New Fannie Mae Single-Family MBS Prospectus for Pools Issued on or after July 1, 2011

Fannie Mae has released a new Single-Family MBS prospectus dated July 1, 2011 (the “Single-Family prospectus”) that covers pools issued on or after July 1, 2011. The prospectus contains general information about Fannie Mae mortgage-backed securities (MBS) including, but not limited to, risk factors; distributions of principal and interest; the Fannie Mae guaranty; yield, maturity, and prepayment considerations; policies on purchasing loans from pools; and mortgage purchase programs. It is important to note that single-family MBS are issued under the Single-Family prospectus and multifamily MBS are issued under a separate, Multifamily prospectus.

At-issuance disclosure documents for a single-family MBS consist of the Single-Family prospectus, the related prospectus supplement and any documents incorporated by reference in either the prospectus or related prospectus supplement. The prospectus supplement contains information about a specific issuance of MBS by specifying the pool prefix and disclosing certain data for the underlying mortgage loans in the pools, such as quartile distributions of specific loan characteristics. The Single-Family prospectus, the prospectus supplement and any documents incorporated by reference are available on the Fannie Mae Web site. Additionally, Fannie Mae generally updates certain information about its pools on an ongoing basis via its Web site that is made available to all market participants for review and analysis.

It is important to note that the updates and additions reflected in the new Single-Family prospectus and discussed below require no action by MBS certificateholders.

Updated Language in the New Prospectus

The new Single-Family prospectus provides updated language with respect to non-standard collection option mortgage loans; uniform hybrid ARM loan pools; mortgage loan eligibility; and representations and warranties. A brief summary of each of these topics is presented below.

Non-Standard Collection Option Mortgage Loans

Traditional biweekly mortgage loans require biweekly payments for the entire term of a mortgage loan. In contrast, some mortgage loans may be subject to a non-standard payment collection plan under which a borrower may elect during the term of the loan to use a non-standard payment...
method (i.e. payments are made more than once a month) that could reduce the loan’s principal balance more rapidly than would a monthly payment method.

As a general rule, these non-standard payments are not applied against the principal balance on the same schedule as they are received. Over a period of time during which a borrower on a loan subject to a non-standard collection plan has elected to make additional mortgage payments on a non-standard basis, the principal balance of the loan may be reduced more quickly than the principal balance of an otherwise identical monthly payment loan that does not have non-standard payment terms, all other factors (including prepayments) being equal. Prior to delivery of a mortgage loan, if Fannie Mae recognizes that the loan is subject to a non-standard payment collection plan that could reduce the loan’s principal balance more rapidly than would a monthly payment method, Fannie Mae will include the loan in a pool that has a special prefix or uses a special prospectus supplement.

Uniform Hybrid ARM Pools
A uniform hybrid ARM pool has a structure that combines both fixed and weighted attributes. All hybrid ARM loans in a uniform hybrid ARM pool have a fixed interest rate during an initial period equal to a specific number of scheduled payments and then have an adjustable interest rate during the remainder of their term. Although the first interest rate change dates vary among the loans in the pool, the dates are within a specified range that is narrower than the range of first interest rate change dates for most other pools containing hybrid ARM loans. The initial fixed interest rate period for a uniform hybrid ARM loan is usually 3, 5, 7, or 10 years.

During the adjustable-rate period following the initial fixed-rate period, the interest rate is determined by reference to an index. After the first interest rate change, the pool accrual rate will equal the weighted average of the mortgage interest rates (net of the fee percentage) of the loans in the pool. All hybrid ARM loans in a uniform hybrid ARM pool are subject to certain periodic and lifetime interest rate caps. In addition, the mortgage interest rate for a uniform hybrid ARM loan may never decrease below the mortgage margin for that loan.

Mortgage Loan Eligibility
In the new Single-Family prospectus, Fannie Mae has revised and updated its disclosures concerning mortgage loans that are eligible for TBA delivery and mortgage loans which have original principal balances that exceed its traditional conforming loan limits.

Fannie Mae has also revised and updated its disclosures concerning mortgage loans made in “high-cost” areas.

Furthermore, Fannie Mae has clarified and updated its disclosures concerning alternative or reduced documentation and no documentation mortgage loans.

Representations and Warranties
Fannie Mae requires each mortgage loan to meet its published standards for loans that it purchases, except to the extent that Fannie Mae has permitted variances from those standards. When mortgage loans are delivered to Fannie Mae, each mortgage loan seller is required to make representations and warranties about itself and the loans being delivered, including representations and warranties that the loans comply with all applicable federal, state and local laws, including anti-predatory lending laws, and that the loans meet its then-current selling guidelines. In some cases, the lender that sold the loans to the mortgage loan seller may be the party responsible for the accuracy of the representations and warranties relating to the loans. If the representations and warranties were not true when made, Fannie Mae may require the mortgage loan seller to repurchase the loans from the pool at any time.

