



FannieMae

BOARD OF DIRECTORS

STRATEGY REVIEW MEETING MATERIALS

JULY 17-18, 2006

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As of 7/13/06 1:30pm

July Strategic Board Discussions Agenda

Monday

- 1:00-1:05 Welcoming remarks (S. Ashley)
- 1:05-1:30 Strategy Review: Introduction and Overview (D. Mudd and C. Groobey)
- 1:30-3:00 External Perspectives (panel)
- Political environment (K. Blalock)
 - Lenders, brokers, and partners (A. Pierce)
 - Global capital and mortgage markets (O. Nalbantoglu)
 - Mortgage market (J. Callahan)
 - Investor perspectives (M. Esposito)
- 3:00-3:15 *Break*
- 3:15-4:45 Earnings, Measurement, and Risk
- Five-Year Earnings Forecast (B. Blakely)
 - Measuring Shareholder Value (M. Winer)
 - CRO Organization: Supporting the Strategic Initiative (E. Dallavecchia)
- 4:45-5:45 Executive Session

Tuesday

- 7:30-8:30 Housing-Linked Assets (R. Merton and R. Mendoza)
- 8:30-10:00 Business Unit Strategies
- Overview (R. Levin) – 30 minutes
 - Housing and Community Development (K. Bacon) – 30 minutes
 - Capital Markets (P. Niculescu) – 30 minutes
- 10:00-10:15 *Break*
- 10:15-11:15 Business Unit Strategies (continued)
- Single Family (T. Lund) – 30 minutes
 - Summary – 30 minutes
- 11:15 -12:15 Operations and Technology Strategy (M. Williams)
- 12:15-12:45 Conclusions / Next Steps (All)

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Strategy Review: Introduction

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At last year's Strategy Review, we concluded:

- That we would:
 - Complete Stabilization
 - Optimize the business while building out controls, systems, structure and capabilities
 - Then choose between long-term alternatives

- That there was sufficient room to grow within the Charter – for the medium term (Project Phineas), but longer term, the value erodes
 - Demographics neutral / positive
 - Competition encroaching structurally
 - Regulatory trends unfavorable

- That there were “Tipping Points” for potentially changing course: capital requirements, portfolio runoff, user fees – because they could outweigh potential impact of business initiatives

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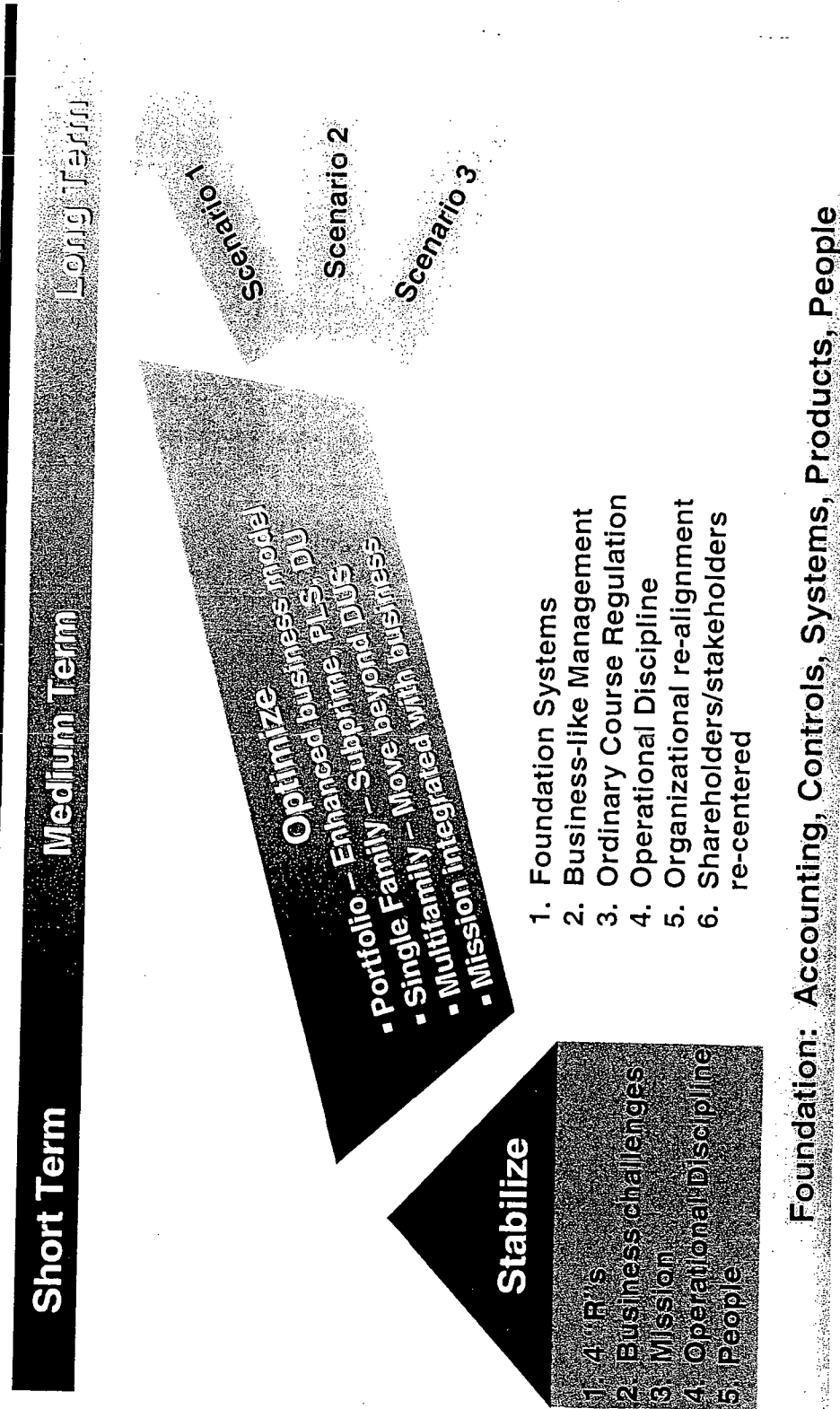
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Last year's framework is still relevant



