FANNIE MAE

2008 ANNUAL HOUSING ACTIVITIES 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 16, 2009

INTRODUCTION

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

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, and continued through 2007, significantly worsened in 2008. Several factors dramatically reduced the number of goals-eligible loans in the marketplace. These factors included the reduced eligibility of mortgage insurance, tighter underwriting standards, an increased Federal Housing Administration market share, and volatility in the multifamily market. Because of these market challenges, on January 7, 2009, Fannie Mae requested that FHFA find the 2008 housing goals infeasible. On March 16, 2009, FHFA determined that the achievement of the low- and moderate-income housing goal, the special affordable housing goal, and the three home purchase subgoals was not feasible for 2008.[2]

Fannie Mae's housing goals for 2008, published at 24 C.F.R. Part 81, were set in 2004 by the Secretary of the Department of Housing and Urban Development ("HUD"). Set forth below are Fannie Mae's housing goals scores for 2008 as calculated by Fannie Mae. Final scores will be calculated and published by FHFA.

Goal Summary	2008 Goal	2008 Result
Base Goals		
Low- and Moderate-Income	56%	53.61%
Underserved Areas	39%	39.38%
Special Affordable	27%	26.01%
Home Purchase Subgoals		
Low- and Moderate-Income	47%	38.87%
Underserved Areas	34%	30.39%
Special Affordable	18%	13.57%
Multifamily Special Affordable Subgoal		
	$5.49 billion	$13.42 billion

[1] Statement of FHFA Director James B. Lockhart, September 7, 2008.
[2] See Appendix A: "Final Feasibility Determination on 2008 Housing Goals Compliance" from Edward J. DeMarco to Herb Allison, March 16, 2009.

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 2008.

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 Tables 1 and 1A attached hereto.

In 2008, Fannie Mae acquired 2,557,754 mortgages on one unit owner-occupied properties with an unpaid principal balance of $536.50 billion. Of home purchase mortgages, 38.87 percent, 30.39 percent, and 13.57 percent met the low- and moderate-income, underserved areas, and special affordable housing home purchase subgoals, respectively.

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

In 2008, Fannie Mae financed 993,915 units on single family and multifamily rental properties. Of the aggregate volume of multifamily mortgages, $13.42 billion met the special affordable multifamily subgoal.

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 2008, Fannie Mae's purchases of mortgages served 3,551,669 million families, as measured by the number of units financed.

Fannie Mae's purchases financed a total of 1,799,612 units that met the low-and moderate-income goal and 315,085 mortgages that met the low- and moderate-income home purchase subgoal. Fannie Mae's purchases financed a total of 1,331,090 units that met the underserved areas goal and 246,306 mortgages that met the underserved areas home purchase subgoal. Fannie Mae's purchases financed a total of 873,289 units that met the special affordable housing goal and 109,985 mortgages that met the special affordable housing home purchase subgoal.

Tables 1, 1A, 1B and 1C set forth the number of units financed that meet the housing goals, broken down by unit type.

Tables 2 and 3 set forth the distribution by income class of single family mortgages purchased by Fannie Mae. Table 4 sets forth the distribution by income class of multifamily mortgages purchased by Fannie Mae.

Tables 7A and 7B set forth the distribution by race and ethnicity of single family mortgages purchased by Fannie Mae.

Table 10 sets forth the distribution by gender of single family mortgages purchased by Fannie Mae.

Tables 11 and 12 set forth the distribution by minority concentration of the census tract of single family owner-occupied and rental mortgages purchased by Fannie Mae. Table 13 sets forth the distribution by minority percentages and borrower income of single family owner-occupied mortgages purchased by Fannie Mae.

Table 14 sets forth the distribution by state and territory of the single family and multifamily mortgages purchased by Fannie Mae.

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 130,594 single family mortgages and 308 multifamily mortgages with an aggregate unpaid principal balance ("UPB") of approximately $20.5 billion and $1.62 billion, respectively that were originated in conjunction with "public subsidy programs" in 2008.[3] 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 Housing Preservation program;
- 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.

Table 9 sets forth the proportion of single family owner-occupied mortgages purchased by Fannie Mae that provide financing to first-time homebuyers.[4] Fannie Mae utilizes tools and

[3] 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 231 mortgages, with UPB of approximately $1.543 billion, from the Multifamily channel and 37 mortgages, with UPB of approximately $77 million, from the Community Lending channel.

