FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL

FHFA's Certifications for the Preferred Stock Purchase Agreements

EVALUATION REPORT: EVL-2012-006

DATED: August 23, 2012

FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL

AT A GLANCE

FHFA's Certifications for the Preferred Stock Purchase Agreements

Why FHFA-OIG Did This Evaluation

In order to keep the mortgage market liquid following the 2008 housing crisis, the U.S. Department of the Treasury (Treasury) has invested more than $187 billion in the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises). Treasury committed to make this investment, and to invest additional funds if necessary, pursuant to Senior Preferred Stock Purchase Agreements (PSPAs). In return, the Federal Housing Finance Agency (FHFA or the Agency), as conservator of the Enterprises, committed to several conditions under the PSPAs on the Enterprises' behalf.

These conditions, termed "covenants" in the PSPAs, place a number of requirements on the Enterprises. The PSPAs also obligate FHFA to provide to Treasury certifications that: (1) the Enterprises have complied with the covenants; (2) the Enterprises' financial statements and related documents sent to Treasury under the PSPAs contained no representations that were materially false or misleading when made; and (3) the funds sought by the Enterprises each quarter do not exceed the amount allowed under the PSPAs.

The FHFA Office of Inspector General (FHFA-OIG) conducted this evaluation to determine if and how FHFA was meeting these obligations under the PSPAs.

What FHFA-OIG Recommended

FHFA-OIG recommended and FHFA agreed to: (1) adhere to the requirements that it certify both that the Enterprises have complied with the PSPA covenants and that the Enterprises' financial statements and related documents are free of materially false or misleading representations; and (2) monitor the implementation of its oversight procedures to ensure that they are effective. These certifications enhance oversight of the PSPAs and reduce the potential for errors and waste of taxpayer dollars.

What FHFA-OIG Found

The PSPAs require FHFA to provide three written certifications to Treasury. FHFA provided Treasury with only one of the three certifications, namely that the Enterprises are seeking no more funds from Treasury than they are allowed. FHFA was not providing the other two certifications, covering covenants and financial statements.

With respect to covenants, FHFA was not certifying compliance with them, but rather was forwarding to Treasury certifications made by the Enterprises as to their compliance with the covenants. As conservator, FHFA regularly maintains controls over and involvement in Enterprise activities and transactions. Moreover, since FHFA-OIG began this review, FHFA strengthened its oversight of Enterprise certifications by participating in Enterprise certification meetings and by requiring reviews of Enterprise certifications by external audit firms. FHFA did not begin to provide certifications until after FHFA-OIG alerted the Agency to the issue.

With respect to the financial statements, FHFA was not providing any certifications to Treasury. FHFA conducted significant oversight of the Enterprises' financial statements and Securities and Exchange Commission (SEC) filings, which were independently audited. Furthermore, pursuant to federal statute, the Enterprises' executive officers certified that there were no material misstatements in the filings. Despite this, FHFA was silent on the required certifications with respect to the financial statements until FHFA-OIG provided its preliminary findings in this evaluation to the Agency.

In April 2012, FHFA-OIG presented its preliminary findings to FHFA: FHFA had failed to provide the required certifications with respect to Enterprise covenant compliance and financial statements. In June 2012, in response to these findings, FHFA began to provide Treasury with the required certifications.

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ABBREVIATIONS

Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHFA or the Agency	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency Office of Inspector General
Freddie Mac	Federal Home Loan Mortgage Corporation
HERA	Housing and Economic Recovery Act of 2008
OCO	Office of Conservatorship Operations
OCA	Office of Chief Accountant
PSPAs	Senior Preferred Stock Purchase Agreements
SEC	Securities and Exchange Commission
Treasury	U.S. Department of the Treasury

Federal Housing Finance Agency
Office of Inspector General
Washington, DC

PREFACE

FHFA-OIG was established by the Housing and Economic Recovery Act of 2008 (HERA),[1] which amended the Inspector General Act of 1978.[2] With respect to FHFA's programs and operations, FHFA-OIG is authorized to: conduct audits, evaluations, investigations, and other activities of the programs and operations of FHFA; recommend policies that promote effective and efficient administration; and prevent and detect fraud and abuse.

