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James S. Gorelick Remarks at the National Community & Economic Development Conference

Jamie S. Gorelick

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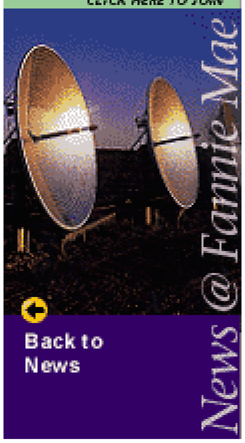

Executive Speeches

Remarks delivered by
Jamie S. Gorelick
Vice Chair, Fannie Mae

American Bankers Association
National Community & Economic Development Conference
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Thank you very much. It's always good to be in Chicago, and it's always a pleasure to be in the company of our friends from the American Bankers Association and all those involved in affordable housing.

Before I do anything else, let me thank Hjalma Johnson for that generous introduction and offer him Fannie Mae's congratulations as he ends his tenure as ABA president. True, constructive leadership is such a rare and valued quality that it should be saluted whenever you find it. And I do that now, Hjalma. Great job.

Let me also offer Fannie Mae's thanks to Marie Mann for the work you did as chair of the Center for Community Development, and our best wishes to Lyle Frederickson who has now assumed those duties. Our thanks go, as well, to James Ballentine and those at the ABA who've done such extraordinary work to put this conference together.

To Gale Cincotta, the Executive Director of the National Training and Information Center, let me say thank you for many things. Thank you for being such a constructive force in the work of affordable housing. Thank you for being the founding parent of CRA and for being such a tireless partner of Fannie Mae's. And thank you for bringing all the power of sincerity and genuine talent to the advancement of safe, strong and hopeful neighborhoods and communities.

To all the CRA officers here; to the bank regulators; to the Federal Reserve in St. Louis and here in Chicago for co-sponsoring this conference; and to all the real estate development specialists and those representing the nonprofits, thank you. It's an honor to join you, and I welcome this chance to talk about some things today that tie all of us together.

It's fitting, I think, that this conference takes place the day after the time changed. For some – obviously not anybody in our industry – it means an extra hour's sleep.

But for all the rest of us – those in the neighborhoods, and the communities and consequently right in the middle of things – it means another hour of opportunity. And that's what we have right now – a special "hour of opportunity" to better serve the communities we live and work in.

We may have changed the clocks yesterday. But every day, everywhere in America, it's not the clocks that are changing. It's the times.

And they're changing fast.

More people want homes. More people want more mortgage options. More people are more concerned than ever about their communities and how to make them safe and strong and successful. As a result, the initiatives we can be involved in together can, as never before, have a real impact on the kind of community lives we lead in this country.

So let me begin by telling you as sincerely and as emphatically as I can, Fannie Mae wants to be your partner of choice in the secondary mortgage market. We want to help you succeed any way we can whether you are among the largest institutions, among the smallest, or anywhere in between.

We know it's not easy in the market today. The competition is stiff. There's a lot of work to do. There are requirements to meet. Technology is a like a constant hum in our lives and the pitch seems to get higher all the time.

We know that at Fannie Mae. We're dealing with challenges, too.

Under our community investment mandate, HUD will soon require us to dedicate 50 percent of our business to low- and moderate-income families. We have a lot of competition, too – and they're going to extraordinary lengths to make things even more interesting for us. And when it comes to e-commerce, we have a third of our entire work force and a new division of our company focused on keeping us on the technology beam.

But, with all of that, we are more interested in our customers' issues, because if you're struggling, it's our problem. We can't meet our community investment requirements, we can't be competitive in our market, we can't succeed in the e-commerce world – in fact, we can't succeed at all – unless you're doing a good mortgage business and sending us the loans.

This fairly graphic reality tends to focus our mind on your needs. So let me take this opportunity to describe the ways that Fannie Mae is dedicated to helping you – all of you. And, today, I want to concentrate on the area of community investment.

You have a revised Community Reinvestment Act to deal with. The statute is only 26 sentences long. But the new regulation is over 75,000 words. Our job at Fannie Mae is to reach out and ask, how can we help you meet your CRA goals better?

Your CRA business is very important to us. Since 1997, we have done nearly $7 billion in specially targeted CRA business – all with depositories like yours. But that is just the beginning. Before the decade is over, Fannie Mae is committed to finance over $20 billion in specially targeted CRA business and do over $500 billion in CRA business altogether.

