Fannie Mae 2016 Third Quarter Earnings Media Call
Remarks Adapted from Comments Delivered by Timothy J. Mayopoulos, President and CEO, Fannie Mae
Washington, DC

Good morning everybody. Thanks for joining us today as we share our financial results for the third quarter of 2016. We had another quarter of solid financial performance.

This morning, I want to summarize the primary drivers of our third quarter financial results and I also want to update you on the innovative technologies that we are delivering for customers to help them lend with greater speed, simplicity and certainty. These innovations make the mortgage process better for lenders and for borrowers.

Summary of 2016 Q3 Results

First, let me review Fannie Mae's third quarter results. We reported net income of $3.2 billion and comprehensive income of $3 billion in the third quarter. This is an increase in both net income and comprehensive income over the second quarter of 2016.

This increase was due primarily to lower fair value losses on the company's derivatives, partially offset by a decrease in credit-related income in the third quarter.

Based on our third quarter results, we expect to pay Treasury $3 billion in dividends by the end of December.

Fannie Mae remains a steady, continuous source of mortgage financing to ensure broad access to quality rental housing and predictable long-term mortgages including the 30-year fixed rate mortgage we help make possible.

The credit quality of the post-crisis credit book is strong and the book continues to perform well.

The underlying fundamentals of our business are strong and we expect to remain profitable on an annual basis for the foreseeable future.

However as I have said in the past, there are factors that we do not control – such as changes in interest rates and home prices – which can cause significant volatility in our financial results. These factors may have a positive or negative effect in any given quarter.

A few specific points to highlight. Demand for our Single-Family mortgage guaranty business remains strong, and in the third quarter the company provided $184 billion in liquidity.

Our serious delinquency rate in our Single-Family mortgage credit book was 1.24 percent as of the end of September, compared to 5.47 percent at its peak. Fannie Mae’s serious delinquency rate has decreased for 26 consecutive quarters.

The portion of net interest income derived from the retained mortgage portfolio continues to decline and the portion coming from the guaranty fee business continues to increase. We expect this trend to continue.

In the third quarter more than two-thirds of net interest income was derived from our mortgage guaranty business.

We continue to reduce taxpayer risk and attract private capital through risk sharing transactions. As of September 30, more than 20 percent of the loans in our Single-Family conventional guaranty book of business, measured by unpaid principal balance, were covered by one of our credit risk transfer transactions with private investors.

Delivering Innovations to the Market

Our third quarter results reflect our strong business performance. Fannie Mae is also performing well in delivering innovations for the benefit of lenders, borrowers and taxpayers.

Last week we announced Day 1 Certainty™, a series of innovations that we and our customers are very excited about and which represent a step forward in the digitization of the mortgage process. Let me recap that announcement.

First, we will offer data validation services through our Desktop Underwriter® (DU®) system. If customers use these services to validate a borrower's income, assets, or employment status, we will provide freedom from representations and warranties on those items. This reduces risk, increases efficiency for our customers, and reduces time and paperwork for borrowers applying for a mortgage.

Second, we will begin leveraging the power of our Collateral Underwriter® tool to offer this same freedom from representations and warranties on the appraised value of the property.

And finally, we're making it easier for customers to receive property inspection waivers on eligible refinances.

These new tools will make doing business with us faster, simpler, and more certain. Customers will have greater confidence that when they sell a loan to us, it will stay sold.

These innovations also make it easier for lenders to do business with Fannie Mae and they deliver significant efficiencies for both lenders and borrowers.

In fact, lenders who have tested our data validation service report that they can now pre-approve borrowers in minutes, not days. They also report that in some cases they're able to slice four to seven days off the time it takes to process a mortgage.

More broadly, these innovations represent important strides towards stronger and better risk management for the housing finance system.

Ultimately, we believe it is possible to bring an end to the representations and warranties model as we know it today.

We believe it is possible to achieve Day 1 Certainty, in real time, across a fully digitized mortgage process.

That's the vision we're driving towards. It's the one that inspires us here at Fannie Mae to continue our work to make the housing finance system stronger.

Conclusion

In summary, this was another strong quarter of financial performance, and we are continuing to drive innovations both within Fannie Mae and in the broader market.

These innovations are bringing tangible value to our lender partners, helping transform the mortgage experience, and strengthening our housing finance system.

Thank you all very much. Have a great day.