Testimony of Timothy J. Mayopoulos
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Before the House Financial Services Committee
September 27, 2018

Thank you, Chairman Hensarling and Ranking Member Waters for the opportunity to testify today.

My name is Tim Mayopoulos, and I am the Chief Executive Officer of Fannie Mae. I joined Fannie Mae as its General Counsel in April 2009, seven months after the company entered conservatorship. I became Chief Administrative Officer in September 2010, and I agreed to become the Chief Executive Officer of the company in June 2012, at the request of our Board of Directors and then Acting Federal Housing Finance Agency (FHFA) Director Ed DeMarco.

In all of my roles at Fannie Mae, I have viewed my primary responsibility as helping the company to fulfill the mission set forth in its Congressional charter: to provide stability and liquidity to the nation's secondary mortgage market and sustainably expand access to mortgage credit. Under my leadership, our management team has also been focused on the goals set forth by FHFA at the onset of the conservatorship: to restore confidence in Fannie Mae, to enhance the company's capacity to fulfill its housing mission, and to mitigate risk to the financial markets and taxpayers.

At every turn, we have sought to make Fannie Mae as safe and strong and capable as possible so policymakers would have a full range of options as they consider the future of housing finance, and that taxpayers would receive the greatest benefit for their investment in the company. We are acutely aware taxpayers did not want to make an investment in Fannie Mae, and that they should not be called upon to make another such investment in the future.

On September 6, 2008 –10 years ago this month – the government seized the company and placed it into conservatorship. As Conservator, the Federal Housing Finance Agency installed experienced professional managers to run the company under its supervision. Notwithstanding the magnitude of the job we collectively undertook a decade ago, it is no exaggeration that we have achieved more than most people would have thought possible.

What have we accomplished over these 10 years of conservatorship?

- We stabilized the company and helped to stabilize the housing market. Both Fannie Mae and the state of the housing market are vastly improved over the dire conditions of a decade ago.

- We built what is probably the strongest book of business in the company's history, using improved credit standards and prudent risk management.

- We became sustainably profitable for the benefit of taxpayers, not private shareholders. We returned to positive earnings in 2012, have been profitable every year since then, and expect to remain profitable on an annual basis for the foreseeable future.

- As of June 2018, we have returned nearly $50 billion more to taxpayers than we received in taxpayer support during the financial crisis. In addition, Fannie Mae has returned more profits to taxpayers than any other company, measured on both an absolute basis and net of the support received. Whatever our political affiliation, we are all taxpayers, and this is a happy result. We expect to continue to distribute profits as dividends for the foreseeable future.

- We significantly improved Fannie Mae's business model, making it more reliable and less risky. We moved away from making most of our money from a portfolio of investments in mortgage assets, a subject of considerable criticism before the crisis. As a business line, purchasing and holding mortgages as investments no longer exists at Fannie Mae.

- We similarly improved our business model by programmatically transferring a portion of our credit risk to private investors and away from taxpayers. We were instrumental in creating markets for doing this that did not even exist a few years ago.

- We actively supported FHFA's efforts to make agency mortgage-backed securities more fungible and eliminate the historical advantage of Fannie Mae securities compared with Freddie Mac securities. The goal is to make the secondary mortgage market even more liquid.

- We built new capabilities based on the lessons of the financial crisis. These new capabilities are helping us better serve today's market and the market of tomorrow. They include new technology solutions to verify the quality of the loans delivered to us and that make the mortgage process more efficient, less expensive, and safer. These new capabilities are becoming permanent features of the housing finance architecture, making it stronger and sturdier.

In short, in these past 10 years we have made our conservatorship, in spite of its origins, a clear success for taxpayers, homeowners, and renters. That was not a foregone conclusion on September 6, 2008.

Throughout conservatorship, we have recognized that our job is not to make housing finance policy, but to ensure that our company and the housing market perform as well as possible. We have executed our responsibilities with a spirit of stewardship and a strong commitment to transparency and accountability. After 10 years of hard work in conservatorship,

Fannie Mae has turned out to be a very good investment for taxpayers. This is a tribute to the dedication and perseverance of the people of Fannie Mae who have pledged their talents and careers to reforming and strengthening the company and the housing finance system.

Let me provide some detail on the major areas of our progress over the past decade.

Stabilization

First, we stabilized the company and the housing market we serve. We helped millions of people stay in their homes in the wake of the crisis, and helped millions more buy, refinance, and rent homes in the years of recovery.

Ensuring Liquidity through the Crisis

The lead-up to the financial crisis and its impact on the housing and mortgage markets are well known, but are worth recalling.

What began as an easing of the rate of home price increases in 2006 became a collapse of home prices in 2008, when home prices nationally fell by 18 percent, according to the widely used S&P/Case-Shiller Index. Some states fared far worse. In Florida, for example, which accounted for 7 percent of Fannie Mae's single-family mortgages at the time, home prices had fallen 38 percent by 2008 from their peak a few years earlier.

Fannie Mae was not immune from the wreckage. In 2007, we lost $2 billion, and in 2008, primarily driven by an increase in combined loss reserves, we lost $58.7 billion. Meanwhile, private capital was retreating from the market. In the two years leading up to mid-2007, the volume of private-label mortgage-related securities backed by subprime and so-called Alt-A loans outstripped the combined issuances of Fannie Mae, Freddie Mac, and Ginnie Mae. By the spring of 2008, however, private-label issuances had all but ceased.

As private capital retreated, Fannie Mae, Freddie Mac, and the Federal Housing Administration became the principal sources of liquidity in the market. By the fourth quarter of 2007, Fannie Mae's market share of single-family mortgage-related securities issuances surged to 48.5 percent. Private market financing and liquidity for multifamily housing also retreated, and Fannie Mae and Freddie Mac became the largest providers of apartment financing.

