

Fannie Mae Board of Directors CEO Report

January 24, 2006

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Requested By Fannie Mae**

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Highlights

- Restatement process: bump on FIN-46
- Enforceable HUD goals in range
- Solid, ongoing communication with stakeholders and regulators
- Business volumes / risk solid
- Organization filling out steadily; attrition 10+%
- Katrina impact moving into book
- Evolution of the five priorities from '05 carry us through '06
- 3-4 difficult months ahead

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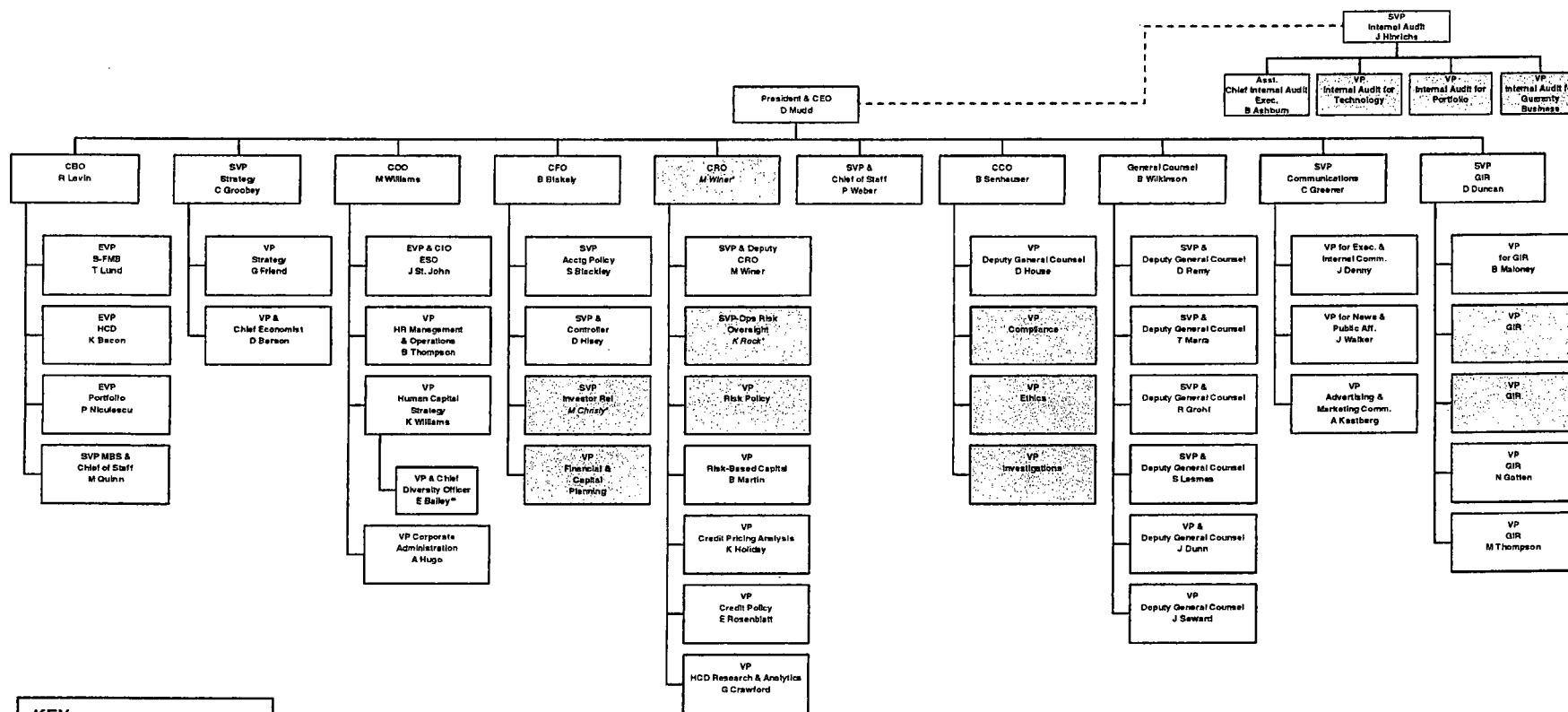
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Change → Proposed → Ready to Do