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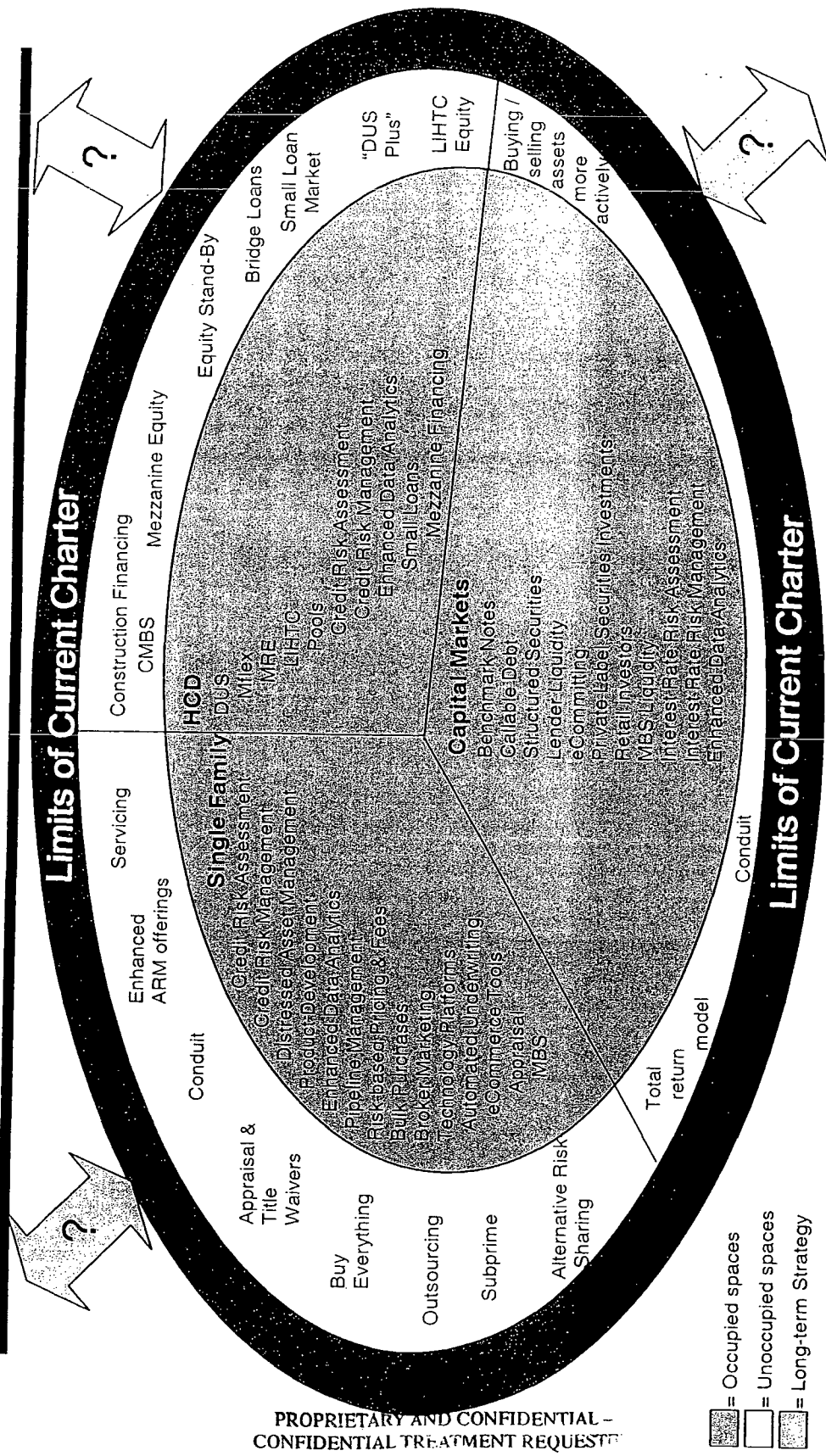
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Optimization entailed pursuing the unoccupied spaces