[4] 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

initiatives that are not exclusively for first-time homebuyers but, because they remove barriers to homeownership for underserved families, such as no down payment or lack of affordability, they increase the ability of borrowers to purchase their first home.

Set forth on the following table are certain Fannie Mae products and initiatives that assist first-time homebuyers and the proportion of first-time homebuyers that utilized the program in 2008 as compared to all homebuyers that utilized the program.

Products and Initiatives	**Percentage of Mortgages Made to First-Time Homebuyers**
MyCommunityMortgage®	85%
Flexible Product Line	52%
Expanded Approval®	18%
CRA Products	71%

MyCommunityMortgage (MCM®) is Fannie Mae's flagship community lending product designed to help lenders serve low-income and moderate-income borrowers. It addresses the needs of first-time homebuyers by providing higher loan-to-value ratios than other products and flexible sources for closing costs.

The Flexible 100™ and Flexible 97® products provide first-time homebuyers with options for low down payment mortgages and flexibility in their sources of funds for down payment and closing costs.

Expanded Approval lowers borrowing costs for first-time homebuyers who have had credit problems in the past and/or have minimal funds for down payment or closing costs.

CRA Products include several products that are intended to satisfy a lender's Community Reinvestment Act requirements by targeting low-income borrowers and borrowers in targeted geographic areas.

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 Table 6, submitted together with this report, provides the loan-to-value ratio of single family owner-occupied mortgages purchased by Fannie Mae.

6. Compare the level of securitization versus portfolio activity.

In 2008, Fannie Mae securitized $542.8 billion in mortgages and purchased $196.6 billion for its portfolio.

Mae's Single Family Selling Guide, Part XIII, 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."

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.

<u>2008 Changes</u>

Fannie Mae implemented certain changes to its underwriting and business practices in 2008, including the following:

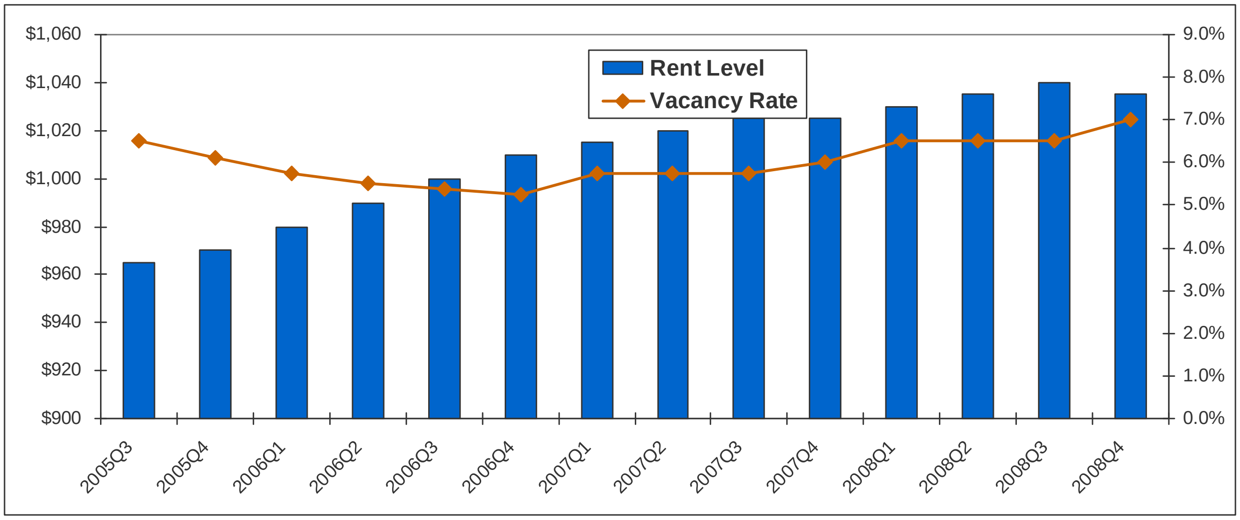
- Fannie Mae implemented Desktop Underwriter 7.0, and made changes to manual underwriting to align Fannie Mae's eligibility and underwriting requirements with the market.
- Fannie Mae initiated eligibility, underwriting, and pricing changes relating to certain higher risk conventional loan categories. These changes included establishing a national down payment policy that replaced the maximum financing in declining markets policy; a minimum credit score and maximum debt-to-income ratio for all loans; and limiting or eliminating certain loan products.
- Fannie Mae introduced the Early Workout program (for borrower's facing imminent default to up to two payments past due) and the Streamlined Modification Program (for borrowers 90 or more days past due) that, through various modification options such as term extension, rate reduction and principal forbearance establishes the borrower's monthly payment at 38 percent of the borrower's monthly gross income.

