Fannie Mae Board of Directors
Management Report

July 17, 2007

Confidential – Highly Restricted

FannieMae

Report Summary

Regular Updates:

- **Business** – Book growth continues strong; market share continues to increase; pricing unfavorable to plan; credit losses anticipated to be twice as high as plan; HUD goals have become more of a struggle
- **Finance** – YTD net income of $2,214M is $192M favorable to plan driven by derivative MTM ($255 M) favorable to plan; pre-MTM net income below plan; administrative expenses YTD $1,138M is $69M favorable to plan driven by reduction in contract labor; capital above 30% surplus at $3.6B
- **Risk** – Significant reduction in interest rate exposure from 3 months ago; REO inventory record high in April 2007; recent acquisitions show increases in higher risk products
- **Technology** – Continuing to refine our human capital management strategy; enhancing cost assessment and performance; strengthening overall controls; investing internally and externally to develop tools that create competitive advantages
- **Operations and Data** – Solid progress in Operations support of all businesses
- **Human Resources** – Making significant progress with key HR initiatives that impact the enterprise
- **Legislative / Regulatory Update** – House passed HR 1427 with broad bi-partisan support (313-104) on May 22; GSE debate now moves to Senate, but with absolutely no sense of urgency

Special Topic:

- Housing Goals – page 13

Business Update – Headlines

- **Overall**
  - Book growth continues strong; market share continues to increase
  - Pricing unfavorable to plan; credit losses anticipated to be twice as much as plan
  - HUD goals have become more of a struggle
- **Environment**
  - Housing market remains weak: home prices decline in most markets; subprime continues to deteriorate; new foreclosures rising sharply
  - Bear Stearns hedge fund troubles cause investors to question our subprime exposure
- **Market Share**
  - May 61.4% and YTD 57.5% versus Freddie Mac; May 32.3% and YTD 28.2% versus market
- **Major Transactions**
  - Wells Fargo deliveries begin in July
  - Agreed to additional $1 billion in second lien business with Citi
  - Negotiated innovative 'warehouse' or short term standby facility for CitiMortgage; $1 billion already delivered
  - Won extended alliance with Wachovia for 70% share
- **Risk**
  - Duration Gap – May 2007: 0 months
  - Delinquency rate: April 2007 62 bps versus 64 bps April 2006

Confidential – Highly Restricted 3 FannieMae

Additional color on the Environment section:

1) Unsold home inventories (for both new and existing units) remain at historically high levels, putting downward pressure on house prices. Most measures of house prices indicated modest national declines into the first quarter of this year, although some regional markets are seeing more significant drops (while some still have gains).
2) Mortgage delinquencies jumped over the second half of 2006, pushed up by a surge in subprime and other non-traditional mortgage delinquencies. With significant payment shock in the offing for many of these borrowers, plus continued slow economic growth that will likely lead to higher unemployment rates, an increase in default rates later this year and in 2008 are expected.
3) [Not on the slide] - After weather-induced gyrations at the end of 2006 and beginning of this year, purchase applications from the MBA's weekly survey have stabilized at levels about equal to those of a year ago -- suggesting stronger home sales than what have actually occurred. This may be a sign that stricter regulatory guidance on non-traditional mortgage products is causing a greater number of rejected applications -- and thus causing households to apply more often for mortgage credit than in the past.

Business Update – Metrics

Single Family	May YTD	Plan
Book Growth	11.6%	6.4% (115% of market)
Return on Acquisitions	86.7%	100% of 2006 rate of return
Charged Fee (bps) – Acquisitions	26.9 (May 27.9)	29.0
Credit Expense (millions)	$382.4	$200.8
REO Inventory	26,804 (vs. 22,514 May '06)	--
Market Share vs. Freddie Mac	57.5% (May 61.4%)	--
Market Share vs. total market	28.2% (May 32.3%)	--
Housing & Community Development		
MF Book Growth	14.8%	4.5%
Charged Fee (bps)	24.8	23.8
New HCD Business Initiatives (millions)	$325	$417
Credit Expense (millions)	$2.5	$23
Capital Markets		
Total Return on Portfolio (x-spread)	7.36% (June)	7.51% (LIBOR+4%)
OAS (bps)	31.7	25+
Duration Gap (months)	0	--

Growth continues; Single Family pricing and credit losses unfavorable to plan

Business Update – Housing Goals

(YTD May 2007)

Statutory Housing Goals	Goal	Actual
Low-Mod	55.0%	**53.1%**
Special Affordable	25.0%	**24.1%**
Underserved	38.0%	**42.6%**

