

# Fannie Mae 2015 Progress Report

Our Year in Review



## Published May 5, 2016

For more information on our business, including information on our recent financial results and credit performance, the credit profile of our book of business, our expectations for our future financial performance, and significant risks relating to our business, see our annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on February 19, 2016 (“2015 Form 10-K”) and our quarterly report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 5, 2016, as well as any subsequently filed quarterly reports on Form 10-Q.

These reports include our expectations regarding the focus of our business, our dividend payments to Treasury, and the impact of our actions on our business and the U.S. housing finance system. These expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our actual results and future expectations may differ materially from our current expectations as a result of many factors, including those discussed in the “Risk Factors” section of and elsewhere in our 2015 Form 10-K and subsequently filed Form 10-Qs. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Data in this report as of or through December 31, 2015, unless otherwise indicated.



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**A Message from Our CEO on  
Change, Challenge, and Progress  
in Housing Finance**

“Home” is a powerful concept for most Americans, evoking thoughts of family, warmth, safety, and security. Behind the enduring concept, however, lies a sophisticated housing finance ecosystem that is constantly evolving. This ecosystem consists of a remarkably diverse network of people, professions, companies, and government bodies who all help make affordable homeownership and rental housing options possible for millions of American families.

Fannie Mae plays a leading role in this ecosystem. In simplest terms, we serve the people who house America. We provide reliable, affordable mortgage financing in all markets at all times, buying loans that banks and other lenders originate so they can fund new loans. This gives more people the opportunity to buy, refinance, or rent homes. Creating these opportunities with our partners is what drives the people who work at Fannie Mae.

In 2015, Fannie Mae and housing finance continued to evolve at a rapid pace. While Fannie Mae remains in conservatorship, we are a vastly different and stronger company than we were just a few years ago. Our work with mortgage lenders and other housing partners is driving exciting changes in how America finances mortgages, how we create housing opportunities, and how we meet today’s most critical housing challenges.

**We work with our partners to drive transformative changes that expand opportunities for our customers, homeowners, and renters.**

Over the course of the past 25 years, technology has transformed almost every industry; some more than once. Until recently, however, applying for a mortgage, closing on a mortgage, and making the monthly mortgage payment looked and felt much like it did in the 1990s.

That is rapidly changing as technology dramatically raises the bar on what consumers expect from the mortgage experience. Our job is to help our lender customers meet those expectations by providing innovative, easy-to-use tools, and great service. In fact, the changes we are making not only help our customers succeed, they also make mortgage lending safer by providing more complete and accurate information about the key factors in underwriting a loan – from the value of the home being purchased to the borrower’s income and credit history.

In 2015, for example, we expanded our use of tools that make it easier and more efficient for lenders to underwrite a loan, appraise the value of a house, deliver a loan to Fannie Mae, and service a loan after it closes. We drove broader adoption of automated resources that help lenders find solutions for homeowners struggling to make their mortgage payments. We also introduced a new technology platform that makes it easier for our multifamily lenders to do business with us.

In addition, we began offering new tools and simplified our policies so that we and our customers can better know the quality of a loan before it is even funded, let alone delivered to us. This allows lenders to lend with more confidence because it gives them more certainty that a loan meets our standards and reduces repurchase risk, a major pain point for lenders in the wake of the housing crisis.

In 2016, we will introduce new automated solutions that provide lenders with a more complete picture of a homeowner’s financial situation over time and validate income and asset data for people applying for a mortgage, reducing paperwork for everyone.

Taken together, these tools can help lenders do business more efficiently, reduce mortgage fraud, and put homeowners in loans that are affordable and sustainable over the long term.



We are also changing our business culture by putting the customer at the center of everything we do. This includes changing the way we are organized, so that our customers can do business with us more easily and get the answers they need quickly.

