



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

MAY 16 2008

Mr. Daniel H. Mudd
President and Chief Executive Officer
Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Dear Mr. Mudd:

On February 27, 2008, Fannie Mae announced a new initiative called HomeSaver Advance ("HSA"). Fannie Mae described HSA as a loss mitigation tool that is intended to cure mortgage delinquency. Specifically, eligible borrowers who are delinquent on mortgages purchased by Fannie Mae may bring their mortgages current by entering into unsecured loans with the servicing lender which then assigns the loans to Fannie Mae.

The Department undertook a review of HSA to determine if the activity is consistent with Fannie Mae's Charter Act. The Department has completed its review, including review of information and documentation received from Fannie Mae, and has concluded that HSA is authorized by the Fannie Mae Charter Act.

In order for a Fannie Mae activity to be permissible, the activity must be authorized by or directly related to one or more of the express powers under its Charter Act and must also further Fannie Mae's purposes, which are set out in section 301 of the Act. Section 302(b)(2) expressly provides: "For the purposes set forth in section 301, [Fannie Mae] is authorized, pursuant to commitments or otherwise, to purchase, service, sell, lend on the security of, or otherwise deal in [residential mortgages]." The Department has concluded that Fannie Mae's purchase of the HomeSaver Notes bears a direct relationship to Fannie Mae's purchase and securitization of the residential mortgages being cured and thus falls within its express powers under section 302(b) of the Fannie Mae Charter Act. It is widely recognized in the mortgage industry that the servicing function encompasses loss mitigation practices. HSA provides an additional loss mitigation option to mortgage servicers operating on Fannie Mae's behalf. By accepting the HSA note from the borrower to satisfy delinquent payments, Fannie Mae is agreeing to accept an alternate form of repayment already due it under the terms of the purchased mortgage.

The Department has also concluded that HSA furthers Fannie Mae's purposes in section 301 of its Charter Act to provide stability in the secondary market for residential mortgages. The HSA option mitigates the risk of loss to both Fannie Mae and investors in its mortgage-backed securities from default and foreclosure, thereby stabilizing mortgage investments in the secondary market.

The Department's conclusions pertain only to HSA as described herein. Should Fannie Mae alter or change the terms of HSA, please notify the Department about the changes as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "BDM", with a large, sweeping flourish extending to the right.

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner