2018 SCORECARD PROGRESS REPORT

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Division of Housing Mission and Goals
Division of Conservatorship
Office of Minority and Women Inclusion

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List of Acronyms

ACIS	Agency Credit Insurance Structure
AMI	Area Median Income
AUS	Automated Underwriting System
CAS	Connecticut Avenue Securities
CFPB	Consumer Financial Protection Bureau
CIRT	Credit Insurance Risk Transfer
CRT	Credit Risk Transfer
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
DUS	Delegated Underwriting and Servicing Program
FHFA	Federal Housing Finance Agency
FICC	Fixed Income Clearing Corporation
GeMS	Guaranteed Multifamily Structures
HARP	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
LEP	Limited English Proficiency
LTV	Loan-to-Value Ratio
MBS	Mortgage-Backed Security
MCIP	Multifamily Credit Insurance Pool
MI	Mortgage Insurer
MISMO	Mortgage Industry Standards Maintenance Organization
MSA	Metropolitan Statistical Area
MWD	Minority, Women, Disabled
MWDOBs	Minority-, Women-, and Disabled-Owned Businesses
NPL	Non-Performing Loans
NSI	Neighborhood Stabilization Initiative
PC	Participation Certificate
PMIERs	Private Mortgage Insurer Eligibility Requirements
PSPA	Senior Preferred Stock Purchase Agreement
REIT	Real Estate Investment Trust
REMIC	Real Estate Mortgage Investment Conduit
REO	Real Estate Owned
RESPA	Real Estate Settlement Procedures Act
RFI	Request for Input
RIF	Risk-in-Force

List of Acronyms--Continued

RPL	Re-Performing Loans
SIFMA	Securities Industry and Financial Markets Association
SOFR	Secured Overnight Financing Rate
SOMA	System Open Market Account
SSI	Single Security Initiative
STACR	Structured Agency Credit Risk (Security)
TBA	To Be Announced (Market for Agency MBS)
TILA	Truth in Lending Act
TRID	TILA/RESPA Integrated Disclosure
UAD	Uniform Appraisal Dataset
UCD	Uniform Closing Disclosure Dataset
ULAD	Uniform Loan Application Dataset
UMBS	Uniform Mortgage-Backed Security
UPB	Unpaid Principal Balance
URLA	Uniform Residential Loan Application

Introduction

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System, which includes 11 Federal Home Loan Banks (FHLBanks) and the Office of Finance. FHFA's mission is to ensure that Fannie Mae and Freddie Mac (the Enterprises) and the FHLBanks (together, the regulated entities) operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac.

This *Progress Report* summarizes major activities of Fannie Mae and Freddie Mac in 2018 that contributed to achieving FHFA's three strategic goals as conservator of the Enterprises, established by FHFA in the ***2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*** (*2014 Conservatorship Strategic Plan*):

1. **MAINTAIN**, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets;
2. **REDUCE** taxpayer risk through increasing the role of private capital in the mortgage market; and
3. **BUILD** a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

The ***2018 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions*** (*2018 Scorecard*) sets forth FHFA's expectations for 2018 relative to those strategic goals.[1] The *2018 Scorecard* also specifies the criteria that FHFA uses to assess the performance of the Enterprises and Common Securitization Solutions, LLC (CSS), including safety and soundness; support for a competitive and resilient secondary mortgage market; diversity and inclusion; cooperation and collaboration; and the quality, thoroughness, creativity, effectiveness, and timeliness of their work products. Of these criteria, this *Progress Report* highlights efforts related to diversity and inclusion, discussions of which are included throughout the *Report.* Those discussions document progress at the Enterprises and CSS toward incorporating diversity and inclusion throughout their businesses and activities.[2]

[1] In this *Progress Report,* all dates refer to 2018 unless stated otherwise.

[2] For further information about diversity and inclusion at FHFA, the Enterprises, and CSS, see *Office of Minority*

Maintain

The first strategic goal of the *2014 Conservatorship Strategic Plan* is to maintain credit availability and foreclosure prevention activities in the housing finance market in a safe and sound manner. To further that goal, FHFA established specific objectives in the *2018 Scorecard* for the Enterprises to continue efforts to increase access to mortgage credit, to finalize post-crisis loss mitigation activities, to support responsibly the Neighborhood Stabilization Initiative (NSI), to assess the current mortgage servicing business model and develop plans to support ongoing liquidity in the mortgage servicing market, to work on single-family rental strategies, to develop plans to support liquidity in the multifamily workforce housing market, and to manage the dollar volume of new multifamily business. During 2018, FHFA worked closely with the Enterprises to strengthen single-family and multifamily mortgage liquidity to lenders and borrowers, loss mitigation practices, and asset disposition efforts in a manner consistent with preserving the safety and soundness of the Enterprises. This section describes the activities undertaken by the Enterprises to support those objectives.

I. Access to Mortgage Credit for Creditworthy Borrowers

The *2018 Scorecard* called for the Enterprises to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of applicable credit requirements and risk management practices. Specific objectives included in the *2018 Scorecard* required the Enterprises to: 1) continue to identify opportunities to improve access to credit in a safe and sound manner, taking into consideration the changing circumstances and needs facing prospective borrower segments; 2) assess the availability of low-balance loan financing and develop recommendations; 3) continue to support access to credit for borrowers with limited English proficiency, including by finalizing multiyear language access plans and beginning plan implementation; 4) conclude the assessment of updated credit score models and, as appropriate, plan for implementation; 5) research, assess, and begin planning for appraisal process modernization; and 6) research and assess opportunities to further partnerships with housing finance agencies.

Opportunities to Support Credit Access. The Enterprises engaged in a number of initiatives and pilot programs during 2018 with the intent of supporting access to mortgage credit.

and Women Inclusion Annual Report to Congress - 2017, March 30, 2018, ***https://www.fhfa.gov/AboutUs/Reports/Pages/Office-of-Minority-and-Women-Inclusion-Annual-Report-to-Congress-2017.aspx***.

In July 2018, Freddie Mac implemented HomeOne, which provides a low down payment option for first-time homebuyers and a traditional rate and/or term refinance option for borrowers with at least 3 percent equity. HomeOne financing is available to first-time homebuyers regardless of their income levels or geographic locations, allowing more borrowers to responsibly become homeowners. To mitigate credit risk, purchase program participants must complete home buyer education, take out a fixed-rate loan, and occupy the property financed as their primary residence. HomeOne also allows a low-equity homeowner to reduce monthly payments by refinancing into a lower rate mortgage, a longer-term mortgage, or a mortgage with both a lower rate and a longer term. HomeOne refinances are available on loans already owned and securitized by Freddie Mac, and borrowers may not cash out their equity in the property as part of the transaction.

Fannie Mae launched a marketing strategy for lenders, realtors, and borrowers to responsibly increase access to credit and raise awareness of affordable financing options. The strategy includes education about low down payment financing products, such as HomeReady, through local outreach and media campaigns.

Each Enterprise also implemented a high loan-to-value ratio refinance program to replace the Home Affordable Refinance Program (HARP), which is being retired. The new, aligned program will allow a borrower whose mortgage is already owned or securitized by the Enterprises to refinance in situations where home values have declined.

Assessing Low-Balance Loan Availability. Informed by their research and outreach efforts in 2017, the Enterprises continued to increase the availability of financing for low-balance loans that meet their credit standards. In 2018, the Enterprises focused on increasing financial incentives for lenders/seller/servicers to originate low-balance loans, increasing market awareness of available products, and reducing costs for originating and selling low-balance loans. FHFA expects these efforts to increase the volume of low-balance loans purchased by the Enterprises.

