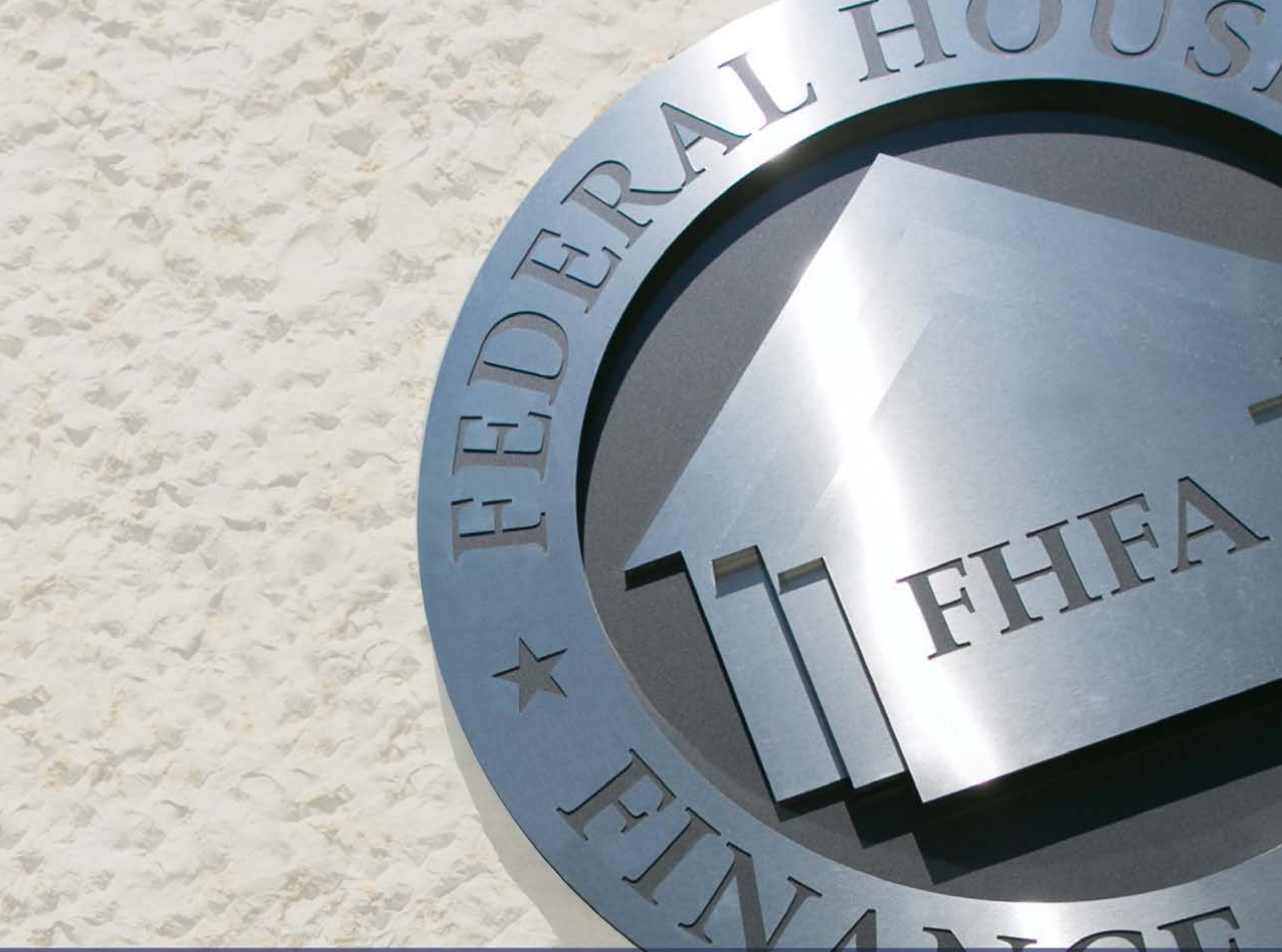

2016 SCORECARD PROGRESS REPORT

March 2017

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

Table of Contents

List of Acronyms

ACIS	Agency Credit Insurance Structure
AUS	Automated Underwriting System
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
DU	Desktop Underwriter
DUS	Delegated Underwriting and Servicing (Program)
ECOA	Equal Credit Opportunity Act
Flex Mod	Flex Modification
HERA	Housing and Economic Recovery Act of 2008
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
LPA	Loan Product Advisor
LTV	Loan-to-Value Ratio
MI	Mortgage Insurer
MWD	Minority, Women, and Disabled
NPL	Non-Performing Loan
NSI	Neighborhood Stabilization Initiative
PSPA	Senior Preferred Stock Purchase Agreement
QC	Quality Control
REO	Real Estate Owned
RIF	Risk-in-Force
SCR	Structured Credit Risk (Note)
STACR	Structured Agency Credit Risk (Security)
TBA	To Be Announced (Market for Agency MBS)
UBAF	Uniform Borrower Assistance Form
UCD	Uniform Closing Disclosure Dataset
UCDP	Uniform Collateral Data Portal
ULAD	Uniform Loan Application 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 and the Office of Finance.

The Agency's mission is to ensure that 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 (together, the Enterprises).

This *Progress Report* summarizes major activities of Fannie Mae and Freddie Mac in 2016 that contributed to achieving FHFA's three strategic goals as conservator of the Enterprises, which FHFA set forth 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.

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 ***2016 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions*** (*2016 Scorecard*), published on December 17, 2015, set forth FHFA's expectations for 2016 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 *2016 Scorecard*, all dates refer to 2016 unless stated otherwise.

The *2016 Scorecard* also requires the Enterprises to consider diversity and inclusion when conducting their respective business activities and initiatives in furtherance of the three strategic conservatorship goals. This *Progress Report* describes the programs and activities the Enterprises engaged in to promote diversity and inclusion in support of those goals.

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 *2016 Scorecard* to increase access to mortgage credit, to prepare for the impending expiration of crisis-era loss mitigation programs, to responsibly reduce severely aged delinquent loans and real estate owned (REO) properties, and to support affordable rental housing and the liquidity of the multifamily finance market. This section describes those objectives and the activities undertaken by the Enterprises to support them.

I. Access to Mortgage Credit for Creditworthy Borrowers

The *2016 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 mandate, the *2016 Scorecard* instructed the Enterprises to: 1) assess and address impediments to access to credit; 2) complete work to enhance the Representations and Warranties Framework; 3) update mortgage insurer master policy rescission relief principles to address early rescission relief offerings; 4) assess improvements to increase the effectiveness of pre-purchase and early delinquency counseling as well as homeownership education and begin implementation of appropriate initiatives; and 5) assess the feasibility of using updated or alternate credit score models in their business operations. Each of those activities is described in further detail below.

