2017 SCORECARD PROGRESS REPORT

Division of Housing Mission and Goals
Division of Conservatorship
Office of Minority and Women Inclusion

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List of Acronyms

ACIS	Agency Credit Insurance Structure
CAS	Connecticut Avenue Securities
CFPB	Consumer Financial Protection Bureau
CIRT	Credit Insurance Risk Transfer
CRT	Credit Risk Transfer
CSP	Common Securitization Platform
CSS	Common Securitization Solutions
DTI	Debt to Income
DUS	Delegated Underwriting and Servicing (Program)
ECOA	Equal Credit Opportunity Act
FHFA	Federal Housing Finance Agency
Flex Mod	Flex Modification
GeMS	Guaranteed Multifamily Structures
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
LEP	Limited English Proficiency
LPA	Loan Product Advisor
LTV	Loan-to-Value Ratio
MAAp	Mortgage Assistance Application
MBS	Mortgage-Backed Security
MI	Mortgage Insurer
MISMO	Mortgage Industry Standards Maintenance Organization
MSA	Metropolitan Statistical Area
MWDOBs	Minority-, Women-, and Disabled-Owned Businesses
NAREB	National Association of Real Estate Brokers
NPL	Non-Performing Loan
NSI	Neighborhood Stabilization Initiative
PMIERs	Private Mortgage Insurance Eligibility Requirements
PSPA	Senior Preferred Stock Purchase Agreement
REIT	Real Estate Investment Trust
REMIC	Real Estate Mortgage Investment Conduit
REO	Real Estate Owned
RFI	Request for Input
RIF	Risk-in-Force
RPL	Re-Performing Loan

List of Acronyms--Continued

SCR	Structured Credit Risk (Note)
SSI	Single Security Initiative
STACR	Structured Agency Credit Risk (Security)
TBA	To Be Announced (Market for Agency MBS)
UBAF	Uniform Borrower Assistance Form
UCD	Uniform Closing Disclosure Dataset
UMBS	Uniform Mortgage-Backed Security
UMDP	Uniform Mortgage Data Program
UPB	Unpaid Principal Balance
URLA	Uniform Residential Loan Application

Introduction

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System, which includes 11 Federal Home Loan Banks (FHLBanks) and the Office of Finance. The Agency's mission is to ensure that Fannie Mae and Freddie Mac (the Enterprises) and the FHLBanks (together, "the regulated entities") operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac.

This *Progress Report* summarizes major activities of Fannie Mae and Freddie Mac in 2017 that contributed to achieving FHFA's three strategic goals as conservator of the Enterprises, established by FHFA in the ***2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*** (*2014 Conservatorship Strategic Plan*):

1. **MAINTAIN**, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets;
2. **REDUCE** taxpayer risk through increasing the role of private capital in the mortgage market; and
3. **BUILD** a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

The ***2017 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions*** (*2017 Scorecard*) sets forth FHFA's expectations for 2017 relative to those strategic goals[1] and requires the Enterprises to consider diversity and inclusion when conducting their respective business activities and initiatives to further the three strategic conservatorship goals.

[1] In this *Progress Report*, all dates refer to 2017 unless stated otherwise.

Maintain

The first strategic goal of the *2014 Conservatorship Strategic Plan* is to maintain credit availability and foreclosure prevention activities in the housing finance market in a safe and sound manner. To further that goal, FHFA established specific objectives in the *2017 Scorecard* for the Enterprises to work to increase access to mortgage credit, to finalize post-crisis loss mitigation activities, to responsibly reduce severely aged delinquent loans and real estate owned (REO) properties, to assess the current mortgage servicing business model, to support liquidity in multifamily affordable housing, and to manage the dollar volume of new multifamily business. FHFA worked closely with the Enterprises to strengthen single-family and multifamily mortgage liquidity to lenders and borrowers, loss mitigation practices, and asset disposition efforts in a manner consistent with preserving the safety and soundness of the Enterprises. This section describes the activities undertaken by the Enterprises to support those objectives.

I. Access to Mortgage Credit for Creditworthy Borrowers

The *2017 Scorecard* called for the Enterprises to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of applicable credit requirements and risk management practices. Specific objectives included in the *2017 Scorecard* required the Enterprises to: 1) continue to assess opportunities to address credit access and develop recommendations for improvement where appropriate; 2) continue to improve the effectiveness of pre-purchase counseling and homeownership education through technology, data analysis, and other opportunities as appropriate; and 3) conclude assessment of updated credit score models for underwriting, pricing, and investor disclosures, and, as appropriate, plan for implementation.

Opportunities to Support Credit Access. The Enterprises engaged in a number of initiatives and pilot programs during 2017 to address borrower impediments to accessing mortgage credit. Each Enterprise undertook its own research, including outreach to industry and borrower advocacy groups, to identify opportunities to improve credit access for specific borrower segments and to assess market opportunities. Both Enterprises identified impediments to borrowers who owe significant student debt, need down payment assistance, lack a traditional credit history, or have low household income. The remainder of this section describes Enterprise initiatives to address the impediments faced by these borrower segments.

Mortgage applicants with significant student debt may have difficulty meeting certain underwriting requirements related to assessing their ability to repay the mortgage. To address such challenges, the Enterprises revised their student-debt related calculations concerning potential payment shocks, debt paid by others (such as parents, grandparents, or employers), and the treatment of student loans as a contingent liability.[2] The revised calculations were published in Fannie Mae's Selling Guide and Freddie Mac's Seller/Servicer Guide.

In May, Freddie Mac updated its automated underwriting system to process applications from borrowers without credit scores. The change improves credit access for mortgage applicants who do not have sufficient credit history to compute a credit score, while also requiring appropriate compensating factors to obtain an approval recommendation. In conjunction with changes made by Fannie Mae in September 2016, both Enterprises now accept delivery of eligible loans for borrowers without credit scores in accordance with Enterprise-approved policies.

Fannie Mae worked with its sellers to develop a series of tailored pilot programs to increase its purchase or securitization of loans made to low-income and other underserved borrowers. Fannie Mae also increased to 95 percent the maximum loan-to-value (LTV) ratio allowed for adjustable rate mortgages. Fannie Mae and Freddie Mac each identified circumstances under which they will permit certain debts paid by others to be excluded from the debt-to-income (DTI) calculation.

In addition to the initiatives described above, each Enterprise expanded its focus on training and mortgage education. In early 2017, Fannie Mae developed a strategy to build awareness of its affordable housing programs among realtors and lenders and to educate future borrowers about its low down payment mortgage options and down payment assistance programs offered by third parties. The strategy includes outreach at conferences and events in high opportunity markets as well as a marketing campaign that directs potential borrowers to more detailed information on the internet. During the second half of 2017, Freddie Mac began planning a marketing campaign to increase awareness of borrower training and other resources available through its CreditSmart financial education curriculum and Borrower Help Centers. The Borrower Help Centers are national nonprofit intermediaries that offer pre-purchase homebuyer education and foreclosure prevention counseling to clients with Freddie Mac-owned mortgages.

Assessing the Impact of Language Barriers. The *2017 Scorecard* required the Enterprises to identify major obstacles for borrowers with limited English proficiency in

[2] For more information, see Fannie Mae's ***Selling Guide Announcement SEL-2017-04*** and Freddie Mac's ***Bulletin 2017-23***.

accessing mortgage credit, analyze potential solutions, and develop a multi-year plan to support improved access.[3]

To evaluate potential solutions, FHFA and the Enterprises reached out to industry, government agencies, consumer advocacy groups, and other stakeholders both through meetings and through issuance of the *Improving Language Access in Mortgage Lending and Servicing Request for Input* (RFI) in May. FHFA received over 200 responses to the RFI. In addition, FHFA and the Enterprises analyzed existing resources that the Enterprises' sellers currently have available to assist LEP borrowers, including Spanish-speaking customer service team members and vendor translation services. FHFA added questions on language access to the National Mortgage Database Surveys to solicit information about borrowers' experiences when English is not their primary language. FHFA and the Enterprises also worked with LEP borrowers to examine their understanding of and reactions to the mortgage application process and to determine whether and how to solicit an applicant's language preference on the Uniform Residential Loan Application (URLA).

