

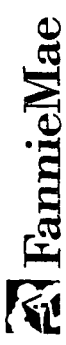
Fannie Mae Board of Directors CEO Report

September 20, 2005

Confidential Treatment
Requested By Fannie Mae

FMSE 519805

Confidential – Highly Restricted



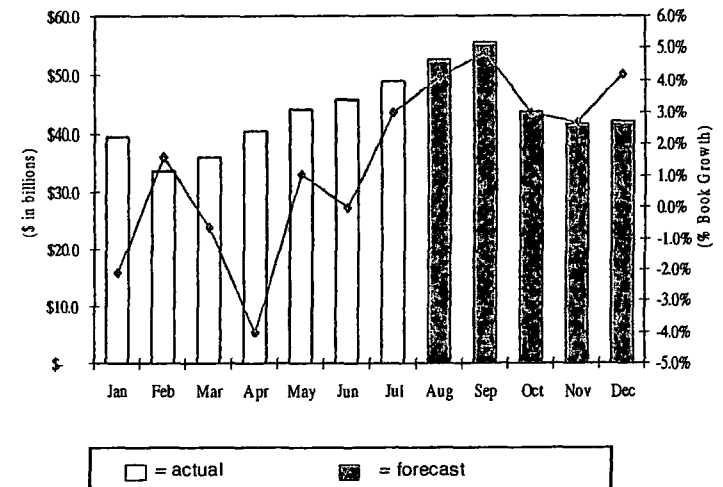
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Business Update: Guaranty Business

Single-Family

- Volume through July at \$287.8B, on plan
- Volume outlook for the year at \$538.2B as of 9/9/05, \$40 billion above plan
- Full-year book growth at 1.5%, 0.25 percentage points under target
- Net charged fee through July at 24.6 bps, 1.4 bps under plan
- Market showing some initial signs that the "flight from quality" observed over the past two years may be starting to abate
- Continuing to focus on:
 - Business retention
 - Organizational realignment
 - Competitive pressures (private label and subprime)
 - Regulatory and minority lending goals

