Our Businesses

<table>
<thead>
<tr>
<th></th>
<th>Single Family</th>
<th>Housing and Community Development</th>
<th>Capital Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business:</strong></td>
<td>Provides liquidity to affordable mortgage markets by issuing MBS or working with lenders to sell loans to the Portfolio.</td>
<td>Provides financing of multifamily loans and equity funding of affordable housing.</td>
<td>Provides liquidity to the mortgage market by both buying and selling assets.</td>
</tr>
<tr>
<td><strong>Competitors:</strong></td>
<td>Freddie Mac, private label issuers</td>
<td>Freddie Mac, CMBS, banks, insurance companies</td>
<td>Banks, fixed income funds, central banks, hedge funds</td>
</tr>
<tr>
<td><strong>Top Customers/ Counterparties:</strong></td>
<td>Countrywide, Citibank, SunTrust, GMAC and Wells Fargo</td>
<td>Multifamily: Wachovia, Washington Mutual, ARCS, Deutsche Bank and Prudential</td>
<td>Citibank, JPMorgan Chase, Lehman Brothers, Goldman Sachs, UBS, Bear Stearns, Merrill Lynch</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LIHTC: SunAmerica, Enterprise, Related Companies, Muni Mae and Wachovia</td>
<td></td>
</tr>
<tr>
<td><strong>Book of Business:</strong></td>
<td>$2,300 billion</td>
<td>$129 billion Multifamily debt $7 billion affordable housing equity</td>
<td>$725 billion</td>
</tr>
<tr>
<td><strong>2005 Net Income:</strong></td>
<td>$2.1 billion</td>
<td>$0.6 billion</td>
<td>$4.3 billion</td>
</tr>
</tbody>
</table>

Corporate costs not allocated to business units in 2005 Net Income.

Information will change as a result of the pending re-audit and restatement of Fannie Mae's financial statements.
Catalysts for Change

- We have become less relevant to the market
  - 1995 share of MBS market: 34.7%
  - 2005 share of MBS market: 22.3%

- We have not kept pace with innovations in the capital markets used to manage credit risk. We, traditionally, have held credit risk or avoided it.
  - 2005 Fannie Mae "conduit" transactions: 0 deals
  - 2005 Private market conduit transactions: 1,343 deals

- We have had a business culture, based on "standard setting," that is not as hungry, not as market-oriented, and more risk averse than many of our competitors.

- Yet, we have key strengths, we can build upon
  - Low cost of capital and cost structure
  - Strong base level of profitability and funds for investments in innovations
  - Outstanding security performance, debt and MBS
  - Good customer relationships
  - Service - it matters when price is close
  - Ability to attract strong people

We have the power to respond to these catalysts.
Strategic Response

- **Build outstanding risk management and controls**

- **Optimize the Charter** by entering all permitted businesses, that we are not in now, that make business sense and further the mission

- **Embrace the capital markets to help manage and distribute credit risk**, rather than simply holding or avoiding it

- **Reorient the business culture** of the company to be more market-oriented, hungry, and smart about risk, return, and value

- **Create “brand preference”** through service with particular attention to opportunities for competitive advantages through technology and in the back office

While advancing the Mission and meeting our Mission goals
Optimize the Charter with New Business Initiatives

($ = size of market)

<table>
<thead>
<tr>
<th>Single Family*</th>
<th>Capital Markets</th>
<th>HCD</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Subprime ($456 billion)</td>
<td>• MF CMBS ($31 billion)</td>
<td>• Small MF Loans ($35 billion)</td>
</tr>
<tr>
<td>• Alt A ($254 billion)</td>
<td>• &lt;AAA-rated securities ($100 billion)</td>
<td>• AD&amp;C ($300 billion)**</td>
</tr>
<tr>
<td>• 2nds ($269 billion)</td>
<td></td>
<td>• Equity ($100 billion)**</td>
</tr>
<tr>
<td>• Reverse Mortgages ($TBD)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Building out Controls and Processes

Billions of dollars of opportunities exist well within the boundaries of our Charter

* Conforming market  ** Currently under regulatory review

Confidential – Highly Restricted
Embrace the Capital Markets to Manage Credit Risk

- Risk transformation facility
- Credit derivatives
- Collateralized Debt Obligations

One Fannie Mae: we will link closely our capital markets business with the SF and MF businesses
Reorient the Business Culture to be More Market-Oriented

<table>
<thead>
<tr>
<th>Single Family</th>
<th>Capital Markets</th>
<th>HCD</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Market-based pricing</td>
<td>- Total return approach</td>
<td>- Market-based pricing</td>
</tr>
<tr>
<td>- Minimize “cut outs”</td>
<td></td>
<td>- Minimize “cut outs”</td>
</tr>
</tbody>
</table>

Economic profit metrics

Empower business leaders

Create corporate-wide market analytics organization charged with uncovering value in all the markets we serve

Enhanced controls across all the businesses

HR Strategy: assure appropriate mix of old and new blood
Create "Brand Preference" through service...

- Paperless mortgage
- E-commit
- E-servicing transfer
- Customized mortgages

Risk: timing variable due to remedial work on internal systems and controls.

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Requested By Fannie Mae
HCD Overview

- The commercial housing real estate market is big:
  - annual production in the ~$500-$520 billion range; annual profits in the ~$50-$60 billion range.

- HCD is a major player in the permanent financing of Multifamily loans and in the equity funding of low income housing tax credits (LIHTC)
  - 25% share in Multifamily lending; 25% share in LIHTC
  - Fannie Mae also participates, to a minor extent, in the equity and debt financing of acquisition, development and construction (AD&C), and in the financing of small multifamily loans (Small Loans)

- Profile:
  - Book of Business: $129 billion ($122 debt, $7 equity)
  - Annual production: $24 billion ($22 debt, $2 equity)
  - Customers/partners: ~60 (40 lending partners, 20 funds/syndicators)
  - 630 employees

- Leadership position in Multifamily and Low Income Housing Tax Credits
- Significant growth opportunities across market segments
### What is the Competitive Environment?