Organization



KEY	
	= Open Job
	= Departing
*	Interim Position
**	Dotted line to CEO

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Communication

Officers' Meeting

- Departed from past timing, approach, venue
 - Beginning of year kick-off, January 9-10, rather than end-of-year wrap up/kick off
 - All business agenda with intense focus on understandability for all officers
 - Business location – US Chamber of Commerce – rather than hotel or conference center
- Covered what, how, and who
 - What: Completing stabilization; focusing on the mission and business going forward
 - How: Building out operational discipline and related functions; aligning strategy, branding, culture, and performance; signing up to Our Promise
 - Who: Introduced new leadership and organizational structure
- Brought in outside views
 - David Wessel, Deputy Bureau Chief, Wall Street Journal
 - Bruce Josten, EVP, US Chamber of Commerce
- Connected with most officers
 - 91% of the officers found the meeting valuable
 - 62% of the officers preferred the shorter format
 - 83% of the officers “understand what they are being asked to commit to” (an additional 16% “somewhat clear”)

Town Hall (January 11)

- Introduced new members of Executive Committee
- Communicated '06 theme of change, progress, more to come
- Emphasized management's commitment to Our Promise
- Devoted majority of time to Q & A

HomeSite Messages (Weekly)

- Reiterating points covered in Town Hall

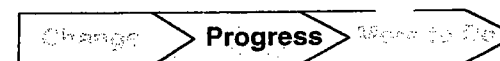
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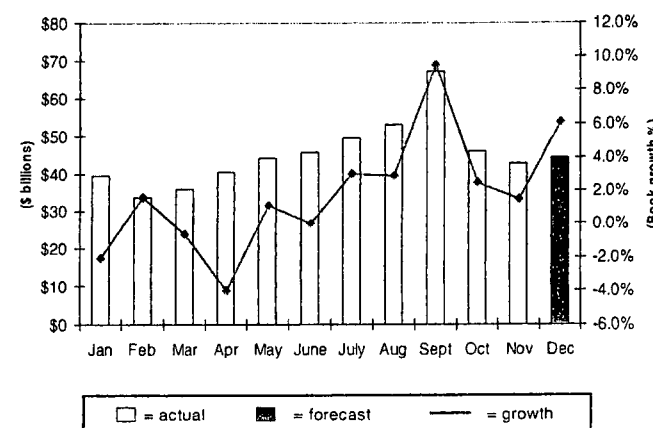
Guaranty Business



Single-Family

- Volume outlook for the year at \$543B, \$40B above plan
- Full-year book growth forecasted at 1.7%, compared to plan of 4.2%
- Net charged fee through November at 23.7 bps, 2.2 bps under plan
- Acquisition of layered-risk products reached 45 percent of total acquisitions YTD 3Q 2005 compared to 17 percent for 2000 - 2003 acquisitions; fees collected increased with the number of layers
- Serious delinquency rate for November is 77 bps; higher than the previous month (64 bps) due almost entirely to Katrina
- Hurricane allowance impact estimate revised to \$247-399 million, narrower than October 8-K estimate of \$250-550 million
- Customers remain our primary focus as we seek to grow the business while maintaining good credit discipline:
 - Secured multi-year partnership agreements with top two customers – Countrywide and CitiMortgage
 - Renewed all major alliance agreements except WaMu
 - Established new minority share agreements with Bank of America, Wells and Chase

