Single Family Guaranty Business

Facing Strategic Crossroads
June 27, 2005

FannieMae

1. Is the housing market overheated?
2. Are consumer changes in preference for adjustable rate vs. fixed rate mortgages cyclical or secular?
3. Does Fannie Mae have a role/responsibility to stabilize the housing market?
4. Does Fannie Mae have an obligation to protect consumers?

The risk in the environment has accelerated dramatically.

- Proliferation of higher risk alternative mortgage products
- Growing concern about housing bubbles
- Growing concerns about borrowers taking on increased risks and higher debt
- Aggressive risk layering

Growth in adjustable rate mortgages (ARMs) continues at an aggressive pace.

- Extensive menu of alternatives / options
- Increasing affordability concerns
- Emphasis on lowest possible payment
- Home being utilized more like an ATM

Our competitive advantages today are in fixed rate mortgages.

We are at a strategic crossroad....

We face two stark choices:

1. Stay the Course
2. Meet the Market Where the Market Is

Stay the Course

- Maintain our strong credit discipline
- Protect the quality of our book
- Intensify our public voice on concerns
- Refrain from offering specific guidelines
- Preserve capital
- Test cyclical vs. secular

Alternatively, we could seek to ....

Meet the Market Where the Market Is

- Meet current consumer and customer demands
- Participate in volume and revenue opportunity / current growth areas
- Accept higher risk and higher volatility of earnings

Possible Implications

Stay the Course

- Lower volumes / revenues
- Slower book growth
- Continued market share decline
- Lower earnings
- Impact on key customer relationship

Meet the Market

- Higher volume / revenues
- Faster book growth
- Slow down decline in market share
- Higher credit losses
- Increased exposure to unknown risks
- Potential increased earnings volatility

Significant obstacles block our ability to pursue a "Meet the Market" strategy.

- Lack of capabilities and infrastructure
- Lack of knowledge of the credit risks
- Lack of willingness to compete with the market on price
- Lack of a value proposition for subprime
- Lack of a conduit capacity and Regulatory concerns

Realistically, we are not in a position to “Meet the Market” today.

Therefore, we recommend that we:

- Pursue a “Stay the Course” strategy and test whether current market changes are cyclical vs. secular:
  - Advocate public position
  - Be selectively opportunistic in pursuing business
  - See if consumer sentiment changes with flatter yield curve

While we:

- Dedicate resources and funding to “underground” efforts to:
  - Develop a subprime infrastructure
  - Develop modeling capabilities for alternative markets
  - Develop a conduit capability

Is there an opportunity to drive the market back to the 30-year FRM?

If we do not seriously invest in these "underground" type efforts and the market changes prove to be secular, we risk:

- Becoming a niche player
- Becoming less of a market leader
- Becoming less relevant to the secondary market

Management Team Discussion

Single Family Facts and Data

First Half Performance and Observations

Single Family Performance

Corporate Objective Goals Scorecard
Monthly Progress Report - May 2005

Maintain leadership and retain or grow our key accounts	▽
Address key competitive issues and maintain 30% MDO share	▽
Implement products and exceed target book growth of 1.75%	⬢
Increase participation in subprime	⬢
Use technology tools for process improvement and delivery preference	●
Achieve the HUD goals	●
Lead the market in minority lending and achieve targets	⬢

- Satisfactory progress with customer retention. Holding our own against FRE
- Leakage to subprime and private label continues. We lack a value proposition to stem the tide in today's market
- Book growth negative year-to-date. Negative growth is expected for the full year
- Continue to work on value proposition and proposal to enter the subprime flow market
- On track
- On track
- Loss of market share to subprime, interest only, option ARMS, attracting mission borrowers relative to our "core" products

Single Family Performance

2005 Divisional Goals ($Bil)	
Lender Channel	$383.2
Investor Channel	100.0
Dedicated Channel	16.0
Total Business Volume	**$499.2**
Book Growth	1.75%
Gross Charged Fee	27.3 bps
Credit Losses	$198 mil

Inclusive of eBusiness.

2005 HOUSING GOALS		MAY 2005 YTD ACTUAL
Low Mod (Affordable)	52.0%	55.5%
Special Affordable	22.0%	26.7%
Underserved	37.0%	41.3%
2005 SF PMM Sub Goal		
Low Mod (Affordable)	45.0%	45.48%
Special Affordable	17.0%	18.92%
Underserved	32.0%	32.49%
2005 MINORITY LENDING GOALS		
African American	5.4%	5.51%
Hispanic	11.6%	10.99%
Total Minority	24.7%	23.78%

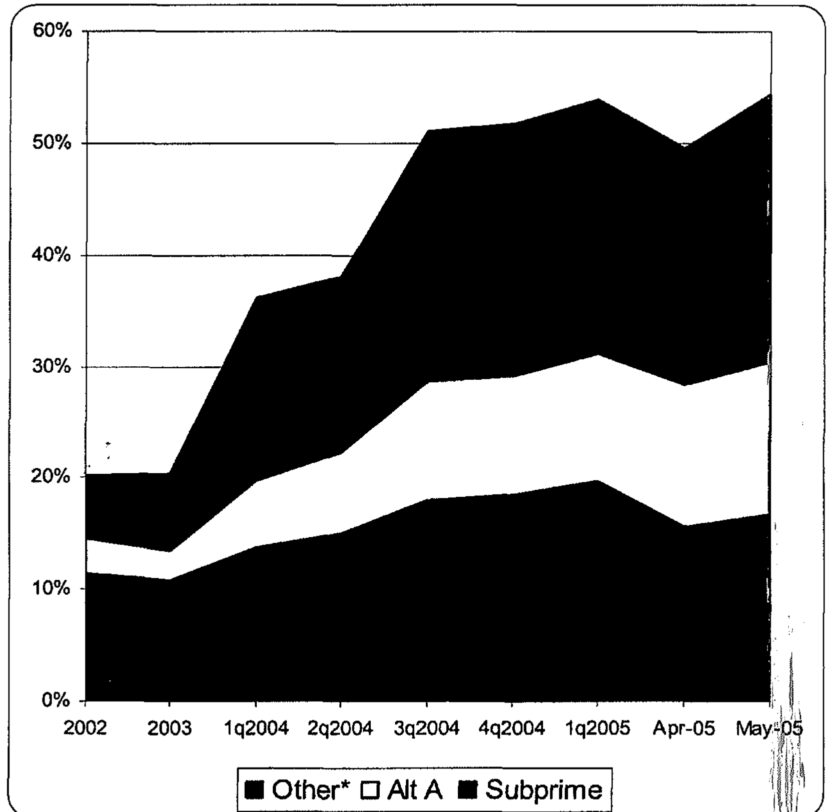
- Volume through May totaled $188 billion and was $11 billion (5.5%) behind plan
  - Full year estimate: $491 billion (Q2 forecast)
- YTD book growth (estimated): minus 1.7 percent
  - Full year estimate: minus 0.6 percent
- YTD gross charge fee vs. plan: 26.2 bps vs. 26.8 bps
- YTD credit losses vs. plan: $95.5 million vs. $55.1 million
  - Current full year estimate (6/05): $253 million

- On the housing goals front we remain ahead of targets against all goal categories
- Our minority lending results through May are behind goal for Hispanic (10.99%) and total minority (23.78%)

We continue to lose goals rich products to private label

- Much of the leakage to the private label market is from products with high minority concentrations
- The two product lines that are driving the majority of leakage to private label are Alt-A and Subprime
- In 2004, these product lines scored high relative to Fannie Mae's core products
  - Alt A: 30% total minority score
  - Subprime: 52% total minority score
- In addition, much of the Option ARM production is securitized in the private label market
  - Option ARMs: 37% estimated total minority score

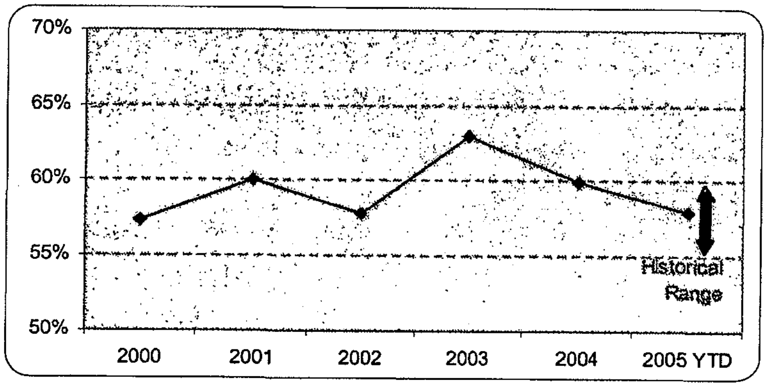
Private Label Market Shares of MBS Issuance



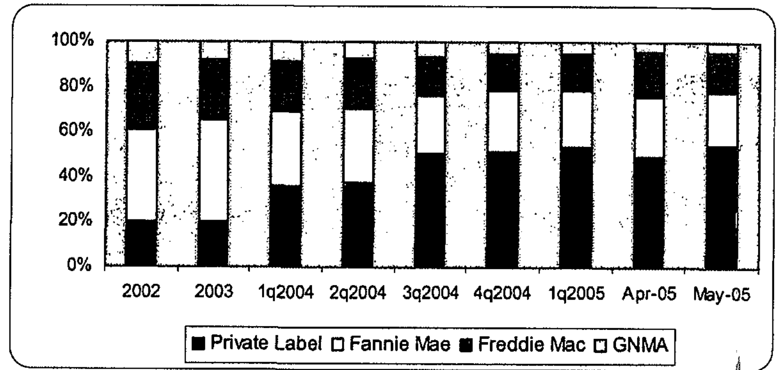
* Other includes Option Arms

Even with tough competition and widening MBS/PC price spreads, Fannie Mae has still maintained share levels versus Freddie Mac in the historical range (55% - 60%)

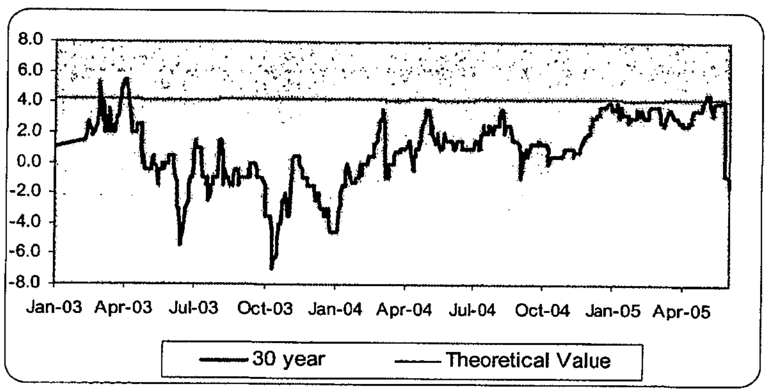
Fannie vs. Freddie



Entire Securities Market



MBS/PC Price Spreads



- Despite Fannie/Freddie price spreads being at high levels during the past 6 months, the Fannie/Freddie share has remained in the historical range
- However, both GSE's continue to see significant share loss to the private label market

Our competitive advantages in our core competencies continue to erode

1 YEAR AGO.... ⇨ TODAY....

Core Competencies

1 Year Ago	Today
Credit risk management	Our insular view prevents us from taking credit risks in areas unfamiliar to us.
Capital advantage	Our capital advantage has been lost to collateralized debt obligation issuers and hedge funds. Basel II will further erode our advantage.
Low cost producer	Our pricing is uncompetitive. According to our models, market participants today are not pricing legitimately for risks.
Customized value approach	We don't have a value proposition to compete in today's market (lack of conduit capability).
Liquidity premium	Premium still exists with respect to our 30-year TBA security; No liquidity premium for non-fixed rate product.
DU/DO Technology	DU/DO remain the leading automated underwriting systems in the market. Continued investment is required to ensure we do not lose our competitive advantages in this area.

