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Credit Loss and Provision Forecasting 1Q'12--Executive Summary

**Loan Loss Reserves Governance Committee
May 8, 2012**

DRAFT: 5/7/12c

Key Messages



- Credit losses, which consist of charge-offs and REO ops expenses, are expected to rise modestly from current levels until mid-2012, then gradually decline/improve thereafter.
 - » The projected time profile of losses is generally similar to the 4Q'11 forecast.
 - » Monthly projections exclude impacts of future new purchases (small effects in near term).

2011 (actual):	Total external losses: \$13.0B	Charge-offs: \$12.4B
2012 (forecast):	Total external losses: \$13.8B	Charge-offs: \$13.0B
2013 (forecast):	Total external losses: \$12.3B	Charge-offs: \$11.6B

- Forecast includes adjustments consistent with LLR on top adjustments and assumption changes adopted in 1Q'12.
 - » Results reflect the \$1.5B mod on top adjustment included in 1Q'12 LLR. The on top is incorporated in the credit loss forecast (CLF) by lowering the volume of projected loan mods and increasing REO/FA projections, consistent with the estimated effects of the loan mod reduction.
 - » The 1Q'12 LLR additional mortgage insurance/credit enhancement shortfall on top adjustment (\$283M) is incorporated by increasing charge-off severity by 37 bps in all forecasted periods—the amount that severity would have increased had the adjustment been made directly through the severity calculation in the 1Q'12 LLR process.
 - » [REDACTED]
 - Judgment is required for this on top in order to infer the timing of the effects. [REDACTED]
[REDACTED] The results appear reasonable and will be monitored prospectively compared to actual results as they emerge.

Key Messages—Cont.



- Drivers of loss projections:
 - » REO/FA counts expected to increase modestly until late 2012, then decline through 2013. The annual level in 2012 is expected to be a little lower than 2011, then show more visible declines in 2013.
 - 2011: 170K (w/T-Deals est.)
 - 2012: 163K (w/T-Deals est. for 1Q'12)
 - 2013: 149K (T-Deals included in base projections)
 - » REO/FA default UPB generally reflects similar patterns, with a comparable decline in 2013:
 - 2011: \$33.1B (w/T-Deals est.)
 - 2012: \$30.5B (w/T-Deals est. for 1Q'12)
 - 2013: \$27.3B (T-Deals included in base projections)
 - » Charge-off severity is projected to worsen through late 2012 before its peak, followed by leveling/modest improvement (based on the corporate house price forecast). [REDACTED]
- Reserves, charge-offs, provision forecast (BPE basis, including new purchases, before GAAP adjustments).
 - » Reserve estimate expected to decline by about \$1.1B to \$33.8B in 2Q'12, followed by larger declines in subsequent quarters as charge-offs gradually normalize and D90+ inflows continue to decline.
 - » Charge-offs (including assumed impacts for future new purchases) projected to peak and plateau by 3Q'12, then decline in subsequent quarters.
 - » Provision is projected to decrease to \$2.2B in 2Q'12 (from \$2.4B in 1Q'12), and continue to decline in subsequent quarters.
- GAAP basis reserves generally follow similar patterns. FAS 114 component of the reserve continues to rise with growing accumulated mod volumes before peaking in late 2012, then gradually declines.
 - » GAAP provision forecast also generally trends downward, with some modest volatility.

Key Messages—Cont.



- Analysis and highlights of the forecast.
 - » Fundamentally, the 1Q'12 forecast projects a slightly higher level than the 4Q'11 forecast with respect to long-term charge-offs and provision on both a BPE and GAAP basis.
 - » The overall time profile of the 1Q'12 forecast is broadly similar to the prior forecast, but losses are projected to be slightly lower in the near term (i.e., next 2-3 years), stay higher longer after that, and end up with higher losses in the long run than in the 4Q'11 forecast.
 - Compared to actual charge-offs in 1Q'12, projected charge-offs are expected to remain relatively flat/increase modestly in the near term (e.g., next several quarters), reflecting expected mild worsening of severity and small increases in REO/FA volumes. Charge-offs are expected to peak at \$3.3B in 3Q'12 and decline gradually thereafter, although at a slower rate than previously projected. Foreclosure documentation issues continue to contribute to extended timelines for losses.
 - The inventory of serious delinquencies in 1Q'12 declined less than projected in the 4Q'11 forecast. More substantial declines are expected in future periods as D90 inflows decline and outflows from the seriously delinquent population continue prospectively.
 - [REDACTED]
 - [REDACTED]

Key Messages—Cont.



