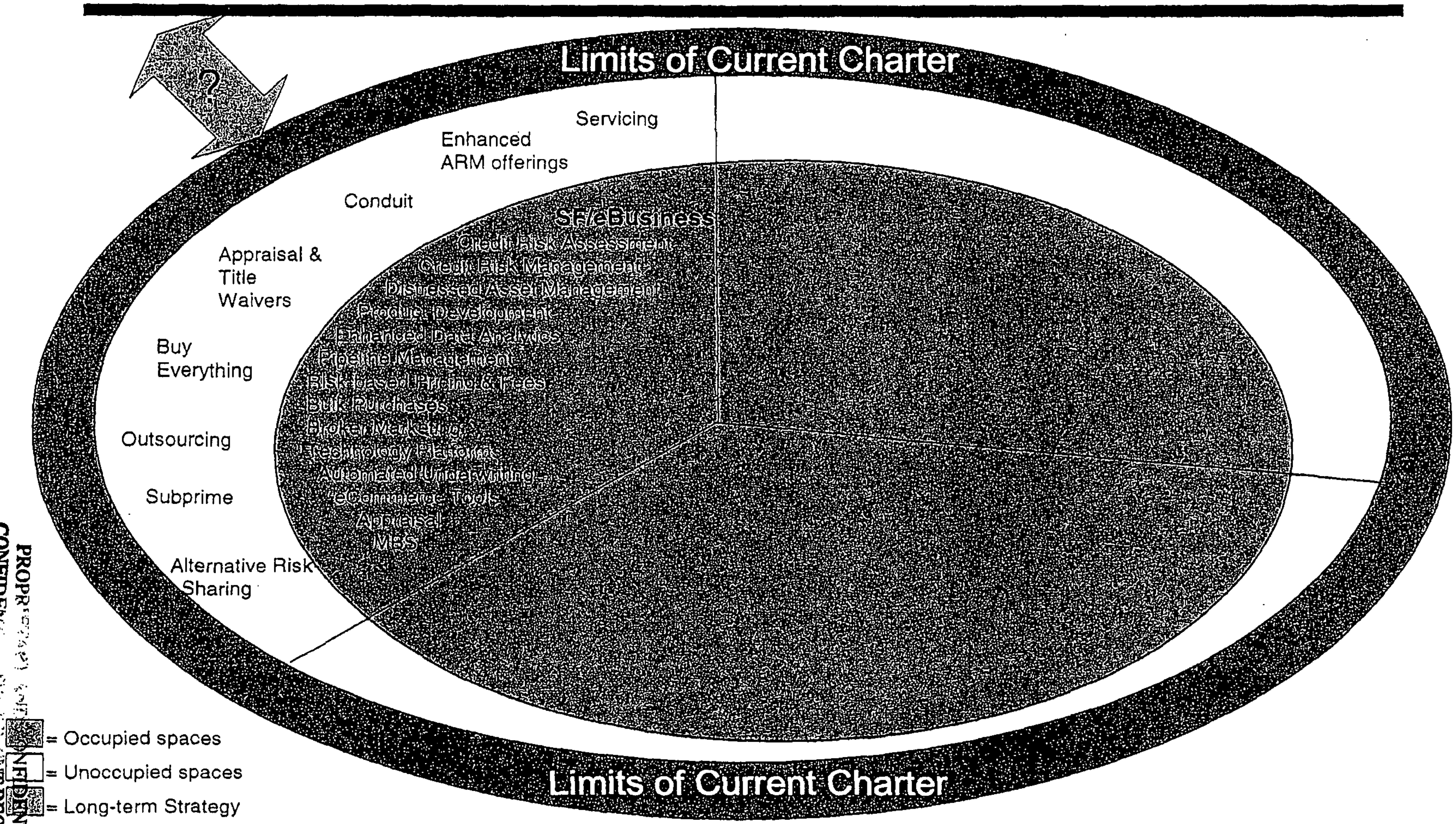
Single Family Guaranty Business Strategic Review Summary

Board of Directors

July 19, 2005

FannieMae

Optimization by Pursuing the Unoccupied Spaces



Confidential – Highly Restricted

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What is Our Business?

Mission

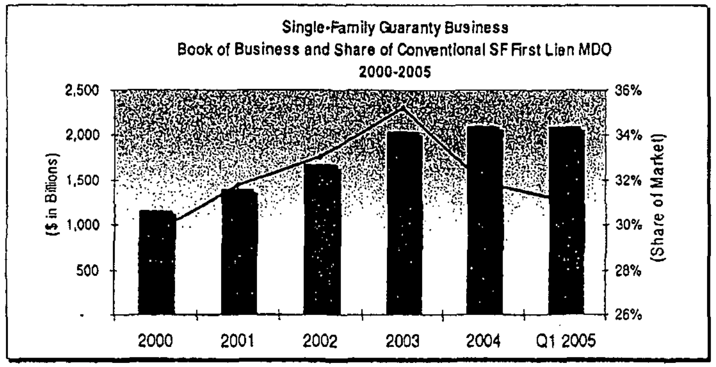
- The mission of the Single Family Guaranty Business is to attract global capital to the U.S. affordable housing market through the guarantee of mortgage backed securities while delivering value to lenders, mortgage investors and other mortgage market participants in furtherance of Fannie Mae's mission to tear down barriers, lower costs and increase homeownership

Priorities of the Business

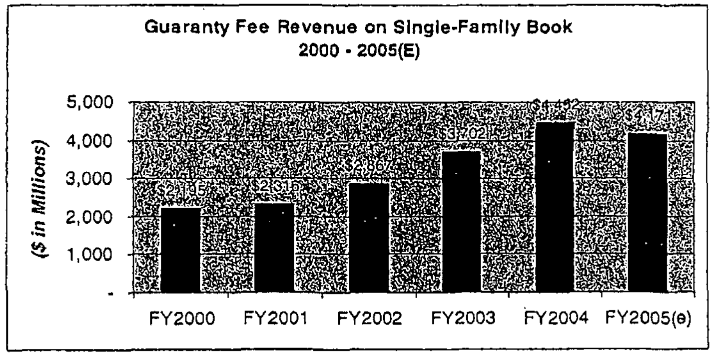
- 2005
  - Achieve corporate and mission goals
  - Maintain leadership and relevancy in the secondary market
  - Work strategically with our lender partners to balance affordability and risk concerns to increase homeownership opportunities and to educate the market about the heightened risks of more exotic ARM products, that dominate the market today
- 2006-2009
  - Develop needed infrastructure and capabilities to compete in a changing market
  - Invest in human capital and resources to grow the business

State of the Business

Developed a very large asset (represents over 30% of the Single-Family Conventional First Lien MDO market)...



And generates strong revenues for the business...



This information is subject to change as a result of the pending re-audit and restatement of Fannie Mae's financial statements.

That is of superior quality....

- <u>Book of Business Stats</u>
  - Exceeds $2 trillion
  - Includes over 16 million loans
- <u>Conventional Book Profile as of Q1 2005</u>
  - Weighted average FICO is 719
  - Weighted average original LTV on our acquisitions is 72%
  - Weighted average mark-to-market LTV is 56%
  - Credit losses have averaged less than 1 basis point over the past couple of years

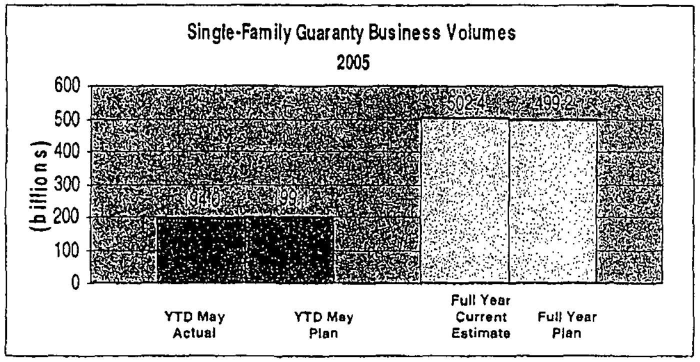
While serving our intended mission.

- We have met or exceeded our HUD housing goals for 11 consecutive years
  - For 2004, Fannie Mae helped finance homes for over 70,000 African American families, 140,000 Hispanic families and nearly 290,000 minority families.
  - In 2004, we also helped finance over 2.1 million units for borrowers that were at or below area median income – including over 900,000 units to borrowers that were 60% below area median income.

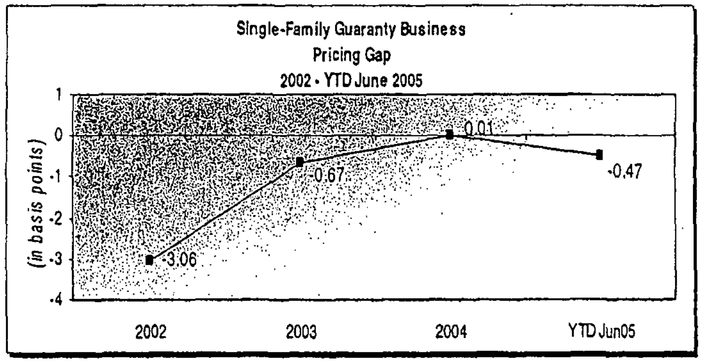
Stabilizing the Business

Despite the turmoil of the last year, we are delivering on Priority #2 – Meet the tremendous business challenges

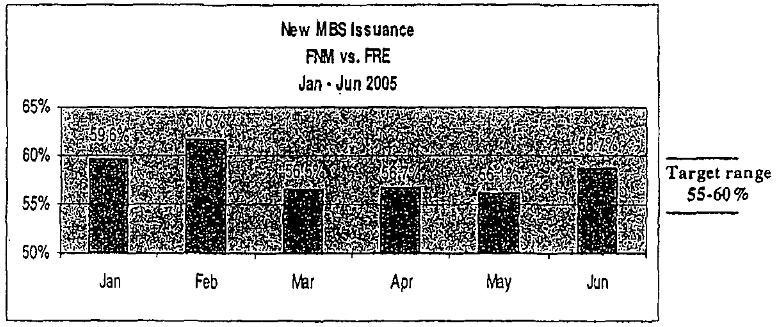
Our 2005 volumes meeting plan.



While holding our margins...



Our market share versus a chief competitor has remained in its preferred target range...



