



# **2002 Annual Housing Activities Report (AHAR)**

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**FANNIE MAE'S**  
**2002 ANNUAL HOUSING ACTIVITIES REPORT**

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**SUBMITTED TO:**

**U.S. DEPARTMENT OF HOUSING  
AND  
URBAN DEVELOPMENT  
(HUD)**

**PURSUANT TO P.L. 102-550 AND**

**THE SECRETARY OF HUD'S REGULATION OF THE  
FEDERAL NATIONAL MORTGAGE ASSOCIATION  
(FANNIE MAE)  
AND  
THE FEDERAL HOME LOAN  
MORTGAGE CORPORATION  
(FREDDIE MAC)**

**24 C.F.R. § 81.63**

**MARCH 17, 2003**



# FannieMae

**Franklin D. Raines**

Chairman and  
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March 17, 2003

The Honorable Mel Martinez  
Secretary  
U.S. Department of Housing and Urban Development  
Room 10000  
451 Seventh Street, SW  
Washington, DC 20410-0001

Dear Mr. Secretary:

We are proud to report that for the ninth consecutive year, Fannie Mae met and exceeded all of its affordable housing goals. In accordance with our legal requirements,<sup>1</sup> I am also pleased to submit to you Fannie Mae's *2002 Annual Housing Activities Report (AHAR)*, which outlines how the company expanded homeownership and rental housing opportunities for people and places that need it most. Meeting the U.S. Department of Housing and Urban Development's (HUD) housing goals was a unique challenge in 2002 given the record level of refinancing activity in the single family housing market. As business volume increased, Fannie Mae worked extremely hard to ensure affordable loans were purchased in compliance with HUD's housing goals.

As you know, HUD's 2000 Final Rule established the low- and moderate-income goal at 50 percent, the underserved goal at 31 percent, and the special affordable housing goal at 20 percent. In addition, the multifamily special affordable goal established a minimum financing requirement of \$2.85 billion. For 2002, Fannie Mae exceeded the housing goals in each category. Of the units financed by Fannie Mae, 51.79 percent were for low- and moderate-income households. Underserved areas accounted for 32.76 percent of the units financed by Fannie Mae, and 21.42 percent of all units were targeted to low- and very low-income households living in both single-family and multifamily residences. Fannie Mae also delivered \$7.22 billion in multifamily special affordable financing against HUD's mandated goal of \$2.85 billion. Thus, in spite of the economic challenges of 2002, our results demonstrate that Fannie Mae is fully committed to meeting our mission responsibilities.

In addition to our regulatory goals for 2002, we set a voluntary goal in 2000 to lead the mortgage market in serving minorities through our 10-year, \$2 trillion *American Dream Commitment*®. We also responded to President George Bush's call to raise minority homeownership rates by developing a ten-point plan to break down homeownership barriers facing minorities and by sponsoring 100 events in 100 days promoting the

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<sup>1</sup> 12 U.S.C. § 1723 a(n)



The Honorable Mel Martinez  
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President's minority homeownership agenda. These efforts resulted in record-level mortgage financing that totaled over \$136 billion to more than 980,000 minority families, a 55.5 percent increase over last year's record.

To meet the varying needs of these growing populations, we adopted an "outside the box" approach to mortgage financing. Fannie Mae will continue its role as a pioneer in the mortgage market for product development, underwriting experimentation and flexibility, technology services, and strategic partnerships. With these tools, lenders will be better able to provide affordable mortgage financing, since Fannie Mae does not lend directly to consumers.

Included in the AHAR are several tables that provide specific information about each goal and Fannie Mae's performance under that goal. The tables include dollar volumes, unit numbers and number of mortgages related to owner-occupied and rental properties purchased by Fannie Mae, and include data regarding properties that qualify under each of the goals. We are also forwarding under separate cover data cartridges relating to our mortgage purchase on single-family and multifamily housing units pursuant to 12 U.S.C. § 1723 a(m).

Housing is a key economic driver and the most important investment most families will ever make. It is also the catalyst that helps establish and grow communities throughout the country. This framework will guide Fannie Mae in 2003 as we work to increase opportunities for American families to invest in homeownership and fulfill their American Dream.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Mel Martinez', with a checkmark to the left of the first letter.

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## INTRODUCTION

The Department of Housing and Urban Development (HUD) is required by law<sup>1</sup> to establish three affordable housing goals for Fannie Mae and Freddie Mac: a low- and moderate-income goal, an underserved areas goal, and a special affordable housing goal. Since 1995, HUD has expressed these goals as a percentage of the dwelling units financed by Fannie Mae's mortgage purchases and securitizations.<sup>2</sup> In October 2000, HUD increased Fannie Mae's goals for all three categories. The current rule extends from 2001 through 2003.

Fannie Mae's Charter Act requires the company to submit an Annual Housing Activities Report (AHAR) to the HUD Secretary. The report's content, per the Charter, is listed in Section 309(n) of the Act.<sup>3</sup> This AHAR constitutes Fannie Mae's compliance with these requirements.

Section I describes Fannie Mae's 2002 performance in meeting its affordable housing goals. Section II is an overview of the various activities Fannie Mae carried out in 2002 to meet the affordable housing goals. Section III describes Fannie Mae's fair lending review, underwriting, and business practices. Finally, Section IV discusses housing market trends and the actions Fannie Mae plans to undertake in 2002 to continue meeting HUD's affordable housing goals.

Fannie Mae is also attaching the tables specified by HUD to provide detailed information about the company's performance in achieving each of the housing goals. The data cartridges relating to Fannie Mae's mortgage purchases of both single family and multifamily loans will be forwarded under separate cover.

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<sup>1</sup> The Federal Housing Enterprise Financial Safety and Soundness Act of 1992 (the 1992 Act), 12 U.S.C. § 4561.

<sup>2</sup> See 24 C.F.R. §§ 81.2, 81.11-81.22, 81.63 (2002).

<sup>3</sup> 12 U.S.C. § 1723 a(n).

## I. 2002 AFFORDABLE HOUSING GOALS RESULTS

In 2002, the record level of refinanced single family mortgages increased business volume throughout the housing industry, including Fannie Mae's book of business. As volume increased, Fannie Mae was challenged to purchase affordable housing loans at a record pace to ensure the company's ratios between total business and affordable housing activity met each of HUD's affordable housing goals. Despite 2002's affordable housing goals challenges, Fannie Mae exceeded its housing goals for the ninth consecutive year.

### A. Low- and Moderate-Income Housing<sup>4</sup>

As defined by HUD's regulations, low- and moderate-income families are those with incomes equal to, or less than, the median-income in the area. Of the dwelling units Fannie Mae financed with eligible mortgage purchases in 2002, 51.79 percent served low- and moderate-income families, surpassing the 50 percent goal set by HUD. In meeting this goal, Fannie Mae served over 2.9 million low- and moderate-income borrowers.

### B. Underserved Areas<sup>5</sup>

Fannie Mae's mortgage finance activities in central cities, rural areas and other underserved areas accounted for 32.76 percent of the housing units it financed with eligible mortgage purchases, exceeding the 31 percent goal set by HUD. In meeting this goal, Fannie Mae assisted over 1.8 million households in underserved areas during 2002.

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<sup>4</sup> HUD has established the low- and moderate-income housing goal at 50 percent of the total number of dwelling units financed by eligible mortgage purchases annually. "Low income" means: (1) in the case of owner-occupied units, income not in excess of 80 percent of area median income; and (2) in the case of rental units, income not in excess of 80 percent of area median income depending on family size as determined by the Secretary. "Moderate income" means: (1) in the case of owner-occupied units, income not in excess of 100 percent of area median income; and (2) in the case of rental units, income not in excess of 100 percent of area median income depending on family size as determined by the Secretary.

<sup>5</sup> HUD has established the underserved areas housing goal at 31 percent of the total number of dwelling units financed by eligible mortgage purchases annually. By regulation, HUD has defined an "underserved area" to mean for (A) "central city" and other "underserved area," certain areas having (i) a median income at or below 120 percent of the median income of the metropolitan area and a minority population of 30 percent or greater; (ii) or a median income at or below 90 percent of median income of the metropolitan area; (B) for a "rural area," certain areas having (i) a median income at or below 120 percent of the greater of the State non-metropolitan median income or the nationwide non-metropolitan median income and a minority population of 30 percent or greater; (ii) or a median income at or below 95 percent of the greater of the State non-metropolitan median income or the nationwide non-metropolitan median income; and (C) certain Indian reservation or tribal land as designated by HUD.

**C. Special Affordable Housing<sup>6</sup>**

Fannie Mae also exceeded requirements to provide financing for very low-income families and low-income families in low-income areas. Fannie Mae's special affordable mortgage finance activities accounted for 21.42 percent of the housing units it financed by eligible mortgage purchases in 2002, surpassing the 20 percent goal set by HUD. In addition, Fannie Mae provided \$7.22 billion in multifamily financing that qualified under the special affordable housing goal. HUD's regulations require that Fannie Mae provide a minimum of \$2.85 billion in multifamily special affordable housing financing.

The following chart summarizes Fannie Mae's progress in achieving the affordable housing goals in 2002.

**AFFORDABLE HOUSING GOALS AND RESULTS FOR 2002**

<b>GOAL SUMMARY</b>	<b>2002 GOAL</b>	<b>2002 RESULT</b>
<b>Low- and Moderate-Income Housing</b>	<b>50% of Eligible Units</b>	<b>51.79%</b>
<b>Underserved Areas</b>	<b>31% of Eligible Units</b>	<b>32.76%</b>
<b>Special Affordable Housing</b>	<b>20% of Eligible Units</b>	<b>21.42%</b>
<b>Special Affordable Housing -Multifamily*</b>	<b>\$ 2.85 Billion Minimum</b>	<b>\$7.22 Billion</b>

\* Under HUD's regulations, the Special Affordable Housing goal includes a minimum financing requirement "totaling not less than 1.0 percent of the average annual dollar volume of combined (single family and multifamily) mortgages purchased by [Fannie Mae] in 1997, 1998 and 1999..." (24 C.F.R. § 81.14).

Fannie Mae's commitment to affordable housing and community development is not only demonstrated through achievement of its housing goals, but also through increased corporate allocation of human and capital resources. For example, in the period between 1994 and 2002, staff dedicated to affordable housing and community development increased from 295 to 636, a 115.6 percent increase. During the same nine years, Fannie Mae increased its annual administrative budget for affordable housing activities by 285 percent from \$26.6 million in 1994 to \$102.5 million in 2002. In the past nine years, Fannie Mae has dedicated more than \$559 million in administrative costs to the company's affordable lending and community development activities.

<sup>6</sup> HUD has established the special affordable housing goal at 20 percent of the total number of dwelling units financed by eligible mortgage purchases annually. "Very low income" means: in the case of owner-occupied units, income not in excess of 60 percent of area median income; and in the case of rental units, income not in excess of 60 percent of the area median income depending on family size as determined by the Secretary. See footnote four for a definition of low income.



## II. FANNIE MAE'S 2002 HOUSING ACTIVITIES

For the housing market, 2002 represented a year of record performance. The industry witnessed the lowest mortgage rates seen in 30 years, which translated into records in home sales, mortgage refinancing and overall mortgage originations. For borrowers, it meant increased opportunities to participate in the American Dream. Yet even in this favorable housing environment, and at a time when the United States enjoys an all-time high 68 percent homeownership rate, minority homeownership rates remain persistently far behind. For example, only 48 percent of African Americans own homes, while Hispanics hold a 47 percent homeownership rate. Millions of families in America cannot find affordable, safe and decent housing. In light of these market realities, Fannie Mae continues to work with lenders and community partners to supply mortgage funds and develop customized products to help all Americans benefit from the robust housing market.

Fannie Mae is a private, shareholder-owned company. It operates in the secondary mortgage market and makes funds available for lenders to make loans more affordable for homebuyers. These funds are made available through two processes. The first is through Fannie Mae's purchases of mortgage loans directly from lenders. The second process is achieved by securitizing pools of mortgages acquired by lenders into Mortgage-Backed Securities (MBS), that lenders then hold or sell to investors. Through its mortgage purchases and securitizations, Fannie Mae provides low-cost funds to the housing finance market and follows its congressionally-mandated mission to help low- and moderate-income Americans buy homes of their own. In 2002, Fannie Mae financed 51.79 percent of dwelling units from eligible mortgage purchases to low- and moderate-income families, 21.42 percent of dwelling units from its eligible mortgage purchases to very low-income families and low-income families in low-income areas, and 32.76 percent of dwelling units from eligible mortgage purchases in underserved areas.