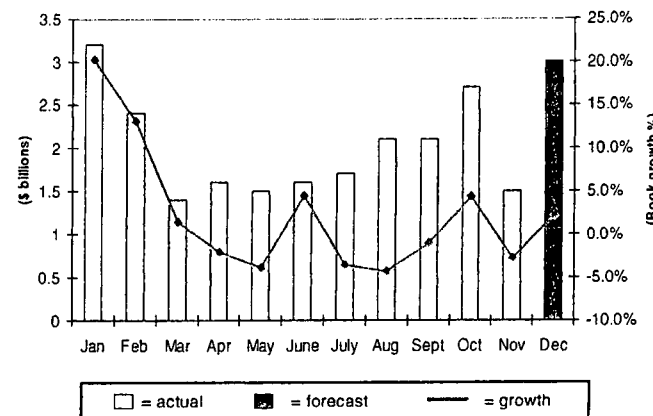
Single-Family Volume and Book Growth

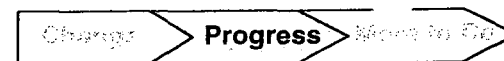


Multifamily

- Debt volume through November at \$20.5B, \$4.1B above plan
- Charged guaranty fee through November at 27.3 bps, 4.5 bps above plan; higher fees due to favorable product mix
- Book growth is significantly below plan (2.0% vs. 7.3%), from higher than expected liquidations
- Credit losses through December were \$29.5 million, significantly favorable to plan of \$105.0 million
- Multifamily and Portfolio Integration:
 - Adopted joint housing/mission and return goals for MF cash
 - Created MF Whole Loan Desk to provide a “One Fannie Mae” bid; operating informally since November 2005; formalized on January 10, 2006

Multifamily Debt & Equity Volume and Debt Book Growth

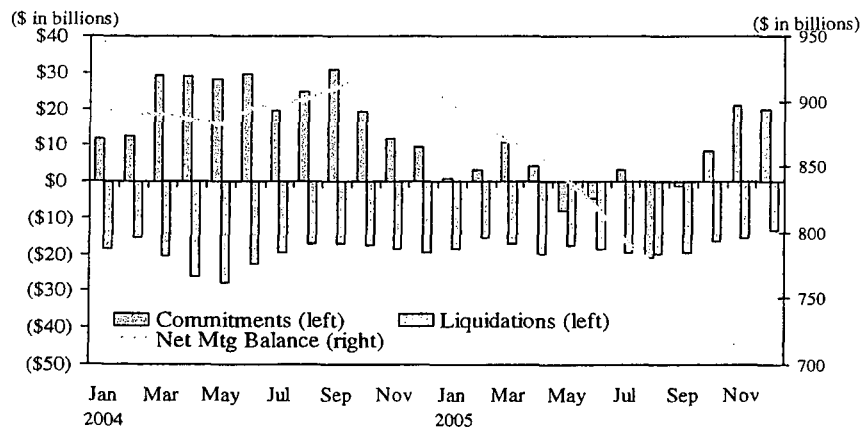




Portfolio Business

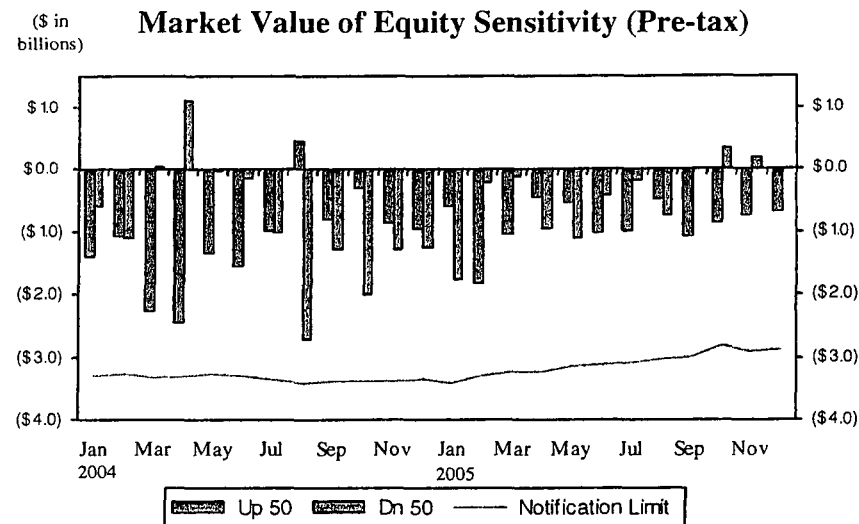
- Short-term interest rates steadily increased in 2005 in line with Fed Funds rate hikes
- Debt to swap spreads improved over the course of the year due to decreased issuance; spreads to Freddie Mac were 2-4 bps better than at the start of 2005
- Mortgage option-adjusted spreads have remained very tight
- Market value risk of the portfolio managed actively, with sensitivity for +/- 50bp change in rates under \$2B (pre-tax) throughout 2005
- Monthly portfolio duration gap reported at +/- 1 month or less through December
- Mortgage balance growth in 2005 is -20% annualized, driven by tight MBS spreads and the Capital Restoration Plan . . . but will show net growth for December, first time in over a year