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Many potential optimization initiatives were identified. . .

Materially significant growth opportunities		Pre-tax profit pool (\$ billion)
1. Expand into adjacent spaces	1. Credit guaranty: extend core business to subprime, home equity, Jumbo, and expansion in ARMs	\$ 3
	2. Servicing - financial management: manage prepayment risk	3.5
	3. Mortgage insurance	2
	4. Title insurance	2
2. Enter asset management and alternative investing businesses	5. Asset management: invest third party funds in MBS	2
	6. Commercial/ multifamily investing: significantly expand current presence to invest own/third party capital in real estate	5
	7. Credit risk investing (own/third party capital)	1.5
	8. Distressed assets investing (in distressed financial and physical assets)	1.5
	9. Infrastructure bonds: invest in development infrastructure	3
	10. Construction finance (for multifamily/ commercial assets)	6
3. Create home-value management industry	11. Customer benefits of home ownership beyond purchase (including transferable stock, reverse mortgages, home value insurance)	~5
4. Build service businesses	12. Servicing: create processing utility for industry	2
	13. Analytics/ data-driven appraisals	3.5
5. Move internationally	14. Create MBS markets and invest in 9 major countries (UK, Canada, Netherlands, France, Germany, Japan, Brazil, China, India)	50

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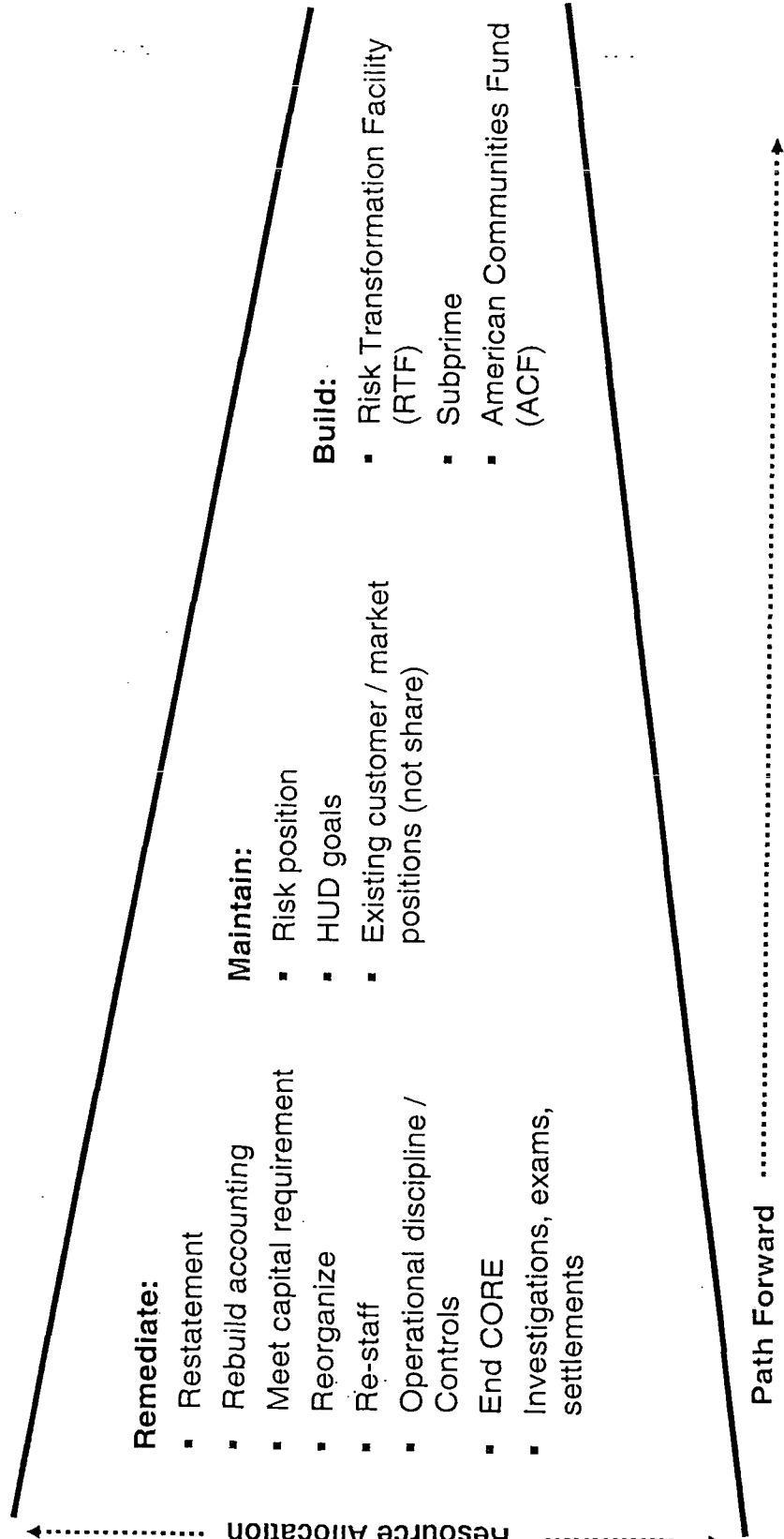
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... but we decided to limit new initiatives while fixing problems



Remediate:

- Restatement
- Rebuild accounting
- Meet capital requirement
- Reorganize
- Re-staff
- Operational discipline / Controls
- End CORE
- Investigations, exams, settlements

Maintain:

- Risk position
- HUD goals
- Existing customer / market positions (not share)