<table>
<thead>
<tr>
<th>Business</th>
<th>Key characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multifamily</td>
<td>- Commercial mortgage backed securities (CMBS) maturing; permanent increase in competition</td>
</tr>
<tr>
<td></td>
<td>- Decreasing fees</td>
</tr>
<tr>
<td></td>
<td>- Increasing borrower bargaining power</td>
</tr>
<tr>
<td></td>
<td>- Increasing use of capital market executions</td>
</tr>
<tr>
<td>Small Loans</td>
<td>- Strong volume potential but competitive market</td>
</tr>
<tr>
<td></td>
<td>- Fannie Mae whole loan investment opportunity</td>
</tr>
<tr>
<td>Acquisition, Development &amp; Construction (AD&amp;C)</td>
<td>- Attractive spreads (~150-250 bps) in participations</td>
</tr>
<tr>
<td></td>
<td>- Significant product parameter constraints</td>
</tr>
<tr>
<td>LIHTC</td>
<td>- Fannie largest investor (25% market share)</td>
</tr>
<tr>
<td></td>
<td>- Stable business with attractive, but decreasing, returns</td>
</tr>
<tr>
<td></td>
<td>- High community impact</td>
</tr>
<tr>
<td>For Sale &amp; For Rent</td>
<td>- Attractive market but competition driving down returns</td>
</tr>
<tr>
<td></td>
<td>- Requires several years of ramp up to impact bottom line</td>
</tr>
<tr>
<td></td>
<td>- High community impact</td>
</tr>
</tbody>
</table>

**Attractive market opportunities, but with increasing levels of competition**
What is the HCD Strategy?

<table>
<thead>
<tr>
<th>Business Line/ Segment</th>
<th>Strategy</th>
</tr>
</thead>
</table>
| **Multifamily**        | • Differentiate lenders  
                          |   - Dynamically manage lenders  
                          |   - Customize partnerships  
                          | • Implement Risk Transformation facilities (RTF)  
                          | • Improve processes speed and efficiency |
| **Community Lending**  | • Expand participation and provide liquidity  
                          | through three product acquisition channels:  
                          |   - Direct; Aggregator; Micro loans  
                          | • Build controls, expand participation and provide liquidity through three market strategies:  
                          |   - Large syndicators; Middle Market participations; Small Loan aggregators |
| - **Small Loans**      |          |
| - **AD&C**             |          |
| **Community Investments** | • Invest in top-tier private label funds  
                                | • Co-invest directly with developers  
                                | • Rebalance portfolio based on tax liability needs; trade tax-credits |
| - **LIHTC**            |          |
| - **For Sale/ Rent**   |          |

- Integrated strategic expansion across all major market segments
- Enhanced business operations with improved controls, policies and procedures
### What are the Key Milestones?

<table>
<thead>
<tr>
<th>Activities</th>
<th>2H06</th>
<th>1H07</th>
<th>2H07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HCD-wide</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Launch re-organization</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>• Promote internally; hire key outside talent</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Multifamily</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Implement Lender Differentiation</td>
<td></td>
<td></td>
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<tr>
<td>• Implement process improvements</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>• Revise and update policies/procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Launch RTF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Implement risk-based pricing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Community Lending (Small Loans &amp; AD&amp;C)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Update controls, policies and procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enhance reporting and deal tracking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Develop blueprint for scalable, long term</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>technology platform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Community Investments (LIHTC &amp; For Sale/Rent)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Update controls, policies and procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enhance reporting and deal tracking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Build new accounting/technology platform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Build capability to trade credits</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Continued build out of infrastructure and risk management capabilities
What are the Financial Results?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income</strong></td>
<td>$740 - 750</td>
<td>$1,025 - 1,225</td>
<td>12% - 18%</td>
</tr>
<tr>
<td><strong>Economic Profit</strong></td>
<td>$245 - 255</td>
<td>$380 - 520</td>
<td>15% - 27%</td>
</tr>
</tbody>
</table>

- Significant growth opportunity: double digit returns
- Major impact/contribution to Communities
What are the Business Opportunities to Accelerate Community Transformation?

What we are trying to accomplish:
Expand Business Opportunities by Accelerating Turnaround of Targeted Communities to Create Healthy, Stable Housing Markets. Serve our Mission.

Why we do it:
To Create Substantial Value Measured by Affordable Housing Metrics and Shareholder Returns.

How we do it:
By Scaling our Ability to Innovate and Deliver Financial Capital, Products and Intellectual Property on a Large, Replicable Basis, and By Mobilizing Networks of Public and Private Partners.

MARKET LEVEL FOCUS
Integrates One Fannie Mae to the Community Level.

"The Business is the Mission and the Mission is the Business"
What We Are Trying to Accomplish? Harlem Case Study

Harlem 2005
Map of Fannie Mae investments

- Over five years, Fannie Mae invested more than $570M in Harlem
  - ACF and Multifamily projects, many with market-rate returns
  - Single-family mortgages
- Harlem's homeownership rate increased, from 5% to 13%
- The median home value increased 370%, to $375,000
- Total home purchase mortgage originations increased 180% - while Fannie Mae's acquisitions of home purchase loans increased by 390%
- Our experience in Harlem revealed the significant potential opportunity in targeted, strategic community investments

Leverage a model that works
APPENDIX

- Strategic Initiatives Overview
  - Market Share
  - Multifamily
  - Small Multifamily Loans
  - AD&C
  - Community Investments
### Market Share Information By Business Unit

