FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
August 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No.: 0-50231

Federal National Mortgage Association
(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**52-0883107**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3900 Wisconsin Avenue, NW Washington, DC	**20016**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(202) 752-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2010, there were 1,117,616,288 shares of common stock of the registrant outstanding.

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MD&A TABLE REFERENCE

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PART I FINANCIAL INFORMATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

We have been under conservatorship, with the Federal Housing Finance Agency (FHFA) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury (Treasury), and their impact on shareholders in our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K) in Business Conservatorship and Treasury Agreements.

You should read this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in conjunction with our unaudited condensed consolidated financial statements and related notes, and the more detailed information contained in our 2009 Form 10-K.

This report contains forward-looking statements that are based upon management s current expectations and are subject to significant uncertainties and changes in circumstances. Our actual results may differ materially from those reflected in these forward-looking statements due to a variety of factors including, but not limited to, those described in Risk Factors and elsewhere in this report and in Risk Factors in our 2009 Form 10-K. Please review Forward-Looking Statements for more information on the forward-looking statements in this report.

You can find a Glossary of Terms Used in This Report in the MD&A of our 2009 Form 10-K.

INTRODUCTION

Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Our most significant activities include providing market liquidity by securitizing mortgage loans originated by lenders in the primary mortgage market into Fannie Mae mortgage-backed securities, which we refer to as Fannie Mae MBS, and purchasing mortgage loans and mortgage-related securities in the secondary market for our mortgage portfolio. We acquire funds to purchase mortgage-related assets for our mortgage portfolio by issuing a variety of debt securities in the domestic and international capital markets. We also make other investments that increase the supply of affordable housing. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market.

Although we are a corporation chartered by the U.S. Congress, our conservator is a U.S. government agency, Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock, and Treasury has made a commitment under a senior preferred stock purchase agreement to provide us with funds under specified conditions to maintain a positive net worth, the U.S. government does not guarantee our securities or other obligations.

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EXECUTIVE SUMMARY

Our Mission, Objectives and Strategy

Our public mission is to support liquidity and stability in the secondary mortgage market and increase the supply of affordable housing. We are concentrating our efforts on two of our objectives: supporting liquidity, stability and affordability in the mortgage market and minimizing our credit losses from delinquent loans. Below we discuss our contributions to the liquidity of the mortgage market, the performance of the single-family loans we have acquired since January 2009, our future single-family credit losses, and our strategies and actions to reduce credit losses on our single-family loans. Please see Business Executive Summary Our Business Objectives and Strategy in our 2009 Form 10-K for more information on our business objectives, which have been approved by FHFA.

Providing Mortgage Market Liquidity

We support liquidity and stability in the secondary mortgage market, serving as a stable source of funds for purchases of homes and multifamily housing and for refinancing existing mortgages. We provide this financing through the activities of our three complementary businesses: Single-Family Credit Guaranty (Single-Family), Housing and Community Development (HCD) and Capital Markets. Our Single-Family and HCD businesses work with our lender customers to purchase and securitize mortgage loans they deliver to us into Fannie Mae MBS. Our Capital Markets group manages our investment activity in mortgage-related assets, funding investments primarily through proceeds we receive from the issuance of debt securities in the domestic and international capital markets. The Capital Markets group is increasingly focused on making short-term use of our balance sheet rather than on long-term buy and hold strategies and, in this role, the group works with lender customers to provide funds to the mortgage market through short-term financing, investing and other activities. These include whole loan conduit activities, early funding activities, dollar roll transactions, and Real Estate Mortgage Investment Conduit (REMIC) and other structured securitization activities, which we describe in more detail in our 2009 Form 10-K in Business Business Segments Capital Markets Group.

During the first half of 2010, we purchased or guaranteed approximately $423 billion in loans, measured by unpaid principal balance, which includes approximately $170 billion in delinquent loans we purchased from our single-family MBS trusts. Our purchases and guarantees financed approximately 1,026,000 conventional single-family loans, excluding delinquent loans purchased from our MBS trusts, and approximately 115,000 multifamily units. From January 2009 through the first half of 2010, we purchased or guaranteed an estimated $1.2 trillion in loans, measured by unpaid principal balance, which includes approximately $205 billion in delinquent loans we purchased from our single-family MBS trusts, financing approximately 4,151,000 conventional single-family loans and approximately 487,000 multifamily units.