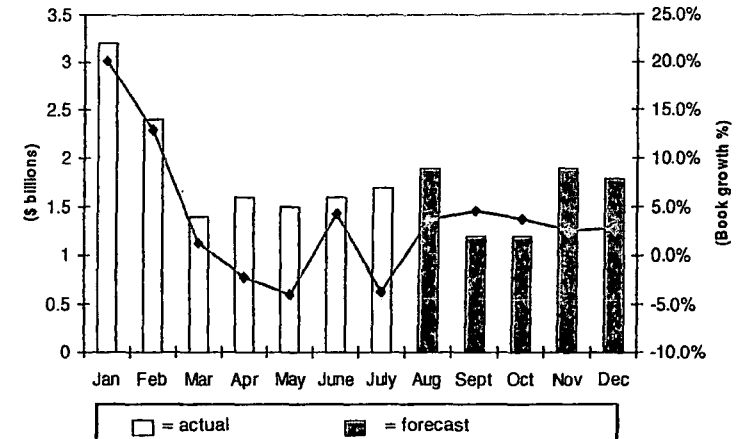
Single-Family Volume and Book Growth



Multifamily

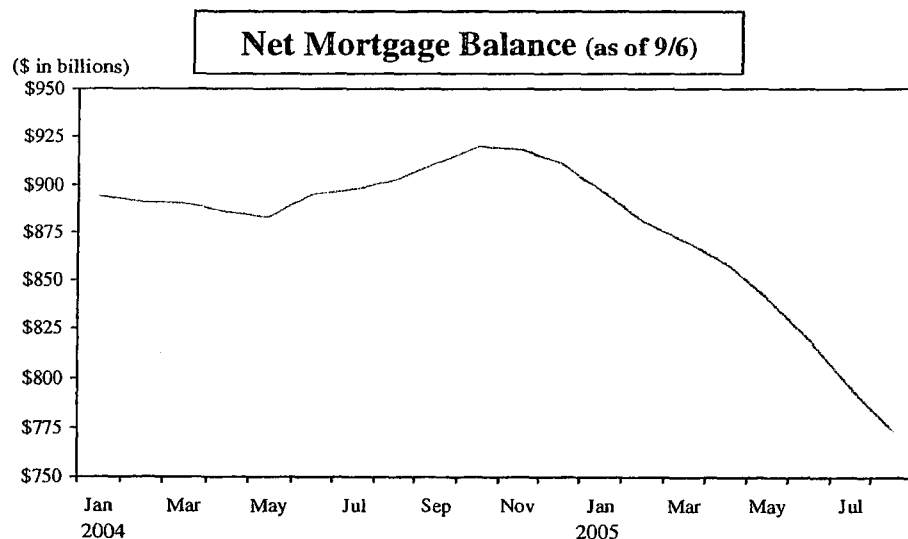
- Volume through July at \$13.5B, \$2.1B above plan
- Charged guaranty fee through July at 26.0 bps, 3.2 bps above plan; higher fees due to favorable product mix
- Book growth is significantly below plan (3.8% vs. 7.3%), resulting from higher than expected liquidations
- Credit losses through July were \$22.6 million, significantly favorable to plan of \$44.2 million
- Continuing to work with Portfolio on a more efficient approval for pricing credit risk and interest rate risk together
- Completed work-plan for New DUS and engaged lenders to implement pilot launch by year-end; Approved \$1 billion in new business under Flexible underwriting

Multifamily Debt & Equity Volume and Debt Book Growth

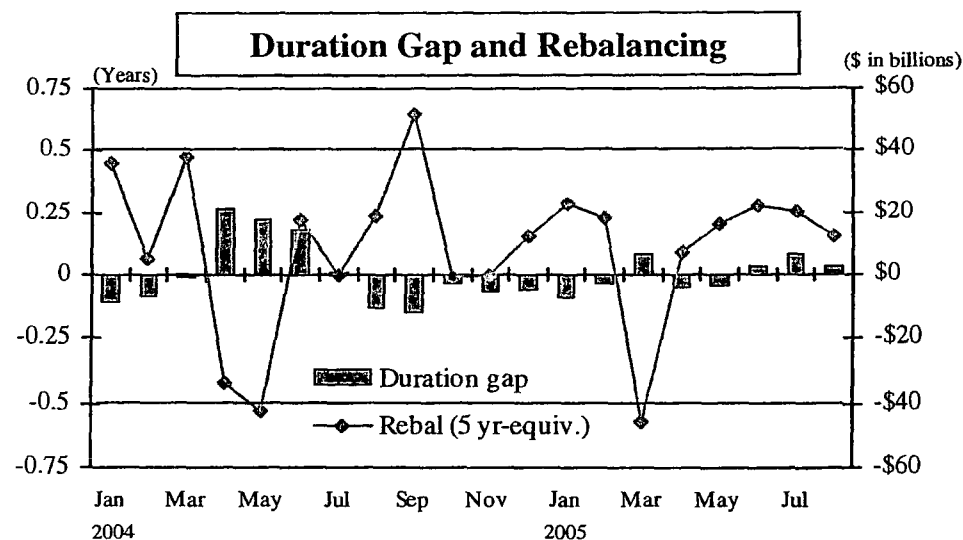


Business Update: Portfolio Business

- Short-term interest rates have steadily increased over the year in line with Fed Funds rate hikes
- Debt to swap spreads have improved due to decreased issuance
- Mortgage option-adjusted spreads have remained very tight
- Monthly portfolio duration gap reported at +/- 1 month or less through August
- Mortgage balance growth through August is -23% annualized, driven by tight MBS spreads and the Capital Restoration Plan



The Net Mortgage Balance includes a mark-to-market adjustment for all securities available for sale



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Housing and Minority Lending Goals

