



October 27, 2010

The Honorable Barney Frank
The Honorable Alan Grayson
The Honorable Corrine Brown
United States House of Representatives
Washington, DC 20515

Dear Members of Congress:

Thank you for your letter regarding reports about the law firms that handle the foreclosure process for our mortgage servicers. I apologize for the length of time it has taken to respond to your letter, however, this has been a situation that continues to evolve. I share your concerns regarding recent allegations of irregularities in the foreclosure process. I want you to know that Fannie Mae takes these allegations seriously. We are working closely with our regulator and conservator, the Federal Housing Finance Agency, to address issues related to the foreclosure process.

As it relates specifically to the Law Offices of David J. Stern, P.A., Fannie Mae has suspended new foreclosure referrals to the Law Offices of David J. Stern, P.A. In addition, Fannie Mae has suspended all activity on our cases that have been sent to the David J. Stern law firm that are not already subject to a foreclosure pause by the servicers. We retained a specialty law firm, Bradley Arant Boult Cummings, LLP, last month to conduct an extensive review of Stern's processes, operations and documentation with regard to work on our behalf, and provide oversight of the firm's handling of existing cases. We are working closely with our regulator on this matter.

In instances where we learn that servicers or law firms are not adhering to our requirements or applicable law, we immediately engage and take appropriate action, which may include termination and notification of applicable law enforcement or regulatory agencies. We will take such additional action as we deem appropriate and as dictated by the results of our review.

Over the past several months, Fannie Mae has been conducting an ongoing review of firms in Florida that are in our Retained Attorney Network. This review, conducted by a third-party consulting firm, is part of our regular oversight of the Retained Attorney Network. Among other issues, the review is focusing on issues such as proper pleading of the right to bring the foreclosure, compliance with Fannie Mae's fee and cost requirements and review of third-party contracts. We are reinforcing with these firms the requirements for the processing of these cases and confirming that proper procedures are in place. These steps will help enable an orderly resolution of existing and future foreclosure cases and meet our mission to provide support to the mortgage market while limiting taxpayer exposure. We will carefully and continually evaluate the Retained Attorney Network and will make adjustments as circumstances warrant.

Additionally, in late August and early September we issued an extensive request for proposals for additional firms that can be added to the Retained Attorney Network in light of increasing volume. We have been diligently reviewing numerous applications from Florida law firms and have issued retention letters to nine new firms. These additional firms will help us to manage and process future foreclosure referrals in order to bolster our network's overall capacity.

Fannie Mae's contract with our mortgage servicers requires servicers to supervise and manage the day-to-day activities of the law firms handling foreclosures and bankruptcies for us. Fannie Mae's servicers are responsible for ensuring that all foreclosures are performed according to all applicable laws. In addition to the oversight provided by the servicers, we employ a number of methods to monitor and review the work of Retained Network attorneys, including:

- Approximately 50 Fannie Mae staff dedicated to monitoring Network firms;
- Fannie Mae business and legal representatives conduct on-site visits of Network firms and have visited all Florida firms repeatedly in recent months;
- Several business and legal personnel who spend significant amounts of time on-site at the Florida Network firms working to resolve matters as they arise; and
- Retained a third-party law firm, Bradley Arant Boult Cummings, and a third-party consulting firm to conduct reviews of the Network Firms as mentioned above.

Your letter raises concerns regarding the fee structure for foreclosure attorneys in our Retained Attorney Network. Fannie Mae establishes a fixed maximum fee amount to reimburse servicers for their legal fees in hiring foreclosure counsel for Fannie Mae. The amount of the fee varies by state based on the work generally required to conduct an uncontested foreclosure in that state. Additional legal fees may be paid, if requested and approved, in connection with contested or other non-routine legal matters.

We strongly agree with your statement that "foreclosures are a costly situation best avoided if there are any lower cost alternatives." Fannie Mae's first priority is to support the housing market and help as many distressed borrowers as possible to stay in their homes. Our servicers and law firms initiate foreclosure proceedings when all other loss mitigation options have been exhausted in order to control continued credit losses and the resulting impact on public funds.

If you have any questions, as always, please feel free to contact me directly.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael J. Williams".

Michael J. Williams
President and Chief Executive Officer