As intended, conservatorship allowed Fannie Mae and Freddie Mac to keep the nation's mortgage market functioning smoothly, in the darkest hours of the downturn and through the recovery. Since the beginning of 2009, Fannie Mae has supplied $6.5 trillion of liquidity to the market. This financing supported 8.4 million home purchases, 17.2 million home refinances, and 5.1 million multifamily rental units.

Helping Homeowners Avoid Foreclosures

With the financial crisis, many homeowners were unable to meet their mortgage payments, and we dedicated enormous resources to preventing foreclosures. While we were obviously unable to keep everyone in their homes, our sustained efforts achieved results. From the beginning of 2009 through the second quarter of 2018, we helped save 8.8 million homes from foreclosure through refinancing, loan modifications, and other workouts. We also set new industry standards and practices that remain in place to this day for helping struggling homeowners.

From the onset of the crisis, we were a thought leader in helping Department of the Treasury and Department of Housing and Urban Development (HUD) develop the government's cornerstone Making Home Affordable Program. We served as the program administrator from the beginning, and we continue to do so. We were also integral in designing and implementing the Home Affordable Refinance program, perhaps the single most successful homeowner assistance program in the history of housing.

However, we were not content with the programs initiated by Treasury and HUD. We created our own industry-leading modification and other workout options to help people keep their homes and avoid foreclosure. We were a leader in creating modification options that substantially reduced the borrower's monthly payment. As we learned more, we improved our solutions and incorporated many of these improvements into the government programs. For example, when we saw that many qualified homeowners were getting stymied by all the paperwork involved, we created a proprietary Streamlined Modification that simplified the qualification process.

To provide free counseling and assistance to struggling homeowners trying to understand their potential options for avoiding foreclosure, we worked with local non-profits to establish Mortgage Help Centers in a dozen of the hardest hit areas across the country. To contact and educate borrowers who had yet to connect with their servicers, we held outreach events. We also encouraged post-modification counseling for borrowers to help them stay on a path of keeping their homes.

At the outset of the crisis, the mortgage servicing industry was unprepared to address the flood of delinquent loans and, too often, vacant homes. We created new industry standards for mortgage servicers for helping struggling homeowners and managing foreclosure timelines. We reinforced these standards with incentives and compensatory fees.

For example, through our Servicer Total Achievement and Rewards (STAR) program, we started grading our servicers' work according to industry standards and leading practices. We now evaluate servicers by factors such as their effectiveness in contacting borrowers early in their delinquency, providing borrowers with a single point of contact, and helping struggling

borrowers know their options. We identify servicers who are outperforming their peers, and when a servicer underperforms we put it on a performance improvement plan. When needed, we transfer servicing.

Our ongoing foreclosure prevention and servicing programs are rooted in the lessons of the crisis, and we continue to improve upon them 10 years later. Today, both Fannie Mae and the mortgage servicing industry are much better prepared for adverse mortgage conditions than we were before the crisis.

Handling Property Maintenance and Disposition Responsibly

Of course, despite everyone's best efforts, some borrowers are unable to take advantage of a home-retention workout option or otherwise cure their delinquencies. In those cases, Fannie Mae may acquire the homes through foreclosure or a deed-in-lieu of foreclosure. We market and sell our foreclosed homes, also known as Real Estate Owned (REO), through local real estate professionals. Our primary objectives are both to minimize the severity of loss by maximizing sale prices and to stabilize neighborhoods by minimizing the impact of foreclosures on area home values.

As with mortgage servicing, we improved our own practices and raised the standards for the entire industry with respect to the maintenance and sale of foreclosed homes. Let me share a few examples:

- We can use drones and satellites to assess damage on thousands of properties at a time in situations where we have limited human capacity. We developed this capability in responding to natural disasters.

- We began using clearboarding, a new polycarbonate alternative to unsightly plywood boarding. Fannie Mae's adoption of clearboarding has made it an industry standard.

- We are using new ways and new technologies to protect and enhance the value of our properties, including the installation of energy efficient appliances and Nest thermostats.

Over the past 10 years, Fannie Mae sold more than 1.6 million homes in total. On average, we sell properties at a price that is 98 percent of their established value, an execution rate that ranks first or second in most markets.

In cases where the property does not sell, we use alternative methods of disposition, including selling to municipalities, other public entities, or non-profits. Since 2007, we have sold more than 13,000 properties to 2,000 different public entities and non-profits in more than 300 different markets across the nation. Working with FHFA, we also launched the

Neighborhood Stabilization Initiative. This provides non-profits and public entities in the hardest hit markets with an Enhanced First Look period for purchasing REO properties.

As of the end of June 2018, our inventory stands at approximately 22,000 homes, which is below pre-crisis levels. With stronger underwriting and stronger capabilities for managing delinquencies, we estimate that even with a new downturn as severe as the last, our inventory would peak at less than a third of our previous high of 171,000 properties from October 2010.

Setting Sustainable Credit Standards

As we helped struggling homeowners navigate the crisis, we were also working to ensure that future homeowners had access to sustainable mortgages. In late 2008 and 2009, we significantly strengthened our underwriting and eligibility standards to improve the quality of loans we guaranty.