Impediments to Access to Credit. The Enterprises engaged in a number of efforts that helped address borrower impediments to accessing credit. Each Enterprise revisited credit policies implemented in response to the housing crisis and eliminated those that have proven unnecessary. For example, in the wake of the crisis both Enterprises instituted prohibitions on the delivery of refinanced loans that had been previously restructured because of borrower distress. Those prohibitions have now been removed. The Enterprises also embarked on enhancements to their respective automated underwriting systems (AUS) that would encourage lenders to use those systems for loans that are currently manually underwritten, focusing on loans with borrowers who do not have a history of traditional credit. In September 2016, Fannie

Mae released Desktop Underwriter (DU) 10.0, an AUS that incorporates the ability to underwrite borrowers without a credit score. Freddie Mac is working on a similar release for its AUS, Loan Product Advisor (LPA), scheduled for the second quarter of 2017.

Freddie Mac also updated its Single Family Seller/Service Guide to clarify requirements for calculating and documenting borrower income and assets and for underwriting rural properties. The greater clarity should increase lenders' confidence in their ability to originate mortgages that will be acceptable to Freddie Mac, which, in turn, should improve access to credit. Fannie Mae continued to enhance its affordable lending product, HomeReady, to improve market acceptance and expand access to credit. One such enhancement set the income eligibility cutoff at 100 percent of the area median income for all areas to reduce different cutoffs limits applied based on a property's location. Different cutoff limits make the program unnecessarily complex and reduced lender willingness to offer HomeReady loans.

Each Enterprise also reassessed their policies related to financing investments in energy efficiency and updated their guidance. The reassessments resulted in two changes. First, the Enterprises updated guidance to specify conditions under which loans collateralized by properties with solar panels leased from or owned by a third party are acceptable. Second, the Enterprises updated their guidance to encourage using the Enterprises' existing refinance programs to pay off debt incurred to finance energy efficiency, such as Property Assessed Clean Energy liens.

The Enterprises continued their efforts to increase access to credit for underserved borrowers and minority communities, including targeted outreach to lenders serving those communities. Freddie Mac initiated a number of pilot programs with lenders of different sizes designed to encourage lending to minority borrowers through Freddie Mac's first-time buyer and low down payment offerings. Freddie Mac also engaged in a number of initiatives designed to support minority-owned institutions. Both Freddie Mac and Fannie Mae engaged in targeted outreach initiatives to identify and address challenges faced by institutions that focus on serving minority borrowers and communities.

Enhancements to the Representations and Warranties Framework. One obstacle to credit access has consistently been uncertainty on the part of mortgage originators about who will bear the credit risk from delinquent loans. The conditions under which credit risk can revert from an Enterprise back to an originator are set forth in the **Representations and Warranties Framework**. The Enterprises continued efforts to improve the quality and efficiency of the loan origination process with the objective of reducing that uncertainty. These improvements help assure lenders that they can make loans that meet the Enterprises standards and not bear the risk of credit loss.

The Enterprises conducted industry outreach on how to further improve loan quality and facilitate a more efficient loan origination process. Using insights gained from their outreach efforts, each Enterprise conducted training events related to their quality control (QC) function and improved communications with lenders. The training events included forums, classroom training, and webinars focused on such topics as QC calibration for more consistent loan review outcomes (Freddie Mac), QC trends and tips (Fannie Mae), and underwriting of self-employed borrowers (Fannie Mae). To improve communications, Freddie Mac launched a QC Advisory Forum to share defect trends and discuss opportunities to minimize and correct defects in loans prior to delivery and began providing more information to its lenders on QC findings. Fannie Mae began publishing QC reports for lenders selected for a QC review and published a handbook for lenders, ***Beyond the Guide***, which shares best practices for quality loan origination.

Another source of uncertainty that has been an obstacle to credit access has centered on appraisal quality. The Collateral Representations and Warranties Framework project began in January 2015 in order to provide greater certainty to lenders on repurchase risk related to property appraisals, historically one of the top reasons the Enterprises demand repurchase of a loan. In 2016, FHFA asked Enterprises to pilot and assess the feasibility of offering collateral representations and warranties relief using their collateral tools, which are designed to assess the overall quality of an appraisal.

The Enterprises' collateral assessment tools – Collateral Underwriter for Fannie Mae and Loan Collateral Advisor for Freddie Mac – leverage the electronic appraisals and appraisal data submitted by lenders to the Uniform Collateral Data Portal (UCDP). The tools provide a score for each appraisal, which can be used to provide feedback to lenders and appraisers to improve overall appraisal quality. Throughout 2016 the Enterprises tested and refined their tools and evaluated the feasibility of incorporating the tools into the Representations and Warranties Framework.

On October 24, 2016, Fannie Mae announced its Day 1 Certainty initiative to provide representation and warranty relief on the appraised value when the appraised value is within limits set by Collateral Underwriter. Approximately 60 percent of appraisals submitted to Fannie Mae are expected to be eligible for this relief. Freddie Mac continues to test and refine its tools and anticipates launching a similar initiative in 2017.

Principles for Rescission Relief for Mortgage Insurers. A third source of lender uncertainty that has affected access to credit is the possibility that private mortgage insurers (MIs) would rescind their coverage for loans that go delinquent. The goal of developing rescission relief principles is to reduce lender liability by specifying conditions under which MIs cannot rescind their coverage of loans sold to the Enterprises. Once finalized, those conditions would be specified in the rescission relief principles, which in turn would be incorporated into the MIs' master policies.

After consulting with lenders and MIs, the Enterprises proposed changes to the current rescission relief principles to align them more closely with the Representation and Warranty Framework and to create greater lender certainty. The Enterprises have published and solicited feedback on the proposed changes and the Enterprises anticipate submitting this to FHFA for review in 2017.

Housing Counseling. In 2015, the Enterprises began exploring the feasibility of improving the effectiveness of pre-purchase and early delinquency counseling by maintaining existing or creating new partnerships with housing counseling networks. Since that time, the Enterprises have been evaluating their respective programs, conducting outreach to housing counselors, and working to better track results of housing counseling and homeownership education efforts through technology improvements. To date, the Enterprises have developed plans to better engage housing counseling organizations and intermediaries, partnered with online homeownership education providers, and revised their criteria for eligible providers of homeownership education.

To promote borrower participation in housing counseling early in the home buying process, Fannie Mae introduced a $500 credit for its affordable lending product, HomeReady, when at least one borrower on the loan has received one-on-one assistance from a HUD-approved counseling agency. To be eligible for the credit, the borrower must be counseled prior to executing the home purchase contract. In addition, Fannie Mae's automated underwriting system treats housing counseling as a compensating factor to permit debt-to-income ratios up to 50 percent for HomeReady loans.

The Enterprises also made changes to their post-purchase early delinquency counseling requirements in their respective Seller/Servicer Guides. Fannie Mae updated its Guide to require that servicers make delinquent borrowers aware of counseling resources. Freddie Mac updated its Guide to inform servicers that if they provide Freddie Mac information on borrowers who are using Freddie Mac's affordable mortgage products and become delinquent, Freddie Mac will refer those borrowers to its Borrower Help Centers. In addition, both Enterprises continued to work on technology solutions to improve their reporting on housing counseling. This work will continue in 2017.

