

FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 8-K
October 23, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 8-K
CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): October 19, 2009

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

| | | |
|--|-----------------------------|---|
| Federally Chartered Corporation | 000-50231 | 52-0883107 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |
| 3900 Wisconsin Avenue, NW, Washington, District of Columbia | | 20016 |
| (Address of principal executive offices) | | (Zip Code) |

Registrant's telephone number, including area code: 202-752-7000
Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

On October 19, 2009, Fannie Mae (formally known as the Federal National Mortgage Association) entered into a Memorandum of Understanding (the MOU) with the U.S. Department of the Treasury (Treasury), the Federal Housing Finance Agency (FHFA) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Description of MOU

The MOU sets forth the terms under which Treasury and, as directed by FHFA, Fannie Mae and Freddie Mac, intend to provide assistance, through three separate programs, to state and local housing finance agencies (HFAs) so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. The parties' obligations with respect to transactions under the three assistance programs contemplated by the MOU, which will be capped, will become binding when the parties execute definitive transaction documentation.

A copy of the MOU is filed as Exhibit 99.1 to this Report on Form 8-K and incorporated herein by reference. The description of the MOU contained herein is qualified in its entirety by reference to the full text of the MOU filed as Exhibit 99.1 to this Report.

The MOU includes provisions for assistance to HFAs through three programs, as summarized below.

1. *Temporary Credit and Liquidity Facilities Program.* On a 50-50 pro rata basis, Fannie Mae and Freddie Mac will provide three-year standby credit and liquidity support for outstanding variable rate demand obligations (VRDOs) issued by HFAs. This support will be through Temporary Credit and Liquidity Facilities (TCLFs) which provide credit enhancement to the holders of such VRDOs and the obligation to provide funds to purchase any VRDOs that are put by their holders and are not remarketed. Treasury will purchase 100% of the participation interests in all of the TCLFs provided by Fannie Mae and Freddie Mac. These TCLFs, each of which must expire on or before December 31, 2012, will replace existing liquidity facilities from other providers. To be eligible for participation under this program, single-family VRDOs must have a credit rating of BBB or better and multifamily VRDOs must have a credit rating of A or better.

2. *New Issue Bond Program.* On a 50-50 pro rata basis, Fannie Mae and Freddie Mac will issue partially guaranteed pass-through securities backed by new single-family and certain new multifamily housing bonds issued by HFAs. To be eligible for participation under this program, bonds must generally be tax-exempt and must meet certain other criteria, including having a long-term credit rating of Baa3"/ BBB- or better. Treasury will purchase 100% of the pass-through securities issued by Fannie Mae and Freddie Mac and remit the purchase price to the HFAs.

Treasury's purchases of GSE securities and participation interests in TCLFs under these two programs generally must occur by December 31, 2009. Under certain circumstances, settlements of transactions pursuant to documentation executed on or before December 31, 2009 may occur up to January 29, 2010.

Fannie Mae and Freddie Mac will administer the foregoing two programs on a coordinated basis. Treasury will bear the initial losses of principal under these two programs up to 35% of total principal on a program-wide basis, and thereafter Fannie Mae and Freddie Mac each will bear the losses of principal that are attributable to the securities that it issues and its portion of the TCLFs. Treasury will bear all losses of unpaid interest. Under both programs, Fannie Mae and Freddie Mac will be paid fees at the time bonds are securitized, as well as annual fees.

The size of the New Bond Issue Program and the Temporary Credit and Liquidity Facility Program will be capped and will be determined after all requests to participate are received from HFAs. The amount requested for the Temporary Credit and Liquidity Facility Program may not exceed the amount of outstanding bonds supported by facilities to be replaced under that program.

New Issue Bond Program volume will be made available to the HFAs requesting participation by generally using the allocation formula established by the Housing and Economic Recovery Act of 2008 (HERA) for 2008 as a base line. Where the 2008 HERA amounts were not allocated among state and local HFAs within a state, Treasury will determine a final allocation. Temporary Credit and Liquidity Facility Program volume will be made available to the HFAs as Treasury determines. If demand for a program is smaller than these guidelines determined, the program size will be set at a lower amount.

Additional details about the New Issue Bond Program and the Temporary Credit and Liquidity Facility Program will be contained in term sheets expected to be posted by Treasury to a Treasury Web site prior to the time that definitive documents are executed.