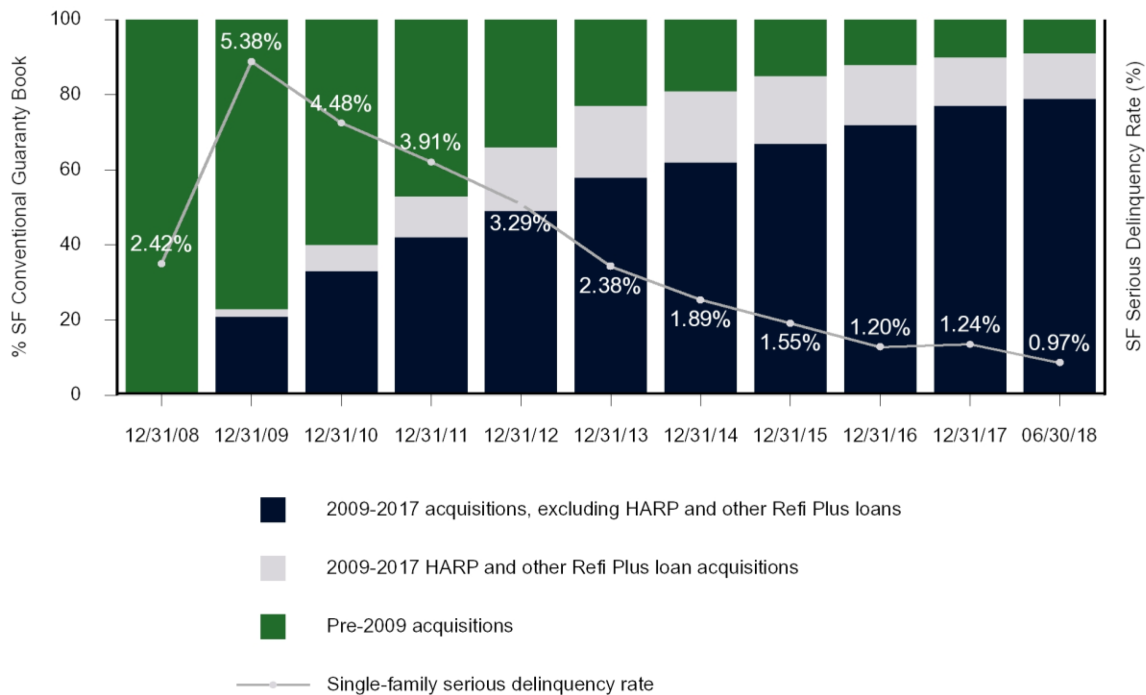
The result is a very strong book of business. For instance, our Single-Family mortgage credit book at the end of June 2018 had a weighted average loan-to-value ratio of 75 percent and a weighted average FICO credit score of 745.

We do not accept newly originated low- or no-documentation, negatively amortizing, or interest-only single-family loans, nor single-family loans with prepayment penalties or balloon payment features. Shortly after the crisis began, we took steps to reduce the unsound layering of risk that was at the root of much of the poor credit practices that led up to the crisis.

Applying improved credit standards helped to decrease dramatically the serious delinquency (SDQ) rate of our single-family loans from a peak of 5.59 percent in February of 2010 to below 1 percent at the end of June 2018. Importantly, our single-family mortgage SDQ rate has continued its overall downward trend even as we have introduced low down payment options such as our HomeReady® product.

Indeed, the SDQ rate for loans we have acquired since 2009 is substantially lower than our overall SDQ rate, which includes loans we acquired before the crisis. Most of the loans that go delinquent are those we acquired before 2009. The SDQ rate for new acquisitions (those acquired since 2009) is 0.41 percent, which reflects the very strong credit quality of our more recent business.

Economic conditions that affect mortgage credit performance, such as home prices, employment, and interest rates, are beyond Fannie Mae's control. Therefore, our focus since the crisis has been on developing better ways to monitor, manage, and mitigate credit risk as it changes, always with an eye on sustainability for homeowners, lenders, and taxpayers.