Fannie Mae was created to serve our customers and other stakeholders, and we succeed by helping them succeed. This central truth drives every business decision we make. It is why we listen closely to our customers in the hundreds of conversations we have with them every day. It is why we are committed to providing them with products and services that are not simply good, but great. It is why we are doing all we can to make doing business with us easier, more certain, and less expensive. By helping customers grow their business, we help more Americans obtain reliable, sustainable, low-cost mortgage financing.

### **We are fulfilling our core mission to provide affordable mortgage financing in all markets at all times.**

Times change but our housing mission endures. We are in the market every day, using our knowledge, experience, and scale to help lenders across the country lend with confidence to creditworthy borrowers and finance the construction of workforce rental housing.

During the housing crisis, private capital retreated from the mortgage market. Fannie Mae, with the support of taxpayers, did not.

# **\$5T** to the market since 2009 has enabled:



**A Message from Our CEO**







Since the start of 2009, we have financed approximately 6 million home purchases, 14 million refinancings, and 3 million rental apartments. These numbers are so large that they can be difficult to truly appreciate, so let me offer this for perspective: As you drive through your neighborhood, or any typical neighborhood in any part of the country, about one out of every three single-family homes you see was likely purchased or refinanced with Fannie Mae financing.

We also are a leader in helping homeowners and communities that were hit hardest by the housing crisis. We introduced innovative loan modifications and other products that were adopted broadly by the industry. Since 2009, we have helped families avoid foreclosure through approximately 1.8 million loan modifications and other loan workouts, and we've helped homeowners save money on their mortgage each month through approximately 4.4 million refinancings, delivered through our streamlined Refi Plus™ initiative.

Since 2009, Fannie Mae has helped  
prevent **1.8M** foreclosures and delivered  
**4.4M** Refi Plus refinancings

Today, as housing continues to recover, Fannie Mae is also looking ahead to future challenges that are coming into focus. Our research shows that an average of 1.2 million new households will form every year in the second half of this decade, far above the 900,000 per year we experienced in the first half of the decade. This means that over the next five years, we believe housing demand will grow sharply, with 6 million new American households needing housing options they can afford, with the bulk of this growth coming from minority communities and millennials.

We have a responsibility to help lenders provide families with safe, sustainable mortgage and rental housing options. We especially want to ensure that families have access to the 15- and 30-year fixed-rate loans that we help make possible. At the end of 2015, these mortgages made up 84 percent of our single-family loans, and they remain the mortgage of choice for the vast majority of American homebuyers because they provide certainty, predictability, and the ability to refinance at any time.

## A Message from Our CEO

In 2015, to help meet future demand, we introduced an affordable, sustainable mortgage called HomeReady®. HomeReady provides lenders with more flexibility in serving creditworthy, low- to moderate-income borrowers, especially in low-income areas, areas with high minority populations, and areas hurt by disasters. HomeReady also breaks new ground by providing flexibility on the source of the down payment and by allowing borrowers to count income from other household members. This can be a big boost for many extended families, minority families, and non-traditional families. Importantly, a HomeReady mortgage is also safe and sustainable, backed by solid analytics and underwriting.

HomeReady is just one example of the kind of innovations that are possible when we bring our know-how, our data, and our nationwide reach to bear on tough housing challenges. It is a microcosm of our larger responsibility to ensure that America's next generation of mortgage products is tailored to the circumstances of the next generation of Americans. It is also a symbol of our unwavering commitment to help our customers serve all segments of today's mortgage market confidently and efficiently.

## **We have fundamentally changed the way we do business in ways that make Fannie Mae and housing finance stronger.**

Over the past seven years, Fannie Mae has not only made changes to our business, we have changed our business model. These changes involve the types of loans that we finance as well as what we do with the loans once they come through our door. Together, these changes make the company stronger, provide more protection to taxpayers, and expand the role of private capital in the housing finance system.

Beginning in 2008, Fannie Mae took action to significantly strengthen our underwriting and eligibility standards to improve the quality of loans delivered to us.