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>Total Market</th>
<th>Market segments</th>
<th>Total segment size</th>
<th>Fannie Mae market share Current</th>
<th>2010 (base + inc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Community Investments</strong></td>
<td>~$100 bn</td>
<td>For-Sale (SF/MF)</td>
<td>$50* bn</td>
<td>0.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For-Rent (MF)</td>
<td>$35** bn</td>
<td>0.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax Advantaged</td>
<td>$8 bn</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Community Lending</strong></td>
<td>~$300 bn</td>
<td>Large syndicators</td>
<td>$60-$75 bn</td>
<td>1.2%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>(originations)</td>
<td>Middle Market</td>
<td>$90-$120 bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small ADC Loans</td>
<td>$90-$120 bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AD&amp;C</strong></td>
<td>~$35 bn</td>
<td>Top 7 lenders</td>
<td>$13 bn</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>(originations)</td>
<td></td>
<td>~3,000 lenders</td>
<td>$22 bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Small Loans</strong></td>
<td>~$85 bn</td>
<td>Agencies</td>
<td>$28 bn</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>(originations)</td>
<td></td>
<td>Conduits</td>
<td>$32 bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others***</td>
<td>$25 bn</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Confidential - Highly Restricted**

- Excludes public equity
- ** New production only
- *** Life insurers, Bank, Thrifts and other institutions
Strategic Initiatives: Multifamily Strategy

- Manage lenders to deliver 'Higher value' performance.
- Differentially and more dynamically manage lenders to deliver higher value.
- Quantitative scorecard.
- Customization.
- Grovocat approach.
- Incremental yield and revenue opportunity.
- Business development capabilities.
- Streamline processes.
- Develop appropriate infrastructure.
- Increase pricing/price.
- Competitiveness.
- Build capabilities to distribute risk.

"One-size fits all" approach not aligned to lender performance differences.

Competitive pricing and proceeds.

DUS market share and profitability.

Dated modeling leading to less competitive pricing and proceeds.

Cumbersome loan acquisition process relative to competitors.

DUS infrastructure more expensive than competitors' models.

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BY FANNIE MAE

FMSE 705874
Strategic Initiatives: Small MF Loans Strategy

- Small multifamily loan market is large and has been growing quickly
- Highly fragmented market with thousands of regional and community banks
- Increased competition is driving spreads down
- Products offered by active small loan lenders can resemble single family products
- Credit dynamics and attributes can also resemble single family

Target specific market segments to penetrate relatively untapped market with significant volume potential
- Implement a three channel strategy to penetrate into Small Multifamily Loan market (Direct, Aggregator, Micro Loan)
- Capture at least 10% of growing $30 billion annual market
  - Double annual production from $2 to $4 billion with significant increase in revenue
- Business development capabilities:
  - Adjust risk profile
  - Integrate small loan business with Risk Transformation Facilities
  - Develop and implement analytics and technology platforms
  - Price competitively
Strategic Initiatives: AD&C Strategy

New strategic approach and investment to significantly expand in growing market, through strategic partnerships

- Strategy to follow enhancement of controls:
  - Meet all regulatory concerns and build/enhance controls prior to expansion

- Implement a three-channel strategy to grow the business (large syndicators, middle market participations and syndications, small ADC-loan aggregators)
  - Provide standard flow (delegated and structured (non-delegated) products
  - Partner with 5-7 lenders to aggregate loans from small lenders and builders
  - Continue participation in large syndications

- Infrastructure needs to scale business:
  - Clear risk management policies and procedures allowing greater delegation
  - Streamline operational processes
  - Investment in analytical and reporting technology/tools

- Challenging environment

- Rapidly changing rules in business landscape require ability to more quickly adapt

- Softening real estate market

- Market moving away from participation to assignment structures (latter requiring less fiduciary responsibilities of agent bank)
Capital Markets Overview

- We issue debt, using the proceeds to provide liquidity to the mortgage market by both buying and selling assets
- We also use our balance sheet to support liquidity of our MBS and to be a backstop bid in market disruptions
- We run the corporation's balance sheet, invest corporate capital and maintain corporate liquidity
- We maximize the total return of our holdings through active management but with minimal interest rate risk

Portfolio Facts

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Size</td>
<td>$725 billion</td>
</tr>
<tr>
<td>Total Return</td>
<td>11% (Est 1992-2004)</td>
</tr>
<tr>
<td>Market Share</td>
<td>7.5%</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>500+</td>
</tr>
</tbody>
</table>

The Face of Fannie Mae to the Capital Markets
What is the Competitive Environment?

- Fannie Mae MBS liquidity remains strong, and pricing relative to Freddie Mac Securities remains favorable
  - Steady demand, fueled by domestic Banks and new investors has improved liquidity of MBS
  - Increased competition for acquisitions has also reduced profitability

- Fannie Mae debt pricing has recovered to historically attractive executions, competitive with Freddie Mac and the FHLB
  - More than half of our term debt is callable, giving us a competitive advantage over most other leveraged mortgage investors
  - Investor base is diverse globally and includes all major market segments
  - Derivative liquidity is strong and options prices are low, making asset-liability management easier and less expensive

- But, we have few near term prospects for profitable growth in our on-balance sheet investments

Balance Sheet growth will likely follow a market dislocation
What is the Capital Markets Strategy?

Fostering Liquidity and Innovation

- Support Guarantee businesses by acquiring less liquid mortgages on balance sheet, including innovations such as 40-year term, interest first mortgages, reverse mortgages and reduced servicing
- Support MBS by buying when needed and by expanding the market
- Access low cost capital by tailoring sales using structured asset securitizations and through liquid and structured debt sales

Active Management of our Balance Sheet

- Active management of our investments including asset sales
- Expected to earn excess total returns (double digit returns on economic and regulatory capital)
- Returns and growth will be higher during market dislocations
- Expanded range of investments, including CMBS and PLS

Emphasize Mortgage-backed Securitizations

- Expand the market for MBS through securitizations
- Structure REMICs out of our balance sheet to meet investor demand
- Creation of benchmark REMICs provides more liquidity and transparency
- The Risk Transformation Facility builds on our old Wisconsin Avenue Securities program to create structured security solutions for credit risk

Generate shareholder returns by fostering mortgage liquidity and innovation and through securitizations
What are the Key Milestones?

