



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

April 6, 2005

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

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

Dear Mr. Mudd:

By this letter, the Department is informing Fannie Mae of the results of the Department's review of Fannie Mae's international activities. HUD requested information regarding Fannie Mae's international activities on July 12, 2004 and October 27, 2004. Fannie Mae responded to these requests on July 30, 2004 and November 15, 2004, respectively, by providing a variety of materials describing Fannie Mae's international activities, including a legal opinion regarding Fannie Mae's authority to engage in such activities.

The Department reviewed the materials provided by Fannie Mae pursuant to the Department's general regulatory authority under section 1321 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) to determine whether activities of Fannie Mae's International Housing Finance Services (IHFS) group, specifically its international consulting and advisory contracts, subcontracts and cooperative agreements, are consistent with the Fannie Mae Charter Act. Based on the information provided to the Department in Fannie Mae's July 30 and November 15 responses, the Department has determined that IHFS's advisory and consultative services that are intended to provide assistance to foreign governments and organizations are outside the scope of Fannie Mae's authority under the Charter Act.

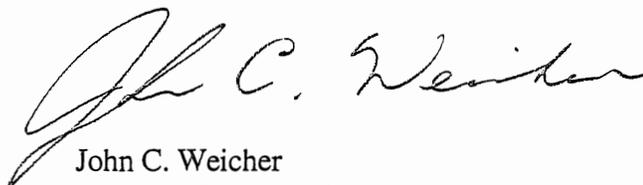
An activity is consistent with the Charter Act only if (a) it is authorized by Fannie Mae's express powers under the Charter Act and (b) it furthers one or more of the purposes set out in section 301 of the Fannie Mae Charter Act. The "necessary or incidental" clause in section 309(a) of the Fannie Mae Charter Act, cited by Fannie Mae in support of its authority to engage in international activities, does not provide any independent program authority to Fannie Mae. The "necessary or incidental" clause authorizes only those activities that bear a direct relationship to Fannie Mae's express powers under the Charter Act as a federally chartered, limited purpose government sponsored enterprise. In addition, even if the activity bears such a direct relationship to Fannie Mae's express powers, it is authorized only if it also serves Fannie Mae's Charter Act purposes.

Fannie Mae's Charter Act purposes and authorities are designed to promote the availability of financing for the domestic residential mortgage market. The activities of the IHFS, as described in Fannie Mae's letter of July 30, 2004, are to promote housing finance improvements in foreign markets: "[s]ince 1990 the core purpose of IHFS – to provide requested advisory services relating to the development of market-based housing finance systems to foreign governments and financial institutions – has remained unchanged." Fannie Mae also notes in that letter that in "the last 14 years, IHFS has provided services in over 30 countries to a variety of international entities, including: Trade Associations; Development Banks; Central Banks; Governments; Financial Institutions; Mortgage Lenders and Servicers; and Multilateral Institutions." HUD has determined that none of the justifications provided in Fannie Mae's July 30 and November 15 responses show a direct relationship between the technical advisory and consultative services of the IHFS and Fannie Mae's authority under its Charter Act. The fact that some of these international activities were performed by Fannie Mae at the request of various U.S. Government agencies does not provide any additional authority to Fannie Mae to engage in such activities.

Based on the Department's determination, and in order to ensure that Fannie Mae's activities are consistent with and authorized by the Charter Act, the Department is requiring Fannie Mae to obtain the prior approval of the Department before engaging in any international advisory or consultative activities. The Department will review each activity to determine (1) whether it is authorized under sections 302(b) or 304 of Fannie Mae's Charter Act, and (2) whether it furthers Fannie Mae's Charter Act purposes in serving the domestic residential mortgage market. For example, if Fannie Mae can demonstrate that an activity increases Fannie Mae's access to international capital markets or provides substantial new information about mortgage markets to Fannie Mae, such an activity may be consistent with the Charter Act. However, the Department will make the determination as to whether such activities are authorized and further Fannie Mae's Charter Act purposes on a case-by-case basis.

The Department appreciates your prompt attention to this determination.

Sincerely,



John C. Weicher
Assistant Secretary for Housing –
Federal Housing Commissioner

CC: Michele Davis
Vice President, Regulatory Policy

Pamela F. Banks
Vice President, Regulatory Compliance