

Pre Bd



PROPRIETARY AND CONFIDENTIAL -
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BY FANNIE MAE

Date: October 5, 2007

To: Board of Directors

From: Daniel H. Mudd

Subject: Weekly Market Update and Materials for the Board and Committee Meetings,
October 15 and 16, 2007

Weekly Summary

Index	S&P 500	S&P 500 Financials	Fannie Mae	FNM 10 yr to LIBOR	Jumbo Spreads <small>(Last available 9/21-28)</small>
Weekly Change*	1.9%	4.3%	11.05%	-0.5%	-10.23%

*As of noon 10/5.

1. Market Conditions: Liquidity is easing, though still not to pre-crisis levels. Jumbo fixed rates have tightened relative to TBA product. Jumbo lenders with portfolio capacity are offering more competitive rates, expecting that investor appetite for jumbo product will rebound sooner rather than later. Spreads on 10/20 interest-only, 40-year fixed and some other non-TBA products have shown significant improvement, but only in pools with the best quality characteristics. Equities, especially financials, rallied on expectations (misplaced, in my view) that the worst of the credit market turmoil is past. We estimate that since April, more than 51,000 jobs have been lost in the mortgage finance and housing industries, and about 150 lending operations have either gone bankrupt, been sold or halted major operations. Mortgage origination capacity lost since the downturn began totals about \$300 billion annually. Bear Stearns, Credit Suisse, Morgan Stanley and Lehman all announced cutbacks in their mortgage operations during the week. Subprime mortgage bonds created in the first half of 2007 contain loans that are going delinquent at the fastest rate ever, according to Moody's Investors Service. Rating agencies warned further downgrades on subprime and Alt-A securities are on the way. Countrywide announced a PR campaign to counter negative publicity of its subprime and servicing activities.

2. Other Events: Activity has increased on the legislative front as various bills to address subprime, provide liquidity, avoid foreclosure and regulate originators, brokers and/or the GSEs are in the air. Freddie Mac's Patricia Cook and I met with Sen. Schumer and OFHEO Director Lockhart Tuesday. The following day, the Democratic leadership of the House and Senate announced a legislative initiative to assist the housing market and subprime borrowers, including a temporary 10 percent increase in the GSE portfolio caps and increasing the loan limit. I also met with the Republican Housing & Real Estate Task Force and, separately, spoke to Reps. Barney Frank and Christopher Shays. You'll hear more about these issues at our meetings next week. Our National Housing Advisory Council meetings last week went very well. After a well-attended dinner and reception at the Capitol Tuesday, Wednesday's NHAC discussion was devoted to an open and frank dialogue about the market, how best to deal with subprime borrowers, and the challenge of reaching and counseling at-risk borrowers.

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3. Business: Monday we priced \$375 million of preferred stock to be sold in a private placement. Guaranty business continues at record levels, and HomeStay volumes continue to build. Our "Q" work — thanks to the 24/7 dedication of our Controllers, Legal and Business operations — is holding to schedule. We are staffing and reviewing progress on the knotty "Day One" issue, including modeling. Lastly, we are rolling out a revived Diversity Strategy for the company.

4. Board and Committee Meetings: I look forward to seeing you October 15 and 16 for Board and Committee meetings. Our working dinner on Monday night will feature our legislative team, who will provide an update on the current legislative environment.

In the enclosed package you will find binders for each Committee and materials for the Board meeting. Based on your positive feedback, we will continue to make computers available with internet access for your use during breaks.

Below is a summary of the schedule for Monday and Tuesday:

Monday, October 15	Nominating & Corporate Governance (12:00 - 12:50 pm) Compensation (1:00 - 2:50 pm) Risk Policy and Capital (3:00 - 4:50 pm) Audit (5:00 - 6:50 pm) Working Board Dinner (7:00 - 9:00 pm)
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Tuesday, October 16	Board Meeting w/Executive Session (7:30 am - 2:00 pm)
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We will hold our meetings at the Fannie Mae headquarters in Washington, D.C. For those of you coming from out of town, we have made reservations for you at the Four Seasons Hotel, 2800 Pennsylvania Avenue, N.W., Washington, D.C. The phone number is (202) 342-0444 and the fax number is (202) 342-1673 at the Four Seasons. Cars will transport you from the hotel to Fannie Mae.

As always, please call if you have any questions. I look forward to seeing you shortly.

Enclosures

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