<table>
<thead>
<tr>
<th>Activities</th>
<th>2H05</th>
<th>1H06</th>
<th>2H06</th>
<th>1H07</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Securitizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Increased REMIC issuance from our balance sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Benchmark REMIC program</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Risk Transformation Facility Phase I</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- RTF Phase II</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• More Active Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Active sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Expand purchases to include CMBS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Credit risk management capacity improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Improved return attribution measurements</td>
<td></td>
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</tr>
</tbody>
</table>

Progress made but more work to do
What are the Financial Results?

Income and Total Return Results

$millions

Total Excess Return

$millions

- Total return is expected to grow, consistent with investment balances
- Income declines if the yield curve stays flat due to the maturity of debt issued at lower rates when the yield curve was steep
## Primary types of risk and expected future share of capital markets risk/return strategy

<table>
<thead>
<tr>
<th>Type</th>
<th>Expected VaR share*</th>
<th>Definition</th>
<th>Rationale</th>
<th>Future exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread - prepayment</td>
<td></td>
<td>Exposure to changes in spread due to differences between expected and realized prepayment speeds</td>
<td>With structurally tightening spreads, the spread risk associated with prepayments will likely go down as overall share of VaR</td>
<td>↓</td>
</tr>
<tr>
<td>Spread - credit</td>
<td></td>
<td>Exposure to changes in spread due to increasing or decreasing credit quality</td>
<td>Capital Markets will likely move into lower credit rated securities</td>
<td>↑</td>
</tr>
<tr>
<td>Spread - liquidity</td>
<td></td>
<td>Exposure to changes in spread due to illiquidity and or market recognition</td>
<td>Capital Markets may move into more illiquid securities and act as a sponsor for &quot;stranded&quot; securities</td>
<td>↑</td>
</tr>
<tr>
<td>Volatility</td>
<td></td>
<td>Exposure to changes in implied volatility relative to realized volatility</td>
<td>Capital Markets may dynamically hedge volatility risk, since realized volatility historically less than implied volatility</td>
<td>↑</td>
</tr>
<tr>
<td>Interest rate (duration)</td>
<td></td>
<td>Exposure to changes in interest rates</td>
<td>Capital Markets does not view itself as &quot;better than the market&quot; in interest rate forecasting</td>
<td>←→</td>
</tr>
</tbody>
</table>

* Based on each type of risk's current share of total Capital Market's VaR

Source: Fannie Mae
Growth opportunities in a broader credit spectrum: CMBS

Multifamily CMBS issuance
$ Billions

CAGR 20.3%

2001 2002 2003 2004 2005 2006E
9.8 9.2 12.3 12.8 26.5 24.6

Targeted Fannie Mae purchases
2006
5

Targeted market share

Source: Fannie Mae
Confidential – Highly Restricted
Growth opportunities in a broader credit spectrum: PLS

PLS issuance volume*

<table>
<thead>
<tr>
<th>Year</th>
<th>Below AAA</th>
<th>AAA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>260</td>
<td>12</td>
</tr>
<tr>
<td>2005</td>
<td>98</td>
<td>98</td>
</tr>
</tbody>
</table>

Market share of PLS

<table>
<thead>
<tr>
<th>Rating</th>
<th>2001-05 CAGR Percent</th>
<th>Avg. nominal spread** Basis points</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; A</td>
<td>52%</td>
<td>&lt; A 250bps</td>
</tr>
<tr>
<td>A</td>
<td>34%</td>
<td>A 50bps</td>
</tr>
<tr>
<td>AA</td>
<td>34%</td>
<td>AA 35bps</td>
</tr>
<tr>
<td>AAA</td>
<td>34%</td>
<td>AAA 15bps</td>
</tr>
</tbody>
</table>

* Single-family and multi-family
** Spread to 1 month LIBOR and adjusted for counterparty defaults

- Fannie Mae is already participating in the largest share of this market
- PLS market has grown substantially, with below AAA segment growing fastest
- The opportunity is to move into the non-AAA segment
  - Spreads for below AAA products are wider and potentially attractive

Source: Bloomberg, Lehman Brothers, UBS

Confidential - Highly Restricted
Additional Capabilities Required

- Implement systems for total return management strategy (e.g. PDS)
- Strengthen attribution analysis and reporting capability
  - Increase frequency
  - Increase granularity (e.g. security specific factor analysis)

- Increase range of risk metrics employed
- Expand credit risk management capabilities for lower than AAA
- Define checks and balances consistent with expanded authority

- Acquire talent consistent with expanding the investment opportunity set (e.g. credit risk spectrum)
- Evaluate incentive structures based on change to Total Return strategy

- Create both internal and external (debt and equity) targeted communications plan for Total Return strategy
- Develop clear financial reporting and performance metrics (e.g. FMV)
- Create attribution of total return, plus reconciliation to GAAP
Single Family Overview

- Provide "liquidity" by guarantying loans that are funded through a AAA mortgage back securities ("MBS") or purchased into the FNM portfolio
- Lenders reapply the proceeds from those loan sales into new loan originations
- As the guaranty fee income received by FNM exceeds losses and operating expenses, earnings are generated for shareholders

**Single Family 2006:**
- $2.25 trillion guaranty book
- 25% market share
- >$500bn 2006 acquisitions
- $5.1bn revenue; $4.1bn pre-tax income
- 21bps weighted average guaranty fee on the book
- Annualized book losses of 1.4bps

SF mortgage debt outstanding is $9.5T and expected to grow at 5-8% per year through 2010
What is the Competitive Environment?

- FNM loss of share, having said "no" to certain segments and risk types
- Substantial private label ("PL") growth (new breed of competitor)
- Changes in product, risk and processes (as fueled by private label market, consumer demand)
- Continued consolidation and vertical integration
- Demographic trends, particularly minority growth, aging of population and pending retirement funding gap fueling growth
- Lender pursuit of efficiency, tech investment

**Our core capabilities in these markets:** MBS is best priced, most liquid security; most efficient to do business; certainty of delivery; local teams add value beyond price; talent.

