



Federal Housing Finance Agency

OFFICE OF SUPERVISION

CONFIDENTIAL

August 22, 2008

Daniel H. Mudd
President and Chief Executive Officer
Federal National Mortgage Association
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Re: Notice of Proposed Capital Classification at June 30, 2008
FNM-OCS-2008-711

Dear Mr. Mudd:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act, Division A of the Housing and Economic Recovery Act of 2008, Public Law No. 110-289, 122 Stat. 2654 (2008), and 12 C.F.R. § 1777.21 require that the Federal Housing Finance Agency (FHFA) determines the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. FHFA hereby provides Fannie Mae with notice that the proposed capital classification of Fannie Mae is adequately capitalized at June 30, 2008. The proposed capital classification takes into account the capital management actions, as identified in the Capital Restoration Plan (Capital Plan), to ensure capital was maintained above the FHFA-directed 15 percent requirement as of June 30, 2008.

In making this proposed capital classification, FHFA reviewed Fannie Mae's minimum capital reports submitted on July 30, 2008 and, relying on the information contained in such reports, determined that Fannie Mae's core capital exceeds the FHFA-directed minimum capital requirement, as well as the statutory minimum capital requirement. The FHFA-directed minimum capital requirement was reduced to 15% from 20% on May 19, 2008, after Fannie Mae successfully completed a capital raise of \$7.4 billion.

FHFA also applied the risk-based capital (RBC) stress test, specified in FHFA regulations, to the RBC Report data delivered by Fannie Mae on August 14, 2008 and determined that Fannie Mae's total capital exceeded the required level. The proposed capital classification is based upon financial information that is certified and represented as true and correct by Fannie Mae's management.

During the second quarter, Fannie Mae has maintained a capital surplus in accordance with the Capital Restoration Plan, approved February 17, 2005. FHFA will continue to expect that Fannie Mae's quarterly capital plans demonstrate compliance with the FHFA-directed capital requirement.

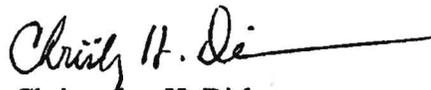
Despite the statutory classification of "adequately capitalized," and Fannie Mae's capital issuance last quarter of \$7.4 billion, further deterioration in housing markets leaves us seriously concerned about the current level of Fannie Mae's capital. As a reminder, FHFA's Director has discretionary authority to downgrade a capital classification.

Separately, FHFA determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

The enclosures summarize FHFA's calculation of Fannie Mae's critical, minimum, and risk-based capital levels and total qualifying subordinated debt levels at June 30, 2008.

Please provide a written response to this notice not later than September 5, 2008. The response must provide either Fannie Mae's concurrence with the proposed classification or additional information for FHFA's consideration in classifying or reclassifying Fannie Mae. Fannie Mae's failure to respond within the allotted response period, unless otherwise extended by FHFA, shall waive any right of Fannie Mae to comment on or object to the proposed classification. The notice should be provided to me with a copy to Scott Smith, Associate Director, Office of Capital Supervision. If you have any questions please feel free to contact Scott or me.

Sincerely,



Christopher H. Dickerson
Acting Deputy Director
Division of Enterprise Regulation

Enclosures

cc: Stephen Swad
Bill Senhauser

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	21,891
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	10,135
Commitments	296
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	155
Other Off-Balance Sheet Obligations	153
MINIMUM CAPITAL LEVEL - Statutory Requirement	32,631
MINIMUM CAPITAL LEVEL - FHFA-directed 15% Requirement	37,525
CORE CAPITAL	46,964
SURPLUS (DEFICIENCY) (based on FHFA-directed Requirement)	9,439

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Critical Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,946
OFF-BALANCE SHEET OBLIGATIONS	5,966
CRITICAL CAPITAL LEVEL	16,912
CORE CAPITAL	46,964
SURPLUS/(DEFICIENCY)	30,053

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	6,198
DOWN-RATE SCENARIO	36,288
RISK-BASED CAPITAL LEVEL	36,288
TOTAL CAPITAL	55,568
SURPLUS/(DEFICIENCY)	19,280

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2008

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	55,568
TOTAL QUALIFYING SUBORDINATED DEBT	5,689
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	61,256
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	45,572
SURPLUS (DEFICIENCY)	15,684

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
 - a) The corporation's core capital falls below 125% of critical capital, or
 - b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act