Shareholder Expectations

- Overall perceptions of Fannie Mae stock:
  - Currently viewed as a value stock
  - Once restatement/regulatory reviews are completed, stock is expected to offer growth
  - Expectation for dividend restoration and stock repurchases

- Current expectations for GAAP measures:
  - Earnings per share
    - Near term $5.50 in 2006
    - Longer term Growth approximating MDO growth (6 – 8%)
  - Return on book equity Mid teens (14 – 16%)

Increasing attention on fair value measures
- Freddie Mac has focused investor attention on fair value
- Expectation for low to mid teens growth rate

For both GAAP and fair value measures, volatility is expected
- Derivatives mark-to-market will create "noise" in the GAAP results
- Fluctuations in OAS and other market factors will affect the fair value balance sheet
Five Year Forecast – Base Case

**Net Income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6.5</td>
</tr>
<tr>
<td>2007</td>
<td>5.6</td>
</tr>
<tr>
<td>2008</td>
<td>5.4</td>
</tr>
<tr>
<td>2009</td>
<td>5.5</td>
</tr>
<tr>
<td>2010</td>
<td>5.9</td>
</tr>
</tbody>
</table>

**Key Observations:**

- Significant decrease in GAAP earnings in 2007; modest growth from 2008-2010
  - High portfolio GAAP earnings unsustainable due to lower cost debt maturities
  - Forecasts do not include additional portfolio earnings that may arise as a result of:
    - Opportunistic market conditions that temporarily cause wider OAS
    - Steepened yield curve could improve interest margin
  - GAAP earnings growth in out years driven by Single Family and HCD
- Single Family business grows faster than MDO and becomes an increasingly important component of earnings and contributor to stock value
- Alternative scenarios do not change structural direction of net income (see appendix)

* Net income is before gain/loss on derivative mark-to-market. 2006 is normalized to remove the impact of actual gains/losses on sales and debt extinguishments.
Five Year Forecast – Base Case with New Initiatives

Key Observation:
- New initiatives add to earnings and improve growth rates, but corporate growth is still below MDO growth:

<table>
<thead>
<tr>
<th></th>
<th>Base Case</th>
<th>Base Case with New Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'06-'10</td>
<td>'07-'10</td>
</tr>
<tr>
<td></td>
<td>'06-'10</td>
<td>'07-'10</td>
</tr>
<tr>
<td>CAGR</td>
<td>5.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td>HCD</td>
<td>5.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td>CM</td>
<td>(16.5%)</td>
<td>(9.5%)</td>
</tr>
<tr>
<td>SF</td>
<td>7.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>FNM Overall</td>
<td>(1.8%)</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

2006 Total Net Income $6.6B
- SF 37%
- CM 53%
- HCD 10%

2010 Total Net Income $6.6B
- SF 58%
- CM 27%
- HCD 15%
Shareholders' Equity Considerations

- Assuming current dividend rate, forecast scenarios drive a significant growth in shareholders equity beyond current regulatory requirements
- Base case plus new initiative earnings trajectory results in return on equity of 12% in 2010
- Distribution of all except $3.5B of excess capital would improve capital efficiency and result in a return on equity of 13% in 2010
- If 30% additional equity requirement were lifted, ROE increases to 16%, and if the excess capital was utilized for a share repurchase, 2010 EPS increases from $5.82 per share to $6.67 per share

ROE calculation: Net Income less preferred dividends divided by 2-point average of stockholders' equity less preferred stock and other comprehensive income
Key Take Aways

- It will be difficult to achieve shareholder expectations
  - Net interest income compression
  - Limited portfolio growth expectation with out years average annual growth of 6%
  - Even with Single Family and Housing and Community Development growing faster than mortgage debt outstanding, they do not offset decline in Capital Markets earnings

- Important to aid market with an array of measures, including fair value

- Given excess capital build-up by 2010:
  - Capital distributions will be an increasingly important component of stock performance
  - Appropriate capital distribution would significantly improve ROE and EPS growth