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**From:** Mercer, Robert [/O=FHFA/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=MERCERR]  
**Sent:** 8/9/2012 11:18:21 PM  
**To:** Bjarnason, Paul [paul.bjarnason@fhfa.gov]; Creel, Duane V. [duane.creel@fhfa.gov]; Gedi, Yusuf [yusuf.gedi@fhfa.gov]; Graham, Fred C. [fred.graham@fhfa.gov]; Griffin Jr., James [james.griffinjr@fhfa.gov]; Grimes, Simone [simone.grimes@fhfa.gov]; Jacobsohn, Michael [michael.jacobsohn@fhfa.gov]; Khaleque, Farzana [farzana.khaleque@fhfa.gov]; Lewis, Stephen [stephen.lewis@fhfa.gov]; McCluskey, Karen [karen.mcccluskey@fhfa.gov]; Mercer, Robert [robert.mercer@fhfa.gov]; Phillips, Steve [steve.phillips@fhfa.gov]; Satriano, Nicholas [nicholas.satriano@fhfa.gov]; Scholz, Elizabeth [elizabeth.scholz@fhfa.gov]; Sciacca, Christie [christie.sciacca@fhfa.gov]; Tagoe, Naa Awaa [naaawaa.tagoe@fhfa.gov]; Varrieur, Andrew [andrew.varrieur@fhfa.gov]; Williams, John [john.williams@fhfa.gov]; Wood, Claudia [claudia.wood@fhfa.gov]  
**CC:** Greenlee, Jon [jon.greenlee@fhfa.gov]  
**Subject:** FW: Final 2Q'12 Credit Loss and Provision Forecast Governance presentations  
**Attachments:** 2Q'12 CLF & Provision Exec Sum 8.8.12a.pptx; 2Q'12 CLF & Provision 8.8.12a.pptx

Attached for your review are the attachments from the August 8, 2012 Freddie Loan Loss Reserve Governance Committee meeting, at which the 2Q12 five year single family charge off forecast was reviewed and approved. Key points pertaining to the 2Q12 forecast are as follows:

- The 2Q12 5 year charge off forecast is \$8.1 billion (16%) less than the 1Q12 forecast, \$43.4 billion as compared to \$51.5 billion. Key drivers for the reduction are:
  - Lower expected defaults.
  - Lower severity as a result of improved home values.
- Charge offs are forecasted to remain relatively flat to 2Q12 for the remainder of 2012, and then steadily decline throughout the remainder of the forecast.
  - There is an on top adjustment included in the 2012 and 2013 charge off forecast to offset potentially unrealistic model projections of improved modification re-default rates, recent severity improvements and recent increases in payoff rates.
- The LLR is expected to decline in each quarter throughout the forecast, beginning at 2.09% of UPB in 2Q12 and declining steadily through 2Q16 to 1.15% of UPB. Throughout the forecast the LLR coverage of SDQ exceeds 44%, beginning with 51% coverage in 2Q12.
  - SDQ dollars and SDQ dollars as a percent of UPB are forecasted to decline over the five year forecast.
- There are no negative provisions forecasted, however only 3Q12 and 4Q12 are forecasted to have a provision greater than \$1 billion. All other quarterly provisions are forecasted to be lower than \$1 billion.
  - The provision for 2012 and 2013 are forecasted to be \$4.5 billion and \$4.2 billion respectively, substantially lower than the actual \$10.9 billion provision for 2011.
- The FAS 5 (collective) portion of the LLR is forecasted to decline over the entire five year forecast as the better credit quality of recent vintages (2009 through 2012+) represent a larger portion of the total single family portfolio. FAS 114 (TDR) will increase through 2Q13 as the number of modifications are expected to peak in 1Q13. FAS 114 is forecasted to decline throughout the five year forecast beginning in 3Q13.
- Single Family UPB is forecasted to decline approximately 4% per year over the next 5 years.

Risks to the short term portion (24 months) are:

- If the foreclosures presently delayed because of documentation issues begin to accelerate through the foreclosure and REO process, forecasted defaults and severity may worsen because of increased supplies of distressed properties for sale.

Risks to the total 5 year forecast are:

- Modification re-default rates continue to perform better than original Freddie projections.

If you have any questions or comments let me know.

Bob

**From:** Joanne Cupo [mailto:Joanne\_Cupo@freddiemac.com]

**Sent:** Wednesday, August 08, 2012 6:00 PM

**To:** Alfred Dilmore; Anthony Fung; Christian Mussig; Daniel Nuxoll; Donald D Dawn; Scholz, Elizabeth; Eric Sherfy; Khaleque, Farzana; Jessika R Morocco; Joanne Cupo; Jodi Morton; Loretta A Ibanez; maria.e.quiros@us.pwc.com; Matthew Churchill; Mayur Maniar; Michael Berger; Michael Marschoun; michael.english@us.pwc.com; Jacobsohn, Michael; Mitchell A Post; Paige H Wisdom; Bjarnason, Paul; Peter Zou; Robert D Mailloux; Mercer, Robert; ryan.trzasko@us.pwc.com; Shari Daw; Stephen J Clinton; Timothy Kenny; Timothy Morgan; Timothy S Kviz; Tom Stuber; William F Buckner; Xuan Wang; Yan Chang; JERMAND HAGAN; Robert J Izzo

**Cc:** Mike Smith; Yunhui Chen

**Subject:** Final 2Q'12 Credit Loss and Provision Forecast Governance presentations

All,

Attached are the final Credit Loss and Provision Forecast Governance presentations for the record and for distribution to committee members. Following today's governance meeting, "Draft" was removed from the cover page of each presentation and typos were fixed.

Thank you,



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