

# **GSE Challenges: Reform and Regulatory Oversight**

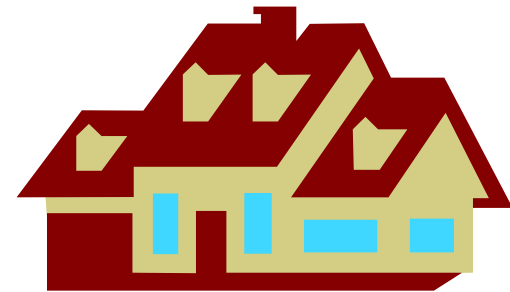


**James B. Lockhart III, Director  
Office of Federal Housing Enterprise Oversight  
MBA's National Secondary Market Conference and Expo 2007  
New York City, NY  
May 21, 2007**

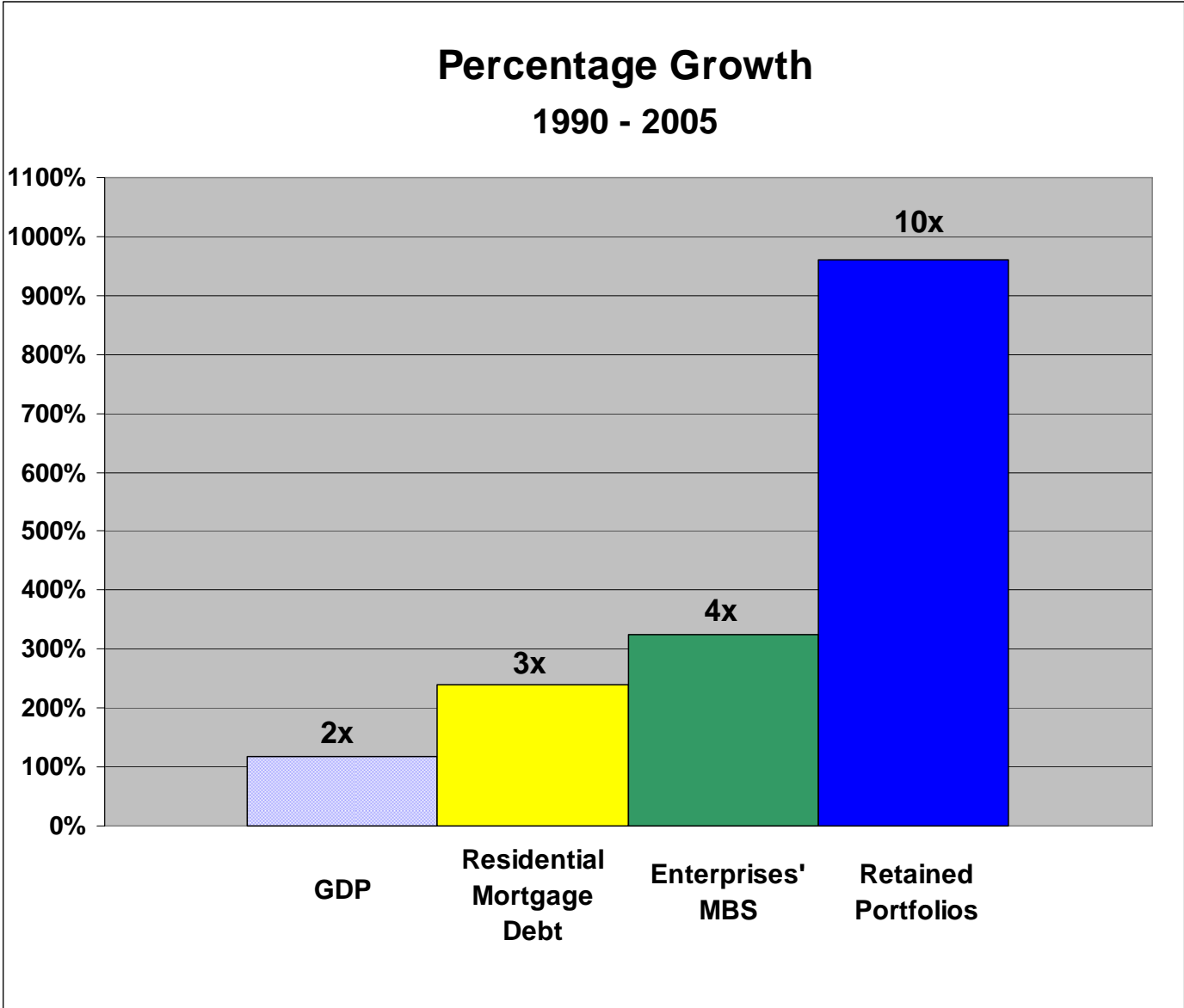
# OFHEO's Mission



**To promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.