



2015 SCORECARD PROGRESS REPORT

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

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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 these 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 (together, the Enterprises).

This Progress Report summarizes major activities of Fannie Mae and Freddie Mac in 2015 that contributed to achieving FHFA's strategic objectives as conservator of the Enterprises. FHFA set forth three such objectives in the *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (2014 Conservatorship Strategic Plan) issued on May 13, 2014:

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.

Since 2013, FHFA has issued an annual conservatorship scorecard that sets forth expectations for activities to be undertaken by the Enterprises to further the Agency's strategic goals as conservator. The *2015 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions* (2015 Scorecard), published on January 14, 2015, set forth FHFA's expectations for 2015 and assigned weights to the three goals to indicate their relative priority: **Maintain** (40 percent), **Reduce** (30 percent), and **Build** (30 percent).¹

¹ In this Progress Report on Enterprise activities undertaken in response to the 2015 Scorecard, all dates refer to 2015 unless stated otherwise.



The 2015 Scorecard called for the Enterprises to consider diversity and inclusion when conducting their respective business activities and initiatives. This Progress Report describes some of the actions the Enterprises initiated or continue to implement to promote diversity and inclusion in furtherance of the three strategic goals of the conservatorships.

Maintain

The first objective of FHFA's 2014 Conservatorship Strategic Plan is to maintain credit availability and foreclosure prevention activities in the housing finance market in a safe and sound manner. In 2015, the Enterprises worked to counter the restrained access to mortgage credit for creditworthy homebuyers that followed the financial crisis. FHFA called for the Enterprises to continue and expand efforts to help financially struggling borrowers and hardest-hit communities avoid or mitigate the impact of foreclosures. With rental housing affordability continuing to be a significant challenge in a growing multifamily market, FHFA also expected the Enterprises to support affordable multifamily lending as well as provide a liquidity backstop, when needed, in the overall multifamily finance market. This section describes activities undertaken by the Enterprises in support of those priorities.

I. Access to Mortgage Credit for Creditworthy Borrowers

The 2015 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. In fulfillment of that expectation, the Enterprises worked to: 1) continue to improve their selling Representation and Warranty Framework; 2) provide clarity about their expectations for servicer performance and remedies, where appropriate; 3) enhance their minimum servicer eligibility standards; 4) continue to expand their partnerships with small and rural lenders and housing finance agencies; 5) assess and take steps to address impediments to access to credit; 6) assess the feasibility of using updated or alternate credit score models in their business operations; and 7) prepare to implement Duty to Serve requirements upon publication of a final rule by FHFA.

Selling Representation and Warranty Framework. FHFA and the Enterprises have been engaged in a multiyear effort to improve their selling Representation and Warranty Framework (Framework). The effort seeks to responsibly address lending industry concerns about uncertainty regarding when a mortgage loan may be subject to repurchase and how that uncertainty has contributed to increased credit overlays that drive up lending costs and reduce access to credit.



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Prior to this effort, the Enterprises had significant discretion to determine whether a loan had underwriting defects and what constituted an appropriate remedy for a defective loan. When delinquency rates rose and repurchase requests increased, lenders believed that many of the delinquencies were caused by the severe recession rather than poor underwriting and, therefore, not appropriately subject to repurchase. The improved Framework seeks to enhance transparency and certainty for lenders by clarifying when a mortgage loan may be subject to repurchase.

Improvements to the Framework began in January 2013 with the introduction of representation and warranty relief for underwriting the borrower and property when a loan meets certain payment history requirements, such as 36 consecutive on-time monthly payments by the borrower. Additional enhancements to the Framework were announced in 2014. They included adjusting the payment history requirement to allow up to two delinquencies of 30 days or less within the first 36 months after loan purchase, allowing lenders to stand in for an insurer when mortgage insurance is rescinded after delivery, and clarifying the life-of-loan exclusions to the relief granted.

These improvements provided more certainty for lenders, facilitated greater liquidity to the primary market, and helped increase access to credit without compromising safety and soundness. However, lenders continued to express concerns about the opaque nature of the Enterprises' enforcement of their credit and collateral standards and their quality control review processes.

The Enterprises took significant steps in 2015 to finalize improvements to the Framework. In January, FHFA, the Enterprises, and various lenders actively collaborated to address lending industry concerns over the lack of predictability and transparency in the enforcement of the Enterprises' credit and collateral standards. This collaboration resulted in the publication of *Selling Guide* announcements in October that defined the severity levels for loan origination defects and the process for remedying them. These announcements also granted lenders an explicit right to correct loan defects and provided additional transparency regarding the Enterprises' discretion when reviewing a loan and determining whether a representation and warranty breach has occurred.

In February 2016, the Enterprises and FHFA finalized the last enhancement of the Framework, an independent dispute resolution program for use in certain contested repurchase requests. Under this program, which was developed with input from the lending community, a neutral third party will determine whether a breach of representations and warranties exists to support a repurchase request.



FHFA and the Enterprises are also continuing work on a complementary effort to assess the possibility of granting appraisal-related representation and warranty relief shortly after acquiring a loan. In 2015, both Enterprises developed tools that provide lenders with information about appraisal quality. Both Enterprises are now using these tools in independent pilots to assess the feasibility of representation and warranty relief on certain elements of collateral. These pilots are in their very early stages. Throughout 2016, the Enterprises will continue to evaluate the collateral pilots by observing, analyzing, and reporting findings, as well as refining the appraisal-related tools, in an effort to provide lenders as much certainty as possible about appraisal quality. Upon conclusion of the pilots, FHFA will work with the Enterprises to determine what, if any, appraisal-related representation and warranty relief is appropriate.

Expectations for Servicer Performance. The 2015 Scorecard called for the Enterprises to continue to provide clarity regarding their expectations for servicer performance and remedies, where appropriate. On December 16, the Enterprises announced an aligned Servicing Defect Remedy Framework that places servicing defects into categories—such as Title, Property Preservation, and Loss Mitigation—and provides the types of remedies for each category. Remedies range from making a correction, indemnifying the Enterprise, or, in the most serious circumstances, repurchasing the mortgage loan.

Servicer Eligibility Standards. FHFA and the Enterprises worked to enhance the Enterprises' minimum servicer eligibility standards. On January 30, FHFA announced proposed financial eligibility requirements for seller/servicers. On May 20, after FHFA and the Enterprises received input from industry participants, trade associations, and other interested parties, the Enterprises announced finalized financial and operational eligibility requirements for seller/servicers. The new requirements are intended to help ensure the safe and sound operation of the Enterprises, take into consideration the changes taking place in the servicing industry, and provide greater transparency, clarity, and consistency to industry participants and other stakeholders.