And maintaining strong customer relationships

- We have focused on taking a more creative and expansive view of partnerships. YTD we have:
  - 47 Partners Agreements, 5 Affinity Agreements and 3 Co-Op Agreements
  - Signed 2 new partners and loss only 1 major partner
  - Renewed 12 alliances including GMAC, Wachovia and Flagstar, 2 Affinity Agreements and 1 Co-Op Agreement
  - Signed minority share agreements with WAMU, Bank of America and Chase
  - Expanded our relationship with CitiMortgage, Wells and others

Changing Landscape

However, the landscape has changed driven by consumer preferences for alternative products that have dramatically increased credit risk

<u>Amortizing and IO Loans Underlying All MBS Issuance</u>

Source: Fannie Mae Economics and Mortgage Market Analysis

- Increasing affordability concerns
- Home being utilized more like an ATM
- Emphasis on lowest possible payment vs. terms
- Layering of risks (no doc, high debt-to-income, higher loan-to-value, lower credit quality, payment shock)

Changing Landscape

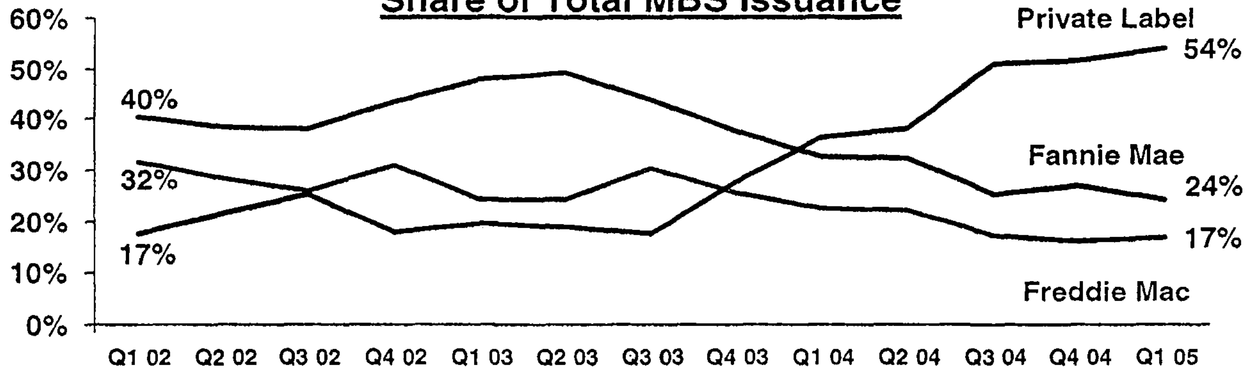
Many of the products in the market today provide for a low payment with increased payment shock over time

Loan Type	Start Rate	P & I Payment (Initial)	P & I Payment (First Adjustment)	P & I Payment (Maximum Adjustment)	Qualifying Max. Loan Amount
Option ARM (w/ Neg. Amortization)	1.00%	$125	$876	$1,912	$285,714
3/1 IO ARM	5.00%	$625	$904	$1,436	$300,000
5/1 IO ARM	5.13%	$641	$992	$1,376	$292,683
30-Yr. Fixed Rate (w/ 2/1 buydown)	4.25%	$738	$826	$916	$254,096
30-Yr. IO Fixed Rate	6.00%	$750	$1,266	$1,266	$250,000
5/30 IO (35-Yr.)	6.13%	$766	$911	$911	$244,898
40-Yr. Fixed Rate	5.75%	$799	$799	$799	$234,571
5/1 ARM	5.00%	$805	$900	$1,252	$232,852
30-Yr. Fixed Rate (Approve)	5.63%	$863	$863	$863	$217,143

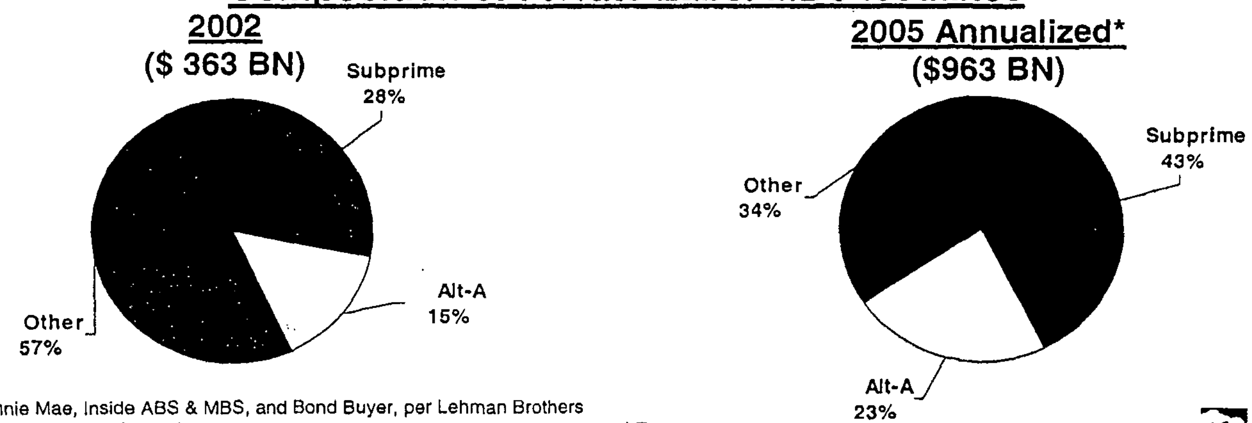
Assumptions: a) $150K loan amount. b) Start Rates based on posted lender pricing. Rates at adjustment assume current index value for the loan type. Option ARM teaser rate of 1% on IO fixed for one year, then moves to 5.25% until first rate adjustment. c) Qualifying max loan amount for all loan types assumes the borrower made $60K and utilizes a 25% qualifying ratio. d) Option ARM qualifying rate of 5.25%. All other loan types qualified at starting payment rate.

Changing Landscape

There has also been a dramatic increase in competition from credit risk takers in the Private Label (non-agency guarantee market)



Composition of Private Label MBS Issuance



Source: Fannie Mae, Inside ABS & MBS, and Bond Buyer, per Lehman Brothers

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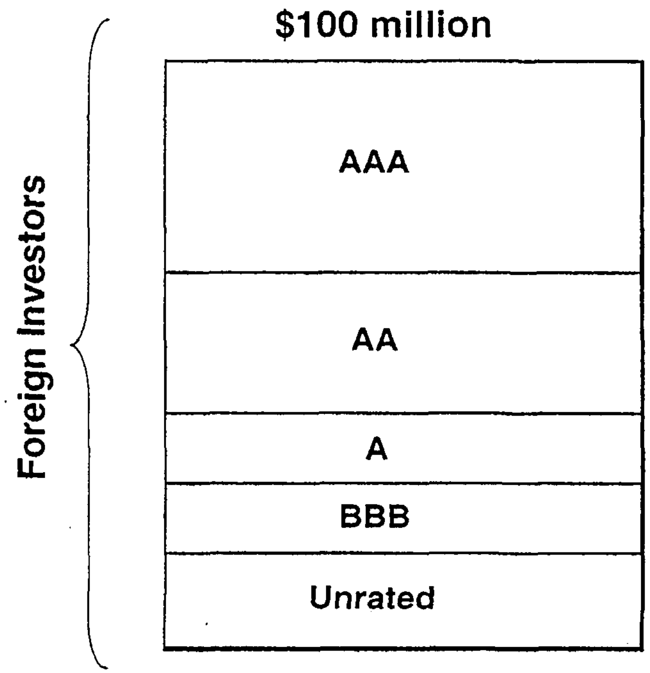
Changing Landscape

The Private Label market is creating securities with different credit risk tranches appealing to investor's seeking yield



Investors
- **Pension Funds**
- **Banks**
- **Life Insurance Companies**
- **GSE's**

- **CDO's** (67% subprime)

- **Hedge Funds**

- These investors are not traditional real estate risk takers
- We believe they are under pricing the future risks

Consumers and Investors have increased their risk appetite

Short-term Issues

The changing landscape gives rise to important questions

- Is the housing market overheated?
- Are consumer changes in preferences for adjustable rate vs. fixed rate mortgages cyclical or secular?
- What impact will borrower preferences for these products have on Fannie Mae achieving its mission goals?
- Will alternative investors exit when higher yielding investment's or risks emerge?

Strategic Approach: Single-Family Path to Long-Term Strategy

Short Term | Medium Term | Long Term

Stabilize

1. 4 'R's
2. Business challenges
3. Mission
4. Operational Discipline
5. People

Optimize

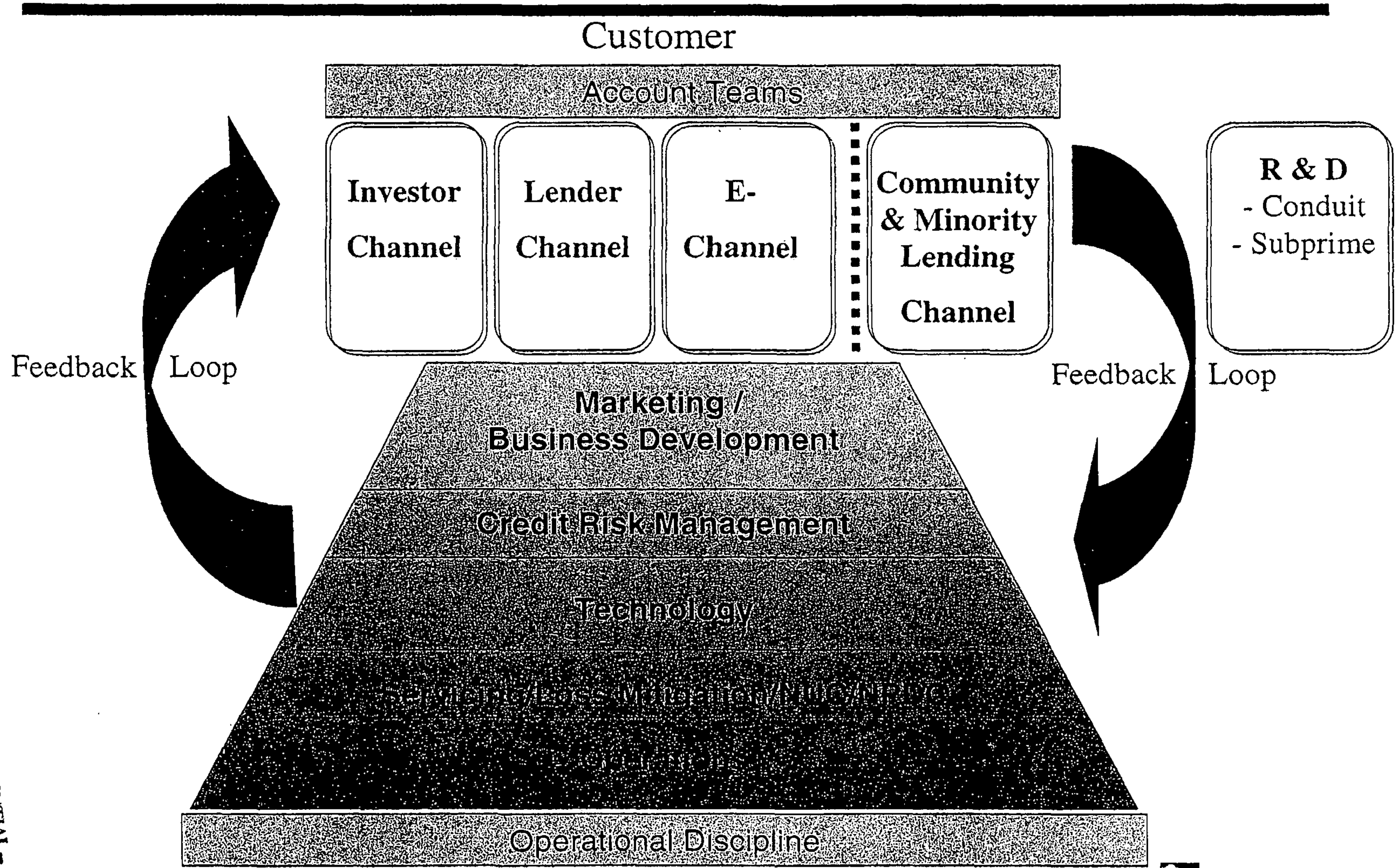
- Pursue a "Stay the Course" strategy; test whether current market changes are cyclical vs. secular:
  - Advocate public position
  - Be selectively opportunistic in pursuing business
  - See if consumer sentiment changes with flatter yield curve
- Rebuild human capital and break down organizational silo's
- Dedicate significant resources to develop capabilities to compete in any mortgage environment:
  - Develop a subprime infrastructure
  - Develop products to address affordability with lower risk
  - Develop conduit capability (sell the risk)

Scenario 1

Scenario 2

Scenario 3

Proposed Organizational Alignment



HCD / Multifamily Strategic Review Summary

Board of Directors

July 19, 2005

FannieMae

Our Mission

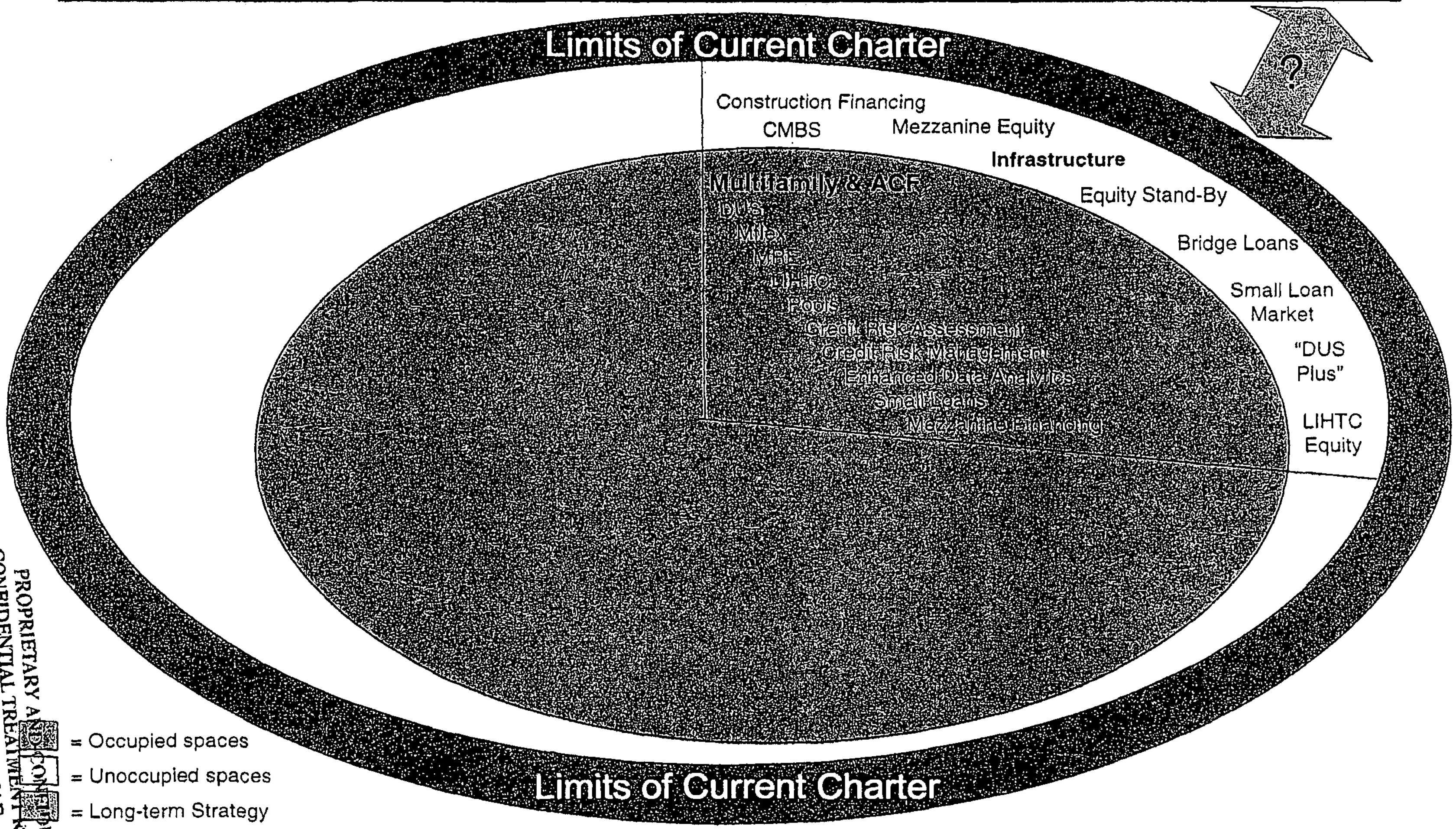
To Create Tangible Impact In Communities By
Increasing And Preserving The Supply
Of Affordable Rental And For-sale Housing, And
To Produce Value For Shareholders

Our Business

Multifamily Business	2005 Est.	2004	2003	2002	2001
Multifamily Total Debt Volume	$22.0 Billion	$19.4 Billion	$34.2 Billion	$19.2 Billion	$20.0 Billion
Multifamily Flow Debt Volume	$17.1 Billion	$17.6 Billion	$20.6 Billion	$16.6 Billion	$19.2 Billion
Multifamily Flow Debt Market Share	14.9%	19.5%	25.3%	23.7%	32.6%
Low Income Housing Tax Credit Volume (LIHTC)	$1.8 Billion	$1.7 Billion	$1.7 Billion	$1.6 Billion	$1.4 Billion
LIHTC Market Share	24.7%	25.1%	25.2%	25.9%	25.4%

ACF Business	2005 Est.	2004
Acquisition, Development & Construction Volume (AD&C)	$400 Million	$395 Million
For-sale Equity Volume	$77 Million	$78 Million
Rental Equity Volume	$243 Million	$160 Million
Public Entity Loan Volume	$200 Million	$57 Million

Optimization by Pursuing the Unoccupied Spaces



= Occupied spaces
= Unoccupied spaces
= Long-term Strategy

Strategic Approach: HCD Path to Long-Term Strategy

Short Term | Medium Term | Long Term

Stabilize

1. 4 "R's"
2. Business challenges
3. Mission
4. Operational Discipline
5. People

Optimize

2005

- Grow MF & LIHTC Business
- Improve Infrastructure – HCD Core
- Preserve Existing Franchise – New DUS
- Build On Strengths – ACF/PO Integration
- Strengthen ACF Underwriting & Credit

2006+

Further develop key products & capabilities:

- AD&C
- One Pipe
- For-sale & Rental Equity
- Small Loans
- Infrastructure
- Risk Transformation