**



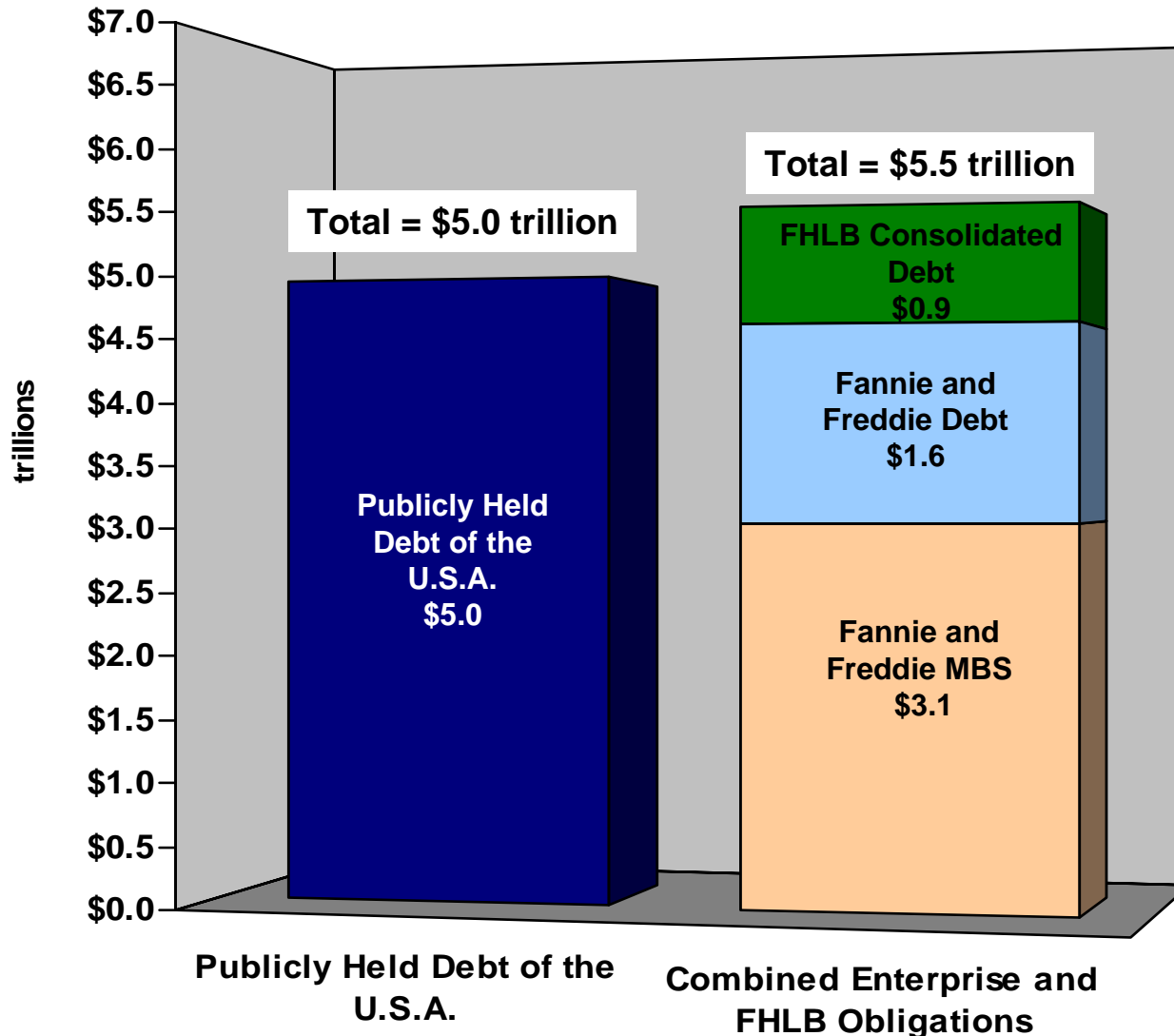
# Enterprises Have Grown Very Rapidly



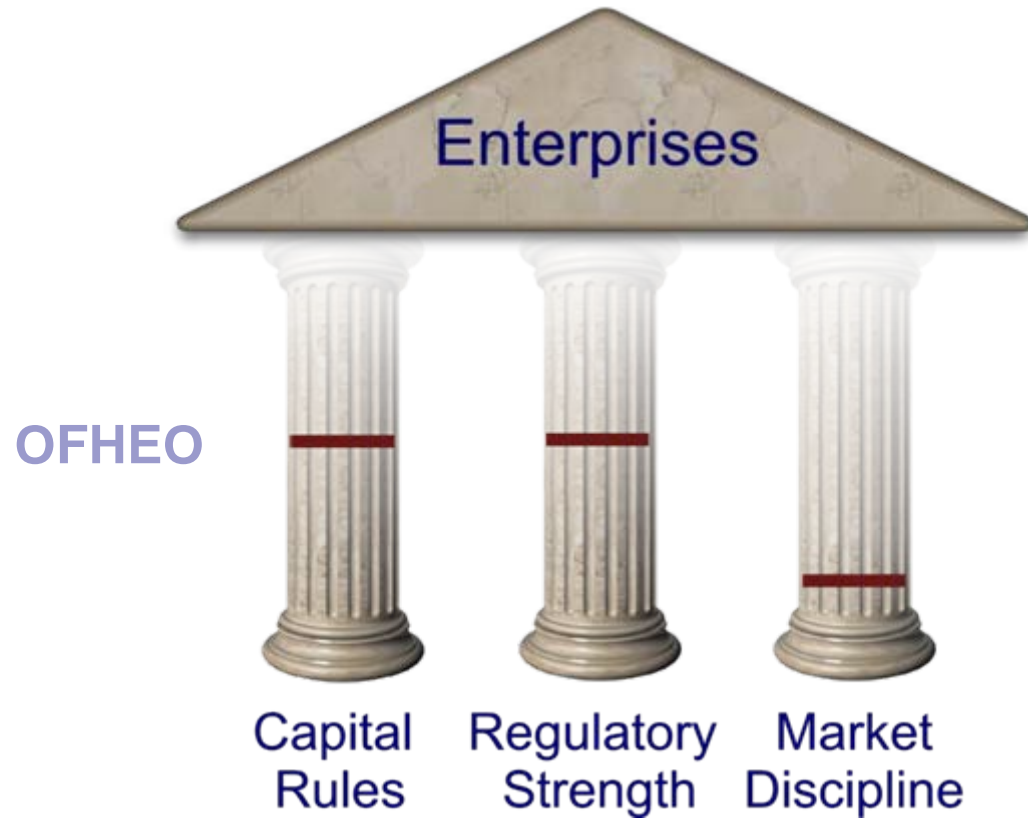
# The Housing GSEs are Huge



Relative Size of Enterprise Obligations  
(March 2007)