PMM Sub-Goals		
Low-Mod Purchase	47.0%	**42.1%**
Special Affordable Purchase	18.0%	**15.5%**
Underserved Purchase	33.0%	**34.0%**

Minority Lending Goals		
Total Minority	25.9%	**27.1%**
Hispanic	12.0%	**12.8%**
African American	7.2%	**7.8%**
Asian	5.9%	**6.0%**

HUD goals have become more of a struggle

Finance Update – Corporate Financial Summary

$ in billions, unless noted

	May YTD Actual	May YTD Plan	May YTD Variance	Commentary
GAAP Net Income				
Net Interest Income [1]	$ 2.4	$ 2.3	$ 0.1	Net interest income is $0.1B above plan driven by $63M amortization true-up in March, higher LIP balance and higher net interest margin (70bps vs 69bps)
Guaranty Fee Income	1.8	1.8	0.0	Guaranty Fees on plan driven by higher MBS balances offset by amoritzation of deferred pricing true-up in March ($18M)
Fee and Other Income	(0.3)	0.0	(0.3)	MTM for Held for Trading in securities decreased $0.3B in May driven by higher 27bp increase in 10 year treasury rate.
Total Revenue	**3.9**	**4.1**	**(0.2)**	
Administrative expenses	(1.1)	(1.2)	0.1	YTD expenses below plan due to catch-up get current costs lower than anticipated driven by fewer contractors and fewer contractor hours
Credit expenses	(0.4)	(0.2)	(0.2)	Higher than plan due to a 1Q07 $66M provision for loan losses adjustment and deteriorating default and severity trends.
Credit enhancement expenses	(0.1)	(0.1)	0.0	
Debt extinguishment losses/(gains)	(0.0)	-	(0.0)	
Total Expenses	**(1.6)**	**(1.6)**	**(0.1)**	
Pre-tax, Pre-MTM Income	**2.2**	**2.5**	**(0.3)**	
Tax, excl tax on derivative MTM	(0.1)	(0.3)	0.2	Driven by lower net income, and timing differences arising from differences in accrued monthly tax rate versus actual tax rate
Net Income, Pre-MTM	**2.2**	**2.2**	**(0.1)**	
Derivatives MTM, net of tax	0.0	(0.2)	0.3	May derivative MTM was $565M driven by 36bp jump in 3-5 year interest rates.
Net Income	**$ 2.2**	**$ 2.0**	**$ 0.2**	

[1] Includes Swap Accruals

Key Metrics	Actual	Plan	Variance	Commentary
Total Core Capital	$ 42.4	$ 42.5	$ (0.0)	Forecast for 2007 End of Year: $44.8B
Capital in excess of 30%	$ 3.6	$ 4.3	$ (0.7)	
Total Shareholder Return	9.3%			
EPS	$ 2.01	$ 1.80	$ 0.21	
ROE, Annualized	13.4%	11.8%	1.6%	

Confidential – Highly Restricted 6 FannieMae

Net Interest Income – YTD $1,492M is $104M favorable to Plan, driven by March's increased rates across the curve (10yr Swaps up 8bps); quarterly amortization adjustments increased NII $63M

Guaranty Fee Income – YTD $1,090M is $12M unfavorable to Plan; in March, quarterly amortization adjustment decreased guaranty fees $18M; SF book growth of 10% outpaces MDO growth of 6%

Fee and Other Income – YTD negative $42M is $41M unfavorable to Plan despite $85M gain on LIHTC sale in March; YTD losses on FX Translation $(59)M and losses on sales $(103)M are significant variances to Plan

Admin Expense – YTD $698M is $28M favorable to Plan driven by reduction in contract labor; most divisions are trending favorable Plan

Credit Expenses – YTD $224M is $96M unfavorable to Plan; in March, SF loan loss allowance increased $66M due to unfavorable housing market trends offset by reduced reserves for Katrina

Derivative MTM – YTD $395M is $267M unfavorable to Plan; March rise in interest rates resulted in $59M increase in derivative MTM

Net Income – YTD pre-MTM $1,447M is $90M favorable to Plan

Capital – Remains strong at $3.9B in excess of 30% surplus

Finance Update – Business Segment Financial Summary

GAAP Net Income

Single Family

$ in millions, unless noted

	May YTD	vs Plan
Revenue	$2,458.2	$ 28.3
Admin Expenses	(659.5)	37.9
Credit Expenses	(382.4)	(181.6)
Other Expenses	(474.6)	126.5
Net Income	**$941.7**	**$ 11.1**

* SF revenue favorable to plan driven by technology fees $44M above plan. Guaranty fees on plan.