Commitments/Liquidations&Net Mortgage Balance



December 2005 Commitments, Liquidations and Net Mortgage Balance are estimated as of 1/5/06

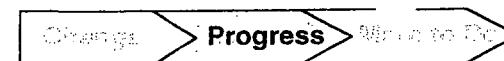
Market Value of Equity Sensitivity (Pre-tax)



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Housing and Minority Lending Goals

STATUTORY HOUSING GOALS

	FY05 Plan	12/05 YTD Preliminary
Low Mod (Affordable)	52.00%	55.02%
Special Affordable	22.00%	26.25%
Underserved	37.00%	40.55%

PMM SUB-GOALS

	FY05 SF PMM Subgoal Plan	12/05 YTD Preliminary
Low Mod (Affordable)	45.00%	44.48%
Special Affordable	17.00%	16.95%
Underserved	32.00%	31.26%

MINORITY LENDING GOALS

	FY05 Target	12/05 YTD Preliminary
African American	5.40%	5.49%
Hispanic	11.60%	11.08%
Total Minority	24.70%	23.91%

Housing Goals

- Exceeded all base HUD goals
- For 2005, HUD established three new Purchase Money Mortgage (PMM) subgoals mirroring the base goals, of which only the Special Affordable PMM Subgoal is enforceable under current law
- Management believes that we met the enforceable Special Affordable PMM Subgoal (by an estimated margin of 700 loans on a denominator of >1 million), but will not achieve the two other subgoals
- Income data from approximately 3,600 Vanderbilt manufactured home chattel loans that has not yet been loaded into the system is expected to increase Special Affordable PMM Subgoal actuals above the 17% target
- Will not have final assessment until mid-February, after due diligence and other routine year-end data clean ups completed

Minority Lending Goals

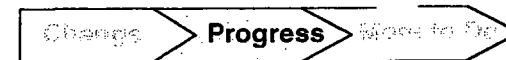
- Exceeded goal for lending to African American borrowers but did not meet goals for lending to Hispanic households and to total minority households

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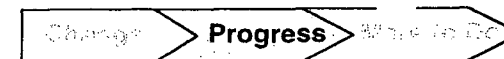
ADC Goals

- **Goal 1: Get people into homes**
 - First Time Home Buyers through November at 392,769 (vs. FY05 plan of 362,000)
 - Minority First Time Home Buyers through November at 89,932 (vs. FY05 plan of 90,000); anticipate goal achievement by year end
- **Goal 2: Keep people in their homes**
 - Launched post-purchase counseling in Home Counselor Online on 6/11/05; pilots running in Indiana, Atlanta, San Francisco, San Antonio, and New York City
 - Enrolled 7 Servicers (vs. FY05 plan of at least 3) in early delinquency intervention pilot launched 8/1/05
 - Maintained a workout ratio of 52.14% (vs. FY05 plan of 50%) throughout 2005
- **Goal 3: Increase supply of affordable housing**
 - Through November, invested \$1.46B to preserve 40,538 affordable homes (vs. FY05 plan of 25,000 homes)
- ▽ **Goal 4: Transform communities**
 - Developed investment plans for targeted communities
 - 4 urban deep dives (vs. FY05 plan of 4)
 - 2 Native American communities (vs. FY05 plan of 2)
 - 5 rural communities (vs. FY05 plan of 2)
 - Delayed tracking impact outcomes
 - Tracking delayed until 2006, due to lack of resources to track community outcomes
 - Proposals have been developed for outcome indicators based on best practice research