Some people have assumed we don't buy tough loans. Let me correct that misimpression right now.

We want your CRA loans because they help us meet our housing goals. Last spring Fannie Mae pledged to provide $2 trillion in housing finance to 18 million under-served families before the decade is over, an initiative I'll return to in a few minutes. Helping banks meet their CRA goals is crucial to meeting
our goals.

Maybe you're not aware of Fannie Mae's CRA business opportunities, and how we can help you expand this business profitably. Let me give you the highlights.

First, we can help you meet your lending goals in two ways. We will take CRA loans off your hands – we will buy them from your portfolios, or package them into securities – so you have fresh cash to make more CRA loans. For example, Gale. Community groups in six cities and the lenders in those markets, asked us to securitize over $1 billion in CRA product that was accumulating in their portfolio over many years, and we did.

We will also purchase the CRA mortgages you make right at the point of origination, and I'll have more to say on this point.

You can originate CRA loans for our purchase with one of our CRA-friendly products, like our 3 percent down Fannie 97. Or we have special community lending products with flexible underwriting and special financing. Or we'll help you build your own branded product. Whatever you want – bring us your ideas and we'll work with you to try to make that happen. Our approach is "CRA Your Way."

As for your CRA investment goals, Fannie Mae has some solutions there, too. If you need to invest in securities that benefit lower-income families or redevelop communities, we could create the securities for you.

Here's how it works. Let's say a Washington, D.C. bank needs more CRA investments over in a particular area of town. The bank calls Fannie Mae's investor trading desk. We go out and find CRA qualifying loans that lenders originated in the neighborhood in question. Then we package the loans into an MBS and the bank buys it.

Maybe your CRA needs are more basic. Like, "where are these consumers I'm supposed to serve?" We can help there, as well. For a nominal fee to cover costs, Fannie Mae's market research group will provide ABA members with demographic, economic and housing market data and data analysis, customized to your needs. We want to serve these customers just as badly as you do. But we can't do it unless you do. That's why we're very eager
to help.

Take Fannie Mae Property GeoCoder, for example. It's a free online tool to help lenders and housing partners quickly identify properties located in areas that HUD considers underserved, in low- to moderate-income or minority census tracts, or in central cities. Geocoding assigns a latitude and longitude to a property address to identify its geographic location.

Practical stuff. Very useful. Here’s something else.

Fannie Mae’s made a capital investment in Access Capital Strategies through our American Communities Fund, or ACF. The whole mission of ACF is to make high-impact investments that have a catalytic effect on the neighborhood where the investment is made. With Access Capital as part of that, we can help attract new funds to community development. It can also increase opportunities for financial institutions to meet their CRA objectives. Ron Homer, CEO of Access, is here at this conference to help you out.

Now, if the clock moved slower and I talked faster, I could lead a seminar on the things Fannie Mae’s doing to have a community impact. But this isn’t the place to go too deeply into the work we’re doing with, say, our Community 100 mortgage, targeted to low- and moderate-income families with limited incomes.

And most of you are already pretty well familiar with our suite of Community Lending Products – Fannie Mae’s Community Home Buyers Program which Gale Cincotta helped us develop a decade ago.

So, instead, I’d like to take a minute to show you how what we’re doing at Fannie Mae on community reinvestment is so essential to our overall effort called the American Dream Commitment.

I’m sure you’ve heard the basics before. It’s a decade-long, $2 trillion effort to serve the housing needs of 18 million families. But the numbers by themselves are almost like the frame around the picture.

It’s what’s inside that tells the real story of what we’re trying to do at Fannie Mae and who we’re trying to help.

America’s Living Communities Plan is part of the picture. It means $3 billion of investments in inner cities and older suburbs to help leverage another $30 billion in public and private community development.

Something else you’ll find in the picture is what we call the "Opportunity for All Strategy." It’s aimed at increasing the homeownership rates for women-headed households, and young people, and new immigrants and more.

There’s a $175 billion in the picture for multifamily housing to serve four million renter households.

But, again, those are figures in the picture. Let’s look closer – at the brush strokes – where everything begins to take shape.

Let’s look at the Affordable Dream Mortgage that Bank One announced earlier this year. They custom-designed this affordable mortgage flow product in collaboration with the Self-Help Ventures Fund, the Ford Foundation and Fannie Mae. Bank One will originate $250 million in new mortgages over the next five years, helping 4,000 low-income families buy homes in14 states.