Fannie Mae has a long history of leadership in meeting the housing needs of minority and underserved families. In 1994, the company announced a seven-year ***Trillion Dollar Commitment*** to reach households and new immigrants with low- and moderate-incomes, residents of central cities and other underserved areas, and people with special housing needs. After surpassing the goals of the *Trillion Dollar Commitment* ahead of schedule in 2000, Fannie Mae Chairman and CEO Franklin D. Raines launched a new ten-year, \$2 trillion ***American Dream Commitment***® with the goal of closing homeownership gaps and strengthening communities by serving 18 million American families. At the same time, the *American Dream Commitment* continues efforts to reach minorities, young people, seniors, women-headed families, new immigrants and others. In the words of Mr. Raines, "[I]n homeownership, there remains a significant divide between the 'haves' and the 'haven't yetes.' In this new decade, it is a matter of national urgency that we do all we can to accelerate the closing of the homeownership gaps."

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The *American Dream Commitment* advances the following six-point plan:

- **Mortgage Consumer Rights Agenda**, to increase and support public advocacy to protect mortgage consumer rights.
- **National Minority Homeownership Initiative**, to fight mortgage discrimination and lead the market in all categories of minority lending.
- **Opportunity for All Strategy**, to address the unique housing needs of women-headed families, young people, new immigrants, seniors, urban and rural dwellers and other underserved groups.
- **America's Living Communities Plan**, to strengthen communities in inner cities and older suburban areas through new capital investments and expanded Partnership Offices.
- **eHomeownership™**, to provide lenders and consumers with new technologies that will lower the costs of mortgage financing.
- **Affordable Rental Housing Leadership Initiative**, to increase the supply of affordable rental housing.

In June 2002, when President George W. Bush made minority homeownership an Administration priority, and challenged the public and private sectors to help expand homeownership to 5.5 million new minority Americans by the end of the decade, Fannie Mae pledged to invest \$700 billion in private capital toward this goal. That marked a 66 percent increase in the company's earlier commitment of \$420 billion. Fannie Mae also committed to a ten-point plan to break down the barriers to homeownership, and pledged to hold 100 events in 100 days publicizing the goal of expanding minority homeownership. Since the launch of the *American Dream Commitment* in 2000, Fannie Mae has provided \$258.7 billion in financing—a sum that helped 1.9 million minority families achieve homeownership. In 2002 alone, Fannie Mae helped serve 984,276 minority families by providing \$136.2 billion in mortgage financing.

In addition to promoting homeownership, Fannie Mae is the nation's largest source of financing for rental housing. Despite an overall decline in the multifamily housing market, Fannie Mae's 2002 multifamily investments totaled over \$22 billion, nearly matching its record 2001 performance. One of the largest areas of growth for Fannie Mae's multifamily division occurred in small loan production, which finances rental properties that house 5-50 families and provides a much needed means of affordable rental housing to the 5.5 million families in the small loan market. As part of the *American Dream Commitment*, the company committed to invest \$18 billion in small loans by the end of the decade. In 2002 alone, Fannie Mae financed \$4.1 billion of these small property loans.

To increase opportunities for all—renters and homeowners, new immigrants and women-headed households, central city residents and rural residents—Fannie Mae, as illustrated throughout this report, develops new customized mortgage products, harnesses cutting-edge technology, and forges effective partnerships with myriad organizations.

### A. Product Innovation and Development

Fannie Mae develops innovative mortgage products that make mortgage credit available for traditionally underserved populations. The company works within the bounds of its charter to create products with flexibilities responsive to different market needs while providing more families with affordable homeownership opportunities. In 2002 Fannie Mae developed the following product offerings to support lender partners.

- Under Fannie Mae's *PaymentPower*<sup>™</sup> mortgage, borrowers with strong credit can skip their regularly scheduled monthly mortgage payment up to two times during a twelve-month period, and up to ten times during the life of the loan. *PaymentPower* provides a cash-flow management tool not widely available in the marketplace and meets the needs of seasonal workers such as teachers, contractors, resort area business owners and self-employed borrowers with inconsistent income streams. First-time homebuyers also benefit from this feature as a means of mitigating unanticipated costs associated with homeownership. Borrowers decide when and why to skip payments, without any concern of late fees or adverse impact on their credit rating. *PaymentPower* is a feature offered through Fannie Mae's automated underwriting system, *Desktop Underwriter*<sup>®</sup> (*DU*) and is applied on 30-year fixed-rate loans. *PaymentPower* was launched as a pilot in July 2002 with 10 lenders. By year-end 2002, Fannie Mae purchased 27 *PaymentPower* mortgages that totaled \$3 million.
- *HomeManager*<sup>™</sup> is a borrower-friendly feature designed to handle unexpected home systems repair or replacement costs incurred during the life of the loan. The feature includes a home warranty on the major home systems and an annual quality check of those systems. The home warranty component covers the cost of repair and replacement of the home's air conditioning, electrical and heating systems, plumbing, water heater, as well as repair of roof leaks. As an added benefit, the borrower can have an annual quality check of these systems that may help identify possible problem areas. The annual quality check also educates the borrower on the best home system maintenance practices. The feature is available at the borrower's option on any *DU*<sup>™</sup> *Approve/Eligible* or *Expanded Approval*<sup>™7</sup> recommended loan. The *HomeManager* feature was released as a pilot in 2002 in the Toledo, Ohio; southern Michigan; and Phoenix, Arizona markets.
- *HomeStay*<sup>™</sup> is a loan feature designed to offer a safety net for times of financial hardship. Borrowers who elect *HomeStay* and suffer involuntary job loss or disability, receive mortgage payment cancellation for up to four or six months per incident (up to a maximum of 20 or 30 months' protection during the life of the loan).

<sup>7</sup> Expanded Approval is a product option in Desktop Underwriter<sup>®</sup> that helps borrowers with less than perfect credit buy a home at a competitive rate.

The feature also provides coverage for borrowers in cases of death. The borrower elects the level of protection at loan origination. Payment for the feature is collected via a modest monthly amount that is added to the borrower's mortgage payment. The feature does not affect the underlying terms of the promissory note or mortgage. The modest fee that is added to the monthly payment is separate and distinct from the principal and interest. Borrowers have the option to cancel the feature at any time unless they have used its protection. The feature is available on any *DU Approve/Eligible* or *Expanded Approval*<sup>™</sup> recommended loan. The *HomeStay* feature was released as a pilot in 2002 in the Toledo, Ohio; southern Michigan; and Phoenix, Arizona markets.

- Fannie Mae added a new ***Five-Year ARM (5/1)*** up to 100 percent LTV as an eligible loan type for the *Expanded Approval*, *Flexible 97* and *Flexible 100* mortgage. The *5/1 ARM* was added to the December 2002 release of *DU 5.2.1* and complements Fannie Mae's existing *7/1* and *10/1 ARM* options. The *5/1 ARM* is available for purchase mortgages as well as refinances. With the *5/1 ARM*, borrowers with less-than-perfect credit and/or minimal cash savings have a more affordable payment option.

### ***Enhancing Existing Product Offerings***

Last year, Fannie Mae continued to work with community partners, lenders, builders, developers, and utilities to build environmentally sound communities and create energy-efficient home designs. In that pursuit, the company relaunched the ***Housing & Environment Initiative*** to include the following enhanced product offerings.

- Fannie Mae's standard ***Energy Efficient Mortgage (EEM)*** was expanded nationwide and is now available in *DU*. The new *EEM* expands the maximum LTV ratio to 100 percent and allows the appraised value of the home to be increased by the value of the energy efficiency improvements. In addition, Fannie Mae streamlined the origination process by working with the home energy rating industry to develop software that processes the necessary paperwork for lenders to originate an *EEM*. Presently, approximately 10 lenders are offering the new product.
- The ***Smart Commute*<sup>™</sup> Initiative** was first piloted in 2001 in the seven county Minneapolis-St. Paul metropolitan area and targeted to borrowers purchasing homes near a public transit route. Recognizing that a homebuyer will save on commuting expenses and therefore have more disposable income to pay housing expenses, this product gives borrowers more purchasing power. In 2002, the product was launched in Pittsburgh and Philadelphia, Pennsylvania; Salt Lake City, Utah; and Burlington, Vermont.

Other innovative product solutions include efforts to address the needs of working families, senior citizens, and borrowers with impaired credit. The following examples illustrate three Fannie Mae products that reach the needs of these populations.

- For most American families, their home is their largest and most significant asset. The *Working Mortgage*<sup>™</sup> feature, developed in 1999, can help homebuyers build equity faster through payments automatically deducted from their checking or savings accounts. Mortgage payment deductions coincide with the borrower's paycheck, so if an employee is paid once a week, each deduction will equal one-fourth of the monthly mortgage payment. For those paid bi-weekly, the deduction equals one-half of the monthly mortgage payment. For loans with two borrowers, the *Working Mortgage* can accommodate two different payment cycles, with a customer-specified percentage deducted from each borrower. Borrowers paying their mortgages weekly or biweekly will have accumulated an extra monthly payment by the end of the year, which is applied to the principal. As a result, loans with the *Working Mortgage* feature build equity quicker than standard mortgages and are paid before the end of the loan term. In 2002, Fannie Mae lenders delivered approximately \$84 million in loans with the *Working Mortgage* feature.
- Fannie Mae is the sole secondary market investor in HUD's reverse mortgage product, the *Home Equity Conversion Mortgage (HECM)*. *HECMs* allow seniors to convert the equity in their homes to receive cash. In 2002, Fannie Mae purchased 13,313 *HECMs* for a total value of \$734.1 million. The company is committed to providing the financing for this product to ensure that the nation's elderly population has an affordable alternative when making quality of life decisions. As part of its ongoing reverse mortgage business, the company annually convenes a Customer Advisory Group made up of sellers and servicers in the reverse mortgage industry to discuss key issues.
- The *eZ Access*<sup>™</sup> product pilot was first launched in 2001. The product is targeted to 11 underserved markets and allows lenders to qualify borrowers who may have less than perfect credit and limited available funds for down payment. Through December 2002, *eZ Access* helped 400 underserved families achieve the dream of homeownership. In 2002, Fannie Mae purchased \$57.1 million in *eZ Access* loans.

### ***Helping Lenders Reach CRA Goals***

Fannie Mae's products not only increase homeownership opportunities for underserved families, they also help lenders meet their obligations under the Community Reinvestment Act (CRA). As part of the *American Dream Commitment*<sup>®</sup>, Fannie Mae has committed to investing \$20 billion in CRA-targeted business, and funding \$530 billion in low- and moderate-income loans as defined by the CRA. A major business driver for Fannie Mae's CRA business is *Housing and Community Development Lender Partnerships*, which offer significant housing and community lending resources to help lenders reach their CRA and other affordable housing goals. (For a more detailed description of these partnerships, see Section C: National Partnerships.)

Fannie Mae provides a source of liquidity for CRA targeted loans in any interest rate environment to help lenders leverage more CRA lending. A cornerstone of Fannie Mae's CRA business strategy is the *MyCommunityMortgage*<sup>™</sup> suite of customizable product

options. Introduced in October 2000, *MyCommunityMortgage* offers an aggressive menu of product options designed to break down barriers, lower costs, and increase access to homeownership for low- and moderate-income families, including minorities, immigrant families, first-time homebuyers, and underserved borrowers living in rural areas. In 2002, Fannie Mae purchased or securitized more than \$882.5 million of *MyCommunityMortgage* products. This finance activity helped provide affordable housing solutions for 7,866 households. To help lenders meet the needs of their communities in 2002, Fannie Mae created additional tailored solutions to *MyCommunityMortgage*.

- **Community Rural**—introduced in July—offers additional flexibilities for *MyCommunityMortgage* borrowers purchasing homes in rural communities by expanding the income limit to 115 percent of the area median income versus the 100 percent of area median income typically allowed under the *MyCommunityMortgage* suite. Flexible rural appraisal guidelines also make it easier to lend in these communities. Since *Community Rural* was introduced, more than \$46.59 million of these loans have been purchased or securitized, serving nearly 600 rural households.
- The **Community Solutions** umbrella of products offers flexible income requirements consistent with targeted professions. In 2002, three new borrower definitions were added. **Teacher A+**, originally limited to teachers, was expanded to include non-professional school employees; **Safety I<sup>st</sup>**, originally designed for police and firefighters, was expanded to include all employees at state and local law enforcement or fire fighting agencies; and, **HealthCare Worker+**, was added to include medical residents, nurses, pharmacists, and other medical technicians and technologists whose employer offers an Employer Assisted Housing (EAH) benefit for healthcare workers. (For more detailed information on EAH, see Section C: Targeted Initiatives.) In 2002, Fannie Mae purchased \$61 million of mortgage loans under the *Community Solutions* suite of products.
- The **MyCommunityMortgage Energy Efficient Mortgage (EEM)** is part of Fannie Mae's Housing & Environment Initiative. The product recognizes that energy efficient homes cost homeowners less to operate on a monthly basis than standard homes because they use less energy. This factor is considered in the loan evaluation process and allows borrowers to qualify for increased mortgage funds. The *MyCommunityMortgage EEM* is designed specifically for borrowers who are at or below 100 percent of area median income, with exceptions for high-cost and underserved areas.

