Business Strategy Overview

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Our Businesses

	Single Family	Housing and Community Development	Capital Markets
Business:	Provides liquidity to affordable mortgage markets by issuing MBS or working with lenders to sell loans to the Portfolio.	Provides financing of multifamily loans and equity funding of affordable housing.	Provides liquidity to the mortgage market by both buying and selling assets.
Competitors:	Freddie Mac, private label issuers	Freddie Mac, CMBS, banks, insurance companies	Banks, fixed income funds, central banks, hedge funds
Top Customers/ Counterparties:	Countrywide, Citibank, SunTrust, GMAC and Wells Fargo	Multifamily: Wachovia, Washington Mutual, ARCS, Deutsche Bank and Prudential LIHTC: SunAmerica, Enterprise, Related Companies, Muni Mae and Wachovia	Citibank, JPMorgan Chase, Lehman Brothers, Goldman Sachs, UBS, Bear Stearns, Merrill Lynch
Book of Business:	$2,300 billion	$129 billion Multifamily debt $7 billion affordable housing equity	$725 billion
2005 Net Income:	$2.1 billion	$0.6 billion	$4.3 billion

Corporate costs not allocated to business units in 2005 Net Income.

Information will change as a result of the pending re-audit and restatement of Fannie Mae's financial statements.

Catalysts for Change

- We have become **less relevant** to the market
  - 1995 share of MBS market: 34.7%
  - 2005 share of MBS market: 22.3%

- We have **not kept pace with innovations** in the capital markets used **to manage credit risk**. We, traditionally, have held credit risk or avoided it.
  - 2005 Fannie Mae "conduit" transactions: 0 deals
  - 2005 Private market conduit transactions: 1,343 deals

- We have had a business culture, based on "standard setting," that is **not as hungry, not as market-oriented, and more risk averse** than many of our competitors

- Yet, **we have key strengths**, we can build upon
  - Low cost of capital and cost structure
  - Strong base level of profitability and funds for investments in innovations
  - Outstanding security performance, debt and MBS
  - Good customer relationships
  - Service - it matters when price is close
  - Ability to attract strong people

We have the power to respond to these catalysts

Strategic Response

- **<u>Build outstanding risk management and controls</u>**
- **<u>Optimize the Charter</u>** by entering all permitted businesses, that we are not in now, that make business sense and further the mission
- **<u>Embrace the capital markets to help manage and distribute credit risk,</u>** rather than simply holding or avoiding it
- **<u>Reorient the business culture</u>** of the company to be more market-oriented, hungry, and smart about risk, return, and value
- **<u>Create "brand preference"</u>** through service with particular attention to opportunities for competitive advantages through technology and in the back office

While advancing the Mission and meeting our Mission goals

Optimize the Charter with New Business Initiatives

($ = size of market)

Single Family*	Capital Markets	HCD
▪ Subprime ($456 billion) ▪ Alt A ($254 billion) ▪ 2nds ($269 billion) ▪ Reverse Mortgages ($TBD)	▪ MF CMBS ($31 billion) ▪ <AAA-rated securities ($100 billion)	▪ Small MF Loans ($35 billion) ▪ AD&C ($300 billion)** ▪ Equity ($100 billion)**

Building out Controls and Processes

Billions of dollars of opportunities exist well within the boundaries of our Charter

* Conforming market ** Currently under regulatory review

Embrace the Capital Markets to Manage Credit Risk

- Risk transformation facility
- Credit derivatives
- Collateralized Debt Obligations

<u>One Fannie Mae</u>: we will link closely our capital markets business with the SF and MF businesses

Reorient the Business Culture to be More Market-Oriented

Single Family	Capital Markets	HCD
▪ Market-based pricing ▪ Minimize "cut outs"	▪ Total return approach	▪ Market-based pricing ▪ Minimize "cut outs"
Economic profit metrics		
Empower business leaders		
Create corporate-wide market analytics organization charged with uncovering value in all the markets we serve		
Enhanced controls across all the businesses		

HR Strategy: assure appropriate mix of old and new blood

Create "Brand Preference" through service . . .

. . . with particular attention to technology and back office opportunities:

- Paperless mortgage
- E-commit
- E-servicing transfer
- Customized mortgages

Risk: timing variable due to remedial work on internal systems and controls

Agenda:

- **Housing and Community Development:** Ken Bacon
- **Capital Markets:** Peter Niculescu
- **Single Family:** Tom Lund

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Housing and Community Development

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HCD Overview

- The *commercial housing real estate* market is big:
  - annual production in the ~**$500-$520 billion** range; annual profits in the ~$50-$60 billion range.

- **HCD is a major player in the permanent financing of Multifamily loans and in the equity funding of low income housing tax credits (LIHTC)**
  - 25% share in Multifamily lending; 25% share in LIHTC
  - Fannie Mae also participates, to a minor extent, in the equity and debt financing of acquisition, development and construction (AD&C), and in the financing of small multifamily loans (Small Loans)

- **Profile**:
  - Book of Business: $129 billion ($122 debt, $7 equity)
  - Annual production: $24 billion ($22 debt, $2 equity)
  - Customers/partners: ~60 (40 lending partners, 20 funds/syndicators)
  - 630 employees

> - **Leadership position in Multifamily and Low Income Housing Tax Credits**
> - **Significant growth opportunities across market segments**

What is the Competitive Environment?

	Business	Key characteristics
Debt Businesses	▪ Multifamily	▪ Commercial mortgage backed securities (CMBS) maturing; permanent increase in competition ▪ Decreasing fees ▪ Increasing borrower bargaining power ▪ Increasing use of capital market executions
Debt Businesses	▪ Small Loans	▪ Strong volume potential but competitive market ▪ Fannie Mae whole loan investment opportunity
Debt Businesses	▪ Acquisition, Development & Construction (AD&C)	▪ Attractive spreads (~150-250 bps) in participations ▪ Significant product parameter constraints
Equity Businesses	▪ LIHTC	▪ Fannie largest investor (25% market share) ▪ Stable business with attractive, but decreasing, returns ▪ High community impact
Equity Businesses	▪ For Sale & For Rent	▪ Attractive market but competition driving down returns ▪ Requires several years of ramp up to impact bottom line ▪ High community impact

Attractive market opportunities, but with increasing levels of competition

What is the HCD Strategy?

Business Line/ Segment	Strategy
▪ *Multifamily*	▪ Differentiate lenders – Dynamically manage lenders – Customize partnerships ▪ Implement Risk Transformation facilities (RTF) ▪ Improve processes speed and efficiency
▪ **Community Lending**	
– ***Small Loans***	▪ Expand participation and provide liquidity through three product acquisition channels: – Direct; Aggregator; Micro loans
– ***AD&C***	▪ Build controls, expand participation and provide liquidity through three market strategies: – Large syndicators; Middle Market participations; Small Loan aggregators
▪ **Community Investments**	
– ***LIHTC*** – ***For Sale/ Rent***	▪ Invest in top-tier private label funds ▪ Co-invest directly with developers ▪ Rebalance portfolio based on tax liability needs; trade tax-credits

- **Integrated strategic expansion across all major market segments**
- **Enhanced business operations with improved controls, policies and procedures**

What are the Key Milestones?

Activities	2H06	1H07	2H07
▪ ***HCD-wide***			
– Launch re-organization			
– Promote internally; hire key outside talent			
▪ ***Multifamily***			
– Implement Lender Differentiation			
– Implement process improvements			
– Revise and update policies/procedures			
– Launch RTF			
– Implement risk-based pricing			
▪ ***Community Lending (Small Loans & AD&C)***			
– Update controls, policies and procedures			
– Enhance reporting and deal tracking			
– Develop blueprint for scalable, long term technology platform			
▪ ***Community Investments (LIHTC & For Sale/Rent)***			
– Update controls, policies and procedures			
– Enhance reporting and deal tracking			
– Build new accounting/technology platform			
– Build capability to trade credits			

Continued build out of infrastructure and risk management capabilities

What are the Financial Results?

($ in millions)	2007	2010	C.A.G.R. 2007 – 2010
Net Income	$740 - 750	$1,025 - 1,225	12% - 18%
Economic Profit	$245 - 255	$380 - 520	15% - 27%

- **Significant growth opportunity: double digit returns**
- **Major impact/contribution to Communities**

What are the Business Opportunities to Accelerate Community Transformation?

What we are trying to accomplish	Why we do it	How we do it
Expand Business Opportunities by Accelerating Turnaround of Targeted Communities to Create Healthy, Stable Housing Markets - Serve our Mission	To Create Substantial Value Measured by Affordable Housing Metrics and Shareholder Returns	By Scaling our Ability to Innovate and Deliver Financial Capital, Products and Intellectual Property on a Large, Replicable Basis, and By Mobilizing Networks of Public and Private Partners

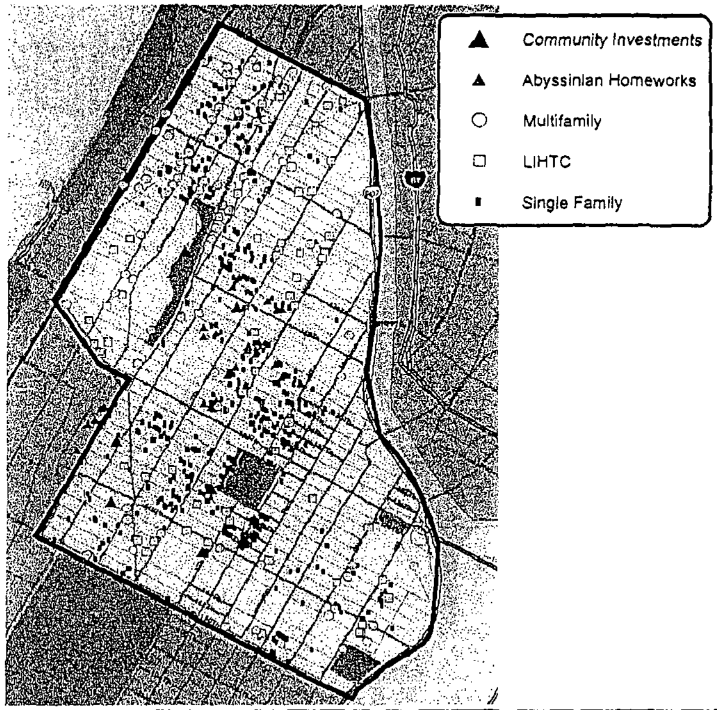
MARKET LEVEL FOCUS
Integrates One Fannie Mae to the Community Level

"The Business is the Mission and the Mission is the Business"

What We Are Trying to Accomplish? Harlem Case Study

Harlem 2005

Map of Fannie Mae investments



- Over five years, Fannie Mae invested more than $570M in Harlem
  - ACF and Multifamily projects, many with market-rate returns
  - Single-family mortgages
- Harlem's homeownership rate increased, from 5% to 13%
- The median home value increased 370%, to $375,000
- Total home purchase mortgage originations increased 180% – while Fannie Mae's acquisitions of home purchase loans increased by 390%
- Our experience in Harlem revealed the significant potential opportunity in targeted, strategic community investments

Leverage a model that works

APPENDIX

- Strategic Initiatives Overview
  - Market Share
  - Multifamily
  - Small Multifamily Loans
  - AD&C
  - Community Investments