STATUTORY HOUSING GOALS

	FY05 Plan	7/05 YTD Actual
Low Mod (Affordable)	52.0%	54.7%
Special Affordable	22.0%	26.1%
Underserved	37.0%	40.7%
	FY05 SF PMM Sub-Goal Plan	7/05 YTD Actual*
Low Mod (Affordable)	45.0%	42.8%
Special Affordable	17.0%	15.4%
Underserved	32.0%	31.1%

* Reflects HUD decision on Reverse Mortgages

Issue:

- Though we are ahead of targets for the base housing goals, significant market-wide affordability issues are likely to prevent achievement of the PMM sub-goals
- Reverse mortgages have been included in our PMM Sub-goal YTD attainment and have had a significant positive impact on our scores
- HUD determined that Reverse Mortgages would not count toward the PMM sub-goal
- We communicated to HUD that we are not optimistic about achieving the sub-goals

Next Steps:

- Execute extraordinary efforts to make-up shortfall (e.g., reduced MI requirements, expanded credit criteria, lender outreach)
- Examine commitments to lenders for deliveries through year end, and determine alternatives
- Evaluate implications of purchasing higher-risk loans

MINORITY LENDING GOALS

	FY05 Target	7/05 YTD Actual
African American	5.4%	5.3%
Hispanic	11.6%	11.4%
Total Minority	24.7%	23.9%

- Minority lending performance through July is behind goal but the shortfalls should be closed with targeted transactions
- Q2 strategies to mitigate the shortfall have been successful in reducing the Hispanic and Total Minority deficits

Foundation Update

- The Foundation has completed revisions to its strategic objectives and spending priorities for 2005-2006: 2005 spending will be \$71.5 million; 2006 spending is currently projected to be \$61 million, subject to the Foundation Board's approval in December