The financial eligibility requirements state that all sellers and servicers, including depository institutions, must have a minimum net worth of \$2.5 million plus 25 basis points of the unpaid principal balance (UPB) of the single-family mortgage loans they service. Also, non-depository seller/servicers must have a minimum capital ratio of tangible net worth of six percent of total assets. Non-depository seller/servicers must also meet additional liquidity requirements. Depository institutions are already required to meet the capital ratio and liquidity requirements of their prudential regulator. The financial eligibility requirements took effect December 31, while the new operational eligibility requirements became effective no later than September 1.



Expanding Lender Participation. During 2015, the Enterprises continued to expand their partnerships with small and rural lenders and housing finance agencies (HFAs). The Enterprises' increased focus on small lenders included meeting with trade groups, providing training, and improving customer service. Fannie Mae and Freddie Mac added 102 small lenders as approved sellers in 2015, far exceeding FHFA's combined target goal of 25. FHFA and the Enterprises continue to work with small-lender trade groups on common concerns, such as appraisals in rural areas. Freddie Mac increased its outreach to HFAs, including meetings with management and attending trade shows to provide training. Fannie Mae continued to offer a training curriculum for HFAs and their originators and educated sellers on HFA Preferred, a lending product available to eligible HFAs to serve low- to moderate-income borrowers.

Both Enterprises also developed plans for conducting outreach to identify the challenges minority-serving financial institutions may encounter when participating in the secondary mortgage market. Freddie Mac conducted broad outreach involving a wide variety of groups, including customers, potential customers, trade groups, think tanks, government agencies, policy advocates, and institutions. Based on the opportunities and challenges identified through the outreach, Freddie Mac developed a single-family diversity and inclusion strategy and recommendations to encourage greater participation by institutions serving minority communities and to increase lending to minority borrowers. Fannie Mae developed a plan for encouraging greater participation in the secondary mortgage market by minority-serving institutions, which includes providing technical assistance, increased one-on-one lender engagement, and the development of Spanish language program and product materials.

Impediments to Access to Credit. As outlined in the 2015 Scorecard, FHFA expected the Enterprises to continue to assess impediments to access to credit. The Enterprises met this expectation in three ways.

First, the Enterprises refined and improved products targeted to borrowers with lower credit scores who have other compensating factors that reduce credit risk. This involved researching, developing, and proposing potential strategies to address the decline in mortgage loans to finance home purchases made to borrowers whose credit scores fall in the middle of the range (660 to 740).

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Freddie Mac responded, in part, with a Pre- and Post-Closing Quality Control Pilot to increase lender confidence in originating and selling mortgage loans that have high loan-to-value (LTV) ratios and are made to borrowers with mid-range credit scores. Freddie Mac also announced changes to its Home Possible Advantage product when compensating factors exist. Terms of the product, as modified, include:

- Maximum LTV ratio of 97 percent;
- Limited to fixed-rate mortgages;
- Eligible annual income of up to 100 percent of Area Median Income or higher in select counties, with no income limit in underserved areas;
- Use of alternate sources of funds to meet down payment and closing cost requirements, including gifts, grants, or a subordinate mortgage;
- Limits on eligible properties that exclude manufactured homes;
- No cash-out refinances for borrowers;
- Reduced mortgage insurance coverage of 18 percent; and
- Mandatory housing counseling.

Fannie Mae responded with a product, HomeReady, which replaced its MyCommunityMortgage product. HomeReady's loan purchase guidelines use compensating factors. Key features of HomeReady include:

- No income limit for properties in low-income census tracts;
- Use of alternate sources of funds to meet down payment and closing cost requirements, including gifts, grants, or a subordinate mortgage;
- Allowing non-occupant borrowers, such as a parent, on the loan application;
- Use of documented income from non-borrower household members as a compensating factor when the borrower's debt-to-income (DTI) ratio is above 45 percent and up to 50 percent;²
- Consideration of rent payments from a boarder as income if there is documentation of a prior shared residency for at least 12 months;

² However, the non-borrower household member's income does not impact the calculation of the borrower's income or DTI.



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- Eligibility for manufactured housing secured as real estate with LTV ratios up to 95 percent; and
- Mandatory housing counseling prior to loan approval.

Second, both Enterprises actively worked with nonprofit advocacy groups to discuss housing counseling opportunities to ensure sustainable homeownership and took the following actions as a result. Under its HomeReady program, Fannie Mae required Department of Housing and Urban Development (HUD) approval of origination counselors. In addition, Fannie Mae collaborated with a HUD-approved counseling group to develop a homebuyer education website and to provide a post-modification counseling program. Freddie Mac funded nonprofits to manage borrower help centers to help distressed borrowers seeking assistance from trained counselors.

Third, Fannie Mae and Freddie Mac engaged in outreach to a wide variety of groups—including seller/servicers, potential seller/servicers, trade groups, think tanks, government agencies, policy advocacy groups, and other institutions—in an effort to understand how the Enterprises could better support efforts to responsibly increase access to credit for minorities and underserved communities. For example, Freddie Mac found that some borrowers face challenges in obtaining mortgage credit because of a lack of information about what a credit score is and how to manage it over time or, where their primary language is not English, because of language access difficulties.

Alternate Credit Score Models. In 2015, FHFA and the Enterprises started a process to assess the feasibility of using updated or alternate credit score models in their business operations. As part of their work in 2015, the Enterprises assessed relevant factors, including the operational and technological implications of any changes for the Enterprises and the broader housing finance industry. This involved data and business process analysis to assess the impact not only to the Enterprises, but also to consumers, sellers, investors, and vendors.

This issue remains an ongoing priority for FHFA and is included again in the Enterprises' 2016 Scorecard. FHFA will continue to work with the Enterprises towards concluding this assessment during 2016.

Duty to Serve. The 2015 Scorecard expected the Enterprises, as part of efforts to increase access to mortgage credit for creditworthy borrowers, to prepare to implement Duty to Serve requirements upon publication of a final rule by FHFA. The Housing and Economic Recovery Act of 2008, which amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, established a duty for the Enterprises to serve very low-, low-, and moderate-



income families in three underserved markets—manufactured housing, affordable housing preservation, and rural housing—with the objective of increasing the liquidity of mortgage investments and improving the distribution of investment capital available for mortgage financing in each market.

During 2015, FHFA worked on a new proposed rule to implement these requirements. FHFA reviewed a prior rule the Agency had proposed in 2010, completed significant research on the underserved markets, vetted policy options, and consulted with industry and consumer advocacy stakeholders. FHFA issued the proposed rule on December 15th and invites public comment on the proposal. The comment period is open until March 17, 2016.

In anticipation of FHFA's rulemaking, the Enterprises took steps during 2015 toward better serving the underserved markets. For example, Fannie Mae added manufactured housing secured by real estate to the eligibility guidelines for the HomeReady product mentioned above. In addition, both Enterprises conducted outreach with stakeholders involved in the underserved markets. FHFA expects the Enterprises to continue their efforts in the three markets during 2016 in preparation for implementing the regulatory requirements upon publication of FHFA's final rule.

