



To: Fannie Mae Board Committee Chairpersons
cc: Committee Members
From: Bridget Macaskill *BM*
Date: January 5, 2007 *by MJM*
Re: 2006 AIP Evaluation

Dear Colleagues:

As you know, we are coming to that point in the year when the Compensation Committee must evaluate management's performance against the Annual Incentive Program (AIP) goals for the year. Earlier in the year, you assisted the Compensation Committee in reviewing and approving management's AIP goals and objectives that are under your committee's purview. I would now like your assistance in assessing management's performance for the full year.

Over the next week, each of you and your committees will be conducting a telephonic meeting to determine this assessment. As I understand it, each of the meetings has been scheduled, beginning with the Housing and Community Finance Committee on Tuesday (1/9) and concluding with the Audit Committee on Wednesday (1/10). Management has prepared for the committees their observations and assessment of their performance on each of the goals that you oversee. These materials have been included in this packet for your review prior to the meeting.

The meetings are scheduled to take one hour, and I would suggest that management join you for the first 20 minutes or so to provide you with a brief overview of their assessment and address any questions from the committee. The balance of each meeting will be an executive session in which you will determine management's performance. Specifically, I suggest each committee meeting should have the following goals:

1. Ensure the observations provided in the performance summary are relevant and on point, and that management can vouch for them. Have management address any questions or provide clarifications as needed.
2. Confirm that the assessments drafted by management are fair and appropriate. The committees should edit, revise or add where they believe it appropriate.
3. Determine an overall assessment. As with all exercises in performance review, getting a calibrated and consistent evaluation is a challenge. Having overlapping membership on our committees will help in this regard. A description of the overall assessment is provided below to help us get a calibrated view from each committee:

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- ***Substantially Exceeds Expectations*** — Management substantially exceeded the Board's expectations. This could come either from substantially exceeding goals or milestones in an environment that was as difficult as expected, or from only reaching goals or milestones but doing so under circumstances that were extraordinary and far more complex than anticipated. This level of performance would normally lead to distinguishing the Company relative to its peers and would help the Company compete effectively in today's known environment as well as in an unknown future. If management performed at these levels across the board, we would expect bonus funding in a normal year to be at the maximum level.
- ***Exceeds Expectations*** — Management exceeded the Board's expectations. This could come from exceeding goals and milestones in an environment that was as difficult as expected, or from only meeting goals and milestones but doing so in an environment that was more difficult and complex than expected. This level of performance would allow the Company to compete effectively relative to its peers. If management performed at these levels across the board we would expect bonus funding in a normal year to exceed the target but be something less than the maximum level.
- ***Meets Expectations*** — Management met the Board's expectations. This could come either from meeting goals or milestones in an environment that was as difficult as expected, or from only partially reaching goals or milestones but doing so under circumstances that were somewhat more complex than anticipated. It might also occur from exceeding goals or milestones somewhat, but in an environment that was easier than anticipated. Further, the Company could compete effectively with this level of management contribution in today's known environment. If management performed at these levels across the board, we would expect bonus funding in a normal year to be at or around the target level.
- ***Partially Meets Expectations*** — Goals and milestones were not fully met. However, significant progress was made and the right effort was applied. External conditions prevented full achievement. Despite good effort, the Company would struggle to compete effectively over time if this level of performance was sustained. If management performed at these levels across the board, bonus funding in a normal year would be below target.
- ***Does Not Meet Expectations*** — Management failed to achieve goals and milestones. This level of performance jeopardizes the Company's ability to compete effectively unless near-term actions are taken. There would be no bonus funding if management performed at this level across the board.

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At the conclusion of the committee meeting, I would like you to call me, at (917) 865-1020, to discuss the overall assessment and the context for the assessment. Additionally, if you have any requested changes to the AIP document, please let management know after the meeting has concluded. I will ask management to make any requested changes and we will distribute the document to the full Board for review. On January 18th, the Compensation Committee will determine management's overall performance so we can set the payout level for the AIP bonus pools, and at the Board meeting on January 19th, we will review management's performance and the recommended funding level for the AIP bonus pool.

