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From: Martin, Bradford
Sent: Thur 8/9/2012 6:18:05 PM
Subject: Fannie Mae Executive Management Meeting on August 6, 2012
Agenda 8.06.12 MC Meeting.pdf
Key Disclosures Q2 2012 Final.pdf
Item III.b.Lender MBS Data Corrections.pdf
HR August OC - 080512 v6.pptx

Fannie Mae Executive Management Meeting on August 6, 2012

(Meeting was shortened due to preceding Board Audit Committee call)

Tim Mayopoulos began by noting that, though week's QBR written materials were 'quite dense', the verbal communication and information exchange had gone very well. He reinforced the notion that aside from providing the standard quarterly metrics, business managers should focus on talking about what others don't already know.

Tim's meeting with the NAR last Thursday was constructive with executives indicating that they want to see the GSEs' role sustained. They asked Tim why lenders were not lending, implying that the GSEs were somehow responsible. Tim responded by detailing his own prolonged refinance efforts. In response to questions about rep & warrant repurchase requests, Tim told NAR members that there would soon be a new standardized model going forward which they were pleased to hear.

In his meeting with Goldman Sachs, Tim said that they foresaw no likelihood of any GSE legislative action in 2013. They made note of the disparity in Fannie/Freddie security trading and confirmed that foreign investors seem to have little concern regarding the PSPA's upcoming expiration date.

Tim's scheduled meetings this week:

JP Morgan on Tuesday

Chairman Bernanke on Wednesday [this was subsequently postponed to next week]

Mary Miller / Tim Massad at Treasury on Thursday

2012 Q2 10Q Review

VP Julia Creighton walked through the top 10 disclosure items.

- Comprehensive income – noted significant improvement and the key driving factors (home prices – reserves, REO sales, SDQs; recapture of concession expense)

- New book-of-business credit risk profile – noted that due to elevated HARP and Refi Plus business, > 100% LTV loans account for 10% of Q2 acquisitions

- Overall performance and market conditions – cautionary statement that 2nd half results may not be as strong as the first half

- Home prices – believe home prices will not fall below Q1 2012 levels based on current market trends

- Treasury draws – do not expect to generate income in excess of dividend obligation over the long term so therefore may require future draws to pay dividend

- Principal forgiveness – stating that FHFA has decided not to require Fannie's participation

- OTTI of investment securities- reference to PLS valuation decline due to updated assumptions regarding liquidation time frames and loss severities (i.e., $500 million hit due to BlackRock model change)

- Payroll tax cut guaranty fee – noted that first payment of $26 million is due to Treasury in Q3 2011

- SF credit risk profile – added table depicting HARP and Refi Plus characteristics

- State and local government actions – highlighting risk posed by transfer tax litigation and use of eminent domain to seize mortgage loans and forgive principal

A short discussion followed over language contained in the draft earnings press release. Dave Benson questioned mention of amount of dividends paid to date paid in isolation of the cumulative Treasury draws. Edits were made based on his comments.

Lender Data Corrections – MBS Pricing and Reputational Risk

Dave Benson and Renee Schultz brought to members attention an old data issue with new consequences, post-delivery lender modification of loan level pool data. Renee explained that traders are especially sensitive to specified MBS pool characteristics in this low rate environment as they seek to pinpoint convexity attributes. The recent availability of loan level disclosures has heightened these valuation sensitivities. Traders' bids are increasingly calibrated to each data element. The fact that lenders can and do submit corrections to previously provided loan level data means that traders may pay for attributes they did not receive. Renee cited several instances where subsequent pool updates had made significant valuation differences. Of special concern, some of these cases involved Fannie Mae issued pools using portfolio holdings. Dave and Renee believe Fannie now faces both real financial and reputational risk as a result. Over the past 12 months, loan-level data adjustments have affected 14,000 outstanding pools.

Renee indicated that Fannie has created a cross-divisional working group to examine remediation options. She cited better lender training as an obvious short-term tactical solution. Enhanced system delivery filters may help but the misrepresented data appears valid. Imposition of lender penalties was discussed but some were concerned that that would discourage self-reporting. Renee identified 12 potential solutions contained in the appendix of the attached deck. Tim Mayopoulos closed with a focus on enhanced disclosures as a means to make the buyer beware believing that, no matter the corrective actions pursued, pool level disclosures would never be 100% correct.

Roundtable Discussion

None offered.

Fannie Mae Operating Committee Meeting on August 9, 2012

Items of note:

HR Update – Overall YTD attrition rate is at 6.2%, about the same as last year. Director attrition rates are running noticeably higher, YTD at 8.5% vs. 4.8% for the same period last year. {See attached deck}

OIT Update – EVP Pascal Boillat alerted members to significant system performance issues attached to a myriad of ongoing operational initiatives (citing ULDD as one problem area). He indicated his teams would be uploading unscheduled code fixes this weekend to address some of the immediate problems. System upgrades scheduled for the end of September will be pushed back to the end of October so as to focus on more immediate performance issues.

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Meetings Adjourned.

***** PLEASE DO NOT FORWARD EXECUTIVE MEETING MINUTES *****

Brad Martin

Principal Advisor

Office of Conservatorship Operations