- Notes on selected forecast limitations and/or qualifications.

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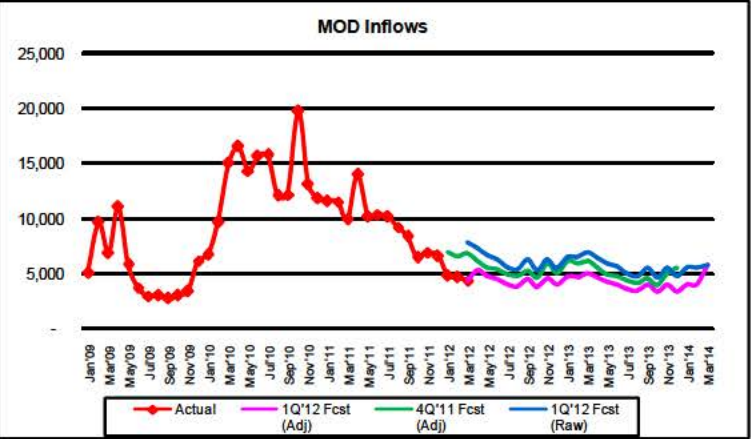
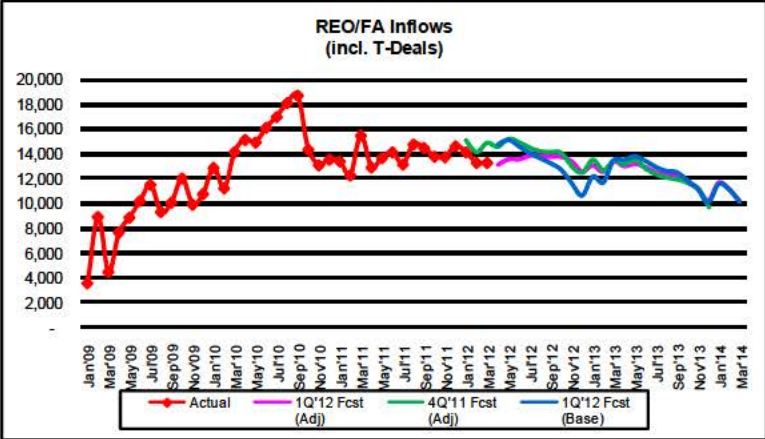
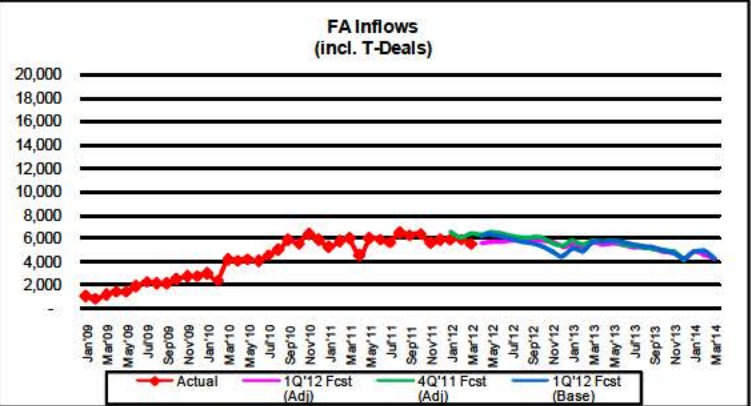
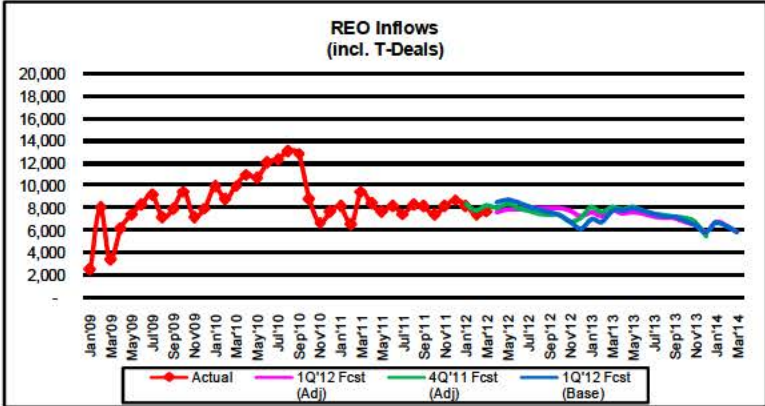
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- » FHFA directives or business policy/practice changes. For example, potential impacts of HARP changes are highly uncertain (even as to the direction of impacts), but could have a major impact on future results. Similarly, prospective business area repurchase policy/practice overhaul could be significant, increasing uncertainty, but cannot be quantified at this time

