FANNIE MAE'S

2006 ANNUAL HOUSING ACTIVITIES REPORT

SUBMITTED TO:

U.S. DEPARTMENT OF HOUSING
AND
URBAN DEVELOPMENT
(HUD)

PURSUANT TO P.L. 102-550 AND

THE SECRETARY OF HUD'S REGULATION OF THE
FEDERAL NATIONAL MORTGAGE ASSOCIATION
(FANNIE MAE)
AND
THE FEDERAL HOME LOAN
MORTGAGE CORPORATION
(FREDDIE MAC)

24 C.F.R. § 81.63

MARCH 16, 2007

TABLE OF CONTENTS

INTRODUCTION

Fannie Mae is required under its Charter Act to submit an Annual Housing Activities Report (AHAR) to its oversight committees in the House of Representatives and the Senate and to the Secretary of the U.S. Department of Housing and Urban Development (HUD). In compliance with this requirement, Fannie Mae submits this AHAR for 2006.

HUD is required by law[1] to establish three housing goals for Fannie Mae and Freddie Mac: a low- and moderate-income housing goal, an underserved areas housing goal, and a special affordable housing goal. In 2004, HUD published housing goals regulations that govern the period from 2005 through 2008. In addition to setting the percent of business levels for each of HUD's three housing goals, the rule established three subgoals specifically related to home purchases.[2] The regulations also include a multifamily special affordable housing subgoal expressed by multifamily dollar volume.

Attached are tables specified by HUD that provide detailed information about the company's performance in achieving each of the housing goals. The data relating to Fannie Mae's mortgage purchases of both single-family and multifamily loans will be forwarded in electronic format under separate cover.

One of the major mission-related undertakings Fannie Mae engaged in during 2006 was the company's assistance with the efforts to rebuild the storm-ravaged communities along the Gulf Coast. A more comprehensive description of the company's many initiatives to support the building, repair or renovation of affordable housing in the affected communities is included in Section IX of this report. While Fannie Mae's efforts stretch across the region and include multi-year commitments, a few representative examples of these activities in 2006 include:

Single-Family Efforts to Support New Purchases and Renovation: Fannie Mae offered underwriting flexibilities for borrowers whose credit or economic situation was damaged by the 2005 storms. Fannie Mae also expanded ***MyCommunityMortgage*™ (*MCM*™)**, the company's most flexible and affordable product, to all borrowers regardless of income. In addition, the company enhanced its ***HomeStyle*®** construction products to address unique rebuilding challenges along the Gulf Coast.

Low Income Housing Tax Credit Investments: Fannie Mae closed region-specific Gulf Opportunity (GO) Zone funds to support over $275 million in ***Low Income Housing Tax Credit*** (***LIHTC***) investments in the Gulf Coast region. One investment was a 29-unit, $3.6 million property in the Gert Town neighborhood of New Orleans.

---

[1] The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the 1992 Act), 12 U.S.C. § 4561-4564.

[2] The 1992 Act specifically provides that subgoals established with respect to the Low- and Moderate-Income Goal and the Underserved Areas Goal are not enforceable. The 1992 Act is silent as to whether HUD has authority to establish enforceable subgoals under the Special Affordable Goal. HUD, therefore, has taken the position that subgoals under the Special Affordable Goal are enforceable.

Multifamily Financing: Fannie Mae supported over 5,000 units of workforce housing with over $250 million in multifamily debt financing on properties throughout Mississippi, Louisiana, Alabama, and southeast Texas.

Community Investment: Fannie Mae committed $450 million of equity to a fully discretionary, multi-year fund with **Hearthstone** real estate advisors targeted to the for-sale rebuilding of GO Zone areas. The fund targets single-family detached home developments with affordable price points.[3]

Gulf Coast Housing Partnership: Fannie Mae's Community Lending Group established a $14 million line of credit with the Gulf Coast Housing Partnership to support pre-development costs associated with housing development in Louisiana and Mississippi. Thus far, the Partnership has used the line for the redevelopment of Venus Gardens in New Orleans with 30 units of housing.

Charitable Giving: $5 million in grants was awarded to over 100 entities to support increased capacity needs, project development, counseling, and evacuee services.

Volunteering: Over 200 employees used Fannie Mae's special one-week volunteer leave to volunteer in Mississippi or New Orleans helping community organizations and residents to rebuild homes and communities.

****

Section 309(n) of the Charter Act lists the information that Congress requires the company to include in this AHAR.[4] The AHAR is organized by these Charter requirements and includes, where appropriate, examples of Fannie Mae's business activities that address these requirements. These are illustrative examples that do not define every activity that Fannie Mae engages in under each Charter requirement. The text in italics sets out the information that the Charter Act requires that Fannie Mae cover in the AHAR.

[3] Additional Community Investments initiatives are described in Section V.

[4] 12 U.S.C. § 1723a(n).

I. FANNIE MAE'S 2006 HOUSING GOALS PERFORMANCE

In accordance with 12 U.S.C. § 1723a(n)(2)(A), Fannie Mae's AHAR is required to: *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 each subpart.* Fannie Mae submits the information below addressing this report requirement.

Affordable Housing Goals Results for 2006

Goal Summary	2006 Goal	2006 Result
Base Goals		
Low- and Moderate-Income[5]	53%	56.9%
Underserved Areas[6]	38%	43.6%
Special Affordable[7]	23%	27.8%
Home Purchase Subgoals[8]		
Low- and Moderate-Income	46%	46.9%
Underserved Areas	33%	34.5%
Special Affordable	17%	17.9%
Multifamily Special Affordable Subgoal	$5.49 billion	$13.39 billion

As shown in the table above, in 2006, Fannie Mae believes it met each of its three affordable housing base goals and its home purchase and multifamily special affordable subgoals.

[5] HUD has established the low- and moderate-income housing goal for 2006 at 53 percent of the total number of dwelling units financed by eligible mortgage purchases in 2006. 24 C.F.R. § 81.12(c)(2). "Low-income" and "moderate-income" are defined in HUD's regulations at § 81.17.

[6] HUD has established the underserved areas housing goal for 2006 at 38 percent of the total number of dwelling units financed by eligible mortgage purchases in 2006. Id. § 81.13(c)(2). "Underserved area" is defined in HUD's regulation at § 81.2.

[7] HUD has established the special affordable housing goal for 2006 at 23 percent of the total number of dwelling units financed by eligible mortgage purchases in 2006 to address the needs of low-income families in low-income areas and very low-income families. Id. § 81.14(c)(2). "Very low-income" is defined in HUD's regulations at § 81.17(c). "Low-income area" means: a census tract or block numbering area in which the median income does not exceed 80 percent of the Area Median Income. Id. § 81.2.

[8] Home Purchase Mortgage is defined as a residential mortgage for the purchase of an owner-occupied single-family property. Id. § 81.2. HUD's subgoals are based on the purchase of Home Purchase Mortgages in metropolitan areas that meet each goal.

Housing Goal Performance by Property Type[9]

In aggregate, Fannie Mae's single-family housing goals performance for both owner-occupied and investor-owned properties for the low- and moderate-income, underserved areas and special affordable housing goals are 50.3 percent, 40.5 percent, and 21.9 percent, respectively.[10]

In 2006, Fannie Mae acquired 1.2 million owner-occupied home purchase mortgages located in metropolitan statistical areas. The low- and moderate-income, underserved areas, and special affordable performance of these mortgages is 46.9 percent ($68.6 billion in financing), 34.5 percent ($66.4 billion in financing) and 17.9 percent ($20.3 billion in financing) respectively.