All Katrina-related initiatives now embedded within ADC

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Corporate Objectives as of November

	Current Month	Past Month
Priority 1. Become a first-rate regulated company		
1 Foster productive relationship with OFHEO	●	●
2 Fulfill OFHEO Agreement	●	●
3 Achieve significant progress in restating earnings and completing audit	▽	▽
4 Achieve capital restoration target levels	★	●
5 Work with Congress and the Administration on regulatory reform	●	●

Priority 2. Meet the tremendous business challenges		
<u>Single Family, including eBusiness</u>		
6 Maintain leadership and retain or grow our key accounts	★	●
7 Address key competitive issues and maintain 30% MDO share	●	▽
8 Implement products and exceed target book growth of 1.75%	▽	●
9 Increase participation in subprime	●	●
10 Use technology tools for process improvement and delivery preference	★	●
<u>Multifamily/HCD</u>		
11 Set up mezzanine financing and address borrower concentration	★	▽
12 Develop alternatives to the current DUS program	●	▽
13 Refine and implement new ACF strategy	●	●
<u>Portfolio</u>		
14 Enhance business model	★	●
15 Develop new tools to buy and sell assets more actively	★	●
16 Manage debt issuance to maximize port. value and improve executions	●	●
<u>Corporate</u>		
17 Cut non-priority areas and re-allocate resources to priority initiatives	●	●
18 Maintain MBS as the most liquid security	●	●

	Current Month	Past Month
Priority 3. Be true leaders in affordable housing		
19a Achieve the HUD Goals	●	●
19b Achieve the HUD Single-Family Purchase Money Sub Goals	●	●
20 Lead the market in minority lending and achieve targets	●	●
21 Achieve the ADC 3.0 targets	●	●

Priority 4. Instill operational discipline		
22 Implement SF Core	●	●
23 Implement HCD Core	●	▽
24 Implement systems for Portfolio biz model and ops requirements	●	▽
25 Optimize MBS organization, practices, and controls	●	▽
26 Implement Finance transactions, accounting and control systems	●	▽
27 Implement operational risk oversight framework and controls	●	▽
28 Create and implement Chief Risk Officer function, with interim CRO	★	●

Priority 5. Care for our people and culture		
29 Implement compensation recommendations	●	●
30 Develop culture that supports business and mission	▽	▽
31 Implement a "One Fannie Mae" customer relationship strategy	●	▽

Key	
★	Achieved
●	On-track to meet Corporate Objective
▽	Meeting Corporate Objective uncertain
○	Off-track to meet Corporate Objective
○	Will not achieve this year
○	Elected not to achieve

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Legislative Update

What happened in 2005

- May 25 – House Financial Services Committee reports Baker/Oxley bill without portfolio limits, but with Affordable Housing Fund by vote of 65-5
- July 28 – Senate Banking Committee narrowly reports bill with portfolio limits, but without Affordable Housing Fund
- October 3 – House passes bi-partisan bill by vote of 331-90, without portfolio limits (key amendments rejected)

What to expect in 2006

- Watch for moving goal posts
- Expect ongoing Charter threats
 - SEC exemption
 - State and local taxes
- Define an Affordable Housing Fund
- Prepare for denouement on portfolio limits

Implications of recent fall outs

- Jack Abramoff – no Fannie Mae contact but was partner at Greenberg Traurig LLP where former partner, Tony Rudy, did work for Fannie Mae
- Rudy's subsequent firm, Alexander Strategies Group, retained by Fannie Mae; contract terminated 1/06
- Rep. Tom DeLay – interactions with Fannie Mae grounded in 10+ year history as strong supporter of mission; last formal contact in June 2005
- Rep. Bob Ney – interactions with Fannie Mae also grounded in similarly strong support of our mission; last formal contact in March 2005
- 2006 lobbying budget at \$3.3 million (down from \$3.7 in 2005 and \$4.9 million in 2004)

