National Mortgage News

# Fannie Mae's 2Q net income rises 6% from 1Q

The year-over-year decline in Fannie Mae's second quarter earnings at 35% was slightly larger than Freddie Mac's, but unlike its secondary market competitor, quarter-to-quarter profitability was up 6% on higher net interest income.

During its earnings call, David Benson, president and interim CEO, reiterated the company's forecast of a modest recession starting in early 2023.

"As we noted last quarter, we do not expect a downturn that matches the severity of 2008 in terms of its impact on housing or our financial results, mostly due to better overall credit quality, less leverage and the maturity of our loss mitigation practices," Benson said.

But he raised the possibility that some parts of the U.S. will see home price declines starting later this year.

"Although Fannie Mae enters this period of uncertainty from a relative position of strength, we are fully aware that we are in a highly unusual and potentially volatile global and economic environment," Benson said. "Therefore, we must expect the unexpected."

Net income for the period ended June 30 totaled $4.65 billion, compared with $4.41 billion in the first quarter and $7.15 billion a year ago.

The gain over the first quarter was "primarily due to offsetting impacts from rising interest rates during the period," said Chryssa Halley, executive vice president and chief financial officer, during Fannie Mae's earnings call.

Net interest income rose to $7.8 billion from $7.4 billion in the previous quarter. But it was down from $8.3 billion for the second quarter of 2021.

"Higher income on investments as interest rates rose during the quarter contributed to an increase in net interest income from our retained portfolio and other investments portfolio," Halley explained. However, "net interest income from our guarantee book of business decreased slightly due to a decline in net amortization income driven by a reduced refinancing activity partially offset by higher base guarantee fee income."

Given the impact of the economy on housing, Fannie Mae is expecting to report lower full year net income this year than it did one year ago, Halley said.

Fannie Mae ended the quarter with a net worth of $56.4 billion, compared with $51.8 billion on March 31 and $37.3 billion on June 30, 2021.

Fannie Mae had a $262 billion shortfall to the amount of capital needed to be fully capitalized under the Federal Housing Finance Agency's framework, a $10 billion improvement from three months prior. "This improvement was primarily the result of an increase in our retained earnings and lower capital requirements due to single family credit risk transfer issuances, and home price appreciation," Halley said.

She added that the above calculation did not include the stated value of the senior preferred stock held by the U.S. Treasury nor Fannie Mae's deferred tax asset, both of which are part of the net worth computation.

Credit-related expense was $251 million in the second quarter, compared with $201 million in the first quarter and credit-related income of $2.5 billion one year ago. This was driven in part by the increase in interest rates but partially offset by home price growth.

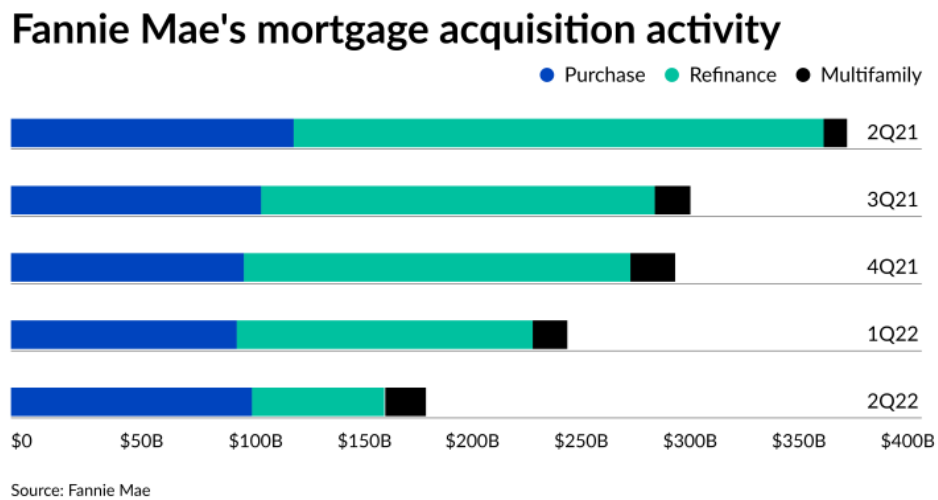
The economic volatility is affecting portfolio duration. "Increases in interest rates reduce the expected volume of prepayments and extend the expected life of previously modified loans accounted for as troubled debt restructurings as it is less likely these loans will refinance," Halley said.

Fannie Mae's single-family segment reported net income of $3.89 billion, compared with $3.71 billion in the first quarter and $6.51 billion for the second quarter of 2021.

Purchase mortgages made up 64% of the loans Fannie Mae acquired during the quarter, the highest share since the first quarter of 2019, Halley noted.

The government-sponsored enterprise acquired $172 billion of single-family mortgages, down from $239 billion for the prior quarter and $374 billion for the prior year. But on a quarter-to-quarter basis, it bought more loans used to purchase a home, $111 billion versus $104 billion. For the second quarter of 2021, it acquired $130 billion of these loans.

At the same time, the average charged guarantee fee increased to 51.7 basis points in the second quarter, compared with 48.9 bps three months prior and 47.9 billion a year ago.




Likely because of rising rates, Fannie Mae purchased a greater share of mortgages with loan-to-value ratios over 80%, to 34% in the second quarter from 24% in the first quarter. At the same time, credit scores on acquired loans were relatively flat at 746 versus 748.

But the share of loans considered to be seriously delinquent improved to 81 basis points from 101 bps on March 31 and 208 bps on June 30, 2021.

The multifamily segment contributed $767 million of net income in the second quarter, versus $699 million in the first quarter and $645 million for the second quarter of 2021.

Multifamily mortgages acquired totaled $18.7 billion during the second quarter, compared with $16 billion during the first quarter. That is approximately half of this year's regulatory cap of $78 million for 2022.