## B. Harnessing Technology

Fannie Mae offers a range of eBusiness solutions to help lenders better serve their borrowers. Technology solutions streamline the origination process, reduce originating and servicing costs, expand markets and open new channels of distribution. In 2002, InfoWorld lauded the company's efforts by naming it one of the "*100 Most Innovative*



*Technology Companies.*" Total eBusiness volume at Fannie Mae totaled \$1.1 trillion in 2002.

Fannie Mae leverages technology as part of the *American Dream Commitment's* eHomeownership™ strategy that seeks to provide lenders with new technologies to lower the cost of mortgage financing. In that effort, Fannie Mae also looks for ways to improve lenders' ability to do business with the company in the most efficient and effective manner. Fannie Mae's business-to-business web site, eFannieMae.com, continues to be the hub where lenders can access product information and important technology tools, view upcoming events, and receive news about training opportunities. In an average week, eFannieMae.com receives 80,000 visitors resulting in 350,000 page views.

The flagship products for the company's eCommerce solutions are *Desktop Underwriter*® (*DU*™) and *Desktop Originator*® (*DO*™). *DU* is an automated underwriting system that greatly reduces the time, cost and subjectivity associated with the mortgage loan underwriting process by helping lenders make an informed and unbiased decision about the relative credit risk of a mortgage. *DO*, used in concert with *DU*, allows wholesale lenders to extend the benefits of *DU* to their sponsored mortgage brokers. As lenders develop their e-commerce strategies, many are focusing on new ways of deploying their automated underwriting systems or enhancing their capabilities.

Fannie Mae had two major releases of enhancements to *DU* in 2002.

- ***Desktop Underwriter*® 5.2** increased homeownership opportunities for low- and moderate-income borrowers and borrowers with small down payments by enhancing *DU's* risk assessment capabilities for certain high LTV loans. This enhancement made it possible to deliver more approval recommendations and say "yes" to more borrowers. *DU 5.2* also provided added lender flexibility and more loan products for borrowers such as the *InterestFirst*™ mortgage feature that allows for interest-only payments for an initial period. The release also expanded the scope of ARMs eligible for delivery and includes new eligibility rules and underwriting policies consistent with recent updates to the new Fannie Mae Selling Guide, which was released in the Spring of 2002.
- ***Desktop Underwriter*® 5.2.1** offers enhancements to the *Flexible* mortgage product line, *Expanded Approval*™ and *Community Lending* to reach a broader consumer market. *Community Lending* mortgage products are designed to help borrowers overcome the lack of down payment funds and qualifying income. With *DU 5.2.1*, *Community Lending* mortgages include updated income limits in selected areas. Borrowers with blemished credit and minimal down payment funds benefit from enhanced *Expanded Approval*™ policies that now allow for the origination of 5/1 ARMs and 100 percent LTV limited cash-out refinances. Policies related to the underwriting of limited cash-out and cash-out refinance mortgages were also revised under version 5.2.1.

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### *Expanding Markets and Distribution Channels*

Fannie Mae dedicates resources to ensure that eBusiness partners receive customized technology solutions to meet the needs of their customers. By offering this service, Fannie Mae is helping lenders—big and small, rural and urban—offer the same level of service and product options to consumers regardless of where they live.

Two examples of successful 2002 eBusiness partnerships are highlighted below.

- **Irwin Mortgage** is a regional lending partner in the Midwest focused on increasing its service to first time homebuyers and low income and minority borrowers. Key to the company's goal is developing a combined technology and business strategy to better serve these markets. By integrating *DU* at the point-of-sale, Irwin Mortgage expanded its product offerings to include features such as *Expanded Approval*<sup>™</sup> and *Timely Payment Rewards*<sup>®</sup>, which help make mortgage loans more affordable to their targeted markets. The varied products also better meet the needs of Irwin's customers. The company also worked with Fannie Mae to geocode their branch markets to better determine which markets offered more business opportunity.
- In October 2002, Fannie Mae's Housing and Community Development team partnered with the **American Bankers Association (ABA)** to introduce an interactive web-oriented toolkit that combines an overview of the Community Reinvestment Act (CRA) with information about Fannie Mae's products and services that can help support the affordable housing initiatives of ABA members. The web-based tool, *Understanding CRA and Business Opportunities*, is housed on ABA's Internet site and provides customer support and outreach effectively and economically to lenders of all asset sizes and in all locations.

Other web-based applications help partners provide education and awareness to their borrowers, such as the *True Cost Calculator*<sup>®</sup> (*TCC*), which gives homebuyers an accurate assessment of all the costs associated with a mortgage. Partners currently using the *TCC* on their web sites include BET.com and Univision.com. By offering this tool, Fannie Mae helps these organizations in raising awareness among African Americans and Hispanics about the homebuying process and the financial responsibility associated with such a major purchase. Another on-line resource is *Home Counselor Online*<sup>™</sup>, Fannie Mae's web-based counseling software, available free of charge, that provides homeownership counselors with the necessary tools to help consumers financially prepare to purchase a home. As of February 2002, over 1,200 counselors representing 542 organizations were using *Home Counselor Online*.

In addition, Fannie Mae continues to offer other tools and applications such as the examples listed below.

- The *Fannie Mae Property GeoCoder*<sup>™</sup> determines whether a property is located in an area that qualifies for Fannie Mae's community lending products designed to increase homeownership and revitalization in traditionally underserved areas. The

*Property GeoCoder* is used by lenders and other housing professionals and was first created in 2000. In 2002, two enhancements were made to the *GeoCoder*: the ability to determine *Smart Commute*<sup>™</sup> eligibility; and, the ability to determine *Self-Help* eligibility.

- ***HomeBuyer Funds Finder*** is a one-stop online resource designed for lender partners and other housing professionals. Lenders, housing counselors, real estate professionals, and others involved in the home-buying process can utilize the *HomeBuyer Funds Finder's* online search engine to access a database of local housing subsidy programs intended to help low- and moderate-income borrowers find closing cost and down payment assistance. In 2002, the *HomeBuyer Funds Finder* web site received over 24,500 hits. The *HomeBuyer Funds Finder* contains down payment and closing cost information for 20 markets including Los Angeles and Orange County in California; Denver, Colorado; Delaware; Miami, Florida; Atlanta, Georgia; Chicago, Illinois; Iowa; Kansas City, Kansas; Louisiana; Baltimore, Maryland; Kansas City, Missouri; Nevada; New Mexico; Charlotte, North Carolina; Cleveland, Ohio; Oklahoma; Philadelphia, Pennsylvania; Houston and San Antonio, Texas; and Washington D.C.

### C. Forging National Partnerships, Faith-Based and Community Initiatives

Fannie Mae's mission is to "tear down barriers, lower costs, and increase opportunities for homeownership and affordable rental housing for all Americans...." Because the company does not have direct contact with consumers, partnerships with housing providers and advocates are integral to helping the company achieve its mission. A successful outcome also requires that Fannie Mae produce the tools, technology and services—highlighted in the previous section—for these partners to help break down language, credit and other barriers facing underserved families. Below, Fannie Mae highlights the various ways the company joins with national organizations, lenders, and community groups to offer customized products and underwriting flexibilities that meet the particular needs of diverse groups across the country.

#### ***National Partnerships***

Working with national organizations is an effective way to expand and create broad opportunities for all Americans because of their presence and impact throughout the country. As part of the *American Dream Commitment's* Opportunity for All Strategy and National Minority Homeownership Initiative, Fannie Mae continues to reach out to national groups and work with local affiliates to expand homeownership. In 2002, Fannie Mae enhanced five partnerships with national organizations. Overall, the company maintains 13 national partnership agreements. The following examples describe Fannie Mae's national partnership agreements.

- Fannie Mae has had an ongoing CRA joint partnership with the Chicago-based **National Training and Information Center (NTIC)** and six of their community group affiliates to undertake a series of initiatives that expand homeownership and

affordable housing rental opportunities for low- and moderate-income families in the Bronx, New York; Chicago, Illinois; Cincinnati, Ohio; Des Moines, Iowa; Pittsburgh, Pennsylvania; and Syracuse, New York. The five-year old partnership includes two primary components: the development and implementation of a \$50 million underwriting experiment which includes a low down payment requirement of one percent from the borrower's own funds and the purchase or securitization of \$100 million in seasoned CRA portfolio loans. In 2002, the team expanded the experiment to purchasers of two-unit properties and homes needing renovation. Also added in 2002 was the availability of 100 percent LTV financing for the experiment, where only \$500 or 1 percent, whichever is less, is required from the borrower. In 2002, the experiment was expanded to include Central Illinois; Cleveland, Ohio; and Rochester, New York. Through September 2002, deliveries under the NTIC joint partnership totaled \$2.5 billion, surpassing the original partnership goal of \$150 million.

- In September 2002, Fannie Mae announced a five-year, \$1.5 billion commitment with the **Enterprise Foundation** to support the development of affordable housing in low- and moderate-income communities across the country. The 2002 commitment is an increase from the \$725 million commitment announced in 2001 targeting the same population. Under the plan, Fannie Mae and the Enterprise Foundation will invest \$200 million a year in properties that qualify for Low Income Housing Tax Credits that are managed by a subsidiary of the Enterprise Foundation, the **Enterprise Social Investment Corporation**. Other components of the partnership include: a \$400 million commitment to **Enterprise Mortgage Investments**, another Enterprise Foundation subsidiary, for permanent financing of low-income housing developments and \$100 million in equity investments for affordable housing developments in underserved communities throughout the country.
- In 2002, Fannie Mae signed a three-year memorandum of understanding with **ACORN Housing Corporation** to invest up to \$200 million over three years in affordable mortgages originated by local lenders. ACORN is the nation's largest community organization of low- and moderate-income families with over 150,000 member families organized into 700 neighborhood chapters in 51 cities across the country. As part of Fannie Mae's efforts to combat abusive lending, ACORN will provide homebuyer counseling to low- and moderate-income borrowers. ACORN's network will also have access to Fannie Mae products and technology services such as *Timely Payment Rewards*®, *InterestFirst*™, *Flexible 100*™, *Home Counselor Online*™, *Desktop Originator*®, as well as explore various investment opportunities. In addition to these products, Fannie Mae developed, at ACORN's request, an aggressive underwriting experiment to meet the needs of low-income borrowers in the Northeast.
- Through a national partnership with the **Independent Community Bankers of America (ICBA)**, Fannie Mae has committed to make mortgage lending easier and more efficient for ICBA members, which historically serve small towns and rural consumers. Fannie Mae's partnership with the ICBA includes customized mortgage

products tailored to meet the varying needs of ICBA members. Fannie Mae also provides across the board training opportunities to ICBA members and access to other resources, such as the Fannie Mae Partnership Offices and their community development outreach initiatives.

- Fannie Mae's ongoing partnership with the **Neighborhood Reinvestment Corporation (NRC)** continues to yield homeownership opportunities for underserved families. NRC is a national Congressionally chartered nonprofit that provides direct funding support and technical assistance to a national network of community-based affordable housing developers and lenders known as *NeighborWorks Network* organizations. In 2002, Fannie Mae supported NRC's *NeighborWorks Week*, which is a week-long event promoting homeownership awareness across the country. In addition, Fannie Mae supports the **Neighborhood Housing Services of America (NHS)**, a close affiliate and mortgage investor of NRC originated mortgages. In 2002, Fannie Mae purchased \$367 million in loans from NHS that were originated by NRC's *NeighborWorks* organizations. Of this volume, 40 percent served minority households.
- To expand opportunities for Hispanic families, in June 2002, Fannie Mae launched a partnership with the **National Association of Hispanic Real Estate Professionals (NAHREP)**. The goal of the partnership is to link NAHREP with Fannie Mae lender partners and other housing organizations to reduce the barriers faced by Hispanics in accessing home mortgage credit. Through this effort, Fannie Mae plans to purchase \$100 million in mortgages originated by participating lenders.
- Fannie Mae also announced in the summer of 2002, a three-year \$100 million homeownership partnership with the **National Council of La Raza**, the largest constituency based Hispanic organization in the nation. Through this initiative, Fannie Mae will purchase mortgages originated by more than 30 housing affiliate organizations in 16 states serving Hispanic families.
- In 2002, Fannie Mae continued to build on many of its existing initiatives including the **AFL-CIO Housing Investment Trust**. Through this initiative, 13 million union members nationwide are expected to benefit from access to affordable mortgage products through **Countrywide Home Loans** in 16 cities throughout the nation. As of December 2002, over \$244 million in loans had been originated through this initiative, serving 2,076 households.
- Fannie Mae continued to support the **Congressional Black Caucus Foundation (CBCF)** in providing flexible mortgage products and targeted financing to lenders participating in its *With Ownership, Wealth (WOW)* Initiative. Launched in 2001, the *WOW* Initiative is focused on creating one million new African American homeowners by 2005.
- In partnership with the **National Urban League (NUL)**, **Chase Manhattan Mortgage Corporation** and other lenders, Fannie Mae has committed to purchase

\$50 million in mortgage products over five years that specifically target African-Americans and other minorities in underserved areas. In addition, Fannie Mae is working with NUL and its partners to increase NUL's homeownership counseling capacity by providing the necessary technology and tools to support that effort. NUL originated \$20 million in loans in 2002, serving minority and underserved communities.

