

Addendum to Jumbo-Conforming Update

Since the publication of the *Jumbo Conforming Update*¹ in April, Fannie Mae recently announced our Keys to Recovery[™] initiatives. These initiatives are focused on providing stability, liquidity, and affordability to the housing and mortgage markets for the long term, and include steps to keep struggling borrowers in their homes, assist prospective homebuyers with home purchases, and stabilize communities impacted by the market downturn. As part of this initiative, we have made a significant change to how jumbo-conforming mortgages will be priced in the marketplace. Additionally, we have expanded eligibility guidelines and product options we offer for jumbo-conforming mortgage products that Fannie Mae will securitize or purchase as whole loans.

This edition of *MBSenger* updates the investment community regarding the impact of these changes on Fannie Mae's jumbo-conforming mortgage securities and our mortgage-backed securities (MBS) program.

Improved Jumbo-Conforming Pricing

To increase our presence and impact in the jumbo-conforming marketplace for borrowers in high-cost areas and to further demonstrate our commitment to helping the housing market recover, from May 7 to the end of 2008, Fannie Mae's Capital Markets Sales Desk will bid fixed-rate jumbo-conforming whole loans and fixed-rate Fannie Majors[®] backed by jumbo-conforming mortgages as flat to TBA² levels. For jumbo-conforming adjustable-rate mortgages (ARMs) and jumbo-conforming interest-only mortgages, we will bid at levels flat to where we bid for conforming whole loans and securities for these products. By implementing this pricing change, Fannie Mae hopes to add liquidity and to encourage originations of jumbo-conforming loans in the primary market, with improved pricing passed on to the borrower. The "flat" pricing change applies to new production of both fixed-rate and adjustable-rate whole loans and MBS securities with prefixes CJ, CK, LD, or NJ. However, it does not apply to mortgages originated from July 1, 2007 to February 29, 2008, including MBS securities with prefixes JL, JL, or LC, though we anticipate having a competitive execution for these loans as well.

¹ April 2008 MBSenger, Vol. 3 No. 2, available on Fannie Mae's Web site: http://www.fanniemae.com/mbs/pdf/mbsenger_jumboconformingupdate.pdf

² 'Flat to TBA' means at the same price as a forward mortgage-backed securities trade, also known as "To Be Announced (TBA)" securities.

On April 30, 2008, the rate for jumbo-conforming mortgage product was approximately 50 basis points higher than traditional (\$417,000 or less) conforming mortgage product. Following our May 6, 2008 pricing announcement, we saw fixed rates drop by 25 to 37.5bp. Currently, as of May 28, 2008, jumbo-conforming rates are flat to 12.5 basis points higher than rates for comparable conforming fixed-rate loans.

Related to the expansion of eligibility for jumbo-conforming loans, we have announced several changes to our loan-level price adjustments (LLPAs) aimed at aligning our pricing adjustments with the credit risk of the loans. Certain new LLPAs will be established, but we are notably eliminating jumbo-conforming-specific LLPAs for certain fixed-rate loans with good credit and higher down payments. Jumbo-conforming mortgages will continue to be subject to all other applicable loan-level price adjustments per the *Selling Guide*³, as well as the Adverse Market Delivery Charge.

Product and Eligibility Expansion

Fannie Mae adopted a phased approach to incorporating jumbo-conforming loans into MBS, initially offering a limited set of jumbo-conforming fixed-rate and adjustable-rate products. On May 16, we announced an expansion of our jumbo-conforming eligibility requirements and products. These enhancements include:

- ▶ Replacing our policy for maximum financing in declining markets with a National Downpayment Policy. Therefore, requirements to reduce the maximum loan-to-value and combined loan-to-value (LTV/CLTV) for jumbo-conforming mortgages in declining markets have been eliminated. The maximum LTV/CLTV for jumbo-conforming loans is 90 percent for principal residences, and 60 percent for second homes and investment properties, regardless of market location.
- ▶ Permitting cash-out refinances up to 75 percent LTV/CLTV (with a maximum \$100,000 cash-back to the borrower).
- ▶ Increasing the maximum LTV/CLTV to 90 percent for jumbo-conforming limited cash-out refinances and jumbo-conforming ARMs.