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

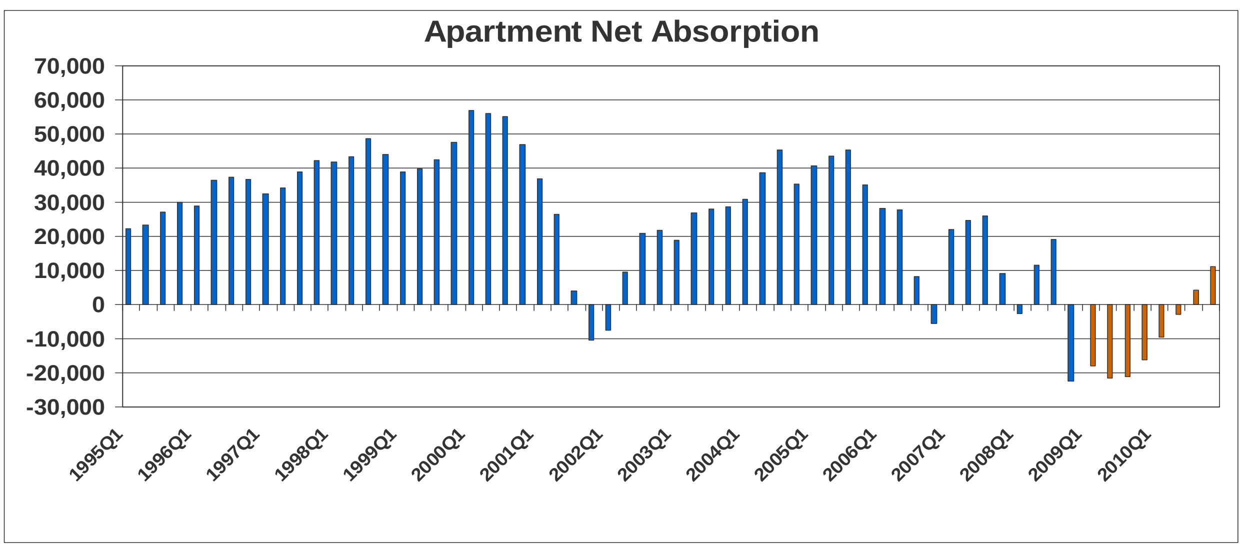
The primary multifamily housing market is influenced by a variety of economic and demographic conditions. These conditions impact the demand for, and absorption of, additional units. Set forth below are charts illustrating trends that impact the market for multifamily mortgage originations.

Estimated Multifamily Vacancies and Asking Rents



Source: Fannie Mae HCD Market Research

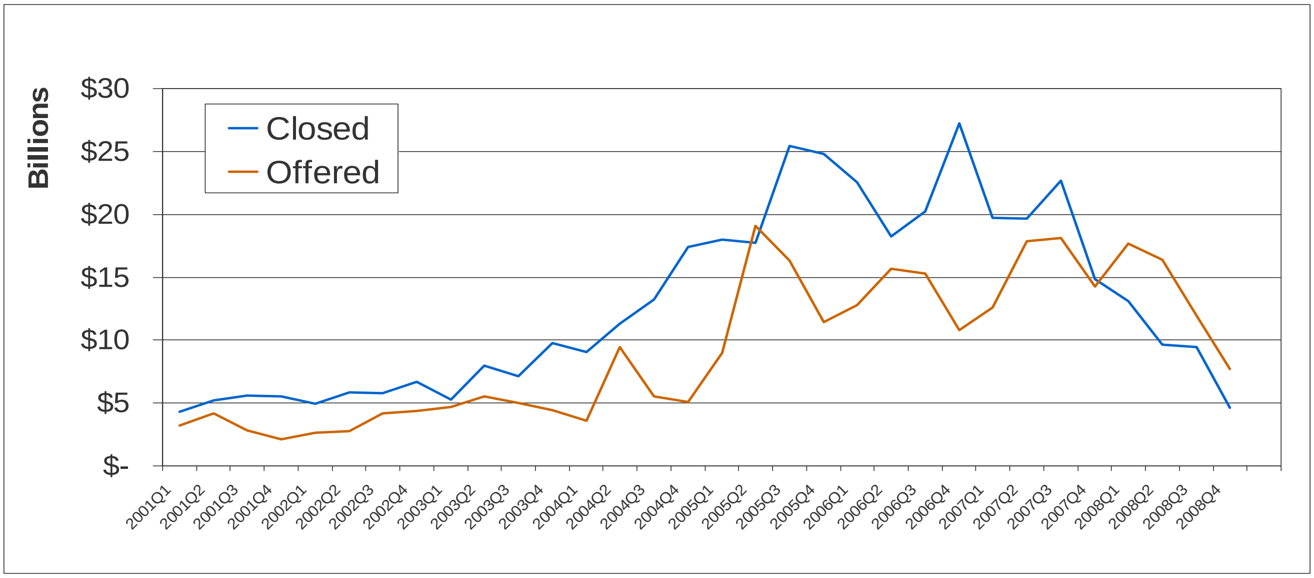
As seen in this chart, based on fourth quarter 2008 information from various third-party data vendors, it appears that rental demand declined during the last part of the year, resulting in estimated multifamily vacancy rates climbing in the fourth quarter of 2008. In addition, estimated asking rents fell after rising almost steadily since mid-2005.