Our public position on risk concerns has been gaining momentum

5/3/05	5/16/05	6/1/05	6/9/05
Tom Lund -- MBA Secondary Remarks captured in numerous articles.	OCC & Fed -- Issue guidance letters -- Feds warn lenders	OFHEO -- Releases home price data -- Expresses concerns	Greenspan -- Froth/Bubble

Articles of Interest *Source: Google*	# of Articles: (Jan – April)	# of Articles: (May – June 22, 2005)
■ Housing Bubble	932	1,248
■ Interest Only	315	1,213
■ Housing Affordability Concerns	86	746
■ Greenspan and Housing Concerns	187	598
■ OFHEO and Housing Concerns	12	28
■ OCC and Housing Concerns	18	17
■ Option ARMs	20	10

Since early May, we estimate that over 3,500 articles have appeared in various publications on the topics listed above. This compares with an estimated 1,200 articles on these topics in the four months prior.

Our customer's and other market participant's attitudes towards layered featured products varies across a broad spectrum

Cautious Longer Term View Constrained	Slower to Move Reluctant Follower Tighter Credit Box	Production Focused Meet the Market Move Fast
Wells Citi ABN Suntrust Wachovia HSBC USAA Irwin Community Banks Credit Unions	Chase PHH First Horizon BofA GMAC Flagstar OSB Builder Mtg Corps	CHL WaMu World Greenpoint Indy Mac Street Aggregators Independent Mtg Bankers Brokers Realtors Subprime Originators

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Fannie Mae

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The market outlook for the year continues to change, driven by lower than expected interest rates and other market dynamics

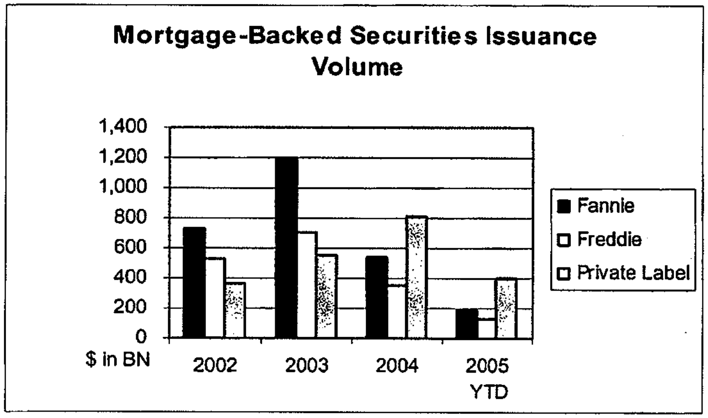
	2005 Plan	Q2 2005 Forecast
30-Year FRM	6.00%	5.64%
FRM-ARM Spread	1.35%	1.22%
SF Mortgage Originations ($Bil)	2,146	2,671
Refinance Share (% of volume)	39.5%	47.4%
ARM Share	29.2%	31.4%
SF 1st Lien MDO ($Bil)	7,704	7,923
SF 1st Lien MDO Growth	8.3%	9.8%
FNM HPI (% change from year ago)	3.4%	6.5%

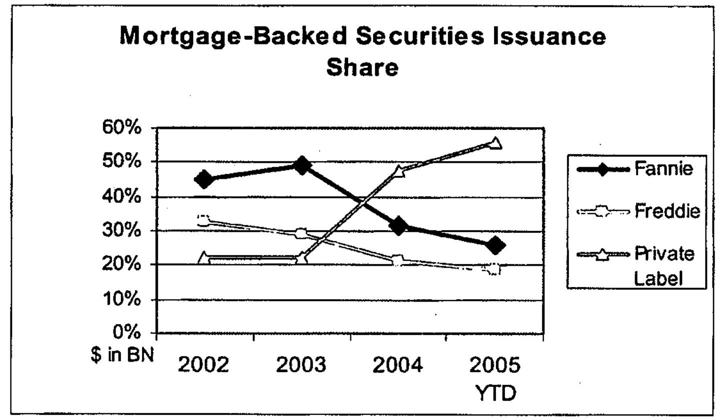
Fannie Mae 2005 Plan and Q2 2005 Forecast

Single Family Facts and Data

Private Label and Subprime Market Trends

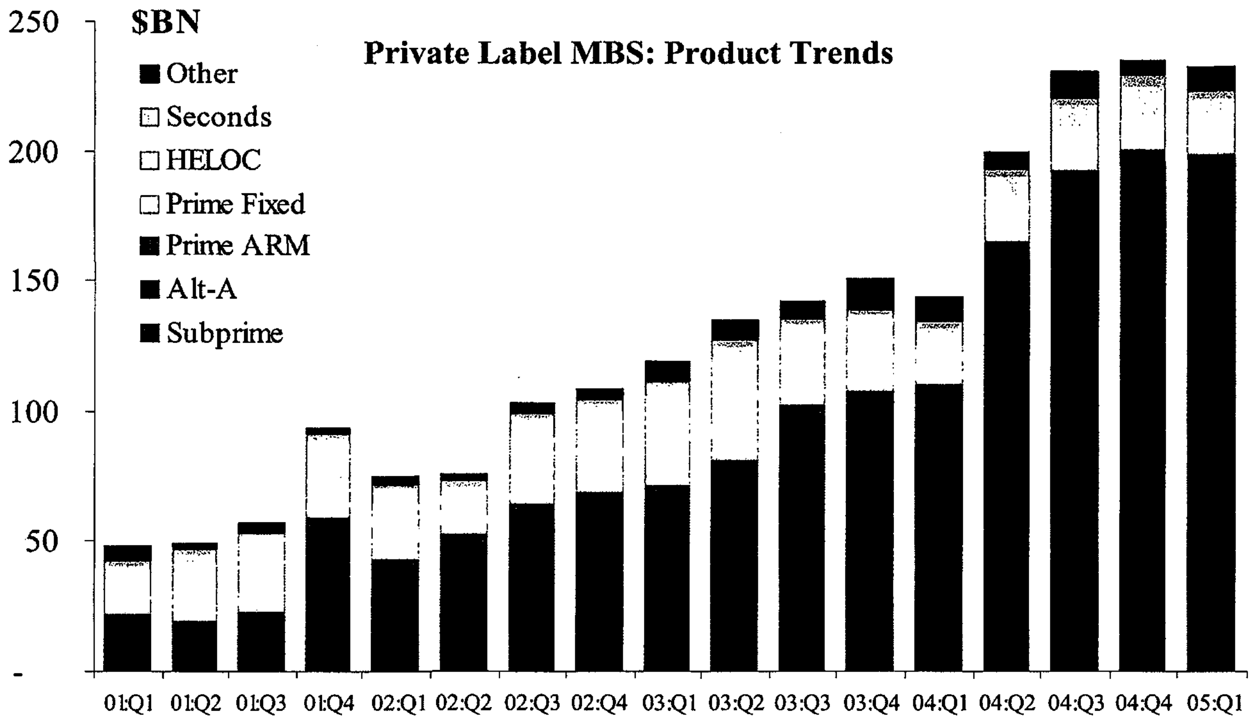
Private Label Trends





- Private label market continues to be a significant source of liquidity to lenders. $401 billion of private label securities have been issued in 2005 through May.
- In 2004, Private Label volume surpassed Fannie Mae volume for the first time, with total Private Label issuance of $809 billion versus Fannie Mae issuance of $537 billion.
- Fannie Mae is still the largest single issuer of MBS. Freddie Mac was the second largest issuer with $358 billion, and Countrywide ranked third at $114.5 billion.

Private Label Trends



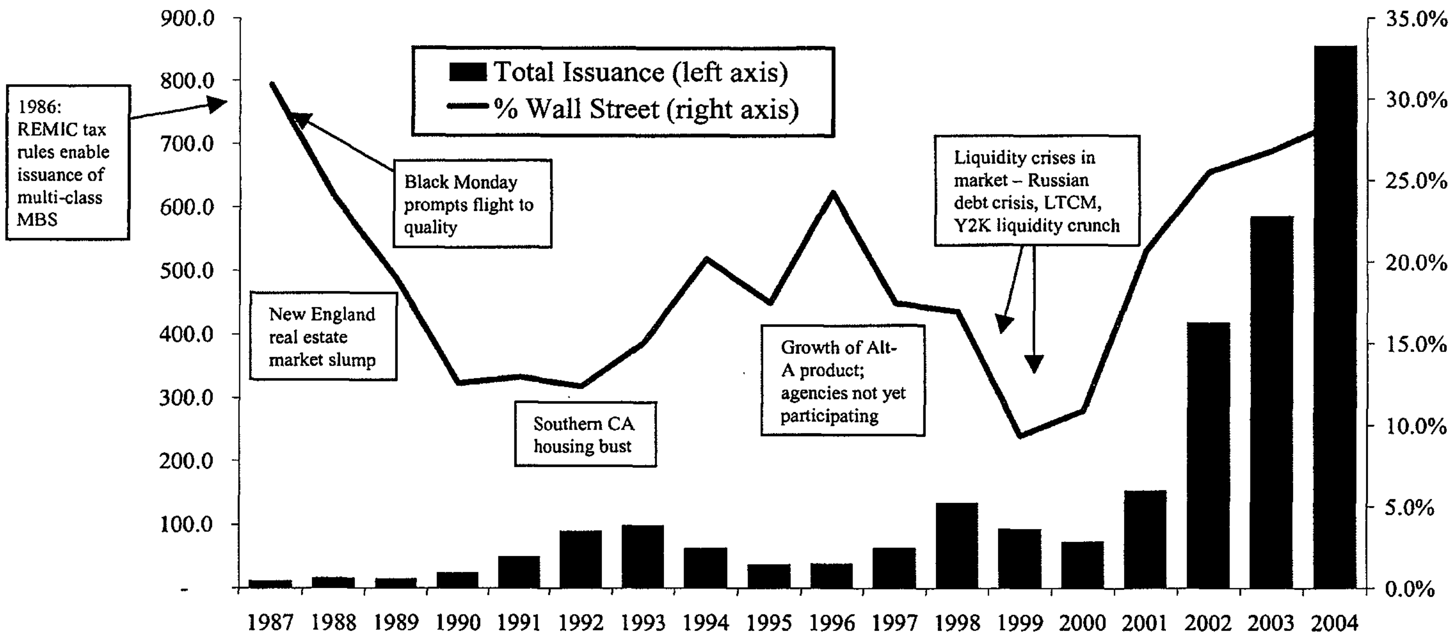
Source: Corporate Development, Inside MBS & ABS