³ The loan-level price adjustment matrix is available on Fannie Mae's Web site: <https://www.efanniemae.com/sf/refmaterials/llpa/index.jsp>

- ▶ Adding new products.
 - 7/1 and 10/1 ARM options (fully-amortizing and 10-year interest-only). For these new ARM options, delivery will be available beginning July 1, 2008 for MBS, and beginning August 1 for whole loans.
 - Fixed-rate 10/20 interest-only option to be available for committing and delivery for either MBS or whole loans beginning on August 1, 2008.
- ▶ Accepting higher balance FHA loans beginning July 1, and revising our government prefix definitions accordingly.

For additional details on the expanded eligibility and products, please reference Announcement 08-11, *Jumbo-Conforming Mortgage Loans-Expanded Eligibility and Products*, available at: <https://www.efanniemae.com/sf/guides/ssg/2008annlenlr.jsp?from=hp>

MBS Pool Prefix Update

One new MBS pool prefix, NJ, has been created for jumbo-conforming fixed-rate interest-only loans. The NJ prefix applies to loans originated on or after March 1, 2008. Jumbo-conforming fixed-rate interest-only mortgages originated from July 1, 2007 through February 29, 2008 will be assigned the existing prefix of JL.

The two existing MBS pool prefixes, LC and LD, created for jumbo-conforming 5/1 ARM loans, will also apply to jumbo-conforming 7/1 and 10/1 fully-amortizing and interest-only ARMs.

Standard conforming loans may be commingled with jumbo-conforming loans in pools with the jumbo-conforming prefixes: CK, CJ, JI, JL, LD, LC, and NJ. However, jumbo-conforming mortgages may not be commingled with standard conforming mortgages in pools with standard conforming prefixes. Exhibit 1 summarizes the jumbo-conforming products.

Exhibit 1: Summary of Jumbo-Conforming Prefixes and Pricing

Jumbo-Conforming Fixed-Rate				
Loan Origination Date	Prefix	Term	Flat to TBA Pricing	
July 1, 2007 thru February 29, 2008	JI	15 year		
	JL	30 year 10/20 Interest-Only		
March 1, 2008 thru December 31, 2008	NJ	10/20 Interest-Only	X ⁴	
	CJ	15 year	X	
	CK	30 year	X	

Jumbo-Conforming Adjustable-Rate				
Loan Origination Date	Prefix	Subtype	Term	Flat to Conforming Whole Loans and Securities
July 1, 2007 thru February 29, 2008	LC	P92	5/1 ARM	
		P93	5/1 IO ARM	
		P9D	7/1 ARM	
		P96	7/1 IO ARM	
		P9E	10/1 ARM	
		P97	10/1 IO ARM	
March 1, 2008 thru December 31, 2008	LD	P92	5/1 ARM	X
		P93	5/1 IO ARM	X
		P9D	7/1 ARM	X
		P96	7/1 IO ARM	X
		P9E	10/1 ARM	X
		P97	10/1 IO ARM	X

* Red highlights the new prefix established.

FHA Higher Balance Loans

With the increase in the FHA mortgage loan limits, in accordance with the Economic Stimulus Act of 2008, the FHA loans with the higher loan balances can be delivered into the existing prefixes of GL and GA⁵. These prefixes have been revised to include the higher balance FHA mortgages. For additional information, please refer to FHA's *Mortgagee Letter 2008-06: Temporary Loan Limit Increase for FHA*⁶.

Conclusion

Fannie Mae is committed to providing stability, liquidity, and affordability to the jumbo-conforming market. In line with this commitment, Fannie Mae announced changes to its jumbo-conforming product by improving pricing and expanding products and borrower eligibility.

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⁴ Interest-only fixed-rate mortgages will be priced 'flat-to-conforming whole loans and securities.'

⁵ **GL: (revised definition)**

Government, Level-Payment Mortgages; Single-Family; maturing or due in 30 years or less. Pool may contain certain higher balance FHA loans originated on or after March 6, 2008.

GA: (revised definition)

Government, Adjustable-Rate Mortgages; Single-Family. Pool may contain certain higher balance FHA loans originated on or after March 6, 2008.

⁶ <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/08-06ml.doc>