Testimony of Michael J. Williams

President and Chief Executive Officer

Fannie Mae

U.S. House of Representatives Committee on Oversight and Government Reform

November 16, 2011

Chairman Issa, Ranking Minority Member Cummings, Members of the Committee, I appreciate the opportunity to speak with you today about the important work that Fannie Mae is undertaking and the compensation program that was put in place for this executive team.

We have immense responsibilities; the complexity of the challenges before us requires deep experience, expertise, and seasoned leaders. The executive management team in place today is different than the team that ran the company prior to conservatorship. The chief financial officer, chief risk officer, general counsel, chief information officer, and head of the credit organization are all new to the company. These leaders came to Fannie Mae to strengthen the company and support the housing finance market. Many other officers are new to their positions. We are working to fix the company and achieve the goals of conservatorship.

Our employees are committed to Fannie Mae's mission to provide funding to the market, help struggling homeowners, and reduce losses on loans originated prior to 2009. We are also committed to protecting the taxpayers' substantial investment in the company.

Fannie Mae is the largest source of funding for the U.S. mortgage market. We are over 40 percent of the single family market and nearly 35 percent of the multifamily market. Since January 2009, with the support of the federal government, the company has provided more than

$2 trillion of funding to the mortgage market, which has enabled nearly 6 million households to refinance into safer, lower cost mortgages. We have helped approximately 1.7 million homeowners purchase a home, and we have provided financing for nearly 1 million units of quality, affordable rental housing.

Fannie Mae is also acquiring new loans, with appropriately conservative underwriting standards, to promote sustainable homeownership. The mortgages purchased or guaranteed since 2009 have strong credit quality and are performing well. We currently expect that these loans will be profitable over their lifetime, meaning we expect the fee income on these loans will exceed the company's credit losses and administrative costs for them. These new loans account for almost 50 percent of the loans currently owned or guaranteed by Fannie Mae, and will be a valuable asset that we expect will reduce taxpayer losses.

The substantial majority of the company's credit losses are attributable to single-family loans purchased or guaranteed from 2005 through 2008. Every day, Fannie Mae employees work to reduce losses on this book of business and limit taxpayer exposure. The performance of the 2005-2008 book of business is significantly affected by continued weakness in the housing and mortgage markets, which remain under pressure from high levels of unemployment, under-employment, and the prolonged decline in home prices. To manage this book of business, Fannie Mae built one of the nation's largest foreclosure prevention operations. We work directly with distressed homeowners through a network of 12 Fannie Mae Mortgage Help Centers in hardest hit communities across the country to supplement the work of our lenders. In addition to our brick-and-mortar efforts, we also offer innovative online tools such as KnowYourOptions.com and WaysHome to help homeowners find the right solution when they experience difficulties. For distressed homeowners, home retention solutions, such as loan modifications, keep families in their homes. Over the long term, we expect this will reduce Fannie Mae's credit losses. In the past two years, Fannie Mae employees have helped approximately 1 million homeowners avoid foreclosure through modifications and other workout solutions. Unfortunately, foreclosures are not always avoidable. When foreclosure is the only option, we help stabilize communities by properly maintaining and improving the properties we acquire, and selling them to new owners, giving preference to families who will live in them.

The 2005-2008 book of business is becoming a smaller percentage of the company’s overall business, having decreased from 39 percent as of December 31, 2010 to 33 percent as of September 30, 2011. These loss mitigation efforts have also allowed Fannie Mae to reduce the single-family serious delinquency rate by almost 30 percent from its peak in February 2010. While our serious delinquency rate compares favorably to other prime loans originated during the housing boom that were not purchased by Fannie Mae, we are working to further reduce the risk in this set of loans.

Fannie Mae is also undertaking a number of initiatives that we believe will strengthen the industry for the long term. For example, we are developing new tools and standards to ensure greater visibility into the quality of the loans that are delivered into the secondary market. This loan quality initiative will reduce the risk for the lender, the investor, the borrower, and ultimately the taxpayer.

Another key aspect of our strategy to strengthen the industry is improving servicing standards and execution. In June 2011, with the Federal Housing Finance Agency (FHFA) and Freddie Mac, we developed new standards for mortgage servicers. The new servicing standards are designed to result in earlier, more frequent, and more effective contact with borrowers to avoid foreclosures and mitigate losses.

As CEO, I am responsible for ensuring that we effectively manage the resources we have received. To accomplish this, we must – and do – employ talented professionals. These employees are charged with managing 18 million home loans effectively.

Our employees believe in our mission and are proud of the work they do to deliver value to the housing market. However, there is great uncertainty for the company and its employees as we know there will be GSE reform, but we don't know what form it will take and when.

This uncertainty makes it very difficult to attract and retain employees with highly specialized skills, expertise, and experience. Other financial institutions can offer long-term career opportunities, and in many cases, substantially more compensation. The attrition at our company this year is already double our historical experience. If we are to continue to provide the stability that our housing finance system needs and protect the taxpayers' investment in our company, we must retain and recruit qualified executives and employees. Our ability to attract and keep this talent is essential to rebuilding the housing market, which is necessary to get our country on the road to recovery.

When Fannie Mae was placed into conservatorship in September 2008, Secretary Paulson and Director Lockhart stressed the critical need for the company to continue to effectively manage its book of business. Acting FHFA Director DeMarco has also noted that it remains imperative that Fannie Mae and Freddie Mac attract and retain "talented, capable executives" with the specialized, technical expertise needed to operate Fannie Mae's day-to-day operations and to oversee the trillions of dollars in assets traded in global financial markets. I agree completely with these statements.

In addition, the Fannie Mae Charter Act authorizes our Board of Directors to pay compensation that is "reasonable and comparable with compensation for employment in other similar businesses involving similar duties … without regard to Federal civil service and classification laws."

While we need to compensate our executives and employees to ensure that we have – and keep – the leadership we need to continue our progress, we understand that we also need to prudently manage the company's expenses. Accordingly, under the current compensation structure, compensation is down substantially from pre-conservatorship levels. Aggregate target total compensation for our executive management is down 50 percent or more from target total compensation levels prior to conservatorship. We have also reduced senior managers at the company by 30 percent.

In 2009, FHFA worked with our leadership, Fannie Mae's Board of Directors, and the Treasury Department to develop a compensation program for the company. In developing the program, FHFA also consulted with Kenneth Feinberg, Special Master for TARP Executive Compensation.

Fannie Mae's resulting compensation plan for senior officers is structured to pay for performance, which reflects general principles of good corporate governance. It is consistent with the Congressionally mandated requirement in Fannie Mae's Charter Act that a significant portion of the compensation of senior officers be based on the performance of the company. A substantial portion of this pay is deferred, encouraging executives to make decisions that will benefit the company over the long term.

The Board of Directors and FHFA determine the company's goals and measure corporate performance against goals they establish each year. The management team does not set the goals for the company. The goals that are set by the Board and FHFA are challenging. For example, the team is charged with providing significant funding to the market while implementing stronger underwriting standards and limiting losses on the legacy book of business, all in a very difficult economic environment. Associated with each high-level goal is a set of more detailed sub-goals and metrics. At the beginning of each year, the Board and FHFA determine whether the company has met its goals for the previous year.

Detailed information on the compensation paid to senior officers and the Board's measurement of performance against goals is transparent and reported in the company's annual report filed with the SEC. We also provide an annual report to Congress on our compensation.

In closing, I am proud of our team and of their dedication to our important work serving the nation's housing market. We are addressing the challenges of the past while building a strong foundation for the future. Our ability to attract and retain top talent remains a critical priority as we continue to strengthen our business and deliver value to American taxpayers.

Thank you and I look forward to your questions.

Michael J. Williams
President and Chief Executive Officer
Fannie Mae

Michael J. Williams is Fannie Mae's President and Chief Executive Officer, and a member of the company's Board of Directors.

A seasoned housing industry executive, Mr. Williams was appointed to lead Fannie Mae in 2009 as the company continued to play a key role in responding to the housing crisis. The nation's number-one source of affordable mortgage funds, Fannie Mae has provided nearly $2 trillion to help more than seven million families buy homes or refinance their loans since the start of 2009.

As President and CEO, Mr. Williams has focused Fannie Mae on supporting realistic, common-sense lending, building a profitable new book of business, reducing credit losses on its legacy book, and transforming the company to better serve the housing and mortgage markets.

Mr. Williams has also led the company to take aggressive steps to help struggling borrowers. In 2010, Fannie Mae helped more than 500,000 homeowners avoid foreclosure through loan modifications and workouts. The company continues to introduce initiatives to provide mortgage relief for injured war veterans, families affected by the Gulf oil spill, borrowers with problem drywall in their homes, and others facing special hardships.

Mr. Williams has held several executive leadership positions since coming to Fannie Mae in 1991. As Senior Vice President for eCommerce, he helped bring Fannie Mae into the digital era by leading the development of Desktop Underwriter, and in 2000 he was appointed President of Fannie Mae eBusiness. In 2004, he was appointed Executive Vice President for Regulatory Agreements and Restatement to lead the company's efforts to strengthen its financial and operational foundation. In 2005, Mr. Williams was named Executive Vice President and Chief Operating Officer, overseeing Fannie Mae's role as administrator of the U.S. Treasury Department's Making Home Affordable program, bolstering the company's foreclosure prevention and credit loss mitigation operations and managing the majority of the organization.

Mr. Williams' career prior to joining Fannie Mae in 1991 includes positions at KPMG Peat Marwick and Dupont. He has a master of business administration in finance and a bachelor of science from Drexel University.