

INTRODUCTION

FHA is announcing its latest sale initiative, SFJV-2002, in which it will sell a majority interest in a public/private Joint Venture formed to acquire, service and dispose of a portfolio of defaulted mortgage loans secured by single-family properties located within the jurisdiction of either of the U.S. Department of Housing and Urban Development's ("HUD") Philadelphia or Atlanta Homeownership Centers ("HOCs"). The Joint Venture will be formed as a Delaware limited liability company ("LLC") in which HUD and the private sector entity will be the Members. The private sector entity will serve as the LLC's Manager and will also be responsible for servicing and asset disposition in its capacity as Servicer.

Under the terms of this new sale initiative, HUD will offer for sale a membership interest in the LLC, which will in turn purchase a loan portfolio together with a pipeline of defaulted, formerly FHA-insured, single-family mortgage loans that meet specific eligibility criteria. The successful bidder will be the bidder whose bid maximizes the capitalized value of the LLC.

Beginning in October 2002, eligible, defaulted single-family mortgage loans will be submitted to FHA by selected FHA servicers for accelerated claim payment. The mortgage loans eligible for transfer or sale to the LLC have been insured by FHA pursuant to Section 203(b) or 234 of the National Housing Act. The mortgage loans will be transferred or sold servicing released and *without* FHA insurance to the LLC for servicing and ultimate disposition.

PRELIMINARY PORTFOLIO*

Unpaid principal balance	\$300-\$500 Million
Total number of mortgage loans	4,000 – 6,000

* Approximate

PRELIMINARY SALE SCHEDULE

August 7:	Bidder Information Package Mailing
August 7-October 21:	Due Diligence
September 18:	Detailed Information Package Mailing
September 18:	Servicer Total Loan Commitment Announcement
September 27:	Bidder Instruction Materials Mailing
October 1:	Bidders' Teleconference
October 22:	Bid Date
October 23:	Best and Final (if required)
October 25:	Transaction Closing Date
November 15:	First Monthly DMLP Closing Date

INNOVATIONS

This sale will be conducted with several innovations. Due diligence materials, including loan-level information in the Detailed Information Package, will be accessed by bidders remotely via high-speed Internet connections or on CD rather than having to visit a due diligence facility. A Bidders' Conference will be held via telephone.

BIDDING STRUCTURE

HUD will conduct a sealed bid auction. The bidders will be purchasing a membership interest in the LLC. Bidders will be required to submit bids on a designated mortgage loan pool ("DMLP") and a pipeline mortgage loan pool ("PMLP"), which will be transferred or sold to the LLC by HUD in return for an ownership interest in the LLC or cash. HUD will calculate the capitalization of the LLC and the award will be made to the bidder whose bid maximizes the capital value of the LLC. Bidders will be required to submit their bids online.

The DMLP loans will be evaluated on a loan-by-loan basis. The PMLP will be evaluated via a pricing matrix that categorizes mortgage loans according to determinants of asset value – loan-to-value, state in which the mortgaged property is located, days in foreclosure, and cash flow. Deliveries will occur monthly. The number of mortgage loans delivered each month will vary; however, total delivery is expected to be made by the sixth month. The Participating Servicers will have committed to minimum delivery goals.

Bidders are required to submit bids to purchase ownership of three different levels of ownership interest in the LLC – 51%, 60% and 70%. Bids will be expressed as a percentage of BPO ("Broker's Price Opinion"). Bidders will be required to submit two bids: (1) a stratified bid on the DMLP; and (2) a pricing matrix for the forward delivery of the PMLP.

BIDDERS' CONFERENCE CALL

A Bidders' Conference Call will be held via telephone on October 1st. Information on the conference call will be available on the FHA Asset Sales website.

ADDITIONAL INFORMATION

Bids will be submitted electronically via the Internet.

DUE DILIGENCE INFORMATION

The bid package will include CD(s) which contain(s) historical servicing and default data relating to the servicers and the FHA-insured mortgage loans in the Philadelphia and Atlanta HOCs that may be included in the sale.

To assist bidders in the preparation of their bids, Ernst & Young LLP has conducted a review of available information provided by HUD with respect to the DMLP and PMLP. As part of this review process, Ernst & Young LLP identified and compiled certain information from the loan history for mortgage loans in the DMLP as well as FHA-insured single-family portfolio data. Ernst & Young LLP's activities consisted solely of loan review and data accumulation and did not include any credit underwriting.

Ernst & Young LLP has compiled for review by bidders a Bidder Information Package ("BIP"), Detailed Information Package ("DIP"), and Bidder Instruction Materials ("BIM").