II. Loss Mitigation and Foreclosure Prevention Activities

The 2015 Scorecard called for the Enterprises to implement effectively key loss mitigation activities, thereby enabling borrowers to stay in their homes and avoid foreclosure where possible. In fulfillment of that expectation, the Enterprises worked to 1) expand participation in the Home Affordable Refinance Program (HARP) program, 2) help Home Affordable Modification Program (HAMP) borrowers facing interest-rate resets, 3) modify and expand the Neighborhood Stabilization Initiative (NSI) based on lessons from the NSI pilot, 4) reduce their holdings of severely aged delinquent loans, and 5) continue to seek to reduce the costs of lender-placed hazard insurance.

HARP Replacement and Outreach. The 2015 Scorecard expected the Enterprises to pursue opportunities to encourage borrowers who are currently eligible for HARP to take advantage of this beneficial refinance opportunity. Introduced in 2009 as part of the Administration's Making Home Affordable programs, HARP gives eligible borrowers whose mortgage loans are owned or were securitized by either Enterprise, and who have little or no home equity, the opportunity to refinance into loans with more affordable payments. HARP is a key component of the Enterprises' support for the strategic goal of ensuring credit availability for refinanced mortgages.



In May FHFA announced an extension of HARP to the end of 2016. As of September, FHFA estimated that more than 367,000 borrowers were still eligible for HARP and stood to benefit financially from a HARP refinance but had yet to take advantage of the program.

To continue to encourage HARP-eligible homeowners to refinance, FHFA also engaged in outreach efforts in Newark, Phoenix, and Columbus, joined by the U.S. Department of the Treasury, the Enterprises, local lenders, and housing organizations. Further, FHFA hosted a HARP webinar focused on Ohio. These efforts were geared towards areas with the highest concentration of HARP-eligible homeowners and leveraged community leaders and other trusted local advisors to promote the program. FHFA and the Enterprises also used social media campaigns to help publicize HARP.

Solutions for HAMP Borrowers Facing Rate Resets. The 2015 Scorecard called for the Enterprises to propose and implement solutions for borrowers who have received loan modifications under HAMP and are facing rate resets.³ In January, FHFA directed the Enterprises to implement a \$5,000 pay-for-performance incentive that reduces the outstanding principal of HAMP borrowers who have remained in good standing through the end of the sixth year of their modification. A primary reason for adoption of this incentive was to soften the impact of payment increases for borrowers who experience rate resets.

In March, each Enterprise announced changes to its Streamlined Modification product that reduced the delinquency standard from 90 to 60 days for borrowers who recently experienced a rate reset. In May, FHFA directed the Enterprises to eliminate the sunset date for their Streamlined Modification products. A primary reason for ensuring the continuing availability of this loss mitigation tool is its critical role as a solution for HAMP borrowers who are facing rate resets. FHFA worked with both Enterprises to ensure that they developed borrower communication materials that clearly describe this as an option available to delinquent borrowers who have experienced a recent rate reset.

The Enterprises also identified HAMP borrowers facing resets who are eligible for HARP and would benefit from refinancing. While the population was relatively small (approximately 16,000 loans), the Enterprises provided servicers with information to enable them to solicit the borrowers for HARP.

³ A HAMP modification lowers the borrower's pre-tax debt-to-income ratio to 31 percent by lowering the interest rate on the mortgage loan to as low as two percent. After five years the rate increases by 1 percentage point per year until the borrower is at the prevailing rate when the modification was offered.

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The number of homeowners affected by HAMP modifications with rate resets will peak in 2016. During the course of the year, FHFA will work closely with the Enterprises to monitor the loan performance of these borrowers and to ensure that the Enterprises have adequate solutions in place.

Neighborhood Stabilization Initiative. The 2015 Scorecard called for the Enterprises, as part of their key loss mitigation activities, to develop and execute additional strategies to reduce the number of vacant real estate owned (REO) properties they hold. The Enterprises were expected to give consideration to tools such as sales to non-profit organizations, repairs to REO properties before third-party sale, and demolition or possible donation of uninhabitable properties. The Scorecard also called for the Enterprises to leverage NSI in developing these strategies to improve outcomes in hardest-hit markets.

FHFA, in collaboration with the Enterprises, developed NSI in 2014 as a pilot effort to assist the most distressed communities as measured by the number of seriously delinquent loans and foreclosed properties. The pilot sought to test innovative pre- and post-foreclosure strategies aimed at stabilizing selected distressed communities. The Enterprises launched the NSI pilot in Detroit in June 2014 and expanded it to include Cook County (Chicago) in April 2015.

Since the start of NSI, FHFA has worked closely with the Enterprises to analyze current risks in their REO portfolios and to identify the markets in which the NSI REO approaches could be utilized to successfully stabilize targeted neighborhoods. Based on lessons learned from the NSI pilot, FHFA and the Enterprises agreed that a broad-based REO stabilization program could be successfully implemented in multiple markets using infrastructure created through the pilot.

Building on a partnership with the National Community Stabilization Trust (NCST), the NSI expansion features the Enhanced First Look program in identified metropolitan statistical areas (MSAs). Through Enhanced First Look, the Enterprises offer NCST-approved community buyers an exclusive opportunity to purchase REO properties without competition from other potential purchasers prior to marketing the properties through Multiple Listing Services. The sales prices of REO properties are established using a cost-avoidance framework that reduces the list price for a property based on estimates of the costs the Enterprise would otherwise incur for the preservation, maintenance, marketing, and sale of the property and takes into consideration a quick and certain sale.

On December 1, the NSI expansion became effective for the following 18 MSAs: Akron, Atlanta, Baltimore, Chicago, Cincinnati, Cleveland, Columbus, Dayton, Detroit, Jacksonville, Miami, New York, Orlando, Philadelphia, Pittsburgh, St. Louis, Tampa, and Toledo.



Sales of Non-Performing Loans. The 2015 Scorecard called for the Enterprises to develop and execute additional strategies to reduce their holdings of severely aged delinquent loans. Sales of non-performing loans (NPLs) can improve outcomes for delinquent borrowers because the purchaser's financial interest is in having borrowers re-perform on their loans and in avoiding foreclosure where possible. Purchasers typically transfer loan servicing to a specialty servicer skilled at working with borrowers to achieve a mutually beneficial outcome. Thus, an NPL sale can increase the potential for a borrower to benefit from foreclosure avoidance actions, such as a HAMP or proprietary modification, forbearance, a short sale, or a deed-in-lieu transaction.

NPL sales also enable the Enterprises to reduce their retained portfolios while improving the liquidity of legacy servicers by settling outstanding compensatory fees and penalties that such servicers owe. Further, NPL sales may allow an Enterprise to lower its counterparty risk by accelerating mortgage insurance claims and commuting policies with private mortgage insurance companies on select NPLs prior to sale. NPL auctions are open to any qualified bidders, which encourages private capital to invest in single-family mortgage credit risk.

