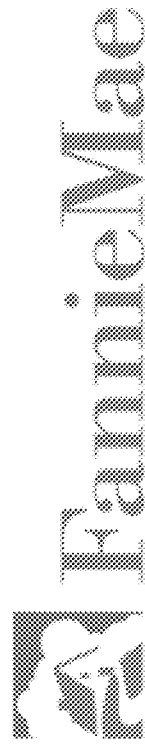


Purchase of AA and A-Rated Sub Prime Private Label Securities

New Business Initiative presented to
Credit Risk and Market Risk Committees

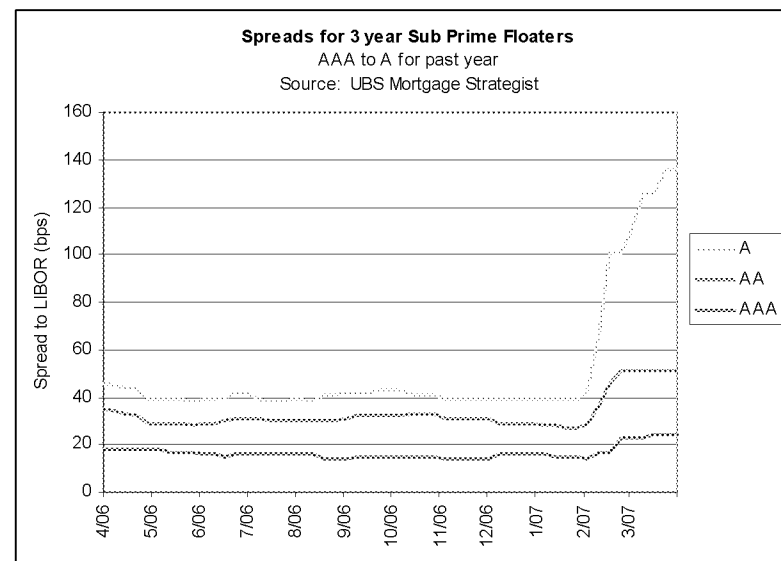
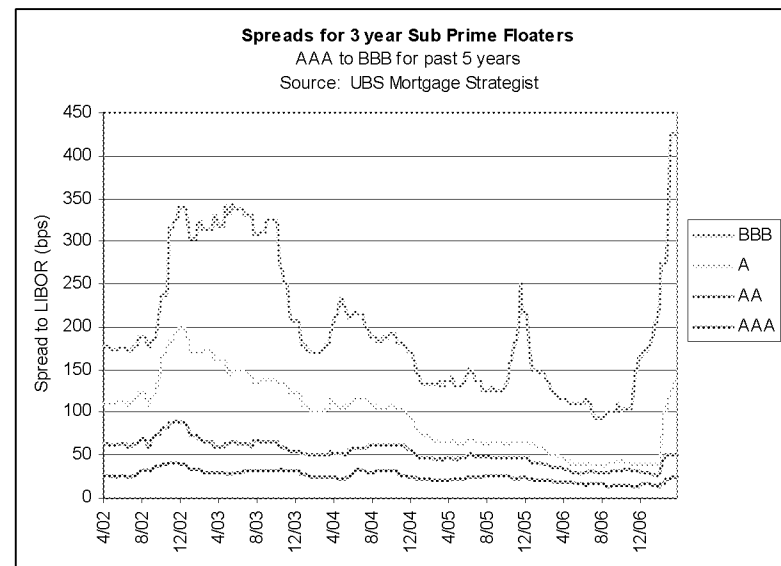
May 2, 2007



Confidential - Internal Distribution

Business Opportunity

- Buying PLS below AAA is a corporate objective
 - We are experienced investors in AAA
 - We want to go down the credit spectrum for both value and mission purposes
- **Sub prime spreads have widened dramatically to their widest level in years**
- We do not feel there is much risk in going down to AA and A
 - We have developed new metrics and processes to assess where to find value
 - We feel our current credit analytics, pre-purchase due diligence, and surveillance process are adequate down to AA and A
 - We don't expect to take losses at the AA and A level
 - Eventually we want to go to BBB, and this will give us a chance to learn
- **We anticipate being able to buy \$2 billion in AA and A over the next year (with a proposed purchase limit of up to \$3 billion)**
- Project Value of \$82 million (calculated by BA&D)
- **We want to move quickly while the opportunity is still there**



Credit Analysis

Risk of losses in AA and A is low...