Scenario 1

Scenario 2

Scenario 3

The Market And Our Partners Demand More

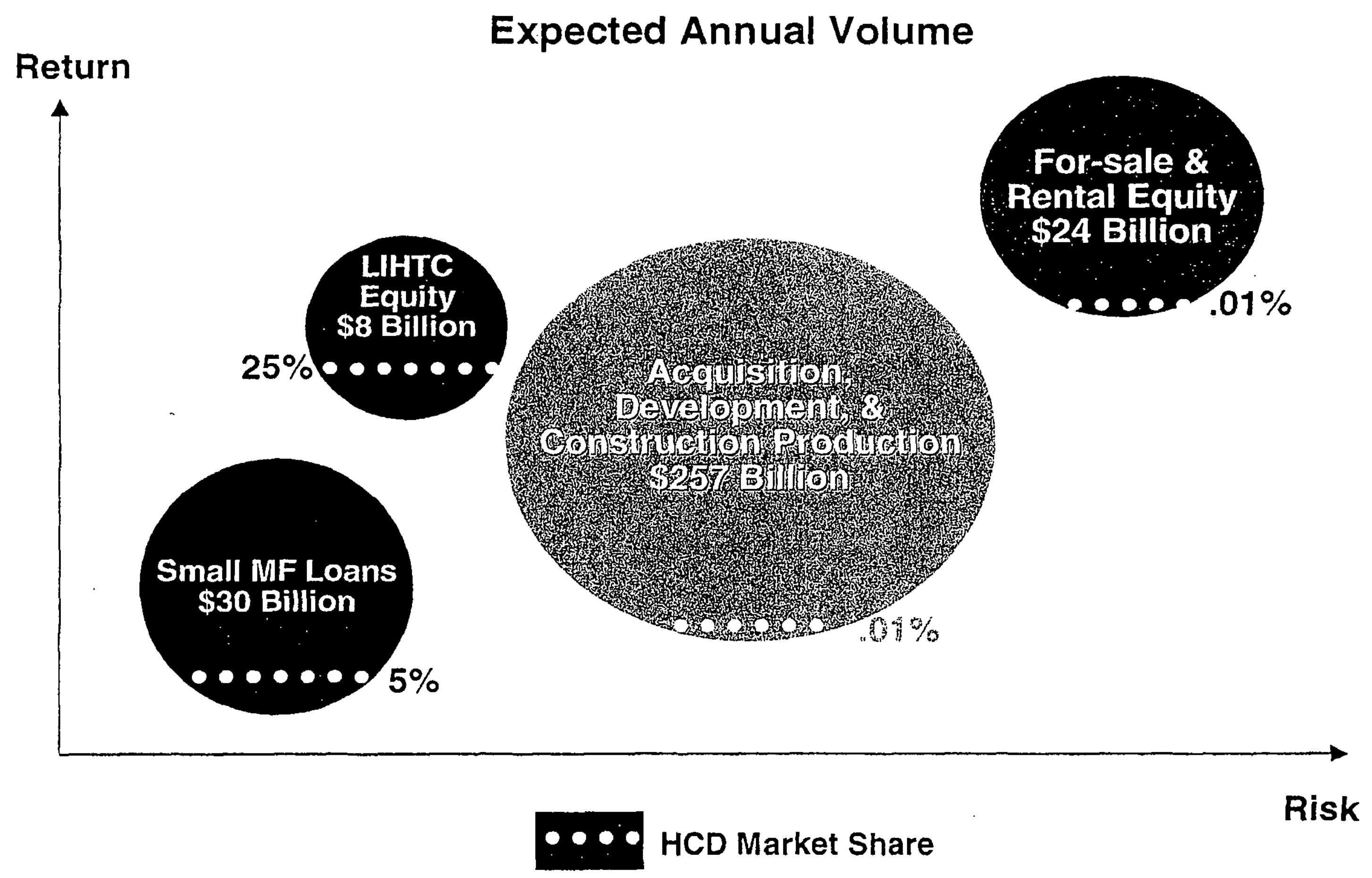
- Shortage Of Affordable Housing For Low- And Moderate-income Borrowers
- Demographic Trends Driving Increased Demand (Immigrants And Elderly)
- Lenders Expect Us To Take On More Risk
- Trade Groups Want Specialized Products And Liquidity
- Policy Makers Expect Us To Provide Greater Access To Safe And Affordable Housing

Demands Provide Opportunities
To Create Shareholder Value And Fulfill Our Mission

Guiding Principles For Success

- Partner With The Best
- Leverage Our Partners' Sourcing And Infrastructure
- Create Rules Of Engagement
  - Risk-sharing; Co-investment
  - Continuous Flexibility
  - Programmatic Discipline And Controls
- Be Indispensable To Our Partners
- Produce Tangible Mission Value And Bottom Line Results

Opportunities Exist All Along The Risk Spectrum



Quantifying The Opportunities

Business Line	Gross Margin	Credit Losses[1]	G&A[2]	Net Margin	Expected Life	Projected Share	Potential Net Income[3]	Net Present Value[4]
AD&C	185 bps	50 bps	36 bps	99 bps	3 years	$2.7 Billion	$31 Million	$61 Million
Small Loans	25-30 bps	7 bps	7 bps	11-16 bps	10 Years	$3 Billion	$40 Million	$66 Million
For-sale Equity	1,650 bps	100 bps	10 bps	1,540 bps	2-3 Years	$0.7 Billion	$108 Million	$244 Million
Rental Equity	1,350 bps	100 bps	20 bps	1,230 bps	3 Years	$0.6 Billion	$49 Million	$130 Million
Infrastructure Loans	260 bps	40 bps	8 bps	212 bps	5 Years	$1 Billion	$28 Million	$66 Million

[1] Credit Losses: Small Loans per credit works, Infrastructure per historical ACF Community Lending credit performance, AD&C increased from historical performance of 35 bps, and For-Sale and Rental equity includes 50 bps of Net Operating Losses per year for new commitments.

[2] G&A: Small Loans based on MF average, Infrastructure based on ACF Community Lending average, AD&C and Equity based on industry benchmarking

[3] Potential annual net income in stabilized years: 2008 for Small Loans, 2010 for Infrastructure, and 2011 for AD&C and For-sale and Rental Equity.

[4] Discounted at 8%. For Small Loans and Infrastructure represents the lifecycle value of the businesses generated in 2006-2008. For AD&C and For-sale and Rental Equity represents the Net Revenue to stabilization at 2011.

What It Will Take...

Be Committed	Ramp-up Will Take Time
Invest In Intellectual Capital	Maximizing Opportunities Demands Hiring Expertise & Funding R&D
Enhance Systems	Sustaining Core Business & Pursuing New Opportunities Demand More Robust Systems
Increase Risk Appetite	Riskier Business Requires Stronger Credit Analytics, Ability To Absorb Risk, & Capability To Tranche & Sell Risk Into Market

10

Confidential Treatment
Requested By Fannie Mae

FMSE 511458

Mortgage Portfolio
Strategic Review Summary

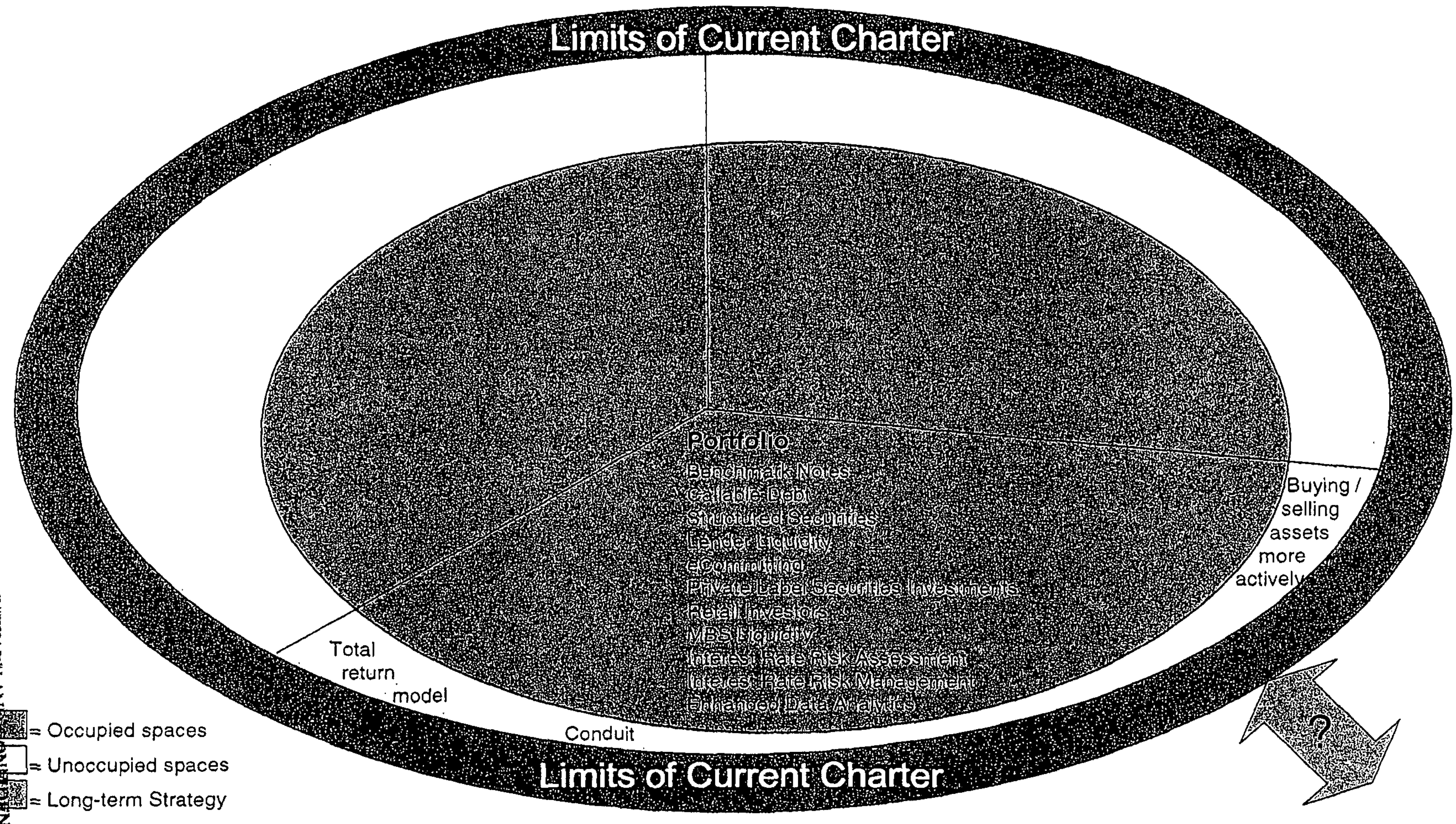
Board of Directors

July 19, 2005

FannieMae

FMSE 511459

Optimization by Pursuing the Unoccupied Spaces



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FMSE 511460

Portfolio Investments

- Expected life-time investment spread should be 20-30 bp
- Economic return on equity should be 7-10% after tax (earnings return on equity may be higher)
- Growth should approximate growth in mortgage debt outstanding over the long term
- Portfolio mission is to provide liquidity to mortgage lenders by buying less liquid investments and by buying TBA mortgages when there is insufficient demand by other investors
- Portfolio buying and selling provide market stability and liquidity

Sources of the Total Return "Margin"

