

Homeowner Affordability and Stability Plan

On February 18, 2009, the Obama Administration announced the Homeowner Affordability and Stability Plan or HASP. A description of the programs implemented under the HASP are available on the government's Web site at MakingHomeAffordable.gov.

HASP includes various elements that may impact an investor in our MBS.

Loan Modification Program

Under HASP, we will offer to financially struggling homeowners loan modifications that reduce the monthly principal and interest payments on their mortgages. This program will be conducted in accordance with HASP requirements for borrower eligibility. The program seeks to provide a uniform, consistent regime for servicers to use in modifying loans to prevent foreclosures.

We expect that our modification efforts under HASP will replace our previously announced Streamlined Modification Program.

Under the program, servicers that service loans held in Fannie Mae MBS trusts or in our portfolio will be incented to reduce at-risk borrowers' monthly mortgage payments to as little as 31% of monthly income, which may be achieved through a variety of methods, including interest rate reductions, principal forbearance and term extensions. Although HASP contemplates that some servicers will also make use of principal reduction to achieve reduced payments for borrowers, we do not currently anticipate that principal reduction will be used in modifying our loans.

We typically repurchase a mortgage loan from an MBS trust prior to modification. Therefore, any increase in modifications due to HASP is expected to result in an increase in prepayments to investors in MBS. See our MBS Prospectus, dated January 1, 2009 for additional information on our loss mitigation strategy for troubled loans and its impact on MBS investors.

Streamlined Refinancing Initiative

Under HASP, we will help borrowers who have mortgages with current loan-to-value ratios up to 105% to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place. We have worked with our conservator and regulator, FHFA, to provide us the flexibility to implement this element of HASP. This refinancing option applies only to qualifying mortgage loans we currently hold in our portfolio or that we currently guarantee.

Any increase in refinancing activity due to HASP is expected to result in an increase in prepayments to investors in MBS. See our MBS Prospectus, dated January 1, 2009 for additional information regarding the impact of refinancings on MBS investors.