Common Securitization Platform and FHFA's Strategic Plan

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Backdrop for Today’s Mortgage Market

- Fannie Mae and Freddie Mac (Enterprises) were placed into Conservatorship in 2008.
- “Time Out” for policymakers to decide on the future structure of housing finance.
- Over four years later, the Federal government is supporting over 90 percent of the mortgage market.
- Direction of housing finance reform remains uncertain.
  - Administration White Paper in 2011 set forth 3 options for the government’s role in housing finance: multiple guarantors; catastrophic guarantor; and no guarantor.
  - Some proposals have emerged, but only consensus seems to be not to recreate the Enterprises.

FHFA's Strategic Plan – Why?

- Conservatorship is not a long-term option.

- Need to provide clarity for multiple groups, in an environment characterized by an unknown future.

  - Policymakers – activities in conservatorship, including providing a transition to multiple housing finance reform options.

  - Enterprises – need to make business investment decisions.

  - Market Participants – provide a clearer sense of future activities.

Goals in FHFA's Strategic Plan

- **Build.** Build a new infrastructure for the secondary mortgage market.

- **Contract**. Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations.

- **Maintain.** Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

Build Context

- The Enterprises' outmoded proprietary infrastructures need to be updated and maintained, and any such update should provide enhanced value to the mortgage market with a common and more efficient model.
  - There must be some updating and continued maintenance of the Enterprises' securitization infrastructure, and to the extent possible, we should invest taxpayers' dollars to this end once, not twice.
  - We also have undertaken this effort with the goal that it will have benefits beyond the Enterprise business model.
- FHFA issued a white paper in October 2012 on the build goal, which includes the development of a common securitization platform and a model contractual framework.
- The build goal also includes important efforts related to data standards through the Uniform Mortgage Data Program – loan delivery data; appraisal data; and servicing data.

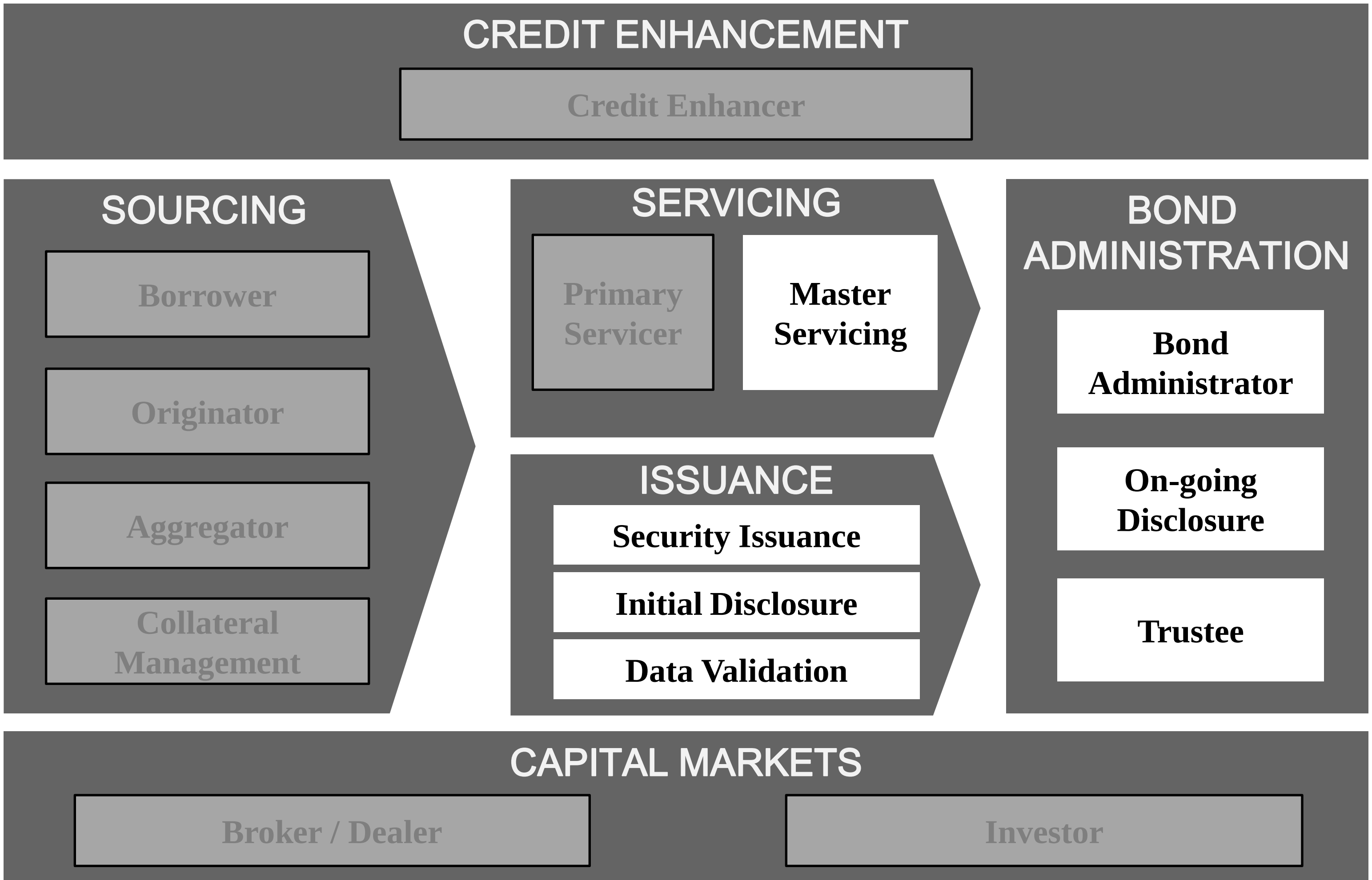
Current Enterprise Scope vs. Proposed Platform

- **GSEs currently engaged in**:
  - Credit enhancement
  - Securitization
    - Sourcing
    - Servicing
    - Issuance
    - Bond Administration
    - Capital Markets

- **Proposed scope of securitization platform narrows to commoditized functions within the Securitization infrastructure.**

Proposed Common Securitization Platform Scope

Proposed platform narrows scope to commoditized functions (white boxes).



Proposed as in scope for the platform

Proposed as out of scope for the platform

Platform Priorities for 2013

- New business entity will be established between Fannie Mae and Freddie Mac.
  - Headed by a CEO and Chairman of the Board that are independent from Fannie Mae and Freddie Mac.
  - Physically located separate from Fannie Mae and Freddie Mac.
  - Institute a formal structure to allow for input from industry participants.

- Platform may be able to function like a market utility, as opposed to rebuilding the proprietary infrastructures of Fannie Mae and Freddie Mac.

- Continue testing of platform modules and evaluating scope of platform. FHFA will issue progress reports.

Contract and Risk Transfer

- With an uncertain future and a general desire for private capital to re-enter the market, the Enterprises market presence should be reduced gradually over time.
- Increase in guarantee fees since conservatorship.
- Credit risk transfer in the single family business.
  - Set goals in 2012 of executing on risk sharing transactions, did not execute, but laid the groundwork for 2013.
  - For 2013 we have set a target of $30 billion of unpaid principal balance in credit risk sharing transactions for both Fannie Mae and Freddie Mac.
  - Each Enterprise must conduct multiple types of risk sharing transactions to meet this target.
  - The goal for 2013 is to move forward with these transactions and to evaluate the pricing and the potential for further execution in scale.
- Risk sharing transactions will also provide a real time test of contractual features important to transferring credit risk.