Market Share Information By Business Unit

Business Unit	Total Market	Market segments	Total segment size	Fannie Mae market share Current	Fannie Mae market share 2010 (base + inc.)
Community Investments	~$100 bn	For-Sale (SF/MF)	$50* bn	0.3%	1.2%
		For-Rent (MF)	$35** bn	0.6%	2.1%
		Tax Advantaged	$8 bn	25%	25%
Community Lending					
AD&C	~$300 bn (originations)	Large syndicators	$60-$75 bn	1.2%	2%
		Middle Market	$90-$120 bn		
		Small ADC Loans	$90-$120 bn		
Small Loans	~$35 bn (originations)	Top 7 lenders	$13 bn	6%	12%
		~3,000 lenders	$22 bn		
Multifamily	~$85 bn (originations)	Agencies	$28 bn	21%	23%
		Conduits	$32 bn		
		Others***	$25 bn		

* Excludes public equity
** New production only)
*** Life insurers, Bank, Thrifts and other institutions

Strategic Initiatives: Multifamily Strategy

- DUS **market share** and **profitability** under pressure
- **Dated modeling** leading to less **competitive pricing** and **proceeds**
- **"One-size fits all"** approach not aligned to lender performance differences
- **Cumbersome** loan acquisition **process** relative to competitors
- DUS **infrastructure more expensive** than competitors' models

Manage lenders to deliver "Higher value" performance

- Differentially and more dynamically manage lenders to deliver higher value performance
  - Quantitative scorecard
  - Customization
  - "Grow or Go" approach
- Incremental volume and revenue opportunity: ~15-20%
- Business development capabilities:
  - Streamline processes
  - Develop appropriate infrastructure
  - Increase pricing/proceeds competitiveness
  - Build capabilities to distribute risk

Strategic Initiatives: Small MF Loans Strategy

- Small multifamily loan **market is large** and has been **growing quickly**
- **Highly fragmented market** with thousands of regional and community banks
- **Increased competition** is **driving spreads down**
- **Products offered** by active small loan lenders **can resemble single family products**
- **Credit dynamics and attributes** can also resemble single family

Target specific market segments to penetrate relatively untapped market with significant volume potential

- Implement a three channel strategy to penetrate into Small Multifamily Loan market (Direct, Aggregator, Micro Loan)
- Capture at least 10% of growing $30 billion annual market
  - Double annual production from $2 to $4 billion with significant increase in revenue
- Business development capabilities:
  - Adjust risk profile
  - Integrate small loan business with Risk Transformation Facilities
  - Develop and implement analytics and technology platforms
  - Price competitively

Strategic Initiatives: AD&C Strategy

- **Challenging environment**
- Rapidly **changing rules** in business landscape require ability to more quickly adapt
- **Softening** real estate market
- Market moving **away from participation to assignment structures** (latter requiring less fiduciary responsibilities of agent bank)

New strategic approach and investment to significantly expand in growing market, through strategic partnerships

- Strategy to follow enhancement of controls:
  - Meet all regulatory concerns and build/enhance controls prior to expansion
- Implement a three channel strategy to grow the business (large syndicators, middle market participations and syndications, small ADC loan aggregators)
  - Provide standard flow (delegated) and structured (non-delegated) products
  - Partner with 5-7 lenders to aggregate loans from small lenders and builders
  - Continue participation in large syndications
- Infrastructure needs to scale business:
  - Clear risk management policies and procedures allowing greater delegation
  - Streamline operational processes
  - Investment in analytical and reporting technology/tools

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Strategic Initiatives: Community Investments Strategy

- **Tax Advantaged (LIHTC & HTC)**
  - Fannie Mae is the **largest LIHTC investor** (~25% share)
  - **High mission orientation**
  - **Addresses underserved populations**
- **For Rent (MRE)**
  - Low cap rate environment has made MRE portfolio a **net seller of assets**
  - **Unprecedented capital flows** into MF have made acquisitions less profitable
- **For Sale**
  - For Sale market remains challenging due to **anticipated softening market and increased production costs**

New organization designed specifically to grow and penetrate largest profit pool potential in the industry

- Focus on growing For Sale, For Rent, and Tax Credit businesses
  - Invest through top-tier private label funds
  - Increase direct investment with larger developers
  - Build capability to trade credits
- Grow annual volumes from $2.5 to $3.6 bn
- Business development capabilities:
  - Create more effective infrastructure to support scaling up
  - Expand ability to capitalize on opportunistic ventures and utilize Mezz and other financing options
  - Cross sell equity with other Fannie Mae products

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Capital Markets

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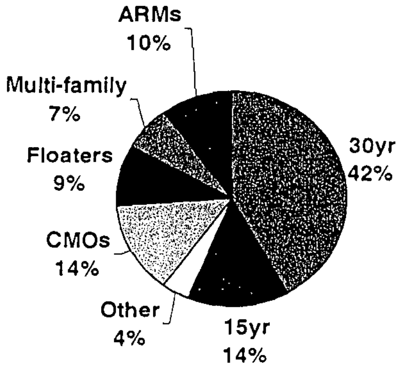
Capital Markets Overview

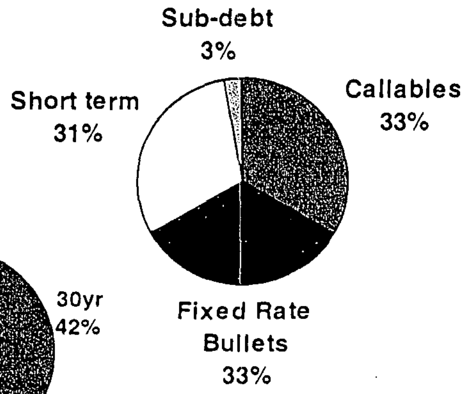
- We issue debt, using the proceeds to provide liquidity to the mortgage market by both buying and selling assets
- We also use our balance sheet to support liquidity of our MBS and to be a backstop bid in market disruptions
- We run the corporation's balance sheet, invest corporate capital and maintain corporate liquidity
- We maximize the total return of our holdings through active management but with minimal interest rate risk

Portfolio Facts

Total Size:	$725 billion
Total Return:	11% (Est 1992-2004)
Market Share:	7.5%
Number of Employees:	500+



Asset Product Mix



Liability Product Mix

The Face of Fannie Mae to the Capital Markets

What is the Competitive Environment?

- Fannie Mae MBS liquidity remains strong, and pricing relative to Freddie Mac Securities remains favorable
  - Steady demand, fueled by domestic Banks and new investors has improved liquidity of MBS
  - Increased competition for acquisitions has also reduced profitability
- Fannie Mae debt pricing has recovered to historically attractive executions, competitive with Freddie Mac and the FHLB
  - More than half of our term debt is callable, giving us a competitive advantage over most other leveraged mortgage investors
  - Investor base is diverse globally and includes all major market segments
  - Derivative liquidity is strong and options prices are low, making asset-liability management easier and less expensive
- But, we have few near term prospects for profitable growth in our on-balance sheet investments

Balance Sheet growth will likely follow a market dislocation

What is the Capital Markets Strategy?

Fostering Liquidity and Innovation

- Support Guarantee businesses by acquiring less liquid mortgages on balance sheet, including innovations such as 40-year term, interest first mortgages, reverse mortgages and reduced servicing
- Support MBS by buying when needed and by expanding the market
- Access low cost capital by tailoring sales using structured asset securitizations and through liquid and structured debt sales

Active Management of our Balance Sheet

- Active management of our investments including asset sales
- Expected to earn excess total returns (double digit returns on economic and regulatory capital)
- Returns and growth will be higher during market dislocations
- Expanded range of investments, including CMBS and PLS

Emphasize Mortgage-backed Securitizations

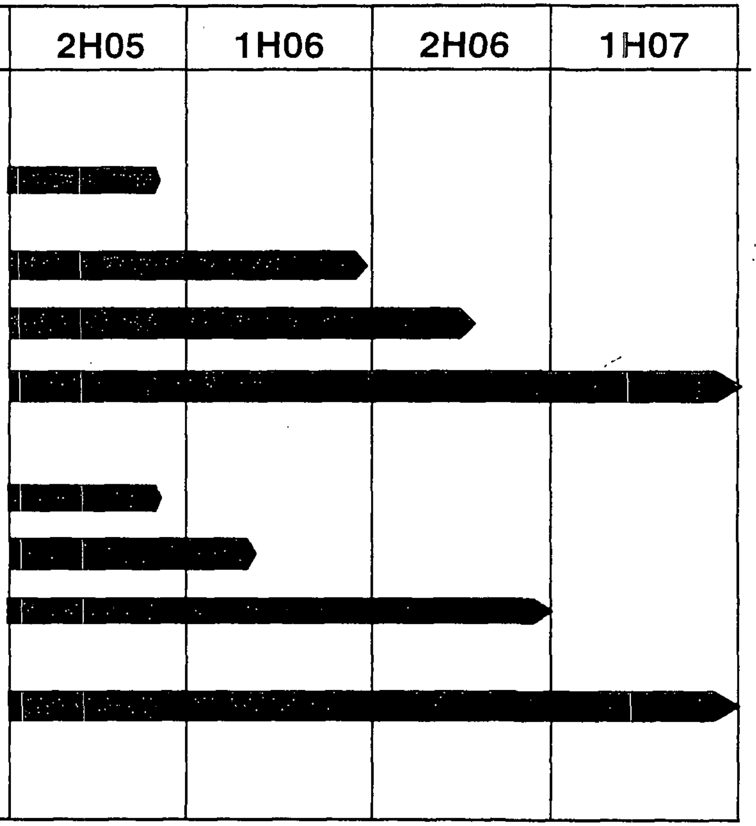
- Expand the market for MBS through securitizations
- Structure REMICs out of our balance sheet to meet investor demand
- Creation of benchmark REMICs provides more liquidity and transparency
- The Risk Transformation Facility builds on our old Wisconsin Avenue Securities program to create structured security solutions for credit risk

Generate shareholder returns by fostering mortgage liquidity and innovation and through securitizations

What are the Key Milestones?