- In 2002, Fannie Mae continued increasing homeownership opportunities for women-headed-households through its national partnership with the **McAuley Institute**. The five-year *Make It Your Own Homeownership* campaign promotes homeownership for women in major cities and provides women access to information, education, counseling, and affordable mortgage credit through participating lenders. The initiative aims to provide awareness to 50,000 women nationwide and to help finance \$50 million in home mortgages. As of December 2002, the initiative had reached 19,000 women in markets across the country. Currently, 10,000 women are enrolled in McAuley's homebuyer counseling program.

### ***Lender Partnerships Focus on Minority Markets***

When Fannie Mae announced the *American Dream Commitment*® in 2000, the company vowed to lead the market in lending to minority families as part of its National Minority Homeownership Initiative. In that pursuit, the company announced a \$420 billion pledge to serve more than 3 million minority families. When President Bush called for a bold new minority homeownership strategy in 2002, Fannie Mae increased its capital commitment by 66 percent to \$700 billion to serve 4.6 million families over the decade. As part of this strategy, Fannie Mae continues to hone its Housing and Community Development (HCD) lender partnerships to ensure a comprehensive business approach to increasing CRA and affordable housing lending, with a focus on increasing minority homeownership. In 2002, Fannie Mae announced 10 new HCD lender partnerships, bringing the total committed since 2000 to 16, with an estimated \$180 billion of *American Dream Commitment* business pledged to be delivered. The following examples highlight 2002 partnerships.

- Fannie Mae and **J.P. Morgan Chase & Co.** announced a \$35 billion national investment initiative in leading markets around the country to provide new mortgage and residential construction financing. The initiative will target communities served by **Chase Manhattan Mortgage Corporation** and **J.P. Morgan Chase Community Development Corporation**, subsidiaries of J.P. Morgan Chase & Co. The initiative is designed to increase homeownership opportunities for underserved communities and improve affordable homeownership options for immigrants and minorities. Through this initiative, Fannie Mae and its partners will provide access to information necessary for obtaining mortgage credit and credit alternatives for those with less than perfect credit histories. In addition, the initiative includes enhanced down payment options for those with difficulty making the initial down payment, various tailored solutions for communities with specific housing challenges, and various community development investments.



- Fannie Mae and **Bank One** announced a \$12.5 billion community lending alliance to help low- and moderate-income families purchase homes of their own. The five-year alliance will provide affordable mortgage financing for minority families, women-headed households, new immigrants and people with disabilities. Bank One, which views mortgages as a core product to customer relationships, will offer a suite of customized mortgage products developed in conjunction with Fannie Mae that require little or no down payment, eliminate the cost of mortgage insurance, and assist borrowers with blemished credit. The customized products will also feature flexible credit qualifications. At least 25 percent of the total commitment is designated to increase homeownership among minorities. Funds also will go to community development efforts such as inner-city rehabilitation projects. To help families understand the responsibilities and advantages of homeownership, Bank One and Fannie Mae will work closely with nonprofit counseling organizations and organizations such as the **National Urban League** and the **National Association of Real Estate Brokers** and its **Women's Council**.

### ***Targeted Initiatives***

In addition to forging effective partnerships with national organizations and lenders, Fannie Mae is focusing efforts to meet the needs of underserved and low- and moderate-income populations. Targeted populations include minority and women-owned lenders (MWOLs), Native Americans, working Americans, and borrowers served by community development financial institutions and public housing agencies. A brief description of 2002 activities is listed below.

- **Minority- and Women-Owned Lenders (MWOL) Initiative.** Fannie Mae recognizes that minority- and women-owned lenders are an effective channel to reach minority homebuyers and to stimulate development and revitalization in urban communities. Through this initiative, Fannie Mae partners with MWOLs to help them overcome barriers to doing business. In 2002, Fannie Mae purchased \$9 billion in mortgages originated by MWOLs. Of that amount, 97 percent reached minority households. As part of the *American Dream Commitment*, Fannie Mae pledged to invest \$30 billion in loans originated by MWOLs by 2010.
- **Employer Assisted Housing (EAH) Initiative.** According to human resource professionals, employee benefits such as EAH are an effective recruiting and retention tool. EAH benefits can take many forms such as homebuyer education or financial assistance in the form of a loan or grant to help with down payment and closing costs. Under the EAH Initiative, Fannie Mae works with employers to design, develop and evaluate an EAH benefit for their employees. Fannie Mae supports EAH because it is an effective tool that helps increase homeownership opportunities for thousands of working Americans every year. In addition to consultative services, Fannie Mae highlights EAH practices across various industries in an information resource titled, *EAH Spotlight*. The newsletter is helpful for companies looking to design their own EAH benefit as well as those looking to share their experience with other EAH practitioners. In 2002, Fannie Mae developed an

EAH best practices manual in partnership with the Greater Boston Chamber of Commerce, which was distributed to hundreds of chambers throughout the country. As part of Fannie Mae's response to President Bush's call for increased minority homeownership, the company pledged to assist 100 employers each year with EAH programs. In 2002, the company surpassed that goal and reached 116 employers in industries ranging from health care to education. Employers include nonprofits, private companies and public sector organizations.

- **Community Development Financial Institutions (CDFI) Initiative.** Through the CDFI Initiative, Fannie Mae provides deposits, debt and equity investments in community banks, low-income designated credit unions, affordable housing lending consortiums, and housing-related nonprofits to leverage other private and public funds that will facilitate the financing of community development activities in underserved neighborhoods. In 2002, executives from more than 40 financial institutions and intermediaries gathered for the *Sixth Annual CDFI Roundtable* to discuss business challenges and explore new ways to work in partnership with Fannie Mae. Recognizing the vital role CDFIs have in revitalizing neighborhoods through affordable housing development, Fannie Mae committed to invest \$17.1 million in 2002, which will generate more than 980 additional units of affordable housing.
- **Section 8 Homeownership Initiative.** In partnership with local lenders and Public Housing Agencies (PHAs) across the country, Fannie Mae is making the dream of homeownership a reality for many low-income families using Section 8 rental vouchers. Under the Section 8 Homeownership Initiative and by working with local lenders, Fannie Mae invests in mortgages to families who receive HUD Section 8 rental vouchers and applies those subsidies towards homeownership. Households qualify for the program based on their current income combined with housing subsidies. Upon purchasing the home, Section 8 vouchers are applied toward the payment of principal, interest, taxes and insurance. Under the *American Dream Commitment*®, Fannie Mae committed \$50 million to Section 8 homeownership opportunities. In 2002, mortgage finance activity under this initiative helped 35 families make the transition from Section 8 rental housing to homeownership.
- **Native American Initiative.** Recognizing the unique circumstances of Native Americans living on trust lands, Fannie Mae continues to work with lenders to develop customized mortgage products and flexible underwriting guidelines that respect the sovereignty and jurisdiction of tribal governments. In 2002, the company announced new legal procedures for the purchase of loans on reservations. Fannie Mae no longer requires tribes to waive sovereign immunity or provide for mutual consent to the jurisdiction of Tribal courts for conventional lending initiatives on tribal trust land. Fannie Mae has committed to invest \$350 million under the *American Dream Commitment* for 4,600 Native American families through the end of the decade. To date, the company has served more than 3,376 Native American families living on reservations and trust lands, while providing \$290 million in mortgage financing. An example of activity under the Native American Initiative is highlighted below.

- In April 2002, tribal leaders from 18 nations joined housing partners and Fannie Mae at a two-day *Northern Great Plains Native American Housing Summit* to discuss affordable housing challenges on reservations. Participants convened in Rapid City, South Dakota, and included representatives from the **North Dakota Indian Affairs Commission** and the **South Dakota Tribal Affairs Commission**. The summit featured workshops on tax credit equity, housing and community development, affordable mortgage products and investment tools.

### ***Faith-Based Initiative***

Fannie Mae has long recognized the pivotal role faith-based organizations have in local communities, especially minority communities. In some neighborhoods faith-based organizations serve multiple roles, often providing the portal to a network of social services. This position of trusted advisor makes faith-based organizations effective housing partners for reaching underserved families. Since 2000, when Fannie Mae launched its Faith-Based Initiative, the company has supported faith-based organizations in various homeownership efforts. Fannie Mae works with faith-based groups that operate as both developers and sellers of affordable housing. Given the multi-faceted roles and numerous benefits these groups bring to disenfranchised communities, Fannie Mae has made Faith-Based Initiatives a corporate priority.

As part of Fannie Mae's ten-point plan announced in June 2002 to help President Bush broaden minority homeownership, the company has expanded its relationships with community-based and faith-based partners. Specifically, Fannie Mae has committed to form at least 100 partnerships with churches, synagogues, mosques and other faith-based institutions by 2009. Through faith-based partnerships and lenders, Fannie Mae plans to reach seven million potential homeowners. In addition to increased partnerships with faith-based groups, Fannie Mae is helping these groups increase their capacity for housing and community development.

To help faith-based organizations understand the importance of affordable housing development as a catalyst for rebuilding communities, Fannie Mae supported the development of the following resources.

- The ***Faith-Based Affordable Housing Development and Finance Resource Guide***, written by the **College of Biblical Studies** in Houston and financed by Fannie Mae, is a reference tool and resource guide for faith-based organizations. The Guide, written from a broad-faith perspective and released in 2001, outlines the various roles faith-based organizations can play in increasing the supply of affordable housing, describes the major phases of affordable housing development, and highlights financing mechanisms available to fund affordable housing.
- In partnership with the **Federal Reserve Bank of Boston** and the **National Congress for Community Economic Development**, Fannie Mae launched the Faith & Community @ Work web site in 2001 ([www.faithandcommunityatwork.com](http://www.faithandcommunityatwork.com)). The

site is a rich source of news and information on faith-based community economic development efforts and links to a wide range of education, training, and technical assistance service providers and funding sources.

In addition to supporting resource development, Fannie Mae actively engaged in the following activities with faith-based partners in 2002.

- In February, Fannie Mae launched a \$25 million five-year investment initiative with the **Christian Methodist Episcopal Church (CME)** targeting Memphis, Tennessee; Jackson, Mississippi; and Eastern Arkansas. Established in 1870, the CME church is represented in 38 states and is one of the largest predominantly African American church groups in the country. As of December 2002, the initiative reached nearly 2,000 consumers. Through CME's network of affiliates in designated target areas, Fannie Mae plans to reach 25,000 new homebuyers. As part of the initiative, Fannie Mae and participating lenders will provide the CME Community Development Corporation with technical assistance, tools and training support to expand its homeownership counseling capacity. Fannie Mae will purchase all loans originated by participating lenders under this initiative.
- In Pittsburgh, Pennsylvania, Fannie Mae announced a \$50 million partnership with **Citizens Bank** and a local consortium of faith-based partners to provide mortgage credit to low- and moderate-income borrowers over three years. The initiative was launched at the *2002 Faith-Based Symposium*, attended by over 100 local organizations. The faith-based institutions will use Fannie Mae's *Home Counselor Online™* tool to help determine participants' financial readiness for homeownership. To participate, potential homebuyers must meet income and geographic requirements and plan to purchase homes in western Pennsylvania.
- In June, Fannie Mae announced a \$10 million homeownership initiative in Flint, Michigan with the **Mission of Peace Housing Counseling Agency (MOP)** and five lenders. The MOP is a HUD- and Michigan Housing Development Authority-designated certified housing counseling agency. MOP offers pre-and post-purchase counseling and loss mitigation counseling. This commitment augments Fannie Mae's existing \$3 million commitment announced last year. Potential buyers are referred to local banks participating in the initiative and the MOP provides home counseling. Over \$7 million in loans has been originated and closed to date through this initiative.
- In partnership with **Bethany Baptist Church, Abundant Harvest Fellowship, Generations, Inc. and Murray Financial**, in March Fannie Mae expanded a year-old effort to help members of Bethany Baptist Church better understand the homebuying process and become homebuyers. The initiative now includes 13 New Jersey cities or towns and four Pennsylvania cities or towns. Since its launch, over 500 individuals have participated in the initiative. Church leaders hope to reach 35,000 individuals through this partnership.