This evaluation is one in a series of audits, evaluations, and special reports published as part of FHFA-OIG's oversight responsibilities. It was intended to assess whether FHFA has fulfilled its commitments under the PSPAs, most notably the requirement that FHFA certify that the Enterprises have complied with the covenants under the PSPAs and that they have made no material misstatements or representations in their financial statements and in related documents provided to Treasury under the PSPAs.

At the time FHFA-OIG began this evaluation, FHFA was in the process of improving its procedures for overseeing the PSPAs, but it was not making the two certifications mentioned above. However, after FHFA-OIG completed its fieldwork and presented its preliminary findings to FHFA staff, the Agency began providing the certifications required by the PSPAs. As a result, FHFA-OIG has decided to issue this report to recognize FHFA's compliance and to close out the evaluation.

This evaluation was led by Investigative Counsel Cynthia Lesser with the assistance of Bruce McWilliams, Investigative Evaluator. FHFA-OIG appreciates the assistance of all those who contributed to this report. It has been distributed to Congress, the Office of Management and Budget, and others and will be posted on FHFA-OIG's website, www.fhfaoig.gov.

George Grob

George Grob
Deputy Inspector General for Evaluations

[1] Public Law No. 110-289.

[2] Public Law No. 95-452.

BACKGROUND

Fannie Mae and Freddie Mac provide liquidity to the housing finance system by supporting the secondary mortgage market. The Enterprises purchase from loan sellers residential mortgages that meet their underwriting criteria. The loan sellers can then use the sales proceeds to originate additional mortgages. The Enterprises can hold the mortgages in their own investment portfolios or package them into mortgage-backed securities that are, in turn, sold to investors. For a fee, the Enterprises guarantee the payment of mortgage principal and interest on the mortgage-backed securities they sell.

Following an unprecedented rise in housing prices, the housing market began collapsing in late 2006. This had widespread, adverse impacts on those financial institutions heavily concentrated in mortgage financing, such as the Enterprises.

In 2008, HERA established FHFA as regulator of the Enterprises. HERA also authorized Treasury to provide financial assistance to the Enterprises in the wake of the financial crisis. On September 6, 2008, Fannie Mae and Freddie Mac entered conservatorships overseen by FHFA. On September 7, 2008, Treasury exercised its authority under HERA to provide support to the Enterprises through equity investments in Fannie Mae and Freddie Mac. Treasury provided, and continues to provide, this support through the PSPAs, dated September 26, 2008, as amended May 6, 2009, December 24, 2009, and August 17, 2012, between Treasury and FHFA as conservator for Fannie Mae and Freddie Mac.

Under the PSPAs, Treasury has committed to make payments to the Enterprises, or "draws," on a quarterly basis as necessary to keep them solvent. When FHFA determines that an Enterprise's liabilities have exceeded its assets, FHFA makes a draw request to Treasury. Treasury provides capital to the Enterprise in an amount equal to the difference between its liabilities and assets. As of March 31, 2012, as shown in the chart below, Treasury had invested over $187 billion in the Enterprises. Further, under the PSPAs, Treasury is committed to provide up to $400 billion over the amount the Enterprises will have drawn by December 31, 2012.[3]

