Project Phineas

Presentation to the Board of Directors

Executive Summary

July 18th and 19th, 2005

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FMSE 511568

The Citigroup team

Phineas

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Charles O. Prince, CEO Citigroup Inc.
Robert Druskin, CEO Citigroup Corporate and Investment Banking
Gedale B. Horowitz, Senior Managing Director

Investment Banking: Financial Institutions Group

David Head
Managing Director
Global Co-Head of FIG M&A

Craig Stine
Managing Director
Head of Diversified Financials

Timothy Devine
Director

Nikunj Seksaria
Vice President

Camille Masini
Associate

Alexander Pretzner
Associate

Richmond Teo
Analyst

Ian Wesson
Associate

Fixed Income

Jeffrey Perlowitz
Managing Director
Head of Global Securitized Markets

William Oliva
Managing Director

Lakhbir Hayre
Managing Director
Head of Mortgage Research

Paul Humphrey
Director

Equity Capital Markets

Neil A. Mitchell
Managing Director
Head of North America FIG ECM

Financial Strategy Group

Marc Zenner
Managing Director
Head of Financial Strategy Group

Yiorgos Allayannis
Director

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Today's discussion

- Citigroup Observations
- Mortgage Market Trends
- Monoline Lifecycles
- Equity Market Perspectives
- Phineas Valuation
- Citigroup Recommendations

Citigroup observations

- Phineas business model is increasingly at risk of being marginalized
  - Primary market factors
  - Secondary market factors
- The business cannot exist without the benefits provided by the charter
  - Size, scale and leverage
  - Funding cost and access to capital markets
- A combination of these factors drive our view that the two "extreme" outcomes – stay the course and full privatization – are, in fact, not options
- Phineas is not a "growth company"; the core business should grow EPS at mid/high single digits

Company	Phineas	S&P 500[a]	Countrywide	American Express	Wells Fargo	SLM Corp
P/ 2006E	8.3x	15.8x	8.7x	15.2x	12.2x	17.2x
LT EPS Growth	10.0%	12.0%	12.0%	13.0%	11.0%	15.0%

- Phineas, however, can create significant value to shareholders by extending its business and returning to an outward rather than inward focus
- A tracking stock would allow segmentation of the investor base for the portfolio business
  - Investors find the company's result very opaque due to FAS 133
- What would be the "tipping point" for the charter to be value destructive?
  - There would need to be significant legislative changes for the charter to deteriorate in value (e.g., a significant level of the book of business, lower leverage or escalating mission costs)

Source: Powerdata and IBES estimates. Market data as of 7/11/05.
(a) S&P 500 data based on median of S&P composite companies.

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Citigroup recommendations on new business initiatives

- Diversification would decrease the dependence on volatile portfolio earnings, enhance earnings growth and play to Phineas' competitive strengths
- We have focused on initiatives which we believe are closely aligned with Phineas' customer base and capabilities
- These initiatives would allow Phineas to maximize the value of the charter and would result in a business serving the mortgage market (and the mission) more broadly
- We further believe that becoming a full service provider would have a positive impact on Phineas' employees

Stand-alone Scenario

- Current share price of $59 is a 6% discount to sum-of-the-parts DCF value of $63
- Analysts use forward P/E to value Phineas, which leads to wide range of estimates due to lack of transparency
- A comparison of values with and without the charter results in a charter value of approximately $29 per share (50% of share price)

Proposed new business initiatives

- Expand Guarantee business into non-traditional products (Alt-A, Sub-prime)
  - → Incremental NPV/share: $5.72
- Asset management & risk analytics
  - → Incremental NPV/share: $2.31
- Mortgage insurance
  - → Incremental NPV/share: $3.07

The "dustbin"

Ideas	Reasons to dismiss
◆ Full privatization	◆ We valued the business with and without the charter: the resulting higher capital requirements and funding cost, and the necessary downsizing of the portfolio and guaranty businesses lead to a valuation difference, or implied value of the charter, of c. $29 per share
◆ Full exit from portfolio business	◆ A full exit from the portfolio business would lead to a multi-year run-off, in which the infrastructure needs to be maintained ◆ This strategy would only make sense if Phineas could replace lost earnings with higher earnings growth businesses consistent with core competencies and only if this did not compromise the single family business
◆ Transform portfolio business into REIT	◆ A REIT structure would require separate taxable and non-taxable subsidiaries for the portfolio and guarantee business, which would only be possible without the charter ◆ The portfolio business would need to be significantly downsized; tax savings would not exceed the impact of higher financing costs, lower leverage and a smaller portfolio
◆ Transform into a depository (acquire retail deposits)	◆ Acquiring an inexpensive funding source would require a significant investment in either long-term de novo branch building or acquisitions at high premiums ◆ Given the size of the portfolio assets, a dominant share of the U.S. deposit market would be required to have a meaningful impact on earnings ◆ Higher bank capital requirements (5%) would dilute ROE
◆ Spin-off of multi-family business	◆ Spinning-off the multi-family business would raise questions by the market given its small size and high core profitability compared to the overall business ◆ *The multi-family business is "mission-rich"; a spin-off would simply* lead to a transfer of mission costs to other business lines unless goals can be acquired at lower cost
◆ Preemptive capital raising	◆ Would erode Phineas' existing value per share as additional capital cannot be deployed above the cost of equity and would thus dilute ROE for existing shareholders

Shifting mortgage industry landscape

Cyclical ⟷ **Structural**

Issues	Type Of Trend	Impact On Phineas
Consolidation amongst top originators	Competitive	Larger competitors compete more aggressively for assets, have greater pricing power and ability to develop new products; increased vertical integration of Wall Street firms
Accelerated use of private label products	Secondary Market	Decrease in guaranty business as issuers pursue alternative executions
Decreased spreads on subordinated bonds	Secondary Market	Increases relative attractiveness of private label execution, driving business away from Phineas
Increased (hybrid) ARM origination	Primary Market	Lower share of originations sold to Phineas due to its lower market share in the ARM market versus fixed rate products
Increased sub-prime and Alt-A origination	Primary Market	Reduction in share of agency-eligible loans reduces Phineas' target market
Growth of affordability products (IO, Option ARMs)	Primary Market	Product innovation reduces Phineas' target market
Increased participation among both traditional and new investors including foreign central banks, REITs, CDOs and hedge funds	Competitive	Crowded competitive landscape seeking to acquire assets causes spread compression, thus limiting Phineas' opportunities
Impact of Basel II implementation	Regulatory	Retaining mortgages will become a more attractive opportunity for depositories
Competition from Freddie Mac	Competitive	Freddie Mac's focus on regaining market share from Phineas could result in a permanent loss of market share
Fall in the rate of conforming mortgage originations	Primary Market	Agency eligibility by loan size limits growth
Potentially slowing home price appreciation	Macro-economic	Slowing home price appreciation may impede growth
Growing homeownership rates	Macro-economic	Increased mortgage debt creates increased market opportunity; increased volume for guaranty business may be partially offset by use of non-conforming products

Lifecycle dynamics of monoline lenders

Unique skills drive dramatic market share gains and...

...outsized financial returns which result in high equity market valuations

Larger-cap, higher-rated competitors aggressively play defense...

...which compresses both financial returns and valuations...

