FannieMae

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Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Attention: Comments/RIN 2590-AA25

RE: 2009 Enterprise Transition Affordable Housing Goals

Dear Mr. Pollard:

Fannie Mae appreciates the opportunity to comment on the proposed rule of the Federal Housing Finance Agency ("FHFA") that sets forth adjustments to the housing goals levels applicable to Fannie Mae and Freddie Mac (the "GSEs" and each a "GSE") for the calendar year 2009. Fannie Mae supports the efforts of FHFA to set the goals at levels that more accurately reflect current market conditions, and recognizes the difficulty of setting appropriate levels in an ever-changing market.

Fannie Mae takes seriously its mission to ensure liquidity, affordability and stability in the secondary mortgage market, and in particular to provide affordable and sustainable mortgage finance to low- and moderate-income families. In connection with this mission, Fannie Mae's highest priority for 2009 is to support the efforts of the Obama Administration to preserve homeownership, prevent foreclosures, and promote recovery of the housing market. Fannie Mae is concerned, however, that the proposed goal levels may be higher than current economic conditions support and may ultimately prove to be infeasible.

Fannie Mae believes that the proposed goal levels are too high for several reasons: the 2009 market will not originate a sufficient share of goal-qualifying loans that would be acceptable for purchase; market leadership, as traditionally defined by the U.S. Department of Housing and Urban Development ("HUD"), is not, for 2009, a relevant gauge to measure the participation of the GSEs in the secondary market for affordable mortgages; and the company's analysis of modifications generally reveals that, at current volumes, modified mortgages contribute only marginally to housing goals performance.

I. Estimating 2009 Market Size

There are four primary drivers in estimating the market size for a particular year: single-family market volumes, multifamily market volumes, refinance share of the market, and investor share of the market.

1. Single-Family and Multifamily Volumes

The greater the single-family business volume, which is generally made up of fewer goals-qualifying loans, the more multifamily volume is necessary to achieve the goals.
As discussed in further detail below, Fannie Mae's estimate of the conventional conforming single-family market volume for 2009 is approximately 40% larger than FHFA's estimate, $2 trillion and $1.4 trillion, respectively. Fannie Mae also estimates a substantially smaller multifamily market than FHFA. FHFA projected that the multifamily market would be as much as $65 billion for 2009, more than double Fannie Mae's estimate. It is crucial that market estimates balance these market volumes appropriately for the goals to be attainable. Fannie Mae's year-to-date performance supports the company's projections for 2009.

2. Refinance Levels

Fannie Mae agrees with FHFA that a high level of refinance loans in the market makes goals attainment more difficult for the GSEs, because refinances meet the goals criteria at lower rates than purchase mortgages. Moreover, as the refinance market grows in proportion to the purchase mortgage market, the goals richness of the single-family market overall is diluted, which creates additional pressure for the multifamily market to make up the difference. These trends have been especially prominent in 2009 and are expected to have a significant impact on goals performance.

The refinance volume Fannie Mae observed through the first quarter of 2009 caused an unusually sharp decline in the richness of the single-family market. For purposes of comparison, Fannie Mae estimated the gap between low- and moderate-income purchase money mortgage and refinance richness in 2008 to be approximately 2%. That gap widened to approximately 13% in the first quarter of 2009. As refinances increase through the year, the gap could continue to widen, putting additional downward pressure on goals performance.

Additionally, high refinance volumes, which have inflated the share of the single-family market that does not meet the goals, have decreased the goals-eligible multifamily share of business, making goals attainment even more problematic. Fannie Mae missed the low- and moderate-income housing goal in 2008 by nearly 2.5% with a multifamily share that was more than twice Fannie Mae's current multifamily share. Moreover, Fannie Mae anticipates that multifamily share will continue to decrease in 2009. While FHFA has recognized that high refinance volumes are likely to weaken Fannie Mae's ability to meet the goals, Fannie Mae's refinance estimates are even higher than those published by FHFA. Accordingly, Fannie Mae supports FHFA's position that a high refinance share should be considered as part of any feasibility determination.

3. Investor Share

A low single-family investor share also has an adverse impact on single-family richness. Investor units, which typically are attractive to lower-income renters, meet the goals in higher proportions than owner-occupied units. When the investor share declines, as has happened in 2009, investor loans are unable to offset the proportion of ineligible owner-occupied mortgages that are depressing the housing goals scores.

4. Market Sizing Methodology

Fannie Mae's analysis of these four drivers is based on Fannie Mae's observations of the current market and the company's year-to-date performance, rather than on the historical performance data and studies referenced in the proposed rule.