A changing mortgage market poses big challenges, but FNM has major advantages to deploy toward a new YES strategy.
What is the Single Family ("Yes") Strategy?

Objective

- Achieve sustained profitable growth while acquiring every available goals-rich loan, and reset incentives

Operating Principle

- Participate broadly and compete directly to regain and win new share

Positioning

- Expand appetite and provide maximum liquidity for relevance, while optimizing risk/return and risk transfer

Risk Appetite

- Operate at the market for growth segments, pay the cost of entry and exploit cycles

Consolidation/Segmentation

- Support all segments, separately optimizing each one with enhanced targeted solutions

Why Will This Approach Be Effective:

- New risk tolerance
- No longer a quasi-"regulator"
- Market orientation
- Risk transfer tools
- "Buy all loans"
- Minimize "cut-outs"

A new "market-oriented" Fannie Mae will appropriately take risk, profitably regaining share and relevance
What are the Strategic Initiatives and Capabilities?

Enabling capabilities

Skills, talent, incentive systems

SF Strategy Initiatives

Risk transfer, RIF, CDS

II. Expanded segments

- Sub-prime
- Alt-A
- ARMs
- Seconds
- Reverse
- Interest Only
- Community Lending

I. Customer strategies

- Broker penetration
- Alliance agreements
- Small lender solutions
- Rep/ warrant model

III. New services & solutions

- Paperless
- Info/tech based solutions (e-commit, e-channel, etc.)
- Process solutions

Technology, partners

Risk, models, process, policies

Significant “in-charter” opportunities exist for Fannie Mae, but much operational work must be done
What are the Milestones?

<table>
<thead>
<tr>
<th>Activities</th>
<th>1H07</th>
<th>4Q06</th>
<th>3Q06</th>
<th>2Q06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub Prime Phase 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finalize business plans/ New Business Initiative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refine pricing models</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Transactionally engage customers</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Finalize organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruiting</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Integrate RTF functionality</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>SF Credit / Corp Risk Management Committee</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Launch product phases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 lenders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All lenders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alt-A</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Alt-A in DU</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deliveries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monitor and analyze deliveries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and Process remediation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing contract remediation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOX Compliance (manual process)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract reengineering</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e-mortgage (scalable and controls)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MORNET replacement w/ web interface</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop customer management structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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BY FANNIE MAE

FMSE 705897
What are the Financial Results?

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2010</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending Total Book</td>
<td>$2.4 - $2.5T</td>
<td>$3.2 - $3.3T</td>
<td>8-10% CAGR</td>
</tr>
<tr>
<td>Earnings from Initiatives</td>
<td>$120 - $140MM</td>
<td>$500 - $600MM</td>
<td>$1.2B-$1.5B Cumulative</td>
</tr>
<tr>
<td>Total (Base + Initiatives) NI</td>
<td>$2.7 - $2.9B</td>
<td>$3.7 - 4.0B</td>
<td>7.11% CAGR</td>
</tr>
<tr>
<td>Market Share (25% today)</td>
<td>26%</td>
<td>32% - 35%</td>
<td>32%-35% Share</td>
</tr>
<tr>
<td>Economic Profit</td>
<td></td>
<td></td>
<td>$7.9B (2007-10)</td>
</tr>
</tbody>
</table>

- Note that increased market participation will likely result in:
  - Absolute losses will increase, fee and cost structure will be targeted to increase returns
  - Presence in sub prime will show 20% share in 2010
  - Less "back end insurance" may be acquired
  - Economic scenarios and market spreads can substantially affect results

Substantial growth will result for Fannie Mae from the execution of these initiatives
Customer Strategy

Our own research, as well as that of our positioning consulting firm Prophet, suggests more segmentation and customer focus is needed.

Strawman approach for each segment

<table>
<thead>
<tr>
<th>Situation</th>
<th>Strawman approach for each segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All customer segments valuable to FNM</td>
<td>Countrywide: &quot;Maintain share; try to hold economics&quot; Expand box and improve service</td>
</tr>
<tr>
<td>Customer concentration</td>
<td>Large lenders: &quot;Court and convert&quot; Streamline response to lender requests</td>
</tr>
<tr>
<td>FNM has ease-of-use and other advantages vs conduits, but that is changing</td>
<td>Medium lenders: &quot;Grow and lock-in&quot; Improve response and consider next generation alliances</td>
</tr>
<tr>
<td>Issues of speed and flexibility</td>
<td>Small lenders: &quot;Go direct and increase share&quot; Build strong value proposition; allow National Business Center more flexibility</td>
</tr>
<tr>
<td></td>
<td>Partnering: &quot;Build capability&quot; Develop capabilities; initially with goals rich originators</td>
</tr>
</tbody>
</table>
Major Premises Regarding Growth Plan

- 2010 Share of sub prime market of 20% and Alt-A of 49% (conforming market)

- Comprehensive risk management and distribution capability

- Less reliance on credit enhancement for the riskiest segments, with the potential for market decline

- Absolute incremental loss number potentially around $650MM by 2010 with significantly lower “revenue-to-loss” ratios

- Potential reputation risks associated with a much wider “box” and a move away from “standard bearer”
Key Capabilities

Significant support is needed for "natural expansion" of risk appetite and growth. For "breakthrough" efforts such as servicing, processing and other such expansions, a revisitation of FNM's entire business structure would be necessary. For "natural expansion":