...creating pressure to pursue revenue / earnings diversification and assess longer-term strategic options

Historical stress factors	Casualties	Impact of charter
Funding / liquidity	Household, Finova, Associates	Insulates Phineas
Disintermediation / growth	First USA, CIT	Hinders Phineas
Lack of diversification	MBNA	Hinders Phineas

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**PROPRIETARY AND CONFIDENTIAL –
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Shrinking universe of monoline lenders

1990 and prior

~~Option One~~
Countrywide
~~Providian~~
~~Household~~
~~Beneficial~~
CIT
Phineas
Sallie Mae
Freddie Mac
~~Money Store~~
~~First USA~~
~~North American Mortgage~~

~~Margaretten~~
~~Arbor National~~

~~MBNA~~
Ameriquest

1993

~~First Merchants~~
~~Finova~~

Capital One

Redwood Trust

Metris
New Century

1996

~~Associates First Capital~~
Delta Financial
~~First Alliance~~

~~Heller Financial~~
~~Southern Pacific~~

1999

Annaly Mortgage

2002

CapitalSource
Apollo Investments

2005

KKR Financial

**Confidential Treatment
Requested By Fannie Mae**

FMSE 511576

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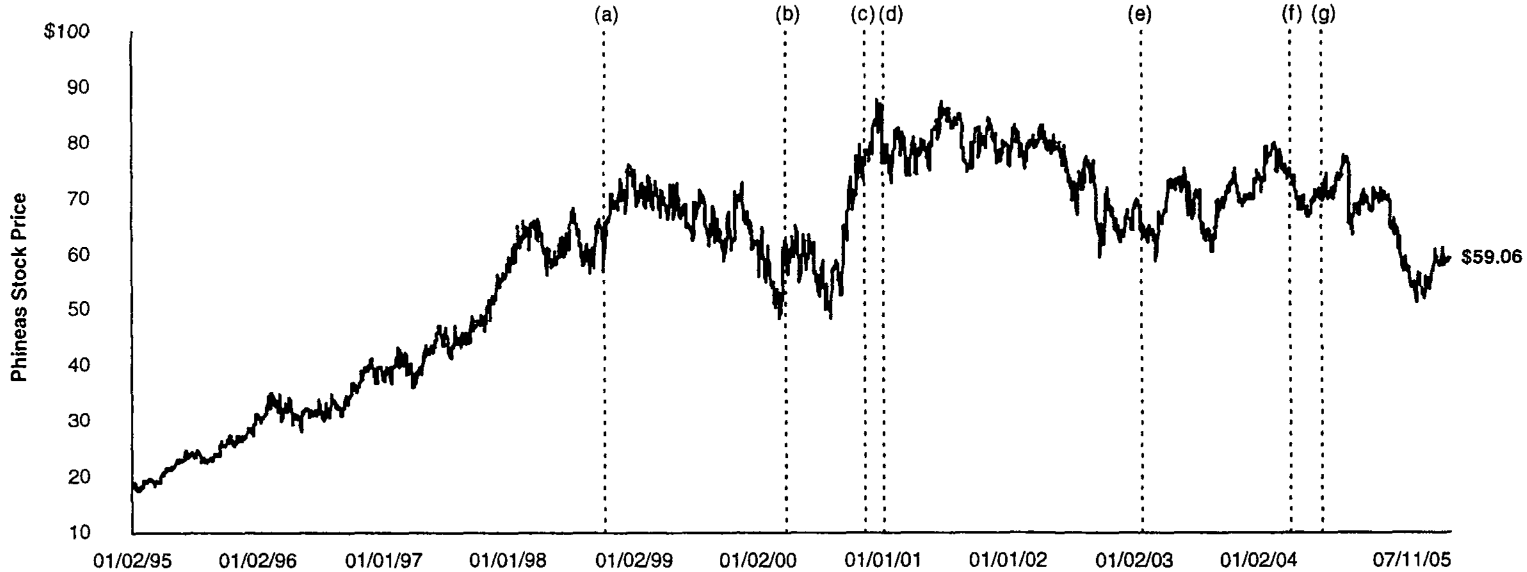
Historical stock price performance versus portfolio and EPS growth

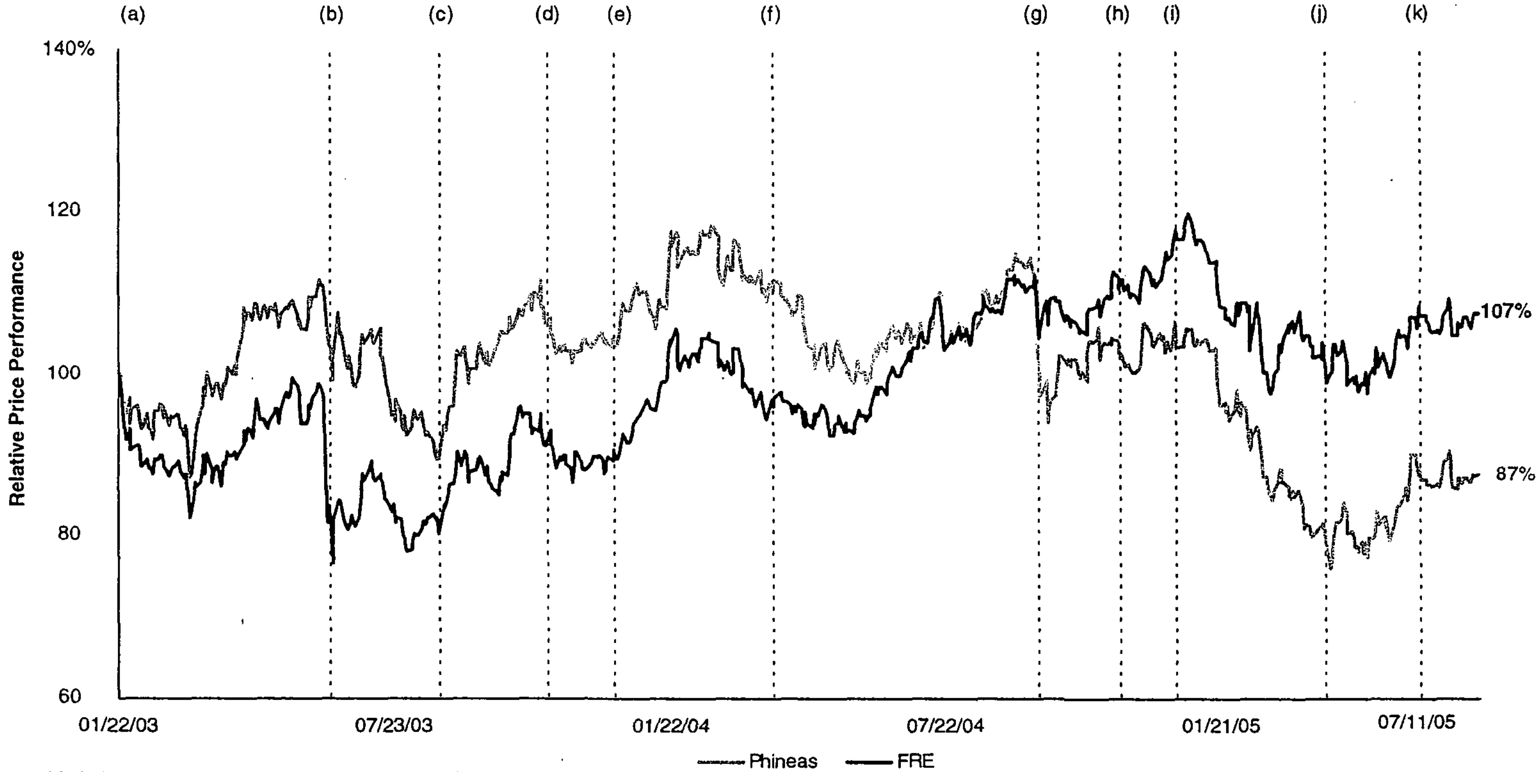


(a) 10/09/1998: Freddie Mac's mortgage insurance proposal fails.
(b) 03/22/2000: Gary Gensler addresses role of GSEs and their increasing potential risk to the capital markets.
(c) 11/08/2000: George W. Bush elected President.
(d) 1/03/2001: First in a series of 13 rate decreases by the Federal Reserve Board.
(e) 1/23/2003: Freddie Mac announces it will revise earnings for at least the previous two years.
(f) 3/30/2004: Regulators announce that Phineas may have to correct published financial statements as a result of the government accounting review.
(g) 6/30/2004: First in a series of 9 rate increases by the Federal Reserve Board.