After engaging in an extensive review process, FHFA announced its decision to include a question on the revised URLA to capture an applicant's preferred language. The new question will standardize lender collection of language preference data. On November 20, 2017, the Consumer Financial Protection Bureau (CFPB) granted its approval of the redesigned URLA under the Equal Credit Opportunity Act (ECOA). CFPB's **notice of approval** determined that creditors who use the redesigned URLA would have "safe harbor" protection under ECOA. The Enterprises are targeting initial implementation of the URLA for 2019 and its mandatory use in 2020.

Housing Counseling. Since 2015, the Enterprises have been exploring ways to improve the effectiveness of pre-purchase and early delinquency counseling. The Enterprises have evaluated their respective programs, conducted outreach to housing counselors, and worked to better track results of housing counseling and homeownership education efforts through technology. As a result, the Enterprises developed plans to engage housing counseling agencies and intermediaries, as well as online homeownership education providers. The Enterprises have also revised their criteria for eligible providers of homeownership education and developed benchmarks and metrics to improve their evaluation of housing counseling and homeownership education programs.

[3] Borrowers with limited English proficiency or a preference to speak their native language are collectively referred to as LEP borrowers.

Both Enterprises continue to support the use of technology to improve the effectiveness of housing counseling agencies. Improvements include upgrading those agencies' case-management system and making it easier for counselors to determine whether a client qualifies for a loan that conforms to the Enterprises' guidelines. These efforts benefit potential borrowers by helping to identify their needs earlier in the mortgage process.

In November, Freddie Mac launched Loan Product Advisor (LPA) for Housing Counselors, enabling housing counseling agencies to access Freddie Mac's automated underwriting system, LPA, through their own case management systems. Access to LPA allows housing counselors to assess a client's readiness for home ownership before referring clients to lenders. Access to LPA also allows direct and immediate feedback for counselors and their clients. Freddie Mac continues to work with housing counseling agencies to integrate their case-management systems with LPA.

Fannie Mae is also collaborating with housing counseling agencies to develop a new client case management system that will connect with Fannie Mae's automated underwriting products, Desktop Originator and Desktop Underwriter, to assess a client's mortgage readiness. On February 28, 2018, Fannie Mae, along with the Housing Partnership Network and other housing counseling agencies, announced an effort to develop a new client management system. Fannie Mae expects the initial version of the new system to be available for use by housing counseling agencies by the end of 2018. Fannie Mae will help housing counseling agencies migrate to the new system as it becomes available.

Updated Credit Score Models. FHFA worked with Fannie Mae and Freddie Mac to assess whether and how to update the Enterprises' credit score requirements. As part of this assessment, FHFA and the Enterprises considered credit scores produced by three models – Classic FICO, FICO 9, and VantageScore 3.0. While FHFA believes that it would be desirable to update the Enterprises' credit score requirement from the current Classic FICO standard, FHFA has not determined which credit score option should be adopted as a replacement. In December, FHFA issued ***Credit Score Request for Input*** to gather feedback on the options under consideration from interested parties that could be affected by a change in the Enterprises' credit score requirements. The RFI presents four credit score options under consideration. Each option presents implementation, operational, and competition considerations, which are reflected in the questions included in the RFI. The deadline for submitting feedback to the RFI is March 30, 2018.

FHFA will evaluate all responses to the RFI, along with supporting analysis and outreach, and plans to make a decision on updating the Enterprises' credit score requirements in 2018. Any implementation date related to updated credit score models will, however, be delayed until after the implementation of the Single Security Initiative described in the **Build** section of this *Report*.

Efforts to Promote Diversity and Inclusion with respect to Credit Access. The Enterprises continued efforts to assess opportunities to address credit access and conducted research to address opportunities for responsibly supporting access to credit for minority borrowers.

To increase awareness and use of its affordable lending products, Fannie Mae engaged in community outreach and provided training to three major minority trade associations at town hall events. The Enterprise conducted at least 10 training sessions in key housing markets to raise awareness of affordable mortgage products. It also held more than 39 HomeReady training sessions and webinars nationwide and implemented a HomeReady pilot program in early 2017. Fannie Mae also launched a marketing campaign with the National Association of Real Estate Brokers (NAREB) to support the "Black Homeownership Matters" Campaign. In support of its Home Ready initiative, Fannie Mae worked with Sun Trust Bank, NAREB, and NID Housing Counseling to make housing more affordable for all.

Freddie Mac continued to use pilot programs to support expansion of access to credit to minority borrowers, including programs initiated in 2017 with Quicken, Bank of America/Self Help, New American Funding, Alterra Home Loans, United Shore, Wells Fargo, and JP Morgan Chase. The Enterprise engaged in extensive outreach to minority real estate professional organizations, including NAREB and the National Association of Hispanic Real Estate Professionals, to raise awareness of mortgage loan products with low down-payment requirements. In addition to updating various credit policies to support the changing demographics of minority borrowers, Freddie Mac added six new minority- or women-owned seller-servicers in 2017 to expand options for borrowers who typically face barriers when trying to access mortgage credit. The Enterprise used consumer digital marketing campaigns and partnership networks to generate interest in CreditSmart and supplemented that program with specialized content on mortgage credit access for individuals with disabilities, seniors, veterans, and caregivers.

II. Loss Mitigation and Foreclosure Prevention Activities

The *2017 Scorecard* called for the Enterprises to finalize post-crisis loss mitigation activities. To meet this *Scorecard* objective, the Enterprises 1) introduced a high-LTV loan refinance program; 2) implemented the Flex Modification; 3) replaced the Uniform Borrower Assistance Form with the enhanced Mortgage Assistance Application; 4) replaced the imminent default model with a rules-based approach and 5) started to update short-term hardship solutions and foreclosure alternatives.

High-LTV Loan Refinance. FHFA and the Enterprises announced a new refinance offering aimed at borrowers with high-LTV loans in August 2016 and amended the product in September

2017. The new offering will give borrowers with high-LTV loans who are current on their mortgage an opportunity to refinance. Such borrowers are often unable to refinance if the LTV ratio on their loans exceeds the Enterprises' maximum limits on other existing refinance products. Providing that opportunity to underwater and other highly leveraged borrowers benefits the Enterprises because it lowers the default risk of such loans — risk the Enterprises already own.

In order to qualify for the new high-LTV offering, a borrower must: 1) have a mortgage originated on or after October 1, 2017; 2) not have missed any mortgage payments in the previous six months and not have missed more than one payment in the previous 12 months; 3) have an LTV for the new mortgage that exceeds the maximum allowable LTV ratio for a limited cash-out refinance; and 4) receive a benefit from the refinance such as a reduction in their monthly mortgage payment. The new high-LTV loan refinance offering is more targeted than the Home Affordable Refinance Program (HARP) but allows borrowers to refinance more than once under the program if the mortgage being refinanced was originated at least 15 months prior to the refinance. As with HARP, eligible borrowers are not subject to a minimum credit score and there is no maximum debt-to-income or LTV ratio. In many cases, an appraisal is not required. Borrowers with existing HARP loans are not eligible for the new offering unless they have refinanced out of HARP using one of the Enterprises' traditional refinance products.

In September 2017, FHFA announced the addition of an eligibility date, making the program available for loans originated on or after October 1, 2017. The eligibility date was necessary to preserve the objectives of the Enterprises' credit risk transfer (CRT) program. Earlier CRT transactions did not allow loans that were refinanced through the high-LTV streamlined refinance program to return to a transaction's reference pool, meaning the Enterprises would have paid for credit loss protection on these loans that they could not use. The Enterprises modified the structure of future CRT transactions to accommodate the high-LTV streamlined refinance program by allowing the newly refinanced loans to return to the reference pools in place of loans that prepaid.

Because the high-LTV loan refinance offering will not be immediately available to borrowers, FHFA extended HARP through December 31, 2018. From 2009 through 2017, nearly 3.5 million homeowners refinanced their mortgages through HARP, achieving average savings on their mortgage payments of about $200 per month or about $2,400 per year to benefit borrowers and reducing default risk on these loans to benefit the Enterprises.