<u>Total Return "Margin" (pre tax)</u>

Gfee	20 bp
Equity Financed	15 bp
Investment Spread	25 bp
Total	**60 bp**

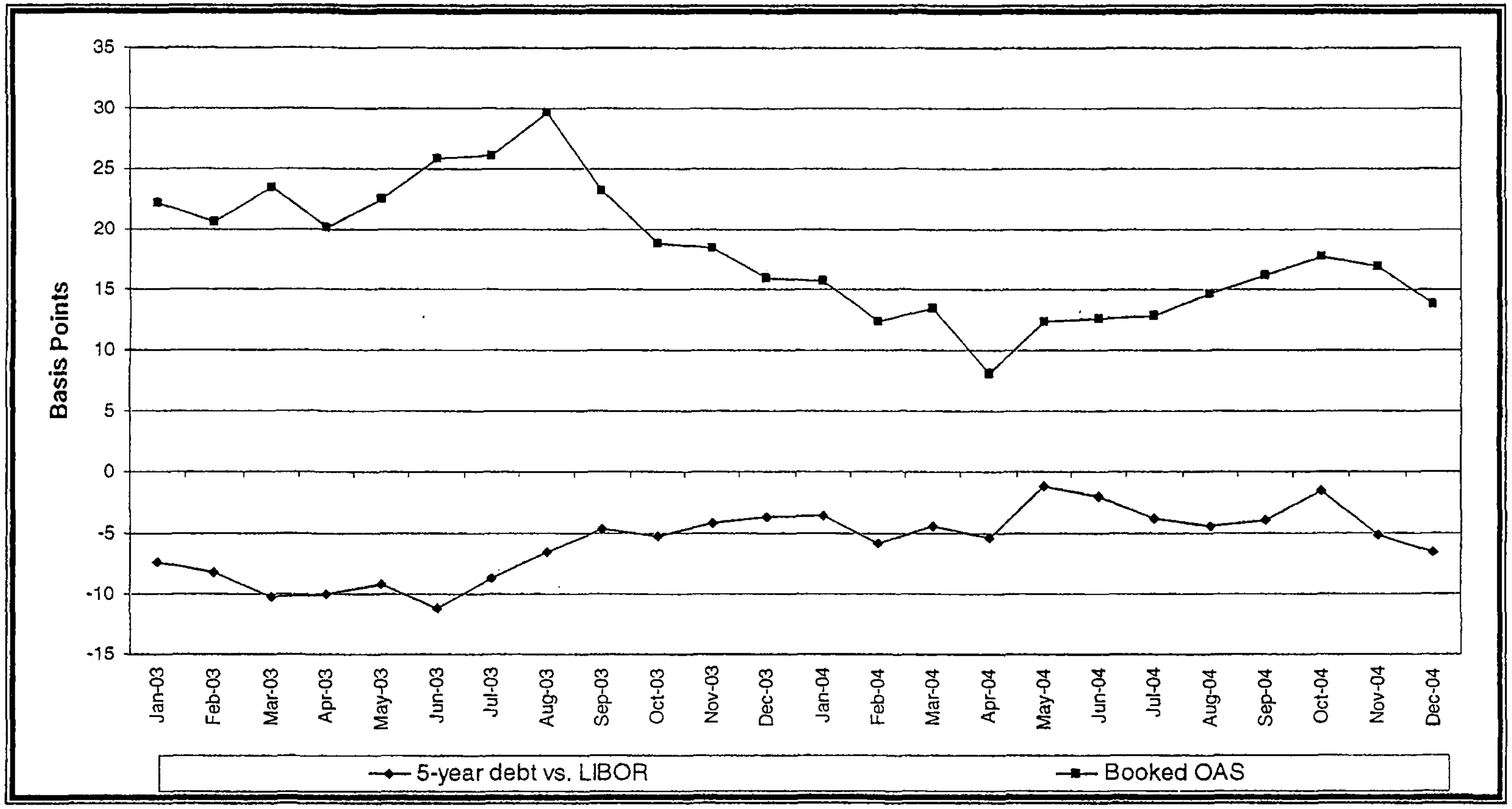
<u>Investment Spread attribution</u>

OAS to swaps	15-30 bp
Funding to swaps	0-15 bp
Volatility Sale	0-7 bp
Yield Curve Sale	0-7 bp

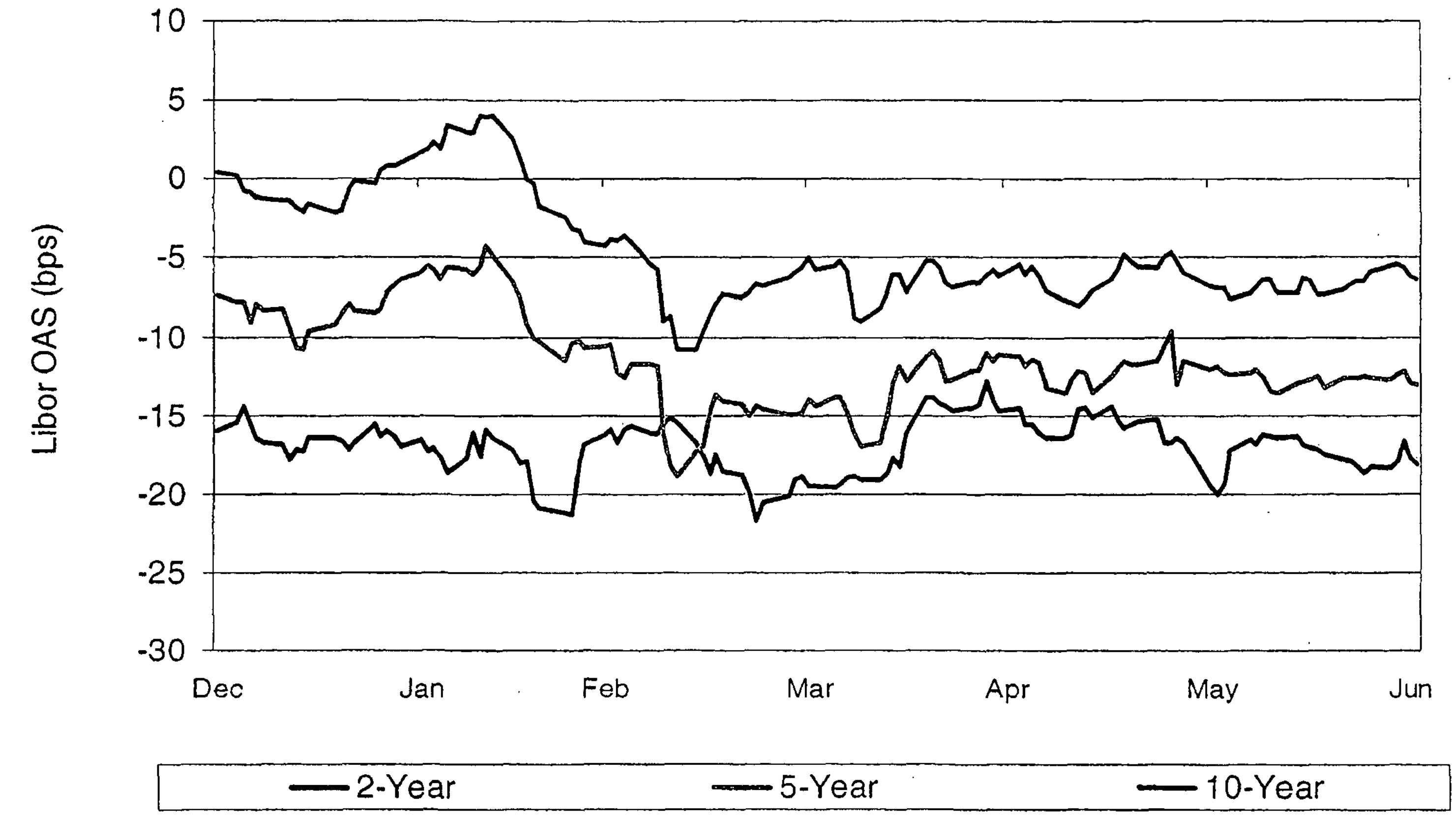
Investment Spread Required to Achieve Specific ROE

Capital Ratio	2.00%	2.50%	3.00%	4.00%
ROE = 7%	15	18	22	29
ROE = 10%	24	30	36	48
ROE = 15%	39	49	59	78

