
FEDERAL HOUSING FINANCE AGENCY



NEWS RELEASE

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FHFA Director James Lockhart Outlines Progress and Challenges on Agency's First Anniversary **Studies on G-Fees and FHLB Securitization Released**

Washington, D.C. - Federal Housing Finance Agency Director James B. Lockhart outlined FHFA's accomplishments and the challenges ahead for the nation's housing finance system during a program at the National Press Club. The event coincided with the first anniversary of the Housing and Economic Recovery Act of 2008 (HERA), signed into law one year ago on July 30, 2008.

"Our activities as an agency in the past year have more significance, require more coordination, and are watched more by outside parties than ever before," said Lockhart. "The last 12 months have been action-packed and have set us on the right path. We have accomplished a lot, but we have much more to do," said Lockhart.

Lockhart highlighted key accomplishments, which include administrative and supervisory milestones.

- FHFA has combined the personnel and financial systems of two separate organizations established an infrastructure for FHFA.
- FHFA is working effectively with the Enterprises as their conservator, even as we continue to oversee them as their regulator. The new boards of directors worked recently to refill CEO positions at both Fannie Mae and Freddie Mac.
- FHFA has been working with the 12 FHLBanks to develop a common accounting platform for their private-label MBS.
- FHFA staff were instrumental in working with the Treasury Department and the rest of the Obama Administration, the Enterprises, other regulators and the private sector to develop and implement the Homeowner Affordability and Stability Program, to address the problems of for eclosure prevention and people with "underwater" mortgages.

Also today, FHFA senior managers presented three reports that HERA requires the agency to produce in the first year, including a study of Enterprise gurantee fees and

one on FHLBank securitization. The Agency also published seven new regulations relating to the housing mission of the GSEs, including the final 2009 affordable housing goals and *A Notice of Proposed Rulemaking* on the “duty to serve” manufactured housing and other obligations set forth in HERA.

In addition to the studies and regulations, Director Lockhart reviewed the Agency’s four-pronged strategy to help stabilize the mortgage market. He outlined numerous challenges ahead for FHFA, Fannie Mae, Freddie Mac and the 12 FHLBanks.

- For the FHLBanks, managing capital prudently given some FHLBanks’ exposure to private-label MBS, finding the best way of providing System support for individual FHLBanks, and ensuring more consistency in financial disclosures and accounting are among the biggest challenges.
- For Fannie Mae and Freddie Mac, stabilizing the housing market through the Making Home Affordable Modification and Refinancing Programs is one of the biggest challenges they face. This will reduce the credit risk on their \$5.4 trillion mortgage exposure. Fannie Mae also has an important role as administrator of the program and Freddie Mac an equally critical role in program compliance.
- Other challenges include supporting housing affordability and the multifamily market and emerging from conservatorship.

Looking to the future, Lockhart emphasized the need to shift the regulatory framework for the GSEs toward countercyclical policies, particularly capital policies, that will help curb asset price bubbles and improve the odds that an institution can survive a crisis.

“We need new policies that strengthen the ability of financial institutions to withstand distress by encouraging or requiring them to build up capital reserves in good times instead of having to rebuild capital in bad times,” said Lockhart

Lockhart also discussed three possible future structures for the Enterprises when they emerge from conservatorship: government agency, improved GSE, or fully private firms.

“It is crucial that we get the restructuring done right for the U.S. and world economies and all present and future homeowners and renters,” said Lockhart. “The new structures must be designed to reduce risks rather than magnifying them, as they did in the past,” Lockhart said.

Link to speech at: <http://www.fhfa.gov/webfiles/14715/FHFA1stAnnSpeechandPPT73009.pdf>

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The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$6.3 trillion in funding for the U.S. mortgage markets and financial institutions.