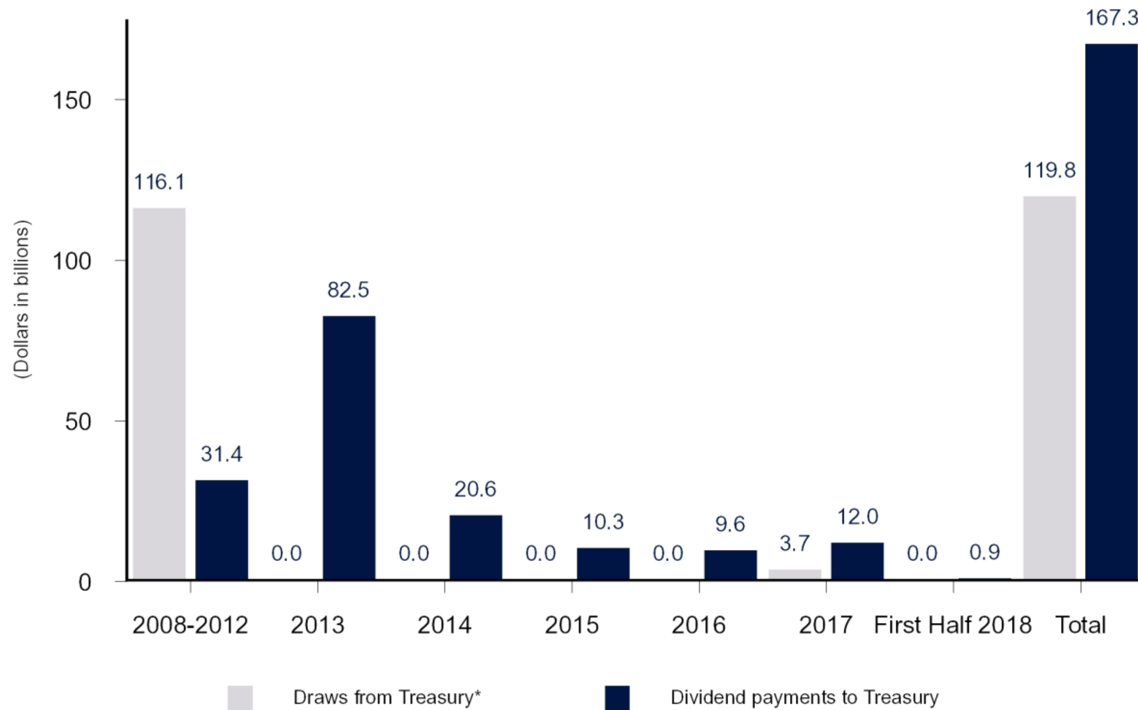


Returning to Profitability

As a result of our actions and the economic recovery, Fannie Mae returned to profitability in 2012, and we have been profitable on an annual basis ever since. Since I became CEO in June 2012, the company has reported nearly $150 billion in profits. We have been profitable every quarter since I have been CEO except for the fourth quarter of 2017 when, like many companies, tax legislation adversely impacted our earnings.

In fact, the company has actually been more profitable during my tenure as CEO than it was pre-crisis. From 2002 through 2006, Fannie Mae averaged $5.5 billion in annual profits. From 2012 through 2017, we averaged $11.4 billion in profits, even if we exclude the anomalous year of 2013, when we earned an extraordinary $84 billion primarily due to the release of our valuation allowance against deferred tax assets. While we expect some volatility in our quarterly and annual results due to factors beyond our control, we expect to remain profitable on an annual basis for the foreseeable future.

Since the beginning of conservatorship, we have returned more than $167 billion in dividends to the Treasury Department, which is nearly $50 billion more than we received in taxpayer support.



* Treasury draws are shown in the period for which requested, not when the funds were received by Fannie Mae.

Talent, Management and Governance, and Compliance

Over the past 10 years, we have also ensured that the company has the right people, the right management and governance, and a strong commitment to our regulatory responsibilities, compliance, and transparency.

Let me speak to each of these areas, starting with our people.

Every member of our Board of Directors joined the company after September 6, 2008, the beginning of our conservatorship. This is also true for me, our Chief Executive Officer, as well as our Chief Financial Officer, General Counsel, Chief Audit Executive, Chief Communications Officer, Chief Human Resources Officer, Chief Information Officer, and Chief Information Security Officer. Overall, 73 percent of our current employees joined the company after September 6, 2008.

What has not changed is Fannie Mae's long-time commitment and industry leadership in diversity and inclusion. We have retained our position in the top quartile among SIFMA financial services firms for minority and women representation across all levels, including senior management. We have been recognized by a wide array of prominent organizations for our

diversity and inclusion efforts. We encourage employees to interact with colleagues who share common interests and backgrounds through our 12 employee-initiated and employee-led Employee Resource Groups that provide important peer support and identify potential issues that could hinder inclusion. In addition, our 2017 employee engagement score ranks in the top decile of our industry.

We have also maintained focus on our affordable housing regulatory obligations. Our work with lenders to meet our housing goals has financed nearly 5 million affordable housing mortgages in the last 10 years, and more than 4.2 million affordable rental units.

To maximize taxpayers' return on their investment, we have kept our administrative expenses low relative to the size of our business. In fact, *Business Insider* magazine reported this year that Fannie Mae has fewer employees relative to our net income than any company in the world. From 2008 through 2017, the annual average growth rate of our administrative expenses was 1.1 percent; this compares to an annual average inflation rate over that period of 1.8 percent. This is a testament to our commitment to staying lean and managing the company smartly and responsibly.

We have strengthened the resiliency of our business to ensure we are able to sustain operations in the event of almost any type of disruption. We have geographically distributed our people, processes, technology, and facilities to decentralize our risk and help ensure continuity of our critical capabilities. Currently, 87 percent of our critical assets have redundant back-up capabilities in our out-of-region data center and by the end of the year it will be 100 percent.

While not permitted to retain more than $3 billion in capital reserves, we endeavor to run the company with the same risk management discipline of other major financial institutions. As required by law, we submit capital reports to FHFA on a regular basis. We are also implementing FHFA's new Conservator Capital Framework, which includes specific requirements relating to risk on our book of business and modeled returns on our new acquisitions.

Like many other financial institutions, the Dodd-Frank Act requires us to conduct annual stress tests to determine the impact of adverse economic conditions to our business. We published our most recent stress test results for the severely adverse scenario on our website in August. Of course, our results are greatly impacted by our inability to retain more than $3 billion in capital reserves. While the stress scenarios vary from year to year, our estimated loss in the severe scenario has decreased by almost 60 percent since the inception of the tests, as we have reduced the size of our retained mortgage portfolio and improved the credit quality of our guaranty book.

We have strengthened our management and governance structures. In 2015, following a comprehensive review, we implemented a new Management-Level Committee (MLC)

Governance structure. We reduced the number of committees from 43 to 11 to more effectively oversee risks and clarified our delegations of authority to improve accountability.

We also adhere to FHFA's rule establishing prudential standards relating to our management and operations across 11 critical areas. When FHFA identifies risk and control matters, we resolve them within established timeframes or mutually acceptable extensions.