### *Underwriting Experiments*

In cooperation with local housing partners, Fannie Mae conducts various underwriting experiments aimed at eliminating the obstacles faced by prospective homebuyers across the country. Each experiment is place-based and features Fannie Mae's standard product offerings with variances to accommodate the targeted needs of the local population. This flexibility is necessary to mitigate barriers which, depending on the location, may include all or some of the following: minimal down payment, affordability measures and ratios, credit history flexibility, property valuation challenges, and language barriers. In 2002, Fannie Mae approved \$230 million worth of Housing and Community Development commitments for a total of 52 experiments. Two examples of underwriting experiments are described below.

- The *University of Pennsylvania Employer Assisted Housing Initiative* enabled financing assistance to employees of the University of Pennsylvania for the purchase or refinance of homes in the neighborhood surrounding the University. A unique feature of the experiment is the University's willingness to guarantee high LTV loans, up to 105 percent, in lieu of mortgage insurance. The University also provided funds for home improvements. In 2002, GMAC Mortgage delivered 25 loans totaling \$3.3 million, which were purchased by Fannie Mae.
- The *Cool Cities™—New Jersey Energy Efficient Initiative* is designed to "test" the impact that deep subsidies and reduced investments will have on stimulating inner city revitalization. The initiative facilitates financing to nonprofits and developers for the construction of energy efficient homes or the renovation of existing homes to energy efficient standards. Participating jurisdictions include Newark, Trenton, New Brunswick, East Orange, Camden, Paterson and Jersey City. Upon completion, homes are transferred to first-time, owner-occupant homeowners. Alliance Mortgage has approved financing for \$10 million, of which \$5 million was approved for 2002.

### **D. Maintaining Fannie Mae's Presence in the Community**

Affordable housing and community development is a dynamic field requiring different approaches on different localities in order to achieve success. For example, an affordable housing initiative in Clayton, Missouri may not be the right fit for residents in Medford, Oregon. This consideration of the local environment is a goal of Fannie Mae's 54 Partnership Offices. Located across the country, no two offices are alike and each works with local lenders, civic leaders, businesses, nonprofits and faith-based organizations to execute community development and affordable housing strategies consistent with the needs of its given community. In 2000, the company pledged to increase the number of Partnership Offices from 44 to 60 by 2009, while increasing total investment plans in these offices to \$1 trillion. Since opening the first Partnership Office in Baltimore, Maryland in 1993, Fannie Mae has instituted targeted investment plans totaling \$873.7 billion, which helped provide financing for more than 8.6 million families by year-end 2002.

The following are a few examples of the benefits Fannie Mae Partnership Offices provide local communities.

- In December 2002, the **Alabama Partnership Office** announced a \$2 million initiative in partnership with the **Selma Housing Authority, Alabama Housing Finance Authority, People's Bank and Trust**, and the **U.S. Department of Housing and Urban Development**. The initiative seeks to expand homeownership in the Wilkinson Homes Subdivision, a new 50-unit housing conversion of existing rental units and allows current residents the opportunity to purchase homes and become stakeholders in their community. The units include two, three or four bedrooms and range in price between \$30,000 to \$43,000. Eligible borrowers cannot exceed 115 percent of the area median income or \$38,410.
- In April 2002, the **Minnesota Partnership Office** joined the **Northfield Housing and Redevelopment Authority**, civic leaders and the **City of Northfield, Minnesota** to announce an innovative \$2 million investment in the Cannon River Community Land Trust to spark housing and community development efforts in Rice and Dakota counties. The Land Trust enables homebuyers to purchase a home without owning the land by leasing it at affordable rates, thereby reducing the total cost of a home purchase. When the buyer sells the home, the home must be sold at an affordable price to another low- and moderate-income household that is determined by a resale formula.
- The **Washington, DC Partnership Office**, in July 2002, announced the completion of Bryant Street Townhomes in partnership with **Innovative Development Services**, the **DC Housing Authority (DCHA)**, and **Independence Federal Savings Bank**. The \$3.85 million affordable housing development highlights the successful revitalization of a former site plagued by crime and regarded as a community eyesore. The Bryant Street project is part of a multi-step process that provides affordable homeownership opportunities to low- and moderate-income families and former public housing residents. The new homes were developed through extensive rehabilitation and new construction of a portion of a former dilapidated public housing project. The new home prices will range from \$125,000 to \$129,000, but borrowers will only pay debt service on first mortgages of \$61,000 to \$69,000. The DCHA will provide low- to moderate-income borrowers with forgivable second mortgages, which require no principal or interest payments. In addition, former public housing residents desiring to purchase a home will receive an additional \$25,000 as a third mortgage which is payable upon the resale of the home.
- In Southern California, hundreds of low- and moderate-income families will benefit from a \$1 billion initiative announced by Fannie Mae's **Los Angeles Partnership Office** and **CitiMortgage, Inc.** in April 2002. The initiative targets Los Angeles, Orange and Ventura counties over the next five years. As housing prices in Southern California continue to escalate, there is a great need to ensure that low- and moderate-income families are not priced out of the market. In addition, this initiative will target the increasing population of Hispanic families in Southern California by providing



bilingual education materials and resources about the homebuying process. The initiative will channel mortgages with flexible underwriting guidelines, low down payment requirements, allowances for immigrants and alternatives for borrowers with blemished credit.

- In an effort to create affordable homeownership opportunities in Miami's historic Riverside District in the Little Havana neighborhood, the **South Florida Partnership Office** joined **First Union/Wachovia**, **NEO Development Corporation**, local partners and the **City of Miami** to announce a 199-unit loft style community. The 21-story complex will consist of one- and two-bedroom units. Developed by the NEO Development Corporation, the project is a major component of a larger redevelopment strategy to bring life and vitality to the area while at the same time ensuring affordable homeownership opportunities. The development is located within walking distance of shops, restaurants, and downtown job centers and is part of the City of Miami Little Havana Homeownership Zone Initiative. Fannie Mae has committed \$5.5 million to the project and believes in a thriving downtown that is affordable for homeownership where families work and live.
- In Nashville, Tennessee, the **Fannie Mae Tennessee Partnership Office** participated in a unique public/private partnership to develop Millennium Apartments, a 25-unit \$2 million development. Apartments range in price from \$475 to \$650 per month. All units are reserved for low-income families earning up to 60 percent of area median income. Fannie Mae's partners included **Collateral Mortgage**, **Edward Boyson**, the **Tennessee Housing Development Authority**, the **National Partnership Investment Company**, the **Resource Foundation**, and **Bank of America**. Fannie Mae provided mortgage debt financing through its partner Collateral Mortgage.

### *American Communities Fund*

Throughout the country, there are communities, largely populated by low- and moderate-income families, that confront community development challenges such as urban blight, run-down, neglected buildings and the lack of safe and decent affordable housing. To help support local revitalization initiatives in these communities while increasing the nation's affordable housing stock, the *American Communities Fund*<sup>SM</sup> (*ACF*<sup>®</sup>) offers debt and equity investment financing. To meet the America's Living Communities Plan under the *American Dream Commitment*, ACF plans to invest up to \$3 billion in leveraged public and private community development investments and make a positive impact in 300 communities. In 2002, *ACF* committed \$450 million in equity and debt investments across 33 states. *ACF* activities in 2002 include the following examples.

- **Laurel Homes**, part of the City West redevelopment effort in Cincinnati, Ohio, is a multi-phase development involving the demolition and rebuilding of the second oldest public housing community in the United States. *Laurel Homes*, comprised of 21 buildings and 951 apartments, is located on 24 acres of land in Cincinnati's historic West End and is near downtown Cincinnati and the central business district.

The **Cincinnati Metropolitan Housing Authority (CMHA)** received a \$35 million HOPE VI revitalization grant to rebuild the community. The funds will be used to transform the *Laurel Home* community into affordable units made up of the following: 184 public housing units; 84 tax credit/HOME units; 188 market rate rental units; 75 affordable homeownership units; and 75 market rate homeownership units. Fannie Mae participated in \$4 million of the development financing through the *ACF FlexExpress*<sup>SM</sup> debt investment which helped the CMHA bridge HOPE VI dollars and proceed with construction.

- Fannie Mae made a \$5.4 million equity investment through *ACF* in ***The Ellington***, a \$44 million apartment and retail complex developed by **Donatelli and Klein** to further the revitalization of the District of Columbia's U Street Corridor. The project – the first rental housing development in the area in many years – will include an eight-story apartment building with 190 residential units, 13,500 square feet of ground-level retail space, and an underground parking garage. The development team and Fannie Mae partnered with key stakeholders, including the **U.S. Department of Housing and Urban Development, American Property Financing, and the Shaw Residents and Neighborhood Council**.
- Under Title VI of the Native American Housing Assistance and Self-Determination Act (NAHASDA), tribes may obtain loans by collateralizing their current and future NAHASDA Indian Housing Block Grants for affordable housing development. In 2002, Fannie Mae purchased the largest ever Title VI loan through the *ACF*. The \$50 million loan was originated by Bank One Oklahoma, and proceeds will be distributed within the 14-county Cherokee Nation jurisdictional area in northeastern Oklahoma. The Housing Authority of the Cherokee Nation will originate 30-year mortgages at a four percent interest rate with no down payment or closing costs. Under the program, 580 families with incomes below 80 percent of the national median income will receive affordable housing. Individuals will be able to acquire and rehabilitate existing homes or construct new single family homes. Partners include **Bank One Oklahoma, the U.S. Department of Housing and Urban Development, Cherokee Nation, and the Housing Authority of the Cherokee Nation**.

### ***Continued Support for the Fannie Mae Foundation***

Fannie Mae is proud to be the sole funder of the Fannie Mae Foundation, a national leader in creating affordable homeownership opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the country. In 2002, Fannie Mae contributed \$300 million in Fannie Mae common stock to the Foundation, fulfilling a commitment made by Fannie Mae's Board of Directors in 2001. The money helped the Foundation support its 2002 affordable housing, education and outreach activities including the award of \$38 million in grants to national and local housing partners, national nonprofit intermediaries, and housing advocates that promote affordable housing.

## E. Providing Safe and Affordable Rental Housing

Despite the increase in homeownership rates, the need for affordable rental housing remains strong. With high rental rates in major cities, families are finding it more difficult to find safe and decent rental housing. Fannie Mae's multifamily financing increases the supply of affordable rental housing through the purchase of debt investments, the purchase of multifamily equity (including Low Income Housing Tax Credits) and the purchase or credit enhancement of multifamily mortgage revenue bonds.

Although in 2002, the multifamily housing market experienced an estimated 20 to 30 percent decline, multifamily business activity at Fannie Mae topped \$22 billion to create over 460,000 multifamily units. Of this total, over 90 percent of the units financed were affordable to families at or below the median income of their communities. The slow down in the multifamily market was largely due to slower job growth and higher property sale prices. It should also be noted that 2001 was an extraordinary year for the multifamily market that when coupled with the economic challenges of 2002, made it difficult for year 2002 to replicate the high production levels of 2001.

During 2002, over 70 percent of all multifamily loans originated by lenders were sold into the secondary market. Fannie Mae recognizes that reaching numerous market segments is necessary to improve the distribution of liquidity. In this effort, the company enhanced its network of lenders to improve information collection about small multifamily properties and facilitate financing for these loans. Historically, this market segment has been less apt to secure financing in the secondary market. Multifamily also made product enhancements and added features to provide lenders solutions that better meet their borrowers' changing needs. Product innovations designed for the affordable rental housing market in 2002 focused on reducing cost, increasing flexibility and giving lenders and borrowers greater certainty of execution. Highlights include:

- the introduction of a new ***Moderate Rehabilitation*** product structured with a first mortgage loan based on the "as is" value of the property with rehabilitation costs ultimately funded by a *Delegated Underwriting and Servicing (DUS)*<sup>8</sup> supplemental loan;
- the introduction of a new ***Market-Rate ARM Forward*** to fund new construction or substantial rehabilitation of properties affordable to moderate-income families which will reduce negative arbitrage during the construction phase; and
- significant enhancements to Fannie Mae's affordable product line including a 15-year financing option and an increase in the ceiling for fixed-rate direct bond transactions.

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<sup>8</sup> DUS is Fannie Mae's principal line for purchasing individual multifamily loans. Fannie Mae delegates the processing and approval of the loans to DUS lenders and they take a percentage of the risk.

