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THE STATUS OF THE HOUSING FINANCE SYSTEM AFTER NINE YEARS OF CONSERVATORSHIP

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE CURRENT FINANCIAL AND OPERATIONAL PERFORMANCE OF FANNIE MAE AND FREDDIE MAC, AND EXPLORING OPPORTUNITIES FOR LEGISLATIVE REFORM

MAY 11, 2017

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THE STATUS OF THE HOUSING FINANCE SYSTEM AFTER NINE YEARS OF CONSERVATORSHIP

THURSDAY, MAY 11, 2017

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:01 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. The Committee will come to order.

Today we will receive testimony from Federal Housing Finance Agency Director Mel Watt on the status of the housing finance system.

Fannie Mae and Freddie Mac have now been in conservatorship for close to 9 years. In September 2008, then-Treasury Secretary Hank Paulson famously described the conservatorships as a "time-out."

Today Fannie and Freddie, along with the FHA, continue to dominate the mortgage market. Approximately 70 percent of the mortgages are backed by the Federal Government.

While Fannie and Freddie are currently earning profits, if the housing market experiences a downturn, taxpayers could again be on the hook for billions of dollars. The status quo is not a viable option.

A housing finance system dependent on two Government-sponsored enterprises in perpetual conservatorship is not a sustainable solution. Taxpayers today bear too much risk, and the Government plays too big a role in the mortgage market.

A number of groups have released proposals for reform in recent months, including the MBA, the ICBA, the Milken Institute, several co-authors writing jointly for the Urban Institute, and many others. The Committee is considering all of these proposals, as well as other ideas about what the future system should look like.

In the meantime, FHFA continues to serve as both conservator and regulator of the enterprises and as regulator of the Federal home loan banks. As conservator of the GSEs, FHFA is obligated to conserve and preserve the assets of Fannie Mae and Freddie Mac.

FHFA has undertaken a number of initiatives in recent years, including some that began prior to Director Watt's tenure. One

significant undertaking is the creation of the Common Securitization Platform. The Platform was originally intended to function like a market utility—independent from the enterprises—that would be used to issue both agency securities and private label securities. The Platform has instead been developed specifically for securities issued by Fannie Mae and Freddie Mac. One important question as we embark on housing finance reform is whether we should utilize the CSP or consider other alternatives, such as expanding the Ginnie Mae platform.

Another important development in housing finance is the increased transfer of credit risk from the enterprises to the private sector. I encourage FHFA and the enterprises to continue to experiment with different forms of risk transfer, including both front-end and back-end structures. Transferring credit risk away from the Government and into the private sector is essential to protect taxpayers and to build a more robust and sustainable market.

Increasing the amount of credit risk borne by the private sector will be a critical component of housing finance reform, regardless of which direction the Committee ultimately decides to take. I encourage Director Watt to consider other policies and options to incentivize further private sector participation and to help facilitate the transfer to a new system.

Housing finance reform remains the most significant piece of unfinished business following the financial crisis, and it is important to build bipartisan support for a path forward.

Three years ago, seven Republicans and six Democrats on this Committee voted in support of a comprehensive housing finance reform bill. A key priority of this Congress is to build on that bipartisan legacy and pass legislation that will create a sustainable housing finance system for future generations.

I look forward to working with you, Director Watt, and your staff at the FHFA throughout this process.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman. Director Watt, welcome back. Nice to see you again. Thanks for your public service for so many years.

I appreciate the Chairman's calling this hearing and establishing a bipartisan Committee process by which we can consider the conservatorship of the Government-backed mortgage companies. Since the beginning of the year, there have been several articles claiming that housing finance reform is easy, some calling it an "easy win" for the Trump administration.

As the Chairman and as any of us who were on the Committee in 2013 and 2014 know, restructuring a fifth of the economy is far from easy. That does not mean we should avoid considering how the housing market could operate better and how we could prevent emergency Government and emergency taxpayer intervention in financial markets in the future.

Currently, an agreement between Treasury and the Federal Housing Finance Agency requires the Government-sponsored enterprises to reduce their capital cushions each year until the reserves reach zero in January 2018. At that point GSEs will be prohibited

from retaining any capital at the end of each following quarter, despite the fact that the companies back more than $5 trillion in the mortgage market.

Director Watt has been raising his concerns about dangers of the capital levels at the GSEs for some time. We should remember he was one of the first members of the House of Representatives to warn about predatory lending prior to the housing crisis.

Unlike those warnings about predatory lending, which the administration largely ignored at the time, I am hopeful we can protect taxpayers from what is an avoidable situation created by an agreement entirely within the Executive Branch. Some argue any adjustment to the retained capital levels is equivalent of supporting a return to the old structure of the GSEs. As arguments go, this is surely a straw man. There is no reason we cannot protect taxpayers and homeowners. Protecting taxpayers in the near term should be a shared and a bipartisan goal.

The Committee should continue its work examining the gaps in the housing market that the housing crisis exposed: the originate-to-distribute model of certain lenders, exotic products that put even prime borrowers at risk, private label securities that were not backed by GSEs and lax standardized terms and responsibilities for trustees, and a near complete breakdown in mortgage servicing and the ability of monoline mortgage insurers to fulfill their commitments.

GSEs certainly made mistakes, too: chasing the market to purchase PLS, providing pricing discounts to lenders based on volume, using price advantages to achieve shareholder gains rather than passing those benefits on to borrowers, and/or lenders that served underserved communities.

The GSEs' mission is to provide a stable, liquid national mortgage market, including in rural, underserved, and low-income communities—something we should all want in any housing finance system.

The affordable housing goals for single-family and multi-family housing, along with the duty-to-serve rule that was finalized in December, are key tools to continue prioritizing affordable access and prudent experimentation to safely reach underserved borrowers. Ultimately, the changes Congress makes will impact how expensive or affordable the 30-year fixed-rate mortgage will be in the future and who has access to it.

Our decisions will impact how easily and quickly a growing family could sell their current home and buy a more expensive one. Our decisions will impact which lenders have access to the system and whether a home buyer can get a mortgage from a small community lender in her town. These decisions are not just about back-office operations or faraway capital markets. They will have a substantial impact on households across the country, whether renters or homeowners.

Director Watt, thanks for joining us as the Committee seeks to understand the current status of the GSEs and how we move forward without harming homeowners and buyers or putting taxpayers at greater risk.

Chairman CRAPO. Thank you very much, Senator Brown.

And I, too, welcome you, Director Watt. We appreciate the service you have given and are continuing to give as we move forward to deal with the housing finance policy of our Nation.

I want to remind all the Senators as we go into the question period to honor the 5-minute rule with regard to the question periods so that Senators who are in line can get their opportunities.

Director Watt, I would ask you to feel free to give your full statement, and so would you please proceed at this time?

STATEMENT OF MELVIN L. WATT, DIRECTOR, FEDERAL HOUSING FINANCE AGENCY

Mr. WATT. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for inviting me to testify. Your hearing topic confirms that you are well aware that the conservatorships of Fannie Mae and Freddie Mac have been unprecedented, especially considering that these enterprises support over $5 trillion in mortgages.

Of additional importance is that taxpayer backing under the Preferred Stock Purchase Agreement is now limited to $118 billion for Fannie Mae and $141 billion for Freddie Mac, and additional draws will reduce these commitments further.

I will focus on three points in my opening statement.

My first point is that FHFA has made numerous important reforms to the enterprises during conservatorship that are beneficial to the housing finance system and reduce risks to taxpayers. My written statement discusses a number of these reforms and provides links to detailed reports about them. Despite these reforms, I regularly hear assertions that Fannie Mae and Freddie Mac are the same today as they were when they were placed into conservatorship. It is essential for this Committee to be aware that these assertions are simply false and to ensure that the reforms already made are not disregarded.

Despite the reforms already made, FHFA is fully aware that housing finance reform will involve many crucial decisions that go far beyond these reforms. So the second point I want to make unequivocally is that it is the role of Congress, not FHFA, to make the decisions that chart the path out of conservatorship and to the future housing finance system.

Among the important decisions for Congress are the following:

One, how much backing, if any, should the Federal Government provide and in what form?

Two, what transition process should be followed to avoid disruption to the housing finance market and who should implement that process?

Three, what roles, if any, should the enterprises play in the reformed housing finance system? And what statutory changes will be required to ensure that they play those roles effectively?

And, four, what regulatory framework and authorities are needed in a reform system? And who will have that responsibility?

I reiterate that it is the role of Congress to do housing finance reform, and I encourage you to do so expeditiously.

My final point is to identify and discuss the most significant challenge FHFA faces while Congress moves ahead on reform. The challenge is that additional draws under the PSPAs would reduce

the amount of taxpayer backing and the foreseeable risk that resulting uncertainty could adversely impact the housing finance market.

Unfortunately, this challenge is significantly greater today than it has been, and it will continue to increase if not addressed. When I first discussed this in 2016, each enterprise had $1.2 billion under the PSPAs as a buffer to shield against having to make additional draws of taxpayer support in the event of an operating loss in any quarter. On January 1, 2017, the PSPA buffer reduced to $600 million, and on January 1, 2018, it will reduce to zero. At that point, neither enterprise will be able to weather any quarterly loss without drawing further taxpayer support.

GAAP accounting for any number of noncredit-related factors in the ordinary course of business regularly results in large fluctuations in enterprise gains or losses. We also know that lower corporate tax rates under tax reform would reduce the value of the enterprises' deferred tax assets and result in short-term losses.

Like any business, the enterprises need some buffer to shield against short-term operating losses. In fact, it is especially irresponsible for the enterprises not to have a limited buffer because a loss in any quarter would result in an additional draw of taxpayer support and reduce Treasury's fixed-dollar commitments under the PSPAs.

As conservator, we reasonably foresee that this could erode investor confidence and stifle liquidity in ways that could increase the cost of mortgage credit to borrowers. As conservator, FHFA cannot risk these consequences and meet our statutory obligation to ensure that each enterprise fosters "liquid, efficient, competitive, and resilient national housing finance markets."

Consequently, in our conservatorship role, FHFA will take actions as necessary to prevent additional draws of taxpayer support. Neither this Committee nor anyone else should view such actions either as interference with the prerogatives of Congress, as efforts to influence the outcome of housing finance reform, or as any step toward recap and release. We will take only such actions as necessary to avoid normal operating losses that would trigger a draw during conservatorship.

Thank you again for the opportunity to testify, and as always, we stand ready to assist the Committee in any ways we are requested to do so.

Chairman CRAPO. Thank you very much, Director Watt. I appreciate that commitment.

My first question I would like to focus on private capital. Among the reforms that you listed in your written testimony more fully, you discuss some of the efforts that the agency has undertaken to increase the participation of private capital in the markets. Since FHA first started publishing its scorecard in 2012, an important component of the scorecard has been reducing taxpayer risk by attracting private capital and shrinking the footprint of the enterprises. Under your leadership, FHFA has overseen a significant increase in the amount of credit risk transferred to the private sector, which I applaud and encourage you to work to continue to increase.

In addition to the existing risk transfer deals that you have already engaged, what can FHFA and the enterprises do to reduce taxpayer risk and to attract more private capital to the mortgage markets?

Mr. WATT. Well, of course, the first thing we do regularly is to not take loans that people cannot afford to pay. We have a defined credit box, and we try to encourage lenders to use that credit box. But we will not take a loan outside that credit box.

The second thing we have aggressively done is had the enterprises innovate in the risk transfer space, moving first to second-loss positions or intermediary positions, but then moving to first-loss positions when it is financially feasible to do so.

So I think the objective here is to make the whole system responsible and not obviously move back to the kinds of practices that were taking place prior to the crisis.

Chairman CRAPO. I thank you very much for that, and as you know, achieving this objective will be one of the important things that we seek to do here as we work on legislation to resolve housing finance policy.

I would like to go, as my final question to you in this round, to capital at the enterprises, your final topic that you discussed with us. On January 1, 2018, the capital buffers at the enterprises will draw down to zero, requiring Fannie Mae and Freddie Mac to draw on their lines of credit at the Treasury in the event of a quarterly loss. This reinforces to me why conservatorship is unsustainable—no capital, taxpayers on the hook for losses, and the Government effectively taking all the risk.

While I understand that you have concerns with the GSEs operating with zero capital buffers and want to work to help address this issue, adding a small capital buffer does not change the need for a long-term solution to our housing finance reform.

Unfortunately, suspending dividend payments will lead some to incorrectly believe that reform is not urgent and that maintaining the status quo is sustainable.

I would encourage you to work with this Committee so that that does not occur. Could you please respond to that?

Mr. WATT. First of all, let me just say I absolutely agree with you. We are going to try to avoid a draw at all costs because we think there are risks associated with it, and as conservator, our position is a little bit different than everybody else. I kind of liken it to the situation I faced several weeks ago when I went home and had a letter in my mailbox that said my car was subject to recall because of the airbag. Well, there were a number of people who were saying the risk of you driving that car is minimal, and I absolutely agreed with them. But I was the responsible party, and my family was going to have to ride in that car. And so in this situation, the cars that you all have given us are Fannie Mae and Freddie Mac. It is our responsibility to keep them safe and sound, to make them efficient while they are in conservatorship. And it is your responsibility to change cars if you want to after that, or whatever you decide to do.

Chairman CRAPO. Well, let me ask a question this way: Do you believe that the FHFA has the authority to withhold dividend payments——

Mr. WATT. I do, yes.

Chairman CRAPO.——without the consent of Treasury and without——

Mr. WATT. I do, yes.

Chairman CRAPO.——the Third Amendment?

Mr. WATT. Yes. But I also want to assure you that my first option, obviously, would be to work with the Secretary of Treasury. These are contractual agreements. They are not legislative agreements. The PSPA is a contractual agreement between us and the Secretary of Treasury. So modest changes to the PSPA would be the first and most prudent way to address this issue.

Chairman CRAPO. Understood.

Mr. WATT. But if that fails, the responsibility for that risk falls back on me as the conservator of these enterprises, and we cannot afford to run that risk.

Chairman CRAPO. Well, thank you. My time has expired, and so I would just like to ask if you and your staff, Could provide us with your legal analysis as to why you believe that you have the authority without getting agreement from the Secretary of Treasury and dealing with the Third Amendment?

Mr. WATT. I would be happy to do that.

Chairman CRAPO. Thank you very much.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman, and, Director Watt, again thank you.

In your testimony, you talked about the potential and who knows what impending concerns you have about tax reform and short-term losses. Let me start with that. The President's proposed tax reform plan that would cut the corporate tax rate from 35 to 15 percent, if the Finance Committee and others would come to that—we do not know yet, obviously. Moody's estimates that would cost Fannie $15.6 billion and Freddie $5.7 billion.

Since the Stock Purchase Agreement between Treasury and FHFA limits the GSEs' retained capital this year, as you spoke about, and prohibits retained capital next year, talk to us about the impact the writedown would have on the GSEs in their financial ability, especially what it would do to impact access to mortgages in the broader housing market. You spoke about it sort of generally, if you would dig down a little deeper on tax reform and where that goes.

Mr. WATT. So one of the things we obviously are monitoring on a regular basis are these discussions about tax reform because they would have, if they are adopted and depending on what is adopted, differential impacts. They could range in our analysis from a low of $5 billion up to $25, $26 billion. And, obviously, the extent of those tax reforms will have—and that is a short-term impact. This is not a commentary on the value of the reduction in the corporate tax rate. We are talking about the short-term impact of that corporate tax rate cut on deferred tax assets, which then has a short-term impact on the enterprises' losses.

So one of the things we are regularly doing is talking to Treasury and monitoring what is happening in that tax cut space, because if we wait until that happens, it may be too late. Or it is possible that they could phase in the tax cuts over a period of time. Or it

is possible that something could be written in to protect enterprises in conservatorship. So all of those are possibilities, but they are possibilities at this point, and we have to be realistic about them and evaluate them, so we are constantly making that kind of evaluation.

The other regular kind of fluctuations that lead to quarterly losses is just GAAP accounting principles, how you account for hedging against risk, and those are things that have nothing to do with whether you have extended good or bad credit. They are non-credit-related factors, but they bounce the enterprises' losses around regularly. So going to zero in a buffer could in any quarter put us into a situation where we could end up having to make a draw.

Senator BROWN. Thank you. Let me switch to sort of an Ohio-specific question, but one that could have impact moving forward in other places. In Ohio, investors in the GSE bulk sales use land contracts, as you know, known as "contract for deed," to generate income off these properties. These contracts offer none of the protections of a mortgage because they are obviously not a mortgage. They often leave borrowers with properties that are uninhabitable. That happened in Cincinnati. It has happened in Cleveland.

You have, my understanding, the authority to be able to do something, and my question is pretty simple. You will prohibit bidders on NPL sales from using contract for deed and prohibit it in any single-family rental deals going forward?

Mr. WATT. We certainly will look at that, Ranking Member Brown. We have changed the requirements a couple of times, but we never change them retroactively. We always change them prospectively because people who have bought these nonperforming loans have bought them on a set of fixed assumptions and criteria and requirements that we have imposed on them. So it would have to be on a go-forward basis that we would do it. But we are actively looking at that issue right now.

Senator BROWN. Thank you.

Chairman CRAPO. Thank you.

Senator Corker.

Senator CORKER. Thank you. Mr. Watt, thanks for being here today, Congressman. What do we call you now?

Mr. WATT. "Mel."

Senator CORKER. "Mel," OK.

[Laughter.]

Senator CORKER. That is what I have always called you, but I did not want to do so in front of people without your permission. Thank you for coming today, and thanks for the job you are doing.

I know we have had some conversations recently, and I just want to reiterate it is your belief, as we have had in multiple conversations, that the future of housing finance reform is totally Congress' job to do, and you are relying upon us to make that happen. And I think you know there is sort of a lefty think tank and a righty think tank and some in-the-middle folks that appear to be coming together around some conclusions. And it is my sense that the Chairman and Ranking Member wish to take that up in the near future. And from your perspective, that is our job to do, and that is how we determine the future of these entities.

Mr. WATT. I absolutely agree, and I hope you heard me loud and clear, unequivocally, it is that role of Congress. Now, we have made some reforms to the enterprises, and I do not want those disregarded because they are important reforms that we have made during the conservatorship process. And I have outlined a number of them in my longer-form testimony. I did not have a chance to do it in the short period I had in giving an opening statement. But they are outlined specifically in my longer-form written testimony with links to the details about them. So, in a sense, you could think of that as GSE reform and think of the Committee's responsibility and Congress' responsibility as housing finance reform. I do not want to get into semantics here, but I just want——

Senator CORKER. I got it. We do not have any issues with the steps you have been taking, and we appreciate you informing us of those.

We obviously had a recent conversation at the end of last quarter regarding the building up of capital within the entities, and the reason we did that was that was a pretty big change from where we have been. The two entities have $258 billion worth of capital available to them, so this whole notion of them running out of resources is just a baseless issue. And I do not know why that even at this time is being discussed because what it does, Mel, is it changes the dynamic of what has been happening. It makes it appear as if there is a different approach that is being taken by the Administration. The Administration is working with us, working with others to move ahead with reform. But all of a sudden, a unilateral step by you when they have got $258 billion in capital available—you know, I ran a pretty large company that I started, and, you know, our money went into overnight repos, and we kept no cash—none. Each day when we needed it, we drew it out. And, in essence, you have exactly that same type of thing available to Fannie and Freddie, $258 billion worth right now. And so to act as if drawing on this made-available credit when the U.S. taxpayers already are 100 percent the backing of these entities, it just creates a different direction, which sends a signal to the world that something different is occurring when it is not. So I hope we have established today that you have got $258 billion available. If you draw upon it—that is what it is for, by the way—it in no way affects the credit or anybody's perception of the securities that are being put out.

Mr. WATT. Senator, I hope you—I tried to address that as forthrightly as I could in my opening statement. I have addressed it repeatedly. But I hope you heard the analogy I used. You all gave me these cars to drive for 5 years. You said, "Keep them safe and sound." You said, "Make them efficient." If there is a risk that a draw or a reduction in the commitment that backs these enterprises would interrupt the market—it is small. I acknowledge that. I am not trying to overstate it. But if it happens, and what we say is it is reasonably foreseeable it could happen, it will not be you that they come to and talk to about it. It will be the conservator because we are the responsible parties for this during conservatorship. You are the responsible parties for it going forward.

Senator CORKER. Well, why don't you go ahead and draw $10 billion on it right now and see? I am telling you, it is going to have no effect.

Mr. WATT. Well, I do not need to draw $10 billion on it if——

Senator CORKER. Do it anyway. Do it anyway.

Mr. WATT. Well, I would not do that and run that risk because that would expose me to the same risk that I am trying to avoid. I just do not understand why—well, we have had this conversation before. But believe me, I cannot afford to take that risk any more than I could afford to drive a car that has a recall on it with an airbag with my family in it. And I have tried to make that analogy for you. That is my responsibility, and I have to live up to that responsibility as conservator. That is what you all—that is why you all approved me in this Committee to do this job, and that is why the Senate confirmed me to do this job.

So I do not know what else I can say about that. I cannot afford to assume that risk. You can afford to say it is theoretical. I cannot afford to say that I will assume it.

Senator CORKER. Well, it is one of the most baseless arguments I have ever heard. Any company in America that had access to a $258 billion line of credit from the U.S. Government, backed by the U.S. Government, I do not think would be concerned about market fluctuations. But something has happened recently, and I do not know what it is, but——

Mr. WATT. It could get into a discussion about whether that is adequate or not adequate. I do not know for a $5 trillion portfolio. You know, you do not know what—you know, and I am not saying this is a large risk. I am just saying I cannot afford to take it as conservator because I have responsibility for it. That is the point I keep trying to make to you.

Chairman CRAPO. Thank you.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman.

A number of things. You talked about in your opening comments that you have been moving toward risk sharing with the private sector, and you have. Do you have a figure that would be appropriate as to how much of the portfolio should be put into private versus taxpayers?

Mr. WATT. We have a goal of risk sharing on at least 90 percent of the single-family new loans that fit our criteria, and that is a substantial part of our portfolio. The goal, obviously, would be to transfer as much of it as you can.

Senator TESTER. Do you think 90 percent is attainable?

Mr. WATT. In normal times. Actually, we have exceeded that goal since we set that goal. But the problem is if you require it and there is a downturn and investors walk away, then you have made us have to adjust the price down so we are subsidizing the transfer, and we do not want to do that. That is why I say we always do it based on rational economic decisions. So I do not have any problem with the goal. The problem we have is when you write that and say you must do it, it really is an imposition into the market that is neither justified nor is it, in our opinion, reasonable to do that.

Senator TESTER. OK. So I think—I do not want to speak for everybody, but I think a fair number of folks around here want to see private capital go in to take the risk off the taxpayers.

Mr. WATT. And we do, too, yes.

Senator TESTER. So the question is—we want to make sure that you or whoever is in your position is as active as possible to get private equity into the entities. The question is: How should it be written so as not to tie your hands, but yet make sure that you maintain aggressiveness?

Mr. WATT. I think it would be appropriate to set a goal and to give us flexibility based on the criteria that we have talked about. I mean, we share the goal of doing that, but you could easily get into a situation where you are requiring us to make non-economic decisions if you say you must do it regardless of the economic circumstances.

Senator TESTER. OK. Do you think it is possible to have the 30-year note without an explicit Government guarantee?

Mr. WATT. Senator, I think that is probably more into the housing finance reform area than it is for me to say, because I could just give you my personal opinion, which is not worth much.

Senator TESTER. It is worth a lot. I value it.

Mr. WATT. I really try to keep from doing personal opinions as opposed to expressing an opinion of our agency, and we have not developed an opinion on that.

Senator TESTER. OK. Well, I mean, I think your opinion does mean a lot, quite frankly, because you are in the business a lot more than we are. We are depending on you in that regard.

Mr. WATT. Let me put it like this: I have read a number of experts in this area who do not believe it would be possible to do.

Senator TESTER. OK.

Mr. WATT. And I——

Senator TESTER. OK. That is fine.

Mr. WATT. I presume there are credible arguments on the opposite side, but I do not know.

Senator TESTER. I want to talk about the buffer a little bit. The buffer I believe is an agreement through Treasury.

Mr. WATT. It is, yes.

Senator TESTER. OK. And you said it will be down to zero by 2018, which is coming right up. And by your opening statement, you indicated that you think you need to have a buffer.

Mr. WATT. Yes, sir.

Senator TESTER. How much?

Mr. WATT. Well, it could vary, because the objective is not to make a draw.

Senator TESTER. OK.

Mr. WATT. So we want to cover first the normal fluctuations in operations. We want to monitor what is happening on tax reform because that could have a major impact short term on our loss situation.

Senator TESTER. So give me a ballpark figure on how much.

Mr. WATT. It is just hard for me to do that, Senator, because——

Senator TESTER. So let me ask you this: Has Secretary Mnuchin or anybody from the Trump administration—have you approached them or have they approached you about a buffer amount?

Mr. WATT. We have had discussions with the Secretary of Treasury. You have him before you next week, and I think it would be more appropriate for him to talk about it.

Senator TESTER. I will. Did he give you a number?

Mr. WATT. Not a specific number, no.

Senator TESTER. Would he be opposed to a buffer at all? Were they going to stay at the zero, or did they talk about it at all? OK. My 5 minutes is up. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Tester.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. Thank you for holding this very important meeting.

Director Watt, thanks for coming out this morning and sharing your thoughts and your views at the agency.

Mr. WATT. Good to see you again.

Senator SCOTT. You, too, sir. Not on an airplane, so this is good.

Director Watt, you may know that South Carolina is a State where about 1.4 million people live in distressed communities, which is one of the reasons why I have spent a lot of time on what I call my "opportunity agenda," looking for ways to help folks leave those distressed communities and really experience their economic potential. And much of climbing the economic ladder in this country, most of us actually would even suggest that living the American dream means owning your own home. And I think the reality of it is getting there is critically important, and I think there are ways for us to help folks get there and do it in a way that is logical and responsible.

I know that there has been a lot of conversation around the fact that today we are seeing the lowest first-time home buyers since the 1970s. Multiple years in a row we saw a decline in first-time homeowners, and we know that those folks living in distressed communities are the folks who are disproportionately representing those folks who are not able to climb out and experience home ownership for the first time.

We also know that the difference between the net worth of Americans can oftentimes be seen in the equity in that home, and renters' net worth is somewhere around under $10,000, according to the Consumer Finance Report, and for those who own their home it is near $200,000, so at least 20 times more.

And so the question is: How do we help those folks who are paying their rent on time, paying their utilities on time, use that data in evaluating their desire to own a home? There are, according to the statistics, about 26 million people who are credit invisible because the models that some use have not been updated to the latest model. I know that you have, I understand, been considering updating the credit scoring model that GSEs accept. Can you tell me how much progress you have made in that direction and what your thoughts are on going from what is for the most part an antiquated system that leaves so many millions of Americans without the creditworthiness to start the process of buying a home and what you think about heading toward that newer model sooner than later?

Mr. WATT. Senator, we have set as an objective to try to get through this process by the end of this year.

Senator SCOTT. Good.

Mr. WATT. But I will also tell you that we thought it was going to be a lot simpler than it has turned out to be. And the primary reason for that is anytime you start talking about changing the credit scoring models, you set off a whole sequence of events that are very costly for people to change. And changing back and forth between competing models is very difficult for the industry to do.

So we have spent a lot of time trying to figure out what impact there would be to going to a new model. We know that new models will take into account different considerations.

The enterprises themselves and their automated underwriting systems are trying to take some of those factors into account because, unlike what most people assume, the enterprises do not always rely on credit scores to make these decisions. They are factors in making these decisions, but they have independent evaluation tools called "automated underwriting systems" that can make these judgments.

So we have been aggressively asking them to do the innovation that is necessary, but not be irresponsible because part of the reason that a lot of people are having this problem is that their credit was so damaged by bad loans that they got involved in before that they could not—they just have not been able to dig out. So it is a multifaceted problem.

Senator SCOTT. The Chairman has just helped me realize that even on the Banking Committee 5 minutes is still 5 minutes. I am going to try to stretch that a little bit here. I will say two things.

Number one, the fact of the matter is if you are paying your rent on time, your utilities on time, your cable on time, your cell phone on time, look, that is necessary information for making a credit decision. The primary, predominant way that someone buys a home is their credit score. About 76 percent of South Carolinians can be scored. If we were to go to the new model, we would see another 16 percent of South Carolinians being able to be scored.

Said differently, since the GSEs have such a large footprint in the market space, if you are not using the most current model, it is very difficult for 16 percent, nearly 900,000 South Carolinians, to be scored.

Thank you.

Mr. WATT. Thank you.

Chairman CRAPO. Thank you.

Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you.

Director Watt, I am going to shift gears a little and talk about servicing standards to start. How are you? I am the new Senator from Nevada.

Mr. WATT. Good morning.

Senator CORTEZ MASTO. Great to have you here.

So servicing standards, FHFA has done quite a bit to improve servicing standards, but I remain concerned that we have not yet gotten to the core of the problem driving servicer misconduct. In 2011, FHFA released a white paper looking to overhaul the way the GSEs pay servicers but did not complete work in this space. The legal settlements and GSE rules have raised servicing standards. Servicers still stand to profit from default and foreclosure, while modifications are costly. Servicers also still have an incentive

to extract fees from both homeowners and investors, and homeowners are powerless to fire their servicer if they are not satisfied.

Do you agree that we still need to address the way servicers are paid so that they do not profit more from foreclosures than from keeping families in their homes? And then let me follow up with a second question. Is FHFA going to do further work in this space, or is this up to Congress if we are undertaking housing finance reform?

Mr. WATT. The answer to your first question is yes, I agree that something needs to be done in this space. It is a serious concern. We cannot do it alone as the enterprises because lenders have servicers, and they are the bulk of the people who compensate servicers. So if we try to do it alone, we just would not be able to get there without their consultation.

Now, I do not know that there is a legislative solution to it, but we are working aggressively with the industry to try to get through this problem. Servicing used to be just collecting mortgage payments. During the crisis, it became a much, much more difficult exercise, and the compensation did not necessarily follow the complexity of it. So the industry has got to catch up on that.

Of course, now we are moving back to a more normalized time where it might not be as work-intensive as it was during the crisis.

So all of those factors go into evaluating how much you are going to pay a servicer for servicing a loan. That is the collection of the money, which is easy if people pay it on time. It is just an accounting thing. But——

Senator CORTEZ MASTO. Right. Director, I do not mean to cut you off——

Mr. WATT.——if they default——

Senator CORTEZ MASTO. I get it because Nevada was ground zero for the foreclosure crisis, and I will tell you servicers are more interested in the fees and costs that they could get from the foreclosure than they were actually making sure that the loan was performing. So I think we need to address that compensation structure for servicers, and I am hoping you are committed to helping us do that.

Mr. WATT. Certainly. If you can find a legislative solution, I would certainly work aggressively with you to try to help because there is definitely movement needed in this area.