The BIP includes the following information to the extent available:

- Historical claims paid by HUD in the Atlanta and Philadelphia HOCs
- Historical recoveries received by HUD in the Atlanta and Philadelphia HOCs
- Historical default outcome data on FHA-insured loans in the Atlanta and Philadelphia HOCs

The DIP includes the following information to the extent available:

- The total loan commitments of the Participating Servicers
- A copy of the Bid Evaluation Model, including a mock DMLP and PMLP
- Characteristics of similar assets over the prior 12-36 months from the Participating Servicers
- Mortgage Loan Information Schedule, which includes loan-level information on the mortgage loans in the DMLP, including 12 months of payment histories and shall be updated from time to time.
- Broker Price Opinions ("BPO's") for Mortgage Loans included in the DMLP

The DIP also includes the pricing matrix that bidders will use to bid on the PMLP. The matrix classifies pipeline assets according to state groupings, cash flow, loan-to-value, and days in foreclosure.

The BIM includes the following information:

- Bid Form
- Bidding Instruction
- Final Mortgage Loan Information Schedule
- Bid Model including final DMLP and a model hypothetical pool of defaulted mortgage loans representing the PMLP

DEMONSTRATION SUMMARY

Section 601 of the FY 1999 HUD Appropriations Act amended section 204 of the National Housing Act (12 U.S.C. 1710) to provide HUD with greater flexibility for modifying the single-family claim and property disposition process in order to maximize recoveries on claims paid. HUD contemplates using this new authority to: pay a claim upon assignment of the mortgage rather than upon conveyance of the property; transfer assigned mortgage loans to a Joint Venture for servicing, restructuring, foreclosure, property management and asset disposition. The goals of this new program are to shorten the timeframe in which servicers can file a claim for defaults; to address defaults by aligning private sector interests with HUD's objectives; to reduce HUD's REO portfolio; to increase the value of single-family assets and the recovery to HUD; and to produce savings to HUD.

HUD's first step to apply Section 601's enhanced flexibility is the implementation of the Accelerated Claim Disposition Demonstration ("ACD Demonstration") and SFJV-2002 transaction. A specified number of FHA servicers ("Participating Servicers") will be selected by HUD to submit defaulted single-family mortgage loans to HUD for the payment of an accelerated claim. In turn, HUD will transfer the mortgage loans to a public/private Joint Venture.

ORDERING A BID PACKAGE

Volume I of the bid package, the Bidder Information Package, is available free of charge to qualified bidders starting on or about August 7, 2002. Volume I will contain background information on the FHA single-family mortgage loan sales program, summary historical information on FHA defaulted mortgage loans, claims and recoveries, the LLC Agreement, the Conveyance, Assignment and Assumption Agreement, and general information about FHA. Volumes II of the bid package, the Detailed Information Package, will be available free of charge to qualified bidders starting on or about September 18, 2002. Volume II will contain due diligence instructions, historical default payment data from the Participating Servicers, and a copy of the model used to evaluate bids on CD. Volume III of the bid package, the Bidder Instruction Materials, will be available free of charge to qualified bidders starting on or about September 27, 2002. Volume III will contain detailed bidding and closing instructions, information regarding the evaluation of bids, and the DMLP.

Supplements to the bid package, containing the Servicing Agreement, the Mortgage Loan Information CD and other relevant data and information, including bidder questions and answers, will be supplied at a later date.

To order any volume or supplement of the bid package, prospective bidders must submit a completed Confidentiality Agreement and Qualification Statement. Both documents are available on the FHA Asset Sale Home Page at:

www.hud.gov/offices/hsg/comp/asset/sfam/sfls.cfm

The completed and executed Confidentiality Agreement and Qualification Statement should be mailed and faxed to:

Ernst & Young LLP
1225 Connecticut Avenue, NW
Washington, DC 20036

Attention: Virginia Gilbert
Facsimile: (202) 327-7320

FHA ASSET SALES WEBSITE

The FHA Asset Sales website provides information about current and past FHA sales, general information about FHA, and answers to frequently asked questions. Answers to questions posed by qualified bidders will be posted to this website periodically throughout the due diligence period so all qualified bidders with passwords can access the responses. The website can be accessed at the following web address:

www.hud.gov/offices/hsg/comp/asset/sfam/sfls.cfm

Should you require assistance with the website, contact:

Federal Asset Advisory Company, LLC
475 Fifth Avenue, 12th Floor
New York, NY 10017
Telephone: (212) 824-1150
e-mail: assetsales@faa1lc.com

DISCLAIMER

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FEDERAL HOUSING ADMINISTRATION

As Part of Its On-Going Sales Program

FHA Announces

**SINGLE FAMILY JOINT VENTURE
LOAN SALE 2002**

SFJV-2002

**Approximate
Unpaid Principal Balance: \$300 - \$500 Million
Number of Loans: 4,000 – 6,000**

Transaction Advisor

**Ernst & Young LLP
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