Business Update: Guaranty Business

Single-Family
- Volume through July at $287.8B, on plan
- Volume outlook for the year at $538.2B as of 9/9/05, $40 billion above plan
- Full-year book growth at 1.5%, 0.25 percentage points under target
- Net charged fee through July at 24.6 bps, 1.4 bps under plan
- Market showing some initial signs that the "flight from quality" observed over the past two years may be starting to abate
- Continuing to focus on:
  - Business retention
  - Organizational realignment
  - Competitive pressures (private label and subprime)
  - Regulatory and minority lending goals

Multifamily
- Volume through July at $13.5B, $2.1B above plan
- Charged guaranty fee through July at 26.0 bps, 3.2 bps above plan; higher fees due to favorable product mix
- Book growth is significantly below plan (3.8% vs. 7.3%), resulting from higher than expected liquidations
- Credit losses through July were $22.6 million, significantly favorable to plan of $44.2 million
- Continuing to work with Portfolio on a more efficient approval for pricing credit risk and interest rate risk together
- Completed work-plan for New DUS and engaged lenders to implement pilot launch by year-end; Approved $1 billion in new business under Flexible underwriting
Business Update: Portfolio Business

- Short-term interest rates have steadily increased over the year in line with Fed Funds rate hikes
- Debt to swap spreads have improved due to decreased issuance
- Mortgage option-adjusted spreads have remained very tight
- Monthly portfolio duration gap reported at +/- 1 month or less through August
- Mortgage balance growth through August is -23% annualized, driven by tight MBS spreads and the Capital Restoration Plan

**Net Mortgage Balance (as of 9/6)**

<table>
<thead>
<tr>
<th>Month</th>
<th>Net Mortgage Balance ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 04</td>
<td>$950.00</td>
</tr>
<tr>
<td>Mar 04</td>
<td>$925.00</td>
</tr>
<tr>
<td>May 04</td>
<td>$900.00</td>
</tr>
<tr>
<td>Jul 04</td>
<td>$875.00</td>
</tr>
<tr>
<td>Sep 04</td>
<td>$850.00</td>
</tr>
<tr>
<td>Nov 04</td>
<td>$825.00</td>
</tr>
<tr>
<td>Jan 05</td>
<td>$800.00</td>
</tr>
<tr>
<td>Mar 05</td>
<td>$775.00</td>
</tr>
<tr>
<td>May 05</td>
<td>$750.00</td>
</tr>
</tbody>
</table>

The Net Mortgage Balance includes a mark-to-market adjustment for all securities available for sale.

**Duration Gap and Rebalancing**

The duration gap is calculated as the difference between the average life of the portfolio and the average life of the swaps, weighted by the notional amounts. Rebalancing is achieved by adjusting the portfolio's duration to align with changes in market conditions.

The graph shows the duration gap and rebalancing over the period from January 2004 to July 2005.
## Housing and Minority Lending Goals

### STATUTORY HOUSING GOALS

<table>
<thead>
<tr>
<th></th>
<th>FY05 Plan</th>
<th>7/05 YTD Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Mod (Affordable)</td>
<td>52.0%</td>
<td>54.7%</td>
</tr>
<tr>
<td>Special Affordable</td>
<td>22.0%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Underserved</td>
<td>37.0%</td>
<td>40.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY05 SF PMM Sub-Goal Plan</th>
<th>7/05 YTD Actual*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Mod (Affordable)</td>
<td>45.0%</td>
<td>42.8%</td>
</tr>
<tr>
<td>Special Affordable</td>
<td>17.0%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Underserved</td>
<td>32.0%</td>
<td>31.1%</td>
</tr>
</tbody>
</table>

* Reflects HUD decision on Reverse Mortgages

### Issue:

- Though we are ahead of targets for the base housing goals, significant market-wide affordability issues are likely to prevent achievement of the PMM sub-goals.
- Reverse mortgages have been included in our PMM Sub-goal YTD attainment and have had a significant positive impact on our scores.
- HUD determined that Reverse Mortgages would not count toward the PMM sub-goal.
- We communicated to HUD that we are not optimistic about achieving the sub-goals.