Activities

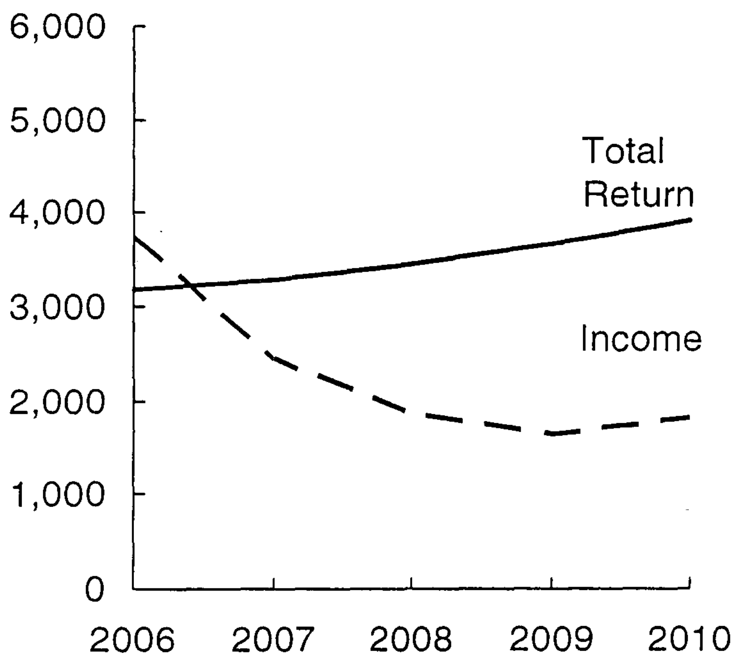
- Securitizations
  - Increased REMIC issuance from our balance sheet
  - Benchmark REMIC program
  - Risk Transformation Facility Phase I
  - RTF Phase II
- More Active Management
  - Active sales
  - Expand purchases to include CMBS
  - Credit risk management capacity improvements
  - Improved return attribution measurements



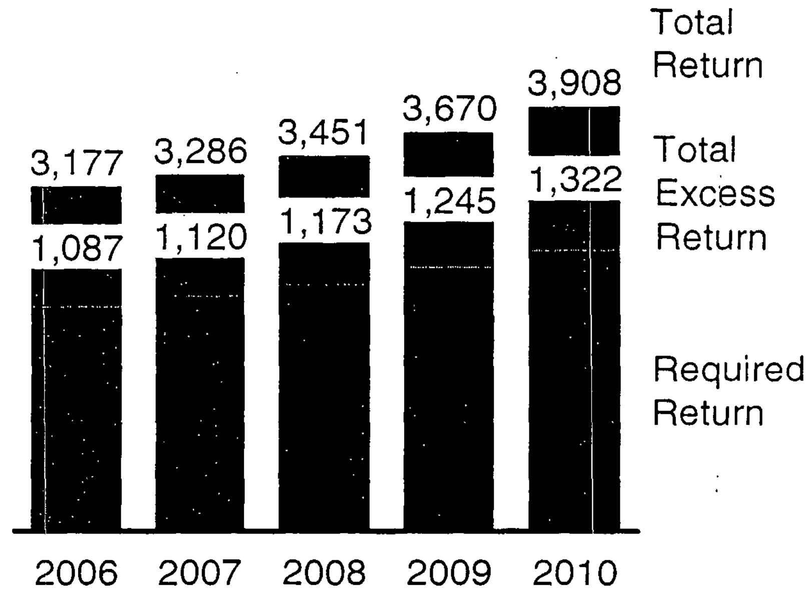
Progress made but more work to do

What are the Financial Results?

Income and Total Return Results
$millions



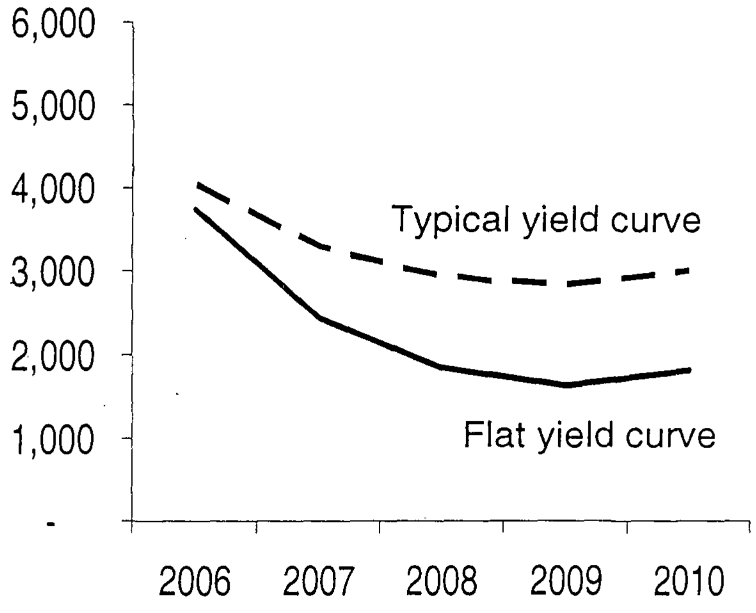
Total Excess Return
$millions



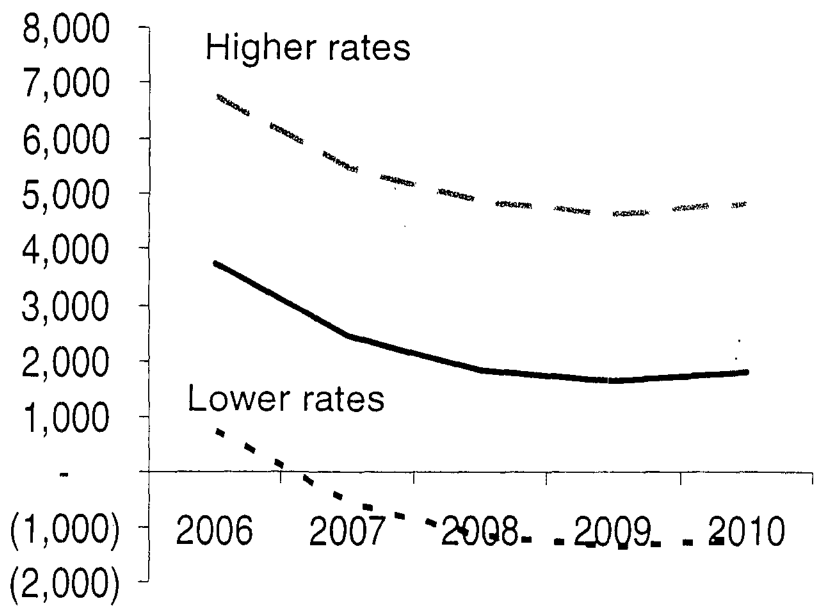
- **Total return is expected to grow, consistent with investment balances**
- **Income declines if the yield curve stays flat due to the maturity of debt issued at lower rates when the yield curve was steep**

Income is Sensitive to the Yield Curve and to Rates

Income is Sensitive to the Yield Curve
$millions



Income is Sensitive to Interest Rates
$millions



- A steeper yield curve will produce higher income
- Interest rates cause changes in derivative values that affect income

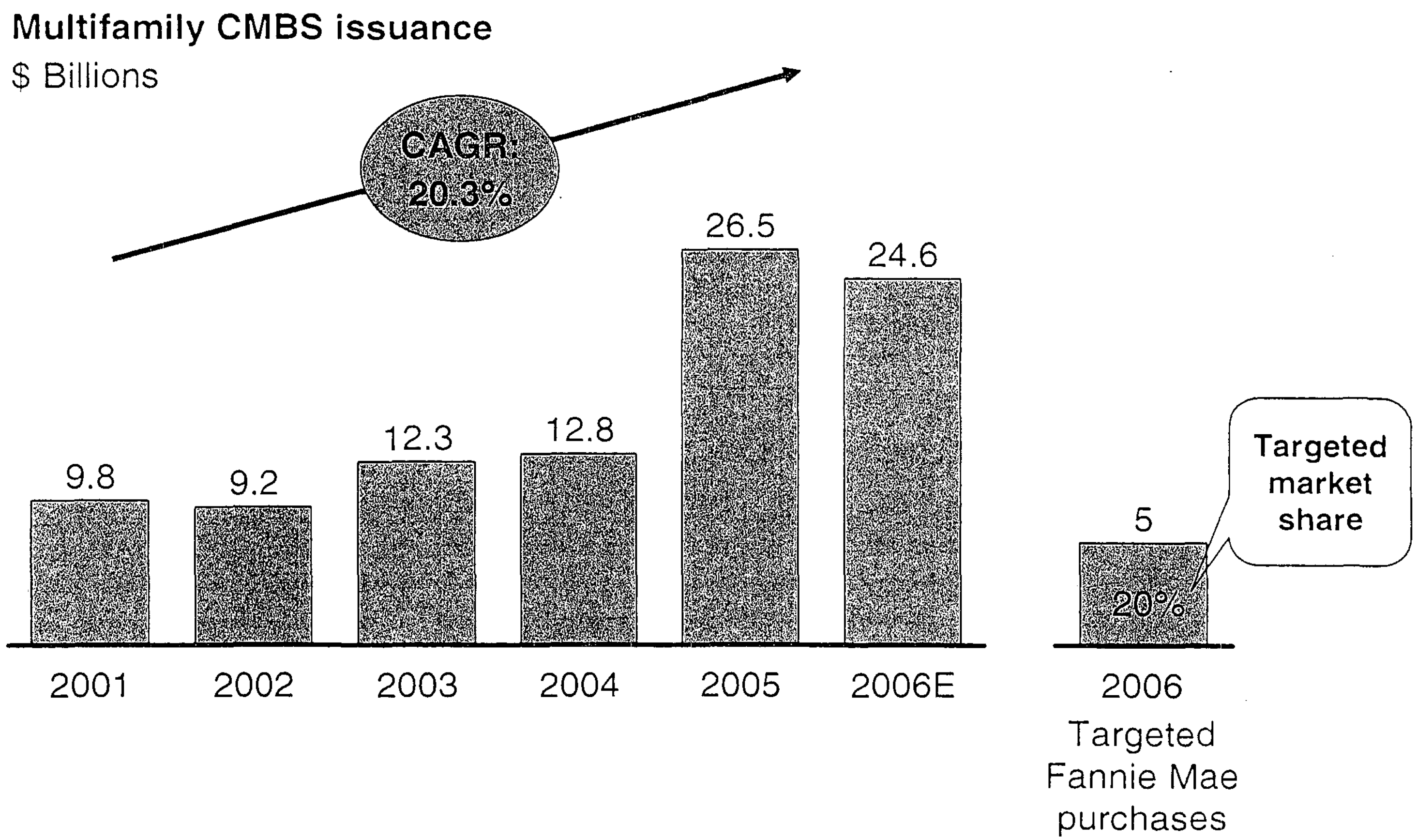
Appendix

Primary types of risk and expected future share of capital markets risk/return strategy

Type	Expected VaR share*	Definition	Rationale	Future exposure
1a Spread – prepayment	80-100%	Exposure to changes in spread due to differences between expected and realized prepayment speeds	With structurally tightening spreads, the spread risk associated with prepayments will likely go down as overall share of VaR	↓
1b Spread – credit		Exposure to changes in spread due to increasing or decreasing credit quality	Capital Markets will likely move into lower credit rated securities	↑
1c Spread – liquidity		Exposure to changes in spread due to illiquidity and or market recognition	Capital Markets may move into more illiquid securities and act as a sponsor for "stranded" securities	↑
2 Volatility	10-25%	Exposure to changes in implied volatility relative to realized volatility	Capital Markets may dynamically hedge volatility risk, since realized volatility historically less than implied	↑
3 Interest rate (duration)	10-20%	Exposure to changes in interest rates	Capital Markets does not view itself as "better than the market" in interest rate forecasting	↔

* Based on each type of risk's current share of total Capital Market's VaR
Source: Fannie Mae

Growth opportunities in a broader credit spectrum: CMBS



Source: Fannie Mae

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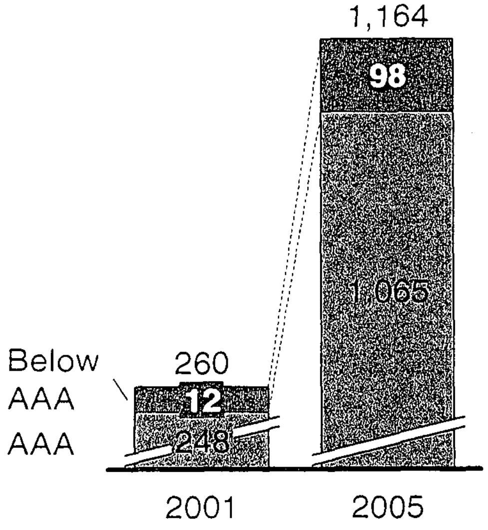
Growth opportunities in a broader credit spectrum: PLS

