

Board Meeting

October 18, 2005

Robert J. Levin
Interim Chief Financial Officer

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

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Requested By Fannie Mae

FMSE 534708

Earnings Forecast: 2005 and 2006

Dollars in millions

Numbers may not foot due to rounding

	2006				2005	Growth
	Single-family	Housing & Community Development	Portfolio Business	Restatement & Regulatory Exams	Total	
Net interest income	\$ 401	\$ (23)	\$ 6,584		\$ 6,963	\$ 10,036 (3,073)
Allocated guaranty fees	1,386	124	(1,511)		-	-
Total net interest income	1,788	102	5,073		6,963	10,036 (3,073)
Guaranty fees	3,139	163	-		3,302	3,301 1
Fee and other income	70	(267)	157		(40)	51 (91)
Gain/(loss) on sales	-	-	-		-	355 (355)
Gain/(loss) on debt	-	-	-		-	31 (31)
Credit expenses	(217)	(82)	-		(299)	(283) (16)
Administrative expenses	(802)	(310)	(667)	(488)	(2,266)	(2,089) (177)
Income taxes	(1,373)	933	(1,283)	171	(1,553)	(2,884) 1,331
Net income, excluding MTM	\$ 2,605	\$ 540	\$ 3,279	\$ (317)	\$ 6,107	\$ 8,518 \$ (2,411)
Mark-to-market gains/(losses) on derivatives	-	-	(328)	-	(328)	(1,718) 1,391
Net income	\$ 2,605	\$ 540	\$ 2,952	\$ (317)	\$ 5,780	\$ 6,800 \$ (1,020)

Information is subject to change as a result of the pending re-audit and restatement of Fannie Mae's financial statements.

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Net Interest Income: 2005 and 2006

<i>Dollars in millions, except net interest margin.</i>	2006	2005	Decline
Average investment balance	756,218	856,050	(99,833)
Net interest margin	0.92%	1.17%	-0.25%
Total net interest income	\$ 6,963	\$ 10,036	\$ (3,073)

Explanation of Decline

Change due to balance reduction:	\$ (1,170)
Change due to lower margin:	(1,903)
Total decline in net interest income	\$ (3,073)

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Guaranty Business Performance Metrics
August 2005 Year-to-Date

	<u>Actuals</u>	<u>Plan</u>	<u>Variance</u>
<u>Single-family Guaranty Business</u>			
Volume (\$ billions)	\$ 340.7	\$ 333.4	\$ 7.3
Book Growth	0.2%	2.4%	-2.2%
Charged Fee, net (bps)	24.4	26.0	(1.6)
Pricing Gap (bps)	(0.54)	NM	NM
<u>Multi-family</u>			
Volume (\$ billions)	\$ 15.6	\$ 13.0	\$ 2.6
Book Growth	2.8%	7.4%	-4.6%
Charged Fee (bps)	25.9	22.8	3.1
SF SDQ Ratio ^[1]	0.59%	0.57%	0.02%

[1] SDQ Ratio compares YTD July 2005 vs. YTD July 2004

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Items in Dow Jones' Stories

- “. . . Fannie Mae has artificially pumped up the underlying value of its \$768 billion mortgage portfolio and other investments . . .”
- “Investigators have . . . unearthed widespread problems and GAAP violations in how Fannie’s been reporting its credit losses . . .”
- “Investigators have . . . discovered accounting violations with the tax credits Fannie uses . . .”
- “. . . Fannie specifically violated GAAP . . . as a minor investor in the synthetic fuel industry.
- “. . . Evidence indicates the company purchased so-called finite insurance policies to hide earnings losses after they were incurred.”

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Allegation

“ . . .Fannie Mae has artificially pumped up the underlying value of its \$768 billion mortgage portfolio and other investments . . .”

Comments

- Perplexing
 - Assets generally maintained at amortized cost
 - Fas149, affecting basis, already disclosed
- Fas115 is causing us to get marks for portfolio
- New marks for portfolio may also affect our fair value balance sheets.
- Derivative marks are being revalidated as part of the restatement
- Operational issues with derivatives
 - \$120 million error found in Q4 (360 vs. 365 day error).
 - \$100 million error found in Q2 (truncation problem)

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Allegation

“Investigators have . . . unearthed widespread problems and GAAP violations in how Fannie’s been reporting its credit losses . . .”

Comments

- The loss allowance was reduced by approximately \$200 million in Q4, 2004.
- The accounting methodology is still under development
- The loss allowance will be restated.
 - Not yet disclosed
 - Possibly will be disclosed in November 12b-25

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FMSE 534714

Allegation

“Investigators have . . . discovered accounting violations with the tax credits Fannie uses . . .”

Comments

- Low income housing tax credits will be restated
- Cumulative reduction in past earnings: approximately \$290 million.
- Expect to disclose in November 12b-25.

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FMSE 534715

Allegation

“... Fannie specifically violated GAAP ... as a minor investor in the synthetic fuel industry.

Comments

- We invested in the 1990's in three synthetic fuel partnerships.
- Taxes are reduced by approximately \$60 million annually, net of cost.
- We will have to restate.
- Expect to disclose in the November 12b-25.

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FMSE 534716

Allegation

“... Evidence indicates the company purchased so-called finite insurance policies to hide earnings losses after they were incurred.”

Comments

- In 2004, we paid \$160 million in premiums for insurance
 - \$137 million for mortgage insurance purchased from mortgage insurance companies.
 - \$23 million for other insurance, including D&O and property and casualty.
- In 2003 we paid \$360 million in premiums, \$325 for MI.
- We are undertaking a review of all insurance policies and risk mitigation techniques.
- Our goal is to finish the review and disclose our findings in the November 12b-25.