In 2006, Fannie Mae acquired 7,589 multifamily mortgages with an unpaid principal balance of $32 billion. In aggregate, these mortgages financed over 580,000 units. Of these units, 90.9 percent, 59.7 percent, and 58.1 percent met the low- and moderate-income, underserved areas, and special affordable housing goals respectively. Of the aggregate volume of multifamily mortgages, $13.39 billion met the special affordable multifamily subgoal, with a total of nearly 337,000 units.

****

In accordance with 12 U.S.C. § 1723a(n)(2)(B), Fannie Mae's AHAR is required to: *include, in aggregate form and by appropriate category, statements of the number of families served by the corporation*[11]*, 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.* Fannie Mae submits the information below addressing this report requirement.

In 2006, Fannie Mae's purchases of mortgages that were eligible for housing goals scoring served 3.8 million families across the country. Under the low- and moderate-income goal, Fannie Mae served over 2.0 million families, while more than 560,000 families were served through the low- and moderate-income home purchase subgoal. The company's purchases of mortgages on properties located in underserved areas that were eligible for housing goals scoring helped provide mortgage financing for 1.58 million families. Fannie Mae served 412,000 families through mortgage purchases meeting the underserved areas home purchase subgoal. In meeting the special affordable goal, Fannie Mae served nearly 985,000 families. Under the special affordable home purchase subgoal, the company served over 214,000 families. Finally,

[9] Tables 1-4 and 7-14 (tables 5, 6, 15, and 16 are marked proprietary and are forwarded under separate cover) are attached to set forth, in aggregate form and by appropriate category, the dollar volume and number of mortgages on owner-occupied and rental properties, purchased during 2006, that contribute toward Fannie Mae's satisfaction of its housing goals and subgoals. In 2006, Fannie Mae acquired 3.09 million single-family mortgages with an unpaid principal balance of $563 billion. These mortgages account for the financing of 3.22 million units. A total of 2.78 million mortgages, with an unpaid principal balance of $512 billion, financed owner-occupied 1-unit properties and 50,600 mortgages, with an unpaid principal balance of $13 billion, financed owner-occupied 2-4 unit properties. The remaining 259,700 mortgages, with an unpaid principal balance of $38 billion, financed investor-owned 1-4 unit properties.

[10] The housing goal percentages identified in this section were developed, in part, using proxies and other adjustments approved by HUD.

[11] Where Fannie Mae refers to "families" or "households" served by its mortgage purchases throughout this document, the company is defining families and households based upon the number of units financed by mortgage purchases.

financing that qualified for the special affordable multifamily subgoal in 2006 assisted nearly 337,000 families. More detailed characteristics of the borrowers and renters that Fannie Mae served in 2006 including, but not limited to, income class, race, and gender, are provided in the tables attached to this AHAR.[12]

[12] The following tables provide specific borrower and renter information: for income class, see Table 2; for race, see Table 7a; for gender, see Table 10. Table 4 sets forth information on multifamily mortgages and units classified by affordability of rent. Tables 11, 12 and 13 illustrate the characteristics of the census tracts in which Fannie Mae purchased single-family and multifamily mortgages under each affordable housing goal. The geographic distribution of Fannie Mae's single-family and multifamily mortgages by state and territory can be found in Table 14.

II. FANNIE MAE'S ACTIVITIES WITH FEDERAL SUBSIDY PROGRAMS

> In accordance with 12 U.S.C. § 1723a(n)(2)(C), Fannie Mae's AHAR is required to: *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 submits the information below addressing this report requirement.

Fannie Mae strives to coordinate its affordable housing initiatives with public subsidy programs[13] in order to optimize their benefits to underserved communities. Fannie Mae also partners with organizations—including community-based nonprofits and state and local public entities—to help them leverage federal funds to increase their capacity to carry out their affordable housing and community development activities. In 2006, Fannie Mae's transactions included mortgages where the borrower received down payment assistance from the federal ***Community Development Block Grant*** program or the ***Section 8 Housing Assistance Vouchers*** program administered by HUD. Fannie Mae also provides forward commitments to purchase the first mortgage debt on projects funded by HUD's ***HOPE VI*** program. Other transactions included substantial direct investments in federal *LIHTC* and the provision of multifamily financing used in conjunction with *LIHTC*, ***Home Funds***, ***Section 8 Housing Assistance Payments*** contracts, and ***Section 236 Interest Reduction Payments***. Fannie Mae participates in risk sharing with the **Federal Housing Administration** (**FHA**) on qualifying multifamily mortgages originated for sale to Fannie Mae. Through its secondary market activities, Fannie Mae may also purchase federally guaranteed loans such as mortgages insured by the **FHA** or rural housing loans insured by the **U.S. Department of Agriculture** (**USDA**). In aggregate for 2006, Fannie Mae purchased, invested, and/or guaranteed over $12 billion in conjunction with federal public subsidy programs.[14]

A sample of some of the housing finance products purchased by Fannie Mae that were used in conjunction with federal housing subsidy programs in 2006 is described below.

- Fannie Mae is a secondary market investor in HUD's reverse mortgage product, the ***Home Equity Conversion Mortgage*** (***HECM***). *HECMs* allow seniors to convert the equity in their homes into monthly streams of income and/or a line of credit, generally to be repaid when they no longer occupy the home. In 2006, Fannie Mae purchased 50,574 ($4.6 billion) *HECMs* and provided $1.5 billion in advances on existing loans.

- Fannie Mae provided a $500,000 line of credit to the **First Nation's Oweesta Corporation (FNOC)**. As the only national Native American Community Development Financial Institution (CDFI), **FNOC** provides support to over 30 local Native American CDFIs on

[13] For the purposes of this AHAR, Fannie Mae is defining "public subsidy programs" to include federal government programs that provide direct subsidies to borrowers for down payment and closing costs or to reduce interest rates on first or second mortgages or to renters or rental housing developments to increase the affordability of these developments. The definition also includes direct loans, loans guaranteed or insured by the federal government, and tax expenditure programs such as mortgage revenue bonds and tax credits which, although not necessarily a direct subsidy to the borrower or renter, reduce the cost of financing through features such as reduced mortgage interest rates and the provision of below market rents.

[14] This total consists of Fannie Mae's purchase of single-family mortgages insured and guaranteed by the federal government (see Table 9) and multifamily investments in various federal tax credit programs.

Tribal Lands. The company's investment will be used by **FNOC** to make loans for affordable housing development initiatives undertaken by these local Native American CDFIs and leveraged by the federal funding awarded to these institutions through the ***Native Initiatives*** program at the **Department of Treasury's** CDFI Fund.

Fannie Mae made a $50,000 short-term bridge loan to **Oti-Kaga**, a tribal nonprofit housing developer on the Cheyenne River Indian Reservation in South Dakota for the construction of Elk Vale II, a 20-unit *LIHTC* project. The loan provided **Oti-Kaga** with critical short-term financing to bridge federal funds from the **USDA Rural 515 Program** and ***Home Investment Partnerships (HOME)*** funds from HUD.

- The federal *LIHTC* program directs private equity capital toward the creation of affordable rental housing. Investors receive the value of tax credits by providing financing for rental housing for qualified families at or below specified rent levels. A development eligible for consideration under the *LIHTC* program must be a residential rental property; meet one of two possible low-income occupancy threshold requirements; restrict rents, including utility charges, in low-income units; and operate under the rent and income restrictions for 30 years or longer as required by the state or local agency issuing the tax credits. In 2006, Fannie Mae committed over $1.97 billion for *LIHTC* equity that resulted in 30,000 affordable rental housing units. Fannie Mae has been participating in the *LIHTC* program since 1987, and through the use of direct investments and equity fund investments, the company has participated in the creation or preservation of over 410,000 units of affordable rental housing.