Senator CORTEZ MASTO. OK, great.

Now, let me ask one other question because I know my time is running out. Community banks, some of the up-front credit risk-sharing deals undertaken by the GSEs in recent years have benefited large banks that use a vertical integration model. In other words, the big banks originate the loans, they securitize them, and then they sell the risk off to the market.

One concern that has been raised about this structure is that if it is scaled up too much, you may end up choking off small lender access to the mortgage market. In other words, small lenders cannot compete because they do not have large-scale operations or securitization affiliates.

As Congress contemplates the next phase for GSE reform, do we need to be mindful that credit risk-sharing deals, particularly those

involving up-front risk sharing, do not box out small and community-based lenders?

Mr. WATT. We definitely need to be aware of that, and we are aggressively working on making sure that that does not happen, because one of the things we tried to do during conservatorship is make sure that large and small lenders are treated alike.

Senator CORTEZ MASTO. Right.

Mr. WATT. And that should also be true in the credit-risk transfer space.

Senator CORTEZ MASTO. Thank you. And I know my time is up, but I will submit additional questions for your response as well. Thank you.

Chairman CRAPO. Thank you.

Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. And, Mr. Director, welcome. It is good to see you on this side of the Capitol. Thank you for your service and for being here this morning.

You and I recently discussed the issue of residential Property-Assessed Clean Energy loans, commonly referred to as "PACE loans"—PACE liens, actually, since they get super lien status through local tax systems—and how they affect the housing market. Arkansas does not yet have these residential PACE loans, but many other States do. These loans are unusual not only because they are liens, but also because lenders are not following Truth in Lending Act requirements for disclosure.

As a result, these loans are often high-interest, up to 12 percent for 25 years. They include home liens that jump priority even though these loans come after the mortgage. They contain no Federal disclosure or underwriting, and we have seen several examples of severe consumer abuse. For example, I am aware of a case of an 86-year-old widow on Social Security dealing with severe dementia who was given a PACE loan without Federal disclosure or underwriting for more than $100,000, and she may now lose her home.

To address this scandal, Brad Sherman in the House of Representatives and I have introduced legislation that would clarify that the Truth in Lending Act applies to PACE loans. I would like to discuss with you Fannie and Freddie's position on these types of PACE liens. Do Fannie and Freddie purchase or refinance mortgages with PACE liens attached?

Mr. WATT. We have a policy against doing that. The problem is that these liens are put on after our loans are already made, and they jump ahead of Fannie and Freddie's lien position, which has been our primary concern. And, also, they show up in the tax office, not in the land registry office, so even after they are put on after we have bought the loans that were superior to them, they jump ahead. Then we do not get notice of that so that we can adjust for it.

So there are multiple problems. Your bill would, I believe, address or start to address some of those problems, but our primary concern is that these so-called tax liens—you know, most people think of a tax as something that benefits a larger, wider group of people, not a single homeowner. And this runs counter to that theory because it treats them as a superior tax lien, which we have already taken into account anytime you make a loan. But then you

come back, and you might put a $25,000, $30,000 renovation for efficiency. It may be worth that. It may not be worth that. But we do not have any control over that, and it has really created a serious problem for the mortgage finance industry. And so we prohibit it, but there are limitations to even how we can even find out about them.

Senator COTTON. Well, thank you very much for that, Director Watt. So my legislation and Representative Sherman's legislation would address the consumer-facing problems that you have, oftentimes vulnerable consumers being exploited by predatory lenders by applying the Truth in Lending Act. But what I hear you saying is that even if that Act passed, you would still have these separate issues because, one, it is a super lien that takes over your first priority mortgage; two, it is retroactive, after those mortgages; and, three, as you say, it even occurs in oftentimes a separate record system, the tax system versus the land registry system.

Mr. WATT. Right.

Senator COTTON. But even if we address the consumer abuse, you would still have the problem of your financing system, which could create broader problems of liquidity in the mortgage market. Is that right?

Mr. WATT. You are absolutely right. Now, I will give you another little piece of information. There is no rational reason, if you think about it, why a superior tax lien would be having an interest rate of 10, 11, 12 percent when a lien subordinate to it is going at 4 percent or 5 percent. That is the market rate. So there are preferences here that are really—it is just not something that is working in the marketplace.

Senator COTTON. Well, thank you very much for protecting the taxpayers from what really is a scandalous program, Director Watt. We are trying to protect consumers, but as you say, there are real problems that the PACE loan system creates for taxpayers as well. I hope that you preserve that system. I have talked to your counterparts, Director Cordray and Secretary Carson as well, about this program to see what we can do to rein in these abuses.

I thank you for your time.

Senator BROWN. [Presiding.] Thank you, Senator Cotton.

Senator Menendez.

Senator MENENDEZ. Thank you. Director Watt, welcome.

Mr. WATT. Thank you.

Senator MENENDEZ. It was a privilege to serve with you in the House before. Your service is exemplary.

As the Ranking Democrat on the Housing Subcommittee, I wanted to take this first opportunity that the full Committee has had on the question of housing finance systems to lay out a few principles that I think are important.

One is to have a system that ensures broad affordability and access, including for those homeowners in high-cost States like New Jersey, strong mortgage servicing standards that work to keep borrowers in their homes and foreclosure prevention options that provide homeowners with sustainable modifications; of course, the protection of taxpayer dollars; equitable access for lenders of all sizes so we do not overly concentrate the market in the largest institutions; and clear obligations to serve low- and moderate-income

borrowers and support the development and preservation of affordable housing. I am going to look forward to work toward those goals with those who have similar views.

My home State of New Jersey continues to struggle with underwater foreclosures, and from 2007 to 2016, 85,000 New Jersey residents lost their homes to foreclosure; 3.2 million homes around the country still have underwater mortgages, including more than 9 percent in New Jersey.

In 2014, FHFA announced that it, Freddie Mac, and later Fannie Mae would sell off delinquent loans in bulk in order to reduce risks to taxpayers and to help families stay in their homes. The enterprises have sold off more than 11,000 loans in New Jersey, and there are recent plans to do more.

So I was extremely pleased in March to see New Jersey Community Capital win the bid on a community impact pool of 158 loans in the New Jersey and New York area. In my mind, it is clear that community-oriented organizations like New Jersey Community Capital, with vested interests in the neighborhood improvements, can achieve outcomes that mutually benefit borrowers, distressed communities, and the enterprises themselves.

So what I want to know from you is what FHFA and the enterprises can do to provide greater access to loan sales for community-oriented institutions like New Jersey Community Capital who are better positioned to help borrowers stay in their homes. And I understand that Fannie Mae is prohibited from entering into direct sales of assets, but it could offer pools for nonprofit bidders, for example. Given the proven track record of an entity like New Jersey Community Capital, such pools would ensure greater community benefits and outcomes for loans sold through the program.

So I would like to hear what you think could be done better, and I would like to encourage FHFA to push Fannie Mae to pursue loan sales exclusively for nonprofits.

Mr. WATT. So this is an area we have done a lot of work in, and to be clear, one purpose was to get risk off of the enterprises' books. But a more important purpose was to get these loans into the hands of people who had more ability than we had, Fannie and Freddie had, because of our statutory limitations to do the kind of innovative community preservation and stabilization work.

So we have always had as an objective trying to get these loans to people who are responsible, which is why we have gone back and changed the criteria for bidders to write in certain requirements that they have to comply with, whether they are community-based or whether they are big purchasers.

So what we did is we have reduced substantially the size of the pools because the biggest impediment to nonprofits is just that nonprofits generally are nonprofits, they do not have money. And so you need money to buy these nonperforming loans off of our books. We are statutorily obligated not to give them away. We cannot do that. So reducing the——

Senator MENENDEZ. And that is not what I am arguing for.

Mr. WATT. Yeah, I understand. Reducing the size of the loan pool was very critical. In fact, I think eight or nine of the community loan pools have been won by the organization in your State.

And I will tell you what else we have done. We have met with local governments who were writing to us or State governments who were writing to us saying you should quit selling these loans to big Wall Street firms. And our response to them is, OK, if you would buy them, you have a vested interest in community stabilization, you are closer to the community, we can identify the loans in your State, and you could help the nonprofits, or you as an entity, as a State or local government, could get into this space. And we are close to dealing with the State of New York because the bulk of these loans really are in Florida, New Jersey, New York—you know, five States are where the bulk of them are.

So we are trying to be as aggressive and innovative in this space as we can be because we share the objective of getting them and having these decisions about stabilizing communities made as close to the neighborhoods as the decisions can be made.

Senator MENENDEZ. Well, we look forward to working with you and suggesting some other ideas to achieve that. It is also not only about community stabilization; in many cases, it is also about the reality of communities of color being able to have a place to continue to call home.

Thank you, Mr. Chairman.

Senator BROWN. Thank you, Senator Menendez.

We are going to work through the roll call, which just began, and Senator Crapo will return shortly. Senator Tillis?

Senator TILLIS. Thank you, Senator Brown. Mel, it is good to see you. You would not remember this or necessarily know it, but the first Congressman I ever met was you in 2004 when I was a Cornelius commissioner, and you were very gracious and attentive in our discussions we had in your office. I remember that well, and I appreciate your indulgence there, and your indulgence now.

Mr. WATT. I am still one of your constituents.

Senator TILLIS. I know you are.

[Laughter.]

Senator TILLIS. Born in Steele Creek. And, Mel, I think that you are right in the position that you took that we have got to come up with the solution. But I have to believe that the work that you have done—you mentioned in response to one question that you have implemented enterprise reforms—that the best way for us to get to a bipartisan something that ultimately comes out of Congress is to be very much instructed by the views of the White House and the views of your organization in terms of boundaries or priorities. Do you agree with that? And what would you envision as a good first step so that—we have seen proposals over the past couple of years. They have not moved forward—but to kind of get a universe of what the good ideas are and maybe some things that would not be based on your on-the-ground experience? Could you talk a little bit about that?

Mr. WATT. Senator, I have gotten a lot of criticism because I took FHFA out of the housing finance discussion because it seemed to me that our role was to manage the enterprises in conservatorship in what I affectionately called "the here and the now." And so we have never developed an agency position on these things. But I agree with you, if somebody asked us to do that, we have a lot of experience. It is just not in our statutory mandate. And I have not

wanted to—you know, people get critical when I get out there and start advocating for certain principles in housing finance because I have not been asked to do that and it is not part of my statutory mandate.

Senator TILLIS. I admire the fact that you are staying within the lanes. That is not necessarily always the case in every agency, so I appreciate that. But in this case, you have expertise that I think would be very helpful, and rather than drilling down on the details in 2 minutes and 30 seconds left, the——

Mr. WATT. If you all asked me to do it, I would try to be a lot more aggressive in that space, yes.

Senator TILLIS. I think it would be helpful, particularly as it relates to when you have discussions about where do we go forward with GSE reform, the end state of Fannie or Freddie or some newly combined institution, those sorts of things I think could be very, very helpful to get your insights on the role that you have played over the past few years.

Mr. WATT. Yes.

Senator TILLIS. And we are going to need that help.

I do have one question that really just relates to the delay, the recent delay in pushing back the—I think it is the underlying CSS system under CSP, but it is being pushed back into 2019. There are some who have expressed concern that there may not be a commitment to moving forward with that, but I think that even in your written testimony, you said "when," you did not say "if." So it is your intention; it is just a matter of your working through technical difficulties——

Mr. WATT. Absolutely. This is a major, major undertaking to build that platform, and we have learned a lot, and we have tried to stay on a schedule. But nobody should read that we are not committed to the CSP.

Senator TILLIS. And with the delay, do you feel like the pushback to 2019 is an achievable—how would you rate the soundness of that implementation? Because, as you know, the industry—a lot of other stakeholders have to invest a lot of time in it, and planning, and I am just trying to get some idea of whether or not that needs to be relooked or if that is a relatively sound date moving forward for planning purposes.

Mr. WATT. I think it is sound, and I think we actually built a little leeway into the timeline because we did not want to go back and re-extend again. So we built in some time. We just added actually 6 more months.

Senator TILLIS. The end of 2018 to mid-2019?

Mr. WATT. Right. So I think we will be ready, and it is critically important and it is absolutely necessary to get to a single security which will save the taxpayers a lot of money, will help support the TBA market, and increase liquidity in the market. So there is no question about that. We are absolutely committed to it.

Senator TILLIS. Well, thank you. And with the Chair and the Ranking Member, we will be discussing how we can actually engage you to get you to a point where we are fully harvesting your knowledge and expertise and opinions on how we move forward, because it is going to be critically important if we are going to get

a bipartisan solution that actually fulfills what I think is our obligation to move forward with reform.

Thank you.

Mr. WATT. Thank you.

Chairman CRAPO. [Presiding.] Thank you, Senator Tillis.

Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. And I want to say to my dear friend, Congressman Watt and Director Watt, how pleased we are to have you here and what a fine job that you have done in this position. We are grateful for your service to our country.

Mr. WATT. Thank you.

Senator DONNELLY. The first thing I want to ask you is on the quarterly dividends to Treasury—and I know you are going to start putting a buffer in as well that you had talked about a little bit earlier. Do you expect that that flow will be positive for the foreseeable future as you look at the markets?

Mr. WATT. I expect it to, yes. But, you know, there are some factors that I outlined in my opening statement that could adversely impact that, and especially when it is done on a quarterly basis, those fluctuations can be exaggerated.

Senator DONNELLY. One of the areas for my State that is important is manufactured housing, and I have encouraged your agency to finish the duty-to-serve rule for many years because I believe it will increase affordable home ownership, particularly in rural areas. The pilot chattel program for manufactured housing is a good start, but I encourage you to expand those efforts, and I am encouraged that the duty-to-serve is making progress.

How do you see that rule impacting manufactured housing, particularly with chattel lending?

Mr. WATT. I think having a duty-to-serve rule and approaching it in the way we are approaching it is the responsible way to do it, to do piloting in this area, because it is an area that Fannie and Freddie have not been involved in, certainly not in the last 8, 10 years during conservatorship. And so it is a specialized market, and we have to get involved in it in a responsible way. And I believe that if we do that, the standards for the industry will actually be raised. And so we are just pushing the two enterprises to look at ways to do this responsibly. Do not just wade in there as some people wanted us to do and try to do the same thing in the chattel space that we do in the fixed housing space, right? Because there are different challenges and different obstacles and there are different risks associated with it. And we have to responsibly assess those risks and be able to meet them and price them appropriately.

Senator DONNELLY. When you look at affordable home ownership, which I know has always been one of your cornerstones, various legislative proposals we have heard have been offered that would change the GSEs from the current status. One of my fears is that if the wrong changes are made, it could endanger the American dream for middle-class families who could be priced out of a mortgage loan.

Do you share concerns around the 30-year fixed-rate mortgage that those changes could make that more difficult or could lead to higher interest rates or make it harder to borrow?

Mr. WATT. Well, I think the 30-year fixed-rate mortgage has become a standard for American homeowners, and it is important to retain that. How it gets retained or what is necessary to retain it I think is a subject that this Committee and Congress will have to address. But I do think that it is an expectation that the American people have because it has always been there.

Senator DONNELLY. What are the changes to the current system that worry you the most in terms of maintaining accessibility and affordability that you have heard?

Mr. WATT. Well, I mean, I think a lot of the plans that I have seen have some elements of trying to protect affordability, and I do believe that that is important to do, and I think the American people believe that it is important to do. So how that gets done and how it gets structured in housing finance reform I think is more in the housing finance reform space than it is in the conservatorship space.

Senator DONNELLY. I want to commend you for your leadership, for your steering this into a very stable, solid position, that you have done a strong job in trying to follow the mandates that are there, and you have taken a terrific leadership position. And, again, I want to just say how grateful I am for your friendship as well.

Mr. WATT. Thank you so much.

Senator DONNELLY. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Donnelly.

And, Director, you may have seen everyone disappear here. There is a vote going on.

Mr. WATT. I was aware of that.

[Laughter.]

Chairman CRAPO. I do expect some Senators to return, and while we are waiting for some of them, I will take another turn at questions.

I want to return to the issue that Senator Corker discussed with you. As I understand it, according to the Preferred Stock Agreements, Treasury has committed to buying senior preferred stock to ensure that Freddie and Fannie maintain a positive net worth. And there is currently $258 billion of Treasury assistance under these agreements that can be accessed.

Senator Corker—I do not want to speak for him, but as I understand his point, he is saying that the markets know that this agreement is in place and that this option for the conservatorship is available if there is a problem, as you have described potentially could come. I understand you to have concern about whether—well, I guess what are your concerns about using that option to deal with a problem if there is an issue that arises?

Mr. WATT. I think, Senator, Mr. Chairman, when you say the markets know, I think if you ask most people out in the public, there is actually the opinion that there is an unlimited guarantee to this space, and that is not true. And if you continue to erode the amount of the backing, I think that becomes more apparent to investors, and it runs the risk that it could start to have an impact. And that is all I have said, and so I think it is important not to draw more because if you draw more, it will reduce that explicit dollar amount of backing. It is already out of whack because——

Chairman CRAPO. And create some unease in the market.

Mr. WATT. Right. It is already out of whack because if you look at it, Freddie is substantially smaller than Fannie, but Freddie actually has more backing than Fannie does.

Chairman CRAPO. So let me ask you, in that context then, what is the solution? Is it to stop sweeping as much—would you recommend that the Treasury agreement for the sweep be adjusted so that the buffer could be created? Or what would you think would be the appropriate way to protect against this——

Mr. WATT. Well, I think there are several options that we can look at that are—they are not legislative options because the PSPA is a contractual agreement. And I think the appropriate conversations about those options really need to take place between us and the Secretary of Treasury.

The problem is that if the Committee sends to the Secretary of Treasury the message that this is a no-no to have those discussions or to try to resolve this in a coordinated way, then it leaves it to us to have to unilaterally deal with it, which is something that I would prefer not to do.

Chairman CRAPO. Which gets back to the dividend question in a sense.

Mr. WATT. Right. But there are ways to address this by minor adjustments to the PSPA, and that is not a move toward recap and release. It is not an invasion of the prerogatives of this Committee. It is not an invasion into housing finance reform. But we have to have that leeway to do it, and if the two of us do not have it—it is a bilateral agreement. If the two parties cannot dance, then I have to—I may have to dance by myself.

Chairman CRAPO. So if I understand——

Mr. WATT. And that is not a pleasant position to be in.

[Laughter.]

Mr. WATT. And it may not be pretty. But——

Chairman CRAPO. You have a good way of putting it.

Mr. WATT. But I have the ultimate risk here, is the point that I keep trying to make, which is why I made the analogy to my automobile and the collision bag. Right? I mean, you know, somebody has to assume that ultimate risk, and right now, unless we can assume it together, it falls on——

Chairman CRAPO. When you say "we," you are referring to you and Treasury?

Mr. WATT. That is correct.

Chairman CRAPO. So, first of all, let me say I appreciate what you have reiterated several times in this hearing, and I want to restate it, that any of the moves that you ultimately make, whether it be agreements with Treasury, whether it be a unilateral move, which I do not believe you should make, that those are not moves toward recap and release.

Mr. WATT. And I made one important point today.

Chairman CRAPO. That point is made, and I appreciate it being made.

Mr. WATT. All right.

Chairman CRAPO. I also believe that this conversation puts a highlight or an exclamation point on the other point—one of the other points that you have made today, which is that we need to

move expeditiously to resolve this issue here in Congress with appropriate housing finance reform. I think this really highlights that concern.

That being said, I just want to delve a little deeper and clarify. I am hearing you say that you feel—and tell me if I am understanding you wrongly—that you feel that a draw on—or an action under the current agreements to sell additional preferred stock to Treasury, to keep that buffer in place should we end up in a problem, is a less preferable option or it would be received less favorably in terms of its market impact than an adjustment to those agreements entered into mutually between you and the Secretary of Treasury. Is that right?

I guess my question is this: It seems to me that we have some preferred stock purchase agreements in place. If accessing the terms of those agreements is going to create market unease, would adjusting those agreements not also create market unease?

Mr. WATT. Not to deal with a short-term loss situation. This is just about dealing with a short-term possibility of a loss. And I do not think the market would react to that. I think, you know, from everything I have heard, Senator, this reducing buffer was designed to put pressure on Congress to do housing finance reform. It was a 3-year, $3 billion down to—you know, it just went down. But if it gets to zero, there is no buffer there. There is no operating reserve that we can rely on. We would have to make the draw.

Chairman CRAPO. Well, I understand that.

Mr. WATT. And that would be, I think—it could be, and I should not say it would be. It could be unsettling to the market, and we cannot as conservator afford to have that happen because then you start to adversely affect the pricing of mortgages; you run the risk of having liquidity issues in the market. I mean, you know, it is just——

Chairman CRAPO. I understand.

Mr. WATT. Now, it may be far-fetched. It may be—and people can talk about it in theoretical terms. But——

Chairman CRAPO. But you are concerned about the actual——

Mr. WATT. Right.

Chairman CRAPO. Well, let me just say I tend to agree with Senator Corker, and perhaps the conversations you have had with me and him today can help to allay that worry in the marketplace, that your utilization of the terms of the existing agreements should not create any undue concern.

That being said, I understand your point, and I think it just highlights that both you and the Secretary of Treasury need to work at this, and we in Congress need to work on getting a permanent solution in place.

Mr. WATT. You do need to understand, Mr. Chairman, though, that a term of the existing agreement gives us the authority to either declare or not declare a dividend. So I——

Chairman CRAPO. And you are going to send me some legal authority on——

Mr. WATT. That is not what I am lobbying to do. I think a better solution to this would be a joint solution.

Chairman CRAPO. I agree with that, and that is what I was getting to in my earlier questions. Thank you for that.

Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman.

I am going to go back to the 30-year fixed-rate mortgage. Do not sigh so heavily. I think I just want yes-or-no questions, Mel.

Do you believe that a Federal backstop is necessary to ensure a 30-year fixed-rate mortgage?

Mr. WATT. I am sighing because our agency has not developed a position on that, and so any opinion I could give would be my personal opinion. And I have, since I took this position, just assiduously stuck to the notion that I should not be expressing my personal opinions as opposed to agency opinions.

Senator HEITKAMP. I will tell you one of the greatest challenges we have in my State is housing, whether it is rural housing, whether it is affordable housing across the board, I have done economic roundtables, economic development roundtables. Number one, housing, access to housing, affordable housing. We cannot have rural development without housing. We cannot have economic development without housing. We need a workforce, and the workforce that comes to North Dakota needs to make sure that they can afford their house and afford a place to live and live in good neighborhoods.

So I understand the sigh, and I probably know what it means. But the next question is, in the absence of a Federal backstop, what options would the middle-class family have for getting access to a home loan?

Mr. WATT. Again, I think this Committee would have to define those options. And I want to go back and re-emphasize my position again. My responsibility as conservator is to manage in the state that we have now, and that is what I try to stick—"stick to my knitting," as they say. I think when you get into defining what will be necessary in the future, that is housing finance reform, and I think it is the Congress' responsibility to do that.

So I do not mean to sound like I am trying to avoid the questions that you are asking. I just do not want to be criticized, and once I left Congress, I did not think it was my prerogative anymore to express personal opinions about how legislative things needed to be done, and especially as long as I am the Director of an agency which has not developed an agency position on it.

Senator HEITKAMP. When will you develop an agency position on this?

Mr. WATT. Well, we would not unless you all ask us to do—if you ask us to do it, because it is not in our statutory mandate now to do future——

Senator HEITKAMP. So maybe we can get to this in a different way, and I would ask you whether your agency has conducted any analysis of what complete privatization would mean for access to mortgage credit and corresponding impact on middle-class families.

Mr. WATT. I do not think our agency has conducted formal research on that. We are aware of literature, and we obviously have people in our agency who probably have great expertise and could develop such a position.

Senator HEITKAMP. Well, I think that is the point. The point is your agency does have great expertise. No one in Government knows what is happening in the mortgage market, knows what is

happening in affordable housing—and I include HUD in this—knows what you know. You see it every day. You have the metrics. We need advice. We need information. And we are going to have a choice here. We are going to have a choice on whether we are going to take that all-important provision of the American dream, which is home ownership, and make it completely inaccessible for middle-class families. And that is a major initiative for us, and it is a major concern.

And so at some point here, we do need to have some analysis using the data you have on what works and what would not work. We can listen to the mortgage bankers. We can listen to the lending community who express great concern about complete privatization. I think we had a proposal here, you know, starting out Corker-Warner, then it became Crapo-Johnson. But I think we have got to have your advice, and so you cannot play coy on this, and I know you——

Mr. WATT. Well, we are not being coy.

Senator HEITKAMP. I am not saying that as a pejorative.

Mr. WATT. Yeah.

Senator HEITKAMP. I am just saying you have got to engage and give us advice and data that is going to help us make decisions.

Mr. WATT. We regularly give technical advice. Any proposal that comes out, we will say, look, if you do this, it will have this impact.

Senator HEITKAMP. So I just asked you if we completely privatized, what is the impact?

Mr. WATT. Well, if that is a proposal that is out there——

Senator HEITKAMP. It is out there.

Mr. WATT. Well, it is out there——

Senator HEITKAMP. It is called the "CHOICE Act."

Mr. WATT. I am not sure it is out there on this side of the Capitol. It may be out there on the other side of the Capitol.

[Laughter.]

Senator HEITKAMP. I am over my time, Mr. Watt. I am sure we will have more conversations about this in the future.

Chairman CRAPO. Thank you. And, Senator Schatz, I apologize. I skipped over you. I apologize for that. You got here earlier than some of the other Senators, so it is your turn now.

Senator SCHATZ. Thank you, Mr. Chairman.

Director Watt, I want to talk to you about the role of Fannie and Freddie in financing multi-family housing and the importance of this sector for providing affordable housing. Multi-family housing is often overlooked when we talk about housing finance reform.

I am aware that FHFA has been making an effort over the past few years to realign Fannie and Freddie's activities with their core mission under the law of helping underserved communities such as low-income and rural communities. This includes their work on financing multi-family housing.

Have you seen progress in motivating GSEs to finance more affordable multi-family housing for low-income families?

Mr. WATT. Yes. When we capped the amount that they could do in the upper end and said you cannot do any more because then you would be taking business away from the private sector, they turned a substantial amount of attention to the affordable space.

And so, yes, we have seen substantial progress in that area, and I think you will continue to see progress.

I am glad you focused on this because a lot of the questions sometimes assume that our responsibility as FHFA and Fannie and Freddie's responsibility is only in home ownership. It is actually in access to affordable housing, and we are supposed to be agnostic really about whether it is home ownership or rental. Obviously, because most people think the American dream involves home ownership, there is more emphasis on that. But we are playing an active role in the affordable rental space, and the private sector is playing a very active role in the other part of the rental space. We control the amount that Fannie and Freddie play in that space.

Senator SCHATZ. So there is a lot of talk on this Committee and elsewhere, when we talk about housing finance reform, about the sort of macro aspects of this, and I want to drill down on what we can do to build more multi-family units, apartment buildings, rentals, whatever it may be, because it strikes me that Heidi and I have the same problem, and yet our States are so different. And I see Chris Van Hollen from Maryland nodding as well. This is a problem in every State, rural and urban, and in every part of every State.

And so the question I have is: Is there more that you can do administratively to push in this direction to sort of reorient your agency? And then the other question I have is: Is there any statutory impediment that we might be able to work on as we do reform?

Mr. WATT. I do not think we have statutory impediments in this area. The one thing we have done to get more aggressive in this space, especially in rural communities, is the duty-to-serve rule, which obligates the enterprises to take aggressive steps to serve underserved areas. And a lot of the problems in this space are in underserved rural areas because Fannie and Freddie have not been backing manufactured housing. They do not do chattel lending. So the duty-to-serve rule is forcing them to look at in a responsible way how they might be able to do more with manufactured housing, which is a major part of the housing stock, especially in rural areas.

So if we do not do something in that space, then we are missing an opportunity to support housing for people in rural areas. So we finally got—you know, the legislation was out there since 2008. A run was made at putting a rule out there in 2010, and then it was put on the back burner. We finally have finalized the duty-to-serve rule, and the first plans, proposed plans, for the GSEs have come forward in the last 2 weeks, in fact.

Senator SCHATZ. Thank you.

Chairman CRAPO. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Director Watt, it is great to see you.

Mr. WATT. Good to see you.

Senator VAN HOLLEN. Thank you for your service in the Congress and your good stewardship at FHFA. And I want to thank you for exercising good and prudent judgment on behalf of the mission that you have been entrusted with.

We all know that families across the country were absolutely devastated by the financial meltdown. Five million Americans lost their homes, and the recovery has been uneven. And if you look at my State of Maryland, if you look at Baltimore City, Prince Georges County, and some of our rural areas, they are still not fully back on their feet. They are facing challenges of access to credit, foreclosure mitigation, neighborhood blight.

Can you talk a little bit about the tools you have at your disposal to address these issues? And if you could also take a moment to discuss the progress we may be making with the Neighborhood Stabilization Initiative in Baltimore City.

Mr. WATT. Well, we started Neighborhood Stabilization with Detroit, Chicago, and one other, and then we expanded it substantially, and one of the places we expanded it to was Baltimore because—and we just went down the list of the most vulnerable neighborhoods. We did not do this, you know, just off the top of our head. It was done very scientifically.

So I think what that does is it gives Fannie and Freddie more latitude in how they dispose of properties in vulnerable neighborhoods. It gives them the opportunity to work with nonprofits who are in the community, and in some cases, where it is going to cost them more to go through a foreclosure process than the property is worth, it gives them even the opportunity to contribute housing. It has to be a financial decision, obviously.

So I think we are making progress in all of the cities that we—and they are primarily cities because they were high-concentration areas that got hit very, very hard in the crisis.

Senator VAN HOLLEN. Yes, thank you, and I look forward to working with you and your team on that, especially in Maryland.

A question about the National Housing Trust, because one of the things the State of Maryland and some of our counties have used very effectively is the idea of housing trusts. And, of course, to be effective, housing trusts really require a source of dedicated revenue so that they can make decisions with their development partners and allow these projects to be capitalized in a timely manner.

Last year, we saw, I believe, the first installment of funds from the National Housing Trust fund dollars. Can you talk about the importance of that fund and give us a sense of how you think it is going to be capitalized going forward?

Mr. WATT. Well, it is on the statutes now, and it was suspended administratively, and I took a lot of heat for reinstating it. But it was a statutory mandate, and I did not see a reason not to follow the statute, as I told this Committee when I appeared before it in my confirmation process. And since that has occurred, in 2016 $382 billion—million, I am sorry, million dollars not billion—has been contributed to the trust fund in 2016, and $455 million has been contributed in—based on 2016 earnings because it is always a year behind. So we do not have any control at FHFA about what happens with the funds after they go over there. They go part to HUD and part to Treasury. So we do not have any control over the disposition that has been made of those funds, but we did have the authority to make the decision to fund, to reverse the decision that had been made not to fund the Housing Trust Fund. And we made it, and I think it hopefully has served a useful purpose.