	1998				1999				2000				2001				2002				2003				2004				2005	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EPS Growth (%)	16	16	12	12	13	14	14	16	16	12	16	14	7	33	9	70	7	6	(18)	(51)	65	(24)	158	135	(2)	1	NA	NA	NA	NA
Core Earnings Growth (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	18	21	22	25	23	22	22	19	24	20	13	7	10	3	NA	NA	NA	NA
Portfolio Growth (%)	NA	NA	NA	NA	35	36	34	26	22	16	13	16	19	21	20	16	15	12	9	12	42	26	15	18	8	9	(1)	1	(2)	(7)

Source: Company reports and Powerdata.
Note: Growth rates represent year-over-year quarterly growth. 2Q 2005 Portfolio growth from May 2005 company update. Earnings data are prior to restatement. Phineas adopted FAS 133 on Jan 1, 2001.

Does Freddie Mac provide a roadmap to recovery?



(a) 1/23/2003: Freddie Mac announces it will revise earnings for at least the previous two years.
(b) 6/10/2003: Freddie Mac fires 3 top executives amid allegations of failure to cooperate with investigations into accounting practices. Gregory Parseghian named as new CEO.
(c) 8/22/2003: Federal regulators order Freddie Mac's board to remove Gregory Parseghian from position as CEO due to his involvement in improper accounting practices.
(d) 11/21/2003: Freddie Mac reports corrected financial statements for the previous three years but announces that it is still unable to provide timely earnings reports and will not provide financials until mid-2004.
(e) 12/8/2003: Freddie Mac names Richard Syron as new CEO.
(f) 3/30/2004: Regulators announce that Phineas may have to correct published financial statements as a result of the government accounting review.
(g) 9/22/2004: Government regulators report that Phineas used improper accounting methods that raise questions about financial report and management quality.
(h) 11/15/2004: Phineas announces that it cannot meet deadline to file 10-Q and may be required to record $9 billion of previously unreported losses.
(i) 12/22/2004: Phineas' board replaces CEO Franklin Raines and CFO Timothy Howard amid accounting scandal.
(j) 3/31/2005: Freddie Mac announces 2004 results bringing its financial reporting current
(k) 6/2/2005: Phineas names Dan Mudd as new CEO.

Source: Powerdata and IBES estimates. Market data as of 7/11/2005.

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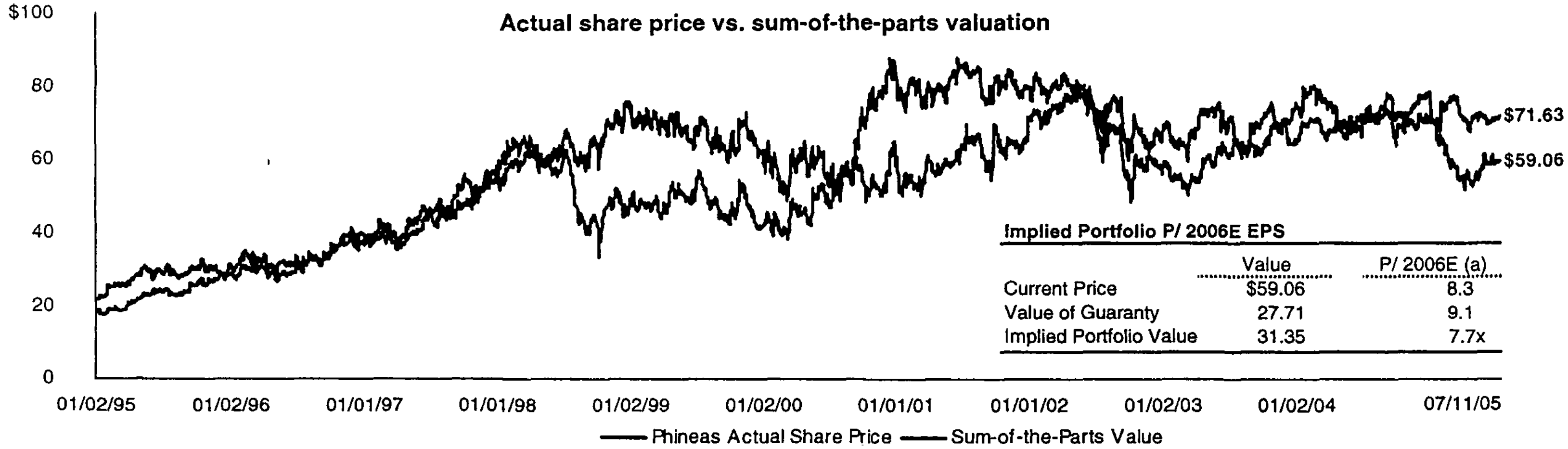
Historical sum-of-the-parts valuation based on reported business line earnings contribution

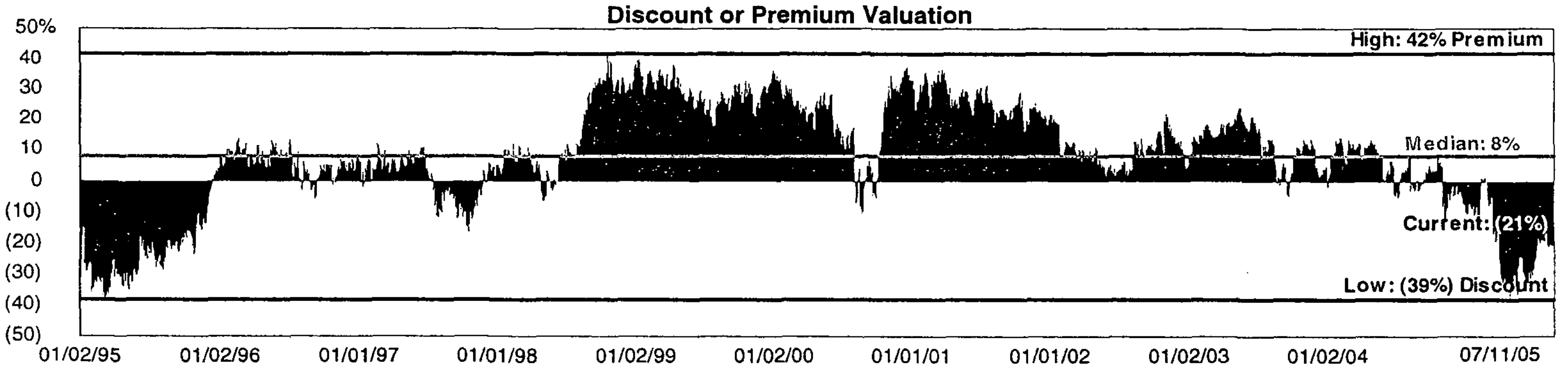


Implied Portfolio P/ 2006E EPS

	Value	P/ 2006E (a)
Current Price	$59.06	8.3
Value of Guaranty	27.71	9.1
Implied Portfolio Value	31.35	7.7x

Business Line Pre-Tax Core Earnings Contribution

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005E
Guaranty	36%	37%	37%	43%	38%	37%	30%	31%	38%	43%	43%
Portfolio	64	63	63	57	62	63	70	69	62	57	57



Source: Powerdata, SNL Datasource, IBES estimates, Bloomberg and company filings. Market data as of 07/11/2005.
Note: Business line earnings provided by management. Historical sum-of-the-parts valuation performed by calculating Phineas' quarterly earnings for the past 10 years, applying the respective business line contribution to determine income from guaranty and portfolio businesses and applying the historical price to forward multiple of respective peers to determine the value of each part.
(a) Based on 2006Q1 annualized earnings estimate.