Support for Borrowers with Limited English Proficiency. The *2018 Scorecard* required the Enterprises to continue to support access to credit for borrowers with limited English proficiency (LEP borrowers).[3] During 2018, the Enterprises finalized a multiyear language access plan and worked with FHFA to create a website[4] to serve as a clearinghouse for translations of mortgage-related terms and documents. In addition, the Enterprises and FHFA

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[3] Borrowers with limited English proficiency or a preference to speak their native language are collectively referred to as LEP borrowers.
[4] See ***http://www.fhfa.gov/mortgagetranslations***.

worked with industry participants to gain insight on LEP borrowers and on elements of the multiyear language access plan.

The Mortgage Translations website launched on October 15, 2018, and includes a new online Spanish-English glossary produced by the Consumer Financial Protection Bureau (CFPB), the Enterprises, and FHFA. The website also includes a collection of translated mortgage documents and educational materials produced by federal and state government agencies and by the Enterprises. The glossary will help standardize translations across the mortgage industry. The information targets lenders, servicers, housing counselors, realtors and other mortgage professionals to provide resources to LEP borrowers relevant to the entire mortgage process.

Updated Credit Score Models. At the end of 2017, FHFA issued a Request for Input (RFI) that discussed options for updating the Enterprises' credit score requirements. The RFI was based on FHFA's review of the challenges associated with a credit score change and concerns expressed by some market participants. The RFI sought public comments on concerns industry participants expressed to FHFA, including how to address competition among credit score providers and the potential costs and benefits to various market segments of updating the Enterprises' credit score requirements. The RFI focused on four proposals under consideration by FHFA and the associated operational challenges. The RFI closed March 30, 2018. FHFA received over 120 responses representing views from all parts of the mortgage finance industry, including consumers, mortgage lenders, mortgage insurers, and nonprofit housing agencies.[5]

FHFA was in the process of making a determination on updating the Enterprise credit score requirements when, on May 24, 2018, Congress enacted the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (Pub. L. No. 115-174, § 310), which required FHFA to promulgate a rulemaking process to establish minimum standards and criteria for Enterprise validation and approval of credit scores.[6] FHFA determined that it would not update the Enterprise credit score requirements until after the required rulemaking was complete.

Appraisal Process Modernization. Throughout 2018, the Enterprises engaged industry stakeholders, including lenders, appraisers, and other valuation-service providers and vendors, to assess challenges related to the current appraisal process and discuss possible solutions. Industry participants identified common themes around appraisal service shortages in some geographic areas and increases in the turnaround time needed to perform an appraisal. Possible solutions focused on leveraging currently available technologies to provide efficiency in the appraisal process, including additional valuation products or services that appropriately address safety and

[5] Responses to the 2017 Credit Score RFI are located at ***https://www.fhfa.gov/AboutUs/Contact/Pages/input-submissions.aspx***.
[6] FHFA issued a proposed rule on December 13, 2018. See ***https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Validation-and-Approval-of-Credit-Score-Models.aspx***.

soundness, address appraiser capacity issues, and reduce the turnaround time to receive an appraisal. FHFA continues to work with the Enterprises and industry stakeholders to review these potential solutions.

Partnering with Housing Finance Agencies. During the first quarter of 2018, FHFA and the Enterprises independently contacted stakeholders to assess opportunities to work with housing finance agencies (HFAs)[7] to improve access to mortgage credit across market segments. Those outreach efforts generated common themes regarding HFA products and programs, pricing, interactions with third parties, and technology. In subsequent quarters, the Enterprises and FHFA reviewed the ideas generated and identified ways to streamline, align, and improve how the Enterprises work with HFAs.

Efforts to Promote Diversity and Inclusion with respect to Credit Access. Fannie Mae sought to open opportunities for diverse borrowers[8] to obtain access to credit through two products: HomeReady and HomeReady/HFA Preferred, an affordable lending product exclusively available to eligible HFAs. Both products target creditworthy low- to moderate-income borrowers. During 2018, the minority share of total applications to these programs rose to 37 percent, exceeding the 2017 level of 35 percent for HomeReady.

Freddie Mac provided homeownership education to diverse potential borrowers and industry professionals through its Borrowers of the Future initiative. The overarching goal for this initiative is to support broadening of access to credit for minority borrowers. To do so, Freddie Mac worked with state and local organizations, meeting or exceeding its objectives in a number of consumer education areas, such as financial literacy and homeownership.

II. Finalize Post-Crisis Loss Mitigation Activities

The *2018 Scorecard* called for the Enterprises to finalize post-crisis loss mitigation policies and to continue to support responsibly the NSI. The Enterprises started developing aligned post-crisis loss mitigation policies under the *2016 Scorecard*.

Post-Crisis Loss Mitigation Options. During 2018, the Enterprises worked to finalize aligned loss mitigation policies addressing short-term hardships, foreclosure alternatives (such as short sales and deeds-in-lieu of foreclosure), loss mitigation letters for distressed mortgage

[7] HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of their states.

[8] Diverse borrowers includes borrowers from across the spectrum of race, ethnicity, gender, gender identity, sexual orientation, age, physical ability, religion, and national origin.

borrowers, and foreclosure timelines and compensation for servicers of distressed mortgage assets.

In the second quarter of 2018, the Enterprises announced their updated aligned forbearance program, which reduced and simplified seven separate forbearance programs into a single program. By consolidating the available options, the aligned forbearance program helps servicers assist distressed borrowers in a consistent manner. The new program eliminates the complexity of managing several different forbearance programs and provides servicers with the flexibility to offer longer forbearance periods when needed. Moreover, the simplified forbearance program structure is easier for borrowers to understand.

Over the course of 2018, the Enterprises revised the eligibility requirements for a distressed borrower to qualify for a short sale or a deed-in-lieu of foreclosure. The updated requirements expand borrower eligibility. They also create consistency between the Enterprises' foreclosure alternative options and their other post-crisis loss mitigation offerings. The Enterprises announced their foreclosure alternative updates in the fourth quarter of 2018.

The Enterprises also updated aligned letters to inform borrowers about their loss mitigation options. FHFA's goal in requiring the revised letters was to foster borrower understanding by presenting loss mitigation information in a clear and simplified manner. The revised letters, which were developed with input from borrower advocates and servicers, were published in the third quarter of 2018 and conform to current mortgage servicing rules set by CFPB. Servicers may use these letters in lieu of developing their own proprietary loss mitigation correspondence.

Supporting the Neighborhood Stabilization Initiative. The Enterprises continued to responsibly support the NSI through their ongoing strategic partnership with the National Community Stabilization Trust in 28 Metropolitan Statistical Areas (MSAs). Those MSAs continue to be characterized by comparatively large numbers of low-value real estate owned (REO) properties. The NSI program permits nonprofits to acquire deeply distressed properties in those markets, significantly reducing the Enterprises' costs for property preservation and maintenance. The program also returns acquired properties to productive use more quickly, and, in turn, promotes neighborhood stabilization.