Senator VAN HOLLEN. Well, I want to thank you for making that decision. As you pointed out, that was consistent with the statute. I appreciate your moving forward, and I just want you to know that Maryland is using its allocation of those funds effectively. So thank you. I appreciate it.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. Good to see you again, Director Watt.

I am glad this Committee is tackling housing finance reform again. I will push the same point I have pushed since I joined the Senate in 2013. We need to end the Government conservatorship of Fannie Mae and Freddie Mac, and we need to do so in a way that protects taxpayers, establishes an explicit and paid-for Government guarantee, and provides more affordable housing options for people in Massachusetts and all across the country.

Now, on that question of access, Director Watt, as you know, the CFPB's current mortgage rules define certain loans as qualified mortgages, or QM, and offer lenders legal immunity for loans that meet the QM standards. But the CFPB also grants QM status to any mortgage that is eligible for purchase by Fannie Mae or Freddie Mac, which means that the underwriting criteria at Fannie and Freddie help define the scope of the QM rule and, accordingly, have a huge impact on the kinds of families that can get access to mortgage credit.

Despite all of this, Fannie and Freddie's underwriting algorithms and criteria are kept secret. So can you explain why it is reasonable to keep this information hidden given its importance both to the economy and to appropriate oversight of the mortgage market?

Mr. WATT. I do not know that I can explain that to you, Senator, but I can have our agency explain it to you as we understand it. But I am not sure that I have focused on that as an issue.

Senator WARREN. Well, let me suggest it this way then: I think it is an issue, and instead of explaining it to me, what I would really like to do is get a commitment as soon as we can that we would make this information public.

Mr. WATT. Well, I would not make that commitment without knowing why it is not public and so——

Senator WARREN. I am glad to pursue that——

Mr. WATT.——that would be part of what we would be——

Senator WARREN. But I want to be clear. As long as these entities are in conservatorship and as long as their standards are setting the boundaries of our consumer Federal protection issues, I think it is important that they be public. We cannot exercise oversight without them.

So let me ask another question, and that is about principal reduction. In the 2008 bank bailout, Congress required FHFA to adopt a plan, and I am going to read here, that "seeks to maximize assistance for homeowners and minimize foreclosures." And Congress specifically required FHFA to consider principal reduction to achieve those goals. That was in 2008. And for years, FHFA did nothing, and people kept losing their homes.

And when you were nominated to run the agency in 2013, you said you would tackle principal reduction. I asked you about it repeatedly, but for 2 years after you were sworn in, you did not move an inch on this.

Finally, in April of 2016, you announced a principal reduction program. That is 8 years and literally millions of foreclosures later. Even then, you used eligibility criteria that were so demanding that, by your own calculations, only 33,000 borrowers in the entire Nation would qualify for principal reduction.

And, worse, you did not actually require services to reduce the loan principal for those 33,000 eligible borrowers. You only required them to "solicit borrowers eligible for a principal reduction modification" no later than October 15th of 2016.

All right. We are now nearly 7 months past that October deadline. I have looked at FHFA's quarterly foreclosure reports. I cannot find any information about how this program is working, so I just want to know: How many of those 33,000 eligible borrowers as of today have actually gotten a principal reduction?

Mr. WATT. I cannot give you the exact number, but I can tell you it is a small number. The 33,000 is a small number, and I have tried to explain why that is so. We——

Senator WARREN. I get that the 33,000 is a small number. What portion of the 33,000—can you give me a ballpark?

Mr. WATT. I will provide it to you. I just do not have it at my fingertips.

Senator WARREN. Do you have a ballpark? Half?

Mr. WATT. No, I do not think it is half. Actually, I think——

Senator WARREN. A quarter?

Mr. WATT. I think our projections indicated that it would be more in the range of 15 to 20 percent would be who would likely be able to do this.

Senator WARREN. So after Congress mandated a plan to maximize——

Mr. WATT. Well, you did not mandate that—wait a minute.

Senator WARREN. We did in 2008. It is written in the statute. It says maximize——

Mr. WATT. But there is also a statute that—a countervailing provision in the statute that says we cannot do certain things that are not economically feasible. So the analysis I did——

Senator WARREN. I am sorry——

Mr. WATT.——to get to——

Senator WARREN. I am sorry, Director Watt——

Mr. WATT.——the 33,000 got to the people that we could do with justice to both statutes.

Senator WARREN. For years—for years—people lost their homes because FHFA would not enforce the part of the bill that says give some relief to homeowners. And study after study showed that it was economically feasible to do that, and instead millions of people lost their homes.

Mr. WATT. Senator, that is just not true now. What we did not do was principal reduction, but there are millions and millions of people that we have provided relief for whose homes were in jeopardy. So to say that we have not done anything in that space, just

because we did a modest principal reduction program, is just not true.

Senator WARREN. Well, but you did not do the principal reduction program——

Mr. WATT. We did not do the principal reduction——

Senator WARREN.——for years and years and years——

Mr. WATT.——and I have explained that to you multiple times in this Committee why.

Senator WARREN. You know, actually, it is interesting. You did not start out explaining it. You started out saying you would do it. I asked you in this hearing room over and over. I asked you originally at your confirmation hearing and at follow-up oversight, and you did not say we have already done something else. You said you would do principal reduction.

Mr. WATT. Senator, I do not believe——

Senator WARREN. And now you——

Mr. WATT.——if you go back and look at the record, either at my confirmation hearing or at any point in this hearing, in the hearing where we discussed this, that I made that commitment to you. I said I would look at it, I would do it in accordance with the statute, and that is exactly what I have done.

Senator WARREN. And now you are down to a few thousand people. You know, after the crisis, the money just flew out the door for the banks, billions and billions of dollars, as fast as people could sign the checks. But money for people, many of whom had been ripped off by those same banks, it was just one message of delay and no and we have to balance this other thing out, handwringing about moral hazard, excuses not to help people——

Mr. WATT. I certainly hope you are not blaming me for that.

Senator WARREN. You were in charge for at least——

Mr. WATT. I did not create that situation. I tried to stop it when I was a Member of the House by getting people to quit making loans to people who could not afford to repay them. I mean, I was the——

Chairman CRAPO. We need to move on.

Mr. WATT.——original author of the bill. So I do not know—I agree that all of those things have taken place, but to make it sound like for some reason I am responsible for that I think is unfair and untrue and unjust——

Senator WARREN. So let me say, Mr. Watt——

Mr. WATT.——and all of the "un's" that I can think of.

Senator WARREN. Mr. Watt, Mr. Watt, the people who preceded you certainly share the blame. They did nothing. But when you came in—you have been driving this bus since 2013, and on principal reduction, by your own numbers, at best a few thousand people have gotten help. And I think that is shameful.

Chairman CRAPO. We need to move on. I have let this go on a bit so the two of you could get it out, but it is——

[Laughter.]

Chairman CRAPO. It is out. Now it is Senator Reed's turn. Senator Reed.

Senator REED. Well, thank you, Mr. Chairman.

Director, in your testimony you state, and I quote:

> Like any business, the enterprises need some kind of buffer to shield against short-term operating losses. In fact, it is especially irresponsible for the enterprises not to have such a limited buffer because a loss in any quarter would result in an additional draw of taxpayer support and reduce the fixed dollar commitment the Treasury Department has made to support the enterprises.

By "additional draw of taxpayer support," what I hear you saying is that you want to prevent further taxpayer bailouts. Is that accurate?

Mr. WATT. Well, there is that risk that additional draws could be misinterpreted by, and we have to guard against that risk, yes.

Senator REED. So, in effect, what you want to do is have a buffer in your organization so that you can respond to changing conditions in the market and avoid——

Mr. WATT. That is correct. And not even changing conditions in the market, because we monitor closely changing conditions in the market. These are noncredit-related factors that are driving losses sometimes that have nothing to do with whether we are responsible or not. They are basically accounting the way you have to account for things and the timing of the accounting process. So it is really not even about losses. It is more about accounting things.

Now, if tax reform were done, depending on the extent of the corporate tax reduction, there would be a dramatic impact, depending on—I mean on it, and we can calculate that. So that would be one of the factors that we would be monitoring regularly to see what is happening in that space. But this is a risk that—I do not want to make it sound like it is a likely thing to happen, because I think that could be misinterpreted. But as conservator, we do not have the luxury of assuming that risk. And you were not here earlier when I used the example of when I got the notice that the airbag on my car needed to be replaced, and everybody was telling me, "Oh, no, that is not a problem. You are not going to have"—but I was the responsible party in my family, and now I am the responsible party. I am driving these cars. Until Congress changes the cars that I am driving, I have to drive these cars, and I have to make them safe and guard against those kind of even remote risks that we have.

Senator REED. Thank you. There was a discussion, obviously, of the principal reduction, but there are a number of loans—I am told 59,000 nonperforming loans—which Fannie and Freddie have sold to the private sector, and they are subject either to some type of remediation or other efforts. Could you tell us what you have done to improve the borrower and neighborhood outcomes? I know principal reduction is one, but are there other things you have done?

Mr. WATT. I wish Senator Warren was still here to hear this. One of the reasons we did nonperforming loan sales was that the private sector who buys these loans has substantially more flexibility than Fannie and Freddie have statutorily to do principal reduction. And it is part of the waterfall in the nonperforming loan sales program. They are required to consider that as an option if it would improve the ability of borrowers to perform on their loans and get those loans reinstated at some reduced interest rate or longer term or reduced principal amount. All of those things are in the nonperforming loan requirements that we have adopted. We could not do any more than we did as Fannie and Freddie, but we

could transfer the loans to the private sector, and they have substantially more flexibility, and that was one of the bases on which we did that.

Senator REED. Just a final point, Mr. Director, that there is—we get, all of us get feedback from borrowers that they have not been helped. Can you—and I presume you have sort of some metrics about the different types of measures that have been taken, and, again, as you described, a lot of it is within the purview of the banks or the holders of the notes because they have more flexibility. But if you can give us a complete picture, I think that would help us in terms of, if it is principal reduction or interest reduction—the ultimate number, I think, is how many people are still in their homes and can stay in their homes even though, you know, they have had difficulty.

Mr. WATT. That is the objective.

Senator REED. Yes.

Mr. WATT. We do keep metrics on all of those things because they are required to report—the buyers of these nonperforming loans are required to report to us on the outcomes, because there are requirements that they assume when they purchase the loans, and the only way we can monitor compliance is to know what the actual performance is. And their results are substantially better than the results that we would have gotten had we maintained those nonperforming loans on the books of Fannie and Freddie.

Senator REED. I think that could be helpful. I think one other—and you may not keep this metric, and I do not require a response, but if you have data that shows what happens when they foreclose and—you know, because if there is an incentive to foreclose because you can sell the exact same property at a much higher price——

Mr. WATT. I think we have removed that incentive, but, yes, we can provide that.

Senator REED. Thank you, Director. Thank you very much. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you very much, Senator Reed.

And, Director Watt, that is the end of the questions. You have been here essentially 2 hours and given us your time and responded openly and honestly to these questions.

Did you want to say anything else, Senator Brown?

Senator BROWN. Thank you, Director.

Chairman CRAPO. Before we wrap it up, let me just say to all Senators, we will have 7 days—and as you know, there will be some additional questions in writing that I ask you to respond to promptly, Director Watt, one of which is the one I have already asked about the legal justification for believing that you unilaterally can issue dividends.

Mr. WATT. Yes.

Chairman CRAPO. With that, I again want to thank you. We are obviously heavily interested in and engaged in this issue, and we will continue to work with you as we move forward to develop the best housing policy we can develop for this country.

Mr. WATT. Thank you very much.

Chairman CRAPO. Thank you, Director Watt.

This hearing is adjourned.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF MELVIN L. WATT

DIRECTOR, FEDERAL HOUSING FINANCE AGENCY

MAY 11, 2017

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for your invitation for me to discuss the critically important and timely hearing subject "The Status of the Housing Finance System After Nine Years of Conservatorship" and to answer any questions you may have about the work we are doing at the Federal Housing Finance Agency (FHFA).

As the Members of this Committee are well aware, since September 6, 2008, Fannie Mae and Freddie Mac (the Enterprises) have been operating in conservatorships under the direction and control of FHFA and with backing of the U.S. taxpayers with explicit dollar limits as set out in the Senior Preferred Stock Purchase Agreements (the PSPAs) with the U.S. Department of the Treasury. As a result of prior Enterprise draws totaling $187.5 billion against the PSPA commitments, the PSPA commitment still available to Fannie Mae is now limited to $117.6 billion and the commitment still available to Freddie Mac is $140.5 billion. Additional draws will reduce these commitments further; however, dividend payments do not replenish or increase the commitments under the terms of the PSPAs.

September 6 of this year will mark the beginning of the tenth year that the Enterprises have been in conservatorships. These conservatorships have been unprecedented in scope, complexity, and duration, especially when you consider that the Enterprises support over $5 trillion in mortgage loans and guarantees. Since January 6, 2014, when I was sworn in as Director of FHFA, the conservatorships of the Enterprises have been under my direction.

I pledged to the Members of this Committee during my confirmation hearing that I would carry out my responsibilities as Director in accordance with the statutory mandates given to FHFA as regulator and conservator. I have consistently tried to do just that. I have found that FHFA and the Enterprises operate with responsibilities that make it impossible to satisfy everyone and sometimes make it impossible to satisfy anyone. However, I believe that most stakeholders would agree that we have responsibly balanced and met FHFA's multiple statutory mandates to manage the Enterprises' day to day operations in what I often refer to as "in the here and now." These statutory mandates obligate us to:

- Conserve and preserve the assets of the Enterprises while they are in conservatorship;
- Ensure that the Enterprises provided meaningful assistance to the millions of borrowers who struggled to save their homes in the midst of the economic and housing crisis, as required in the Emergency Economic Stabilization Act; and
- Oversee the prudential operations of the Enterprises and ensure that they continue to carry out their ongoing statutory missions in a safe and sound manner; in a manner that fosters liquid, efficient, competitive, and resilient national housing finance markets; and in a manner that is consistent with the public interest.

Many Reforms of the Enterprises Have Taken Place Through Conservatorship

I have said repeatedly, and I want to reiterate, that these conservatorships are not sustainable and they need to end as soon as Congress can chart the way forward on housing finance reform. However, it is important for all of us to recognize that the conservatorships have led to numerous reforms of the Enterprises and their operations, practices, and protocols that have been extremely beneficial to the housing finance markets and have reduced exposure and risks to taxpayers.

It is critically important for the Members of this Committee to be well aware of these reforms because you will have the responsibility to ensure that the reforms are not disregarded or discarded because of assertions some will make that the Enterprises now are the same or mirror images of the Enterprises that FHFA placed into conservatorship almost 9 years ago. I can assure you that such assertions would be unfounded.

We have reported extensively on some of the important reforms we have made and on our conservatorship priorities in our *2014 Conservatorship Strategic Plan;* in our annual scorecards, including the *2017 Scorecard;* and in our regular status updates, including three reports released earlier this year—*2016 Scorecard Progress Report, Credit Risk Transfer Progress Report,* and *An Update on the Implementation of the Single Security and the Common Securitization Platform.*

Let me highlight some of the most important changes and reforms that have taken place during the conservatorships.

1. **Board leadership and management:** When the Enterprises were placed into conservatorship, FHFA replaced most members of their boards of directors and many senior managers. Both through conservatorship and through our onsite regulatory oversight of the Enterprises, FHFA has required Fannie Mae and Freddie Mac to make a number of changes to improve risk management, update many of their legacy systems, prioritize information security and data management, and better address other areas of operational risk. FHFA has also taken steps to prohibit certain activities, such as lobbying, by either Enterprise. The Enterprises' board of directors and senior management have taken great strides to implement these improvements in coordination with FHFA.
2. **Alignment of certain Enterprise activities:** While some aspects of their pre-conservatorship competition resulted in negative consequences or in a race to the bottom, FHFA has aligned many practices and policies on which the Enterprises are no longer allowed to compete, such as loss mitigation standards and counterparty eligibility standards. However, based on expectations established in conservatorship and regularly emphasized by FHFA to the Enterprises' boards and managements, we expect them to compete vigorously to find and implement innovative ways to make the housing finance markets more efficient and liquid, on customer service provided to Enterprise seller/servicers, and on the quality of their business practices.
3. **Sound underwriting practices:** The Enterprises are required to emphasize sound underwriting practices in their purchase guidelines, and these practices facilitate responsible access to credit and sustainable home ownership for creditworthy borrowers. The Enterprises' serious delinquency rate on single-family loans is at its lowest level since May 2008.
4. **Appropriate guarantee fees:** Guarantee fees have been increased by two and a half times since 2009. The guarantee fees are set to reflect the cost of covering credit losses in the event of economic stress or a housing downturn and the administrative expenses of running the companies. While the Enterprises cannot retain capital under the PSPAs, we also set their guarantee fees under the assumption that they are earning an appropriate return on capital. FHFA regularly reviews the Enterprises' guarantee fees to ensure that they remain at appropriate levels.
5. **Smaller portfolios for core business purposes:** The retained portfolios of the Enterprises have been reduced over 60 percent since 2009 and both Enterprises are ahead of schedule to meet the 2018 maximum portfolio limits established in the PSPAs. The Enterprises' multiyear retained portfolio plans to achieve these reductions have focused on selling less liquid assets and investment assets, in addition to prepayments that have occurred over time. Their retained portfolios are now focused on supporting the core business operations of the Enterprises, including aggregation of loans from small lenders to facilitate securitizations and holding delinquent loans in portfolio so investors can be made whole, servicers can facilitate loan modifications, and borrowers can stay in their homes whenever possible.
6. **New single-family credit-risk transfer programs share credit risk with private investors:** The Enterprises have developed and continue to refine credit-risk transfer programs that transfer a meaningful amount of credit risk to private investors on at least 90 percent of their targeted, fixed-rate, single-family mortgage acquisitions. The Enterprises are also developing their single-family CRT programs with the objective of cultivating a mature and robust credit-risk transfer market, including by building and expanding a diverse investor base that will increase the likelihood of having a stable CRT market through different housing and economic cycles.
7. **New securitization infrastructure:** Through a joint venture formed by the Enterprises under FHFA's direction, the Common Securitization Platform (CSP) is now operating and all of Freddie Mac's existing single-family, fixed-rate securitizations are being processed using the CSP. All parties are now well down the multiyear path toward the CSP becoming the infrastructure used by both Enterprises to issue a common single mortgage backed security. When fully implemented, we believe these changes will facilitate deeper liquidity in the housing finance market, support the to-be-announced market, and eliminate costly trading differences between the Enterprises' securities. The Enterprises are developing the CSP with an open architecture such that it will be usable by other market participants.

8. **Responsible access to credit supporting sustainable home ownership:** The Enterprises have worked closely with FHFA on a number of initiatives designed to support responsible access to credit and sustainable home ownership. For example, they undertook a multiyear process to revamp their Representation and Warranties Framework to reduce uncertainty and support access to credit throughout the Enterprises' existing credit boxes. We are also requiring the Enterprises to conduct analyses about access to credit barriers and to develop pilots and initiatives to improve access to credit in a safe and sound manner. Another recent area of focus has been implementing the Enterprises' statutory duty to serve three underserved markets—manufactured housing, affordable housing preservation, and rural housing. The Enterprises posted their first draft Duty to Serve Plans for public input just this week.
9. **Multifamily market liquidity and affordable rental housing:** The Enterprises' multifamily programs, which performed well during the crisis while other parts of the housing market struggled, continue to share a substantial amount of credit risk with private investors and continue to provide needed liquidity for the multifamily market with major emphasis on affordable rental housing and underserved markets.
10. **Loss mitigation, foreclosure prevention, and neighborhood stabilization:** The Enterprises have worked with FHFA to develop effective loss mitigation programs that minimize losses to the Enterprises and allow borrowers to avoid foreclosure whenever possible. This has included aligning the Enterprises loss mitigation standards and developing updated loan modification and streamlined refinance products to follow the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP). The Enterprises are also effectively pursuing efforts to stabilize neighborhoods, including through the Neighborhood Stabilization Initiative.
11. **Level playing field for lenders of all sizes:** The Enterprises have eliminated volume-based discounts for larger lenders, which has leveled the playing field for lenders of all sizes—small, medium, and large. This new approach, along with supporting the ability of small lenders to purchase loans through the cash window, has significantly increased the percentage of Enterprise acquisitions from smaller lenders during conservatorship.

Congress Urgently Needs To Act on Housing Finance Reform

While many reforms of the Enterprises' business models and their operations have been accomplished through conservatorship, FHFA knows probably better than anyone that these conservatorships are not sustainable and we also know that housing finance reform will involve many tough decisions and steps that go well beyond the reforms made in conservatorship. So I want to reaffirm my strong belief that it is the role of Congress, not FHFA, to make these tough decisions that chart the path out of conservatorship and to the future housing finance system.

Among the important decisions Congress, not FHFA, will need to make as part of housing finance reform are the following:

- How much backing, if any, should the Federal Government provide and in what form?
- What process should be followed to transition to the new housing finance system and avoid disruption to the housing finance market, and who should lead or implement that process?
- What roles, if any, should the Enterprises play in the reformed housing finance system and what statutory changes to their organizational structures, purposes, ownership and operations will be needed to ensure that they play their assigned roles effectively?
- What regulatory and supervisory structure and authorities will be needed in a reformed system and who will have responsibility to exercise those authorities?

I reaffirm my belief that it is the role of Congress, not FHFA, to make those housing reform decisions and I encourage Congress to do so expeditiously.

FHFA Must Continue To Meet Its Obligations While Housing Finance Reform Takes Place

The final thing I want to discuss is the most significant challenge FHFA faces as conservator while Congress continues to move ahead on housing finance reform. I first discussed this challenge publicly in a speech I delivered at the Bipartisan Policy Center on February 18, 2016. The challenge is that additional draws of taxpayer support would reduce the amount of taxpayer backing available to the Enterprises under the PSPAs and the foreseeable risk that the uncertainty associated with such

draws or from the reduction in committed taxpayer backing could adversely impact the housing finance market. Unfortunately, the challenge is significantly greater today than it was last year and will continue to increase unless it is addressed. Let me explain why that is so.

At the time I delivered my speech at the Bipartisan Policy Center in 2016, each Enterprise had a $1.2 billion buffer under the terms of the PSPAs to protect the Enterprise against having to make additional draws of taxpayer support in the event of an operating loss in any quarter. Under the provisions of the PSPAs, on January 1, 2017, the amount of that buffer reduced to $600 million and on January 1, 2018, the buffer will reduce to zero. At that point, neither Enterprise will have the ability to weather any loss it experiences in any quarter without drawing further on taxpayer support.

This is not a theoretical concern. GAAP accounting for any number of noncredit related factors in the ordinary course of business regularly results in large fluctuations in Enterprise gains or losses. Some of these noncredit related factors include interest rate volatility; the accounting treatment of derivatives used to hedge risks; reduced income from the Enterprises' declining retained portfolios; and the increasing volume of credit-risk transfers which, while supporting our objective of transferring risk and opportunity to the private sector, also transfers current revenues away from the Enterprises. We also know that a short-term consequence of corporate tax reform would be a reduction in the value of the Enterprises' deferred tax assets, which would result in short-term, noncredit related losses to the Enterprises. The greater the reduction in the corporate tax rate, the greater the short-term losses to the Enterprises would be. In addition to the regular and ongoing prospect of noncredit related losses, even minor housing market disruptions or short periods of distress in the economy could also cause credit-related losses to the Enterprises in a given quarter.

Like any business, the Enterprises need some kind of buffer to shield against short-term operating losses. In fact, it is especially irresponsible for the Enterprises not to have such a limited buffer because a loss in any quarter would result in an additional draw of taxpayer support and reduce the fixed dollar commitment the Treasury Department has made to support the Enterprises. We reasonably foresee that this could erode investor confidence. This could stifle liquidity in the mortgage-backed securities market and could increase the cost of mortgage credit for borrowers.

FHFA has explicit statutory obligations to ensure that each Enterprise "operates in a safe and sound manner" and fosters "liquid, efficient, competitive, and resilient national housing finance markets." To ensure that we meet these obligations, we cannot risk the loss of investor confidence. It would, therefore, be a serious misconception for Members of this Committee, or for anyone else, to consider any actions FHFA may take as conservator to avoid additional draws of taxpayer support either as interference with the prerogatives of Congress, as an effort to influence the outcome of housing finance reform, or as a step toward recap and release. FHFA's actions would be taken solely to avoid a draw during conservatorship.

Thank you again for the opportunity to address this Committee. Please be assured that FHFA and the Enterprises stand ready to assist the Committee in any ways we are asked to do so. I look forward to answering your questions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BROWN FROM MELVIN L. WATT

Flex Mod Program that replaces HAMP for the GSEs

Q.1. Director Watt, Ohio was one of the hardest hit States during the Great Recession and servicing problems were one of the many challenges facing homeowners as they struggled to keep their homes with reduced work hours and lost jobs. FHFA and the GSEs are rolling out the flex mod—a new streamlined modification program that limits the paperwork required of borrowers.

How will FHFA track the performance of servicers in implementing this program?

A.1. FHFA requires Fannie Mae and Freddie Mac ("the Enterprises") to monitor the performance of each of their servicers. Both Enterprises have scorecards they use to monitor servicer performance on multiple metrics, including efficiency rates for home retention and liquidation, various roll and transition rates from one stage of delinquency to another, and performance of loans receiving permanent modifications. FHFA receives quarterly reports on aggregate modification performance that includes information on the number of serious delinquencies for each of the top servicers and their performance on reducing those delinquencies through loss mitigation options, including Home Affordable Modification Program (HAMP) and other foreclosure alternatives. FHFA also publishes a quarterly foreclosure prevention report that illustrates the performance of their modification programs in the aggregate. The report can be found on FHFA's website at: *https://www.fhfa.gov/AboutUs/Reports/Pages/Foreclosure-Prevention-Report-February-2017.aspx* and is transmitted to Congress as part of the monthly Federal Property Manager's Report. Further, servicers will have to report their FlexMod activities to the Enterprises. FHFA plans to publish information on FlexMod in the future. Most modifications in the future will be through FlexMod.

Q.2. How will FHFA monitor the performance of the program within and across various borrower characteristics?

A.2. FHFA receives quarterly reports on modification performance from the Enterprises that include loan modification characteristics, such as the payment reduction amount, re-default rates, and delinquency at the time of modification, and publishes a monthly and quarterly foreclosure prevention report that illustrates the performance of their modification programs in the aggregate. The report also includes information associated with borrower characteristics such as credit scores at loan origination and the top five reasons for borrower delinquency. The report can be found on FHFA's website at: *https://www.fhfa.gov/AboutUs/Reports/Pages/Foreclosure-Prevention-Report-February-2017.aspx.*

OIG Report

Q.3. An article in Bloomberg on May 11, 2017, highlighted the inspector general's findings regarding the disclosure of a personal relationship of Fannie Mae's CEO. How is FHFA addressing the inspector general's concerns and what actions have you taken?

A.3. We completed our review of the FHFA Inspector General's report and other relevant information, and reported the disposition that FHFA as conservator made of this personnel matter to the Inspector General on June 21, 2017, within the timeframe committed FHFA and the board of directors are continuing to evaluate changes that may be desirable to the conflict of interest policies and procedures of Fannie Mae to clarify roles and responsibilities and to improve accountability and performance of those responsibilities, taking into account industry best practices and lessons learned from this experience and other sources.

Credit Risk Transfers

Q.4. Director Watt, in a speech before the North Carolina Bankers Association, you stated that it is very expensive to transfer the first 50 basis points of expected credit losses and the GSEs retain the first 50 basis points. As the Committee considers reforms to the housing finance system, credit-risk transfers are cited as an opportunity to have private capital stand in front of a catastrophic Government guarantee.

- Can private capital take the first loss position regarding credit risk without significant increases in cost?
- Do you have an estimate of what the cost might be?

A.4. Prior to this year, the Enterprises experimented with selling the first 100 basis points of credit losses to investors. As a result of feedback we have received from market participants and from credit-risk transfer transactions to date, FHFA has learned that selling the first 50 basis points of credit loss is generally not economically sensible. This is the case because investors, like the Enterprises, know that there will be some degree of expected credit losses for any portfolio of mortgages no matter the economic conditions. The Enterprises set guarantee fees, in part, to cover these expected credit losses. Selling this first loss exposure is akin to the Enterprises purchasing an insurance policy that has no deductible, and as a result, investors charge more for providing credit-risk protection for expected credit losses.

Based on this information, FHFA and the Enterprises have determined that, generally, it is preferable for Fannie Mae and Freddie Mac to retain the first 50 basis points of expected losses in most CRT transactions. This means that the Enterprises have begun selling credit losses between 50 to 100 basis points. Early indicators have not only reflected better pricing for CRT deals, but greater competition for credit protection beginning at 50 basis points, rather than zero basis points. In the terminology used in the industry, this is using an attachment point of 50 basis points, rather than an attachment point of zero. The detachment point for CRT transactions, or the point at which investors stop bearing credit losses, is generally 3.75 or 4 percent of the unpaid principal balance of the mortgages included in the transaction. FHFA's most

recent progress report on credit-risk transfer, which includes estimated credit costs for CRT transactions with first dollar loss, is available here: *https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CRTProgressReport__Dec2016.pdf.*

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TILLIS FROM MELVIN L. WATT

Q.1. What are you doing to bring additional pools of capital to bear in the U.S. mortgage markets, specifically on the expected or first-loss portion to further protect taxpayers and ensure greater market discipline that can temper bubble and bust cycles in the future?

- Observers note that FHFA has been pushing to get private capital into the mortgage space to protect the taxpayers through credit-risk transfers, but why have we not seen any indications that you are looking at other forms of private capital like having the GSEs sell new stock? Are there other ways that we can attract private capital into the space?

A.1. The Credit Risk Transfer (CRT) programs have reduced the Enterprises' overall risk, and therefore, the risk they pose to the taxpayers by transferring to private investors a substantial amount of the credit risk the Enterprises assume in targeted loan acquisitions. From the inception of the CRT program through the first quarter of 2017 the Enterprises have transferred a portion of the credit risk on $1.6 trillion of unpaid principal balance with a combined amount of risk, or in industry terminology risk in force, of about $54 billion. Through CRT and primary mortgage insurance, the majority of the underlying mortgage credit risk on mortgages targeted for CRT has been transferred to private investors.

A key principle of the CRT program is to create a broad and diversified investor base through different transaction structures. For example, both Enterprises developed very successful offerings to the reinsurance market in addition to their debt issuance transactions. In addition, each Enterprise is making strides through their front-end transactions at attracting capital from lenders and the private mortgage insurance industry. With respect to first loss, FHFA and the Enterprises have determined that, generally, it is preferable for Fannie Mae and Freddie Mac to retain the first 50 basis points of expected losses in most CRT transactions. This means that the Enterprises have begun selling credit losses between 50 to 100 basis points. Early indicators have not only reflected better pricing for CRT deals, but greater competition for credit protection beginning at 50 basis points, rather than zero basis points. As a result of feedback we have received from market participants and from credit-risk transfer transactions to date, FHFA has learned that selling the first 50 basis points of credit loss is generally not economically sensible. This is the case because investors, like the Enterprises, know that there will be some degree of expected credit losses for any portfolio of mortgages no matter the economic conditions. The Enterprises set guarantee fees, in part, to cover these expected credit losses. Selling this first loss exposure is akin to the Enterprises purchasing an insurance policy that has no deductible and, as a result, investors charge more for providing credit-risk protection for expected credit losses. Recent

proposals by the Enterprises to make a REMIC tax election for certain CRTs is an example of innovation that may expand the private investor base to include real estate investment trusts (REITs) and international investors.

Pursuant to the Senior Preferred Stock Purchase Agreements, the Enterprises are not permitted to issue equity without the permission of the Department of the Treasury, and FHFA is not actively considering equity issuance at this time.

Q.2. How can we expand the credit box, or can we expand the credit box—which will increase expected losses, without having capital there to absorb losses over the housing cycle?

- Is it possible to, tabling the issue of subprime lending, to serve prime borrowers if the GSEs do not have capital? As we move forward in housing finance reform, how do we put Fannie and Freddie in a position to achieve success without alienating the sources of capital that were in the marketplace pre and post conservatorship?

A.2. A variety of stakeholders and observers have generally agreed that lenders are not taking full advantage of the existing credit box, so it is not clear that expanding the credit box is necessary to increase access to credit, or would be successful in doing so. As an example, the weighted average FICO credit score for loans delivered to the Enterprises last year was 748 for Fannie Mae and 743 for Freddie Mac, respectively, although borrowers could qualify for mortgages with much lower credit scores and these mortgages would be well within the Enterprises' current credit box.

Since entering conservatorship, the Enterprises have continued to serve prime borrowers with a limited capital cushion. In addition to CRT protection, the Enterprises benefit from the $258 billion remaining funding commitment from the Treasury, as set forth by the Senior Preferred Stock Purchase Agreements. Our concern is that drawing further on this capital cushion could be destabilizing in the market and that the prospect of further draws is substantially increased without a capital buffer.

Q.3. During the debate of GSE reform, we hear a lot about protecting the taxpayer and ensuring that the taxpayer bears the lowest risk possible. Can we protect taxpayers by only having the GSEs cut back on business risk, and if that is the only way, will they be able to serve the market moving forward without capital/what is the right level of capital for them to be able to move out of conservatorship and re-engage in the marketplace?

A.3. FHFA supports the Enterprises in their efforts to strike a balance between maintaining reasonable access to credit while protecting the taxpayer and operating in a safe and sound manner. Credit risk remains the largest business risk the Enterprises face. Their CRT programs specifically target credit protection for losses in a stress scenario similar to the Great Recession. The CRT program complements but does not replace the need for permanent capital outside of the current conservatorships in a reformed housing finance system. FHFA looks to Congress to enact housing finance reform, which would inform determinations on appropriate capital standards.

Q.4. What powers does FHFA need, beyond those presented in HERA in order to protect taxpayers, and what additional powers does the FHFA need to execute on housing finance reform?

A.4. As supervisor of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, FHFA has comprehensive authority to regulate and examine its regulated entities. However, unlike other Federal supervisors of financial institutions, including banks and savings and loans, FHFA does not have authority to examine contractual providers of services to its regulated entities. This authority would support safety and soundness supervision by ensuring a better understanding of regulated entity exposure to counterparty risks. FHFA has previously proposed consideration of an amendment to its statute to provide FHFA the same examination authority over third-party service providers as is currently provided to the Federal Reserve Board, the Office of the Comptroller of the Currency, and the FDIC. That authority is set forth in section 7 of the Bank Service Company Act, at 12 U.S. C. § 1867.

Any additional powers necessary in the context of housing finance reform would be dependent upon specific legislative proposals that define the participants and activities within a reformed housing finance system.

Q.5. The Federal Home Loan Banks, during and since the crisis, have been an important part of the housing finance ecosystem. Can you give me your thoughts on the general condition of the FHLBs, and their housing finance role through their support of portfolio lending and with their mortgage purchase programs? Is it important to keep the FHLBs in mind as we approach broader housing finance reform?

A.5. The FHLBanks are currently in a safe and sound financial condition. All 11 FHLBanks have strong earnings while serving the primary mission they were created to serve—helping provide liquidity to mortgage loans. The FHLBanks, in aggregate at year-end 2016, had over a trillion dollars in assets, over 70 percent of which were advances or whole mortgage loans. The FHLBanks have made annual contributions to their Affordable Housing Programs averaging over $300 million for the past 5 years.

Consistent profitability of the System has also allowed the FHLBanks to add $7.8 billion to their accumulated retained earnings over the last 5 years. Two thousand sixteen also saw advances grow by $71.2 billion to $705.2 billion at year-end The concentration of advances to large members does warrant attention. Though the large members tend to drive the volume of advances, the vast majority of the over 7,000 FHLBank members are smaller institutions and advances to smaller borrowers have increased Systemwide.

The FHLBanks' Acquired Member Asset Programs (AMA) provide members with an alternative means (alternative to Fannie Mae and Freddie Mac) of moving mortgage loans they originate off their balance sheets. The FHLBanks purchased $12.5 billion of AMA mortgage loans in 2016 and held a total of $47.6 billion in total unpaid principal balance (UPB) on their balance sheets at year-end They expect the volume of purchases through the AMA programs to rise in the coming years.

It is important to keep the FHLBs in mind as Congress approaches broader housing finance reform. The FHLBanks provide a range of important services and products that add value to their members through helping them liquefy their mortgage assets. They are particularly important to small members, most of which have limited capacity to access capital markets and, therefore, rely on FHLBank advances to help fund their housing finance operations.

Q.6. Less often discussed is the role of Fannie Mae and Freddie Mac in providing liquidity to the multifamily market in addition to the single-family financing market. With the home ownership rate in America dropping from 68 percent prior to the Financial Crisis down to 62 percent today, affordable rental housing is an extremely important topic for many Americans. Can you comment on the GSE's multifamily programs and how successfully they are working to insure a supply of affordable rental housing in America?

A.6. The Enterprises' multifamily programs continue to support affordable rental housing through various initiatives and with strong performance. As part of the FHFA Conservatorship Scorecard, FHFA has established a cap on multifamily origination to protect against crowding out private capital, and the Enterprises are encouraged to focus on certain underserved markets, through exclusions from the cap. These exclusions include targeted affordable housing with use restrictions on affordability, green, manufactured housing communities, rural developments affordable to those making 80 percent or less in area median income (AMI), seniors, housing for those making 80 percent AMI or less, and small multifamily properties of 5–50 units affordable to 80 percent AMI or less. Both Fannie Mae and Freddie Mac did well over a third of total multifamily business in underserved markets in 2016 and are on track to do even more business in these markets in 2017.

Q.7. One of the major differences between the GSE 's single-family and multifamily businesses is that in the single-family business, after a loan is originated by a private mortgage banker or commercial bank, it gets sold to the GSEs, and then the taxpayers assume 100 percent of the risk for that loan; whereas in the multifamily businesses, after the loan is originated by a private mortgage banker or commercial bank and sold to the GSEs, private capital remains in the first-loss position on the loans, and absorbs the first 15 percent of any future credit losses. Can you expand on the loss sharing models in the single-family and multifamily businesses of the GSEs, and explain why U.S. tax payers assume 100 percent of the risk in the single-family businesses, while private capital absorbs the first 15 percent of losses in the multifamily businesses and shares credit risk with the GSEs?

A.7. Both the single-family and multifamily business models at Enterprises leverage credit-risk sharing, but in different ways. You are correct that the multifamily programs at both Fannie Mae and Freddie Mac have successfully shared credit risk with private investors for a number of years. In recent years, their single-family programs have followed suit.

Multifamily

At Fannie Mae, lenders typically share in the risk of loss on loans that default through standard Delegated Underwriting and Servicing (DUS) or *pari passu* loss sharing. In the standard DUS approach, the lender is responsible for the first loss up to 5 percent of the existing unpaid principal balance (UPB); on the next 20 percent of UPB, the lender is responsible for 25 percent and Fannie Mae 75 percent; for any remaining loss, the lender is responsible for 10 percent and Fannie Mae 90 percent. Standard DUS risk sharing limits lender loss to 20 percent of the original UPB. Under *pari passu,* the lender shares all losses with Fannie Mae ⅓–⅔; lender losses are not capped. In contrast, Freddie Mac leverages a senior-subordinate securitization structure (K–Deal) to transfer risk to private investors. Freddie Mac guarantees senior bond investors, and mezzanine and subordinate bonds are unguaranteed Senior bonds are publicly offered to investors through placement agents, and mezzanine and subordinate bonds are privately offered The K–Deal structure has broad market acceptance. In 2016, around 89 percent of Freddie Mac's multifamily mortgage purchases were designated for securitization. We believe that the market benefits from the presence of both Fannie Mae and Freddie Mac's proven credit-risk sharing models for multifamily loans.

Single-Family

Since the conservatorships of Fannie Mae and Freddie Mac, taxpayers assumed the majority of the risk associated with the Enterprises' single-family businesses. However, there are mitigants in place to minimize this risk. First, on loans with loan-to-value ratios greater than 80 percent credit support is required, which is usually in the form of private mortgage insurance with the mortgage insurers bearing the first loss. Second, for nonperforming loans the Enterprises offer foreclosure prevention options. Third, when foreclosure becomes the only option, the Enterprises leverage their real estate-owned sales functions to minimize losses.

Since 2012 FHFA has also initiated development of a credit-risk transfer program intended to reduce the Enterprises' overall risk and, therefore, the risk they pose to taxpayers while in conservatorship. From the beginning of the Enterprises' single family CRT programs in 2013 through December 2016, Fannie Mae and Freddie Mac have transferred a portion of credit risk on $1.4 trillion of unpaid principal balance (UPB), with a combined Risk in Force (RIF) of about $49 billion, or 3.4 percent of UPB. In addition, from 2013 through 2016, the Enterprises have purchased single-family loans with primary mortgage insurance. These loans have a total UPB of $731 billion and RIF of $186 billion. Through CRT and mortgage insurance, the majority of the underlying mortgage credit risk on mortgages targeted for CRT has been transferred to private investors or shared with private mortgage insurers.

Q.8. One of the initiatives that FHFA has been working on with the GSEs is the Single Security Securitization platform. It is my understanding that due to pricing differences between Fannie Mae and Freddie Mac securities (with Fannie's pricing "tighter" or better), that the single securitization platform is simply an initiative

to enhance liquidity in the securitization markets and lower the cost of borrowing for all GSE customers. First, is that correct? And second, am I correct to think that the single securitization platform is simply an initiative to gain scale and enhance pricing for Freddie Mac securities, and NOT an effort by FHFA to merge Fannie Mae and Freddie Mac into one enterprise? Could you expand on that question, and give us your thinking of the advantages (or disadvantages) of having two GSEs?

A.8. FHFA's 2014 Strategic Plan/or the Conservatorships of Fannie Mae and Freddie Mac includes the strategic goal of developing a new securitization infrastructure for the Enterprises for single family mortgage loans. To achieve that strategic goal, the Enterprises, under FHFA's direction and guidance, have formed a joint venture, Common Securitization Solutions (CSS). CSS's mandate is to develop and operate a Common Securitization Platform (CSP) that will support the Enterprises' single-family mortgage securitization activities, including the issuance by both Enterprises of a common single mortgage-backed security (to be called the Uniform Mortgage-Backed Security or UMBS). These securities will finance the same types of fixed-rate mortgages that currently back Enterprise-guaranteed securities eligible for delivery into the "To-Be Announced" (TBA) market.

The development of and transition to the new UMBS constitute the Single Security Initiative. The first objective of the Single Security Initiative is to establish a single, liquid market for the mortgage-backed securities issued by both Enterprises that are backed by fixed-rate loans. The second objective is to maintain the liquidity of this market over time. The Single Security Initiative should also reduce the cost to Freddie Mac and taxpayers that has resulted from the historical difference in the liquidity of Fannie Mae's Mortgage-Backed Securities (MBS) and Freddie Mac's Participation Certificates (PCs).

The CSP and the Single Security Initiative are not efforts by FHFA to merge Fannie Mae and Freddie Mac into one enterprise. Having two enterprises allows for competition in services and products offered to lenders and servicers, which helps to promote innovation in the mortgage market. These initiatives are consistent with FHFA's statutory obligation and the Enterprises' charter obligations to ensure the liquidity of the Nation's housing finance markets.

Q.9. After the financial crisis, Fannie Mae and Freddie Mac lost billions of dollars due to credit losses. Can you break-out the total credit losses between the single-family and multifamily businesses of the GSEs, and give us your opinion whether the loss sharing model that Fannie and Freddie have in their multifamily businesses, where private capital sits in front of tax payer capital, had anything to do with the dramatically lower loss levels in the GSE's multifamily businesses?

A.9. From 2008–2012, Fannie Mae incurred single-family credit losses of $75.7 billion, which represented approximately 2.8 percent of Fannie Mae's single-family mortgage credit book of business of $2.7 trillion at the beginning of 2008. During the same period, Fannie Mae also incurred multifamily credit losses of $1.4 billion,

which represented approximately 0.8 percent of Fannie Mae's multifamily mortgage credit book of business of $184 billion at the beginning of 2008.

Similarly, from 2008–2012, Freddie Mac incurred single-family credit losses of $50.3 billion, which represented approximately 3.8 percent of Freddie Mac's single-family credit guaranty portfolio of $1.7 trillion at the beginning of 2008. During the same period, Freddie Mac also incurred multifamily credit losses of $0.3 billion, which represented approximately 0.4 percent of Freddie Mac's multifamily guaranty and loans portfolios of $69 billion at the beginning of 2008.

The loss-sharing model at Fannie Mae and Freddie Mac may have had an impact on the lower level of multifamily credit losses; however, additional factors also had an impact. For instance, the deterioration in national multifamily fundamentals was less severe than that experienced in the single-family market, in part because borrowers who were unable to maintain their mortgage payments became renters, increasing demand for multifamily units, and the multifamily deterioration did not last as long. Also, the credit quality of the Enterprises' multifamily portfolios, as reflected in significantly lower delinquencies, was better than that of their respective single-family books of business.

Q.10. It is my understanding that in Fannie Mae and Freddie Mac's single-family businesses, as long as a mortgage is "conforming", or meets their lending criteria, that any mortgage originator in America can sell them a loan. Yet in the multifamily businesses, Fannie Mae and Freddie Mac have only 25 approved "vendors" who can sell them mortgages. These are well capitalized mortgage finance companies and banks that are leaders in their industry, get audited by the GSEs on a regular basis, and are well capitalized companies to be able to absorb any credit losses should the loans they originate go bad. Why wouldn't the "approved vendor" model that Fannie and Freddie have in their multifamily businesses be a good idea for their single-family businesses?

A.10. The Enterprises have established counterparty requirements for both their Single-Family and Multifamily Businesses. The counterparty requirements are used as minimum standards to approve new seller-servicers, but also as requirements that existing seller-servicers must maintain to remain in good standing. Minimum single-family seller-servicer requirements include the following:

- Principal business purpose is origination, selling, and/or servicing of mortgages
- Demonstrated ability to originate, sell, and/or service mortgages
- Adequate facilities and staff experienced to originate, sell, and/or service mortgages
- Proper licensure (in good standing) or other authorization to conduct business
- Net worth of at least $2.5 million + 0.25 percent of the unpaid principal balance (UPB) of the seller/servicer's total one- to

four-unit residential mortgage portfolio. Additional minimum capital and liquidity requirements apply to maintain eligibility
- Internal audit and management control systems to evaluate and monitor the overall quality of its loan production and servicing
- Written procedures for the approval and management of vendors and other third-party service providers
- Fidelity bond and an errors and omissions policy

Additional criteria may be imposed based on the individual circumstances of seller-servicer's financial condition, organization, staffing, servicing experience, and other relevant factors.

Q.11. What percentage of the Credit Risk Transfer transactions are done with off-shore re-insurers? Are you concerned that two entities in conservatorship are doing an excessive amount of business with tax avoiding off-shore reinsurers? Could you please report back to this Committee the amount of CRT business that Fannie and Freddie are doing with reinsurers who enjoy tax advantages over United States domiciled entities?

- How does FHFA rationalize the GSEs' heavy reliance on ratings from credit rating agencies for reinsurance transactions when ratings were proven completely ineffective in predicting counterparty strength in the most recent downturn?

A.11. About 20 percent of the credit risk transferred through the CRT program has been taken in by approximately 50 reinsurers, some of whom operate through off-shore entities. The reinsurers who are domiciled off-shore bring international capital sources to support the U.S. housing market. It should be noted that some risk has also transferred to private mortgage insurers' affiliates that also utilize off-shore entities in CRT transactions with the Enterprises. The Enterprises use ratings as one of several inputs into a comprehensive process to evaluate institutional risk. The Enterprises require all reinsurance entities, regardless of credit standing, to put up capital as collateral for the risk exposure they have accepted.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM MELVIN L. WATT

Q.1. Ensuring access to affordable, sustainable home ownership and mortgage credit has been a priority for me as I know it has been for you. To help address this issue, one important step the enterprises have taken to help address this issue is the 97 percent LTV loan that helps creditworthy borrowers who can afford a mortgage but don't have the resources for a substantial down payment purchase a home. How have these mortgage loans, in their first 2 years, performed relative to conventional down payment loans?

A.1. The Enterprises' 97 percent loan-to-value (LTV) programs, announced in December 2014, represent a very small proportion of the overall single-family book. Since program inception, Fannie Mae has acquired approximately $15 billion in unpaid principal balance (UPB) or 82,000 loans; Freddie Mac has acquired approximately $4 billion in UPB or 24,000 loans. By comparison, at March

31, 2017, the Enterprises' Single-Family Books of Business total $2.822 trillion for Fannie Mae, and $1.779 trillion for Freddie Mac.

The Enterprises' high-LTV programs were developed with compensating factors to mitigate the increased risk associated with higher LTV loans. The table below compares 60- and 90-day delinquencies for the Enterprises' 97 percent LTV programs and total single-family acquisitions since the launch of the higher LTV programs (*i.e.,* 97 percent LTV) in December 2014. For both 60- and 90-day delinquencies, the Enterprises' 97 percent LTV programs perform behind aggregate portfolio levels but are still at very low levels.

	Fannie Mae March 2017 (percentage)	*Freddie Mac April 2017 (percentage)*
97 LTV 60 Day DQ	*0.08%*	*0.10%*
All 60 Day DQ	*0.06%*	*0.04%*
97 LTV 90 Day DQ	*0.21%*	*0.04%*
All 90 Day DQ	*0.12%*	*0.02%*

Q.2. With the expiration of the Home Affordable Modification Program at the end of last year, FHFA has introduced the Flex Mod as a replacement. While Flex Mod streamlines the modification application process, I am concerned that by not considering the current income, some families who should qualify for a modification will not be able to receive relief under this program. For homeowners who are at risk of not getting an affordable modification under the new program, can FHFA explore referring them to housing counseling programs and giving the programs access to the Enterprises' exceptions process so that families who should qualify have access to an affordable modification?

A.2. Lessons learned from the crisis demonstrate the importance of early intervention in creating an affordable, sustainable modification and avoiding foreclosure. All eligible borrowers who choose to engage with their servicer prior to 90-days delinquency on their mortgage and complete a loan modification application will be considered for a modification that may include an income-based component. After 90-days delinquency the servicer will proactively solicit the borrower with a streamlined modification offer regardless of whether the servicer has received a loss mitigation application from the borrower. To accept this offer, all the borrower needs to do is to make three timely payments, regardless of income. Since the borrower is not required to provide information on income in a streamlined modification, it would not be possible for the Enterprises to add an income-based component. A borrower can submit a loan modification application at any time, and the servicer is permitted to evaluate their current income in determining eligibility for a loan modification.

To encourage borrowers to work with housing counselors, the Enterprises share information on how to contact a HUD-approved housing counselor, including on the Enterprises' websites, on the uniform borrower application form for loan modifications, and on

other model forms and letters they make available to servicers. Additionally, both Enterprises have Borrower Contact Units (BCUs) that serve as a direct escalation channel within each Enterprise to assist borrowers on a wide range of mortgage-related issues. Counselors working with borrowers are also able to access BCUs to escalate issues. The exceptions process is the mortgage servicers' channel for escalating requests for exceptions to eligibility rules for loan modifications within each Enterprise. FHFA has been working closely with borrower advocacy groups on the role of housing counseling in the post-crisis loss mitigation framework and has found housing counseling to have a strong correlation with borrower success.

Q.3. I am concerned that after the 2008 financial crisis and ensuing Great Recession, home ownership is at 41 percent for African American households and 47 percent for Latino households, while the home ownership rate for white households is 71 percent. One way in which to expand home ownership among these underserved communities would be to expand access to pre-purchase housing counseling, which prepares potential home buyers for safe and sustainable home ownership. Can FHFA and the enterprises leverage the deep presence of housing counseling agencies in these communities to develop public education programs to build awareness of housing counseling and its benefits, create incentives for people to go to housing counseling, and create underwriting standards that acknowledge the improved performance of people who have been counseled?

A.3. The 2017 Conservatorship Scorecard directs the Enterprises to continue to improve the effectiveness of pre-purchase counseling and home ownership education through technology and data analysis. The Enterprises also offer pricing incentives to borrowers to attend housing education as part of the 97 percent LTV program. The Enterprises have also included a Home Ownership Education and Housing Counseling Section in the redesigned Uniform Residential Loan Application (URLA). This section asks whether the applicant received home ownership education or housing counseling, the format by which the home ownership education or housing counseling was conducted, and by whom. Additionally, the Enterprises are in discussions with housing counselor groups on the broader use of updated case management software and exploring the ability to access preliminary underwriting results on borrowers.

Expanding the use of technology will enable counselors to educate more future borrowers and potentially reduce the operational costs involved in counseling.

The Enterprises have also been working with FHFA to add questions to the National Mortgage Database surveys, the American Survey of Mortgage Borrowers and the National Survey of Mortgage Originations to gain more information on consumers who utilize housing counseling services and its effectiveness. Gathering data through the surveys and the URLA will provide more opportunities to measure the effectiveness of housing counseling and potentially garner future support.

Q.4.a. Can you provide details on how Fannie Mae reached the decision to guarantee $1 billion in debt from Blackstone's single-fam-

ily rental arm, Invitation Homes? As I understand it, many of the rental homes owned by Invitation Homes were purchased during the height of the foreclosure crisis.

A.4.a. Single-family rental units are a growing segment of the rental market and can provide affordable housing alternatives to families in need of more space than a traditional multifamily apartment can provide. The transaction between Fannie Mae and Invitation Homes was structured with the goal of mitigating potential risks, with generally low leverage, strong debt service coverage, geographic diversity requirements to offset potential market risk, and robust market-standard ongoing reporting.

FHFA will consider the impact of single-family rentals on home ownership, as well as other policy implications, in the approval of any future Enterprise transactions or single-family rental initiatives. The securitization has Invitation Homes in the first-loss position for up to 5 percent. Wells Fargo, the lender, shares losses with Fannie Mae. The transaction will not result in any counterparty exposure that is inconsistent with Fannie Mae and FHFA 's current guidelines. FHFA and Fannie Mae will be carefully monitoring the performance and results of this transaction.

On average, Invitation Homes has put in approximately $24,000 in rehabilitation costs across its portfolio to improve the asset quality and increase stability in markets across the country. In the overall single-family rental market, the institutional investors own less than 2 percent of the assets.

Q.4.b. Does FHFA plan to continue financing institutional investor purchases of single-family homes?

A.4.b. The Enterprises are exploring single-family rentals transactions on a very limited basis, which must be approved in advance by FHFA. FHFA has permitted Freddie Mac to explore one or more limited transactions in the detached, single-family rental market and expects them to announce small transactions soon. These efforts will help FHFA study alternative options for serving families who choose to live in single-family rental properties and inform our thinking on what role, if any, the Enterprises should play in the single-family rental market.

Q.4.c. Could this same type of financing from Fannie Mae also be applied to programs run by community-oriented nonprofits like New Jersey Community Capital that use their resources to purchase pools of underwater mortgages and provide homeowners the opportunity to become current on their loans?

A.4.c. The Enterprises have the ability to increase quality rental affordability through lowering financing costs in the single-family rental space for operators, such as nonprofits. However, at this time, the Enterprises are still exploring single-family rentals transactions to test and learn, on a limited basis, which must be approved in advance by FHFA. Such initial transactions could include purchases of loans owned by nonprofits. Some nonprofits are also active in the single-family rental market through purchases of NPLs and through the NSL.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEITKAMP FROM MELVIN L. WATT

Q.1.a. Duty to Serve Rural Areas: Recently the GSEs submitted their draft "underserved market plans" to the FHFA. In part, these plans attempt to address affordable housing in rural and underserved areas, including Indian Country, which would impact many areas in my home State of North Dakota.

- One simple step that I'd like to get your feedback on, is whether it makes sense to have a dedicated rural lending office within the GSEs—or their future replacement—that is purely focused on lending in rural America and Indian country, given the distinct differences between these areas and the urban mortgage market?

A.1.a. FHFA appreciates the differences between rural and urban mortgage markets, as well as the differences among or between rural markets. In fact, Fannie Mae has proposed assigning staff in one or more of the high-needs regions within the broader rural market. Earlier this year, Freddie Mac sponsored its first Borrower Help Center in southwest Mississippi in an effort to support rural homeowners. This suggests that having to meet the requirements of the Duty to Serve Rule is already leading the Enterprises to increase specialization and recommend other ways and business strategies to ensure compliance. FHFA believes that it should evaluate business strategies that the Enterprises propose, rather than mandate particular business strategies as a governmental function. This approach will nonetheless maintain FHFA's prerogative to address concerns in rural and underserved areas.

Q.1.b. In October 2016, I sent you a letter requesting that you allow the GSEs to get back into the Low Income Housing Tax Credit market for high-needs rural areas including Indian Country. I was pleased that the FHFA moved forward with this recommendation and included it in their instructions to the GSEs. Aside from improving access to LIHTCs, what other steps can the GSEs take to help improve housing options in Indian Country?

A.1.b. Both Enterprises include proposals to use Low-Income Housing Tax Credit (LIHTC) equity investments to serve Indian Country in their proposed Duty to Serve Plans, which were released for public comment on May 8, 2017. However, allowing the Enterprises to invest in LIHTC equity more generally remains an open question that FHFA is considering as Conservator for the Enterprises.

As you suggested in your comment letter, the Duty to Serve final regulation indicates that should FHFA as Conservator allow the Enterprises to re-enter the LIHTC equity investment market, then those LIHTC equity investments in rural areas would be eligible for Duty to Serve credit. The Proposed Evaluation Guidance further indicates that such investments specifically serving high-needs rural regions or high-needs rural populations, including Indian Country, may be eligible for greater Duty to Serve credit.

Other steps the Enterprises could pursue to improve housing options in Indian country may include targeted outreach, loan product changes, and loan purchase activities. For instance, the Enterprises could provide technical/assistance to local lenders and originators to help them better understand the requirements for an

Enterprise to purchase a mortgage loan in Indian Country. The special challenges for lending in Indian Country are among the issues that make it more difficult for an Enterprise to purchase Indian Country mortgage loans, such as land titling issues, barriers to foreclosure and valuation concerns. The Enterprises could also help facilitate culturally and linguistically appropriate home buyer education for people living in Indian Country. Under the Duty to Serve Rule, the public is encouraged to look through the Enterprises' proposed Plans and provide input on whether they would likely improve housing options in Indian Country in a meaningful way, or whether other or additional strategies are appropriate.

Q.1.c. A recent Fannie Mae white paper on lending in rural America pointed out some interesting statistics about rural borrowers. On average, rural borrowers have lower incomes, are more likely to be self-employed workers, and tend to have higher debt-to-income ratios than urban borrowers. Yet in States like North Dakota—where there is a high share of loans originated in rural areas—rural borrowers tend to have strong credit scores, averaging around a 750 FICO score.

- In light of these facts, do you believe that the qualified mortgage rule has limited lending in rural America by excluding otherwise well-qualified borrowers who reliably pay their debts yet may be self-employed or otherwise have slightly higher debt-to-income ratios?

A.1.c. The ability to repay (ATR) rules require lenders to consider and verify a number of different underwriting factors, such as a mortgage applicant's assets or income, debt load, and credit history, and make a reasonable determination that a borrower will be able to pay back the loan. Lenders are presumed to comply with the ATR requirement when they make a Qualified Mortgage (QM) loan, which must meet further underwriting and pricing standards. These requirements generally include a limit on points and fees to 3 percent of the loan amount, along with various restrictions on loan terms and features (for example, no negative amortization or interest-only payments and a loan term of 30 years or less). QM loans also generally require that the borrower's total or "back-end" debt-to-income (DTI) ratio does not exceed 43 percent. However, the 43 percent DTI cap does not currently apply to loans with Government-backed insurance or guarantees (*e.g.,* Federal Housing Administration (FHA) and Veterans Administration (VA) loans), loans that are eligible for purchase by Fannie Mae and Freddie Mac (through the so-called "GSE patch"), and portfolio loans made by "small creditors." The Enterprises' debt-to-income ratio eligibility maximums exceed the standard QM DTI threshold of 43 percent, and the Enterprises' automated underwriting systems will evaluate borrower applications with DTI ratios up to 50 percent. In addition, the Enterprises have standards in their selling guides to underwrite self-employed borrowers. As a result, we believe that the GSE patch permits the Enterprises to purchase creditworthy rural loans to borrowers with DTIs over 43 percent and to self-employed borrowers.

Q.2. Appraisals: As you know, one hurdle for rural lending is the challenge lenders face in attaining appraisals. In a rural setting,

there are fewer comparable properties nearby. That makes it more difficult to measure the home value. And there are more variations in land. What can the FHFA do to help the GSEs better address this challenge? Do you think that it's time, as part of GSE reform, to take a look at structural reforms to our appraisal system? What areas could be addressed to provide better outcomes for rural areas that struggle with access to qualified appraisers?

A.2. Fannie Mae and Freddie are leveraging technology to provide new tools and certainty to lenders on key aspects of the origination process including on appraised values to make the process more efficient. FHFA continues to work closely with the Enterprises to address challenges to appraising in rural markets. In 2014, FHFA directed Fannie Mae and Freddie Mac to provide guidance and clarifications to lenders and appraisers on acceptable appraisal practices in rural markets. The guidance allows for the use of distant, dated, and/or dissimilar comparable sales, with appropriate explanation in the appraisal report, in recognition of challenges appraisers encounter in performing appraisals in rural markets. FHFA continues to work with the Enterprises, the Appraisal Subcommittee, and the Appraisal Foundation to address issues that contribute to challenges to obtaining appraisal for properties in rural markets.