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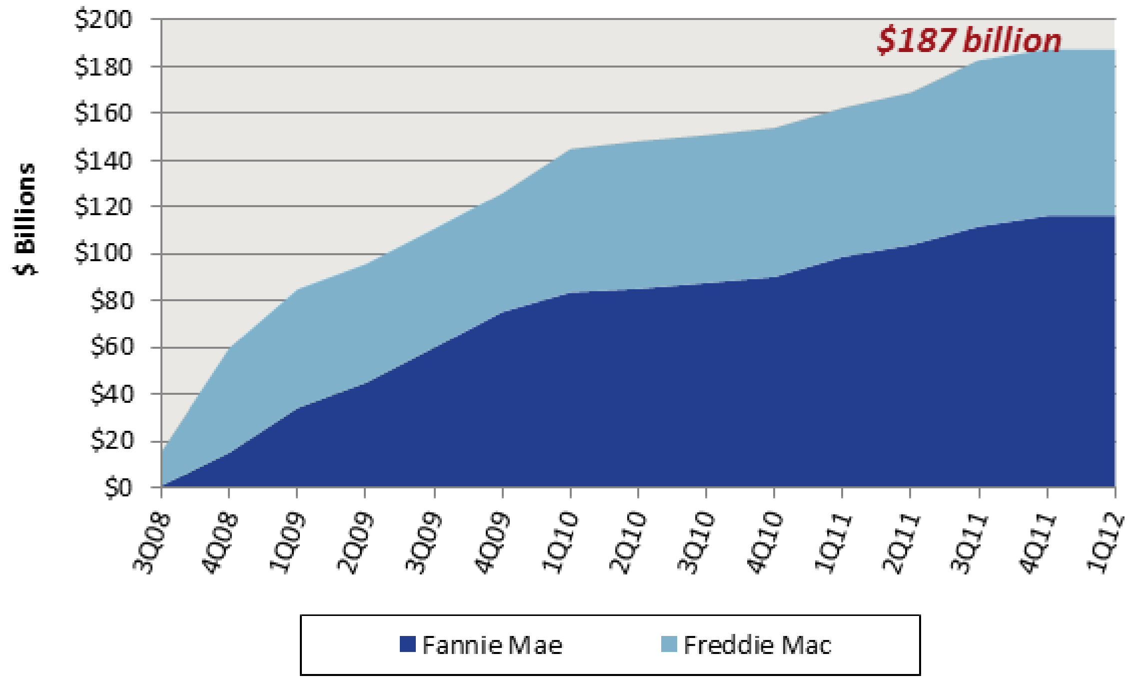
[3] On December 24, 2009, the PSPAs were amended to replace the $200 billion per Enterprise funding commitment cap with a formulaic cap that adjusted the cap upwards quarterly over the following three years by the cumulative amount of any losses realized by the Enterprises and downwards by the cumulative amount of any gains, but not below $200 billion for each Enterprise. The cap will become fixed at the end of the three-year period following the December 2009 PSPA Amendments, on December 31, 2012. Thereafter, the remaining commitment for Treasury will be fixed and available to be drawn by the Enterprises per the terms of the PSPAs.

Federal Government Support Since the Commencement of the Conservatorships[4]



In return for Treasury's commitment to provide the necessary draws, the Enterprises must fulfill a number of obligations. First, each Enterprise issued to Treasury senior preferred stock in the amount of $1 billion, with a liquidation preference[5] of that amount plus the amount of all draws contributed to that Enterprise from the inception of the PSPAs. Second, each Enterprise must pay Treasury quarterly dividends on the outstanding draw balance in the amount of 10% per annum until December 31, 2012. After that, the dividend will be based on how much positive net worth the Enterprises attain rather than a percentage of the outstanding draw balance.[6] Third, Treasury holds common stock warrants, which it may exercise for a nominal price at any time, allowing it to purchase up to 79.9% of each Enterprise's common stock. Fourth, each Enterprise

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[4] Source: FHFA, *Data as of May 10, 2012 on Treasury and Federal Reserve Purchase Programs for GSE and Mortgage-Related Securities*, at Table 1 (online at http://www.fhfa.gov/webfiles/23922/TSYSupport%202012-05-10.pdf).

[5] A liquidation preference gives Treasury the right, in the event that an Enterprise is dissolved, to receive compensation for its senior preferred stock in that Enterprise before all other stockholders, including common stockholders and other preferred shareholders.

[6] Positive net worth is the amount by which assets exceed liabilities. Starting in 2013, each Enterprise must pay in dividends to Treasury the amount of its positive net worth over $3 billion. Over time, each Enterprise will be required to pay more of that positive net worth to Treasury, such that starting in 2018, the Enterprises' dividend amounts will be equal to their entire positive net worth. As of January 1, 2013, if the Enterprises do not attain a positive net worth, they will not owe dividends to Treasury.

owes Treasury a commitment fee on a quarterly basis, although this fee has been consistently waived by Treasury, and will be permanently suspended so long as the current dividend formulation remains in place.

In addition, the PSPAs require the Enterprises to adhere to certain covenants unless Treasury allows otherwise. The covenants require that the Enterprises reduce their mortgage portfolios by 10% per year (15% after December 31, 2012) until they reach $250 billion. The PSPAs also prohibit the Enterprises from making any changes to their capital structure, issuing capital stock, increasing their debt significantly, paying out any dividends (other than those to Treasury), engaging in certain transactions with affiliates, setting new compensation for high-level executives, or disposing of any assets greater than $250 million or assets not for "fair market value" outside of "the ordinary course of business." Finally, the covenants require that the Enterprises may not seek to terminate the conservatorships overseen by FHFA without the consent of Treasury, unless the termination is in connection with a receivership. Beginning December 15, 2012, the Enterprises must also provide Treasury with annual risk management plans.