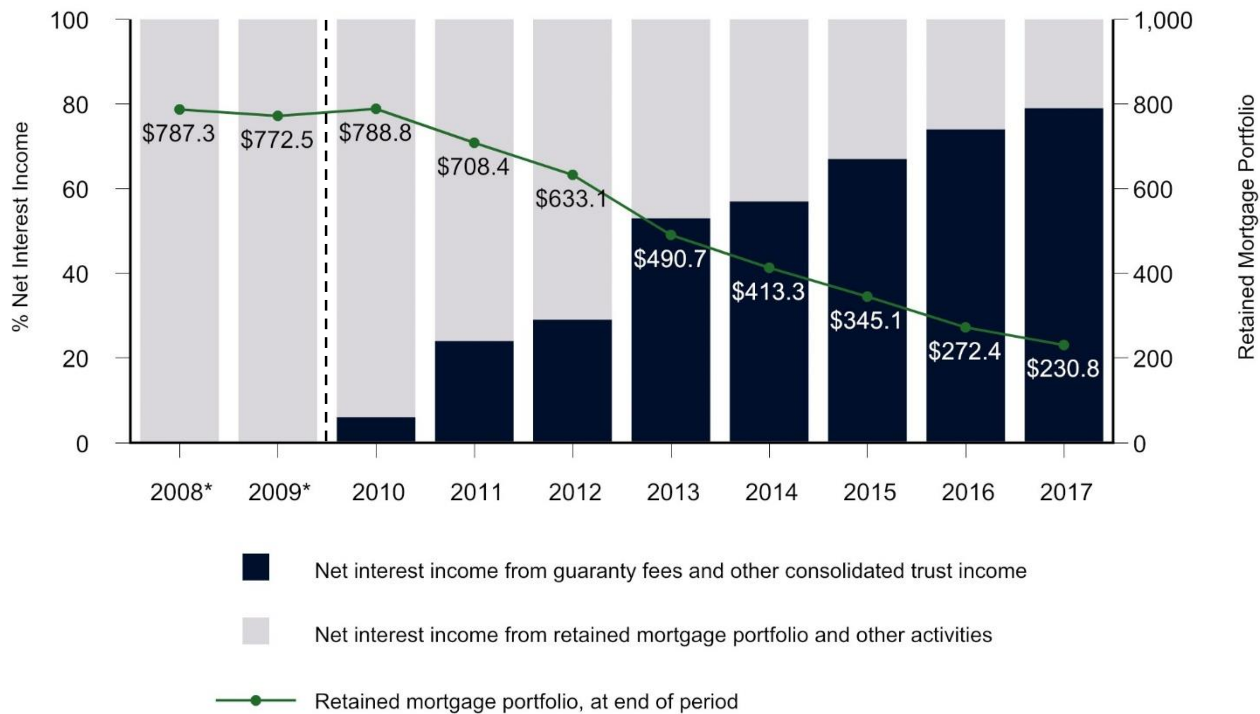
Strengthening Fannie Mae and Housing Finance

The second area I want to address is how we have made fundamental reforms to Fannie Mae's business model. These reforms have made Fannie Mae and housing finance stronger and safer.

Most importantly, we have transitioned from a portfolio-focused business to a guaranty-focused business.

We reduced the size of our retained mortgage portfolio, reducing a source of potential risk to the company and taxpayers. In 2004, we had more than $900 billion of mortgage assets on our balance sheet, nearly all of it investment assets. Through a steady program of selling these assets at an accelerated pace, we wound down the portfolio faster than required by our agreement with Treasury. By July 2017, we had reduced the overall portfolio size below the final Treasury cap of $250 billion, more than a year earlier than required. Excluding the portion of our portfolio used to provide lenders with short-term liquidity and help with foreclosure prevention and other loss mitigation activities, the investment portfolio stood at $47 billion at the end of June 2018.

Today, Fannie Mae no longer has a stand-alone investment business. Instead, guaranty fees are a stable and reliable primary driver of our revenue, providing more than 75 percent of our net interest income.



*Effective January 1, 2010, we prospectively adopted new accounting guidance, which had a significant impact on the presentation and comparability of our consolidated financial statements. Prior to 2010, our guaranty fee income was reported as a separate line item in our Consolidated Statements of Operations and not included as a component of Net Interest Income.

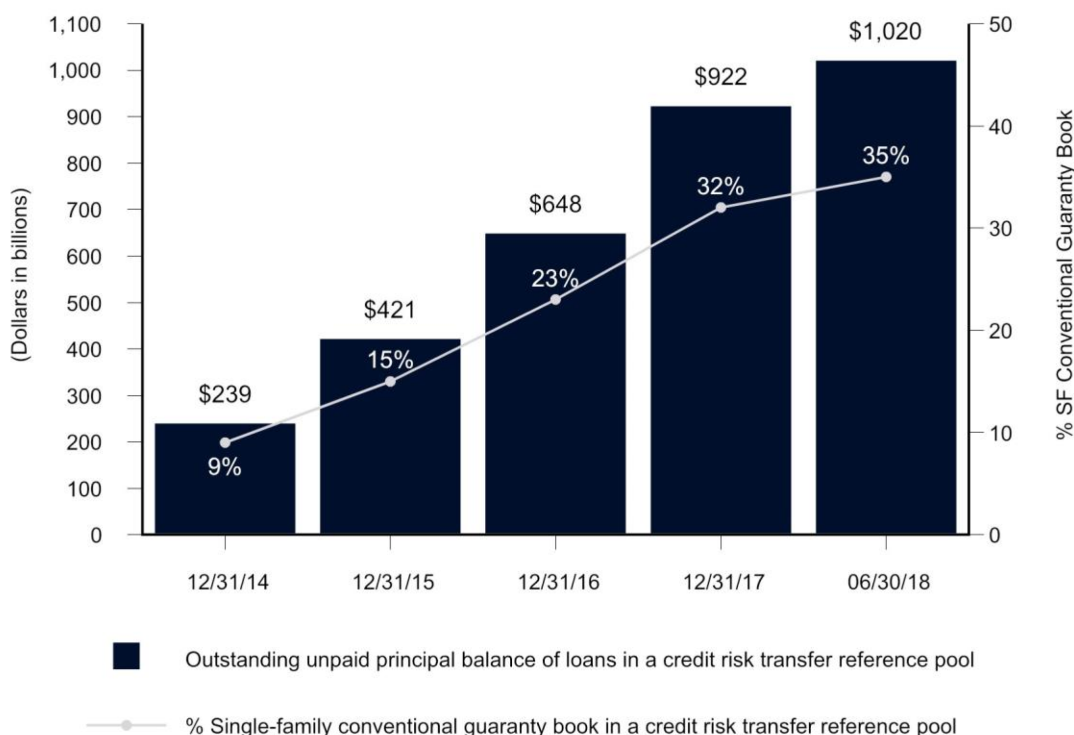
We have also reformed our business model through our credit risk transfer programs. In the last five years, we have evolved from being a company that only buys and stores credit risk to one that also sells and distributes credit risk to private investors. Our credit risk transfer programs move risk away from taxpayers and attract global capital to the U.S. mortgage market. This credit risk transfer market did not exist a few years ago.