We remained the largest single issuer of mortgage-related securities in the secondary market during the second quarter of 2010, with an estimated market share of new single-family mortgage-related securities of 39.1%, compared with 40.7% in the first quarter of 2010. If the Federal Housing Administration (FHA) continues to be the lower-cost option for some consumers, and in some cases the only option, for loans with higher loan-to-value (LTV) ratios, our market share could be adversely impacted if the market shifts away from refinance activity, which is likely to occur when interest rates rise. In the multifamily market, we remain a constant source of liquidity and have been successful with our goal of expanding our multifamily MBS business and broadening our multifamily investor base.

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The Performance of Single-Family Loans Acquired Beginning in 2009 and Our Expectations Regarding Future Credit Losses

In this section we discuss our expectations regarding the performance of the single-family loans we have purchased or guaranteed since the beginning of 2009, shortly after entering into conservatorship in late 2008, and our single-family credit losses. We refer to loans we have purchased or guaranteed as loans that we have acquired.

Since the beginning of 2009, we have acquired single-family loans that have a strong overall credit profile and are performing well. We expect these loans will be profitable, by which we mean they will generate more fee income than credit losses and administrative costs, as we discuss in Expected profitability of our single-family acquisitions, below. For further information, see Table 2: Serious Delinquency Rates by Year of Acquisition and Table 3: Credit Profile of Conventional Single-Family Loans Acquired.

Almost all of our realized credit losses in 2009 and 2010 on single-family loans are attributable to single-family loans that we purchased or guaranteed from 2005 through 2008. While these loans will give rise to additional credit losses that we have not yet realized, we estimate that we have reserved for the substantial majority of these losses.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations

In this discussion, we present a number of estimates and expectations regarding the profitability of our loans, our future single-family credit losses, and our draws from and dividends to be paid to Treasury. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, including assumptions about future home prices and the future performance of our loans. Our future estimates of these amounts, as well as the actual amounts, may differ materially from our current estimates as a result of home price changes, changes in interest rates, unemployment, government policy matters, changes in generally accepted accounting principles (GAAP), credit availability, social behaviors, other macro-economic variables, the volume of loans we modify, the effectiveness of our loss mitigation strategies, management of our real estate owned (REO) inventory and pursuit of contractual remedies, changes in the fair value of our assets and liabilities, impairments of our assets, or many other factors. Changes in our underlying assumptions and actual outcomes, which could be affected by the economic environment, government policy, and many other factors, including those discussed in Risk Factors and elsewhere in this report, could result in actual results being materially different from our expectations and estimates.

Expected Profitability of Our Single-Family Acquisitions

While it is too early to know how loans we have acquired since January 1, 2009 will ultimately perform, given their strong credit risk profile, low levels of payment delinquencies shortly after their acquisition, and low serious delinquency rate, we expect that, over their lifecycle, these loans will be profitable. Table 1 provides information about whether we expect loans we acquired in years 1991 through 2010 to be profitable. The expectations reflected in Table 1 are based on the credit risk profile of the loans we have acquired, which we discuss in more detail in Table 3: Credit Profile of Conventional Single-Family Loans Acquired and in Table 37: Risk Characteristics of Conventional Single-Family Business Volume and Guaranty Book of Business. These expectations are also based on numerous other assumptions, including our expectations regarding home price declines set forth below in Outlook. As shown in Table 1, we expect loans we have acquired in 2009 and 2010 to be profitable. If home prices were to decline significantly, these loans could become unprofitable. We believe that these loans would become unprofitable if home prices declined more than 20% from their June 2010 levels over the next five years based on our home price index, which would be an approximately 34% decline from their peak in the third quarter of 2006.

