EXHIBIT 4
EXHIBIT F

CONFLICTS OF INTEREST MITIGATION

The following explains and memorializes certain of the minimum conflicts of interest mitigation controls the Financial Agent shall implement and monitor throughout the term of the Financial Agency Agreement between the United States Department of the Treasury (the “Treasury”) and the Financial Agent (the “FAA”). The conflicts of interest mitigation controls are based on the Financial Agent’s role under the FAA. As more fully described in Exhibit A and C, the Financial Agent shall act provide certain services in connection with Treasury’s Homeownership Preservation Program (the “Program”) pursuant to the Emergency Economic Stabilization Act of 2008 (the “Act”). In that role, the Financial Agent will be responsible for, among other things, working with servicers of pools of mortgage loans to prevent foreclosures on those loans.

Conflicts of Interest

The following have been identified as actual or potential conflicts of interest associated with the Financial Agent providing services under the FAA:

1. The Financial Agent owns a proprietary portfolio of securities and loans, and guarantees that principal and interest payments will be passed through to other investors that own mortgage backed securities. A potential conflict exists between the Financial Agent's interest in maximizing the performance and minimizing the costs of its retained and guaranteed portfolios and the Financial Agent's responsibility to the Treasury to administer the Program uniformly for all borrowers and investors across the country.

   Examples of this potential conflict include the following: (a) mortgage asset traders working on the Financial Agent's mortgage trading desk could make use of Program information on investors, servicers, and borrowers, (b) personnel with knowledge of the Financial Agent's portfolio may be more lenient in subsidizing the portfolio’s servicers and borrowers, and (c) personnel providing the Treasury with technical input on the design and modeling for the Program could provide self-serving advice to advantage the Financial Agent's portfolio.

2. The Financial Agent maintains business relationships with servicers from which it purchases mortgages and upon which it is reliant to fulfill its core business and statutory mission. Therefore, a potential conflict exists between the Financial Agent's need to maintain beneficial relationships with servicers supplying product and the Financial Agent's duty to the Treasury to administer the Program uniformly and to enforce servicer compliance with Program Guidelines.

3. As the owner of whole loan mortgages purchased out of mortgage backed securities it guarantees and as an investor in mortgage backed securities, the Financial Agent may be an ultimate beneficiary of the interest rate or principal reduction payments and loan modifications carried out under the Program. A
potential conflict exists between the Financial Agent's interest in benefiting from the interest rate or principal reduction payments and mitigating foreclosures of mortgages in its own portfolio and its duty to the Treasury to administer the Program uniformly for all investors and to enforce compliance by all borrowers under the Program.

4. Individuals employed by or associated with the Financial Agent may have a financial interest in banks or investment funds that could receive or benefit from the interest rate or principal reduction payments under the Program. Because these individuals may have material, non-public information and may make decisions about the execution of the Program, their duties could have a direct effect on their financial interests. A potential conflict exists between their desire to represent their own financial interests versus the interests of the Treasury.

Mitigation Plans

As a fiduciary to the Treasury, the Financial Agent owes a duty to look solely to the best interests of the Treasury without considering the interests of other clients or its own proprietary interests. Given actual or potential conflicts of interest with respect to providing services under the FAA, the Financial Agent agrees to implement the following mitigation plans and conflict of interest mitigation controls.

Conflict of Interest #1: Financial Agent Portfolio and Mortgages Guaranteed

The possibility that the Financial Agent may provide self-serving advice on the Program to the advantage of the Financial Agent’s portfolio is mitigated by the following facts.

1. Treasury is receiving advice from at least one other Government Sponsored Enterprise (“GSE”) as well as from other third-party advisers.

2. Treasury is solely responsible for developing the Program Guidelines and both GSEs must follow the Program Guidelines.

In addition to the above and the other measures set forth in the FAA and herein, the Financial Agent shall mitigate this conflict by implementing two strategies.

1. Management of the Financial Agent’s Portfolio. The Financial Agent’s Information Barrier Policy should prevent misuse of material non-public information to benefit the Financial Agent’s portfolio. The Policy is designed to prevent the risk of “insider trading”, i.e., securities trading on the basis of material, non-public information. The Policy prohibits the sharing of inside information (including loan level information) with the Financial Agent’s mortgage asset traders (a.k.a. Fannie Mae employees authorized to trade mortgage-related securities on behalf of Fannie Mae).

The Financial Agent will add the following specific provisions to the Policy to further ensure its effectiveness.
a. Specifically prohibit employees who perform work on the Program (“Program Employees”) from sharing inside information (including loan information) obtained in connection with the Program with the Financial Agent’s mortgage assets traders.

b. Prohibit mortgage assets traders from working on the Program or having any access to “non-public information”, as that term is defined in 31 CFR §31.217.

c. Physically separate mortgage assets traders from Program Employees.

d. In situations where the Policy permits a mortgage asset trader to go “over the Information Barrier” to obtain information regarding the Program, such mortgage asset trader will only do so with the Chief Executive Officer’s and the General Counsel’s prior approval.

e. Require Program Employees to sign confidentiality agreements.

f. Require that data and technology used in connection with the Program will be kept confidential and inaccessible to employees and contractors (including contractor employees) who are not working on the Program.

g. Require Program Employees to have delegated authority directly from the CEO (separate from any business line).

h. Require Program Employees to have training regarding the Policy.

2. Modifications of Mortgages Backing Mortgage Backed Securities in the Financial Agent’s Portfolio. The Financial Agent will:

a. Create a firewall between, on the one hand, Program Employees and, on the other hand, Financial Agent employees who have and systems and databases which have information regarding mortgage backed securities in the Financial Agent’s portfolio. The firewalls should keep Program Employees from knowing whether the Financing Agent has an interest in a mortgage backed security affected by a modification and, therefore, should prevent such an interest from influencing a Program Employees work.

b. Prohibit Program Employees from inquiring (internally or externally) about or having access to the Financial Agent’s portfolio holdings of mortgage backed securities.

Conflict of Interest #2: Business Relationships with Servicers

This potential conflict is mitigated by the incentives contemplated by Exhibit B and the way the Program is structured. More specifically, Exhibit B provides that the Financial Agent will receive incentive payments but only if the Financial Agent achieves specific
performance metrics agreed upon by the Financial Agent and Treasury. This structure gives the Financial Agent an incentive to administer the Program uniformly and to enforce servicer compliance with Program Guidelines. In addition, a different GSE will be responsible for auditing servicer performance under the Program. Finally, Treasury has the right under this FAA to oversee and audit the Financial Agent’s performance of its obligations under the FAA.

Conflict of Interest #3: Interest Rate or Principal Reduction Payments

To mitigate this concern, the Financial Agent will take two steps.

1. Create the firewall and implement the prohibition described in part 2 of the response to Conflict of Interest #1. As noted above, the firewall and prohibition should keep Program Employees from knowing whether the Financing Agent has an interest in a mortgage backed security affected by a modification and, therefore, should prevent such an interest from influencing a Program Employee’s work.

2. Other than in the Financial Agent’s capacity as an investor in a mortgage backed security, the Financial Agent shall not receive under the Program any of the payments to fund loan modifications and fees to servicers and investors set forth in the first paragraph of Exhibit B.

Conflict of Interest #4: Personal Conflicts of Interest

To address this concern, the Financial Agent agrees that all management officials and key individuals, as defined in 31 C.F.R. §31.201, shall be subject to a code of ethics and associated insider trading policy. In particular, these individuals shall disclose on a quarterly basis information equivalent to that required by the United States Office of Government Ethics Form 278 (“Form 278”) to the Financial Agent’s Compliance Department for review. In addition, unless an investment is exempt from prior notification, investments by such individuals must be pre-cleared by the Financial Agent’s Compliance Department and be subject to appropriate trading restrictions, including being prohibited if a security is on the Financial Agent’s restricted list. For purposes of this exhibit, all references to management officials and key individuals shall have the same meaning as such terms have in 31 C.F.R. § 31.201.

Conflicts of Interest Mitigation Controls

As a requirement of this FAA, the Financial Agent shall maintain and enforce the following corporate-wide policies and procedures addressing potential conflicts of interests arising in connection with providing services under the FAA. For purposes of this exhibit, the specific policies and procedures developed and implemented to address potential conflicts of interest regarding its work under this FAA are collectively referred
to as the “Conflicts of Interest Mitigation Controls.” The Conflicts of Interest Mitigation Controls shall apply to the Financial Agent and its employees, contractors, and its contractors’ employees (together, collectively, or individually as the “Financial Agent Group”) that provide the services under the FAA.

1. **Restrictions Regarding Material Non-Public Information.** While providing the services under the FAA, some individuals within the Financial Agent Group may have access to material non-public information related to the Program. Information is “material” if there is a substantial likelihood that a reasonable person would consider the information important in making an investment decision (e.g., if the disclosure of the information would positively or negatively affect the market price of a security or obligation). Individuals in possession of non-public information obtained or developed pursuant to the FAA shall not act, or cause others to act, on such information, except in performance of this FAA. For purposes of this exhibit the phrase “non-public information” shall have the same meaning as such term has in 31 CFR §31.217.

2. **Information Barrier Policies.** Program-related non-public information shall be shared only on a need-to-know basis. The Financial Agent Group shall maintain information barrier policies that are designed to restrict the dissemination, availability and sharing of non-public information, including but not limited to material non-public information.

3. **Controls over IT and Paper Files Related to Non-Public Information.** The Financial Agent Group's management, performance, and accounting systems will restrict non-public information access only to those individuals who have a need to know such information. Paper files that include non-public information will also be appropriately segregated so as to avoid inappropriate access by unauthorized individuals. Any information technology systems or other record systems (e.g., microfiche or data sticks) utilized by the Financial Agent Group in the performance of services under this FAA that may contain non-public information shall have appropriate administrative, technological and/or physical security controls to help ensure that access to such information is limited to those individuals who have a need to know such information.

4. **Codes of Conduct.** The Financial Agent Group providing the services under the FAA shall maintain a code of conduct and related policies (collectively, the “Code of Conduct”) that sets out basic principles designed to guide employees in the course of their business activities. The Code of Conduct should require all employees and contractors to hold as strictly confidential client information, to include all non-public information obtained or developed pursuant to the FAA, and to know and comply with all company policies, procedures, laws and regulations that are applicable to their job duties. The Code of Conduct should require disclosure on a quarterly basis by management officials and key individuals of information equivalent to a Form 278 and also place restrictions on contractors’, employees’ and Related Person’s trading on behalf of personal accounts where conflicts may arise in connection with the performance of the
services under the FAA. In particular, unless an investment is exempt from prior notification, investments by management officials and key individuals must be pre-cleared and be subject to certain blackout and short-term trading restrictions. All employees and contractors performing the services under the FAA shall be required to annually acknowledge that they are familiar with and abide by the Code of Conduct. The Code of Conduct of Financial Agent Group members providing the services under the FAA under the FAA shall be substantially similar to the Financial Agent’s Code of Conduct. For purposes of this exhibit, “Related Person” shall mean spouses or domestic partners of Financial Agent’s employees, their minor children, anyone else living in employee’s household, partnerships in which employee is a general partner or corporations in which employee is a controlling shareholder, trusts of which the employee is a trustee, and estates of which employee is an executor.

5. **Training.** All management officials and key individuals associated with the Financial Agent Group performing the services under the FAA shall be required to participate in compliance training prior to, and annually thereafter, providing the services under the FAA. The training program shall inform and advise each individual of their obligations and requirements under this FAA (including its exhibits).

6. **Monitoring / Compliance.** The Financial Agent Group shall maintain a staff of compliance professionals to test and monitor the group’s compliance policies and procedures and their effectiveness. In addition, the Financial Agent Group shall appoint a Program Compliance Officer to oversee compliance with this Exhibit F by all entities and people performing work under this FAA, and to periodically monitor for, identify, and mitigate, conflicts of interest that may arise during the term of the FAA. The Financial Agent’s Group Program Compliance Officer shall be independent from the investment and operations personnel and report directly to the Chief Operating Officer. The Program Compliance Officer shall inquire as to, and keep records of, each member of the Board of Directors’ current business relationship with any servicer modifying loans under the Program (a “Program Servicer”), or any business relationship within the preceding 12 month period, which is other than: possessing a bank account at a Program Servicer where the amount of funds deposited in any one Program Servicer is less than the Federal Deposit Insurance Corporation coverage limit; having a mortgage from a Program Servicer on terms available to the general public, or holding investments in a mutual fund or sector-specific fund containing Program Servicer securities, and shall deliver such records to Treasury periodically as Treasury directs. The Program Compliance Officer may have other responsibilities within the Financial Agent Group, provided such responsibilities do not include portfolio management responsibilities related to the Financial Agency’s proprietary portfolio of securities and loans or the mortgage backed securities in the Financial Agent’s portfolio. Furthermore, the Financial Agent Group shall document such internal oversight and provide the Treasury with quarterly reports sufficient to evaluate the effectiveness of the Financial Agent Group’s mitigation controls in ensuring compliance with all requirements of this FAA.
7. **Incident Reporting.** Anyone performing services under the FAA under the FAA shall be required to promptly report any breaches or violations of the Conflicts of Interest Mitigation Controls or other requirements of the FAA to the Financial Agent Group Program Compliance Officer. A description of the incident shall be documented in an incident report and promptly provided to the Office of Financial Stability Chief Compliance Officer (“OFS CCO”).

8. **Limitations on Communications with Employees of the Treasury.** During the course of the FAA with the Financial Agent Group, the Financial Agent Group shall not directly or indirectly make any offer or promise of future employment or business opportunity to, or engage directly or indirectly in any discussion of future employment or business opportunity with, any Treasury employee with personal or direct responsibility for that selection. The Financial Agent Group shall not offer, give, or promise to offer or give, directly or indirectly, any money, gratuity, or other thing of value to any employee of the Treasury, except as permitted by Government-Wide Ethics Rules, 5 C.F.R. part 2635. The Financial Agent Group shall not solicit or obtain from any Treasury employee, directly or indirectly, any information that is not public and was prepared for use by the Treasury for the purpose of evaluating a bid, proposal, or offer to enter into an agreement, except to the extent it does so to perform its obligations under this FAA.

9. **Certifications**

   a. **Organizational Conflicts of Interest Certification.** In accordance with 31 CFR §31.211, the Financial Agent on behalf of the Financial Agent Group shall quarterly certify in writing to the Treasury that it has no organizational conflicts of interest, or explain in detail the extent to which it cannot so certify, and (except to the extent already described in this Exhibit F) describe the actions it has taken and plans to take to mitigate these conflicts.

   b. **Personal Conflicts of Interest Certification.** In accordance with 31 CFR §31.212, the Financial Agent on behalf of the Financial Agent Group shall certify no later than ten business days after the effective date of the FAA, and then quarterly thereafter, to the Treasury that all management officials and key individuals performing services under the FAA have no personal conflicts of interest, or are subject to a mitigation or waiver plan approved by the Treasury.

   c. **Communications with Treasury Employees Certification.** Before the Financial Agent enters into the FAA, or accepts a modification to the FAA, it must certify to the following:

      1. The Financial Agent is aware of the prohibitions of paragraph (a) of 31 CFR §31.216 and, to the best of its knowledge after making a
reasonable inquiry, it has no information concerning a violation or possible violation of paragraph (a) of 31 CFR §31.216; and

2. Each officer, employee, and representative of the retained entity who participated personally and substantially in preparing or submitting a bid offer, proposal, or request for a modification of the FAA has certified that he/she

   a. Is familiar with and will comply with the requirements of paragraph (a) of 31 CFR §31.216; and

   b. Has no information of any violations or possible violations of paragraph (a) of 31 CFR 31.216 and will report immediately to the Financial Agent any subsequently gained information concerning a violation or possible violation of paragraph (a) of 31 CFR 31.216.

   c. Confidentiality Certification. All management officials and key individuals providing the services under the FAA shall certify quarterly to the Financial Agent Group’s Program Compliance Officer that he or she will comply with the requirements of this FAA and 31 C.F.R. § 31.217 to not share non-public information (as that term is defined in Section 6 of the FAA) with any unauthorized person or entity.