Participants in the Internal Audit and the Compliance and Ethics groups will receive their AIP bonuses based on achievement of their business unit goals rather than the corporate goals. Therefore, I am asking the Audit Committee to provide an overall assessment of the performance of the Audit Department (using the five categories shown above), and the Compliance Committee to do the same for the Compliance and Ethics Group. I will then discuss with the Chairs of those committees the appropriate level of AIP funding for those groups.

Once again, I thank you for your support and I look forward to talking with you soon.

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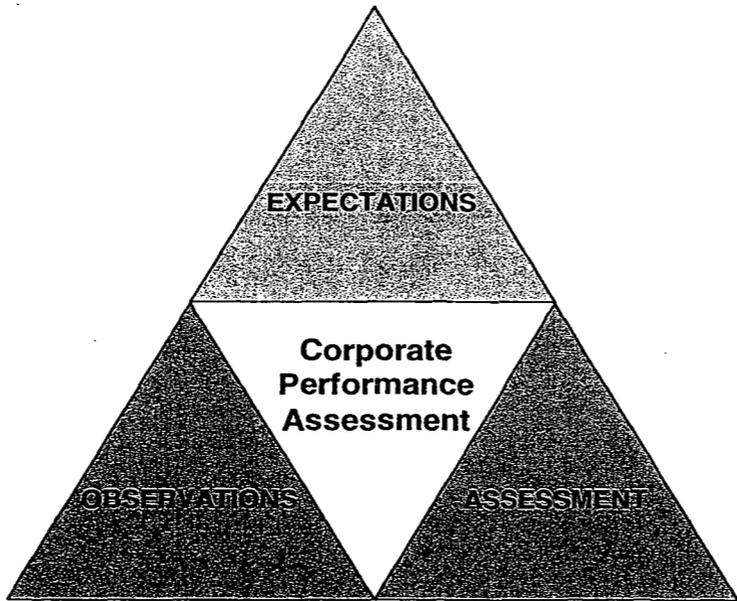
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Fannie Mae Annual Incentive Plan
Compensation Committee 2006 Corporate Performance Assessment

HCF COMMITTEE

The purpose of this document is to provide the Compensation Committee with a framework for assessing corporate performance for Fannie Mae's 2006 Annual Incentive Plan.

ELEMENTS OF CORPORATE PERFORMANCE ASSESSMENT



EXPECTATIONS

Goals: Results, Behaviors or Processes

- Built on histories of performance as well as expectations of external factors
- Change over time
- Are the foundation for effective feedback

OBSERVATIONS

Neutral Facts or Occurrences

- Represent results achieved and/or behavior exhibited
- Are unfiltered by personal experience or interpretation
- Focus on what was accomplished, not on how well it was accomplished

ASSESSMENT

Interpretations or Evaluations of Performance Applied to a Set of Observations

- Are shaped by expectations
- Should be grounded by observations with recognition of specific expectations
- Focus on how well results were accomplished based on the evaluation of the assessor

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Board and Management Leads

| Board | | Management |
|-------------------------|-------------------|--------------------------------|
| Committee | Chair | |
| Audit | Dennis Beresford | Bob Blakely, Jean Hinrichs |
| Compensation | Bridget Macaskill | Mike Williams |
| Compliance | Pat Swygert | Bill Senhauser, Beth Wilkinson |
| HCF | Ken Duberstein | Rob Levin |
| RP&C | Leslie Rahl | Enrico Dallavecchia |
| Technology & Operations | Greg Smith | Mike Williams |

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Priority 2: OPTIMIZE OUR BUSINESS