Diversity and Inclusion. Fannie Mae established a number of goals in an effort to reach diverse borrowers through the NSI, including goals for NSI property dispositions to nonprofit buyers, the percent of NSI properties sold to nonprofit buyers compared to number of Fannie Mae properties available for sale through NSI (that is, the buyer take-up rate), and engagement and use of minority-, women-, and disabled-owned businesses (MWDOBs) and minority, women, and disabled (MWDs) individuals. Fannie Mae exceeded its goal that 50 percent of NSI property dispositions would be to nonprofit buyers. The actual percentage of Fannie Mae's NSI

dispositions to nonprofit buyers was 80 percent, exceeding its goal by 30 percentage points. Fannie Mae established an NSI buyer take-up rate goal of 5 percent. Fannie Mae reported an actual buyer take-up rate of 17 percent, which was more than triple the goal. With respect to MWD individuals and MWDOBs, Fannie Mae had two goals. First, Fannie Mae's outreach goal was to continue to promote diversity and ensure inclusion of MWD real estate agents, and to engage non-profits and public entities in the sale of REO properties in support of the NSI. Fannie Mae reported that 48 percent of REO real estate agents self-identified as MWD individuals. Second, Fannie Mae sought to address credit access for diverse borrowers by providing opportunities for MWDOB broker-dealers to participate in investments and financial transactions.

To grow Freddie Mac's diverse supplier network, which supports initiatives to reach diverse borrowers, Freddie Mac made changes to its Supplier Management System by developing a Supplier Diversity Program Application that facilitates registration by diverse suppliers. Freddie Mac selected a qualified, competitive diverse vendor under the Limited English Proficiency *i*nitiative. For the *Housing Finance Agency Access* initiative, Freddie Mac contracted with a vendor qualified as an MWDOB. Freddie Mac has also significantly reduced its REO portfolio through partnerships with the National Community Stabilization Trust and has included MWDOB broker-dealers in all of its sales transactions, resulting in 39 percent of all REO fees being paid to MWDOB vendors. Freddie Mac reported that 46 percent of listing brokers were classified as MWDOB and 47 percent of the commissions were paid to those firms.

III. Assess the Mortgage Servicing Business Model

Informed by the 2017 Joint Servicing Market Survey results, the *2018 Scorecard* called for the Enterprises to assess challenges facing the mortgage servicing market and identify potential solutions to ensure ongoing liquidity in the market for mortgage servicing rights and the financial strength of mortgage servicers as counterparties to the Enterprises. Survey respondents emphasized the need to improve alignment between the Enterprises, including alignment between Enterprise processes, automation of interactions between servicers and the Enterprises, and data quality control. In 2018, the Enterprises conducted further industry outreach and began efforts to improve their servicer-facing systems and processes. As part of those efforts, work is underway to improve Enterprise technology that supports expense reimbursement and property preservation operations. The goal of these initial efforts is to gradually improve Enterprise tools that support servicing operations.

IV. Single-Family Rental Strategies

In response to growth in the single-family rental market and with the goal of improving the affordability of single-family rentals, FHFA approved the Enterprises' participation in several pilot transactions involving the purchase of single-family homes by large investors through their multifamily business units. The purpose of the pilots was to understand the challenges and opportunities in the single-family rental market and determine what, if any, role the Enterprises might play. Throughout 2017 and 2018, FHFA evaluated the effects of the Enterprises' participation on single-family rental market stability, affordability, and liquidity. FHFA's evaluation, which included extensive outreach, determined that the Enterprises' existing single-family investment home rental programs play an important role for small investors and that the market for larger investors has performed successfully without liquidity from the Enterprises. As a result, in August 2018, FHFA directed the Enterprises to conclude their participation in the single-family rental market beyond the existing Enterprise single-family programs — Fannie Mae's Multiple Financed Properties to one borrower and Freddie Mac's Investment Property Mortgages. In its announcement, FHFA recognized the potential need for long-term financing for mid-size investors that own affordable single-family rental assets, but noted that it was premature to make such a determination without more information about the effects of Enterprise participation.

V. Supporting Liquidity in Multifamily Workforce Housing Markets

The *2018 Scorecard* required the Enterprises to explore opportunities for further supporting liquidity in the multifamily workforce housing market.[9] In 2018, both Enterprises conducted research on workforce housing, engaged in outreach to industry experts, examined ongoing rental affordability challenges, and assessed the availability of capital to support workforce housing. The Enterprises also looked closely at existing state and local programs designed to preserve workforce housing. These efforts were supported by FHFA's Workforce Housing Workshop in June 2018, which gathered key stakeholders together to discuss the Enterprises' role in supporting workforce housing. This research and outreach, including the findings from the workshop, will help inform the Enterprises as they work to develop strategies that address the shortages of rental housing affordable to low- and moderate-income households.

Diversity and Inclusion Efforts in the Multifamily Business. The Enterprises continued to work to advance diversity and ensure inclusion within the multifamily segment of their respective capital markets activities. Fannie Mae expanded opportunities for MWDOBs

[9] The term "workforce housing" is often used to describe housing for households that earn between 60-120 percent of area median income. During FHFA's Workforce Housing Workshop, participants discussed the possible need for an industry standard definition, and whether or not "workforce housing" is the best description for this segment of the rental market.

participating in the Enterprise's ACCESS program (ACCESS firms). In addition to its senior unsecured debt securities, Fannie Mae's ACCESS program offers opportunities for MWDOB securities dealers related to transactions in single-family residential mortgage-backed securities (MBS), agency commercial MBS, and credit risk transfer securities. Fannie Mae has committed to include at least one such firm in each of its syndicated Guaranteed Multifamily Structures (GeMS) deals. Freddie Mac included MWDOBs as broker-dealers in all of its offerings of multifamily securities with credit risk transfer features. These offerings included Multifamily K Certificate structured pass-through securities, Small Balance Loan Securities, and M Deals (backed by tax-exempt mortgages). In addition, Freddie Mac conducted quarterly outreach/education activities to MWDOB firms (e.g., ongoing training, webinars, and conference calls). Freddie Mac participated in 16 events, exceeding its goal of 10 outreach events for the year.

VI. Managing Multifamily Business Volume within FHFA Established Caps

The *2018 Scorecard* maintained loan production caps on each Enterprise's multifamily business to further the strategic goal of maintaining Fannie Mae's and Freddie Mac's multifamily activities while not impeding the participation of private capital. The *2018 Scorecard* set the cap for each Enterprise at $35.0 billion with exclusions from the caps for financing a range of mission-related activities.

FHFA designed exclusions from the cap to support affordable and underserved segments of the multifamily market because these segments are not adequately served by the private sector. Exclusions include financing for subsidized affordable housing, manufactured housing communities, and small multifamily properties (between 5 and 50 units). Additional exclusions include financing for affordable properties in rural areas, energy efficiency improvements in Enterprise-financed properties, and market-rate units that are affordable to very low-, low-, and moderate-income tenants in standard, high-cost, very high-cost, and extremely high-cost rental markets.

In 2018, the Enterprises actively managed their loan production to ensure they did not exceed the published cap. Fannie Mae's total multifamily finance activity for the year was approximately $65.38 billion, of which $29.76 billion fell within the cap and $35.62 billion was in the excluded categories. Freddie Mac's total multifamily finance activity for the year was approximately $77.47 billion, of which $32.57 billion fell within the cap and $44.90 billion was in the excluded categories. Table 1 provides further information on each Enterprise's multifamily activity, including activities in each category excluded from the caps.