8. Subsequent Notification. The Financial Agent Group has a continuing obligation to search for and to report any potential organizational or personal conflicts of interest, as those terms are defined in 31 CFR §31.201. The Financial Agent on behalf of the Financial Agent Group shall notify the Treasury in writing as soon as practicable, and in no instance later than two (2) business days of learning of any new or expanded conflicts of interest that arise during the term of the FAA. The disclosure shall describe the steps the Financial Agent has taken or proposes to take to mitigate the potential conflict or request a waiver from Treasury.

9. Reviews. The Treasury, on its own behalf or through an entity contracted by the Treasury, may conduct an annual or ad hoc review of the compliance of the Financial Agent Group performing the services under the FAA with all conflicts of interest and confidentiality obligations and responsibilities set forth in the FAA. The Treasury plans to exercise this review authority over the Financial Agent Group within the first six (6) months of the signing of this FAA. Additional reviews may be conducted by oversight bodies with explicit authority over the Program including the Office of the Special Inspector General for the Troubled Asset Relief Program (“SIGTARP”) and the U.S. Government Accountability Office (“GAO”). The Financial Agent Group performing the services under the FAA shall cooperate fully with the Treasury or its designated representative and provide it with any and all such information (in whatever form) requested by it in order to perform such a review.
10. **Point of Contact.** The OFS CCO shall be the contact official at the Treasury responsible for monitoring compliance with this Exhibit.

11. **Changes to Conflicts of Interest Mitigation Controls.** The Financial Agent on behalf of the Financial Agent Group and the Treasury agree that the Program’s objectives, operations and policies, as well as the Financial Agent’s business, are likely to evolve over the term of the Program. The Financial Agent on behalf of the Financial Agent Group shall inform the Treasury and negotiate in good faith all proposed material changes to the Conflicts of Interest Mitigation Controls prior to their adoption and Treasury retains the option of disapproving any proposed material change, in which case the Financial Agent agrees not to change such control. The Financial Agent and the Treasury agree to negotiate and resolve any such proposed changes in good faith and as quickly as reasonably possible. In addition, the Financial Agent shall promptly notify the Treasury of any changes to the Code of Conduct of the Financial Agent Group providing the services under the FAA under the FAA.
EXHIBIT 5
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No.: 0-50231

Federal National Mortgage Association  
(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation  
(State or other jurisdiction of  
incorporation or organization)

3900 Wisconsin Avenue, NW  
Washington, DC  
(Address of principal executive offices)

52-0883107  
(I.R.S. Employer Identification No.)

20016  
(Zip Code)

Registrant’s telephone number, including area code:  
(202) 752-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑  
Non-accelerated filer ☐  
(Do not check if a smaller reporting company)  
Accelerated filer ☐  
Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of June 30, 2009, there were 1,112,020,933 shares of common stock of the registrant outstanding.
PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. We describe the rights and powers of the conservator, the provisions of our agreements with the U.S. Department of Treasury ("Treasury"), and changes to our business, liquidity, corporate structure, business strategies and objectives since conservatorship in our Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K") in "Part I—Item 1—Business" and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 ("First Quarter 2009 Form 10-Q") in "Part I—Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary."

You should read this Management’s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in conjunction with our unaudited condensed consolidated financial statements and related notes, and the more detailed information contained in our 2008 Form 10-K. This discussion contains forward-looking statements that are based upon management’s current expectations and are subject to significant uncertainties and changes in circumstances. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this report in "Part II—Item 1A—Risk Factors" and in our 2008 Form 10-K in "Part I—Item 1A—Risk Factors."

Please also refer to our 2008 Form 10-K in "Part I—Item 7—MD&A—Glossary of Terms Used in This Report" for an explanation of terms we use in this report.

INTRODUCTION

Fannie Mae is a government-sponsored enterprise ("GSE") that was chartered by Congress in 1938. Fannie Mae has a public mission to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. We securitize mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities that we refer to as Fannie Mae MBS, which can then be bought and sold in the secondary mortgage market. We also participate in the secondary mortgage market by purchasing mortgage loans (often referred to as "whole loans") and mortgage-related securities, including our own Fannie Mae MBS, for our mortgage portfolio. In addition, we make other investments that increase the supply of affordable housing. Under our charter, we may not lend money directly to consumers in the primary mortgage market. Although we are a corporation chartered by the U.S. Congress, and although our conservator is a U.S. government agency and Treasury owns our senior preferred stock and a warrant to purchase our common stock, the U.S. government does not guarantee, directly or indirectly, our securities or other obligations.
(3) Includes charges of $73 million and $114 million for the three months ended June 30, 2009 and 2008, respectively, and $188 million and $123 million for the six months ended June 30, 2009 and 2008, respectively, related to unsecured HomeSaver Advance loans.

(4) Includes charges recorded at the date of acquisition totaling $2.1 billion and $380 million for the three months ended June 30, 2009 and 2008, respectively, and $3.5 billion and $1.1 billion for the six months ended June 30, 2009 and 2008, respectively, for acquired loans subject to the application of SOP 03-3 where the acquisition cost exceeded the fair value of the acquired loan.

(5) Represents amount of loss reserves attributable to each loan type as a percentage of the guaranty book of business for each loan type.

(6) Loans are classified as nonperforming when we believe collectability of interest or principal on the loan is not reasonably assured, which typically occurs when payment of principal or interest on the loan is two months or more past due. Additionally, troubled debt restructurings and HomeSaver Advance first-lien loans are classified as nonperforming loans. See Table 41: Nonperforming Single-Family and Multifamily Loans for additional information on our nonperforming loans.

We have continued to build our combined loss reserves, both in absolute terms and as a percentage of our total guaranty book of business and nonperforming loans, through provisions that have been well in excess of our charge-offs due to the general deterioration in the overall credit performance of loans in our guaranty book of business. Certain states, certain higher risk loan categories and our 2006 and 2007 loan vintages continue to account for a disproportionate share of our foreclosures and charge-offs. Our mortgage loans in the Midwest, which has experienced prolonged economic weakness, and California, Florida, Arizona and Nevada, which are experiencing the most significant declines in home prices coupled with rising unemployment rates that, except for Arizona, are near or above the national average, have exhibited much higher delinquency rates and accounted for a disproportionate share of our foreclosures and charge-offs. Loans in our Alt-A book, particularly the 2006 and 2007 loan vintages, also have exhibited significantly higher delinquency rates and represented a disproportionate share of our foreclosures and charge-offs. We are also experiencing deterioration in the credit performance of loans in our single-family guaranty book of business with fewer risk layers, reflecting the adverse impact of the sharp rise in unemployment and home price declines.

The provision for credit losses attributable to our guaranty book of business of $16.1 billion and $34.9 billion for the second quarter and first six months of 2009, respectively, exceeded net charge-offs of $2.7 billion and $4.5 billion for the second quarter and first six months of 2009, respectively, and included an incremental build in our combined loss reserves of $13.4 billion and $30.4 billion for the second quarter and first six months of 2009, respectively. In comparison, we recorded a provision for credit losses attributable to our guaranty book of business of $4.6 billion and $6.9 billion for the second quarter and first six months of 2008, respectively. Our increased provision levels were largely driven by a substantial increase in nonperforming single-family loans, higher delinquencies and an increase in the average loss severity. Our conventional single-family serious delinquency rate increased to 3.94% as of June 30, 2009, from 3.15% as of March 31, 2009, 2.42% as of December 31, 2008 and 1.36% as of June 30, 2008. The average default rate and loss severity, excluding fair value losses related to SOP 03-3 and HomeSaver Advance loans, was 0.24% and 39%, respectively, for the second quarter of 2009, compared with 0.13% and 23% for the second quarter of 2008, respectively.

We increased the portion of our combined loss reserves attributable to our multifamily guaranty book of business to $969 million, or 0.54% of our multifamily guaranty book of business, as of June 30, 2009, from $104 million, or 0.06% of our multifamily guaranty book of business, as of December 31, 2008. The increase in the multifamily reserve was primarily driven by larger loans within the non-performing loan population and increased reliance on the most recent severity and default experience, which is a reflection of the current economic recession and lack of liquidity in the market.

**Provision for Credit Losses Attributable to SOP 03-3 and HomeSaver Advance Fair Value Losses**

In our capacity as guarantor of our MBS trusts, we have the option under the trust agreements to purchase specified mortgage loans from our MBS trusts. We generally are not permitted to complete a modification of a loan while the loan is held in the MBS trust. As a result, we must exercise our option to purchase any delinquent loan that we intend to modify from an MBS trust prior to the time that the modification becomes
effective. The proportion of delinquent loans purchased from MBS trusts for the purpose of modification varies from period to period, driven primarily by factors such as changes in our loss mitigation efforts, as well as changes in interest rates and other market factors. See "Part I—Item 1—Business—Business Segments—Single-Family Credit Guaranty Business—MBS Trusts" of our 2008 10-K for additional information on the provisions in our MBS trusts agreements that govern the purchase of loans from our MBS trusts and the factors that we consider in determining whether to purchase delinquent loans from our MBS trusts.

"SOP 03-3" refers to the accounting guidance issued by the American Institute of Certified Public Accountants Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. This guidance is generally applicable to delinquent loans purchased from our MBS trusts and delinquent loans held in any MBS trust that we are required to consolidate, which we collectively refer to as "Acquired Loans from MBS Trusts Subject to SOP 03-3." We record our net investment in these loans at the lower of the acquisition cost of the loan or the estimated fair value at the date of purchase or consolidation. To the extent the acquisition cost exceeds the estimated fair value, we record a SOP 03-3 fair value loss charge-off against the "Reserve for guaranty losses" at the time we acquire the loan.

We introduced HomeSaver Advance in the first quarter of 2008. HomeSaver Advance serves as a foreclosure prevention tool early in the delinquency cycle and does not conflict with our MBS trust requirements because it allows borrowers to cure their payment defaults without modifying their mortgage loan. HomeSaver Advance allows servicers to provide qualified borrowers with a 15-year unsecured personal loan in an amount equal to all past due payments relating to their mortgage loan, generally up to the lesser of $15,000 or 15% of the unpaid principal balance of the delinquent first lien loan. We record HomeSaver Advance loans at their estimated fair value at the date we purchase these loans from servicers, and, to the extent the acquisition cost exceeds the estimated fair value, we record a HomeSaver fair value loss charge-off against the "Reserve for guaranty losses" at the time we acquire the loan.

As indicated in Table 9, SOP 03-3 and HomeSaver Advance fair value losses increased to $2.2 billion and $3.7 billion in the second quarter and first six months of 2009, respectively, from $494 million and $1.2 billion in the second quarter and first six months of 2008, respectively, reflecting both an increase in the number of acquired delinquent loans and a decrease in the fair value of these loans.

Table 11 provides a quarterly comparison of the number of delinquent loans acquired from MBS trusts subject to SOP 03-3, the unpaid principal balance and accrued interest of these loans, and the average fair value based on indicative market prices. The decline in home prices and significant reduction in liquidity in the mortgage markets, along with the increase in mortgage credit risk, have resulted in continued downward pressure on the fair value of these loans.

<table>
<thead>
<tr>
<th>Table 11: Statistics on Acquired Loans from MBS Trusts Subject to SOP 03-3</th>
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<tr>
<td>Year</td>
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<tr>
<td>Number of acquired loans from MBS trusts subject to SOP 03-3</td>
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<tr>
<td>Average indicative market price(1)</td>
</tr>
<tr>
<td>Unpaid principal balance and accrued interest of loans acquired</td>
</tr>
</tbody>
</table>

(1) Calculated based on the estimated fair value at the date of acquisition of delinquent loans subject to SOP 03-3 divided by the unpaid principal balance and accrued interest of these loans at the date of acquisition. The value of primary mortgage insurance is included as a component of the average market price. Beginning in the first quarter of 2009, we incorporated the average fair value of acquired multifamily loans subject to SOP 03-3 into the calculation of our average indicative market price. We have revised the previously reported prior period amounts to reflect this change.

During the fourth quarter of 2008, we began increasing the number of delinquent loans we purchased from MBS trusts in response to our efforts to take a more proactive approach to prevent foreclosures by addressing potential problem loans earlier and offering additional, more flexible workout alternatives. As a result of the
FANNIE MAE  
(In conservatorship)  

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(UNAUDITED)  

Net credit losses incurred during the three months ended June 30, 2009 and 2008 related to loans held in our portfolio and loans underlying Fannie Mae MBS issued from our portfolio were $896 million and $556 million, respectively. For the six months ended June 30, 2009 and 2008, net credit losses related to loans held in our portfolio and loans underlying Fannie Mae MBS issued from our portfolio were $1.8 billion and $996 million, respectively. The following table displays the carrying amount and classification of assets and associated liabilities recognized as of June 30, 2009 and December 31, 2008, as a result of transfers of financial assets in portfolio securitization transactions that did not qualify as sales and have been accounted for as secured borrowings. The assets have been transferred to MBS trusts and are restricted solely for the purpose of servicing the related MBS.  

<table>
<thead>
<tr>
<th>As of</th>
<th>June 30, 2009</th>
<th>December 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Dollars in millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans held for investment</td>
<td>$89,445</td>
<td>$83</td>
</tr>
<tr>
<td>Available-for-sale securities</td>
<td>8,897</td>
<td>9,660</td>
</tr>
<tr>
<td>Loans held for sale</td>
<td>2,015</td>
<td>2,383</td>
</tr>
<tr>
<td>Trading securities</td>
<td>562</td>
<td>593</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$100,919</td>
<td>$12,719</td>
</tr>
<tr>
<td><strong>Liabilities—Long-term debt</strong></td>
<td>$1,029</td>
<td>$1,168</td>
</tr>
</tbody>
</table>

8. Financial Guarantees and Master Servicing  

We generate revenue by absorbing the credit risk of mortgage loans and mortgage-related securities backing our Fannie Mae MBS in exchange for a guaranty fee. We primarily issue single-class and multi-class Fannie Mae MBS and guarantee to the respective MBS trusts that we will supplement amounts received by the MBS trusts as required to permit timely payment of principal and interest on the related Fannie Mae MBS, irrespective of the cash flows received from borrowers. We also provide credit enhancements on taxable or tax-exempt mortgage revenue bonds issued by state and local governmental entities to finance multifamily housing for low- and moderate-income families. Additionally, we issue long-term standby commitments that require us to purchase loans from lenders if the loans meet certain delinquency criteria.  

We record a guaranty obligation for (i) guarantees on lender swap transactions issued or modified on or after January 1, 2003, pursuant to FIN No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FIN No. 34) (“FIN 45”), (ii) guarantees on portfolio securitization transactions, (iii) credit enhancements on mortgage revenue bonds, and (iv) our obligation to absorb losses under long-term standby commitments. Our guaranty obligation represents our obligation to stand ready to perform on these guarantees. Our guaranty obligation is recorded at fair value at inception. The carrying amount of the guaranty obligation, excluding deferred profit, was $10.4 billion and $9.7 billion as of June 30, 2009 and December 31, 2008, respectively. We also record an estimate of incurred credit losses on these guarantees in the “Reserve for guaranty losses” in our condensed consolidated balance sheets, as discussed further in “Note 5, Allowance for Loan Losses and Reserve for Guaranty Losses.”  

We have a portion of our guarantees reflected in our condensed consolidated balance sheets. For those guarantees recorded in our condensed consolidated balance sheets, our maximum potential exposure under
FANNIE MAE  
(In conservatorship)  

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(UNAUDITED)  

des guarantees is primarily comprised of the unpaid principal balance of the underlying mortgage loans, which totaled $2.5 trillion and $2.4 trillion as of June 30, 2009 and December 31, 2008, respectively. In addition, we had exposure of $152.5 billion and $172.2 billion for other guarantees not recorded in our condensed consolidated balance sheets as of June 30, 2009 and December 31, 2008, respectively, which primarily represents the unpaid principal balance of loans underlying guarantees issued prior to the effective date of FIN 45.

The maximum exposure from our guarantees is not representative of the actual loss we are likely to incur, based on our historical loss experience. In the event we were required to make payments under our guarantees, we would pursue recovery of these payments by exercising our rights to the collateral backing the underlying loans and through available credit enhancements, which includes all recourse with third parties and mortgage insurance. The maximum amount we could recover through available credit enhancements and recourse with third parties on guarantees recorded in our condensed consolidated balance sheets was $120.8 billion and $124.4 billion as of June 30, 2009 and December 31, 2008, respectively. The maximum amount we could recover through available credit enhancements and recourse with all third parties on guarantees not recorded in our condensed consolidated balance sheets was $15.4 billion and $17.6 billion as of June 30, 2009 and December 31, 2008, respectively. Recoverability of such credit enhancements and recourse is subject to, but not limited to, our mortgage insurers' and financial guarantors' ability to meet their obligations to us. Refer to "Note 17, Concentrations of Credit Risk" for additional information.

Risk Characteristics of Our Book of Business

We gauge our performance risk under our guaranty based on the delinquency status of the mortgage loans we hold in portfolio, or in the case of mortgage-backed securities, the underlying mortgage loans of the related securities. Management also monitors the serious delinquency rate, which is the percentage of single-family loans three or more months past due and the percentage of multifamily loans two or more months past due, of loans with certain risk characteristics such as mark-to-market, loan-to-value ratio, vintage and operating debt service coverage. We use this information, in conjunction with housing market and economic conditions, to ensure that our pricing and our eligibility and underwriting criteria accurately reflect the current risk of loans with these high-risk characteristics, and in some cases we decide to significantly reduce our participation in riskier loan product categories. Management also uses this data together with other credit risk measures to identify key trends that guide the development of our loss mitigation strategies.

The following tables display the current delinquency status and certain risk characteristics of our conventional single-family and total multifamily book of business as of June 30, 2009 and December 31, 2008.

<table>
<thead>
<tr>
<th>Percentage of single-family conventional guaranty book of business</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30 days Delinquent</td>
<td>60 days Delinquent</td>
<td>Seriously Delinquent</td>
<td>30 days Delinquent</td>
<td>60 days Delinquent</td>
<td>Seriously Delinquent</td>
<td></td>
</tr>
<tr>
<td>As of June 30, 2009(1)</td>
<td>2.37%</td>
<td>1.06%</td>
<td>4.97%</td>
<td>2.53%</td>
<td>1.10%</td>
<td>2.96%</td>
</tr>
<tr>
<td>As of December 31, 2008(2)</td>
<td>2.39</td>
<td>0.96</td>
<td>3.94</td>
<td>2.52</td>
<td>1.00</td>
<td>2.42</td>
</tr>
</tbody>
</table>

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EXHIBIT 6
Announcement 09-05R

April 21, 2009

(*Reposted May 15, 2009)

Amends these Guides: Servicing

Reissuance of the Introduction of the Home Affordable Modification Program, HomeSaver Forbearance™, and New Workout Hierarchy

Introduction

This Announcement (09-05R) is a reissuance of Announcement 09-05, which was originally issued on March 4, 2009. This Announcement provides additional policy clarification and instruction and supersedes Announcement 09-05 in its entirety. Policy clarifications and new instructions that are incorporated into this Announcement are identified by bold type. (Other minor editorial changes are included in this document but not identified in bold.)

*Reposted with “HAMP” in lieu of “HMP”.

Background

On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan to help up to 7 to 9 million families restructure or refinance their mortgage loans to avoid foreclosure. As part of this plan, the Treasury Department (Treasury) announced a national modification program aimed at helping 3 to 4 million at-risk homeowners – both those who are in default and those who are at imminent risk of default – by reducing monthly payments to sustainable levels. Treasury issued uniform guidance for loan modifications across the mortgage industry in Supplemental Directive 09-01 on April 6, 2009. This Announcement provides guidance to Fannie Mae servicers for adoption and implementation of the Home Affordable Modification Program (HAMP) for Fannie Mae loans.

Under the HAMP, servicers will use a uniform loan modification process to provide eligible borrowers with sustainable monthly payments. The HAMP implementation guidelines set forth in this Announcement apply to all eligible one- to four-unit owner-occupied properties securing Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae. The HAMP will replace the Streamlined Modification Program introduced in Announcement 08-33 and the Early Workout™ program announced in Announcement 08-31. The HAMP will expire on December 31, 2012.

All Fannie Mae-approved servicers must participate in the program for all eligible Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae.
Servicers may also elect to participate in the HAMP for other qualifying mortgage loans that:

- are not subject to Fannie Mae’s credit loss guarantee, and
- are held by servicers in their own portfolios or are serviced for other portfolios or securitization trusts or investors.

These other qualifying mortgage loans are referred to as Non-GSE Mortgages in this Announcement.

As announced in Supplemental Directive 09-01, in order for a servicer to participate in the HAMP with respect to Non-GSE Mortgages, the servicer must execute a servicer participation agreement and related documents with Fannie Mae in its capacity as financial agent for the United States (as designated by Treasury).

This Announcement also introduces a new HomeSaver Forbearance™ foreclosure prevention option and a new Fannie Mae loan workout hierarchy. The HomeSaver Forbearance provides an additional foreclosure prevention option for borrowers who are NOT eligible for the HAMP.

This Announcement covers the following topics:

- HAMP Eligibility
- Underwriting
- Modification Process
- Servicer Delegation, Duties and Responsibilities
- Reporting Requirements
- Fees and Compensation
- FHA HOPE for Homeowners
- Compliance
- HomeSaver Forbearance
- New Workout Hierarchy
- Retirement of the Streamlined Modification Program (SMP) and the Early Workout Program

**HAMP Eligibility**

*Servicing Guide, Part VII, Section 502.02: Modifying Conventional Mortgages*

A mortgage loan is eligible for the HAMP if it is a Fannie Mae portfolio mortgage loan or MBS pool mortgage loan guaranteed by Fannie Mae and all of the following criteria are met:

- The mortgage loan is a first lien conventional mortgage loan originated on or before January 1, 2009. Jumbo-conforming mortgage loans are eligible.
- The mortgage loan has not been previously modified under the HAMP.
- The mortgage loan is delinquent or default is reasonably foreseeable; mortgage loans currently in foreclosure are eligible.
• The mortgage loan is secured by a one- to four-unit property, one unit of which is the borrower’s principal residence. Cooperative share mortgages and mortgage loans secured by condominium units are eligible for the HAMP. Loans secured by manufactured housing units are eligible for the HAMP.
• The property securing the mortgage loan must not be vacant or condemned.
• The borrower documents a financial hardship and represents that (s)he does not have sufficient liquid assets to make the monthly mortgage payments by completing a Home Affordable Modification Program Hardship Affidavit (Form 1021) and provides the required income documentation. The documentation supporting income may not be more than 90 days old (as of the date the servicer is determining HAMP eligibility).
• The borrower currently has a monthly mortgage payment ratio greater than 31 percent.
• A borrower in active litigation regarding the mortgage loan is eligible for the HAMP.
• The servicer may not require a borrower to waive legal rights as a condition of the HAMP.
• A borrower actively involved in a bankruptcy proceeding is eligible for the HAMP at the servicer’s discretion. Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the first lien mortgage who did not reaffirm the mortgage debt under applicable law are eligible, provided the Home Affordable Modification Trial Period Plan (Form 3156) and Home Affordable Modification Agreement (Form 3157) are revised as outlined in the “Acceptable Revisions to HAMP Documents” section of this Announcement.
• The borrower agrees to set up an escrow account for taxes, hazard, and flood insurance prior to the beginning of the trial period if one does not currently exist.
• Mortgage loans subject to full lender recourse, including MBS pool mortgage loans and portfolio mortgage loans are ineligible for the Fannie Mae HAMP. However, servicers should consider these mortgage loans for the non-GSE HAMP.
• Borrowers may be accepted into the program if the Home Affordable Modification Trial Period Plan is in the servicer’s possession on or before December 31, 2012.

Note: Mortgage loans insured, guaranteed or held by a federal government agency (e.g., FHA, HUD, VA and Rural Development) may be eligible for the HAMP in the future and will be subject to guidance issued by the applicable agency.

The HAMP documents are available on eFannieMae.com. Documents include the following:

• SIGTARP Fraud Notice;
• Solicitation Letter;
• Home Affordable Modification Program Trial Period Plan Cover Letters (Income Stated and Income Verified);
• Home Affordable Modification Trial Period Plan (Form 3156, hereinafter referred to as the “Trial Period Plan”);
• Home Affordable Modification Program Hardship Affidavit (Form 1021, hereinafter referred to as the “Hardship Affidavit”);
• Home Affordable Modification Documentation Request Letter;
• IRS Form 4506-T (Request for Transcript of Tax Return);
• Home Affordable Modification Agreement Cover Letter;
• Home Affordable Modification Agreement (Form 3157, hereinafter referred to as the “Agreement”); and
• Home Affordable Modification Program Counseling Letter.

Underwriting

Determining Hardship

Every borrower and co-borrower (if applicable) seeking a modification, whether in default or not, must sign a Hardship Affidavit that attests to and describes one or more of the following types of hardship:

1. A reduction in or loss of income that was supporting the mortgage loan, e.g., unemployment, reduced job hours, reduced pay, or a decline in self-employed business earnings.
2. A change in household financial circumstances, e.g., death in family, serious or chronic illness, permanent or short-term disability, or increased family responsibilities (adoption or birth of a child, taking care of elderly relatives or other family members).
3. A recent or upcoming increase in the monthly mortgage payment.
4. An increase in other expenses, e.g., high medical and health-care costs, uninsured losses (such as those due to fires or natural disasters), unexpectedly high utility bills, or increased real property taxes.
5. A lack of sufficient cash reserves to maintain payment on the mortgage loan and cover basic living expenses at the same time. Cash reserves include assets such as cash, savings, money market funds, marketable stocks or bonds (excluding retirement accounts and assets that serve as an emergency fund – generally equal to three times the borrower’s monthly debt payments).
6. Excessive monthly debt payments and overextension with creditors, e.g., the borrower was required to use credit cards, a home equity loan, or other credit to make the mortgage payment.

A borrower may provide evidence of hardship for reasons other than those explicitly listed above. A servicer who believes that Fannie Mae should consider a borrower for the HAMP for reasons not listed above must request prior written approval from Fannie Mae on a case-by-case basis. To request Fannie Mae approval, servicers must contact Fannie Mae at 1-888-FANNIE5 (1-888-326-6435) or by email to servicing_solutions@fanniemae.com.

Note: The borrower is not required to have the Hardship Affidavit notarized.

Government Monitoring Data

The Department of Housing and Urban Development (HUD) has directed Fannie Mae, pursuant to HUD’s authority under Section 1325(2) of the Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA), 24 C.F.R. 81.44(a) and (b), 12 C.F.R. 202.5(a)(2), and its general regulatory authority under the Fair Housing Act, 42 U.S.C. 3601 et seq. (the Act) to require servicers to request and report data on the race, ethnicity, and sex of borrowers involved in potential loan modifications under HAMP ("Government
Monitoring Data”) in order to monitor compliance with the Act and other applicable fair lending and consumer protection laws. As a result of such direction from HUD, this section of the Announcement is incorporated by reference into the Mortgage Selling and Servicing Contract between Fannie Mae and its servicers and constitutes an agreement entered into between Fannie Mae, on behalf of HUD, and Fannie Mae’s approved servicers. As such, this is an agreement entered into by Fannie Mae’s approved servicers with an enforcement agency (i.e., HUD) to permit the enforcement agency to monitor or enforce compliance with federal law, within the meaning of 12 C.F.R. 202.5(a)(2).

HUD has specified that the Government Monitoring Data shall be collected in the Hardship Affidavit. Servicers must request, but not require, that each borrower who completes a Hardship Affidavit in connection with the HAMP furnish the Government Monitoring Data. If any borrower chooses not to provide the Government Monitoring Data, or any part of it, the servicer must note that fact on the Hardship Affidavit in the space provided. In such circumstances, and if the Hardship Affidavit is completed in a face-to-face setting, the servicer, its representative or agent shall then also note on the form, to the extent possible on the basis of visual observation or surname, the race, ethnicity and sex of any borrower or co-borrower who has not furnished the Government Monitoring Data. If any borrower declines or fails to provide the Government Monitoring Data on a Hardship Affidavit taken by mail or telephone or on the Internet, the data need not be provided. In such a case, the servicer must indicate that the Hardship Affidavit was received by mail, telephone, or Internet, if it is not otherwise evident on the face of the Hardship Affidavit.

Reasonably Foreseeable (Imminent) Default

A borrower who is current, contacts the servicer for a modification, appears potentially eligible for a modification, and has suffered an eligible hardship (as described above) must be evaluated using the imminent default screen set forth below. This screen must also be used to evaluate such borrowers who are in default but less than 30 days delinquent.

Evaluating the Borrower’s Financial Condition and Property Condition to Determine if Default is Imminent

For borrowers who must be evaluated using the imminent default screen, the servicer must evaluate the borrower’s financial condition in light of the borrower’s hardship, as well as the condition of and circumstances affecting the property securing the mortgage loan. The servicer must make a determination of whether the borrower satisfies the following imminent default screen:

- The borrower’s debt coverage ratio is less than 1.20. The debt coverage ratio is the borrower’s monthly disposable net income divided by the borrower’s current monthly principal and interest payment on the first lien mortgage loan (excluding tax and insurance payments). Monthly disposable net income is the borrower’s monthly gross income less (1) monthly payroll deductions, (2) monthly escrow allocations of property taxes, property insurance and mortgage insurance premiums, (3) monthly homeowner’s or condominium association fees, (4) monthly allocations of all other monthly credit
obligations, (5) all other reasonable living expenses allocated monthly, and (6) any other monthly net negative amounts paid or incurred by borrower (such as negative rental income, mortgage loan payments on investment properties); and

- The borrower’s cash reserves are less than three times the current monthly mortgage payment, including tax and insurance payments (using estimated payments if the mortgage loan is not currently escrowed). Cash reserves are liquid assets the borrower has available for withdrawal from any financial institution or brokerage firm, including checking and savings accounts, certificates of deposit (even if held for an extended time), mutual funds, money market funds, stocks or bonds.

Servicers must obtain a completed Borrower’s Financial Statement (Fannie Mae Form 1020 or 1020S) from the borrower(s) to evaluate the borrower’s financial condition in determining whether the borrower satisfies the imminent default screen, and must also obtain a current credit report for the borrower(s) to validate and supplement the borrower’s information. As an alternative, the servicer may customize a financial form using its own letterhead so long as it collects the same information, or it may use Freddie Mac Form 1126, Borrower Financial Information. The servicer should request such other documents from borrower(s) as deemed necessary to evaluate the borrower’s financial condition.

Documenting the Basis for Satisfying the Imminent Default Screen

A servicer must document in its servicing system the basis for its determination that the borrower satisfies the imminent default screen. The servicer’s determination must include identification of the borrower’s hardship, which will generally be identified in the Hardship Affidavit, and the anticipated or actual timing of the default. The servicer’s documentation must also include the information regarding the borrower’s financial condition utilized in determining that the borrower satisfies the imminent default screen as required above, as well as the condition and circumstances of the property securing the mortgage loan. The servicer must report the reason(s) for the anticipated or actual delinquency along with the delinquency status code 09 – Forbearance, during the trial payment period.

Borrower Solicitation

Servicers are prohibited from soliciting borrowers who are current or less than 30 days delinquent for participation in the HAMP. However, if such a borrower contacts the servicer, the servicer may consider the HAMP as a viable foreclosure prevention alternative. The servicer must make a determination that the borrower satisfies the imminent default screen prior to sending a firm offer to such a borrower.

Net Present Value (NPV) Test

All loans that meet the HAMP eligibility criteria and either satisfy the imminent default screen (as described above) or are 30 or more days delinquent must be evaluated using a standard NPV test for reporting purposes. The servicer must maintain detailed documentation of the NPV model and version used, all NPV inputs and assumptions and
the NPV results. However, the result of the NPV test is not used to make the decision whether or not to modify a mortgage loan owned or securitized by Fannie Mae.

The NPV Model is available on the Home Affordable Modification servicer web portal accessible through HMPadmin.com. On this portal, servicers will have access to the NPV model as well as the NPV User Guide, providing detailed guidelines for submitting proposed modification data.

A servicer having at least a $40 billion servicing book will have the option to create a customized NPV model that uses a set of default rates and redefault rates estimated based on the experience of its own portfolios, taking into consideration, if feasible, current LTV, current monthly mortgage payment, current credit score, delinquency status and other loan or borrower attributes. Detailed guidance on required inputs for a customized NPV model is forthcoming on HMPadmin.com.

To obtain a property valuation input for the NPV model, servicers may use either an automated valuation model (AVM), provided that the AVM renders a reliable confidence score, or a broker price opinion (BPO). Servicers may use an AVM provided by one of the GSEs. As an alternative, servicers may rely on their own internal AVM provided that:

- the servicer is subject to supervision by a Federal regulatory agency,
- the servicer’s primary Federal regulatory agency has reviewed the model, and
- the AVM renders a reliable confidence score.

If a GSE AVM or the servicer AVM is unable to render a value with a reliable confidence score, the servicer must obtain an assessment of the property value utilizing a BPO or a property valuation method acceptable to the servicers’ Federal regulatory supervisor. Such assessment must be rendered in accordance with the Interagency Appraisal and Evaluation Guidelines (as if such guidelines apply to loan modifications). In all cases, the property valuation used cannot be more than 90 days old from the date of the NPV calculation.

The servicer should obtain the results of the NPV model at the time of the HAMP eligibility determination. Additionally, if the verified income evidenced by the borrower’s income documentation differs from the initial income information obtained from the borrower, a new NPV result must be obtained as a part of a reevaluation of the borrower’s HAMP eligibility (as outlined in the “Trial Payment Period” section of this Announcement).

Verifying Borrower Income and Occupancy Status

Servicers may use recent verbal financial information (provided 90 days or less from the date the servicer is determining HAMP eligibility) obtained from the borrower (the term “borrower” includes any co-borrower) to assess the borrower’s eligibility and to prepare and send to the borrower a solicitation indicating the borrower may qualify for the HAMP and an offer of a Trial Period Plan. When the borrower returns the Trial Period Plan and related documents, the servicer must review them to verify the borrower’s financial information and eligibility.
As an alternative, the servicer may require a borrower to submit the required documentation to verify the borrower’s eligibility and income prior to preparing a Trial Period Plan. Upon receipt of the documentation and determination of the borrower’s eligibility, the servicer may prepare and send to the borrower a firm offer solicitation indicating the borrower is eligible for the HAMP using the SIGTARP Fraud Notice, the HAMP Trial Period Plan Cover Letter (Step One - Income Verified), and the Trial Period Plan.

A borrower is eligible for the HAMP if the verified income documentation confirms that the monthly mortgage payment ratio prior to the modification is greater than 31 percent. For purposes of this Announcement, “monthly mortgage payment ratio” is the ratio of the borrower’s current monthly mortgage payment to the borrower’s monthly gross income (or the borrowers’ combined monthly gross income in the case of co-borrowers).

Determining the Monthly Mortgage Payment

The “monthly mortgage payment” includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner’s association fees, as applicable (including any escrow payment shortage amounts subject to the 60-month repayment plan). When determining a borrower’s monthly mortgage payment ratio, servicers must adjust the borrower’s current mortgage payment to include, as applicable, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner’s association fees if these expenses are not already included in the borrower’s payment. The monthly mortgage payment must not include mortgage insurance premium payments or payments due to holders of subordinate liens.

Determining Gross Monthly Income

The borrower’s “monthly gross income” is the borrower’s income amount before any payroll deductions and includes wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, other compensation for personal services, Social Security payments, including Social Security received by adults on behalf of minors or by minors intended for their own support, and monthly income from annuities, insurance polices, retirement funds, pensions, disability or death benefits, unemployment benefits, rental income and other income. If only net income is available, the servicer must multiply the net income amount by 1.25 to estimate the monthly gross income.

Servicers should include non-borrower household income in monthly gross income if it is voluntarily provided by the borrower and if there is documentary evidence that the income has been, and can reasonably continue to be, relied upon to support the mortgage payment. All non-borrower household income included in monthly gross income must be documented and verified by the servicer using the same standards for verifying a borrower’s income. (An example of non-borrower income is boarder income.)

If the verified income evidenced by the borrower’s documentation exceeds the initial income information used by the servicer to solicit or place the borrower in the trial period
by more than 25 percent, the borrower must be reevaluated based on the program eligibility and underwriting requirements. If this reevaluation determines that the borrower is still eligible, new documents must be prepared and the borrower must restart the trial period.

Documenting Gross Monthly Income

All parties whose income was used to qualify for the original mortgage note must submit income documentation which must not be more than 90 days old from the date HAMP eligibility is determined.

The borrower must provide certain financial information to the servicer as outlined below.

If the borrower is employed:

- A signed copy of the most recently filed federal income tax return, including all schedules and forms, if available,
- A signed IRS Form 4506-T (Request for Transcript of Tax Return), and
- Copies of the two most recent paystubs indicating year-to-date earnings.
- For additional income such as bonuses, commissions, fees, housing allowances, tips and overtime, a servicer must obtain a letter from the employer stating that the income will in all probability continue.

If the borrower is self-employed:

- A signed copy of the most recent federal income tax return, including all schedules and forms, if available,
- A signed IRS Form 4506-T (Request for Transcript of Tax Return),
- The most recent quarterly or year-to-date profit and loss statement for each self-employed borrower, and
- Other reliable third-party documentation the borrower voluntarily provides.

Note: For both employed and self-employed borrowers, if the borrower does not provide a signed copy of the most recently filed federal income tax return, or if the Compliance Agent (described in the Compliance section) so requires, the servicer must submit the Form 4506-T to the IRS to request a transcript of the return.

If the borrower elects to use alimony or child support income to qualify, acceptable documentation includes:

- Photocopies of the divorce decree, separation agreement or other type of legal written agreement or court decree that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received. Servicers must determine that the income will continue for at least three years, and
- Documents supplying reasonably reliable evidence of full, regular and timely payments, such as deposit slips, bank statements or signed federal income tax returns.

If the borrower has other income such as social security, disability or death benefits, or a pension:
• Acceptable documentation includes letters, exhibits, a disability policy or benefits statement from the provider that states the amount, frequency and duration of the benefit. The servicer must determine that the income will continue for at least three years, and
• The servicer must obtain copies of signed federal income tax returns, IRS W-2 forms, or copies of the two most recent bank statements.

If the borrower receives public assistance or collects unemployment:
• Acceptable documentation includes letters, exhibits or a benefits statement from the provider that states the amount, frequency, and duration of the benefit. The servicer must determine that the income will continue for at least nine months.

If the borrower has rental income, acceptable documentation includes:
• Copies of all pages from the borrower’s most recent two years of signed federal income tax returns and Scheduled E – Supplemental Income and Loss. The monthly net rental income to be calculated for HAMP purposes must equal 75 percent of the gross rent, with the remaining 25 percent being considered vacancy loss and maintenance expense.

Verifying Occupancy

A servicer must confirm that the property securing the mortgage loan is the borrower’s primary residence as evidenced by the most recent signed federal income tax return (or transcript of tax return obtained from the IRS), a credit report, and one other form of documentation that would supply reasonable evidence that the property is the borrower’s primary residence (such as utility bills in the borrower’s name).

A servicer is not required to modify a mortgage loan if there is reasonable evidence indicating the borrower submitted false or misleading information or otherwise engaged in fraud in connection with the modification.

Standard Modification Waterfall

Servicers must apply the proposed modification steps enumerated below in the stated order of succession until the borrower’s monthly mortgage payment ratio is reduced as close as possible to 31 percent, without going below 31 percent (the “target monthly mortgage payment ratio”).

Servicers must request prior written approval from Fannie Mae to deviate from the modification steps enumerated below or to reduce the borrower’s monthly mortgage payment ratio below 31 percent. Prior written approval may be requested by submitting a non-delegated case into the HomeSaver Solutions® Network (HSSN). If approval is granted, borrower and servicer incentive payments for these modifications will be paid based on modification terms that reflect the target monthly mortgage payment ratio of 31 percent.

In the event that a modification step (e.g., principal forbearance) is prohibited under applicable state law, a servicer may skip the modification step without obtaining Fannie Mae’s prior written approval.
Note: If a borrower has an ARM loan or interest-only mortgage loan, the existing interest rate will convert to a fixed interest rate, fully amortizing mortgage loan.

**Step 1:** Capitalize accrued interest, out-of-pocket escrow advances to third parties and any required escrow advances that will be paid to third parties by the servicer during the trial period and servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state law. Late fees may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan. **If applicable state law prohibits capitalization of past due interest or any other amount, the servicer must collect such funds from the borrower over a 60-month repayment period unless the borrower decides to pay the amount upfront.**

**Step 2:** Reduce the interest rate. If the loan is a fixed rate mortgage loan or an ARM loan, then the starting interest rate is the current interest rate (the note rate).

Reduce the starting interest rate in increments of .125 percent to get as close as possible to the target monthly mortgage payment ratio. The interest rate floor in all cases is 2.0 percent.

- If the resulting rate is below the Interest Rate Cap, this reduced rate will be in effect for the first five years followed by annual increases of one percent per year (or such lesser amount as may be needed) until the interest rate reaches the Interest Rate Cap, at which time it will be fixed for the remaining loan term.
- If the resulting rate exceeds the Interest Rate Cap, then that rate is the permanent rate.

The “Interest Rate Cap” is the Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed rate conforming mortgage loans, rounded to the nearest 0.125 percent, as of the date that the Agreement is prepared.

**Step 3:** If necessary, extend the term and reamortize the mortgage loan by up to 480 months from the modification effective date (i.e., the first day of the month following the end of the trial period) to achieve the target monthly mortgage payment ratio. Negative amortization after the effective date of the modification is prohibited.

**Step 4:** If necessary, the servicer must provide for principal forbearance to achieve the target monthly mortgage payment ratio. The principal forbearance amount is non-interest bearing and non-amortizing. The amount of principal forbearance will result in a balloon payment fully due and payable upon the earliest of the borrower’s transfer of the property, payoff of the interest bearing unpaid principal balance (UPB) or maturity of the mortgage loan. The modified interest-bearing balance (i.e., the unpaid principal balance excluding the deferred principal balloon amount) must create a current mark-to-market LTV (current LTV based upon the new valuation) greater than or equal to 100 percent if the result of the NPV test is negative. A principal write-down or principal forgiveness is prohibited on Fannie Mae mortgage loans.
Verifying Monthly Gross Expenses

A servicer must obtain a credit report for each borrower or a joint report for a married couple who are co-borrowers to validate installment debt and other liens. In addition, a servicer must consider information concerning monthly obligations obtained from the borrower either verbally or in writing. The “monthly gross expenses” equal the sum of the following monthly charges:

- The monthly mortgage payment, including any mortgage insurance premiums, taxes, property insurance, homeowner’s or condominium association fee payments and assessments related to the property whether or not they are included in the mortgage payment.
- Monthly payments on all closed-end subordinate mortgages.
- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance. When payments on an installment debt are not on the credit report or are listed as deferred, the servicer must obtain documentation to support the payment amount included in the monthly debt payment. If no monthly payment is reported on a student loan that is deferred or is in forbearance, the servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5 percent of the balance.
- Monthly payment on revolving or open-end accounts, regardless of the balance. In the absence of a stated payment, the payment will be calculated by multiplying the outstanding balance by 3 percent.
- Monthly payment on a home equity line of credit (HELOC) must be included in the payment ratio using the minimum monthly payment reported on the credit report. If the HELOC has a balance but no monthly payment is reported, the servicer must obtain documentation verifying the payment amount, or use a minimum of one percent of the balance.
- Alimony, child support and separate maintenance payments with more than 10 months of payments remaining, if supplied by the borrower.
- Car lease payments, regardless of the number of payments remaining.
- Aggregate negative net rental income from all investment properties owned, if supplied by the borrower.
- Monthly mortgage payment for a second home (principal, interest, taxes and insurance and, when applicable, mortgage insurance, leasehold payments, homeowner association dues, condominium unit or cooperative unit maintenance fees (excluding unit utility charges)).

Total Monthly Debt Ratio

The borrower’s total monthly debt ratio ("back-end ratio") is the ratio of the borrower’s monthly gross expenses divided by the borrower’s monthly gross income. Servicers will be required to send the HAMP Counseling Letter to borrowers with a post-HAMP modification back-end ratio equal to or greater than 55 percent. The letter states that the borrower must work with a HUD-approved housing counselor on a plan to reduce their total indebtedness below 55 percent. The letter also describes the availability and advantages of counseling and provides a list of HUD-approved housing counseling agencies and directs the borrower to the appropriate HUD website where such information is located. The borrower must represent in writing in the HAMP documents that (s)he will obtain such counseling.
Fannie Mae encourages face-to-face counseling; however, telephone counseling is also permitted from HUD-approved housing counselors that cover the same topics as face-to-face sessions. Telephone counseling sessions provide flexibility to borrowers who are unable to attend face-to-face sessions or who do not have an eligible provider within their area.

A list of approved housing counseling agencies is available at hud.gov or by calling the toll-free housing counseling telephone referral service at 1-800-569-4287. A servicer must retain in its mortgage files evidence of the borrower notification.

There is no charge to either the borrower or the servicer for this counseling.

Mortgages with No Due-on-Sale Provision

If a mortgage loan that is not subject to a due-on-sale provision is modified under the HAMP, the borrower agrees that the HAMP will cancel the assumability feature of that mortgage loan.

Escrow Accounts

All of the borrower’s monthly payments must include a monthly escrow amount unless prohibited by applicable law. The servicer must assume full responsibility for administering the borrower’s escrow deposit account in accordance with the mortgage documents and all applicable laws and regulations. If the mortgage loan being considered for the HAMP is a non-escrowed mortgage loan, the servicer must establish an escrow deposit account in accordance with the Servicing Guide, Part III, Sec. 103: Escrow Deposit Accounts. The escrow account must be established prior to the beginning of the trial period.

Servicers are encouraged to perform an escrow analysis prior to establishing the trial period payment. When performing an escrow analysis, servicers should take into consideration tax and insurance premiums that may come due during the trial period. When the borrower’s escrow account does not have sufficient funds to cover an upcoming expense and the servicer advances the funds necessary to pay an expense to a third party, the amount of the servicer advance that is paid to a third party may be capitalized.

In the event the initial escrow analysis identifies a shortage - a deficiency in the escrow deposits needed to pay all future tax and insurance payments - the servicer must collect such funds from the borrower over a 60-month period unless the borrower decides to pay the shortage upfront. Any escrow shortage that is identified at the time of HAMP eligibility may not be capitalized. Servicers are not required to fund any existing escrow shortage. A servicer may encourage a borrower to contribute to the escrow shortage upfront; however, that is not an eligibility requirement of the HAMP.

When a servicer spreads the escrow shortage identified during the HAMP eligibility process over a 60-month period, any subsequent shortage that may be identified in the next annual analysis cycle should be spread out over the remaining term of the initial 60-month period. For example, if the next analysis cycle is performed 12 months after the initial escrow shortage is identified,
any additional shortage identified in that analysis cycle should be spread over the remaining 48-month period.

**Compliance with Applicable Laws**

Fannie Mae reminds each servicer (and any subservicer it uses) to be aware of, and in full compliance with, all federal, state, and local laws (including statutes, regulations, ordinances, administrative rules and orders that have the effect of law, and judicial rulings and opinions), including, but not limited to, the following laws that apply to any of its practices related to the HAMP:

- Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices.
- The Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Loan modification programs are subject to the fair lending laws, and servicers and lenders should ensure that they do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any loan modification. These laws also prohibit redlining.
- The Real Estate Settlement Procedures Act, which imposes certain disclosure requirements and restrictions relating to transfers of the servicing of certain loans and escrow accounts.
- The Fair Debt Collection Practices Act, which restricts certain abusive debt collection practices by collectors of debts, other than the creditor, owed or due to another.

**Modification Process**

**Borrower Solicitation**

Servicers may only solicit a borrower for the HAMP if the borrower is currently two or more payments (31 or more days) past due. Once a borrower is two or more payments past due:

- A servicer may make a firm offer solicitation to borrowers for whom the servicer has recent financial information (provided within 90 days of the date the servicer is determining HAMP eligibility) indicating that the borrower may qualify for the HAMP. The offer must be made utilizing the HAMP Trial Period Plan Cover Letter, enclosing the Trial Period Plan, and a Hardship Affidavit.
- If a servicer does not have a delinquent borrower’s recent financial information, the servicer may send a letter instructing an eligible borrower to call the servicer to discuss the details of their individual circumstances. Fannie Mae has prepared a sample Solicitation Letter (which includes Fannie Mae’s logo) for the servicer’s use.

A servicer may also receive calls from current or delinquent borrowers inquiring about the availability of the HAMP. A servicer should work with such borrowers to obtain the borrower’s financial and hardship information and to determine if the HAMP is appropriate. The servicer
may not require a borrower to make an up-front cash contribution (other than the first trial period payment) for a borrower to be considered for the HAMP.

As outlined in *Servicing Guide* Part VII, Section 103: Letters, a servicer must send a loss mitigation solicitation letter to the borrower by no later than the 50th day of delinquency. For loans that become delinquent on or after June 1, 2009, a servicer must also send the Solicitation Letter for HAMP no later then the 50th day of delinquency. Should a servicer not receive a response from the borrower within 30 days of sending the Solicitation Letter for HAMP, the servicer should pursue other remedies including foreclosure. A servicer should not delay sending a breach letter, when required, while awaiting a response from the borrower. As an alternative to sending a separate solicitation letter for HAMP, a servicer may revise its loss mitigation solicitation letter to include the details of the HAMP as outlined in the sample Solicitation Letter. If a servicer revises its loss mitigation solicitation letters to include HAMP or decides to develop its own HAMP solicitation letter, it must be approved by Fannie Mae prior to its use.

When discussing the HAMP, the servicer should provide the borrower with information designed to help the borrower understand the modification terms that are being offered and the modification process. Such communication should help minimize potential borrower confusion, foster good customer relations, and improve legal compliance and reduce other risks in connection with the transaction. A servicer also must provide a borrower with clear and understandable written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable borrowers to make informed decisions. The servicer should inform the borrower during discussions that a modification under the HAMP will cancel any assumption, variable or step-rate feature, or enhanced payment options (e.g., Timely Payment Rewards®) in the borrower’s existing loan, at the time the loan is modified.

Fannie Mae expects servicers to have adequate staffing, resources and facilities for receiving and processing the HAMP documents and any requested information that is submitted by borrowers. Servicers must have procedures and systems in place to be able to respond to inquiries and complaints about the HAMP. Servicers should ensure that such inquiries and complaints are provided fair consideration, and timely and appropriate responses and resolution.

**Document Retention**

Servicers must retain all documents and information received during the process of determining borrower eligibility, including borrower income verification, total monthly mortgage payment and total monthly gross debt payment calculations, NPV calculations (NPV model and version used, assumptions, inputs and outputs), evidence of application of each step of the modification waterfall, escrow analysis, escrow advances, and escrow set-up. The servicers must retain all documents and information related to the monthly payments during and after the trial period as well as the incentive payment calculations and such other required documents.

Servicers must retain detailed records of borrower solicitations or borrower-initiated inquiries regarding the HAMP, the outcome of the evaluation for modification under the...
HAMP and specific justification with supporting details if the request for modification under the HAMP was denied. Records must also be retained to document the reason(s) that a Trial Period Plan is not finalized. If a borrower under an HAMP modification loses good standing, the servicer must retain documentation of its consideration of the borrower for other foreclosure prevention alternatives. Servicers must retain HAMP documentation as prescribed in Servicing Guide, Part I, Section 405: Record Retention.

Temporary Suspension of Foreclosure Proceedings

Servicing Guide, Part VIII, Section 105.01: Temporary Suspension of Proceedings

To ensure that a borrower currently at risk of foreclosure has the opportunity to apply for the HAMP, servicers should not proceed with a foreclosure sale until the borrower has been evaluated for the program and, if eligible, an offer to participate in the HAMP has been made. Servicers must use reasonable efforts to contact borrowers facing foreclosure to determine their eligibility for the HAMP, including in-person contacts at the servicer’s discretion. Servicers must not conduct foreclosure sales on mortgage loans previously referred to foreclosure or refer new mortgage loans to foreclosure during the 30-day period that the borrower has to submit documents evidencing an intent to accept the Trial Period Plan offer. Except as noted herein, any foreclosure sale will be suspended for the duration of the Trial Period Plan, including any period of time between the borrower’s execution of the Trial Period Plan and the Trial Period Plan effective date. However, borrowers in Georgia, Hawaii, Missouri, and Virginia will be considered to have failed the trial period if they are not current under the terms of the Trial Period Plan as of the date that the foreclosure sale is scheduled. Accordingly, servicers of HAMP loans secured by properties in these states must proceed with the foreclosure sale if the borrower has not made the trial period payments required to be made through the end of the month preceding the month in which the foreclosure sale is scheduled to occur.

Mortgage Insurer Approval

Fannie Mae has obtained blanket delegations of authority from most mortgage insurers so that servicers can more efficiently process HAMP modifications without having to obtain mortgage insurer approval on individual mortgage loans. A list of the mortgage insurers from which Fannie Mae has received a delegated authority agreement can be found on efanniemae.com. If applicable, servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which we have not yet received a delegated authority agreement. Servicers should consult their mortgage insurance providers for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under the HAMP.

Executing the HAMP Documents

Servicers must use a two-step process for HAMP modifications. Step 1 involves providing a document outlining the terms of the forbearance (the Trial Period Plan), and step 2 involves
providing the borrower with a separate document (the Agreement) outlining the terms of the modification.

**Step 1:** The servicer should instruct the borrower to return the signed Trial Period Plan, together with a signed Hardship Affidavit and income verification documents (if not previously obtained) and the first trial period payment (when not using automated drafting arrangements), to the servicer within 30 calendar days after the Trial Period Plan is sent by the servicer. The servicer is encouraged to contact the borrower before the expiration of the 30-day period if the borrower has not yet responded to encourage submission of the material. **If the borrower’s submission is incomplete, servicers should work with borrowers to complete the Trial Period Plan submission.** The servicer may, in its discretion, consider the offer of a Trial Period Plan to have expired at the end of up to 60 days if the borrower has not submitted both an executed Trial Period Plan and complete documentation as required under the Trial Period Plan.

Upon receipt of the Trial Period Plan from the borrower, the servicer must confirm that the borrower meets the underwriting and eligibility criteria. Once the servicer makes this determination and has received good funds for the first month’s trial payment, the servicer should sign and immediately return an executed copy of the Trial Period Plan to the borrower. Payments made by the borrower under the terms of the Trial Period Plan will count toward successful completion irrespective of the date of the executed copy of the Trial Period Plan.

If the servicer determines that the borrower does not meet the underwriting and eligibility standards of the HAMP after the borrower has submitted a signed Trial Period Plan to the servicer, the servicer should promptly communicate that determination to the borrower in writing and consider the borrower for another foreclosure prevention alternative using the new workout hierarchy (refer to “New Workout Hierarchy” section for additional information).

As an alternative, a servicer may require a borrower to submit the required documentation to verify the borrower’s eligibility and income prior to sending the borrower a firm offer solicitation. If this alternative is utilized, the servicer should use the HAMP Documentation Request letter and Hardship Affidavit to obtain the required documentation from the borrower. The servicer should instruct the borrower to return the required documentation within 30 days from the date the HAMP Documentation Request letter and Hardship Affidavit is sent by the servicer.

**Step 2:** Servicers must calculate the terms of the modification using verified income, taking into consideration amounts to be capitalized during the trial period. Servicers are encouraged to send the Agreement for execution by the borrower after receipt of the second payment under the trial period (or third payment for mortgage loans facing imminent default, which require a four-month trial period).

Servicers are reminded that modification agreements must be signed by an authorized representative of the servicer, must reflect the actual date of signature by the servicer’s representative and signature must not occur until after the mortgage loan has been removed from the MBS pool, and either reclassified as a Fannie Mae portfolio mortgage or repurchased by the servicer, if applicable.
Acceptable Revisions to HAMP Documents

Servicers are strongly encouraged to use the HAMP documents provided on eFannieMae.com. Should a servicer decide to revise the HAMP documents or draft its own HAMP documents, it must obtain prior written approval from Fannie Mae with the exception of the following circumstances:

- The servicer must revise the HAMP documents as necessary to comply with Federal, State and local law. For example, in the event that the HAMP results in a principal forbearance, servicers are obligated to modify the uniform instrument to comply with laws and regulations governing balloon disclosures.
- The servicer may include, as necessary, conditional language in HAMP offers and modification agreements that condition the implementation of any modification on the servicer's receipt of an acceptable title endorsement, or similar title insurance product, or subordination agreements from other existing lien holders, as necessary, to ensure that the modified mortgage loan retains its first lien position and is fully enforceable as required by the Servicing Guide.
- If the borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the following language must be inserted in Section 1 of the Trial Period Plan and Section 1 of the Agreement: “I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Agreement.”
- The servicer may include language in the HAMP Cover Letters providing instructions for borrowers who elect to use an automated payment method to make trial period payments.
- All servicers of Fannie Mae mortgage loans must insert the following at the end of the Home Affordable Modification Trial Period Plan as section 4.H. before the signature block:

Notwithstanding anything herein to the contrary, if my final two Trial Period Payments are received by Servicer after the close of business on the 15th calendar day of the last month of the Trial Period but before the end of the Trial Period, I agree that the Trial Period shall be extended by one calendar month (the "Additional Trial Period"). I agree to abide by all terms and provisions of this Trial Period Plan during the Additional Trial Period. In addition, I agree to make a Trial Period Payment in the amount of $________ [the same amount of the other Trial Period Payments] no more than 30 days after the last due date listed in the chart in Section 2 above.

Unless a borrower or co-borrower is deceased or a borrower and co-borrower are divorced, all parties who signed the original note and security instrument, or their duly authorized representative(s), must execute the HAMP documents. If a borrower and a co-borrower are divorced and the property has been transferred to one spouse in the divorce decree, the spouse who no longer has an interest in the property is not required to execute the HAMP documents. Fannie Mae’s agreement to permit only one divorced spouse to execute the HAMP Documents is without prejudice to its rights against the non-executing divorced
spouse, all of which are expressly retained. Servicers may evaluate requests on a case-by-case basis when the borrower is unable to sign due to circumstances such as mental incapacity, military deployment, etc. An existing borrower may elect to add a new co-borrower to the mortgage loan.

Use of Electronic Records

Electronic records for HAMP are acceptable as long as the electronic record complies with all requirements of the Selling and Servicing Guides and applicable law.

Assignment to MERS

If the original mortgage loan was registered with Mortgage Electronic Registration Systems, Inc. (MERS) and MERS was named as the original mortgagee of record, (as nominee for the lender) the servicer MUST make the following changes to the Agreement:

(a) Insert a new definition under the “Property Address” definition on page 1, which reads as follows:

“MERS” is Mortgage Electronic Registration Systems, Inc. MERS is a separate corporation that is acting solely as a nominee for lender and lender’s successors and assigns. MERS is the mortgagee under the Mortgage. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of P.O. Box 2026, Flint, MI 48501-2026, (888) 679-MERS.

(b) Add as section 4.1:

That MERS holds only legal title to the interests granted by the borrower in the mortgage, but, if necessary to comply with law or custom, MERS (as nominee for lender and lender’s successors and assigns) has the right: to exercise any or all of those interests, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of lender including, but not limited to, releasing and canceling the mortgage loan.

(c) MERS must be added to the signature lines at the end of the Agreement, as follows:

Mortgage Electronic Registration Systems, Inc. – Nominee for Lender

The servicer may execute the Agreement on behalf of MERS and, if applicable, submit it for recordation.
Trial Payment Period

Servicers may use recent verbal financial information to prepare and offer a Trial Period Plan. Servicers are not required to verify financial information prior to the effective date of the trial period. The servicer must service the mortgage loan during the trial period in the same manner as it would service a loan in forbearance. During the trial period for MBS mortgage loans, the mortgage loan will remain in the related MBS pool and the servicer must continue to service the mortgage loan under the servicing guidelines applicable to MBS mortgage loans. (Refer to “Reclassification or Removal of MBS Loans Prior to Effective Date of Modification” section below.)

The effective date of the trial period will be set forth in the Trial Period Plan. In most cases, the effective date is the first day of the month following the servicer’s mailing of the offer for the Trial Period Plan. The trial payment period is three months long for mortgage loans where the payment is already in default and four months long for mortgage loans where the servicer has determined that a borrower’s payment default is imminent but no default has occurred. The borrower must be current under the terms of the Trial Period Plan at the end of the trial period in order to receive a permanent modification.

The borrower is considered to have failed the trial period and thus, not eligible for an HAMP modification, if all the trial period payments are not received by the end of the trial payment period. In the event that the next to last and last trial period payments are received after the 15th calendar day of the final month of the trial period but before the end of the trial period, the servicer must extend the trial payment period by one month. Refer to the “Reclassification or Removal of MBS Loans Prior to Effective Date of Modification” section for further details.

If the verified income evidenced by the borrower’s documentation exceeds the initial income information used by the servicer to place the borrower in the trial period by more than 25 percent, the borrower must be reevaluated based on the program eligibility and underwriting requirements. If this reevaluation determines that the borrower is still eligible, new documents must be prepared and the borrower must restart the trial period.

If the verified income evidenced by the borrower’s documentation is less than the initial income information used by the servicer to place the borrower in the trial period, or if the verified income exceeds the initial income information by 25 percent or less, and the borrower is still eligible as determined by a reevaluation of HAMP eligibility, then the trial period will not restart and the trial period payments will not change; provided, that verified income will be used to calculate the monthly mortgage payment under the Agreement. However, if the servicer determines the borrower is not eligible for the HAMP based on verified income, the servicer must notify the borrower of that determination and that any trial period payments made by the borrower will be applied to the mortgage loan in accordance with the borrower’s current loan documents.

For a borrower facing imminent default, the borrower’s payment during the trial period must not be equal to or greater than the contractual mortgage payment in effect prior to the trial period.
If the borrower complies with the terms and conditions of the Trial Period Plan, the loan modification will become effective on the first day of the month following the trial period as specified in the Trial Period Plan and the Agreement. **However, because the monthly payment under the Agreement will be based on verified income documentation, the monthly payment due under the Agreement may differ from the payment amount due under the Trial Period Plan.**

If a servicer has information that the borrower does not meet all of the eligibility criteria for the HAMP (e.g., because the borrower has moved out of the house) the servicer should explore other foreclosure prevention alternatives prior to resuming or initiating foreclosure.

**Use of Suspense Accounts and Application of Payments**

In accordance with the *Servicing Guide*, Part III, Section 102.06: Pending Modifications, Announcement 07-03R2, and, if permitted by the applicable loan documents, servicers may accept and hold as "unapplied funds" (held in a T&I custodial account) amounts received which do not constitute a full monthly, contractual principal, interest, tax and insurance (PITI) payment. However, when the total of the reduced payments held as “unapplied funds” is equal to a full PITI payment, the servicer is required to apply all full payments to the mortgage loan.

Any unapplied funds remaining at the end of the trial payment period which do not constitute a full monthly, contractual principal, interest, tax and insurance payment should be applied to reduce any amounts that would otherwise be capitalized onto the principal balance.

**Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification**

Under the Agreement, if the borrower successfully completes the trial period, the modification of the loan will become effective on the first day of the calendar month immediately following the end of the trial period.

**Reclassification of MBS Mortgage Loans – Payment Default Imminent**

For an MBS mortgage loan where the servicer has determined that a borrower’s payment default is imminent, the mortgage loan must be removed from the MBS pool before the effective date of the loan modification. Accordingly, to facilitate removals of mortgage loans from MBS pools, a servicer must use HSSN to request that a loan be reclassified and purchased out of the MBS pool. Reclassifications are subject to the following:

- As long as the borrower has made the third payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the servicer’s reclassification date in the fourth month of the trial period, the servicer should request that the loan be reclassified during the fourth month of the trial period.
- If, prior to the close of the servicer’s reclassification date in the fourth month, (i) the borrower has not made the third payment, or (ii) the servicer has not applied the third payment, notified Fannie Mae that the payment has been made and requested reclassification,
then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. In the event that the third and fourth trial period payments are received after the 15th calendar day (i.e., servicer’s reclassification date) of the fourth month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.

- If the required trial period payments are not made by the end of the trial period, the preconditions to make the modification effective will not have been satisfied and Fannie Mae will cancel the case. The servicer must ensure that the loan modification is not implemented.

Reclassification of MBS Mortgage Loans – Payment in Default

For an MBS mortgage loan that already has a payment in default at the time the HAMP is negotiated, the mortgage loan must be removed from the MBS pool before the effective date of the loan modification. Accordingly, to facilitate removals of mortgage loans from MBS pools, a servicer must use HSSN to request that a loan be reclassified and purchased out of the MBS pool. Reclassifications are subject to the following:

- As long as the borrower has made the second payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the servicer’s reclassification date in the third month of the trial period, the servicer should request that the loan be reclassified during the third month of the trial period.
- If, prior to the close of the servicer’s reclassification date in the third month, (i) the borrower has not made the second payment, or (ii) the servicer has not applied the second payment, notified Fannie Mae that the payment has been made and requested reclassification, then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. In the event that the second and third trial period payments are received after the 15th calendar day (i.e., servicer’s reclassification date) of the third month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.
- If the required trial period payments are not made by the end of the trial period, the preconditions to make the modification effective will not have been satisfied and Fannie Mae will cancel the case. The servicer must ensure that the loan modification is not implemented.

Thus, during the trial period it is very important that servicers timely report to Fannie Mae the receipt of funds from the borrower and promptly request reclassification of the mortgage loan.

For an MBS loan to be eligible for reclassification from an MBS pool for the purpose of modification, the mortgage loan must have been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments totals a full payment, the borrower has been in a delinquent status (i.e., not current in monthly mortgage payments) on each of the last four monthly payment due dates and continues to be delinquent. After a mortgage loan is reclassified, the servicer will follow the existing
procedure and update the Officer Signature Date in HSSN to close the modification. Servicers are reminded that a current MBS mortgage loan is ineligible for reclassification for the purpose of modifying the mortgage loan.

**Removal of Regular Servicing Option MBS Mortgage Loans**

Servicers of regular servicing option MBS mortgage loans are encouraged to offer the HAMP for these mortgage loans. If a servicer decides to use the HAMP for such mortgages, the servicer will be expected to follow the Treasury’s Home Affordable Modification Program, sign the servicer participation agreement, obtain any third-party approvals, and comply with the requirements of this Announcement governing reporting and removal of these mortgage loans from MBS pools, if applicable. Fannie Mae is not responsible for any losses or expenses the servicer incurs and will not pay borrower or servicer incentive fees for these mortgage loans which are not considered Fannie Mae HAMP mortgage loans.

The servicer of a mortgage loan that is part of a regular servicing option MBS pool or part of a shared-risk special servicing option MBS pool for which the servicer's shared risk liability has not expired must not modify the mortgage loan as long as it remains in the MBS pool. **The servicer must purchase the mortgage loan from the MBS pool upon completion of the trial period provided the mortgage loan has been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency.** Regular servicing option MBS pool mortgage loans and such shared-risk special servicing option MBS pool mortgage loans that have been purchased from an MBS pool for purposes of modification are not eligible for redelivery to Fannie Mae. Performing MBS mortgage loans (i.e., those that do not meet the delinquency criteria described above) are ineligible for repurchase for the purpose of modifying the mortgage loan.

**Recording the Modification**

For all mortgage loans that are modified pursuant to the HAMP, the servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable. The Agreement must be executed by the borrower(s) and, in the following circumstances, must be in recordable form:

- if State or local law requires a modification agreement be recorded to be enforceable;
- if the property is located in the State of New York or Cuyahoga County, Ohio;
- if the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date; or
- if the servicer’s practice for modifying mortgage loans in the servicer’s portfolio is to create modification agreements in recordable form.
In addition, to retain the first lien position, servicers must:

- ensure all real estate taxes and assessments that could become a first lien are current especially those for manufactured homes taxed as personal property, personal property taxes, condominium/HOA fees, utility assessments (such as water bills), ground rent and other assessments;
- obtain a title endorsement or similar title insurance product issued by a title insurance company if the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- obtain subordination agreements from any junior lien holders, if (1) the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives) or (2) the remaining term on the mortgage loan is less than or equal to ten years and the term of the mortgage loan is being extended more than ten years beyond the original maturity date; and
- record the executed Agreement if (1) State or local law requires the modification agreement be recorded to be enforceable; (2) the property is located in the State of New York or Cuyahoga County, Ohio; (3) the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives); or (4) the remaining term on the mortgage loan is less than or equal to ten years and you are extending the term of the mortgage loan more than ten years beyond the original maturity date.

Monthly Statements

For modifications that include principal forbearance, servicers are encouraged to include the amount of the gross UPB on the borrower’s monthly payment statement. In addition, the borrower should receive information on a monthly basis regarding the accrual of “pay-for performance” principal balance reduction payments.

Redefault and Loss of Good Standing

If, following a successful trial period, a borrower defaults on a loan modification executed under the HAMP (three monthly payments are due and unpaid on the last day of the third month), the loan is no longer considered to be in “good standing.” Once lost, good standing cannot be restored even if the borrower subsequently cures the default. A loan that is not in good standing is not eligible to receive borrower or servicer incentives and reimbursements and these payments will no longer accrue for that mortgage loan. Further, the mortgage loan is not eligible for another HAMP modification.

In the event a borrower defaults, the servicer must work with the borrower to cure the modified loan, or if that is not feasible, evaluate the borrower for any other available foreclosure prevention alternatives prior to commencing foreclosure proceedings.
Servicer Delegation, Duties and Responsibilities

All Fannie Mae approved servicers are eligible to participate in the HAMP without obtaining prior approval from Fannie Mae. In performing the duties incident to the servicing of mortgage loans modified under the HAMP, a servicer must:

- Collect and record the details of all executed mortgage modifications, including, but not limited to: the original terms of the modified mortgage loan; the modified terms of the modified mortgage loan; data supporting the modification decision; updates to payoff information and the last payment date; additional information and data as may be requested by Fannie Mae or the Compliance Agent from time to time. All such data must be compiled and reported to Fannie Mae and the Compliance Agent in the form and manner set forth in this Announcement.

- Retain all data, books, reports, documents, audit logs and records, including electronic records, related to the HAMP. In addition, the servicer shall maintain a copy of all computer systems and application software necessary to review and analyze any electronic records. Unless otherwise directed by Fannie Mae or the Compliance Agent, the servicer shall retain these records for mortgage loans owned or securitized by Fannie Mae in accordance with the Servicing Guide Part I, Section 405: Record Retention, or for such longer period as may be required pursuant to applicable law. The Compliance Agent may also notify the servicer from time to time of any additional records retention requirements resulting from litigation, or other proceedings in which the Treasury or any agents of the Treasury may have an interest, and the servicer agrees to comply with such requirements.

- Construe the terms of this Announcement and any related instructions from the Treasury or Fannie Mae in a reasonable manner to serve the purposes and interests of the United States.

- Use any nonpublic information or assets of the United States or Fannie Mae received or developed in connection with the HAMP solely for the purposes of fulfilling its obligations hereunder.

- Comply with all lawful instructions or directions received from the Treasury and Fannie Mae.

- Develop, enforce, and review for effectiveness at least annually, an internal control program designed to ensure effectiveness of duties in connection with the HAMP and compliance with this Announcement, to monitor and detect loan modification fraud and to monitor compliance with applicable consumer protection and fair lending laws. The internal control program must include documentation of the control objectives for HAMP activities, the associated control techniques, and mechanisms for testing and validating the controls.

- Provide Fannie Mae and the Compliance Agent with access to all internal control reviews and reports that relate to duties performed under the HAMP by the servicer and/or its independent auditing firm.

- Supervise and manage any contractor that assists in the performance of services in connection with the HAMP. A servicer shall remove and replace any contractor that fails to perform and ensure that all of its contractors comply with the terms and provisions of the Servicing Guide. A servicer shall be responsible for the acts or omissions of its contractors as if the acts or omissions were those of the servicer.
The Treasury will designate another party to fulfill the role of Compliance Agent in connection with the HAMP. The Compliance Agent, its independent auditor and other parties designated by the Treasury shall have the right during normal business hours to conduct unannounced, informal onsite visits and to conduct formal onsite and offsite physical, personnel and information technology testing, security reviews, and audits of the servicer and to examine all books, records and data related to the duties and compensation received in connection with the HAMP with 30 days prior written notice. The servicer shall take corrective actions associated with reporting and audits as directed by Fannie Mae or the Compliance Agent.

**Reporting Requirements**

**Reporting to Fannie Mae**

**Reporting Through HSSN**

For all Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae (including lender recourse loans), a servicer must enter loan level HAMP data by submitting a delegated case into HSSN when a servicer has received a successfully executed Trial Period Plan. Additionally, the servicer must record in HSSN receipt of the trial period payments due under the plan. The servicer must use HSSN to request reclassification for MBS mortgage loans as outlined in the Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification section of this Announcement when appropriate. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments total a full payment, the borrower has been in a delinquent status (i.e., not current in contractual payments) on each of the last four monthly payment due dates and continues to be delinquent. After a mortgage loan is reclassified, if applicable, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification.

**Monthly Investor Reporting and Remitting**

Existing monthly Loan Activity Record (LAR) reporting requirements for Fannie Mae servicers will not change. Servicers must continue to report the standard LAR format for loan payment by the 3rd business day and for payoff activity by the 2nd business day of each month for the prior month’s activity (e.g., payoff reporting to be received by April 2nd will contain March activity).

**Servicing Guide, Part VII, Section 502.03: Reporting to Fannie Mae; and Part X, Chapter 3: Special Reporting Requirements**

If the modification includes principal forbearance, the servicer should report the net UPB (full UPB minus the forbearance amount) in the “Actual UPB” field on both LARs for the reporting month that the modification becomes effective. The initial reduction in UPB caused by the principal forbearance should not be reported to Fannie Mae as a principal curtailment. The interest reported on the LAR must be based on the net UPB.
If the modification includes principal forbearance resulting in a balloon payment due upon borrower’s sale of the property or payoff, or maturity of the mortgage loan, interest must never be computed on the principal forbearance amount, including at the time of liquidation. When reporting a payoff or repurchase of the mortgage loan, the principal reported on the LAR must include the principal forbearance amount. Attempting to report a payoff or repurchase without including the principal forbearance amount will generate an exception upon submission of the LAR.

If a principal curtailment is received on a loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest bearing UPB. If, however, the principal curtailment amount is greater than or equal to the interest-bearing UPB, then the curtailment should be applied to the principal forbearance portion. If the curtailment satisfies the principal forbearance portion, any remaining funds should then be applied to the interest bearing UPB.

Delinquency Status Reporting

*Servicing Guide*, Part VII, Chapter 6, Exhibit 1: Delinquency Status Codes

The servicer must report a delinquency status code 09 - Forbearance - during the trial period. The servicer must then report a delinquency status code 28 – Mortgage Modification – to indicate that the delinquency status has changed once the borrower has successfully completed the trial period and the modification becomes effective, if applicable.

Reporting to Treasury

In addition to reporting to Fannie Mae, each servicer must report periodic HAMP loan activity to Treasury through the servicer web portal accessible through HMPPadmin.com. Data should be reported by a servicer at the start of the modification trial period and during the modification trial period, for loan set up of the approved modification, and monthly after the modification is set up. Servicers will be required to submit three separate data files. Detailed guidelines for submitting these data files and a list of data elements for each report are available upon request by sending an email to servicing_solutions@fanniemae.com. This information will also be accessible on the servicer web portal in the near future.

A servicer will receive a username and password for the servicer web portal upon submission of the HAMP Registration form. All servicers will be required to provide the HAMP Registration form with information such as contact information and banking instructions for deposits of compensation payments. The HAMP Registration form is a one-time submission; however, after the initial form is submitted, a servicer may submit a new form to update existing information at any time.
Mortgage Insurance

Reporting to Mortgage Insurers

Servicers must maintain their mortgage insurance processes and comply with all reporting required by the mortgage insurer for mortgage loans modified under the HAMP. Servicers should consult with the mortgage insurer for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under the HAMP. Servicers are required to report successful HAMP modifications and the terms of those modifications to the appropriate mortgage insurers, if applicable, within 30 days following the end of the trial period and in accordance with procedures that currently exist or may be agreed to between servicers and the mortgage insurers.

Maintenance of Mortgage Insurance

Servicers must include the mortgage insurance premium in the borrower’s modified payment, and must ensure that any existing mortgage insurance is maintained. Among other things, the servicer must ensure that the mortgage insurance premium is paid. In addition, servicers must adapt their systems to ensure proper reporting of modified loan terms so as not to impair coverage for any existing mortgage insurance. For example, in the event that the modification includes principal forbearance, servicers must continue to pay the correct MI premiums based on the gross UPB, including any principal forbearance amount, must include the gross UPB in their delinquency reporting to the mortgage insurer, and must ensure any principal forbearance does not erroneously trigger automatic mortgage insurance cancellation or termination.

Transfers of Servicing

When a transfer of servicing includes mortgage loans modified under the HAMP, we require the transferor servicer to provide special notification to the transferee servicer. Specifically, the transferor servicer must advise the transferee servicer that mortgage loans modified under the HAMP are part of the portfolio being transferred and must confirm that the transferee servicer is not only aware of the special requirements for these mortgage loans, but also agrees to assume the additional responsibilities associated with servicing these mortgage loans.

The transferee servicer must assume all of the responsibilities and duties of the HAMP. However, the transferee servicer’s assumption of these responsibilities, duties, and warranties will in no way release the transferor servicer from its contractual obligations related to the transferred mortgage loans. The two servicers will be jointly and severally liable to us for all warranties and for repurchase, all special obligations under agreements previously made by the transferor servicer or any previous servicer or servicer (including actions that arose prior to the transfer), and all reporting, compliance and audit oversight related duties regarding the transferred mortgage loans.
Credit Bureau Reporting

In accordance with the Servicing Guide, Part VII, Section 107: Notifying Credit Repositories, the servicer should continue to report a “full-file” status report to the four major credit repositories for each loan under the HAMP in accordance with the Fair Credit Reporting Act and credit bureau requirements as provided by the Consumer Data Industry Association (the “CDIA”) on the basis of the following:

- For borrowers who are current when they enter the trial period, the servicer should report the borrower current but on a modified payment if the borrower makes timely payments by the 30th day of each trial period month at the modified amount during the trial period, as well as report the modification when completed.
- For borrowers who are delinquent when they enter the trial period, the servicer should continue to report in such a manner that accurately reflects the borrower’s delinquency and workout status following usual and customary reporting standards, as well as report the modification when completed.

More detailed information on these reporting standards will be published by the CDIA.

"Full-file" reporting means that the servicer must describe the exact status of each mortgage loan it is servicing as of the last business day of each month.

Fees and Compensation

Servicing Fees

During the trial period, servicing fees will continue to be earned by the servicer to the extent that the borrower payments equal a contractual full payment. When the HAMP modification becomes effective, the servicer will receive servicing fees based on our existing fee schedule for modified mortgage loans in accordance with the Servicing Guide, Part VII, Section 502.02: Modifying Conventional Mortgages.

Late Fees

All late charges, penalties, stop payment fees or similar fees must be waived upon successful completion of the trial period.