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FACT SHEET

REPORTS

The Housing and Economic Recovery Act of 2008 (HERA) directed the Federal Housing Finance Agency (FHFA) to conduct studies on topics integral to the regulation of the housing GSEs. The following is a summary:

The ***Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2007 and 2008*** - Section 1601 of HERA required FHFA to conduct an ongoing study of the guarantee fees charged by Fannie Mae and Freddie Mac and to submit annual reports to Congress that analyze those fees and the criteria the Enterprises used to derive them. FHFA is releasing today the first such report, which covers guarantee fees charged by the Enterprises in 2007 and 2008. The report focuses on guarantee fees for conventional single-family mortgages—loans that are not insured or guaranteed by the federal government and that finance properties with four or fewer residential units. As required by HERA, the report analyzes how guarantee fees for those mortgages varied by product type, risk classifications, and seller delivery volume. Findings include: 1) Cross-subsidization in single-family guarantee fees charged by Fannie Mae and Freddie Mac was evident in 2007 and 2008 across product types, credit score categories, and loan-to-value (LTV) ratio categories; 2) the average estimated cost of single-family mortgages guaranteed in 2007 was significantly higher than the average estimated guarantee fee charged by the Enterprises, reflecting the general market underpricing of mortgage credit risk in that year; and 3) the Enterprises responded to deteriorating housing market conditions with guarantee fee pricing increases beginning in March 2008 and, despite those increases, gained market share as private competitors for single-family mortgage credit risk retreated from the market.

Report at: www.fhfa.gov/webfiles/14700/GFees72009.pdf

The ***Federal Home Loan Bank (FHLBank) Securitization Study*** – As required under Section 1215 of HERA, this study analyzes the benefits and risks of FHLBank securitization, the potential impact of securitization upon liquidity in the mortgage markets, the ability of the FHLBanks to manage the attendant risks, and the likely effects of such a program on the existing activities, joint and several liability, and cooperative structure of the FHLBank System. In conducting the study, the FHFA consulted with the FHLBanks, the FHLBanks' fiscal agent (the Office of Finance), representatives of the mortgage lending industry, practitioners in the structured finance field, and other experts. The study noted that considerable uncertainty surrounded the future of mortgage securitization in the United States at this time, including issues related to the future regulation of the mortgage and financial markets, which made it difficult to assess the merits of allowing the FHLBanks to securitize mortgages. The report recommends that FHLBanks not be allowed to securitize mortgages at this time but instead

continue to use programs such as *MPF Xtra* to serve as a conduit for mortgage purchases from their members to a third party that can securitize mortgages. It concluded that while FHLBank securitization could enable the FHLBanks to purchase a larger volume of conforming mortgages from members and increase the availability of mortgage credit, FHLBank securitization of mortgages would best be considered after government agencies have developed their recommendations concerning the future of the mortgage-related government sponsored enterprises based on market conditions that exist when that effort is completed.

Report at: www.fhfa.gov/webfiles/14699/SECURITIZATIONREPORTandTrans.pdf

The ***Study of FHLBank Advances and Interagency Guidance on Nontraditional Mortgages*** - Section 1217 of HERA requires the Director to conduct a study on the extent to which mortgage loans and securities used as collateral for FHLBank advances are consistent with the guidance promulgated by the federal banking agencies on nontraditional mortgage products. The Director is also required to consider any additional actions that may be necessary to ensure that the FHLBanks do not support mortgage loans with predatory characteristics, and to submit a report to Congress on the results of the study. Section 1217 also requires that the public have an opportunity to comment on any recommendations for further action.

Today, the Director delivered to Congress the study required by Section 1217 of HERA in the form of a Federal Register Notice that FHFA is concurrently sending for publication in the Federal Register. After considering comments received during a 60-day comment period, the Director will make any appropriate revisions and submit an updated version of the study to the Congress. The study identifies several advisory bulletins issued by the Federal Housing Finance Board, a predecessor agency to the FHFA, between 2005 and 2008 that provided guidance regarding nontraditional and subprime mortgage loans and anti-predatory lending, and notes that each FHLBank has adopted policies, procedures, and practices requiring that mortgage loans and securities used as collateral be consistent with the interagency guidance, as well as policies addressing anti-predatory lending. The study further notes that the FHFA assesses each FHLBank's compliance with this guidance, as well as the adequacy of its policies, through the supervisory process and will rely on that process in considering whether to adopt additional guidance governing the FHLBanks' acceptance of these types of collateral.