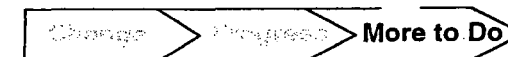
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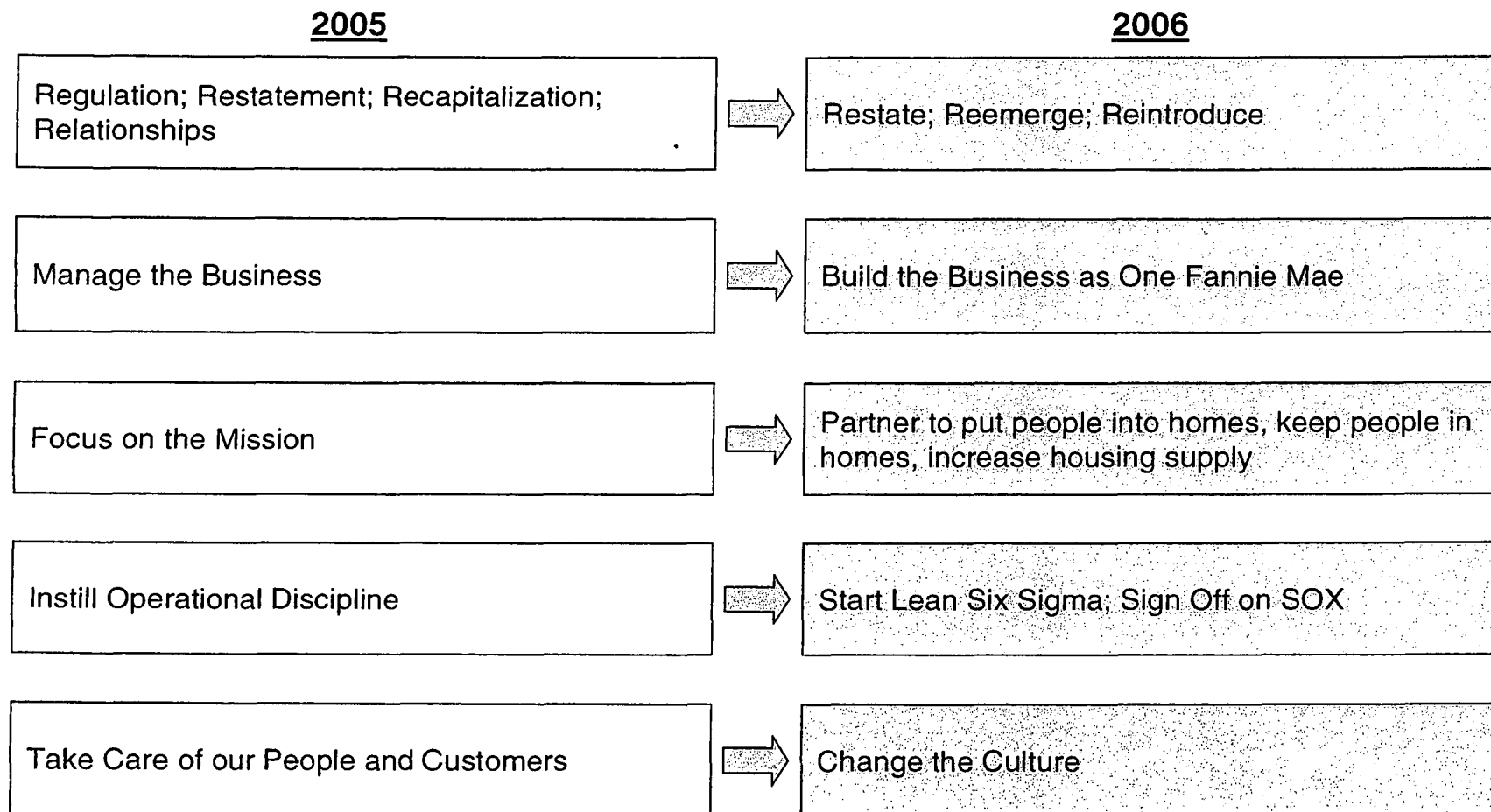
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Priorities Updated for 2006