Build:

- Risk Transformation Facility (RTF)
- Subprime
- American Communities Fund (ACF)

Path Forward

Good progress on "Fix" and "Maintain"; less on "Build"

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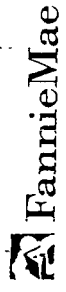


This meeting is a key milestone in the strategic planning process

Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
	<p>5/1 - Senior management strategic workshop</p> <p>Engage senior managers on Fannie Mae vision</p>	<p>6/26 - Senior management strategic workshop</p> <p>Review strategic options and business unit strategies</p>	<p>Senior management strategic workshop</p> <p>Review strategic plan</p>	<p>7/1 - Board Meeting</p> <p>Review Strategic Options and Business Unit Strategies</p>			<p>8/1 - Board Meeting</p> <p>Review Strategic Options and Business Unit Strategies</p>

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Since last year, we have made progress in “Stabilizing”

- Restatement
- Built controls
- Capital Plan
- New management
- Governance changes
- Retained customers, built some capabilities
- Managed risk
- Settled with SEC, OFHEO

A very different company

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... but the environment has become more harsh

Political:

- Stark ideological divide
- Pressure for Legislation will continue beyond 2006
- Fannie Mae credibility undermined by past

Customer:

- Gaps perceived in customer centricity and market leadership
- People respected but institution seen as unresponsive
- Not all see Mission as important

Market:

- Consolidation will continue
- Global capital markets can lessen value of our liquidity proposition

Investor:

- Shift in perception from "best-in-class predictable company" to uncertainty
- Credit risks in housing market relatively low; tighter spreads reduce growth opportunity
- ROC lower due to surplus requirement