Q.3. Access to the secondary market for small lenders. The ability of small community-based institutions to provide consumers with competitive pricing and product offerings depends significantly on their ability to access the secondary mortgage market.

- One option we explored as part of Corker-Warner was expanding the role of the Federal Home Loan Banks to serve as an aggregator for small lenders. What are your views on allowing the FHLBs to expand in this area?

A.3. The FHLBanks, through the FHLBank of Chicago as a Mortgage Partnership Finance (MPF) program provider, already provide member institutions with an aggregation service. The MPF Xtra product serves to aggregate loans originated by small members for sale to Fannie Mae. The MPF Direct is a jumbo loan product that allows member institutions to sell these loans to the MPF provider who concurrently sells the loans to Redwood Trust, Inc., for securitization, and MPF Government MBS, a program intended for small and midsized institutions, allows these institutions to sell Government guaranteed loans to their local FHLB, which sells them to FHLB Chicago to be pooled into Ginnie Mae securities.

In 2016, FHLBank members delivered $3.7 billion of mortgages under the MPF Xtra program, $158 million under MPF Direct, and $438 million under MPF Government MBS. These programs have worked well and are continuing to be expanded.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARREN FROM MELVIN L. WATT

Q.1. The CFPB's mortgage rules define certain loans as Qualified Mortgages, or QM, and offer lenders legal immunity for loans that meet the QM standards. But the CFPB rule also grants QM status to any mortgage that is eligible for purchase by Fannie Mae or

Freddie Mac. That means the underwriting criteria at Fannie Mae and Freddie Mac help define the scope of the QM rule—and accordingly, have a huge impact on the kinds of families that can get access to mortgage credit.

Despite all of this, Fannie and Freddie's underwriting algorithms and criteria are secret.

- Can you explain why it's reasonable to keep this information hidden given its importance to both the economy and to appropriate oversight of the mortgage market?
- Will you work with my office to make this information public?

A.1. The Enterprises use underwriting criteria to educate all their lender counterparties to ensure a mutual understanding of borrower qualification and sustainability. The Enterprises' underwriting criteria are public and published in their respective Selling Guides, which can be found on the following websites: *https://www.fanniemae.com/singlefamily/originating-underwriting* and *http://www.freddiemac.com/singlefamily/guide/*.

The Enterprises' respective automated underwriting systems are proprietary tools that take the information provided by lenders and, subject to the published underwriting criteria, assess borrower credit risk and reach a determination of whether the Enterprise would purchase a loan. While the proprietary models that perform the risk assessment are not shared with the public, the factors used to run the models are and can be found in the Selling Guides referenced above.

The maximum threshold for the DTI ratio is probably the most noticeable difference between standard QM requirements and the Enterprises' requirements (the "GSE Patch"). The standard QM maximum DTI threshold is 43 percent and the GSE Patch is higher and looks to the GSE guidelines, making it possible for more borrowers to qualify for a mortgage. When using the automated underwriting systems, the proprietary models can assess the probability of default based on the variety of factors used to underwrite a mortgage. For example, Fannie Mae's Desktop Underwriter will evaluate borrower applications with DTI ratios up to 50 percent, which was discussed in a guide announcement released in May.

Also, FHFA regularly examines the automated underwriting systems to ensure that the models are calibrated and governed consistent with risk management standards set forth in FHFA supervisory guidance (see Advisory Bulletin 2013–07, "Model Risk Management" (November 20, 2013).

FHFA will work with your office to review the public information available in the Enterprises' Selling Guides while respecting the proprietary nature of the Enterprises' automated underwriting systems.

Q.2. In April 2016, FHFA announced a principal reduction program. At the time, the agency stated that roughly 33,000 borrowers qualified for principal reduction under the terms of the program. The agency also stated that, rather than requiring servicers to reduce the loan principal for those 33,000 eligible borrowers, servicers were only required to "solicit borrowers eligible for a Principal Reduction Modification no later than October 15, 2016."

- Can you tell me, as of today, how many of these 33,000 eligible borrowers have actually received a principal reduction? Please provide State-by-State data, if available.
- Does FHFA plan to take additional steps to encourage more borrowers to take advantage of this program and receive a principal reduction? If so, please describe them.

A.2. Nationwide, the Enterprises estimate that 1,089 borrowers have received a Principal Reduction Modification (PRM). Additionally, the Enterprises estimate that another approximately 1,100 borrowers have received loan modifications with principal forbearance and are likely to be eligible to have this forbearance converted to principal reduction. Please note that this data is subject to change as it is updated regularly. Based on current information available from the Enterprises and servicers, State-by-State data is as follows:

State	Settled Principal Reduction Modifications
AL	14
AR	1
AZ	14
CA	18
CO	2
CT	32
DE	6
FL	152
GA	40
HI	1
IA	6
IL	146
IN	13
KS	2
KY	2
LA	15
MA	15
MD	42
ME	5
MI	21
MN	5
MO	12
MS	7
NC	15
NE	1
NH	2
NJ	147
NM	8
NV	20
NY	67
OH	69
OK	1
OR	2
PA	74
PR	4
RI	11
SC	18
TN	5
TX	11
UT	1
VA	21
VT	2
WA	7
WI	30
WV	2
All States	**1,089**

Under the Principal Reduction Modification program, eligible borrowers could receive a principal reduction one of two ways. First, an eligible borrower could accept and complete a Principal Reduction Modification offered by his or her servicer. Second, an eligible borrower could accept any trial loan modification with a first payment due date between May 1 and December 1, 2016; following successful completion of the modification trial period, the principal forbearance component of the modification would be converted to principal forgiveness. The above estimates include borrowers in both of these circumstances.

The Principal Reduction Modification program leveraged the Enterprises' existing streamlined modification, which simplified the implementation process for the Enterprises and servicers and eliminated the need for borrowers to submit complex documentation regarding their income or assets. Servicers were required to solicit all borrowers for a Principal Reduction Modification, informing them that they were eligible for principal forgiveness and of the modified payment amount on their mortgage. In their offer letters, borrowers were informed that in order to earn a Principal Reduction Modification they needed to make three on-time trial payments and fulfill the requirements of the Trial Period Plan. As described below, FHFA and the Enterprises took a number of other steps to encourage all eligible borrowers to take advantage of the program.

Since the height of the crisis, a number of factors have resulted in a substantial decrease in the population of seriously delinquent, underwater Enterprise loans, including those borrowers eligible for the Principal Reduction Modification program. These factors include loan-to-value ratios caused by rising home prices, improving borrower performance, other successful modification and refinance programs provided by the Enterprises, properties entering REO/short sales, third-party sales, and Enterprise sales of nonperforming loans (NPLs). The number of underwater homeowners with an Enterprise loan dropped by over 80 percent from 2012 to 2016. The Enterprises owned or guaranteed about 800,000 loans with mark-to-market loan-to-value ratios over 100 percent without capitalizing arrearages as of January 2016. Of these loans, payments on approximately 720,000 were current or less than 90-days delinquent and approximately 76,000 of these loans were seriously delinquent (*i.e.,* 90-days or more delinquent).

At the time of program announcement, the Enterprises estimated that approximately 33,000 borrowers were eligible for a Principal Reduction Modification nationwide. A borrower's actual eligibility for principal reduction is determined by the borrower's servicer and the Enterprises can only estimate eligibility for this program. FHFA and the Enterprises were aware that the population of eligible borrowers would decrease in the period between program announcement and servicer implementation of the program.

FHFA does not have final estimates of the decline in the population eligible for the Principal Reduction Modification program, but the population of eligible loans did decrease substantially from the time of announcement through the end of last year. At the same time that FHFA announced the Principal Reduction Modification program, FHFA also required buyers of Enterprise NPLs to

evaluate all deeply underwater borrowers for modifications that include options for principal reduction and/or arrearage forgiveness, thus increasing the likelihood that these borrowers would receive principal reductions after an NPL sale.

Servicers were able to solicit eligible borrowers for Principal Reduction Modifications through December 31, 2016, when the program eligibility expired In the period between program announcement and this date, FHFA and the Enterprises undertook an array of activities to reach eligible borrowers and encourage them to take advantage of the Principal Reduction Modification program. These included:

- The Enterprises, with FHFA's oversight, continually monitored servicer solicitation of borrowers, implementation of the program, and strategies to reach eligible borrowers.
- FHFA and the Enterprises created a number of borrower-facing tools, which are available at *https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/PrincipalReduction-Modification.aspx.*
- FHFA and the Enterprises offered PRM Program training to servicers and to key housing organizations, including HUD intermediaries, numerous State Housing Finance Agencies, the National Urban League, and to participants in the NeighborWorks National Training Institute Workshop.
- Fannie Mae offered assistance through its Mortgage Help Networks, as did Freddie Mac through their Borrower Help Centers.
- FHFA and the Enterprises participated in local foreclosure prevention events that reached borrowers directly, including by partnering with HOPE NOW.
- The Enterprises each conducted two direct mailings to borrowers who did not respond to the initial PRM solicitation.
- Fannie Mae's Mortgage Help Network conducted a phone campaign to nonresponsive borrowers, while Freddie Mac's Borrower Help Center conducted a phone campaign to all eligible borrowers.

Because the eligibility deadline for the Principal Reduction Modification program has passed, FHFA and the Enterprises do not have further outreach plans. However, FHFA and the Enterprises will continue to oversee and monitor the program to ensure that eligible borrowers have their forbearance amounts converted to forgiveness under the terms of the program.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM MELVIN L. WATT

Q.1. During your oral testimony, I asked you about mortgage servicing compensation and the need to alter compensation structures to better align incentives between Fannie Mae and Freddie Mac (the Enterprises) and servicing companies.

- Does FHFA intend to follow-up on the Agency's 2011 white paper on this topic?

- If so, what does FHFA intend to do and what is the timeline for action?

A.1. FHFA's 2017 Conservatorship Scorecard directs the Enterprises to identify challenges with the current mortgage servicing business model as well as opportunities to support a deep, liquid, stable, and robust market. In 2017 the Enterprises have begun conducting a mortgage servicing market analysis, which will include several topics, including servicing costs and compensation; mortgage servicing business models and strategies; advances and reimbursement practices; financing of mortgage servicing rights; operational requirements; the role of third-party vendors in mortgage servicing, and servicing transfers.

As part of this effort, FHFA and the Enterprises will engage industry stakeholders, including servicers, mortgage servicing rights investors, and consumer advocacy groups, through a market survey and robust stakeholder interviews beginning in the third quarter of 2017. The Enterprises will subsequently provide FHFA with recommendations in support of a deep, liquid, robust mortgage servicing market. FHFA recognizes that servicing compensation has broad implications for the housing finance system and that industry stakeholders have various viewpoints on this subject. FHFA is aware that any change to compensation, if FHFA concludes that one is called for, would require a multi-year approach that considers the timing of competing initiatives affecting the mortgage servicing industry.

Q.2. Last month, the Consumer Financial Protection Bureau (CFPB) sued the mortgage servicing firm Ocwen for allegedly failing borrowers at every stage of the mortgage servicing process.

- What is the total number and unpaid principal balance of Fannie Mae and Freddie Mac-guaranteed loans serviced by Ocwen?
- What steps had FHFA taken to mitigate the risks to the Enterprises related to Ocwen prior to the CFPB's lawsuit?
- Does FHFA need any additional statutory authority in order to appropriately oversee bank or nonbank mortgage servicers?

A.2. The size of the Enterprises' portfolios currently serviced by Ocwen is confidential, nonpublic information, but it represents a relatively small share of the Enterprises' outstanding unpaid principal balance. In 2015 Fannie Mae and Freddie Mac, as part of their counterparty risk management, began reducing their exposure to Ocwen through transfers of servicing. In addition to significantly reducing the volume of loans serviced by Ocwen, Fannie Mae and Freddie Mac instituted contingency plans which included more frequent monitoring of Ocwen's servicing operations and financial condition, more frequent discussions with Ocwen senior management, and the programmatic transfer of servicing on delinquent loans to another servicer. FHFA has issued supervisory guidance directing its regulated entities to identify high-risk and high-volume counterparties and establish contingency plans to manage counterparty risk exposures (see Advisory Bulletin 2013–01, "Contingency Planning for High-Risk or High Volume Counterparties," (April 1, 2013)). Additionally, both Fannie Mae and Freddie Mac

hold partial collateral on their exposure to Ocwen in addition to the asset value of the mortgage servicing rights.

On March 10, 2016, the Government Accountability Office (GAO) published a report entitled "Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened" (GAO–16–278; available at: *http://www.gao.gov/assets/680/675747.pdf),* which stated "Congress should consider granting FHFA explicit authority to examine third parties that do business with" the Enterprises. In response, FHFA generally agreed with GAO's conclusion that servicers should be subject to consistent regulations and that there is a need for parity among financial institution regulators in oversight authority for the business counterparties of their regulated entities (see p. 94, Appendix VI: Comments from the Federal Housing Finance Agency). The Financial Stability Oversight Council has also recommended that FHFA be granted this authority in its last two annual reports and FHFA has included a similar recommendation as part of its own Annual Reports to Congress.

Q.3. Nevada has long led the Nation in underwater homes—where borrowers owe more on their mortgage than the property is worth. At the height of the crisis, nearly 70 percent of Nevadans were underwater on their mortgages. Even today, Nevada leads the Nation with nearly 19 percent of borrowers with a home mortgage being underwater.

- FHFA announced a modest principal reduction pilot in April 2016. Do you know how many Nevadans received principal reductions pursuant to the April 2016 pilot? What is the average loan-to-value ratio of a Nevada borrower that received a modification pursuant to this pilot?

A.3. Under the Principal Reduction Modification program, eligible borrowers could receive a principal reduction one of two ways. First, an eligible borrower could accept and complete a Principal Reduction Modification (PRM) offered by his or her servicer. Second, an eligible borrower could accept any trial loan modification with a first payment due date between May 1 and December 1, 2016, following successful completion of the modification trial period, the principal forbearance component of the modification would be converted to principal forgiveness. The estimates below include borrowers in both of these categories and do not include Enterprise borrowers who have received principal reductions in conjunction with Nevada's Hardest Hit Fund, which is a separate program.

The Enterprises estimate that 20 Nevada borrowers have received permanent principal reduction modifications, and an additional 21 Nevada borrowers have received loan modifications with principal forbearance and are likely to be eligible to have this forbearance converted to principal reduction. The weighted average loan-to-value ratio of these borrowers is 142 percent. Please note that this data is subject to change and may be revised in the future.

Since the height of the crisis, a number of factors have resulted in a substantial decrease in the population of seriously delinquent, underwater Enterprise loans, including those borrowers eligible for the Principal Reduction Modification program. These factors include loan-to-value ratios caused by rising home prices, improving

borrower performance, other successful modification and refinance programs provided by the Enterprises, properties entering REO/short sales, third-party sales, and Enterprise sales of nonperforming loans (NPLs).

At the time the principal reduction program was announced, the Enterprises estimated that approximately 33,000 borrowers were eligible for a Principal Reduction Modification nationwide. A borrower's actual eligibility for principal reduction is determined by the borrower's servicer and the Enterprises can only estimate eligibility for this program. FHFA and the Enterprises were aware that the population of eligible borrowers would decrease in the period between program announcement and servicer implementation of the program. FHFA does not have final estimates of the decline in the population eligible for the Principal Reduction Modification program, but the population of eligible loans did decrease substantially from the time of announcement through the end of last year.

At the same time FHFA announced the Principal Reduction Modification Program, FHFA also required all buyers of Enterprise NPLs to start evaluating all deeply underwater borrowers for modifications that include options for principal reduction and/or arrearage forgiveness, thus increasing the likelihood that these borrowers would receive principal reductions after an NPL sale.

Q.4. Ensuring clear communications with borrowers with limited English language proficiency can make consumers more comfortable with mortgage borrowing, and can help grow our economy. Also, during the foreclosure crisis, Nevadans for whom English was not their first language often had difficulties securing loan modifications, especially when their servicing kept being transferred from one company to another.

- In an October 2016 speech, you stated a commitment to "finding a way forward" on language access issues at the Enterprises. Can you elaborate on your plans and commit to a timeframe for action?

A.4. The 2017 Conservatorship Scorecard directs the Enterprises to support access to credit for borrowers with limited English proficiency by assessing the impact of language barriers throughout the mortgage life cycle. In May 2017, FHFA released a Request for Input (RFI) to solicit input on access to credit for borrowers with limited English proficiency, including current industry efforts, potential legal implications and concerns, operational impacts, and suggestions for process improvements. The RFI can be found at FHFA's website here: *https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/Language_Access_RFI.pdf*.

Based on the results of the RFI and other research and data gathering efforts, the Conservatorship Scorecard requires the Enterprises to develop a multi-year plan, appropriate to their role in the housing finance market, to improve access to credit for borrowers with limited English proficiency.

Q.5. I appreciate the goal of Credit Risk Transfers deals, in terms of trying to shift risk away from taxpayers by selling-off credit risk to private investors. But I want to understand the long-term implications for borrowers and neighborhoods.

- Are loans that participate in Credit Risk Transfers eligible for innovative strategies for community stabilization? For example, can these loans be sold off through the Neighborhood Stabilization Initiative?
- We know how difficult it was for borrowers to secure loan modifications when it was just Fannie and Freddie that owned their loan. As we involve more private sector investors in Enterprise-guaranteed loans through Credit Risk Transfers, has FHFA considered how it may complicate loss mitigation?

A.5. Mortgage loans included in Credit Risk Transfer (CRT) transactions are eligible for the same community stabilization relief measures as loans not covered by CRT, including loss mitigation programs such as loan modifications. Under the current design of CRT structures, the Enterprises continue to own the credit risk on the mortgages and their servicing guidelines continue to apply. In fact, most servicers are unaware of whether any individual loan is part of a CRT transaction. When a loan becomes delinquent, servicers are instructed to apply an array of loss mitigation options to reduce the possibility of a credit loss as directed in the Enterprises' servicing guides. The Neighborhood Stabilization Initiative focuses on selling properties that are in the REO channel to nonprofits who can ensure that the properties remain affordable. NSI is not affected by CRT.

Q.6.a. One point I frequently hear from Nevada constituents is that the inventory of single-family homes available for purchase is woefully low. I say this to raise concerns about FHFA recently allowing Fannie Mae to guarantee a $1 billion loan for a single-family rental landlord, Invitation Homes, which owns nearly one thousand properties in Nevada. Before you approve any additional deals of this nature, will you consider the possible impact on home ownership in the impacted markets and submit a cost-benefit analysis to Congress before the deal is consummated?

A.6.a. Following the mortgage crisis, single-family rentals have become an increasing component of the rental market for low- and moderate-income families. According to the Joint Center for Housing Studies, there are now approximately 15.5 million detached single-family rental units in the United States comprising approximately 37 percent of the total rental housing stock. Single-family rental properties can provide affordable housing alternatives to families in need of more space than a traditional multifamily apartment can provide. The Enterprises have historically engaged in the single-family rental market by financing loans to investors of 10 or fewer single-family properties, and the majority of single-family rental assets are owned by smaller owners. Institutional owners, such as Invitation Homes, own less than 2 percent of the total single-family rental housing stock. FHFA reviewed the Invitation Homes transaction, and approved the transaction with conditions. FHFA will consider the impact of single-family rentals on home ownership, as well as other policy implications, in the approval of any future transactions or single-family rental initiatives by the Enterprises.

Further, FHFA is reaching out to participants in this market and gathering data to assess how single-family rentals impact home

ownership. Because data on the houses and tenants living in single-family rental homes is not readily available, at this time, FHFA does not anticipate having the data to support a cost-benefit analysis, but FHFA will provide a detailed analysis in support of any further action the Agency approves in this space with the information available.

Q.6.b. If FHFA is going to permit any future deals of this nature, will you work with mission-driven landlords in communities that commit to promoting rental affordability?

A.6.b. FHFA is currently conducting additional research on owners of single-family rental houses and will gather information about the effect of the Invitation Homes transaction on the single-family rental market, and FHFA and Fannie Mae will carefully monitor the results of this transaction. FHFA has also permitted Freddie Mac to explore one or more limited transactions in the detached, single-family rental market and expects them to announce their transactions soon.

FHFA's priority is to understand the single-family rental market and determine if there are areas of needed liquidity in this relatively untested market where the Enterprises could improve access to affordable rental housing. FHFA will consider mission-driven landlords and affordability for tenants of low- and moderate-incomes as primary factors in any approved single-family rental strategy going forward.

Q.6.c. If FHFA is going to permit any future deals of this nature, will you impose affordability restrictions or require landlords to adopt certain "best practices" in terms of tenant protections?

A.6.c. The reporting from both Enterprises, and strategies developed by the Enterprises for FHFA review, will enable FHFA and the Enterprises to engage with stakeholders in the coming months to better understand challenges, and possible opportunities, consistent with our objective to provide affordable rental housing. This will allow us to assess what role, if any, the Enterprises should play in the market, and what, if any, best practices should be required.

Q.7. To follow-up on a question from Ranking Member Brown during your testimony, will you commit to expressly prohibiting buyers of Enterprise-guaranteed nonperforming loans or Enterprise-owned foreclosed properties (*i.e.,* REOs) from using contract-for-deed arrangements with borrowers on a prospective basis? If so, please stipulate your precise timeframe for making this change.

A.7. FHFA is working with the Enterprises to limit the utilization of contract-for-deed and lease-to-own arrangements in future sales of Enterprise-owned REOs. Fannie Mae has already implemented a prohibition on both contract-for-deed and lease-to-own agreements to REO buyers, with exceptions for certain qualified nonprofits and for-profit entities that responsibly use this tool to support home ownership. Fannie Mae also introduced a REO investor surveillance program to monitor large REO purchasers. Freddie Mac is considering similar actions.

Fannie Mae and Freddie Mac are committed to encouraging sales of foreclosed homes to firms that engage in the responsible

acquisition and resale of REO properties, including to nonprofits through the Neighborhood Stabilization Initiative.

FHFA is presently working to modify the existing nonperforming loan sale requirements to restrict or prohibit the use of contract-for-deed arrangements on loans Fannie Mae or Freddie Mac sell through their programs except to nonprofit entities.

Q.8. The guidelines FHFA adopted for the purchase of lender-placed insurance do not address the practice in which insurers provide servicers with free or below-cost services (that are unrelated to providing the lender-placed insurance) and then recapture the cost of those services through premiums. Insurance tracking is the biggest example. As a result, it appears that the Enterprises pay twice for those services, once through the servicing fee that is intended to cover such services, and again when they pay lender-placed insurance charges that appear to be inflated by the insurer to recapture the cost of the free/below-cost services they provided. The State of New York has adopted regulations to restrict this practice after finding that it unfairly raises the cost of lender-placed insurance. Has FHFA researched the impact of this practice on the cost of force-placed insurance charged to homeowners? What is FHFA doing to address this problem?

A.8. FHFA began working with the Enterprises in 2012 to address concerns about certain practices related to, and the cost of, lender-placed insurance (LPI).

The 2015 Conservatorship Scorecard directed the Enterprises to continue to engage in efforts to reduce the costs of LPI. FHFA continued to review the Enterprises' LPI arrangements during the year and directed the Enterprises to establish an aligned, three-tiered minimum deductible for LPI coverage. This raised deductibles in order to lower premium costs. These efforts built on changes to the Enterprises' servicing guides, effective June 1, 2014, that prohibit Enterprise servicers from receiving commissions or similar incentive-based compensation from LPI carriers. FHFA reviewed servicers' practices related to tracking and recognizes they are an element of inflated costs, but concluded that the above measures were more effective means of reducing the Enterprises' LPI expenditures. As an insurance regulator, New York State's Department of Financial Services is in a better position to issue regulations related to specific insurance industry practices such as tracking.

At FHFA's urging, the Enterprises have developed more robust internal reporting metrics for LPI. These new internal metrics give insight into and quantify the costs of LPI to borrowers and enhance the Enterprises' capacity to manage LPI costs.

These and other efforts have helped to lower premiums and improve oversight of LPI expenses. Lower LPI premiums have been reflected in the claims for reimbursement that servicers have submitted to the Enterprises. For example, the average amount of a claim for reimbursement submitted to Fannie Mae fell from almost $4,000 for the 2009 coverage year to under $1,400 for the 2014 coverage year, a decrease of 64 percent.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Federal Housing Finance Agency

MEMORANDUM

May 24, 2017

TO: Melvin L. Watt
Director

FROM: Alfred M. Pollard
General Counsel

RE: FHFA Authority to Suspend Dividends under the Senior Preferred Stock Purchase Agreements with the Treasury Department

As I have advised you on several prior occasions, I am summarizing here the Federal Housing Finance Agency's legal authority to suspend dividends under the Senior Preferred Stock Purchase Agreements (PSPAs) entered into by the FHFA as conservator and the Treasury Department.

1. Payment of Dividends under the PSPAs is a Discretionary Determination.

The PSPAs provide that the Treasury Department's entitlement to a dividend arises only "*when, as and if* declared by the Board of Directors, in its sole discretion, out of funds legally available therefore..." (Senior Preferred Stock Certificate § 2(a), as amended by the "Third Amendment.") [Emphasis added.] The PSPA language follows traditional corporate law and finance practice in which dividends on stock– contrasted to interest on debt– are not obligations that legally must be paid. By law, payment of dividends is discretionary with the board of directors, which may consider such factors as the future prospects of the company and the need to retain earnings against the possibility of adverse market developments; the PSPAs reflect this principle. This is true of preferred stock as well as common stock, unless a particular stock instrument makes payment of the preferred dividend mandatory. *See, eg.,* Guttmann v. Illinois Central R. Co., 189 F.2d 927 (2d Cir.), *cert. denied*, 342 U.S. 867 (1951).

Board discretion was part of the Enterprise pre-existing preferred stock, now junior to the Treasury Department's senior preferred stock. Interpreting dividend language in the certificates for preferred stock held by the plaintiffs in the "Third Amendment" litigation, the D.C. Circuit Court of Appeals Court found that "class plaintiffs have no enforceable right to dividends because the certificates accord the Companies complete discretion to declare or withhold dividends." Perry Capital LLC v. Mnuchin, 848 F.3d 1072, 1110 (D.C. Cir. 2017).

2. Under the Safety and Soundness Act, FHFA holds all powers of the board.

FHFA as conservator succeeds to *all the rights and powers* of Enterprise shareholders, officers and directors and has the power to operate an Enterprise with all the powers of its shareholders, officers and directors; 12 USC 4617(b)(2)(A)(i) & (B)(i). [Emphasis added.] *See* Perry Capital, 848 F.3d at 1987, 1989 and Sweeney v. Treasury, 68 F.Supp.3d 116 (D.D.C. 2014). FHFA's conservatorship

authority in this area mirrors that of the FDIC. *See* 12 USC 1821(d)(2)(A). Therefore, FHFA as conservator has the board's discretionary powers and authority to suspend dividends.

Under its statute, FHFA must consider whether such action is appropriate for purposes of safeguarding the soundness of the Enterprises and the stability of the American mortgage market. As conservator, FHFA is authorized to take such actions as "appropriate to carry on the business of the [Enterprise to] preserve and conserve [its] assets and property …"; 12 USC 4617(b)(2)(D). Likewise, as regulator, the FHFA Director's "principal duties" include "to ensure that … each regulated entity operates in a safe and sound manner, including maintenance of adequate capital…" and to foster "liquid, efficient, competitive, and resilient national housing finance markets…"; 12 USC 4513(a)(1)(B)(i)&(ii). For these reasons, the Director acts under his statutory duties and powers to exercise the discretion the PSPAs provide the Enterprise boards to suspend dividend payments to assure the safe and sound condition of the Enterprises and the stability of the housing finance market. Finally, no contract provision in the PSPAs runs contrary to or prohibits such action by the Director.


FHFA
ENTERPRISE NON-PERFORMING LOAN SALES REPORT
December 2016

Background

- Fannie Mae and Freddie Mac's (the Enterprises') Non-Performing Loan (NPL) sales reduce the number of delinquent loans held in their inventories and transfer credit risk to the private sector. NPLs are generally one year or more delinquent. The Federal Housing Finance Agency's (FHFA's) goal is to achieve more favorable outcomes for borrowers and local communities than the outcomes that would be achieved if the Enterprises held the NPLs in their portfolios while also reducing losses to the Enterprises and, therefore, to taxpayers. All Enterprise NPL sales are subject to requirements published by FHFA.
- Fannie Mae offers and sells NPLs through a **National Pool Offering (NAT)** and Freddie Mac offers and sells NPLs through a **Standard Pool Offering® (SPO®).** These pools are generally large and geographically diverse, although some pools may be geographically concentrated.
- Each Enterprise also offers pools structured to attract diverse participation by nonprofits, small investors, and minority- and women-owned businesses. Fannie Mae refers to these pools as **Community Impact Pools (CIPs)** and Freddie Mac refers to these pools as **Extended Timeline Pool Offering®s (EXPO®s)**. CIPs and EXPOs are smaller sized pools and are typically geographically concentrated. The timeline between transaction announcement and the bid due date is approximately two weeks longer than the typical marketing period to provide smaller investors extra time to secure funds to participate in the NPL sale.

Introduction

- This report provides transparency into the Enterprises' sales of NPLs and borrower outcomes post-sale. The report contains the following key information:
  - Quantity and attributes of NPLs sold from August 1, 2014 through December 31, 2016;
  - Borrower outcomes as of December 31, 2016 on NPLs sold through June 30, 2016, which constituted 63 percent of the total loans sold by the Enterprises through December 31, 2016;*
  - Borrower outcomes post-sale compared to a benchmark of similarly delinquent Enterprise NPLs that were not sold; and
  - Pool level information and outcomes, including the buyers of the NPLs.
- Additional performance data on the NPLs covered by this report as well as performance data on loans sold after December 31, 2016 will be provided in future reports.

* The outcomes of a Freddie Mac pilot sale in August 2014 are not included in this report because the transaction was executed before FHFA issued NPL sales and reporting requirements.

Enhanced NPL Sale Requirements

Announced March 2, 2015

Bidder qualifications: Bidders will be required to identify their servicing partners at the time of qualification and must complete a servicing questionnaire to demonstrate a record of successful resolution of loans through alternatives to foreclosure.

Modification requirements: The new servicer is required to evaluate all pre-2009 borrowers (other than those whose foreclosure sale date is imminent or whose property is vacant) who apply for assistance for the U.S. Department of the Treasury's Making Home Affordable programs, including the Home Affordable Modification Program (HAMP).* All post-2009 borrowers who apply for assistance must be evaluated for a proprietary modification. Proprietary modifications must not include an upfront fee or require prepayment of any amount of mortgage debt, and must provide a benefit to the borrower with the potential for a sustainable modification.