Certification Requirements

In addition, the PSPAs include specific certification requirements applicable to FHFA. Section 2.2 of the PSPAs requires, with respect to the quarterly draws, the submission to Treasury of "a certification of the Designated Representative [FHFA] that the requested amount does not exceed the Available Amount as of the end of the applicable quarter."[7] FHFA has provided to Treasury certifications in compliance with section 2.2 since the commencement of the conservatorships.

Section 5.9, paragraphs (a) through (c), of the PSPAs requires that "Seller [each Enterprise] must provide to Purchaser [Treasury]" financial reports—Forms 10-Q and 10-K—filed with the SEC, in addition to any intermittent reports of material changes required by the SEC Form 8-K. Section 5.9 goes on to require a second certification from FHFA each quarter that the Enterprises' financial and intermittent reports contain no materially false or misleading representations, as well as a third certification that the Enterprises have been in compliance with the covenants (sections 5.1 through 5.10 of the PSPAs) during the relevant period, as follows:

> Concurrently with any delivery of financial statements under paragraphs (a) or (b) above, a certificate of the Designated Representative [FHFA], (i) certifying that Seller is (and since the last such certificate has at all times been) in compliance

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[7] The "Available Amount" under the PSPAs is the amount by which each Enterprise's liabilities exceed its assets at the end of each quarter, so long as it is not greater than the total amount Treasury is committed to provide. The Available Amount is equivalent to the draw.

> with each of the covenants contained herein and that no representation made by Seller herein or in any document delivered pursuant hereto or in connection herewith was false or misleading in any material respect when made, or, if the foregoing is not true, specifying the nature and extent of the breach of covenant and/or representation and any corrective action taken or proposed to be taken with respect thereto, and (ii) setting forth computations in reasonable detail and satisfactory to the Purchaser of the Deficiency Amount, if any. …

From the beginning of the conservatorships until June 2012, FHFA did not certify compliance with the covenants. Instead, it indicated in its draw requests on behalf of Fannie Mae and Freddie Mac only that it had "received certifications from the [Enterprise] regarding [its] compliance with all the covenants set forth in Section 5 of the [PSPAs]."[8] The Enterprises were solely responsible for the covenant certifications on which FHFA relied in its letters to Treasury, and until recently, FHFA neither verified nor validated the results of the process. In addition, throughout that same time period, FHFA did not provide to Treasury certifications with respect to the Enterprises' SEC filings and related documents, despite that the clear language in the provision requires such certifications.

FHFA regarded the language (i.e., "received certifications from the [Enterprise] regarding . . .") as sufficient to comply with the PSPAs because the practice had been used from the first draws under the PSPAs, and Treasury did not raise objections to this practice.

FHFA's Oversight of the PSPAs and Enterprise Certifications

The PSPA Covenants

FHFA exercises oversight of Enterprise activities in a number of ways during the regular course of business. Generally, FHFA manages the PSPAs through its Office of Conservatorship Operations (OCO), which serves as a principal point of contact between the Agency and the Enterprises. OCO officials attend nearly all of the executive management meetings at the Enterprises and take formal minutes. OCO also attends all Enterprise board meetings. Further, the FHFA Acting Director has biweekly meetings with the CEOs of the Enterprises. In addition, a number of high-level FHFA officials have regular communication with the Enterprises

[8] In making their quarterly certifications to FHFA, each Enterprise follows a procedure in which officials at the Vice-President or Senior-Vice-President level from relevant business areas attest to the fact that the covenants relevant to their work at the company were followed. These individuals provide this assurance in writing to their supervisors, Senior Vice Presidents or Executive Vice Presidents, who in turn provide their own written assurances of compliance. A binder of these "sub-certifications" is put together each quarter. This binder stands to support the letter from each Enterprise to FHFA assuring compliance with the covenants of the PSPAs and the necessity and appropriateness of the draw request, to the extent one is made.

regarding compensation issues and attend meetings on major strategic and line-of-business initiatives. On a weekly basis, these and other FHFA officials meet to discuss relevant matters.