Permanent Modification and Mortgage Assistance Application. In December 2016, the Enterprises announced that the new Flex Modification program (Flex Mod) would be the successor both to the Home Affordable Modification Program (HAMP) and to the Enterprises' existing loan modification programs, Standard Modification and Streamlined Modification. Flex

Mod leverages lessons learned from borrower outcomes during the crisis by expanding eligibility and providing deeper payment relief, allowing more borrowers to avoid foreclosures.[4] By avoiding the costs associated with foreclosures, the Flex Mod will result in significant savings for the Enterprises and for taxpayers. The Enterprises required servicer implementation of Flex Mod by October 1, 2017.

In conjunction with Flex Mod implementation, the *2017 Scorecard* called for the Enterprises to improve the design of the Uniform Borrower Assistance Form (UBAF), which borrowers have been using to apply for loss mitigation assistance. The Enterprises conducted extensive borrower testing of a redesigned application with assistance from external stakeholders, including servicers and borrower advocates. The redesigned form, known as the mortgage assistance application (MAAp), streamlines the application process by reducing the amount of income and hardship documentation a borrower must provide. In addition, the servicer is not required to request a transcript of the borrower's previously filed tax returns from the Internal Revenue Service. The MAAp became available for servicers in September and will be required starting in June 2018.

Together, the MAAp and Flex Mod simplify the documentation requirements for distressed borrowers to qualify for a foreclosure prevention alternative. Both borrowers and servicers cited documentation requirements as an impediment to obtaining assistance during the financial crisis because documents were often difficult for borrowers to collect and submit and for servicers to evaluate. Reducing the administrative burden associated with document collection while maintaining requirements that demonstrate a borrower's ability to repay will help to minimize credit losses and to conserve and preserve the Enterprises' assets.

Imminent Default Business Rule. The Enterprises worked together to develop and align a business rule to determine eligibility for Flex Mod prior to 60 days of delinquency. The motivation for the new business rule is to improve outcomes for borrowers while increasing the net present value of modifications to the Enterprises and improving operational efficiency and transparency. The Enterprises conducted analysis that found that borrowers who sought but were denied a modification under the existing model frequently progressed to deeper stages of delinquency. The new imminent default business rule increases the likelihood that the model will recommend approval of a modification for borrowers who are likely to benefit from early intervention.

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[4] Flex Mod allows more borrowers to qualify for a home retention solution and targets a 20 percent reduction in monthly payment to improve success under the loan modification. For more information, see ***Flex Modification*** (Fannie Mae) and ***Freddie Mac Flex Modification*** (Freddie Mac).

Post-Crisis Loss Mitigation Options. The *2017 Scorecard* called for the Enterprises to develop and align policies to address short-term hardships and guidelines for foreclosure alternatives such as short sales and deeds-in-lieu of foreclosure. Over the course of 2017, the Enterprises standardized their policies for repayment plans and forbearance to address short-term hardships and brought those policies into compliance with new CFPB servicing rules. In addition, FHFA and the Enterprises held discussions with stakeholders, including servicers, to help inform the development of foreclosure alternatives, such as short sales and deeds-in-lieu of foreclosure.

III. Reduce Severely Aged Delinquent Loans and REO Properties

The *2017 Scorecard* called for the Enterprises to continue to responsibly reduce the number of severely aged delinquent loans and REO properties. Responsible reduction includes enhancing and designing programs that provide effective loss mitigation alternatives and REO disposition focused on neighborhood stabilization. To address those expectations, the Enterprises worked to implement strategies to responsibly reduce the number of severely aged delinquent loans and REO properties they hold, including through the Neighborhood Stabilization Initiative (NSI).[5]

Reduction of Severely Aged Delinquent Loans. The Enterprises continue to reduce substantially the number of severely aged delinquent loans they hold in portfolio. The Enterprises generally define such loans as those that are two or more years past due. While a large part of the portfolio reductions is attributable to of non-performing loan (NPL) sales, sizeable reductions are also attributable to the use of special servicers, streamlined modifications, foreclosure alternative strategies, and foreclosures.

On a national basis, both Enterprises have seen a dramatic decline in seriously delinquent loans in the past several years, with overall delinquency rates approaching pre-crisis levels and delinquency rates on post-crisis new loans at historical lows. Taken together, the Enterprises reduced their combined inventories of severely aged loans by 31 percent in 2017, with a total decline of 19,062 such loans from 60,869 to 41,807.

Sales of Non-Performing Loans. NPL sales benefit delinquent borrowers, the Enterprises, and mortgage servicers of the Enterprises' delinquent loans. NPL sales increase the potential for delinquent borrowers to benefit from foreclosure avoidance actions offered by the new servicer, such as forbearance, a proprietary modification of the loan, a short sale of the property, or a deed-in-lieu of foreclosure. NPL sales also enable the Enterprises to reduce credit risk from

[5] For more information, see the FHFA webpage on the ***Neighborhood Stabilization Initiative***.

delinquent borrowers, reduce counterparty risk from mortgage servicers and private mortgage insurers, and reduce the size of their retained portfolios.

FHFA's goal is to achieve more favorable outcomes for borrowers and local communities than the outcomes that would be achieved if the Enterprises held the NPLs in their portfolios, while also reducing losses to the Enterprises and, therefore, to taxpayers. In addition, NPL auctions, which are open to any qualified bidder, encourage private capital to invest in single-family mortgage credit risk. The Enterprises also offer smaller pools to attract diverse participation from nonprofits, government entities, and minority- and women-owned businesses.

All Enterprise NPL sales are subject to requirements published by FHFA that obligate the new servicer to solicit all borrowers for a loan modification, establish a waterfall in which foreclosure is the last option, prioritize sales of REO to owner-occupants and nonprofits, and report on loan-level outcomes for four years after purchase. In making their loan modification decisions, servicers may consider net present value to the investor. Servicers are also required to evaluate borrowers with loans that have a mark-to-market LTV ratio above 115 percent for a loan modification that includes principal and/or arrearage forgiveness.

In September 2017, FHFA authorized further enhancements to the NPL sales requirements to further improve borrower and neighborhood outcomes. The enhancements require NPL buyers to agree that they will not enter into, or allow servicers to enter into, contract for deed or lease-to-own agreements on REO properties unless the tenant or purchaser is a nonprofit organization.

Table 1 summarizes Enterprise NPL sales since Freddie Mac conducted its pilot NPL sale in August 2014 and Fannie Mae conducted its pilot NPL sale in June 2015.

Table 1. Non-Performing Loan Sales by the Enterprises

Year	Enterprise	Number of Pools Sold	Number of Loans Sold	Unpaid Principal Balance of Loans Sold $ million	Number of Small Pools[1]	Number of Small Pools Purchased by Nonprofits
2014	**Freddie Mac**	2	2,721	$596	0	0
2015	**Fannie Mae**	8	10,442	$2,129	1	1
	Freddie Mac	18	15,170	$2,940	1	1
2016	**Fannie Mae**	28	29,612	$5,415	4	4
	Freddie Mac	25	14,557	$3,079	5	5
2017[2]	**Fannie Mae**	14	18,424	$3,193	3	1
	Freddie Mac	4	2,450	$460	0	0
All	**Total**	99	93,376	$17,813	14	12

[1] Small pools are targeted at nonprofits and minority- and women-owned businesses and include those offered as Fannie Mae Community Impact Pools and Freddie Mac Extended Timeline Pools.
[2] Includes preliminary data submitted by the Enterprises and subject to final revision.

FHFA published ***Enterprise Non-Performing Loan Sales Reports*** in June and December 2017 to provide information on the Enterprises' sales of NPLs and borrower outcomes post-sale.

Reduction of REO Properties. The Enterprises continued to responsibly reduce their inventory of REO properties by focusing their efforts on supporting owner-occupants and nonprofit purchasers. Overall, the Enterprises reduced their REO property inventories by over 30 percent in 2017, with a total decline of 14,901 properties to 34,610 properties.