After conducting an initial pilot NPL sale in August 2014 that covered mortgage loans with a UPB of \$596 million, Freddie Mac conducted a second pilot sale in March 2015 that covered \$349 million of UPB.

Also in March 2015, FHFA published enhanced NPL sales requirements that seek to further reduce Enterprise losses and improve borrower and neighborhood outcomes. The enhanced requirements are designed to:

- Encourage participation from a diversified group of bidders by expanding pre-bid marketing efforts;
- Improve the likelihood that delinquent borrowers receive assistance after the sale of the loans by requiring servicers to show evidence that they have the experience and capability to offer foreclosure prevention actions. (The enhanced requirements obligate bidders to identify their servicing partners and complete a servicing questionnaire to demonstrate a record of successful resolution of loans through alternatives to foreclosure.);
- Prevent foreclosure whenever possible by requiring servicers to apply a waterfall of resolution tactics that includes evaluating borrower eligibility for a loan modification, a short sale, and a deed-in-lieu of foreclosure, with foreclosure as the last option, in addition to considering net present value to the purchaser;

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- Ensure that borrowers are evaluated for loan modifications by requiring servicers to evaluate all pre-2009 borrowers (other than those whose foreclosure sale date is imminent or whose property is vacant) for the Administration's Making Home Affordable programs, including HAMP, and to evaluate all post-January 1, 2009 borrowers (other than those with an imminent foreclosure sale date or vacant property) for a proprietary modification (any such proprietary modification may not include an upfront fee or prepayment of any debt and must provide a benefit to the borrower with the potential for a sustainable modification);
- Require marketing to owner-occupants and nonprofits first when an NPL results in an REO property;
- Encourage bids from nonprofit groups that have the objective of stabilizing neighborhoods by offering smaller pools; and
- Improve the transparency of the sale process and of borrower outcomes post-sale by increasing pre-sale and post-sale disclosures.

After issuing the enhanced requirements, FHFA gave approval to Freddie Mac to conduct ongoing NPL sales, and Freddie Mac conducted eight more sales in 2015. The transactions included 24 loan pools traded from five servicers covering 24,372 loans. The sales included two different kinds of loan pools: 1) large, geographically diverse pools and 2) smaller, more geographically concentrated pools. For auctions in the second category, Freddie Mac provided more time between the transaction announcement and the due date for bids in an effort to give smaller potential investors extra time to secure funds to participate.

Applying the enhanced requirements issued by FHFA, Fannie Mae also conducted a pilot NPL sale in June that covered 2,477 loans. After receiving FHFA approval to conduct ongoing sales, Fannie Mae conducted two more NPL sales in 2015. The transactions included six pools of collateral covering 7,965 loans.

Both Enterprises developed pages related to NPL sales on their web sites to educate and assist interested bidders. In an effort to encourage more nonprofit bidders, both also hosted one-day NPL seminars featuring overviews of bidder-qualification, eligibility, and data-room-access requirements, and bidding, funding, closing, and servicing processes.

To ensure more diversity and inclusion in the NPL sales, the Enterprises worked to strengthen existing relationships with diverse broker-dealers. For each NPL transaction, both Enterprises engaged diverse broker-dealer firms to help market NPL sales to nonprofits and small investors. The broker-dealer firms helped potential buyers qualify to participate in the sales. Both



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Enterprises also examined additional opportunities to increase the participation of diverse vendors in transaction-related services involving NPLs.

The Enterprises and FHFA will assess borrower outcomes of NPL sales going forward. Because of the time it takes to transfer sold loans to a new servicer, evaluate borrowers for foreclosure prevention actions and complete trial periods for loan modifications, it requires six to twelve months after the date of an NPL sale to receive meaningful data on borrower outcomes. FHFA plans the first public release of NPL sales data in 2016.

Lender-Placed Insurance. When a borrower fails to maintain current hazard insurance on a property covered by an Enterprise-guaranteed mortgage loan, which often coincides with the borrower being unable to make the monthly payments on the loan, the Enterprises require the servicer to buy hazard insurance on the borrower's behalf to protect the property. For several years, FHFA has been working with the Enterprises to address concerns about certain practices related to, and the cost of, such "lender-placed insurance" (LPI).

The 2015 Scorecard expected the Enterprises to continue to engage in efforts to reduce the costs of LPI. FHFA continued to review the Enterprises' LPI arrangements during the year and directed the Enterprises to establish an aligned, three-tiered minimum deductible for LPI coverage. This raised deductibles in order to lower premium costs. These efforts built on a directive that FHFA issued in 2013 that prohibited Enterprise servicers from receiving commissions or similar incentive-based compensation from LPI carriers.

There was also a state-led, targeted market-conduct examination ongoing in 2015 that built on some states requiring rate re-filings as well as earlier work by FHFA's "LPI Regulatory Working Group." This group, which consisted of at least six federal agencies and ten state insurance regulators, held multiple in-person and phone meetings over two years and highlighted questionable LPI practices and the need for regulatory intervention.

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

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



III. Multifamily Credit Guarantee Business

To further the strategic goal of maintaining the presence of Fannie Mae and Freddie Mac as a backstop for the multifamily finance market while not impeding the participation of private capital, the 2015 Scorecard continued the loan production caps of \$30 billion on each Enterprise's multifamily business that had been imposed in 2013 and 2014. However, because the multifamily market grew beyond FHFA's projections for 2015, FHFA revised the 2015 Scorecard to exclude an expanded range of mission-related finance activities from those caps. The exclusions covered financing for subsidized affordable housing, manufactured housing communities, small multifamily properties (those with between 5 and 50 units), and market-rate units that are affordable to tenants at various income levels in standard, high-cost, and very-high cost rental markets. This approach does not constrain the Enterprises' ability to support affordable and underserved segments of the multifamily market.

In 2015, neither Enterprise's total multifamily finance activity for the year—about \$42.3 billion for Fannie Mae and \$47.3 billion for Freddie Mac—exceeded the Scorecard's loan production caps under the revised, mid-year definitions. Thirty percent or more of each Enterprise's total activity was within the category of loans excluded from the production caps. In 2016, FHFA has further broadened the category of loans excluded from the caps to include loans for affordable properties in rural areas and for energy efficiency improvements in Enterprise-financed properties. Under the 2016 Scorecard, FHFA will also review the size of the multifamily market quarterly and adjust the cap upwards if necessary.

The size of the 2015 multifamily mortgage market was substantially larger than in 2014, reflecting a higher demand for financing due to increased numbers of maturing loans, high levels of property acquisitions, and the need for permanent financing on newly constructed properties. Overall demand was enhanced by continued low interest rates and very low vacancy rates.