Portfolio Expects to Earn a Spread Between Mortgages and Funding



Debt Cost of Funds has Improved



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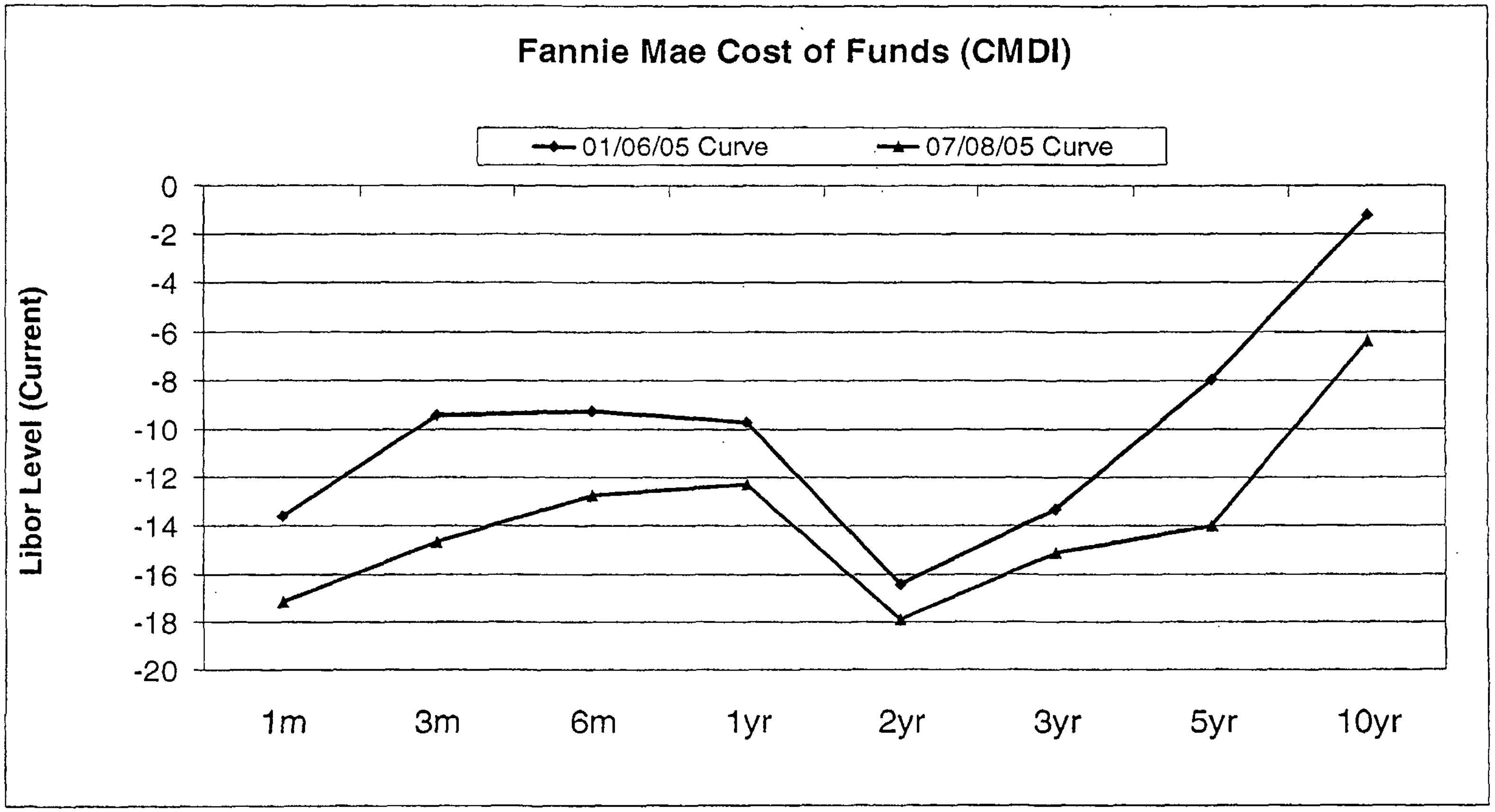
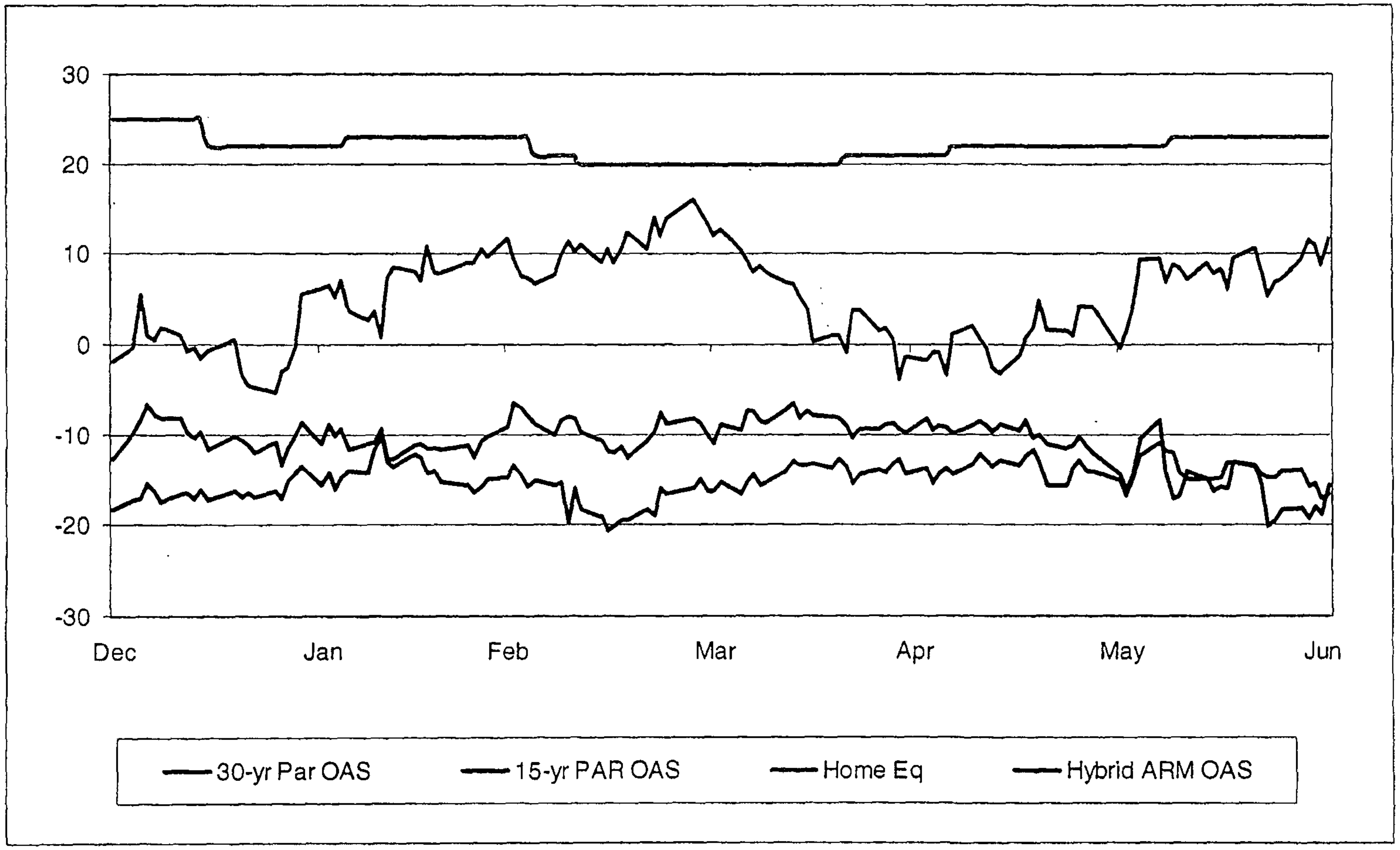
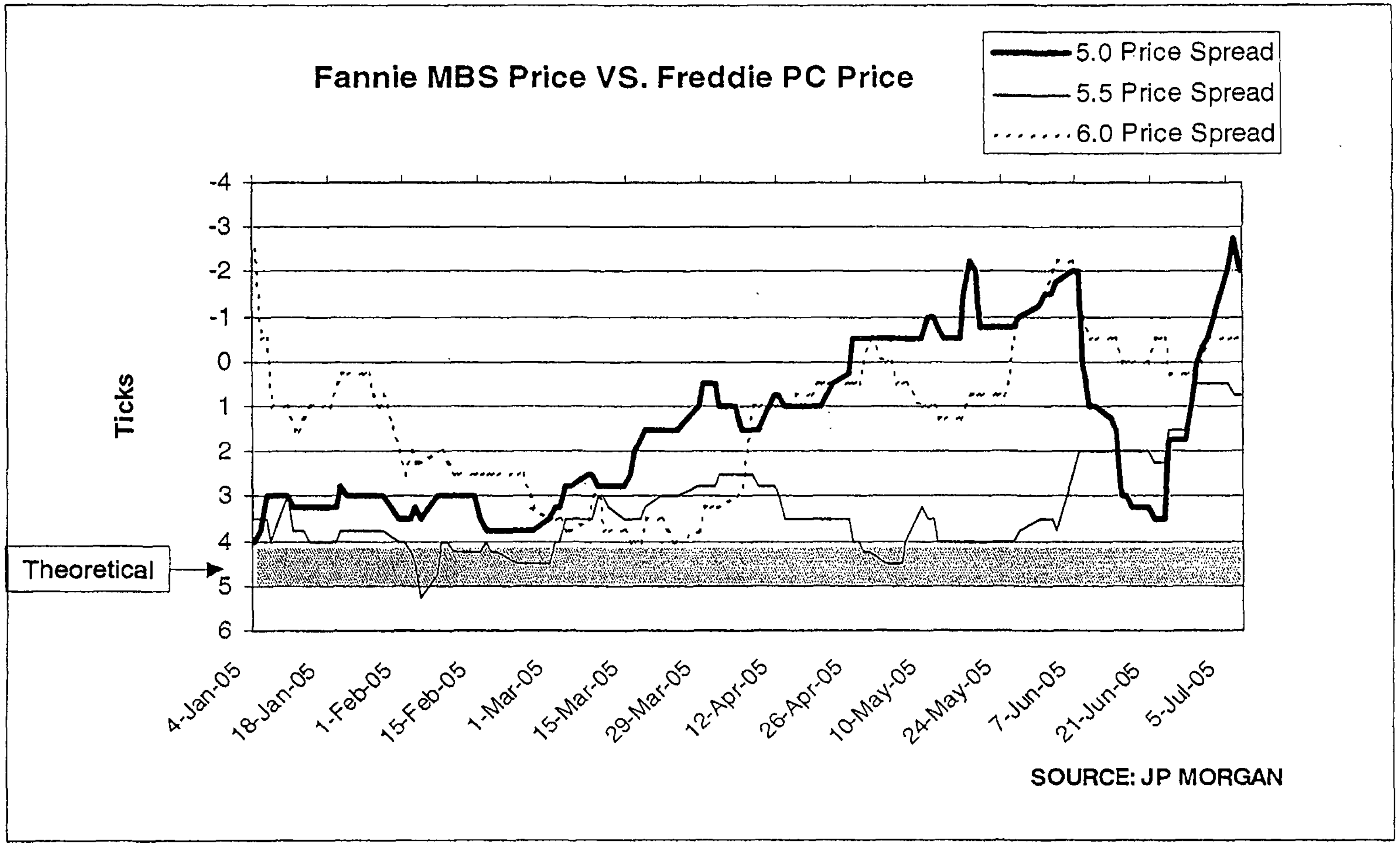