- **As a result of the above factors, a high margin of uncertainty persists around these CLF and provision estimates.**

Forecast REO/FA & MOD Inflow Counts

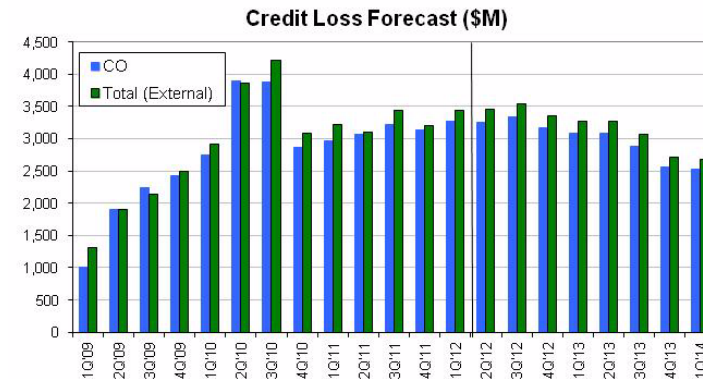
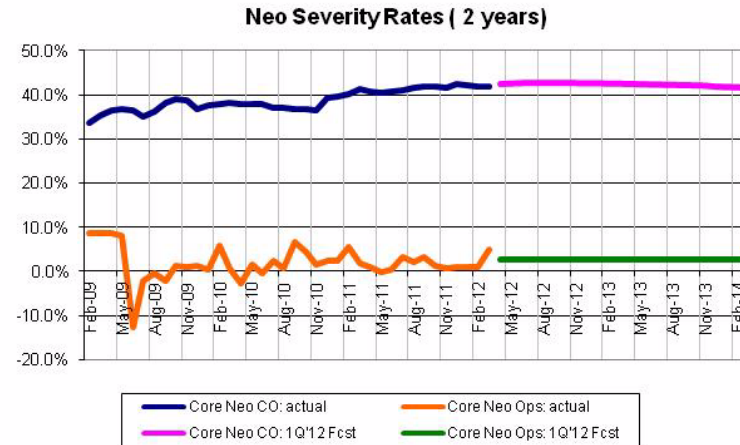


- Notes:
- 1Q'12 forecasts are based on Feb'12 Neo run. Excludes effects of new purchases after forecast start date.
 - Actuals include REOs and FAs from the core portfolio only; T-Deals are not included (constitute less than 5% of the total).
 - Forecasts of REOs and FAs include core portfolio and all T-Deals. "Base" REO and FA forecast is (a) Neo result directly from the model run with no adjustments, which is then adjusted for (b) a starting assumption concerning mod redefaults and timing, plus (c) adjustment for reduced mod redefaults and REO/FA increases consistent with the mod on top, plus (d) adjustment for the implied LLR transition rate on top based on Feb'12 LLR (\$2.4B as of Feb'12), plus (e) projected T-Deal defaults. Model projections combine REOs and FAs. Reporting them separately is through assumptions. The "adjusted" forecast reflects business area and judgments on default timing adjustments.
 - "Raw" mod inflows reflect Neo results directly from the model run with no adjustments; "adjusted" mod forecasts reflect a reduction in mods consistent with the 1Q'12 mod on top.

