SELLING GUIDE

January 2006 Update

January 1, 2006

Transmittal Letter

The attached *Selling Guide* incorporates *Announcements* and a *Letter to Lenders* issued between May 2002 and February 2005, the 2006 maximum mortgage amount limits for all conventional mortgages, and some new policy or procedural changes. Because this incorporation affects a significant number of pages, we are replacing the existing *Selling Guide* pages in their entirety (even though no substantive changes were made to some Parts, Chapters, or Sections). We also are changing the pagination of the *Guide* in order to more easily issue replacement pages in future *Guide* updates.

Each of the *Announcements* and the *Letter to Lenders* that is incorporated into (or superseded by) this *Selling Guide* is listed below, and each significant new policy or procedural change is briefly summarized. The original effective date of the additional policy or procedure (or the date when it was most recently amended) is the date that is shown at each Section where that additional policy or procedure appears. If multiple changes with different effective dates appear in the same Section, only the most recent effective date is shown.

ANNOUNCEMENTS

ANN. #	TOPIC
02-06 (05/08/02)	Document Custodians' Receipt of Bailee Letters
02-08 (06/28/02)	Selling Electronic Mortgages to Fannie Mae
02-11 (09/23/02)	Eligibility Standards for Refinance Mortgages
02-12 (11/27/02)	Changes to Our Conventional Loan Limits and Miscellaneous Changes to Mortgage Eligibility Criteria and Underwriting Guidelines
03-01 (03/10/03)	Changes to the MI Direct™ Process and to the *Mortgage Bankers' Financial Reporting Form* (Fannie Mae Form 1002)
03-02 (03/31/03)	Purchase of Georgia and New York "High-Cost Home Loans"

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ANN. #	TOPIC
03-03 (04/28/03)	New ARM Pooling Option, Lender Requirements, and Changes to Mortgage Eligibility Criteria and to the *Uniform Residential Loan Application*
03-06 (06/03/03)	Mortgage Eligibility and Servicing Procedures for Mortgages Secured by Manufactured Homes
03-07 (07/31/03)	Purchase of Kentucky and Arkansas "High-Cost Home Loans," Manufactured Home Mortgages, and Miscellaneous Changes to Lender Relationship and Master Agreement Policies, Mortgage Documents, Mortgage Eligibility Criteria, Underwriting Guidelines, and Community Lending Mortgages
03-08 (10/07/03)	Reporting Additional Information for Mortgage Deliveries
03-09 (10/15/03)	Guaranteed Rural Housing Loan Program, Hazard Insurance, ARM Plans, and Revised *Uniform Underwriting and Transmittal Summary* (Fannie Mae Form 1008)
03-10 (10/15/03)	Texas Section 50(a)(6) Mortgages
03-12 (11/21/03)	Purchase of New Jersey and New Mexico "High-Cost Home Loans," and Illinois "High-Risk Home Loans"
03-13 (11/25/03)	Changes to Our Conventional Loan Limits, Maximum Daily Mortgage Commitment Limit, and Nonreimbursed Business Expense Policy
03-14 (12/17/03)	Bankruptcy-Related Matters, Delivery Data, and Subordinate Financing
04-01 (04/23/04)	Purchase of Refinanced FHA Home Equity Conversion Mortgages and Miscellaneous Changes to Selling Warranties, Mortgage Documents, Mortgage Insurance Codes, Mortgage Amounts, Credit Score Policy, and to the MI Direct ™ Process
04-03 (06/24/04)	*Uniform Residential Loan Application*, Servicing Agreements, Commitment Pair-Offs, Prepayment Premiums, Flexible 97® Mortgages, Flexible 100™ Mortgages, Manufactured Housing Update, Test Period for Revised Appraisal Report Forms, and Possible Lapse of National Flood Insurance Authority
04-04 (07/30/04)	Test Period for Revised Appraisal Report Forms, Property Condition and Required Repairs Guidelines, and Special Servicing Guidelines
04-05 (08/31/04)	Guaranteed Rural Housing Loan Program, Loan Delivery Data, Right of Rescission Period, Credit Insurance, Debt Cancellation Agreements, Balloon Mortgages, IRS Income Documentation, and Rent Loss Insurance

