Optimization by Pursuing the Unoccupied Spaces
What is Our Business?

Mission
- The mission of the Single Family Guaranty Business is to attract global capital to the U.S. affordable housing market through the guarantee of mortgage backed securities while delivering value to lenders, mortgage investors and other mortgage market participants in furtherance of Fannie Mae’s mission to tear down barriers, lower costs and increase homeownership.

Priorities of the Business
- 2005
  - Achieve corporate and mission goals
  - Maintain leadership and relevancy in the secondary market
  - Work strategically with our lender partners to balance affordability and risk concerns to increase homeownership opportunities and to educate the market about the heightened risks of more exotic ARM products, that dominate the market today
- 2006-2009
  - Develop needed infrastructure and capabilities to compete in a changing market
  - Invest in human capital and resources to grow the business
State of the Business

Developed a very large asset (represents over 30% of the Single-Family Conventional First Lien MDO market)...

And generates strong revenues for the business...

That is of superior quality....

- **Book of Business Stats**
  - Exceeds $2 trillion
  - Includes over 16 million loans

- **Conventional Book Profile as of Q1 2005**
  - Weighted average FICO is 719
  - Weighted average original LTV on our acquisitions is 72%
  - Weighted average mark-to-market LTV is 56%
  - Credit losses have averaged less than 1 basis point over the past couple of years

While serving our intended mission.

- We have met or exceeded our HUD housing goals for 11 consecutive years
  - For 2004, Fannie Mae helped finance homes for over 70,000 African American families, 140,000 Hispanic families and nearly 290,000 minority families.
  - In 2004, we also helped finance over 2.1 million units for borrowers that were at or below area median income – including over 900,000 units to borrowers that were 60% below area median income.
Stabilizing the Business

Despite the turmoil of the last year, we are delivering on Priority #2 – Meet the tremendous business challenges.

Our 2005 volumes meeting plan.

While holding our margins...

Our market share versus a chief competitor has remained in its preferred target range...

And maintaining strong customer relationships

- We have focused on taking a more creative and expansive view of partnerships. YTD we have:
  - 47 Partners Agreements, 5 Affinity Agreements and 3 Co-Op Agreements
  - Signed 2 new partners and loss only 1 major partner
  - Renewed 12 alliances including GMAC, Wachovia and Flagstar, 2 Affinity Agreements and 1 Co-Op Agreement
  - Signed minority share agreements with WAMU, Bank of America and Chase
  - Expanded our relationship with CitiMortgage, Wells and others
Changing Landscape

However, the landscape has changed driven by consumer preferences for alternative products that have dramatically increased credit risk.

Amortizing and IO Loans Underlying All MBS Issuance

- Increasing affordability concerns
- Home being utilized more like an ATM
- Emphasis on lowest possible payment vs. terms
- Layering of risks (no doc, high debt-to-income, higher loan-to-value, lower credit quality, payment shock)

Source: Fannie Mae Economics and Mortgage Market Analysis
Changing Landscape

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

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

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.
Changing Landscape

There has also been a dramatic increase in competition from credit risk takers in the Private Label (non-agency guarantee market)

![Chart showing share of total MBS issuance from Q1 2002 to Q1 2005.]

- **Share of Total MBS Issuance**
  - Private Label: 54%
  - Fannie Mae: 24%
  - Freddie Mac: 17%

![Pie chart showing composition of Private Label MBS issuance for 2002 and 2005.]

- **2002** ($363 BN)
  - Subprime: 28%
  - Alt-A: 15%
  - Other: 57%

- **2005 Annualized** ($963 BN)
  - Subprime: 43%
  - Alt-A: 23%
  - Other: 34%

Source: Fannie Mae, Inside ABS & MBS, and Bond Buyer, par Lehman Brothers

Confidential – Highly Restricted
Changing Landscape

The Private Label market is creating securities with different credit risk tranches appealing to investor’s seeking yield

- These investors are not traditional real estate risk takers
- We believe they are under pricing the future risks

Consumers and Investors have increased their risk appetite
Short-term Issues

The changing landscape gives rise to important questions

- Is the housing market overheated?
- Are consumer changes in preferences for adjustable rate vs. fixed rate mortgages cyclical or secular?
- What impact will borrower preferences for these products have on Fannie Mae achieving its mission goals?
- Will alternative investors exit when higher yielding investment's or risks emerge?
Strategic Approach:
Single-Family Path to Long-Term Strategy