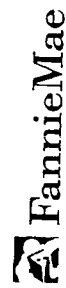
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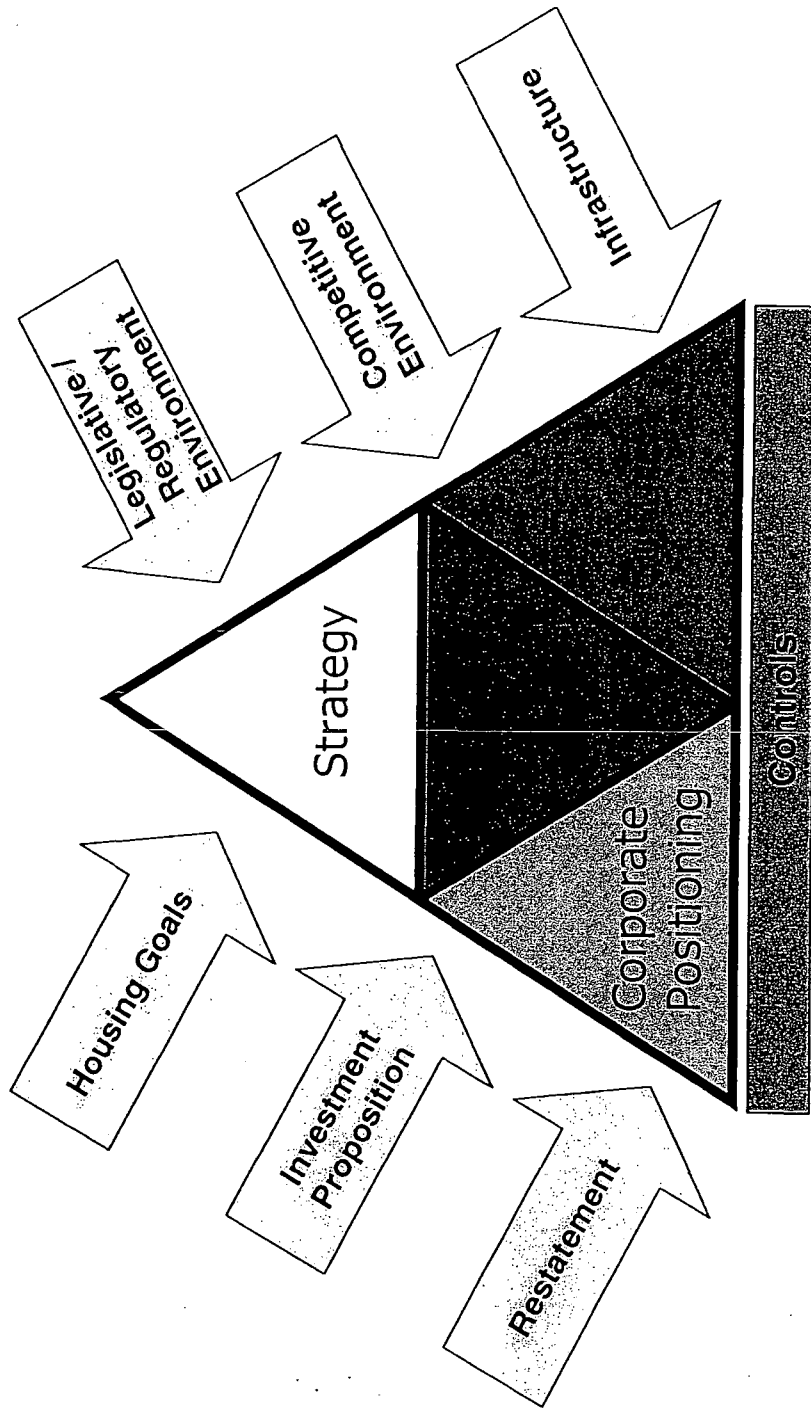
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Summary – making slow headway in a very difficult environment . . .