Comparing 2009 with earlier periods is problematic because there are many factors now impacting the market that create an entirely different foundation upon which to base market estimates, including credit availability, housing prices, asset based lending, and employment. Even more significant, however, is the intervention of the federal government in the housing market. The commitment of the Federal Reserve Board to purchase up to $1.25 trillion of mortgage-backed securities ("MBS") caused an immediate decline in MBS yields, and thus a decrease in mortgage interest rates. Similarly, the multiple recently instituted mortgage programs, as well as a bill moving through Congress (the Mortgage Reform and Anti-Predatory Lending Act), are likely already influencing lender and consumer behavior and affecting mortgage originations. The impact of these kinds of influences on the market, as compared to prior periods, is impossible to predict. As a result, the risk that market estimates based on historical data will not hold true is substantial.

Fannie Mae believes that its use of more recent data provides a clearer view of market conditions and is a better gauge to project performance for 2009. Fannie Mae has adopted this practice in other areas of the company as well, including the recently reported loss reserves. Traditionally, default rate estimates have been based on historical data dating back to 1980. Loans originated in 2006 and 2007 have a much different default profile, and therefore the company applied a default loss curve based on a one-quarter "look back" period to more accurately estimate default rates for these loans. The current stress on the housing and credit markets, which is virtually unprecedented, makes it especially ineffective to apply historical performance data to existing conditions.

The need to look at current market data is especially critical in evaluating the size of the multifamily market. The multifamily market is currently under unusual pressure that will continue to depress the market throughout 2009. Distressed property offerings have increased and levels of construction underway are high, at the same time that a lack of investors and high vacancy rates are weakening the market. Average vacancy rates are expected to reach 8% or more in 2009 and negative rent growth is expected to be at least 2% in most distressed markets. Large states, including Florida, California, Arizona and Nevada, continue to work through excess single-family inventory, including condominiums. These factors, affecting both the supply of and the demand for multifamily housing, are having an unprecedented impact on the multifamily mortgage market. Fannie Mae recently announced that it had financed $3.8 billion of multifamily loans during the first quarter of 2009. Based on Fannie Mae's and Freddie Mac's purchases during the first quarter, and assuming that those numbers remain steady for the remainder of the year, multifamily market volume will be close to $30 billion.

In February 2009, Fannie Mae estimated the size of the total single-family market to be $2.0 trillion. However, Fannie Mae's estimates of the size of the total single-family market have continued to increase, and its estimates of the richness of the market have decreased, as the year has progressed. This volatility in the single-family market gives added emphasis to the estimates of multifamily market volume.

The share of owner-occupied single-family mortgages also continued to increase as a percentage of total units financed, primarily because of increasing refinance activity. FHFA estimated refinance share for 2009 at 59%. FHFA recognized, however, that the refinance market is "very volatile . . . and thus difficult to predict." Moreover, FHFA noted that the Mortgage Bankers Association ("MBA"), Fannie Mae and Freddie Mac increased their predictions of the 2009 refinance share from February to March 2009, and the MBA data showed the largest increase. Forecasts prepared by both the MBA and Fannie Mae estimated the refinance share at 69%[1] and Freddie Mac estimated the refinance share at 67%.

While a 59% refinance share indicates a "high refinance environment," Fannie Mae does not believe that it is a sufficient indicator of the refinance activity expected for this year. Monetary policy and economic conditions have led to much higher than normal refinance levels. For example, the decision of the Federal Reserve Board to move to a regime of unconventional monetary policy to stimulate the economy has led to volatile long term interest rates and spreads for credit products, particularly MBS. Moreover, the Federal Reserve Board's decision to go to a near-zero target for the overnight rate late last year has caused the yield on 10-year Treasury notes to rise by over 100 basis points, at the same time that the spread on 30-year Fannie Mae conventional fixed rate mortgage yields over the 10-year Treasury notes has shrunk dramatically. The actions by the Federal Reserve Board have spurred refinance rates, contributing to refinance levels that are considerably higher than normal. Fannie Mae's business has clearly been impacted by these actions, as the company's refinancing volume jumped to $77 billion in March, nearly twice the refinancing volume that the company experienced during the month of February and the company's largest refinance month since 2003.[2]

Fannie Mae also believes that investor share levels will be low in 2009. Fannie Mae estimated investor share by examining actual performance during the first quarter of 2009 and carrying forward assumptions regarding single-family volume and richness.

The importance of evaluating these market drivers appropriately becomes even more evident when reviewing the subgoal levels. Because multifamily mortgages, refinances, and investor share do not impact the subgoals, Fannie Mae's performance to date on the subgoals is much

[1] Fannie Mae's most recent estimate of the refinance share is 72%.
[2] http://www.fanniemae.com/newsreleases/2009/4666.jhtml;jsessionid=DNH1P15B2N1B3J2FQSHSFGQ?p=Media&s=News+Releases.

closer to FHFA's proposed subgoal levels than is the company's performance on the goals, and Fannie Mae's market sizing estimates largely fall within the ranges estimated by FHFA.