- In addition to equity investments in *LIHTC* properties, Fannie Mae purchased $40 million in permanent mortgages on apartments that also benefited from ***9 percent LIHTC*** investment funding and provided approximately $1.314 billion in credit enhancement on bond financings with ***4 percent LIHTC***. This includes all newly-funded credit enhancement commitments plus the conversions of prior-year standby commitments that occurred throughout 2006.

- The federal ***Historic Tax Credit*** **(*HTC*)** program directs private equity capital toward the rehabilitation of certified historic landmarks and other designated historically significant properties as determined by the **National Park Service's** ***Department of Historic Preservation***. Investors receive the value of tax credits through successfully restoring and rehabilitating the historic property and maintaining the historic integrity of the improvements. In 2006, Fannie Mae committed to invest over $7 million in *HTC* properties that were oriented toward affordable multifamily rental housing.

- Under the federal *HOPE VI* grant program, which seeks to rehabilitate and/or create new public housing units, Fannie Mae provides equity, in the form of *LIHTC* investments, as a source of funds to help complete *HOPE VI* housing projects. In 2006, Fannie Mae helped finance 11 *HOPE VI* transactions by investing $105 million in equity. The developments provided 959 units of affordable housing. The same financing model is used by Fannie Mae and other partners to provide debt financing for *HOPE VI* projects and to leverage federal *HOME* funds, which also provide low-cost financing in building or rehabilitating affordable housing units.

III. INCREASING HOMEOWNERSHIP OPPORTUNITIES FOR FIRST-TIME HOMEBUYERS

> In accordance with 12 U.S.C. § 1723a(n)(2)(D), Fannie Mae's AHAR is required to: *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.* Fannie Mae submits the information below addressing this report requirement.

First-time homebuyers accounted for 39.1 percent of Fannie Mae's conventional owner-occupied purchase money mortgages in 2006.[15] Further information about Fannie Mae's purchases of first-time homebuyer loans is provided in Table 9.

Fannie Mae utilizes tools and 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. For example, Fannie Mae's Community Investment group focuses on affordable housing opportunities, including equity and mezzanine financing to support the acquisition, development and construction of for-sale property developments that are projected to result in affordable housing. Participating exclusively in the form of a limited partner, Fannie Mae invests through both developers and fund managers. In 2006, for-sale investments totaled approximately $149 million. An example of a recent transaction is the Point at Redondo Condominium in Federal Way, Washington. In 2006, Fannie Mae invested $7.6 million in the acquisition and condominium conversion of this apartment community. This $32 million development will result in 225 new condominiums, all of which will be affordable to households earning at or below 80 percent of Area Median Income.

Partnerships Focused on Increasing First-Time Homebuyers

Fannie Mae has partnered with lenders, state and local housing finance agencies (HFAs), and other organizations to develop products designed to reach first-time homebuyers.

Fannie Mae along with Freddie Mac financed the development of 83 Spanish translations of the Fannie Mae/Freddie Mac Uniform Instruments to help lenders and others in the residential mortgage industry better serve Spanish-language dominant homebuyers. The translations are meant to complement the English-language documents that borrowers sign. Although the documents are non-executable, Fannie Mae encourages its lenders and others in the mortgage industry to distribute the translations to Spanish-language dominant potential borrowers early in

---

[15] 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, 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."

the home-buying process to help them familiarize themselves with the terms of the English-language documents they will sign at closing. The documents are available for all 50 states, the District of Columbia, Guam, and the U.S. Virgin Islands.

One of the ways Fannie Mae reaches first-time homebuyers is through partnerships with state and local HFAs. By providing HFAs access to Fannie Mae's single-family and multifamily products, Fannie Mae provides them with access to more tools to help finance, develop, and preserve affordable housing. In 2006, Fannie Mae purchased 28,310 loans from 77 state and local HFAs totaling over $2.5 billion, an increase of over 300 percent from 2005 HFA mortgage purchases. Approximately 94 percent (26,525) of these borrowers were first-time homebuyers. In 2006, Fannie Mae significantly increased its commitment to HFAs and offered a single-family alliance package to state HFAs through the **National Council of State Housing Agencies**. The alliance offers *MyCommunityMortgage* product variances requested by the HFAs as well as other benefits. Local HFAs can also offer *MyCommunityMortgage* loans through their mortgage revenue bond programs that focus on serving first-time homebuyers.

Lack of Down Payment

The lack of borrower funds to close remains a prevalent issue for first-time homebuyers, particularly low- and moderate-income families. In 2006, Fannie Mae launched a significant enhancement to *MyCommunityMortgage* (*MCM*), the company's primary single-family affordable housing product.

The enhancements enabled Fannie Mae to provide secondary market support for a broader range of underserved families, including first-time homebuyers. Refinements made to *MCM* in 2006 included:

- Widespread availability – *MCM* was added to Fannie Mae's Single-Family *Selling Guide* as a standard product offering to all Fannie Mae lenders. This eliminated requirements for special approvals, allocation limits, and negotiated contracts.
- Streamlined pricing – *MCM* pricing was changed to reduce the number of *MCM* product options requiring differential pricing.
- Expanded eligibility – several changes were made to expand the use of the *MCM* product and provide lenders more flexibility with respect to homebuyer education, borrower contributions, *Community Seconds*®, temporary buydowns, and the financing of homes in cooperatives.
- Improved technology – *Desktop Underwriter*® (*DU*®) was enhanced to automatically determine if properties are in eligible *FannieNeighbors*®[16] locations, and to automatically derive the appropriate geography to be used to determine borrower income eligibility, instead of requiring a choice for the geographic area.
- *MCM* eligibility extended to counties and parishes in Alabama, Louisiana, Mississippi, and Texas designated by the **Federal Emergency Management Agency** (**FEMA**) as eligible for assistance in connection with 2005 hurricanes Katrina and Rita.

[16] *FannieNeighbors* is a nationwide, neighborhood-based mortgage option designed to increase homeownership and revitalization in census tracts designated as underserved by HUD. When the loan is eligible for the *FannieNeighbors* option, borrower income limits for *Community Lending* products are waived.

- New mortgage features – such as a 40-year term, adjustable rate options, and interest-only options, were added.

These *MCM* enhancements yielded a dramatic increase in volume in 2006. In 2006, the total *MCM* acquisition volume increased by over 300 percent compared to 2005.[17] *MCM*'s volume was approximately $2.25 billion per year for the years 2003 through 2005; in 2006, it exceeded $9.3 billion. Of *MCM* acquisition volume for 2006, 80.6 percent consisted of financing for first-time homebuyers.

In addition to product and eligibility enhancements, Fannie Mae significantly increased its *MCM* marketing and education initiatives to its lenders, including the following:

- More than 800 mortgage professionals dialed into a conference call training class featuring Fannie Mae experts, a representative of a mortgage insurance company, and a lender, which provided an opportunity for callers to ask questions about *MCM*.
- Fannie Mae staff conducted numerous customized classroom or Web-based *MCM* training sessions for lenders and, in conjunction with lending partners, more than 2,000 broker trainings. The company's National Business Center also conducted an aggressive training initiative, reaching nearly 1,300 loan officers in the first 10 days alone.