<table>
<thead>
<tr>
<th>Area</th>
<th>Capability</th>
</tr>
</thead>
</table>
| Risk/Return/Cycle           | • Recalibrate models; analytics and reporting  
                              • Establish appetite (e.g., Credit Enhancement); RTF/default swaps/etc  
                              • Establish limits, return hurdles, shared goal and counterparty risk  
                              • Understand new business "cost of entry" at outset, as well as scenarios re later supply/demand that can cause severe spread changes |
| Technology, Process & operations | • Assess changing market process, tech and op needs (e.g., time to market)  
                                  • Tech support for responsive changes to tools  
                                  • Other areas of support for execution (i.e., non-tech)  
                                  • Longer term development (e.g., subprime MBS) |
| Sourcing Product            | • Account coverage and service  
                              • Participation in product development  
                              • Stability of execution/participation  
                              • Balancing housing goals |
| Organization / Skills       | • Specialized product/market expertise  
                              • Risk management and control staff  
                              • Substantial cross-group collaboration and aligned incentives  
                              • Management attention to growth areas  
                              • Data mining skills & vendor partnering |
Other Single Family Statistics

- Top 10 lenders are 66% of business; other 905 lenders are 34% of business
- 53% mark-to-market loan-to-value ratio of loans
- 721 average FICO score
- 87% Fixed-rate loans / 13% Adjustable-rate loans
- 4.4% Interest-only (IO) loans

Operations:
- $953MM expenses (direct plus corporate allocated)
  - $670MM of direct expenses
- 1,460 direct employees
- Multiple offices: Regions, servicing, disposition and underwriting
## 2010 Outcomes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family</td>
<td>11%</td>
<td>$7.9 Billion</td>
</tr>
<tr>
<td>HCD</td>
<td>12-18%</td>
<td>$1.3 Billion</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>(10)%</td>
<td>$4.9 Billion(1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5%</td>
<td><strong>$3.7 Billion(2)</strong></td>
</tr>
</tbody>
</table>

### Mission

- 2007-2010:
  - New low/mod families served: 6.6 Million
  - New minority families served: 2.7 Million

---

(1) Total Excess Return (assumes 15 bps on outstanding balances). Economic Profit for Capital Markets is (2.2B).

(2) Sum of economic profit for each of the business units less charge for non business unit capital held.
Our Business Model is Evolving

<table>
<thead>
<tr>
<th>From...</th>
<th>...To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Markets</td>
<td>Maximizes total return and liquidity</td>
</tr>
<tr>
<td>• Major driver of steady storm GAAP earnings growth</td>
<td>• Earnings less aligned to economic value</td>
</tr>
<tr>
<td></td>
<td>- Drag in short term</td>
</tr>
<tr>
<td>HCD</td>
<td>Fastest growing business</td>
</tr>
<tr>
<td>• Minor contributor to earnings</td>
<td>Steady #1 earnings business</td>
</tr>
<tr>
<td>Single Family</td>
<td>Steady #2 GAAP business</td>
</tr>
<tr>
<td>• Steady #2 GAAP business</td>
<td>One Fannie Mae: in particular, use of capital markets to manage credit risk in HCD and Single Family</td>
</tr>
<tr>
<td>• Silos</td>
<td>- Enhanced controls across the businesses</td>
</tr>
<tr>
<td>• Weak controls</td>
<td></td>
</tr>
</tbody>
</table>

The constant: liquidity and housing mission
State of Affairs

- Major, multiyear effort to remediate and replatform systems is required
  - Legacy systems
  - Data, reporting, recovery and privacy requirements
  - Control and process weaknesses

- Overhaul of organization structure and key leadership needed

- Parallel and integrated approach to technology, operations, business goals and cost required
Where we need to be

The current environment demands significant improvements in Operations and Technology.

- Our Customers and Investors - Fast, reliable and flexible
- The Businesses - Well managed IT function with a strong business focus process
- Regulators - Controlled, disciplined IT investment strategy and implementation
- Technology Marketplace - Drive down costs and leverage outsourcing, as competition for talent is fierce

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Where we need to be

- Efficient, low-cost operations to ensure quick market response
- Strong customer value proposition enabled by Fannie Mae systems and operations
to drive brand preference
- Tight integration of Fannie Mae systems with customers, counterparties, and
investors creating switching costs and retention opportunities
- Effective operating and risk management controls related to all business activities
and systems to ensure enterprise safety and soundness

Current Enterprise Systems and Operations (ESO) services and capabilities uneven
## Where we need to be

<table>
<thead>
<tr>
<th><strong>Focus Area</strong></th>
<th>** Desired End State**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Platforms</td>
<td>Well controlled, managed, and maintained platforms for closing financial books, managing resources</td>
</tr>
<tr>
<td>Controls</td>
<td>Fully remediated SOX material weaknesses and significant deficiencies</td>
</tr>
<tr>
<td>Business Alignment</td>
<td>Flexibility and capability for processing a dynamic business model</td>
</tr>
<tr>
<td>IT Standards</td>
<td>Consistent and effective approaches to providing IT solutions that meet industry standards and regulatory oversight</td>
</tr>
<tr>
<td>Data Quality</td>
<td>Improve data quality and integrity overall through redesigned business platforms that capture data once and correctly</td>
</tr>
<tr>
<td>Staffing</td>
<td>Acquisition and retention of top technology and business-savvy talent</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>People and capital leveraged efficiently, eliminating redundancies and gaps; supporting a fine-tuned, right-sized organization with highly efficient end-to-end processes (Lean Six Sigma)</td>
</tr>
</tbody>
</table>
### Where we need to be – Implications

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Desired End State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Platforms</td>
<td>Well controlled, managed &amp; maintained platforms for closing financial books, managing resources</td>
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</tr>
</tbody>
</table>

- Present *organization* not optimized for challenges ahead.
- Significant, continued *investment* required in Financial systems and SOX Remediation.
- Recent systems initiatives (S/IR, HCD Core, Summit) are only down payments, and major efforts to *replatform* the business are required.
- Technology talent gap significant, requiring investment in people, products and services...*hire, buy, and outsource*
- Need to geographically *diversify operations* to enhance risk management profile and expand access to broader internal talent pool.
- Operations must be streamlined, rationalized and optimized to drive *competitive advantage* in the marketplace.
Agenda

. Where we need to be
. How we get there
. Next steps
. Appendices

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FMSE 705916
How we get there – Execute IT Strategies for the Business

While the businesses are in different states of maturation, their current IT Platforms have some consistent limitations.