Forecast Credit Losses by Month and Quarter



Calendar Year	Losses by accounting		Total (External) \$M
	Charge-offs \$M	REO Ops \$M	
Jan' 11	970	63	1,033
Feb' 11	775	136	910
Mar' 11	1,225	59	1,284
1Q'11	2,969	257	3,226
Apr' 11	939	26	965
May' 11	1,091	-4	1,087
Jun' 11	1,042	13	1,055
2Q'11	3,072	35	3,107
Jul' 11	892	81	973
Aug' 11	1,167	57	1,224
Sep' 11	1,156	87	1,243
3Q'11	3,215	225	3,440
Oct' 11	956	32	988
Nov' 11	1,092	18	1,110
Dec' 11	1,083	29	1,111
4Q'11	3,131	79	3,209
Jan' 12	1,176	26	1,203
Feb' 12	1,086	26	1,112
Mar' 12	1,001	119	1,120
1Q'12	3,263	172	3,435
Apr' 12	1,063	65	1,127
May' 12	1,098	67	1,164
Jun' 12	1,097	67	1,164
2Q'12	3,258	198	3,456
Jul' 12	1,118	68	1,186
Aug' 12	1,116	68	1,184
Sep' 12	1,106	67	1,173
3Q'12	3,341	203	3,543
Oct' 12	1,102	67	1,169
Nov' 12	1,066	65	1,131
Dec' 12	997	60	1,058
4Q' 12	3,165	192	3,357
1Q' 13	3,084	188	3,272
2Q' 13	3,080	188	3,268
3Q' 13	2,888	177	3,065
4Q' 13	2,559	157	2,716
1Q' 14	2,530	156	2,686
Year 2011	12,386	596	12,982
Year 2012	13,027	764	13,791
Year 2013	11,611	710	12,321
12 month total	12,848	780	13,629
24 month total	23,905	1,459	25,364



- Notes:
1. Forecasts are from Feb'12 Neo run (combined with severity assumptions).
 2. Numbers include both core portfolio and T-Deals. Incorporates 1Q'12 on top adjustments and impacts of assumption changes.
 3. Does not include estimated effects of new purchases after forecast start date.
 4. The 12-month total is from Apr'12 to Mar'13; 24-month total is from Apr'12 to Mar'14.
 5. Numbers won't tie exactly to the credit loss summary compiled by Single-Family CFO due to rounding differences.

1Q'12 Provision Forecast (BPE Basis with New Purchases)