Another product offered by Fannie Mae that helps address down payment-related challenges for borrowers is the ***Flexible*** mortgage product line (*Flexible 97*® and *Flexible 100*™). *Flexible* mortgages provide up to 100 percent LTV lending and allow flexible sources for closing costs which serves many borrowers with incomes below area medians and many first-time homebuyers as well. In 2006, Fannie Mae purchased $25.3 billion in *Flexible* loans made to 165,175 households. Of that total, 84,755 *Flexible* mortgages were made to first-time homebuyers.

Fannie Mae's *Community Seconds* option supports affordable housing partnerships created by government entities, nonprofit organizations, lenders, or employers working with lenders in a particular community. The *Community Seconds* option enables these entities to leverage their limited funds for homeownership programs to help more families to become homeowners. Under the *Community Seconds* option, Fannie Mae purchases a first mortgage that has a subordinate mortgage funded by a state, county, or local housing agency, a nonprofit organization, or an employer. Because the subordinate mortgage is often used to finance the down payment and/or closing costs, Fannie Mae's *Community Seconds* option assists in lowering a significant barrier to homeownership – the amount of upfront cash a borrower needs to purchase a home.[18] In 2006, Fannie Mae substantially enhanced *Community Seconds* to:

- Simplify the documentation,
- Eliminate the "list" of acceptable default conditions that *Community Seconds* providers may incorporate in their documents,
- Relax the maximum interest rate guideline on the second mortgage,

[17] This increase in volume is based on unpaid principal balances.

[18] Fannie Mae does not purchase *Community Seconds* mortgages. However, for first mortgages delivered to Fannie Mae, the company provides the eligibility requirements for the subordinate *Community Seconds* mortgage.

- Permit *Community Seconds* to be used with a broader range of first mortgage products, and
- Eliminate additional program requirements when the combined LTV ratio exceeds 100 percent.

Lack of Affordability

Fannie Mae works with lenders to develop flexible loan terms and new guidelines that help facilitate the financing of affordable housing units for the benefit of first-time homebuyers. The following are examples of initiatives undertaken in 2006:

- Fannie Mae announced several enhancements to its interest-only (IO) offerings designed to further expand affordable financing options available to a broader range of borrowers. In addition, these changes were designed to increase efficiencies for lenders. Fannie Mae expanded the products and property types eligible for an IO feature, modified pooling and delivery guidelines for mortgage loans with an IO feature, and eliminated the need for lenders to have negotiated contracts to deliver loans with an IO feature.

- Fannie Mae enhanced *DU* to improve the underwriting recommendation on certain loans when the borrower's income is at or below HUD's Area Median Income and the loan meets specific criteria based on the property type and purpose of the loan. This improvement helps reduce the cost of homeownership for low- and moderate-income borrowers and has served to increase affordable homeownership opportunities for borrowers whose income is equal to or less than 100 percent of the estimated Area Median Income.

- To help lending partners create and preserve affordable housing, Fannie Mae has worked with government and nonprofit entities to support the development of properties subject to resale restrictions or held by community land trusts. Fannie Mae has purchased mortgages secured by properties subject to resale restrictions or leased from community land trusts for many years. In 2006, Fannie Mae expanded the eligibility requirements for these types of mortgages. Fannie Mae now allows more latitude for legal terms, LTV computation, servicing terms, and eligible subsidy providers, and the company has eliminated special lender approval.

****

> In accordance with 12 U.S.C. § 1723a(n)(2)(E), *include, in aggregate form and by appropriate category, the data provided to the Secretary under subsection (m)(1)(B); (the loan-to-value ratios of purchased mortgages at the time of origination).* Fannie Mae submits the information below addressing this charter requirement.

In 2006, 32.6 percent of Fannie Mae's owner occupied one-unit home purchase loans meeting the low- and moderate-income mortgage purchases had an LTV ratio greater than 95 but less than or equal to 100 percent. For the underserved and special affordable goals, the percentages are 27.5 percent and 39.5 percent, respectively.

****

> In accordance with 12 U.S.C. § 1723a(n)(2)(F), *compare the level of securitization versus portfolio activity*. Fannie Mae submits the information below addressing this charter requirement.

In 2006, Fannie Mae securitized $481.7 billion in mortgages and purchased $197.3 billion for its portfolio.

IV. UNDERWRITING STANDARDS, BUSINESS PRACTICES AND EFFORTS TO PROMOTE FAIR AND RESPONSIBLE LENDING

> In accordance with 12 U.S.C. § 1723a(n)(2)(G), *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 submits the information below addressing this report requirement.

Fannie Mae's lending policies comply with fair lending laws and promote fair and responsible lending. Fannie Mae has established lender selection criteria and conducts routine checks on the quality of loans the company purchases to ensure compliance with Fannie Mae's lending policies. The company's fair lending compliance team also works closely with business units on initiatives such as those highlighted throughout this report, which support lenders' efforts to reach low- and moderate-income families and underserved borrowers.

Underwriting Standards Impacting the Purchase of Low- and Moderate-Income Mortgages

Fannie Mae offers two underwriting methods a lender can use in making a decision about whether to approve or decline a mortgage application—automated underwriting through ***Desktop Underwriter***® (***DU***®) and manual underwriting. Both methods incorporate underwriting standards that are based on Fannie Mae's assessment of the risk of default. Each underwriting method enables a lender to evaluate the overall credit risk of a mortgage application and to determine the mortgage's eligibility for delivery to Fannie Mae. Under appropriate terms and conditions, Fannie Mae purchases mortgages that represent varying levels of risk, including those that have relatively higher risks attributed to such factors as a blemished credit history, limited savings, or low down payments. Fannie Mae's efforts to provide appropriate liquidity to lenders who serve higher risk borrowers is another way that the company serves low- and moderate-income borrowers.

Automated Underwriting Through *DU*

DU is designed to assist lenders in processing mortgage applications in a more efficient and accurate manner. *DU* evaluates applications consistently and objectively, thus promoting fair lending. *DU* applies the same criteria to every loan it processes and does not consider prohibited factors such as a borrower's age, race, color, religion, gender, national origin, disability, familial status, or marital status in making a recommendation. Factors that are included in the *DU* risk evaluation include both credit and non-credit risk factors. The credit factors include the borrower's credit history; delinquent accounts; mortgage accounts; revolving credit utilization; public records, foreclosures, and collection accounts; and credit inquiries. The non-credit risk factors include the borrower's LTV ratio, liquid reserves, loan purpose, loan term, loan/amortization type, occupancy type, total expense ratio, property type, co-borrowers, and self-employment.

DU complements, rather than substitutes for, the considered judgment of experienced underwriters. It features fast and objective risk assessments, reduced data entry requirements, reduced documentation, and comprehensive underwriting reports. *DU* provides underwriting recommendations to lenders based on Fannie Mae's purchasing and securitization guidelines for single-family mortgage products. Lenders make the final decision regarding loan approval. If a lender originates a loan that is intended to be purchased or guaranteed by Fannie Mae, the lender must underwrite the loan using guidelines that are acceptable to Fannie Mae.

Manual Underwriting and Underwriting through Lenders' Automated Systems

Lenders may also deliver loans to Fannie Mae that have not been processed through *DU*. Subject to Fannie Mae's review and prior approval, Fannie Mae also purchases or securitizes mortgages underwritten to a lender's own underwriting guidelines, including loans that are underwritten with a lender's own proprietary automated underwriting system. Regardless of how the loan is underwritten, lenders must represent and warrant that the loan complies with the underwriting policies, guidelines, and eligibility criteria as described in the Fannie Mae *Selling Guide*, including compliance with all applicable laws.