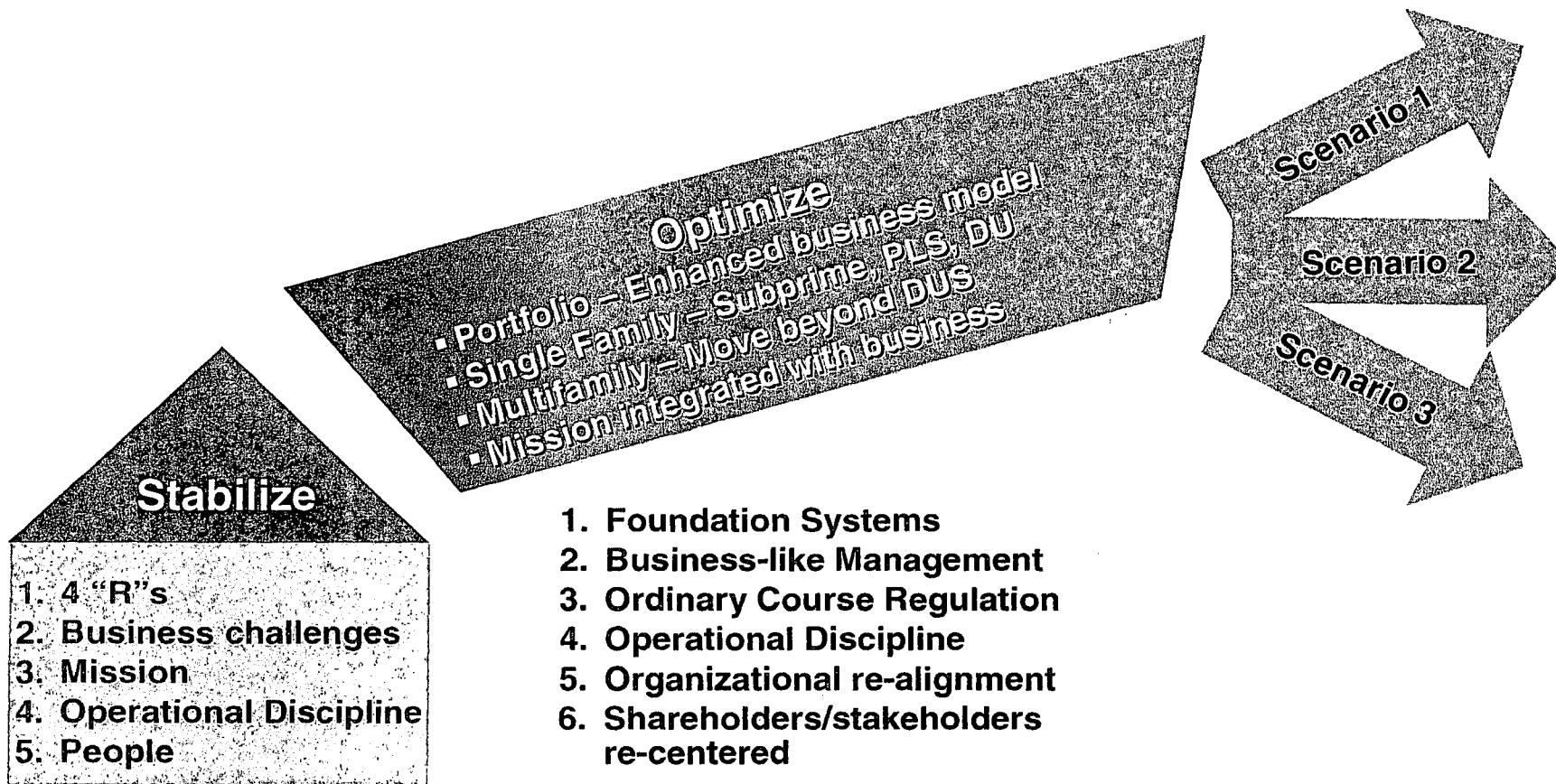
- During 2005-2006, the Foundation's focus and activities will narrow to support two specific goals:
 - Increase the supply of safe, decent, affordable homes for people who need them most
 - Improve the quality of life in its hometown, Washington, D.C.But there will be no reduction in these two areas

- The Foundation continues to prepare for its 18th annual Help the Homeless Campaign, culminating in the 5K Walkathon on the National Mall on Saturday, November 19

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Strategy Review: Path to Long-Term Strategy