Eligible borrowers can qualify for the loan with a minimum investment of $500 or 1 percent of the purchase price, whichever is greater. So Bank One's involvement in this initiative will allow it to greatly expand its affordable lending to underserved populations.

Then there's First Union. They are offering a home mortgage product, customized to meet the needs of their local communities. They created – and Fannie Mae is buying – a product called "First Union Affordable" targeted to low- and moderate-income census tracts for one- and two-family homes. The 3 percent down payment can come from a variety of flexible sources, including both public and nonprofit.

What you have here are just two examples of creative products, serving a clear need, helping to meet CRA requirements and folding into Fannie Mae's American Dream Commitment.

Fannie Mae's American Dream Commitment will succeed to the extent that our partners succeed. Fannie Mae knows that lender-originated mortgage ideas are vital to driving the American Dream Commitment. We also understand that lenders need flexibility. They need options in their work to serve affordable housing needs, in the quest to meet the Community Reinvestment Act requirements.

The way we know these things is because we're asking and listening. We're working with lenders and community leaders and all parties in home mortgage finance and community development. We're working in personal contact, often through our 47 small partnership offices, to find what works, then make it work even better for more families.

In fact, we have an entire Division at Fannie Mae for Housing and Community Development. It's led by an Executive Vice President, Rob Levin. It's focused exclusively on our affordable housing initiatives, which oversees our community investment work. In the past year, representatives from that division made some 75 visits to lenders, asking what they need, asking what we can do to help.

In the course of those visits with our customers – many of whom are here today – we've asked about your separate CRA products that you've developed over the more than 20 years since CRA began.

You, in turn, have urged us to come up with a suite of community mortgages that meet your CRA needs, focusing on what you've done and will do to meet local community needs.

We've also listened when you told us that you've become partners with many non-profits, local faith-based groups. And they say they have solutions to CRA issues in communities where they live and work and which they know best.

You told us you wanted to make sure you met the specific local needs these organizations feel are "best practices" in the community.

Putting all this together, we came up with a suite of one to four family homeownership options that we are announcing today and calling "My Community Mortgage." This is a pilot available to lenders with our regional offices to create affordable housing solutions.

Let me tell you what we're doing.

As part of our affordable housing commitment, Fannie Mae will purchase $2 billion of loans through a suite of flexible mortgage options for low- to-moderate income borrowers purchasing one-to-four unit homes. Through a web-based application, participating lenders will get prompt approval from Fannie Mae on loans that would have been negotiated on an individual basis in the past. We will then purchase or securitize the loans.

The name we have given to this overall effort is "My Community Mortgage." It takes effect on December 1 with six initial lenders, some of whom I know are here today: Bank One, Cendant Mortgage, First Nationwide Mortgage, First Horizon, First Union and North American Mortgage.

The verb here – and the centerpiece of the initiative – is "customize."

Under the umbrella of "My Community Mortgage," we have created Community 97 that is geared to borrowers with little cash and who need to put more of their monthly income into housing payments.

The Community 100 part of this product is for those who have little cash to close, but who have good credit.

Another element of "My Community Mortgage" is the Community 2-Family, which is made available nationwide for the first time. It is an affordable mortgage option for owner-occupants of two-unit homes, and allows greatly expanded housing and debt ratios.

And the Community 3-4 Family allows for a down payment contribution of as little as 5 percent from the borrower's own funds, and offers higher qualifying ratios to promote the affordability of this important housing stock nationally.

Finally, we have the Community Customizer option where you can customize all 14 ingredients of a mortgage, ranging from property type and minimum borrower contribution to minimum months reserves, credit history guidelines, and home-buyer education.

I want to point out here that a very important part of "My Community Mortgage" is that it's a partnership not only with you, but also with three mortgage insurance companies – PMI, Radian, and MGIC. And my hat's off to Joe Birbaum for all your help. The MI's were instrumental in the development of underwriting guidelines for the loans, and have agreed to insure CRA-eligible loans purchased by Fannie Mae.

What "My Community Mortgage" comes down to is this. You don't "buy off the shelf." Your product is tailor made. By you. To serve the market you know best. To help the people who need the flexibility most.

Fannie Mae believes the more flexibility we can build into our product, the easier it will be for you to meet your CRA requirements, and the more opportunities there will be for more families to own homes.

That's what you do. That's why we're here. And we believe "My Community Mortgage" is a strong, highly useful product to open doors for many more families. Together, we can do great things for homeownership in America and it’s good to be in business with you.

Thank you very much.

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