]	$48.1 billion

Efforts to facilitate relationships with these lenders include formal business alliances or affinity agreements in which lenders receive benefits designed to reduce the cost of doing business with Fannie Mae.[13]

[9] Within first 12 months of Fannie Mae acquisition.
[10] For purposes of this examination, default is defined as foreclosure sale, deed-in-lieu of foreclosure, pre-foreclosure sale, or third party sale, at any time during the life of the loan. The analysis presented here was performed on unseasoned loans by acquisition year to avoid commingling different aged loans for the purpose of displaying a trend over time.
[11] Some of these women-owned lenders also identified as another minority group such as African-American, Hispanic, Asian-Pacific or Indian-Alaskan.
[12] For the purposes of this AHAR, a "community-oriented lender" is defined as a financial institution with total assets of less than $1.109 billion. This definition is consistent with the definition of "small bank" in the Community Reinvestment Act implementing regulations at 12 C.F.R. § 228.12, as in effect during 2009.
[13] These agreements do not preclude members from doing business through other secondary market channels.

11. Describe the activities undertaken by the corporation with nonprofit and for-profit organizations and with State and local governments and housing finance agencies, including how the corporation's activities support the objectives of comprehensive housing affordability strategies under section 105 of the Cranston-Gonzalez National Affordable Housing Act.[14]

Among the activities undertaken by the corporation in 2009 with nonprofit and for-profit organizations, State and local governments, and housing finance agencies ("HFAs") are:

- The Treasury, HUD, and FHFA announced a new initiative that will provide $23.5 billion of liquidity for HFAs. Announced on October 19, 2009, the initiative was designed in collaboration with the GSEs.
- Fannie Mae purchased 5,741 loans, with a UPB of $957.7 million, from HFAs.
- Fannie Mae provided $68 million in capital directly to ten public housing authorities through our Modernization Express and Community Express loan products. The $68 million helped finance the development and/or preservation of 1,721 affordable public housing units for individuals and families earning less than 30% of the area median income.
- Fannie Mae provided a total of $27 million in grants to support neighborhood stabilization and foreclosure prevention, support efforts to help prevent and end homelessness, and strengthen communities in our hometown Washington, DC.
- Fannie Mae purchased 309 loans, with a UPB of $15.4 million, from non-profit housing agencies.
- Fannie Mae capital, through financial intermediary lines of credit, helped finance 11 developments which will create over 460 units of permanent affordable and supportive housing.

One of the purposes of the Cranston-Gonzalez National Affordable Housing Act is to extend and strengthen partnerships among all levels of government and the private sector in the production and operation of housing that is affordable to low- and moderate-income families. Fannie Mae believes that the activities listed above support the objectives of the Cranston-Gonzalez National Affordable Housing Act.

[14] Under section 105, comprehensive housing affordability strategies include, among other things, efforts to address homelessness and meet the needs of homeless persons; the provision of housing for different categories of residents, such as very low-income, low-income, and moderate-income families, the elderly, single persons, large families, residents of non-metropolitan areas, families who are participating in an organized program to achieve economic independence and self-sufficiency, and other categories of persons; combined efforts with private industry, nonprofit organizations and public institutions to deliver safe and adequate housing; encouraging public housing residents to become homeowners; and efforts to provide affordable housing through the production of new units, rehabilitation, or acquisition of existing units.