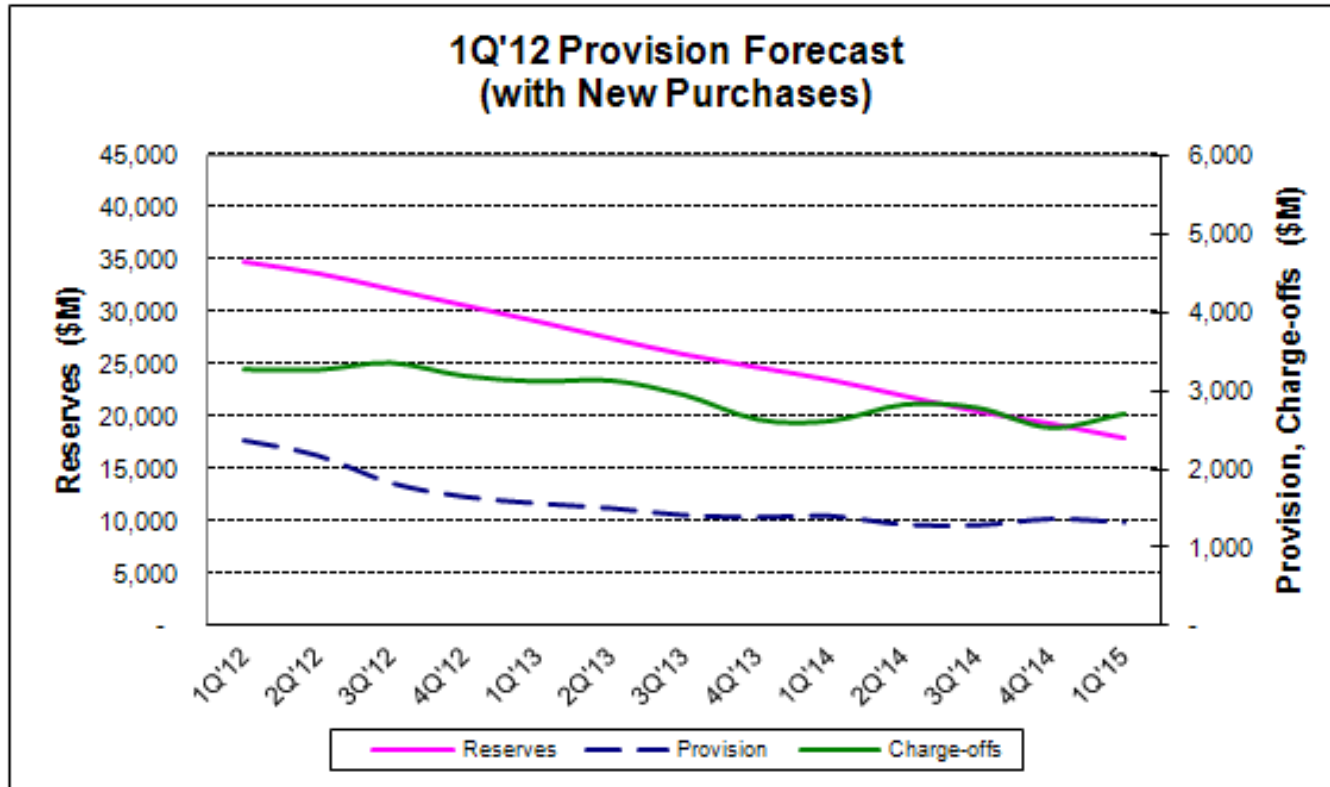


	Portfolio UPB \$m	D90+/FCL inventory		Charge-offs \$m	Reserves		Provision		Change in Reserve
		\$m	bps		\$m	bps	\$m	bps	
1Q'12	1,719,436	71,969	419	3,263	34,932	203	2,361	13.7	(902)
2Q'12	1,700,053	67,584	398	3,258	33,844	199	2,170	12.8	(1,088)
3Q'12	1,665,611	65,353	392	3,346	32,318	194	1,820	10.9	(1,526)
4Q'12	1,635,476	64,148	392	3,180	30,779	188	1,641	10.0	(1,539)
1Q'13	1,606,608	61,562	383	3,109	29,227	182	1,558	9.7	(1,552)
2Q'13	1,577,739	58,845	373	3,120	27,604	175	1,496	9.5	(1,623)
3Q'13	1,548,870	56,790	367	2,938	26,073	168	1,406	9.1	(1,532)
4Q'13	1,520,002	55,674	366	2,624	24,829	163	1,381	9.1	(1,243)
1Q'14	1,494,205	53,042	355	2,605	23,619	158	1,394	9.3	(1,211)
2Q'14	1,468,409	50,206	342	2,815	22,091	150	1,287	8.8	(1,528)
3Q'14	1,442,613	47,893	332	2,773	20,594	143	1,277	8.8	(1,496)
4Q'14	1,416,816	46,266	327	2,521	19,432	137	1,358	9.6	(1,162)
1Q'15	1,394,253	44,020	316	2,697	18,048	129	1,314	9.4	(1,383)
4Qtrs Ending									
1Q'16	1,310,466	35,891	274	9,530	13,280	101	4,761	35	(4,768)
4Qtrs Ending									
1Q'17	1,231,254	29,892	243	7,023	9,864	80	3,607	29	(3,415)
5-Yr Total (through 1Q'17)				51,539			26,472		