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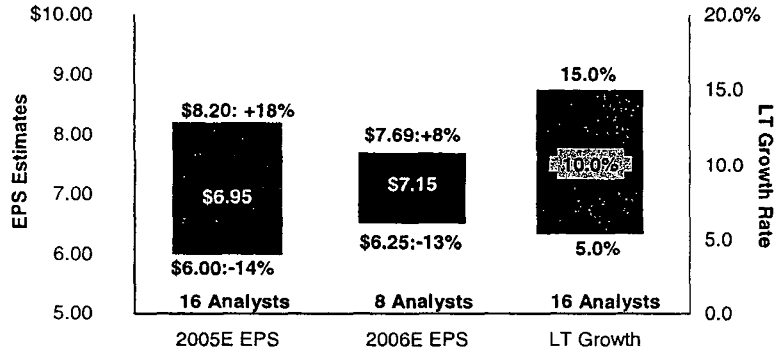
Investor considerations / opinions

- ▲ "I am interested in the GSEs: adjustable-rate product will become less popular relative to fixed-rate product as the yield curve flattens."
- ▼ "Phineas' financials are too opaque and complicated to understand." "My time is better spent analyzing alternatives in the financial stock sector." Hedging activities at Phineas are indecipherable.
- ▼ "How do I derive a true operating result for Phineas?" "I am concerned about sequential-quarter volatility in reported results."
- ▼ The US has enjoyed a terrific appreciation in home ownership and home values. "We are in the 11th inning." "The market is increasingly speculative and I don't want to be exposed."
- ▼ New mortgage product creation and usage is elevating credit risk in the system, with uncertain consequences for Phineas and investors.
- ▼ "I prefer to own the originators such as Wells Fargo and Countrywide." "I prefer to own the mortgage insurers--they have excess capital that can be returned to shareholders, and inexpensive valuations."
- ▼ "Am I still exposed to legislative risk?" "I have no insight into the legislative process and potential outcomes."

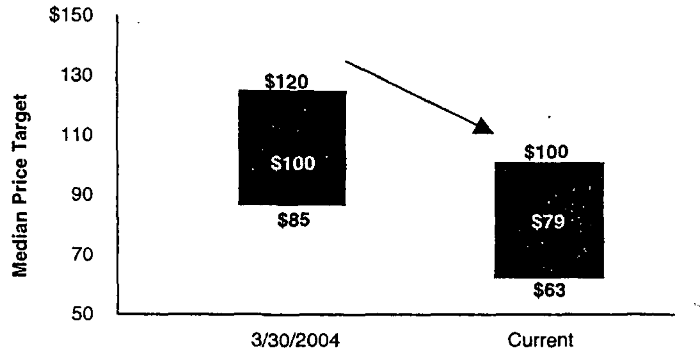
Equity research analysts' perspectives on Phineas

Earnings estimate / EPS growth rate

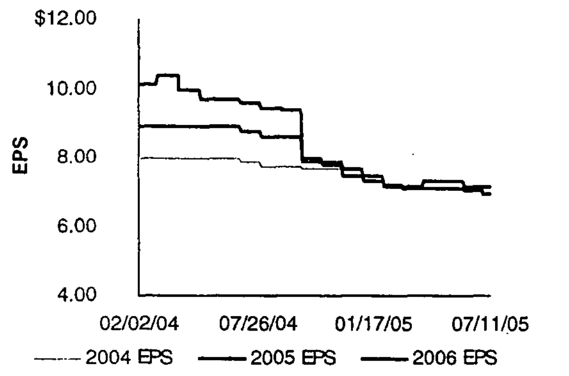


Source: IBES estimates and Bloomberg.
Note: Numbers in columns denote median values.

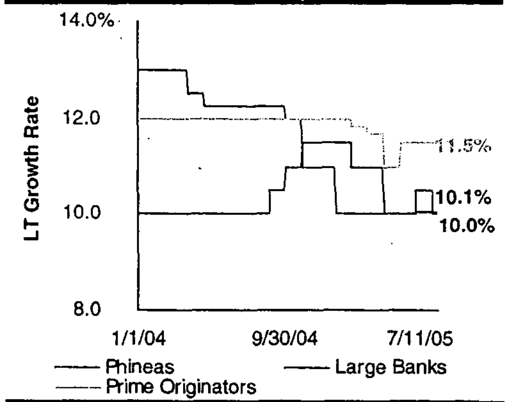
Sell-side analyst price targets



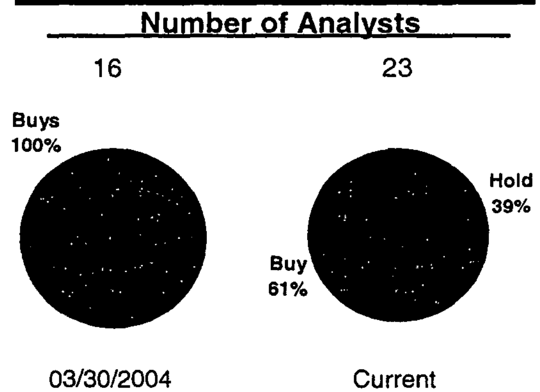
EPS median progression



Long term EPS growth rate (a)



Analyst recommendations



 Source: Powerdata, IBES and Bloomberg. Note: Market data as of 7/11/2005.
Large Banks includes Bank of America Corp. (BAC), Citigroup Inc. (C), and JPMorgan Chase & Co. (JPM). Prime Originators includes Washington Mutual Inc. (WM), Wells Fargo & Co. (WFC) and Countrywide Financial Corp. (CFC).

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Price/ EPS is most prevalent valuation metric

Institution/ Name of Analyst	Analyst coverage area (a)	Valuation Methodology: Price / 2006E GAAP EPS	Price / Core BV	Price / Fair BV	DCF	Additional methodologies	Rating	Target price	LTG
Lehman Brothers/ Bruce Harting [b]	Specialty/ Mortgage Finance			●	●	DCF based on liquidation	Overweight/ Neutral	$100.00	13.0%
Bear Stearns & Co./ David Hochstim	Mortgage Finance	●		●		Residual income valuation	Outperform	89.00	10.0
UBS/ Eric Wasserstrom	Mortgage Finance	●		●	●	DCF based on liquidation	Buy	88.00	12.0
A.G. Edwards & Son/ Matthew Park	Thrifts & Mortgage Finance	●					Buy	82.00	5.0
JP Morgan/ George Sacco	Mortgage Finance		●				Overweight	80.00	--
Piper Jaffray & Co./ Robert Napoli	Mortgage Finance	●					Outperform	79.00	--
Merrill Lynch/ Kenneth Bruce	Consumer Finance / Credit Cards	●					Buy	76.50	--
Sanford Bernstein & Co./ Jonathan Gray [b]	Mortgage Finance	●					Outperform	74.00	--
Morgan Stanley/ Kenneth Posner [b]	Mortgage Finance			●	●	Multi-factor economic capital model	Equal Weight/ Attractive	67.00	--
Friedman, Billings, Ramsey/ Paul Miller	Mortgage Finance		●			Projections of core capital level	Market Perform	65.00	8.7
Prudential Equity Group/ Bradley Ball	Mortgage Finance			●		Blended portfolio metric	Neutral Weight	63.00	15.0
Wachovia/ Jim Shanahan	Mortgage Finance	●					--	-- [c]	8.0

Source: Wall Street Research.
(a) Institutional Investor category for ranked analyst.
(b) Institutional Investor ranked analyst.
(c) Wachovia provided a range of \$59-\$65 which is not included in IBES estimates