Source: Property & Portfolio Research
(Actual and projected data from the PPR54 as of 4Q2008)

As seen in the chart above, multifamily net absorption has been trending below historical averages since early 2008, but went suddenly negative during the fourth quarter of 2008. As a result, full year net absorption in 2008 was well below historical averages.

National Apartment Properties Offered for Sale and Closed Transactions

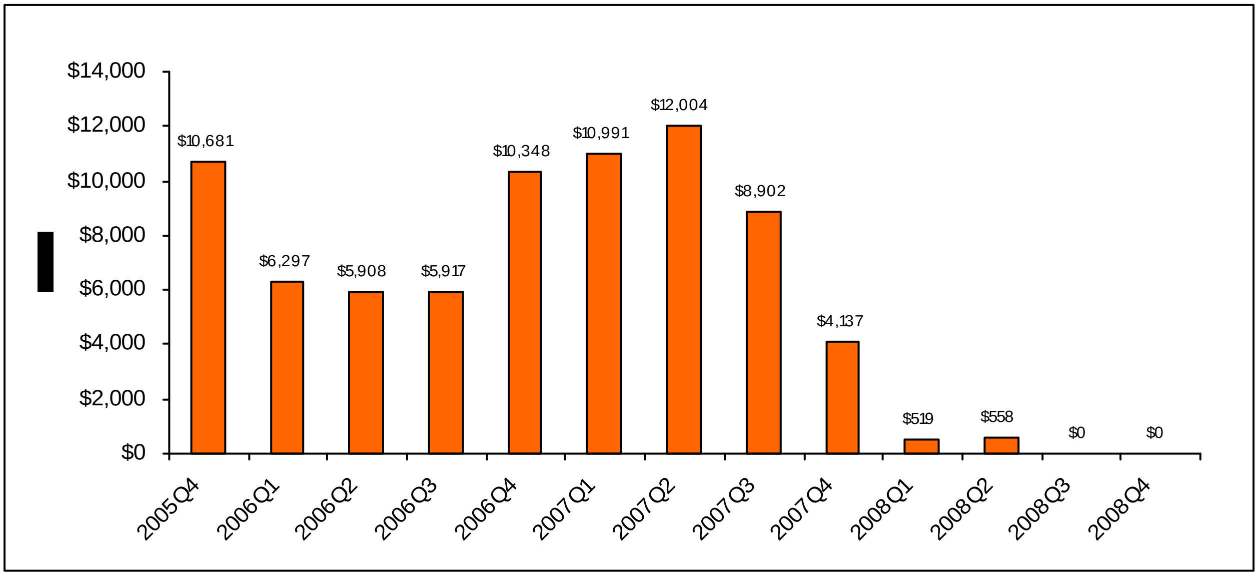


Source: Real Capital Analytics (www.rcanalytics.com)
(Based on properties and portfolios $5 million and greater.)

This chart illustrates the degree to which apartment property sales declined in 2008. Most of the 2008 sales activity occurred during the first half of the year, but fell substantially during the fourth quarter of 2008. As a result, apartment property offerings continued to outpace sales.