- Growth in PL has been driven by increases in:
  - Subprime
  - Alt-A
  - ARM production
- Common theme across these products: housing affordability and flexible guidelines

Private Label Trends – Wall Street Presence

- Wall Street firms playing an increasingly large role as aggregators of mortgage product.
- Wall Street share of private label issuance has doubled in the past three years (as of 2004 year-end).
- Many Wall Street players are pursuing vertical integration to develop consistent source of product:
  - Lehman originated $43B in Correspondent and Broker originations in 2004.
  - Bear Stearns launched a Broker division in early 2005.
  - Firms making significant front end technology investments, including developing proprietary AU systems.

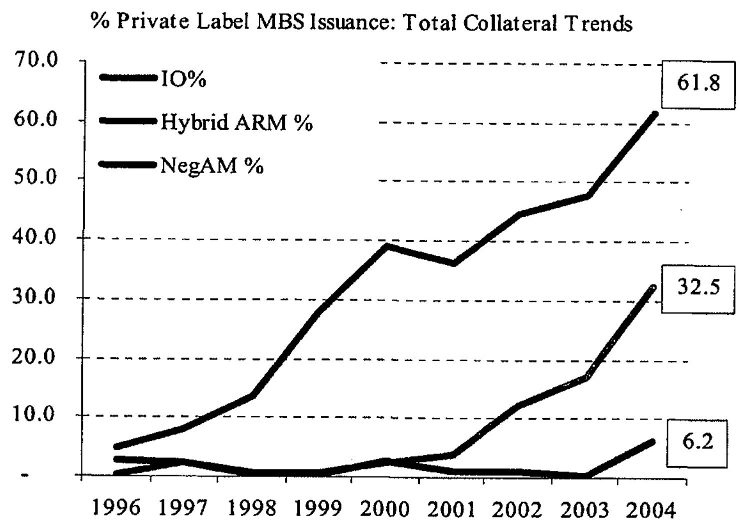
Wall Street Issuance Trends – Cyclical or Secular?

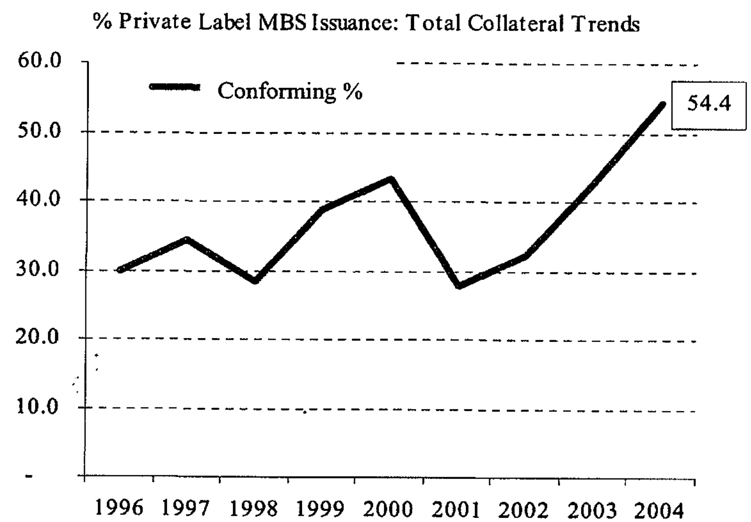


- 1999-2001 – Wall Street presence in Private Label Issuance declines during (a) the consolidation of many subprime lenders, and (b) the increased presence of the Agencies in the Alt-A market.
- 2002-2005 – Wall Street participation increases measurably; and the street indicates that they are intent on having a lasting presence.
  - "They all want to be like Lehman Brothers… Lehman has a huge pipeline and everyone's coveting it." – Subprime Lender
  - CSFB has ambitious 2005 goals and is positioning itself to continue integrating downstream – exploring acquiring a servicer in 2005. (5/05 - CSFB 9th Private Label Issuers Conference)
  - Morgan Stanley is seeking "to build a brand and a reputation" for their securitization program and to show that they are "not just an opportunistic bond shop." (4/05 – Origination News)
  - On Bear's new broker platform:"Our pitch [is] that the broker's getting capital market execution because he's dealing direct with Wall Street."

Private Label Trends – Products and Risk Appetite

- Primary market originations of products outside Fannie Mae's traditional risk appetite are on the rise. This means lenders have to turn to aggregators / private label as an outlet.





Source: UBS Mortgage Research: *Market Strategist, May 31, 2005*

- Strong growth of innovative products (Interest Only ARMs, "Pay Option" ARMs)
- Steady growth in share of Private Label market with conforming loan balances

FannieMae

Private Label Trends – Products and Risk Appetite

- Private label securities increasingly include a significant amount of conforming balance product. Reasons include:
  - Our tough anti-predatory lending guidelines preclude us from taking certain loans
  - Our risk appetite is tighter than the market's, especially regarding IO's and Option ARMs
  - Pricing / All-in execution
  - "Spillover" effect – lenders may prefer to sell product all in one place for convenience or execution reasons
  - Difficulty of hedging spread risk on ARMs: Many smaller lenders need best efforts flow execution and servicing released bids, which we don't offer with Alt-A and IO

Private Label Trends – Products and Risk Appetite

Private Label Securities Collateral Characteristics

Deals Issued April 2004 - Jan 2005

Prime Fixed & Prime ARM Deals --> *These two categories represented 27% of all private label securitizations in 2004*

	$ UPB (BB)	% Total UPB	Avg Loan Size	WA FICO	% FICO < 620	WA LTV	WA CLTV	% Investor	% Cashout	% CA	% Low/No Doc	% IO	% Option ARM
Total Collateral	116.1	100%	433,987	733	0.6%	69.1	85.6	2%	22%	48%	48%	48%	13%
Conforming Balance	22.1	19%	215,269	728	1.1%	73.3	92.5	7%	22%	26%	42%	73%	6%
Within FM Risk Appetite	20.0	17%	214,355	732	0.2%	73.1	92.4	7%	2%	25%	40%	79%	0%
Outside FM Risk Appetite	2.1	2%	225,742	683	10%	75.5	94.1	12%	42%	37%	55%	13%	60%

Alt-A Deals --> *This category represented 20% of all private label securitizations in 2004*

	$ UPB (BB)	% Total UPB	Avg Loan Size	WA FICO	% FICO < 620	WA LTV	WA CLTV	% Investor	% Cashout	% CA	% Low/No Doc	% IO	% Option ARM
Total Collateral	109.3	100%	252,548	711	1.2%	74.8	93.3	18%	30%	45%	67%	51%	12%
Conforming Balance	63.1	58%	182,392	710	1.5%	76.4	95.6	24%	28%	32%	63%	48%	11%
Within FM Risk Appetite	39.6	36%	181,273	723	0.6%	75.7	95.8	24%	21%	31%	56%	60%	0%
Outside FM Risk Appetite	23.5	22%	184,307	688	3.2%	77.5	95.3	24%	40%	34%	75%	28%	28%

Notes:
Data Source: Loan Performance database.
"Prime FRM" "Prime ARM" and "Alt-A" deal classifications are defined by the issuer as reflected in LP database.
"FM Current Risk Appetite" reflects typical FM eligiblity criteria on bulk deal business for an average customer.
Loans without reported FICO scores were excluded from the data set.
All loans are in first lien position; WA CLTV = weighted average combined LTV of first lien plus any subordinate lien(s)

Fannie Mae vs. Market View: IO & Option ARM

Countrywide Recent Bid Profile
Interest Only and Option ARMs

Collateral Profile	WAC	WAM	LTV	FICO	ACI	% Low Doc
IO ARM (Std MI)	6.00	359	79.5	727	622	79.6
Pay Option ARM (Std MI)	1.60	359	75.8	721	626	65.1

Fannie Mae vs. Rating Agencies

	IO ARM		Pay Option ARM		
	FM	S&P	FM	S&P - Old	S&P - New
AA Sizing (Fannie Stress)	7.5	3.7	8.5	5.5	6.7
B Sizing (Expected Loss)	1.8	0.4	2.2	0.6	0.8

Fannie Mae vs. MI Companies

	IO ARM	Pay Option ARM
Fannie Mae Value of CE	31.3	44.1
MI Cost for CE	18.7	28.9
MI Execution Benefit	12.6	15.2
Enhancement Levels	2.35% stop-loss, 0.55% deductible	3.85% stop-loss, 0.65% deductible

Market Pricing

	With Credit Enhancement		No Credit Enhancement	
	IO	Pay Option	IO	Pay Option
Competitive Gfee (Charge Fee)	54.0	55.0	54.0	55.0
Gross Model Fee (includes CE cost)	54.5	63.4	105.9	110.2
GAP	-0.5	-8.4	-51.9	-55.2

Notes:
Average Investor Channel charge fee for IO product is 49 bps
Pay Option charge fees reflect recent Countrywide bids vs. private label market.
Freddie Mac recently offered WAMU a mid-30's gfee for high quality Option ARMs

- Fannie Mae's view of risk is significantly different than other market participants
- S&P recently came out with more punitive criteria for Option ARMs
- MI companies price the expected and stress loss levels differently than Fannie Mae
- We need to obtain credit enhancement on the entire loan pool in order to achieve relatively gap neutral model fees

Fannie Mae vs. Market View: Subprime

Countrywide Recent Bid Profile
Subprime Market

Collateral Profile	WAC	WAM	LTV	FICO	ACI	DTI
ARM (Charter MI)	7.1	359	78.3	604	561	41.1