Mortgage Investment Spreads Remain Narrow



Fannie Mae MBS are Outperforming Freddie Mac PC



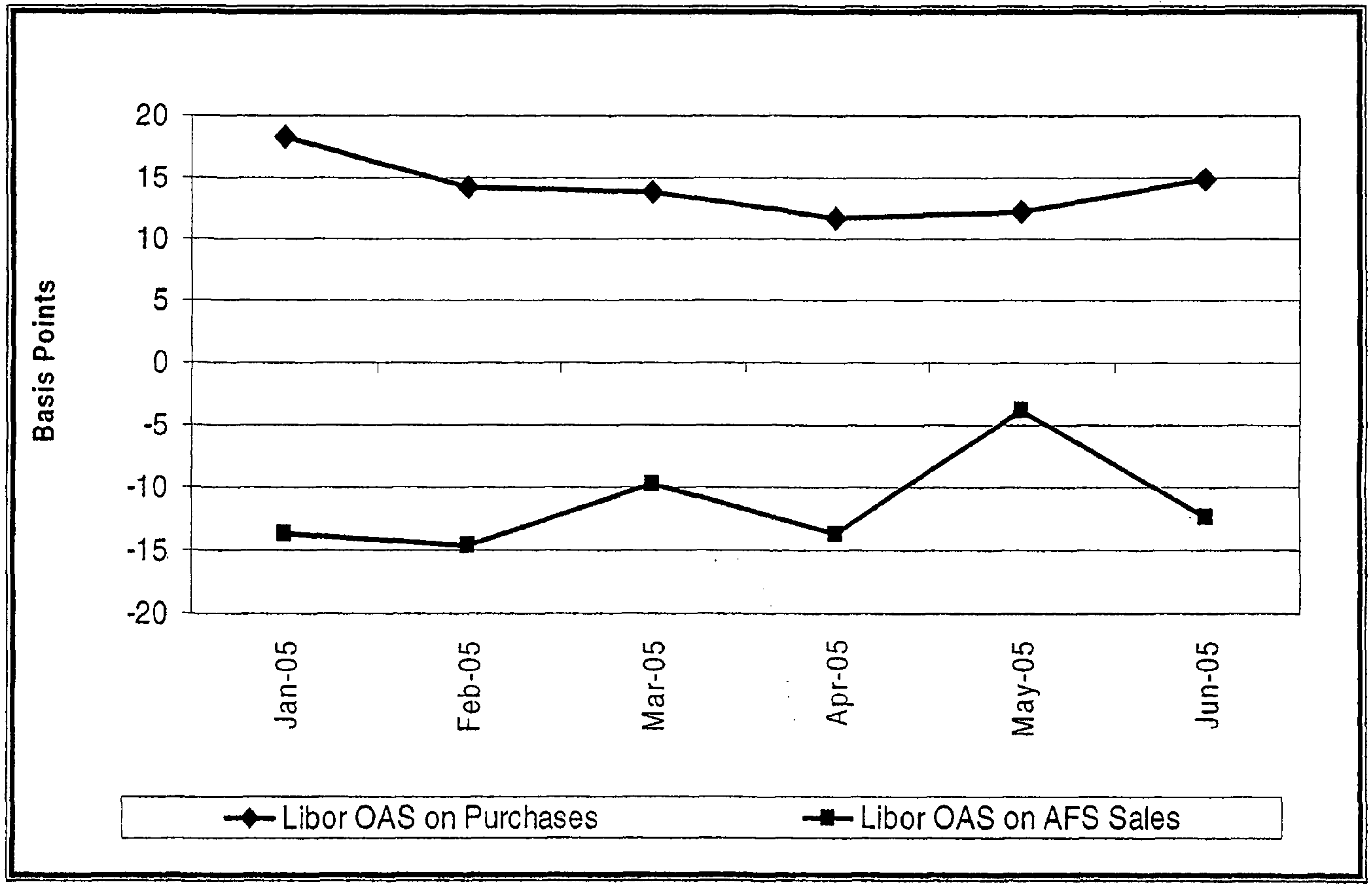
Growth is Opportunistic

	MDO Growth*	Portfolio Growth*	Portfolio Market Share
Q1: 2003	11.8%	12.3%	11.7%
Q2: 2003	15.5%	-1.4%	11.2%
Q3: 2003	13.3%	60.4%	12.2%
Q4: 2003	10.3%	-7.9%	11.7%
Q1: 2004	11.3%	-6.8%	11.2%
Q2: 2004	11.1%	2.5%	11.0%
Q3: 2004	13.5%	7.2%	10.7%
Q4: 2004	11.7%	0.1%	10.4%
Q1: 2005	9.2%	-16.5%	9.7%
Q2: 2005	10%P	-24.0%	8.8%P

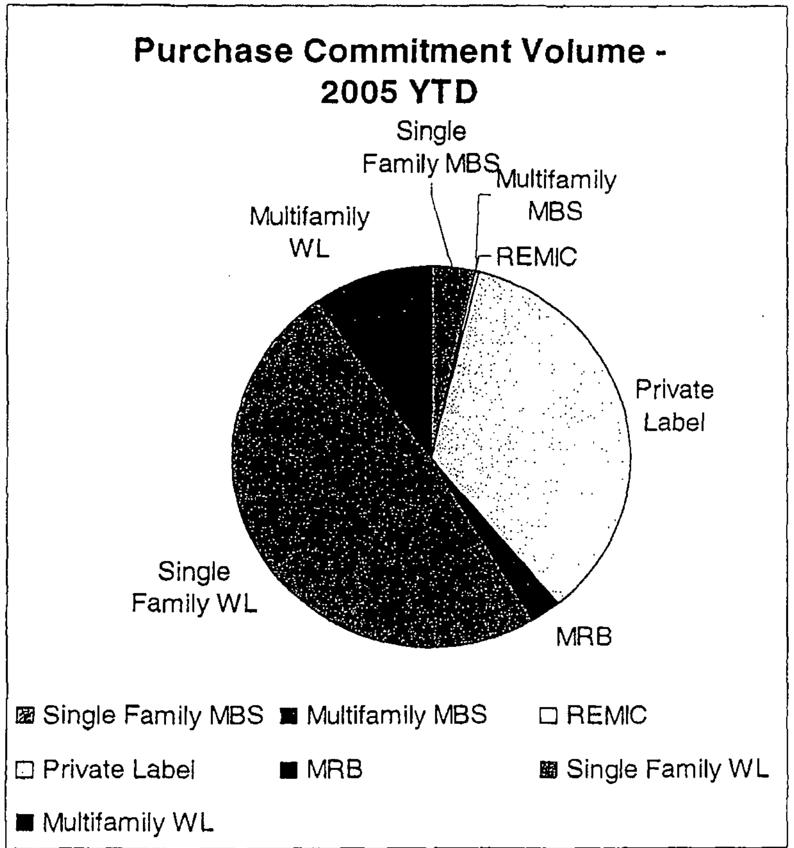
*Annualized

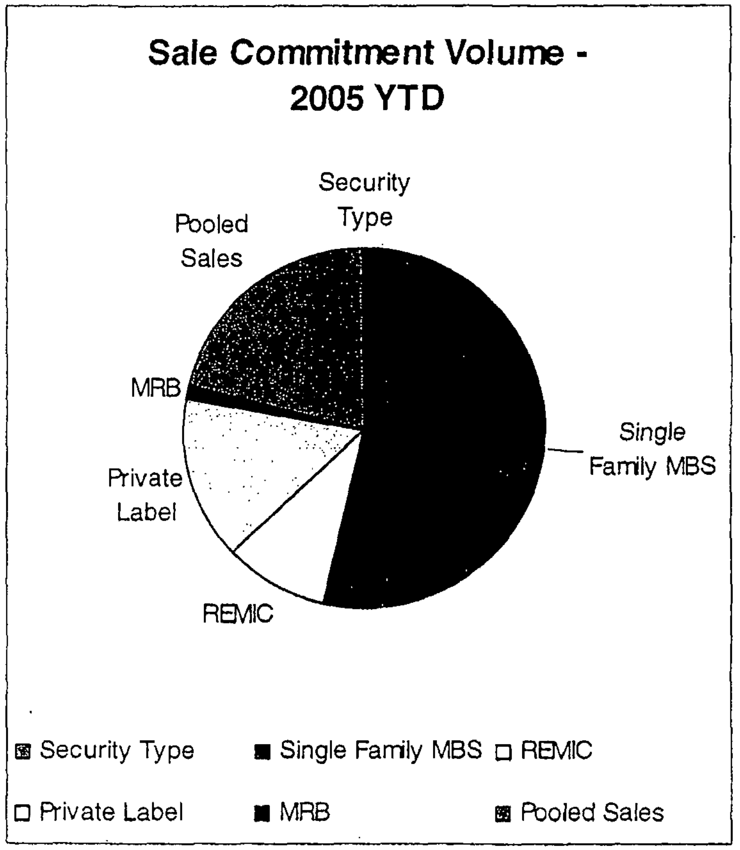
FMSE 511469

Retaining the Better Investments ($45 billion YTD) Selling the Less Attractive ($47 billion YTD)