# Basel II Pillars



OFHEO, Fannie Mae and Freddie Mac have a long way to go

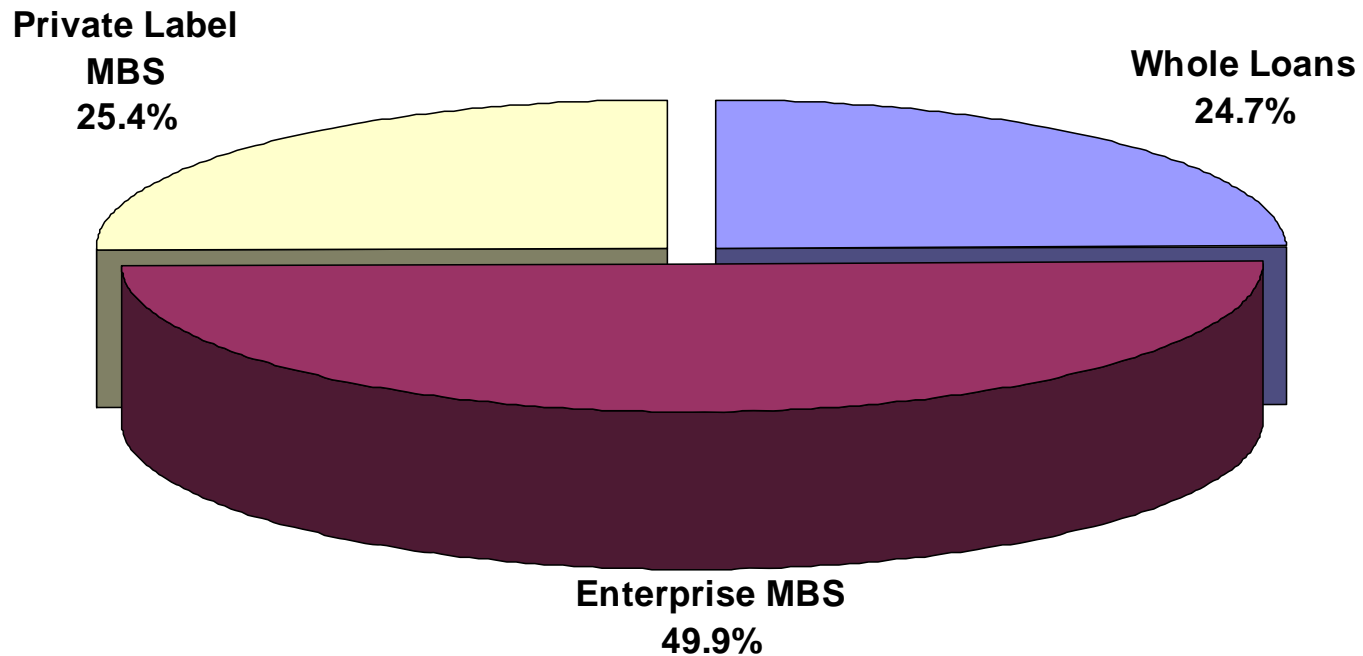
# New, Stronger Regulator Needed



- More bank regulator-like powers
- Strength through combining the GSE regulators (OFHEO and FHFB)
- Mission and new product authority (HUD)
- Stronger independence – litigation and budget
- Ability to strengthen capital requirements
- Clear guidance to regulate portfolios