Fannie Mae v.s. Rating Agencies

	Subprime	
	FM	S&P
AA Sizing (Fannie Stress)	12.0	12.6
B Sizing (Expected Loss)	3.1	2.0

Fannie Mae v.s. MI Company

	Subprime with Deep CE
Fannie Mae Value of CE	176.0
MI Cost for CE	101.0
MI Execution Benefit	75.0
Enhancement Levels	15.0% stop-loss, 1.50% deductible, Charter Primary

Competitive Alternatives

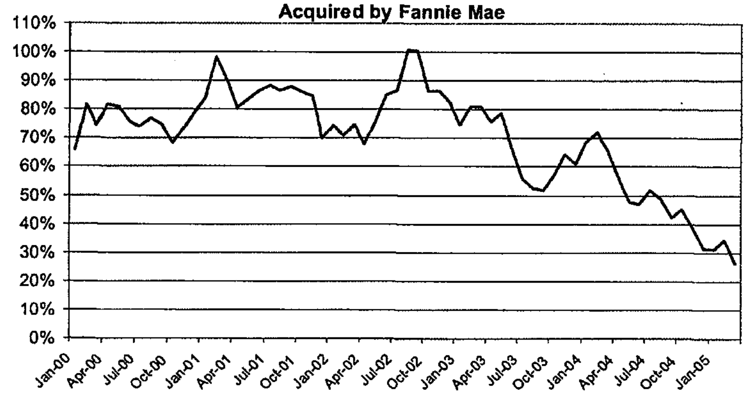
	Subprime	
	With Deep CE	With Charter Min MI Only
Competitive Gfee	130.0	130.0
Gross Model Fee (includes CE cost)	195.0	277.0
GAP	-65.0	-147.0

- Our view of risk for subprime product is more in line with Rating Agencies
- MI companies price the expected and stress loss levels differently than Fannie Mae
- Our execution still significantly off current market levels – market competitive g-fees would result in significant negative gap, even with credit enhancement

Private Label Trends – Products and Risk Appetite

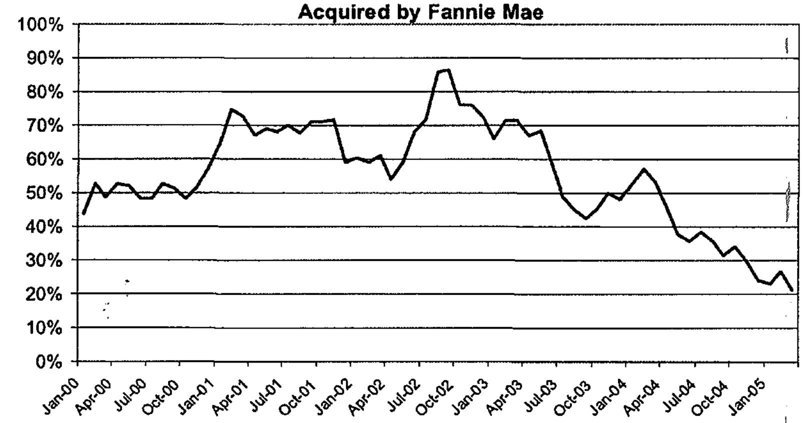
- This trend is increasingly costing us business with our largest customer:

Share of Countrywide's Prime Conventional Monthly Mortgage Fundings Acquired by Fannie Mae



[1]Fannie Mae acquisitions of conventional, first-lien mortgages from Countrywide as a share of Countrywide fundings of prime, conventional, first-lien mortgages.

Share of Countrywide's Total Monthly Mortgage Fundings Acquired by Fannie Mae



[2]Fannie Mae acquisitions of mortgages from Countrywide as a share of Countrywide mortgage fundings.

Private Label Trends – Products and Risk Appetite

Countrywide Loan Production
Q1-2005
$ in millions

PRODUCT	Total Countrywide Loan Production	% Total Production	$ UPB Sold to Fannie	% Sold to Fannie
30 FRM	$11,218	38.9%	$5,354	47.7%
15 FRM	2,985	10.3%	2,379	79.7%
FRM ALT-A	4,340	15.0%	646	14.9%
AMORTIZING ARM ALT-A	600	2.1%	403	67.2%
INTEREST ONLY ARM	2,811	9.7%	1,920	68.3%
PAY OPTION ARM	6,889	23.9%	-	0.0%
TOTAL PRODUCTION	$28,843	100.0%	$10,702	37.1%

Pay Option ARM Drill Down
Potential Eligibility Criteria

Pay Option	Tight Eligibility Bucket	Broader Eligibility Bucket	Not Eligible
Total UPB	$2,412	$5,670	$1,219
% Investor	22.1	21.6	30.3
% Cashout	38.9	41.8	44.1
% Single-Family	79.8	79.7	69.3
% Full Doc	46.1	36.1	33.6
% with Subordinate Liens	21.2	23.3	27.6
wa Debt Ratio	35.4	35.6	45.0
wa FICO	744.1	721.4	669.1
wa MTMLTV	70.7	73.1	78.3
CreditWorks Model Fee	76	101	219
Gross Model if Credit Enhanced	52	62	n/a
Est Market Price (Charge Fee)	25	50	55

Notes:

- Does not include subprime, second, or government loans.
- Eligibility buckets reflect potential offering to Countrywide for Option ARM product under a forward commitment.
- Tight eligibility bucket could be extended to other lenders on a bulk basis.
- "Not Eligible" category on Option ARMs reflects loans outside our credit risk appetite and/or borrower appropriateness framework.
- Debt ratio (back ratio) estimated from a one-month sample and only includes Full Doc loans.
- Countrywide data file did not include loans sold to Freddie; figures are grossed up assuming a 20% FR share based on Q1 actuals.

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Fannie Mae

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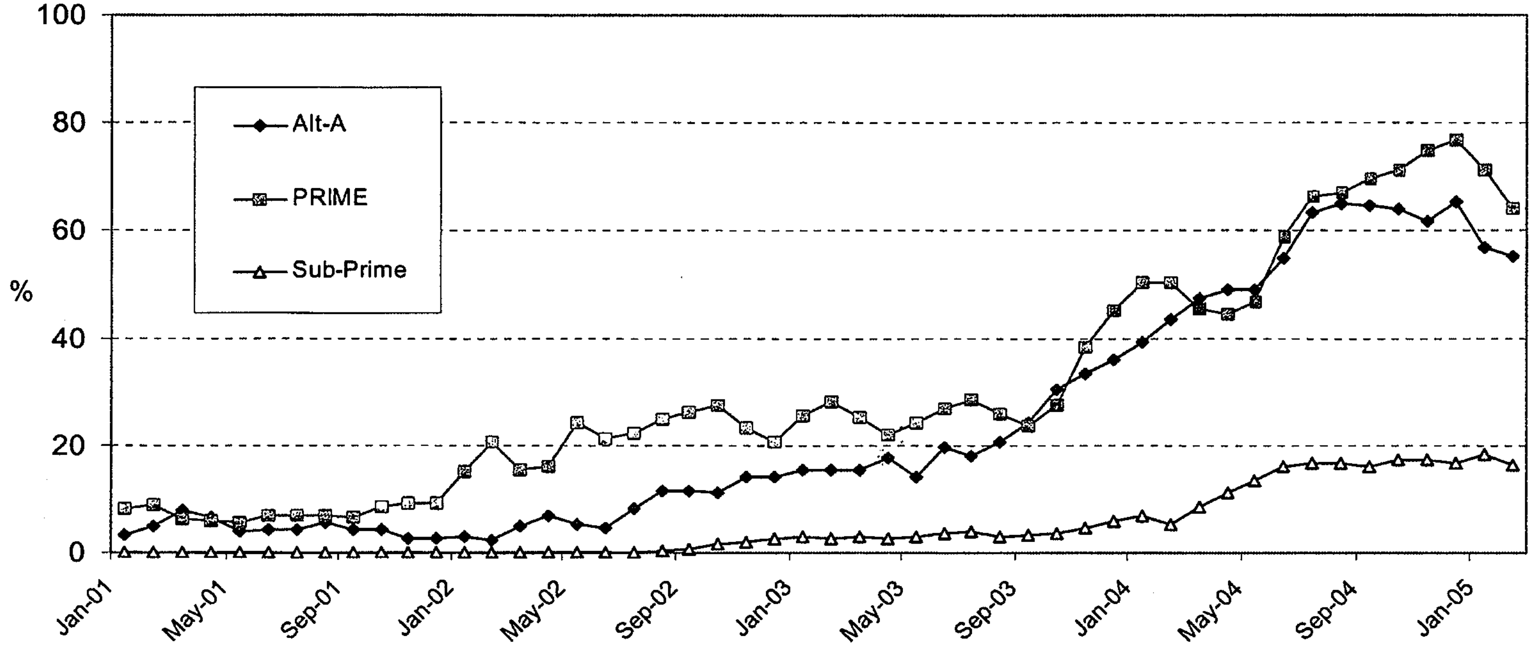
Interest Only / Option ARMs Dominate Prime & Alt-A Private Label Deals

IO/ Option ARM Share of Private Label Deals



Source: UBS Mortgage Research 6-7-05 Mortgage Strategist

Many of the current products in the market today provide for a low payment with increased payment shock over time

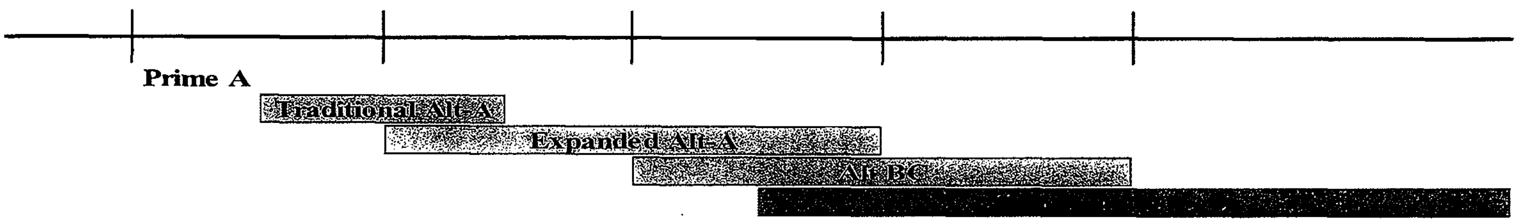
Loan Type	Start Rate	P & I Payment (Initial)	P & I Payment (First Adjustment)	P & I Payment (Maximum Adjustment)	Qualifying Max. Loan Amount
Option ARM (w/ Neg. Amortization)	1.00%	$125	$876	$1,912	$285,714
3/1 IO ARM	5.00%	$625	$904	$1,436	$300,000
5/1 IO ARM	5.13%	$641	$992	$1,376	$292,683
30-Yr. Fixed Rate (w/ 2/1 buydown)	4.25%	$738	$826	$916	$254,096
30-Yr. IO Fixed Rate	6.00%	$750	$1,266	$1,266	$250,000
5/30 IO (35-Yr.)	6.13%	$766	$911	$911	$244,898
40-Yr. Fixed Rate	5.75%	$799	$799	$799	$234,571
5/1 ARM	5.00%	$805	$900	$1,252	$232,852
30-Yr. Fixed Rate (Approve)	5.63%	$863	$863	$863	$217,143

Assumptions: a) $150K loan amount. b) Start Rates based on posted lender pricing. Rates at adjustment assume current index value for the loan type. Option ARM teaser rate of 1% on IO fixed for one year, then moves to 5.25% until first rate adjustment. c) Qualifying max loan amount for all loan types assumes the borrower made $60K and utilizes a 25% qualifying ratio. d) Option ARM qualifying rate of 5.25%. All other loan types qualified at starting payment rate.

