FannieMae

Daniel H. Mudd
President and Chief Executive Officer
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892
202 752 8400
202 752 1304 (fax)
daniel_h_mudd@fanniemae.com

August 15, 2007

VIA ELECTRONIC MAIL AND HAND DELIVERY

Mr. James B. Lockhart III
Director
Office of Federal Housing Enterprise Oversight
1700 G Street NW
Washington, DC 20552

Dear Director Lockhart:

As you know, we are preparing to file and release our 2006 Form 10-K financials on Thursday, August 16th. We will also announce at that time our plan to file quarterly earnings reports by the end of the year. If, per our internal and confidential plan, we file Q1, Q2, & Q3 on or about November 9, 2007, we will become a current filer under the SEC rules at that time.

Last February, we asked you to increase the portfolio cap to give us parity with Freddie Mac and to recognize the progress we had made on remediation. In a letter dated April 4, 2007, you denied our request but stated that "OFHEO remains open to revisiting this issue should market liquidity concerns warrant a review or should Fannie Mae achieve one or more significant milestones in the remediation process, such as filing of a 10-K for 2006, and is demonstrating good progress toward filing its 2007 financials." As you know, we also referenced progress toward this milestone in our August 1, 2007 request for a 10% increase on the OFHEO cap.

With our 2006 Form 10-K filing released to the public and a plan for getting current, I believe we have met the milestones you set out in April. I also believe that market conditions have continued to deteriorate, manifesting the liquidity concerns you referenced. Therefore, I write to reassert our request for a minimum 10% increase to the existing OFHEO cap.

You noted in your letter of last Friday that you wanted to continue the dialogue regarding any new developments in the markets and more particularly the impact of the liquidity problems on affordable housing. We have seen a growing need for liquidity in our multi-family markets. Over the last few weeks, we have received numerous requests for bids for deals that would meet our mission of providing affordable housing and liquidity while at the same time generating housing goals credits.

In the last 48 hours, we have seen an 8-12bp widening in single family TBA, which is very worrisome, and leads directly to ordinary homebuyers paying more for conventional conforming mortgages. This is one of the negative outcomes for consumers that we sought to avert through our proposal to lift the cap.

We also see a continuing need to support state housing bonds that are funding mortgages for those most in need of immediate assistance: e.g. bonds targeted specifically at sub-prime rescue efforts. We have purchased bonds from three states and we would like to do more.

Specific market transactions support our request for a minimum 10% increase to the portfolio. Here is what we are seeing:

- Flow affordable apartment financing requests from lenders have grown from about $2 billion per month to about $3 billion per month. In addition, there are a large number of secondary mortgages for sale that are reducing the financing available for new originations. In the last month we have bought over $2 billion in secondary loans and have committed to buy and expect to settle an additional $7 billion over the next few months. We have been offered so far over $2.5 billion of pools and whole loans which we may not be able to buy. Examples of offerings that we either turned down or priced to lose include: $220 million pool already shown from Credit Suisse and another $600 million anticipated; $100 million pool from Key Bank; $250 million pool from IMPAC.

- Reverse Mortgage HECM Loans: The PLS market has ceased. Expected flow over the balance of 2007 is approximately $1.5 billion from just one originator although there is also a significant overhang of seasoned paper for sale. The product contributes significantly to housing goals. We are uncertain of whether we will be able to bid on this paper.

- Specified Agency MBS: We have recently been offered over $800 million of interest-only fixed-rate MBS, but were able to purchase only $4 million of 10/30 (40yr final) products. Specified pools are barely trading on the street and pay-ups to TBA are already zero or are approaching zero. We have declined all offers. Street estimates of seasoned Agency ARMs available for sale range from $5 to $10 billion over the last few weeks. This is a very unusual quantity. This week we saw a bid list of approximately $1.5 billion. Spreads have widened on these non-TBA Agency MBS sectors by between 20 and 40 basis points, which is a 10-year wide. We have also seen a lack of liquidity in 40-year and fixed-rate interest only products (less than 5 billion/month), causing primary rates to go up 37.5 to 50 bps over traditional 30-year rates, which will have an impact on the desirability of these lower payment affordable mortgage options.

- Single family bulk: In the last few weeks we have been offered over $3 billion of ARM, IO, and Alt-A loans, which we would normally buy. We purchased only about $1 billion of this product.

- De- leveraging of mortgaged-backed commercial paper, and market concerns over the rollover of commercial paper used to fund mortgage pipelines.

- Market concerns over the continued volatility of several mortgage lenders and mortgage REITs.

- The TBill market had its single biggest daily yield decline (55bp) since Oct 1989. The 3M LIBOR to 3M TBill spread has widened to about 150bp.

For all of these reasons, and in light of our 2006 filing, we request an increase our portfolio cap under the Consent Order by at least 10% to serve our mission to provide liquidity and support affordable housing.

Respectfully Submitted,