### Next Steps:

- Execute extraordinary efforts to make-up shortfall (e.g., reduced MI requirements, expanded credit criteria, lender outreach).
- Examine commitments to lenders for deliveries through year end, and determine alternatives.
- Evaluate implications of purchasing higher-risk loans.

### MINORITY LENDING GOALS

<table>
<thead>
<tr>
<th></th>
<th>FY05 Target</th>
<th>7/05 YTD Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American</td>
<td>5.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>11.6%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Total Minority</td>
<td>24.7%</td>
<td>23.9%</td>
</tr>
</tbody>
</table>

Minority lending performance through July is behind goal but the shortfalls should be closed with targeted transactions.

Q2 strategies to mitigate the shortfall have been successful in reducing the Hispanic and Total Minority deficits.
Foundation Update

• The Foundation has completed revisions to its strategic objectives and spending priorities for 2005-2006: 2005 spending will be $71.5 million; 2006 spending is currently projected to be $61 million, subject to the Foundation Board's approval in December.

• During 2005-2006, the Foundation's focus and activities will narrow to support two specific goals:
  – Increase the supply of safe, decent, affordable homes for people who need them most
  – Improve the quality of life in its hometown, Washington, D.C.
  But there will be no reduction in these two areas.

• The Foundation continues to prepare for its 18th annual Help the Homeless Campaign, culminating in the 5K Walkathon on the National Mall on Saturday, November 19.
Strategy Review: Path to Long-Term Strategy

Short Term | Medium Term | Long Term

Optimize
- Portfolio - Enhanced business model
- Single Family - Subprime, PLS, DU
- Multifamily - Move beyond DUS
- Mission integrated with business

Stabilize
1. 4 “R”s
2. Business challenges
3. Mission
4. Operational Discipline
5. People

1. Foundation Systems
2. Business-like Management
3. Ordinary Course Regulation
4. Operational Discipline
5. Organizational re-alignment
6. Shareholders/stakeholders re-centered

Foundation: Accounting, Controls, Systems, Products, People
Optimization by Pursuing the Unoccupied Spaces
Optimization Update: Single-Family

Objective/Goals:
- Reintroduce idea of risk in the marketplace
- Create public momentum and consumer and investor awareness

Accomplishments since July:
- Early indications that strategy is beginning to pay-off
  - Monthly deliveries for July ($49.3B) and August ($52.7B) are at the highest levels this year
  - ARM share at lowest level since October 2003
  - Execution of exotic products (e.g., Option ARMS) dropping tremendously: subordination level have increased 25-35% since August 1; Impact estimated at 5-15 bps in g-fee equivalent
  - Market share gains against private label and Freddie Mac: Picked up 7 percentage points of share from PL issuers in July; FNM overall share for July was 30%; Relative to FRE our YTD July MBS issuance share of 58.9% is at the upper end of our target range of 55-60%
- Plethora of media and regulatory commentary regarding risks
- Success in re-signing important customers
- Reinforced existing views with Chairman Greenspan; awaiting feedback from Administration

Next Steps:
- Rebuild human capital and break down organizational silos
  - Launch of the new Single-Family organization based on “customer first” – that better integrates HCD, eBusiness, and Single Family – communicated on September 12
  - Through our realignment, we have redeployed our management resources against highest priorities
  - Realigned organization will be better positioned to emphasize and deliver on our innovation capabilities and mission and minority lending goals; new Community and Multicultural Lending Group will consolidate our existing capabilities and develop new and creative outreach efforts
- Dedicate significant resources to develop capabilities to compete in any mortgage environment
  - Established a Business and Strategy Development group to focus on our toughest business challenges, including sub-prime and conduit risk management
  - Hired a new Senior Vice President and top industry talent – Sal Mirran – to lead this group
  - In the process of redeploying the resources necessary to staff this group for our work on developing a subprime infrastructure and risk transformation facility (aka. Conduit)
Optimization Update: HCD