The secondary multifamily housing market is made up of trade in loans, securities, and other assets backed by multifamily properties or a combination of multifamily and other commercial properties. Commercial mortgage-backed securities ("CMBS") make up most of the secondary market in multifamily loans. Set forth on page 8 is a chart illustrating trends in multifamily CMBS issuances during the period 2005 through 2008.

<u>**Multifamily CMBS Issuance**</u>



Source: Commercial Mortgage Alert (CMAlert.com)

<u>Standardization and Securitization</u>

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 commercial mortgage-backed securities, including those backed by multifamily mortgage loans (“CMBS”); 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 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.”[5] Fannie Mae began securitizing loans through its DUS program in 1994 and has issued over $57.8 billion MBS/DUS securities in the last decade, which has been viewed as an attractive investment vehicle for multifamily loans.

While standardization remains, 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. Fannie Mae believes this will lead to a return to more prudent credit standards. 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.”[6]

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[5] 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).

[6] *Id.* at 13.

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 2007 Performance Data[7]

An analysis of the performance of mortgage loans serving low- and moderate-income families (defined as a unit occupied by a household earning less than or equal to the area median income) shows that these loans consistently perform below the performance of loans on units serving households with incomes above the median level.

The chart on page 10 shows Relative Serious Early Delinquency Performance (defined as being 90 or more days delinquent within 12 months of acquisition) and the Relative Ever Default Performance (defined as the loan defaulting) for loans made to low- and moderate-income families as compared to loans made to families with incomes above the median level by acquisition year. In 2007, loans made to low- and moderate-income families became seriously delinquent within 12 months of acquisition 1.5 times more often than loans made to families with incomes above the median level.

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, and it should be noted that this analysis does not control for other risk dimensions, such as loan-to-value ratio or credit history, only income relative to the area median.

[7] Serious delinquency performance information is based on acquisitions through September 2007. Default performance is based on acquisitions through December 2007. Performance is observed through September 2008. 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.

Relative Serious Early Delinquency and Ever Default Rates Between Single Family Loans Serving Low- and Moderate-Income Families and Loans Serving Households with Incomes Above the Median Level by Year

Acquisition Year	Relative Serious Early Delinquency Performance	Relative Ever Default Performance
1996	1.8	1.8
1997	1.7	1.8
1998	1.8	1.9
1999	1.7	1.9
2000	1.7	2.1
2001	1.6	2.2
2002	2.0	2.7
2003	2.4	3.1
2004	2.5	2.8
2005	2.4	1.9
2006	1.9	1.4
2007	1.5	1.4

Sample: Unseasoned, conforming, conventional, first liens, non reverse mortgages, non GEMs/GPMs, non subprime loans, no loans affected by Hurricane Katrina.

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 3,086 single family and 157 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 2008 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	$2 billion
Women-owned[8]	$660 million
Community-oriented lenders[9]	$30.83 billion

[8] Some of these women-owned lenders also identified as another minority group such as African-American, Hispanic, Asian-Pacific or Indian-Alaskan.

[9] 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.

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.[10]

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[11].

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-income and moderate-income families. Among its 2008 activities that Fannie Mae believes support the objectives of the Cranston-Gonzalez National Affordable Housing Act are:

- Fannie Mae purchased 20,703 loans, with a UPB of $2.81 billion, from housing finance agencies.
- Fannie Mae financed more than $72 million of debt of community development financial institutions and other intermediaries.
- Fannie Mae invested over $11 million of LIHTC equity in 3 projects creating 132 new units of supportive and affordable housing.
- Fannie Mae invested over $3.7 million in grants to help communities develop and implement plans to end homelessness and create more units of permanent supportive housing.
- Fannie Mae capital, through financial intermediary lines of credit, helped finance 30 developments which will create over 1,300 units of permanent affordable and supportive housing.

CONCLUSION

In accordance with section (n)(1) of the Federal National Mortgage Association Charter Act, this AHAR was distributed to the House Committee on Financial Services and the Senate Banking, Housing and Urban Affairs Committee. Additionally, the report will be available to the public at the company's headquarters located in Washington, DC, and at the five Fannie Mae offices in Philadelphia, Pennsylvania; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; and Pasadena, California.

[10] These agreements do not preclude members from doing business through other secondary market channels.

[11] 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.