| Expectations | Observations | Assessment |
|---|---|--|
| <p>CO#9 - Share: Demonstrate tangible progress in increasing our share of the private-label securities market. (HCF) (Note: "CO" stands for Corporate Objective. 23 of the 34 Corporate Objectives included as AIP Goals.)</p> | <ul style="list-style-type: none"> ▪ Improved market share to 25.5 percent in November YTD from 22.0 percent in 12/05. | <p>Management believes it has achieved this goal.</p> |
| <p>CO#11 - Portfolio Return: Achieve an investment spread of 25 bps on an option- and credit-adjusted basis for net mortgage portfolio investments in 2006. (HCF)</p> <ol style="list-style-type: none"> 1. Finalize the methodology for calculation with sign-off from CRO and EVP of Capital Markets. | <ul style="list-style-type: none"> ▪ Finalized the calculation methodology and approved by CRO. | <p>Management believes it has achieved this goal.</p> |
| <ol style="list-style-type: none"> 2. Create a reporting framework. | <ul style="list-style-type: none"> ▪ Implemented the periodic reporting to executive management. | <p>Management believes it has achieved this goal.</p> |
| <ol style="list-style-type: none"> 3. Monitor and achieve the objective. | <ul style="list-style-type: none"> ▪ Achieved a full year investment spread of 24.8 bps, versus a target of 25 bps. ▪ Assets purchased to meet housing goals reduced the net investment spread by 1.6 basis points. | <p>Management believes it has substantially achieved this goal.</p> |
| <p>CO#13 - CRO: Build the CRO function and implement the 2006 plan for policies; implement business unit risk officer organizations. (HCF)</p> | | |
| <ol style="list-style-type: none"> 1. BURO: Establish Business Unit Risk Officers (BURO) with clearly defined and consistent relationships to the risk oversight area. | <ul style="list-style-type: none"> ▪ Established two BUROs (financial and operational) in each Business Unit. | <p>Management believes it has achieved this goal.</p> |
| <p>CO#14 – CMBS (Commercial Mortgage-Backed Securities): Implement CMBS purchase capability by Q1 '06 and acquire over \$5 BN in securities by the end of the year. (HCF)</p> | <ul style="list-style-type: none"> ▪ Implemented CMBS purchase capability in February. ▪ As of December, acquired \$9.7 BN. | <p>Management believes it has achieved this goal.</p> |
| <p>CO#15 - RTF: Implement the Risk Transformation Facility by Q3 '06. (HCF)</p> | | |
| <ol style="list-style-type: none"> 1. Define the business process by Q1 '06. | <ul style="list-style-type: none"> ▪ Business process was defined by the first quarter of 2006. | <p>Management believes it has achieved this goal.</p> |
| <ol style="list-style-type: none"> 2. Select and contract with partner(s) to provide pricing and operational capabilities by Q1 '06. | <ul style="list-style-type: none"> ▪ Bear Stearns and HELIX/Rockport were selected in the first quarter, contract negotiations extended into second quarter of 2006. Wells Fargo was selected in the first quarter and the contract executed in the third quarter of 2006. | <p>Management believes it has achieved this goal, although later than planned.</p> |

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| Expectations | Observations | Assessment |
|--|---|--|
| 3. Integrate and test partners' platforms by Q2 '06. | <ul style="list-style-type: none"> Integration and test completed in September 2006. | Management believes it has achieved this goal, although later than planned. |
| 4. Secure first deals for Single Family and Multifamily by Q3 '06. | <ul style="list-style-type: none"> Secured first Single Family deal by the third quarter of 2006. OFHEO stated in September that the first Multifamily deal cannot proceed until OFHEO has satisfactorily reviewed the first Single-family deal. Review is underway. | Management believes it has achieved this goal for the Single Family portion but will not achieve the Multifamily portion until OFHEO restrictions are satisfied. |
| 5. Refine, as needed, and expand use by Q4 '06. | <ul style="list-style-type: none"> Completed business definition to build out phase two functionality in 2007. We will not be able to expand RTF until OFHEO gives their approval. | Expansion will not occur until OFHEO gives their approval. |
| CO#16 - HCD: Develop and implement the strategic plan for expansion of the HCD businesses. (HCF) | | |
| 1. Develop the strategic plan for expansion of the HCD businesses and gain approval from the Board and senior management to execute the plan. | <ul style="list-style-type: none"> Developed strategic plan and presented to the Board at their July meeting. Management is implementing the plan. | Management believes it has achieved this goal. |
| 2. Develop and implement a comprehensive reorganization plan to support the strategic plan. Communicate organizational changes to staff, lending partners, regulators, investors and other key constituencies. | <ul style="list-style-type: none"> Developed and completed organizational design work in May. Implemented reorganization plan with introduction of new organization to all HCD staff on July 20. | Management believes it has achieved this goal. |
| 3. Develop detailed business and implementation plans for the expansion of each of the business segments in conjunction with the reorganization. | <ul style="list-style-type: none"> Completed Community Investments, Multifamily Strategy, and Small Loans business plans. Final Acquisition, Development & Construction business plan approved in November. However, OFHEO suspended new AD&C business until we implement formal policies and procedures and OFHEO reviews all activities. Developing controls and processes. | Management believes it has partially achieved this goal due to the suspension of AD&C. |
| 4. Fulfill new organization with new and existing talent, develop and implement training and staff development programs to support the new organization. | <ul style="list-style-type: none"> Since the HCD reorganization announced on July 20, filled 99 positions (VP level or below), which include 50 positions filled internally and 49 positions filled from external sources. By year-end, put 7 SVPs in place, filled 2 of 5 new VP opportunities, and filled 39 of 54 new Director opportunities. A training and development team has been working with the HCD business units, and training is underway. | Management believes it has partially achieved this goal. |

