

---

Interim Chief Risk Officer Report  
Fannie Mae Board of Directors Meeting

July 19, 2005

PROPRIETARY AND CONFIDENTIAL -  
CONFIDENTIAL TREATMENT REQUESTED  
BY FANNIE MAE

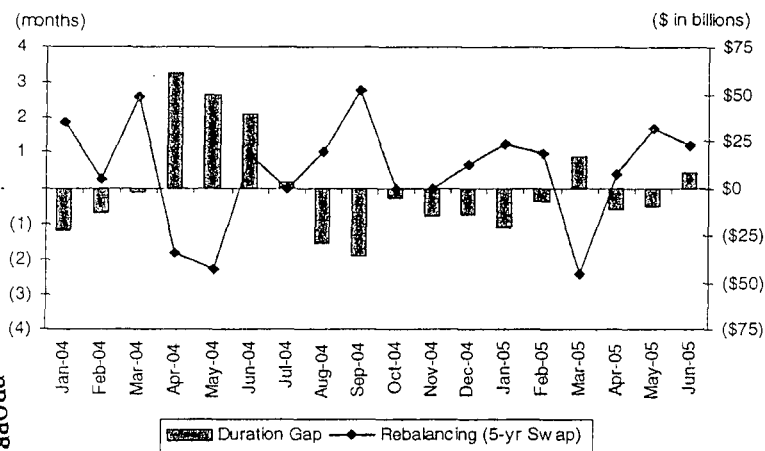
Confidential Treatment  
Requested By Fannie Mae

FMSE 510917

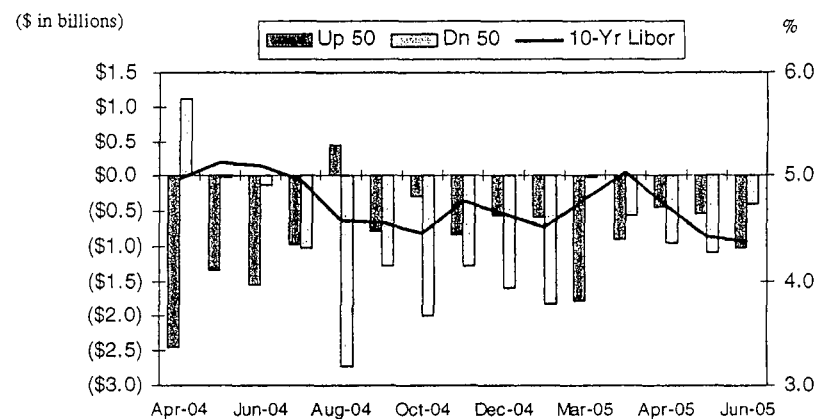
# Interest Rate Risk

- Key interest rate risk measures well-contained.

**Duration Gap and Rebalancing**



**Market Value of Equity Sensitivity (Pre-tax)**



- Most concerning risk is strategic pressures on the business
  - Lack of attractive spreads on “plain-vanilla” mortgage assets
  - Legislative/regulatory uncertainty

## Credit Risk

- Current credit performance indicators generally positive – but we do have key risks to watch closely.

1. Single-family portfolio



	<u>1Q 2005</u>	<u>1Q 2004</u>
MTM LTV	56.1%	60.6%
SDQ Rate	0.59%	0.58%
REO Acquired	8,403	8,113
Key Risks	"Housing Bubble", Intense competition	

2. Multifamily portfolio



	<u>1Q 2005</u>	<u>1Q 2004</u>
Watchlist (in billions)	\$12.3	\$8.6
% Red	2.2%	6.8%
SDQ Rate	0.09%	0.17%
REO Acquired	6	10
Key Risks	Property cash flows, Intense competition	

3. Counterparty



<ul style="list-style-type: none"> <li>• \$2.5 billion exposure to GM/GMAC closed down in May.</li> <li>• LIP portfolio sold all impaired aircraft ABS.</li> <li>• No material counterparty exposures of concern.</li> </ul>
--

4. Private Label Securities & Other Exposures



<ul style="list-style-type: none"> <li>• No material risk developments</li> <li>• RP&amp;CC approved revised risk limits at May meeting.                             <ul style="list-style-type: none"> <li>– All exposures within established limits as of 5/31/2005</li> </ul> </li> <li>• Key Risks: MH portfolio, subprime loan performance</li> </ul>
--