Table 1. Enterprise Multifamily Activity in 2018

	Fannie Mae		Freddie Mac	
	$ billion	Percent	$ billion	Percent
Total included within cap	$29.76	46%	$32.57	42%
Total excluded from cap[1]	$35.62	54%	$44.90	58%
Loans to finance energy or water efficiency improvements	$19.68	30%	$21.79	28%
Loans on manufactured housing communities	$2.94	4%	$1.83	2%
Financing for targeted affordable housing properties[2]	$5.91	9%	$6.56	8%
Loans on small multifamily properties	$0.87	1%	$4.18	5%
Loans on properties located in rural areas	$1.05	2%	$0.78	1%
Loans on seniors housing	$1.23	2%	$2.22	3%
Loans on units affordable to those @ 60% AMI[3]	$12.52	19%	$15.96	21%
Loans on units affordable to those @ 80% AMI[3]	$2.10	3%	$4.30	6%
Loans on units affordable to those @ 100% AMI[3]	$1.01	2%	$2.70	3%
Loans on units affordable to those @ 120% AMI[3]	$0.90	1%	$2.24	3%

Source: Fannie Mae and Freddie Mac

[1] For more information on excluded categories, see the *2018 Scorecard*, Appendix A: Multifamily Definitions, pp. 8-10. Dollar amounts and percentages of the categories of loans excluded from the cap do not add to the totals for all excluded loans because some loans qualify under more than one exclusion category. Such double counting is not included in the "Total excluded from cap." In addition, some loans only partially qualify for exclusion from the cap for some exclusion categories. Only the qualifying excluded portion of a loan is included in the total for each category. If the loan qualifies for exclusion under more than one exclusion category, the greatest portion of the loan that qualifies for any exclusion category is included in the "Total excluded from the cap."

[2] Includes the excluded portion of the Unpaid Principal Balance (UPB) for properties that are affordable to low- and very low-income households. Only the qualifying portion of a loan is included in the total.

[3] FHFA excludes from the capped category units whose rents are affordable to tenants at various income thresholds, based on each individual market. This entails exclusions of financing for units affordable to household incomes below 60% of area median income (AMI) in most areas, below 80% of AMI in high-cost areas, below 100% of AMI in very high-cost areas, and below 120% of AMI in extremely high-cost areas. For additional detail on the high-cost, very high-cost, and extremely high-cost areas, see the *2018 Scorecard*, Appendix A: Multifamily Definitions, p. 9.

Reduce

The second strategic goal of the *2014 Conservatorship Strategic Plan* focuses on reducing taxpayer risk by increasing the role of private capital in the secondary mortgage market. To further that goal, the *2018 Scorecard* called for the Enterprises to continue their efforts to transfer single-family and multifamily mortgage credit risk to the private sector, execute their FHFA-approved plans to reduce their retained mortgage portfolios, and evaluate their eligibility requirements for private mortgage insurers. This section describes Enterprise activities in 2018 in each of those areas.

I. Credit Risk Transfers for Single-Family Credit Guarantee Business

The Enterprises' primary business is acquiring single-family mortgage loans from lenders, selling securities backed by those mortgages to investors, and guaranteeing the timely payment of principal and interest on the securities. To do so, the Enterprises sell the interest rate and liquidity risk associated with mortgage loans but retain the credit risk, that is, the risk of loss from non-payment by the borrowers.

The Enterprises' credit risk transfer (CRT) programs have become a core part of the Enterprises' single-family credit guarantee business. The programs transfer credit risk to private capital via securities issuances, insurance/reinsurance transactions, senior-subordinate securitizations, front-end lender risk sharing transactions, and other pilot transactions.[10]

The Role of Primary Mortgage Insurance in Lender Risk Sharing. In addition to the Enterprises' CRT programs, their charters require loan-level credit enhancement on all loans they acquire that have loan-to-value (LTV) ratios above 80 percent. Primary mortgage insurance is the most common form of charter-eligible credit enhancement. Primary mortgage insurance, which can be paid for by the borrower, the lender, or the Enterprise, is obtained at the front-end of the mortgage transaction prior to or concurrent with acquisition of the mortgage by the Enterprise.

The amount of insurance coverage is referred to as risk-in-force (RIF). The RIF for each insured loan is calculated by multiplying the percentage of insurance coverage times the unpaid principal balance (UPB) of the mortgage. The total RIF for all primary mortgage insurers represents the maximum level of coverage for all loans with mortgage insurance and is equivalent to the Enterprises' total risk exposure to primary mortgage insurer counterparties.[11]

Table 2 shows the total RIF, measured at the time of Enterprise acquisition, for loans with primary mortgage insurance acquired by the Enterprises for each year between 2013 and 2018. At the time of acquisition, loans purchased during those years had approximately $312 billion of RIF on a total UPB of approximately $1.2 trillion.

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[10] For a detailed description of transaction types, see Federal Housing Finance Agency, ***Overview of Fannie Mae and Freddie Mac Credit Risk Transfer Transactions***, August 2015, and ***Credit Risk Transfer Progress Report***, Fourth Quarter 2018.

[11] The total RIF associated with primary mortgage insurance is generally larger than likely claims, which depend on the number of insured loans that default and the severity of losses on those loans. For example, Enterprise loans with LTV ratios above 80 percent that were originated in 2006 and 2007 had average cumulative default rates of between 13 and 14 percent, ***Single-Family Credit Risk Transfer Progress Report,*** June 2016, p. 4.

Table 2: Primary Mortgage Insurance Coverage for New Acquisitions, 2013 – 2018

Year	Enterprise	Risk in Force $ billion	UPB[1] $ billion
2013	**Fannie Mae**	$27.3	$108.9
	Freddie Mac	$12.6	$48.1
	Total	$39.9	$157.0
2014	**Fannie Mae**	$23.2	$92.1
	Freddie Mac	$14.5	$54.2
	Total	$37.7	$146.3
2015	**Fannie Mae**	$30.2	$120.3
	Freddie Mac	$18.5	$71.5
	Total	$48.7	$191.8
2016	**Fannie Mae**	$36.1	$145.5
	Freddie Mac	$23.1	$90.5
	Total	$59.2	$236.0
2017	**Fannie Mae**	$36.4	$146.2
	Freddie Mac	$24.0	$93.6
	Total	$60.4	$239.8
2018	**Fannie Mae**	$40.2	$159.1
	Freddie Mac	$25.7	$101.4
	Total	$65.9	$260.5
TOTAL	**Fannie Mae**	$193.4	$772.3
	Freddie Mac	$118.4	$459.2
	Total	$311.8	$1,231.5

Source: Federal Housing Finance Agency

[1] Unpaid principal balance of mortgage loans on which primary mortgage insurance coverage exists.

Overall Credit Risk Transfer Activity in 2018. For 2018, FHFA established in the *2018 Scorecard* an objective for the Enterprises to transfer a meaningful portion of credit risk on at least 90 percent of the UPB of their acquisitions of single-family mortgage loans targeted for credit risk transfer. Both Enterprises achieved this objective in 2018. Targeted loans include fixed-rate, non-HARP loans with terms over 20 years and LTV ratios above 60 percent. Such loans represent a substantial amount of the credit risk associated with all new loan acquisitions.

Since the beginning of the program in 2013, the Enterprises have transferred a portion of credit risk on loans with approximately $2.8 trillion in UPB and total RIF of about $91.5 billion. In 2018, the Enterprises transferred credit risk on single-family mortgage loans with a total UPB of approximately $643 billion and total RIF of about $22.2 billion as presented in Table 3.

Table 3. Enterprise Single-Family Mortgage Credit Risk Transfer Activity, 2013 – 2018

Year	Enterprise	Risk in Force[1] $ billion	Reference Pool UPB[2] $ billion
2013	**Fannie Mae**	$0.8	$31.9
	Freddie Mac	$1.5	$57.9
	Total	$2.2	$89.8
2014	**Fannie Mae**	$6.1	$230.9
	Freddie Mac	$6.1	$147.5
	Total	$12.2	$378.4
2015	**Fannie Mae**	$7.3	$239.1
	Freddie Mac	$8.8	$181.3
	Total	$16.1	$420.4
2016[3]	**Fannie Mae**	$9.8	$335.0
	Freddie Mac	$8.4	$214.1
	Total	$18.1	$549.1
2017	**Fannie Mae**	$12.6	$417.3
	Freddie Mac	$8.1	$271.8
	Total	$20.6	$689.1
2018	**Fannie Mae**	$11.1	$332.0
	Freddie Mac	$11.1	$311.4
	Total	$22.2	$643.4
TOTAL	**Fannie Mae**	$47.7	$1,586.2
	Freddie Mac	$43.8	$1,183.9
	Total	$91.5	$2,770.1

Source: Federal Housing Finance Agency

[1] Volume of notes issued in securities transactions or RIF in insurance/reinsurance transactions. Together those amounts equal the maximum credit loss exposure of private investors.