It is important to note that Fannie Mae may remove a loan from a pool for reasons other than a breach of representations and warranties related to the loan or the delinquency of the loan (discussed below). The new Single-Family prospectus provides information on the events which lead to both mandatory and optional purchases of a loan from a pool. For additional in-depth details on these repurchase events, please refer to the Trust Agreement, which is available on the Fannie Mae Web site: www.fanniemae.com -> Investors -> Mortgage-Backed Securities -> Prospectuses & Related Documents -> MBS -> Fannie Mae Trust Documents.

New Topics Covered in the Prospectus

The new Single-Family prospectus describes the Making Home Affordable program, which began in 2009, and discloses information about Fannie Mae’s two Making Home Affordable programs, the Home Affordable Refinance Program (HARP) and the Home Affordable Modification Program (HAMP). The Single-Family prospectus also describes Fannie Mae’s 2010 initiative concerning the repurchase of mortgage loans that are delinquent as to four or more consecutive monthly payments.

Home Affordable Refinance Program (HARP)

HARP offers refinancing flexibilities for homeowners whose loans are owned or guaranteed by Fannie Mae and is currently available to eligible borrowers with mortgage loans that meet certain criteria. Under current rules, the mortgage loan being refinanced must have been acquired by Fannie Mae no later than June 30, 2009. In addition, the new refinance loan must be originated by June 30, 2012, and must be either purchased by Fannie Mae no later than, or deposited by Fannie Mae into an MBS pool with an issue date no later than, October 1, 2012.

HARP provides an opportunity for qualified borrowers to refinance into a more stable mortgage loan or a new mortgage loan with a lower mortgage payment, even if the values of their properties have declined. Under HARP, borrowers may be eligible to refinance loans up to 125% of the home’s value (that is up to a 125% loan-to-value ratio), which assists homeowners whose current loan balances are greater than the current values of their homes. Eligible borrowers are not required to purchase new or additional mortgage insurance, although existing mortgage insurance may be carried forward to the new loan.

Home Affordable Modification Program (HAMP)

HAMP is available to eligible borrowers with mortgage loans originated on or before January 1, 2009 and is currently scheduled to expire on December 31, 2012. The program is designed to assist eligible borrowers who live in their own homes and who are delinquent or are at risk of an imminent default on their mortgage loans. The program allows Fannie Mae to work with loan servicers in assisting these distressed borrowers to modify their mortgage loans into mortgage loans that are more affordable and sustainable.

Loan servicers participating in the program may reduce interest rates, lengthen the period of time in which payments must be made, or take other steps, such as principal forbearance, to bring the monthly payments down to approximately 31% of a borrower’s pre-tax income. An eligible borrower participates in a trial period during which the borrower must make timely payments of the monthly principal and interest payments expected to result from the proposed loan modification. If the borrower successfully completes the trial period, the loan is removed from the trust and modified accordingly.

4 Fannie Mae does not allow a principal write-down or principal forgiveness on Fannie Mae mortgage loans.
MBS 4+ Delinquent Loan Purchase Initiative

As disclosed in the new Single-Family prospectus, it is Fannie Mae’s intention to continue the 2010 initiative to purchase nearly all loans that become delinquent as to four or more consecutive monthly payments, subject to economic, market, operational and regulatory constraints. In general, Fannie Mae intends to conduct these voluntary purchases when it is in its economic interest to do so. In the future, Fannie Mae will continue to review the economics of purchasing loans that are four or more months delinquent and may reevaluate its practices and alter them if circumstances warrant.

Additionally, Fannie Mae continues to disclose monthly information regarding loans that are delinquent as to four or more consecutive monthly payments and that back its CL prefix MBS and its non-CL prefix MBS. The data is arranged by MBS pass-through rates with corresponding product type and vintage information. The monthly loan delinquency charts are available on the Fannie Mae Web site: www.fanniemae.com -> Investors -> Mortgage-Backed Securities -> Monthly Reporting Data -> Fannie Mae MBS -> Monthly Loan Delinquency Data for Single-Family MBS.  

Conclusion

The release of the new Single-Family prospectus offers additional clarity and provides new information for Fannie Mae MBS that are issued on or after July 1, 2011. For a comprehensive understanding of all updates to the prospectus, please review the new Single-Family prospectus in its entirety. The prospectus is available on the Fannie Mae Web site: www.fanniemae.com -> Investors -> Mortgage-Backed Securities -> Prospectuses & Related -> MBS -> Fannie Mae MBS Prospectus or http://www.fanniemae.com/mbs/documents/mbs/prospectus/index.jhtml.