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| Expectations | Observations | Assessment |
|---|--|--|
| CO#17 – Sub-prime: Increase our penetration into sub-prime. (HCF) 1. Develop interim deal authority; create transactional flexibility relative to the AA level of delegation. | <ul style="list-style-type: none"> ▪ Implemented Interim Deal Authority in March. | Management believes it has achieved this goal. |
| 2. Develop business plan, policies and procedures for the sub-prime initiative and submit the plan through the CRO's New Business Initiative (NBI) process for approval. | <ul style="list-style-type: none"> ▪ The CRMC reviewed and approved the sub-prime NBI including the business plan, policies, and procedures on August 16. | Management believes it has achieved this goal. |
| 3. Develop a risk transformation facility for sub-prime (in conjunction with CO#15 - Implementation of RTF). | <ul style="list-style-type: none"> ▪ The RTF initiative built support for sub-prime collateral into its solution. | Management believes it has achieved this goal. |
| 4. Increase sub-prime penetration rate; target \$3B volume for 2006 beginning in Q3 '06 (whole loan purchases, credit wraps and whole loan REMICS). | <ul style="list-style-type: none"> ▪ We have increased penetration into sub-prime. By December YTD, acquired and settled \$3.5 BN deals vs. FY plan of \$3 BN. | Management believes it has achieved this goal. |
| CO#18 - Community & Multicultural: Develop and implement plan to increase sourcing of minority loans. (HCF) 1. Rollout Home Counselor Online (HCO) 8.0. | <ul style="list-style-type: none"> ▪ Released HCO 8.0 on February 11. ▪ Released HCO 8.1 on June 23. ▪ HCO-counseled borrowers resulted in 5,512 delivered loans November YTD. On-pace to contribute 6,000 loans through December 2006. | Management believes it has achieved this goal. |
| 2. Release multi-product approval in DO. | <ul style="list-style-type: none"> ▪ Released multi-product approval for MyCommunityMortgage (MCM) on April 3. | Management believes it has achieved this goal. |
| 3. Acquire 14,000 purchase money mortgage (PMM) loans from zip codes defined as underserved. | <ul style="list-style-type: none"> ▪ 10,809 November YTD vs. 14,000 FY target. ▪ December estimates have us achieving 14,000 loan target. | Management believes it will achieve this goal. |

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Priority 3: DELIVER ON THE MISSION

| Expectations | |
|---|-----------|
| CO#21- HUD Goals: Achieve the HUD Goals. (HCF) | |
| 1. Low/Moderate-Income Goal: | 53.00 % |
| Low/Moderate-Income PMM Subgoal: | 46.00 % |
| 2. Underserved Goal: | 38.00 % |
| Underserved PMM Subgoal: | 33.00 % |
| 3. Special Affordable Goal: | 23.00 % |
| Special Affordable PMM Subgoal: | 17.00 % |
| 4. Special Affordable Multifamily Subgoal: | \$5.49 BN |
| CO#22 – Minority Lending: Achieve the minority lending targets. (HCF) | |
| 1. African American: | 5.80 % |
| 2. Hispanic: | 12.00 % |
| 3. Overall Minority: | 25.10 % |
| CO#23 - ADC 3.0: Achieve ADC 3.0 and Katrina targets. (HCF) | |
| 1. Get People Into Homes: Achieve 2006 stretch goals of 491,500 First Time Home Buyers (FTHB) and 124,000 Minority First Time Home Buyers as part of the 2014 Aspirational Goals of 6 MN First Time Home Buyers and 1.8 MN Minority First Time Home Buyers. | |
| 2. Keep People in Their Homes: Reduce the percent of delinquent borrowers who proceed to foreclosure, by intervening earlier in the delinquency and proactively pursuing alternatives to foreclosure. In doing so, achieve a 50 percent target for loan workouts. | |