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Table 1: Expected Lifetime Profitability of Single-Family Loans Acquired in 1991 through the First Half of 2010

As Table 1 shows, the key years in which we acquired loans that we expect will be unprofitable are 2005 through 2008. Loans we acquired in 2004 were originated under more conservative acquisition policies than loans we acquired from 2005 through 2008; however, we expect them to perform close to break-even because those loans were made as home prices were rapidly increasing and therefore suffered from the subsequent decline in home prices.

Loans we have acquired since the beginning of 2009 comprised over 30% of our single-family guaranty book of business as of June 30, 2010, and we expect that these loans will generally remain in our guaranty book of business for a relatively extended period of time due to their historically low interest rates. The loans we acquired in the first half of 2010, like those we acquired in 2009, have a weighted average interest rate at origination of 4.9%. Our 2005 to 2008 acquisitions are becoming a smaller percentage of our guaranty book of business, having decreased from 63% of our guaranty book of business as of December 31, 2008 to 45% as of June 30, 2010.

Performance of Our Single-Family Acquisitions

In our experience, an early predictor of the ultimate performance of loans is the rate at which the loans become seriously delinquent within a short period of time after acquisition. Loans we acquired in 2009 have experienced historically low levels of delinquencies shortly after their acquisition. Table 2 shows, for loans we acquired in each year since 2001, the percentage that was seriously delinquent (three or more months past due or in the foreclosure process) as of the end of the second quarter following the acquisition year. As Table 2 shows, the percentage of our 2009 acquisitions that was seriously delinquent as of the end of the second quarter following their acquisition year was more than eight times lower than the average comparable serious delinquency rate for loans acquired in 2005 through 2008. Table 2 also shows serious delinquency rates for

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each year s acquisitions as of June 30, 2010. Except for the most recent acquisition years, whose serious delinquency rates are likely lower than they will be after the loans have aged, Table 2 shows that the June 30, 2010 serious delinquency rate generally tracks the trend of the serious delinquency rate as of the end of the second quarter following the year of acquisition. Below the table we provide information about the economic environment in which the loans were acquired, specifically home price appreciation and unemployment levels.

Table 2: Serious Delinquency Rates by Year of Acquisition

* For 2009, the serious delinquency rate as of June 30, 2010 is the same as the serious delinquency rate as of the end of the second quarter following the acquisition year.

(1) Based on Fannie Mae s House Price Index (HPI), which measures average price changes based on repeat sales on the same properties. For the second quarter of 2010, the data show an initial estimate based on purchase transactions in Fannie-Freddie acquisition and public deed data available through the end of June 2010, supplemented by preliminary data that became available in July 2010. Including subsequently available data may lead to materially different results.

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Credit Profile of Our Single-Family Acquisitions

Single-family loans we purchased or guaranteed from 2005 through 2008 were acquired during a period when home prices were rising rapidly, peaked, and then started to decline sharply, and underwriting and eligibility standards were more relaxed than they are now. These loans were characterized, on average and as discussed below, by higher LTV ratios and lower FICO credit scores than loans we have acquired since January 1, 2009, as well as by other higher-risk loan attributes such as low or no documentation and interest-only payment features. As a result of the sharp declines in home prices, 24% of the loans that we acquired from 2005 through 2008 had mark-to-market LTV ratios that were greater than 100% as of June 30, 2010, which means the principal balance of the borrower s primary mortgage exceeded the current market value of the borrower s home. This percentage is higher when second lien loans secured by the same properties that secure our loans are considered. This sharp decline in home prices and the severe economic recession that began in December 2007 significantly and adversely impacted the performance of loans we acquired from 2005 through 2008. We are taking a number of actions to reduce our credit losses, and we describe these actions and our strategy below in Our Strategies and Actions to Reduce Credit Losses on Loans in our Single-Family Guaranty Book of Business.