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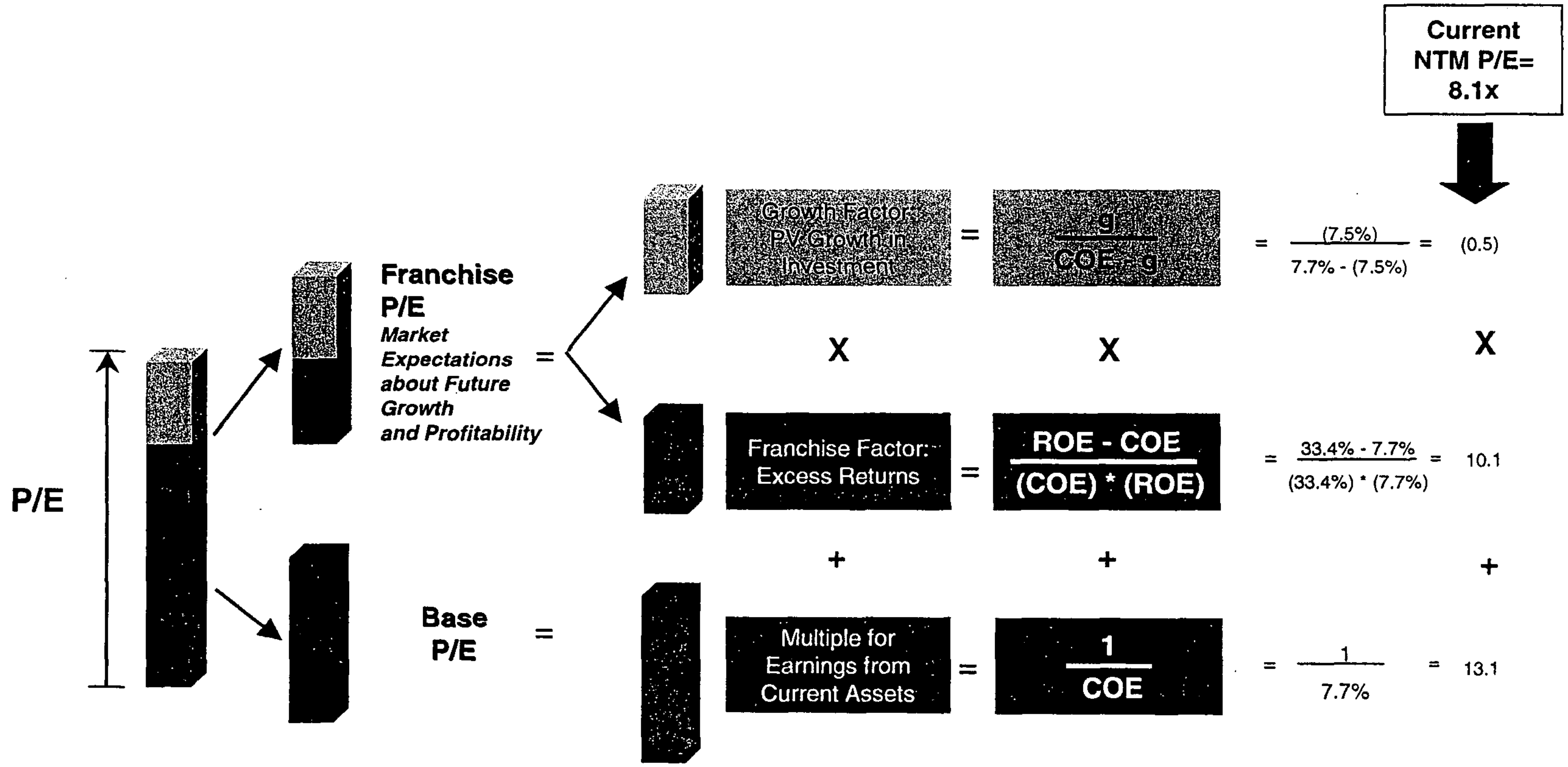
Decomposition of Phineas' P/E valuation multiples

- While growth expectations and returns are important drivers of valuation multiples, the cost of capital is also critical



Note: g: Growth rate
COE: Cost of equity
ROE: Return on equity

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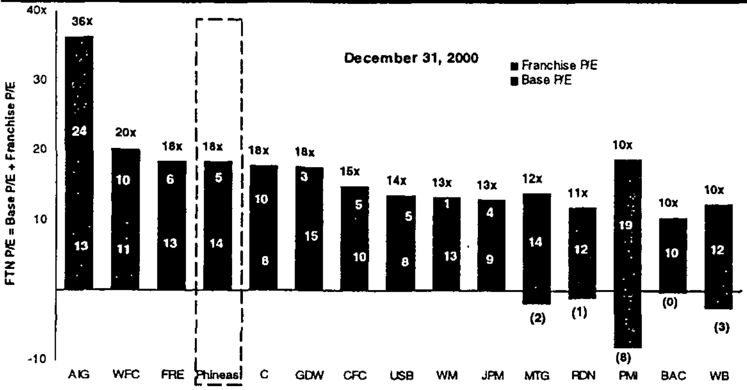
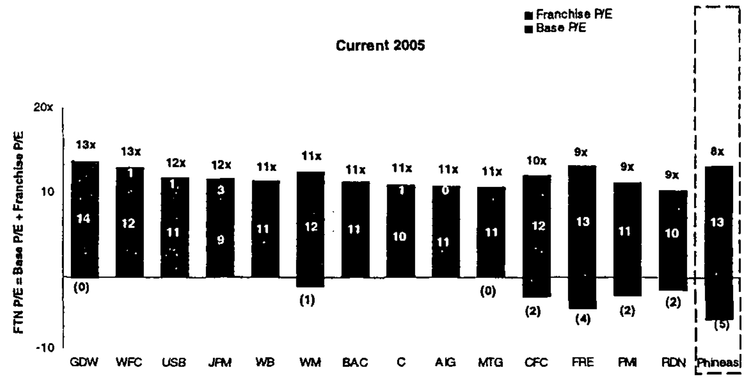
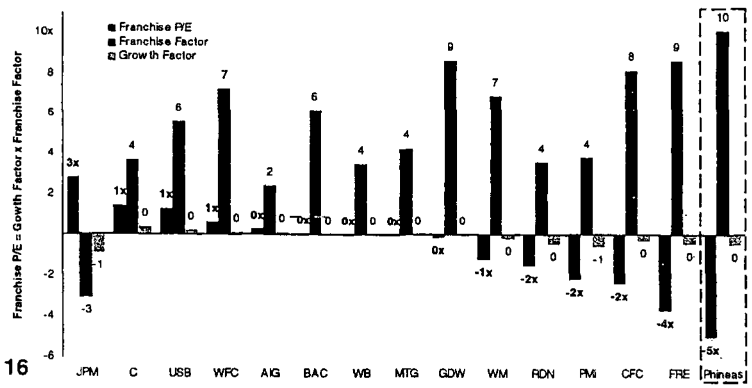
P/E franchise factor model: Phineas vs Peers

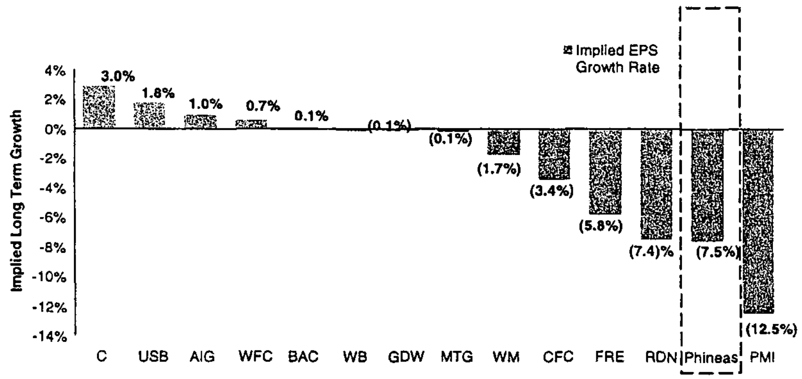
Over time Phineas' Franchise P/E has shrunk considerably...