| Observations | | | | | | | | | | | |
|---|-----------------------|---------------------|--|-----------------------|---------------------|------|---------------|---------|---------------|---------------|---------|
| 2006 Estimated | | | | | | | | | | | |
| Low/Moderate-Income Goal: | | 56.1 % | | | | | | | | | |
| Low/Moderate-Income PMM Subgoal: | | 46.8 % | | | | | | | | | |
| Underserved Goal: | | 42.8 % | | | | | | | | | |
| Underserved PMM Subgoal: | | 34.1 % | | | | | | | | | |
| Special Affordable Goal: | | 27.0 % | | | | | | | | | |
| Special Affordable PMM Subgoal: | | 17.2 % | | | | | | | | | |
| Special Affordable Multifamily Subgoal: | | \$12.2 BN | | | | | | | | | |
| November YTD Actual | | | | | | | | | | | |
| African American: | | 6.95 % | | | | | | | | | |
| Hispanic: | | 11.58 % | | | | | | | | | |
| Overall Minority: | | 25.32 % | | | | | | | | | |
| <ul style="list-style-type: none"> Data do not yet include all November purchases of Private Label Securities (PLS). These data are expected to favorably affect our minority goal achievement. | | | | | | | | | | | |
| <ul style="list-style-type: none"> 2006 FTHB annual stretch goal <table border="1"> <thead> <tr> <th></th> <th><u>Nov YTD Actual</u></th> <th><u>FY 2006 Goal</u></th> </tr> </thead> <tbody> <tr> <td>FTHB</td> <td>452,063 (92%)</td> <td>491,500</td> </tr> <tr> <td>Minority FTHB</td> <td>111,447 (90%)</td> <td>124,000</td> </tr> </tbody> </table> | | | | <u>Nov YTD Actual</u> | <u>FY 2006 Goal</u> | FTHB | 452,063 (92%) | 491,500 | Minority FTHB | 111,447 (90%) | 124,000 |
| | <u>Nov YTD Actual</u> | <u>FY 2006 Goal</u> | | | | | | | | | |
| FTHB | 452,063 (92%) | 491,500 | | | | | | | | | |
| Minority FTHB | 111,447 (90%) | 124,000 | | | | | | | | | |
| <ul style="list-style-type: none"> Loan workouts: 57.53 percent December YTD vs. 50 percent FY target. | | | | | | | | | | | |

| Assessment |
|---|
| Management believes it will achieve this goal. |
| Management believes it has substantially achieved this goal. |
| Management believes it will substantially achieve or fully achieve this goal. |
| Management believes it has achieved this goal. |

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| Expectations | Observations | Assessment |
|---|--|---|
| <p>3. Increase the Supply of Affordable Housing: 2006 Goal - Design and implement a preservation strategy with an overall goal of 44,000 units. Design and implement a strategy to develop permanent supportive housing for the homeless.</p> | <ul style="list-style-type: none"> ■ Preservation units <ul style="list-style-type: none"> - As of November YTD, financed 29,830 units of preservation housing (67.8 percent of original 44,000 goal). - The 2006 preservation target was largely based on significant 2005 participation in the tax-exempt bond market. However, we have not reentered this market due to pending resolution of operational systems and risk issues. ■ Homelessness strategy <ul style="list-style-type: none"> - Completed design of permanent supportive housing strategy. - Implementing against strategy, including a) \$37.5 MN in private-label LIHTC investments, b) \$2 MN in distributed annual grants to alliance partners in support of five year commitment, c) \$8 MN in completed underwriting of predevelopment/acquisition line of credit, and d) \$4.3 MN in predevelopment/acquisition financing. | <p>Management will not achieve this goal.</p> |
| <p>4. Transform 50 Targeted Communities: 2006 Goal - Identify and create investment strategies for eight deep dive communities. Implement a new system for tracking progress.</p> | <ul style="list-style-type: none"> ■ Deep dives <ul style="list-style-type: none"> - As of December YTD, identified and created investment strategies for eight community deep dive sites: Uptown (Cincinnati, OH), East Village (Kansas City, MO), Southeast (Seattle, WA), Parramore/Holden Heights (Orlando, FL), Bayview Hunter's Point (San Francisco, CA), MacArthur Park (Los Angeles, CA), North Lawndale (Chicago, IL) and Navajo Nation (NM-AZ-UT). ■ Implementation of new tracking system <ul style="list-style-type: none"> - Completed site visits of three pilot communities; plan to complete initial version of new system tracking deep dive communities by year end with full implementation in 2007. | <p>Management believes it has substantially achieved this goal.</p> |