In 2009, we began to see the effect of actions we took, beginning in 2008, to significantly tighten our underwriting and eligibility standards and change our pricing to promote and provide prudent sustainable homeownership options and stability in the housing market. As a result of these changes and other market conditions, we reduced our acquisitions of loans with higher-risk loan attributes. The loans we have purchased or guaranteed since January 1, 2009 have had a better credit risk profile overall than loans we acquired in 2005 through 2008, and their early performance has been strong. Our experience has been that loans with stronger credit risk profiles perform better than other loans. For example, we believe a strong predictor of loan performance is LTV ratio, which indicates the amount of equity a borrower has in the underlying property. As Table 3 demonstrates, the loans we have acquired since January 1, 2009 have a strong credit risk profile, with lower original LTV ratios, higher FICO credit scores, and a product mix with a greater percentage of fully amortizing fixed-rate mortgage loans than loans we acquired from 2005 through 2008.

Table 3: Credit Profile of Conventional Single-Family Loans Acquired(1)

	Acquisitions from 2009 through the First Half of 2010	**Acquisitions from 2005 through 2008**
Weighted average loan-to-value ratio at origination	67%	73%
Weighted average FICO credit score at origination	760	722
Fully amortizing, fixed-rate loans	96%	86%
Alt-A loans	*	14%
Subprime	%	*
Interest-only	1%	12%
Original loan-to-value ratio > 90	5%	11%
FICO credit score < 620	*	5%

* Represent less than 0.5% of the total acquisitions.

(1) Loans that meet more than one category are included in each applicable category.

Improvements in the credit risk profile of our 2009 and 2010 acquisitions over prior years reflect changes that we made to our pricing and eligibility standards, as well as changes mortgage insurers made to their eligibility standards. In addition, FHA s role as the lower-cost option for some consumers for loans with higher LTV ratios has also reduced our acquisitions of this type of loan. The credit risk profile of our 2009 and 2010 acquisitions has been influenced further by a significant percentage of refinanced loans, which generally perform well as they demonstrate a borrower s desire to maintain homeownership. In the first half of 2010 our acquisitions of refinanced loans included a significant number of loans under the Home Affordable Refinance Program (HARP), which involves refinancing existing performing Fannie Mae loans with current LTV ratios between 80% and 125% and possibly lower FICO credit scores into loans that reduce the borrowers monthly payments or are otherwise more sustainable, such as fixed-rate loans. If the volume of HARP loans continues at the current pace, the LTV ratios at origination for our 2010 acquisitions will be higher than for our 2009 acquisitions. However, the overall credit profile of our 2010 acquisitions is expected to remain significantly stronger than the credit profile of our 2005 through 2008 acquisitions. Whether the loans we acquire in the future exhibit an overall credit profile similar to our acquisitions since January 1, 2009 will also depend on a number of factors, including our future eligibility standards and those of mortgage insurers, the percentage of loan originations representing refinancings, our future objectives and market conditions.

The changes we made to our pricing and eligibility standards and underwriting beginning in 2008 were intended to more accurately reflect the risk in the housing market and to significantly reduce our acquisitions of loans with higher-risk attributes. These changes included the following:

- Established a minimum FICO credit score and reduced maximum debt-to-income ratio for most loans;

- Limited or eliminated certain loan products with higher-risk characteristics, including discontinuing the acquisition of newly originated Alt-A loans (we may continue to selectively acquire seasoned Alt-A loans that meet acceptable eligibility and underwriting criteria; however, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods);

- Implemented a more comprehensive risk assessment model in Desktop Underwriter®, our proprietary automated underwriting system, and a comprehensive risk assessment worksheet to assist lenders in the manual underwriting of loans;

- Increased our guaranty fee pricing to better align risk and pricing;

- Updated our policies regarding appraisals of properties backing loans; and

- Established a national down payment policy requiring borrowers to have a minimum down payment (or minimum equity, for refinances) of 3% or 5%, in most cases.

If we had applied our current pricing and eligibility standards and underwriting to loans we acquired in 2005 through 2008, our losses on those loans would be lower, although we would still have experienced losses due to the rise and subsequent sharp decline in home prices and increased unemployment.