PLS issuance volume*
$ Billions



Market share of PLS		
< A	1.3%	2.3%
A	1.3%	2.2%
AA	2.2%	4.1%
AAA	95.3%	91.5%

2001-05 CAGR Percent	**Avg. nominal spread**** Basis points	
52%	< A	250bps
	A	50bps
	AA	35bps
34%	AAA	15bps

- Fannie Mae is already participating in the largest share of this market
- PLS market has grown substantially, with below AAA segment growing fastest
- The opportunity is to move into the non-AAA segment
  - Spreads for below AAA products are wider and potentially attractive

* Single-family and multi-family
** Spread to 1 month LIBOR and adjusted for counterparty defaults
Source: Bloomberg, Lehman Brothers, UBS

Additional Capabilities Required

Operations and Technology

- Implement systems for total return management strategy (e.g. PDS)
- Strengthen attribution analysis and reporting capability
  - Increase frequency
  - Increase granularity (e.g. security specific factor analysis)

Risk Management

- Increase range of risk metrics employed
- Expand credit risk management capabilities for lower than AAA
- Define checks and balances consistent with expanded authority

Talent and Culture

- Acquire talent consistent with expanding the investment opportunity set (e.g. credit risk spectrum)
- Evaluate incentive structures based on change to Total Return strategy

Stakeholder communications

- Create both internal and external (debt and equity) targeted communications plan for Total Return strategy
- Develop clear financial reporting and performance metrics (e.g. FMV)
- Create attribution of total return, plus reconciliation to GAAP

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Single Family Business

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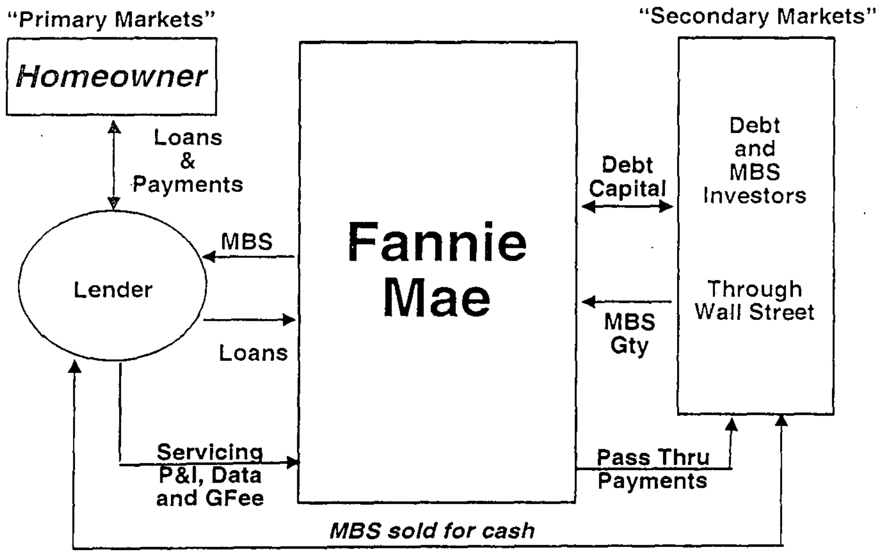
Single Family Overview

- Provide "liquidity" by guarantying loans that are funded through a AAA mortgage back securities ("MBS") or purchased into the FNM portfolio
- Lenders reapply the proceeds from those loan sales into new loan originations
- As the guaranty fee income received by FNM exceeds losses and operating expenses, earnings are generated for shareholders



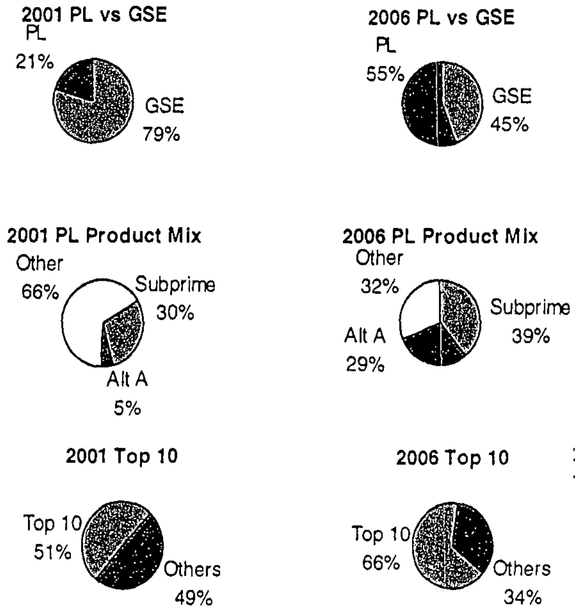
Single Family 2006:

- *\$2.25 trillion guaranty book*
- *25% market share*
- *>\$500bn 2006 acquisitions*
- *\$5.1bn revenue; \$4.1bn pre-tax income*
- *21bps weighted average guaranty fee on the book*
- *Annualized book losses of 1.4bps*

SF mortgage debt outstanding is \$9.5T and expected to grow at 5-8% per year through 2010

What is the Competitive Environment?

- FNM loss of share, having said “no” to certain segments and risk types
- Substantial private label (“PL”) growth (new breed of competitor)
- Changes in product, risk and processes (as fueled by private label market, consumer demand)
- Continued consolidation and vertical integration
- Demographic trends, particularly minority growth, aging of population and pending retirement funding gap fueling growth
- Lender pursuit of efficiency, tech investment



<u>Our core capabilities in these markets</u>: MBS is best priced, most liquid security; most efficient to do business; certainty of delivery; local teams add value beyond price; talent.

A changing mortgage market poses big challenges, but FNM has major advantages to deploy toward a new YES strategy

What is the Single Family ("Yes") Strategy?

❑ **Objective**
- *Achieve sustained profitable growth while acquiring every available goals-rich loan, and reset incentives*

❑ **Operating Principle**
- *Participate broadly and compete directly to regain and win new share*

❑ **Positioning**
- *Expand appetite and provide maximum liquidity for relevance, while optimizing risk/return and risk transfer*

❑ **Risk Appetite**
- *Operate at the market for growth segments, pay the cost of entry and exploit cycles*

❑ **Consolidation/Segmentation**
- *Support all segments, separately optimizing each one with enhanced targeted solutions*

Why Will This Approach Be Effective:

- New risk tolerance
- No longer a quasi-"regulator"
- Market orientation
- Risk transfer tools
- "Buy all loans"
- Minimize "cut-outs"

A new "market-oriented" Fannie Mae will appropriately take risk, profitably regaining share and relevance

What are the Strategic Initiatives and Capabilities?

Enabling capabilities

Skills, talent, incentive systems

SF Strategy Initiatives

Risk transfer, RTF, CDS

II. Expanded segments
- Sub-prime
- Alt-A
- ARMs
- Seconds
- Reverse
- Interest Only
- Community Lending

I. Customer strategies
- Broker penetration
- Alliance agreements
- Small lender solutions
- Rep/ warrant model

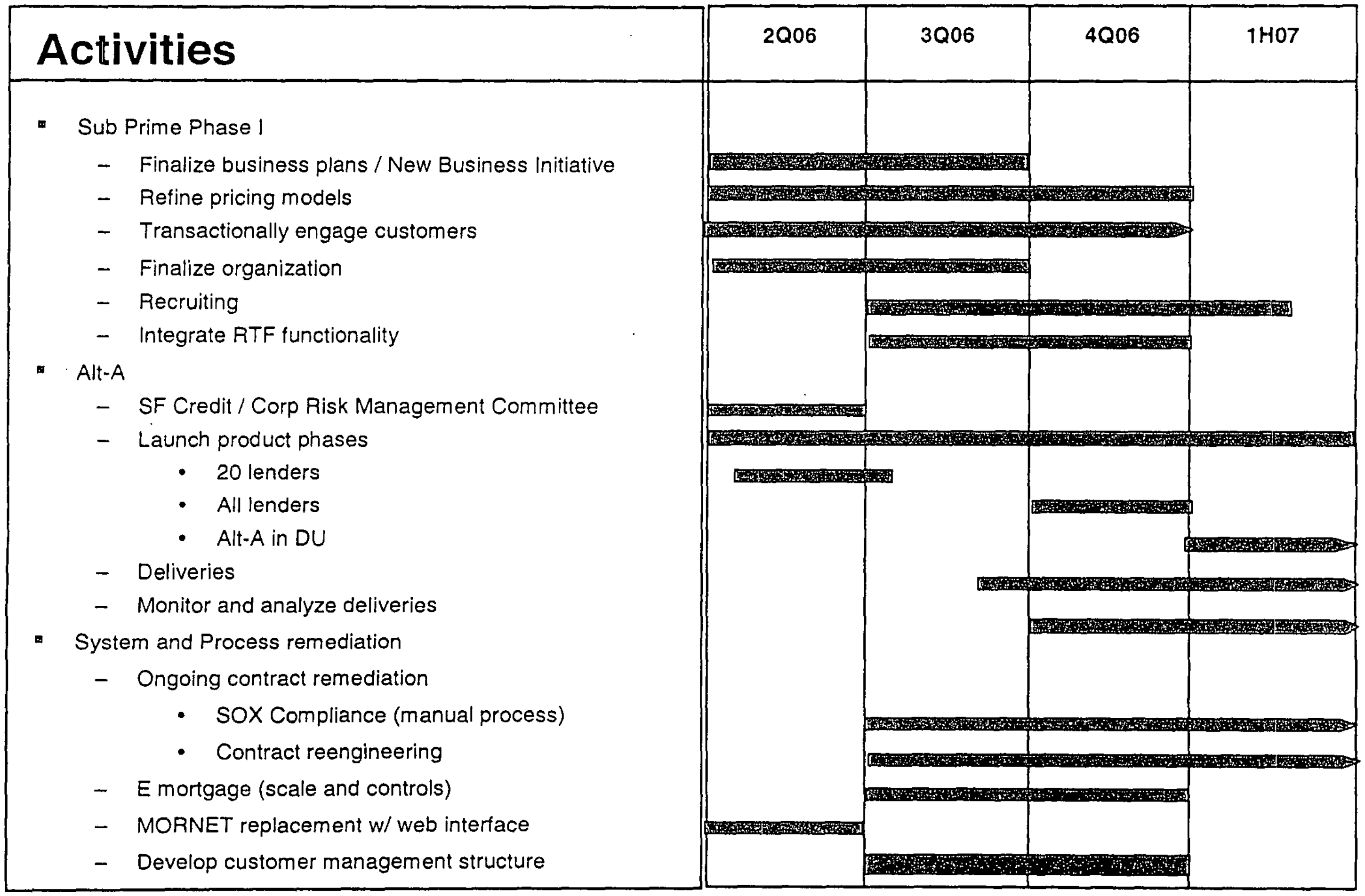
III. New services & solutions
- Paperless
- Info/tech based solutions (e-commit, e-channel, etc.)
- Process solutions

Technology, partners

Risk, models, process, policies

Significant "in-charter" opportunities exist for Fannie Mae, but much operational work must be done

What are the Milestones?