Subprime Market Trends

- Market is evolving into a product continuum

($ in Millions)



- Trends towards integration of prime and subprime players:
  - New Century/RBC Acquisition in May 2005
  - Countrywide #1 issuer of subprime and Alt A; #3 issuer in Prime ARM securities in 2004
  - Ameriquest making significant marketing efforts aimed at broad customer base
  - To date, we have not seen any players integrate platform and sales process
- Profit margins in subprime shrinking but are still significantly higher than for prime mortgages

Subprime Market Trends

Key Drivers of Growth in Subprime:

- Broker driven sales process:
  - Subprime generates higher margins and more approvals
- Greater flexibility results in borrower ability to qualify for larger loan:
  - Calculation of income (subprime more flexible on income sources)
  - Higher debt ratios
  - Appraisal values (subprime typically exhibits higher appraisal bias)
- Mortgage Insurance Avoidance:
  - Subprime lenders moving up the credit spectrum results in higher LTV's
  - For marginal borrowers, a subprime loan often costs less than a conventional loan once the MI payment is factored in
- Ability of lenders to transfer risk to capital markets / monetize entire cash flow stream:
  - Strong CDO demand for subordinate bonds means lenders have a steady investor source for riskiest credit
  - Ability to sell off residual cash flows in form of Net Interest Margin (NIM) bonds means lenders can realize more proceeds upfront and reduce exposure to future income fluctuations

Single Family Facts and Data

Home Price Growth and Credit Concerns

Home Price Growth Remains Strong

Region	Annualized HP Growth from TB-RTI* up to 2005Q1		
	Last 1 yr	Last 2 yrs	Last 5 yrs
West South Central	4.7%	3.7%	3.4%
West North Central	6.4%	6.3%	7.3%
East South Central	6.6%	5.3%	3.7%
East North Central	6.8%	5.9%	5.4%
New England	10.9%	10.9%	12.3%
Middle Atlantic	14.6%	13.9%	12.3%
Mountain	22.5%	16.8%	9.4%
South Atlantic	22.7%	17.7%	11.8%
Pacific	22.8%	21.3%	15.5%
US	14.6%	12.7%	9.9%

*TB-RTI: A new home price index estimation methodology that uses data only from purchase transactions.

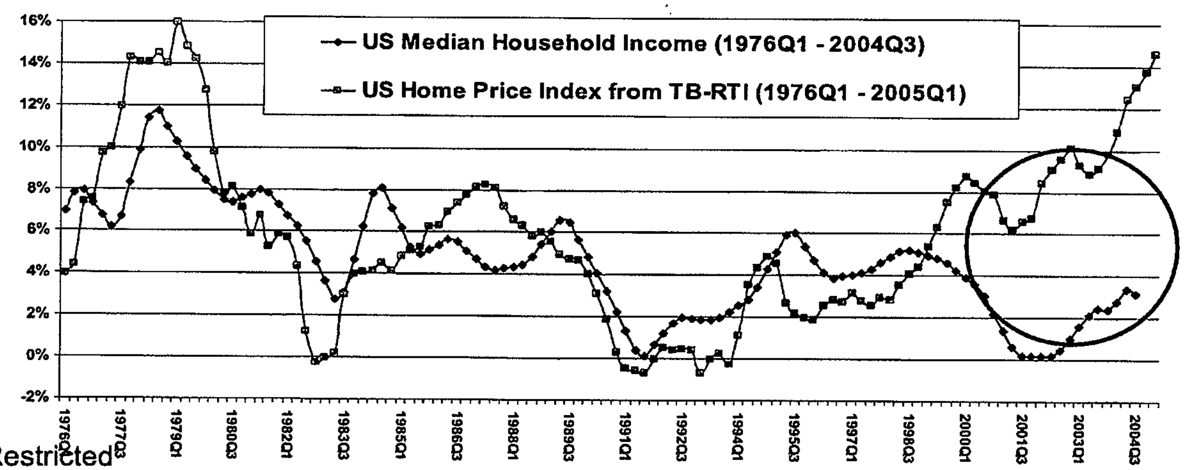
US Housing Market continues with its recent trend:

- High growth rate and high dispersion across geographic locations
- Some observed slowing of growth rates (Southern CA, Las Vegas), but most remain above long-term trend

Home price growth has significantly outpaced income growth:

- Affordability is at historical lows in some markets

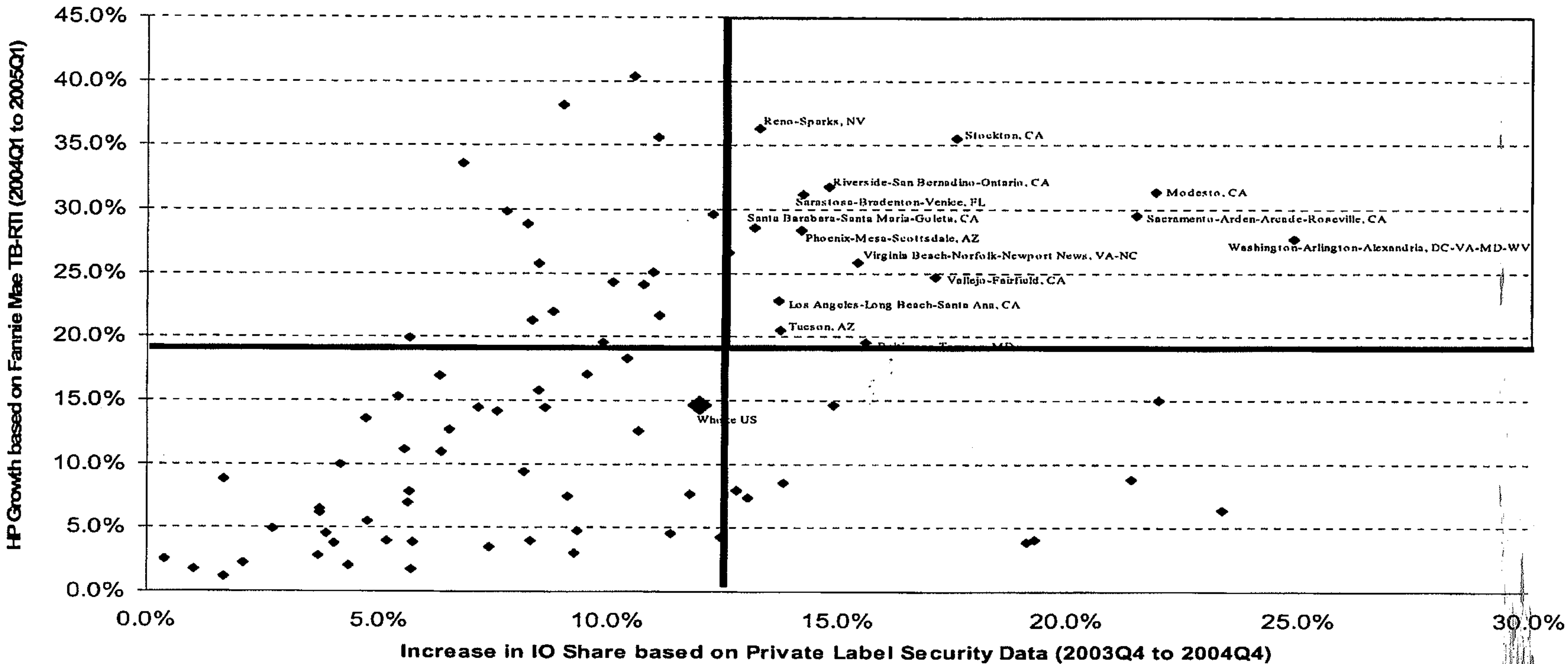
US Income Growth vs. Home Price Growth



Local Market Focus – I/O Share

- Many of the MSAs that experienced a high annual IO share increase (in excess of 13%) were MSAs that also experienced high home price growth (in excess of 19%) in the last year.