Our strength, however, comes not just from a stronger book of business but a stronger business model – one that is more sustainable, and more reliable. Ten years ago, the primary driver of our revenue was our retained investment portfolio, securities and other assets we purchased with our low cost of funds. At its peak, we held about \$900 billion of investment assets in our portfolio.



Today, we have reduced our investment portfolio to less than \$200 billion, with more reductions on the way. The main driver of our revenues is no longer the portfolio but the more stable and predictable flow of guaranty fees we earn on mortgages we have guaranteed and pooled into mortgage-backed securities.

Alongside this evolution, we are moving from being a company that stores credit risk to one that also intelligently distributes credit risk to other market participants. This means greater protection and less risk for taxpayers.

In the past, when we bought or securitized a mortgage for a single-family home, we acquired all the credit risk that went with the mortgage and typically held it through the life of the asset. Today, we are moving a significant portion of the credit risk on newly acquired loans away from us (and taxpayers) to private capital. We do this through innovative capital market transactions and reinsurance transactions. Investors are attracted to these transactions because they understand that we have developed world-class capabilities to assess credit risk, manage loan servicers, and minimize losses when loans go delinquent. By the end of 2015, we had transferred a significant portion of the credit risk on more than half a trillion dollars of loans, helping to increase private investment in mortgage credit.

In our multifamily business, we continue to share the risk on more than 90 percent of our transactions with our lenders. We continue to expand and enhance this model so that we can serve the widest possible spectrum of the multifamily market.

The changes we and our partners are making to the housing finance ecosystem are real and they are accelerating. Few are given the chance to help an industry fundamentally reinvent itself to meet future challenges. The people who work at Fannie Mae are honored to play a role in leading changes to our housing finance system.

A handwritten signature in black ink, appearing to read 'Timothy J. Mayopoulos'.

Timothy J. Mayopoulos

# **Leadership & Innovation**



## **We serve the people who house America.**

### **At Fannie Mae, we're a do-it-together team.**

Working with our customers and partners, we're moving housing in the United States forward. Today's housing finance system is stronger, safer, and more efficient than it was in the past. It is a system that helps to ensure reliable, affordable homes are available across the nation, at all times. A system that protects – not leverages – taxpayers. This is America's new housing system. Fannie Mae is proud to support it.





## We bring the finance to the U.S. housing finance system.

For nearly 80 years, we've been a leading source of financing for America's housing. We have funded more home mortgages than any other company. We have financed millions of units of workforce rental housing. We have attracted global capital to meet the changing demands of the market.

We have done all this even during tough economic times, when others left the market. In good times and bad, we have the commitment, deep experience, and know-how to keep the market healthy and to help ensure responsible lending for qualified borrowers across the country.

We give people across the U.S. the opportunity to buy, refinance, and rent homes.