Expectations Regarding Credit Losses

Since the beginning of 2009, we have reserved for or realized approximately $100 billion of credit losses on single-family loans, almost all of which are attributable to single-family loans that we purchased or guaranteed from 2005 through 2008. While loans we acquired in 2005 through 2008 will give rise to additional credit losses that we have not yet realized, we estimate that we have reserved for the substantial majority of these losses. Our reserves for credit losses consist of our allowance for loan losses, our allowance for accrued interest receivable, our allowance for property taxes and insurance receivables, our reserve for guaranty losses, and the portion of fair value losses on loans purchased out of MBS trusts reflected in our condensed consolidated balance sheets that we estimate represents accelerated credit losses we expect to realize. We show how we calculate our realized credit losses in Table 13: Credit Loss Performance Metrics.

As a result of the substantial reserving for and realizing of our credit losses to date, we have drawn a significant amount of funds from Treasury through June 30, 2010. As our draws from Treasury for credit losses abate, we expect our draws instead to be driven increasingly by dividend payments. We believe that the losses we ultimately will realize on certain loans may be less than what we will have provided for in our reserves due to accounting requirements. If this occurs, we will adjust our reserves over time as losses are realized, including recapturing reserves.

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Our Strategies and Actions to Reduce Credit Losses on Loans in our Single-Family Guaranty Book of Business

To reduce the credit losses we ultimately incur on our book of business, we are focusing our efforts on the following strategies:

- Reducing defaults to avoid losses that would otherwise occur;
- Pursuing foreclosure alternatives to reduce the severity of the losses we incur;
- Managing foreclosure timelines efficiently to reduce our foreclosed property expenses;
- Managing our REO inventory to reduce costs and maximize sales proceeds; and
- Pursuing contractual remedies from lenders and providers of credit enhancement, including mortgage insurers.

Reducing defaults. We are working to reduce defaults through improved servicing, refinancing initiatives and solutions that help borrowers retain their homes, such as modifications. We refer to actions taken by our servicers with borrowers to resolve the problem of existing or potential delinquent loan payments as workouts, which include the home retention solutions and the foreclosure alternatives discussed below.

Improved Servicing. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in our efforts to reduce defaults and pursue foreclosure alternatives. We seek to improve the servicing of delinquent loans through a variety of means, including improving our communications with and training of our servicers, increasing the number of our personnel who manage our servicers, directing servicers to contact borrowers at an earlier stage of delinquency and improve telephone communications with borrowers, and working with some of our servicers to establish high-touch servicing protocols designed for managing higher-risk loans.

Refinancing Initiatives. Our refinancing initiatives help borrowers obtain a monthly payment that is more affordable now and into the future and/or a more stable loan product, such as a fixed-rate mortgage loan in lieu of an adjustable-rate mortgage loan, which may help prevent delinquencies and defaults. In the second quarter of 2010, we acquired or guaranteed approximately 126,000 loans through our Refi Plus™ initiative, which provides expanded refinance opportunities for eligible Fannie Mae borrowers. On average, borrowers who refinanced during the second quarter of 2010 through our Refi Plus initiative reduced their monthly mortgage payments by $127. Of the loans refinanced through our Refi Plus initiative, approximately 47,000 loans were refinanced under HARP, which permits borrowers to benefit from lower levels of mortgage insurance and higher LTV ratios than those that would be allowed under our traditional standards. Overall, in the second quarter of 2010, we acquired or guaranteed approximately 354,000 loans that were refinancings, compared to 417,000 loans in the first quarter of 2010, as mortgage rates remained at historically low levels.

Home Retention Solutions. Our home retention solutions are intended to help borrowers stay in their homes and include loan modifications, repayment plans and forbearances. In the second quarter of 2010, we completed home retention workouts for over 132,000 loans with an aggregate unpaid principal balance of $27 billion. On a loan count basis, this represented a 26% increase over home retention workouts completed in the first quarter of 2010. In the second quarter of 2010, we completed approximately 122,000 loan modifications, compared to approximately 94,000 loan modifications in the first quarter of 2010. Our modification statistics do not include trial modifications under the Home Affordable Modification Program (HAMP), but do include conversions of trial HAMP modifications to permanent modifications.