The ***Report on Federal Home Loan Bank Collateral Securing Advances*** – Section 1212 of HERA requires that the FHFA provide an annual report to Congress on the collateral pledged to the FHLBanks to secure advances made to their members and housing associates, including an analysis by type and FHLBank district. The report we are releasing today is the second that we are providing to Congress under the requirements of Section 1212. It is based on our 2009 annual collateral data survey, which collected information as of December 31, 2008. It is an update of the initial report that we provided to Congress on January 26, 2009, as of December 31, 2007. The annual collateral data survey provided the data cited in the HERA Section 1217 report. The Section 1212 report complements the Section 1217 report by providing additional background information and data on collateral securing advances at the FHLBanks.

The Report on FHLBank Collateral Securing Advances discusses the methods by which the FHLBanks accept collateral securing advances and the extent to which the FHLBanks use each method. It also discusses the composition of collateral – 60 percent of collateral is whole residential mortgage loans – and collateral-to-advances coverage ratios. The average collateral coverage ratio across the FHLBank System for members of all asset sizes was 160 percent at the end of 2008, an eight percentage point increase from the end of 2007. The report also provides information on the collateral securing advances over the past five years in the categories of whole residential mortgage loans, mortgage-backed securities, other securities, other real estate related collateral (ORERC), and community financial institution (CFI) collateral, and provides

detailed breakdowns of ORERC and CFI collateral by type and amount. The report covers topics of timely interest such as collateral coverage of advances to insurance companies and credit unions and provides additional information on subprime and nontraditional residential mortgage loans accepted as collateral for advances.

Report at: www.fhfa.gov/webfiles/14698/12121217HERA.pdf

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FACT SHEET

RULES AND NOTICES

Hyperlinks for each document provided below.

All can also be found on page at: <http://www.fhfa.gov/Default.aspx?Page=89>.

1. 2009 Enterprise Transition Affordable Housing Goals—Final Rule (12 CFR Part 1282)

Summary: After analyzing current market conditions and receiving public comment, the final rule adjusts downward the overall housing goals for the Enterprises for 2009. Three home purchase subgoal levels remain as proposed, while the dollar-based special affordable multifamily housing subgoal levels are adjusted upward. The final rule also permits loans owned or guaranteed by an Enterprise that are modified in accordance with the Administration's Making Home Affordable Program announced on March 4, 2009, to be treated as mortgage purchases and count for purposes of the housing goals. In addition, the final rule excludes purchases of jumbo conforming loans from counting towards the 2009 housing goals.

Link at: http://www.fhfa.gov/webfiles/14701/2009_EnterpAHG_Final_Rule_to_FedReg_Director_Signed.pdf

2. Duty to Serve Underserved Markets for Enterprises—Advance Notice of Proposed Rulemaking (12 CFR Part 1282)

Summary: FHFA is required, beginning in 2010, to establish a manner for evaluating the Enterprises' compliance with the new statutory duty to serve underserved markets. That duty includes service to three underserved markets— manufactured housing, affordable housing preservation and rural areas. To assist FHFA in rulemaking to implement this duty, FHFA seeks comments through an Advance Notice of Proposed Rulemaking on the characteristics and types of Enterprise transactions and activities that should be considered and how such transactions and activities should be evaluated and rated. This would lead to a proposed rulemaking for further public input.