### *Multifamily Activities*

**Delegated Underwriting and Servicing (DUS™)** is Fannie Mae's principal product line for purchasing individual multifamily loans. Fannie Mae offers the *DUS* product line through 26 lenders with expertise in financing multifamily properties. For these loans, Fannie Mae delegates origination, underwriting and closing responsibilities to its *DUS* lenders, enabling them to move quickly to arrange financing for borrowers. Fannie Mae currently has more than \$60 billion of *DUS* multifamily financing in its portfolio. The vast majority of *DUS* mortgages are purchased without prior review by Fannie Mae, and are secured by properties that are affordable to families earning the median income in their area. *DUS* lenders share risk with Fannie Mae and are liable for a percentage of any losses incurred on loans that default. For the year ending 2002, 92 percent of the *DUS* loan activity served affordable housing needs; 41 percent of *DUS* loans were made in underserved markets; and 51 percent of *DUS* loans addressed "special affordable" needs. In 2002, Fannie Mae provided financing for the following projects through *DUS* partnerships.

- ***Bellagio, Van Nuys, California.*** Fannie Mae, in partnership with *DUS* Lender **Berkshire Mortgage** and **Northwestern Mutual Life**, purchased a \$21 million loan for the acquisition and rehabilitation of *Bellagio*, a 390 unit mid-rise property that was originally constructed in 1967. *Bellagio* is undergoing extensive renovations and rehabilitation. Fairfield Residential Property Management, a partner with Northwestern, is the developer and manager of the property that has a rent control agreement that will restrict 20 percent of the units to residents earning no more than 50 percent of area median income.
- ***The George L. Vaughn Residences at Murphy Park Apartments, St. Louis, Missouri.*** Working through the **Missouri Housing and Development Commission**, Fannie Mae made a Forward Commitment to purchase \$1.3 million in permanent financing for the development of this 126-unit property. Built on the site of the former Pruitt-Igoe Housing Project, Fannie Mae helped transform a blighted high-rise public housing project built in the 1950s into a clean, safe, and affordable place to call home. The City of St. Louis demolished the structure and constructed new retail, commercial, and recreational space, including a new elementary school. More than 80 apartments will remain affordable for families earning no more than 60 percent of area median income.

Fannie Mae recognizes that small multifamily properties are a vital part of the country's affordable housing stock and has focused efforts on providing financing for these projects. In 2001, the company developed the **3MaxExpress™ Streamlined Mortgage Loan Product** to finance loans less than or equal to \$3 million. The product offers flexible amortization, prepayment, and loan terms. This program coupled with efforts from the *DUS* program, helped secure \$4.1 billion in financing, which assisted over 130,000 families living in small multifamily properties. An example of such a project is described below.

- **Colonial North Apartments, Cheyenne, Wyoming.** In 2002, Fannie Mae joined the **First National Bank of Wyoming**, the **State Bank of Fargo** and local housing partners to announce the first rental housing development to be financed under the State Bank of Fargo's *Multifamily Apartment Participation Program (MAPP)*. *MAPP* is an innovative six-state initiative designed to increase the availability of affordable rental housing in rural communities in Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming. Under this initiative, Fannie Mae and the State Bank of Fargo entered into a risk-sharing arrangement to finance the *Colonial North Apartments*, a 26-unit multifamily development in Cheyenne, Wyoming. Rents range from \$650 for a one-bedroom unit to \$760 for a two-bedroom unit and include a washer and dryer, air conditioning, dishwasher, and a parking garage. Fannie Mae has also agreed to purchase a majority participation interest from the State Bank of Fargo in small loans on other multifamily properties in the six identified states.

The federal **Low-Income Housing Tax Credits (LIHTC)** program is a means of directing private capital toward the creation of affordable rental housing. The value associated with the tax credits allows units to be leased to qualified families at below market rate rents. To date, Fannie Mae remains the largest LIHTC equity investor. Through the tax credit, using both direct investments and investments in equity funds, Fannie Mae has participated in the creation or preservation of more than 260,000 units of affordable rental housing. In 2002, Fannie Mae committed over \$1.6 billion in LIHTC equity properties to help make affordable rental housing possible for over 37,000 families. Below are highlights of multifamily deals financed with LIHTCs in 2002.

- **Running Brook Apartments, Miami, Florida.** In 1992, Hurricane Andrew ravaged the South Miami Heights neighborhood. Today, more than ten years later, the neighborhood is still rebuilding. Thanks to a public-private effort between the **Landmark Companies**, **Related Capital Company**, the **Miami-Dade Housing Finance Authority**, the **Miami-Dade Housing Agency**, the **Architectural Design and Review Advisory Committee (ADRAC)** and Fannie Mae, South Miami Heights now offers quality affordable housing for 186 families. The ADRAC, made up of 11 professional architecture-volunteers, focused on preservation of green space and uniqueness of design in creating the construction plans. *Running Brook* includes 11 two-story and five one-story garden style apartment buildings comprising 52 two-bedroom units, 112 three-bedroom units, and 22 four-bedroom units. All of the units are reserved for families earning 60 percent or less of the area median income (\$28,920). The community offers a clubhouse with a full library. Other amenities include a social area with an entertainment center, a fitness center, swimming pool and sun deck, a sand volleyball court, picnic area and a playground. Fannie Mae through Related Capital Company, invested \$5.4 million in the \$16 million dollar project, which qualifies for federal LIHTCs.
- **Delta Hotel, San Francisco, California.** Fannie Mae invested \$12 million through the **Enterprise Social Investment Corporation (ESIC)** in this LIHTC-qualified project with over \$20 million in total development costs. **San Francisco Seismic**

**Loan Debt** and **San Francisco Redevelopment Agency** provided debt funding for this project developed by the **Tenants and Owners Development Corporation**. The project involved redeveloping a five-story building built in 1912, to configure a mix of single-room occupancy and studio units. Tenancy is targeted towards seniors but not restricted to seniors by any regulatory agreement. The initial tenancy will be 50 percent double-occupancy and 50 percent single-occupancy. The tenants are expected to be a mix of Social Security Insurance (SSI) recipients and individuals with incomes above SSI but below 35 percent of area median income.

Fannie Mae is committed to the preservation and rehabilitation of the affordable housing stock. In that pursuit, the company hosted its first ever *Preservation Advisory Meeting* with leaders in the housing and real estate finance industry to identify best practices and formulate real world solutions to this critical policy issue. In addition to these efforts, Fannie Mae promotes preservation and rehabilitation through equity investments, purchases of mortgage revenue bonds, and through debt financing. An example of such a project is highlighted below.

- ***Capitol Park Plaza and Capitol Park Twin Towers Apartments***. As rents increased in the metro Washington, D.C. area, lifelong residents of Southwest Washington feared they would have to leave their homes to find affordable housing elsewhere. Through the collaborative efforts of various organizations, *Capitol Park Plaza* and *Capitol Park Twin Towers*, a three-building 648-unit apartment complex, now reserves 65 percent of its apartments for families earning no more than 60 percent of area median income (\$54,900). Participating organizations include the **Washington, D.C. Housing Finance Agency**, the **Interstate Business Corporation**, **RED Mortgage Capital, Inc.**, and Fannie Mae. The apartments are being marketed to working households with incomes ranging from the upper \$20,000s to the lower \$50,000s. The buildings will receive approximately \$10 million of renovation improvements.

Fannie Mae also offers financing products for special-use properties such as Seniors Housing. This product solution helps thousands of property owners and developers refinance, build, and renovate multifamily dwellings for seniors all over the country. In 2002, Fannie Mae provided \$728 million to meet the needs of senior populations. A project highlight for 2002 is described below.

- ***Aegis of Moraga, Moraga, California***. During 2002, Fannie Mae provided \$10 million in substitute credit enhancements for a 30-year term for Aegis of Moraga, an assisted living facility that was originally constructed in 1999 with tax-exempt bonds. Moraga is a suburban town that is located approximately 15 miles east of Oakland, California. Twenty percent of the 76 units at Aegis of Moraga are set aside for seniors whose incomes are at or below 50 percent of area median income, adjusted for family size. The facility provides housing, utilities, personal services, social activities, and meals to frail seniors in a residential environment. A dedicated wing of the building is reserved for residents with dementia.

### III. FAIR LENDING REVIEW AND BUSINESS PRACTICES

*"We don't want loans where the borrower was steered away from better, cheaper financing. We don't want loans where it's clear the borrower cannot possibly afford to pay. We don't want loans that harm the borrower with practices such as single-premium insurance, equity stripping, excessive fees, and prepayment penalties that don't have any value to consumers. We will work with everyone—lenders, lawmakers, policymakers, and consumer and housing advocates—to isolate practices that harm homeowners."*

--- Franklin D. Raines, April 26, 2002

#### A. Fair Lending

Fair lending at Fannie Mae is not just an attempt to meet statutory requirements. The company adheres to a fundamental belief that every American family has the right to affordable housing opportunities. In addition, extending mortgage credit to traditionally underserved families makes good, sound business sense because it expands housing market opportunities. As the nation's largest source of financing for home mortgages, the belief in fair lending is well embedded in Fannie Mae's corporate mission and is evident in the way the company does business. Fannie Mae's products and activities are reviewed against the letter and the spirit of fair lending laws. Moreover, each lender is required to warrant that the loans they submit to Fannie Mae are originated, processed and underwritten in full compliance with all statutes prohibiting discrimination in mortgage lending. In April 2000, Fannie Mae demonstrated its leadership in the mortgage finance industry by outlining its policy to lenders on abusive lending through **Lender Letter 03-00**. Key points of the letter are summarized below.

- ***Expanded Approval Mortgage Options.*** Through *DU*, Fannie Mae offers more financing options designed to assist lenders in meeting the needs of individuals and families with blemished credit problems.
- ***Product Steering.*** Fannie Mae is against the practice of lenders who steer applicants towards higher cost mortgage products when the borrower qualifies for lower cost mortgage products.
- ***Borrower's Ability to Make Mortgage Payments.*** Fannie Mae believes that a borrower should have the ability to make monthly mortgage payments. This ability to pay needs to be well established during the underwriting process, and through established and sound underwriting standards. Fannie Mae is willing to purchase responsibly underwritten mortgages made to borrowers with less than perfect credit, notwithstanding the higher credit risk.
- ***Excessive Fees.*** Fannie Mae believes that loans generally should not contain points and fees charged to consumers in excess of 5 percent, except when this limitation would result in an unprofitable origination to the lender. In addition, Fannie Mae will

not purchase "high cost" mortgages as defined by the Home Ownership and Equity Protection Act.

- ***Prepaid Single Premium Credit Life Insurance Policies.*** Fannie Mae will not purchase or securitize a mortgage for which a prepaid single premium credit life insurance policy was sold to the borrower in connection with the loan origination.
- ***Prepayment Penalties.*** Fannie Mae will only consider purchasing loans with prepayment penalties under the terms of a negotiated contract. In addition, the mortgage lender must adhere to the following criteria: if a mortgage does carry a prepayment penalty, the borrower should obtain some benefit (i.e., a rate or fee reduction for accepting the prepayment premium); the borrower should be offered the choice of another loan that does not require the premium prepayment; loan terms requiring a prepayment penalty should be adequately disclosed to the borrower; and prepayment penalties should not be charged in the event that the borrower has defaulted on the mortgage.
- ***Full File Credit Reporting.*** Fannie Mae believes that a borrower's entire payment history should be reported to credit repositories. This provides the borrower with accurate payment records that could facilitate the opportunity to obtain new financing with better mortgage terms. Fannie Mae requires that lenders provide credit repositories a monthly report on the status of any Fannie Mae loan that they service.
- ***Servicing Practices (Escrow Deposit Accounts).*** Fannie Mae recommends that its mortgage loan servicers maintain escrow deposit accounts for depositing funds to cover mortgage insurance, taxes, ground rents, etc.

To ensure compliance and promote responsible lending, Fannie Mae created an officer level position—the Vice President for Fair Housing—in 2001. In 2002, the team was expanded to include four attorneys and a business analyst. The Fair Housing team works together with the National Community Lending Center, as a resource to the entire company on fair lending compliance and anti-predatory lending efforts. It also ensures that Fannie Mae's anti-predatory lending policies are followed by reviewing transactions involving blemished credit borrowers and coordinating due diligence for Fannie Mae Lender Letter 03-00. This team also monitors the development of new products and initiatives to ensure consistency with Fannie Mae's eight-point responsible lending strategy and fair lending compliance.

### ***Expanding Responsible Lending***

Fannie Mae's **Mortgage Consumer Rights** agenda is about lenders saying yes to more borrowers. It is about borrowers having access to the lowest cost mortgage, and it is about their right to understand the lender's decision. This agenda, a cornerstone of the *American Dream Commitment*®, demonstrates Fannie Mae's commitment to increase and support public advocacy for mortgage consumers' rights. Moreover, the company is not satisfied with lenders just saying yes; it wants them to say yes in a prudent,



responsible manner that does not financially overburden the borrower. In that effort, the company enacted an eight-point responsible lending strategy that includes the following points.