The Enterprises' combined share of new multifamily originations was about 35 percent, or slightly greater than in the two previous years. This level is close to their average market share in the years before 2008 when the financial crisis began.

In 2015, both Enterprises implemented or improved other initiatives designed to support affordable and underserved segments of the multifamily market. Both Enterprises enhanced their existing loan programs to better serve small multifamily properties and to help renovate and preserve older subsidized affordable housing properties. Both also offered new ways to guarantee tax-exempt housing bonds to promote greater use of this type of financing. Further, both Enterprises offered programs designed to renovate and upgrade older market-rate properties to improve housing quality and adapt older units for modern renter needs. These initiatives are



examples of the Enterprises' efforts to fulfill their statutory mandate to serve all multifamily market segments.

Reduce

The 2014 Conservatorship Strategic Plan focused on reducing taxpayer risk by increasing the role of private capital in the secondary mortgage market. To further that objective, the 2015 Scorecard called for the Enterprises to: 1) expand the volume and types of transactions that transfer single-family mortgage credit risk to the private sector, 2) determine the feasibility of transacting additional types of transfers of multifamily mortgage credit risk, 3) continue to implement approved plans to reduce their retained mortgage portfolios, and 4) implement finalized counterparty risk management standards for private mortgage insurers eligible to do business with them. This section describes Enterprise activities in 2015 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. In so doing, the Enterprises sell the interest rate and liquidity risk associated with holding mortgage loans, but retain the credit risk—the risk of loss from non-payment by the borrowers. Since 2012, FHFA has had an objective of transferring much of this credit risk to private investors to reduce taxpayer risk.

Over the last three years, the Enterprises have developed credit risk transfer programs that have successfully sold single-family mortgage credit risk to private investors. By 2015, these programs had become a regular part of the Enterprises' single-family credit guarantee business, applicable to about 90 percent of the UPB of their acquisitions of single-family mortgage loans targeted for risk transfer.

The programs target fixed-rate, non-HARP loans with terms over 20 years and LTV ratios above 60 percent, which pose most of the credit risk of new single-family acquisitions. The programs involve credit risk transfers via debt issuances, insurance/reinsurance transactions, senior-subordinate securitizations, and a variety of lender recourse transactions.⁴

⁴ For a detailed description of each type of transaction, see Federal Housing Finance Agency, *Overview of Fannie Mae and Freddie Mac Credit Risk Transfer Transactions* (August 2015), <http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CRT-Overview-8-21-2015.pdf>.

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Overall Activity in 2015. For the third consecutive year, FHFA increased its expectations for the volume of the Enterprises' single-family credit risk transfer transactions. Specifically, Fannie Mae was expected to conduct transactions involving single-family loans with a UPB of at least \$150 billion, and the comparable target for Freddie Mac was \$120 billion. These amounts represented increases from the 2014 Scorecard expectations of \$90 billion and the 2013 Scorecard expectations of \$30 billion for each Enterprise. As was true for the previous year, the 2015 Scorecard also called for each Enterprise to execute a minimum of two different types of transactions. FHFA expected the Enterprises to conduct all activities undertaken in fulfillment of these objectives in a manner consistent with safety and soundness.

Fannie Mae and Freddie Mac comfortably met these expectations in 2015 (see Table 1). The Enterprises executed combined credit risk transfers on single-family mortgage loans with a total UPB of approximately \$417 billion. These credit risk transfers took place through 43 separate transactions in which the combined value of either the notes issued or the risk-in-force (for insurance/reinsurance deals) totaled approximately \$16.8 billion.

Table 1: Enterprise Single-Family Mortgage Credit Risk Transfer Activity, 2013-2015

		Note Size or RIF ¹ (billions)	Covered Mortgage Loans ² (billions)	Number of Transactions	Scorecard Goal (billions)	Actual vs. Scorecard	
						(billions)	(percent)
2013	Fannie Mae	\$0.8	\$31.2	3	\$30.0	\$1.2	104%
	Freddie Mac	\$1.2	\$44.8	3	\$30.0	\$14.8	149%
	Total	\$2.0	\$75.9	6	N/A		
2014	Fannie Mae	\$6.1	\$218.8	11	\$90.0	\$128.8	243%
	Freddie Mac	\$5.6	\$126.1	10	\$90.0	\$36.1	140%
	Total	\$11.7	\$344.8	21	N/A		
2015	Fannie Mae	\$7.3	\$228.8	21	\$150.0	\$78.8	153%
	Freddie Mac	\$9.5	\$188.3	22	\$120.0	\$68.3	157%
	Total	\$16.8	\$417.1	43	N/A		
2013- 2015	Fannie Mae	\$14.2	\$478.8	34	N/A		
	Freddie Mac	\$16.3	\$359.2	34	N/A		
	Total	\$30.6	\$837.9	70	N/A		

Source: Federal Housing Finance Agency

N/A = Not Applicable

¹ Volume of notes issued in debt transactions or risk-in-force (RIF) in insurance/reinsurance transactions. Equals the maximum credit loss exposure of private investors.

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



Debt Issuances. The debt issuance products—Connecticut Avenue Securities (CAS) for Fannie Mae and Structured Agency Credit Risk (STACR) securities for Freddie Mac—accounted for a large percentage of the credit risk transfer volume in 2015 and have accounted for about 83 percent of all risk transfers to date.

As part of its STACR issuances in 2015, Freddie Mac for the first time transferred to investors a portion of the initial credit losses on the underlying mortgage loans. Both Enterprises had previously retained the initial credit losses on the loans underlying earlier debt issuances. Freddie Mac implemented this change for all of its 2015 STACR deals, and Fannie Mae did so for its first CAS transaction in 2016.

Freddie Mac also altered the structure of the STACR securities issued in 2015 to transfer credit risk based on actual credit loss amounts, as investors generally prefer, rather than based on defined credit losses calculated by a formula, as with previous STACR deals. That change was made possible by Freddie Mac's release in late 2014 of about 15 years of loan-level data on actual single-family mortgage credit losses. Fannie Mae also released actual loss data in mid-2015 and later in the year converted the structure of its CAS bonds to transfer risk based on actual losses.

Insurance/Reinsurance and Other Products. The insurance/reinsurance products—Agency Credit Insurance Structure (ACIS) for Freddie Mac and Credit Insurance Risk Transfer (CIRT) for Fannie Mae—and other product types described below saw significant growth in both volume and the number of transactions in 2015. These products accounted for about 25 percent of total risk transfers during the year.