Increase in Interest-Only (IO) Share Vs. HP Growth
among top 100 MSAs

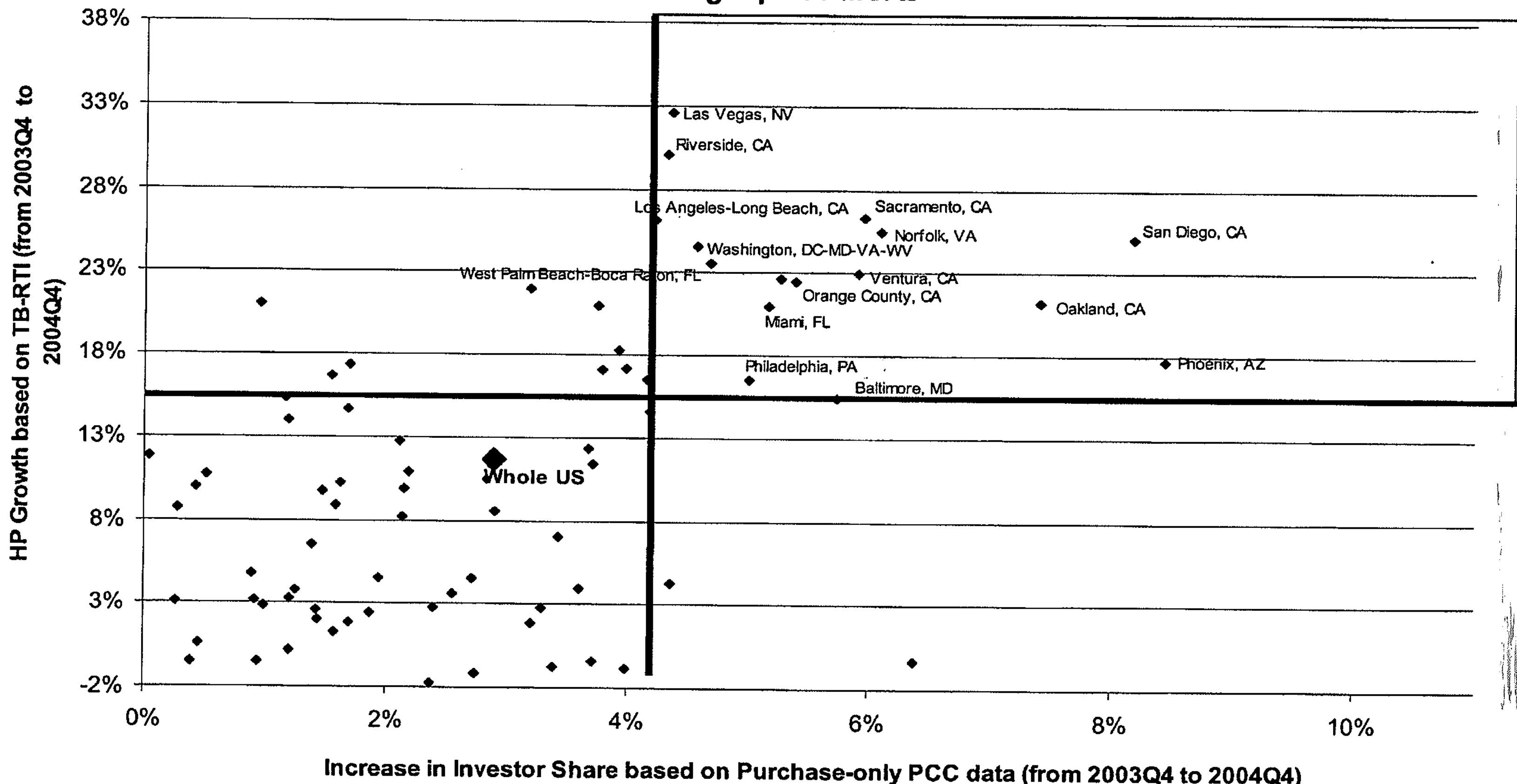


Source: Private Label Purchase Loan Dataset (Economics and Mortgage Market Analysis) & Credit Finance

Local Market Focus – Investor Share

- During the last year, many of the MSAs that experienced a high annual increase in investor share (in excess of 4%) were MSAs that also experienced high home price growth (in excess of 15%).

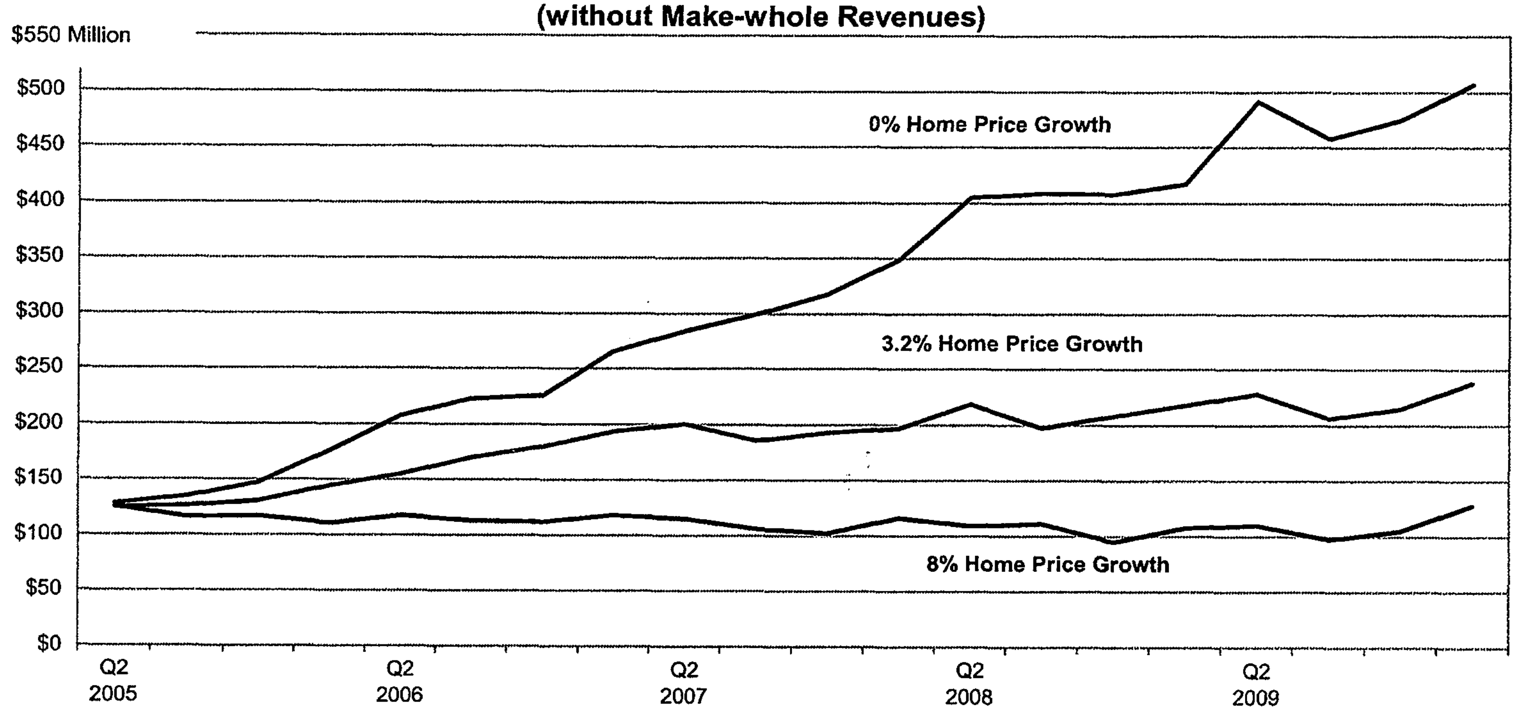
Increase in Investor Share vs. HP Growth among top 100 MSAs



Source: Purchase only PCC data (Economics and Mortgage Market Analysis) & Credit Finance

High home price growth tends to reduce credit losses

Forecasted Credit Losses Under Alternative National Home Price Growth Scenarios (without Make-whole Revenues)



Source: 2005Q2 Loss Forecast Model (LFM) production runs.
All loss figures are as of default date and include charge-off, foreclosed property expense, and foregone interest.

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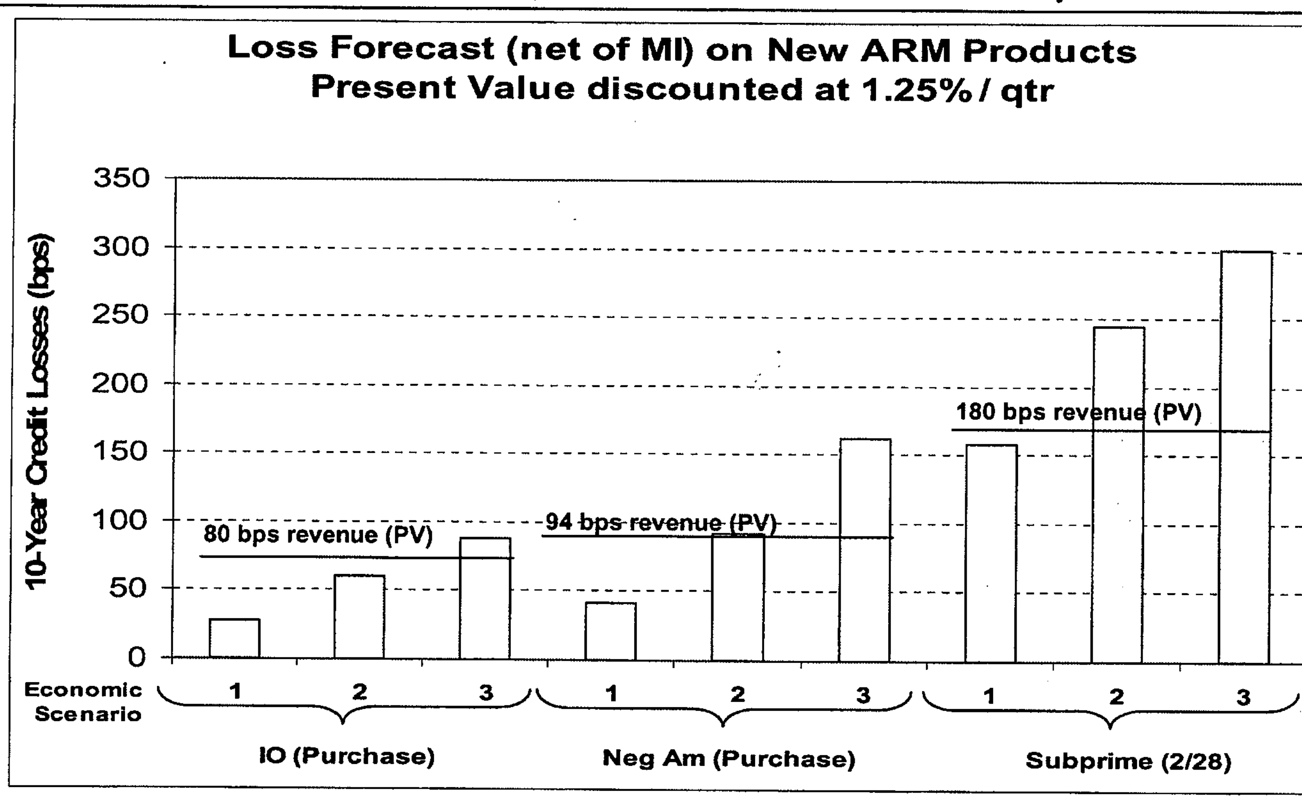
Fannie Mae

FM-COGR_00088783

Credit losses on new ARM products would vary under different economic scenarios

Losses were forecast on new ARMs in three different economic scenarios:

1. Corporate Forecast: House prices up 3-4% annually, interest rates up 1% in 1st 5-years
2. Housing Recession in overpriced regions, interest rates increase 1.1% in 1st 5-years
3. Housing Recession in overpriced regions, interest rates increase 5% in 1st 5-years



Single Family Facts and Data

Emerging Products and Product Definitions

Emerging Products: Market View and Fannie Mae Participation

	2003				
	ARM (Share of $ Volume)	Low & No Doc (Share of $ Volume)	Investor (Share of $ Volume)	2nd Home (Share of $ Volume)	IO ARMs (Share of $ Volume)
Prime Conventional Conforming	18.2%	16.7%	6.5%	5.1%	NA
Subprime	80.6%	42.8%	7.2%	1.3%	9.1%
Alt-A	44.0%	65.0%	18.1%	3.9%	25.1%
FNM Participation	13.9%	8.5%	5.5%	5.5%	**1.1%**
% FNM Participation via Inv. Chan	28.7%	77.7%	26.2%	9.0%	47.7%

	2004				
	ARM (Share of $ Volume)	Low & No Doc (Share of $ Volume)	Investor (Share of $ Volume)	2nd Home (Share of $ Volume)	IO ARMs (Share of $ Volume)
Prime Conventional Conforming	30.8%	22.3%	8.1%	6.5%	NA
Subprime	88.1%	44.8%	7.5%	1.5%	23.9%
Alt-A	71.1%	57.6%	18.2%	4.7%	50.3%
FNM Participation	24.9%	10.1%	5.6%	7.0%	**7.6%**
% FNM Participation via Inv. Chan	33.6%	80.6%	40.9%	14.8%	71.7%

In 2003, IO ARMs accounted for just 1.1% of FNM's purchase money mortgage acquisitions. In 2004, they accounted for 7.6%

Source: Economics and Mortgage Market Analysis using Loan Performance.