**Short Term**

- Pursue a “Stay the Course” strategy; 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
- Rebuild human capital and break down organizational silos

**Medium Term**

- Dedicate significant resources to develop capabilities to compete in any mortgage environment:
  - Develop a subprime infrastructure
  - Develop products to address affordability with lower risk
  - Develop conduit capability (sell the risk)

**Long Term**

- Optimize
HCD / Multifamily
Strategic Review Summary

Board of Directors

July 19, 2005

Confidential Treatment
Requested By Fannie Mae

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

FMSE 511448
Our Mission

To Create Tangible Impact In Communities By Increasing And Preserving The Supply Of Affordable Rental And For-sale Housing, And To Produce Value For Shareholders

Confidential Treatment Requested By Fannie Mae

CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

FMSE 511449
## Our Business

### Multifamily Business

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Multifamily Total Debt Volume</td>
<td>$22.0 Billion</td>
<td>$19.4 Billion</td>
<td>$34.2 Billion</td>
<td>$19.2 Billion</td>
<td>$20.0 Billion</td>
</tr>
<tr>
<td>Multifamily Flow Debt Volume</td>
<td>$37.4 Billion</td>
<td>$37.6 Billion</td>
<td>$36.9 Billion</td>
<td>$15.6 Billion</td>
<td>$14.6 Billion</td>
</tr>
<tr>
<td>Multifamily Flow Debt Market Share</td>
<td>14.9%</td>
<td>19.5%</td>
<td>25.3%</td>
<td>23.7%</td>
<td>32.6%</td>
</tr>
<tr>
<td>Low Income and Very Low Income Credit Volume (LIHTC)</td>
<td>$8.0 Billion</td>
<td>$8.0 Billion</td>
<td>$7.5 Billion</td>
<td>$6.5 Billion</td>
<td>$5.0 Billion</td>
</tr>
<tr>
<td>LIHTC Market Share</td>
<td>24.7%</td>
<td>25.1%</td>
<td>25.2%</td>
<td>25.9%</td>
<td>25.4%</td>
</tr>
</tbody>
</table>

### ACF Business

<table>
<thead>
<tr>
<th></th>
<th>2005 Est.</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition, Development &amp; Construction Volume (AD&amp;C)</td>
<td>$400 Million</td>
<td>$395 Million</td>
</tr>
<tr>
<td>Rental Equity Volume</td>
<td>$934 Million</td>
<td>$765 Million</td>
</tr>
<tr>
<td>Rental Equity Volume</td>
<td>$243 Million</td>
<td>$160 Million</td>
</tr>
<tr>
<td>Non-Multi-Use Loan Volume</td>
<td>$32 Million</td>
<td>$32 Million</td>
</tr>
</tbody>
</table>
Optimization by Pursuing the Unoccupied Spaces
Strategic Approach: HCD Path to Long-Term Strategy

2005
- Grow MF & LIHTC Business
- Improve Infrastructure – HCD Core
- Preserve Existing Franchise – ACF/PO Integration
- Build on Strengths – New DUS
- Strengthen ACF Underwriting & Credit

2006+
- Further develop key products & capabilities:
  - AD&C
  - One Pipe
  - For-sale & Rental Equity
  - Small Loans
  - Infrastructure
  - Risk Transformation

Short Term

Medium Term

Long Term

Optimize

Stabilize
The Market And Our Partners Demand More

- Shortage Of Affordable Housing For Low- And Moderate-income Borrowers
- Demographic Trends Driving Increased Demand (Immigrants And Elderly)
- Lenders Expect Us To Take On More Risk
- Trade Groups Want Specialized Products And Liquidity
- Policy Makers Expect Us To Provide Greater Access To Safe And Affordable Housing

Demands Provide Opportunities
To Create Shareholder Value And Fulfill Our Mission
Guiding Principles For Success

- Partner With The Best
- Leverage Our Partners' Sourcing And Infrastructure
- Create Rules Of Engagement
- Risk-sharing; Co-investment
- Continuous Flexibility
- Programmatically Discipline And Controls
- Be Indispensable To Our Partners
- Produce Tangible Mission Value And Bottom Line Results

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FMSE 511454
Opportunities Exist All Along The Risk Spectrum

Expected Annual Volume

- For-sale & Rental Equity $24 Billion
- Acquisition, Development, & Construction Production $257 Billion
- Small MF Loans $30 Billion
- LIHTC Equity $8 Billion