The Enterprises' First Look Initiatives offer owner-occupants and nonprofits engaged in neighborhood stabilization an opportunity during the initial listing of a foreclosed property to negotiate a purchase before the property is available to investors. The Enterprises further support the responsible disposition of REO properties in the most distressed communities through their NSI efforts in 18 Metropolitan Statistical Areas (MSAs) characterized by high levels of low-value REO properties. The NSI program encourages nonprofits to acquire properties in those markets, reduces the Enterprises' costs for property preservation and maintenance, enables each Enterprise to reduce its REO inventory in the most challenging markets, and stabilizes neighborhoods in the process.

To achieve those goals, the Enterprises have continued to collaborate with the National Community Stabilization Trust to identify mission-oriented organizations to purchase REO properties. To set prices for properties offered to such organizations, the Enterprises estimate the property's fair market value and subtract from that the expected cost savings from the expedited sale. For properties with a fair market value of $35,000 or less, which are difficult to market and sell, the Enterprises may offer further discounts or accept counteroffers from such organizations. NSI has also facilitated Enterprise donations of distressed properties, sometimes with demolition funding, to local Land Banks[6] willing to pursue stabilization strategies in distressed markets. This approach enables the Enterprise to reduce the expenses associated with continued ownership of REO properties, such as those related to property preservation and demolition.

In December 2017, FHFA expanded NSI to include 10 additional MSAs. With these additions, 30 markets in 16 states are now included in the NSI program. The additional markets were added because they have large concentrations of distressed and low-value Enterprise REO inventory.

Efforts to Advance Diversity and Inclusion through REO Asset Dispositions. The Enterprises continued to look for opportunities to support minority-, women-, and disabled-owned businesses (MWDOBs) in the sale of REO properties.

Freddie Mac continued to provide access and opportunities to MWDOBs participating in REO sales by providing program support to address the challenges that MWDOBs face in an environment of decreasing REO inventory. Consistent with its spending in other years, 40 percent of Freddie Mac's REO-related fees went to MWDOBs. Freddie Mac attributed this success to ongoing outreach and partnership events such as:

- Baltimore African American Home Ownership and Home Equity Symposium;
- Asian Real Estate Association of America, Greater Los Angeles (AREAA/GLA) Summit industry events;
- CreditSmart workgroups in corporate offices, focused on expanding the use of the CreditSmart curriculum in Freddie Mac broker community and among those who can train others to use the tool to aid prospective homeowners;
- 2017 Five Star Diversity Symposium;
- CreditSmart training at the Mortgage and Finance Industry Expo;
- Conferences sponsored by NAREB and the National Association of Women in Real Estate Businesses; and
- REO Five Star with a special session for Puerto Rican vendors.

[6] Land banks are governmental entities or nonprofit corporations experienced at acquiring real estate owned, tax delinquent and abandoned properties, and returning them to productive use.

Despite a material reduction in its REO inventory, Fannie Mae engaged in efforts to retain MWDOBs to handle the oversight and sale of REO. Although retail sales remain Fannie Mae's largest REO disposition channel, Fannie Mae has worked closely with FHFA and Freddie Mac to identify communities hardest hit by foreclosure. For those communities, Fannie Mae has worked to focus and improve its REO disposition efforts through NSI.

IV. Assess the Mortgage Servicing Business Model

The *2017 Scorecard* called for the Enterprises to initiate a multiyear assessment of both the challenges facing the mortgage servicing market and potential solutions for identified issues to ensure ongoing liquidity in the mortgage servicing market and counterparty strength. In 2017, the Enterprises completed an industry survey and interviews to gather data on priorities and concerns in the servicing industry. Informed by this feedback and as part of their 2018 Scorecard requirements, the Enterprises will assess their servicing policies and processes with the goal of improving liquidity and process efficiency in the market for mortgage servicing rights.

V. Multifamily Business

The *2017 Scorecard* maintained loan production caps on each Enterprise's multifamily business to further the strategic goal of maintaining Fannie Mae's and Freddie Mac's multifamily activities while not impeding the participation of private capital. The *2017 Scorecard* set the cap for each Enterprise at $36.5 billion with exclusions from the caps for a range of mission-related finance activities.

FHFA designed exclusions from the cap to support affordable and underserved multifamily segments of the multifamily market because these segments are not being adequately served by the private sector. Exclusions include financing for subsidized affordable housing, manufactured housing communities, and small multifamily properties (between 5 and 50 units). Additional exclusions include financing for affordable properties in rural areas, energy efficiency improvements in Enterprise-financed properties, and market-rate units that are affordable to very low-, low-, and moderate-income tenants in standard, high-cost, and very-high cost rental markets.

In 2017, the Enterprises actively managed their loan production to ensure they did not exceed the published cap. Fannie Mae's total multifamily finance activity for the year was approximately $67 billion, of which $30.5 billion fell within the cap and $36.5 billion was in the excluded categories. Freddie Mac's total multifamily finance activity for the year was approximately $73.2 billion, of which $33.8 billion fell within the cap and $39.4 billion was in the excluded categories. Table 2 provides further information on each Enterprise's activity, including activities in each category excluded from the caps.

Table 2. Enterprise Multifamily Activity in 2017

	Fannie Mae		Freddie Mac	
	$ billion	Percent	$ billion	Percent
Total included within cap	$30.5	46%	$33.8	46%
Total excluded from cap[1]	$36.5	54%	$39.4	54%
Loans to finance energy or water efficiency improvements	*$21.54*	*32%*	*$18.74*	*26%*
Loans on manufactured housing communities	*$1.94*	*3%*	*$1.08*	*1%*
Financing for targeted affordable housing properties[2]	*$5.48*	*8%*	*$5.88*	*8%*
Loans on small multifamily properties	*$1.02*	*2%*	*$3.74*	*5%*
Loans on properties located in rural areas	*$1.10*	*2%*	*$0.50*	*1%*
Loans on seniors housing	*$3.20*	*5%*	*$1.85*	*3%*
Loans on units affordable to those @ 60% AMI[3]	*$10.29*	*15%*	*$13.22*	*18%*
Loans on units affordable to those @ 80% AMI[3]	*$1.88*	*3%*	*$4.27*	*6%*
Loans units affordable to those @ 100% AMI[3]	*$1.18*	*2%*	*$4.99*	*7%*

Source: Fannie Mae and Freddie Mac

[1] For more information on excluded categories, see the *2017 Scorecard*, Appendix A: Multifamily Definitions, pp. 8-10. Dollar amounts and percentages of the categories of loans excluded from the cap do not add to the totals for all excluded loans because some loans qualify under more than one exclusion category. Such double counting is not included in the "Total excluded from cap." In addition, some loans only partially qualify for exclusion from the cap for some exclusion categories. Only the qualifying excluded portion of a loan is included in the total for each category. If the loan qualifies for exclusion under more than one exclusion category, the greatest portion of the loan that qualifies for any exclusion category is included in the "Total excluded from the cap."

[2] Includes the excluded portion of the Unpaid Principal Balance (UPB) for properties in underserved areas that are affordable to low- and very low-income households. Only the qualifying portion of a loan is included in the total.

[3] FHFA excludes from the capped category units whose rents are affordable to tenants at various income thresholds, based on each individual market. This entails exclusions of financing for units affordable to household incomes below 60% of the area median in most areas, below 80% of the area median in high cost areas, or below 100% of the area median in very high cost areas. For additional detail on the high cost and very high cost areas, see the *2017 Scorecard*, Appendix A: Multifamily Definitions, p. 9.

VI. Liquidity in Multifamily Affordable Housing

The *2017 Scorecard* required the Enterprises to explore opportunities for further supporting liquidity in multifamily affordable housing. In 2017, the Enterprises conducted research that FHFA used to refine affordable and underserved categories excluded from the multifamily cap. Both Enterprises conducted research about targeted submarkets, evaluated how the definitions of excluded categories affect the multifamily market, and analyzed how potential changes to those categories might affect the multifamily market.

While the Enterprises looked at a number of different multifamily submarkets, their analysis contributed to FHFA's decision to adjust two of the excluded category definitions in the 2018 Scorecard. First, both Enterprises explored energy and water savings resulting from green financing, as well as methodologies for measuring those savings. Their research and recommendations informed FHFA's decision to modify the eligibility criteria for green loans. The full loan amount under the Fannie Mae "Green Rewards" and Freddie Mac "Green Up" and "Green Up Plus" loan programs will be excluded from the cap if the renovations are projected to reduce either annual energy or annual water whole property consumption by at least 25 percent, where whole property consumption includes both tenant- and property-level savings.