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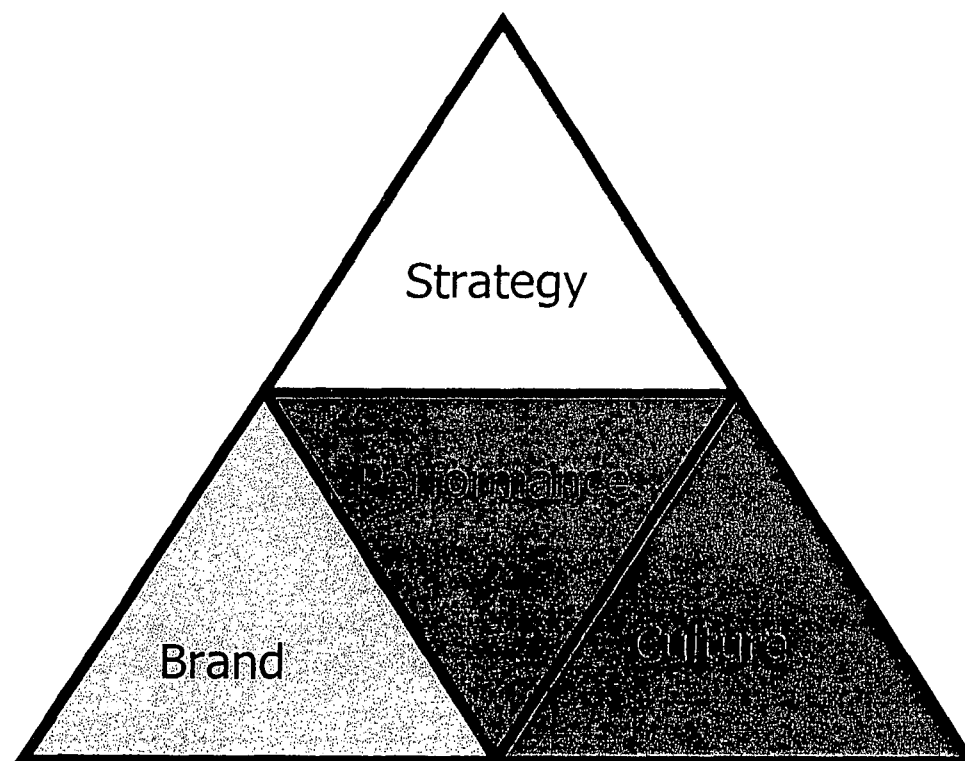
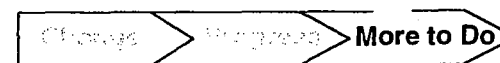
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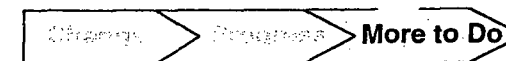
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Re-Introduction of Fannie Mae