We formally began distributing Fannie Mae's credit risk to private investors in 2013. That year, Fannie Mae introduced its first Connecticut Avenue Securities transaction, or CAS®, wherein investors agree to bear a portion of the risk of a mortgage's loss in exchange for a portion of the guaranty fees our business generates on that mortgage. These securities cover large and geographically diversified pools of mortgages that have relatively consistent, strong credit risk profiles.

In 2014, we structured our first Credit Insurance Risk Transaction, or CIRT™, which shifts credit risk on a pool of loans to a panel of domestic insurers and/or reinsurers, again in exchange for a portion of our guaranty fees generated by the loans. Thus, we brought an entirely new source of institutional capital into the conventional market.

A third form of risk transfer involves front-end (or upfront) lender risk sharing. In these deals, a lender assumes some of the default and loss risk in exchange for a lower guaranty fee. This means that credit risk is reduced for Fannie Mae and the taxpayer before a loan is even delivered to us.

Lastly, in 2017, we announced plans to structure future CAS offerings as notes issued by a Real Estate Mortgage Investment Conduit (REMIC) to expand the investor base of CAS securities by making them more attractive to real estate investment trusts.



In the last five years, our credit risk transfer programs and investor base have grown. Our disclosures and transparency around the deals have been consistently enhanced. The market has become larger and more liquid. In addition, we have accomplished this without disruption to our lenders, nor to the TBA market upon which our secondary market functions and the overall mortgage market depend. Our credit risk transfer programs have been recognized in the industry for their excellence, receiving seven industry awards over the past two years.

Our credit risk transfer programs have made housing finance safer and more resilient, and have provided a crucial way for the private market to assume mortgage credit risk – instead of the taxpayer. Over the past five years, we have transferred a portion of the credit risk on nearly $1.4 trillion of single-family loans, measured in unpaid principal balance at the time of the

transaction. At the end of June, 35 percent of our single-family conventional guaranty book of business was covered by a credit risk transfer transaction.

In our Single-Family business, we continue to explore new ways of distributing credit risk to lenders, reinsurers, mortgage insurers, and other institutional investors, always with an eye toward protecting the TBA market, strengthening the liquidity and stability of the system, and protecting lenders and borrowers from any disruption to the mortgage lending process.

Our Multifamily business incorporates risk sharing as an essential feature of its business model and it has done so since it began 30 years ago. In this business, we share risk with our customers on nearly 100 percent of our new acquisitions. Our unique Delegated Underwriting and Servicing (DUS®) program works with a select group of high-quality lenders who originate the vast majority of our multifamily loans, and each of them shares the risk of loss and the benefit of success with Fannie Mae. We believe this is one key reason our credit performance in Multifamily has been superb in the last decade.

Our work to improve the strength and resiliency of the secondary mortgage market extends to our collaboration with Freddie Mac and FHFA to create a Common Securitization Platform (CSP). The platform will be used to issue a new Uniform Mortgage-Backed Security (UMBS) that is expected replace the securities currently issued by Fannie Mae and Freddie Mac in order to improve the liquidity of the overall market. We are on track to issue our first UMBS in June 2019 using the CSP. Importantly, this platform is designed to allow for the integration of additional market participants in the future.

Building Capabilities for Tomorrow

The third important area I want to cover are the capabilities we are building to serve the mortgage market of tomorrow. These new capabilities extend across our businesses and encompass our work to develop innovative new technology solutions for our customers. They begin, however, with our people.

Becoming More Customer-Centric

We recognized several years ago that Fannie Mae needed to be more agile and customer focused. We needed to be a company that was easier to work with, quicker to solve problems for our customers, and quicker to pursue opportunities for improvement.

In 2015, we started a program we called Simplify. Our goal was to make our organization and processes simpler and less complicated. We collected and acted on more than 700 ideas for streamlining or eliminating unnecessary or redundant processes and improving our way of doing business. These ideas came from all over the company, most from front-line employees. Over the course of two years, we broke down silos, eliminated low-value or

duplicative work, and ended up saving $547 million. We reinvested much of these savings and redeployed people toward higher priorities.

We did not stop there. Out of Simplify came a multi-year effort to introduce lean management principles to every team at Fannie Mae. This program is reorienting the way Fannie Mae employees work. We are developing a common set of tools and language across the company. We are becoming more collaborative, open, and accountable. By the end of this year, approximately 30 percent of Fannie Mae's employees will be using these lean management principles and tools, and we anticipate that everyone in the company will be using them by 2021.

Most of all, our adoption of a new way of working is making Fannie Mae more customer focused. In 2015, we adopted a new business strategy that explicitly puts the customer at the center. Like customers throughout the business world, mortgage lenders and mortgage investors want a secondary market customer experience that is streamlined, simple, and certain. We are striving to deliver that experience, and our customer survey results demonstrate we are making great strides. The scores we receive from both our Single-Family and our Multifamily customers place us in the top quartile of financial services companies, with scores from our Single-Family customers rising dramatically over the past two years.