Second, the Enterprises also researched and analyzed higher cost areas with affordable housing shortages. This research informed FHFA's decision to address the critical shortage of middle-income housing in certain expensive markets by adding an "extremely high cost market" category to the 2018 Scorecard. For properties with affordable units, FHFA will allow the Enterprises to exclude a portion of the loan amount from the cap based on the percent of units with unsubsidized rents that are affordable to those at or below 120 percent of the area median income in extremely high cost markets.

Diversity and Inclusion Efforts in the Multifamily Business. The Enterprises continued to work to advance diversity and ensure inclusion within the multifamily segment of their respective capital markets activities.

Fannie Mae expanded opportunities for MWDOBs participating in the Enterprise's ACCESS program[7] (ACCESS firms). In addition to its senior unsecured debt securities, Fannie Mae's ACCESS program offers opportunities for MWDOB securities dealers related to transactions in single-family residential mortgage-backed securities (MBS), agency CMBS, and credit risk transfer securities. Fannie Mae provided training sessions to ACCESS firms on its Guaranteed Multifamily Structures (GeMS) and Delegated Underwriting and Servicing (DUS) programs and has committed to include at least one such firm in each new syndicated GeMS deal. In 2017, the number of ACCESS firms increased significantly as a percent of total broker-dealer firms involved in the GeMS program, compared to the prior two years. In April, Fannie Mae successfully implemented an ACCESS Multifamily MBS pilot program, which led to a total of $186 million in DUS securities traded by those firms in the secondary market.

[7] Fannie Mae established its ACCESS program in 1992 to expand opportunities for MWDOBs that are securities dealers.

Freddie Mac's multifamily business unit remained focused on engaging MWDOBs through 74 K-Deal and SB-Deal (securitizations of small balance multifamily loans) transactions, with increased fees from the previous year. Freddie Mac partners with 10 different MWDOBs, and all K-Deals include one of those firms as a co-manager. Freddie Mac continues to conduct educational and outreach events as part of its efforts to increase its engagement of MWDOBs and to address challenges MWDOBs encounter in providing services related to multifamily securitizations.

Reduce

The second strategic goal of the *2014 Conservatorship Strategic Plan* focuses on reducing taxpayer risk by increasing the role of private capital in the secondary mortgage market. To further that goal, the *2017 Scorecard* called for the Enterprises to continue and expand their efforts to transfer single-family and multifamily mortgage credit risk to the private sector, execute their FHFA-approved plans to reduce their retained mortgage portfolios, and evaluate their eligibility requirements for private mortgage insurers. This section describes Enterprise activities in 2017 in each of those areas.

I. Credit Risk Transfers for Single-Family Credit Guarantee Business

The Enterprises' primary business is acquiring single-family mortgage loans from lenders, selling securities backed by those mortgages to investors, and guaranteeing the timely payment of principal and interest on the securities. To do so, the Enterprises sell the interest rate and liquidity risk associated with mortgage loans but retain the credit risk, that is, the risk of loss from non-payment by the borrowers.

The Enterprises' credit risk transfer (CRT) programs have become a core part of the Enterprises' single-family credit guarantee business. The programs transfer credit risk to private capital via debt issuances, insurance/reinsurance transactions, senior-subordinate securitizations, front-end collateralized lender recourse transactions, and other pilot transactions.[8]

The Role of Primary Mortgage Insurance in Sharing Credit Risk. In addition to the Enterprises' CRT programs, their charters require loan-level credit enhancement on all loans they acquire that have LTV ratios above 80 percent. Primary mortgage insurance is the most common

[8] For a detailed description of transaction types, see Federal Housing Finance Agency, ***Overview of Fannie Mae and Freddie Mac Credit Risk Transfer Transactions,*** August 2015, and ***Credit Risk Transfer Progress Report***, Fourth Quarter 2017.

form of charter-eligible credit enhancement. Primary mortgage insurance, which can be paid for by the borrower, the lender, or the Enterprise, is obtained at the front-end of the mortgage transaction prior to or concurrent with acquisition of the mortgage by the Enterprise.

The amount of insurance coverage is referred to as risk-in-force (RIF). The RIF for each insured loan is calculated by multiplying the percentage of insurance coverage times the unpaid principal balance (UPB) of the mortgage. The total RIF for all primary mortgage insurers represents the maximum level of coverage for all loans with mortgage insurance and is equivalent to the Enterprises' total risk exposure to primary mortgage insurer counterparties.[9]

Table 3 shows the total risk-in-force, measured at the time of Enterprise acquisition, for loans with primary mortgage insurance acquired by the Enterprises for each year between 2013 and 2017. At the time of acquisition, loans purchased during those years had approximately $246 billion of RIF on a total UPB of $972 billion.

[9] The total RIF associated with primary mortgage insurance is generally larger than likely claims, which depend on the number of insured loans that default and the severity of losses on those loans. For example, Enterprise loans with LTV ratios above 80 percent that were originated in 2006 and 2007 had average cumulative default rates of between 13 and 14 percent ***Single-Family Credit Risk Transfer Progress Report,*** June 2016, p. 4.

Table 3: Primary Mortgage Insurance Coverage for New Acquisitions, 2013 – 2017

Year	Enterprise	Risk in Force	UPB[1]
		$ billion	$ billion
2013	**Fannie Mae**	$27.3	$108.9
	Freddie Mac	$12.6	$48.1
	Total	$39.9	$157.0
2014	**Fannie Mae**	$23.2	$92.1
	Freddie Mac	$14.5	$54.2
	Total	$37.7	$146.3
2015	**Fannie Mae**	$30.2	$120.3
	Freddie Mac	$18.5	$71.5
	Total	$48.7	$191.8
2016	**Fannie Mae**	$36.1	$145.5
	Freddie Mac	$23.1	$90.5
	Total	$59.2	$236.0
2017	**Fannie Mae**	$36.4	$146.2
	Freddie Mac	$24.0	$93.6
	Total	$60.4	$239.8
TOTAL	**Fannie Mae**	$153.2	$613.1
	Freddie Mac	$92.7	$358.9
	Total	$245.9	$972.0

Source: Federal Housing Finance Agency

[1] Unpaid principal balance of mortgage loans on which primary mortgage insurance coverage exists.

Overall Credit Risk Transfer Activity in 2017. For 2017, FHFA established a Scorecard objective for the Enterprises to transfer a meaningful portion of credit risk on at least 90 percent of the UPB of their acquisitions of single-family mortgage loans targeted for credit risk transfer. Both Enterprises achieved this objective in 2017. Targeted loans include fixed-rate, non-HARP loans with terms over 20 years and LTV ratios above 60 percent and represent a substantial amount of the credit risk associated with all new loan acquisitions.

Since the beginning of the program in 2013, the Enterprises have transferred a portion of credit risk on loans with $2.1 trillion in UPB and total RIF of $69 billion. In 2017, the Enterprises transferred credit risk on single-family mortgage loans with a total UPB of approximately $689 billion and total RIF of about $20.6 billion as presented in Table 4.

Table 4. Enterprise Single-Family Mortgage Credit Risk Transfer Activity, 2013 – 2017

Year	Enterprise	Risk in Force[1]	Reference Pool UPB[2]
		$ billion	$ billion
2013	Fannie Mae	$0.8	$31.9
	Freddie Mac	$1.5	$57.9
	Total	$2.2	$89.8
2014	Fannie Mae	$6.1	$230.9
	Freddie Mac	$6.1	$147.5
	Total	$12.2	$378.4
2015	Fannie Mae	$7.3	$239.1
	Freddie Mac	$8.8	$181.3
	Total	$16.1	$420.4
2016[3]	Fannie Mae	$9.8	$332.9
	Freddie Mac	$8.4	$215.0
	Total	$18.1	$548.0
2017	Fannie Mae	$12.6	$417.3
	Freddie Mac	$8.1	$271.8
	Total	$20.6	$689.1
TOTAL	Fannie Mae	$36.6	$1,254.2
	Freddie Mac	$32.7	$872.6
	Total	$69.3	$2,126.8

Source: Federal Housing Finance Agency

[1] Volume of notes issued in debt transactions or risk-in-force in insurance/reinsurance transactions. Together those amounts equal the maximum credit loss exposure of private investors.