Confidential Treatment Requested By Fannie Mae

PROPRIETARY AND CONFIDENTIAL - CONFIDENTIAL TREATMENT REQUESTED BY FANNIE MAE

FMSE 510919

# Single Family Housing and Mortgage Market

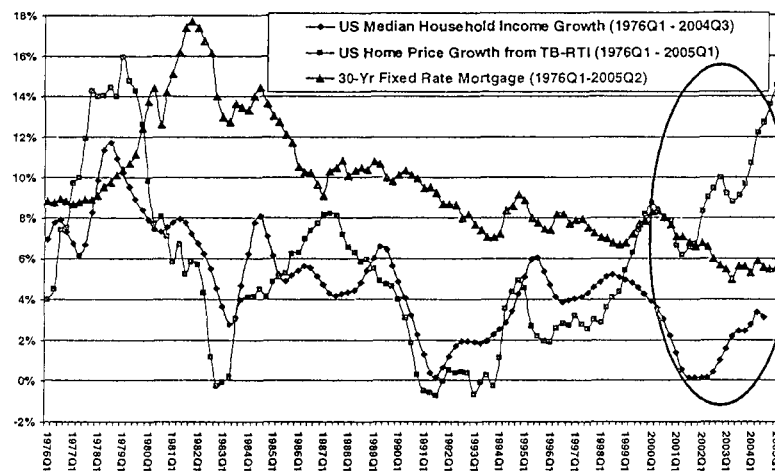
- Home price appreciation remains very robust, some local markets are a concern. Mortgage products focused on low initial payments are expanding and pose risk of "payment shock".

US & Regional Home Price Trend

Region	Annualized HP Growth from TB-RTI* up to 2005Q1		
	Last 1 yr	Last 2 yrs	Last 5 yrs
West South Central	5.2%	4.0%	3.5%
West North Central	6.5%	6.3%	7.3%
East North Central	6.9%	5.9%	5.4%
East South Central	7.0%	5.3%	3.7%
New England	11.1%	11.0%	12.3%
Middle Atlantic	15.6%	14.5%	12.5%
South Atlantic	21.5%	16.8%	11.4%
Mountain	22.1%	16.7%	9.4%
Pacific	22.7%	21.4%	15.5%
US	14.6%	12.6%	9.9%

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

US Income Growth, Home Price Growth and Mortgage Rate

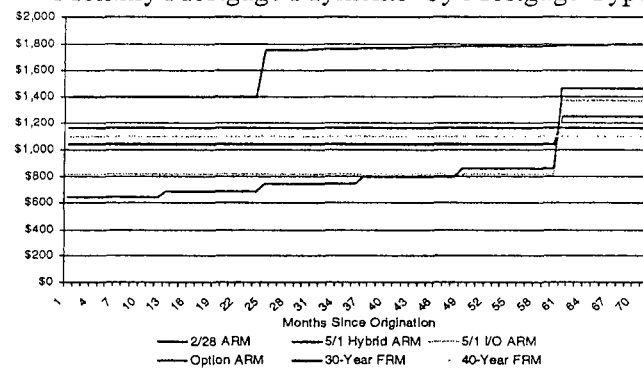


Local Market Assessment

Economy.com's "Over-priced" MSAs		Stretch Mortgage Rank <sup>1</sup>
Rank	MSA	
1	Las Vegas	Top 15
2	Washington DC	
3	W. Palm Beach	
4	Riverside	Top 15
5	Sacramento	Top 15
6	San Diego	Top 15
7	Anaheim	Top 15
8	Miami	
9	Los Angeles	Top 15
10	Monmouth	

1. Stretch Mortgage Rank indexed to ARM share, Investor share, NegAm & IO share.

Monthly Mortgage Payments<sup>1</sup> by Mortgage Type



1. Monthly mortgage payments based on original balance of \$200,000. Borrowers are assumed to make the minimum required payment.

Confidential and Proprietary - Confidential Treatment Requested by Fannie Mae

## Operational Risk

---

- Remains high, no fast fixes.
- Efforts that will make a difference:
  - Clear management focus, which we have
  - SOX
  - Restatement
  - Operational Discipline Project
  - Targeted Efforts (EUC, Document Retention, Anti-fraud)
- Magnitude of simultaneous challenges on small leadership team a concern.

Confidential Treatment  
Requested By Fannie Mae

PROPRIETARY AND CONFIDENTIAL -  
CONFIDENTIAL TREATMENT REQUESTED  
BY FANNIE MAE

FMSE 510921

## Conclusion

---

- Interest rate and credit risk currently in solid shape.
- Worrisome trends in mortgage market and intense competitive pressure and legislative/regulatory uncertainty present strategic risk.
- Operational risk remains high, numerous efforts underway to remediate and build more robust platform for the future.

PROPRIETARY AND CONFIDENTIAL -  
CONFIDENTIAL TREATMENT REQUESTED  
BY FANNIE MAE

FMSE 510922