Alternate Credit Score Models. FHFA continued to work with the Enterprises to study the costs and benefits of migrating to or implementing additional or alternative credit score models within the Enterprises' businesses. FHFA and the Enterprises also sought to understand the costs, operational implications, and potential impact on access to credit from the point of view of lenders, investors, trade associations, consumer groups and other industry stakeholders. FHFA will work to conclude its assessment in 2017.

In addition, the Enterprises have considered other credit-score-related issues that can independently improve access to credit. As described above, this includes the Enterprises work to enhance their automated underwriting systems to process loans for borrowers who do not have a history of traditional credit and, therefore, lack credit scores.

II. Loss Mitigation and Foreclosure Prevention Activities

The *2016 Scorecard* called for the Enterprises to develop post-crisis loss mitigation activities and prepare for the expiration of crisis-era loss mitigation programs. The Consolidated Appropriations Act of 2016, signed into law on December 18, 2015, provided that the Making Home Affordable Program, which includes the Home Affordable Modification Program, would terminate on December 31, 2016. The Home Affordable Refinance Program (HARP) was also set to sunset on December 31, 2016, before FHFA extended the program as outlined below.

To meet FHFA's scorecard expectations, the Enterprises worked to: 1) complete assessments and begin development of high loan-to-value (LTV) ratio loan refinance programs; 2) develop and implement final strategies to promote HARP prior to its expiration; 3) finalize post-crisis loss mitigation options for borrowers, including loan modifications, and develop an implementation plan and timeline; 4) enhance the Uniform Borrower Assistance Form; and 5) update and enhance servicer scorecard methodologies that measure servicers' management of delinquent loans.

High-LTV Loan Refinance. In August 2016, FHFA and the Enterprises announced a new refinance offering aimed at borrowers with high-LTV loans. The new offering will give borrowers who are current on their mortgage, but are unable to refinance through traditional programs because the LTV ratio on their loans exceeds the Enterprises' maximum limits, an opportunity to refinance. Providing that opportunity to underwater and other highly leveraged borrowers can benefit the Enterprises because it lowers the credit risk of such loans—risk the Enterprises already own.

In order to qualify for the new high-LTV offering, borrowers must: 1) not have missed any mortgage payments in the previous six months; 2) not have missed more than one payment in the previous 12 months; 3) have a source of income; 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 HARP. As with HARP, eligible borrowers are not subject to a minimum credit score, there is no maximum debt-to-income or maximum LTV ratio, and in many cases an appraisal will not be 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.

Because the high-LTV loan refinance offering will not be available to borrowers until October 2017, FHFA extended HARP through September 30, 2017. HARP began in 2009 and continues to be one of the most successful crisis-era programs. Between 2009 and 2016, more than 3.4 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.

HARP Prior to Expiration. The *2016 Scorecard* called for the Enterprises to prepare for the expiration of HARP and to develop and implement a final strategy to promote HARP prior to its expiration date of December 31, 2016. Introduced in 2009 as part of the 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 by reducing the interest rate or shortening the term. HARP has been a key component of the Enterprises' support for the strategic goal of ensuring credit availability for refinanced mortgages, particularly for underwater borrowers.

As of December 2015, FHFA estimated that more than 325,000 borrowers across the country remained eligible for HARP and stood to benefit financially from a HARP refinance but still had not taken advantage of the program. To continue to encourage those borrowers to refinance, FHFA launched a social media campaign in February targeting the top ten states with the most HARP-eligible borrowers. Using the hashtag #HARPNow, the campaign generated mainstream print, radio, and television coverage as well as social media stories and posts. FHFA encouraged various third parties such as housing counselors, personal finance columnists, members of Congress, and other housing stakeholders to promote the campaign and share social media images touting the benefits of HARP. Fannie Mae, Freddie Mac, the Department of the Treasury, and others joined in this effort by retweeting FHFA messages and writing blogs about HARP. FHFA and the Enterprises also hosted webinars to leverage community leaders and other trusted local advisors to reach HARP-eligible borrowers.

Post-Crisis Loss Mitigation Options. The *2016 Scorecard* called for the Enterprises to develop aligned post-crisis loss mitigation options for borrowers, including a loan modification program. Over the course of 2016, FHFA and the Enterprises conducted broad stakeholder outreach that included servicers, trade associations, and consumer advocates to help inform and shape the development of a new modification program. In February 2016, FHFA, along with Fannie Mae and Freddie Mac, hosted a Loss Mitigation Symposium for housing experts and stakeholders to discuss the future of loss mitigation in a post crisis environment. In July 2016 FHFA in collaboration with the Department of the Treasury and the Department of Housing and

Urban Development published a joint white paper, ***Guiding Principles for the Future of Loss Mitigation***. The aligned principles are:

- **Accessibility:** Ensuring that there is a simple process in place for homeowners to seek mortgage assistance and that as many homeowners as possible are able to easily obtain the needed and appropriate level of assistance.
- **Affordability:** Providing homeowners with meaningful payment relief that addresses the needs of the homeowner, the servicer, and the investor, to support long-term performance.
- **Sustainability:** Offering solutions designed to resolve the delinquency and be effective long-term for the homeowner, the servicer, and the investor.
- **Transparency:** Ensuring that the process to obtain assistance, and the terms of that assistance, are as clear and understandable as possible to homeowners, and that information about options and their utilization is available to the appropriate parties.
- **Accountability:** Ensuring that there is an appropriate level of oversight of the process to obtain mortgage assistance for the protection of all parties.

In December 2016, the Enterprises announced the new Flex Modification program (Flex Mod), which will be the successor to the Home Affordable Modification Program (HAMP) and to the Enterprises' existing loan modification programs, Standard Modification and Streamlined Modification. Flex Mod was designed by refining and enhancing aspects of the Enterprises' existing modification products, while leveraging the aligned principles and lessons learned discussed above, to increase borrower eligibility and payment relief to help borrowers stay in their homes and avoid foreclosures whenever possible. By avoiding the high costs associated with foreclosures, Flex Mod will result in significant savings for the Enterprises and for taxpayers. Flex Mod was designed for more stable housing and financial markets, but also includes flexibilities to accommodate regional downturns.

The Enterprises will implement Flex Mod by October 1, 2017. Standard Modification and Streamlined Modification programs will be available until Flex Mod is implemented.