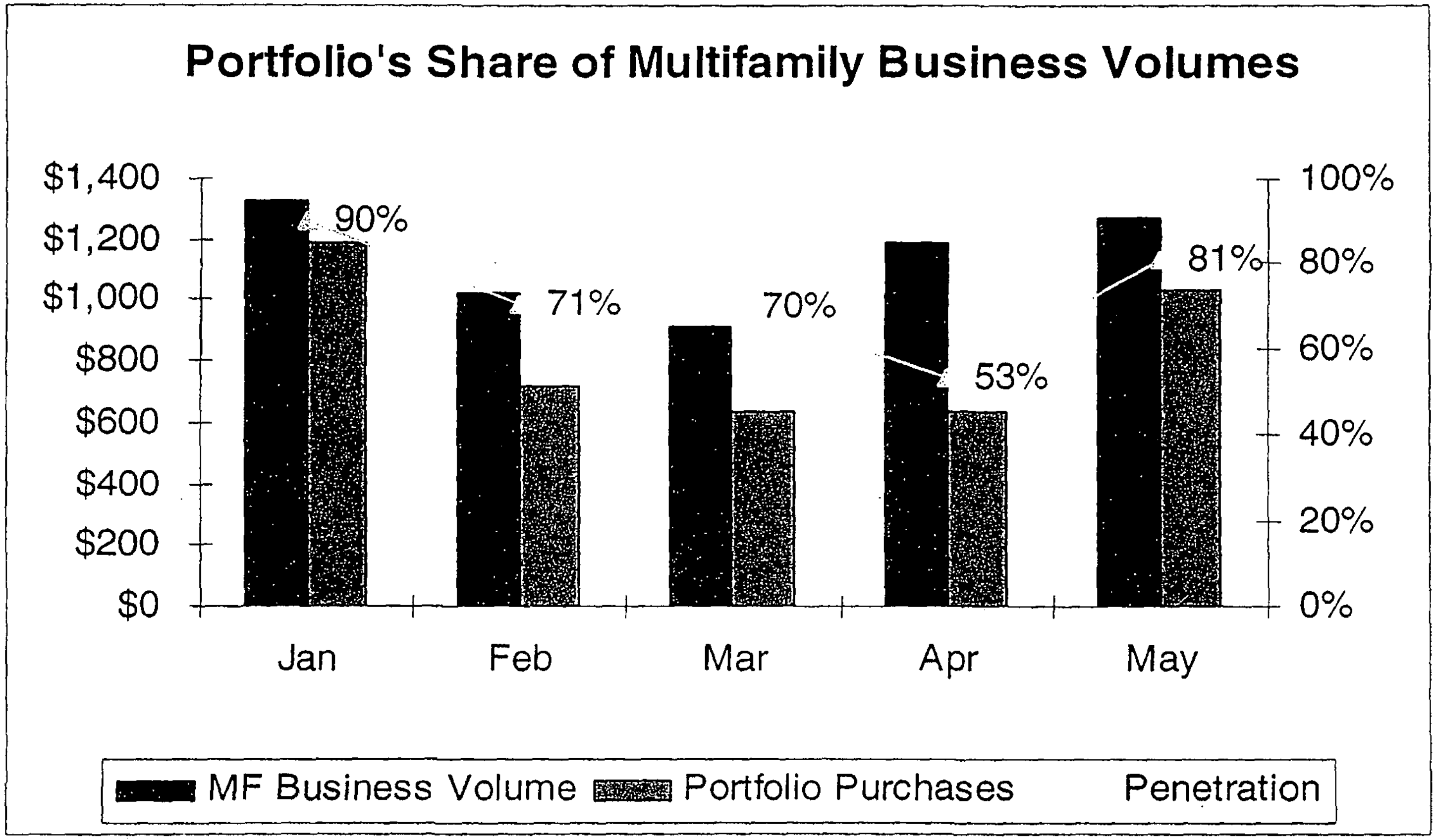


Retaining Value, Selling Rich Securities





Multifamily Acquisitions Running Strong



FMSE 511472

Confidential Treatment Requested By Fannie Mae

PROPRIETARY AND CONFIDENTIAL – CONFIDENTIAL TREATMENT REQUESTED BY FANNIE MAE

Stabilization Snap Shot

The portfolio is being managed more actively to maximize total return

- Capital plan is on pace
- Debt costs relative to swaps are improving
- Mortgage investments spreads remain low
- Securitization is vibrant; Mega and REMIC fees remain good, volumes are strong, pooling is healthy

Strategic Approach: Mortgage Portfolio Path to Long-Term Strategy

Short Term — Medium Term — Long Term

Optimize

Scenario 1

Scenario 2

Scenario 3

- Selectively sell securities with low or negative investment spreads relative to funding
  - REMIC Tranches with low OAS and mortgage linked debt securities
  - Liquid and prepayable MBS when market opportunities become available
- Allow portfolio to shrink when mortgage investment spreads are low
- Retain securities with the greatest likely investment return
  - *Private label securities*
  - Less liquid mortgage backed securities such as hybrids
- Develop further conduit capabilities

Stabilize

1. 4 R's
2. Business challenges
3. Mission
4. Operational Discipline
5. People

11

Confidential Treatment
Requested By Fannie Mae

FMSE 511475

Strategic Initiative:
The Conduit

Board of Directors

July 19, 2005

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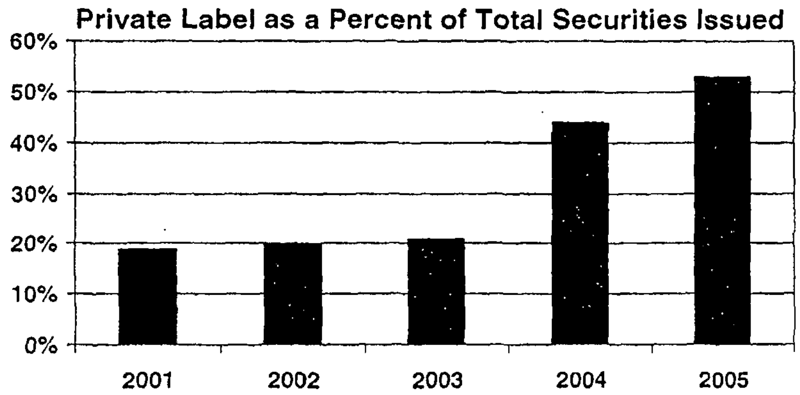
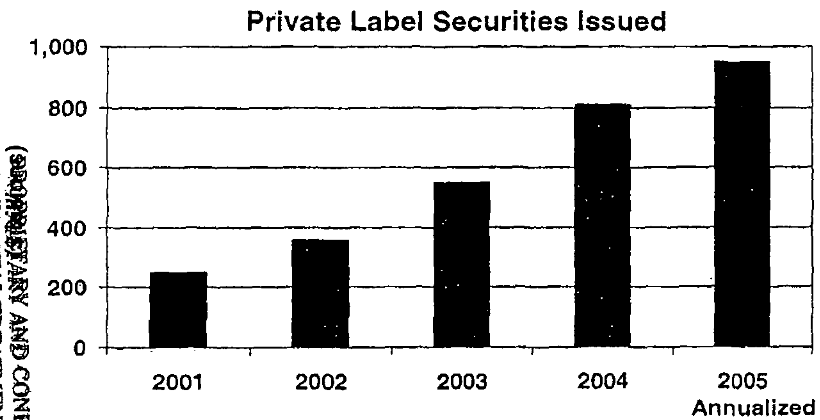
Private Label Competition is Severe





- Private label, at 53% of the market, now exceeds Fannie/Freddie securities combined, at 43% of the market
- Fannie participates in this market through the purchase of mostly AAA tranches, 10-15% of the total available in 2005
- Private label securities:
  - 43% Subprime
    - 75% ARMs
    - Approximately 22% Share of Minority Loans
  - 23% Alt A
- Buyers who "pay up" for the "B" pieces drive much of the market

The ability of lenders to sell mortgages without GSE involvement has grown enormously, and is a major strategic problem for the company

How a Private Label Deal Works

Origination → **Sale to Conduit Aggregators** → **Structuring** → **Sale to Investors**

Origination
- Brokers
- Mortgage Bankers
- Conduits' own retail branches

Sale to Conduit Aggregators
- Countrywide
- GMAC – RFC
- Lehman
- Bank of America
- Indy Mac
- Wells Fargo
- Bear Stearns
- CS First Boston
- Goldman Sachs

Structuring

AAA 80%
AA 10%

→

Sale to Investors
- PIMCO
- Black Rock
- European Banks
- Other Money Managers
- Fannie Mae
- Freddie Mac

Structuring

A 5%
B 5%

→

Sale to Investors
- Hedge Funds
- Insurance Companies
- Collateral Debt Obligation (CDO) Issuers

Case for Action – Overview

Capabilities

- Fannie Mae **lacks key capabilities** that conduits possess, rendering us mostly incapable to compete for some product.

Relationships

- We have **no relationship with the investors** that buy the "B" pieces. They are our competition. Alternatively, they could also be our partners. The MI's, our traditional risk sharing partners, are not as competitive as "B" piece buyers.

Economics and goals

- We are **leaving economics and housing goals on the table.**

We need to develop the conduit capabilities of our competition.

Case for Action – ARM Example

Private Label Capability	Our private label competition buys ARM loans from lenders, aggregates them, and sells them as securities to the market.
Question	Do we have the infrastructure to aggregate and sell a pipeline of ARMS in an economic and controlled manner?
Answer	No
Perspective	▪ Fannie ARM market share: 14% versus 38% of fixed rate mortgages ▪ Every 1% share point equates to $8 billion in business

Case for Action – Selling Credit Risk

Private Label Capability	Our private label competition can pass through to lenders pricing advantages for SF and MF loans gained from "B" piece buyers that price credit risk differently than us.
Question	Do we have the infrastructure and market knowledge to execute a business model for SF and MF utilizing access to "B" piece buyers?
Answer	No
Perspective	▪ We have no value proposition, at the moment for much of the subprime and Alt A markets. – Size of subprime market: $350 billion – Size of Alt A market: $160 billion – Every 1% share point is worth $5 billion of business

Possible Impediments to Success

- Will we have a value proposition superior to other conduits in the market?
- How much of the market will our anti-predatory lending standards allow us to do?
- How much support would we want to give to lending products we consider "frothy?"
- How much "good" product will be withheld from us to support private label deals with commercial mortgages, jumbo mortgages, and other mortgages we cannot or choose not to do?

Our conduit will not be a panacea!

Next Step: Develop a Plan

- Economic analysis:
  - Business opportunity
  - Profit and housing goal potential
  - Investments required
  - Establish our value proposition
- Technology requirements
- Distribution and market requirements
- Accounting and Controls
- Organizational implications

One Fannie Mae

The conduit project transcends our traditional organizational boundaries, and involves our Single-Family, Multifamily and Portfolio businesses

12

Confidential Treatment
Requested By Fannie Mae

FMSE 511484

Strategy Review:
Wrap-up

Board of Directors

July 19, 2005

FannieMae

FMSE 511485

Long-Term Vision: Looking Back Ten Years from Now

- Fixed the company
  - Built the next Fannie Mae
  - Put our mission and business together
  - Rewarded our shareholders
  - Answered the question about whether we matter
  - Built One Fannie Mae

- Changed the market
  - Closed the minority homeownership gap
  - Transformed 1,000 communities
  - Brought stability to the market even while stabilizing ourselves

- Made ourselves better people
  - Became better managers
  - Changed our culture to align with this future

Deliver value for shareholders

Key Success Factors for Optimization: Management Team's Proposed Priorities

Stand back from all-in layered risk in the market
- Maintain strong credit discipline
- Protect credit quality of book of business
- Execute loan-level risk-based pricing
- Develop conduit capability

Engage in new markets
- Develop modeling capabilities for alternative markets
- Develop subprime infrastructure
- Transform Partnership Offices into Community Business Centers

Preserve and build out DUS
- Implement process improvements, enhanced delegation, and flexible risk sharing
- Increase flexibility of underwritng and mezzanine financing
- Drive investor spreads down by supporting robust MBS and accessing the capital markets

Implement total value strategy for the Portfolio
- Improve debt costs relative to swaps
- Focus investors more closely on economic returns
- Approximate growth in mortgage debt outstanding
- Buy and sell mortgages to provide market stability and liquidity

Inculcate operational discipline across the organization
- Implement revised CORE infrastructure system
- Implement common operational discipline framework and tools
- Integrate risk management processes
- Build out MBS organization
- Incorporate eBusiness capabilities throughout Credit Guaranty business
- Integrate National Community Lending Center into Single Family business

Refill and manage human capital
- Complete management team build-out
- Implement SEAM

Discussion: Questions for the Board

- Do the medium-term strategies align with the Board's view of our long-term options?
- What long-term options would the Board like management to act on sooner, as part of the optimization strategy?
- Have we prioritized enough on the current course of action?
- Have we put in place the right organizational structure and allocation of resources?