3. Multifamily Credit Enhancement Program. Using their existing housing bond credit enhancement products, Fannie Mae and Freddie Mac will each provide credit enhancement on a direct pay basis for individual multifamily project mortgages backing new housing bonds issued by HFAs, which Treasury will purchase from the HFAs. To be eligible for purchase under this program, bonds must generally be tax-exempt and must meet certain other criteria. Treasury will not be responsible for a share of any losses incurred by Fannie Mae or Freddie Mac in this program. The program will not be administered on a coordinated basis, and the fees payable to Fannie Mae or Freddie Mac for each transaction will be individually negotiated. Treasury's purchases under this program generally must occur by December 31, 2009.

Description of Material Relationships with Parties to MOU

As our conservator, FHFA has succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to the company and its assets. As a result, FHFA, in its role as our conservator, has overall management authority over our business. FHFA has generally delegated to the company the authority to conduct its day-to-day operations. FHFA is also our regulator with respect to our safety, soundness and mission.

We, through FHFA acting on our behalf as our conservator, previously entered into a senior preferred stock purchase agreement under which Treasury has committed to provide us with up to \$200 billion in funding under specified conditions. In exchange for Treasury's funding commitment, we issued to Treasury, as an initial commitment fee: (1) one million shares of senior preferred stock and (2) a warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. Because it holds this warrant, Treasury is deemed to be the beneficial owner of 79.9% of the outstanding shares of our common stock. To date, we have received \$44.9 billion in funding under the senior preferred stock purchase agreement, and the senior preferred stock has an aggregate liquidation preference of \$45.9 billion. We have also entered into a lending agreement with Treasury pursuant to which Treasury established a new secured credit facility that is available to us until December 31, 2009 as a liquidity backstop. In addition, we currently serve as program administrator for Treasury's Home Affordable Modification Program.

FHFA is also the conservator of Freddie Mac and, as the conservator of Freddie Mac, has succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to the company and its assets. As a result, FHFA, in its role as Freddie Mac's conservator, has overall management authority over Freddie Mac's business. FHFA has generally delegated to Freddie Mac the authority to conduct its day-to-day operations. FHFA is also Freddie Mac's regulator with respect to its safety, soundness and mission. We hold Freddie Mac mortgage-related securities in our mortgage portfolio and Freddie Mac may be an investor in variable interest entities that we have consolidated, and we may be an investor in variable interest entities that Freddie Mac has consolidated.

For information about the conservatorship (including the rights and powers of FHFA as our conservator), the senior preferred stock purchase agreement, the funding we have received from Treasury under the senior preferred stock purchase agreement, the Treasury credit facility, the warrant we issued to Treasury, our role as program administrator for the Home Affordable Modification Program and our ownership of mortgage-related securities issued by Freddie Mac, see our Form 10-K for the year ended December 31, 2008 filed with the SEC on February 26, 2009, our Form 10-Q for the quarter ended March 31, 2009 filed

with the SEC on May 8, 2009 and our Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 6, 2009.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information required by this Item is incorporated into this Item 2.03 by reference to information under Item 1.01 above.

Item 7.01 Regulation FD Disclosure.

A copy of a Fact Sheet published by Treasury regarding the Housing Finance Agency initiative is attached as Exhibit 99.2 to this report. Treasury's Fact Sheet states that state and local housing finance agencies have recently experienced a number of challenges in the course of the housing downturn that have limited their ability to continue their established role as leaders in providing affordable housing resources for working families, and that the HFA initiative is designed to maintain the viability of HFA lending programs and infrastructure on a temporary basis. Treasury's Fact Sheet notes that the HFA initiative will provide hundreds of thousands of affordable mortgages for working families, enable the development and rehabilitation of tens of thousands of affordable rental properties and provide refinancing opportunities for at-risk borrowers to convert to sustainable mortgages.

Exhibit 99.2 submitted with this report shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of Section 18, nor shall it be deemed incorporated by reference into any disclosure document relating to Fannie Mae, except to the extent, if any, expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The exhibit index filed herewith is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FEDERAL NATIONAL MORTGAGE
ASSOCIATION

By: /s/ Michael J. Williams
Name: Michael J. Williams
Title: President and Chief Executive
Officer

Date: October 23, 2009

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|----------------|---|
| 99.1 | Memorandum of Understanding among the Department of the Treasury, the Federal Housing Finance Agency, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, dated October 19, 2009 |
| 99.2 | Treasury Fact Sheet on Housing Finance Agency Initiative, dated October 19, 2009 |