Administrative Costs

Servicers may not charge the borrower to cover the administrative processing costs incurred in connection with a HAMP. The servicer must pay any actual out-of-pocket expenses such as any required notary fees, recordation fees, title costs, property valuation fees, credit report fees or other allowable and documented expenses. Fannie Mae will reimburse the servicer for allowable out-of-pocket expenses. Servicers will not be reimbursed for the cost of the credit report(s).
Incentive Compensation

No incentives of any kind will be paid if (i) the servicer has not provided an HAMP Registration form or HAMP loan set-up data prior to the effective date of the modification, or (ii) the borrower’s monthly payment ratio starts below 31 percent prior to the implementation of the HAMP. The incentive compensation will only be paid for HAMP modifications that are based on the borrower’s verified income. Each servicer must promptly apply or remit, as applicable, all borrower and investor compensation it receives with respect to any modified mortgage loan.

With respect to payment of any incentive that is predicated on at least a six percent reduction in the borrower’s monthly mortgage payment, the reduction will be calculated by comparing the monthly mortgage payment used to determine eligibility (adjusted as applicable to include property taxes, hazard insurance, flood insurance, condominium association fees and homeowner’s association fees) and the borrower’s payment under HAMP.

Timing and mechanics of the borrower and servicer incentive compensation plans will be provided in a subsequent Announcement.

Servicer Incentive Compensation

A servicer will receive compensation of $1,000 for each completed modification under the HAMP. In addition, if a borrower was current under the original mortgage loan, a servicer will receive an additional compensation amount of $500. All such servicer incentive compensation shall be earned and payable once the borrower successfully completes the trial payment period.

If a borrower’s monthly mortgage payment (principal, interest, taxes and all related property insurance and homeowner’s or condominium association fees, but excluding mortgage insurance) is reduced through the HAMP by six percent or more, a servicer will also receive an annual “pay for success” fee equal to the lesser of: (i) $1,000 ($83.33 per month), or (ii) one-half of the reduction in the borrower’s annualized monthly payment, for up to three years as long as the loan is a performing loan modification. The “pay for success” fee will be payable annually for each of the first three years after the anniversary of the month in which a Trial Period Plan is executed. If and when the loan ceases to be in good standing, the servicer will cease to be eligible for any further incentive payment after that time, even if the borrower subsequently cures his or her delinquency.

Borrower’s Incentive Compensation

To provide an additional incentive for borrowers to keep their modified loan current, borrowers whose monthly mortgage payment (principal, interest, taxes and all related property insurance and homeowner’s or condominium association fees, but excluding mortgage insurance) is reduced through the HAMP by six percent or more and who make timely monthly payments will earn an annual “pay for performance” principal balance reduction payment equal to the lesser of: (i) $1,000 ($83.33 per month), or (ii) one-half of the reduction in the borrower’s annualized
monthly payment for each month a timely payment is made. A borrower can earn the right to receive a “pay for performance” principal balance reduction payment for payments made during the first five years following execution of the Agreement provided the loan continues to be in good standing as of the date the payment is made. The “pay for performance” principal balance reduction payment will accrue monthly and be applied annually for each of the five years in which this incentive payment accrues, prior to the first payment due date after the anniversary of the month in which the Trial Period Plan is executed. This payment will be paid to the servicer to be applied first towards reducing the interest bearing UPB and then towards any principal forbearance amount (if applicable) on the mortgage loan. Any applicable prepayment penalties on partial principal prepayments made by Fannie Mae must be waived. Borrower incentive payments do not accrue during the Trial Period; however, in the first month of the modification, the borrower will accrue incentive payments equal to the number of months in the trial period in addition to any accrual earned during the first month of the modification.

If and when the loan ceases to be in good standing (i.e., three monthly payments are due and unpaid on the last day of the third month), the borrower will cease to be eligible for any further incentive payments after that time, even if the borrower subsequently cures his or her delinquency. The borrower will lose his or her right to any accrued incentive compensation when the loan ceases to be in good standing.

Servicers must place the borrower incentives into an existing custodial account.

**FHA HOPE for Homeowners**

Servicers will be required to consider a borrower for refinancing into the FHA HOPE for Homeowners program when feasible. Consideration for a HOPE for Homeowners refinance should not delay eligible borrowers from receiving a modification offer and beginning the trial period. Servicers must use the modification options to begin the HAMP modification and work to complete the HOPE for Homeowners refinance during the trial period.

**Compliance**

Treasury has selected Freddie Mac to serve as its Compliance Agent for the HAMP. In its role as Compliance Agent, Freddie Mac will conduct independent compliance assessments. Fannie Mae-approved servicers are subject to the compliance guidelines outlined in Supplemental Directive 09-01 issued by Treasury on April 6, 2009, available through HMPadmin.com, which may be updated from time to time.

**HomeSaver Forbearance**

HomeSaver Forbearance is a new loss mitigation option available to borrowers that are either in default or for whom default is imminent and who do not qualify for the HAMP. A servicer should offer a HomeSaver Forbearance if such borrowers have a willingness and ability to make reduced monthly payments of at least one-half of their contractual monthly payment. The plan should reduce the borrower’s payments to an amount the borrower can afford, but no less than 50 percent of the borrower’s contractual monthly payment, including taxes and insurance and any
other escrow items at the time the forbearance is implemented. During the six month period of forbearance, the servicer should work with the borrower to identify the feasibility of, and implement, a more permanent foreclosure prevention alternative. The servicer should evaluate and identify a permanent solution during the first three months of the forbearance period and should implement the alternative by the end of the sixth month.

Incentive Fee

Servicers will receive a $200 incentive fee upon successful reporting to Fannie Mae of the initiation of a HomeSaver Forbearance plan and the collection of one payment under the forbearance plan. Servicers are eligible for one HomeSaver Forbearance incentive fee during the life of the loan. A servicer will also be eligible to receive an incentive upon the successful completion of the resulting permanent foreclosure prevention alternative as outlined in Announcement 08-20 and Announcement 08-33.

Reporting Requirements

A servicer is required to submit information on an encrypted Microsoft Excel® spreadsheet that outlines the terms of the HomeSaver Forbearance plan. Servicers are required to submit weekly HomeSaver Forbearance updates to Fannie Mae through the upload functionality in HSSN. Each weekly report must be submitted on the first business day of the following week. The weekly reports should include information on new HomeSaver Forbearance plans and on the payments received from borrowers under such plans. For any month in which the end of the month occurs on a business day other than a Friday, the servicer must provide two weekly updates:

1. One update for the business day(s) in that week to month end; and
2. One update for the business day(s) in that week for the new month

Both updates must be provided on the first business day of the following week.

A sample Excel spreadsheet outlining the data elements, specifying the order in which the data elements must be presented, and containing instructions for submitting the spreadsheet is available on eFannieMae.com.

Mortgage Insurer Approval

Granting forbearance is contingent on the servicer’s ability to ensure the continuation of mortgage insurance coverage. Fannie Mae has obtained blanket delegations of authority from most mortgage insurers so that servicers can grant HomeSaver Forbearances without having to obtain mortgage insurer approval on individual mortgage loans to extend the delinquency beyond the date that foreclosure proceedings would otherwise be required to begin. Fannie Mae has posted and will maintain on eFannieMae.com a list of the mortgage insurers from which it receives a delegated authority agreement for the HomeSaver Forbearance. Servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which we have not yet received a delegated authority agreement. Servicers should consult their mortgage insurance providers for specific processes related to the reporting of forbearance
terms, payment of premiums, payment of claims, and other operational matters in connection with forbearances granted under HomeSaver Forbearance.

Servicers are reminded that, in accordance with Servicing Guide, Part III, Section 103.04: Advances to Cover Expenses, a servicer must advance the funds to cover the monthly remittance of the full mortgage insurance premium in the event that the borrower’s deposit account does not have enough funds due to the reduction in the monthly payment amount.

New Workout Hierarchy

As a result of the introduction of the HAMP and HomeSaver Forbearance, Fannie Mae is establishing a new workout hierarchy which establishes the preferred order of consideration of foreclosure prevention alternatives to resolve a delinquency. The new hierarchy supersedes the previously announced “RAMPD” hierarchy introduced in Announcement 08-14. A servicer should first evaluate a borrower to determine if the HAMP is appropriate, and if not, the servicer should then determine whether the borrower is eligible for an alternative foreclosure prevention option based on whether the borrower is experiencing a temporary or permanent financial hardship.

Temporary Hardship

For a borrower who is expected to overcome a temporary financial hardship and be able to make future scheduled payments in addition to an amount to cure any outstanding arrearage over time, the following foreclosure prevention alternatives should be considered. Notwithstanding the options below, in the event a borrower requires a particular workout that the servicer deems to be in both Fannie Mae and the borrower’s best interest, the servicer is strongly encouraged to submit the workout case to Fannie Mae for review and approval.

- Forbearance — A temporary reduction or suspension of payments which must be immediately followed by an arrangement to cure the delinquency.
- Repayment Plan — An arrangement in which a borrower agrees to pay down past due amounts while still making regularly scheduled payments.
- HSA — A monetary advance to cure a delinquent loan resulting in a separate unsecured loan for the arrearage amount.

Permanent Hardship

For a borrower who has experienced a permanent or long-term/enduring financial hardship, foreclosure prevention alternatives should be considered in the following preferred order:

- HomeSaver Forbearance — For a borrower who is not eligible for, or who does not meet the terms of the HAMP but has the willingness and ability to make reduced monthly payments of at least half the borrower’s contractual monthly payment.
• Other Forbearance — A temporary reduction or suspension of payments (subject to the limits of the governing MBS trust document under which that mortgage loan was pooled), which will culminate in a more permanent foreclosure prevention alternative listed below.

Note: The HSA is not an appropriate foreclosure prevention alternative, and must not be used, for a borrower with a permanent or long-term financial hardship.

Once a borrower is on a HomeSaver Forbearance or other forbearance, the following options, along with any new programs that may become available, should be considered in the following preferred order:

• Modification — For mortgage loans that are ineligible for the HAMP, such as non-owner occupied property, any permanent change to the terms of a mortgage loan, including changes to the interest rate, interest and expense capitalization, or changes to the loan term.
• Pre-Foreclosure Sale — For delinquent mortgage loans, the acceptance of a sales contract prior to a foreclosure sale resulting in a payoff of less than the total amount owed on the mortgage loan and release of the mortgage lien.
• Deed-in-Lieu — For delinquent mortgage loans, the voluntary transfer of title from a borrower to the servicer to satisfy the mortgage loan and avoid foreclosure (also called a "voluntary conveyance").

Retirement of the Streamlined Modification Program (SMP) and the Early Workout Program

Effective March 4, 2009, servicers can no longer offer the SMP to borrowers. The HAMP will replace the SMP. Servicers must continue to offer the original SMP terms to borrowers that are completing SMP trial payment periods after the SMP end date. Once the borrower completes the SMP trial payment period the SMP modification will become effective. A borrower who defaults on an SMP is eligible for an HAMP. However, if a borrower contacts a servicer directly to inquire about converting to the HAMP prior to the execution of the SMP Agreement, and the borrower meets all the eligibility requirements of the HAMP, the servicer may offer the borrower the HAMP. The borrower will be required to meet all the terms of the HAMP, execute the Trial Period Plan, and enter into a new trial payment period.

The Early Workout Program was announced in Announcement 08-31. At that time, Fannie Mae promised additional information on the program. The implementation of the HAMP will also replace the Early Workout Program.

Servicers should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (1-888-326-6435) if they have any questions about this Announcement.

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer

Announcement 09-05R
EXHIBIT 7
Chairwoman Waters, Ranking Member Moore and members of the Committee, thank you for the opportunity to testify today about the Treasury Department's comprehensive initiatives to stabilize the US housing market and support homeowners.

Introduction

A strong housing market is crucial to a sustained economic recovery. It is a driver of stability in our financial markets and a fundamental source of wealth for individual families and communities. The recent crisis in the housing sector has devastated families and communities across the country and is at the center of our financial crisis and economic downturn.

Today, I want to outline the steps that Treasury and the Administration have taken to strengthen the housing sector, help millions of homeowners and lay the foundation for economic recovery and financial stability.

Weakness in the US housing market developed over many years. In advance of the downturn, inadequate regulation of lending and securitization practices, including lax underwriting standards, helped cause widespread over-leveraging in the residential mortgage sector that has contributed to millions of borrowers having mortgage payments they are unable to afford.

The rapid decline in home prices over the past two years has had devastating consequences for homeowners, communities and financial institutions throughout the country. Moreover, rising unemployment and other recessionary pressures have impaired the ability of many otherwise responsible families to stay current on their mortgage payments.

The result is that responsible homeowners across America are grappling with the possibility of foreclosure and displacement. Analysts project that more than 6 million families could face foreclosure over the next three years.

The Administration's Efforts to Stabilize the Housing Market

This Administration has acted quickly and aggressively to confront the economic challenges facing our economy and our housing market.

Within weeks of assuming office, President Obama worked with Congress to enact the largest economic recovery plan since World War II.

The Administration is addressing the housing crisis across multiple fronts. First, we boosted demand by implementing a new homebuyer’s tax credit in the Recovery Act. Within a month of taking office, on February 18, we announced the Making Home Affordable (MHA) Program, a critical element of Treasury's Financial Stability Plan. This
program was broadly designed to stabilize the U.S. housing market and offer assistance to
millions of homeowners by reducing mortgage payments and preventing avoidable
foreclosures.

A key part of the broad housing plan is the Home Affordable Modification Plan – a
comprehensive $75 billion program to lower monthly mortgage payments for at risk
borrowers, providing modifications on a scale never previously attempted.

The Home Affordable Modification Program supports loan modifications that will provide
sustainable, affordable mortgage payments for up to 3 to 4 million borrowers. HAMP offers
“pay-for success” incentives to investors, lenders, servicers, and homeowners for
successful mortgage modifications.

There are clear signs that the incentives offered under the Home Affordable Modification
Program are having a substantial effect.

- Over forty-five servicers have signed up for the Home Affordable Modification
  Program, including the five largest. Between loans covered by these servicers and
  loans owned or guaranteed by the GSEs, more than 85% of loans in the country are
  now covered by the program.
- These participating servicers have extended offers on over 570,000 trial modifications.
- Over 360,000 trial modifications are already underway.

On March 4, just two weeks after the Feb. 18 announcement of MHA, the Administration,
worked with the banking regulators, HUD, and the Federal Housing Finance Agency to
publish detailed program guidelines for HAMP. These guidelines outlined a standard for the
industry to follow in modifying mortgages to make them affordable and sustainable.

On April 28, the Administration announced additional details related to the Second Lien
Program which will help to provide a more comprehensive affordability solution for
borrowers by addressing their total mortgage debt. In addition, this announcement
included provisions to strengthen the HOPE for Homeowners Program, administered by
HUD, which provides additional relief for borrowers with mortgage balances greater than
the current value of their homes. In August, we released the supplemental directive
providing specific implementation guidelines for the Second Lien Program. Second lien
servicers covering the majority of second liens in the country have committed to participate
in the second lien program.

On May 14, we announced additional details related to the Foreclosure Alternatives
Program, which will provide incentives for short sales and deeds-in-lieu of foreclosure
where borrowers are unable to complete the HAMP modification process. We also
announced additional details on Home Price Decline Protection Incentives, designed to
provide incentive payments for modifications to partially compensate lenders and investors
for home price declines. As of September 1, Home Price Decline Incentive payments will
become operational, and begin to be included in NPV calculations, allowing more
borrowers in the geographic areas hardest hit by home price declines to obtain
modifications.

The Administration’s broad housing plan, the Making Home Affordable Plan, also includes
broad support for the GSEs to support mortgage refinancing and affordability across the
market.

On March 4, the Administration increased its funding commitment to Fannie Mae and
Freddie Mac to support the strength and security of the mortgage market and to help
maintain mortgage affordability generally. To this end, Treasury expanded its commitment
to the GSEs under the Preferred Stock Purchase Agreements by $200 billion. The
Treasury Department also continues to purchase Fannie Mae and Freddie Mac mortgage-
backed securities to promote stability and liquidity in the marketplace.
In addition, the Administration increased refinancing flexibilities for the GSEs, providing more homeowners with an opportunity to refinance to lower monthly payments. As a part of this increased refinancing flexibility, the Administration launched the Home Affordable Refinance Program which expands access to refinancing for families whose homes have lost value.

