



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

December 11, 2014

Mr. Timothy J. Mayopoulos
Chief Executive Officer
Federal National Mortgage Association
3900 Wisconsin Avenue, NW
Washington, D.C. 20016

Dear Mr. Mayopoulos:

The Housing and Economic Recovery Act (HERA) requires the Federal National Mortgage Association (Fannie Mae) to set aside in each fiscal year 4.2 basis points of each dollar of the unpaid principal balance of Fannie Mae's new business purchases to be allocated to the Housing Trust Fund and the Capital Magnet Fund; 12 USC 4567(a). HERA authorizes the Director of the Federal Housing Finance Agency (FHFA) to suspend these allocations temporarily upon a finding by the Director that such allocations (1) are contributing, or would contribute, to the financial instability of Fannie Mae; (2) are causing, or would cause, Fannie Mae to be classified as undercapitalized; or (3) are preventing, or would prevent, Fannie Mae from successfully completing a capital restoration plan; 12 USC 4567(b). On November 13, 2008, the Director of FHFA temporarily suspended the allocation of funds by Fannie Mae pursuant to Section 4567(b) and the temporary suspension has remained in effect since that date.

This communication confirms that I am terminating the temporary suspension of these allocations and directing Fannie Mae to begin making contributions pursuant to 12 USC 4567(a) in accordance with the following terms and conditions:

- 1) During each fiscal year, commencing with the Enterprise's fiscal year 2015 and in each fiscal year thereafter, Fannie Mae will set aside in accordance with Section 4567(a)(2)(A) an amount equal to 4.2 basis points of each dollar of unpaid principal balance of its total new business purchases during such fiscal year for allocation in accordance with Section 4567(a)(2)(B);
- 2) Within 60 days after the end of each fiscal year commencing with fiscal year 2015 and for each fiscal year thereafter, Fannie Mae will allocate or otherwise transfer the amount set aside under paragraph 1) above in accordance with Section 4567(a)(2)(B), unless during such fiscal year Fannie Mae has made a draw from the Department of the Treasury under the terms of the Senior Preferred Stock Purchase Agreement (SPSPA) or unless such allocation or transfer would cause Fannie Mae to have to make a draw from the Treasury Department under the terms of the SPSPA; and
- 3) If Fannie Mae has made a draw from the Department of the Treasury under the terms of the SPSPA during fiscal year 2015 or makes such a draw during a subsequent fiscal year or if the allocation or transfer would cause Fannie Mae to make such a draw for that fiscal year, Fannie Mae will make no allocation or transfer pursuant to Section 4567(a)(2)(B) for the fiscal year for

which the draw was made or for any year in which it is determined that such allocation or transfer would cause such a draw, and the set aside under paragraph 1) above will be reversed for that fiscal year.

The above decision is based on the following:

- 1) The Director of FHFA had the authority to temporarily suspend the set aside and allocations under Section 4567(b) and exercised his discretion to do so temporarily under the circumstances that existed at that time. However, circumstances have changed and the temporary suspension is no longer justified;
- 2) The set aside and allocation would not contribute to the financial instability of Fannie Mae as provided in Section 4567(b)(1) in that the financial operations of Fannie Mae have stabilized to a sufficient level. This is evidenced by the fact that Fannie Mae has not required a draw from the Department of the Treasury under the SPSPA since the fourth quarter of 2011 and since 2013 Fannie Mae has paid approximately \$99 billion in dividends to the Treasury Department. This determination relates solely to whether contributions to these Funds would cause financial instability and is not a finding for any other purpose;
- 3) Sections 4567(b)(2) and (3) are inapplicable under these circumstances because FHFA has suspended capital classifications for Fannie Mae during conservatorship and entered into the SPSPA with the Department of the Treasury to maintain positive net worth and avoid receivership. Further, Fannie Mae is not attempting to complete a capital restoration plan as contemplated under Section 4567(b)(3); and
- 4) While the profit levels Fannie Mae has experienced since 2012 are not expected to be sustainable, reasonable projections indicate that Fannie Mae will remain profitable for the foreseeable future and FHFA continues to monitor the financial condition of Fannie Mae and retains the authority to revise or reverse this decision at any time in accordance with the provisions of Section 4567(b).

Until further notice, Fannie Mae should set aside and allocate funds for transfer to the Housing Trust Fund and the Capital Magnet Fund as directed, in accordance with the above and as supplemented or modified by specific guidance or directive from FHFA.

Please contact me if you have questions regarding this decision.

Sincerely,

A handwritten signature in cursive script, appearing to read "Melvin L. Watt".

Melvin L. Watt