[2] UPB of pools of mortgage loans on which credit risk is transferred.

[3] Totals for 2016 and 2017 include the total contracted UPB and RIF for front-end mortgage insurance pilot transactions.

Securities Issuances. The Enterprises' securities issuance products include Fannie Mae's Connecticut Avenue Securities (CAS) and Freddie Mac's Structured Agency Credit Risk (STACR) securities. Those products accounted for 64 percent of the RIF entered into by the Enterprises during 2018. These securities are issued as Enterprise debt or debt of a bankruptcy-remote trust. While the trust does not hold the mortgage loans, the cash flows of the securities track the credit performance of a reference pool of mortgages. The Enterprise or the trust receives the proceeds from investors at the time of issuance and, in return, investors receive a monthly payment from the Enterprise or the trust. That payment includes both interest and principal, with the principal payment based on the repayment and credit performance of the loans in the underlying reference pool.

In 2018, both Enterprises introduced enhancements to the CAS and STACR programs intended to address the timing mismatch, which could be years, between the accounting recognition of a credit loss on a loan covered by a CRT and the accounting recognition of the benefit provided by the CRT coverage.

In November 2018, Fannie Mae completed its first CAS offering under which the securities are issued by a third-party bankruptcy-remote trust that qualifies as a Real Estate Mortgage Investment Conduit (REMIC). The CAS REMIC structure eliminates the accounting mismatch associated with Fannie Mae's prior direct debt issuance transactions and limits investor exposure to Fannie Mae counterparty risk. Additionally, by qualifying as a REMIC, this structure should be more attractive to domestic Real Estate Investment Trusts (REITs) and foreign investors. The reference pool for Fannie Mae's inaugural CAS REMIC transaction consisted of total UPB of $24.3 billion and RIF of $922 million.

In the second quarter of 2018, Freddie Mac introduced STACR Trust transactions under which the securities are issued by a third-party bankruptcy-remote trust. The STACR Trust structure reduces the accounting timing mismatch associated with Freddie Mac's prior direct debt issuance transactions and limits investor exposure to Freddie Mac counterparty risk. In 2018, Freddie Mac executed five STACR Trust transactions with total UPB of $168.2 billion and RIF of $5.1 billion.

In 2015, Freddie Mac modified its STACR structure to transfer to investors a portion of the first losses on mortgages in the reference pools. In 2016, Fannie Mae did the same for its CAS structure. Both Enterprises previously had retained the initial credit losses on the mortgages underlying earlier debt issuances. Feedback from credit risk investors and the pricing of first-loss bonds have provided important information to FHFA and the Enterprises. Investors know there will be some degree of expected credit losses for any portfolio of mortgages regardless of economic conditions. As a result, investors charge more for providing credit risk protection for expected credit losses. Based on this information and beginning in 2017, the Enterprises moved generally to retaining the first 50 basis points of expected losses in most transactions. However, in September 2018, in order to reduce the amount of conservatorship capital needed for credit risk, Freddie Mac modified its STACR Trust structure to transfer more of the first loss position (retaining only the first 10 basis points) and extended the final legal maturity of the securities from 12.5 years to 30 years.

Freddie Mac also completed two STACR HRP (SHRP) transactions in 2018 with total UPB of $53 billion and RIF of $2.2 billion. SHRP transactions transfer risk on loans that were refinanced under Freddie Mac's Relief Refinance Program. The SHRP series builds on the existing STACR program by transferring credit risk on loans beyond those targeted for credit

risk transfer in the *2018 Scorecard* and allows Freddie Mac to transfer risk on some of its more seasoned loans.

Insurance/Reinsurance Transactions. In these transactions, the Enterprises purchase credit protection from insurers and diversified reinsurers (together, Participating Insurers). Participating Insurers in insurance/reinsurance transactions provide collateral to mitigate counterparty risk and are required to adhere to the Enterprises' underwriting, loss mitigation, and claim guidelines. These provisions also significantly restrict the Participating Insurers' right to rescind, deny, or curtail coverage. The Enterprises' insurance/reinsurance transactions — Agency Credit Insurance Structure (ACIS) for Freddie Mac and Credit Insurance Risk Transfer (CIRT) for Fannie Mae — accounted for about 24 percent of total credit risk transfers during 2018, compared to about 22 percent in 2017. The majority of the insurance/reinsurance transactions were executed after the Enterprise acquired the loans being insured.

The Enterprises also executed insurance/reinsurance transactions where the risk is transferred prior to, or simultaneous with, Enterprise loan acquisition. In 2018, Fannie Mae executed two such front-end CIRT transactions using traditional reinsurers and reinsurer affiliates of mortgage insurance companies for a total RIF of $542 million on $16.7 billion of UPB. Freddie Mac executed one such ACIS front-end reinsurance transaction for a total RIF of about $253 million on $7.2 billion of UPB.

Additionally in 2018, each Enterprise executed insurance/reinsurance transactions to transfer risk on 15- and 20-year mortgages. Fannie Mae executed one CIRT transaction with total UPB of $13 billion and RIF of $192 million. Freddie Mac executed one ACIS transaction with total UPB of $19 billion and RIF of $300 million.

Front-End Lender Risk Sharing Transactions. Front-end lender risk transfer transactions include various methods of credit risk transfer, in which an originating lender retains a portion of the credit risk associated with the loans it sells to the Enterprise. In exchange, the lender receives a reduced guarantee fee charge on the loans from the Enterprise or a monthly payment from the Enterprise or a trust. These transactions are structured so that risk is transferred prior to, or simultaneous with, Enterprise loan acquisition. To date, all front-end lender risk sharing transactions have been fully collateralized. These transactions may take a securities format, which allows the originating lender to either hold the credit risk by retaining the securities or sell the credit risk by selling the securities to credit risk investors. In 2018, both Fannie Mae and Freddie Mac completed front-end lender risk sharing transactions. Those transactions had a total UBP of $49 billion and RIF-equivalent of $1.7 billion.

II. Credit Risk Transfers for Multifamily Business

Transferring credit risk to the private sector is an integral part of the multifamily business model for both Enterprises. The *2018 Scorecard* called for the Enterprises to continue their current multifamily CRT initiatives and to explore additional CRT opportunities. Over 97 percent of the targeted multifamily new acquisitions by the Enterprises involved a transfer of credit risk to private capital.

In Fannie Mae's multifamily program (known as the Delegated Underwriting and Servicing Program or DUS), lenders share in loan-level credit losses in two ways: 1) they bear losses up to the first 5 percent of the UPB of the loan and share in remaining losses up to a prescribed limit, or 2) they share up to one-third of the losses on a pro rata basis. In 2018, through the DUS program, Fannie Mae transferred a portion of credit risk on 99 percent or approximately $62 billion of its targeted multifamily new acquisitions. Additionally, Fannie Mae continued to grow its multifamily CIRT program, in which Fannie Mae transfers a portion of the risk it retained from DUS transactions to a panel of reinsurers. During the year, Fannie Mae executed two multifamily CIRT transactions with total UPB of $22 billion and RIF of $440 million.