[2] Unpaid principal balance of pools of mortgage loans on which credit risk is transferred.

[3] Totals for 2016 and 2017 include the total contracted UPB and RIF for front-end MI pilot transactions.

Debt Issuances. The Enterprises' debt issuance products include Fannie Mae's Connecticut Avenue Securities (CAS) and Freddie Mac's Structured Agency Credit Risk (STACR) securities. Those products accounted for 69 percent of the RIF entered into by the Enterprises during 2017. These securities are issued as Enterprise debt, but are considered synthetic securitizations because their cash flows track to the credit risk performance of a pool of securitized mortgage loans. As in other debt issuances, the Enterprises receive the proceeds from investors at the time of issuance and, in return, investors receive a monthly payment from the Enterprises. That payment includes both interest and principal, with the principal payment based on the repayment and credit performance of the loans in the underlying pool.

Beginning in 2015, Freddie Mac started to transfer to investors a portion of the first losses on mortgage reference pools on all of its STACR transactions, and Fannie Mae did so for CAS transactions starting in 2016. Both Enterprises had previously retained the initial credit losses on the loans underlying earlier debt issuances. Feedback from credit risk investors and the pricing of first-loss bonds have provided important information to FHFA and the Enterprises. Investors know there will be some degree of expected credit losses for any portfolio of mortgages regardless of economic conditions. As a result, investors charge more for providing credit risk protection for expected credit losses. Based on this information, beginning in 2017 the Enterprises moved generally to retaining the first 50 basis points of expected losses in most transactions. As the Enterprises' CRT programs continue to evolve, FHFA and the Enterprises will consider that information in structuring future CRT transactions.

In 2017, the Enterprises sought to address the timing mismatch, which could be years, between the accounting recognition of a credit loss on a loan covered by a CRT and the accounting recognition of the benefit provided by the CRT coverage. To address that mismatch, the Enterprises announced plans for a proposed new CRT debt issuances structure under which transactions would be issued from a bankruptcy-remote trust that qualifies as a real estate mortgage investment conduit (REMIC). This structure would be made possible by taking a REMIC election on the underlying loans as they are securitized into MBS. The new bankruptcy-remote trust structure would eliminate the accounting mismatch associated with direct debt issuance transactions and limit investor exposure to the counterparty risk from the Enterprises. By qualifying as a REMIC, the proposed structure should become more attractive to domestic real estate investment trusts (REITs) and foreign investors. Throughout the year, the Enterprises collaborated on this effort under the direction of FHFA.

In the second half of 2017, hurricanes Harvey, Irma, and Maria were the first natural disasters to affect the Enterprise CRT markets since 2013. Following the storms, CRT spreads widened. The Enterprises responded by releasing data and other information on forbearance programs and deal-level data on areas potentially affected by the storms. In addition, the Enterprises excluded loans in potentially affected areas from several CRT transactions immediately following the storms. As a result, CRT spreads recovered to pre-storm levels.

In 2017, Freddie Mac expanded its STACR program to a new series of STACR debt notes, called SHRP. SHRP notes are backed by loans that meet the HARP eligibility criteria and have mark-to-market LTVs between 60 and 150 percent. The SHRP series builds on the existing STACR program by transferring credit risk on loans beyond those targeted for credit risk transfer in the *2017 Scorecard*, and allows Freddie Mac to transfer risk on some of its more seasoned loans.

Insurance/Reinsurance Products. In these transactions, the Enterprises purchase credit protection from diversified reinsurers. The Enterprises' insurance/reinsurance products — Agency Credit Insurance Structure (ACIS) for Freddie Mac and Credit Insurance Risk Transfer (CIRT) for Fannie Mae — accounted for about 22 percent of total credit risk transfers during the year, compared to about 24 percent in 2016.

Each Enterprise expanded its insurance/reinsurance products to include reference pools backed by 15- and 20-year mortgages. Fannie Mae executed one CIRT transaction with total UPB of $16 billion and RIF of $204 million. Freddie Mac executed one ACIS transaction with total UPB of $10 billion and RIF of $168 million.

Front-End Collateralized Lender Recourse Transactions. Front-end lender risk transfer transactions include various methods of credit risk transfer, in which an originating lender retains a portion of the credit risk associated with the loans they sell to the Enterprise. In exchange, the lender receives a reduced guarantee fee charge on the loans from the Enterprise or a premium payment from the Enterprise. These transactions are structured so that risk is transferred prior to, or simultaneous with, Enterprise loan acquisition. To date, all front-end lender recourse transactions have been fully collateralized. These transactions may take a securities format, which allows the originating lender to either hold the credit risk by retaining the securities or sell the credit risk by selling the securities to credit risk investors. Both Enterprises have conducted front-end collateralized recourse transactions. In 2017, both Fannie Mae and Freddie Mac completed front-end collateralized lender recourse transactions. Those transactions had a total UBP of $40 billion and RIF-equivalent of $1.3 billion.

Other Front-End Credit Risk Transfers. In 2017, the Enterprises continued to evaluate and implement new ways to transfer credit risk on newly acquired single-family mortgages. The Enterprises' front-end transactions transfer credit risk beyond that required by the Enterprises' charters. Insurers participating in front-end insurance transactions provide collateral to mitigate counterparty risk. Participating insurers are required to adhere to the Enterprises' underwriting, loss mitigation, and claim guidelines. These provisions also significantly restrict the insurers' right to rescind, deny, or curtail coverage. In addition to the coverage provided through these transactions, loans in pilot transactions typically have traditional primary mortgage insurance.

In 2017, Fannie Mae executed two front-end CIRT transactions with traditional reinsurers and reinsurer affiliates of mortgage insurance companies for a total commitment of $20.2 billion and RIF of $513 million. One of Fannie Mae's CIRT transactions includes a 1-year forward commitment from participating reinsurers. Freddie Mac executed two front-end reinsurance transactions of $8.3 billion and RIF of about $236 million. One of Freddie Mac's transactions includes a 2-year forward commitment with a panel of diversified reinsurers.

Diversity and Inclusion Efforts in Single-Family Credit Risk Transfer. The Enterprises continued to include MWDOBs in their efforts to transfer a meaningful portion of credit risk on newly acquired single-family mortgages in loan categories targeted for risk transfer. Fannie Mae sought to promote diversity and inclusion by providing continued opportunities for ACCESS firms to participate in CAS transactions. As a result of the

Enterprise's educational training sessions, 10 ACCESS firms were active in the CAS program in 2017.

Freddie Mac continued to include MWDOBs as participants in the underwriting of its single-family CRT transactions and Whole Loan Securities program, while concurrently encouraging those firms to build securitization expertise and allocate dedicated resources to support such transactions. In 2017, Freddie Mac provided training sessions to the sales forces of and investors in MWDOBs to help them better understand the CRT programs and increase MWDOB participation.

II. Credit Risk Transfers for Multifamily Business

Transferring credit risk to the private sector is an integral part of the multifamily business model for both Enterprises. The *2017 Scorecard* called for the Enterprises to continue their current multifamily CRT initiatives and to explore additional CRT opportunities. Over 99 percent of the targeted multifamily new acquisitions by the Enterprises involved a transfer of credit risk to private capital.

In Fannie Mae's multifamily program (known as the Delegated Underwriting and Servicing Program or DUS), lenders share in loan-level credit losses in two ways: 1) they bear losses up to the first 5 percent of the unpaid principal balance of the loan and share in remaining losses up to a prescribed limit, or 2) they share up to one-third of the losses on a pro rata basis. Fannie Mae transferred a portion of credit risk on over $65.8 billion of its multifamily production through the DUS program in 2017. Fannie Mae also completed a non-DUS multifamily CRT transaction during 2017 in which it transferred to the reinsurance industry a portion of the credit risk it retained from DUS transactions on approximately $8.1 billion of loans.