Uniform Borrower Assistance Form. The *2016 Scorecard* called for the Enterprises to enhance the Uniform Borrower Assistance Form (UBAF), which borrowers will use to apply for Flex Mod. Fannie Mae tested a streamlined UBAF in 2015, and results from that test provided feedback for the redesign of the UBAF. FHFA and the Enterprises examined the existing form and potential improvements and solicited feedback from external stakeholders and advocates. In the fourth quarter, the Enterprises began borrower testing of a proposed enhanced UBAF with the assistance of several external stakeholders. An enhanced UBAF will complement the launch of Flex Mod by reducing the amount and types of documentation required of borrowers to obtain a foreclosure prevention alternative. Documentation requirements were an obstacle for many distressed borrowers during the crisis.

Servicer Scorecard Methodology. The *2016 Scorecard* called for the Enterprises to update and enhance their respective servicer scorecards that measure servicer performance. In particular, the Enterprises enhanced their key measurements of servicer performance for non-performing loans (NPLs) in a post-crisis environment. FHFA and the Enterprises worked jointly to develop metrics to measure servicers' management of delinquent loans. As with prior versions of the Enterprises' servicer scorecards, the Enterprises worked together to align their performance metrics; however some differences remain due to differences in data systems and servicer oversight processes. Freddie Mac announced its changes in the third quarter of 2016, and Fannie Mae announced its changes in the fourth quarter of 2016.

III. Reduce Severely Aged Delinquent Loans and REO Properties

The *2016 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: 1) conduct FHFA-approved sales of NPLs; 2) reduce the number of severely aged delinquent loans they hold; and 3) reduce the number of REO properties they hold, including through the Neighborhood Stabilization Initiative (NSI).[2]

Sales of Non-Performing Loans. NPL sales can provide benefits to the Enterprises, legacy mortgage servicers, and delinquent borrowers. NPL sales enable the Enterprises to reduce the size of the retained portfolios, exposure to credit risk, and exposure to counterparty risk related to private mortgage insurance companies. NPL sales also accelerate negotiation and settlement of potentially significant compensatory fees and penalties that legacy mortgage servicers owe the Enterprises, potentially improving the servicers' liquidity. Finally, sales of NPLs can increase the potential for delinquent borrowers to benefit from foreclosure avoidance actions such as forbearance, a HAMP or proprietary modification of the loan, a short sale of the property, or a deed-in-lieu of foreclosure.

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,

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

which are open to any qualified bidder, encourage private capital to invest in single-family mortgage credit risk. 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. Table 1 summarizes Enterprise NPL sales since Freddie Mac conducted its first pilot NPL sale in August 2014. 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 $ millions	Number of Small Pools[1]	Number of Small Pools Purchased by Non-Profits
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[2]	**Fannie Mae**	28	29,612	$5,415	4	4
	Freddie Mac	25	14,557	$3,079	5	5
All	**Total**	81	72,502	$14,160	11	11

[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.

The *2016 Scorecard* called for the Enterprises to provide plans for continuing NPL sales. In their plans, the Enterprises were required to address: 1) their broad NPL sales strategy; 2) potential expansion to multi-servicer pools; 3) efforts to continue offering small pools and strengthening nonprofit access and purchase opportunities; 4) consideration for improving borrower outcomes and, where appropriate, impacts on neighborhood stabilization; and 5) public reporting of loan performance post-sale.

In April 2016, FHFA published further ***Enhanced Non-Performing Loan Sale Guidelines*** to further improve borrower and neighborhood outcomes. The enhancements:

- Encourage the use of principal forgiveness modifications by requiring NPL buyers to evaluate borrowers with loans that have a mark-to-market ratio above 115 percent for a modification that includes principal and/or arrearage forgiveness;
- Ensure the sustainability of proprietary modifications offered by the new buyer by requiring that they set a fixed rate for the term of the loan or that they limit payment increases consistent with HAMP requirements that the initial period of a reduced interest

rate must last at least five years and interest rate increases must be limited to one percent per year; and

- Improve neighborhood outcomes by prohibiting buyers and servicers from abandoning liens on vacant properties. So-called "walk-aways" can result in blighted neighborhoods and decrease the value of surrounding properties. If a foreclosure alternative is not possible, the servicer must complete a foreclosure or must sell or donate the loan, including to a government or nonprofit entity.

In order to provide transparency into the Enterprises' sales of NPLs and borrower outcomes post-sale, FHFA published two ***Enterprise Non-Performing Loan Sales Reports*** in 2016. The most recent report includes data on NPL sales through August 31, 2016 and data on borrower outcomes through June 30, 2016. Year-end information will be included in the next report which FHFA will release in the first half of 2017. Highlights on borrower outcomes from the most recent report include:

- NPLs where the home was occupied by the borrower had the highest rate of foreclosure avoidance outcomes (17 percent) compared to vacant properties (10 percent).
- Conversely, NPLs where the property was vacant had a much higher rate of foreclosure (29 percent) compared to borrower-occupied properties (10 percent). Foreclosure outcomes for vacant homes can improve neighborhood stability and reduce blight as the homes are sold or rented to new occupants.
- As of June 30, 2016, 31 percent of the 25,612 NPLs that settled by December 31, 2015 had been resolved — 16 percent without foreclosure and 15 percent through foreclosure.

Compared to a benchmark of similarly delinquent Enterprise NPLs that were not sold, foreclosures avoided for sold NPLs were higher than the benchmark — 29 percent of NPLs that have been with the new servicers the longest (1,737 NPLs for 14 months) avoided foreclosure, compared to 19 percent of the benchmark NPLs.

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 the portfolio reductions are mainly the result of NPL sales, reductions are also attributable to the use of special servicers, streamlined modifications, and targeted strategies such as principal reduction modification.

At FHFA's direction, Fannie Mae and Freddie Mac offered a principal reduction program to certain seriously delinquent, underwater borrowers with mark-to-market LTV ratios over 115 percent who were still struggling in the aftermath of the financial crisis to help them avoid foreclosure while adhering to FHFA's mandate to preserve and conserve the assets of the

Enterprises. The Enterprises partnered with FHFA on a multi-pronged outreach strategy targeting key markets with the highest concentration of potentially eligible borrowers. Select outreach included training, congressional briefings, participation in national housing conferences, targeted mailings, social media and call campaigns and radio interviews.

On a national basis, both Enterprises have seen a dramatic decline in seriously delinquent loans in the past several years, with delinquency rates approaching pre-crisis levels. Taken together, the Enterprises reduced their combined inventories of severely aged loans by 45.2% in 2016, with a total decline of 51,663 such loans from 114,185 to 62,522.

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. The Enterprises provided owner-occupants and nonprofits a First Look period of 20 days to support community development. Taken together, the Enterprises reduced their REO property inventories by over 33 percent in 2016 with a total decline of 24,746 properties to 49,511 properties.

The Enterprises further support the responsible disposition of REO properties in the most distressed communities through their NSI efforts in 18 Metropolitan Statistical Areas. Those markets are 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 the Enterprises to reduce their REO inventory in the most challenging markets, and stabilizes neighborhoods in the process. To achieve those goals, the Enterprises have partnered with the National Community Stabilization Trust to identify mission-oriented organizations to purchase REO properties. In addition, NSI has facilitated Enterprise donations of distressed properties, sometimes with demolition funding, to local Land Banks[3] willing to pursue stabilization strategies in distressed markets. This approach enables the Enterprise to mitigate the expenses associated with these properties (for example, foreclosure and demolition expenses).