* Credit expenses higher than plan due to a 1Q07 $66M provision for loan losses adjustment and deteriorating default and severity trends.

* Other expenses favorable driven by lower taxes due to lower income and allocation of tax monthly timing benefit.

Housing & Community Development

	May YTD	vs Plan
Revenue	$ 748.1	$ 85.1
Admin Expenses	(235.6)	12.6
Credit Expenses	(2.5)	20.3
Other Expenses	(143.3)	(9.7)
Net Income	**$ 366.7**	**$108.3**

* HCD revenue favorable year to date driven by $85M gain from LIHTC sale in March.

* Guaranty fees favorable to plan driven by strong debt book growth of 14.8% vs. plan of 4.5%.

* Credit expense levels below expectations.

Capital Markets

	May YTD	vs Plan
Revenue	$ 1,356.9	$ (351.7)
Admin Expenses	(243.0)	18.4
Derivative MTM	62.8	391.7
Other Expenses	(270.9)	13.6
Net Income	**$ 905.9**	**$ 72.1**

* Revenue below plan driven by $292M mark to market adjustment for held for trading securities and $97M loss on asset sales.
* Net interest income is $110M above plan driven by $63M amortization true-up in March, higher LIP balance and higher net interest margin (70bps vs 69bps)
* May derivative MTM was $565M driven by 36bp jump in 3-5 year interest rates driving YTD derivative MTM positive $63M ($41M post tax)

Business Metrics

Single Family

	May YTD	vs Plan
Acquisitions ($B)	$ 254.1	$ 48.4
Liquidations ($B)	$ (154.8)	$ (8.2)
Book of Business ($B)	$ 2,344.5	$ 50.8
Annualized Book Growth	11.6%	5.2%
Acquisition Share v Mkt	28.2%	NA
New Volume G-Fee (bps)	26.9	(2.1)
Guaranty Fee, (bps)	21.2	2.8
Serious Delinquency Rate (Apr)	0.62%	NA

Housing & Community Development

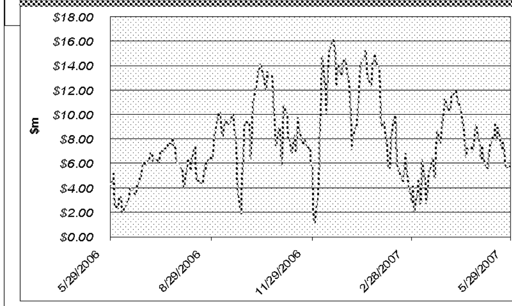
	May YTD	vs Plan
Debt Book of Business ($B)	$ 127.0	$ 4.9
Annualized Book Growth	14.8%	10.3%
New Initiatives	$ 325.0	$ (92.0)
New Volume G-Fee (bps)	24.8	1.0
Serious Delinquency Rate (Apr)	0.10%	NA

Capital Markets

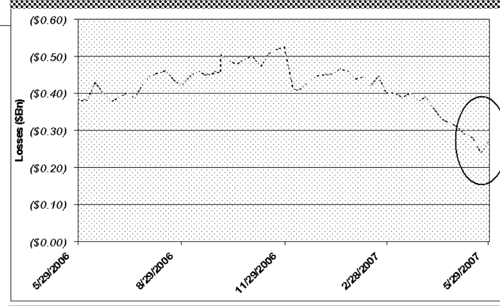
	May YTD	vs Plan
Excess Return Relative to Target	$ 515.0	$ 108.6
Net Mortgage Balance ($B)	$ 716	$ (8)
10-day Value at Risk at 99% Confidence	$ 3,000	NA
OAS (bps)	31.7	NA

Risk Update – Market Risk

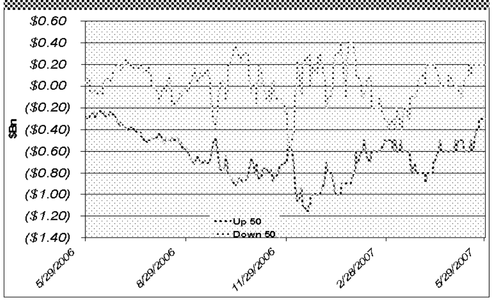
Duration Exposure (P/L - 1bp)



Volatility Exposure (Market Value +10bps Volatility)