Business Practices and Procedures Impacting the Purchase of Low- and Moderate-Income Mortgages

Fannie Mae publishes a Single-Family *Selling Guide* and a *Servicing Guide* to provide information to lenders about the company's policies and procedures. The selling and servicing guides explain Fannie Mae's standards and requirements for the origination, underwriting, and delivery to Fannie Mae of one- to four-family mortgages. Periodic updates to the guides also inform lenders about the company's efforts to promote fair and responsible lending.

In response to changes in housing market affordability and at the request of lender partners, Fannie Mae made several amendments to its selling and servicing guides in 2006. Some of these changes included: 1) clarifying and amending requirements for the *Community Seconds* option, which combines a first mortgage purchased by Fannie Mae with a subordinate mortgage that is often used to fund the down payment or closing costs;[19] 2) expanding eligibility requirements for properties subject to resale restrictions or properties located on land owned by community land trusts; 3) further expanding the use of *MCM* to allow longer terms such as a 40-year term, streamlined pricing, and expanded eligibility; and 4) increasing the maximum mortgage amount limits effective for 2006 for all conventional mortgages as directed by OFHEO.

Fannie Mae issues periodic guidance on the company's anti-predatory lending policies and responsible servicing practices. Fannie Mae's policies and related guidelines are codified in the selling and servicing guides, which are amended from time to time through lender announcements and lender letters. If Fannie Mae determines that a loan fails to comply with these policies, the company may pursue various options, including requiring repurchase of the loan and indemnification by the lender.

[19] This option enables government entities, nonprofit organizations, and employers to leverage their funds for homeownership programs for subordinate mortgages.

Nontraditional Mortgage Products

The increase in nontraditional products where either interest or principal is deferred, such as interest-only and negative amortization mortgage products, presents an important consumer protection issue. Fannie Mae, HUD, and other mortgage industry participants have undertaken measures to validate, enhance, and deploy safeguards to ensure that consumers have fair and equitable access to credit and have the ability to repay the loan. In 2006, Fannie Mae began evaluating its activities related to nontraditional mortgage products to identify, manage, and protect against the unique risks associated with interest-only and negative amortization loan products. Moreover, the company will be augmenting its policies and procedures and reinforcing its guidelines. Fannie Mae believes these measures demonstrate that Fannie Mae requires that lenders apply prudent underwriting practices when originating nontraditional mortgage products to be acquired by it, and to do so in compliance with all applicable consumer protection laws and regulations.

Repurchase Requirements Impacting the Purchase of Low- and Moderate-Income Mortgages

Fannie Mae generally relies on the selling lenders' representations and warranties that the mortgage loans being purchased or guaranteed conform to the applicable Fannie Mae guidelines. At Fannie Mae's discretion, waivers or variances from these underwriting guidelines may be granted. After purchase, Fannie Mae performs quality control reviews of selected loans to monitor compliance with the guidelines. Fannie Mae may require repurchase of loans that do not conform to the guidelines.

Fannie Mae's National Underwriting Center (NUC) performs Fannie Mae's underwriting reviews and provides loan quality information and analyses to Fannie Mae staff throughout the country. The NUC focuses its resources on loans that represent a higher risk to the company but also randomly samples loan deliveries for quality assurance reviews. The goal of each review is to identify any significant underwriting deficiencies, possible misrepresentations, or eligibility issues associated with the loan. In addition to loan-level quality assurance, the NUC performs anti-predatory lending screening on the random sample of loans. If it is determined that a loan should not have been delivered to Fannie Mae, the company may pursue various options, including requiring repurchase of the loan and indemnification by the lender.

Pricing and Fees Impacting the Purchase of Low- and Moderate-Income Mortgages

Fannie Mae's pricing policies and strategies are based on competitive market factors, the company's experience, capital requirements, and key determinants or indicators of loan performance. There are a number of factors that are used to predict loan performance, including credit histories, mortgage loan and property characteristics, interest rate fluctuations, and housing prices. Fannie Mae continually updates its databases with current information.

Through various negotiated vehicles and lender agreements, Fannie Mae arrives at specific fees for accepting a certain amount of risk on mortgages purchased or guaranteed in MBS. A number of pricing structures are utilized based on lender needs, Fannie Mae's business and mission objectives, and competitive market factors. In making pricing decisions, Fannie Mae considers its ability to meet strategic business goals and its obligation to meet its regulatory housing goals.

Underwriting Revisions, Products and Other Activities to Promote Affordable Housing or Fair Lending

Fannie Mae conducts quarterly reviews of loan performance data to assess the loan default risk predictability of the *DU* model. The fair lending compliance team in Fannie Mae's legal department reviews all changes to *DU* to ensure that *DU* complies with fair lending laws.

In 2006, a number of technical changes and modifications were made to *DU* to help promote affordable housing and to help Fannie Mae meet its housing goals.

- ***DU Version 5.5 Recommendation Enhancement***

  In 2006, Fannie Mae enhanced *DU* Version 5.5 to improve the underwriting recommendation on certain loans when the borrower's income is at or below Area Median Income and the loan meets specific criteria based on the property type and purpose of the loan. The company also modified *DU* to enhance its ability to identify the Metropolitan Statistical Area (MSA)/County in which the subject property is located. This enhancement enables *DU* to more accurately determine if the loan is eligible for the underwriting recommendation based on the MSA/County and its associated HUD Area Median Income.

- ***DU Version 5.6***

  This version of *DU* incorporated a number of the enhancements to *MCM*.[20] The automation of these enhancements enables the company to address its affordable housing obligations more efficiently.

  - *MCM* enhancements in *DU* included the following:

    - Removed features, such as special approval and allocation limits, to allow all lenders to submit *MCM* loans to *DU*;
    - Added 40-year mortgage terms and interest-only options;
    - Removed pre-purchase homebuyer education requirements for certain *MCM* loans;
    - Removed the minimum borrower contribution requirement for single-family properties;
    - Added temporary interest-rate buydowns for certain loans;
    - Permitted up to 100 percent LTV for individual cooperative units and up to 105 percent CLTV with an eligible *Community Seconds* mortgage.

[20] See AHAR Section III.

- Other *DU* updates that directly support the company's affordable housing mission in 2006 included:

    - Allowed *Community Seconds* in conjunction with non-*Community Lending* loans;
    - Increased the maximum loan term for *Flexible* mortgages to 40 years;
    - Modified underwriting analysis for loans secured by individual condominium units so that it is the same as it is for loans secured by single-family detached properties;
    - Extended and expanded the hurricane-related mortgage underwriting flexibilities established in 2005 to continue meeting the housing needs of borrowers impacted by hurricanes Katrina and Rita;
    - Updated *DU* to bring it in sync with the policies in the *Selling Guide* for *InterestFirst*® mortgages and trailing wage earner income.

Also in 2006, the company implemented a new capability in *DU* that automatically identifies properties located in census tracts designated as underserved by HUD when the loan type meets *FannieNeighbors* criteria. *DU* then applies the *FannieNeighbors* guidelines to the loan application by waiving the *Community Lending* income limits.

In addition to these 2006 *DU* enhancements, *DU* continued to support Fannie Mae's No-Credit-Score pilot established in 2005 to evaluate credit risk on loans where all borrowers on the loan application lack established traditional credit histories as evidenced by the lack of FICO® scores.