Bond Cumulative Expected Loss								
Rating Class		Aaa	Aa1	Aa2	Aa3	A1	A2	A3
No. of Bonds Included		113	81	112	88	81	111	107
Average		0.0004%	0.001%	0.048%	0.118%	0.17%	0.63%	1.43%
Stdev		0.0046%	0.006%	0.119%	0.267%	0.16%	0.87%	2.03%
Min		0.0000%	0.000%	0.000%	0.000%	0.00%	0.00%	0.00%
Max		0.0487%	0.048%	0.850%	2.176%	0.87%	4.45%	10.29%

...but credit analysis is required for security selection.

Deal Name: SASC07-WF1					Servicer / Originator: Wells Fargo	
Settlement Date: 20070328					2,000 Simulations as of Q4 2006. All Loss Discounted at Libor, off Original HPA Distribution	
Tranches	Original Support	Rating	Discount Margin	Price	Expected Loss (as % of face amount)	Individual Bond Stress (99.5%) Loss
A1	18.35	Aaa	21	100	0.00%	0.00%
A6	18.35	Aaa	21	100	0.00%	0.00%
A2	53.03	Aaa	9	100	0.00%	0.00%
A3	45.02	Aaa	16	100	0.00%	0.00%
A4	25.98	Aaa	20	100	0.00%	0.00%
A5	18.35	Aaa	31	100	0.00%	0.00%
M1	14.65	Aa1	44	100	0.00%	0.00%
M2	12.30	Aa2	49	100	0.00%	0.00%
M3	10.70	Aa3	67	100	0.00%	0.00%
M4	9.15	A1	100	100	0.01%	0.00%
M5	7.65	A2	115	100	0.07%	0.00%
M6	6.55	A3	150	100	0.17%	0.00%

Deal Name: FFMER07-WF1					Servicer / Originator: First Franklin (HLS)	
Settlement Date: 20070327					2,000 Simulations as of Q4 2006. All Loss Discounted at Libor, off Original HPA Distribution	
Tranches	Original Support	Rating	Discount Margin	Price	Expected Loss (as % of face amount)	Individual Bond Stress (99.5%) Loss
A1	16.20	Aaa	14	100	0.00%	0.00%
A2A	16.20	Aaa	12	100	0.00%	0.00%
A2B	16.20	Aaa	17	100	0.00%	0.00%
A2C	16.20	Aaa	25	100	0.00%	0.00%
A2D	16.20	Aaa	34	100	0.00%	0.00%
M1	13.10	Aa1	38	100	0.00%	0.00%
M2	10.40	Aa2	50	100	0.00%	0.00%
M3	8.75	Aa3	70	100	0.01%	0.00%
M4	7.30	A1	125	100	0.05%	0.00%
M5	5.90	A2	135	100	0.14%	0.00%
M6	4.85	A3	150	100	0.30%	14.94%



Low Risk of Loss with AA and A

Past sub prime stress analyses show sub prime AA and A bonds are very resilient

CRO Stress Scenario				
Moody's Rating	No. of Bonds in Deals in our PLS Book	No. of Bonds Projected to Take Loss	Average Magnitude of Projected Loss	Bond's Expected Loss (% of face amount)
Aaa	274	0	0.00%	0.00%
Aa1	210	0	0.00%	0.00%
Aa2	291	0	0.00%	0.00%
Aa3	229	0	0.00%	0.00%
A1	221	0	0.00%	0.00%
A2	290	0	0.00%	0.00%
A3	267	1	100.00%	0.37%

CRO Super Stress Scenario				
Moody's Rating	No. of Bonds in Deals in our PLS Book	No. of Bonds Projected to Take Loss	Average Magnitude of Projected Loss	Bond's Expected Loss (% of face amount)
Aaa	274	0	0.00%	0.00%
Aa1	210	1	26.33%	0.13%
Aa2	291	2	77.52%	0.53%
Aa3	229	10	49.30%	2.15%
A1	221	26	60.78%	7.15%
A2	290	78	61.84%	16.63%
A3	267	142	71.24%	37.89%

Stress Scenario

	Year 1	Year 2	Year 3
Interest Rates	+200	Flat	Flat
House Price Appreciation	-5%	-5%	Flat

Super Stress Scenario

	Year 1	Year 2	Year 3
Interest Rates	+200	+200	Flat
House Price Appreciation	-10%	-10%	Flat

Enhanced Risk Management

Our enhanced pre-purchase credit analysis and due diligence process and will enable us to identify value