In 2018, Freddie Mac transferred a portion of credit risk on 95 percent or $69 billion of its targeted multifamily new acquisitions. Freddie Mac's K Certificate program is its primary multifamily credit risk transfer mechanism. Since 2010, Freddie Mac has securitized senior-subordinate notes through its K Certificates to transfer risk on approximately 90 percent of the UPB of its multifamily loan acquisitions. K Certificates transfer most of the credit risk to investors through subordinated bonds that are structured to absorb expected and unexpected credit risk.

In addition, Freddie Mac transfers credit risk through a variety of other programs. Freddie Mac transfers credit risk associated with multifamily small balance loans through its SB Certificates. KT Certificates transfer a portion of the credit risk associated with multifamily mortgage loans awaiting securitization in Freddie Mac K Certificates. Freddie Mac executed one KT Certificate transaction in 2018, transferring to investors a portion of the credit risk on multifamily loans with UPB of $1 billion. Freddie Mac transfers credit risk on hard-to-securitize loans through its Whole Loan Investment Funds. In 2018, Freddie Mac used this vehicle to transfer credit risk on loans with $1.3 billion of UPB. In the fourth quarter of 2018, Freddie Mac also executed its first multifamily credit risk transfer transaction to reinsurers, the Multifamily Credit Insurance Pool (MCIP) offering. Under the MCIP structure, which is similar to the single-family ACIS product, Freddie Mac purchases insurance policies that provide first loss credit protection. In its inaugural MCIP transaction, Freddie Mac purchased credit risk insurance for the first five percent of credit losses on a reference pool with total UPB of $915 million and RIF of $43 million.

III. Retained Mortgage Portfolios

Before the mortgage crisis, Fannie Mae and Freddie Mac accumulated very large portfolios of mortgages and mortgage-backed securities (MBS) funded by unsecured debt they issued. As of March 31, 2009, Freddie Mac's retained mortgage portfolio was $867 billion, and Fannie Mae's was $784 billion. In large part, the Enterprises used their retained portfolios to hold investments on their books in order to generate income. The Enterprises' retained portfolios, however, also exposed them to significant credit, asset liquidity, and interest rate risks.

During conservatorship, each Enterprise has been required to reduce the overall size of its retained portfolio and to limit its ongoing use of the portfolio to support core activities of its single-family and multifamily businesses. For example, each Enterprise's single-family business aggregates loans purchased for cash from smaller sellers and purchases non-performing loans (NPLs) out of MBS to make investors whole and facilitate loss mitigation options that both reduce losses to the Enterprises and benefit borrowers.

The *2018 Scorecard* called for the Enterprises to continue implementing FHFA-approved plans to reduce their retained portfolios. Implementing those plans shifts credit, asset liquidity, and interest rate risks from the Enterprises to private investors. Each Enterprise's plan requires it to prioritize selling its less-liquid assets, such as non-agency securities, in a commercially reasonable manner, consistent with neighborhood stabilization. Each plan also requires that the Enterprise meet the annual cap imposed by the Senior Preferred Stock Purchase Agreement (PSPA) between the Enterprise and the Department of the Treasury, even under adverse conditions such as rising interest rates or falling house prices. The PSPA cap applicable on December 31, 2018 was $250 billion. To ensure that the PSPA cap is met even under such adverse conditions, FHFA requires each Enterprise to provide a buffer by meeting a cap that is 10 percent below the PSPA cap.

In accordance with each Enterprise's 2018 retained portfolio plan, which were approved by FHFA in February 2018, the Enterprises made significant progress in reducing their retained portfolios during 2018. At year-end, each Enterprise's retained portfolio was below the year-end 2018 PSPA cap of $250 billion and below FHFA's requirement of $225 billion by December 31, 2018. As of December 31, 2018, Freddie Mac's portfolio was approximately $218 billion, and Fannie Mae's was approximately $179 billion, a reduction in their combined portfolios of $87 billion in 2018.

A number of activities contributed to the reduction in each Enterprise's retained portfolio in 2018. Most of the reduction at each Enterprise resulted from voluntary and involuntary prepayments. Liquidations, which include both prepayments and normal amortization of mortgage assets, totaled $35.2 billion at Freddie Mac and $29.2 billion at Fannie Mae. In addition, each Enterprise transferred risk to private investors through the sale of less-liquid

assets — about $13 billion by Freddie Mac and about $24 billion by Fannie Mae. For both Enterprises, the less-liquid assets sold through auctions were predominantly private-label securities, re-performing loans (RPLs), and non-performing loans. Both Enterprises also securitized a significant amount of re-performing loans and sold those securities into the market.

With respect to diversity and inclusion, the Enterprises continued efforts to work with MWDOBs. Despite a decline in its retained portfolio and funding needs, in 2018 Freddie Mac continued to expand its engagement with MWDOBs. In 2018, Freddie Mac used an MWDOB as a co-lead underwriter on a debt issuance indexed to the Secured Overnight Financing Rate or SOFR. Freddie Mac also included MWDOBs as underwriters or advisors on 100 percent of its NPL and RPL deals during 2018 and began, for the first time, using MWDOB firms to perform post-settlement services related to NPL and RPL transactions. Fannie Mae engaged an MWDOB as an advisor to work on non-performing loan sales. Fannie Mae also offered a "Best Bid" feature as directed by FHFA that increased the participation of MWDOB firms and non-profits in bidding on Community Impact Pools, which consist of smaller pools of non-performing loans designed to attract diverse participation by non-profits, small investors, and MWDOBs.

IV. Private Mortgage Insurer Eligibility Requirements (PMIERs) 2.0

In 2015, the Enterprises issued revised PMIERs for mortgage insurers (MIs) that are Enterprise counterparties. Those requirements set the criteria and terms an MI must meet to insure loans that are eligible for purchase by the Enterprises. PMIERs established financial standards that require MIs to demonstrate adequate resources to pay claims and operational standards relating to quality control processes and performance metrics. Noncompliance with the requirements or material deviations from the performance expectations trigger remediation.

The *2017 and 2018 Scorecards* required the Enterprises to evaluate PMIERs to determine whether changes or updates were appropriate. The Enterprises, under the oversight of FHFA, worked collaboratively throughout 2017 to review PMIERs, identify areas for enhancement, and analyze proposed changes. The Enterprises and FHFA solicited feedback on the proposed changes from MIs and state insurance regulators in late 2017. During 2018, the Enterprises incorporated feedback from the MIs, made additional refinements, and, after another round of MI company feedback, published PMIERs 2.0 on September 27, 2018.

PMIERS 2.0 incorporates changes that were previously announced through guidance documents, clarifies the operational requirements, and enhances the financial requirements. The clarifications to the operational requirements focus on quality control, underwriting, consistency with master policies, and the timeliness of payouts on claims. The enhancements to the financial requirements principally include refinements to the definition of allowable assets for meeting the

financial requirements and strengthening the requirements mitigating counterparty risk posed to the MIs by reinsurers.

Build

The third and final strategic goal of the *2014 Conservatorship Strategic Plan* calls for building a new infrastructure for the securitization functions of the Enterprises that is adaptable for use by other market participants in the future. The *2018 Scorecard* continued to prioritize work by the Enterprises and Common Securitization Solutions, LLC (CSS) to develop the Common Securitization Platform (CSP) and a common, Enterprise MBS. The *2018 Scorecard* also required continued work to support the standardization of mortgage data. This section reviews progress on those initiatives in 2018.