### In California

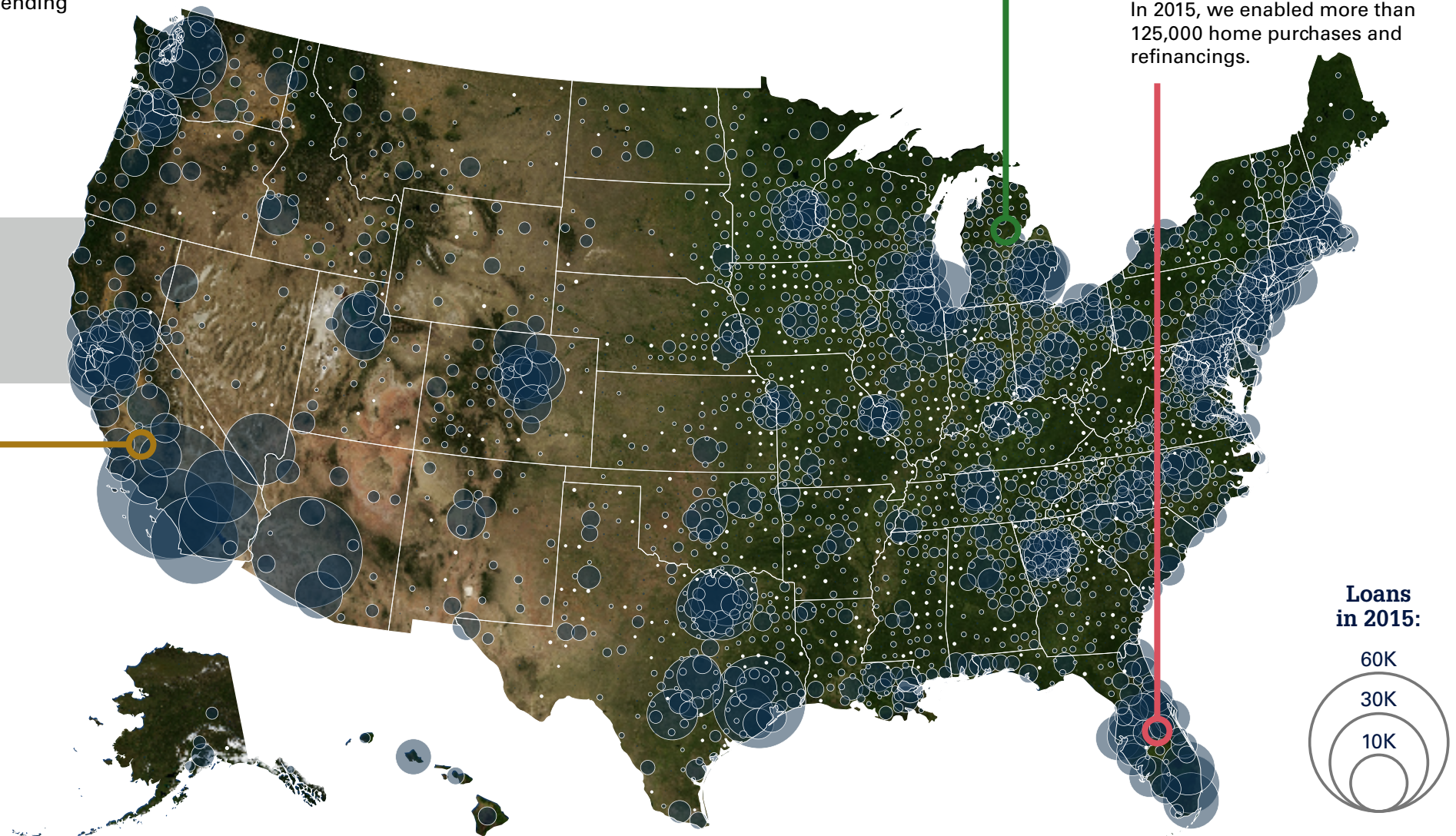
California is home to the nation's toughest housing affordability issues — only 30% of households can afford to buy a median-priced home. In 2015, Fannie Mae enabled families to buy or refinance more than 350,000 homes in the country's most populous state.

### In Michigan

In Michigan, the recession led to crushing job losses in the auto industry, forcing many families from their homes. In 2015, we provided the financing for 68,000 single-family loans, helping families to plant new, sustainable roots.

### In Florida

Florida was hit hardest during the housing crisis when home values plummeted. We're helping to stabilize the local housing market. In 2015, we enabled more than 125,000 home purchases and refinancings.





## Stuyvesant Town-Peter Cooper Village

- Historic residential community on Manhattan's East Side
- 110 buildings
- 11,241 units (5,000 are affordable to moderate-income residents)
- \$2.7 billion loan
- Working in partnership with Blackstone and Wells Fargo Multifamily Capital, one of our 25 Delegated Underwriting and Servicing (DUS®) lenders

### We're serving the spectrum of the nation's rental housing needs.

In 2015, we announced that we will provide the financing for one of the country's most significant residential communities, Stuyvesant Town-Peter Cooper Village in New York City. The deal will ensure rental housing is available – and affordable – for working and middle-class families in this large community over the next 20 years.