Risk vs. Return

- 25%
- 5%
- 0.01%

HCD Market Share
## Quantifying The Opportunities

<table>
<thead>
<tr>
<th>Business Line</th>
<th>Gross Margin</th>
<th>Credit Losses¹</th>
<th>G&amp;A²</th>
<th>Net Margin</th>
<th>Expected Life</th>
<th>Projected Share</th>
<th>Potential Net Income³</th>
<th>Net Present Value³</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD&amp;C</td>
<td>185 bps</td>
<td>50 bps</td>
<td>36 bps</td>
<td>99 bps</td>
<td>3 years</td>
<td>$2.7 Billion</td>
<td>$31 Million</td>
<td>$61 Million</td>
</tr>
<tr>
<td>Small Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-sale Equity</td>
<td>1,650 bps</td>
<td>100 bps</td>
<td>10 bps</td>
<td>1,540 bps</td>
<td>2-3 Years</td>
<td>$0.7 Billion</td>
<td>$108 Million</td>
<td>$244 Million</td>
</tr>
<tr>
<td>Rental Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Loans</td>
<td>260 bps</td>
<td>40 bps</td>
<td>8 bps</td>
<td>212 bps</td>
<td>5 Years</td>
<td>$1 Billion</td>
<td>$28 Million</td>
<td>$66 Million</td>
</tr>
</tbody>
</table>

¹ Credit Losses: Small Loans per credit works, Infrastructure per historical ACF Community Lending credit performance, AD&C increased from historical performance of 35 bps, and For-Sale and Rental equity includes 50 bps of Net Operating Losses per year for new commitments.

² G&A: Small Loans based on MF average, Infrastructure based on ACF Community Lending average, AD&C and Equity based on industry benchmarking.


⁴ Discounted at 8%. For Small Loans and Infrastructure represents the lifecycle value of the businesses generated in 2006-2008. For AD&C and For-sale and Rental Equity represents the Net Revenue to stabilization at 2011.
What It Will Take...

Ramp-up Will Take Time

Be Committed

Maximizing Opportunities Demands Hiring Expertise & Funding R&D

Invest In Intellectual Capital

Sustaining Core Business & Pursuing New Opportunities Demand More Robust Systems

Enhance Systems

Riskier Business Requires Stronger Credit Analytics, Ability To Absorb Risk, & Capability To Tranche & Sell Risk Into Market

Increase Risk Appetite
Optimization by Pursuing the Unoccupied Spaces

Limits of Current Charter

- Total return model
- Conduit
- Portfolio:
  - Buying / selling assets more actively
  - Occupied spaces
  - Unoccupied spaces
  - Long-term strategy
Portfolio Investments

- Expected life-time investment spread should be 20-30 bp
- Economic return on equity should be 7-10% after tax (earnings return on equity may be higher)
- Growth should approximate growth in mortgage debt outstanding over the long term
- Portfolio mission is to provide liquidity to mortgage lenders by buying less liquid investments and by buying TBA mortgages when there is insufficient demand by other investors
- Portfolio buying and selling provide market stability and liquidity
<table>
<thead>
<tr>
<th>Source</th>
<th>Attribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gfees</td>
<td>20 bp</td>
</tr>
<tr>
<td>Equity Financed</td>
<td>15 bp</td>
</tr>
<tr>
<td>Investment Spread</td>
<td>25 bp</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>60 bp</td>
</tr>
<tr>
<td>Investment Spread attribution</td>
<td></td>
</tr>
<tr>
<td>OAS to swaps</td>
<td>15-30 bp</td>
</tr>
<tr>
<td>Funding to swaps</td>
<td>0-15 bp</td>
</tr>
<tr>
<td>Volatility Sale</td>
<td>0.7 bp</td>
</tr>
<tr>
<td>Yield Curve Sale</td>
<td>0.7 bp</td>
</tr>
</tbody>
</table>
### Investment Spread Required to Achieve Specific ROE

<table>
<thead>
<tr>
<th>Capital Ratio</th>
<th>2.00%</th>
<th>2.50%</th>
<th>3.00%</th>
<th>4.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE = 7%</td>
<td>15</td>
<td>18</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>ROE = 10%</td>
<td>24</td>
<td>30</td>
<td>36</td>
<td>48</td>
</tr>
<tr>
<td>ROE = 15%</td>
<td>39</td>
<td>49</td>
<td>59</td>
<td>78</td>
</tr>
</tbody>
</table>
Debt Cost of Funds has Improved
Debt Cost of Funds has improved
Mortgage Investment Spreads Remain Narrow