I. Single Security Initiative and Common Securitization Platform

The CSP and Single Security Initiative (SSI) are significant, multiyear, interrelated projects that remain ongoing priorities of FHFA during conservatorship of the Enterprises. The Enterprises will use the CSP as the operational and technical platform through which they will issue and administer a common, single MBS, to be known as the Uniform Mortgage-Backed Security or UMBS. The *2018 Scorecard* called for the Enterprises and CSS, the joint venture Fannie Mae and Freddie Mac established to develop and administer the CSP, to continue working with FHFA and each other to build and test the CSP. The *2018 Scorecard* also called for the Enterprises to implement the changes necessary to integrate their systems and operations with the CSP, and to fully implement the SSI on the CSP in 2019. In addition, the *2018 Scorecard* calls for the Enterprises and CSS to continue to work together to obtain and use input from the SSI/CSP Industry Advisory Group.

CSP Developments. With the implementation of Release 1 of the CSP on November 21, 2016, Freddie Mac transferred to CSS operational responsibilities for the monthly issuance and settlement of its single-class MBS backed by 15-, 20-, and 30-year fixed-rate loans and for the computation of the monthly pool and bond factors[12] for Freddie Mac's Participation Certificates (PCs) and Giant PCs (Giants). Since that implementation, Freddie Mac has used the CSP for monthly issuance and settlement of approximately 1,100 new securities representing about $57

[12] Release of pool and bond factors to the market enables investors to calculate the principal and interest payments they expect to receive on mortgage securities they own. The pool factor for an MBS or PC is a fraction equal to the current outstanding security-level principal balance divided by the original security-level principal balance. The bond factor for a resecuritization is comparable to the pool factor for an MBS or PC except that the remaining security-level principal balance used to calculate a bond factor reflects the cumulative distribution of the underlying securities, not the underlying mortgage loans.

billion in UPB, and for monthly bond administration functions related to 257,000 securities backed by approximately 10 million loans with approximately $1.7 trillion in UPB.

During 2018, the Enterprises and CSS completed several testing phases, including system-to-system, joint end-to-end, and tri-party end-to-end testing for Release 2 of the CSP. Testing with third-party providers and partners such as the Federal Reserve Bank of New York will continue into 2019. Testing with vendors that use and distribute securities disclosure data is also underway.

On September 24, 2018, Freddie Mac and CSS migrated Freddie Mac's production processing for single-class MBS (that is, PCs and Giants) from Release 1 to the relevant Release 2 code, confirming that the relevant Release 2 modules are production-ready for single-class securities.

The Enterprises and CSS converted the data for approximately 1,000,000 securities to CSS and the parties began parallel processing on November 28, 2018. Parallel processing is the final phase of testing prior to production. During parallel processing, all functions performed to issue and administer the new UMBS and administer all existing securities are executed in unison with the Enterprises.

With deployment of Release 2 in June 2019, Fannie Mae and Freddie Mac will both use CSP for issuance and monthly processing of single-class UMBS backed by fixed-rate loans, single-class resecuritizations of UMBS (to be known as Supers), multiclass securities such as REMICs, and various functions that will differ by Enterprise for securities that are backed by adjustable-rate loans. Release 2 modules include Data Acceptance, Issuance Support, Bond Administration with Tax Calculations, and Disclosure.

FHFA, the Enterprises, and CSS remain highly confident that all CSP development, testing and implementation activities will be ready for the planned UMBS implementation date of June 3, 2019.

Diversity and Inclusion at CSS. During 2018, CSS put in place a firm foundation for its diversity and inclusion program by establishing its Office of Minority and Women Inclusion. In addition to a number of initiatives, such as procurement diversity and data development, CSS benchmarked its diverse workforce against technology peers and developed a three-year Diversity and Inclusion Strategic Plan.

Industry Outreach and Other Readiness Activities. Throughout 2018, the Enterprises and FHFA have engaged in activities to facilitate market readiness, which requires planning, investment, and preparation on the part of a wide variety of market participants,

including MBS investors, dealers, seller/servicers,[13] vendors, and providers of critical infrastructure. A smooth transition also requires market participants to have clarity about how certain regulations will apply in the new environment.

The Enterprises' activities have included market readiness surveys, tabletop exercise planning and execution sessions for industry participants, investor outreach (including foreign investors), and vendor-oriented webinars. The Enterprises also continued to participate in industry forums and conferences, webinars, conference calls, meetings with individual firms, and consultations with advisory and industry-sponsored working groups.

In conjunction with these outreach activities, the Enterprises have developed a variety of materials related to SSI implementation and published them on Enterprise or FHFA websites.[14] Materials added this year have included video clips from the May Single Security Conference, vendor SSI-readiness timelines, and a monthly SSI newsletter that the Enterprises started publishing in March and which had a subscriber base of 2,200 recipients as of October 2018.

The Enterprises have also been working closely with many of the providers of critical market infrastructures and services,[15] all of which have reported to the Enterprises that they have developed plans for SSI implementation, are well under way in the process of building out their systems, and expect to be ready for the June 2019 SSI implementation.

The *December 2017 Update* enumerated regulatory issues associated with the SSI that remained to be resolved, including the accounting and tax treatment of the Freddie Mac exchange and regulatory limits on the concentration of exposures to a single issuer. The Internal Revenue

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[13] A seller/servicer is an institution approved to sell mortgages to and/or service mortgages purchased by an Enterprise. The term "seller" refers to a seller/servicer acting in its capacity as a seller of mortgages, and the term "servicer" refers to a seller/servicer acting in its capacity as a servicer of mortgages. A seller may sell mortgages it originated itself or mortgages it purchased from other originators. A servicer may service the mortgages it sold to an Enterprise or other mortgages sold to the Enterprise by other sellers.
[14] CSP and SSI information posted by Freddie Mac may be found at ***http://www.freddiemac.com/mbs/html/single_security_csp.html***, by Fannie Mae at ***http://www.fanniemae.com/portal/funding-the-market/single-security/index.html***, and by FHFA at ***https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Securitization-Infrastructure.aspx***.
[15] Critical market infrastructures include the Fixed Income Clearing Corporation (FICC), which nets and clears trades in Enterprise MBS, and the Federal Reserve Bank of New York, which acts as the Enterprises' fiscal agent. Critical services include those provided by the major trading platforms and the large custodian banks. Other firms provide critical support to market participants or market functions through pool identification, valuation, CUSIP allocation, and MBS index computation services, as well as data and analytics. In addition, rule changes related to the TBA market are determined by Securities Industry and Financial Markets Association (SIFMA) through its *Good Delivery Guidelines* for Enterprise TBA contracts.

Service and the Securities and Exchange Commission have, respectively, provided guidance on these issues.[16]

Progress is also being made to resolve other issues. On March 7, 2019, SIFMA announced changes to their *Good Delivery Guidelines*[17] to allow UMBS or Supers issued by either Fannie Mae or Freddie Mac to trade without the issuer being identified in the trade confirmation that is executed on the relevant trade date. Two days before settlement (known as "48-hour day"), the seller will notify the buyer of the specific securities to be delivered (or whether securities issued by both Enterprises will be delivered). That notification would be incorporated into the current TBA market practice of sellers notifying buyers of the exact securities they will receive on 48-hour day.

Another issue of interest to market participants has been the stance of the Federal Reserve System vis-à-vis the SSI. The Federal Reserve is the largest single holder of Enterprise TBA-eligible MBS, which reside in the System Open Market Account (SOMA). The Open Market Desk at the Federal Reserve Bank of New York is responsible for conducting open market operations to achieve monetary policy objectives as set by the Federal Open Market Committee. The minutes for the July/August 2018 meeting of that committee indicated that the Open Market Desk "planned to develop the capability to conduct UMBS transactions and, to more efficiently manage the portfolio, convert some portion of the SOMA's existing agency MBS holdings to UMBS where appropriate."