- Issuing business guidelines to avoid purchasing loans with abusive features.
- Expanding the application of conventional conforming practices to the subprime market.
- Advancing a *Mortgage Consumer Bill of Rights* agenda.
- Offering lenders a broad range of alternative responsible products.
- Leveraging technology to expand markets and reduce costs for consumers.
- Working with partners to keep borrowers in their homes.
- Providing tools and resources for the homebuyer education industry that allows counselors to assist potential borrowers in preparing for homeownership and understanding the total costs associated with homeownership.
- Supporting the Fannie Mae Foundation and its consumer outreach and education efforts.

Fannie Mae promotes long-term homeownership. This includes loss mitigation strategies that help families avoid delinquency and foreclosure. For example, early detection tools such as *Risk Profiler*<sup>TM</sup> help servicers identify borrowers who are more likely to encounter a problem in making their payments and thus provide early intervention. Finally, should a family find itself in default, Fannie Mae uses its *Home Saver Solutions Network*<sup>TM</sup> to design an appropriate workout option with the goal of keeping families in their homes. In 2002 these tools helped 21,727 families resolve their situation and avoid foreclosure. (More detailed information on *Risk Profiler* and the *Home Saver Solutions Network* is discussed in Section D: Servicing and Credit Loss Management.)

### ***Anti-Predatory Lending Initiatives***

In addition to promulgating corporate fair lending policies, Fannie Mae works with industry partners to fight predatory lending practices in targeted local areas throughout the country. Through these *Anti-Predatory Lending Initiatives*, Fannie Mae Partnership Offices join with local nonprofits to help lenders refinance victims out of predatory loans and into loans they can afford to pay. Since 2000, when the first initiative was launched in Chicago, Fannie Mae has committed more than \$80 million in financing.<sup>9</sup> In 2002, 11

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<sup>9</sup> Markets include: Atlanta, GA · Baltimore, MD · Central Illinois · Chicago, IL · Cincinnati, OH · Cook County, IL · Denver, CO · Des Moines, IA · East Palo Alto and Menlo Park, CA · Essex and Union Counties, NJ · Grand Rapids, MI · Lake County, IL · Las Vegas, NV · Memphis, TN · Miami, FL · Minneapolis, MN · New Orleans, LA · New York City, NY · Omaha, NB

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local experiments were launched and Fannie Mae committed to purchase more than \$40 million in loans originated through these local efforts. Below are highlights of two initiatives launched in 2002.

- In Essex County, New Jersey, Fannie Mae, in partnership with the **U.S. Department of Housing and Urban Development (HUD)**, **New Jersey Citizen's Action** and **Essex County**, announced a remediation plan to assist 150 families who were victims of a property-flipping scheme. The affected families purchased properties, many in need of substantial repair, which were guaranteed to be rehabilitated by the developer. The borrowers secured mortgages that exceeded the pre-rehabilitated value of the homes (based on post-rehab value). Once the borrower received FHA financing to purchase their homes, the developer did not complete the work as agreed. Many of the borrowers moved into properties and had to use their available cash to fund emergency repairs, and others were unable to move into their homes due to the properties' poor condition. Ultimately, these families suffered damaged credit records and now hold mortgages that exceed the value of their homes. To help these families obtain affordable mortgage loans, an initiative was developed that would allow the families to refinance their predatory loans into conventional market rate loans. Once the plan was in place, HUD stopped foreclosure proceedings against the homeowners and provided the necessary waivers, allowing them to refinance. Participating lenders, including **Bank of New York**, **First Union National Bank**, **Fleet Mortgage**, and **JPMorgan Chase**, will originate the new loans based on actual property value. In addition, Essex County plans on providing \$1.5 to \$2 million to write down the cost of the mortgage enabling families to make emergent repairs and bring their homes up to code. Fannie Mae has committed to purchase \$10 million in loans originated through this initiative.
  - In Memphis, Tennessee, **United Housing, Inc.** and **Seedco**, a national, nonprofit community development organization, worked with Fannie Mae to launch *HomeSAFE Memphis*, an innovative anti-predatory lending refinance and home improvement initiative designed to help victims or potential victims of predatory lending. Fannie Mae has committed to purchase \$3 million in loans originated by **Union Planters**, **First Tennessee**, **First Trust Bank for Savings**, **BancorpSouth**, **Trustmark**, and the **National Bank of Commerce**. In addition, Seedco, SouthTrust Bank and Union Planters have pledged \$500,000 to establish a revolving home repair loan pool. United Housing, Inc. will provide homeowner education, financial literacy training and construction management services during home improvement to help homeowners refinance or avoid predatory mortgage loans. In addition, United Housing, Inc. will be the originating agent for both refinancing and home improvement loan products. **Memphis Area Legal Services** will work with homeowners who are already in an abusive mortgage to help victims negotiate reduced payoff balances or reductions in the original fees collected on the loans to be refinanced.
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Fannie Mae also supports efforts to combat abusive lending practices through training and information sharing. For example, in September 2002, Fannie Mae hosted a two-day **Housing and Community Development (HCD) University** training session for partner organizations. Fannie Mae's HCD University offers a course curriculum that demonstrates "best practices" on how Fannie Mae and its housing partners work together to tackle America's toughest housing problems. The anti-predatory lending module helped groups conducting anti-predatory lending experiments find ways to improve their borrower intake and referral processes, underwriting and servicing. The training also provided resources for organizations looking to sponsor an anti-predatory lending initiative by highlighting best practices from around the country and offered participants guidance on how to leverage community support. More than 150 attendees representing 27 states from across the country participated in the training.

In 2002, Fannie Mae also developed a report entitled, *Increasing Access to Suitable Mortgage Credit* that outlines the company's progress in expanding responsible lending in accordance with Lender Letter 03-00. The report covers the time period from April 2000 through December 2002, and demonstrates how Fannie Mae is implementing its eight-point strategy to be a force for positive change in the marketplace. The final report will be released in 2003.

### ***Offering Affordable Alternatives to Borrowers***

Other efforts to expand responsible lending include developing appropriate products and homebuyer assistance tools for lenders and housing advocates serving credit impaired borrowers. By offering alternative mortgage features to lenders, Fannie Mae helps to ensure borrowers are getting the lowest cost mortgage possible. For example, the **Expanded Approval<sup>TM</sup>** feature and **Timely Payment Rewards<sup>®</sup>** option in **DU<sup>TM</sup>** is designed to assist consumers with past credit problems by allowing lenders to take a more comprehensive view of a borrower's creditworthiness. As a result, lenders can offer mortgage loans to many borrowers previously unable to receive financing from a mainstream lender. A borrower who is recommended for approval for either of these features would be eligible for an initial mortgage rate that is lower than that available through the subprime market.

The **Working Mortgage<sup>TM</sup>** and the **ez Access<sup>TM</sup>** product pilot are other product examples that help meet the needs of low wealth and low- and moderate-income borrowers and prevent product steering to high-cost alternatives. To help counter predatory lending associated with rehabilitation and renovation financing, Fannie Mae offers the **HomeStyle<sup>®</sup>** suite of products. With **HomeStyle**, families have low-cost alternatives if they are looking to purchase a home in need of renovation or if they are considering home improvements or renovation of their current home. Another assistance tool discussed earlier in this report is the **True Cost Calculator<sup>®</sup>**, which reveals the true costs of buying a home while providing more insight into the homebuying process. And, although Fannie Mae does not work directly with consumers, the company does work closely with housing advocates and other organizations promoting homebuyer education and makes resources available such as **Home Counselor Online<sup>TM</sup>**.

### ***Third Annual Fannie Mae Fair Lending Conference***

In an effort to expand homeownership opportunities, Fannie Mae examined the systemic barriers and solutions to housing underserved and emerging market consumers at the Third Annual Fair Lending Conference. The 2002 conference titled, *Underserved and Emerging Markets: Closing the Minority Homeownership Gap Through 2010*, was held November 7-8 in Washington, D.C., and featured distinguished speakers such as Secretary Mel Martinez and former HUD Secretary Henry Cisneros, now Chairman and CEO of American CityVista. In addition, representatives from organizations such as the National Fair Housing Alliance, the National Council of La Raza, and the National Coalition for Asian Pacific American Community Development also attended the Fannie Mae-sponsored event. Throughout the conference, panelists explored topics such as language barriers, use of non-traditional credit, affordability issues, dual housing markets and new products. Based on participant feedback, this year's conference was expanded to allow more time for participant input and discussion. Demographic data presented during the conference demonstrated that in the next decade, growth in the homeownership market will be concentrated among immigrant and minority communities. In closing, conference participants reached a consensus that to serve this market the housing industry must work together and develop responsible and appropriate products.

### **B. Ensuring Sound Underwriting**

***Desktop Underwriter (DU)*** is an automated underwriting and risk management tool that helps lenders make an informed and unbiased decision about the relative credit risk of a mortgage. For borrowers, this means a fair chance to obtain financing for a home of their own. In 2000, Fannie Mae announced its intent to make the mortgage process more transparent by disclosing the factors *DU* considers, both credit and non-credit, in evaluating a loan application. These factors include credit history, delinquent accounts, credit card accounts, public records, foreclosures and collection accounts, inquiries, equity and LTV ratio, liquid reserves, debt-to-income ratio, loan purpose and type, loan term, property type, number of borrowers with credit history and self-employed borrowers. *DU* also issues specific customized messages on every loan application referred to a human underwriter for further review. This messaging feature explains the factors in the applicant's loan application and credit report (for example, down payment, or the number of late payments on credit accounts) that contributed to the underwriting recommendation.

#### ***Desktop Underwriter is Predictive***

*DU* uses a statistical model to evaluate specific credit and non-credit information supplied by lenders based on a prospective borrower's mortgage loan application. *DU* weighs all of this information based on the amount of risk and overall significance to the underwriting recommendation; as a result *DU* is highly predictive of credit risk. Recent 2002 performance of loans earning an "approve" recommendation exhibited a two-year serious delinquency performance almost 5 times better than "refer with caution" loans.

For lenders with *Expanded Approval*<sup>™</sup> (*EA*) authority, *DU* separates risk further by placing *EA* loans into four categories: levels I, II, III, and IV. Levels I to III are eligible for delivery to Fannie Mae by approved seller/servicers. Early delinquency data on Fannie Mae's *EA* loans suggest that each category performs as expected. *EA* loans in level II perform 1.5 times better than *EA* level III. Similarly, *EA* level I loans perform 1.6 times better than *EA* level II loans.

An effective tool in predicting credit risk across all groups, *DU* is designed to ensure that it evaluates the information in each mortgage application the same way each time—consistently, objectively and accurately. Fannie Mae conducts quarterly reviews of loan performance to ensure the predictive validity of the model. Research is also conducted to ensure that each new version of *DU* incorporates the most recent credit performance and examines alternatives to increase approval recommendations for all borrowers, including low- and moderate-income borrowers and minority borrowers.

### ***Desktop Underwriter Expands a Lender's Market***

Unlike manual underwriting, which requires a borrower to pass each of a number of sequential tests, *DU* evaluates relevant factors simultaneously and allows strengths in one area such as past credit history to offset other areas such as low down payment or limited cash reserves. This ability to interactively weigh strengths and weaknesses allows Fannie Mae to more accurately assess risks. Finally, *DU* has allowed Fannie Mae to expand the number and scope of mortgage products that lenders can offer consumers in all markets, including additional higher LTV products and 2002 enhancements such as the *InterestFirst*<sup>™</sup> mortgage feature, *5/1 ARMs*, and 100 percent cash-out refinances on *Flexible* mortgage products. (For a more detailed product description see Section A: Product Innovation and Development.) In 2002, *Expanded Approval*, which allows lenders to provide previously underserved borrowers with a mortgage rate lower than non-traditional alternatives, helped increase *DU*'s overall "yes" rate to over 90 percent of all loan applications submitted.

### ***DU Lowers Costs for All Borrowers***

*DU* reduces mortgage origination costs because less paperwork and processing time are required for lenders to make their decisions—thus reducing the costs, which can be passed on to consumers. *DU* allows lenders to approve more than three-fourths of mortgage applicants in two to three minutes, thereby eliminating most of the underwriting review traditionally required on a loan application. Fannie Mae estimates that as a result of this streamlining, *DU* reduces lender origination expenses by as much as \$1,000-\$1,400.

### ***A Decision Support Tool***

As a tool, *DU* does not make loan decisions for lenders. Instead, *DU* provides recommendations to lenders, and the lender makes the final decision. The risk analysis in *DU* is based on Fannie Mae's evaluation of the past performance of more than two

million loans. Once a loan is recommended for approval through *DU*, Fannie Mae offers limited waivers of the lender's underwriting representations and warranties for *DU* loans delivered to Fannie Mae. There are also other warranties lenders have to make when selling Approved/Eligible loans. It should be noted that lenders may also deliver loans to Fannie Mae that have not received recommendations from *DU*. In those cases, lenders have to follow Fannie Mae's standard procedures and demonstrate how those loans are consistent with Fannie Mae's underwriting guidelines, and then represent and warrant this to Fannie Mae.