- 30-yr Par OAS
- 15-yr PAR OAS
- Home Eq
- Hybrid ARM OAS

Dec Jan Feb Mar Apr May Jun
# Growth is Opportunistic

<table>
<thead>
<tr>
<th>MDO Growth*</th>
<th>Portfolio Growth*</th>
<th>Portfolio Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1: 2003</td>
<td>11.8%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Q2: 2003</td>
<td>15.5%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Q3: 2003</td>
<td>13.3%</td>
<td>60.4%</td>
</tr>
<tr>
<td>Q4: 2003</td>
<td>10.3%</td>
<td>-7.9%</td>
</tr>
<tr>
<td>Q1: 2004</td>
<td>11.3%</td>
<td>-6.8%</td>
</tr>
<tr>
<td>Q2: 2004</td>
<td>11.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Q3: 2004</td>
<td>13.5%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Q4: 2004</td>
<td>11.7%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Q1: 2005</td>
<td>9.2%</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Q2: 2005</td>
<td>10%P</td>
<td>-24.0%</td>
</tr>
</tbody>
</table>

*Annualized
Multifamily Acquisitions Running Strong

Portfolio's Share of Multifamily Business Volumes

<table>
<thead>
<tr>
<th>Month</th>
<th>MF Business Volume</th>
<th>Portfolio Purchases</th>
<th>Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>$1,400</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>Feb</td>
<td>$1,200</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Mar</td>
<td>$1,000</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Apr</td>
<td>$800</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>$600</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$400</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$200</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

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FMSE 511472
Stabilization Snap Shot

The portfolio is being managed more actively to maximize total return

- Capital plan is on pace
- Debt costs relative to swaps are improving
- Mortgage investments spreads remain low
- Securitization is vibrant; Mega and REMIC fees remain good, volumes are strong, pooling is healthy
Strategic Approach: Mortgage Portfolio Path to Long-Term Strategy

**Short Term**

- Selectively sell securities with low or negative investment spreads relative to funding
  - REMIC Tranches with low OAS and mortgage linked debt securities
  - Liquid and prepayable MBS when market opportunities become available

**Medium Term**

- Allow portfolio to shrink when mortgage investment spreads are low
- Retain securities with the greatest likely investment return
  - Private label securities
  - Less liquid mortgage backed securities such as hybrids
- Develop further conduit capabilities

**Long Term**
Strategic Initiative: The Conduit

Board of Directors

July 19, 2005
Private Label Competition is Severe

- Private label, at 53% of the market, now exceeds Fannie/Freddie securities combined, at 43% of the market.

- Fannie participates in this market through the purchase of mostly AAA tranches, 10-15% of the total available in 2005.

- Private label securities:
  - 43% Subprime
  - 75% ARMs
  - Approximately 22% Share of Minority Loans
  - 23% Alt A

- Buyers who “pay up” for the “B” pieces drive much of the market.

The ability of lenders to sell mortgages without GSE involvement has grown enormously, and is a major strategic problem for the company.
How a Private Label Deal Works

- Origination
- Sale to Conduit Aggregators
- Structuring
- Sale to Investors

Brokers
Mortgage Bankers
Conduits' own retail branches

Countrywide
GMAC – RFC
Lehman
Bank of America
Indy Mac
Wells Fargo
Bear Stearns
CS First Boston
Goldman Sachs

AAA 80%
AA 10%

PIMCO
Black Rock
European Banks
Other Money Managers
Fannie Mae
Freddie Mac

A 5%
B 5%

Hedge Funds
Insurance Companies
Collateral Debt Obligation (CDO) Issuers
Case for Action – Overview

- **Capabilities**
  - Fannie Mae lacks key capabilities that conduits possess, rendering us mostly incapable to compete for some product.

- **Relationships**
  - We have no relationship with the investors that buy the “B” pieces. They are our competition. Alternatively, they could also be our partners. The MI’s, our traditional risk sharing partners, are not as competitive as “B” piece buyers.

- **Economics and goals**
  - We are leaving economics and housing goals on the table.