Efforts to Advance Diversity and Inclusion with Respect to Loss Mitigation. The Enterprises continued their efforts to strengthen existing relationships with minority-, women- and disabled-owned (MWD-owned) broker-dealers and implemented programmatic features to increase the participation of those firms when conducting NPL sales. For example, the Enterprises engaged in training and support activities with MWD-owned broker-dealers to encourage their participation in capital market transactions. Fannie Mae selected minority-

[3] 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.

owned broker-dealers to participate as selling group members and engaged minority-owned firms as co-advisors for non-performing loan sales. Freddie Mac engaged minority-owned firms to serve as advisors on a variety of capital market transactions in an effort to attract potential nonprofit, neighborhood stabilization funds, MWD-owned businesses, and small investors interested in non-performing loan transactions. Freddie Mac also initiated, or continued, a number of programs during 2016 to address the needs and challenges faced by MWD-owned firms that do business with the Enterprise. For example, Freddie Mac implemented a flexible reimbursement schedule for large expenses and implemented automated clearinghouse capabilities to expedite payment processing, both changes that are important for smaller MWD-owned businesses which are more likely to be cash-constrained.

IV. Multifamily Credit Guarantee 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 *2016 Scorecard* maintained loan production caps on each Enterprise's multifamily business. The *2016 Scorecard* set cap for each Enterprise initially at $31 billion with exclusions from the caps for a range of mission-related finance activities. FHFA subsequently increased the cap to $35 billion in May and again to $36.5 billion in August. The increases were consistent with FHFA's commitment to review the estimates for the size of the multifamily finance market each quarter and increase the caps, if warranted, based on increased estimates of the overall size of the 2016 multifamily finance market.

The exclusions from the cap are designed to provide support for affordable and underserved multifamily segments of the multifamily market. They include financing for subsidized affordable housing, manufactured housing communities, and small multifamily properties (between 5 and 50 units). In addition, the cap exclusions apply to loans 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 2016, the Enterprises actively managed their loan production to ensure that they did not exceed the published cap. Fannie Mae's total multifamily finance activity for the year was approximately $55 billion, of which $36 billion fell within the cap and $19 billion was excluded. Freddie Mac's total multifamily finance activity for the year was approximately $57 billion, of which $36 billion fell within the cap and $20 billion was excluded. 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 2016

	Fannie Mae		Freddie Mac	
	$ billions	Percent	$ billions	Percent
Total 2016 multifamily volume	$55.31	100.0%	$56.83	100.0%
Total included within cap	$36.32	65.7%	$36.47	64.2%
Total excluded from cap[1]	$18.99	34.3%	$20.36	35.8%
Loans to finance energy or water efficiency improvements	*$2.06*	*3.7%*	*$3.00*	*5.3%*
Loans on manufactured housing communities	*$3.03*	*5.5%*	*$1.02*	*1.8%*
Financing for on targeted affordable housing properties[2]	*$5.90*	*10.7%*	*$3.82*	*6.7%*
Loans on small multifamily properties	*$0.60*	*1.1%*	*$2.00*	*3.5%*
Loans on properties located in rural areas	*$0.79*	*1.4%*	*$0.66*	*1.2%*
Loans on senior housing	*$0.65*	*1.2%*	*$1.42*	*2.5%*
Loans on other affordable units[3]	*$12.39*	*22.4%*	*$16.61*	*29.2%*

Source: Fannie Mae and Freddie Mac

[1] For more information on excluded categories see the *2016 Scorecard*, Appendix: Multifamily Definitions, pp. 10-13. 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. [2] Includes financing for properties in underserved areas that are affordable to households with low and very low incomes. [3] Includes financing for other units that are affordable to households 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.

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 *2016 Scorecard* called for the Enterprises to continue to expand the volume and types of transactions that transfer single-family and multifamily mortgage credit risk to the private sector, to continue to implement approved plans to reduce their retained mortgage portfolios, and to support FHFA's development of a risk measurement framework for evaluating Enterprise business decisions during the conservatorships. This section describes Enterprise activities in 2016 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 holding mortgage loans, but retain the credit risk — the risk of loss from non-payment by the borrowers. Since 2012, FHFA has had as an objective transferring a portion of the credit risk to private investors to reduce taxpayer risk.

The Enterprises' credit risk transfer programs have become a core part of the Enterprises' single-family credit guarantee business. The programs involve credit risk transfers via debt issuances, insurance/reinsurance transactions, senior-subordinate securitizations, front-end collateralized lender recourse transactions, and other pilot transactions.[4]

The Role of Primary Mortgage Insurance in Sharing Credit Risk. In addition to the Enterprises' credit risk transfer 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 form of charter-eligible credit enhancement used most often. Primary mortgage insurance, which can be paid 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 Enterprises.

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.[5]

Table 3 shows the total risk-in-force, measured at the time of Enterprise acquisition, for each loan with primary mortgage insurance acquired by the Enterprises for each year between 2013 and 2016. At the time of acquisition, loans purchased during those years had approximately $185 billion of RIF on a total UPB of $731 billion.

[4] 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***, December 2016.

[5] 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 – 2016

Year	Enterprise	Risk in Force $ billions	UPB[1] $ billions
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	$148.8
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
TOTAL	**Fannie Mae**	$116.8	$466.8
	Freddie Mac	$68.7	$264.3
	Total	$185.5	$731.1

Source: Federal Housing Finance Agency

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

Overall Credit Risk Transfer Activity in 2016. For 2016, FHFA established a Scorecard objective for the Enterprises to transfer credit risk on at least 90 percent of the UPB of their acquisitions of single-family mortgage loans targeted for credit risk transfer (CRT). Both Enterprises achieved this objective in 2016. 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. The Enterprises transferred additional mortgage credit risk through several pilot transactions.

Since the beginning of the program in 2013, the Enterprises have transferred a portion of credit risk on loans with $1.44 trillion in UPB and total RIF of $49 billion. In 2016, the Enterprises transferred credit risk on single-family mortgage loans with a total UPB of approximately $548 billion and total RIF of about $18.1 billion as presented in Table 4.

Table 4. Enterprise Single-Family Mortgage Credit Risk Transfer Activity, 2013 – 2016

Year	Enterprise	Risk in Force[1] $ billions	Reference Pool UPB[2] $ billions
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
TOTAL	**Fannie Mae**	$23.9	$834.5
	Freddie Mac	$24.7	$601.7
	Total	$48.7	$1,436.6

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 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 71 percent of the RIF entered into by the Enterprises during 2016. These securities are issued as Enterprise debt, but are considered to be 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.