...while investors still attribute a strong Franchise Factor to Phineas, their current view is that Phineas' EPS, and the mortgage industry in general, will contract





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Status quo versus private company DCF valuation assumptions

	With Charter	Without Charter
Tax-Rate	◆ 27% effective tax rate	◆ 31% effective tax rate
Single- and Multi Family	◆ 58.5 basis points required capital (assumes 30% surcharge to continue) ◆ Single family book of business grows at a constant rate of 3.1% from 2007 (46.1% of mortgage debt outstanding growth) ◆ Net income reduced by mission costs (incorporated in management projections) ◆ Beta of 0.68 (cost of equity 7.7%) ◆ Terminal value: 9.0x P/E multiple	◆ 66.4 basis points required capital (median of three financial guarantors) ◆ Single family book of business shrinks by 15% per annum beginning in 2006. Single family book of business reduced to $1.2 trillion by 2009 ◆ Net income *increased* by 5% to adjust for "mission costs" ◆ Single-family beta of 1.07 (median of peer group) ◆ Multi-family beta of 0.89 (median of peer group) ◆ Terminal value: 9.0x P/E multiple
Portfolio	◆ Portfolio growth based on management assumptions (0% growth through 2009) ◆ 2.67% required capital ◆ Funding costs reflect management estimates on April 27 ◆ Beta of 0.68 (cost of equity of 7.7%) ◆ Terminal value book multiple of 1.2x	◆ Portfolio in run-off; balance is reduced to $228 billion by 2009 ◆ Assumed to be no "mission costs" associated with the Portfolio business <u>Valuation as Bank</u> ◆ 5.0% required capital (leverage ratio for "well-capitalized" banks) ◆ Funding reflects banks' cost of raising senior unsecured debt (median of comparables) ◆ Beta of 0.82 (median of peers cost of equity of 8.4%) ◆ Terminal value book multiple of 1.2x <u>Valuation as REIT</u> ◆ Funding reflects REIT's average cost of funding (median of comparables) ◆ 10.0% required capital ◆ Beta of 0.62 (median of peers cost of equity of 7.4%) ◆ Terminal value book multiple of 1.2x

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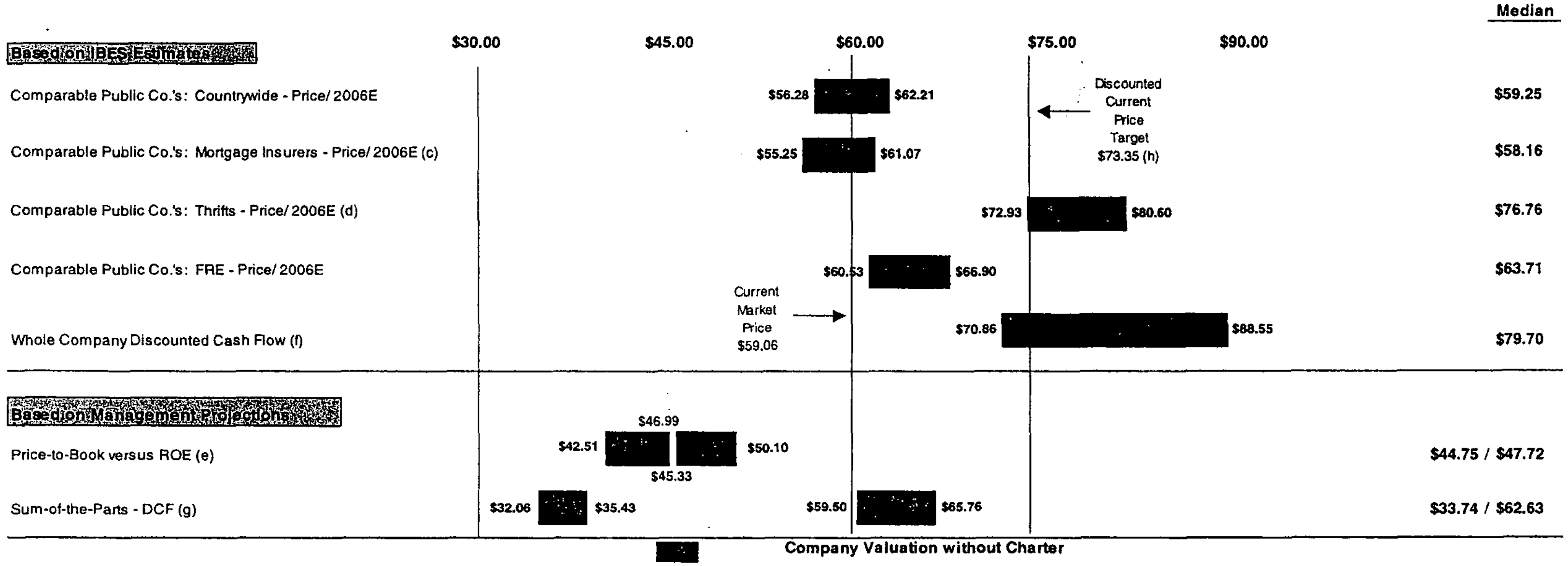
Whole company valuation summary



($ in millions, except per share data)	Phineas	$30.00	$45.00	$60.00	$75.00	$90.00
		Valuation Per Share				
		Implied Valuation Multiples				
Equity Valuation Multiples						
2005 Net Income [a]	$6,727	4.3x	6.5x	8.6x	10.8x	12.9x
2006 Net Income [a]	6,921	4.2	6.3	8.4	10.5	12.6
Current Capital [b]	26,392	1.1	1.7	2.2	2.8	3.3

N.B. Ranges for comparable public company valuations based on 5% variance from valuation using median P/2006E multiple. Segment valuation without charter based on Citigroup discounted cash flow projections for segment.
(a) Based on IBES estimates as of July 11, 2005.
(b) Equity as of 12/31/04 provided by management, adjusted for preferred equity.
(c) Companies include MGIC Investment Corp. (MTG), Radian Group Inc. (RDN), and PMI Group Inc. (PMI).
(d) Companies include Golden West Financial Corp. (GDW) and Washington Mutual Inc. (WM).
(e) Based on regression analysis of price-to-book versus ROE for peer group.
(f) DCF based on 7.7% cost of equity and IBES median net income. Income grows at 5.0% in 2007-2009.
(g) Based on management projections for Single- and Multifamily businesses. Citigroup projections model driven by management assumptions for the Portfolio business.
(h) Discounted current IBES median price target of $79.00 per share over one year at Phineas' cost of equity.
(i) Fair value of existing book of business is approximately $32 billion.

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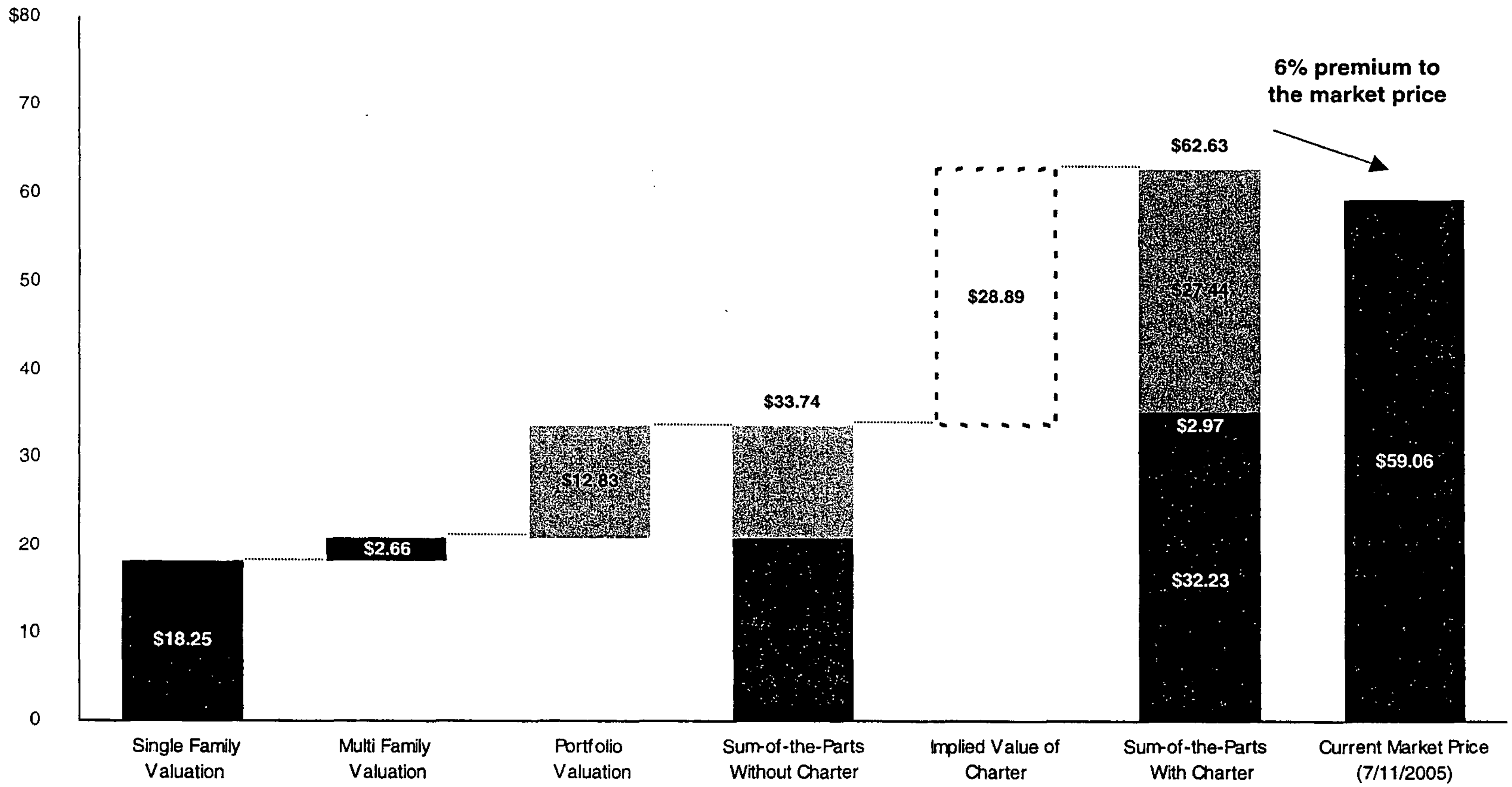
Current Phineas sum-of-the-parts DCF valuation