Many homeowners who made what seemed like conservative financial decisions three, four or five years ago find themselves unable to benefit from the low interest rates available today because the value of their homes has sunk below that of their existing mortgages.

Originally, the Home Affordable Refinancing Program was designed to help homeowners whose existing mortgages were up to 105 percent of their current house value, but it has since been expanded to help those with mortgages up to 125 percent of current value.

Overall, the GSEs have refinanced more than 2.7 million loans since the announcement of the Administration's comprehensive housing plan.

**HAMP Program Design**

*Key Principles*

The Home Affordable Modification Program is built around three core concepts.

First, the program focuses on affordability. Building on the insights of Chairwoman Bair of the FDIC, it is designed to reduce mortgage payments to an affordable level based on a borrower's gross monthly income. Every modification under the program must lower the borrower's monthly mortgage payment to 31% of the borrower's monthly gross income.

Second, HAMP's pay-for-success structure aligns the interests of servicers, investors and borrowers in ways that encourage loan modifications that will be both affordable for borrowers over the long term and cost-effective for taxpayers.

Third, the HAMP program establishes detailed guidelines for the industry to use in making loan modifications with the goal of encouraging the mortgage industry to adopt a sustainably affordable standard, both within and outside of the HAMP program.

In the past, a lack of agreed-upon guidelines has limited the number of loan modifications that are completed, even in instances where modifications would have been beneficial to all involved. HAMP should help increase the number of modifications industry-wide by providing standardized modification guidance to servicers and lenders.

That will be good for borrowers, good for lenders, good for mortgage lending standards and good for improved stability of our overall financial system.

*Eligibility Criteria*

The eligibility criteria for the modification program were developed specifically to help responsible American homeowners with the greatest need for assistance and to provide that assistance at the lowest cost to taxpayers.

Modifications are potentially available to all borrowers regardless of loan-to-value ratio, so borrowers can qualify no matter how much the price of their home has fallen.

The modification plan was designed to be inclusive, with a loan limit of $729,750 for single-unit properties, and higher limits for multi-unit properties. At this level, over 97 percent of the mortgages in the country have a principal balance that might be eligible.
Finally, because it is more effective to reach borrowers before they have missed a payment, the modification program includes additional incentives for the modification of loans where borrowers are current on their payments, but can demonstrate financial hardship or imminent risk of default.

**Modification Process**

Under HAMP’s loan modification guidelines, mortgage servicers are prevented from "cherry-picking" which loans to modify in a manner that might deny assistance to borrowers at greatest risk of foreclosure. Participating servicers are required to service all loans in their portfolio according to HAMP guidelines, unless explicitly prohibited by pooling and servicing agreements, and further must make reasonable efforts to obtain waivers of any limits on participation.

Participating servicers are also required to evaluate every eligible loan using a standard net present value (NPV) test. The NPV test compares the net present value of cash flows with modification and without modification. If the test is positive, the servicer must modify the loan.

Under the program, servicers must reduce the borrower’s first lien mortgage to a 31 percent debt-to-income (DTI) ratio, meaning that the monthly mortgage payment can be no greater than 31 percent of gross monthly income. To reach this payment, the servicer must use a specified sequence of steps:

1. Reduce the interest rate, subject to a rate floor of 2 percent.
2. If the 31 percent DTI has not been reached, extend the term or amortization period of the loan up to a maximum of 40 years.
3. If the 31 percent DTI still has not been reached, forbear principal until the 31 percent ratio is achieved.

Principal forgiveness may be applied at any stage. Additionally, each loan must be considered for a HOPE for Homeowners refinancing.

The borrowers’ modified monthly payment of 31 percent DTI will remain in place for five years, provided the borrower remains current, and following the modification the interest rate will step up each year to a specified cap that will be fixed for the life of the loan. We believe HAMP creates new fixed-rate loans that homeowners can afford and can understand.

**"Pay for Success" Incentive Structure**

HAMP offers "pay for success" incentives to servicers, investors and borrowers for successful modifications. This aligns the incentives of market participants and ensures efficient expenditure of taxpayer dollars.

Servicers receive an up-front payment of $1,000 for each successful modification after completion of the trial period, and "pay for success" fees of up to $1,000 per year, provided the borrower remains current. Homeowners may earn up to $1,000 towards principal reduction each year for five years if they remain current and pay on time.

HAMP also matches reductions in monthly payments dollar-for-dollar with the lender/investor from 38 percent to 31 percent DTI. This requires the lender/investor to take the first loss in reducing the borrower payment down to a 38 percent DTI, holding lenders/investors accountable for unaffordable loans they may have extended.

To encourage the modification of current loans expected to default, HAMP provides additional incentive to servicers and lender/investors when current loans are modified.
Signs of Progress

Our progress in implementing these programs to date has been substantial, but we recognize that much more has to be done to help homeowners. Today, I want to highlight some key points of success:

We have signed contracts with over 45 servicers, including the five largest. Between loans covered by these servicers and loans owned or guaranteed by the GSEs, more than 85 percent of all mortgage loans in the country are now covered by the program.

Over 570,000 trial modifications have been offered under the program. Over 360,000 trial modifications are underway.

At this early date, HAMP has already been more successful than any previous similar program in modifying mortgages for at risk borrowers to sustainably affordable levels, and helping to avoid preventable foreclosures.

Nonetheless, we recognize that challenges remain in implementing and scaling up the program, and are committed to working to overcome those challenges and reach as many borrowers as possible. In particular, we are focused on addressing challenges in three key areas: capacity, transparency and borrower outreach.

Expanding Servicer Capacity

We are taking a number of steps and working with servicers to expand nationwide capacity to accommodate the number of eligible borrowers who can receive assistance through HAMP. I highlight some key measures below:

One, we are asking that all servicers move rapidly to expand servicing capacity and improve the execution quality of loan modifications. This will require that servicers add more staff than previously planned, expand call center capacities, provide a process for borrowers to escalate servicer performance and decisions, bolster training of representatives, enhance on-line offerings, and send additional mailings to potentially eligible borrowers.

On July 9, as a part of the Administration's efforts to expedite implementation of HAMP, Secretaries Geithner and Donovan wrote to the CEOs of all of the servicers currently participating in the program. In this joint letter, they noted that "there appears to be substantial variation among servicers in performance and borrower experience, as well as inconsistent results in converting trial modification offers into actual trial modifications." They called on the servicers "to devote substantially more resources" to the program in order for it to fully succeed.

The joint letter to participating servicers also requested that the CEOs designate a senior liaison, authorized to make decisions on behalf of the CEO, to work directly with us on all aspects of MHA and attend a program implementation meeting with senior HUD and Treasury officials on July 28, 2009.

At the meeting on July 28, servicers committed to reaching a cumulative target of 500,000 trial modifications started by November 1, 2009. We are on track to meet that goal.

Two, we have made significant progress in reaching implementation objectives outlined during our July 28 meeting.

We are establishing denial codes that will require servicers to report the reason for modification denials, both to Treasury and to borrowers. This will enhance Treasury's ability to evaluate the program and consider options for further program enhancement. We expect denial codes to become operational on Oct. 1.
We are working with servicers and Fannie Mae to streamline application documents and develop web tools, which can serve as a centralized point for modification applications, and for borrowers to check the status of their applications.

Three, we are taking additional steps to expedite implementation, including greater disclosure of the NPV evaluation.

**Transparency and Accountability**

As Secretary Geithner has noted, we are committed to transparency and better communication in all of Treasury's programs. Accordingly, Treasury is focused on continued transparency and servicer accountability to maximize the effectiveness of HAMP. Specifically, we have taken three additional concrete steps in conjunction with the July 28 servicer liaison meeting to enhance transparency in the program:

On August 4, we began publicly reporting servicer-specific results on a monthly basis. The second public report was published this morning, September 9. These reports provide a transparent and public accounting of individual servicer performance by detailing the number of trial modification offers extended, the number of trial modifications underway, the number of official modifications offered and the long terms success of modifications.

Two, we are working to establish specific operational metrics to measure the performance of each servicer. These performance metrics are likely to include such measures as average borrower wait time in response to inquiries, the quality of information provided to applicants, procedures for document processing and review, and response time for completed applications. We plan to include these metrics in our monthly public report.

Finally, on July 28 we asked Freddie Mac, in its role as compliance agent, to develop a "second look" process pursuant to which Freddie Mac will audit a sample of MHA modification applications that have been declined.

This "second look" process began on August 3, and is designed to minimize the likelihood that borrower applications are overlooked or that applicants are inadvertently denied a modification.

In addition, the "second look" program is examining servicer non-performing loan (NPL) portfolios to identify eligible borrowers that should have been solicited for a modification, but were not.

We have also expanded the efforts of the federal government to combat mortgage rescue fraud and put scammers on notice that we will not stand by while they prey on homeowners seeking help under our program.

**Borrower Outreach**

The third challenge we are tackling aggressively is borrower outreach. We recognize the importance of borrower outreach and education and are committing significant resources, in partnership with servicers, to reach as many borrowers as possible. Here, we have taken a number of steps:

We have launched a consumer focused website, [www.MakingHomeAffordable.gov](http://www.MakingHomeAffordable.gov), with self-assessment tools for borrowers to evaluate potential eligibility in the MHA program. This website is in both English and Spanish and already has over 34 million page views.

We have worked with an interagency team to establish a call center for borrowers to reach HUD approved housing counselors, so that they are able to receive direct information and
assistance in applying for the HAMP program.

Working closely with Fannie Mae, we have launched an effort to hold foreclosure prevention workshops and borrower outreach events in cities facing high foreclosure rates. These foreclosure prevention events include counselor training forums where representatives from Treasury, Fannie Mae, HUD and other agencies provide information and training to local housing counselors and non-profit groups, leveraging local resources to expand the reach of the HAMP program. We will have visited 10 hard hit markets by October 1, and will continue our outreach efforts throughout the fall and the year to come.

HAMP has made significant progress in reaching borrowers at risk of foreclosure. However, much more remains to be done and we will continue to work with other agencies, regulators and the private sector to reach as many families as possible.

Program Limitations

Finally, we recognize that any modification program seeking to avoid preventable foreclosures has limits, HAMP included. Even before the current crisis, when home prices were climbing, there were still many hundreds of thousands of foreclosures. Therefore, even if HAMP is a total success, we should still expect millions of foreclosures, as President Obama noted when he launched the program in February.

Some of these foreclosures will result from borrowers who, as investors, do not qualify for the program. Others will occur because borrowers do not respond to our outreach. Still others will be the product of borrowers who bought homes well beyond what they could afford and so would be unable to make the monthly payment even on a modified loan.

Nevertheless, for millions of homeowners, HAMP will provide a critical opportunity to stay in their homes. It will bring relief to the communities hardest hit by foreclosures. It will provide peace of mind to families who have barely managed to stay current on their mortgages or who only recently have fallen behind on payments. It will help stabilize home prices for all American homeowners and, in doing so, aid the recovery of the U.S. economy.

Conclusion

In less than six months, including the initial start-up phase, HAMP has accomplished a great deal and helped homeowners across the country. But we recognize the continued commitment needed to help American families during this crisis and will aggressively continue to build on our progress to date. For example, we are taking additional steps to expedite program implementation and increase take-up, including: implementing the Foreclosure Alternatives Program and strengthening the HOPE for Homeowners refinancing program. Each of these supplemental programs, along with the Second Lien Program and Home Price Decline Protection Incentives is designed to increase the effectiveness and take-up of the first lien modification plan.

Sustained recovery of our housing market is critical to lasting financial stability and promoting a broad economic recovery.

We look forward to working with you to help keep Americans in their homes, restore stability to the US housing market and growth to the U.S. economy.

Thank you. I look forward to your questions.

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EXHIBIT 8
QUESTIONS AND ANSWERS ON CONSERVATORSHIP

Q: What is a conservatorship?

A: A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company’s directors, officers, and shareholders are transferred to the designated Conservator.

Q: What is a Conservator?

A: A Conservator is the person or entity appointed to oversee the affairs of a Company for the purpose of bringing the Company back to financial health.

In this instance, the Federal Housing Finance Agency (“FHFA”) has been appointed by its Director to be the Conservator of the Company in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 (Public Law 110-289) and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4501, et seq., as amended) to keep the Company in a safe and solvent financial condition.

Q: How is a Conservator appointed?

A: By statute, the FHFA is appointed Conservator by its Director after the Director determines, in his discretion, that the Company is in need of reorganization or rehabilitation of its affairs.

Q: What are the goals of this conservatorship?
A: The purpose of appointing the Conservator is to preserve and conserve the Company’s assets and property and to put the Company in a sound and solvent condition. The goals of the conservatorship are to help restore confidence in the Company, enhance its capacity to fulfill its mission, and mitigate the systemic risk that has contributed directly to the instability in the current market.

There is no reason for concern regarding the ongoing operations of the Company. The Company’s operation will not be impaired and business will continue without interruption.

Q: When will the conservatorship period end?

A: Upon the Director’s determination that the Conservator’s plan to restore the Company to a safe and solvent condition has been completed successfully, the Director will issue an order terminating the conservatorship. At present, there is no exact time frame that can be given as to when this conservatorship may end.

Q: What are the powers of the Conservator?

A: The FHFA, as Conservator, may take all actions necessary and appropriate to (1) put the Company in a sound and solvent condition and (2) carry on the Company’s business and preserve and conserve the assets and property of the Company.

Q: What happens upon appointment of a Conservator?

A: Once an “Order Appointing a Conservator” is signed by the Director of FHFA, the Conservator immediately succeeds to the (1) rights, titles, powers, and privileges of the Company, and any stockholder, officer, or director of such the Company with respect to the Company and its assets, and (2) title to all books, records and assets of the Company held by any other custodian or third-party. The Conservator is then charged with the duty to operate the Company.

Q: What does the Conservator do during a conservatorship?

A: The Conservator controls and directs the operations of the Company. The Conservator may (1) take over the assets of and operate the Company with all the powers of the shareholders, the directors, and the officers of the Company and conduct all business of the Company; (2) collect all obligations and money due to the Company; (3) perform all functions of the Company which are consistent with the Conservator’s appointment; (4) preserve and conserve the assets and property of the Company; and (5) contract for assistance in fulfilling any function, activity, action or duty of the Conservator.

Q: How will the Company run during the conservatorship?

A: The Company will continue to run as usual during the conservatorship. The Conservator will delegate authorities to the Company’s management to move forward with the
business operations. The Conservator encourages all Company employees to continue to perform their job functions without interruption.

Q: Will the Company continue to pays its obligations during the conservatorship?

A: Yes, the Company’s obligations will be paid in the normal course of business during the Conservatorship. The Treasury Department, through a secured lending credit facility and a Senior Preferred Stock Purchase Agreement, has significantly enhanced the ability of the Company to meet its obligations. The Conservator does not anticipate that there will be any disruption in the Company’s pattern of payments or ongoing business operations.

Q: What happens to the Company’s stock during the conservatorship?

A: During the conservatorship, the Company’s stock will continue to trade. However, by statute, the powers of the stockholders are suspended until the conservatorship is terminated. Stockholders will continue to retain all rights in the stock’s financial worth; as such worth is determined by the market.

Q: Is the Company able to buy and sell investments and complete financial transactions during the conservatorship?

A: Yes, the Company’s operations continue subject to the oversight of the Conservator.

Q: What happens if the Company is liquidated?

A: Under a conservatorship, the Company is not liquidated.

Q: Can the Conservator determine to liquidate the Company?

A: The Conservator cannot make a determination to liquidate the Company, although, short of that, the Conservator has the authority to run the company in whatever way will best achieve the Conservator’s goals (discussed above). However, assuming a statutory ground exists and the Director of FHFA determines that the financial condition of the company requires it, the Director does have the discretion to place any regulated entity, including the Company, into receivership. Receivership is a statutory process for the liquidation of a regulated entity. There are no plans to liquidate the Company.

Q: Can the Company be dissolved?

A: Although the company can be liquidated as explained above, by statute the charter of the Company must be transferred to a new entity and can only be dissolved by an Act of Congress.