- Shares of ARMs, Investor and Low Doc products have increased from 2003 to 2004 as measured by purchase money mortgage originations.
  - FNM product shares of ARM, I/O, Low Doc are trailing behind market share.
  - Investor Channel is driving I/O and Low Doc volume.
- Alt A and Subprime are more concentrated in these products.

Product Definitions

- **Interest Only** - A mortgage in which the borrower makes monthly payments for a specified period that cover only the interest due on the loan. During the Interest Only period, the outstanding principal balance of the loan does not decline. After the initial interest only period, the monthly payment is increased to an amount sufficient to fully amortize the outstanding balance over the remaining term of the loan.

- **Hybrid ARM** - A mortgage loan that has an initial fixed rate period, after which the mortgage loan converts to an adjustable rate. An example of a Hybrid ARM is a 2/28 mortgage loan. This is a 30 year adjustable mortgage program, except that the first interest rate adjustment does not occur until 2 years into the loan. Once the loan converts to an ARM, the interest rate adjusts periodically (typically monthly, semi-annually or annually) based on a particular interest rate index (e.g., LIBOR, 1-Yr Treasury).

- **Negative Amortization Adjustable-Rate Mortgage (Neg Am)** - An adjustable rate mortgage that provides for a fixed monthly payment even if the interest rate on the loan changes. Typically, the interest rate on a neg am loan adjust monthly, while the payment stays fixed for a year. If the interest rate increases in a given month such that the monthly payment is insufficient to cover both principal and interest then due, the interest shortage is added to the unpaid principal balance of the mortgage to create "negative" amortization. Most neg am loans have a cap on the maximum amount that can be added to the loan balance over the life of the loan.

- **Option ARM** - An adjustable rate mortgage that gives the borrower various payment options each month. In a typical Option ARM, borrowers have the option to make a minimum payment, which could result in negative amortization if the minimum payment is not enough to cover interest due (similar to the minimum payment on a credit card). They also have the option to make interest-only payments or fully amortizing payments. The expanded payment options give the borrower more leeway to qualify for a mortgage. The 12 month Treasury Average (MTA) is the most common index used with option ARM loans; however, some lenders also offer LIBOR, the 1-Year Treasury Bill, and the 11th District Cost of Funds (COFI) as indices.

From: David A Andrukonis
Sent: Wednesday, September 8, 2004 9:26 AM
To: Mike May
Subject: Re: No Income/No Asset(NINA) Mortgages

Mike,

At last week's risk management meeting I mentioned that I had reached my own conclusion on this product from a reputation risk perspective. I said that I thought you and/or Bob Tsien had the responsibility to bring the business recommendation to Dick, who was going to make the decision. Marty and Patti asked me what it meant that I opposed this product. I said that my job was to speak out to Dick and then to the Board if I thought we were in the wrong place on business or reputation risk. I think of this letter as comparable to the one Don B sent Paul. What I want Dick to know is that he can approve of us doing these loans, but it will be against my recommendation. I wouldn't be surprised if he disagrees with my conclusion. The "as soon as practicable" phrase was to reflect the fact that business realities may dictate the timing of our action, even if you agree with my position. I think I would wait for the business if it were a line we were contemplating entering. But since we've been in this one for some time, I think I should speak as soon as I reach a conclusion. In writing it I actually felt more like I was late. Let's talk.

DA

Mike May
09/07/2004 06:43 PM
To: David A Andrukonis[redacted]
cc:
Subject: Re: No Income/No Asset(NINA) Mortgages

Wow.

This seems a bit premature. I am not sure what you are trying to accomplish......I would have expected you to wait until we had made a decision and a firm recommendation and then perform an oversight role on that decision.

I will call you and discuss this when we both have a chance.

Mike May
Mortgage Sourcing, Operations and Funding
Committed to Integration and Execution
Office: [redacted]
Fax: [redacted]
Cell: [redacted]

David A Andrukonis
Sent by: Donna L Cogswell

09/07/2004 04:41 PM
To: Dick Syron[redacted] Mike May[redacted] Robert Tsien[redacted] Patricia Cook[redacted] Clarke D Campe[redacted] Susan W Gates[redacted]
cc: David A Andrukonis[redacted]
Subject: No Income/No Asset(NINA) Mortgages

The purpose of this e-mail is to document my recommendation regarding NINA mortgages. I've come to my conclusion after studying data from three major lenders and comparing notes with other risk managers in the industry. Mike May and Bob Tsien are working to get this issue before you formally in the near future.

Recommendation

Freddie Mac should withdraw from the NINA market as soon as practicable. Our presence in this market is inconsistent with a mission-centered company and creates too much reputation risk for the firm.

Background

The NINA mortgage was created over 20 years ago as a way of serving borrowers with inconsistent income patterns (actors, the self employed, etc.) but strong credit profiles and downpayments. In addition, the product served borrowers who, for whatever reason, did not want to report their income. Over time, other mortgage products and underwriting practices evolved, making NINA mortgages less common. Specifically, Freddie Mac's Loan Prospector and other automated underwriting services began to recognize that income was less predictive of default than previously thought, and consequently traditional guidelines around housing expense to income ratios were eased. Other mortgage products, such as stated income/stated asset (SISA) mortgages, arose that accommodated borrowers who didn't want to be hassled with providing their income.

The NINA product we are being sold today differs substantially in the niche it is trying to reach. Today's NINA appears to target borrowers who would have trouble qualifying for a mortgage if their financial position were adequately disclosed. The best evidence of this is the first year delinquency rates on these mortgages, which range from 8 to 13%, depending on the lender. We conducted a quality control review of NINA loan files and found that nearly two-thirds of the time a spouse was dropped from the note. This means that the borrower with the weaker credit score was probably not adequately considered in the underwriting process. Our underwriting system uses credit data from both spouses, when available, because we have found the weaker borrower to be predictive of default. Typically, borderline borrowers need both incomes to meet minimum income thresholds. However, since, by definition, NINA mortgage underwriting ignores income, originators can advise spouses with weaker credit to only include the stronger of the two borrowers on the application.

An additional problem with these mortgages is that it appears they are disproportionately targeted towards Hispanics. The potential for the perception and the reality of predatory lending with this product is great. In 2003, 5.5% of Freddie Mac single-family loans were made to Hispanics. This compares with 18% of the NINA type loans we sampled that went to Hispanics.

The HMDA data paint a similar picture with 16% of no income documentation loans going to Hispanics, versus 10% of total conforming mortgages.

Exiting the NINA market would be difficult and expensive, but there is also an opportunity. Certainly lenders would criticize us because our withdrawal might affect their margins on this business. Freddie Mac would also stand to lose $25 to 50 million in annual profits. Finally, since NINA loans are minority rich, it will make it even more difficult to match the private market level of minority and underserved mortgage production.

On the other hand, what better way to highlight our sense of mission than to walk away from profitable business because it hurts the borrowers we are trying to serve? What better way to highlight the problem with linking the assessment of our progress to hitting the HMDA data? In my judgment, matching the market's production of underserved and minority borrowers will require us to engage in market practices that are at odds with our charter if it requires us to make a market in NINA mortgages.

From: Mudd, Daniel H [redacted]
Sent: Tuesday, July 17, 2007 6:57 AM
To: Dallavecchia, Enrico [redacted]
Subject: RE: Budget 2008 and strategic investments

My experience is that email is not a very good venue for conversation, venting, or negotiating. If you feel you have been dealt with in bad faith, address it man to man, unless you really want me to be the one to carry messages for you to your peers--- and they are peers. If you feel the process is not working, you know my door, telephone and house are open to you. I am not aware that you have sought to do so on this topic.

If there is any data in the company, you as a senior person, who is supposed to be able to see the top risks and goals of the company, are not privy to, let me know, you will have it---- to make decisions, but not to negotiate for your group or against any other. And of course, you may say anything you believe to be true, at any time, to anyone on the Board or anywhere else. And I believe it is innaccouate for you to suggest anyone expressed a view that there are enough resources for anyone to do everything necessary for the plan. Resources are tight. Everyone has cuts.

Please come and see me today face to face.

-----Original Message-----
From: Dallavecchia, Enrico
Sent: Monday, July 16, 2007 10:15 PM
To: Mudd, Daniel H
Subject: Budget 2008 and strategic investments

Dan, see the email below to Mike.

In a nutshell, I am very upset as I had to stand at the Board meeting today and hear that we have the will and the money to change our culture and support taking more credit risk. This is not evidenced in the proposal to cut my budget in 2008 by 16pct (sixteen) after in 2007 with reorganizations and consolidation I cut headcount by 25pct (and budget probably over 20pct).

My main concerns are:

1. I am given a number from Steve without any consultation with me or my people on what we did this year and what we need next year (indipendent from the new strategic plan). I wasn't treated like this even when I was three level downs from the CEO.

2. I have no visibility on the rest of the company, on the trends in the last 3 years (CRO is about 33mm additional budgets, who else is spending the other 470mm from three years ago when revenues have been growing single digit, and in some business they have been down for the past 3 yrs). if I am a member of the management team I should have a say (not only visibility, which I also don't ave) on how and where we cut, otherwise it is a travesty that I work for you, I may as well work for Rob or Mike.