Weaving it all together for re-introduction in Q1 '07

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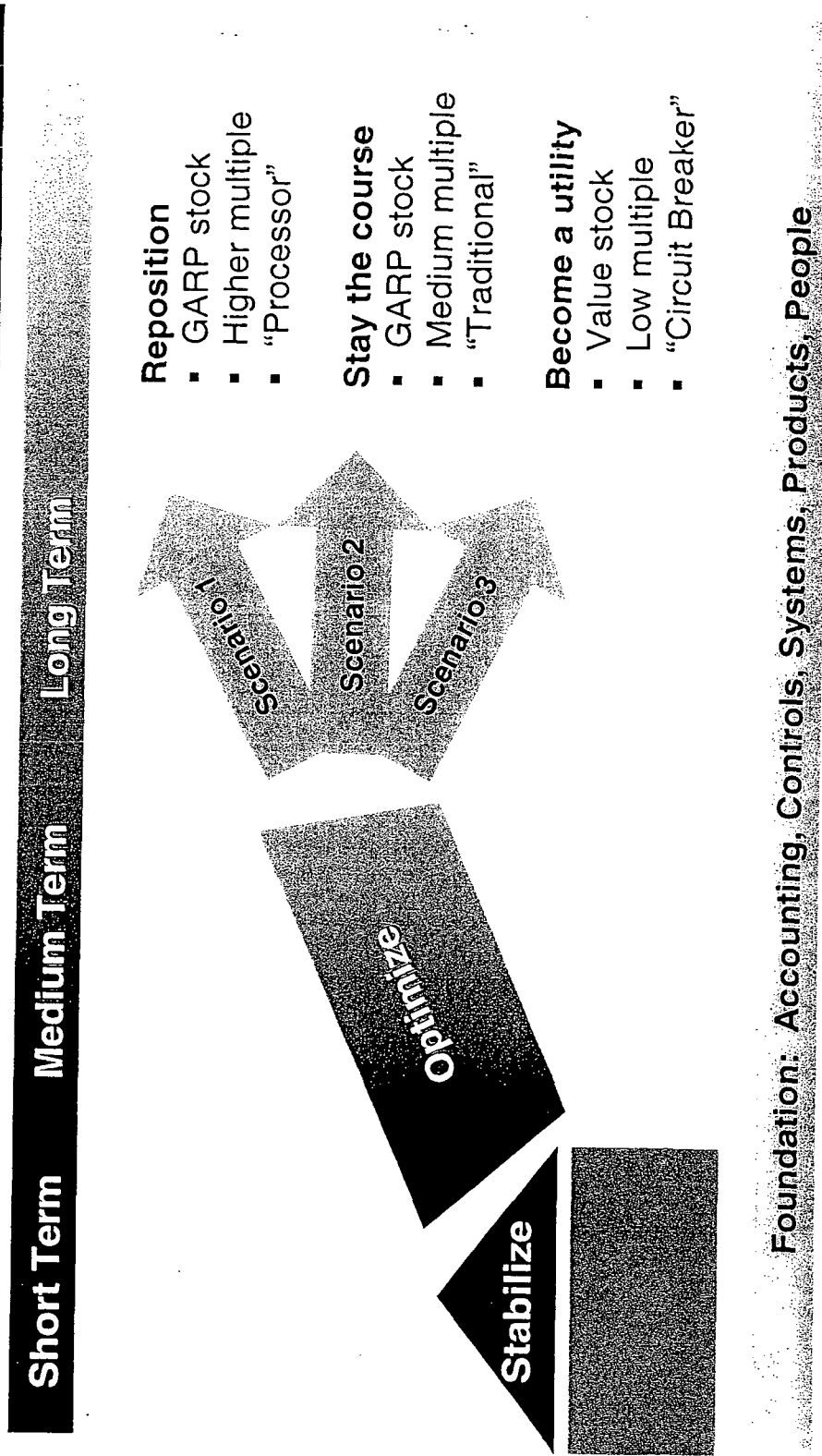
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... and longer term options are taking shape



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Questions from Board interviews

"What has the company done with the recommendations from last year?"

"Are we at a point where we need to revisit Phineas (privatization)?"

"Do you have the talent, risk management & technology to execute the strategy?"

"Motley Fool said we have no competitive advantage except the charter. Is that true?"

"Does this company know how to really compete?"

"July is the beginning of our strategy dialogue – we won't get it all done then."

"Are we creating any truly new products?"

"Are we creating enough shareholder value?"

"How does the current political environment impact our strategy and choices?"

"What is our current position with shareholders?"

"What is Fannie Mae's ROE with the current capital constraints?"

"Are our shareholder measures practical and useful?"

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Overview of Agenda for Strategy Discussion

Day One

Monday, 1:00 - 4:45pm

- Introduction
- External Perspectives
- Earnings, Measurement, and Risk
 - Five-Year Earnings Forecast
 - Measuring Shareholder Value
 - CRO Organization

Day Two

Tuesday, 7:30am – 12:45pm

- Independent Analysis of New Opportunities
- Business Unit Strategies
 - Housing and Community Development
 - Capital Markets
 - Single Family
- Operations and Technology Strategy
- Wrap-up

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What we need from the Board

1. Are we facing reality? What did we miss?
2. Can we execute? Can we build and remediate?
3. Should we stay the course strategically?
4. Is our legislative approach consistent with the strategy?
5. Should we explore alternative options?

**Board guidance / support / consensus on key issues
is foundation for execution**

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