II. Market Leadership

HUD traditionally determined market leadership by comparing the percentage of goal qualifying mortgages purchased by a GSE with the percentage of goal qualifying mortgages produced by the primary market. To the extent that Fannie Mae's purchases exceeded the market percent, Fannie Mae was leading the market.

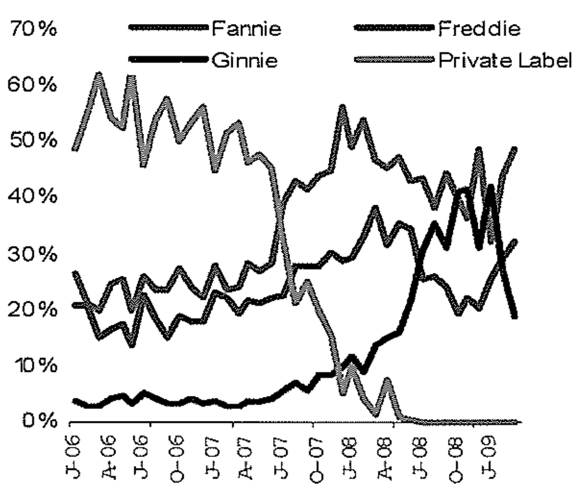
In the current market, this comparison does not accurately reflect the performance of the GSEs. As other investors have left the market, Fannie Mae, Freddie Mac, and the Federal Housing Administration/Veterans Administration ("FHA/VA") have become the dominant investors. Moreover, while the FHA/VA share has increased dramatically over the past two years, the GSEs represent at least two-thirds of the secondary market purchases.

From 1997 to 2003, the GSEs' share of mortgage originations reached almost 55%. Private investors began to play a larger role in the market during the 2004 to 2006 time period, and the GSEs' share fell below 35%. As private investors began to leave the market the GSE's share grew again, to 73% in 2008. The FHA/VA share was 3% in 2006, 20% for 2008 and 35% in the fourth quarter of 2008.[3]

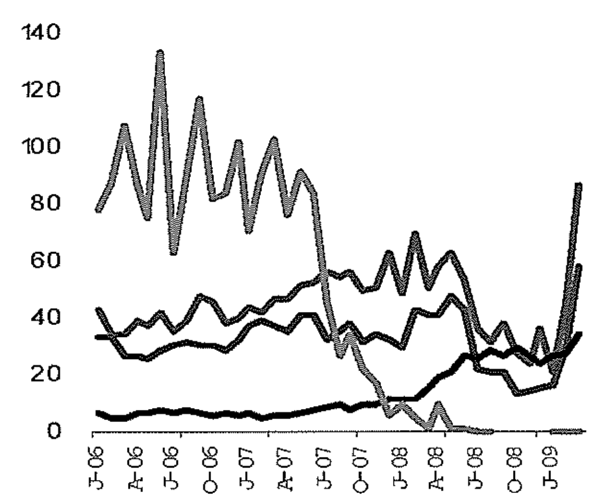
The charts below illustrate the relative positions of the GSEs, the FHA/VA (represented by Ginnie Mae issuances) and the private label market in single-family MBS issuances.

Single-family Mortgage-Related Securities Issuance

Issuance Share %



Issuance $ BN



[3] J. Lockhart, Women in Housing and Finance Symposium, Meeting the Challenges of the Financial Crises (Mar. 18, 2009).

While the GSEs continue to surpass government and private issuances, the continued presence of the GSEs in the markets is a more powerful indicator of leadership than a comparison with the primary market.

III. Impact of Mortgage Modifications

Given Fannie Mae's economic position and the numerous demands on the company's resources, Fannie Mae appreciates that FHFA has recognized that the company's assistance to the Making Home Affordable Program should be encouraged and acknowledged. Fannie Mae agrees with FHFA that mortgages modified in accordance with the HAMP will benefit very low-, low- and moderate-income homeowners, and will assist with the nationwide economic recovery.

To ascertain the expected impact of including HAMP modifications in the housing goals calculation, Fannie Mae evaluated all loans modified during the period January 2008 through February 2009 and estimated that over 80% of modifications met the low- and moderate-income goal and more than 43% met the special affordable goal.[4] Even with the high levels of modifications expected as a result of the HAMP, however, modifications make up a small fraction of Fannie Mae's single-family owner-occupied mortgage purchases. Moreover, because the HAMP has not fully matured, the number of loans modified under the HAMP so far has been small when compared to Fannie Mae's total mortgage volume. While the program will continue to grow, Fannie Mae does not expect to see HAMP modifications add measurably to Fannie Mae's housing goals performance in 2009.

IV. Other Issues

Fannie Mae requests that the FHFA clarify certain technical issues related to the treatment of jumbo conforming loans and mortgage modifications.