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Overview of the valuation of the charter

Value Per Share

Methodology	Current Configuration	Without Charter (a)	Implied Charter Value	W/out Charter (Diluted) (c)	Implied Charter Value (Diluted)
Sum-of-the-parts DCF Valuation					
Single Family	$32.23	$19.21	$13.01	$18.25	$13.97
Multi-Family	2.97	2.80	0.17	2.66	$0.31
Portfolio	27.44	13.51	13.93	12.83	$14.61
Total	**$62.63**	**$35.52**	**$27.11**	**$33.74**	**$28.89**
Whole Company DCF (b)	**$79.41**	**$35.52**	**$43.89**	**$33.74**	**$45.67**
Franchise Factor Model			**$19.72**		
Event studies of restatement, late filing and SEC investigation			**$5.46**		

Note: Valuations based on 967.904 million shares outstanding and median of respective valuation range.
(a) Based on management estimates and Citigroup assumptions. Reflects higher capital requirements, representative growth rates or portfolio size, and representative cost of funds as a non-GSE company.
(b) Whole company projections based on IBES estimates. Implied charter value is calculated by subtracting the valuation of the company without the charter.
(c) Assumes 50.852 million common shares are issued at market price to meet the additional capital requirement as a bank (5% tangible equity ratio).

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Tipping point scenarios: Impact on Phineas growth & profitability

Scenario	Description
Status quo	◆ No material changes to current capital requirements ◆ 2.67% capital requirement
Bank capital requirement	◆ 5% total capital requirement for the portfolio ◆ No portfolio reduction ◆ Assumes 232mm common shares are issued at market price
"Economic" capital requirement	◆ Portfolio capitalized using median capital levels of largest financial institutions ◆ 6.9% total capital requirement(e) ◆ 490mm common shares issued at market price
Portfolio runoff	◆ Existing portfolio assets are run-off (no new business) ◆ No change in capital requirements
5bp user fee	◆ 5bps after-tax user fee imposed on the total book of business
Break-even user fee	◆ 11bps after-tax user fee imposed on the total book of business ◆ Reduces value of charter to zero

Impact (Management Projections)

Status quo

	2006	2007	2008	2009
After-Tax ROACE (a)	24.7%	25.8%	25.8%	25.1%
Dividend Payout Ratio (b)	73.3%	90.2%	81.7%	94.1%
YOY EPS Growth (Fully Diluted)	10.6%	9.2%	3.6%	0.7%

	Total	Change in Value	Capital Raised (c)	NPV / Share (d)
Sum-of-the-Parts Value	$60,621	–	–	$62.63

Bank capital requirement

	2006	2007	2008	2009
After-Tax ROACE (a)	19.9%	16.7%	16.9%	16.7%
Dividend Payout Ratio (b)	(183.9%)	91.0%	83.1%	94.6%
YOY EPS Growth (Fully Diluted)	(3.2%)	8.7%	3.4%	0.7%

	Total	Change in Value	Capital Raised (c)	NPV / Share (d)	Impact / Share
Sum-of-the-Parts Value	$59,054	($1,566)	$13,714	$49.21	($13.42)

"Economic" capital requirement

	2006	2007	2008	2009
After-Tax ROACE (a)	17.5%	13.4%	13.6%	13.5%
Dividend Payout Ratio (b)	(364.5%)	91.5%	84.0%	94.9%
YOY EPS Growth (Fully Diluted)	(15.2%)	8.3%	3.4%	0.8%

	Total	Change in Value	Capital Raised (c)	NPV / Share (d)	Impact / Share
Sum-of-the-Parts Value	$58,547	($2,074)	$28,918	$40.17	($22.46)

Portfolio runoff

	2006	2007	2008	2009
After-Tax ROACE (a)	25.7%	27.9%	29.0%	29.1%
Dividend Payout Ratio (b)	153.7%	145.9%	114.4%	122.9%
YOY EPS Growth (Fully Diluted)	(13.8%)	(4.9%)	(4.6%)	(5.1%)

	Total	Change in Value	Capital Raised (c)	NPV / Share (d)	Impact / Share
Sum-of-the-Parts Value	$47,966	($12,655)	–	$49.56	($13.07)

5bp user fee

	2006	2007	2008	2009
After-Tax ROACE (a)	20.7%	21.8%	21.8%	21.2%
Dividend Payout Ratio (b)	68.1%	88.5%	78.5%	93.0%
YOY EPS Growth (Fully Diluted)	(7.3%)	10.3%	3.6%	0.2%

	Total	Change in Value	Capital Raised (c)	NPV / Share (d)	Impact / Share
Sum-of-the-Parts Value	$48,200	($12,420)	–	$49.80	($12.83)

Break-even user fee

	2006	2007	2008	2009
After-Tax ROACE (a)	15.7%	16.9%	16.9%	16.3%
Dividend Payout Ratio (b)	57.9%	85.1%	72.2%	90.9%
YOY EPS Growth (Fully Diluted)	(29.7%)	12.5%	3.7%	(0.7%)

	Total	Change in Value	Capital Raised (c)	NPV / Share (d)	Impact / Share
Sum-of-the-Parts Value	$32,659	($27,961)	–	$33.74	($28.89)

(a) Based on common equity.
(b) Assumes all net income in excess of that required to maintain minimum capital levels is paid to shareholders as a dividend.
(c) Assumes any shortfall in capital required is funded through the issuance of new shares of common equity in the market.
(d) Calculated on a fully diluted basis.
(e) Median of Citigroup (C), Bank of America (BAC), JP Morgan Chase (JPM), American Int'l Group (AIG), Morgan Stanley (MWD), Goldman Sachs (GS), Lehman Brothers (LEH), Washington Mutual (WM), Golden West Financial (GDW).