What are the Financial Results?

	2007	2010	Result
Ending Total Book	$2.4 - $2.5T	$3.2 - $3.3T	8-10% CAGR
Earnings from Initiatives	$120 - $140MM	$500 - $600MM	$1.2B-$1.5B Cumulative
Total (Base + Initiatives) NI	$2.7 - $2.9B	$3.7 – 4.0B	7-11% CAGR
Market Share (25% today)	26%	32%-35%	32%-35% Share
Economic Profit			$7.9B (2007-10)

- Note that increased market participation will likely result in:
  - Absolute losses will increase, fee and cost structure will be targeted to increase returns
  - Presence in sub prime will show 20% share in 2010
  - Less "back end insurance" may be acquired
  - Economic scenarios and market spreads can substantially affect results

Substantial growth will result for Fannie Mae from the execution of these initiatives

Appendix

Customer Strategy

Our own research, as well as that of our positioning consulting firm Prophet, suggests more segmentation and customer focus is needed

Situation

- All customer segments valuable to FNM
- Customer concentration
- FNM has ease-of-use and other advantages vs conduits, but that is changing
- Issues of speed and flexibility

Strawman approach for each segment

- **Countrywide: *"Maintain share; try to hold economics"***
  Expand box and improve service
- **Large lenders: *"Court and convert"***
  Streamline response to lender requests
- **Medium lenders: *"Grow and lock-in"***
  Improve response and consider next generation alliances
- **Small lenders: *"Go direct and increase share"***
  Build strong value proposition; allow National Business Center more flexibility
- **Partnering: *"Build capability"***
  Develop capabilities; initially with goals rich originators

Major Premises Regarding Growth Plan

- 2010 Share of sub prime market of 20% and Alt-A of 49% (conforming market)
- Comprehensive risk management and distribution capability
- Less reliance on credit enhancement for the riskiest segments, with the potential for market decline
- Absolute incremental loss number potentially around $650MM by 2010 with significantly lower "revenue-to-loss" ratios
- Potential reputation risks associated with a much wider "box" and a move away from "standard bearer"

Key Capabilities

Significant support is needed for "natural expansion" of risk appetite and growth. For "breakthrough" *efforts such as servicing, processing and other such expansions,* a revisitation of FNM's entire business structure would be necessary. For "natural expansion":

Area	***Capability***
Risk/Return/Cycle	▪ Recalibrate models; analytics and reporting ▪ Establish appetite (e.g., Credit Enhancement); RTF/default swaps/etc ▪ Establish limits, return hurdles, shared goal and counterparty risk ▪ Understand new business "cost of entry" at outset, as well as scenarios re later supply/demand that can cause severe spread changes
Technology, Process & operations	▪ Assess changing market process, tech and op needs (e.g. time to market) ▪ Tech support for responsive changes to tools ▪ Other areas of support for execution (i.e., non-tech) ▪ Longer term development (e.g., subprime MBS)
Sourcing Product	▪ *Account coverage and service* ▪ Participation in product development ▪ Stability of execution/participation ▪ Balancing housing goals
Organization / Skills	▪ Specialized product/market expertise ▪ Risk management and control staff ▪ Substantial cross-group collaboration and aligned incentives ▪ Management attention to growth areas ▪ Data mining skills & vendor partnering

Other Single Family Statistics

- Top 10 lenders are 66% of business; other 905 lenders are 34% of business
- 53% mark-to-market loan-to-value ratio of loans
- 721 average FICO score
- 87% Fixed-rate loans / 13% Adjustable-rate loans
- 4.4% Interest-only (IO) loans
- Operations:
  - $953MM expenses (direct plus corporate allocated)
    - $670MM of direct expenses
  - 1,460 direct employees
  - Multiple offices: Regions, servicing, disposition and underwriting

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Business Strategy Summary

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2010 Outcomes

Business Unit	Net Income Growth (2007-2010 CAGR)	Economic Profit (2007-2010 total)
Single Family	11%	$7.9 Billion
HCD	12 - 18%	$1.3 Billion
Capital Markets	(10)%	$4.9 Billion[1]
Total	5%	**$3.7 Billion[2]**

Mission	2007-2010
New low/mod families served	6.6 Million
New minority families served	2.7 Million

(1) Total Excess Return (assumes 15 bps on outstanding balances). Economic Profit for Capital Markets is (2.2B).
(2) Sum of economic profit for each of the business units less charge for non business unit capital held.

Our Business Model is Evolving

	From…		…To
Capital Markets	▪ Major driver of steady GAAP earnings growth	→	▪ Maximizes total return and liquidity ▪ Earnings less aligned to economic value – Drag in short term
HCD	▪ Minor contributor to earnings	→	▪ Fastest growing business
Single Family	▪ Steady #2 GAAP business	→	▪ Steady #1 earnings business
Corporate	▪ Silos ▪ Weak controls	→	▪ One Fannie Mae: in particular, use of capital markets to manage credit risk in HCD and Single Family ▪ Enhanced controls across the businesses

The constant: liquidity and housing mission

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Operations and Technology Strategy

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Agenda

- ***Where we need to be***
- How we get there
- Next steps
- Appendices

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State of Affairs

- Major, multiyear effort to remediate and replatform systems is required
  - Legacy systems
  - Data, reporting, recovery and privacy requirements
  - Control and process weaknesses
- Overhaul of organization structure and key leadership needed
- Parallel and integrated approach to technology, operations, business goals and cost required

Where we need to be

The current environment demands significant improvements in Operations and Technology

- Our Customers and Investors – Fast, reliable and flexible
- The Businesses – Well managed IT function with a strong business focus
- Regulators – Controlled, disciplined IT investment strategy and implementation process
- Technology Marketplace – Drive down costs and leverage outsourcing, as competition for talent is fierce

Where we need to be

- ***Efficient, low-cost operations*** to ensure quick market response
- ***Strong customer value proposition*** enabled by Fannie Mae systems and operations to drive brand preference
- ***Tight integration*** of Fannie Mae systems with customers, counterparties, and investors creating switching costs and retention opportunities
- ***Effective operating and risk management controls*** related to all business activities and systems to ensure enterprise safety and soundness

Current Enterprise Systems and Operations (ESO) services and capabilities uneven

Where we need to be

Focus Area	Desired End State
Financial Platforms	Well controlled, managed, and maintained platforms for closing financial books, managing resources
Controls	Fully remediated SOX material weaknesses and significant deficiencies
Business Alignment	Flexibility and capability for processing a dynamic business model
IT Standards	Consistent and effective approaches to providing IT solutions that meet industry standards and regulatory oversight
Data Quality	Improve data quality and integrity overall through redesigned business platforms that capture data once and correctly
Staffing	Acquisition and retention of top technology and business-savvy talent
Operational Efficiency	People and capital leveraged efficiently, eliminating redundancies and gaps; supporting a fine-tuned, right-sized organization with highly efficient end-to-end processes (Lean Six Sigma)

Where we need to be – Implications

Focus Area	***Desired End State***
Financial Platforms	**Well controlled, managed & maintained platforms for closing financial books, managing resources**
Controls	**Fully remediated SOX material weaknesses and significant deficiencies**
Business Alignment	**Flexibility and capability for processing a dynamic business model**
IT Standards	**Consistent and effective approaches to providing IT solutions that meet industry standards and regulatory oversight**
Data Quality	**Improve data quality and integrity overall thru redesigned business platforms that capture data once and correctly**
Staffing	**Acquisition and retention of top technology and business-savvy talent**
Operational Efficiency	**People and capital leveraged efficiently, eliminating redundancies and gaps; supporting a fine-tuned, right-sized organization with highly efficient end-to-end processes (Lean Six Sigma)**

- Present ***organization*** not optimized for challenges ahead.
- Significant, continued ***investment*** required in Financial systems and SOX Remediation
- Recent systems initiatives (S/IR, HCD Core, Summit) are only down payments, and major efforts to ***replatform*** the business are required.
- Technology talent gap significant, requiring investment in people, products and services***...hire, buy, and outsource***
- Need to geographically ***diversify operations*** to enhance risk management profile and expand access to broader internal talent pool
- Operations must be streamlined, rationalized and optimized to drive ***competitive advantage*** in the marketplace

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Agenda

- Where we need to be
- *How we get there*
- Next steps
- Appendices

How we get there – Execute IT Strategies for the Business

While the businesses are in different states of maturation, their current IT Platforms have some consistent limitations.

- **Legacy Platforms –** All businesses are dependent on older, poorly integrated systems and non-scalable End User Computing (EUC) applications
- **Inefficient Operations** - As a result of the platform deficiencies, there are significant manual processes at all stages in operations, with low consistency and limited overall automation
- **Inconsistent Data** – Data is not consistent between systems and across businesses and is constrained by the source systems that feed the databases
- **Lack of Tools** - We are not best in class on the data, analytics, and forecasting tools supporting the businesses

How we get there – Execute IT Strategies for the Business

- **We will pursue 3 parallel streams:**
  - "Clean up" – Fix what's broken and keep the trains running
  - Down payments – Enable the businesses' immediate priorities
  - Replatform the business – Build the "End State" in a measured way

- **Key Design Principles for moving to the End State:**
  - Business architecture drives IT strategy, not vice versa
  - Break the silos within the business…and then across the business
  - Drive IT and data standards consistently across the business
  - Build Shared Services around common applications and functions, where appropriate
  - Link processing of business transaction and accounting for the transaction

How we get there – Execute IT Strategies for the Business

Strategy

- Stream I: Clean up
  - SOX remediation across applications
  - Replacement of EUCs (e.g., AD&C)
  - Deal tracking and management reporting
  - Contracts management
- Stream II: Down payments
- Stream III: Build out "End State"