Another important aspect of market readiness is the ability to exchange Freddie Mac's legacy TBA-eligible securities — PCs and Giants — for "mirror" 55-day UMBS and Supers,[18] which will be backed by the same loans as the existing securities. Because PCs and Giants currently pay investors on the 45th day after interest starts to accrue for the payment period and UMBS and Supers will pay on the 55th day, the exchange offer will include compensation for the ten-day delay in receipt of payments to investors.

Freddie Mac has announced that it will offer two paths for current owners of its legacy securities to conduct an exchange.[19] Freddie Mac is calling the first path Dealer-facilitated Exchange and the second path Direct-to-Freddie Mac Exchange via TradeWeb. As the names imply, a primary

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[16] See ***SEC letter***, ***IRS guidance***, and ***IRS Revenue Procedure 2018-54***.
[17] See ***Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities,*** Chapter 8, "***Standard Requirements for Delivery on Settlements of UMBS and Ginnie Mae Securities***."
[18] Freddie Mac will also offer investors the opportunity to exchange non-TBA-eligible 45-day PCs and Giants for 55-day MBS and Giants. Technically, in the exchange of TBA-eligible securities, investors will receive Supers, which are second-level resecuritizations of UMBS. Supers and UMBS will trade under the same TBA contracts just as Freddie Mac PCs and Giants or Fannie Mae MBS and Megas do today.
[19] See "***Freddie Mac will provide two paths for exchange of Gold PCs into new UMBS.***"

distinction between these paths is whether a Freddie Mac-approved Dealer acts as an agent for the investor to facilitate the exchange with Freddie Mac. Freddie Mac initially developed Dealer-facilitated Exchange and added the second exchange path in response to concerns raised by market participants, particularly large investors and custodians. To prepare for exchange, Freddie Mac began creating mirror securities in August 2018. Freddie Mac intends to make the exchange available starting in May 2019.

Alignment Activities. FHFA and the Enterprises have worked together to develop processes to identify and align those Enterprise programs, policies, and practices that could materially affect prepayment speeds of UMBS issued by Fannie Mae and Freddie Mac. During 2018, FHFA started publishing quarterly ***Prepayment Monitoring Reports*** to provide transparency to market participants about the *ex post* alignment of Enterprise prepayment speeds. On September 12, 2018, FHFA published a ***Proposed Rule*** to codify alignment requirements under FHFA's general regulatory authority to ensure that the Enterprises meet the public policy purposes enumerated in their charters. The rulemaking is intended to provide confidence to market participants that the close alignment of prepayment speeds on the Enterprises' TBA-eligible securities will endure post-conservatorship. On February 28, 2019, FHFA issued a ***Final Rule***, which modified the proposed rule in response to public comments by refining alignment requirements and making explicit the potential consequences to the Enterprises for misalignment. The preamble to the final rule also notes that FHFA has instructed the Enterprises to lower the maximum mortgage note rate eligible for inclusion in an MBS. The final rule becomes effective on May 6, 2019 and applies to both the Enterprises' current offerings of TBA-eligible MBS and to the new UMBS to be implemented in June 2019.

Based on all of these preparedness activities, FHFA and the Enterprises are highly confident that UMBS will be launched on June 3, 2019 as planned.

II. Mortgage Data Standardization

The Uniform Mortgage Data Program is a multifaceted technology strategy first announced in May 2010 with the goal of standardizing data throughout the mortgage industry to improve lender efficiency, loan quality, and mortgage credit risk management. In 2018, the Enterprises continued collaborating with the mortgage industry to develop and implement uniform data standards for single-family mortgage loans. This effort included the electronic collection of the Uniform Closing Disclosure Dataset (UCD), continuing implementation of the redesigned Uniform Residential Loan Application (URLA), and new specifications for each Enterprises' Automated Underwriting System (AUS). In addition, the Enterprises assessed and, as appropriate, began to implement strategies to redesign the Uniform Appraisal Dataset (UAD) and appraisal forms.

Uniform Closing Dataset. The Enterprises have been developing the UCD since 2012 when CFPB published a proposed rule providing for Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA). The UCD allows firms in the mortgage industry to communicate information on the CFPB's Closing Disclosure electronically, which will help the industry improve data quality and reduce errors and conflicts related to mortgage underwriting.

The Enterprises began accepting electronic delivery of the Borrower Closing Disclosure from lenders delivering loans dated on or after September 25, 2017. As of June 25, 2018, the Enterprises mandated that both data and the Borrower Closing Disclosure be submitted electronically at loan delivery. Also in June, the Enterprises updated the UCD requirements for seller data to address industry concerns by limiting the seller data contained only on the Borrower Closing Disclosure. The Enterprises set an effective date of June 24, 2019 for the mandatory electronic delivery of the Seller data. The Enterprises also published information on how the TILA/RESPA Integrated Disclosure (TRID) rule that became mandatory on October 1, 2018 would affect the UCD. Both Enterprises published the updated UCD Delivery Specification and supporting documents in December 2018 to support the Seller data and TRID changes.

Uniform Residential Loan Application and the Uniform Loan Application Dataset. After announcing updates to the URLA in December 2015, the Enterprises published implementation timelines, the redesigned URLA form, and the Uniform Loan Application Dataset (ULAD) specifications at the end of 2017. To operationalize these changes, the Enterprises worked together and developed new specifications for their automated underwriting systems. The major focus during 2018 was providing the support needed for the mortgage industry to be ready to test new AUS specifications beginning January 2019. Use of the redesigned URLA form begins on a voluntary, as able, basis in July 2019. The Enterprises established a joint advisory group in July 2018 to address mapping and implementation issues related to the redesigned URLA and ULAD. The advisory group includes lenders, vendors, and document providers. To assist lenders, vendors, and document providers in adapting to the new specifications, the Enterprises published updates providing new and updated sample forms, AUS specifications, and detailed implementation guidance. The Enterprises also provided webinars that highlight key differences between the old and new URLA sections, and eLearning on how to implement the new AUS specifications.

Uniform Appraisal Dataset. The UAD was initially implemented in 2011, introducing the first-ever standardization and common requirement for appraisal data. In May 2018, the Enterprises announced a multi-year initiative to redesign and update UAD and residential appraisal forms. The redesign aims to align the appraisal dataset with the industry-standard

Mortgage Industry Standards Maintenance Organization (MISMO) Reference Model. Additionally, the initiative seeks to explore options and make recommendations regarding changes to the UAD and appraisal forms to support emerging technologies, data updates, and appraisal process modernization.

During 2018, the Enterprises conducted extensive outreach to understand stakeholder concerns and solicit suggestions for data elements and forms. To ensure a comprehensive appraisal forms dataset, the Enterprises began mapping all appraisal forms not included in the original 2011 UAD to the MISMO Reference Model. In 2019, continuing industry outreach will help identify a comprehensive dataset around which to build an updated appraisal specification and reports.

Conclusion

This *Progress Report* describes the major activities undertaken by Fannie Mae and Freddie Mac in 2018 to achieve the goals set forth in FHFA's *2014 Conservatorship Strategic Plan* and *2018 Scorecard*. FHFA welcomes public input on this *Progress Report*. Feedback can be ***submitted electronically*** via FHFA.gov, or to the Federal Housing Finance Agency, Office of Strategic Initiatives, 400 7th Street, S.W., Washington, DC 20219. All pertinent submissions received will be made public and posted to FHFA's website.