In addition, in late 2011, OCO updated and centralized its tracking process for Enterprise transactions and matters for consideration by FHFA as conservator. Such issues have included: informational items, items requiring conservatorship approval pursuant to the delegation letters, approval of new products, and other items for which the Enterprises seek approval or non-objection.

These administrative structures enhance OCO's ability to identify issues that should be remanded to Treasury for approval under the PSPAs. Moreover, during the course of FHFA-OIG's review of FHFA's efforts to ensure Enterprise covenant compliance, FHFA implemented additional improvements to its oversight. OCO now attends the final meetings at the Enterprises regarding covenant certification. In addition, FHFA's Acting Director has approved directing the Enterprises' external auditors—PricewaterhouseCoopers and Deloitte & Touche—to review and test the covenant certification process. These auditors are currently working with FHFA to develop and implement such procedures.

The Financial Statements and Related Documents

The Enterprises' SEC Form 10-K and 10-Q filings are audited by PricewaterhouseCoopers (for Freddie Mac) and Deloitte & Touche (for Fannie Mae). As discussed above, the PSPAs require the additional step of FHFA certification to Treasury that there are no material misstatements in these documents or any other documents required under the PSPAs.

FHFA's review of the Enterprises' SEC filings is a fairly extensive process.[9] The Office of the Chief Accountant (OCA), which coordinates the process, reviews drafts of the filings and assigns to appropriate FHFA groups responsibility for completing their own reviews of relevant sections and sub-sections. These reviewers provide comments to OCA, which aggregates and shares the comments with the Enterprises. After the Enterprises revise the filings, if appropriate, OCA checks them to ensure FHFA's substantive comments were incorporated and follows up as necessary. Before the filings are finalized, OCA organizes a meeting with FHFA's senior leadership and the FHFA Acting Director at which important and unresolved issues are highlighted. Once all material issues are resolved to FHFA's satisfaction, the FHFA Acting Director then signs an Acknowledgment Letter, which allows the Enterprises to complete their filings with the SEC. In addition, it should be noted that pursuant to the Sarbanes-Oxley Act of

[9] Although FHFA-OIG examined the process used to review SEC filings, it did not test the material accuracy of the Enterprises' financial statements.

2002,[10] the executive officers of the Enterprises are required to provide certifications along with the filings, assuring that there are no material misstatements or misrepresentations in them.

Nevertheless, until June 2012, FHFA did not provide Treasury with a certification that the Enterprises' filings and related documents were free of materially false or misleading statements.

[10] Public Law No. 107-204.

FINDINGS

Until June 2012, FHFA Did Not Make Its Own Certifications of the Covenants and Financial Statements and Related Documents, but Instead Relied on Certifications or Assurances of the Enterprises

The PSPAs require FHFA, not the Enterprises, to make certifications to Treasury regarding covenant compliance. When FHFA-OIG began this evaluation, FHFA did not make these certifications. In addition, FHFA did not oversee through independent testing or validation the process by which the Enterprises confirm and certify their compliance.

It is important to note, however, that despite this lack of certification or oversight by FHFA, FHFA-OIG conducted limited testing of covenant compliance by the Enterprises and found no other violations of the PSPA covenants by either Enterprise.

The PSPAs further require FHFA to make certifications to Treasury that the Enterprises' financial statements and related documents provided pursuant to the PSPAs do not contain materially false or misleading representations. Nevertheless, until June 2012, FHFA did not provide, and in fact made no mention of, a certification of the financial statements and related documents in its quarterly letters to Treasury regarding the draws under the PSPAs.

Since FHFA-OIG Completed the Fieldwork for this Evaluation, FHFA Implemented Steps to Oversee the Enterprises' Compliance and Certification Process and in June 2012 Began Providing the Required Certifications

After FHFA-OIG completed its fieldwork in connection with this evaluation, it alerted FHFA officials in an April 19, 2012, meeting to preliminary findings and recommendations regarding FHFA's failure to certify that the Enterprises were in compliance with the PSPA covenants and that the Enterprises' financial statements and other documents were free of materially false or misleading representations. At that meeting, FHFA officials informed FHFA-OIG that they had implemented new procedures to oversee Enterprise compliance efforts. For example, Agency officials had begun attending Enterprise certification meetings and proposed engaging external auditors to test covenant compliance. Furthermore, the Agency indicated that it would consider "tweaking" the language in its draw letters to Treasury to address FHFA-OIG's concerns.

