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**From:** Martin, Bradford [/O=FHFA/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=MARTINB]  
**Sent:** 7/13/2012 3:36:21 PM  
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**Subject:** Fannie Mae Executive Management Meeting on July 9, 2012  
**Attachments:** Agenda 7.9.12 MC Meeting.pdf; Strategy Update - July 2012\_070612\_v1.pptx; Item IV.b ASF WhitePaper2012.pdf; Item IV.c.2012 FHFA Scorecard May Assessment and FHFA Summary Combined 7-5-12.pdf; Item IV.d. May 2012 Financial Update\_Forecast v6.pdf

#### Fannie Mae Executive Management Meeting on July 9, 2012

Tim Mayopoulos began by welcoming Pascal Boillat as a new committee member to replace Ed Watson. Tim then recited a list of recent activities. He thought last week's joint Fannie/Freddie/FHFA meeting comparing notes on securitization efforts was both productive and illuminating. Fannie had pursued a technology focus whereas Freddie had concentrated on larger 'ecosystem' issues involving rules, guides and standards posed by the new regime. In many ways, the two approaches were "very additive". While Fannie would wait for FHFA to set up the next meeting, he wondered when Fannie might share with Freddie what they were actively building.

Tim told members that he had initiated a series of personal introduction calls to all key customers. A similar introductory letter would soon go out to all 1,400 business heads. As a prelude to next week's Board meeting, Phil Laskawy would attend this week's Operating Committee meeting.

#### GSE Strategy Update

Dave Benson walked through a draft copy of next week's Board strategy planning discussion intended to review areas where Fannie might facilitate the ongoing secondary market transition. The discussion was divided into three sections: (a) recap of current open questions (the existence and form of guarantee, prospects for private capital, potential business models); (b) the strategic goal of building a new infrastructure (the 'engine on the bench' plus integration of surrounding securitization functions); and (c) promoting public support for the goals of conservatorship through defined initiatives (e.g., credit risk transfer; REO-to-rental). Dave focused on the GSEs return to profitability as a key factor in building public support for the conservatorship. Current projections show that cumulative GSE dividends paid will surpass cumulative GSE Treasury draws by 2020. He referred to the next 8 years as likely to be "the golden years of GSE earnings". How the government divests itself of the GSEs is not yet clear – the legacy GSE debt and MBS book cannot be fully privatized. Dave intends to close by noting that SPSA amendments might be used to better serve conservatorship goals.

#### ASF Single Security White Paper

Dave Benson gave a brief recap of the American Securitization Forum's recent white paper – published "as a resource to FHFA" – that outlines somewhat disparate originator, investor and dealer views on a unified agency security. To achieve the goal of making GSE securities "fungible", all parties agree on the need for Fannie/Freddie standardization of: (1) underwriting guidelines; (2) loan delivery and pooling requirements; (3) payment and remittance schedules; (4) servicing

standards and loan repurchase policies; (5) data disclosure policies; and (6) refinance programs terms. However, originators and investors disagree on the need for uniform guarantee pricing and public identification of GSE guarantor. Originators want fee competition, investors want identical terms. Investors want to know the counterparty, originators want a joint credit guarantee. Dave found it “fascinating” that the white paper promoted a near-term solution whereby Freddie Mac would outsource its loan delivery mechanism to Fannie Mae which would then issue a Single Agency Security.

#### 2012 FHFA Scorecard Update

Susan McFarland summarized a thick packet on scorecard status to be presented at next week’s Board meeting. She said that all items are either “on track or haven’t yet started”. When pressed, she agreed that several items could quickly turn to yellow or even red (i.e., initiate new risk sharing transactions) if FHFA were to disagree with Fannie Mae’s prioritization proposals. The packet highlighted areas where Fannie required further guidance from FHFA to define the actual 2012 scorecard deliverable. Andrew Bon Salle mentioned that completion of the state-level pricing grid now rests entirely with FHFA.

#### Financial Forecast Update

Ann Gehring discussed highlights of the latest financial forecast. She noted that Q2’s record projected income of \$6.2 billion [since reduced to \$5.5 billion] was twice the first quarter’s and was all due to improved credit-related expenses. A planned new loss model release should make Q3 and Q4 results look better than previously forecast. Comprehensive income is now expected to be sufficient to cover the dividend obligation throughout 2012. Small Treasury draws are forecast throughout 2013. Cumulative 2012-2016 income is now forecast at \$ 56.6 billion, \$12.3 billion higher than the last projection. Given this large change from the prior forecast, Tim Mayopoulos wondered whether the Board might question the credibility of management’s financial projections. He noted that the models seem to lag or underestimate both downturns and upturns. Ann explained that projections are closely tied to recent history and thus aren’t well suited to capturing accelerating trends. Terry Edwards reminded members that a 1% change in home price projections produces a \$6 - \$7 billion income delta. As regards home prices, Anne said that Fannie Mae’s projections have been shown to be consistently more accurate than other sources. Terry noted that the housing market seems to be improving despite the fact the shadow inventory is still massive – “it’s as if the market is saying that it’s going to remain out there and not flow through”. Susan McFarland added that Jon Greenlee believes that a more conservative approach to projecting future market conditions may be warranted given the limited number of improved data points.

#### Roundtable Discussion

Zach Oppenheimer said that June loan deliveries topped \$63 billion with 25% coming through the cash window. Total mortgage originations for the full year are now estimated at \$1.5 trillion. Fannie Mae had about a 50% share of the \$762 billion originated in the year’s first half. Zach noted that the average charged guarantee fee had increased by another 2.5 bps to a level of 42.5 bps in June. With most of the increases hitting larger lenders, the favorable gap enjoyed by large lenders had now declined to about 1.7 bps. Despite offering some of the highest mortgage rates, Zach said that BofA still appeared to be volume constrained.

Jeff Hayward said that multifamily volumes are on track to hit \$25 billion for the year, up from around \$20 billion last year. The average charged fee is now 80 bps. Jeff said that this fee level reflected market price levels, mentioning Freddie as the other market player. Some expressed concern that banks and life insurance companies seemed to be largely out of the market. John Nichols wondered whether their absence might indicate that the market was getting a bit frothy.

Dave Benson said that BlackRock's Green Package analytic software was now up and running. Fannie Mae's June lender conduit activity was a record \$500 million.

John Nichols relayed that 11 MRAs had been submitted for closeout in June.

Pascal Boillat said that Fannie's main campus, unlike Freddie's, had not experienced any power problems during the recent storms.

Andrew Bon Salle said that HARP deliveries totaled 61,000 loans in June, up from 40,000 in May. More than 21,000 of these were from >125% LTV borrowers. Andrew noted that most of these came through the Quicken / Seterus pipeline which investors recognize as showing faster prepay speeds and should therefore tighten the Fannie/Freddie price spread.

Susan McFarland said that internal audit had completed its exam of the forecasting process with the finding that senior management should be more involved given that the forecast impacts financial statements.

**Meeting Adjourned.**

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