Innovations to Make Housing Finance Smarter, Safer, and Better

To better serve our housing mission and to make housing finance stronger and safer, Fannie Mae has become a leader in the new technologies that are starting to transform housing finance. We are doing this by delivering innovations to our customers that are making mortgage lending more transparent while mitigating risk for lenders and taxpayers. These solutions are squeezing time, cost, and inefficiency out of the mortgage process. They are also helping make complicated financing processes easier and simpler for lenders and ultimately buyers.

During the crisis, many of our customers had to repurchase loans sold to us because they did not meet the representations and warranties contained in our Selling Guide. In response, we developed new capabilities and tools to help lenders verify the quality of loans before they are delivered to us. Because of these tools and other quality control practices, loan defects have plummeted in the last decade. As of June 30, 2018, single-family loans delivered to Fannie Mae during 2017 had an identified eligibility defect rate of less than 0.5 percent.

Let me share how some of these new tools drive down costs and reduce risk.

The starting point is the work over the past decade to standardize mortgage data, an ongoing effort led by FHFA, Fannie Mae, and Freddie Mac. The Uniform Mortgage Data Program (UMDP) is improving the quality, consistency, and accuracy of all data elements associated with conventional, conforming mortgages. It laid the groundwork for digitization and significantly improved data quality and efficiency for the mortgage process.

For instance, less than a decade ago, residential appraisal reports were not even digitized, and data elements were recorded in widely divergent ways from form to form. The Uniform Appraisal Dataset (UAD) standardized appraisal data, and in 2012 Fannie Mae began requiring digitized appraisal reports.

This laid the groundwork for our creation of a tool we call Collateral Underwriter® (CU®), which has vastly reduced a range of appraisal risk issues for our lenders and for Fannie Mae. CU automates the appraisal review process and provides lenders with more certainty on appraisals free of charge. It helps lenders identify appraisals that might be problematic, and identifies loans that are eligible for relief from representations and warranties on property value. In addition, thanks to CU, refinances and some purchase transactions may be eligible for an appraisal waiver. This saves money for lenders, which they can pass on to borrowers.

In late 2016, we introduced Desktop Underwriter® (DU®) validation service, another tool enabled by uniform mortgage data standards. This service allows lenders to replace traditional paper-based processes with a digital process that reduces the risk of inaccurate loan data. Using the service, accessible through our regular DU automated underwriting system, they can digitally validate a borrower's income, assets, and employment. Lenders may opt into the service, which uses verification reports from authorized third-party data providers. In addition to reducing the risk of inaccurate data, the service drives operational efficiency in the loan origination process and provides a better borrower experience. Instead of gathering paper documents and providing them to their lender, borrowers give the lender permission to access information electronically. The reduction in time and increased efficiency makes it more cost-effective for lenders to originate loans, including smaller loans that are more common for very low- to moderate-income borrowers. In 2017, lenders reported a 14 percent average reduction in time from application to close when assets are validated through our DU validation service, and a 17 percent reduction when employment and/or income are validated this way.

We call these data validation tools our Day 1 Certainty® initiative, and they are helping to change the process of mortgage origination, making it faster, cheaper, and safer for lenders.

In addition to introducing new technology solutions, we are also delivering innovative solutions that meet the needs of today's borrowers, especially borrowers of modest means and first-time homebuyers.

In 2015, for example, we introduced HomeReady, a low down payment product designed to help lenders serve more very low-, low-, and moderate-income borrowers. HomeReady includes underwriting flexibilities that are intended to provide sustainable mortgage credit without adding substantial risk. Since 2015, we have continued to improve and simplify HomeReady, and we have an outreach program to increase awareness of the product. We are also continuously looking for opportunities to introduce sensible underwriting flexibilities, such as the flexibilities we introduced in 2017 to help borrowers burdened by student debt. All told,

in 2017, nearly half (48.9 percent) of all single-family, owner-occupied home purchase loans financed by Fannie Mae were to first-time homebuyers.

Innovation and Leadership in Multifamily Rental Housing

We are also building new capabilities to serve the evolving needs of the nation's multifamily rental market.

Key among these has been our Green Financing program, which incentivizes property owners to improve the energy efficiency of apartment buildings in ways that ultimately make properties less costly to operate and rent, benefiting the owners and families who live there. Begun in 2012 as a pilot, our Green Financing program has succeeded dramatically. In 2017, we issued $27.6 billion in green bonds backed by Multifamily properties, making Fannie Mae the world's largest issuer of such debt. Through last year, more than 248,000 rental units received energy and water efficiency upgrades through our Green Financing, and families renting them are projected to save $131 a year.

We have also adapted our work to meet the growing need for financing smaller multifamily properties, meaning loans up to $3 million ($5 million in high-cost markets). At the end of 2017, 43 percent of our multifamily loans were small loans, and we continue to focus on building this part of the business.

Last year, we introduced Healthy Housing Rewards™ to provide financial incentives for borrowers who incorporate health-promoting design features, practices, or resident services in new or rehabilitated multifamily affordable rental properties. Importantly, earlier this year we resumed making equity investments in Low-Income Housing Tax Credit properties, providing crucial funding for affordable housing nationwide.

Enterprise-Level Improvements

Many of the new capabilities we are building for the future are the product of work that is taking place at the enterprise level, as opposed to the individual businesses.

Working with FHFA and housing partners across the country, we are moving forward aggressively with our Duty to Serve plans for those in hard-to-serve rural markets, for manufactured housing, and for preserving our supply of affordable housing.