As part of its CAS issuances in 2016, Fannie Mae for the first time transferred to investors a portion of the initial credit losses on underlying mortgage loans. Freddie Mac sold a portion of the initial credit losses for all of its 2015 STACR deals and continued to do so throughout 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. As the Enterprises' credit risk transfer programs continue to evolve, FHFA and the Enterprises will take that information into account in considering the structure of future credit risk transfer transactions.

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 — saw significant growth in 2016, accounting for about 24 percent of total credit risk transfers during the year, up from about 19 percent in 2015. Each Enterprise expanded its insurance/reinsurance products to include reference pools backed by 15- and 20-year mortgages. As capital markets credit spreads widened in the first half of 2016, both Enterprises transferred a greater proportion of credit risk to reinsurance investors.

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 2016, both Fannie Mae and Freddie Mac completed front-end collateralized lender recourse transactions. Those transactions had a total UBP of $16 billion and RIF-equivalent of $529 million.

Other Front-End Credit Risk Transfers. In June 2016, FHFA issued ***Single-Family Credit Risk Transfer Request for Input*** seeking public input on front-end credit risk transfer transaction structures and other topics. FHFA distinguishes between "front-end" and "back-end" credit risk transfer transactions based on when the arrangement of the credit risk transfer occurs. "Front-end" or "up-front" credit risk transfer transactions are those in which the arrangement of the risk transfer occurs prior to, or simultaneous with, the acquisition of residential mortgage loans by an Enterprise. An example of a front-end transaction would be a collateralized lender recourse transaction as noted above. Conversely, back-end credit risk transfer applies to transactions in which the arrangement of the credit risk transfer occurs after the acquisition of residential mortgage loans by the Enterprises. An example would be Freddie Mac's STACR or Fannie Mae's CAS debt transactions.

The *Request for Input* discussed the principles that FHFA uses to evaluate credit risk transfer transactions. FHFA must assess all Enterprise credit risk transfer activities using the same key principles and considerations of how best to mitigate possible risks, regardless of whether a transaction has a front-end or back-end structure. Those principles include:

- **Reduce taxpayer risk:** Transactions should transfer a meaningful amount of credit risk to private investors.
- **Economically sensible:** The program should consist of transactions in which the cost to the Enterprise for transferring the credit risk does not meaningfully exceed the cost to the Enterprise of self-insuring the credit risk being transferred.
- **Continuity of core business:** Transactions should not interfere with the continued operation of the Enterprises' core business: the acquisition and securitization of mortgage loans and the guarantee of mortgage-backed securities. Transactions should also not negatively affect the efficient operation of the to-be-announced (TBA) market, which is a forward market in mortgage-backed securities, or the ability of borrowers to access credit.
- **Repeatable:** Whenever possible, transactions should be part of a regular program of similar transactions.
- **Scalable:** Transaction structures should be capable of being scaled up or down without significantly affecting the economics or management of the transaction.
- **Counterparty strength:** In transactions in which the credit risk being transferred is not fully collateralized, credit risk transfer counterparties to the Enterprises should be financially strong and stable companies that are consistently able to fulfill their financial commitments in the transaction even in adverse markets.
- **Broad investor base:** The program should include different transaction structures to attract a diversified and broad investor base, with the objective of improving pricing, increasing secondary market liquidity, and promoting market stability.
- **Stability through economic and housing cycles:** Transaction structures should be designed to ensure that at least some investors will remain in the market through stressful phases of the housing price cycle, including during economic downturns.
- **Transparency:** Whenever practical, parties to a transaction should provide public disclosure of transaction information.
- **Level playing field:** Credit risk transfer transactions should only reflect the cost of transferring credit risk and not favor large mortgage originators over small ones.

FHFA received 37 responses to the *Request for Input*, and the ***2017 Scorecard*** requires the Enterprises to identify, evaluate, and address significant issues from those responses. The following themes emerged from those responses:

- **Transparency:** Many of the respondents expressed a view that the Enterprises' credit transfer programs could be made stronger with improved transparency.

- **Price stability:** Most respondents stated that the Enterprises' guarantee fees should not reflect the volatility of pricing in the credit markets.
- **Increased MI exposure:** Commenters noted the tradeoff between through-the-cycle pricing stability provided by the mortgage insurance industry and a greater concentration of counterparty credit risk exposure for the Enterprises.

In 2016, both Enterprises engaged in pilot front-end CRT transactions with mortgage insurer affiliates. These transactions transfer additional credit risk to mortgage insurers or their affiliates with protections that are not available with traditional primary mortgage insurance. For example, the protections provide collateralization to mitigate counterparty credit risk and certainty of coverage provisions to mitigate claim payment risk. Certainty of coverage provisions require participating insurers 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 the pilot transactions, all of the loans in the pilot transactions have traditional primary mortgage insurance.

The Enterprises' pilot front-end CRT transactions provided coverage that began at loan delivery and for which the mortgage insurer affiliates set prices before the loans were acquired by the Enterprises. Those prices were set through an auction process, with insurer affiliates basing their bids on the risk profile of recent Enterprise loan acquisitions. Freddie Mac's transaction will transfer a portion of credit risk on loans with UPB of up to $4.0 billion and provide RIF of about $100 million, while Fannie Mae's transaction will transfer a portion of credit risk on loans with UPB of up to $3.7 billion and provide RIF of about $98 million. As of December 31, 2016, Freddie Mac's pilot transaction had transferred a portion of credit risk on loans with $3.1 billion of UPB and RIF of $81 million and Fannie Mae's pilot transaction had transferred a portion of credit risk on loans with $1.8 billion of UPB and RIF of about $49 million.

Diversity and Inclusion Efforts. The Enterprises implemented several initiatives to increase the participation of MWD-owned broker-dealers in single-family credit risk transfer transactions during 2016. For example, Freddie Mac partnered with several minority- and women-owned firms to help develop a market for its credit risk transfers and expanded the number of firms co-managing its capital market transactions to create more opportunities for MWD-owned firms. Freddie Mac also included MWD-owned broker-dealers as selling group participants on every deal involving STACR securities. Fannie Mae expanded its use of MWD-owned firms on all single-family credit risk transactions and selected two MWD-owned broker-dealers to participate as selling group members in each of its CAS deals during 2016.

II. Credit Risk Transfers for Multifamily Credit Guarantee Business

Credit risk sharing with the private sector is an integral part of the multifamily business model for both Enterprises. The *2016 Scorecard* called for each Enterprise to continue its current multifamily credit risk transfer initiatives and to explore additional credit risk transfer opportunities. Over 90 percent of the $112 billion in multifamily volume that the Enterprises originated in 2016 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% 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 $55 billion of its multifamily production through the DUS program in 2016. Fannie Mae also completed its first non-DUS multifamily CRT transaction during 2016 in which it transferred to the reinsurance industry a portion of the credit risk it retained from DUS transactions on approximately $9.4 billion of loans.

