



FEDERAL HOUSING FINANCE AGENCY  
Office of the Director

March 16, 2009

Mr. Herb Allison  
Chief Executive Officer  
Fannie Mae  
3900 Wisconsin Avenue, N.W.  
Washington, DC 20016-2892

**Re: Final Feasibility Determination on 2008 Housing Goals Compliance**

Dear Mr. Allison:

In accordance with section 1336(b) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act), the Federal Housing Finance Agency (FHFA) hereby notifies Fannie Mae of its final determination that there is a substantial probability of failure by Fannie Mae to meet its low- and moderate-income housing goal, special affordable housing goal, and three home purchase subgoals for 2008. The FHFA has also determined, however, that achievement of these goals and subgoals was not feasible. Accordingly, Fannie Mae is not required to submit a housing plan to FHFA pursuant to section 1336(c) of the Safety and Soundness Act.

Pursuant to section 1336(b) and implementing regulations, FHFA notified Fannie Mae on December 8, 2008 of its determination that there was a substantial probability that Fannie Mae would fail to meet its two income-based housing goals – the low- and moderate-income housing goal and special affordable housing goal -- for 2008. The letter also notified Fannie Mae of FHFA's determination that there was a substantial probability that Fannie Mae would fail to meet all three of its home purchase subgoals for 2008 -- the low- and moderate-income home purchase subgoal, the underserved areas home purchase subgoal, and the special affordable home purchase subgoal. FHFA further stated that it had not determined the probability that Fannie Mae would fail to achieve its underserved areas goal for 2008.

By letter dated January 7, 2009, Fannie Mae responded that while it had not yet determined its final 2008 scores on the goals and subgoals, it agreed that there was a substantial probability that it would fail to achieve its two income-based housing goals and three home purchase subgoals for 2008. Fannie Mae also stated that it expected to meet its underserved areas goal for 2008, and that it had already exceeded its 2008 multifamily special affordable subgoal of \$5.49 billion. Fannie Mae requested that FHFA find the two income-based housing goals and three home purchase subgoals infeasible for 2008, citing reasons for its conclusions about the infeasibility of these goals and subgoals.

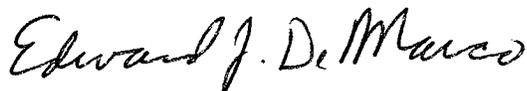
Based on recent analysis, FHFA has made a final determination that there is a substantial probability of Fannie Mae's failure to meet the two income-based goals and three home purchase subgoals for 2008. In determining whether the two goals and three subgoals were infeasible,

FHFA took into consideration, with regard to the single-family mortgage market, the tightened underwriting standards adopted by Fannie Mae and others in the mortgage industry, the decreased availability of private mortgage insurance in the primary market, the sharp increase in the share of single-family mortgages insured by the Federal Housing Administration, the decrease in the goal-qualifying shares of conventional mortgages since the Department of Housing and Urban Development (HUD) established the 2008 goals in November 2004, and the sharp fall in the issuance of goal-rich private-label securities. With regard to Fannie Mae's purchases of multifamily mortgages, FHFA considered the decrease in the multifamily share of units financed by Fannie Mae in 2008, and the collapse of the Commercial Mortgage-Backed Securities market. FHFA also took into account the financial condition of Fannie Mae in 2008.

In the economic analysis accompanying its final housing goals rule for 2005-08, HUD stated that even though the housing goals and subgoals levels were based on market share ranges that covered more adverse economic and market affordability conditions than existed at that time, changing economic conditions could decrease the goal-qualifying shares of the conventional mortgage market during 2005-08. FHFA has determined that actual economic conditions in 2008 limited the relative number of mortgages qualifying for the two income-based goals and three home purchase subgoals. Based on the housing market and economic conditions and Fannie Mae's financial condition in 2008, FHFA has concluded that achievement by Fannie Mae of the low- and moderate-income housing and special affordable housing goals and three home purchase subgoals was not feasible in 2008. Accordingly, Fannie Mae is not required to submit a housing plan to FHFA pursuant to section 1336(c) of the Safety and Soundness Act.

FHFA anticipates receiving Fannie Mae's 2008 Annual Housing Activities Report, goal performance tables, and loan-level data no later than March 16, 2009, and FHFA will determine Fannie Mae's official 2008 housing goals and subgoals performance later this year.

Sincerely,



Edward J. DeMarco  
Chief Operating Officer  
Senior Deputy Director for Housing Mission and Goals

xc: The Honorable Christopher J. Dodd  
Chairman, Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Barney Frank  
Chairman, Committee on Financial Services  
U. S. House of Representatives