Loss mitigation waterfall requirements: Servicers must apply a waterfall of resolution tactics that includes evaluating borrower eligibility for a loan modification (HAMP and/or proprietary modification), a short sale, and a deed-in-lieu of foreclosure. Foreclosure must be the last option in the waterfall. The waterfall may consider net present value to the investor.

REO sale requirements: Servicers are encouraged to sell properties that have gone through foreclosure and entered Real Estate Owned (REO) status to individuals who will occupy the property as their primary residence or to nonprofits. For the first 20 days after any NPL that becomes an REO property is marketed, the property may be sold only to buyers who intend to occupy the property as their primary residence or to nonprofits.

Subsequent servicer requirements: Subsequent servicers must assume all the responsibilities of the initial servicer.

Bidding transparency: To facilitate transparency of the NPL sales program and encourage robust participation by all interested participants, each Enterprise has developed a process for announcing upcoming NPL sale offerings. This includes an NPL webpage on the Enterprise's website, email distribution to small, nonprofit and minority- and women-owned business (MWOB) investors, and proactive outreach to potential bidders.

Reporting requirements: NPL buyers and servicers are required to report loan resolution results and borrower outcomes to the Enterprises for four years after the NPL sale.

Small pools: The Enterprises will offer small, geographically concentrated pools of NPLs, where feasible, to maximize opportunities for nonprofit organizations and MWOBs to purchase NPLs. The Enterprises will actively market such offerings to nonprofits and MWOBs and provide additional time for buyers to complete the transaction.

Further Enhancements to NPL Sale Requirements

Announced April 14, 2016

High Loan-to-Value (LTV) loan modification requirements: For borrowers who apply for assistance and have a mark-to-market LTV ratio above 115 percent, servicers will be required to evaluate these borrowers for loan modifications (HAMP or proprietary) that include principal and/or arrearage forgiveness.

Proprietary loan modification standards: Proprietary modifications must either be fixed rate for the term of the modification or limit payment increases consistent with HAMP requirements: the initial period of a reduced interest rate must last for at least 5 years and interest rate increases are limited to 1 percent per year.

No "walk aways": If a property securing a loan is vacant, buyers and servicers may not abandon the lien and "walk away" from the property. Instead, if a foreclosure alternative is not possible, the servicer must complete a foreclosure or must sell or donate the loan, including to a government or nonprofit entity.

* Loans transferred September 1, 2016 onward are not required to be solicited for HAMP, due to the December 31, 2016 expiration of HAMP.

Highlights: NPL Sales Through December 2016

- Through December 31, 2016, the Enterprises sold 72,502 NPLs with an aggregate unpaid principal balance (UPB) of $14.2 billion. The loans included in the NPL sales had an average delinquency of 3.4 years and an average current LTV ratio of 97 percent, not including capitalized arrearages. The average delinquency for pools sold ranged from 1.4 to 6.2 years.
- Freddie Mac sold 32,448 loans with an aggregate UPB of $6.6 billion, an average delinquency of 3.1 years, and an average LTV of 100 percent.
- Fannie Mae sold 40,054 loans with an aggregate UPB of $7.5 billion, an average delinquency of 3.6 years, and an average LTV of 94 percent.
- New Jersey, New York, and Florida accounted for 48 percent of NPLs sold. These three states also accounted for 47 percent of the Enterprises' loans that were 1 year or more delinquent as of 12/31/2014.
- Twenty-two percent of the Enterprises' loans that were one or more years delinquent at the beginning of 2016 were sold during the year, up from 9 percent in 2015 and 1 percent in 2014.
- A non-profit organization, Community Loan Fund of New Jersey (CLFNJ), along with its affiliate, New Jersey Community Capital, was the winning bidder on 9 of 11 CIP or EXPO pools that settled by December 31, 2016 and CLFNJ is a service provider for the tenth and eleventh pools.

Highlights: Borrower Outcomes

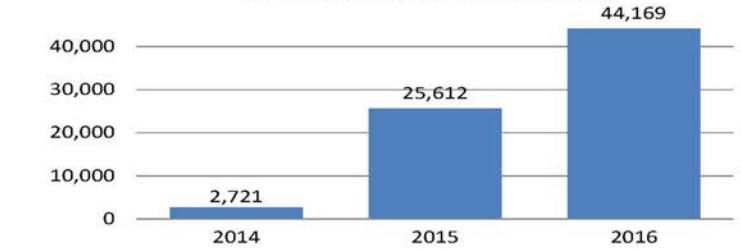
- The borrower outcomes provided in this report are as of December 31, 2016, based on the 45,446 NPLs that settled by June 30, 2016. As of December 31, 2016, 41 percent of these NPLs had been resolved.
- NPLs where the home was occupied by the borrower had the highest rate of foreclosure avoidance outcomes (18.8 percent foreclosure avoided versus 10.1 percent for vacant properties).
- NPLs where the property is vacant had a much higher rate of foreclosure, nearly double the foreclosure rate for borrower occupied properties (38.5 percent foreclosure versus 16.6 percent for borrower occupied properties). Foreclosure outcomes for vacant homes typically improve neighborhood stability and reduce blight as the homes are sold or rented to new occupants.
- Compared to a benchmark of similarly delinquent Enterprise NPLs that were not sold, foreclosures avoided for sold NPLs were higher than the benchmark. Thirty-three percent of NPLs that have been with the new servicers the longest (1,737 NPLs for 20 months) avoided foreclosure, compared to 23 percent of the benchmark NPLs.
- Eleven percent of the permanent modifications provided arrearage and/or principal forgiveness. The average forgiveness earned per loan was $35,385, with the potential to earn an average forgiveness of $73,695 in total.

Through December 31, 2016 the Enterprises sold 72,502 loans with an aggregate UPB of $14.2 billion, an average delinquency of 3.4 years and an average loan-to-value of 97 percent.

Combined Non Performing Loan Sales Activity To Date

Loan Count at Settlement	**72,502 loans**
Unpaid Principal Balance at Settlement	**$14,160 million**
Average Delinquency	**3.4 years**
Average Loan-to-Value Ratio	**97 percent**

The Enterprises' Non-Performing Loan Sales Loan Count At Settlement, by Year



	2014	2015	2016
Number of Enterprise Loans One Year or More Delinquent	378,331 as of 12/31/13	278,995 as of 12/31/14	199,619 as of 12/31/15
Percent of Delinquent Loans Sold	1%	9%	22%

As of December 31, 2016 Freddie Mac had sold 32,448 loans through 39 national, geographically-diversified pools, and 6 smaller, geographically-concentrated NPL pools, with an aggregate UPB of $6.6 billion, an average delinquency of 3.1 years, and an average loan-to-value of 100 percent.

Freddie Mac

Sale Name	Pool	Pool Type*	Settle Date	Loan Count at Settle	UPB ($M) at Settle	Average Delinquency in Years	Average Loan-to-Value
SPO 2014 [Pilot]	1	SPO	8/28/14	2,432	533.1	3.7	114%
	2	SPO	8/28/14	289	62.9	3.6	114%
SPO 2015#1**	1	SPO	3/19/15	668	122.5	2.3	72%
	2	SPO	3/19/15	425	93.6	2.8	100%
	3	SPO	3/16/15	644	133.3	3.0	145%
SPO 2015#2**	1	SPO	5/14/15	3,092	553.4	2.8	82%
	2	SPO	5/15/15	1,185	212.4	2.9	100%
	3	SPO	5/15/15	427	104.1	4.0	82%
SPO 2015#3**	1	SPO	7/23/15	853	164.0	2.8	108%
EXPO 2015#1**	1	EXPO	8/6/15	119	23.6	3.6	84%
SPO 2015#4**	1	SPO	9/25/15	1,879	343.1	2.9	95%
	2	SPO	9/24/15	272	62.1	3.8	89%
	3	SPO	9/24/15	484	49.9	3.0	35%
SPO 2015#5**	1	SPO	11/12/15	1,697	378.7	3.1	85%
	2	SPO	10/30/15	508	114.5	2.9	85%
	3	SPO	11/12/15	933	218.8	3.7	150%
	4	SPO	10/29/15	438	101.1	3.8	155%
	5	SPO	11/12/15	359	36.7	2.7	34%
SPO 2015#6**	1	SPO	12/11/15	878	159.1	1.8	79%
	2	SPO	12/17/15	309	69.2	2.0	149%
SPO 2015#7**	1	SPO	2/19/16	1,153	220.3	2.6	72%
	2	SPO	2/19/16	612	138.4	2.7	99%
	3	SPO	2/18/16	625	128.4	2.5	146%
	4	SPO	2/10/16	794	176.2	3.1	102%
	5	SPO	2/19/16	426	80.5	2.5	117%

Freddie Mac (continued)

Sale Name	Pool	Pool Type*	Settle Date	Loan Count at Settle	UPB ($M) at Settle	Average Delinquency in Years	Average Loan-to-Value
EXPO 2015#3**	1	EXPO	2/25/16	56	9.6	2.6	100%
SPO 2016#1**	1	SPO	5/12/16	496	100.5	3.4	73%
	2	SPO	5/12/16	1,216	244.8	3.5	73%
	3	SPO	5/12/16	1,090	258.2	3.7	100%
	4	SPO	4/28/16	1,270	280.0	3.8	152%
	5	SPO	4/28/16	638	130.4	3.3	144%
EXPO 2016#1**	1	EXPO	5/6/16	64	16.1	4.6	112%
	2	EXPO	5/6/16	105	22.7	3.9	107%
SWLO 2016#1***	4	SWLO	8/29/16	326	86.6	3.0	99%
SPO 2016#2	1	SPO	8/24/16	358	92.0	5.4	122%
	2	SPO	8/31/16	514	156.1	5.3	94%
	3	SPO	8/24/16	573	119.6	3.9	69%
	4	SPO	8/24/16	260	64.8	4.3	99%
	5	SPO	8/24/16	359	87.8	4.0	151%
EXPO 2016#2	1	EXPO	8/31/16	72	16.6	5.1	99%
	2	EXPO	8/31/16	56	10.8	4.4	113%
SPO 2016#3	1	SPO	12/13/16	1,093	175.8	1.8	71%
	2	SPO	12/13/16	738	127.2	1.4	70%
	3	SPO	12/6/16	821	168.4	2.1	99%
	4	SPO	12/6/16	842	166.9	2.1	147%
Total Freddie Mac				**32,448**	**$ 6,615**	**3.1**	**100%**

* Pool Type: SPO: Freddie Mac Standard Pool Offering, EXPO: Freddie Mac Extended Timeline Pool Offering, SWLO: Seasoned Whole Loan Offering.
** The outcomes of these deals are provided in this report.
*** In August 2016, Freddie Mac sold loans from a securitization trust in which Freddie Mac owns and guarantees all securities issued from such trust.

As of December 31, 2016 Fannie Mae had sold 40,054 loans through 31 national, geographically-diversified pools, and 5 smaller, geographically-concentrated NPL pools, with an aggregate UPB of $7.5 billion, an average delinquency of 3.6 years, and an average loan-to-value of 94 percent.

Fannie Mae

Sale Name	Pool	Pool Type*	Settle Date	Loan Count at Settle	UPB ($M) at Settle	Average Delin-quency in Years	Average Loan-to-Value
FNMA 2015-NPL1**	1	NAT	6/19/15	606	151.5	5.0	142%
	2	NAT	6/19/15	1,871	481.4	5.0	136%
FNMA 2015-NPL2**	1	NAT	9/25/15	627	133.1	3.2	148%
	2	NAT	9/26/15	2,479	484.0	3.1	71%
FNMA 2015-NPL2-CIP**	1	CIP	10/26/15	38	5.3	3.2	81%
FNMA 2015-NPL3**	1	NAT	12/17/15	1,246	272.2	4.1	102%
	2	NAT	12/17/15	2,703	424.3	2.7	64%
	3	NAT	12/17/15	872	177.4	3.0	138%
FNMA 2016-NPL1**	1	NAT	3/30/16	2,308	478.6	5.0	90%
	2	NAT	3/29/16	1,022	207.6	5.0	86%
	3	NAT	3/30/16	785	158.7	5.1	92%
	4	NAT	3/30/16	609	128.4	5.1	99%
FNMA 2016-NPL1-5-CIP**	1	CIP	4/21/16	47	12.1	6.2	141%
FNMA 2016-NPL2	1**	NAT	6/28/16	2,912	556.5	3.9	94%
	2**	NAT	6/28/16	1,940	370.2	4.0	91%
	3**	NAT	6/28/16	992	192.5	4.1	93%
	4**	NAT	6/28/16	674	123.6	4.0	96%
	1A	NAT	7/26/16	1,281	246.8	4.1	91%

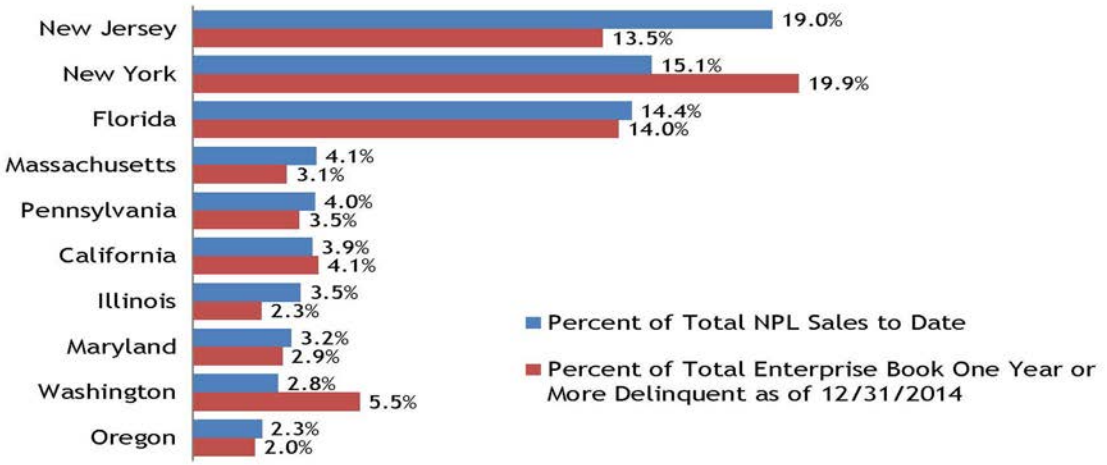
Fannie Mae (continued)

Sale Name	Pool	Pool Type*	Settle Date	Loan Count at Settle	UPB ($M) at Settle	Average Delin-quency in Years	Average Loan-to-Value
FNMA 2016-NPL2-CIP	1	CIP	7/25/16	71	17.9	4.4	111%
FNMA 2016-NPL3-1	A	NAT	8/24/16	1,267	212.0	2.9	77%
	B	NAT	8/24/16	1,257	209.1	2.9	77%
	C	NAT	8/24/16	1,269	215.2	2.9	77%
FNMA 2016-NPL3-2	A	NAT	8/24/16	1,229	204.7	2.3	99%
	B	NAT	8/24/16	1,259	206.0	2.3	98%
	C	NAT	8/24/16	1,311	210.5	2.4	96%
FNMA 2016-NPL3-CIP	1	CIP	9/21/16	50	11.7	3.4	98%
FNMA 2016-NPL4	1	NAT	10/25/16	1,825	303.7	3.7	103%
	2	NAT	10/25/16	924	144.2	3.8	92%
	3	NAT	10/25/16	1,199	177.9	2.9	108%
	4	NAT	10/27/16	526	89.8	3.4	122%
FNMA 2016-NPL4-CIP	1	CIP	11/22/16	77	13.0	4.5	112%
FNMA 2016-NPL5	1	NAT	12/22/16	1,246	244.6	3.4	90%
	2	NAT	12/22/16	1,274	243.5	3.4	91%
	3	NAT	12/22/16	1,406	253.2	3.3	67%
	4	NAT	12/22/16	640	142.6	3.5	133%
	5	NAT	12/22/16	212	40.6	2.9	127%
Total Fannie Mae				**40,054**	**$ 7,545**	**3.6**	**94%**

* Pool Type NAT: Fannie Mae National Pool, CIP: Fannie Mae Community Impact Pool.
** The outcomes of these deals are provided in this report.

New Jersey, New York, and Florida accounted for 48 percent of NPLs sold as of December 31, 2016. These three states accounted for 47 percent of the Enterprises' loans that were one year or more delinquent as of December 31, 2014. The distribution of NPL sales by state closely mirrors the distribution of the Enterprises' one year or more delinquent loans by state prior to the start of NPL programmatic sales in 2015.

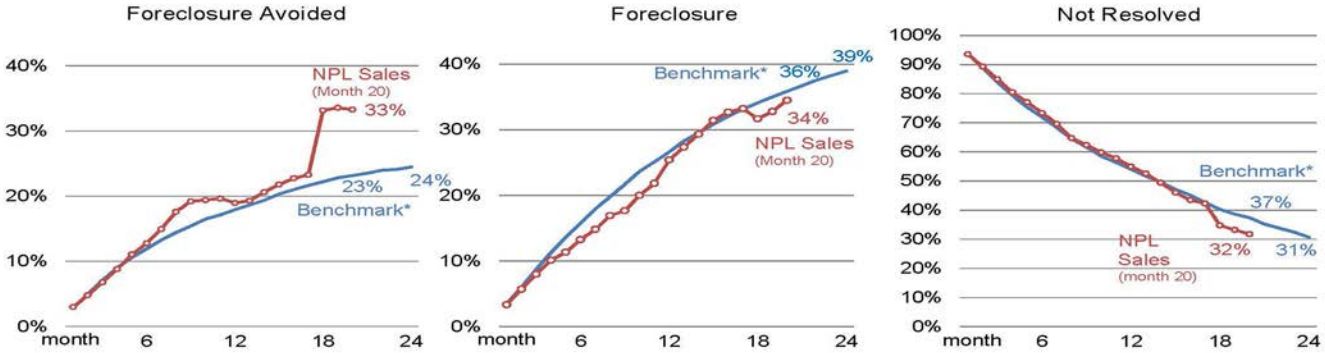
Geographic Distribution of NPL Sales - Top 10 States*



* See page 15 for more information.

FHFA Non-Performing Loan Sales Report — December 2016

The borrower outcomes provided in this report are based on 45,446 NPLs that were sold and settled by June 30, 2016 and reported through December 31, 2016. In a benchmark comparison, 33 percent of NPLs that have been with the new servicers the longest (1,737 NPLs for 20 months) avoided foreclosure, compared to 23 percent of the NPLs that were not sold. Foreclosures for NPLs sold trended lower than the benchmark.



Weighted Average Loan Characteristics

	Loan to Value	Delinquency (years)
Benchmark	93.9%	2.9
NPL Sales	97.2%	3.5

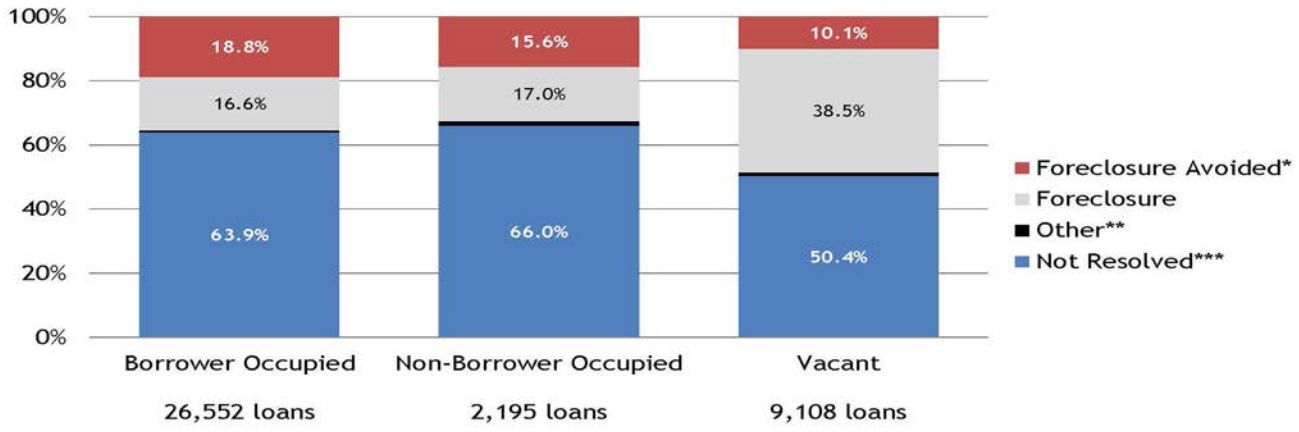
* The Benchmark tracks the performance of the Enterprises' loans that were one year or more delinquent as of December 31, 2013, over the two succeeding years. It provides an historical reference for evaluating the performance of the loans sold in the NPL sales. The performance of the loans sold in the NPL sale will differ from the benchmark due to, among other factors: differences in loan characteristics (for example, mark-to-market loan-to-value ratio, geographic location and delinquency), differences in the Enterprises' and the NPL buyers' loss mitigation programs and servicing outreach, and changes in the macro-economic environment.

Charts exclude the "Other" category (Whole Loan Sales, Charge Offs, and Repurchases).

For information on the number of loans contributing to each month's outcome, see page 26.

NPLs where the home was occupied by the borrower had the highest rate of foreclosure avoidance outcomes (18.8 percent foreclosure avoided versus 10.1 percent for vacant properties). NPLs where the property was vacant had a much higher rate of foreclosure (38.5 percent foreclosure versus 16.6 percent for borrower occupied properties). Foreclosure outcomes for vacant homes typically improve neighborhood stability and reduce blight as the homes are sold or rented to new occupants.

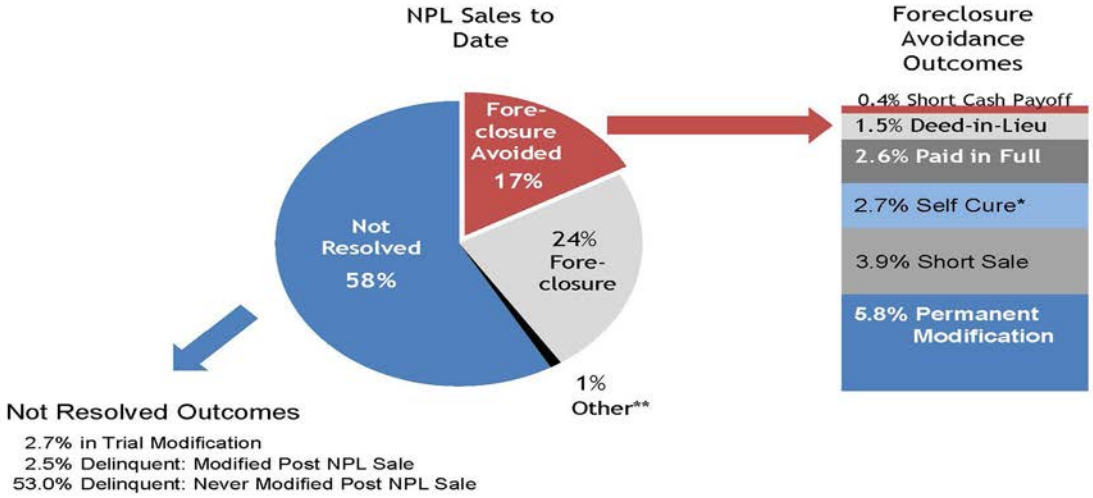
Loan Outcomes by Verified Occupancy Status



* See page 17 for more information.
** Other is defined as: whole loan sales, repurchases by the Enterprises, and charge-offs.
*** Not Resolved is defined as: In Trial Modification, Delinquent: Modified Post NPL Sale, and Delinquent: Never Modified Post NPL Sale.

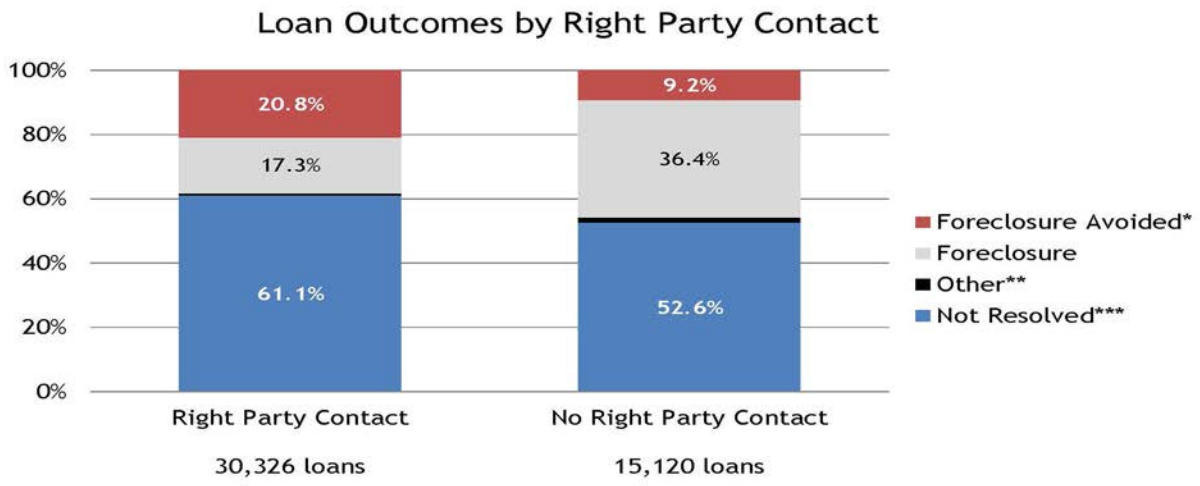
Through December 31, 2016, 41 percent of the NPLs sold had been resolved. Seventeen percent of NPLs sold were resolved without foreclosure and 24 percent were resolved through foreclosure.

Loan Outcomes



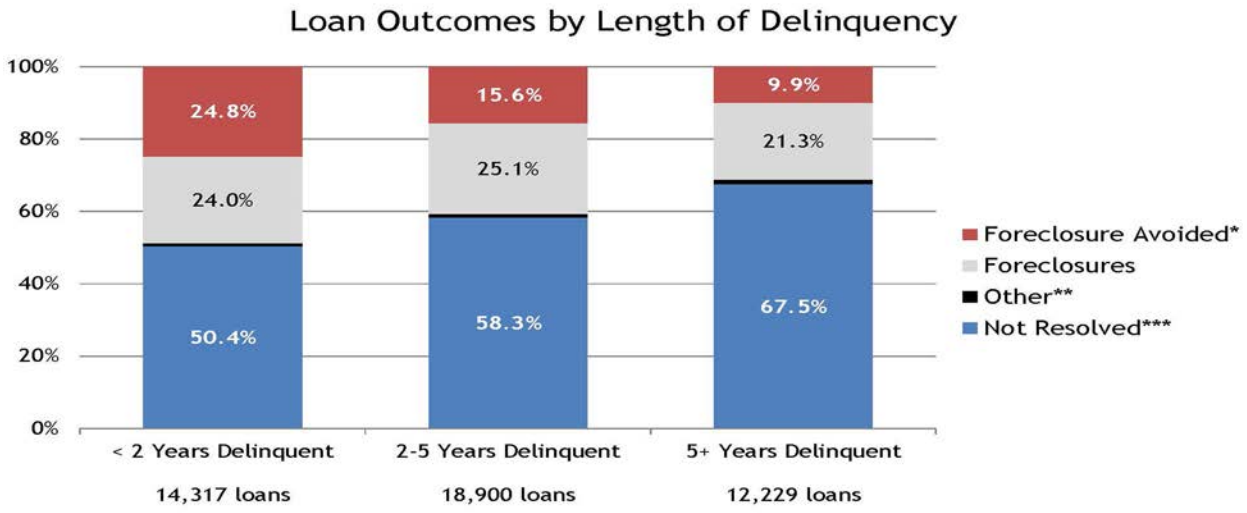
* See page 18 for more information.
** Other is defined as: whole loan sales, repurchases by the Enterprises, and charge-offs.

NPLs where the servicer had established contact with the borrower, co-borrower, or trusted advisor ("Right Party Contact") had a much higher rate of non-foreclosure outcomes (20.8 percent versus 9.2 percent with no right party contact). In contrast, when a servicer was unable to establish contact, NPLs had a higher rate of foreclosure (36.4 percent versus 17.3 percent with right party contact).



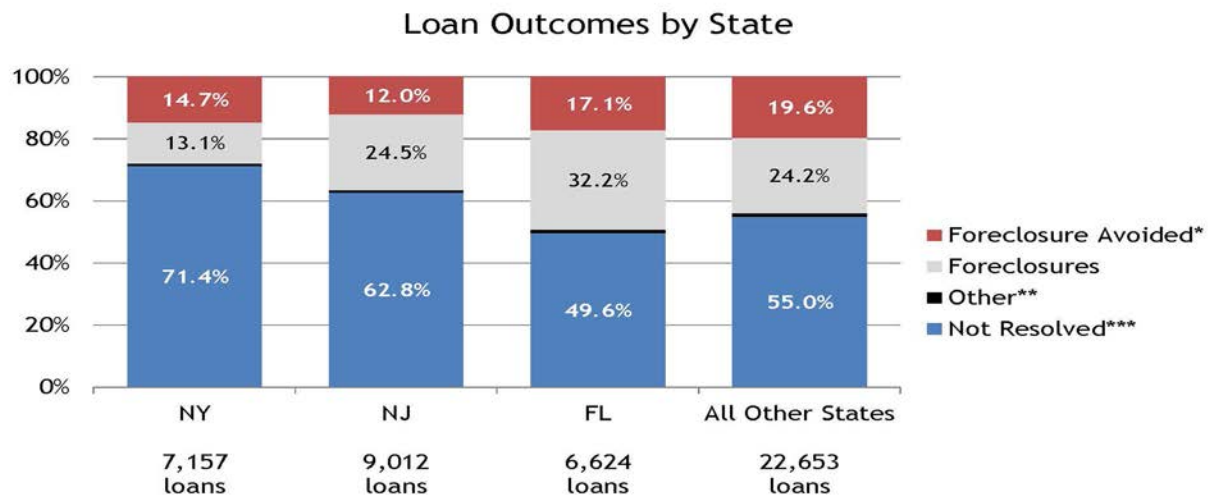
* See page 20 for more information.
** Other is defined as: whole loan sales, repurchases by the Enterprises, and charge-offs.
*** Not Resolved is defined as: in Trial Modification, Delinquent: Modified Post NPL Sale, and Delinquent: Never Modified Post NPL Sale.

The least delinquent NPLs sold (less than two years delinquent) had the highest percentage of foreclosure avoidance (24.8 percent versus 15.6 percent for 2-5 years delinquent and 9.9 percent for loans 5+ years delinquent).



* See page 21 for more information.
** Other is defined as: whole loan sales, repurchases by the Enterprises, and charge-offs.
*** Not Resolved is defined as: In Trial Modification, Delinquent: Modified Post NPL Sale, and Delinquent: Never Modified Post NPL Sale.