Since 2010 Freddie Mac has been issuing senior-subordinate notes through their K-Deals to finance between 85 and 90 percent of its multifamily originations. In these transactions, virtually all credit risk is transferred to CRT investors through subordinated bonds that are structured to absorb expected and unexpected credit risk. In addition, Freddie Mac continues to pursue new approaches to transfer credit risk on multifamily mortgages in instances where the standard K-Deal execution may be less efficient. In 2016, for example, Freddie Mac issued its first two Structured Credit Risk (SCR) notes, which are unsecured and unguaranteed Freddie Mac corporate debt. They are subject to the credit risk of an identified pool of multifamily mortgage loans for which Freddie Mac provides credit enhancement for the related multifamily bonds issued by state and local housing finance agencies. The notes transferred to investors a portion of the credit risk on multifamily loans with $2 billion in UPB.

Diversity and Inclusion Efforts. The Enterprises employed strategies to provide opportunities for MWD-owned firms to participate in multifamily credit risk transfer transactions. For example, during 2016, MWD-owned broker-dealers served as co-managers on each of Freddie Mac's K-Deal securitization transactions. Fannie Mae also selected a minority-owned firm to participate in each of its securitizations of multifamily loans originated through its DUS program.

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.

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 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 *2016 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.

The Enterprises made significant progress in reducing their retained portfolios during 2016. At year-end, each Enterprise's retained portfolio was below the year-end 2016 PSPA cap of $339 billion. As of December 31, 2016, Freddie Mac's portfolio stood at $298 billion, and Fannie Mae's was $272 billion, for a combined reduction in their combined portfolios of $122 billion in 2016.

A number of activities contributed to the reduction in each Enterprise's retained portfolio in 2016. 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 $55.7 billion at Freddie Mac and $51.8 billion at Fannie Mae. In addition, each Enterprise transferred risk to private investors through the sale of less-liquid assets — about $12.6 billion by Freddie Mac and about $14.2 billion by Fannie Mae. For both Enterprises, the less-liquid assets were predominantly private-label securities and NPLs sold through auctions. Both Enterprises also securitized a significant amount of re-performing loans and sold those securities into the market.

Diversity and Inclusion Efforts. The Enterprises explored a number of ways to include and engage MWD-owned firms and nonprofits in retained portfolio transactions. The Enterprises met with MWD-owned firms, nonprofits, and public advocacy groups to discuss their NPL sales programs and conducted training sessions for MWD-owned firms and nonprofits to encourage their participation in retained portfolio transactions. Both Enterprises engaged MWD-owned firms to serve as advisors for NPL sales and to assist with outreach to small investors, nonprofits, and other MWD-owned businesses.

IV. Risk Measurement Framework

The Risk Measurement Framework provides FHFA with methodologies for assessing the risks and returns of Enterprise asset acquisitions and sale transactions while the Enterprises are in conservatorship. When completed, the framework will provide FHFA with an aligned basis for evaluating the economics of business decisions made by the Enterprises.

During 2016, both Enterprises provided information to assist in FHFA's development of the aligned framework. Work in 2016 encompassed the development of approaches to assessing: 1) the credit risk of single-family and multifamily whole loans; 2) the risk reduction provided by credit risk transfer transactions; 3) the risk of the Enterprises' counterparty relationships; 4) the credit and/or market risk associated with agency and commercial mortgage-backed securities and private label securities; and 5) the operational risk associated with all of the Enterprises' activities. FHFA expects to complete and implement the Risk Management Framework in 2017.

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 and the *2016 Scorecard* continued to make that effort a priority. That effort includes ongoing work to develop the Common Securitization Platform (CSP) as well as an initiative to develop a common, single Enterprise mortgage-backed security (Single Security Initiative). The *2016 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 those initiatives in 2016.

I. Common Securitization Platform and the Single Security Initiative

In September 2015, FHFA issued ***An Update on the Common Securitization Platform***, which announced a two-part release process for the CSP and Single Security Initiative. Release 1 implements the CSP for Freddie Mac's existing single-class securities. Release 2 will implement the CSP and make possible the issuance of a common single mortgage-backed security by both Enterprises. That security will be known as the Uniform Mortgage-Backed Security (UMBS). The *2016 Scorecard* called for the Enterprises and Common Securitization Solutions (CSS), the joint venture owned by Fannie Mae and Freddie Mac, to implement Release 1 in 2016 and publish a timeline for implementation of Release 2 and the Single Security Initiative. It also called for the Enterprises to work with FHFA to assess new or revised Enterprise programs, policies, and practices for their effects on the cash flows, such as prepayments and loan buyouts, of mortgage-backed securities eligible for financing through the TBA market.

Implementation of Release 1. CSS and Freddie Mac successfully implemented Release 1 on November 21, 2016. This implementation involved moving certain back-office operations of Freddie Mac to CSS and the CSP. With the implementation of Release 1, Freddie Mac is now using the CSS modules for Data Acceptance, Issuance Support, and Bond Administration activities related to Freddie Mac's current single-class, fixed-rate securities — PCs and Giants — and for certain activities related to the underlying mortgage loans, such as tracking unpaid principal balances. The implementation of Release 1 marks the start of CSS's transition from its role as a software development firm to a company also focused on supporting the mortgage securitization processes of the Enterprises.

The successful implementation of Release 1 was the culmination of a series of rigorous tests by CSS and Freddie Mac that included system-to-system testing, end-to-end testing, and parallel testing as well as operation and production readiness activities as summarized in Table 5.

Table 5: Summary of Milestones for Release 1

Milestone	Completion Date
System-to-System Testing	February 9, 2016
End-to-End Testing	July 26, 2016
Operational and Production Readiness Preparations	November 18, 2016
Parallel Testing	November 18, 2016
Implementation	November 21, 2016

Source: Federal Housing Finance Agency, ***CSP/Single Security Timeline***

Timeline for Implementing Release 2. The *2016 Scorecard* called for the Enterprises and CSS to publish a timeline for implementing Release 2 in 2016. The Enterprises and CSS did not meet that objective by the end of 2016 and FHFA announced in December that the timeline would be released in the first quarter of 2017. The additional time allowed the Enterprises and CSS to complete an extensive review of lessons learned from the Release 1 implementation process and progress to date on Release 2. Release 2 is a more complex undertaking than Release 1 because it involves both Enterprises rather than only Freddie Mac, because it will add issuance of the UMBS, and because it will add to the functionality of Release 1 by including commingling of Enterprise UMBS, multi-class securities, and UMBS disclosures. On March 23, 2017, FHFA released ***An Update on the Implementation of the Single Security and the Common Securitization Platform***, which announced that Release 2 would be implemented in the second quarter of 2019. That announcement provides stakeholders with more than 24 months' advance notice and is intended to facilitate further engagement on the part of market participants in the transition to UMBS.