1. Exclusion of Jumbo Conforming Loans

Fannie Mae supports FHFA's determination to exclude jumbo conforming loans from the housing goals calculation.[5] While Fannie Mae acknowledges the benefits that higher loan limits can bring to high-cost areas of the country, the purpose of the goals is to encourage the GSEs to serve families in lower-income categories and underserved areas. Fannie Mae has found that jumbo conforming loans purchased year-to-date assisted middle-income purchasers in larger

[4] Modifications were not included in housing goals performance for 2008 because HUD's regulations do not currently treat them as mortgage purchases.

[5] Fannie Mae's conforming loan limits for 2008 were $417,000 for a one-unit, single-family property and $625,500 for a one-unit, single-family property in Alaska, Guam, Hawaii and the Virgin Islands. The limits were correspondingly higher for multiple-unit properties. The Economic Stimulus Act of 2008 (the "Stimulus Act") provided a temporary increase in the balance of mortgages that could be purchased by the GSEs through December 31, 2008. This temporary increase was extended by the American Recovery and Reinvestment Act of 2009. HERA retained the nationwide conforming loan limit at $417,000 for 2009 for a one-unit, single-family property. HERA also created a new permanent increase in the permissible balances for mortgages in high cost areas. Because HERA retained the existing nationwide conforming loan limit, Fannie Mae will not include in housing goals performance any mortgages purchased pursuant to HERA or the American Recovery and Reinvestment Act of 2009 that exceed $417,000 ($625,500 in Hawaii, Alaska, Guam and the Virgin Islands) for one-unit properties, or the correspondingly higher amounts for properties with 2 to 4 units.

proportions than very low-, low- and moderate-income purchasers. Accordingly, it is appropriate that jumbo conforming loans not contribute to housing goals performance.

Similarly, because the higher loan limits promote liquidity in high cost areas, and because Congress clearly sought to have the GSEs bring additional stability and affordability to these areas, it is appropriate that FHFA not provide a disincentive for the GSEs to purchase these mortgages. Fannie Mae therefore requests that FHFA clarify that, while jumbo conforming loans will not add to Fannie Mae's performance, neither will they be treated as non-qualifying mortgage purchases. Rather, the jumbo conforming loans should be excluded entirely from the housing goals calculation.

2. *Technical Clarifications Related to Modified Loans*

The proposed rule requested comment on whether mortgage modifications in addition to HAMP modifications should be included in the housing goals calculation. The proposed rule noted specifically that the HAMP modifications were substantially equivalent to a mortgage purchase because they prevented default and foreclosure. This is also true of other types of mortgage modifications. Fannie Mae suggests that the same housing goals treatment is justifiable for any mortgage modification since these transactions are intended to make the new mortgage more affordable. However, the inclusion of other modifications is not expected to have a significant impact on the company's housing goals performance.

Fannie Mae also suggests that the proposed rule provide some additional detail on the treatment of HAMP modifications under the housing goals regulations. Fannie Mae intends to treat HAMP modifications as new mortgage purchases, and, to the extent possible, evaluate the affordability of the financed units using data current as of the date of modification. As a result, the units may score differently than they did at mortgage origination. Similarly, as a new mortgage purchase, Fannie Mae intends to evaluate the unpaid principal balance of the modification on the date of the modification. Accordingly, a loan that meets the nationwide conforming loan limits on the date of modification will be included in the housing goals calculation regardless of whether the original unpaid principal balance would have qualified. Fannie Mae suggests that, if another treatment is anticipated, FHFA should set forth that treatment in the regulations.

Fannie Mae intends to treat modified loans with missing data in the same manner that it treats new mortgage purchases with missing data. However, under the proposed rule, owner-occupied units with missing data that exceed the regulatory maximum and units for which estimation information is not available will be included in the denominator of the housing goals calculation and count against housing goals performance. Fannie Mae requests that FHFA exclude modifications with missing data from the housing goals calculation.

HAMP modifications have a three-month trial period. If the modification is initiated near year-end, the modification may not be legally effective in the year of initiation. Fannie Mae requests that FHFA clarify that modifications should be treated as mortgage purchases as of the date the trial period begins.

Conclusion

Fannie Mae appreciates the efforts of the FHFA to develop appropriate housing goals for 2009, and FHFA's willingness to recognize that market conditions may cause even the revised housing goals to be infeasible for 2009. FHFA mentioned, in particular, the impact of the refinance volume. In addition, Fannie Mae expects the contraction of the multifamily market, traditionally a major source of goals-qualifying business, to have a substantial negative impact on goals performance in 2009. Fannie Mae will continue to closely monitor market conditions and apprise FHFA of pressures on goals performance as the year progresses.

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Please contact the undersigned at (202) 752-7144 should you have any questions or need additional information. Thank you for the opportunity to comment and for your consideration.

Sincerely,

Timothy J. Mayopoulos
Executive Vice President, General Counsel
and Corporate Secretary