

2006 Plan Overview

February 21, 2006

Rob Levin

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Confidential Treatment
Requested By Fannie Mae

FMSE 698327

Philosophy Behind Plan

Revenue

- Reverse market share slide against private label by increasing market share from 23% of MBS issued in the 4th quarter of 2005 to at least 25%.
- Hold guaranty fees for SF and keep MF close to the 2005 exit rate.
- Operate the mortgage portfolio on a total rate of return basis. Assume, for starters, growth at 5.3%, but accept variability around this based on actual spreads available in the market.

Expenses

- Hold down “running the business” discretionary spending
- Say **YES** to expenses involving remediation of controls and systems
- Fund restatement to complete it as fast as possible, and most importantly, to complete it correctly.
- Invest in key strategic business initiatives of the future.

Macroeconomic Environment

2006 Plan

		2005	2006 Plan
Interest Rates	Fed Fund Rate (avg)	3.21%	4.77%
	10 yr Treasury (avg)	4.29%	4.80%
	FRM Rate (avg)	5.87%	6.33%
Originations	Total Mortgage Originations (billions)	\$ 2,821	\$ 2,101
	Mortgage Debt Outstanding (billions)	\$ 9,040	\$ 9,825
	<i>% Change</i>	12.8%	8.7%
	Refi Share	47.7%	31.1%
	Conventional Conforming ARM Share	30.3%	29.2%
Housing Markets	Total Home Sales (thousands)	8,354	7,615
	Housing Starts (thousands)	2,065	1,905
	<i>SF</i>	1,714	1,581
	<i>MF</i>	350	323
	Median Home Prices (thousands)	\$ 211	\$ 217
	<i>% Change</i>	11.7%	3.2%

PROPRIETARY AND CONFIDENTIAL
 CONFIDENTIAL TREATMENT REQUESTED
 BY FANNIE MAE

Confidential Treatment
 Requested By Fannie Mae

FMSE 698329

Corporate Performance Metrics

2006 Plan

		2005	2006
Single-family Guaranty	Acquisitions (\$ billions)	\$ 542	\$ 445
	Liquidations (\$ billions)	\$ 495	\$ 325
	Net	\$ 47	\$ 120
	Book Growth	2.3%	5.8%
	Charged Fee, net (bps)	25.1	26.0
Multi-family Guaranty	Acquisitions (\$ billions)	\$ 24	\$ 22
	Liquidations (\$ billions)	\$ 21	\$ 16
	Net	\$ 3	\$ 6
	Debt Book Growth	2.5%	5.1%
	Charged Fee, net (bps)	27.2	24.2
	LIHTC Investments (\$ billions)	\$ 1.8	\$ 1.9
Mortgage Portfolio	Net Purchases (\$ billions)	\$ 33	\$ 169
	Liquidations (\$ billions)	\$ 211	\$ 130
	Net	\$ (178)	\$ 39
	Growth	-19.6%	5.3%
	OAS (bps)	25	25+
		<i>Net acquisitions potentially highly variable. Central range of \$5 b shrinkage to \$10 b growth monthly.</i>	

Confidential - Internal Distribution

Confidential Treatment
Requested By Fannie Mae

FMSE 698330

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Earnings Forecast *2006 Plan*

<i>(\$ in Millions)</i>	<u>2005</u>	<u>2006</u>	<u>Growth</u>
Net interest income	10,917	7,070	(3,847)
Guaranty fees	3,019	3,261	242
Fee and other income	290	281	(9)
Gain/(loss) on sales	49	(6)	(55)
Gain/(loss) on debt	4		(4)
Credit expenses	(854)	(352)	503
Administrative expenses	(2,182)	(2,529)	(347)
Income taxes	(2,841)	(1,542)	1,300
Net income, excluding MTM	8,402	6,183	(2,219)
MTM gains/(losses) on derivatives	(1,586)	(493)	1,094
Net income	6,816	5,690	(1,125)

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

5

Confidential - Internal Distribution

Confidential Treatment
Requested By Fannie Mae

FMSE 698331

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Earnings Forecast by Business Segment 2006 Plan

(\$ in Millions)

	Single- family	Housing & Community Development	Portfolio Business	Restatement & Regulatory Exams	Total
Net interest income	\$ 337	\$ (19)	\$ 6,751		\$ 7,070
Allocated guaranty fees	1,410	142	(1,552)		
Total net interest income	1,747	124	5,199		7,070
Guaranty fees	3,086	175			3,261
Fee and other income	57	(62)	286		281
Gain/(loss) on sales			(6)		(6)
Gain/(loss) on debt					
Credit expenses	(269)	(83)			(352)
Administrative expenses	(846)	(345)	(785)	(553)	(2,529)
Income taxes	(1,288)	861	(1,309)	194	(1,542)
Net income, excluding MTM	\$ 2,488	\$ 669	\$ 3,385	\$ (359)	\$ 6,183
MTM gains/(losses) on derivatives			(493)		(493)
Net income	\$ 2,488	\$ 669	\$ 2,892	\$ (359)	\$ 5,690
<i>Pre-MTM Estimated Variance from 2005</i>	<i>\$ 345</i>	<i>\$ 69</i>	<i>\$ (2,546)</i>	<i>\$ (88)</i>	<i>\$ (2,219)</i>
<i>Growth</i>	<i>16%</i>	<i>12%</i>	<i>-43%</i>	<i>-32%</i>	<i>-26%</i>

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

6

Confidential - Internal Distribution

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Confidential Treatment
Requested By Fannie Mae

FMSE 698332

Administrative Expense Budget *2006 Plan*

	<u>Proposed 2006 Budget (\$m)</u>	<u>% Growth over 2005</u>
Running the Business	\$ 985.5	3.6%
Strategic Investments	563.5	27.2%
- Controls Remediation		
- Systems Remediation		
- New Business Initiatives		
Incentive Compensation	289.1	17.7%
OFHEO, Restatement, and Litigation	653.7	20.6%
Foundation Contribution	20.0	n/m
Katrina	17.7	n/m
Total Corporation	\$ 2,529.4	15.9%

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAEConfidential Treatment
Requested By Fannie Mae

FMSE 698333

Confidential - Internal Distribution



Administrative Expense Budget

2006 Strategic Investments

Controls Remediation

- Controllers/Accounting Policy functions
- Chief Risk Officer & Business Unit Risk Organizations functions
- Internal Audit function
- Portfolio function
- SOX

Systems Remediation

- Servicer Investor Reporting
- Finance Systems
- HCD Systems
- SOX-Systems Remediation

New Business Initiatives

- Risk Transformation Facility
- Sub Prime
- HCD Expansion
- Minority Lending

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Confidential Treatment
Requested By Fannie Mae

FMSE 698334

Confidential - Internal Distribution

Administrative Expense Budget
2002 – 2006 Expense Ratios

	2002	2003	2004	2005	2006
Fannie	7.2 bp	7.2 bp	6.7 bp	9.5 bp	10.7 bp
Freddie	7.8 bp	8.7 bp	10.6 bp	9.7 bp	n/a

PROPRIETARY AND CONFIDENTIAL -
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Confidential Treatment
Requested By Fannie Mae

FMSE 698335