Since 2010, Freddie Mac has securitized senior-subordinate notes through its K-Deals to transfer risk on nearly 90 percent of the UPB of its multifamily loan acquisitions. K-Deals transfer most of the credit risk to investors through subordinated bonds that are structured to absorb expected and unexpected credit risk. In addition, Freddie Mac continues to pursue other approaches to transfer credit risk on the remainder of its multifamily mortgages. In 2017, Freddie Mac used three such approaches: Structured Credit Risk (SCR) Notes, Multifamily Aggregation Risk Transfer (KT) Certificates, and the Whole Loan Investment Fund.

SCR Notes are unsecured and unguaranteed Freddie Mac corporate debt. These notes are subject to the credit risk of multifamily mortgage loans backing bonds issued by state and local housing finance agencies for which Freddie Mac provides credit enhancement. The SCR Notes transaction in 2017 transferred to investors a portion of the credit risk on multifamily loans with UPB of $1 billion.

KT Certificates transfer a portion of the credit risk associated with multifamily mortgage loans awaiting securitization in Freddie Mac K-deals. Freddie Mac executed two KT Certificate transactions in 2017, transferring to investors a portion of the credit risk on multifamily loans with UPB of $2 billion.

In 2017, Freddie Mac also initiated the Whole Loan Investment Fund, a vehicle to transfer risk on hard to securitize loans. The first transaction transferred credit risk on loans with $591 million of UPB.

III. Retained Mortgage Portfolios

Before the mortgage crisis, Fannie Mae and Freddie Mac accumulated very large portfolios of mortgages and mortgage-backed securities funded by unsecured debt they issued. As of March 31, 2009, Freddie Mac's retained mortgage portfolio was $867 billion, and Fannie Mae's was $784 billion. In large part, the Enterprises used their retained portfolios to hold investments on their books in order to generate income. The Enterprises' retained portfolios, however, also exposed them to significant credit, asset liquidity, and interest rate risks.

During conservatorship, each Enterprise has been required to reduce the overall size of its retained portfolio and to limit its ongoing use of the portfolio to support core activities of its single-family and multifamily businesses. For example, each Enterprise's single-family business aggregates loans purchased for cash from smaller sellers and purchases non-performing loans out of mortgage-backed securities to make investors whole and facilitate loss mitigation options that both reduce losses to the Enterprises and benefit borrowers.

The *2017 Scorecard* called for the Enterprises to continue implementing FHFA-approved plans to reduce their retained portfolios. Implementing those plans shifts credit, asset liquidity, and interest rate risks from the Enterprises to private investors. Each Enterprise's plan requires it to prioritize selling its less-liquid assets, such as non-agency securities, in a commercially reasonable manner, consistent with neighborhood stabilization. Each plan also requires that the Enterprise meet the annual cap imposed by the Senior Preferred Stock Purchase Agreement (PSPA) between the Enterprise and the Department of the Treasury and the $250 billion PSPA cap applicable on December 31, 2018, even under adverse conditions such as rising interest rates or falling house prices. To ensure that the PSPA cap is met even under such adverse conditions, FHFA requires each Enterprise to provide a buffer by meeting a cap that is 10 percent below the PSPA cap.

The Enterprises made significant progress in reducing their retained portfolios during 2017. At year-end, each Enterprise's retained portfolio was below the year-end 2017 PSPA cap of $288 billion. As of December 31, 2017, Freddie Mac's portfolio was approximately $253 billion, and

Fannie Mae's was approximately $231 billion, a reduction in their combined portfolios of $86 billion in 2017.

A number of activities contributed to the reduction in each Enterprise's retained portfolio in 2017. Most of the reduction at each Enterprise resulted from voluntary and involuntary prepayments. Liquidations, which include both prepayments and normal amortization of mortgage assets, totaled $47.1 billion at Freddie Mac and $41.4 billion at Fannie Mae. In addition, each Enterprise transferred risk to private investors through the sale of less-liquid assets — about $18.4 billion by Freddie Mac and about $14.0 billion by Fannie Mae. For both Enterprises, the less-liquid assets sold through auctions were predominantly private-label securities, re-performing loans (RPLs), and NPLs. Both Enterprises also securitized a significant amount of RPLs and sold those securities into the market.

With respect to diversity and inclusion, Freddie Mac continued efforts to work with MWDOBs. Despite a decline in its retained portfolio and funding needs, in 2017 Freddie Mac executed 311 more debt transactions with MWDOBs than in 2016. MWDOBs served as lead or a co-lead manager for most of Freddie Mac's callable floating-rate notes, and four different MWDOBs served as sole lead or co-lead manager on nine large floating-rate debt issuances totaling $6.4 billion.

In February 2018, FHFA approved the 2018 retained portfolio plans for the Enterprises, which indicate that both Enterprises will be significantly below the $250 billion PSPA cap applicable and the FHFA requirement of $225 billion by December 31, 2018. Fannie Mae is already below the $250 billion PSPA cap.

IV. Private Mortgage Insurer Eligibility Requirements (PMIERs) 2.0

In 2015, the Enterprises issued PMIERs for mortgage insurers (MIs) that are Enterprise counterparties. Those requirements set the criteria and terms an MI must meet to insure loans that are eligible for purchase by the Enterprises. PMIERs established financial standards that require MIs to demonstrate adequate resources to pay claims and operational standards relating to quality control processes and performance metrics. Noncompliance with the requirements or material deviations from the performance expectations trigger remediation.

The *2017 Scorecard* required the Enterprises to evaluate PMIERs to determine whether changes or updates were appropriate. The Enterprises worked collaboratively throughout 2017 to review PMIERs, identify areas for enhancement, and analyze proposed changes. The Enterprises solicited feedback on the proposed changes from MIs and state insurance regulators in late 2017. During 2018, FHFA will continue its evaluation and determine whether changes or updates to PMIERs are appropriate.

Build

The third and final strategic goal of the *2014 Conservatorship Strategic Plan* calls for building a new infrastructure for the securitization functions of the Enterprises that is adaptable for use by other market participants in the future. The *2017 Scorecard* continued to prioritize work by the Enterprises and Common Securitization Solutions, LLC (CSS) to develop the Common Securitization Platform (CSP) and a common, single Enterprise mortgage-backed security. The *2017 Scorecard* also required continued work to support the standardization of mortgage data. This section reviews progress on those initiatives in 2017.

I. Single Security Initiative and Common Securitization Platform

The CSP and Single Security Initiative (SSI) are significant, multiyear, interrelated projects that remain ongoing priorities of FHFA during conservatorship of the Enterprises. The Enterprises will use the CSP as the operational and technical platform through which they will issue and administer a common, single mortgage-backed security, to be known as the Uniform Mortgage-Backed Security or UMBS. The *2017 Scorecard* called for the Enterprises and CSS, the joint venture Fannie Mae and Freddie Mac established to develop and administer the CSP, to continue working with FHFA and each other to build and test the CSP. The *Scorecard* also called for the Enterprises to implement the changes necessary to integrate their systems and operations with the CSP, and to implement the SSI on the CSP in 2018. In addition, the *Scorecard* calls for the Enterprises and CSS to continue to work together to obtain and use input from the SSI/CSP Industry Advisory Group.

CSP Developments. To implement the SSI, the Enterprises and CSS are developing the CSP in two parts:

- Release 1 implements the CSP's Data Acceptance, Issuance Support, and Bond Administration modules for Freddie Mac's existing Single Class securities.
- Release 2 will allow both Enterprises to use those modules plus the Disclosure module to perform activities related to their current fixed-rate securities, both Single Class and Multi-Class; to issue UMBS and related resecuritizations, including commingled resecuritizations; and to perform activities related to the underlying loans.

Freddie Mac and CSS successfully implemented Release 1 on November 21, 2016. Since then, Freddie Mac has used CSS and the CSP to issue and settle approximately 1,000 new securities, representing about $57 billion in unpaid principal balance each month. For all of 2017, Freddie Mac used CSS and the CSP to issue and settle over 13,500 securities, with over $715 billion in UPB. In addition, Freddie Mac used CSS and the CSP to perform monthly bond administration functions related to its 260,000 outstanding Single Class securities, which are backed by approximately 9.8 million loans. In May, CSS executed a successful planned failover and failback exercise between its primary and emergency backup systems.

