



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

OCT 6 2005

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

Dear Mr. Mudd:

By letter dated March 19, 2004, the Department requested that Fannie Mae provide information and documentation regarding its Employer-Assisted Housing (EAH) plans, including the internal EAH benefit for Fannie Mae employees (the internal EAH plan) and the external EAH plan for corporate customers (the external EAH plan). Fannie Mae responded to the Department's request by letter dated April 19, 2004. I am writing to advise you that the Department has completed its review of Fannie Mae's internal and external EAH plans.

The Department has determined that the internal plans operated by Fannie Mae on behalf of its employees are authorized under section 309(d)(2) of the Charter Act which grants Fannie Mae authority and discretion in compensating employees, including providing employee-related benefits, such as the EAH plan. However, even though Fannie Mae is authorized to offer an internal EAH plan benefit under its Charter Act, the internal EAH plan is still subject to the explicit prohibition on mortgage origination as set forth in section 304(a)(2) of the Charter Act.

Based on the information provided by Fannie Mae, the internal EAH plan does not violate the Charter Act prohibition on mortgage origination. The Fannie Mae Federal Credit Union, an entity separate from Fannie Mae, originates the assistance loans under the internal EAH plan. Fannie Mae then purchases the loans in order to forgive them over time. Further, because these assistance loans are not secured by a lien on the property, they are not mortgages that would be subject to the limitation in the Charter Act.

HUD also reviewed Fannie Mae's charter authority to offer external EAH plans. An activity is consistent with Fannie Mae's Charter Act only if (a) it is authorized by, or directly related to, the express powers under the Charter Act, and (b) it furthers one or more of the purposes set forth in section 301 of the Fannie Mae Charter Act. Based on the information reviewed, HUD determined that the EAH plans are expressly designed to promote homeownership by facilitating employees' access to new sources of capital (i.e., the employer) for the purposes of obtaining residential mortgages. Some of these mortgages may be eligible for purchase by Fannie Mae. Accordingly, the Department finds that the external EAH plans are authorized under Fannie Mae's Charter Act.

While the Department has determined that Fannie Mae is authorized to market external EAH plans to employers and to educate lenders regarding these plans, some activities associated with this marketing may be inconsistent with the Fannie Mae Charter Act, and Fannie Mae must exercise caution in the level of assistance it provides to both lenders and employees. For example, providing direct origination assistance to select lenders by including them in consultation meetings with employers (even if the lender requested that Fannie Mae arrange the meeting), recommending preferred lenders for inclusion in an EAH plan, arranging opportunities for lenders to originate mortgages to employees, referring employees to one or more specific lenders, or similar marketing practices are prohibited activities pursuant to section 304(a)(2) of the Fannie Mae Charter Act.

By this letter, the Department is notifying Fannie Mae that it should re-evaluate its current marketing practices and immediately discontinue any practices that constitute direct origination assistance as described herein.

Periodically the Department will continue to review Fannie Mae's external EAH plan to ensure that Fannie Mae is managing and marketing the plan in a manner that is fully consistent with its charter authorities.

Sincerely,



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

cc: Luke H. Brown
Director, Regulatory Policy
Fannie Mae