Fannie Mae's ***Expanded Approval® with Timely Payment Rewards®*** (***EA®/TPR®)*** initiative, offered through *DU*, continues to provide an alternative for borrowers with blemished credit histories. With *EA*, borrowers may secure a mortgage rate that may be lower than non-traditional financing. *EA* can also be combined with the *TPR* feature, which gives qualifying borrowers an interest rate reduction of up to one percentage point without having to refinance after making timely mortgage payments for a specified period. In 2006, Fannie Mae purchased $13.4 billion in *EA* loans to help 93,687 homebuyers lower the cost of home financing. In the same period, Fannie Mae purchased $973 million of loans using the *TPR* feature, enabling almost 7,000 additional homebuyers to benefit from further interest savings. Total *EA/TPR* volume for Fannie Mae in 2006 was $14.4 billion.

Finally, in 2006, Fannie Mae hosted its *Annual Fair Lending Conference* in Washington, D.C., bringing together over 100 participants from the lending industry, government, housing and civil rights organizations, and academia. The conference was entitled: "Remix: Old Problems with Opportunities for Fresh Solutions." Conference topics included an overview of the complex fair housing challenges facing the Gulf Coast region after the hurricanes, a fair housing and fair lending open forum and small group brainstorming session, a discussion of suitability requirements, and a panel on high-touch servicing best practices. Speakers included representatives from government, industry, and public interest organizations.

V. PROVIDING AFFORDABLE RENTAL HOUSING

In accordance with 12 U.S.C. § 1723a(n)(2)(H), *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*. Fannie Mae submits the information below addressing this report requirement.

Fannie Mae's business includes the issuance and purchase of multifamily mortgage-backed securities (MBS), purchase of mortgage loans, the credit enhancement of multifamily housing bonds, and investment in mortgage revenue bonds. Fannie Mae's multifamily mortgage assets—comprised of multifamily MBS, multifamily mortgage loans, bond credit enhancements, mortgage revenue bonds, and other securities—now total $141.5 billion. In 2006, the company also began to purchase investment grade commercial mortgage-backed securities (CMBS) backed solely by multifamily loans.

In 2006, the U.S. economy experienced steady growth. Real Gross Domestic Product for 2006 was 3.3 percent, and an estimated 1.8 million new jobs were added. Inflation averaged about 3.2 percent in 2006 and the Federal Reserve stopped increasing short-term interest rates after taking the federal funds rate to 5.25 percent.

Throughout the year, the multifamily property sector continued to improve. Real estate fundamentals for the sector improved with vacancies declining by the end of the year to around 5.25 percent nationally for institutional-type multifamily properties (which are properties of significant size that typically are owned by large national or international investors). This is an improvement from the end of 2005, when the estimated vacancy rate was approximately 6 percent.

Average asking rent growth in 2006 kept up its pace from the year before, with annualized rent growth in the 4 to 5 percent range. As a result, average asking rents are estimated to have been about $1,010 during the fourth quarter of 2006, compared to $970 as of the fourth quarter of 2005.

The multifamily loan originations market in 2006 repeated the high transaction volume and high investor demand of 2005. Multifamily lending remained intensely competitive in 2006. Investor demand also remained robust for a relatively stable collateral type that produces yield.

In an effort to enhance product standardization in the marketplace, Fannie Mae created the ***Delegated Underwriting and Servicing™ (DUS™)*** product line in 1988 for purchasing individual multifamily loans. *DUS* has since evolved to become Fannie Mae's principal network whereby underwriting is delegated to the *DUS* lenders, enabling them to move quickly to arrange financing for borrowers. The majority of loans purchased through Fannie Mae's *DUS* lender network are secured by properties with units that are largely affordable to families earning at or below the median income in their area.

Multifamily Products and Activities

Fannie Mae's product innovations in 2006 focused on providing lenders and borrowers with more flexibility in arranging financing. Highlights include the following:

- The ***Single Asset Substitution*** option for conventional *DUS* Cash loans provides a borrower the ability to replace the original mortgaged property securing its loan with another mortgage property of similar quality while keeping the existing *DUS* Cash loan in place. The *Single Asset Substitution* option provides a flexible option to manage a multifamily property portfolio by enabling a borrower to exchange a property without having to arrange new financing. If rates rise, borrowers may maintain attractive low-rate financing in place by keeping the terms of their original loan in place.

- The ***Skilled Nursing/Rental Continuing Care Campus Financing Pilot*** enables approved lenders to finance senior housing campuses owned by qualified borrowers that include a nominal number and derive nominal income (no more than 20 percent) from private pay skilled nursing units.

- The ***ASAP Plus*** purchase option provides liquidity to qualified lenders by enabling them to sell mortgage loans to Fannie Mae on an expedited basis following the origination and closing of such loans with the borrower.

Community Investments

Fannie Mae's Community Investments group focuses on affordable housing opportunities, comprised of tax-advantaged and other equity investments and mezzanine investments. Fannie Mae invests exclusively in the form of a limited partner with developers and operators and through fund managers.

Tax-advantaged investments include the purchase of tax credits that support the creation of affordable housing opportunities. Developers may use tax credits to support financing the construction or preservation of affordable housing, and may sell these tax credits to investors in exchange for equity investments in an affordable housing project. Investors apply these credits against their tax liabilities for a specified period of time. These housing units typically are affordable to families earning below 60 percent of Area Median Income.

Equity and mezzanine investments are made in existing and to-be-built affordable rental housing, as well as for the acquisition, development, and construction of affordable single-family homes. For-rent investment properties typically serve families earning 60 percent to 100 percent of Area Median Income, and for-sale investments typically involve affordable, entry-level housing. As an example, in June of 2006, the company invested in a 480-unit 1970s vintage apartment community in Hollywood, Florida. Rehabilitation of this development is underway and will result in post-rehab rents that are affordable at 53.1 percent of Area Median Income. The total development cost of the project is approximately $50.8 million, including $27.3 million in Fannie Mae equity. The renovation budget is approximately $9 million and includes roof replacement, exterior paint, drainage improvements, plumbing repairs, common area improvements, and unit interior upgrades of flooring, cabinets, appliances, and fixtures.

VI. DELINQUENCY AND DEFAULT RATES FOR LOW- AND MODERATE-INCOME FAMILIES

In accordance with 12 U.S.C. § 1723a(n)(2)(I), *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*. Fannie Mae submits the information below addressing this report requirement.

Delinquency and Default Trends Based on 2005 Performance Data[21]

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 attached table displays early serious delinquency performance and default performance over time. Fannie Mae defines early serious delinquency as being 90 days or more delinquent within 12 months of acquisition. 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 demonstrates that loans to low- and moderate-income borrowers on average performed approximately 1.7 times worse than mortgages to higher income borrowers with respect to early serious delinquency for acquisition years 1996-2001. For acquisitions from 2002 onward, as eligibility for higher risk products has expanded through such offerings as *MCM* and *EA*, performance on these loans to low- and moderate-income borrowers has declined. For 2005 acquisitions, loans to low- to moderate-income borrowers were delinquent 2.3 times more often than loans to higher income borrowers. The relative default rate performance is also consistently worse for low- to moderate-income borrowers than for higher income borrowers. Fannie Mae continues to use this performance information to define prudent underwriting and eligibility standards that expand access to the housing market through a broad range of affordable product options, while maximizing the possibility of sustained homeownership for borrowers.

[21] Serious delinquency performance information is based on acquisitions through September 2005. Default performance is based on acquisitions through December 2005. Performance is observed through September 2006. 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

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

Acquisition Year	Relative Serious Early Delinquency Performance	Relative Ever Default Performance
1996	1.8	1.7
1997	1.7	1.7
1998	1.8	1.9
1999	1.7	1.9
2000	1.7	2.0
2001	1.6	2.1
2002	2.0	2.6
2003	2.4	3.1
2004	2.5	3.5
2005	2.3	3.8

Notes:
1) Relative Performance equals the delinquency (default) rate for loans serving low- and moderate-income families divided by the delinquency (default) rate of loans serving households with incomes above the median level.
2) Serious Early Delinquency is defined as being 90 or more days delinquent within 12 months of acquisition.
3) 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.
4) 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.
5) The analysis presented here does not control for other risk dimensions, such as LTV or credit history, only income relative to the area median.

VII. FANNIE MAE'S SELLER AND SERVICER NETWORK

> In accordance with 12 U.S.C. § 1723a(n)(2)(J), *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 submits the information below addressing this report requirement.

Fannie Mae has selling and servicing relationships with over 3,000 single-family and multifamily primary market lenders under which the company both purchases loans for its portfolio and issues MBS.

Selling and Servicing Network

Fannie Mae's selling and servicing network includes small and large lenders; minority and women-owned lenders; and smaller, community-oriented lenders. The National Business Center, located in Chicago, Illinois, is dedicated to addressing the needs of small and mid-sized lenders.

Community-oriented lenders with assets less than $1 billion include banks, thrifts, mortgage bankers, credit unions, and housing finance agencies.[22] Fannie Mae purchased $13.1 billion mortgages from these institutions in 2006. In 2006, Fannie Mae also purchased a total of $2.85 billion in mortgages from lenders who reported that they are minority- and women-owned lenders. Of that total, $650 million was purchased from sellers and servicers identified as women-owned lenders.[23]

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.[24] To reach community banks in 2006, Fannie Mae either renewed or had in place Affinity Agreements with the major banking trade associations, including **America's Community Bankers** (**ACB**), **American Bankers Association** (**ABA**), and the **Independent Community Bankers of America** (**ICBA**). Under the agreements, members who participate and are Fannie Mae seller/servicers have access to Fannie Mae's business and technology solutions. By year-end 2006, 428 institutions were participating in one of these three alliances.

In 2006, Fannie Mae also forged an alliance with the **National Association of Federal Credit Unions**. By year-end 2006, 130 institutions were participating in this alliance. In addition, Fannie Mae customized a selling and servicing platform with **Prime Alliance Solutions, Inc.**, the largest single network—over 1,400—of credit union lenders.

---

[22] For the purposes of this AHAR, "community-oriented lenders" is defined as a financial institution with total assets of less than $1 billion. This definition is consistent with the definition of "small bank" in the Community Reinvestment Act (CRA) implementing regulations at 12 C.F.R. § 228.12.

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

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

VIII. ACTIVITIES WITH PARTNERS TO INCREASE AFFORDABLE HOUSING OPPORTUNITIES

In accordance with 12 U.S.C. § 1723a(n)(2)(K), *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*[25]. Fannie Mae submits the information below addressing this report requirement.

In 2006, Fannie Mae partnered with a variety of nonprofit and for-profit organizations, state and local governments, and HFAs to increase affordable housing opportunities. Some of the national and local organizations that the company partnered with in 2006 included **NHS of New York City**; **Mission of Peace CDC** in Michigan; **National Council of La Raza**; **NeighborWorks America** (formerly known as the Neighborhood Reinvestment Corporation); **Tri-Churches, Inc.** in Maryland; and the **YWCA of Delaware**. The following pages illustrate some of the activities Fannie Mae undertook in 2006 with various types of partners. In some cases, the company's affordable housing activities with these partners—financing for affordable housing, rental opportunities, and rehabilitation, and the development of strategies to address homelessness—aligned with a locality's housing affordability strategy as defined in the Cranston-Gonzalez National Affordable Housing Act (the Cranston-Gonzalez Act).[26]

- In 2006, Fannie Mae provided technical assistance to **NHS of New York City**, an affiliate of NeighborWorks America, to support their interest in developing a nonprofit mortgage broker pilot. Fannie Mae provided guidance on infrastructure development, workflows, and processes associated with the nonprofit counseling agency implementing mortgage broker operations. **NHS of New York City** expects to begin operating as a mortgage broker in 2007.

- In 2006, Fannie Mae's faith-based initiative enhanced homeownership partnerships with key faith-based organizations including **YWCA of Delaware**; **Mission of Peace CDC**, in Michigan; and **Tri-Churches, Inc.** in Maryland. These organizations provide homeownership counseling and financial services to minority communities, women, and other underserved communities. In total for 2006, Fannie Mae's 157 faith-based partnerships assisted in the enrollment of over 28,000 families in home counseling programs through these partners using Fannie Mae's ***Home Counselor Online® (HCO®)*** technology. *HCO* is a Web-based means of bringing together

[25] 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.

[26] 42 USC 12705.

housing professionals to help consumers prepare for, apply for, and receive home loans. This technology also provides the post-purchase support necessary to remain successful homeowners at no charge. *HCO* is intended to improve the quality and capacity of the counseling experience, increasing the number of "ready borrowers" in underserved areas, and prevent "not quite ready" borrowers from falling out of the homeownership process. In 2006, $133 million in loans were delivered to Fannie Mae for purchase through its faith-based initiative, helping 800 families become homeowners.

- Fannie Mae invested $800,000 through an **ARCS Commercial Mortgage** loan to the **Tacoma, Washington Housing Authority** to revitalize one of their multifamily apartment properties. The development was originally built as temporary housing for shipyard workers during World War II, and it included over 2,000 units. Today, only 835 units remain. The *HOPE VI* revitalization plan calls for the demolition of 815 units and historic preservation and revitalization of the remaining 20 units. The new development will include 585 public housing rental units, 262 affordable rental units, 125 market rental units, and 228 homeownership units. Future plans include 165 units of senior housing, including assisted living/congregate care, and a 60-unit apartment building with priority for the disabled. The plan also calls for a number of new community facilities including a 5,000-square-foot dental clinic added to the existing Eastside Health Clinic, expanded gymnasium space at the Eastside Neighborhood Center, and expansion and rehabilitation of both the Day/Evening Child Care Center and the existing Family Investment Center. In the first phase of the project, 35 units will receive operating subsidies under a separate project-based **Section 8 Housing Assistance** contract. The remaining 55 units are public housing units, which have income requirements of 30 percent and 50 percent of Area Median Income.

Local Partnerships Working to Support Affordability Strategies Under the Cranston-Gonzalez Act

Fannie Mae seeks partners in cities, towns, and states willing to work with the company to provide affordable housing opportunities throughout the country. Below are some examples that illustrate how these efforts with state and local governments support localities' affordable housing objectives under Section 105 of the Cranston-Gonzalez Act.

- ***Efforts to address homelessness and meet the needs of homeless persons and those at risk of becoming homeless.*** In 2006, Fannie Mae continued its multi-year initiatives aimed at increasing the supply of permanent supportive housing for the chronically homeless and advancing the national goal of ending chronic homelessness. In addition to working with state and local governments through Fannie Mae's Community Business Centers, Fannie Mae partnered with **Enterprise Community Investment**, the **National Equity Fund (NEF)**, the **Corporation for Supportive Housing (CSH)**, and the **National Alliance to End Homelessness**

(NAEH), as well as dozens of state and local government agencies and nonprofits across the country.