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| Expectations | Observations | Assessment | | | | | | | | | |
|---|--|---|-------------------|-----------------|--------------|------------|------------|-------------------------|--------|--------|---|
| <p>5. Hurricane Investments: Develop, review and approve five investment strategies and begin execution in accordance with the plans.</p> | <ul style="list-style-type: none"> ■ As of December YTD, achieved \$1.68 BN of special financing available through closed investments, closed funds, or approved product variances. The goal for 2006 was to make \$1.2 BN special financing available. ■ Investment highlights <ul style="list-style-type: none"> - Approved \$645 MN in single-family product variances to address renovation, unique appraisal and affordability issues. Over \$100 MN delivered year-to-date. - Closed \$450 MN equity fund to support new single-family home development in GO Zone. - Closed over \$560 MN in equity funds and debt financings for acquisition and rehab of multifamily properties in GO Zone. - Closed over \$20 MN in Community Lending products to support nonprofit builders and local housing agencies. - Assisted over 35,000 families through forbearance and foreclosure moratorium. - Provided over 1,200 evacuee families homes rent-free for 18 months. - Completed 30 purchases using \$15,000 down payment assistance for Katrina families purchasing Fannie Mae REO. - Pursuing six special place-based community development strategies, including Catholic Charities in the Treme neighborhood in New Orleans and with nonprofit developer DASH in Pascagoula, Mississippi. | <p>Management believes it has achieved this goal.</p> | | | | | | | | | |
| <p>6. Achieve Fannie Mae's commitment under the President's "Blueprint for the American Dream."</p> | <ul style="list-style-type: none"> ■ All points achieved or on-track. ■ Example of achieved point: "Financing to Minority Households" <table border="1" data-bbox="1064 1040 1736 1139"> <thead> <tr> <th></th> <th>Actual 1/00-10/06</th> <th>Plan 1/00-12/09</th> </tr> </thead> <tbody> <tr> <td>- Financing:</td> <td>\$858.1 BN</td> <td>\$700.0 BN</td> </tr> <tr> <td>- Number of households:</td> <td>5.8 MN</td> <td>4.6 MN</td> </tr> </tbody> </table> | | Actual 1/00-10/06 | Plan 1/00-12/09 | - Financing: | \$858.1 BN | \$700.0 BN | - Number of households: | 5.8 MN | 4.6 MN | <p>Management believes it has achieved this goal.</p> |
| | Actual 1/00-10/06 | Plan 1/00-12/09 | | | | | | | | | |
| - Financing: | \$858.1 BN | \$700.0 BN | | | | | | | | | |
| - Number of households: | 5.8 MN | 4.6 MN | | | | | | | | | |

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SUMMARY OF CORPORATE PERFORMANCE

| | | |
|---|---------------------------|--|
| PRIORITY 2: OPTIMIZE OUR BUSINESS | Share | |
| | Portfolio Return | |
| | CRO | |
| | CMBS | |
| | RTF | |
| | HCD | |
| | Sub-prime | |
| | Community & Multicultural | |
| | HUD Goals | |
| | Minority Lending | |
| ADC 3.0 | | |
| PRIORITY 3: DELIVER ON THE MISSION | | |

Approved: _____

Date: _____

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