Innovations. Fannie Mae and Freddie Mac implemented a number of new risk transfer products and product innovations in 2015. Fannie Mae completed several collateralized recourse transactions, in which sellers share the credit risk of pools of mortgage loans securitized by Fannie Mae. A Fannie Mae CIRT transaction transferred credit risk on adjustable-rate mortgage (ARM) loans in the first risk transfer involving ARMs by either Enterprise. In addition, Freddie Mac completed two senior/subordinate securitizations. These deals transferred the credit risk on pools of super-conforming mortgage loans, which are originated in designated high-cost areas and have balances between the national conforming loan limit and higher limits applicable in high-cost areas.

Diversity and Inclusion Efforts. The Enterprises developed plans to evaluate current qualification requirements that may present impediments, challenges, or unwarranted barriers to participation in Enterprise single-family credit risk transfer initiatives by diverse firms. Fannie

Mae implemented a pilot program to expand the role of diverse selling group members involved in single-family credit risk transfer transactions, conducted broad outreach to a number of diverse dealers, and provided dealer product training on credit risk transfers. Freddie Mac focused on gaining a better understanding of the impediments facing diverse firms, being proactive in educating diverse firms about its credit risk transfer programs, and communicating performance results for transactions in which the firms participated.

2016 Scorecard Expectations. In the 2016 Scorecard, FHFA set the Enterprises' single-family credit risk transfer goals as a percentage of each Enterprise's acquisitions rather than as a fixed dollar amount as had been done in the past. Specifically, each Enterprise is expected to transfer credit risk on at least 90 percent of the UPB (subject to market conditions) of newly acquired single-family mortgage loans in the categories targeted for risk transfer. This change recognizes that the Enterprises are currently conducting risk transfers on nearly all single-family mortgage loans for which risk transfer is economically sensible. It also recognizes that the overall volume of loans acquired by each Enterprise may fluctuate over time and allows the expected volume of credit risk transfer transactions to adjust automatically to reflect such fluctuations.

The 2016 Scorecard also calls for the Enterprises to work with FHFA to conduct an analysis and assessment of front-end credit risk transfer transactions. Those efforts will include work to support an FHFA Request for Input that will be issued in the near future.

FHFA also expects the Enterprises to continue to evaluate, and implement if economically feasible, ways to transfer credit risk on other types of newly acquired single-family mortgages that are not included in the categories now targeted for risk transfer. Further, the Enterprises are expected to continue to evaluate obstacles to expanding the investor base, propose ways to overcome these challenges, and work with FHFA to address them where possible.

II. Credit Risk Transfers for Multifamily Credit Guarantee Business

The 2014 Scorecard called for each Enterprise to assess the economics and feasibility of adopting additional types of credit risk transfer structures in its multifamily business. The 2014 Scorecard also tasked the Enterprises with assessing the feasibility of increasing the amount of credit risk transferred via their existing multifamily credit risk transfer structures (Fannie Mae's Delegated Underwriting and Servicing (DUS) lender loss-sharing or Freddie Mac's K-Deal capital markets execution).

Although the 2014 analysis concluded that each Enterprise's current multifamily business models were already transferring significant amounts of credit risk to private investors, a number

of potential ways for transferring additional risk were identified, either within the guaranteed securities issued by the Enterprises or by reducing reliance on their retained portfolios to support certain aspects of the multifamily business process.

The 2015 Scorecard directed the Enterprises to assess the feasibility of the identified risk transfer structures and to initiate any risk transfers that proved feasible. The feasibility assessments would determine the structures' market acceptance, their cost and effectiveness at transferring risk, and their ability to support a larger scale of multifamily credit risk transfer activity. To meet these objectives, Freddie Mac adopted several new approaches to securitize older loans held in its portfolio, securitize supplemental loans provided to existing borrowers, re-securitize military housing bonds it had purchased, and use securitization to transfer risk through a third-party investment fund. Freddie Mac also developed a securitization-based approach to create a fund to finance loan acquisitions during the aggregation period prior to K-Deal issuance. Fannie Mae completed a large volume of transactions under its Performing Note Sales program, transferring significant additional credit risk to the market. Fannie Mae is also engaged in the early stages of a transaction that would transfer portions of the credit risk of its guaranteed multifamily securities, in a manner similar to its existing single-family credit risk transfers, with a pilot transaction expected to close in 2016.

The Enterprises employed strategies to advance opportunities for diverse firms interested in participating in multifamily credit risk transfer transactions. For example, the Enterprises developed plans to evaluate qualification requirements that could unnecessarily present impediments, challenges, or unwarranted barriers to diverse firms interested in participating in such transactions. Both Enterprises also engaged in education and outreach initiatives designed to provide diverse firms business opportunities in their multifamily capital markets programs.

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. However, the Enterprises' retained portfolios also exposed them to significant credit, asset liquidity, and interest rate risks.

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During conservatorship, each Enterprise is 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 guarantee 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.

The 2015 Scorecard expected the Enterprises to continue to implement approved plans to reduce their retained portfolios. Further reducing the portfolios will continue to shift 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, even under adverse conditions such as rising interest rates or falling house prices, 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.

The Enterprises made significant progress in reducing their retained portfolios during 2015, and each Enterprise is currently significantly below the year-end 2015 PSPA cap of \$399 billion. As of December 31, 2015, Freddie Mac's portfolio stood at \$347 billion, and Fannie Mae's was \$345 billion, for a reduction in their combined portfolios of \$130 billion in 2015.

A number of activities contributed to the reduction in each Enterprise's retained portfolio in 2015. Most of the reduction at each Enterprise resulted from voluntary and involuntary prepayments. Prepayments totaled \$63 billion at Fannie Mae and nearly \$68 billion at Freddie Mac. In addition, each Enterprise transferred risk to private investors through the sale of less-liquid assets—about \$15 billion by Freddie Mac and about \$12 billion by Fannie Mae. For both Enterprises, the less-liquid assets were predominantly private-label securities and NPLs sold through auctions.

The Enterprises explored a number of ways to include and engage minority- and women-owned firms and nonprofits in retained portfolio transactions. These included holding meetings with diverse firms, nonprofits, and public advocacy groups to discuss their NPL sales programs. The Enterprises also conducted training sessions for diverse firms and nonprofits to encourage their participation in retained portfolio transactions. Both Enterprises engaged diverse firms to serve as advisors for NPL sales and to assist with outreach to small investors and minority- and women-owned businesses.



IV. Private Mortgage Insurance Eligibility Requirements

Last year marked the culmination of a multiyear effort by Fannie Mae and Freddie Mac to update and strengthen their counterparty risk management standards for private mortgage insurers (MIs).

After initial work in 2013, the Enterprises in 2014 completed standards for new uniform MI master policies, which set the terms of business between an MI and a seller/servicer counterparty. The Enterprises then reviewed and approved new policies drafted by MIs for use in connection with the sale of insured loans to the Enterprises. Master policies are approved by state insurance regulators and must be determined to be acceptable by the Enterprises. The new MI master policies introduced clear conditions for seller/servicers to earn rescission relief after 36 timely borrower payments, or as soon as after 12 timely payments if a mortgage insurer completes a full review of the loan underwriting and property value.