**“Preserving rental housing for moderate-income residents in New York City is a significant challenge. Fannie Mae is the leader in providing financing for workforce housing. Our deep understanding of the multifamily market combined with our financing expertise will ensure the preservation of this much needed workforce housing in one of the most expensive markets in the country.”**

– Jeffery Hayward,  
Executive Vice President for Multifamily

For nearly 30 years, providing financing to the rental market through our DUS® lender partnerships has been the core mission of Fannie Mae's Multifamily business. Our unique DUS platform relies on shared risk, with lenders retaining some of the underlying credit risk of the loans they deliver to Fannie Mae. DUS lenders can underwrite, close, deliver, and service loans on all types of multifamily properties. This means faster decisions and quicker closings for customers.

Photo: Mr. Taylor Crothers

## We've been doing this for a long time.

Our scale, experience, and expertise give us a unique perspective in the housing market, and we put it to work every day. From creating the gold standard in mortgage-backed securities to pioneering the industry-preferred automated underwriting system. From building the largest loss mitigation platform to rolling out responsible, innovative mortgage products. We deliver smart solutions for customers, homeowners, and renters.

## This is our legacy. This is our future.



## Shared systems. Shared success.

Our customers need tools that streamline their processes and help them manage risk. In 2015, we revolutionized the appraisal process by making Collateral Underwriter™, our extensive proprietary appraisal risk assessment platform, fully available to Fannie Mae lenders. With Collateral Underwriter, lenders can address appraisal quality issues before delivering loans to Fannie Mae – at no cost.

But we didn't stop there. We integrated Collateral Underwriter with our industry-preferred loan underwriting system, Desktop Underwriter®, to give lenders even more risk management capabilities. And, we eliminated the fees to use both Desktop Underwriter and Desktop Originator®. Now lenders can deliver strong mortgages, faster, with greater certainty.





## **Fannie Mae has the market intelligence needed for better mortgage lending from coast to coast. We want to share it with you.**

We're always thinking about homebuyers and renters. After all, together with our lenders and servicers, we're homebuyers and renters, too. With stronger market intelligence, our partners can better serve their customers. That means putting more people into homes they can afford for the long term.

It's why we base everything we do on in-depth market data, research, and analysis – and it's why we share that information at no charge. We're helping mortgage lenders, real estate agents, and other industry pros to understand what's happening in the housing market now and what it could mean for their business in the future.

### **From mortgage expertise, to diverse resources, to actionable data. It's all here.**

Our industry thrives on data to make decisions. In 2015, we introduced easy, self-serve access to the information our partners need to do better business.

Fannie Mae's new Home Purchase Sentiment Index™ is a measure of consumers' attitudes on the home purchase environment. It distills data from our National Housing Survey® – a monthly poll of 1,000 homeowners and renters on their housing and financial outlook – into a single indicator. The "HPSI" is unique. Unlike general economic indices, it's devoted entirely to housing, designed to provide distinct signals on future housing outcomes.

We also created a pipeline of new data to our customers, helping them get information quickly and in a well-designed format that allows them to dig for more insight. With Fannie Mae Connect™, lenders have real-time access to data, reports, and analytics that are tailored to their individual business.



## **America is changing, and we're changing with it.**

**The nation's housing demographics are constantly shifting. To serve the market effectively, you need to anticipate and meet the needs of its homebuyers.**

We're focused on introducing better tools to the mortgage market based on needs, insights, and data. Our solutions are tailored to help lenders bring the mortgage experience into the 21st century and make the mortgage-buying process easier to navigate. However, the most important goal is not getting people into homes – it's keeping them there.

At Fannie Mae, we are expanding access to mortgage credit in a responsible way. We design our products to help qualified borrowers find housing opportunities that are affordable and sustainable for the long term.



# **Service & Certainty**



## **Simplicity. Certainty. Service. Results.**

**This is what we do. This is how we work. This is what we bring to the nation's housing providers. We're committed to being America's most valued housing partner.**

We've improved our end-to-end products, services, and capabilities to optimize the everyday customer experience. The result? Our lenders, servicers, and other industry partners can work with the ease, efficiency, and transparency they need to succeed.