# Portfolios Dominated by Own MBS

## Enterprises' Combined Retained Mortgage Portfolios March 31, 2007



*Contribution to Affordable Housing Goals Less Than 30%*

# Combined Book of Business Continues to Grow



## Enterprises' Combined Total Book of Business 1990 - 1Q 2007

Total Book of Business

\$4.4

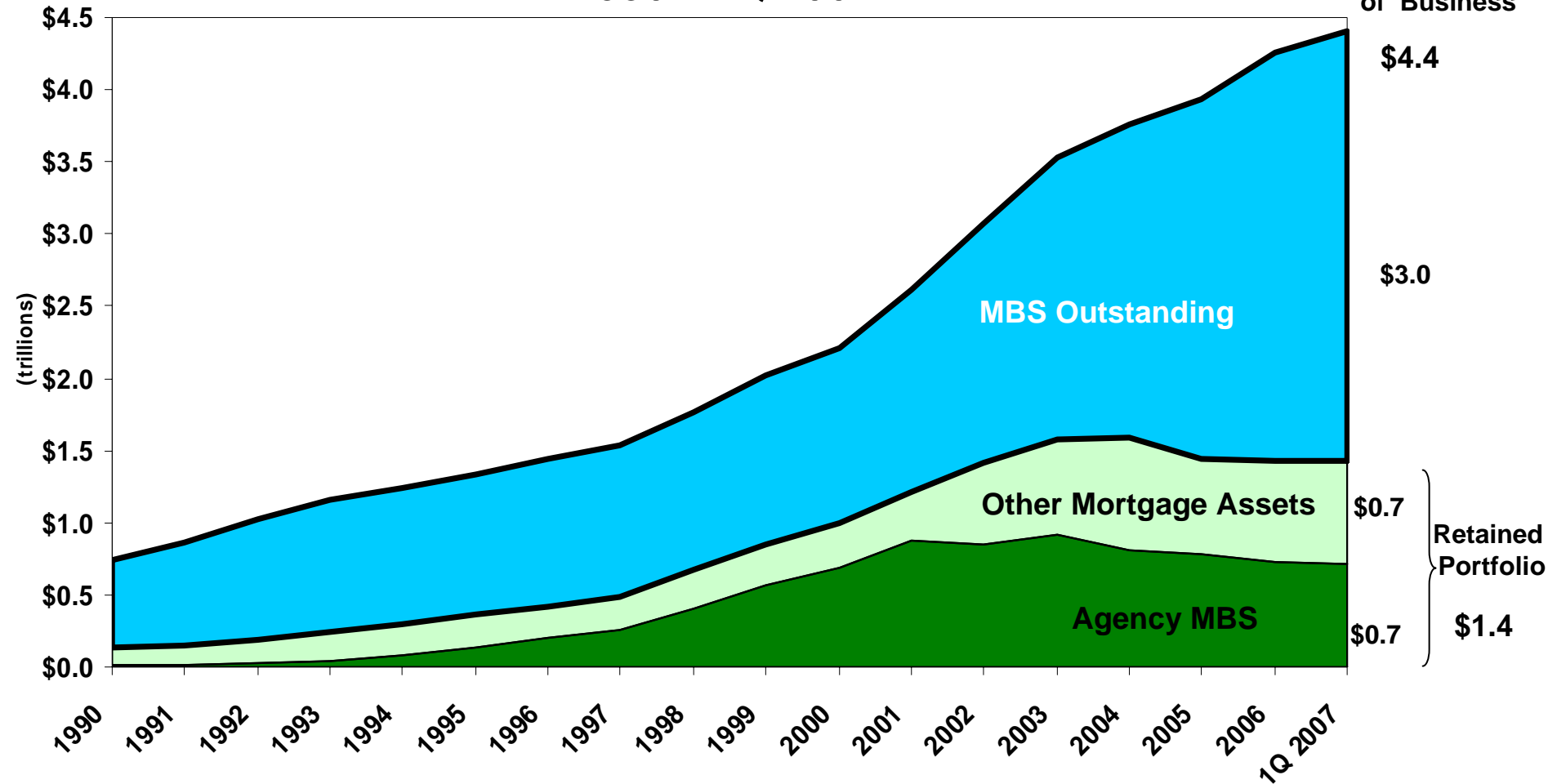
\$3.0

\$0.7

Retained Portfolio

\$0.7

\$1.4



# REGULATORY OVERSIGHT – 2007 GOALS

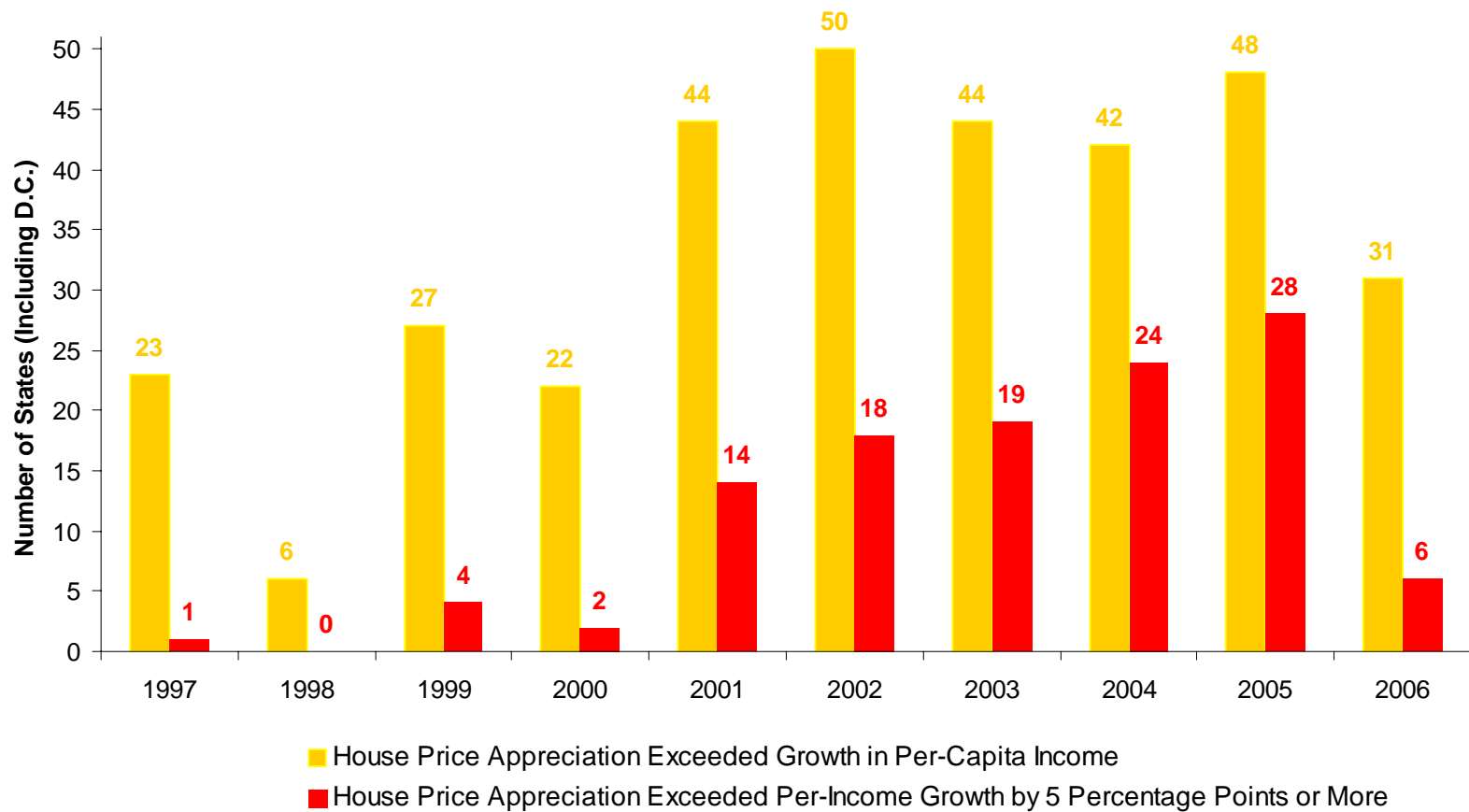


- Further strengthening the agency's supervisory activities to ensure the Enterprises operate in a safe and sound manner.
- Overseeing the remediation efforts necessitated by their management failures including major operational risk and technology issues. Both need to return to timely filing of their financial statements.
- Ensuring both Enterprises are adequately capitalized; a task that is made more difficult by lack of up-to-date audited financial statements.
- Beefing-up the exam program by conducting targeted, risk-based exams.
- Regulatory initiatives will include improved guidance on the conforming loan limit changes, particularly when the level declines, and revisions to our risk-based capital rule.