While Release 1 was a large and complex undertaking, completing Release 2 will entail additional complexity. Successfully completing Release 2 will require close coordination with many market participants and vendors, as well as close attention to software development and back-office operations.

In March, FHFA announced that Release 2 would be implemented in the second quarter of 2019, providing stakeholders with more than 24 months advance notice of final implementation.[10] FHFA extended the timeframe from the previously announced target of 2018 to provide sufficient time to complete the development, testing, and validation of controls, as well as the governance processes necessary to have the highest level of confidence that the implementation will be successful. On December 4, FHFA released ***An Update on the Single Security Initiative and the Common Securitization Platform*** (*December 2017 Update*), which provided more detail on Release 2 progress and reiterated the confidence of FHFA, CSS, and the Enterprises in meeting the revised timeline. On March 28, 2018, FHFA issued a ***news release*** announcing that the Enterprises will start issuing UMBS through CSS using Release 2 of the CSP on June 3, 2019.

To communicate progress and align expectations, FHFA developed a ***Common Securitization Platform and Single Security Timeline*** of key achievements and upcoming milestones with targeted completion dates. FHFA updates the timeline as the project milestones are met or revised.

Freddie Mac Implementation of Aligned Disclosures. On August 28, Freddie Mac implemented new investor disclosures for its existing single-family fixed-rate and adjustable-rate MBS. These disclosures provide standardized loan-level and pool-level data for all of Freddie Mac's existing PCs.

The new disclosures were designed by the Enterprises and FHFA to align investor disclosures across the Enterprises as part of the SSI. As part of the development of these new investor disclosures, Fannie Mae and Freddie Mac published the disclosure templates in July 2016 and further technical information in November 2016. Freddie Mac published test files to help market participants prepare for using the new disclosures in June and July 2017. Freddie Mac also published a Disclosure Guide providing details and technical specifications to facilitate changes

[10] ***An Update on the Implementation of the Single Security and the Common Securitization Platform***, March 23, 2017, p. 3.

that securities dealers, investors, and data and analytics vendors might need to make to their systems, software, or processes.

The successful implementation of the new disclosures, like the successful implementation of Release 1, is a key step toward industry alignment and implementation of the SSI.

Industry Outreach and Other Readiness Activities. The successful implementation of Release 2 and the transition of the TBA market to trading UMBS and Supers[11] requires planning, investment, and work on the part of many market participants. To prepare for implementation, during 2017 the Enterprises and FHFA have engaged in industry outreach, including two meetings of the Enterprises' Industry Advisory Group and meetings with trade associations, dealers, investors, seller-servicers, financial market utilities, vendors, and other market participants.

In conjunction with the outreach activities, FHFA and the Enterprises have developed and published materials about the SSI implementation on Enterprise and FHFA websites. These materials include regularly updated Frequently Asked Questions, technical information, CSP and SSI timelines, and FHFA ***Updates***. The Enterprises also produced a short video to explain the SSI to market participants and published the ***Single Security Initiative Market Adoption Playbook*** and an ***Illustrative Implementation Schedule***.

As implementation approaches, the Enterprises will accelerate and intensify their engagement with market participants. To do so, they are developing detailed communication and risk management plans. The Enterprises have also engaged Ernst & Young to assist in those activities and to help align readiness activities among Fannie Mae, Freddie Mac, FHFA, and market participants. As implementation approaches, the Enterprises will also support the creation of test environments, where appropriate.

In addition to industry outreach, the Enterprises have reached out to the Securities and Exchange Commission and the Internal Revenue Service to request guidance on accounting, tax, and regulatory issues related the Single Security Initiative. FHFA has reached out to federal banking and market regulators to ensure awareness of the SSI and to maintain open communications regarding regulatory or supervisory concerns.

Alignment Activities. FHFA and the Enterprises have worked together to develop processes to identify and align those Enterprise programs, policies, and practices that could

[11] Supers are single-class resecuritizations of UMBS analogous to Freddie Mac's Giants or Fannie Mae's Megas, which are resecuritizations of Freddie Mac's PCs and Fannie Mae's MBS, respectively.

materially affect prepayment speeds of UMBS issued by Fannie Mae and Freddie Mac. During 2017, FHFA provided additional information concerning the alignment of prepayments, including FHFA's guidelines for alignment on prepayment speeds, information on how each Enterprise has incorporated the analysis of potential prepayment effects into its change management process, and detailed examples of how FHFA monitors the *ex post* alignment of Enterprise prepayment speeds. More information on FHFA's work to ensure that there are policies in place to support prepayment speed alignment is included in the *December 2017 Update*.

II. Mortgage Data Standardization

The Uniform Mortgage Data Program (UMDP) is a multifaceted technology strategy first announced in May 2010 with the goal of standardizing data throughout the mortgage industry to improve lender efficiency, loan quality, and mortgage credit risk management. The *2017 Scorecard* called for Fannie Mae and Freddie Mac to continue collaborating with the mortgage industry to develop and implement uniform data standards for single-family mortgage loans, including the Uniform Closing Disclosure Dataset (UCD). In addition, the *2017 Scorecard* called for the Enterprises to assess and, as appropriate, implement strategies to improve the mortgage industry's ability to originate electronic mortgages (eMortgages) and deliver them to the Enterprises.

Uniform Closing Disclosure Dataset. The Enterprises have been developing the UCD since 2012 when CFPB published a proposed rule providing for Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act. The UCD allows firms in the mortgage industry to communicate information on the CFPB's Closing Disclosure electronically.

To accommodate industry concerns, the Enterprises are phasing in required use of the UCD in two stages. In September 2017, the Enterprises implemented the UCD process for borrower closing data information. The Enterprises, based on industry feedback, had previously announced a one-year delay for implementing collection of seller closing data and, in December 2017, further indicated that they will instead eventually require a minimum set of seller data. This minimum set of seller data will include items that have a direct impact on the eligibility of the loan for sale to the Enterprises, with details to be provided in 2018.

eMortgages. The *2017 Scorecard* called for the Enterprises to assess and implement strategies to improve the mortgage industry's ability to originate and deliver eMortgages. An eMortgage is a mortgage loan for which critical loan documentation, specifically the promissory note (eNote), is created, executed, transferred, and stored electronically. Interest in eMortgages is increasing as mortgage applicants look for automation, sellers seek to reduce costs and processing time, and the notary process continues to evolve.

The major focus for 2017 was addressing the complexity of the current eNote, identified by the mortgage industry as a major barrier to the adoption of eMortgages. The Enterprises updated specifications for the eNote to make it more compatible with industry standards and collaborated with the Mortgage Industry Standards Maintenance Organization (MISMO) SMART Doc Tamper Evident Workgroup to develop and publish the SMART Doc eNote specifications to the industry. They also provided more detailed implementation guidance and document samples to assist document providers in developing eNotes to the new standard, and announced a SMART Doc implementation timeline. In 2018, the timeline calls for testing and delivery of the new format to mortgage lenders and technology vendors. The Enterprises plan to require its use by industry participants in early 2019 if industry participants have had sufficient time for an orderly transition.

In November 2017, the Enterprises summarized progress made to address obstacles to eMortgages in ***GSE Efforts to Improve eMortgage Adoption: A Follow-up to the 2016 GSE Survey Findings Report***. Additionally, both Enterprises initiated pilots to explore ways to support eNotarization and remote notarization. eNotarization is the process of applying a notary seal electronically to an electronic document either in the physical or virtual (remote) presence of a notary. Remote notarization is a process by which a notary uses real-time, two-way audio-video communication to perform either an eNotarization or a paper notarization.

Conclusion

This *Progress Report* describes the major activities undertaken by Fannie Mae and Freddie Mac in 2017 to achieve the goals set forth in FHFA's *2014 Conservatorship Strategic Plan* and *2017 Scorecard*. FHFA welcomes public input on this Report. Feedback can be submitted electronically via FHFA.gov, or to the Federal Housing Finance Agency, Office of Strategic Initiatives, 400 7th Street, S.W., Washington, DC 20219. All pertinent submissions received will be made public and posted to FHFA's website.