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ANN. #	TOPIC
04-06 (09/28/04)	Authoritative Online Selling and Servicing Guides, Purchase of Massachusetts "High Cost Home Mortgage Loans," Mortgage Loan Documents, Arbitration, Waiver of Prepayment Premium, Guaranty Fees, and Escrow Accounts
04-07 (11/08/04)	Mortgages Secured by Manufactured Homes, Fannie Mae Purchase of Indiana "High Cost Home Mortgage Loans," Quality Assurance-Documentation Requirements, Southwestern Regional Location-Change of Physical Address, Lenders' Analysis of the Contract for Sale and Sale History of the Subject Property, Property Flipping, Comment Period for Revised Test Appraisal Forms, Servicing Transfers, Lender-Placed Property Insurance
05-07 (11/29/05)	Changes to Our Conventional Loan Limits

LETTER TO LENDERS

LL #	TOPIC
LL01-04 (02/10/04)	Negotiated Product Terms for Mortgages Secured by Manufactured Homes

NEW UPDATES

PART	TOPIC
I: 101	We clarified that we do not require lenders to purchase Fannie Mae stock as a condition of eligibility or in connection with any delivery of a mortgage or participation interest.
I: 103.01	We revised our lender approval requirements for lenders who sell or service cooperative share mortgage loans.
I: 103.06	We revised our lender approval requirements for lenders who sell or service FHA Home Equity Conversion Mortgage loans.
I: 201.07	We revised our policies concerning the termination of servicing rights.
I: 202.01, 202.01 C	We have clarified and restated the lender's data accuracy selling warranty to provide that required delivery data is "true, correct, and complete" because of a new requirement that we certify to HUD that data we provide to HUD is "true, correct, and complete." Our text emphasizes the importance of accurate data because of this new level of reliance. Further, we have revised our text concerning fraud, negligence, misrepresentation, or dishonest, criminal, or knowingly wrongful acts.

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I: 208 - 208.08 II: 201	We clarified our policies concerning when lenders may (or must) repurchase a loan from our portfolio or their MBS pool, and our removal of delinquent special servicing MBS loans by reclassification of such loans as Fannie Mae portfolio loans.
I: 301.01	We updated our minimum requirements for lenders' quality assurance systems.
I: 301.03	We clarified the lender's responsibility to promptly respond to our requests for underwriting files in connection with a quality assurance review.
I: 304.02	We explained that lenders are responsible for reporting the cancellation of any part of the borrower's indebtedness to the U.S. Internal Revenue Service (IRS).
I: 309	We added language to this Section that prohibits lenders from encouraging a borrower to refrain from making payments on the borrower's mortgage loan as a means of making the loan eligible for repurchase from an MBS mortgage pool.
II: 105.01	We deleted the Fixed-Rate Whole First Mortgages Section that described our pricing policies, and revised the numbering for subsequent Sections.
II: 105.01 (NEW)	We revised our pricing policies related to purchasing adjustable-rate whole first mortgages.
II: 105.02	We revised our pricing policies related to purchasing second lien whole mortgages.
II: 106.03	We revised our commitment-related fees for certain regularly amortizing mortgages.
II: CHAPTER 1, EXHIBIT 1	We changed the loan-level price adjustments for Texas Section 50(a)(6) mortgages that are classified as cash-out refinance transactions.
III: INTRO, CHAPTERS 2, 3, AND 4	We changed the language in these Sections to reflect our current business practices with regard to mortgage loan commitments.
III: CHAPTER 1, EXHIBIT 1	We provided legal clarity to the Non-conversion Master Agreements Section by incorporating some of the guidelines described in the Conversion Master Agreements Section.
IV: CHAPTER 2, EXHIBIT 2 AND CHAPTER 3, EXHIBIT 1	We added new Texas Home Equity legal form documents to the lists of security instruments and riders.
V: 101.04	We clarified that we do not require that renewal premiums for lender-paid mortgage insurance be paid annually and added that they may be paid monthly.
V: 102	We updated the Veterans Affairs maximum loan guaranty information.