3. It was inappropriate what was said today to the Board as if I had all the necessary means and budget to act on the strategic plan. I do not even think that with what I was given for 2008 is adequate for the current risk, considering how far we already are from adequate market practices. I had no part in some Board members asking questions on having the means to execute, but I cannot let the impression stand, as my credibility and reputation with them will be at stake.

4. I am more than anything very upset because I thought I had joined a team and I realize I am in the usual place where people smile and act nicely but they keep running the company as they always did. I can only infer malice from some of your directs when we come from the control history we have as a company, and when they are fully aware that CRO is in full build up mode, that I took leadership not only in cutting expenses for CRO but for the whole risk discipline this year, and that I have been saying that we are not even close to have proper control processes for credit, market and operational risk. I get a 16pct budget cut. Do I look so stupid? And if they didn't act with malice, I would propose that maybe they don't get how you run budget custs.

please tell your directs (Mike, and Rob) to spare me the story about 'this is only the first cut, it is a proposal, tell us what you need by all means'. I went through many cost cutting and I did many too, I have been in some of the most politicized companies in banking, I did cutthroath merger, tell them to spare me the story, they already lost much of my respect, they don't want to lose all of it.

For the two of us we need a heart to heart conversation when we meet on Thursday. I am sure you have not seen these figures or approved them and that you would never hand me a budget cut, even minimal, without sitting down with me and discussing what I think is necessary to run CRO and risk ingeneral for the company.

In the meantime I ask that you make sure we stay way clear from the comments made today about having the budget and the will to execute this strategic plan, because the last think I want is to be forced to say that I disagree and embarass you in front of the Board.

Enrico Dallavecchia
[redacted]

-----Original Message-----
From: Dallavecchia, Enrico
Sent: Monday, July 16, 2007 09:33 PM Eastern Standard Time
To: Williams, Michael (COO)
Subject: RE:

Mike, I got no say and no input in building of the budget I was given. And I can only assume tha those that built it were knowledgeable of the build up state of CRO and of the fact that last year CRO took a 25pct headcount reduction, when the company avererage 10pct (and I am not even counting Andy Leonard reductions or those done in Single Family, all work that we took to increase efficiency).

Doing the budget for nxt year off my forecast and with a 16pct further reduction in budget is at best being ill informed or maybe I sdue to malice. I find it offesive to my intelligence and that of my staff

The company has one of the weakest control processes I ever witness in my career. We have barely started to work on it, we took significant costs out of the company while during our job and we still get a 16pct reduction this year?

This tells me that people don't care about the function or they don't get it. I sat tight today at the Board meeting when representations were made after some Board members asked about the funding of the new strategy that we have it. This is inconsistent with the cuts I did last year and the cuts I am asked to make. And we have not even address taking more credit risk.

I can't let the Board think that CRO is showered with money, not with what we spent this year and certainly not with what I have got as budget for next year. This is even before we consider what needs to be done to take more credit risk. What do you think it is going to be, adding 3 people in CRO and run up a fee billions of revenues?

This company really doesn't get it, we are not even current and we are already back to the old days of scraping on controls and people can can set up proper controls to reduce expenses.

And giving me a number to ask for pushback it is treating me liike a child or a second class citizen.

I cannot convey in writing my disappointment on this whole situation, I expected better from this company. This is a very sad day.

Enrico Dallavecchia
[redacted]

-----Original Message-----
From: Williams, Michael (COO)
Sent: Monday, July 16, 2007 09:01 PM Eastern Standard Time

To: Dallavecchia, Enrico
Subject:

Enrico:

You should assume that the team built the budget targets off of your current forecast. Given the importance of the CRO function, we would expect you to push back and tell us where you need to be next year. The team, absent your inputs, is (or can) only make assumptions about what makes sense to you given your current rate of spend. Steve (and the team) shared your concerns with me and I have said that I would expect we will need to up the number but Enrico should opine.

Separately, this does not include any "initiative" money that you need for 2008.

Mike

From: Mudd, Daniel H [redacted]
Sent: Sunday, October 29, 2006 12:42 PM
To: Dallavecchia, Enrico [redacted]
Subject: RE: Subprime

This is a serious matter and if the facts are supportive, we (you and I) will come down hard.

Daniel Mudd

-----Original Message-----
From: Dallavecchia, Enrico
Sent: Saturday, October 28, 2006 01:39 PM Eastern Standard Time
To: Mudd, Daniel H
Subject: Subprime

Dan, I have a serious problem with the control process around subprime limits.

The business actions in terms of ramping up business much faster than what would be consistent with the $5bn limit for year end we agreed upon less than two months ago is de facto preventing me to exercize my reserved authority to determine limits without damaging relationships with customers.

This is on top of the recent lack of process on the Chase deal (also a limit excess on concentration and debt to income ratios), and after we approved twice (in March and in June) to buy subprime loans without having completed the new business initiative.

There is a pattern emerging of inadequate regard for the control process.

We need to talk on Monday.

Enrico Dallavecchia
Fannie Mae
[redacted]

-----Original Message-----
From: Levin, Robert
Sent: Friday, October 27, 2006 03:55 PM Eastern Standard Time
To: Mirran, Sal; Lund, Thomas A; Dallavecchia, Enrico; Johnson, Pamela; Shaw, Michael A
Subject: RE: REQUEST

I'd like Tom L. to tell us what the business is going to do consistent with today's direction.

R.

From: Mirran, Sal
Sent: Friday, October 27, 2006 3:46 PM
To: Levin, Robert; Lund, Thomas A; Dallavecchia, Enrico; Johnson, Pamela; Shaw, Michael A
Subject: REQUEST

All,

We had a 3pm call re Chase to decipher exactly what it was Chase wanted and we would want to attempt to deliver.

There is a $600-$800mm tape of current production coming Monday. That is the deal they really want us to look at and tell them if we have general appetite [vs an immediate actual bid] by COB today, and bid next week.

Separately, they have sent over a $3.6bn tape of seasoned paper, that to them is lesser priority, but we are invited to pick through for goals if we'd like.

The spirit of the limit memo we wrote really only envisioned the incremental $600-$800mm to get to the proposed $7bn. We have been given the go-ahead, I believe, to proceed on a deal-by-deal basis.

However, there was also some direction at Alignment to pursue goals.

Thus, the question is: knowing there are other non-Chase deals likely coming, shall we now proceed with the $600-$800mm on the new deal-by-deal protocol, AS WELL AS a selection [of roughly about $750mm-$1.25bn] from the $3.6bn, or only the former?

Sal

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

FannieMae

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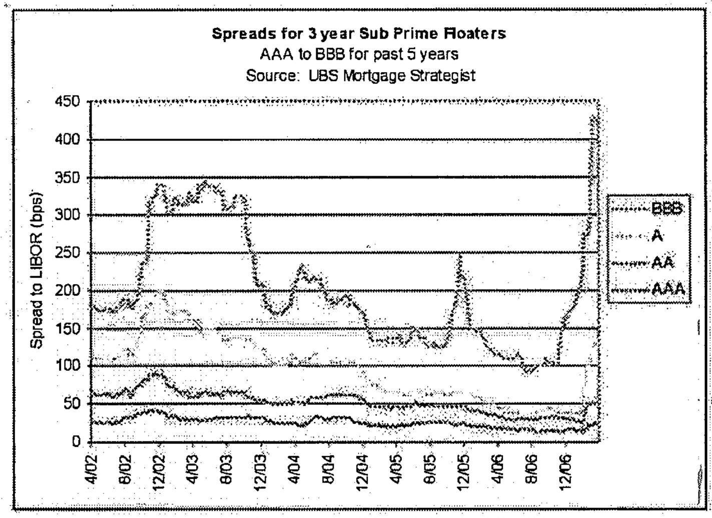
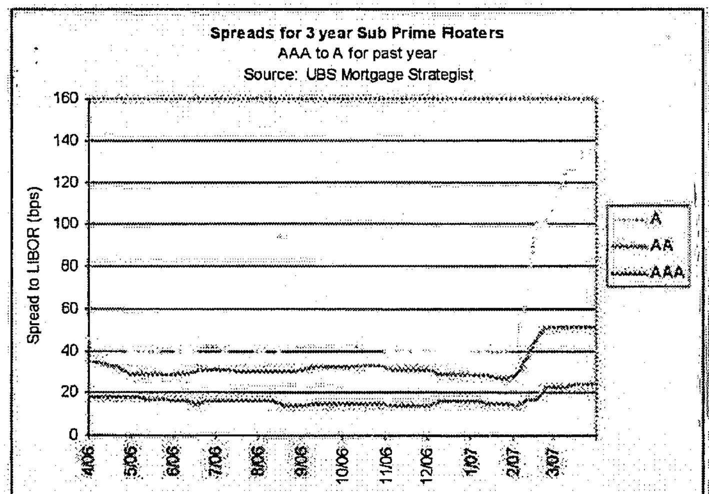
Business Opportunity

- 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**





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FM-COGR_00094012

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%

Stress Scenario

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

	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%

Super Stress Scenario

	Year 1	Year 2	Year 3
Interest Rates	+200	+200	Flat
House Price Appreci-ation	-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 Leads: Ramon de Castro, David Gussmann	
Product Description: (including purpose, dependencies, description of any key attributes, etc.)	Investments in tranches of sub prime private label structured securities rated AA and A	
Risk Limits: (e.g., term, volume, # lenders/issuers)	• $3 billion purchase limit on PLS rated below AAA until May 31, 2008 • Only tranches backed by sub prime collateral and rated between AA+ and A- will be purchased	
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 ☐ No ☐	
____________________ **David Gussmann** **Date** **VP – Capital Markets Strategy** **(Initiative Leader)** **(PLAT Voting Member)**	Yes ☐ No ☐	
____________________ **Peter Niculescu** **Date** **EVP – Capital Markets** **(Business Unit Head)** **(Capital Markets Business)**	Yes ☐ No ☐	
____________________ **Bill Quinn** **Date** **SVP – Capital Markets Strategy** **(Business Unit Risk Officer)** **(PLAT Voting Member)**	Yes ☐ No ☐	
____________________ **Steven Shen** **Date** **VP – Capital Markets Mortgage Assets** **(PLAT Voting Member)**	Yes ☐ No ☐	
____________________ **Kin Chung** **Date** **Director – Capital Markets Strategy, PLS** **(PLAT Voting Member)**	Yes ☐ No ☐	

New Business Initiative Checklist

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

New Business Initiative Checklist

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

New Business Initiative Checklist

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

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/ Aaa

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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.)

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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	• 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.	Pending review

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