Prepurchase Analytics

- Pre-purchase review (not essential for AA and A, but useful) will include:
 - Loan level collateral performance projections
 - Loss coverage multiples
 - Bond losses
 - Housing goals
 - Collateral composition benchmarking, including multivariate stratifications
 - Counterparty approval
 - Analyst commentary
 - Credit recommendation
- Will employ Economic Capital framework for valuing AA and A
- Working with outside counsel to draft a Pooling and Servicing Agreement to further protect our interests
- Will also perform loan level diligence on a select deal for learning/ preparation for BBB

Ongoing surveillance

- Current system and processes (with minor changes) will be sufficient for AA and A
- Will engage OfficeTiger (outsourced surveillance provider) on one of the first deals for learning/ preparation for BBB

Implementation Plan

We plan to implement the required changes to our processes and policies in an accelerated manner

Step	Target Date
Credit models in place	Complete
CMS credit model implementation approved	Working with CRO
Calibrate models (house price path)	Before first deal
Implement pre-purchase analytics form	Complete
Update PLS Risk Policy	Upon NBI approval
Tape cracking process in place	Before first deal
Economic Capital Framework in place	Before first deal
Work with dealers to create the structures we want	Upon first deal
Use OfficeTiger for surveillance	One of first deals
Loan level due diligence executed on selected deal	One of first deals
Update procedures	June 30
Update surveillance metrics for Watch List	June 30
Hire additional CMS staff	TBD
Identify PSA best practices	In preparation for BBB

New Business Initiative Assessment Questionnaire
Purchase of Sub Prime PLS rated AA and A

GENERAL RISK/RETURN DESCRIPTION

Why is the business initiative being undertaken? (Describe the initiative, key objectives and how it fits into the Business' strategic plan.)

Capital Markets is seeking to invest in private label securities (PLS) rated AA and A (i.e. between AA+ and A-) and backed by sub prime conforming loans. Capital Markets wishes to prudently participate in this market as an extension of Fannie Mae's mission to bring liquidity to the mortgage market, to support affordable housing, and to profit from attractive returns when available. Recent spread widening in the sub prime market has made investments in these securities especially attractive from a risk/return perspective. Furthermore, as a result of the widening spreads, credit standards appear to be returning to the sector, making the bonds safer.

This New Business Initiative (NBI) is the first phase of a two-phase process. The second phase will entail investing in sub prime PLS down to the BBB level. Capital Markets will decide on the appropriate time to submit the second phase for approval as an NBI.

This NBI is a key part of both the corporation's and Capital Market's strategic plans of becoming sophisticated investors in lower-rated tranches (below AAA) of structured securities as well as in sub prime collateral. As the company becomes experienced in managing the risk of these lower-rated tranches and collateral, we will earn commensurately higher returns. As a result of the well publicised subprime shakeout, the investor base for this product has dried up. CDOs, which were once the most aggressive bid, have gone away. Thus, this NBI directly supports one of Fannie Mae's corporate objectives this year to grow the business while at the same time it supports the company's mission to provide liquidity to this market.

Capital Markets considers this to be a Corporate NBI because the company has not previously invested in PLS securities at the AA and A level (although it has at the AAA level). Moving in this direction increases the level of credit risk and sub prime exposure that we face as a company. Capital Markets wants to ensure that there is adequate support, approval and oversight from across the company as we move in this direction.

What are the major credit, market, operational, or other risks associated with the proposed business initiative? (Qualitatively assess the significance of these risks to the success of the initiative and performance of the business.)

Credit risk

Investments in lower-rated tranches generally are correlated with a higher probability of downgrade or credit losses. However, we believe that by performing pre-purchase due diligence and credit analysis we can mitigate the chance of downgrade or losses.

- We plan to employ Fannie Mae's credit models and expertise in this space to select investments that either do not experience losses or are priced so as to compensate for any losses.
- Furthermore, we recognize that these securities are complex financial instruments with structured cash flow rules which can be affected by servicer practices. We plan to work more closely than we have in the past with servicers of these PLS in order to mitigate losses post-purchase.
- We also plan to draw upon resources in other parts of Fannie Mae, such as the Automated Valuation Model and Servicing Scorecard developed by the Single Family business, and where appropriate use them in the evaluation process for these securities.
- In addition, we plan to employ the services of third party pre-purchase due diligence and/or bond surveillance providers when appropriate in order to enhance our own due diligence process.
- There is also significant credit risk associated with buying PLS of an originator who is facing

bankruptcy. These pools are more likely to contain fraud. We will be selective in choosing well-capitalized counterparties.