## The status quo is not for us.

### At Fannie Mae, we know building a better housing system starts at our front door.

We're continually improving our company, streamlining the way we work, and anticipating tomorrow's challenges. We are driving important changes in housing finance.

It's about building for the future. We are a vastly improved company now than we were a few years ago. We have fundamentally changed the way we do business, in ways that make both Fannie Mae and America's housing safer and better, while reducing risk for taxpayers. Today, the majority of our revenue comes from our guaranty business rather than from our retained investment portfolio. This source of revenue is more stable, reliable, and predictable.

## Credit Risk Transfer — What is it?

### Old Model

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#### Fannie Mae:

- Guaranteed timely payment of principal and interest to MBS investor
- Kept all credit risk associated with loan acquisitions
- Managed credit risk through underwriting and eligibility guidelines, lender oversight, quality control practices, servicing policies, and credit portfolio management



## Fannie Mae is creating new markets for credit risk transfers.

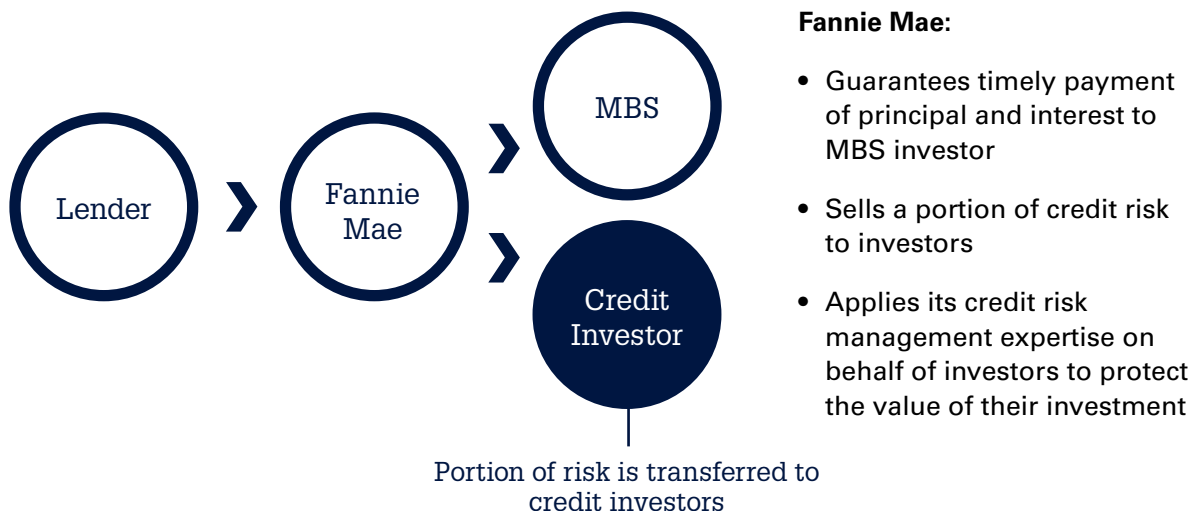
### We've strengthened our business, and we've strengthened our core business model.

In recent years, we have moved away from being a company that only acquires and holds mortgage credit risk. Instead, we distribute much of that risk through our credit risk transfer transactions – facilitating the flow of private capital between Fannie Mae's 1,200 lenders and a diverse group of investors. This allows financial institutions to invest in the credit performance of our single-family book of business.

Credit risk sharing isn't new at Fannie Mae, but it has evolved dramatically since the financial crisis. In just over two years, we have created a new market for credit risk transfers, bolstered by our innovative, industry-leading credit risk management resources.

Why? Because moving risk away from Fannie Mae means moving risk away from taxpayers, reducing the role of government, and expanding the role of private capital in America's mortgage market.