It is too early to determine the ultimate success of the loan modifications we completed during the second quarter of 2010. Approximately 58% of loans we modified during 2009 were current or had paid off as of six months following the loan modification date, compared to approximately 37% of loans we modified during 2008. Please see Risk Management Single-Family Mortgage Credit Risk Management Management of Problem Loans and Loan Workout Metrics for a discussion of the significant uncertainty regarding the ultimate long term success of our modification efforts.

As Table 4 illustrates, our single-family serious delinquency rate decreased during the second quarter of 2010, but remains high. This decrease in our serious delinquency rate is partly the result of the home retention workouts we completed during the quarter, as well as the foreclosure alternative workouts we discuss below.

During the second quarter, we announced enhancements to improve the effectiveness of our home retention solutions. These changes become effective in the coming months and include:

- Enhancements to our loss-mitigation options to provide payment relief for homeowners who have lost their jobs by offering eligible unemployed borrowers a forbearance plan to temporarily reduce or suspend their mortgage payments;

- New servicer requirements for staffing, training and performance monitoring of default-related activities as well as enhanced guidance for call coverage and borrower contact; and

- New requirements for financial information verification before borrowers can be offered a loan modification outside of HAMP.

Discouraging Strategic Defaults. During the second quarter of 2010, we announced an adjustment to the minimum waiting period that must elapse after a foreclosure before a borrower without extenuating circumstances is eligible for a new mortgage loan. The adjustment is designed to increase disincentives for borrowers to walk away from their mortgages without working with servicers to pursue alternatives to foreclosure. Borrowers with extenuating circumstances or those who agree to foreclosure alternatives may qualify for new mortgage loans eligible for sale to Fannie Mae in as little as two to three years.

Pursuing Foreclosure Alternatives. If we are unable to provide a viable home retention solution for a problem loan, we seek to offer foreclosure alternatives and complete them in a timely manner. These foreclosure alternatives are primarily preforeclosure sales, which are sometimes referred to as short sales, as well as deeds-in-lieu of foreclosure. These alternatives reduce the severity of our loss resulting from a borrower s default while permitting the borrower to avoid going through a foreclosure. In the second quarter of 2010, we completed approximately 21,500 preforeclosure sales and deeds-in-lieu of foreclosures, compared with approximately 17,300 in the first quarter of 2010. We have increasingly relied on foreclosure alternatives as a growing number of borrowers have faced longer-term economic hardships that cannot be solved through a home retention solution, and we expect the volume of our foreclosure alternatives to remain high throughout 2010.

Managing Foreclosure Timelines Efficiently. We are working to manage our foreclosure timelines efficiently to reduce our foreclosed property expenses. As of June 30, 2010, 38% of the loans in our conventional single-family guaranty book of business that were seriously delinquent were in the process of foreclosure.

Managing Our REO Inventory. Since January 2009, we have strengthened our REO sales capabilities by significantly increasing the number of resources in this area, and we are working to manage our REO inventory to reduce costs and maximize sales proceeds. During the second quarter of 2010, we acquired approximately 69,000 foreclosed single-family properties, up from approximately 62,000 during the first quarter of 2010, and we disposed of approximately 50,000 single-family properties. The carrying value of the single-family REO we held as of June 30, 2010 was $13.0 billion, and we expect our REO inventory to continue to increase significantly throughout 2010.

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Pursuing Contractual Remedies. We conduct reviews of delinquent loans and, when we discover loans that do not meet our underwriting and eligibility requirements, we make demands for lenders to repurchase these loans or compensate us for losses sustained on the loans. We also make demands for lenders to repurchase or compensate us for loans for which the mortgage insurer rescinds coverage. In 2009 and during the first half of 2010, the number of repurchase and reimbursement requests remained high. During the second quarter of 2010, lenders repurchased approximately $1.5 billion in loans from us, measured by unpaid principal balance, pursuant to their contractual obligations. We are also pursuing contractual remedies from providers of credit enhancement on our loans, including mortgage insurers. We received proceeds under our mortgage insurance policies for single-family loans of $1.2 billion for the second quarter of 2010. Please see Risk Management Institutional Counterparty Credit Risk Management for a discussion of our high balance of outstanding repurchase and reimburse