New York had a slower rate of resolution compared to New Jersey, Florida, and the average of all other states.



* See page 22 for more information.
** Other is defined as: whole loan sales, repurchases by the Enterprises, and charge-offs.
** Not Resolved is defined as: in Trial Modification, Delinquent: Modified Post NPL Sale, and Delinquent: Never Modified Post NPL Sale.

Table 1: NPL Sales by State

State	NPL Sales UPB ($M)	NPL Sales Loan Count	Loan Count Percent of Total	Enterprise Loans 1 Year or More Delinquent as of 12/31/2014 Loan Count	Enterprise Loans 1 Year or More Delinquent as of 12/31/2014 Percentage
New Jersey	3,015.4	13,785	19.0%	37,530	13.5%
New York	2,752.2	10,918	15.1%	55,504	19.9%
Florida	1,887.2	10,438	14.4%	38,984	14.0%
Massachusetts	622.9	2,941	4.1%	8,602	3.1%
Pennsylvania	385.1	2,910	4.0%	9,748	3.5%
California	757.9	2,838	3.9%	11,496	4.1%
Illinois	458.6	2,557	3.5%	6,291	2.3%
Maryland	485.3	2,336	3.2%	8,186	2.9%
Washington	408.7	2,026	2.8%	15,259	5.5%
Oregon	300.3	1,643	2.3%	5,693	2.0%
Ohio	154.7	1,547	2.1%	5,572	2.0%
Nevada	322.0	1,530	2.1%	5,665	2.0%
Connecticut	274.1	1,381	1.9%	7,111	2.5%
Texas	147.3	1,204	1.7%	4,985	1.8%
Georgia	147.8	1,075	1.5%	4,450	1.6%
Hawaii	270.9	857	1.2%	2,033	0.7%
North Carolina	117.5	857	1.2%	3,918	1.4%
Indiana	76.3	809	1.1%	2,354	0.8%
Maine	113.4	748	1.0%	3,746	1.3%
Virginia	137.0	744	1.0%	2,228	0.8%
Wisconsin	100.3	740	1.0%	1,883	0.7%
South Carolina	98.0	731	1.0%	2,584	0.9%
New Mexico	104.6	650	0.9%	3,746	1.3%
Michigan	59.6	543	0.7%	2,577	0.9%
Delaware	92.5	516	0.7%	1,490	0.5%
Rhode Island	94.3	486	0.7%	1,569	0.6%
Arizona	89.0	485	0.7%	1,632	0.6%
Kentucky	49.4	483	0.7%	1,812	0.6%
Missouri	42.9	414	0.6%	2,114	0.8%
Louisiana	48.7	409	0.6%	1,531	0.5%
Alabama	40.5	401	0.6%	1,883	0.7%
District of Columbia	83.8	386	0.5%	1,186	0.4%
Oklahoma	32.3	352	0.5%	1,400	0.5%
Minnesota	58.5	349	0.5%	1,437	0.5%
Tennessee	36.1	343	0.5%	1,560	0.6%
Colorado	44.1	251	0.3%	1,196	0.4%
New Hampshire	40.2	229	0.3%	855	0.3%
Iowa	22.3	213	0.3%	1,122	0.4%
Arkansas	22.0	211	0.3%	943	0.3%
Utah	39.1	192	0.3%	721	0.3%
Mississippi	19.6	175	0.2%	768	0.3%
Vermont	27.6	174	0.2%	664	0.2%
Kansas	17.4	167	0.2%	796	0.3%
Idaho	22.7	154	0.2%	666	0.2%
West Virginia	8.2	76	0.1%	244	0.1%
Nebraska	6.4	62	0.1%	340	0.1%
Montana	10.1	57	0.1%	379	0.1%
North Dakota	2.3	25	0.0%	93	0.0%
South Dakota	2.7	22	0.0%	47	0.0%
Wyoming	2.9	20	0.0%	2,191	0.8%
Alaska	3.3	18	0.0%	136	0.0%
Guam, PR, VI	3.5	24	0.0%	75	0.0%
Total	14,159.6	72,502		278,995	

Table 2: NPL Buyers

NPL Buyer	Number of Pools Bought	Loan Count at Settlement Date	UPB ($M) at Settlement Date	Loan Count Percent of Total
LSF9 Mortgage Holdings, LLC	17	16,292	3,197.2	22.5%
MTGLQ Investors, L.P.	12	11,770	2,139.1	16.2%
Pretium Mortgage Credit Partners I Loan Acquisition, LP	11	9,402	1,782.7	13.0%
PRMF Acquisition LLC	5	6,594	1,246.9	9.1%
MTGLQ Investors, L.P. and Pretium Mortgage Credit Partners I	3	6,133	1,173.5	8.5%
GCAT Management Services 2015-13 LLC	3	4,704	869.9	6.5%
Rushmore Loan Management Services, LLC	4	3,375	705.8	4.7%
(Freddie Mac NPL Pilot*)	2	2,721	596.0	3.8%
Carlsbad Funding Mortgage Loan Acquisition, LP	1	2,308	478.6	3.2%
New Residential Investment Corp.	2	2,118	449.6	2.9%
MTGLQ Investors, L.P. and New Residential Investment Corp.	1	1,406	253.2	1.9%
Upland Mortgage Acquisition Company II, LLC	2	1,335	324.5	1.8%
Bayview Acquisition, LLC	2	953	202.5	1.3%
21st Mortgage Corporation	1	794	176.2	1.1%
SW Sponsor, LLC	1	606	151.5	0.8%
MFA Financial, Inc.	1	526	89.8	0.7%
OSAT Sponsor II, LLC	1	438	101.1	0.6%
Community Loan Fund of New Jersey, Inc	5	353	75.9	0.5%
Nomura Corporate Funding Americas, LLC	1	272	62.1	0.4%
New Jersey Community Capital	4	233	48.3	0.3%
Corona Asset Management XII, LLC	1	119	23.6	0.2%
Corona Asset Management XVIII, LLC	1	50	11.7	0.1%
Total	81	72,502	14,159.8	100.0%

* The Freddie Mac NPL Pilot sale does not include a provision to disclose the buyer name.

Table 3: Loan Outcomes by Verified Occupancy

Category	Loan Count	Borrower Occupied Loans	Non-Borrower Occupied Loans	Vacant Loans	Unknown Occupancy	Percent of Loans	Percentage of Borrower Occupied Loans	Percentage of Non-Borrower Occupied Loans	Percentage of Vacant Loans	Percentage of Unknown Occupancy
Resolved	**18,482**	**9,418**	**715**	**4,426**	**3,923**	**40.7%**	**35.5%**	**32.6%**	**48.6%**	**51.7%**
Foreclosure Avoided	**7,715**	**4,998**	**342**	**919**	**1,456**	**17.0%**	**18.8%**	**15.6%**	**10.1%**	**19.2%**
Self Cure*	1,219	936	82	19	182	2.7%	3.5%	3.7%	0.2%	2.4%
Paid in Full	1,188	718	50	147	273	2.6%	2.7%	2.3%	1.6%	3.6%
Active Permanent Modification	2,617	2,236	114	34	233	5.8%	8.4%	5.2%	0.4%	3.1%
Short Sale	1,792	780	62	333	617	3.9%	2.9%	2.8%	3.7%	8.1%
Deed-in-lieu	702	212	26	344	120	1.5%	0.8%	1.2%	3.8%	1.6%
Short Cash Pay-Off	197	116	8	42	31	0.4%	0.4%	0.4%	0.5%	0.4%
Foreclosure	**10,767**	**4,420**	**373**	**3,507**	**2,467**	**23.7%**	**16.6%**	**17.0%**	**38.5%**	**32.5%**
Not Resolved	**26,497**	**16,955**	**1,449**	**4,586**	**3,507**	**58.3%**	**63.9%**	**66.0%**	**50.4%**	**46.2%**
in Trial Modification	1,238	1,025	59	12	142	2.7%	3.9%	2.7%	0.1%	1.9%
Delinquent: Modified Post NPL Sale	1,152	891	38	35	188	2.5%	3.4%	1.7%	0.4%	2.5%
Delinquent: Never Modified Post NPL Sale	24,107	15,039	1,352	4,539	3,177	53.0%	56.6%	61.6%	49.8%	41.9%
Other	**467**	**179**	**31**	**96**	**161**	**1.0%**	**0.7%**	**1.4%**	**1.1%**	**2.1%**
Whole Loan Sales	35	0	0	0	35	0.1%	0.0%	0.0%	0.0%	0.5%
Repurchase by Enterprise	164	59	2	8	95	0.4%	0.2%	0.1%	0.1%	1.3%
Charge-off	268	120	29	88	31	0.6%	0.5%	1.3%	1.0%	0.4%
Total	**45,446**	**26,552**	**2,195**	**9,108**	**7,591**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

Table 4: Loan Outcomes Summary

Category	Total Count of Loans Sold	Total Percent of Loans Sold	Total Percent of Resolved
Resolved	**18,482**	**40.7%**	**100.0%**
Foreclosure Avoided	**7,715**	**17.0%**	**41.7%**
Self Cure*	1,219	2.7%	6.6%
Paid in Full	1,188	2.6%	6.4%
Active Permanent Modification	2,617	5.8%	14.2%
Short Sale	1,792	3.9%	9.7%
Deed-in-lieu	702	1.5%	3.8%
Short Cash Pay-Off	197	0.4%	1.1%
Foreclosure	**10,767**	**23.7%**	**58.3%**
Not Resolved	**26,497**	**58.3%**	
in Trial Modification	1,238	2.7%	
Delinquent: Modified Post NPL Sale	1,152	2.5%	
Delinquent: Never Modified Post NPL Sale	24,107	53.0%	
Other	**467**	**1.0%**	
Whole Loan Sales	35	0.1%	
Repurchase by Enterprise	164	0.4%	
Charge-off	268	0.6%	
Total	**45,446**	**100.0%**	

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

Table 5: Loan Outcomes by Loan to Value

Category	Loan Count	LTV <=90	LTV >90 to <=110	LTV >110 to <=130	LTV > 130	Percent of Loans	Percent LTV <=90	Percent LTV >90 to <=110	Percent LTV >110 to <=130	Percent LTV > 130
Resolved	**18,482**	**8,761**	**3,938**	**2,547**	**3,236**	**40.7%**	**38.7%**	**41.3%**	**43.0%**	**43.9%**
Foreclosure Avoided	**7,715**	**4,061**	**1,449**	**980**	**1,225**	**17.0%**	**18.0%**	**15.2%**	**16.5%**	**16.6%**
Self Cure*	1,219	705	167	110	237	2.7%	3.1%	1.8%	1.9%	3.2%
Paid in Full	1,188	1,105	57	14	12	2.6%	4.9%	0.6%	0.2%	0.2%
Active Permanent Modification	2,617	1,436	518	342	321	5.8%	6.3%	5.4%	5.8%	4.4%
Short Sale	1,792	532	482	350	428	3.9%	2.4%	5.1%	5.9%	5.8%
Deed-in-lieu	702	200	184	144	174	1.5%	0.9%	1.9%	2.4%	2.4%
Short Cash Pay-Off	197	83	41	20	53	0.4%	0.4%	0.4%	0.3%	0.7%
Foreclosure	**10,767**	**4,700**	**2,489**	**1,567**	**2,011**	**23.7%**	**20.8%**	**26.1%**	**26.4%**	**27.3%**
Not Resolved	**26,497**	**13,676**	**5,531**	**3,317**	**3,973**	**58.3%**	**60.5%**	**58.0%**	**55.9%**	**54.0%**
in Trial Modification	1,238	629	254	173	182	2.7%	2.8%	2.7%	2.9%	2.5%
Delinquent: Modified Post NPL Sale	1,152	615	220	158	159	2.5%	2.7%	2.3%	2.7%	2.2%
Delinquent: Never Modified Post NPL Sale	24,107	12,432	5,057	2,986	3,632	53.0%	55.0%	53.1%	50.4%	49.3%
Other	**467**	**186**	**61**	**65**	**155**	**1.0%**	**0.8%**	**0.6%**	**1.1%**	**2.1%**
Whole Loan Sales	35	24	6	3	2	0.1%	0.1%	0.1%	0.1%	0.0%
Repurchase by Enterprise	164	83	24	24	33	0.4%	0.4%	0.3%	0.4%	0.4%
Charge-off	268	79	31	38	120	0.6%	0.3%	0.3%	0.6%	1.6%
Total	45,446	22,623	9,530	5,929	7,364	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

Table 6: Loan Outcomes by Right Party Contact

	Loan Count			Percent of Loans Sold		
Category	Right Party Contact	No Right Party Contact	Totals	Right Party Contact	No Right Party Contact	Totals
Resolved	11,578	6,904	18,482	38.2%	45.7%	40.7%
Foreclosure Avoided	6,317	1,398	7,715	20.8%	9.2%	17.0%
Self Cure*	1,053	166	1,219	3.5%	1.1%	2.7%
Paid in Full	842	346	1,188	2.8%	2.3%	2.6%
Active Permanent Modification	2,439	178	2,617	8.0%	1.2%	5.8%
Short Sale	1,216	576	1,792	4.0%	3.8%	3.9%
Deed-in-lieu	602	100	702	2.0%	0.7%	1.5%
Short Cash Pay-Off	165	32	197	0.5%	0.2%	0.4%
Foreclosure	5,261	5,506	10,767	17.3%	36.4%	23.7%
Not Resolved	18,543	7,954	26,497	61.1%	52.6%	58.3%
in Trial Modification	1,125	113	1,238	3.7%	0.7%	2.7%
Delinquent: Modified Post NPL Sale	1,068	84	1,152	3.5%	0.6%	2.5%
Delinquent: Never Modified Post NPL Sale	16,350	7,757	24,107	53.9%	51.3%	53.0%
Other	205	262	467	0.7%	1.7%	1.0%
Whole Loan Sales	25	10	35	0.1%	0.1%	0.1%
Repurchase by Enterprise	40	124	164	0.1%	0.8%	0.4%
Charge-off	140	128	268	0.5%	0.8%	0.6%
Total	30,326	15,120	45,446	100%	100%	100%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

Table 7: Loan Outcomes by Delinquency at Settlement

Category	Loan Count	Loans of < 2 Years Delinquent	Loans 2-3 Years Delinquent	Loans 3-4 Years Delinquent	Loans 4-5 Years Delinquent	Loans 5-6 Years Delinquent	Loans 6+ Years Delinquent
Resolved	**18,482**	**6,977**	**3,117**	**2,538**	**2,037**	**1,876**	**1,937**
Foreclosure Avoided	**7,715**	**3,548**	**1,276**	**950**	**728**	**646**	**567**
Self Cure*	1,219	811	140	91	59	58	60
Paid In Full	1,188	632	241	150	78	57	30
Active Permanent Modification	2,617	1,116	450	348	273	250	180
Short Sale	1,792	629	296	237	223	192	215
Deed-in-lieu	702	299	117	96	72	66	52
Short Cash Pay-Off	197	61	32	28	23	23	30
Foreclosure	**10,767**	**3,429**	**1,841**	**1,588**	**1,309**	**1,230**	**1,370**
Not Resolved	**26,497**	**7,218**	**3,793**	**3,849**	**3,381**	**3,423**	**4,833**
In Trial Modification	1,238	455	229	183	127	131	113
Delinquent: Modified Post NPL Sale	1,152	541	187	142	128	79	75
Delinquent: Never Modified Post NPL Sale	24,107	6,222	3,377	3,524	3,126	3,213	4,645
Other	**467**	**122**	**82**	**52**	**51**	**57**	**103**
Whole Loan Sales	35	24	8	-	1	1	1
Repurchase by Enterprise	164	30	21	14	21	25	53
Charge-off	268	68	53	38	29	31	49
Total**	45,446	14,317	6,992	6,439	5,469	5,356	6,873

Category	Percent of loans	Percentage of < 2 Years Delinquent	Percentage of 2-3 Years Delinquent	Percentage of 3-4 Years Delinquent	Percentage of 4-5 Years Delinquent	Percentage of 5-6 Years Delinquent	Percentage of 6+ Years Delinquent
Resolved	**40.7%**	**48.7%**	**44.6%**	**39.4%**	**37.2%**	**35.0%**	**28.2%**
Foreclosure Avoided	**17.0%**	**24.8%**	**18.2%**	**14.8%**	**13.3%**	**12.1%**	**8.2%**
Self Cure*	2.7%	5.7%	2.0%	1.4%	1.1%	1.1%	0.9%
Paid In Full	2.6%	4.4%	3.4%	2.3%	1.4%	1.1%	0.4%
Active Permanent Modification	5.8%	7.8%	6.4%	5.4%	5.0%	4.7%	2.6%
Short Sale	3.9%	4.4%	4.2%	3.7%	4.1%	3.6%	3.1%
Deed-in-lieu	1.5%	2.1%	1.7%	1.5%	1.3%	1.2%	0.8%
Short Cash Pay-Off	0.4%	0.4%	0.5%	0.4%	0.4%	0.4%	0.4%
Foreclosure	**23.7%**	**24.0%**	**26.3%**	**24.7%**	**23.9%**	**23.0%**	**19.9%**
Not Resolved	**58.3%**	**50.4%**	**54.2%**	**59.8%**	**61.8%**	**63.9%**	**70.3%**
In Trial Modification	2.7%	3.2%	3.3%	2.8%	2.3%	2.4%	1.6%
Delinquent: Modified Post NPL Sale	2.5%	3.8%	2.7%	2.2%	2.3%	1.5%	1.1%
Delinquent: Never Modified Post NPL Sale	53.0%	43.5%	48.3%	54.7%	57.2%	60.0%	67.6%
Other	**1.0%**	**0.9%**	**1.2%**	**0.8%**	**0.9%**	**1.1%**	**1.5%**
Whole Loan Sales	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%
Repurchase by Enterprise	0.4%	0.2%	0.3%	0.2%	0.4%	0.5%	0.8%
Charge-off	0.6%	0.5%	0.8%	0.6%	0.5%	0.6%	0.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

Table 8: Loan Outcomes by State

Category	Loan Count	FL	NJ	NY	All Other States	Percent of Loans	FL	NJ	NY	All Other States
Resolved	18,482	3,262	3,291	1,990	9,939	40.7%	49.2%	36.5%	27.8%	43.9%
Foreclosure Avoided	7,715	1,131	1,084	1,050	4,450	17.0%	17.1%	12.0%	14.7%	19.6%
Self Cure*	1,219	230	114	103	772	2.7%	3.5%	1.3%	1.4%	3.4%
Paid in Full	1,188	142	79	133	834	2.6%	2.1%	0.9%	1.9%	3.7%
Active Permanent Modification	2,617	369	386	467	1,395	5.8%	5.6%	4.3%	6.5%	6.2%
Short Sale	1,792	307	329	243	913	3.9%	4.6%	3.7%	3.4%	4.0%
Deed-in-lieu	702	60	129	85	428	1.5%	0.9%	1.4%	1.2%	1.9%
Short Cash Pay-Off	197	23	47	19	108	0.4%	0.3%	0.5%	0.3%	0.5%
Foreclosures	10,767	2,131	2,207	940	5,489	23.7%	32.2%	24.5%	13.1%	24.2%
Not Resolved	26,497	3,284	5,657	5,108	12,448	58.3%	49.6%	62.8%	71.4%	55.0%
in Trial Modification	1,238	91	222	254	671	2.7%	1.4%	2.5%	3.5%	3.0%
Delinquent: Modified Post NPL Sale	1,152	126	136	172	718	2.5%	1.9%	1.5%	2.4%	3.2%
Delinquent: Never Modified Post NPL Sale	24,107	3,067	5,299	4,682	11,059	53.0%	46.3%	58.8%	65.4%	48.8%
Other	467	78	64	59	266	1.0%	1.2%	0.7%	0.8%	1.2%
Whole Loan Sales	35	8	2	1	24	0.1%	0.1%	0.0%	0.0%	0.1%
Repurchase by Enterprise	164	44	13	32	75	0.4%	0.7%	0.1%	0.4%	0.3%
Charge-off	268	26	49	26	167	0.6%	0.4%	0.5%	0.4%	0.7%
Total	45,446	6,624	9,012	7,157	22,653	100%	100%	100%	100%	100%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

Table 9: Permanent Loan Modifications Changes in Monthly Payment

	Ever to Date Permanent Modifications*	Percent of Total Permanent Modifications
Payment Decrease	2,680	66%
Decreased by 50% or More	287	7%
Decreased by 40% to Less Than 50%	307	8%
Decreased by 30% to Less Than 40%	462	11%
Decreased by 20% to Less Than 30%	523	13%
Decreased by 10% to Less Than 20%	545	13%
Decreased by Less Than 10%	556	14%
Payment Increase or Unchanged	1,395	34%
Increase	774	19%
Unchanged	621	15%
Unknown	5	0%
Total	4,080	100%

* Ever-to-date permanent modifications include active permanent modifications as well as modified loans that subsequently re-defaulted, paid off, liquidated or were sold through a whole loan sale.

Some modifications by the new servicers were on loans that had been previously modified that subsequently re-defaulted (see pages 28-33). The previous modifications had already reduced the payment from the original loan terms, constraining the new servicer's ability to offer payment reductions on the new modification. In addition, some modifications were on adjustable-rate mortgages that the new servicer converted to fixed-rate loans, also constraining the ability to reduce payments.

Table 10: Permanent Loan Modifications Arrearage and/or Principal Forgiveness*

	Ever to Date Permanent Modifications**	Percentage of Ever-to-Date Permanent Modifications	Average Forgiveness Earned Amount Per Loan (Ever-to-Date Modifications)***	Average Forgiveness Total Amount Per Loan (Ever-to-Date Modifications)
Arrearage and/or Principal Forgiveness	458	11%	$35,385	$73,695
Permanent Mod, No Forgiveness	3,622	89%		
Total	4,080	100%		

* Includes loans sold before FHFA enacted further enhancements to the NPL sales requirments, which added the requirement to evaluate borrowers whose mark-to-market LTV ratios are above 115 percent for arrearage and or principal forgiveness.

** Ever-to-date permanent modifications include active permanent modifications as well as modified loans that redefaulted, paid off, liquidated or were sold in a whole loan sale.

*** Some modifications require forgiveness to be earned over a period of time contingent on the borrower making timely payments. The 'Average Forgiveness Earned Amount Per Loan' column reflects the amount of forgiveness borrowers have earned to date. The 'Average Forgiveness Total Amount Per Loan' column reflects the total amount that could be forgiven if the borrower makes all of their payments timely.

Table 11: Disposition of Property Acquired through Foreclosure or Deed in Lieu

Property Disposition	Property Count	Percent of Total
Third Party Sale	1,168	11%
Property Sales by Buyer	3,003	28%
Owner Occupant	1,447	13%
Non-Profit	0	0%
Investor	1,195	11%
Unknown	361	3%
Not Sold	6,596	61%
Held for Rental	87	1%
In REO	6,509	60%
Total	10,767	100%

The borrower outcomes provided in this report are based on 45,446 NPLs settled by June 30, 2016 and reported through December 31, 2016. These NPLs have been with a new servicer between 4 and 20 months. The outcomes reported on the graphs represent averages for all the NPLs that have been serviced up to a given point in time. For example, the first three months of performance is based on the full 45,446 NPLs because all the NPLs have been with a new servicer for at least four months. The last three months of performance are based on 1,737 NPLs, that have been with the new servicer for at least 18 months. For charts showing outcome information, see page 9.

NPL Sales Loan Count by Month Since Transfer

month	1	2	3	4	5	6	7	8
loan count	45,446	45,446	45,446	45,446	38,930	38,926	35,959	32,605

month	9	10	11	12	13	14	15	16
loan count	26,405	25,615	25,611	20,482	19,567	12,525	9,889	9,772

month	17	18	19	20
loan count	8,918	1,737	1,737	1,737

Factors to consider in evaluating loan outcomes by pool:

The borrower outcomes for loans sold in each NPL pool are influenced by several factors, including the characteristics of the loans in the pool. Some of these factors are described below to provide additional context about the pool-level borrower outcomes described on the following pages:

Months Since Transfer
- The more time that has elapsed since transfer to a new servicer, the more likely that the new servicer is further along in resolving the loans.

Average Years Delinquency
- The longer a borrower has not been making payments, the more unlikely it is that the borrower will respond to a solicitation by a new servicer to modify the loan or pursue an alternative resolution.

Verified Borrower Occupancy
- Loans on properties where the borrower is still occupying the residence are more likely to be modified than those where the borrower has abandoned or vacated the property.

Previously Modified
- Loans that have been previously modified are more likely to avoid foreclosure through a short sale or deed-in-lieu and less likely to result in a successful subsequent modification.

In Foreclosure Proceedings
- For loans where the foreclosure process has started, it is more likely that if there is still an option to avoid foreclosure, it will be with a short sale or deed-in-lieu. Loans that are in late stage foreclosure proceedings are more likely to result in a foreclosure outcome.

Geography of Loans
- The timeline to resolution varies by state. Loans in states with longer foreclosure timelines will take longer to be resolved.

Right Party Contact
- Loans for which the servicer has been able to make Right Party Contact are more likely to result in a non-foreclosure resolution.

Table 12: Pool Characteristics and Outcomes as of 12/31/2016

	Freddie Mac SPO 2015#1 Pool 1	Freddie Mac SPO 2015#1 Pool 2	Freddie Mac SPO 2015#1 Pool 3	Freddie Mac SPO 2015#2 Pool 1	Freddie Mac SPO 2015#2 Pool 2	Freddie Mac SPO 2015#2 Pool 3	FNMA 2015-NPL1-2	FNMA 2015-NPL1-1
Buyer	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Bayview Acquisition, LLC	GCAT Management Services 2015-13 LLC	GCAT Management Services 2015-13 LLC	GCAT Management Services 2015-13 LLC	PRMF Acquisition LLC	SW Sponsor, LLC
Characteristics								
Months Since Transfer	20	20	20	17	17	17	17	18
Loan Count at Settlement	668	425	644	3,092	1,185	427	1,871	606
Average Years Delinquency	2.3	2.8	3.0	2.8	2.8	4.0	5.0	5.0
Average Loan-to-Value	72%	100%	145%	82%	100%	82%	136%	142%
% Verified Borrower Occupancy	75%	74%	71%	64%	61%	62%	43%	35%
% Previously Modified	15.1%	26.4%	34.6%	21.7%	23.5%	15.0%	26.0%	26.0%
% In Foreclosure Proceedings	60.6%	66.4%	72.7%	90.3%	90.7%	97.6%	42.0%	46.0%
Geography								
FL	19%	26%	39%	10%	15%	0%	41%	39%
NJ	8%	8%	11%	24%	24%	0%	17%	18%
NY	8%	8%	7%	13%	13%	100%	11%	13%
CA	7%	6%	6%	4%	3%	0%	5%	3%
% All Other States	57%	52%	37%	49%	45%	0%	26%	27%
% Judicial Foreclosure States	60%	67%	74%	68%	72%	100%	76%	78%
Outcomes								
Resolved	64.2%	64.5%	73.6%	56.4%	61.3%	44.3%	52.3%	50.2%
Foreclosure Avoided	30.1%	25.4%	41.8%	21.8%	21.4%	20.1%	20.4%	19.8%
Self Cure*	3.1%	2.8%	1.7%	3.2%	2.4%	0.9%	8.8%	6.8%
Paid in Full	10.6%	1.9%	0.5%	5.5%	3.8%	3.0%	0.1%	0.0%
Active Permanent Modification	9.0%	8.5%	21.1%	7.0%	7.5%	9.1%	4.4%	5.8%
Short Sale	4.2%	7.1%	8.1%	4.0%	5.1%	5.2%	5.9%	6.3%
Deed-in-lieu	3.0%	5.2%	9.5%	1.6%	2.6%	1.9%	1.2%	1.0%
Short Cash Pay-Off	0.1%	0.0%	0.9%	0.5%	0.0%	0.0%	0.0%	0.0%
Foreclosure	34.1%	39.1%	31.8%	34.6%	39.9%	24.1%	31.9%	30.4%
Not Resolved	35.2%	34.8%	26.2%	42.3%	37.7%	55.0%	46.2%	46.4%
In Trial Modification	0.9%	1.2%	4.3%	3.6%	5.1%	9.1%	0.1%	3.6%
Delinquent: Modified Post NPL Sale	3.0%	2.8%	6.1%	2.3%	1.7%	1.4%	1.0%	1.2%
Delinquent: Never Modified Post NPL Sale	31.3%	30.8%	15.8%	36.4%	30.9%	44.5%	45.2%	41.6%
Other Outcomes	0.6%	0.7%	0.2%	1.3%	1.0%	0.7%	1.5%	3.5%
Whole Loan Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Repurchase by Enterprise	0.6%	0.7%	0.0%	0.5%	0.1%	0.7%	1.0%	3.1%
Charge-Off	0.0%	0.0%	0.2%	0.8%	0.9%	0.0%	0.4%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

The performance of the loans sold in the NPL sale will vary due to, among other factors: mark-to-market loan-to-value ratio, geographic location, occupancy status, and the length of delinquency.