### ***2002 Enhancements to DU's Risk Assessment Capabilities***

In an effort to ensure the most accurate evaluation of credit risk possible, Fannie Mae continued to refine *DU*'s risk assessment capabilities in 2002. Recent performance trends in certain high LTV loans, investor properties, manufactured homes, credit blemished borrower mortgages, and significant cash-out refinance transactions were evaluated. Based on its analysis of current trends in mortgage performance, Fannie Mae incorporated changes to the *DU* risk model in *Desktop Underwriter® Version 5.2*. These changes were carefully considered and tested to ensure safety and soundness while furthering the company's mission to serve the underserved, low-income, and minority borrowing populations.

### ***Flexible Underwriting Standards***

As illustrated in various sections of this report, Fannie Mae works with a variety of lenders across the country including banks, thrifts, and mortgage companies. To keep these lenders informed of policies and procedural requirements, Fannie Mae publishes a Selling Guide. The Selling Guide covers standard requirements for the origination, underwriting, and delivery of one- to four-family mortgages. In the Spring of 2002, the Selling Guide was updated to incorporate a comprehensive risk assessment approach to underwriting for manually processed mortgages. This approach to underwriting brings the manual underwriting process more in line with *DU*'s risk assessment. It requires a lender to assess the level of risk associated with each risk factor in a mortgage application and to make its underwriting decision by focusing on the degrees to which the interaction of all of the risk factors influence the potential for default. A lender can offset weaknesses in one area with strengths in other areas. This approach provides more flexibility in underwriting. For instance, a given credit history (traditional or non-traditional), and LTV ratio assessed in combination with other risk factors in a mortgage application determine the appropriate level of reserves or debt-to-income ratio.

### ***Underwriting Reviews***

Fannie Mae's National Underwriting Center (NUC) performs Fannie Mae's underwriting reviews and provides loan quality information and analyses to Fannie Mae staff throughout the country. NUC uses *DU* and other risk assessment models to select loans for review, focusing its resources on loans that represent a higher risk to the company. This ensures that loan reviews are done in an objective and consistent manner. The goal

of each review is to identify any significant underwriting deficiencies, misrepresentations, or eligibility issues associated with the loan and then take the appropriate steps to minimize exposure to risk. If it is determined that a loan should not have been delivered to Fannie Mae, the company may pursue various options, including requiring repurchase of the loan or indemnification by the lender in lieu of immediate repurchase.

### **C. Pricing**

As an ongoing business practice, Fannie Mae continually updates its database with the most recent loan origination information and status of all loans that are outstanding. Loan performance is assessed to predict the likelihood of default based on information regarding the borrowers' credit history, mortgage loan and property characteristics, economic and other market trends, interest rate fluctuations, and housing prices. Credit risk pricing is based on various analyses of the performance of mortgages purchased or securitized by Fannie Mae. Fannie Mae's experience is that the key determinants for the severity of loss on defaulted loans include the current LTV, property type, and the level of mortgage insurance or other credit enhancement.

Fannie Mae's pricing also depends on competitive factors and market conditions. Through individual negotiations and alliance agreements, Fannie Mae establishes fees for accepting the credit risks on various types of mortgage loans purchased or guaranteed in MBS and uses a variety of structures based on lender business and strategic objectives. Fannie Mae continues to implement approaches that meet the needs of customers and at the same time support its mission to provide affordable mortgage capital to all housing markets.

### **D. Servicing and Credit Loss Management**

Fannie Mae effectively manages the risk posed by the possibility that borrowers may default on mortgage payments and has one of the best loss mitigation programs in the industry. Loan workout options include repayment plans, modification of loans, and pre-foreclosure sale. The repayment plan option allows borrowers to make up the delinquent payments over several months. In 2002, Fannie Mae's servicers closed over 5,470 repayment plans. The modification of loan terms allows the term of the mortgage to be adjusted, typically by extending the loan term or capitalizing the outstanding interest owed. Fannie Mae worked with servicers to modify 14,552 loans in 2002. In the case of a pre-foreclosure sale, a delinquent borrower who cannot afford to remain in the home works with the servicer to sell the home and avoid foreclosure. In 2002, Fannie Mae and its servicers worked with borrowers to avoid foreclosure and the sale of 1,513 homes. Fannie Mae tries to proactively employ a default management strategy and engage borrowers before it becomes too late to intervene. The goal is to ensure that to the extent possible, homeowners do not lose their homes as a result of foreclosure.

Fannie Mae has implemented the following servicing and credit loss management strategies.

- ***Servicing Consultants.*** Fannie Mae has almost 40 employees across the country that work as Servicing Consultants. Through this network of consultants, the company provides guidance and offers advice to servicers on policies and processes in implementing servicing and loss mitigation strategies.
- ***Asset Management Network and Home Saver Solutions™.*** A very important aspect of Fannie Mae's Asset Management Network is the creation of an avenue through which servicers, vendors, mortgage insurance companies, and attorneys can manage delinquent loan servicing and liquidation activities. Included in this Asset Management Network are the following: REO Property Information Application, Form 571, Cash Disbursement Request Application, and the Foreclosure, Eviction and Bankruptcy Tracking System. Fannie Mae's newest addition to this family of asset management tools is the ***Home Saver Solutions Network.*** Originally launched as an option in February 2002, the *Home Saver Solutions* allows servicers to submit loss mitigation workout cases to Fannie Mae over the Internet. Once a lender provides the facts for any given delinquency and other borrower information, the application will automatically provide information about which workout options are most appropriate for the given circumstance. Through *Home Saver Solutions*, a lender with delegated loan modification approval authority can also use the Network to request reclassifications for MBS pool mortgages that are scheduled for modification.
- ***Assessing Risk.*** Being able to assess risk and the likelihood that an individual borrower will default is another important aspect of credit risk management. Since 1997, Fannie Mae has offered *Risk Profiler™*, an automated risk assessment tool, to help servicers identify troubled loans that are in danger of default. *Risk Profiler* also enables Fannie Mae and lenders to keep people facing financial difficulty in their homes through loss mitigation. *Risk Profiler* was rolled out in 1997 to all Fannie Mae servicers. In 2002, over 80 percent of Fannie Mae's loans were scored using *Risk Profiler*.

### ***Managing Credit Risk***

The management of credit risk is an integral part of Fannie Mae's business and is well integrated within each business unit. For example, Fannie Mae's Credit Committee has responsibility for primary oversight and approval of all credit risk management strategies. The committee assesses and approves risk management strategies relating to business lines, products, and transactions. The committee is chaired by the *Chief Credit Officer*, and includes senior management from Fannie Mae's credit risk management team and business unit credit officers. In 2002, Fannie Mae strengthened its credit risk management through the creation of an officer-level position, the *Single Family Mortgage Business (SFMB) Credit Officer*. This position was established to create the necessary synergies between the SFMB and Credit Policy divisions and to lead the daily, transactional and execution-focused credit decisions across SFMB.



## IV. LOOKING AHEAD TO 2003

### A. Housing Market Forecast

In 2002, the housing market continued to be one of the few bright spots in an otherwise sluggish economy, primarily as a result of the lowest mortgage rates since the 1960s. Rates have dropped still more in the first quarter of 2003, and now are at the lowest levels since the mid-1960s. Uncertainty regarding war with Iraq has kept economic growth at an anemic pace, which in turn has kept economy-wide borrowing demands and inflation expectations (higher energy prices notwithstanding) low.

With all of the crosscurrents affecting housing this year (weak economic activity in the first half of the year and stronger growth in the second half; falling mortgage rates in the first half of the year and rising rates in the second half), housing activity is expected to be little changed from its record level in 2002. There may be a very slight drop in home sales in 2003 if some households “bought ahead” last year – that is, some households may have purchased homes sooner than they anticipated doing so in order to take advantage of the generationally low mortgage rates in the second half of last year. It is unlikely that this constituted a significant portion of housing demand last year, but it was probably enough to keep home sales this year from growing despite a better cyclical environment (at least in the second half of the year). Still, low mortgage rates, positive demographics, and better consumer sentiment in the second half of the year (after Iraq uncertainties are past) should keep sales close to last year's record pace. Fannie Mae projects that new and existing home sales will slip by about one to two percent this year, down to 956,000 and 5.49 million units, respectively—the second strongest sales pace ever. Home price gains are also expected to moderate in 2003, but with inventory sales ratios for unsold homes still at historically low levels, prices are projected to rise at a four to five percent pace.

Because of the drop in mortgage rates to historically low levels, mortgage market activity is expected to rise to new records in 2003. Based on a very slight drop in home sales and slower home price gains, purchase originations are projected to rise by only 3.2 percent to a record \$1.04 trillion. Refinancing originations are expected to soar to new all-time highs in 2003 as homeowners with mortgages take advantage of the low level of mortgage rates. Fannie Mae projects a jump of 37 percent in refinance originations to a new record of \$2.21 trillion. Combined with purchase volumes, total originations are expected to climb to a record \$3.25 trillion—an increase of 24 percent from last year.

There clearly are significant risks associated with this forecast. For example, a more difficult war with Iraq than anticipated could depress confidence and the stock market further, raise energy prices, and push the economy back into a recession. This would depress housing activity and could cause interest rates to rise and thus reduce refinance activity as well.

## **B. Fannie Mae Planned Activities for 2003**

This section outlines some of the ways in which Fannie Mae will meet the affordable housing needs of various populations in 2003 and respond to the economic trends in the housing industry highlighted above.

### ***The American Dream Commitment***

- Continue to pursue the objectives of Fannie Mae's commitment to invest \$2 trillion over ten years to expand opportunities for affordable homeownership, safe and decent rental housing for 18 million American families.

### ***Product Innovation and Technology***

- Maintain a leading presence in the secondary mortgage market by developing products and initiatives to better meet the needs of a diverse market place.
- Increase the use of cutting edge technology to support Fannie Mae's customer base, reduce costs, and create more opportunities for affordable mortgage credit.

### ***Minority Lending***

- Execute minority lending initiatives under the *American Dream Commitment*.
- Implement strategies under the White House ten-point plan to support the Bush Administration's initiative to increase minority homeownership.
- Lead the market in minority lending by investing in loans serving 608,000 minority households.
- Establish key partnerships with local lenders to expand homeownership opportunities for minorities and underserved populations in emerging markets.

### ***Community Development***

- Remain a partner for community development activities that strengthen communities across the country and implement initiatives targeting the underserved.

### ***Affordable Rental Housing***

- Lead the market in financing affordable rental housing through the *American Dream Commitment* and help preserve the existing stock of affordable rental housing.
- Increase investment in small multifamily housing.

***Partnerships and Outreach***

- Continue expansion of partnerships with affordable housing advocacy organizations and national intermediaries.
- Maintain engagement with key stakeholders including consumer organizations, trade associations, lenders, localities and municipalities and others interested in expanding affordable housing opportunities.

***Predatory Lending***

- Maintain a leadership position in preventing and combating predatory lending.

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## CONCLUSION

This report demonstrates how Fannie Mae works to positively affect the market for affordable mortgage credit and meet its affordable housing goals. More important, the AHAR attempts to identify the people behind the goals. They include minorities, immigrants, women-headed households, working Americans, first-time homebuyers and other groups traditionally underserved by the housing finance market. Statutory requirements, however, are not the only motivating factors behind Fannie Mae's commitment to serving these groups. By 2010, Fannie Mae will help increase homeownership rates among underserved populations through its own *American Dream Commitment*, and, by 2010, Fannie Mae's pledge to meet President Bush's challenge will aid the Administration's effort to increase minority homeownership.

Thus, in accordance with HUD's housing goals requirement, the *American Dream Commitment* and President Bush's Minority Homeownership Challenge, Fannie Mae continues to serve low- and moderate-income families, those living in underserved communities, and those in need of special affordable housing. In that continuing pursuit and for the ninth consecutive year, Fannie Mae exceeded its housing goals as follows:

- **51.79** percent of the units financed by Fannie Mae's eligible mortgage purchases served low- and moderate-income families, surpassing the 50 percent goal set by HUD;
- **32.76** percent of the units financed by Fannie Mae's eligible mortgage purchases were located in underserved communities, exceeding the 31 percent HUD goal;
- **21.42** percent of the units financed by Fannie Mae's eligible mortgage purchases served those very low-income families and low-income families in low-income areas, exceeding the 20 percent goal; and
- **\$7.22** billion in Fannie Mae multifamily financing qualified under HUD's special affordable housing goal that was set at \$2.85 billion.

Reaching the affordable housing goals is always a challenge and was even more so in 2002, given the state of the housing market and the ongoing single family refinance boom. Looking ahead to 2003, Fannie Mae expects similar challenges. Even in the face of these significant challenges, Fannie Mae will continue to provide innovative solutions to make the American Dream a reality for more underserved Americans.