Link at: http://www.fhfa.gov/webfiles/14703/Duty_to_Serve_Final_ANPR_to_FedReg_Director_Sign.pdf

3. Affordable Housing Program Amendments: FHLBank Mortgage Refinancing Authority—Interim Final Rule with Request for Comments (12 CFR Part 1291)

Summary: FHFA is issuing and seeking comment on a second interim final rule relating to authorization for the Banks to provide the existing Affordable Housing Program (AHP) subsidy through their members to assist in the refinancing of low or moderate income households'

mortgages under certain federal, state and local programs for targeted refinancing. The first interim final rule authorized such subsidies to those qualifying under the Hope for Homeowners Program. The new rule expands the program to other government eligible programs, including the Administration's Making Home Affordable Refinancing program. The authority was provided in the Housing and Economic Recovery Act on a temporary basis until July 30, 2010. While the rule is effective immediately, FHFA determined that it would seek public comments on the rule.

Link at: http://www.fhfa.gov/webfiles/14717/AHP_Refinancing_07-28-09.pdf

4. FHLBank Collateral for Advances and Interagency Guidance on Nontraditional Mortgage Products—Notice of Study and Recommendations and Request for Comments (2009-N-10: HERA Section 1217-Study)

Summary: The Housing and Economic Recovery Act of 2008 (HERA) requires the Director to conduct a study, which must be submitted to Congress, on the extent to which loans and securities used as collateral to support Federal Home Loan Bank (Bank) advances are consistent with the federal financial institution regulatory agencies' interagency guidance on nontraditional mortgage products and statement on subprime mortgage lending. Further, the study must consider and recommend any additional regulations, guidance, advisory bulletins, or other administrative actions necessary to ensure that the Banks are not supporting loans with predatory characteristics. This notice is intended to inform the public about the study and provide the public with the requisite opportunity to comment.

Link at: http://www.fhfa.gov/webfiles/14704/FHLB_Collateral_for_Advances_Notice_to_FedReg_Director_Sign.pdf

5. Board of Directors of FHLBank System Office of Finance—NPR with Request for Comments (12 CFR Part 1273 and 12 CFR Part 1274)

Summary: The Office of Finance is governed by a board of directors, the composition and functions of which are determined by FHFA's regulations. The FHFA's experience with the Federal Home Loan Bank System and with the combined financial reports prepared for the System by the Office of Finance, during the recent period of market stress suggests that the Office of Finance and the System could benefit from a reconstituted and strengthened board. This proposed regulation is intended to achieve that by increasing the size of the board and having it comprised of the twelve Bank presidents and three-to-five independent directors, creating an audit committee, providing for the creation of other committees and setting a method for electing independent directors along with setting qualification for these directors. Under the proposed rule, the audit committee would be charged with oversight of greater consistency in accounting policies and procedures by the Banks; this will enhance the value of the combined financial reports of the Office of Finance.

Link at: http://www.fhfa.gov/webfiles/14706/Ofc_of_Fin_TO_FR.pdf

6. Record Retention—NPR with Request for Comments (12 CFR Part 1235)

Summary: The proposed regulation would require the regulated entities and the Federal Home Loan Banks' Office of Finance to establish and maintain a record retention program to ensure that records are readily accessible for examination and other supervisory purposes. The

proposed regulation is based on OFHEO's Record Retention regulation and a provision of the FHFB's Data Availability and Reporting regulation. This proposed regulation seeks to assure strong record maintenance and availability for the security of the regulated entities and to facilitate effective supervision.

Link at: http://www.fhfa.gov/webfiles/14713/RecReten_TO_FR.pdf

7. Capital Classifications and Critical Capital Levels for the FHLBanks—Final Rule (Note-Title of the CFR Part is: Capital Classifications and Prompt Corrective Action) (12 CFR Part 1229)

Summary: The final regulation makes final an interim final rule published on January 30, 2009 to define the critical capital levels for the Federal Home Loan Banks, establishes the criteria for capital classifications, and implements FHFA's prompt correction action authority over the Banks. While certain changes were made to the interim final rule, FHFA determined, after seeking comment on a proposal to adopt or add a "well capitalized" classification to the capital classification, not to undertake such action at this time.

Link at: http://www.fhfa.gov/webfiles/14708/Cap_Class_TO_FR.pdf