Objective/Goals:
- Realize significant growth in production and revenues through increased liquidity for residential rental and for-sale housing AD&C lending, as well as affordable market rate equity investments for the same products

Accomplishments since July:
- Refined strategic plan to provide greater clarity around key economic assumptions and staffing ratios
- Received approval for additional headcount in the underwriting, business development, portfolio administration, and asset management functional areas
- Implemented new credit application approval process
- Completed Sarbanes Oxley process review with PwC; pending review by Deloitte Touche
- Identified equity restatement scope and policy issues with corporate restatement leadership team
- Commenced implementation of Construction Loan Control System (CLCS)

Next Steps:
- AD&C Lending
  - Develop strategic lender relationships to optimize execution capabilities and generate pull through business for Single Family and Multifamily
  - Expand breadth of products to meet industry needs and conventional practices
  - Put in place business infrastructure; augment current staffing resources in key functional areas
- Equity Investments
  - Manage investment activity through “best in class” investment advisors to meet or exceed industry risk and return performance
  - Build and expand relationships with key national and regional investment advisors as the primary mode of capital deployment
  - Migrate current platform away from transaction based process into a wholesale execution by re-aligning resources to focus on a portfolio strategy, applying sound risk management techniques and review protocols
Optimization Update: Mortgage Portfolio

Objective/Goals:
- Manage the portfolio actively to maximize total return (subject to capital constraints)

Accomplishments since July:
- Capital plan is on pace
- Asset selling has continued at historically good prices or spreads
  - Mortgages have cheapened and are now somewhat more attractive as investments
  - REMIC transactions continue to provide surprisingly positive economics
  - Mortgage-backed security pricing is very competitive relative to Freddie Mac for our lenders
- Debt costs continued to improve
  - Debt yields are at new multi-year lows relative to swaps
  - We are active in buying and selling debt to improve liquidity and extract economics
  - Tender offer for seasoned callable debt scheduled to start the week of 9/19

Next Steps:
- Increase future investing activities as opportunities allow, although balances are likely to continue to decline in the near term due to prepayments
- Increase market penetration in sectors we have not fully served historically, to be made possible with the Risk Transformation Facility (aka. Conduit)
- Upgrade systems and skills to facilitate more active portfolio management
Optimization Update: Risk Transformation Facility (Conduit)

**Objective/Goals:**
- Develop the capability to structure and sell discrete layers of credit and interest rate risk on single-family and multifamily mortgages
  - Enable participation in a larger share of mortgage originations and compete for private-label business
  - Provide added flexibilities to manage our businesses across market cycles
  - Contribute to achievement of housing and mission goals

**Accomplishments since July:**
- Estimated pre-tax business opportunity: $25 - $200 MM annual profit, 12% - 17% ROE
- Estimated contributions to housing and minority goals are positive
- Recommended a developmental approach
  - Buy the required software to support aggregation, packaging, and accounting functions
  - Outsource servicing and other capabilities that we currently lack
  - Integrate with existing business infrastructure
- Recommended a phased implementation

<table>
<thead>
<tr>
<th>Phase</th>
<th>Implementation Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1: Buy/sell bulk acquisitions</td>
<td>6 – 9 months</td>
</tr>
<tr>
<td>Phase 2: Aggregate bulk acquisitions</td>
<td>+ 3 – 6 months</td>
</tr>
<tr>
<td>Phase 3: Aggregate flow acquisitions</td>
<td>+ 3 months</td>
</tr>
</tbody>
</table>

**Next Steps:**
- Determine investment required
- Execute on developmental approach
- Establish organizational accountabilities for RTF
- Rob Levin to lead