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V: 104	We clarified our policies related to the delivery of Rural Housing Service (RHS)-guaranteed loans when there is a lapse in the RHS guarantee authority.
V: 202.10	We clarified the amount of title insurance coverage required for FHA Home Equity Conversion mortgages and Home Keeper® reverse mortgages.
V: 301.01	We updated our rating requirements for hazard insurance carriers.
VI: CHAPTER 1	We deleted all references to magnetic tape, which lenders had used to submit loan delivery data.
VI: CHAPTER 2, EXHIBIT 4	We revised the definitions of several Special Feature Codes (SFC), deleted references to declining markets, and updated the SFC list.
VI: 301.01, 302.01	We clarified our mortgage loan document submission package requirements.
VII: 101.02 X: 101.03, 603 GLOSSARY	We changed each occurrence of the terms "resident aliens," "non-resident aliens," and "aliens," to the new term "non-U.S. citizens," and deleted the definitions of "permanent resident alien" and "nonpermanent resident alien."
VII: 102.06 B	We updated the maximum mortgage amounts for cooperative share loans.
VII: 103.02, 104.09, 112.03	We no longer limit the maximum amount of financing for properties located in neighborhoods in which property values are declining.
VII: 106.02	We updated the list of available ARM plans.
VII: 106.03	We explained the method used to calculate a rate when the index plus the margin is equidistant between one-eighths.
VII: 111	We replaced this Section in its entirety to reflect current policies related to InterestFirst™ mortgages.
VII: 112.04	We updated the list of acceptable ARM plans for Texas 50(a)(6) mortgages.
VII: 113.01	We clarified our policies related to down payment requirements and eligible sources of funds for down payment and closing costs for Flexible 97® and Flexible 100™ mortgage loans.
VII: CHAPTER 1, EXHIBIT 3	We updated this exhibit to include the revised InterestFirst™ ARM loan-to-value ratios.
VII: CHAPTER 1, EXHIBIT 4	We clarified the pooling restrictions associated with MBS deliveries that use Standard ARM Plan 3252.
VII: CHAPTER 1, EXHIBIT 5 (NEW)	We added a new exhibit that summarizes Standard InterestFirst™ ARM plans.

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VIII: 202.01 AND EXHIBIT 1	We modified the conditions that constitute a default under our Community Seconds® guidelines.
X: 101	We clarified how lenders may substantiate employment and income for a salaried or commissioned borrower.
X: 101.01	We provided guidance to lenders that need to obtain federal income tax returns from the borrower or from the IRS for certain salaried or commissioned borrowers.
XI: 403.03, 403.04	We combined these Sections and replaced the original text in its entirety to address demand, supply, the trend of property values, and marketing time.
XI: 404.01	We changed our policy to base the appraisal of certain properties, which include one-family and two-family properties that contain an illegal additional unit or accessory apartment, upon the current use of the property.
XI: 406	We revised our sales comparison approach to value policies to ensure the accuracy of market information.
XIII: GLOSSARY	We added new terms and definitions and changed and deleted others to conform to revised policies or changes in regulations or laws.

SUBSTITUTE THESE CHANGED PAGES:

- Discard the current version of the *Selling Guide*, except for the tabs and binder.
- Insert all new pages in this update behind the applicable tabs.

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Lenders should contact their Customer Account Manager if they have any questions about the changes included in the attached *Selling Guide*.

Pamela S. Johnson
Senior Vice President

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