- **Legacy Platforms** – All businesses are dependent on older, poorly integrated systems and non-scalable End User Computing (EUC) applications.

- **Inefficient Operations** - As a result of the platform deficiencies, there are significant manual processes at all stages in operations, with low consistency and limited overall automation.

- **Inconsistent Data** – Data is not consistent between systems and across businesses and is constrained by the source systems that feed the databases.

- **Lack of Tools** - We are not best in class on the data, analytics, and forecasting tools supporting the businesses.
How we get there – Execute IT Strategies for the Business

- We will pursue 3 parallel streams:
  - “Clean up” – Fix what’s broken and keep the trains running
  - Down payments – Enable the businesses’ immediate priorities
  - Replatform the business – Build the “End State” in a measured way

- Key Design Principles for moving to the End State:
  - Business architecture drives IT strategy, not vice versa
  - Break the silos within the business...and then across the business
  - Drive IT and data standards consistently across the business
  - Build Shared Services around common applications and functions, where appropriate
  - Link processing of business transaction and accounting for the transaction
How we get there - Execute IT Strategies for the Business

Strategy

Stream I: Clean up
- SOX remediation across applications
- Replacement of EUCs (e.g., AD&C)
- Deal tracking and management reporting

Stream II: Down payments

Stream III: Build out “End State”
- Contracts management

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How we get there – Execute IT Strategies for the Business

**Strategy**

- Stream I: Clean up
- Stream II: Down payments
- Stream III: Build out "End State"

- Risk Transformation Facility (RTF)
- Servicing / Investor Reporting (S/IR)
- HCD Core
- Summit for Debt and Derivatives
How we get there – Realign Technology & Operations

- The new organizational structure:
  - Promotes controls, risk management, and governance
  - Ensures clear segregation of responsibility and accountability
  - Balances the needs for business flexibility with standardization
  - Focuses on key disciplines that need strengthening

- Phased approach to reorganization:
  - Implement full reorganization over ~6 months as leadership is hired
  - Establish interim organization ensuring support for restatement and SOX remediation
Next steps

- Continue to “Exit the Penalty Box”
  - Finish Restatement and launch the “Catch-up” phase
  - Remediate SOX Material Weaknesses and drive for a clean opinion
  - Complete the “Get Current” strategy and execute the plan rigorously

- Establish Tech & Ops organization
  - Hire the senior leadership for the new organization (i.e., CIO and Head of Operations) and build out interim organization

- Complete technology down payments for the business
  - RTF, S/IR, HCD Core, Summit

- Build out business architecture
  - Document/finalize current business processes
  - Develop shared services model for the business and finalize the design.
  - Conduct outsource, buy or build analysis
  - Develop and fund implementation plan
Appendices

Appendix A: Current Assessment
Appendix B: Business Drivers and Challenges
Appendix C: "End State" Schematics
Appendix D: Technology & Operations Organizational Structure
Appendix E: IT Spending Trend
Appendix A: Current Assessment

- Enterprise Systems & Operations (ESO) established July ‘02
  - Ability to process and manage book of business highly dependent on technology
  - Recognized importance of developing higher levels of operating efficiency & effectiveness through tighter integration with Enterprise Systems organization

- Significant Business Volume Processed
  - Acquisitions (Business and Transactions) – $531 billion in Cash & MBS
  - Loans Underwritten (DU) – 8.4 million unique loans or 37 million underwriting requests
  - MBS Securities Payments – $526 billion
  - Debt Issuance – $2.7 trillion

- ESO Operating Profile
  - Staff – 2,316 (39% of the company)
  - Officers – 33 (17% of the company)
  - Expenses – $614 million (28% of the company)
  - Capacity – 5,559 servers
  - Applications – 75 Class 1 applications
Appendix A: Current Assessment

- Accomplishments To Date

- **Operations Integration** – SF & HCD Operations processed record volumes in 2001-2004 with minimal staffing increases

- **eCommerce Initiatives** – Fanniemae.com, DTF (Debt Trading Facility), eCommitting

- **HCD Core** – Upgraded support for processes from front-end to QC and servicing

- **eBusiness** – Enhanced DO and DU, implemented Dedicated Channel, eFannieMae.com

- **Data Centers** – Completed two new data centers with 24x7 operations

- **Networks** – Enhanced external network and information security (e.g., TruSecure); enhanced critical infrastructure upgrades (e.g., DMZs)
Appendix A: Current Assessment

- Significant Issues & Challenges

- **Implementation Challenges** – Delays in implementing CORE functionality have had a negative impact on SF Operations

- **Aging technology platforms** - Legacy applications impact ability to support the Finance division and Capital Markets business. Architectural complexity severely limits ability to optimize SF and HCD operating and control environment

- **SOX material weaknesses** - Recent audit identified significant weaknesses in control environment to a large extent exacerbated by the quality of systems and underlying processes

- **MBS disclosure errors** – Data Integrity issues have resulted in the publishing of incorrect disclosures to the market.

Additionally, as a result of the restatement, we need to rebuild our financial processing platform with nearly $300M of systems.
Appendix A: Current Assessment – External and internal forces at work

- Customers / Market
  - "Make it easy to do business with you"
  - Provide leadership (e.g.: eMortgage)
  - Competition from Wall Street
  - Reliable processing, 24x7
  - Plug and play
  - New products
  - Flexibility
  - Lower cost
  - Speed

- The Businesses

- Regulators
Appendix A: Current Assessment –
External and internal forces at work

- Customers / Market
  - Well managed, well controlled, reliable processing
  - Industry consolidation – must be able to serve many customers or just a few
- The Businesses
  - Fast reaction to changing market needs / new products
  - Strong partnership
- Regulators
  - “We need ops and IT people who understand our business…”
Appendix A: Current Assessment – External and internal forces at work

- Customers / Market
  - Tighter controls and increased reporting
  - Ops and IT standardization
  - Segregation of duties and accountabilities
  - Business processes aligned to IT architecture
  - Consistent and appropriate investment
  - Establish strategic planning as an institutionalized management discipline
  - From proprietary, in-house development toward best-of-breed package solutions

- The Businesses

- Regulators
Appendix B: HCD Drivers

**HCD plans to “turbo-charge” their businesses**

- Multifamily is prepared to revitalize and reinvigorate the DUS program.