Thereafter, and following discussions with Treasury, FHFA began in June 2012 to provide the required certifications. A June 11, 2012, letter from the FHFA Acting Director to Treasury requesting a quarterly draw of funds for Freddie Mac is included at Appendix C as an example of these certifications. FHFA has indicated that it intends to include this certification language, covering both PSPA covenants and Enterprise financial statements, in all future draw requests.

CONCLUSION

FHFA is required by the PSPAs to make three quarterly certifications. However, until June 2012, FHFA made only one—namely that the Enterprise draw amounts do not exceed what is allowed.

Following the completion of FHFA-OIG's fieldwork, FHFA-OIG called FHFA's attention to its gap in compliance with the terms of the PSPAs. As of April 2012, FHFA initiated additional oversight procedures regarding Enterprise covenant compliance; as of June 2012, FHFA began to provide each of the certifications required under the PSPAs.

RECOMMENDATIONS

After FHFA-OIG finished fieldwork on this evaluation, it prepared the following preliminary recommendations:

FHFA should:

- Adhere to the requirements in the PSPAs that it certify: (1) that the Enterprises have complied with the PSPA covenants; and (2) that the Enterprises' financial statements and related documents provided to Treasury under the PSPAs are free of materially false or misleading representations.
- Implement oversight procedures to ensure the Enterprises' compliance with PSPA requirements.

Since FHFA-OIG completed its fieldwork, however, FHFA has fully addressed FHFA-OIG's preliminary recommendations. FHFA has implemented additional procedures to oversee the Enterprises' certification processes. FHFA officials now attend the Enterprises' meetings regarding certification of compliance with the covenants. In addition, at FHFA's request, the Enterprises are engaging their outside auditors to test their covenant compliance.

Following FHFA-OIG's April 19, 2012, meeting with FHFA officials, FHFA and Treasury developed language for making certifications with respect to both the Enterprises' compliance with the PSPA covenants and the representations in their financial statements and other documents pursuant to the PSPAs. In its June 11, 2012, draw letter to Treasury, FHFA included appropriate certifications.

FHFA-OIG believes that these certifications, along with FHFA's improved review and monitoring procedures, reinforce the Agency's responsibilities under the PSPAs, can provide a necessary and appropriate additional layer of protection against errors, and help reduce the risk of misuse or waste of taxpayer dollars.

Now that FHFA has fully addressed FHFA-OIG's findings and recommendations in this matter, FHFA-OIG is closing out its evaluation regarding FHFA's certification requirements.

APPENDIX A:
Objective, Scope, and Methodology

The purpose of this review is to report the results of FHFA-OIG's evaluation of FHFA's implementation of the PSPAs.

To assess the appropriateness of FHFA's implementation of the PSPAs, FHFA-OIG analyzed:

- Relevant documents to identify the systems in place to ensure compliance with the PSPAs with respect to the covenants;
- Protocols at the Enterprises to address compliance and the extent to which they were reviewed by FHFA;
- Guidance provided by FHFA or developed at the Enterprises to ensure compliance with PSPAs;
- FHFA processes to identify and consider transactions proposed by the Enterprises;
- All Enterprise transactions considered for conservatorship decision making from 2009 through 2011 to determine how they were affected by FHFA's approach; and
- Interviews conducted with FHFA and Enterprise officials.

Using these sources, FHFA-OIG conducted limited tests of covenant compliance at the Enterprises by reviewing a purposive sample of Enterprise transactions. From that list, and from information obtained by a review of documents and emails, FHFA-OIG gathered further information about certain transactions through additional documents provided by the Enterprises and additional interviews with Enterprise and FHFA personnel. FHFA-OIG found no instances in which the Enterprises violated covenants under the PSPAs other than not providing certifications regarding the covenants and the financial statements.

FHFA-OIG also examined the processes that the Agency uses to review Enterprise SEC filings. FHFA-OIG did not independently test the material accuracy of the Enterprises' financial statements, which are independently audited.

This evaluation focuses on the covenants in PSPA Section 5.9 that require FHFA to make certain certifications. Additional reviews by FHFA-OIG on FHFA's compliance with PSPA covenants are ongoing.