Alignment Activities. Maintaining a high degree of uniformity in the prepayment speeds of the Enterprises' mortgage-backed securities is important to the success of the Single Security Initiative. Accordingly, the *2016* Scorecard called for the Enterprises to assess new or revised Enterprise programs, policies, and practices for their effect on the cash flows of mortgage-backed securities eligible for financing through TBA market.

In July 2016, FHFA published ***An Update on Implementation of the Single Security and the Common Securitization Platform*** (*July 2016 Update)*, which included a description of specific steps FHFA would take and steps FHFA would require the Enterprises to take to ensure the continued convergence of prepayment speeds across the Enterprises' mortgage-backed securities. The *July 2016 Update* indicated that each Enterprise would be required to submit for FHFA review any proposed changes the Enterprise believed could have a measureable effect on the prepayment rates and performance of TBA-eligible securities, including its analysis of any effects on prepayment speeds and/or removals of delinquent mortgage loans from securities under a range of scenarios. In addition, FHFA monitors Enterprise programs, policies, and practices that are initially determined to have no significant effect on prepayment rates or security performance and works with the Enterprises to address any unexpected effects as they arise.

FHFA continues to review and assess relevant changes and will work with the Enterprises to appropriately address any significant items that arise.

Industry Outreach and Other Readiness Activities. Successful implementation of the CSP and the Single Security Initiative is dependent on effective involvement by market participants and third-party vendors as well as the Enterprises and CSS. Therefore, the *2016 Scorecard* emphasized the need for the Enterprises and CSS to obtain and use industry input. Two meetings were held in 2016 with the CSP/Single Security Industry Advisory Group established by the Enterprises in 2015. The Enterprises and CSS also participated in conferences, conference calls, and meetings with individual firms. Input from those activities was incorporated into the Release 2 timeline and alignment activities discussed above, as well as into the UMBS features and disclosures for Release 2 published by Fannie Mae and Freddie Mac in July and updated in November.[6]

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 *2016 Scorecard* called for Fannie Mae and Freddie Mac to continue to collaborate with the industry through the UMDP to develop and implement uniform data standards for single-family mortgage loans, including the Uniform Closing Disclosure Dataset (UCD) and the Uniform Loan Application Dataset (ULAD). In addition, the *2016 Scorecard* called for the Enterprises to assess and, as appropriate, implement strategies to improve the lending 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 the Consumer Financial Protection Bureau (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 information on the CFPB's Closing Disclosure to be communicated electronically among firms in the mortgage industry. To assist lenders and vendors with their UCD planning and implementation timelines, the Enterprises jointly announced that they would require delivery of the UCD for all loans they acquire starting on September 25, 2017.

During 2016, each Enterprise worked to develop its own software solutions to collect, analyze, and store UCD data from lenders and vendors and to provide lenders and vendors the opportunity to test transmitting data files to the Enterprises. The Enterprises also worked closely with the industry, actively engaging the UCD advisory group in decisions on publishing data specification updates, on requirements for the format and structure of electronically submitted documents and on acquiring closing data from settlement companies. In addition, the Enterprises published Frequently Asked Questions[7] to address UCD-related questions and provide updates. They also held industry UCD awareness and technical implementation webinars. Finally, the Enterprises jointly published and updated technical information to aid lenders and vendors with their implementation of the UCD.

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[6] The final features and disclosures may be found on Fannie Mae's website ***here*** and on Freddie Mac's website ***here***.
[7] See *Uniform Closing Dataset (UCD) FAQs* on Fannie Mae's website ***here*** and on Freddie Mac's website ***here***.

Uniform Loan Application Dataset. The *2016 Scorecard* required the Enterprises to continue development and implementation of the ULAD. This effort resulted in a newly redesigned Uniform Residential Loan Application (URLA) Form to collect the ULAD. The ULAD consists of most of the dataset used by the Enterprises' automated underwriting systems to determine if the loan conforms to Enterprise requirements.

The current URLA has been the standard mortgage application for over 20 years, during which only minimal revisions have been made. FHFA and the Enterprises conducted significant industry outreach over the last two years on the proposed changes to the URLA and the ULAD. The revised URLA is intended to improve the efficiency of the loan origination process, provide additional loan-level information, and support compliance with CFPB's data collection and reporting requirements related to the Home Mortgage Disclosure Act. The additional loan-level information includes fields for the each borrower to indicate military status and whether the borrower or borrowers received housing counseling. The revised ULAD provides several new technical features that will enable data standardization across the industry and foster electronic transfer of data throughout the mortgage process.

During 2016, the Enterprises conducted multiple rounds of usability testing on the redesigned URLA form with borrowers and lenders. In addition, they collaborated with lenders, software vendors, mortgage insurers, trade associations, housing advocates, borrower groups, CFPB, and federal housing agencies within the Departments of Housing and Urban Development, Veterans Affairs, and Agriculture to address outstanding issues. The Enterprises released the redesigned URLA form on August 23 and the technical specifications for their automated underwriting systems on September 20. On September 23, CFPB issued an official approval providing an Equal Credit Opportunity Act (ECOA) "safe harbor" for the updated URLA form. The Enterprises are working to update their automated underwriting systems to accept the updated ULAD. They are also consulting with the industry to determine a date after which data provided by lenders will be required to conform to the updated URLA. To assure successful implementation the Enterprises will continue to provide assistance to industry participants, including opportunities to add an applicant's preferred language.

eMortgages. The 2016 Scorecard called for the Enterprises to assess and implement strategies to improve the mortgage industry's ability to originate and deliver electronic mortgages (eMortgages). An eMortgage is a mortgage loan where the critical loan documentation, specifically the promissory note (eNote), is created, executed, transferred, and stored electronically. In the first half of 2016, the Enterprises surveyed lenders, technology solution providers, warehouse banks, servicers, and title and settlement providers to understand the obstacles to industry adoption of eMortgages. The Enterprises analyzed and published the survey results[8] and identified joint opportunities to address some obstacles to eMortgage adoption. The top obstacles identified in the survey include the following: complexity of the current eNote format; lack of acceptance of eNotarization and eRecording; operational complexity for warehouse lenders; lack of clarity on eNote default servicing process; eNote servicing technology requirements; lack of support by servicing platforms; lack of demand from lenders; and lack of business partner readiness. Leveraging survey results, at year-end the Enterprises delivered to FHFA recommendations to alleviate some of the industry challenges. FHFA, in consultation with the Enterprises, will determine the best approach and timeline to address barriers affecting the lending industry's ability to originate and deliver eMortgages to the Enterprises.

Conclusion

This *Progress Report* describes the major activities undertaken by Fannie Mae and Freddie Mac in 2016 to achieve the goals set forth in FHFA's *2014 Conservatorship Strategic Plan* and *2016 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 without redaction to FHFA's website.

[8] See *Joint GSE Outreach Survey Findings on State of Industry Adoption* which may be found on Fannie Mae's website ***here*** and on Freddie Mac's website ***here***.