- Aggressively targeting Small MF Loans, especially Micro Loans.

- The Equity businesses, Tax-advantaged and Direct, aim to grow significantly by building on the LIHTC franchise and expanding capabilities in For Sale and For Rent market-rate equity investments.

- New approach to and investment in Acquisition, Development & Construction to significantly expand in this growing market through strategic partnerships*

* Presently on hold pending regulatory review.
Appendix B: HCD Challenges

- **Legacy Platforms** - While HCD businesses are running in stable mode today, current operations and technology capability will need to be significantly upgraded to support growth
  - Multifamily business heavily dependent on older, poorly integrated and maintained systems (MCODES, Strategy, etc.)
  - Other businesses heavily dependent on the use of non-scalable End User Computing (EUC) applications
  - Across HCD, lack of horizontal integration of IT platforms or operations
  - Inflexible customized in-house systems exacerbating data quality problems

- **Inefficient Operations** - As a result of the platform deficiencies, there are significant manual processes at all stages in operations, with low consistency and limited overall automation

- **Inconsistent Data** - HCD Core, along with FMIS, provides some consistency in data, but it is not a global answer and is constrained by the source systems that feed the databases

- **Lack of Tools** - We are not best in class on the data, analytics, and forecasting tools supporting the HCD businesses
Appendix B: Single-Family Drivers

*Single Family Business aims to expand significantly the business by implementing a "Say Yes" strategy*

- Maintain market leadership in core products
- Do more business with existing customers
- Attract new customers
- To do this, in part, by:
  - Making it easier to do business with Fannie Mae
  - Expanding the box through penetration into Alt-A and subprime markets
  - Becoming a potential buyer of all charter-compliant loans
Appendix B: Single-Family Challenges

- While the SFB is currently running a stable but rigid platform, current operations and technology will need to be **significantly upgraded to support growth and become SOX compliant**
  - Customers find it hard to do business with FNM due to system limitations; e.g., contracts are cumbersome, underwriting and delivery are disconnected
  - SFB is heavily reliant on older systems that are not well integrated and do not meet the new compliance standards

- SF is burdened with a costly infrastructure
  - Inadequate integration between MORNET, Delivery, and MCTSX results in rejection of >50% of all loans, which then need to be handled manually
  - More than 35 back-end legacy systems interact with LASER and MAST
Appendix B: Capital Markets Drivers

*Capital Markets is moving toward a strategy of Active Balance Sheet Management*

- Will require fixed-income asset and liability management capabilities that meet or exceed industry standards
  - Active management, including ability to buy and sell assets, debt, and derivatives
  - Close management of constraints of capital and market risk

- As a result, they need:
  - Streamlined, accurate, and comprehensive position data collection
  - Access to market pricing
  - Frequent analytics and performance attribution of positions
Appendix B: Capital Markets Challenges

- While there are initiatives underway to implement the Active Balance Sheet Management strategy, the operations and technology processes need to be upgraded
  - Historically, limited investment in systems and operations
  - Technology has been point or stovepipe solution
  - Heavily intertwined with accounting
  - Labor-intensive data collection process resulting in dated position reporting
  - Desired details missing in creating updated positions
  - Inadequate, non-SOX compliant controls
  - Non-configurable, spreadsheet-based modeling
Appendix C: “End State” Schematics
Appendix C: HCD End State

Transactional
- Customer Management
- Deal Setup/Management
- Underwrite & Price
- Delivery / Funding
- Servicing
- Delinquency Management
- Case Management

Analytical
- Customer & Asset Acquisition
- HCD Data Mart
- RTF

- Accounting
- Performance Analytics
- Performance Metrics
Appendix C: Single-Family End State

![Diagram of end state flow with boxed sections: Analytical, Transactional

- Analytical: Accounting, Performance Analytics, Performance Metrics, SF Data Mart, RTF
- Transactional: Customer-Facing Systems, Servicing and Reporting

- Customer Setup and Management, Contract Management, Underwrite & Price, Delivery/Funding, Servicing, Delinquency Management, Remittance and Reporting

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Appendix C: Capital Markets End State

Asset Management
- Data Collection
- Deal / Flow
- Quality Assurance
- Accounting

TOTAL RETURN

Performance Management

CM Data Mart

Pricing/Risk Management

Liability Management
(Summit)
- Data Collection
- Debt / Derivative Management
- Accounting
Appendix D: Technology & Operations Organizational Structure
Appendix D: Technology & Operations
Organizational Structure

Chief Operating Officer (COO)

SVP/Chief Technology Officer (CTO)
   - VP Infrastructure Architecture and Strategy
   - VP Data Centers and Networks
   - VP End User Services

EVP/Chief Information Officer (CIO)
   - SVP SF IT Solutions (2)
   - SVP HCD IT Solutions (2)
   - SVP Capital Markets IT Solutions (2)
   - SVP Corporate IT Solutions

EVP/Head of Operations
   - VP IT Risk Management and Standards
   - VP IT Architecture
   - VP IT Strategy

SVP Enterprise Data
   - VP Data Management
   - VP Data Management Technology
   - VP Finance / Restatement Data Warehouse

(1) May not be a VP level position
(2) Would have dotted lines into business

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Appendix E: IT Spending Trend
Appendix E: IT Spending Trend – Proportions of Investment Dollars Spent Will Shift

100% 100% 100%

Financial Systems
- Systems and Controls
- Infrastructure
- Business

Historical Spending  Current Spending  Future Spending

(Does not include base expenditures)