Notes:

1. 1Q'12 portfolio UPB includes core population UPB as of Mar'12 and T-Deals UPB as of Feb'12.
2. 1Q'12 reserve is BPE based on Mar'12 final recommendation (including all management on tops).
3. Reserves and provision forecast do not reflect GAAP accounting adjustments.
4. Charge-offs include all T-Deals for the first 24 months of the forecast period but only the T61+ Prime population after that (other T-Deal amounts are *de minimus*).
5. For the four quarters ending 1Q'16 and 1Q'17 in the table, amounts shown for charge-offs and provision are annual totals.
6. Reserves, provision and D90+/FCL inventory in bps based on Portfolio UPB, which is projected to decline reflecting portfolio run-off in excess of new purchases.
7. Actual charge-offs may not tie exactly to the credit loss summary compiled by Single-Family CFO due to rounding differences.

1Q'12 Provision Forecast (BPE Basis with New Purchases)—Cont.



1Q'12 Provision Forecast (BPE Basis with New Purchases) and Corresponding GAAP View



- GAAP view reflects the provision/reserve effect of projected TDR results (and other accounting adjustments).
 - » TDR inflows based on business area expected path view through 1Q'14, then adjusted Neo forecast from 2Q'14 to 4Q'15.
 - » Accounting adjustments include eliminating FAS 5 reserves on TDRs and SOP 03-3 loans (and creating FAS 114 reserves on those loans), as well as adjustments for interest income recognized on completing loan modifications and SOP 03-3 adjustments to charge-offs. TDR reserves include impacts from both rate reductions and default costs estimated through the LLR process as well as time value of money considerations.

Period	BPE Basis (\$ in millions)			GAAP View (\$ in millions)			
	Charge-offs	Reserves	Provision	Charge-offs	Reserves	Other GAAP Adjustments*	Provision
1Q'11	2,969	37,126	1,263	2,969	38,558	(379)	2,050
2Q'11	3,072	36,239	2,185	3,072	38,390	(362)	2,542
3Q'11	3,214	36,121	3,096	3,214	39,089	(269)	3,643
4Q'11	3,131	35,834	2,844	3,131	38,915	(294)	2,663
1Q'12	3,263	34,931	2,360	3,263	37,771	(274)	1,844
2Q'12	3,258	33,844	2,171	3,258	37,045	(255)	2,277
3Q'12	3,346	32,318	1,820	3,346	35,829	(285)	1,845
4Q'12	3,180	30,779	1,641	3,180	34,447	(290)	1,507
1Q'13	3,109	29,227	1,558	3,109	32,968	(277)	1,355
2Q'13	3,120	27,604	1,496	3,120	31,387	(257)	1,281
3Q'13	2,938	26,073	1,406	2,938	29,895	(258)	1,188
4Q'13	2,624	24,829	1,381	2,624	28,745	(250)	1,224
1Q'14	2,605	23,619	1,394	2,605	27,535	(242)	1,154
2Q'14	2,815	22,091	1,287	2,815	25,976	(191)	1,065
3Q'14	2,773	20,594	1,277	2,773	24,425	(172)	1,051
4Q'14	2,521	19,432	1,358	2,521	23,231	(167)	1,160
1Q'15	2,697	18,048	1,314	2,697	21,834	(179)	1,122
2Q'15	2,430	16,851	1,233	2,430	20,591	(162)	1,025
3Q'15	2,650	15,402	1,201	2,650	19,065	(146)	978
4Q'15	2,257	14,336	1,191	2,257	17,921	(141)	971

* Includes capitalized interest income on modified loans, SOP 03-3 adjustment to charge-offs, settled counterparty impacts and other miscellaneous adjustments.