Market risk

These securities are generally less liquid than AAA securities, but a liquid secondary market does exist. We will limit the size of the PLS portfolio rated below AAA so as to not reduce the overall liquidity of Fannie Mae's PLS portfolio.

Operational risk

In the past we have not performed the type of loan level diligence we are proposing for purchases below AAA. As a consequence, we will likely encounter some challenges in establishing our due diligence processes.

Other challenges may include:

- Securities will have to be constructed by the dealer community in order to meet Fannie Mae's conforming loan requirements. It is not certain that the dealers will do so.
- There may also be accounting items as well as housing goals issues to be resolved.
- Executing and managing these investments requires an extensive, ongoing coordination across multiple business units.

The business units involved in pricing the securities and managing the risk will continue to work closely through both formal and informal relationships in order to execute effectively. Committees such as the Credit Risk Committee and the Private Label Advisory Team will continue to provide forums for coordination and oversight of the activities related to this portfolio. We will also develop PSAs that will contain industry best practices proven to mitigate operational risk.

What is the risk/return strategy associated with the proposed business initiative?

Capital Markets and Business Analytics and Decisions (BA&D) are jointly developing a return on economic capital framework to assess risk and return for investing in subprime PLS rated below AAA. Due to the nature of the capital structure of the AA and A bonds, we anticipate that regulatory capital will be higher than economic capital for these PLS, implying a higher return on economic capital than the AAA subprime PLS and most other investment opportunities available to Fannie Mae.

SPECIFIC RISK ISSUES

Does the existing management and organizational infrastructure support the proposed business initiative and required operations? (If not/if not now, describe the changes required and the plans to address the gaps.)

The technical skills and tools are largely in place to support the proposed NBI. With the implementation of the Capital Markets Strategy (CMS) PLS Prepurchase Analytics Process (including a form to be completed by the CMS PLS team), the required analytics are already in place. We believe that the current surveillance process is sufficient for PLS rated down to A (but not for PLS rated below A). The largest operational issue with respect to assessing the risk is that the CMS PLS team does not currently have access to any corporate-approved implementation of BA&D's credit risk models. CMS PLS will seek temporary approval from the Model Validation team of Market Risk Oversight to implement for their own purposes a version of the approved credit risk models.

Will existing (credit, market, operational) policies, standards, tolerances and procedures provide sufficient guidance for the management of the risks associated with the proposed business initiative? (If not, describe the changes required and the plans to address the gaps.)

The Private Label Advisory Team (PLAT) requests to CRO as part of this NBI process that the Private Label Securities Risk Policy be updated to allow for purchases of PLS below AAA. Furthermore, the team requests that we introduce a PLS purchase limit of \$3 billion in new acquisitions through May 31, 2008 for sub prime securities rated between AA+ and A-.

Will the existing systems/technology infrastructure effectively support the proposed business initiative? (If not/if not now, describe the key requirements and the plans to address the gaps.)

Yes, with the aforementioned caveat that the CMS PLS team does not have access to the corporate-approved implementations of BA&D's credit models and that CMS PLS will have to implement a version of the approved credit risk models for the purpose of evaluating sub prime PLS.

Are there any reputation risk issues, laws and/or regulations affecting the proposed business initiative that pose special concerns?

There are possibly some reputation risk issues related to investing in sub prime, but Fannie Mae already has made a decision to participate in this market and to manage the related reputation risk. We currently have approximately \$46 billion of sub prime PLS securities in our portfolio, so investing below AAA would only mean that Fannie Mae is participating in another portion of the security structure.

The Housing Goals Steering Committee is currently considering how these securities will count towards regulatory housing goals as determined by Fannie Mae's mission regulator, the Department of Housing and Urban Development (HUD).

Do we understand the appropriate accounting, financial reporting, and tax treatment for this business initiative, and do we have the ability to execute those requirements (including any impact on the allowance for loan losses, as appropriate)?

Yes. The accounting, financial reporting, and tax treatment for these securities is similar (if not identical) to the treatment for AAA-rated securities. We will notify Impairment Accounting that Capital Markets intends to begin making investments in these securities. While we anticipate no immediate impact, we nevertheless want Impairment Accounting to be aware of the higher credit risk of the securities.

PERFORMANCE MONITORING

What specific limits, constraints and review points should be associated with the proposed business initiative?