This evaluation was conducted under the authority of the Inspector General Act and is in accordance with the *Quality Standards for Inspection and Evaluation* (January 2011), which was promulgated by the Council of Inspectors General on Integrity and Efficiency. These standards require FHFA-OIG to plan and perform an evaluation that obtains evidence sufficient to provide reasonable bases to support the findings and recommendations made herein. FHFA-OIG believes that the findings discussed in this report meet these standards.

APPENDIX B:
FHFA's Comments

Federal Housing Finance Agency

MEMORANDUM

TO: George Grob, Deputy Inspector General for Evaluation

FROM: Jeffrey Spohn, Senior Associate Director for Conservatorship Operations

SUBJECT: FHFA response to the OIG's evaluation of Certifications for the Preferred Stock Purchase Agreements - Evaluation 2011-18

DATE: August 8, 2012

This memorandum transmits the Federal Housing Finance Agency's (FHFA) response to the evaluation performed by your staff. FHFA would like to thank the Office of Inspector General (OIG) for the review of FHFA's Certifications for the Preferred Stock Purchase Agreements (PSPA). Throughout the review, the FHFA-OIG evaluation team kept FHFA officials informed of their progress through constructive two-way dialogue.

As a result, FHFA was able to take immediate actions to strengthen PSPA oversight controls that were identified by the OIG evaluation team. FHFA established processes to enhance ongoing compliance with the PSPA and has implemented additional procedures to oversee the certification processes including the engagement of the Enterprises' external auditors to independently test the covenant compliance. FHFA believes that the observations and recommendations made by the OIG and subsequently implemented by FHFA will improve the oversight of the PSPA process.

FHFA has fully addressed FHFA-OIG's preliminary findings and recommendations in this matter. Consistent with our discussions, FHFA-OIG is closing out its evaluation regarding FHFA's compliance with the PSPA's certification requirements.

APPENDIX C:
June 11, 2012, Letter from FHFA to Treasury

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

June 11, 2012

The Honorable Mary Miller
Under Secretary for Domestic Finance
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Federal National Mortgage Association – Second Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement dated December 24, 2009, Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement dated May 6, 2009, and Amended and Restated Senior Preferred Stock Purchase Agreement dated September 26, 2008

Dear Under Secretary Miller:

In accordance with the determination of the Deficiency Amount as of March 31, 2012, the Designated Representative hereby informs the Purchaser that no request for funds will be made for the period ending March 31, 2012.

The Designated Representative certifies that it has received certification from the Seller that Seller has complied with all covenants set forth in Section 5 of the Agreements. Based on its continuous oversight and supervision of the Seller's business, which includes a system to receive information about Seller's activities and to direct any needed review and response to the appropriate staff at the Designated Representative, on-site staff monitoring of diverse organization functions, attendance at management committee meetings, board meetings, committee meetings leading to public financial reports, detailed review of quarterly and annual SEC filings, consultation between Designated Representative's executives and senior and other responsible executives of the Seller, the Designated Representative certifies that to the best of its knowledge, having no actual knowledge to the contrary, after due inquiry on the part of the Director or Acting Director of the Designated Representative and the Deputy Director of the Division of Enterprise Regulation into the oversight and supervision noted herein, Seller has complied with each covenant set forth in Section 5 of the Agreements and that no representation made by the Seller in the Agreements or in any document delivered pursuant thereto or in connection therewith was false or misleading in any material respect when made.

400 7th Street, S.W., Washington, D.C. 20024 • 202-649-3801 • 202-649-1071 (fax)

All terms used in this correspondence shall have the meaning assigned to such terms in the Agreements between the United States Department of the Treasury (Purchaser) and the Federal National Mortgage Association (Seller) acting through the Federal Housing Finance Agency (Agency) as its Conservator (Agency in its capacity as duly appointed Conservator).

Any questions regarding this request should be directed to Jeffrey Spohn, Senior Associate Director, Office of Conservatorship Operations at (202) 649-3040, Jeffrey.Spohn@FHFA.gov.

Sincerely,

Edward J. DeMarco

Edward J. DeMarco
Acting Director

xc: Michael J. Williams, President and CEO, Fannie Mae

ADDITIONAL INFORMATION AND COPIES

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