Table 12: Pool Characteristics and Outcomes as of 12/31/2016

	Freddie Mac SPO 2015#3 Pool 1	Freddie Mac EXPO 2015#1 Pool 1	Freddie Mac SPO 2015#4 Pool 1	Freddie Mac SPO 2015#4 Pool 2	Freddie Mac SPO 2015#4 Pool 3	FNMA 2015-NPL2-1	FNMA 2015-NPL2-2	FNMA 2015-NPL2-CIP
Buyer	LSF9 Mortgage Holdings, LLC	Corona Asset Management XII, LLC	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Nomura Corporate Funding Americas, LLC	MTGLQ Investors, LP	LSF9 Mortgage Holdings, LLC	LSF9 Mortgage Holdings, LLC	New Jersey Community Capital
Characteristics								
Months Since Transfer	16	15	14	14	14	14	14	13
Loan Count at Settlement	853	119	1,879	272	484	627	2,479	38
Average Years Delinquency	2.8	3.6	2.9	3.8	3.0	3.2	3.1	3.2
Average Loan-to-Value	108%	84%	95%	89%	35%	148%	71%	81%
% Verified Borrower Occupancy	68%	79%	66%	91%	57%	37%	49%	61%
% Previously Modified	27.4%	18.5%	28.0%	25.4%	13.2%	38.0%	27.0%	24.0%
% In Foreclosure Proceedings	77.8%	95.0%	96.6%	99.3%	96.5%	77.0%	71.0%	84.0%
Geography								
FL	15%	100%	11%	0%	8%	15%	8%	100%
NJ	9%	0%	14%	0%	12%	31%	24%	0%
NY	0%	0%	15%	100%	29%	14%	20%	0%
CA	6%	0%	2%	0%	4%	1%	2%	0%
% All Other States	69%	0%	57%	0%	47%	39%	47%	0%
% Judicial Foreclosure States	47%	100%	68%	100%	73%	83%	77%	100%
Outcomes								
Resolved	64.5%	58.0%	50.6%	22.8%	42.6%	58.5%	48.6%	65.8%
Foreclosure Avoided	28.0%	21.8%	19.2%	14.3%	25.4%	17.7%	18.8%	15.8%
Self Cure*	4.0%	5.9%	0.6%	0.4%	2.3%	1.0%	2.0%	5.3%
Paid in Full	2.3%	5.9%	2.0%	0.7%	10.3%	0.0%	2.7%	2.6%
Active Permanent Modification	9.5%	3.4%	10.4%	10.7%	11.6%	5.7%	7.8%	2.6%
Short Sale	10.8%	6.7%	2.9%	1.5%	1.2%	9.1%	5.6%	5.3%
Deed-in-lieu	1.4%	0.0%	3.2%	0.0%	0.0%	1.9%	0.8%	0.0%
Short Cash Pay-Off	0.0%	0.0%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%
Foreclosure	36.5%	36.1%	31.5%	8.5%	17.1%	40.8%	29.7%	50.0%
Not Resolved	34.5%	42.0%	48.7%	77.2%	57.4%	40.5%	49.5%	34.2%
In Trial Modification	2.3%	0.0%	1.4%	0.7%	8.1%	0.3%	1.1%	0.0%
Delinquent: Modified Post NPL Sale	2.7%	1.7%	8.6%	2.9%	0.0%	2.2%	2.6%	0.0%
Delinquent: Never Modified Post NPL Sale	29.4%	40.3%	38.6%	73.5%	49.4%	38.0%	45.8%	34.2%
Other Outcomes	1.1%	0.0%	0.7%	0.0%	0.0%	1.0%	1.9%	0.0%
Whole Loan Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	1.2%	0.0%
Repurchase by Enterprise	0.5%	0.0%	0.4%	0.0%	0.0%	0.2%	0.7%	0.0%
Charge-Off	0.6%	0.0%	0.3%	0.0%	0.0%	0.3%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

The performance of the loans sold in the NPL sale will vary due to, among other factors: mark-to-market loan-to-value ratio, geographic location, occupancy status, and the length of delinquency.

Table 12: Pool Characteristics and Outcomes as of 12/31/2016

	Freddie Mac SPO 2015#5 Pool 1	Freddie Mac SPO 2015#5 Pool 2	Freddie Mac SPO 2015#5 Pool 3	Freddie Mac SPO 2015#5 Pool 4	Freddie Mac SPO 2015#5 Pool 5	Freddie Mac SPO 2015#6 Pool 1	Freddie Mac SPO 2015#6 Pool 2	FNMA 2015-NPL3-1
Buyer	LSF9 Mortgage Holdings, LLC	Pretium Mortgage Credit Partners I Loan Acquisition, LP	LSF9 Mortgage Holdings, LLC	OSAT Sponsor II, LLC	LSF9 Mortgage Holdings, LLC	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Bayview Acquisition, LLC	New Residential Investment Corp.
Characteristics								
Months Since Transfer	13	13	13	13	13	12	11	11
Loan Count at Settlement	1,697	508	933	438	359	878	309	1,246
Average Years Delinquency	3.1	2.9	3.7	3.8	2.7	1.8	2.0	4.1
Average Loan-to-Value	85%	85%	150%	155%	34%	79%	149%	102%
% Verified Borrower Occupancy	72%	83%	67%	69%	80%	70%	62%	25%
% Previously Modified	29.6%	30.3%	32.7%	35.8%	20.9%	26.5%	44.0%	29.0%
% In Foreclosure Proceedings	83.3%	81.7%	83.9%	86.1%	76.6%	83.1%	88.0%	55.0%
Geography								
FL	10%	9%	19%	23%	9%	15%	19%	26%
NJ	16%	15%	24%	24%	18%	9%	13%	8%
NY	19%	16%	16%	15%	13%	9%	11%	11%
CA	7%	7%	4%	5%	10%	8%	8%	8%
% All Other States	49%	52%	37%	33%	50%	60%	49%	46%
% Judicial Foreclosure States	64%	60%	74%	75%	60%	57%	63%	66%
Outcomes								
Resolved	41.5%	45.3%	46.0%	38.1%	33.7%	55.0%	51.1%	34.3%
Foreclosure Avoided	17.5%	15.9%	18.8%	11.2%	22.0%	27.7%	31.4%	18.2%
Self Cure*	1.7%	3.9%	1.5%	0.2%	4.2%	6.6%	3.2%	1.8%
Paid in Full	1.5%	4.5%	0.2%	0.7%	12.5%	5.8%	1.3%	2.6%
Active Permanent Modification	8.2%	2.6%	8.8%	5.0%	4.2%	6.0%	11.0%	6.5%
Short Sale	5.1%	2.8%	7.5%	3.9%	1.1%	5.6%	8.7%	4.6%
Deed-in-lieu	0.9%	2.2%	0.8%	1.4%	0.0%	3.6%	6.8%	2.7%
Short Cash Pay-Off	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%
Foreclosure	24.0%	29.3%	27.2%	26.9%	11.7%	27.3%	19.7%	16.1%
Not Resolved	58.3%	54.7%	53.8%	56.6%	66.3%	44.9%	48.2%	63.2%
In Trial Modification	2.8%	1.2%	2.5%	2.1%	2.2%	1.3%	7.4%	2.8%
Delinquent: Modified Post NPL Sale	3.9%	1.8%	2.9%	2.7%	3.3%	3.2%	4.9%	8.8%
Delinquent: Never Modified Post NPL Sale	51.6%	51.8%	48.4%	51.8%	60.7%	40.4%	35.9%	51.5%
Other Outcomes	0.1%	0.0%	0.2%	5.3%	0.0%	0.1%	0.6%	2.5%
Whole Loan Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repurchase by Enterprise	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	1.6%
Charge-Off	0.1%	0.0%	0.2%	5.3%	0.0%	0.1%	0.3%	0.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

The performance of the loans sold in the NPL sale will vary due to, among other factors: mark-to-market loan-to-value ratio, geographic location, occupancy status, and the length of delinquency.

Table 12: Pool Characteristics and Outcomes as of 12/31/2016

	FNMA 2015-NPL3-2	FNMA 2015-NPL3-3	Freddie Mac SPO 2015#7 Pool 4	Freddie Mac SPO 2015#7 Pool 3	Freddie Mac SPO 2015#7 Pool 1	Freddie Mac SPO 2015#7 Pool 2	Freddie Mac SPO 2015#7 Pool 5	Freddie Mac EXPO 2015#3 Pool 1
Buyer	MTGLQ Investors, L.P.	New Residential Investment Corp.	21st Mortgage Corporation	Rushmore Loan Management Services, LLC	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Community Loan Fund of New Jersey, Inc
Characteristics								
Months Since Transfer	11	11	9	8	8	8	8	8
Loan Count at Settlement	2,703	872	794	625	1,153	612	426	56
Average Years Delinquency	2.7	3.0	3.1	2.5	2.5	2.7	2.5	2.6
Average Loan-to-Value	64%	138%	102%	146%	72%	99%	117%	100%
% Verified Borrower Occupancy	71%	21%	61%	80%	63%	57%	59%	77%
% Previously Modified	29.0%	43.0%	24.4%	40.2%	23.7%	30.2%	40.4%	44.6%
% In Foreclosure Proceedings	45.0%	54.0%	94.7%	95.5%	94.4%	95.6%	93.9%	100.0%
Geography								
FL	9%	9%	0%	14%	7%	8%	6%	100%
NJ	8%	12%	34%	16%	16%	19%	23%	0%
NY	10%	10%	34%	10%	19%	19%	13%	0%
CA	6%	3%	0%	3%	5%	3%	1%	0%
% All Other States	68%	66%	32%	57%	53%	51%	57%	0%
% Judicial Foreclosure States	55%	64%	86%	71%	70%	75%	73%	100%
Outcomes								
Resolved	46.3%	37.5%	43.2%	56.0%	46.6%	49.0%	50.7%	44.6%
Foreclosure Avoided	29.1%	23.6%	25.6%	19.2%	17.0%	19.4%	14.6%	14.3%
Self Cure*	7.6%	3.4%	3.4%	3.2%	2.2%	1.6%	0.9%	0.0%
Paid in Full	7.4%	0.5%	1.6%	0.2%	5.2%	0.3%	1.2%	0.0%
Active Permanent Modification	9.4%	6.3%	13.6%	2.7%	5.0%	4.7%	4.2%	0.0%
Short Sale	1.6%	8.1%	6.2%	10.6%	3.0%	8.7%	4.7%	10.7%
Deed-in-lieu	0.6%	5.3%	0.8%	2.6%	1.6%	4.1%	3.5%	3.6%
Short Cash Pay-Off	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Foreclosure	17.2%	13.9%	17.6%	36.8%	29.6%	29.6%	36.2%	30.4%
Not Resolved	52.6%	62.2%	56.5%	44.0%	53.4%	51.0%	48.8%	55.4%
In Trial Modification	2.9%	6.5%	4.4%	3.2%	2.4%	1.6%	2.3%	0.0%
Delinquent: Modified Post NPL Sale	4.0%	7.8%	2.3%	1.3%	2.3%	1.6%	2.1%	3.6%
Delinquent: Never Modified Post NPL Sale	45.7%	47.8%	49.9%	39.5%	48.7%	47.7%	44.4%	51.8%
Other Outcomes	1.1%	0.3%	0.3%	0.0%	0.0%	0.0%	0.5%	0.0%
Whole Loan Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repurchase by Enterprise	0.3%	0.0%	0.1%	0.0%	0.0%	0.0%	0.2%	0.0%
Charge-Off	0.9%	0.3%	0.1%	0.0%	0.0%	0.0%	0.2%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

The performance of the loans sold in the NPL sale will vary due to, among other factors: mark-to-market loan-to-value ratio, geographic location, occupancy status, and the length of delinquency.

Table 12: Pool Characteristics and Outcomes as of 12/31/2016

	FNMA 2016-NPL1-2	FNMA 2016-NPL1-1	FNMA 2016-NPL1-3	FNMA 2016-NPL1-4	FNMA 2016-NPL1-5 CIP	Freddie Mac SPO 2016#1 Pool 4	Freddie Mac SPO 2016#1 Pool 5	Freddie Mac EXPO 2016#1 Pool 1
Buyer	Pretium Mortgage Credit Partners I Loan Acquisition, LP	Carlsbad Funding Mortgage Loan Acquisition, LP	MTGLQ Investors, L.P.	MTGLQ Investors, L.P.	New Jersey Community Capital	Rushmore Loan Management Services, LLC	Rushmore Loan Management Services, LLC	Community Loan Fund of New Jersey, Inc
Characteristics								
Months Since Transfer	8	8	8	8	7	7	7	6
Loan Count at Settlement	1,022	2,308	785	609	47	1,270	638	64
Average Years Delinquency	5.0	5.0	5.1	5.1	6.2	3.8	3.3	4.6
Average Loan-to-Value	86%	90%	92%	99%	141%	152%	144%	112%
% Verified Borrower Occupancy	70%	64%	24%	47%	60%	69%	74%	78%
% Previously Modified	21.0%	21.0%	21.0%	23.0%	21.0%	36.1%	43.6%	31.3%
% In Foreclosure Proceedings	54.0%	55.0%	58.0%	57.0%	49.0%	95.2%	94.8%	100.0%
Geography								
FL	21%	17%	12%	15%	100%	13%	11%	100%
NJ	24%	26%	29%	29%	0%	30%	22%	0%
NY	19%	17%	19%	17%	0%	12%	12%	0%
CA	2%	2%	1%	1%	0%	2%	2%	0%
% All Other States	34%	38%	38%	37%	0%	43%	53%	0%
% Judicial Foreclosure States	83%	83%	84%	82%	100%	74%	74%	100%
Outcomes								
Resolved	28.7%	24.2%	14.6%	22.8%	12.8%	32.5%	33.7%	15.6%
Foreclosure Avoided	10.6%	7.7%	7.0%	8.2%	2.1%	8.6%	8.5%	10.9%
Self Cure*	1.7%	1.2%	0.6%	0.8%	2.1%	1.7%	0.9%	0.0%
Paid in Full	2.0%	1.4%	1.1%	1.5%	0.0%	0.0%	0.0%	0.0%
Active Permanent Modification	3.0%	2.6%	2.3%	2.5%	0.0%	1.3%	2.2%	3.1%
Short Sale	2.9%	1.8%	0.0%	1.1%	0.0%	4.2%	3.1%	7.8%
Deed-in-lieu	1.0%	0.7%	0.0%	0.5%	0.0%	1.3%	2.2%	0.0%
Short Cash Pay-Off	0.0%	0.0%	2.9%	1.8%	0.0%	0.0%	0.0%	0.0%
Foreclosure	18.1%	16.6%	7.6%	14.6%	10.6%	23.9%	25.2%	4.7%
Not Resolved	69.6%	74.7%	85.1%	75.4%	87.2%	67.2%	65.7%	84.4%
In Trial Modification	2.0%	1.3%	1.4%	2.3%	0.0%	2.8%	3.9%	0.0%
Delinquent: Modified Post NPL Sale	0.5%	1.0%	0.8%	0.8%	2.1%	0.6%	0.9%	3.1%
Delinquent: Never Modified Post NPL Sale	67.1%	72.4%	82.9%	72.2%	85.1%	63.8%	60.8%	81.3%
Other Outcomes	1.8%	1.0%	0.3%	1.8%	0.0%	0.2%	0.6%	0.0%
Whole Loan Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repurchase by Enterprise	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Charge-Off	0.0%	1.0%	0.3%	1.8%	0.0%	0.2%	0.6%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.

The performance of the loans sold in the NPL sale will vary due to, among other factors: mark-to-market loan-to-value ratio, geographic location, occupancy status, and the length of delinquency.

Table 12: Pool Characteristics and Outcomes as of 12/31/2016

	Freddie Mac EXPO 2016#1 Pool 2	Freddie Mac SPO 2016#1 Pool 1	Freddie Mac SPO 2016#1 Pool 2	Freddie Mac SPO 2016#1 Pool 3	FNMA 2016-NPL2-1	FNMA 2016-NPL2-2	FNMA 2016-NPL2-3	FNMA 2016-NPL2-4
Buyer	Community Loan Fund of New Jersey, Inc	LSF9 Mortgage Holdings, LLC	LSF9 Mortgage Holdings, LLC	LSF9 Mortgage Holdings, LLC	MTGLQ Investors, L.P. and Pretium Mortgage Credit Partners I Loan Acquisition, LP	MTGLQ Investors, L.P. and Pretium Mortgage Credit Partners I Loan Acquisition, LP	MTGLQ Investors, L.P.	MTGLQ Investors, L.P.
Characteristics								
Months Since Transfer	6	6	6	6	5	5	5	5
Loan Count at Settlement	105	496	1,216	1,090	2,912	1,940	992	674
Average Years Delinquency	3.9	3.4	3.5	3.7	3.9	4.0	4.1	4.0
Average Loan-to-Value	107%	73%	73%	100%	94%	91%	93%	96%
% Verified Borrower Occupancy	72%	25%	27%	26%	61%	62%	65%	61%
% Previously Modified	34.3%	25.4%	22.8%	34.1%	29.0%	28.0%	30.0%	27.0%
% In Foreclosure Proceedings	97.1%	93.3%	91.2%	94.2%	81.0%	79.0%	81.0%	81.0%
Geography								
FL	100%	7%	6%	6%	11%	9%	10%	12%
NJ	0%	14%	12%	20%	30%	34%	30%	30%
NY	0%	14%	15%	17%	15%	14%	17%	16%
CA	0%	3%	5%	3%	2%	2%	2%	2%
% All Other States	0%	62%	61%	53%	42%	42%	41%	41%
% Judicial Foreclosure States	100%	64%	59%	69%	81%	80%	82%	83%
Outcomes								
Resolved	34.3%	25.4%	26.9%	29.0%	19.8%	19.5%	19.8%	22.4%
Foreclosure Avoided	11.4%	12.1%	13.0%	9.7%	5.9%	6.8%	5.7%	6.5%
Self Cure*	1.0%	3.4%	2.9%	1.2%	1.1%	1.2%	0.9%	1.9%
Paid in Full	0.0%	1.2%	2.0%	0.7%	1.8%	1.8%	2.0%	1.0%
Active Permanent Modification	2.9%	4.6%	5.3%	3.0%	1.0%	1.4%	0.6%	1.2%
Short Sale	7.6%	2.6%	2.3%	3.7%	1.0%	0.7%	0.7%	0.6%
Deed-in-lieu	0.0%	0.2%	0.6%	1.1%	0.4%	0.4%	0.2%	0.1%
Short Cash Pay-Off	0.0%	0.0%	0.0%	0.0%	0.6%	1.3%	1.3%	1.6%
Foreclosure	22.9%	13.3%	13.9%	19.3%	13.9%	12.8%	14.0%	15.9%
Not Resolved	65.7%	74.2%	72.9%	70.6%	78.7%	79.0%	77.5%	75.5%
In Trial Modification	0.0%	4.2%	4.3%	4.5%	2.8%	2.4%	4.0%	3.0%
Delinquent: Modified Post NPL Sale	1.0%	4.0%	2.1%	1.8%	0.5%	0.6%	0.4%	0.3%
Delinquent: Never Modified Post NPL Sale	64.8%	65.9%	66.4%	64.3%	75.4%	76.0%	73.1%	72.3%
Other Outcomes	0.0%	0.4%	0.2%	0.4%	1.4%	1.5%	2.7%	2.1%
Whole Loan Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repurchase by Enterprise	0.0%	0.4%	0.2%	0.4%	0.2%	0.3%	0.1%	0.1%
Charge-Off	0.0%	0.0%	0.0%	0.0%	1.2%	1.2%	2.6%	1.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes 51 non-delinquent loans included in the Fannie Mae pilot sale.
The performance of the loans sold in the NPL sale will vary due to, among other factors: mark-to-market loan-to-value ratio, geographic location, occupancy status, and the length of delinquency.

Glossary

Term	Definition
Arrearages	Past due amounts on delinquent loans. Arrearages include property taxes, interest, homeowners insurance, and any fees paid by the servicer to protect the lienholder's lien.
Charge Off	Cessation of collection efforts on a mortgage when the debt is deemed to be uncollectable. A charge off does not cancel the note or release the lien on the property.
Community Impact Pool Offering (CIP)	Smaller, geographically-concentrated, high occupancy pools marketed by Fannie Mae to encourage participation by small investors including nonprofits and minority and women-owned business (MWOB) buyers. Buyers have two extra weeks compared to buyers of national pools to secure funds to participate in the auctions.
Deed-in-lieu	The borrower voluntarily transfers the ownership of the property to the lien-holder to avoid a foreclosure proceeding.
Extended Timeline Pool Offering® (EXPO®)	Smaller, geographically concentrated, pools marketed by Freddie Mac to encourage participation by small investors including nonprofits and MWOBs. Buyers have two extra weeks compared to buyers of national pools to secure funds to participate in the auctions.
Foreclosure	A legal procedure in which a lienholder takes possession of a mortgaged property as a result of the borrower not making contractual payments.
Held for Rental	Property owned and held for rental by a lienholder after completion of a foreclosure or deed-in-lieu.
Judicial States	States where judicial action is required to complete a foreclosure.
Loan to Value	The ratio of the loan amount of the first mortgage to the property value based on the Broker's Price Opinion (BPO). A BPO is a property value estimate provided by a third party such as a sales agent. A BPO is based on an external review only and does not reflect the condition of the interior of a property. The BPO LTV does not include capitalized arrearages.
National Offering	Large, typically geographically diverse pools offered by Fannie Mae.
Non-Performing Loan (NPL)	For purposes of the Enterprises' Non-Performing Loan sales, Non-Performing Loans are defined as loans that have been delinquent for more than one year.
NPL Sales Requirements	Program requirements established by the Federal Housing Finance Agency for the Enterprises' NPL sales.
Paid in Full	Borrower pays the entire amount due, thereby releasing the lien.
Permanent Modification	The terms of a mortgage loan are changed in order to change the borrower's payment.
Real Estate Owned (REO)	Property owned by a lien-holder after completion of a foreclosure or deed-in-lieu.
Self Cure	A delinquent borrower reinstates the loan without assistance from the lien-holder.
Settlement Date	The date on which the NPL sales transaction closes and the Buyer acquires the NPLs.
Short Cash Pay-Off	The lienholder releases the lien in exchange for a cash payment from the borrower of less than the outstanding debt.
Short Sale	A delinquent borrower sells a property for less than the outstanding debt and the lienholder agrees to release the lien.
Standard Pool Offering® (SPO®)	Large, typically geographically diverse pools offered by Freddie Mac.
Third Party Sale	A third party entity purchases the property at the foreclosure sale/auction above the initial bid set forth by the lien holder.
Unpaid Principal Balance (UPB)	The loan's actual principal balance owed to the Enterprise. The unpaid principal balance does not include any arrearages.
Whole Loan Sale	The sale of loans by the initial NPL Buyer to another investor, nonprofit, etc.

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National Association of Federally-Insured Credit Unions

May 10, 2017

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing,
And Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Re: Credit Unions and the Federal Housing Finance Agency

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the National Association of Federally-Insured Credit Unions, the only trade association that exclusively represents the federal interests of our nation's federally-insured credit unions, I write with respect to tomorrow's hearing, "The Status of the Housing Finance System After Nine Years of Conservatorship." NAFCU members appreciate the work of Director Watt and the Federal Housing Finance Agency (FHFA) in helping stabilize the nation's mortgage market by overseeing Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB).

As you know, the future of housing finance is of great importance to our nation's credit unions. NAFCU would like to reiterate to the committee the importance of retaining a housing finance system that provides credit unions with unrestricted access to the secondary mortgage market and offers them a fair price for their loans based on quality. This source of liquidity is critical in enabling credit unions to serve the mortgage needs of their over 107 million members across the country.

In addition to a healthy and viable secondary mortgage market that provides necessary access for community-based financial service providers like credit unions, Congress, in any reform effort, must put into place safeguards that will prevent discrimination based on the type of institution, an institution's asset size, or any geopolitical issues. To ensure this type of discrimination does not take place, NAFCU believes there needs to be a heavy focus on fair pricing that reflects loan quality as opposed to standards almost exclusively based on loan volume. Loan quality and underwriting standards are the best way to ensure a healthy and efficient secondary market and a strong housing economy. As has been widely recognized by Congress and various other stakeholders, credit unions did not contribute to the financial crisis and pride themselves on solid underwriting that creates high-quality loans.

NAFCU and our member credit unions welcome the opportunity to work with the committee as you pursue a comprehensive overhaul of the nation's housing finance system. As the committee prepares to hear from the FHFA, we would like to share a few thoughts on some of the agency's recent initiatives.

The FHFA's work on the Common Securitization Platform and Single Security as well as experiments with various credit risk transfer transactions are a step in the right direction and should be preserved in any new housing finance system. Nonetheless, NAFCU has some concerns regarding the logistics of fully implementing these programs and cautions the FHFA against rushing this process. Hasty

implementation may harm credit unions' access to the secondary mortgage market – a consequence that must be avoided.

CSP and Single Security:
The FHFA's efforts to create a Single Security have the potential to reduce compliance burdens for credit unions that transact business with the GSEs, allow greater accessibility to the to-be-announced market, and create an efficient and resilient national housing market. NAFCU and its member credit unions are, however, hesitant to fully endorse this project because of the risk that the consolidation of securitization programs will make it prohibitively expensive for credit unions to sell their loans to Fannie and Freddie. NAFCU urges the FHFA to provide safeguards for existing GSE securities held by credit unions so they do not lose their marketability after the introduction of a single security. The FHFA should strive to create full fungibility between legacy and new securities and, if the market demonstrates a distinct preference for the new single security, allow credit unions to exchange legacy securities for new ones.

Credit Risk Transfer:
NAFCU and its member credit unions support the FHFA's efforts to reduce overall risk at Fannie Mae and Freddie Mac, but are concerned that limiting front-end credit risk transactions to only those that are "economically sensible" has the potential to force credit unions out of the mortgage market. Currently, only large financial institutions have the necessary capital to participate in such transactions. If the FHFA would like to truly create a level playing field, other avenues should be explored. Establishing a level playing field for all lenders must include consideration of the unique structure and constraints of credit unions so they are not disadvantaged against larger lenders. Credit unions must be able to participate through the use of an aggregator or special purpose vehicle, such as the Federal Home Loan Banks (FHLBs). Alternatively, NAFCU believes that the time has come for the FHFA to consider permitting the FHLBs to begin securitizing and selling mortgage loans in addition to Fannie and Freddie. This would not only provide credit unions with greater access to the secondary mortgage market, but also reduce mortgage rates for borrowers and lower systemic risk in the secondary mortgage market.

Chattel loans/duty to serve:
The FHFA's December 2016 Duty to Serve final rule includes the NAFCU-backed provision that credits shall be extended for loans made on manufactured housing units titled as personal property, or chattel. NAFCU and our members believe that including chattel loans extended to finance manufactured housing units squarely meets the statutory intent of the *Housing and Economic Recovery Act of 2008* (HERA) to "facilitate a secondary market for mortgagees on housing for very low, low-, and moderate-income families." However, NAFCU recognizes that the chattel loans market is unique and complex and there is limited data about chattel lending. The FHFA should allow the GSEs more time to fully evaluate the chattel loans market before fully launching a pilot program as part of their three-year Underserved Markets Plans.

Again, thank you for holding this important hearing. We look forward to continuing to work with you on the issue of housing finance reform. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

Carrie Hunt
Executive Vice President of Government Affairs & General Counsel

cc: Members of the Senate Banking Committee

Credit Union National Association

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May 11, 2017

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of America's credit unions, thank you for holding this hearing entitled the Status of the Housing Finance System after Nine Years of Conservatorship. The Credit Union National Association (CUNA) represents America's credit unions and their 110 million members.

As member-owned, not for profit financial cooperatives, many credit unions offer mortgages to satisfy member demand, and credit unions represent an increasingly significant source of mortgage credit nationally. In 2016, more than two-thirds of credit unions were active in the first mortgage arena, collectively originating over $143 billion worth of these loans – an amount equal to 7.5 percent of the total market. By comparison, in 1996 only 43 percent of credit unions were active and they originated a total of less than $20 billion in first mortgages. Moreover, credit unions are increasingly active participants in the secondary market. Whereas in 1996 only about 16 percent of mortgage lending credit unions sold loans into the secondary market, by 2016, nearly 30 percent of mortgage lending credit unions sold $56 billion into the secondary market, or 40 percent of total first mortgages originated by credit unions.

Credit unions that elect to sell mortgages into the secondary market do so for a variety of reasons, but predominantly it is a tool to help them manage long term interest rate risk. Particularly today, with long term interest rates at or near historic lows, access to a highly liquid secondary market with relatively low transaction costs is vital for the health of credit union mortgage lending. Credit unions therefore have a deep interest in the structure of the housing finance system going forward, and CUNA supports the creation of an efficient, effective, and fair secondary market with equal access for lenders of all sizes, which adheres to the following principles:

Neutral Third Party

There must be a neutral third party in the secondary market, with its sole role as a conduit to the secondary market. This entity must be independent of any firm that has any other role or business relationship in the mortgage origination and securitization process, to ensure that no market participant or class of participants enjoys an unfair advantage in the system.

Equal Access

The secondary market must be open to lenders of all sizes on an equitable basis. CUNA understands that the users (lenders, borrowers, etc.) of a secondary market will be required to pay for the use of such market through fees, appropriate risk premiums and other means. However, guarantee fees or other fees/premiums should not have any relationship to lender volume. Additionally, CUNA cautions strongly against regimes that require lenders to retain significant amounts of risk beyond that represented by actuarially appropriate guarantee fees, as these risk retention arrangements may have a disproportionately negative impact on small lenders that are less able to manage such risk, and could therefore result in less consumer choice.

Strong Oversight and Supervision

The entities providing secondary market services must be subject to appropriate regulatory and supervisory oversight to ensure safety and soundness by ensuring accountability, effective corporate governance and preventing future fraud; they should also be subjected to strong capital requirements and have flexibility to operate well and develop new programs in response to marketplace demands.

Durability

Any new system must ensure mortgage loans will continue to be made to qualified borrowers even in troubled economic times. Without the backstop of an explicit federally insured or guaranteed component of any revised system, CUNA is concerned that private capital could quickly dry up during difficult economic times, as it did during the financial crisis, effectively halting mortgage lending altogether.

Financial Education

Credit unions have a noble history of offering a wide variety of financial counseling and other educational services to their members. Any new housing finance system should emphasize consumer education and counseling as a means to ensure that borrowers receive appropriate mortgage loans.

Predictable and Affordable Payments

Any new system must include consumer access to a variety products that provide for predictable, affordable mortgage payments to qualified borrowers. Traditionally this has been through fixed-rate mortgages (such as the 30-year fixed rate mortgage), but other products that may be more appropriately tailored to a borrower's specific circumstances, such as certain standardized adjustable rate mortgages, should also be available.

Loan Limits

Our nation's housing market is diverse, with wide variation geographically and between rural and urban communities. Any new housing finance system should apply reasonable conforming loan limits that adequately take into consideration local real estate prices in higher cost areas.

Affordable Housing

The important role of government support for affordable housing (defined as housing for lower income borrowers but not necessarily high risk borrowers, historically provided through FHA programs) should be a function separate from the responsibilities of the secondary market entities. The requirements for a program to stimulate the supply of credit to lower income borrowers are not the same as those for the more general mortgage market. We believe that a connection between these two goals could be accomplished by either appropriately pricing guarantee fees to minimize the chance of taxpayer expense, and/or adding a small supplement to guarantee fees, the proceeds of which could be used by some other federal agency in a more targeted fashion in furtherance of affordable housing goals.

Mortgage Servicing

In order to ensure a completely integrated mortgage experience for member-borrowers, credit unions should continue to be afforded the opportunity to retain or sell the right to service their members' mortgages, at the sole discretion of the credit union, regardless of whether that member's loan is held in portfolio or sold into the secondary market. To lose control over this servicing relationship would be detrimental not only to a large majority of credit union member-borrowers, but could also result in fewer mortgage choices available to credit unions and their members, with higher interest rates and fees alike. Moreover, to the extent national mortgage servicing standards are developed, such servicing standards should be applied uniformly and not result in the imposition of any additional or new regulatory burdens upon credit unions.

Reasonable and Orderly Transition

Whatever the outcome of the debate over the housing finance system in this country, the transition from the current system to any potential new housing finance system must be reasonable and orderly, in order to prevent significant disruption to the housing market which would harm homeowners, potential homebuyers, the credit unions who serve them, and the nation's housing market as a whole.

Once again, on behalf of America's credit unions and their 110 million members, thank you for holding this important hearing, and for your consideration of credit unions' principles for any potential reform of our nation's housing finance system.

Sincerely,



Jim Nussle
President & CEO