Capital Markets requests a PLS purchase limit of \$3 billion in new acquisitions through May 31, 2008 for sub prime securities rated between AA+ and A-. The PLAT will report quarterly to the Credit Risk Committee (as part of the regularly scheduled Private Label Securities Update) the status of PLS purchases below AAA. Capital Markets will notify the VP – Credit Risk Oversight, Capital Markets for the first few purchases of PLS rated below AAA. The VP – Credit Risk Oversight, Capital Markets currently attends the bi-weekly PLAT meeting, at which Capital Markets apprises the PLAT of developments in this sector. We anticipate that the VP – Credit Risk Oversight, Capital Markets will provide close and extensive oversight of this NBI.

How will we monitor the performance of the proposed business initiative and the implementation

of business and risk management requirements that have been defined in this assessment – e.g., organizational infrastructure, policies/procedures and technology/processes? (Describe the key requirements of and the plan to implement the monitoring/reporting process.)

Capital Markets will appoint a project manager to track implementation of following items:

Business and risk management

- Tracking and reporting of size of portfolio rated below AAA.
- Tracking and reporting of losses on the PLS portfolio.

Organizational infrastructure

- Appointment of individual(s) to perform AAA to A pre-purchase analytics.
- Appointment of individual(s) to perform AAA to A surveillance.

Policies

- Completion of policy changes.

Technology/processes

- Approval for implementation of credit models.
- Implementation of pre-purchase analytics form.
- Completion of procedures documenting the pre-purchase process.

EXIT STRATEGY

What is the exit strategy for this proposed business initiative if, after monitoring, it appears that the risks are no longer acceptable to the company or the business initiative does not meet return or other business expectations, and what are the appropriate criteria to determine if we should exit?

Capital Markets may at any time choose to cease purchasing these securities and/or conduct sales of purchased securities.

New Business Initiative Checklist

Sponsoring business unit and lead:	Sponsoring Unit: Capital Markets	
Product Description: <small>(including purpose, dependencies, description of any key attributes, etc.)</small>	Leads: Ramon de Castro, David Gussmann	
Risk Limits: <small>(e.g., term, volume, # lenders/issuers)</small>	Investments in tranches of sub prime private label structured securities rated AA and A	
Signature (or designee)	Approval	Approval Conditions/Comments (attach if needed)
----- Ramon de Castro Date SVP – Capital Markets Mortgage Assets (Initiative Leader) (PLAT Voting Member)	Yes <input type="checkbox"/> No <input type="checkbox"/>	
----- David Gussmann Date VP – Capital Markets Strategy (Initiative Leader) (PLAT Voting Member)	Yes <input type="checkbox"/> No <input type="checkbox"/>	
----- Peter Niculescu Date EVP – Capital Markets (Business Unit Head) (Capital Markets Business)	Yes <input type="checkbox"/> No <input type="checkbox"/>	
----- Bill Quinn Date SVP – Capital Markets Strategy (Business Unit Risk Officer) (PLAT Voting Member)	Yes <input type="checkbox"/> No <input type="checkbox"/>	
----- Steven Shen Date VP – Capital Markets Mortgage Assets (PLAT Voting Member)	Yes <input type="checkbox"/> No <input type="checkbox"/>	
----- Kin Chung Date Director – Capital Markets Strategy, PLS (PLAT Voting Member)	Yes <input type="checkbox"/> No <input type="checkbox"/>	

New Business Initiative Checklist

<p>----- Paul Weech Date VP – Housing Goals (Housing Goals Office)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Note: Contact person is Sara Feder.
<p>----- Mark Winer Date SVP – Business Analysis and Decisions (Business Analysis and Decisions)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Note: Contact person is Tarun Chopra.
<p>----- Scott Lesmes Date SVP – Deputy General Counsel (Legal)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Bill Senhauser Date SVP – Chief Compliance Officer (Compliance and Ethics)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Monte Shapiro Date SVP, Capital Markets/CRO Technology (Technology: BU Technology)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Brian Cobb Date SVP, Enterprise Systems Management (Technology: Enterprise Systems Management)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Rich McGhee Date SVP, Corporate Systems (Technology: General Business Systems)</p>	Copy Only No signoff required	Note: Signature not required because this initiative does not affect administrative systems (PeopleSoft, HR related systems, etc.)
<p>----- Luiz de Toledo Date SVP and CAO, Technology (Technology)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Scott Blackley Date SVP and CFO – Capital Markets (Chief Financial Officer)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Greg Kozich Date SVP – Accounting Operations (Controller)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	

New Business Initiative Checklist

<p>----- Greg Ramsey Date VP – Accounting Policy (Accounting Policy)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- John Gibson Date VP – Policy, Communications (Corporate Communications)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Sharon Canavan Date Director, Government Relations (Government & Industry Relations)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Mary Doyle Date SVP – Finance (Tax)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Caroline Herron Date VP, SOX Strategy & Execution (SOX)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Maria Schultz Date VP, MBS Program Office (MBS Program Office)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Lesia Bates Moss Date VP – SF Counterparty Risk Management (PLAT Voting Member)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Jon Roman Date VP – Counterparty Risk Oversight (Corporate Counterparty Risk Oversight)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	
<p>----- Mike Shaw Date SVP – Credit Risk Oversight (Credit Risk Oversight, Loss Allowance)</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p>	Note: Contact persons are Robert Bowes and Ben Perlman.