### New Model



## **Our technology is transforming the housing market.**

**Our goal is to enable all our lender customers to work better and achieve more. When they succeed, homeowners and renters get the benefits.**

At Fannie Mae, we're melding our deep knowledge of mortgage finance with world-class technology capabilities. No matter our customers' focus – from loan origination to delivery and servicing – our tools are helping to modernize and simplify the mortgage process. We are streamlining the customer workflow and making it easier to do business with greater certainty.







## Goodbye, old systems and processes. Hello, DUS Gateway™.

In 2015, we debuted our new front-end loan approval system for our multifamily lenders. DUS Gateway transforms the way we manage our loan pipeline and helps our lenders serve the widest possible spectrum of the rental market. Using one common platform, lenders can collaborate directly with their Fannie Mae partners, sharing data and documents quickly for better results. With DUS Gateway, deals get done smarter and faster.



# **Opportunity & Responsibility**



## We're expanding access to mortgage credit. But never at the expense of our company or the market.

Fannie Mae plays an essential role in setting loan eligibility, underwriting, and risk management standards for the housing industry. These go hand in hand with our commitment to bring housing opportunities to creditworthy families across the country. At the same time, we help ensure that people only take out mortgages they can afford and maintain for the life of the loan.

Beginning in 2008, we took action to strengthen our underwriting and eligibility standards to improve loan quality. Since then, we have seen the effect of those actions reflected in a stronger single-family book of business – one that promotes sustainable homeownership and stability in the housing market.

### Composition of our single-family book of business:

**85%**

Single-family loans  
acquired since  
January 1, 2009

**67%**

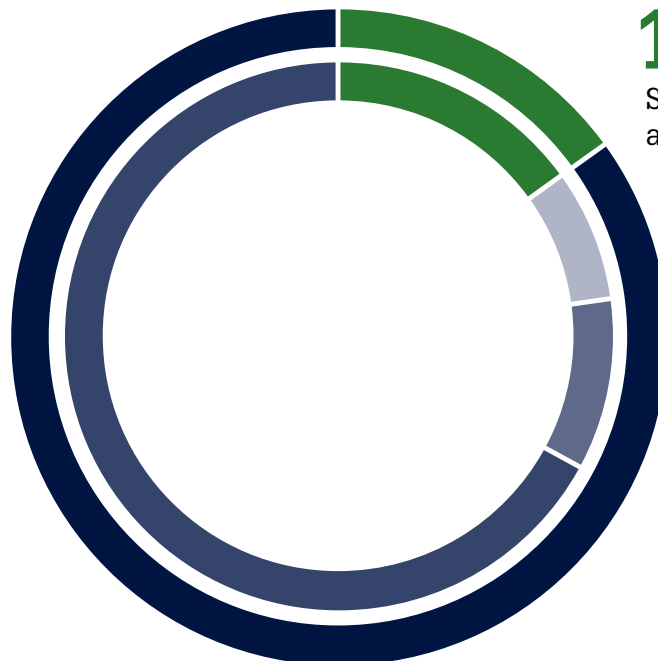
Excluding HARP®  
and other Refi  
Plus loans

**10%**

HARP loans

**8%**

Other Refi Plus  
loans



**15%**

Single-family loans  
acquired prior to 2009

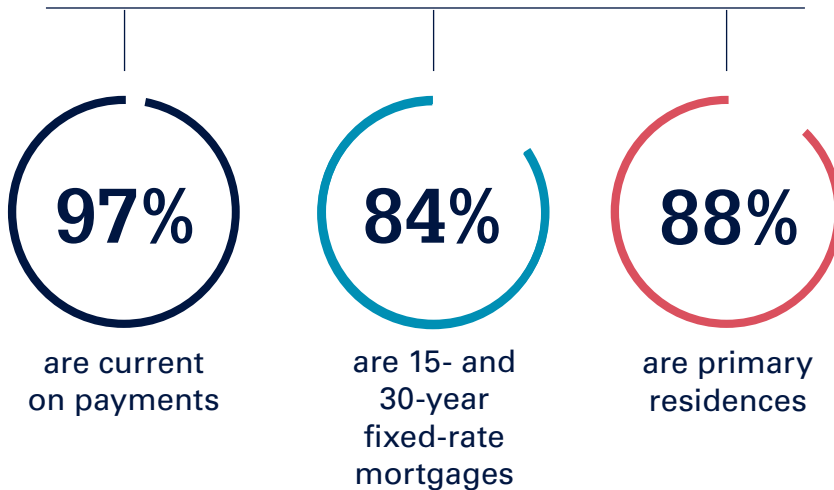
**When it comes to financing a home, most borrowers look for three things: safety, affordability, and reliability.**