How we get there – Execute IT Strategies for the Business

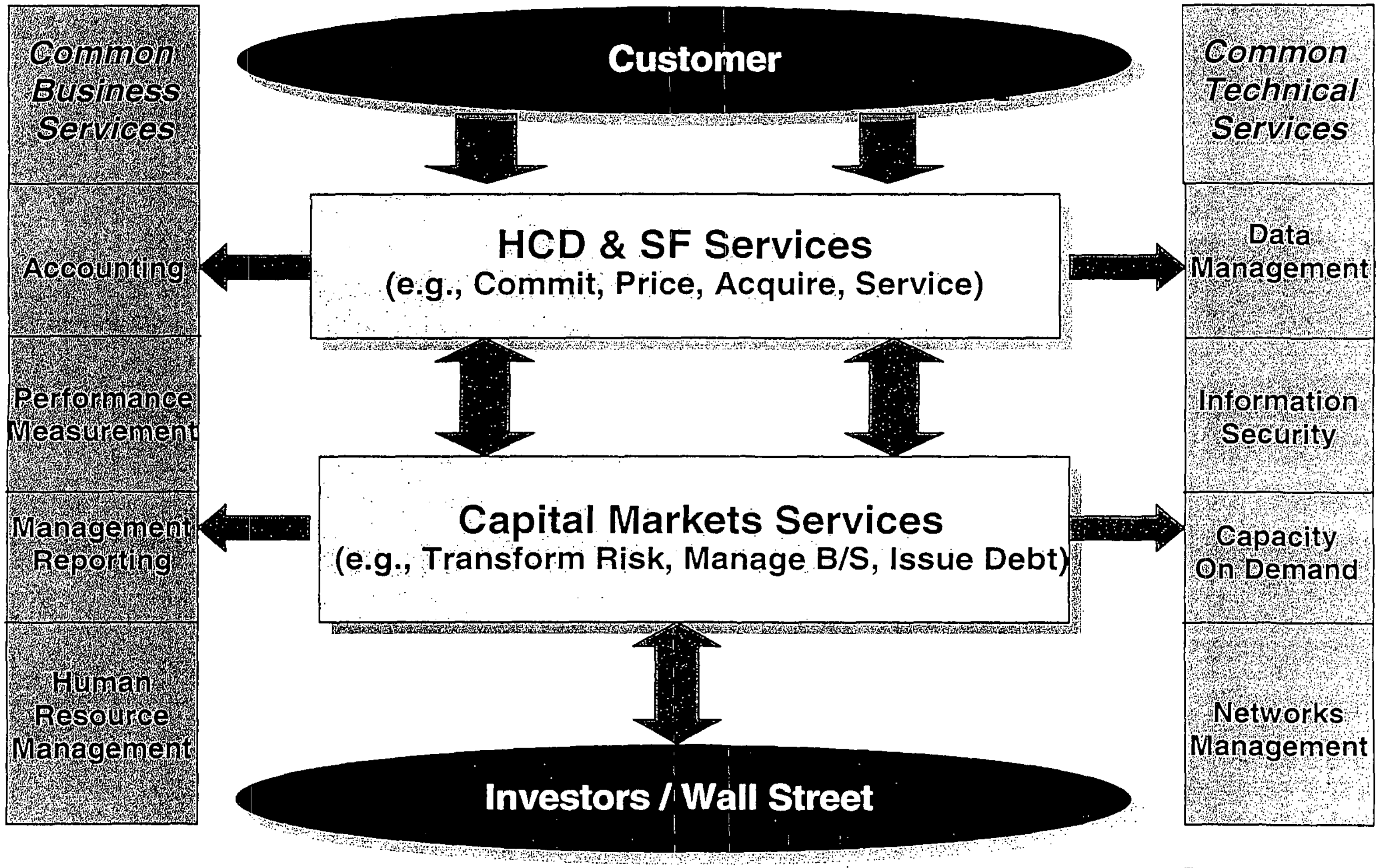
Strategy

- Stream I: Clean up
- Stream II: Down payments
- Stream III: Build out "End State"

- Risk Transformation Facility (RTF)
- Servicing / Investor Reporting (S/IR)
- HCD Core
- Summit for Debt and Derivatives

How we get there – Execute IT Strategies for the Business

Stream III: Build out "End State"



How we get there – Realign Technology & Operations

- **The new organizational structure:**
  - Promotes controls, risk management, and governance
  - Ensures clear segregation of responsibility and accountability
  - Balances the needs for business flexibility with standardization
  - Focuses on key disciplines that need strengthening
- **Phased approach to reorganization:**
  - Implement full reorganization over ~6 months as leadership is hired
  - Establish interim organization ensuring support for restatement and SOX remediation

Agenda

- Where we need to be
- How we get there
- ***Next steps***
- Appendices

Next steps

- Continue to "Exit the Penalty Box"
  - Finish Restatement and launch the "Catch-up" phase
  - Remediate SOX Material Weaknesses and drive for a clean opinion
  - Complete the "Get Current" strategy and execute the plan rigorously
- Establish Tech & Ops organization
  - Hire the senior leadership for the new organization (i.e., CIO and Head of Operations) and build out interim organization
- Complete technology down payments for the business
  - RTF, S/IR, HCD Core, Summit
- Build out business architecture
  - Document/finalize current business processes
  - Develop shared services model for the business and finalize the design.
  - Conduct outsource, buy or build analysis
  - Develop and fund implementation plan

Appendices

Appendix A: Current Assessment
Appendix B: Business Drivers and Challenges
Appendix C: "End State" Schematics
Appendix D: Technology & Operations Organizational Structure
Appendix E: IT Spending Trend

Appendix A: Current Assessment

- Enterprise Systems & Operations (ESO) established July '02
  - Ability to process and manage book of business highly dependent on technology
  - Recognized importance of developing higher levels of operating efficiency & effectiveness through tighter integration with Enterprise Systems organization
- Significant Business Volume Processed
  - Acquisitions (Business and Transactions) – $531 billion in Cash & MBS
  - Loans Underwritten (DU) – 8.4 million unique loans or 37 million underwriting requests
  - MBS Securities Payments – $526 billion
  - Debt Issuance – $2.7 trillion
- ESO Operating Profile
  - Staff – 2,316 (39% of the company)
  - Officers – 33 (17% of the company)
  - Expenses – $614 million (28% of the company)
  - Capacity – 5,559 servers
  - Applications – 75 Class 1 applications

Appendix A: Current Assessment

- Accomplishments To Date
  - ***Operations Integration*** – SF & HCD Operations processed record volumes in 2001-2004 with minimal staffing increases
  - ***eCommerce Initiatives*** – Fanniemae.com, DTF (Debt Trading Facility), eCommitting
  - ***HCD Core*** – Upgraded support for processes from front-end to QC and servicing
  - **eBusiness** – Enhanced DO and DU, implemented Dedicated Channel, eFannieMae.com
  - ***Data Centers*** – Completed two new data centers with 24x7 operations
  - ***Networks*** – Enhanced external network and information security (e.g., TruSecure); enhanced critical infrastructure upgrades (e.g., DMZs)

Appendix A: Current Assessment

- Significant Issues & Challenges

  - ***Implementation Challenges*** – Delays in implementing CORE functionality have had a negative impact on SF Operations
  - ***Aging technology platforms*** - Legacy applications impact ability to support the Finance division and Capital Markets business. Architectural complexity severely limits ability to optimize SF and HCD operating and control environment
  - ***SOX material weaknesses*** - Recent audit identified significant weaknesses in control environment to a large extent exacerbated by the quality of systems and underlying processes
  - ***MBS disclosure errors*** – Data Integrity issues have resulted in the publishing of incorrect disclosures to the market.

Additionally, as a result of the restatement, we need to rebuild our financial processing platform with nearly $300M of systems

Appendix A: Current Assessment – External and internal forces at work

- Customers / Market
  - "Make it easy to do business with you"
  - Provide leadership (e.g.: eMortgage)
  - Competition from Wall Street
  - Reliable processing, 24x7
  - Plug and play
  - New products
  - Flexibility
  - Lower cost
  - Speed
- The Businesses
- Regulators

Appendix A: Current Assessment – External and internal forces at work

- Customers / Market
- The Businesses
- Regulators

- Well managed, well controlled, reliable processing
- Industry consolidation – must be able to serve many customers or just a few
- Fast reaction to changing market needs / new products
- Strong partnership
- "We need ops and IT people who understand our business…"

Appendix A: Current Assessment – External and internal forces at work

- Customers / Market
- The Businesses
- Regulators

- Tighter controls and increased reporting
- Ops and IT standardization
- Segregation of duties and accountabilities
- Business processes aligned to IT architecture
- Consistent and appropriate investment
- Establish strategic planning as an institutionalized management discipline
- From proprietary, in-house development toward best-of-breed package solutions

Appendix B: Business Drivers and Challenges

Appendix B: HCD Drivers

HCD plans to "turbo-charge" their businesses

- Multifamily is prepared to revitalize and reinvigorate the **DUS** program
- Aggressively targeting **Small MF Loans**, especially **Micro Loans**
- The **Equity** businesses, **Tax-advantaged** and **Direct**, aim to grow significantly by building on the LIHTC franchise and expanding capabilities in For Sale and For Rent market-rate equity investments
- New approach to and investment in **Acquisition, Development & Construction** to significantly expand in this growing market through strategic partnerships*

* Presently on hold pending regulatory review

Appendix B: HCD Challenges

- **Legacy Platforms -** While HCD businesses are running in stable mode today, **current operations and technology capability will need to be significantly upgraded** to support growth
  - Multifamily business heavily dependent on older, poorly integrated and maintained systems (MCODES, Strategy, etc.)
  - Other businesses heavily dependent on the use of non-scalable End User Computing (EUC) applications
  - Across HCD, lack of horizontal integration of IT platforms or operations
  - Inflexible customized in-house systems exacerbating data quality problems

- **Inefficient Operations** - As a result of the platform deficiencies, there are significant **manual processes** at all stages in operations, with low consistency and limited overall automation

- **Inconsistent Data** - HCD Core, along with FMIS, provides *some* consistency in data, but it is not a global answer and is constrained by the source systems that feed the databases

- **Lack of Tools** - We are not best in class on the data, analytics, and forecasting tools supporting the HCD businesses

Appendix B: Single-Family Drivers

Single Family Business aims to expand significantly the business by implementing a "Say Yes" strategy

- Maintain market leadership in core products
- Do more business with existing customers
- Attract new customers
- To do this, in part, by:
  - Making it easier to do business with Fannie Mae
  - Expanding the box through penetration into Alt-A and subprime markets
  - Becoming a potential buyer of all charter-compliant loans

Appendix B: Single-Family Challenges

- While the SFB is currently running a stable but rigid platform, current operations and technology will need to be **significantly upgraded to support growth and become SOX compliant**
  - Customers find it hard to do business with FNM due to system limitations; e.g., contracts are cumbersome, underwriting and delivery are disconnected
  - SFB is heavily reliant on older systems that are not well integrated and do not meet the new compliance standards
- SF is burdened with a costly infrastructure
  - Inadequate integration between MORNET, Delivery, and MCTSX results in rejection of >50% of all loans, which then need to be handled manually
  - More than 35 back-end legacy systems interact with LASER and MAST