In 2014, FHFA also released and requested public input on draft Private Mortgage Insurance Eligibility Requirements (PMIERS) for 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 Enterprise. In developing the draft PMIERS, FHFA and the Enterprises solicited input from stakeholders, including state insurance commissioners and MIs that are approved to do business with either Enterprise.

The 2015 Scorecard called for the Enterprises to implement the PMIERS when they had been finalized in collaboration with FHFA. On April 17, Fannie Mae and Freddie Mac issued final PMIERS establishing 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 will trigger remediation. In June, the Enterprises revised the PMIERS to make technical corrections and include a new financial requirement for lender-paid mortgage insurance. Further technical corrections were made on December 21st, and the revised requirements became effective December 31.

During the second half of 2015, Fannie Mae and Freddie Mac engaged in a number of activities to implement the PMIERS. Specifically, the Enterprises reviewed and approved reinsurance agreements proposed by MIs to meet the PMIERS' financial standards; worked with the MIs to understand and resolve issues with exhibits the companies are required to report under the PMIERS; conducted "dry runs" with the MI companies of submissions of such exhibits; and enhanced internal processes and procedures to incorporate additional analysis, monitoring, and governance requirements to support the PMIERS.

Build

FHFA's 2014 Conservatorship Strategic Plan and 2015 Scorecard continued to make building a new infrastructure for the securitization functions of the Enterprises a priority. That effort includes ongoing work to develop the Common Securitization Platform (CSP or platform) as well as a new initiative to develop a single Enterprise mortgage-backed security (Single Security). The 2015 Scorecard also required continued work to build more consistent and uniform mortgage data standards for use by the Enterprises and other market participants. This section reviews progress on these initiatives in 2015.

I. Common Securitization Platform and Common Securitization Solutions

FHFA's 2014 Conservatorship Strategic Plan includes the strategic goal of developing a new securitization infrastructure for the Enterprises for mortgage loans backed by 1-4 unit (single-family) properties. To achieve this goal, the Enterprises are developing the CSP, under FHFA's direction and guidance, as a mortgage securitization infrastructure that will:

- (1) support the functions necessary for current Enterprise single-family securitization activities;
- (2) include the development of the operational and systems capabilities necessary for the Enterprises to issue the Single Security; and
- (3) allow for the integration of additional market participants in a future system through the use of industry-standard software, systems, and data requirements.

The CSP is being developed by Common Securitization Solutions (CSS), a joint venture owned by Fannie Mae and Freddie Mac. CSS will act as each Enterprise's agent to facilitate issuance of single-family mortgage securities, release related at-issuance and ongoing disclosures, and administer the securities post-issuance. In addition, CSS is creating the operational capabilities necessary to run the platform.

CSP Timeline. As announced last year, CSS and the Enterprises are now preparing for two releases of the CSP software:

- **Release 1** will allow Freddie Mac to use the platform to perform activities related to its current single-class, fixed-rate securities—Participation Certificates (PCs) and Giant

PCs—and certain activities related to the underlying mortgage loans (such as tracking unpaid principal balances). FHFA expects Freddie Mac to begin using the CSP in the fourth quarter of 2016 and plans to announce the exact date later this year.

- **Release 2** will allow both Enterprises to use the CSP to issue Single Securities, including commingled re-securitizations; to perform activities related to their current fixed-rate securities, both single- and multi-class; and to perform activities related to the underlying loans. Release 2 will also allow Fannie Mae to use the CSP to issue and administer mortgage securities backed by ARMs. FHFA expects the Enterprises to begin using the CSP to issue Single Securities under Release 2 in 2018.

FHFA and the Enterprises will provide additional details on these implementation plans later this year, including a timeline for Release 2 implementation that gives industry stakeholders at least 12 months advance notice prior to implementation. FHFA will continue discussions with stakeholders about the implementation of the platform and the Single Security and about future plans for the evolution of the CSP.

CSP Testing. Since the issuance of *An Update on the Common Securitization Platform* in September, CSS has released additional versions of the CSP software to the Enterprises for testing. Testing of this software continues to progress, with both Enterprises and CSS undertaking system-to-system testing. Such testing involves automated data exchanges where an Enterprise sends data on pools of fixed-rate mortgage loans and related single-class securities to CSS and ensures that it has received valid responses from CSS. In addition, CSS has undertaken significant performance testing, which assesses the CSP's ability to handle large volumes of data and transactions in an efficient manner.

For Release 1, Freddie Mac and CSS have completed system-to-system testing and have begun end-to-end testing. End-to-end testing will assess the ability of CSS and Freddie Mac to perform simultaneously the business processes necessary for Freddie Mac to use the platform for its existing fixed-rate, single-class securities. Upon successful completion of end-to-end and performance testing, Freddie Mac and CSS will undertake several months of parallel testing, which will ensure that the CSP produces the same results as Freddie Mac's existing production systems. Upon successful completion of parallel testing, Freddie Mac will implement the CSP for Release 1.

For Release 2, CSS continues to undertake software development and testing. This work is expected to continue throughout 2016, along with system-to-system testing by the Enterprises and CSS. System-to-system testing of the Release 2 functionality will continue in 2017 and will be followed by end-to-end and parallel testing.

CSS Operations. CSS has also continued to develop its securitization operations and production readiness. Notable accomplishments include creation of key operational policies, procedures, and controls, including those related to business continuity and disaster recovery; and the substantial development of service level agreements, which provide for agreed-upon standards of work activities (including scope of responsibilities, timelines for activities, and quality metrics) between CSS and the Enterprises. In support of diversity and inclusion, CSS implemented a vendor management program to promote the use of diverse suppliers in contracting and procurement activities. CSS also evaluated its workforce to identify areas for improvement with respect to diversity and inclusion across the organization.

FHFA is working with CSS and the Enterprises to develop an updated, multiyear CSS plan and budget. Based on the final, approved plan and budget, FHFA plans to publicly release the projected cost of completing the build of the CSP.

Updating Enterprise Systems for CSP Integration. Fannie Mae and Freddie Mac are progressively completing the technology and operational changes that each Enterprise needs to make to enable it to use the CSP. For example, Freddie Mac has completed the internal systems development work required to use the CSP for Release 1. Fannie Mae has completed the system requirements and design work needed to use the CSP for Release 2, including work related to key data management systems.

II. Single Security

A primary reason for building the CSP is to enable the Enterprises to issue the Single Security. In May, FHFA released *An Update on the Structure of the Single Security*, which detailed information on the Single Security's features and disclosures. During the remainder of 2015 and continuing into 2016, FHFA has worked with the Enterprises on finalizing the remaining aspects of these features and disclosures. For example, in developing the loan-level disclosures for Single Securities, the Enterprises and FHFA are working to determine the best way to meet the needs of investors while also protecting borrower privacy. Balancing those objectives includes making choices about how best to disclose geographic information about each property and mask certain loan-level data attributes. Data masking may involve, for example, rounding loan amounts or omitting the day or month on which the borrower is obligated to make his or her first mortgage payment. FHFA expects to provide further information on these choices later in 2016. Once that information is available, the Enterprises will publish the final Single Security features and disclosures in a separate document.