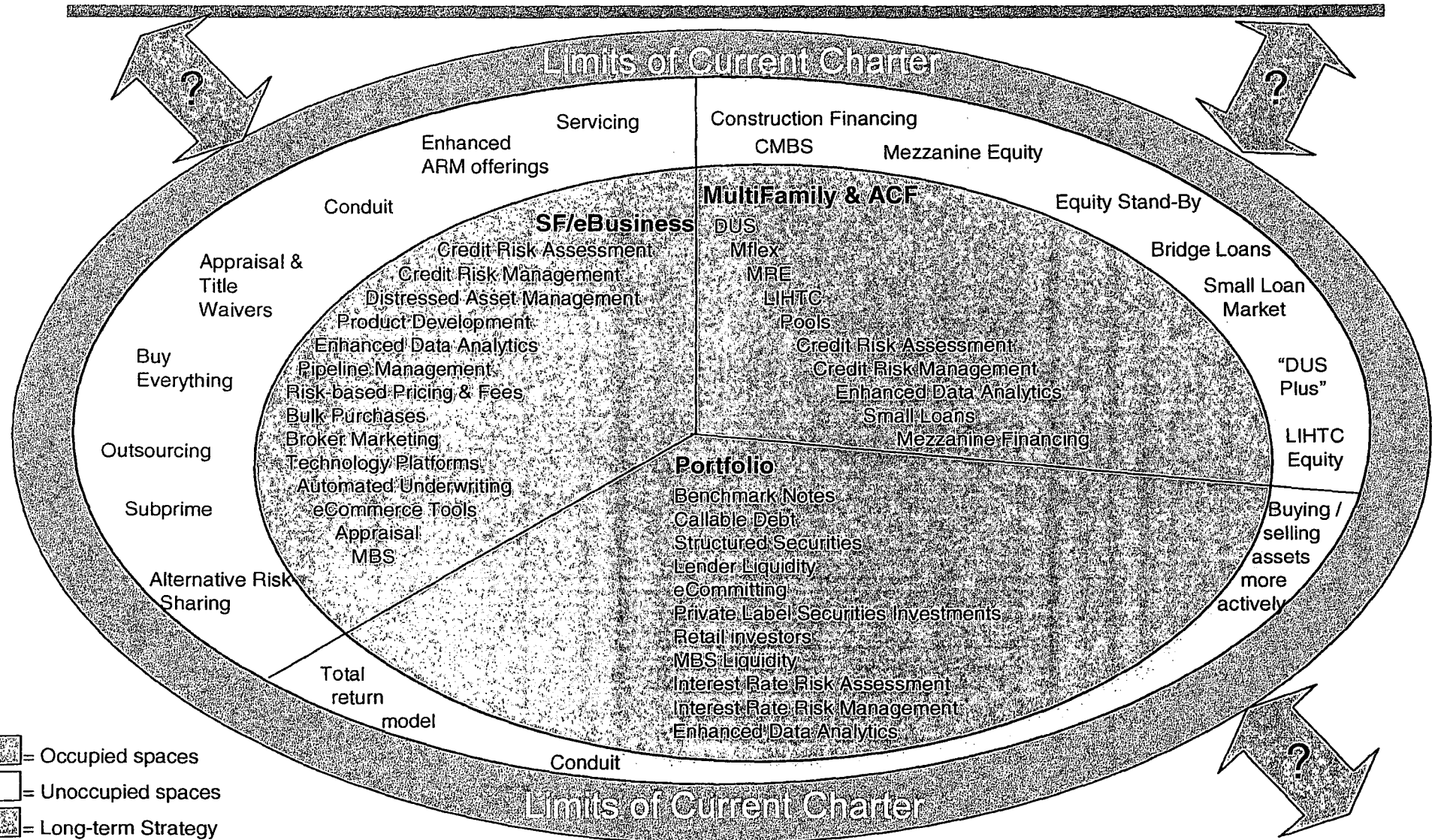





Foundation: Accounting, Controls, Systems, Products, People

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Optimization by Pursuing the Unoccupied Spaces



-  = Occupied spaces
-  = Unoccupied spaces
-  = Long-term Strategy

Optimization Update: Single-Family

Objective/Goals:

- Reintroduce idea of risk in the marketplace
- Create public momentum and consumer and investor awareness

Accomplishments since July:

- Early indications that strategy is beginning to pay-off
 - Monthly deliveries for July (\$49.3B) and August (\$52.7B) are at the highest levels this year
 - ARM share at lowest level since October 2003
 - Execution of exotic products (e.g., Option ARMS) dropping tremendously: subordination level have increased 25-35% since August 1; Impact estimated at 5-15 bps in g-fee equivalent
 - Market share gains against private label and Freddie Mac: Picked up 7 percentage points of share from PL issuers in July; FNM overall share for July was 30%; Relative to FRE our YTD July MBS issuance share of 58.9% is at the upper end of our target range of 55-60%
- Plethora of media and regulatory commentary regarding risks
- Success in re-signing important customers
- Reinforced existing views with Chairman Greenspan; awaiting feedback from Administration

Next Steps:

- Rebuild human capital and break down organizational silos
 - Launch of the new Single-Family organization based on "customer first" – that better integrates HCD, eBusiness, and Single Family – communicated on September 12
 - Through our realignment, we have redeployed our management resources against highest priorities
 - Realigned organization will be better positioned to emphasize and deliver on our innovation capabilities and mission and minority lending goals; new Community and Multicultural Lending Group will consolidate our existing capabilities and develop new and creative outreach efforts
- Dedicate significant resources to develop capabilities to compete in any mortgage environment
 - Established a Business and Strategy Development group to focus on our toughest business challenges, including sub-prime and conduit risk management
 - Hired a new Senior Vice President and top industry talent – Sal Mirran – to lead this group
 - In the process of redeploying the resources necessary to staff this group for our work on developing a subprime infrastructure and risk transformation facility (aka. Conduit)

Optimization Update: HCD

Objective/Goals:

- Realize significant growth in production and revenues through increased liquidity for residential rental and for-sale housing AD&C lending, as well as affordable market rate equity investments for the same products

Accomplishments since July:

- Refined strategic plan to provide greater clarity around key economic assumptions and staffing ratios
- Received approval for additional headcount in the underwriting, business development, portfolio administration, and asset management functional areas
- Implemented new credit application approval process
- Completed Sarbanes Oxley process review with PwC; pending review by Deloitte Touche
- Identified equity restatement scope and policy issues with corporate restatement leadership team
- Commenced implementation of Construction Loan Control System (CLCS)

Next Steps:

- AD&C Lending
 - Develop strategic lender relationships to optimize execution capabilities and generate pull through business for Single Family and Multifamily
 - Expand breadth of products to meet industry needs and conventional practices
 - Put in place business infrastructure; augment current staffing resources in key functional areas
- Equity Investments
 - Manage investment activity through “best in class” investment advisors to meet or exceed industry risk and return performance
 - Build and expand relationships with key national and regional investment advisors as the primary mode of capital deployment
 - Migrate current platform away from transaction based process into a wholesale execution by re-aligning resources to focus on a portfolio strategy, applying sound risk management techniques and review protocols

Optimization Update: Mortgage Portfolio

Objective/Goals:

- Manage the portfolio actively to maximize total return (subject to capital constraints)

Accomplishments since July:

- Capital plan is on pace
- Asset selling has continued at historically good prices or spreads
 - Mortgages have cheapened and are now somewhat more attractive as investments
 - REMIC transactions continue to provide surprisingly positive economics
 - Mortgage-backed security pricing is very competitive relative to Freddie Mac for our lenders
- Debt costs continued to improve
 - Debt yields are at new multi-year lows relative to swaps
 - We are active in buying and selling debt to improve liquidity and extract economics
 - Tender offer for seasoned callable debt scheduled to start the week of 9/19

Next Steps:

- Increase future investing activities as opportunities allow, although balances are likely to continue to decline in the near term due to prepayments
- Increase market penetration in sectors we have not fully served historically, to be made possible with the Risk Transformation Facility (aka. Conduit)
- Upgrade systems and skills to facilitate more active portfolio management

Optimization Update: Risk Transformation Facility (Conduit)

Objective/Goals:

- Develop the capability to structure and sell discrete layers of credit and interest rate risk on single-family and multifamily mortgages
 - Enable participation in a larger share of mortgage originations and compete for private-label business
 - Provide added flexibilities to manage our businesses across market cycles
 - Contribute to achievement of housing and mission goals

Accomplishments since July:

- Estimated pre-tax business opportunity: \$25 – \$200 MM annual profit, 12% – 17% ROE
- Estimated contributions to housing and minority goals are positive
- Recommended a developmental approach
 - Buy the required software to support aggregation, packaging, and accounting functions
 - Outsource servicing and other capabilities that we currently lack
 - Integrate with existing business infrastructure
- Recommended a phased implementation

	Implementation Timeframe
Phase 1: Buy/sell bulk acquisitions	6 – 9 months
Phase 2: Aggregate bulk acquisitions	+ 3 – 6 months
Phase 3: Aggregate flow acquisitions	+ 3 months

Next Steps:

- Determine investment required
- Execute on developmental approach
- Establish organizational accountabilities for RTF
- Rob Levin to lead