**We're leading the way to help our lender customers make these three things a reality.**

People need mortgages they can afford for the long term. That's why we're a leading source of liquidity for the 30-year fixed-rate mortgage – Americans' preferred mortgage product.

With long-term, fixed-rate mortgages, homeowners have predictable monthly payments and protection from interest rate swings. They can also refinance at any time, enabling them to save money over the life of the loan.

**17.3M** single-family conventional loans  
as of 12/31/15





## For a family facing foreclosure, it can feel like they've reached a dead end.

We provide the resources and options the industry needs to help struggling homeowners. Our shared goal is to give them every opportunity available to avoid foreclosure and get back on their feet.

Since 2009, we've helped families through approximately 6.2 million loan modifications, loan workouts, and streamlined refinancings.



In 2012, we removed the loan-to-value cap on Refi Plus to help more underwater borrowers benefit from low interest rates.



## We're stepping up to meet the nation's most pressing housing needs.

### The people of Fannie Mae are at the heart of housing – and volunteerism is at the heart of Fannie Mae.

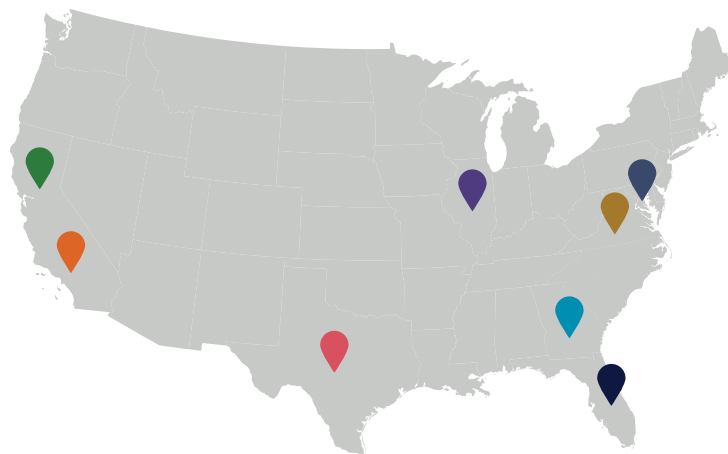
Our responsibility to serve the housing market goes beyond our day-to-day business transactions. Through our SERVE employee volunteer program, we're helping to rebuild America's hardest-hit communities, and helping people to overcome financial and social barriers to safe, affordable housing.

Giving back is central to who we are. That's why our employees are free to choose and coordinate their own volunteer projects for eligible non-profit organizations. Some plan and join in team efforts. Others participate in national days of service, such as Martin Luther King Day and the 9/11 Day of Remembrance.

All our efforts have one powerful thing in common, rooted deeply in who we are. At Fannie Mae, we work for those who need us.

### Our annual 7 Days to SERVE volunteer week brought Fannie Mae employees to hard-hit communities in eight U.S. cities in 2015.

Nearly  
**3,000**  
Fannie Mae employees,  
**40%**  
of our workforce, participated in  
**7 Days**  
to SERVE



Fannie Mae volunteers contributed  
**11,388**  
hours, the equivalent of  
**6**  
employees dedicated full-time  
for one year







[www.fanniemae.com/progress](http://www.fanniemae.com/progress)

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