Single Security Terminology. One feature of the Single Security will be the names of first- and second-level securities.⁵ Currently, the Enterprises use different naming conventions for these securities, i.e., Fannie Mae uses “Mortgage-Backed Security” (MBS) and “Mega” and Freddie Mac uses “Participation Certificate” (PC) and “Giant PC” for first- and second-level securities, respectively.

For the Single Security, the Enterprises have agreed to use the names “Uniform MBS” for first-level securities and “Supers” for second-level securities. The first-level security name of Uniform MBS was selected both to reflect the uniform, common nature of the Single Security and to parallel the naming convention of other recent joint Enterprise initiatives such as the Uniform Mortgage Data Program. The second-level security name of Supers was selected to be similar to the current Giants and Megas—all three names suggest a larger, higher-level security. Fannie Mae filed applications to register the new names with the U.S. Patent and Trademark Office in 2015, and the Enterprises have tracked the progress of the names through the registration process. FHFA is sharing the names publicly now to allow market participants time to begin updating their systems and documents related to the Enterprises’ mortgage-backed securities.

Input from the Public and Industry. Developing the CSP and the Single Security are multiyear projects that continue to be refined as FHFA, the Enterprises, and CSS receive public and industry input. To facilitate input from industry stakeholders, in 2015 Fannie Mae, Freddie Mac, and CSS established the Single Security/CSP Industry Advisory Group. The Advisory Group has provided feedback and shared information with CSS and the Enterprises related to the Single Security and the development of the platform.

Fannie Mae and Freddie Mac have also initiated Single Security and CSP web pages that provide regular progress updates, frequently asked questions and answers, and a schedule of upcoming speaking engagements and conferences.⁶ These web pages also allow visitors to register to

⁵ A first-level mortgage security is collateralized by a single pool of mortgage loans. A first-level security is also a pass-through or single-class security, meaning there is only one class of investors, each of whom receives a proportionate share of all the principal and interest payments on the underlying collateral. Fannie Mae Mortgage-Backed Securities (MBS) and Freddie Mac Participation Certificates (PCs) are first-level securities. A second-level mortgage security is collateralized by a group of previously issued first- or second-level securities. A second-level security is also a pass-through or single-class security. Fannie Mae Megas are second-level securities typically backed by Fannie Mae MBS or other Megas, whereas Freddie Mac Giant PCs are second-level securities typically backed by Freddie Mac PCs or other Giant PCs.

⁶ <http://www.fanniemae.com/portal/funding-the-market/single-security/index.html?cmpid=marqss> and http://www.freddiemac.com/mbs/html/single_security_csp.html.

receive regular updates and to submit questions. Posted on the web pages are the materials that CSS shares with the Advisory Group and the minutes of the Group's meetings.

FHFA has also maintained an ongoing dialogue with key industry participants such as the Federal Reserve Bank of New York, the Treasury Market Practices Group, representatives from the mortgage and securities industries and consumer groups, and firms that provide information technology services to mortgage investors. These contacts provide opportunities for FHFA to share information and receive feedback. In addition, FHFA has provided regular briefings to other Federal agencies and Congressional staff.

FHFA, the Enterprises, and CSS will continue to seek input from and to work with stakeholders as the CSP and Single Security initiatives proceed with the objective of improving overall secondary mortgage market liquidity while mitigating any risk of market disruption.

Assessing Changes that May Affect Prepayment Speeds. Maintaining the current close similarity of the prepayment speeds of the Enterprises' mortgage-backed securities is important to the success of the Single Security, since prepayment speeds affect the cash flows that investors receive. FHFA believes that it is not necessary or appropriate to require complete alignment of the Enterprises' programs, policies, and practices that affect prepayment speeds, but that alignment in some specific areas would be beneficial. To that end, in the 2016 Scorecard FHFA called for the Enterprises to undertake the following:

- Assess new or revised Enterprise programs, policies, and practices for their effect on the cash flows of mortgage-backed securities eligible for financing through the TBA market, e.g., prepayments and the removal of mortgage loans from securities (buy-outs);
- Provide ongoing monitoring of purchases, security issuances, and prepayments; and
- Provide all relevant information on a timely basis to support FHFA reviews.

The objective of these processes is to ensure that there is careful assessment of the effects of new programs, policies, and practices on the performance of the Enterprises' TBA-eligible mortgage-backed securities. FHFA is working with the Enterprises to develop and implement these processes in 2016.

III. Mortgage Data Standardization

Fannie Mae and Freddie Mac continue to collaborate with the industry, through the Uniform Mortgage Data Program (UMDP), to develop and implement uniform data standards for single-

family mortgage loans. The Mortgage Industry Standards Maintenance Organization (MISMO) Reference Model serves as the basis for such efforts, which result in consistent data definitions, enumerations, and mapping.

Uniform Closing Disclosure Dataset. The 2015 Scorecard expected the Enterprises to develop a plan for collecting the Uniform Closing Disclosure Dataset (UCD). The Enterprises have been developing the UCD since 2012, when the Consumer Financial Protection Bureau published a proposed rule providing for Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act. Once the UCD is implemented, a lender will send the UCD data for a mortgage loan to the acquiring Enterprise before delivering the loan. The Enterprise will be able to send a loan-level message to the lender to communicate any concerns, which the lender will be able to resolve before delivering the loan, thereby reducing future loan quality issues. The Enterprises expect to implement the data collection system in late 2016 with mandatory delivery of closing data by lenders in 2017.

Uniform Loan Application Dataset. The 2015 Scorecard also called for the Enterprises to develop the Uniform Loan Application Dataset (ULAD). Work on the ULAD involves a partnership with lenders to build a new mortgage loan application and an associated dataset that electronically captures the information on the application.

The effort provides an opportunity to remove unused questions on the application, add new data fields, leverage technology advances, and improve the usability of the form. The Enterprises are currently conducting tests of the usability of the new application with consumers, nonprofit advocacy groups, lenders, mortgage professionals, and government housing agencies. Following this outreach period, the Enterprises expect to finalize the form and publish the dataset in late 2016.

Conclusion

This Progress Report describes the major activities undertaken by Fannie Mae and Freddie Mac in 2015 to achieve the goals set forth in FHFA's 2014 Conservatorship Strategic Plan and 2015 Scorecard. FHFA welcomes public input on this Report from interested parties. Input can be submitted via email to ConservatorshipStrategicPlan@fhfa.gov.