New Business Initiative Checklist

<p>----- Clinton Lively Date SVP – Market Risk Oversight (Market Risk Oversight, Model Oversight and Capital Methodology)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Note: Contact person is Scott Chastain.
<p>----- David Sykes Date VP – Model Review (Market Risk Oversight, Model Oversight)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Angela Isaac Date SVP – Operational Risk Oversight (Operations Risk Oversight)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Note: Contact person is TBD.
<p>----- Betsy Ashburn Date Chief Audit Executive (Internal Audit)</p>	Copy Only No signoff required	
<p>----- Mary Lou Christy Date SVP – Investor Relations (Investor Relations)</p>	Copy Only No signoff required	Note: Contact person is Catherine Constantinou.
<p>----- Enrico Dallavecchia Date EVP – Chief Risk Officer (Chief Risk Officer)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	
<p>----- Carolyn Groobey/Mercy Jimenez Date SVP – Corporate Strategy (Office of Corporate Strategy)</p>	Yes <input type="checkbox"/> No <input type="checkbox"/>	

**Changes to Private Label Securities Risk Policy for New Business Initiative
“Purchases of Sub Prime MBS rated AA and A”**

Added to **Responsibilities for SVP – Capital Markets Mortgage Assets, or designee:**

- * For PLS rated below AAA, receive approval from SVP – Capital Markets Strategy or designee before purchase.

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Added to **Responsibilities for SVP – Capital Markets Strategy, or designee:**

- * For PLS rated below AAA, perform a pre-purchase review and credit analysis of the PLS.
- * For PLS rated below AAA, provide a memo to the SVP – Capital Markets Mortgage Assets or designee before commitment indicating whether Capital Markets Strategy approves or declines the purchase.

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Changes to **Tolerance and Limits:**

Limit	Description	Value
Minimum ratings for purchases or wraps	PLS purchased or wrapped by Fannie Mae must have a minimum rating at the time of purchase or wrap of A-/A3 . In the event the security has two or more ratings that differ (split rating) the lowest rating will apply.	A-/A3
AA/Aa and A handle (i.e. between AA+/Aa1 and A-/A3) portfolio limit	Purchased or wrapped PLS rated AA/Aa or A are limited to a percentage of the total PLS portfolio outstanding. MH PLS are not included in the calculations for this limit. (There are no haircuts for bonds rated below AAA, so this limit applies on a gross basis.)	5%
Purchase Limit for sub prime PLS rated AA and A handle (i.e. between AA+/Aa1 and A-/A3)	Purchases of sub prime PLS rated between AA+/Aa1 and A-/A3 are limited to \$3 billion for the period May 2, 2007 to May 31, 2008.	\$3 billion

Deleted: AAA/Aa

Deleted: AAA/Aaa

Deleted: (AA/Aa PLS may be in the portfolio either due to migration from AAA/Aaa or because they were purchased/wrapped before the AAA/Aaa minimum rating was in effect.)

Deleted: AA/Aa-rated

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Deleted: Interest Only Subprime Conditions

Deleted: Subprime securities containing interest-only loans are subject to the additional eligibility requirements approved by the Risk Policy Committee (predecessor to Corporate Risk Management Committee) on August 25, 2004 and as updated from time to time.

Added to **Implementation Plan:**

ID	Action Item	Group(s)	Deadline
21.	Update procedures for pre-purchase review and surveillance (including Watch List criteria) for purchases of PLS rated below AAA.	CMS	August 2, 2007

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Added to Change Control Log:

ID	Source	Date	Issue	Notes	Results	Status
48	PLAT	5/2/2007	Changes for purchases below AAA	<ul style="list-style-type: none"> Updated responsibilities for CMS and CMMA. Added limit for purchases below AAA. 	CMS must approve purchases for below AAA. Limit of \$3 billion in purchases over the next year.	<ul style="list-style-type: none"> Pending review

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