Convexity Exposure (Market Value +/- 50bps)



		Risk Limits ($Bn)		Current	
Risk Limit Metric		Board	Management	Value	Usage
Interest Rate Stress Test		($9.5)	($8.0)	($3.00)	32%
Interest Rate VAR		($4.5)	($2.3)	($0.57)	13%
Hedge Rebalancing	- 50 bps	($150.0)	($100.0)	($5.00)	3%
	+ 50 bps	$125.0	$100.0	$10.00	8%
Spread		($0.4)	($0.4)	($0.28)	70%
Loss Advisory		-10.0%	-5.0%	n/a	n/a

As-of 5/29/2007

- **Volatility exposure decreased significantly in May**
- **Total VaR was $3.0Bn and Interest Rate VaR was down from $1Bn to $0.7Bn due primarily to market movement**
- **Spread exposure slightly increased due to increase in interest rates**

Risk Update – Single Family Credit Risk

Acquisitions	YTD April 2007	FY06	FY05
UPB ($Bn)	$181.2	$515.8	$524.2
Summary Statistics			
Weighted Avg OLTV	73.9%	73.4%	71.9%
Wtd Avg FICO	718	716	719
% FICO < 620	5.3%	6.2%	5.4%
Economic Gap	-12.99	-8.00	-1.75
Credit Metrics			
% Credit Enhanced	23.6%	27.2%	23.7%
% Condo/Coop	10.9%	10.7%	9.8%
% Interest Only FRM	9.9%	6.5%	0.8%
% NegAm [2]	0.0%	3.1%	3.2%
% Non-Full Doc [1]	35.7%	27.8%	20.2%
Top 3 Sellers (based on YTD Apr07 acquisitions):			
1) Countrywide	31.2%	25.9%	25.1%
2) Citigroup	8.3%	8.7%	8.2%
3) JP Morgan Chase	6.7%	4.1%	3.0%

Book	Apr07	YE06	YE05
UPB ($Bn)	$2,281.0	$2,208.0	$2,035.3
Summary Statistics			
Wtd Avg MTM LTV	56.5%	55.5%	53.5%
Wtd Avg FICO	722	721	721
% FICO < 620	4.7%	4.8%	4.8%
Performance			
Serious Delinquency Rate	0.62%	0.65%	0.79%
REO Inventory	26,473	25,125	20,943
REO Acquisitions	3,528	36,572	32,554
REO Dispositions	3,349	32,290	29,972
Net Credit Losses ($m) [2]	$77.8	$452.6	-$17.0
Credit Loss Ratio [2]	0.038%	0.020%	0.019%
Credit Metrics			
% Credit Enhanced	19.2%	19.0%	18.4%
% Condo/Coop	8.5%	8.3%	7.7%
% Interest Only FRM	2.3%	1.6%	0.2%
% NegAm	1.2%	1.5%	1.6%
% Non-Full Doc [1]	18.3%	16.8%	13.7%
Top 3 Servicers (based on April 2007):			
1) Coutrywide	23.1%	22.5%	21.7%
2) JP Morgan Chase	9.5%	9.5%	9.8%
3) Citigroup	9.1%	8.8%	8.3%

[1] Non-Full Doc includes Select Lender Programs and Other Low/No Doc.
[3] Credit-related Losses and Credit Loss Ratio for the time period ended December 31st, 2005 represent restated values from the 2005 10-K. Later time periods Present information that may change when financial statements and related audits are completed.0

SDQ rates remain flat at 0.62%; YTD Single Family credit losses exceed plan; REO inventory record high in April 2007; recent acquisitions show increases in higher risk products

Operations and Data

Business Volume

HCD Acquisition Volume

MBS	**$152M**	$348M	⇩	$306M
Cash	**$5.4B**	$1.7B	⇧	$962M
Credit Enhancements	**$50M**	$45M	⇧	$33M

Capital Markets Transaction Volume

MBS	**$320B**	$2,549B	⇩	$1,205B
Cash	**$681B**	$616B	⇩	$1,152B
Debt	**$153B**	$133B	⇩	$237B

Single Family Volume

MBS-Acq	**$48.3B**	$43.0B	⇧	$35.2B
Cash-Acq	**$16.0B**	$4.4B	⇧	$4.9B
MBS-Servicing	**$1,968B**	$1,953B	⇧	$1,805B
Cash-Servicing	**$290B**	$289B	⇧	$264B