# HOUSE PRICE APPRECIATION GREW WELL ABOVE INCOME



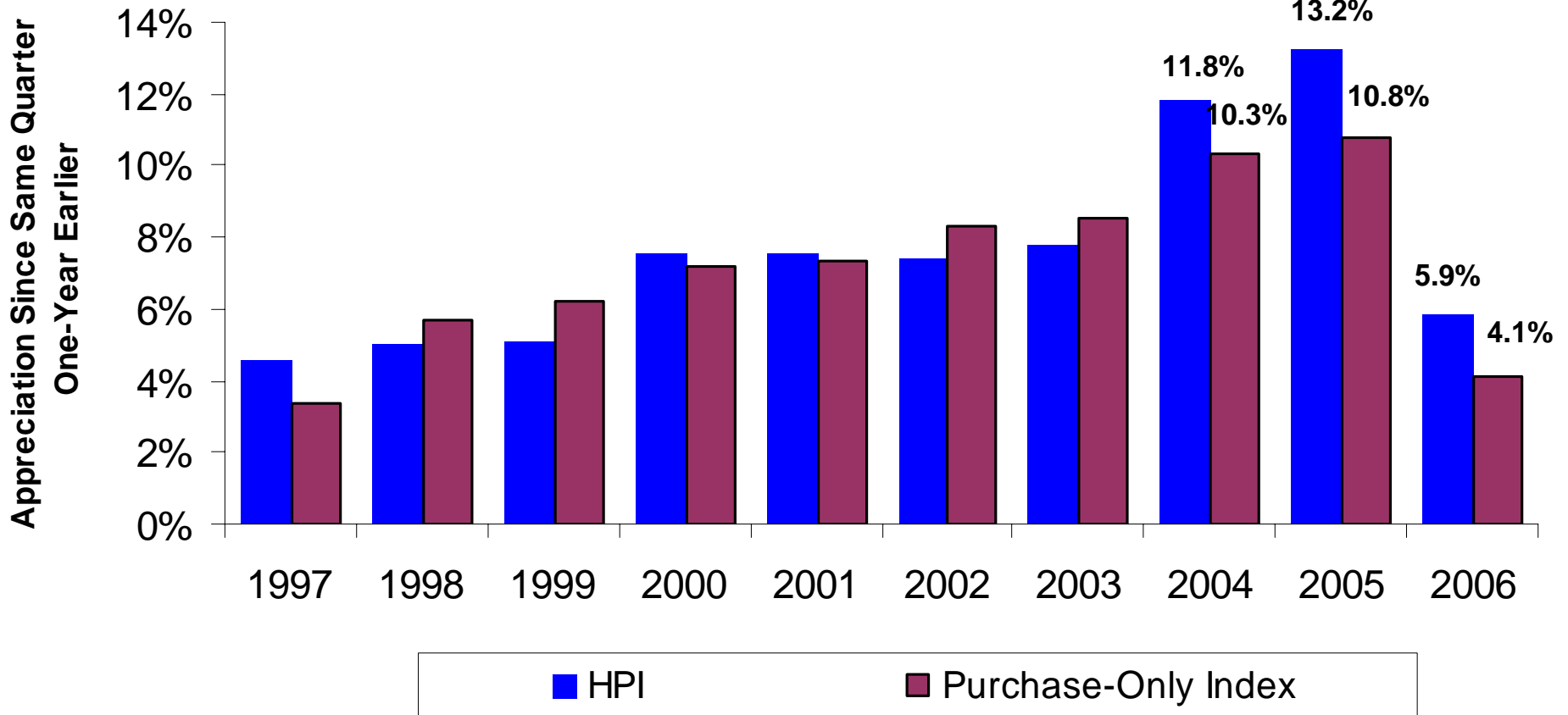
Number of States in which House Price Appreciation Exceeded Growth in Per Capita Income



# HOUSE APPRECIATION IS FALLING



## HOUSE PRICE APPRECIATION OVER PREVIOUS FOUR QUARTERS: USA



# SIGNIFICANT CHANGES IN FIRST QUARTER



	<b>Changes From:</b>	
	<b><u>4Q '06</u></b>	<b><u>1Q '06</u></b>
Mortgage Originations	-6%	-4%
Enterprise MBS Issuance	12%	21%
Private Label Securities Issuance	-2%	-5%
- Alt A	3%	29%
- Jumbo	27%	-13%
- Subprime	-17%	-23%
MBS Market Share	<b><u>2006</u></b>	<b><u>1Q '07</u></b>
- PLS	51%	56%
- Fannie & Freddie	46%	38%

# Subprime Loan Market Size



- Subprime originations market share almost tripled from 7.2% in 2002 of total originations to 21.4% in 2006
- Total subprime outstanding \$1.5 Trillion (15% of total market)
- About 2.1 million subprime hybrid loans in Private Label Securities (PLS)
  - Estimated Debt to Income Ratios:
    - 30 % are below 45% DTI (Fannie & Freddie Target and may not be subprime)
    - 30 % are between 45% and 55% DTIs (Fannie & Freddie possible Target)
    - 40% are above 55% DTI (most will require modifications or be foreclosed)
- Combined Fannie Mae and Freddie Mac own \$170 billion of subprime mortgages in AAA tranches of PLS

# SUBPRIME ACTIVITIES



- Freddie Mac – “Home Possible”
  - \$20 billion over next 2 to 3 years
  - Approximately 130,000 mortgages
  
- Fannie Mae – “Home Stay”
  - \$10s of billions over next several years
  - Widening Underwriting Standards to “Expanded Approval”
  
- Both will be expanding efforts with Lenders and consumer groups to avoid foreclosures
  
- As still under consent agreements, safety and soundness will be a major concern
  
- OFHEO working with Enterprises on guidance for nontraditional and subprime mortgages to include whole loans, Enterprise MBS and private label securities



[www.ofheo.gov](http://www.ofheo.gov)