- Through *LIHTC* funds with **Enterprise**, **NEF**, and other syndicator partners, Fannie Mae invested $74.7 million in 12 projects, including 546 units serving the homeless and low-income at-risk households.
- The company committed $4.3 million in predevelopment and acquisition financing for homeless and supportive housing projects through **CSH** and other partners.
- Fannie Mae provided $2 million in grants to **CSH** and **NAEH** (the third year of a five-year commitment). With this grant support:
  - **CSH** added 2,810 units to their development pipeline in 2006 for a three-year total of 10,471 units. In 2006, **CSH** provided technical assistance to 89 nonprofit supportive housing project sponsors.
  - **NAEH** provided technical assistance to 12 communities developing plans in 2006 to end homelessness. **NAEH** significantly expanded its policy initiatives through the establishment of the Homelessness Research Institute, which issued a report analyzing the content and policy implications of 90 completed ten-year plans to end homelessness. **NAEH** also increased its public education capacity with the launch of a new and more robust Web site.
- Thirteen Fannie Mae Community Business Centers (CBCs) engaged with local partners by supporting the development and implementation of local plans to end homelessness; leveraging their expertise and partnerships to build the capacity of nonprofits and government to develop supportive housing; and advancing local supportive housing projects with financial investments and/or technical assistance. Highlights of this work are provided below:
  - The Los Angeles CBC has worked closely with the **City of Los Angeles Housing Department** and **CSH** to create a Supportive Housing Acquisition Fund, which will provide low-cost loans for site acquisition and predevelopment costs. The fund is expected to jump-start the development of 1,500 units of supportive housing over five years.
  - The Dallas/Forth Worth and Houston CBCs are active partners in their communities to advance local plans to end homelessness. The CBCs are assisting **CSH** to develop strategy and relationships to enter select Texas markets. The CBCs are playing a leadership role in helping the **City of Dallas** implement the city's *Ten Year Plan to End Homelessness.* They are working directly with the city and nonprofit partners to develop new supportive housing as called for in the plan.

Community Lending, previously The American Communities Fund®

Fannie Mae's Community Lending group increases the supply of affordable rental and for-sale housing through debt investments. The following are examples of Fannie Mae's 2006 activities.

- **Acquisition, Development, and Construction (AD&C).**[27] Fannie Mae works with lenders to provide liquidity by purchasing participations in acquisition, development, and construction loans and letters of credit for residential developments. The company participated in $248 million of AD&C loans, including Kings Plaza, a 249-unit mixed-use development in Perth Amboy, New Jersey in 2006. Fannie Mae's portion of the $50 million residential debt participation was $10 million. All rents in Kings Plaza are affordable to households earning 80 percent of Area Median Income and below.

- ***Modernization Express™***. Through the use of *Modernization Express*, Public Housing Authorities can leverage their future federal capital finance funds in order to accelerate the rehabilitation or redevelopment of their public housing stock. In 2006, Fannie Mae provided more than $114 million in *Modernization Express* loans to 25 PHAs, which facilitated the modernization of 10,202 units of public housing. For example, a $2.1 million *Modernization Express* loan was provided to the Warner Robins, Georgia Housing Authority to abate asbestos from 425 units as well as repair sewer lines, replace windows, and provide security screens.

- **Intermediary/Community Development Financial Institutions (CDFI) Loans**. Intermediaries and CDFIs re-lend Fannie Mae's loan proceeds to developers for various aspects of affordable single-family and multifamily housing development. In 2006, Fannie Mae financed $44 million of debt, including a $5 million, 7-year revolving line of credit to **Mercy Housing** for its Loan Fund. **Mercy Housing** is re-lending the funds for predevelopment, acquisition, rehabilitation, construction, and bridge financing on projects that target those earning less than 80 percent of Area Median Income.

[27] In 2006, the Office of Federal Housing Enterprise Oversight (OFHEO) examined the AD&C program. Fannie Mae is working with OFHEO to resolve the issues they identified.

IX. ADDITIONAL INFORMATION

In accordance with 12 U.S.C. § 1723a(n)(2)(L), *include any other information that the Secretary considers appropriate.* Fannie Mae submits the information below addressing this report requirement.

Given HUD's focus on helping borrowers affected by the 2005 hurricanes, Fannie Mae is providing an update on the company's relief and recovery efforts along the Gulf Coast.

Shortly after the storm, Fannie Mae created the Katrina Task Force to work with partners in the region to provide housing solutions to affected communities. The Task Force has now become a permanent business unit, known as Disaster Preparedness and Response, and is focused on aiding in the rebuilding after the hurricanes. In addition, this business unit is also developing plans and protocols to help the company respond to future disasters.

One of the many ways in which Fannie Mae continued its relief efforts in 2006 was by working with its lender partners serving the Gulf region. Borrowers located in the Gulf region were provided by Fannie Mae's servicers and lenders with information and mortgage flexibilities designed to give homeowners the tools and time needed to work through decisions about whether to rebuild or relocate, including the ability to suspend mortgage payments for up to 18 months. Over 46,000 households took advantage of this forbearance option for some period of time. In conjunction with these efforts, Fannie Mae renegotiated or modified the terms on over 13,000 single-family loans in order to minimize the burden to homeowners of making up missed payments. During this time, Fannie Mae also directed servicers to forego reporting of hurricane-related delinquencies to credit reporting agencies.

The following highlights some of the accomplishments related to Gulf Coast relief and recovery efforts in 2006:

- Expanded the eligibility of *MCM* to all, regardless of income;
- Modified the terms of Fannie Mae's home renovation loan product to allow financing of up to 103 percent of a home's value and 18 months to complete renovation;
- Modified the appraisal process to allow sellers to use discounted pre-hurricane appraisals, since post-hurricane property values for repaired properties are difficult to determine;
- Enhanced the cash-out refinancing guidelines to allow borrowers to complete disaster-related repairs;
- Created underwriting flexibilities that help people whose homes were destroyed or whose credit was negatively impacted by the hurricanes acquire new homes;
- Financed over 5,000 units of workforce rental housing;
- Committed over $275 million in *LIHTC* investment funds and closed transactions;

- Invested over $30 million in non tax-advantaged equity for renovation and construction of multifamily properties including multifamily properties located in Gulfport, Mississippi; Long Beach, Mississippi; Baton Rouge, Louisiana; and New Orleans, Louisiana and committed $450 million with Hearthstone for single-family residential projects;
- Closed on over $20 million in *Community Lending* transactions, including lines of credits and deposits in Community Development Financial Institutions.

Fannie Mae also recognized that the extraordinary evacuation required long-term temporary housing. In an effort to supplement what emergency shelters could offer, Fannie Mae has:

- Committed to house up to 1,500 evacuee families rent-free in Fannie Mae-owned homes in 20 states, with over 1,300 families housed by the end of 2006;
- Assisted over 47 evacuee families to move into permanent homes by providing a $15,000 credit toward the purchase of Fannie Mae-owned homes;
- Supported over 100 organizations throughout the hurricane affected areas with $5 million that assisted with evacuees, new housing, critical staffing, and disaster preparedness.

Fannie Mae employees have responded to the hurricanes personally and professionally. Many employees adopted evacuee families by donating time, money, and household goods to help them start over in new cities throughout the country. In 2006, Fannie Mae staff were offered one week of Hurricane Disaster Relief leave to volunteer along the Gulf Coast. In all, more than 200 employees in 2006 contributed over 4,400 hours of service helping to assess the area's needs, rebuild 36 homes, move four tons of food for distribution to local food banks, build or rebuild six community gardens, and read more than 90 books to 200 elementary school children. In addition to financial investments and product flexibility, Fannie Mae has called on its many resources to help its partners with tactical assistance, operational support, and other initiatives as they undertake unprecedented recovery planning and create models for redevelopment.

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, D.C., and at the five Fannie Mae offices in Philadelphia, Pennsylvania; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; and Pasadena, California.