We need to develop the conduit capabilities of our competition.
# Case for Action – ARM Example

<table>
<thead>
<tr>
<th>Private Label Capability</th>
<th>Our private label competition buys ARM loans from lenders, aggregates them, and sells them as securities to the market.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question</td>
<td>Do we have the infrastructure to aggregate and sell a pipeline of ARMS in an economic and controlled manner?</td>
</tr>
<tr>
<td>Answer</td>
<td>No</td>
</tr>
<tr>
<td>Perspective</td>
<td>- Fannie ARM market share: 14% versus 38% of fixed rate mortgages&lt;br&gt;- Every 1% share point equates to $8 billion in business</td>
</tr>
</tbody>
</table>
# Case for Action – Selling Credit Risk

<table>
<thead>
<tr>
<th>Private Label Capability</th>
<th>Our private label competition can pass through to lenders pricing advantages for SF and MF loans gained from “B” piece buyers that price credit risk differently than us.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question</td>
<td>Do we have the infrastructure and market knowledge to execute a business model for SF and MF utilizing access to “B” piece buyers?</td>
</tr>
<tr>
<td>Answer</td>
<td>No</td>
</tr>
<tr>
<td>Perspective</td>
<td>• We have no value proposition, at the moment for much of the subprime and Alt A markets.</td>
</tr>
<tr>
<td></td>
<td>• Size of subprime market: $350 billion</td>
</tr>
<tr>
<td></td>
<td>• Size of Alt A market: $160 billion</td>
</tr>
<tr>
<td></td>
<td>• Every 1% share point is worth $5 billion of business</td>
</tr>
</tbody>
</table>
Possible Impediments to Success

- Will we have a value proposition superior to other conduits in the market?
- How much of the market will our anti-predatory lending standards allow us to do?
- How much support would we want to give to lending products we consider “frothy”?
- How much “good” product will be withheld from us to support private label deals with commercial mortgages, jumbo mortgages, and other mortgages we cannot or choose not to do?

Our conduit will not be a panacea!
Next Step: Develop a Plan

- Economic analysis:
  - Business opportunity
  - Profit and housing goal potential
  - Investments required
  - Establish our value proposition

- Technology requirements
- Distribution and market requirements
- Accounting and Controls
- Organizational implications

One Fannie Mae
The conduit project transcends our traditional organizational boundaries, and involves our Single-Family, Multifamily and Portfolio businesses
Strategy Review: Wrap-up

Board of Directors

July 19, 2005
Long-Term Vision: Looking Back Ten Years from Now

- Fixed the company
  - Built the next Fannie Mae
  - Put our mission and business together
  - Rewarded our shareholders
  - Answered the question about whether we matter
  - Built One Fannie Mae

- Changed the market
  - Closed the minority homeownership gap
  - Transformed 1,000 communities
  - Brought stability to the market even while stabilizing ourselves

- Made ourselves better people
  - Became better managers
  - Changed our culture to align with this future

Deliver value for shareholders
Key Success Factors for Optimization: Management Team's Proposed Priorities

Stand back from all-in layered risk in the market
- Maintain strong credit discipline
- Protect credit quality of book of business
- Execute loan-level risk-based pricing
- Develop conduit capability

Implement total value strategy for the Portfolio
- Improve debt costs relative to swaps
- Focus investors more closely on economic returns
- Approximate growth in mortgage debt outstanding
- Buy and sell mortgages to provide market stability and liquidity

Engage in new markets
- Develop modeling capabilities for alternative markets
- Develop subprime infrastructure
- Transform Partnership Offices into Community Business Centers

Inculcate operational discipline across the organization
- Implement revised CORE infrastructure system
- Implement common operational discipline framework and tools
- Integrate risk management processes
- Build out MBS organization
- Incorporate eBusiness capabilities throughout Credit Guaranty business
- Integrate National Community Lending Center into Single Family business

Preserve and build out DUS
- Implement process improvements, enhanced delegation, and flexible risk sharing
- Increase flexibility of underwriting and mezzanine financing
- Drive investor spreads down by supporting robust MBS and accessing the capital markets

Refill and manage human capital
- Complete management team build-out
- Implement SEAM
Discussion: Questions for the Board

- Do the medium-term strategies align with the Board's view of our long-term options?
- What long-term options would the Board like management to act on sooner, as part of the optimization strategy?
- Have we prioritized enough on the current course of action?
- Have we put in place the right organizational structure and allocation of resources?