We are also developing solutions to make housing's capital markets more resilient and more responsive to today's needs. In July, for example, we issued the world's first-ever securities indexed to the Secured Overnight Financing Rate, a new benchmark alternative to the London Interbank Offered Rate index, long known as LIBOR.

We are moving forward with our strategy for Fannie Mae's workplaces that will save money for taxpayers, provide the company and policymakers greater flexibility, and support Fannie Mae's implementation of a lean management system. Overall, we are reducing our square footage by approximately 25 percent, saving taxpayers over $600 million over the next 15 years when compared to alternatives, such as renovating existing facilities. In addition, we are moving from being owners of buildings to tenants, which increases flexibility for the company and for policymakers due to flexible lease terms that allow us to decrease our space and/or sublease as needed.

In 2014, beginning with our Washington, DC buildings, we undertook an extensive analysis of our existing workplaces, our future needs, and the DC commercial real estate market. The analysis revealed that letting the leases expire in our two leased DC buildings, selling our three owned DC buildings, and leasing one consolidated space in downtown Washington would save taxpayers $150 million over the course of a 15-year lease when compared to staying and renovating our five existing buildings. In August 2014, before we selected the Midtown Center site, we briefed the House Financial Services Committee and the Senate Banking Committee on our intention to move from our existing five buildings to one consolidated headquarters in downtown DC, and shared the $150 million estimate of taxpayer savings.

Today, with our move to Midtown Center more than 60 percent complete, the entire project is on schedule, under budget, and on track to save taxpayers much more than the originally estimated $150 million. Based on site selection, our need for less space than we originally thought, and our ability to negotiate highly favorable lease terms, we are on track to save taxpayers almost $300 million over the term of our lease in Midtown Center. In addition, we also received $118 million of proceeds from the sale/leaseback of our three owned buildings (3900 Wisconsin Avenue, 3939 Wisconsin Avenue, and 4250 Connecticut Avenue) in 2016, and profits from the sales contributed to Fannie Mae dividend payments.

In so doing, we consolidated from five aging buildings, three of which we owned and all of which required significant investment to improve infrastructure, into one leased, multi-tenant building with very flexible lease terms. We were able to dispose of assets in a seller's market and save money we would have needed to spend to renovate the aging infrastructure of those buildings. At the same time, we were able to take advantage of significant softness in the DC commercial rental market and negotiate very favorable lease terms. The move to a consolidated leased building provides flexibility to us and to policymakers to adjust the organization if necessary, since we negotiated provisions that will allow us to reduce the leased space through subletting and assignment. In Midtown Center, we have 80 percent fewer offices, offices are 30 percent smaller in size, and there is no dedicated executive floor.

We are realizing similar benefits at our other locations. In Texas, we moved from three separate, aging leased buildings in need of repair and maintenance to one consolidated leased building expected to save taxpayers approximately $95 million over a 15-year lease term. We

decreased the number of offices by 90 percent, and we also successfully negotiated subleasing and assignment rights for the entire lease term in case our needs change.

In Northern Virginia, Fannie Mae has approximately 4,500 staff in three owned buildings and one leased building with an expiring lease in 2022. Our legacy buildings are aging and require extensive renovation. Nonetheless, market demand for our owned buildings is strong, and we recently closed on their sale with an agreement to lease them until we are ready to move to new quarters in Northern Virginia. We expect that consolidating our workspace in Northern Virginia in a new project known as Reston Gateway will save taxpayers more than $200 million over the 15-year lease term versus renovating the existing buildings. Once again, under the terms of our lease we will have the flexibility to reduce our Northern Virginia space through subletting, assignment, or termination, if needed.

Our new spaces throughout our footprint follow a set of principles we set forth early in our workplace efforts: Design an open space environment that would significantly limit the number of offices; limit offices to the interior core (no offices on the perimeter); provide much more collaborative meeting space; and democratize the best spaces (i.e., front-line staff workstations are in the center and perimeter of the floors). Putting these principles into practice will be critical to Fannie Mae's adoption of lean management, which will help us support our customers and become an even more effective organization. All of this has been done while preserving flexibility for policymakers to change or reduce our role without incurring substantial loss.

Conclusion

In conclusion, building a strong, effective organization has been the primary focus of the Fannie Mae management team this past decade. To achieve this goal we have implemented fundamental changes and reforms. Our changes have addressed areas that needed attention, reinforced areas of strength, and built new capabilities that continue to make housing finance stronger. As a result, today's Fannie Mae is a company far removed from the one that entered into conservatorship 10 years ago.

It is true that Fannie Mae received more taxpayer support than any other company during the financial crisis. Yet it has also returned more profits to taxpayers than any other company, measured on both an absolute basis and net of the support we received. Beyond the dollar returns, the nation has a strong and vibrant asset to show for its investment. A company that delivered $570 billion in mortgage financing in 2017 alone. A company that finances 1 in 3 single-family homes and 1 in 5 multifamily loans. A company operating at a more effective and high-performing level, with greater capabilities and expertise, than at any time in our history. And one that plays a vital role in a vital sector of our national economy.

Resolving our conservatorship remains an important piece of unfinished business for the nation. We well understand that this is a job for policymakers, not Fannie Mae. We are

disappointed that policymakers have not finished this work, but we have made good use of conservatorship. This past decade has been one of fundamental reform at Fannie Mae. We have implemented these reforms understanding that our role as professional business managers is to make the company as safe and as capable as possible, to maximize the benefit to taxpayers, and to maximize choices for policymakers.

The people who work at Fannie Mae do their very best, every day, to advance these purposes. I am very proud to lead them, and I am proud of what they have achieved on behalf of the taxpayers, homeowners, and renters we serve.

I again thank the committee for the opportunity to testify today. I am happy to take your questions.