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Phineas' competitive advantages to expand business

	Origination / Customer Relationship / Brand / Distribution			Portfolio Management			Credit Risk			Servicing		Insurance Underwriting		
	Direct	Branch	Wholesale	Mortgage	Interest Rate	Other	Mortgage	Bond	Other	Mortgage	Other	P&C	Title	Constraints?
Credit Guarantee / Conduit														
Non-conventional Mortgage			●	●			◕			◑				Charter
Other Consumer			◑			◑			○		○			Charter
Asset Management														
Conventional Mortgage			●	●	◕		●							Customer Conflict, HUD approval?
Sub-prime / Home Equity			◕	◕	◕	◕	◑							Customer Conflict, HUD approval?
Fixed Income			◕		◕	◔		○	○					HUD approval?
Mortgage Insurance			●		◕	○	◕							Charter, Customer Conflict
Title Insurance			◕		◕	○							◑	Charter
Financial Guarantor			◑		◕	○	◕	○	○					Charter
Mortgage Origination	○	○	◕				◕							Charter
Mortgage Servicing (outsourcing)			●							◔				HUD approval?
International Mortgage			◑	◑	◑		◑			◔				Charter
Banking	○	○	◔	●	◕	○	◕		○	◔	○			Charter
Mortgage REIT			◕	●	◕		◕			◔				Charter
Homeowner's Insurance	○	○	○		○	○						○		Charter

Phineas Relative Skill Level ● High ○ Low

Citigroup recommendations

Recommendation	Comments	Potential valuation expansion
Optimize value of Portfolio business		
1) Manage growth in portfolio to optimize returns 2) Structural alternative → Portfolio tracking stock	◆ Manage business to total returns on invested capital and not EPS growth ◆ Optimize investor interest by isolating the Portfolio's value and returns for investors that place the highest value on the resulting economic earnings stream ◆ Target investors who understand the portfolio business and are comfortable with volatile GAAP results	
New business opportunities		
1) Extension of the Guaranty business into new products	◆ Utilize existing core competency in evaluating mortgage credit risk to expand the guaranty business into non-traditional products (Jumbo[a], Alt-A, Sub-prime, HELOCs) ◆ Non-traditional markets have recently experienced significant growth. Expansion into these products should provide Phineas with more diversified sources of revenue and higher earnings growth	◆ ~ $6 billion / $5.72 per share
2) Asset management & risk analytics	◆ Profit from selling market-leading portfolio management skills to institutional investors including banks, REITs, pension funds, insurance companies, etc.	◆ ~ $2 billion / $2.31 per share
3) Mortgage insurance	◆ Leverage existing relationships with mortgage originators and leading understanding of mortgage credit risk to expand into mortgage insurance	◆ ~ $3 billion / $3.07 per share
Consider comprehensive investor relations program	◆ Use a variety of descriptive and quantitative tools to highlight how the businesses are managed to shareholder maximize value ◆ Focus on reinvigorating existing and new investors, and to reconciling GAAP results with management of the business and "core" results	

(a) Expanding the guaranty business into Jumbos would require an amendment to the charter.

Summary impact of business initiatives

	Description	Impact

Status quo

Description
- No additional business initiatives
- No additional equity requirement

Impact

	2006	2007	2008	2009
After-Tax ROACE	24.7%	25.8%	25.8%	25.1%
Dividend Payout Ratio (a)	73.3%	90.2%	81.7%	94.1%
YOY EPS Growth	10.6%	9.2%	3.6%	0.7%

	Total	Change in Value	Incremental Capital Req'd	NPV Per Share
Sum-of-the-Parts Value	$60,621	–	–	$62.63

Guarantee business

Description
- Expansion into non-traditional mortgage guaranty business
- Guarantee fee of 30bp, losses of 5bp, admin expenses of 3bp
- Capital requirement of 59bp of book of business

Impact

	2006	2007	2008	2009
After-Tax ROACE	24.9%	26.1%	26.4%	26.1%
Dividend Payout Ratio (a)	70.2%	86.2%	74.0%	84.2%
YOY EPS Growth	11.6%	10.8%	6.8%	4.5%

	Total	Change in Value	Incremental Capital Req'd	NPV / Share (b)	Per share Impact
Sum-of-the-Parts Value	$66,157	$5,536	–	$68.35	$5.72

Asset management

Description
- Expansion into asset management and risk analytics
- Fees of 28bp of AuM, costs of 18bp for asset management
- Fees of 6bp of AuM, costs of 3bp for risk analytics
- No additional capital requirement

Impact

	2006	2007	2008	2009
After-Tax ROACE	24.9%	26.0%	26.0%	25.5%
Dividend Payout Ratio (a)	73.4%	90.3%	81.9%	94.2%
YOY EPS Growth	11.2%	9.4%	3.8%	1.0%

	Total	Change in Value	Incremental Capital Req'd	NPV / Share (b)	Per share Impact
Sum-of-the-Parts Value	$62,852	$2,232	–	$64.94	$2.31

Mortgage insurance

Description
- Disintermediation of mortgage insurers
- Guarantee fee of 70bp, losses of 30bp, admin expenses of 3bp
- Capital requirement of 59bp of book of business

Impact

	2006	2007	2008	2009
After-Tax ROACE	24.9%	26.1%	26.3%	26.0%
Dividend Payout Ratio (a)	71.9%	88.7%	79.0%	90.7%
YOY EPS Growth	11.5%	10.1%	5.5%	2.8%

	Total	Change in Value	Incremental Capital Req'd	NPV / Share (b)	Per share Impact
Sum-of-the-Parts Value	$63,595	$2,974	–	$65.70	$3.07

Source: Base earnings based on management projections.
(a) Assumes all net income in excess of that required to maintain minimum capital levels is paid to shareholders as a dividend.
(b) Assumes any shortfall in capital required that cannot be covered by retained earnings of all business lines is funded through the issuance of new shares of common equity in the market at the current share price.

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Structural alternative: Tracking stock

Tracking stock structure

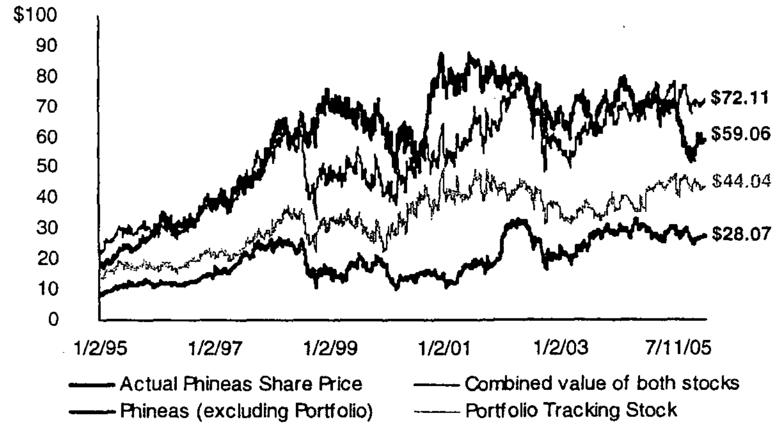
Phineas

Guaranty Business
- Parent-General Division consisting mainly of guaranty business
- $2,152bn book of business
- $12.6bn equity
- $3.6bn net income
- 28.7% ROACE

Portfolio Business
- Tracking Stock
- Tracks earnings of portfolio business
- $905bn assets
- $19.6bn equity
- $3.1bn net income
- 25.0% ROACE

Note: 2004 financial data.

Hypothetical Phineas tracking stock performance



Benefits

- Potentially enhances Phineas' valuation as investors may more accurately value Phineas' portfolio business
- Maintains tax, legal and credit consolidation
- Retains Phineas' control and permits synergies within the group
- Enhances employee incentives by aligning compensation to the performance of the portfolio business
- Results in tax savings versus the sale of subsidiary stock
- Can be used as acquisition currency

Considerations

- Requires shareholder approval
- Adds complexity to capital structure and financial statements
- May be detrimental to a full separation as assets and liabilities remain with Phineas
- Can raise difficult corporate governance issues (i.e. proper capital allocation and distribution policy); heightens board responsibilities
- Requires significant time and resources to implement (about 6 months)

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