Appendix B: Capital Markets Drivers

Capital Markets is moving toward a strategy of
Active Balance Sheet Management

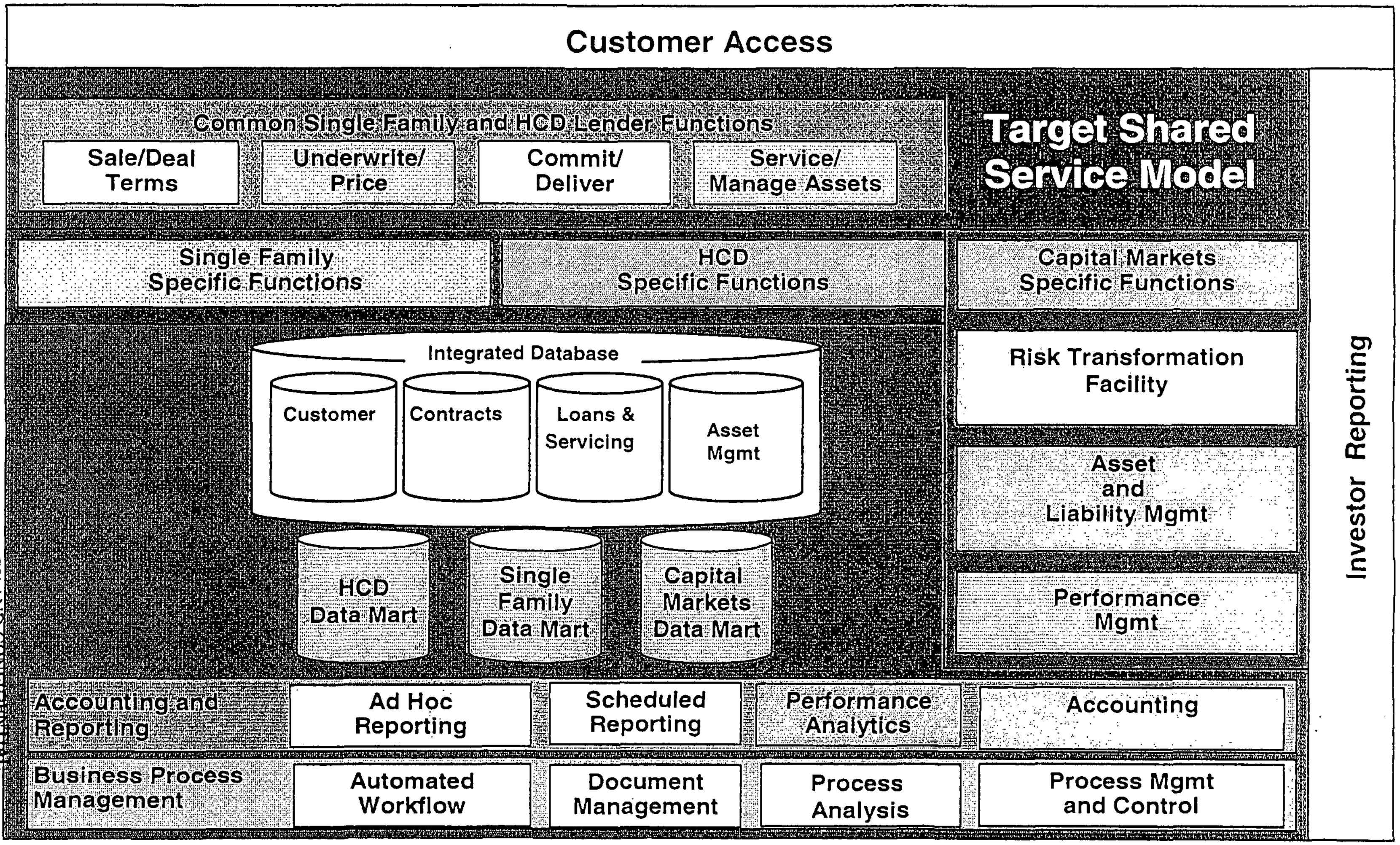
- Will require fixed-income asset and liability management capabilities that meet or exceed industry standards
  - Active management, including ability to buy and sell assets, debt, and derivatives
  - Close management of constraints of capital and market risk
- As a result, they need:
  - Streamlined, accurate, and comprehensive position data collection
  - Access to market pricing
  - Frequent analytics and performance attribution of positions

Appendix B: Capital Markets Challenges

- While there are initiatives underway to implement the Active Balance Sheet Management strategy, the operations and technology processes need to be upgraded
  - Historically, limited investment in systems and operations
  - Technology has been point or stovepipe solution
  - Heavily intertwined with accounting
  - Labor-intensive data collection process resulting in dated position reporting
  - Desired details missing in creating updated positions
  - Inadequate, non-SOX compliant controls
  - Non-configurable, spreadsheet-based modeling