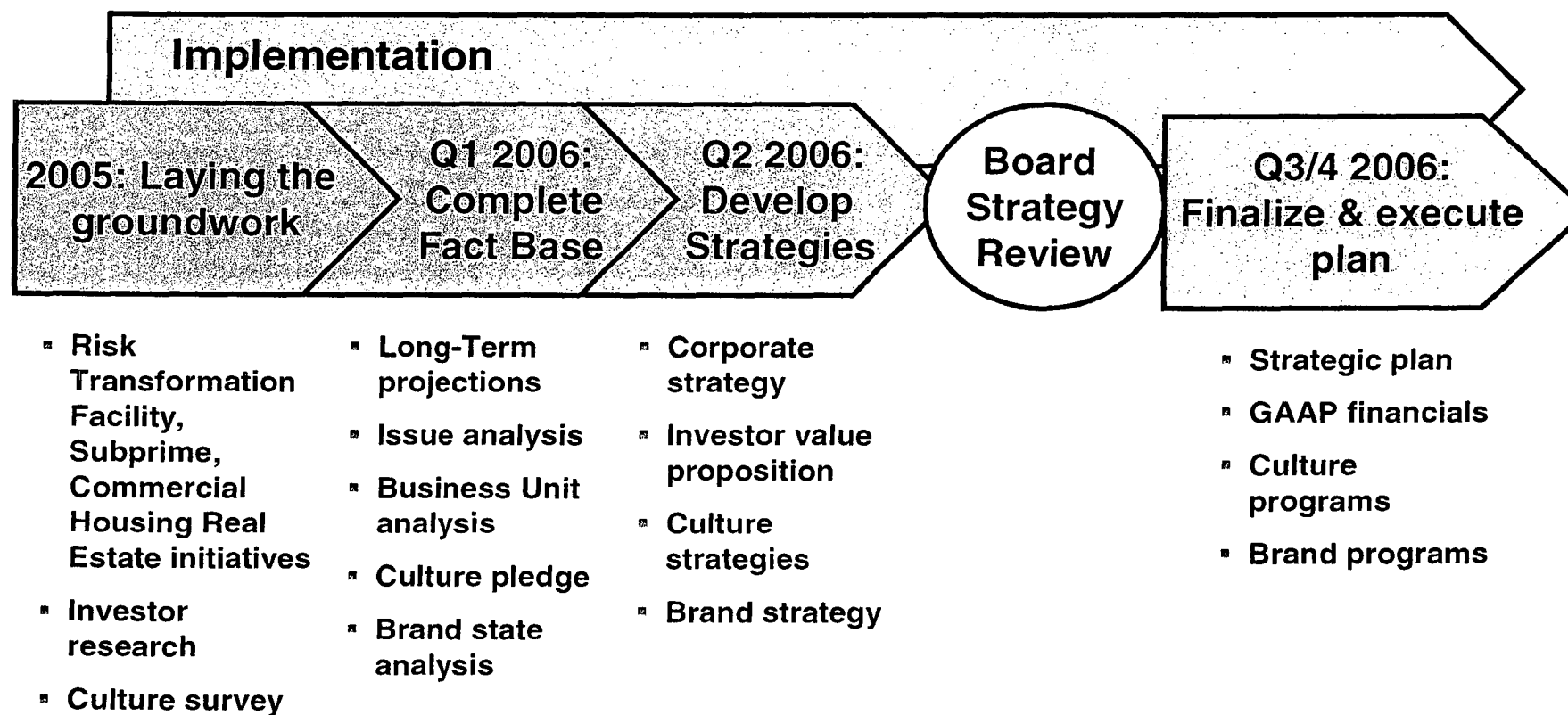


Key questions to answer for re-introduction

- How will we maximize shareholder value and meet our mission goals?
- How are we perceived today as a brand and how do we need to be perceived to deliver our strategy?
- What mindsets and behaviors are needed to successfully develop and execute our strategy?
- What are our performance aspirations for the next 5 years, and therefore, what investors will we attract?



Re-Introduction Plan



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Outreach (since last Board Meeting)

Customers:

- 11/16 Peter Goldberg of Ohio Savings Bank
- 12/7 Executive management of Wells Fargo
- 12/13 Lenders One (mortgage co-op)
- 1/19 Mark Tonnesen, CEO of Triad

Investors:

- 11/6 Phil Darivoff of Goldman Sachs
- 11/18 David Jones and Ron Blaylock of Blaylock and Partners
- 12/6 Phil Gramm and others from UBS
- 12/14 Dale Horowitz of Citigroup
- 11/29 Alan Strauss of Lord Abbott
- 1/18 Bruce Harting of Lehman Brothers

Members of Congress:

- 12/14 Representative Richard Baker

Administration – Regulator:

- 11/30 OFHEO Acting Director Blumenthal
- 12/12 Treasury Undersecretary Randal Quarles

Media:

- 11/16 Bob Haggerty of the Wall Street Journal
- 11/18 The Washington Post Editorial Board
- 11/21 CBS Early Show
- 1/9 David Wessel of the Wall Street Journal

Miscellaneous:

- 12/6 Former Attorney General John Ashcroft
- 12/12 Homeownership Alliance Luncheon
- 1/3 Donald Powell, Federal Coordinator of Gulf Coast Rebuilding
- 1/12 NAHB Executive Committee Meeting
- 1/19 Economic Club of Washington