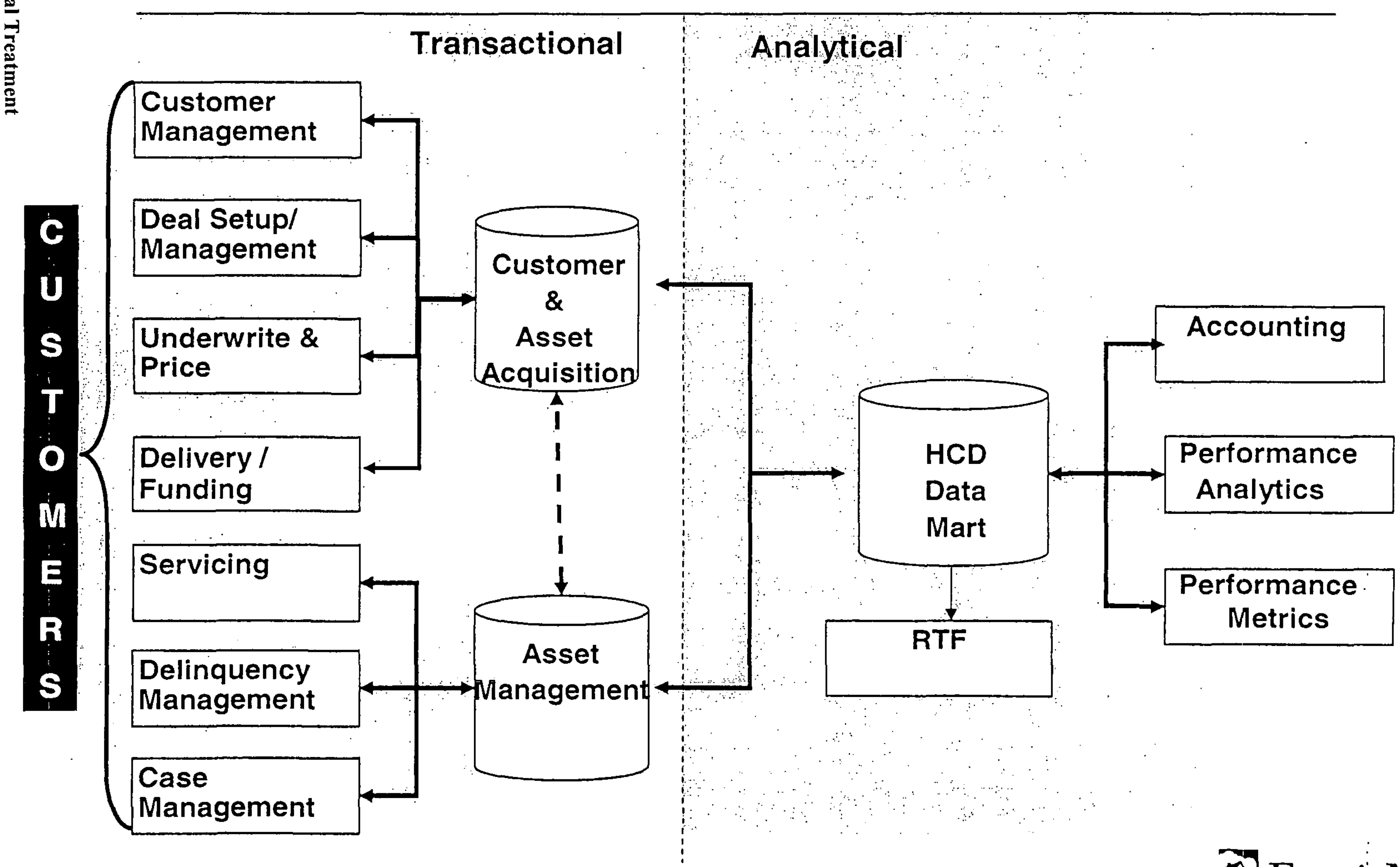
Appendix C: "End State" Schematics

Appendix C: Comprehensive End State

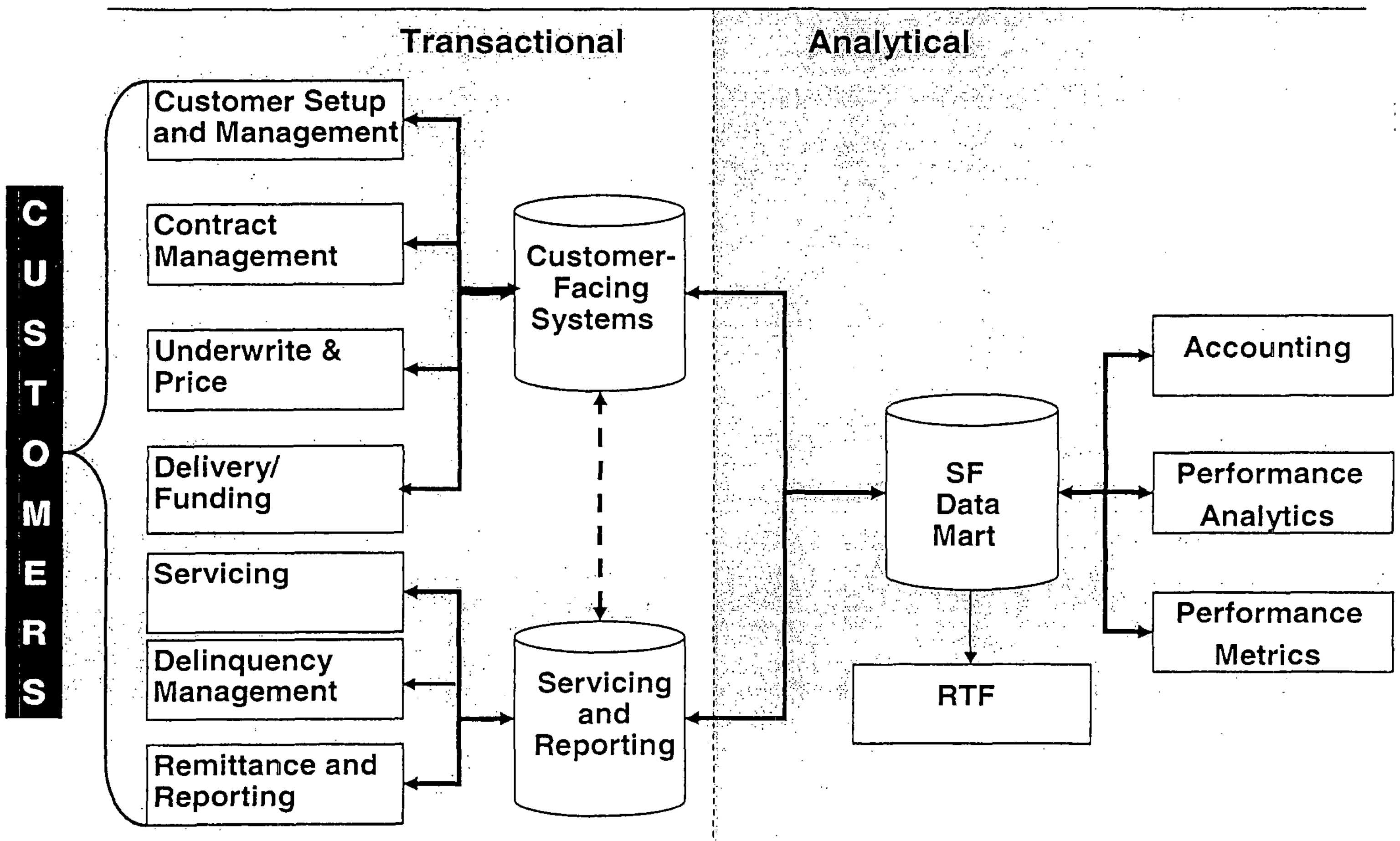


Potential shared functions   Business specific functions

Appendix C: HCD End State



Appendix C: Single-Family End State



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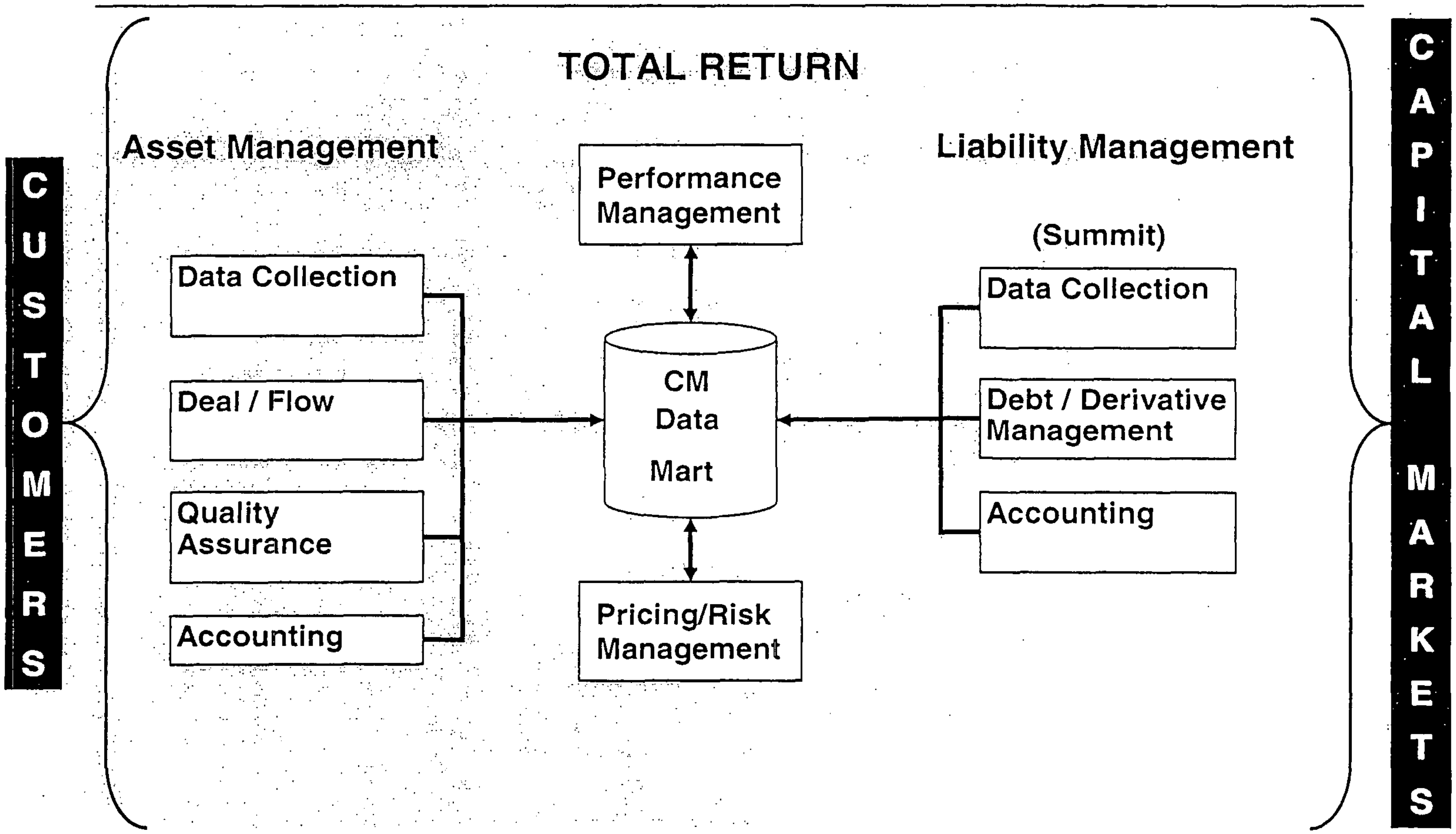
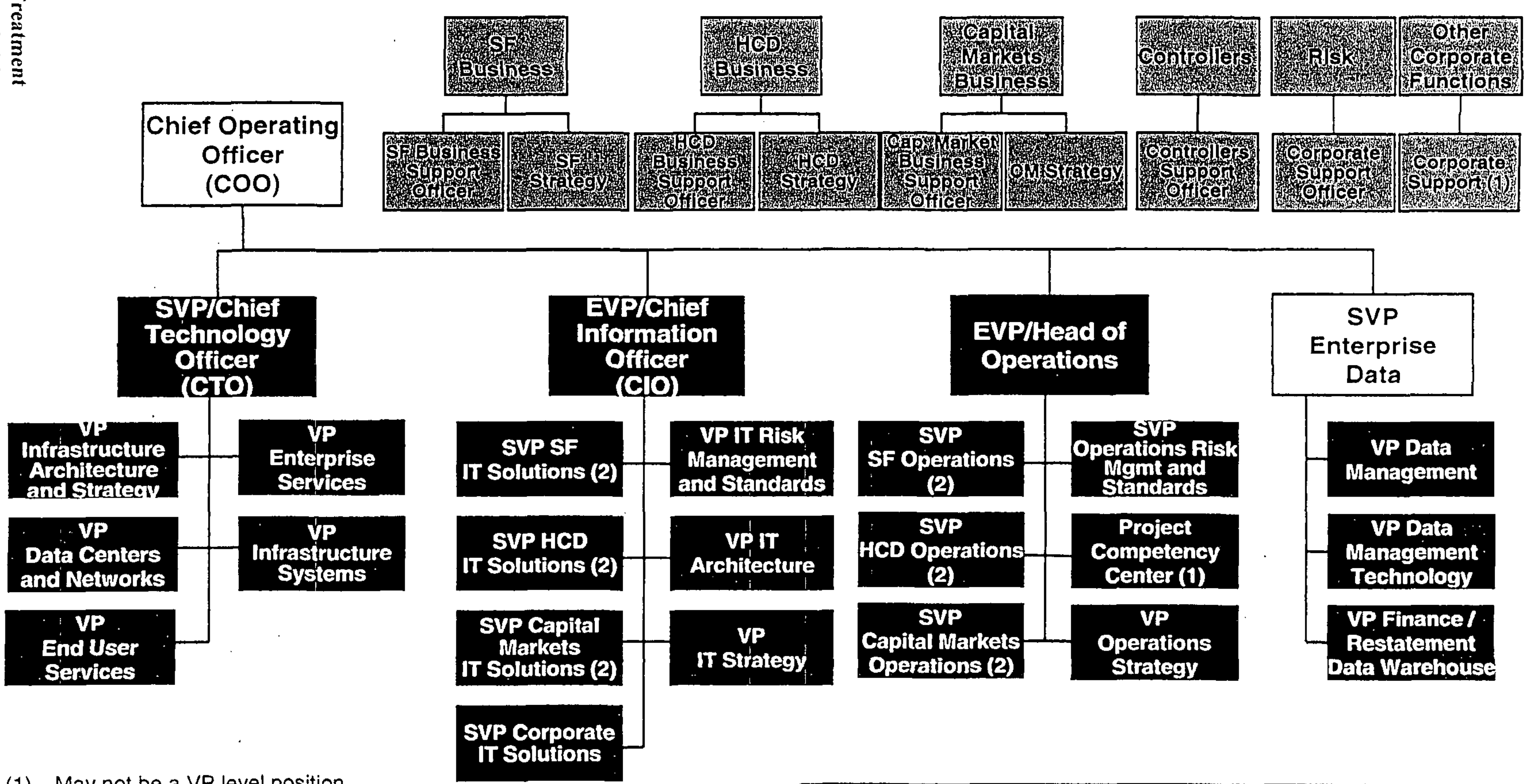
Appendix C: Capital Markets End State



Appendix D: Technology & Operations Organizational Structure

Appendix D: Technology & Operations Organizational Structure



IT | Operations | Ops and IT Combined | Business

(1) May not be a VP level position

(2) Would have dotted lines into business

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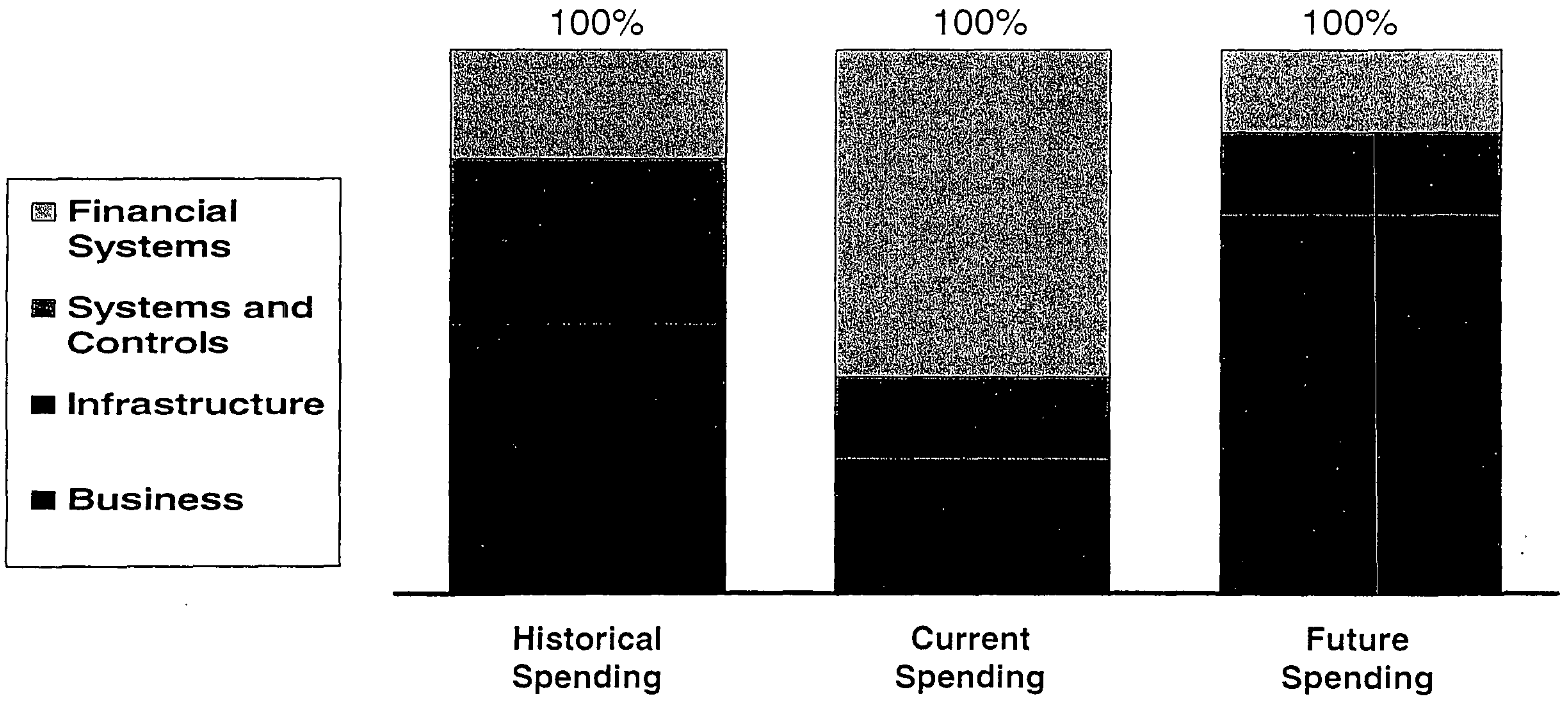
Appendix E: IT Spending Trend

Appendix E: IT Spending Trend – Proportions of Investment Dollars Spent Will Shift

ILLUSTRATIVE



(Does not include base expenditures)