Error Processing / Defects

Capital Markets	Cash Forecasting Accuracy	**97%**	95%	⇩	98%
HCD	Clean Submission Rate	**68%**	86%	⇩	73%
	Disclosure Errors*	**24%**	26%	⇩	38%
Single Family	"Lights Out" Processing - MBS	**43%**	43%	⇩	50%
	"Lights Out" Processing - Cash	**97%**	92%	⇧	91%
	"Hard Rejects"	**2,286**	3,104	⇩	2,373
	Disclosure Errors - Pre-Issuance	**14%**	37%	⇧	6%
	Disclosure Errors - Post-Issuance	**0.82%**	0.32%	⇩	1.5%

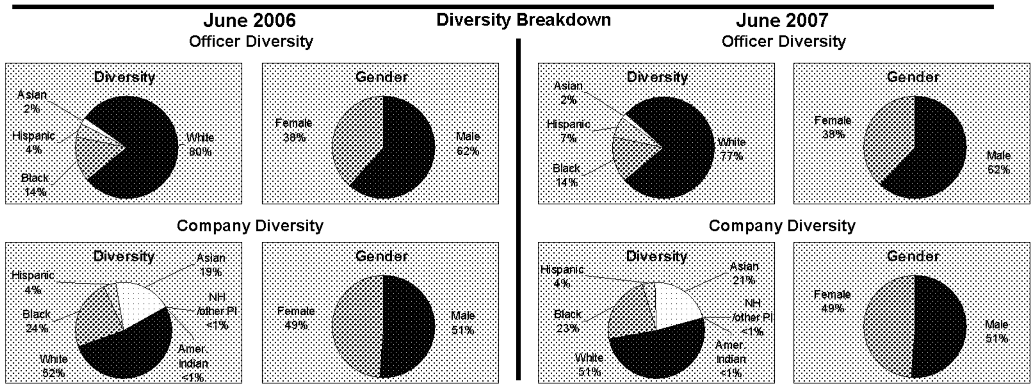
* Data presented is on a one month lag

- HCD Negotiated Transactions closed $5.4 billion, exceeding last year's total volume of $3.5 billion (+154%); an additional $2.9 billion in pipeline with expected close dates in June and July; to accommodate pipeline, created a utility tool that can process 700 loans in 2 minutes versus 1 week
- Single Family Operations continues to resolve data issues related to ARM loans, resulting in "Hard Rejects" reaching a new 12-month low
- Capital Markets Operations to use Lean Six Sigma to improve structured transactions process; issued Fannie Mae's fourth Benchmark REMIC for $1.2 billion

Solid progress in Operations support of all businesses

Human Resources

- Launched Voluntary Retirement Window program as part of the workforce reduction effort
- Made preliminary recommendations on changes to employee benefits to senior leadership and Compensation Committee
- Focusing culture efforts on leadership model integration into people manager experience. Next: introduction of assessment process to validate leadership attributes of managerial candidates
- Completed talent review of senior leadership; development actions have been identified for top talent



Making significant progress in key HR initiatives that impact the enterprise

Legislative

- House of Representatives passed HR 1427 with broad bi-partisan support (313-104) on May 22; fate of two key amendments send strong signals to Senate:
  1. Bean/Neugebauer ***passed*** by 383-36 – rejecting imposition of a systemic risk standard and further tightening portfolio factors
  2. Garrett amendment to place Bernanke-like limitations on our portfolio – namely we can only hold assets deemed by our regulator to support "affordable housing" – was ***rejected*** 92-322
- GSE debate now moves to Senate, but with absolutely no sense of urgency; movement will depend upon duration of Dodd's Presidential campaign, development of sub prime/predatory lending issue, and resolution of differences between Shelby/Administration and Chairman Dodd and Senate Democrats
- Once Senate takes up the legislation, we hope to improve:
  1. Product approval provision
  2. Management of affordable housing fund and integration of fund with our modernized affordable housing goals

Important step in legislative process

Confidential – Highly Restricted 12 FannieMae

- The House of Representatives passed bi-partisan GSE legislation on May 22nd by a vote of 313-104. Other than a number of partisan amendments over the existence and composition of the affordable housing fund, there were three significant developments in the House-passed bill:
  1. Bean/Neugebauer passed overwhelmingly by a vote of 383-36. The amendment tightens the portfolio factors by which the regulator may reduce our portfolio and wards off any attempt to apply "systemic risk" as a standard for our portfolio regulation.
  2. Garrett amendment was overwhelmingly rejected by a vote of 92-322. Garrett is a critic of both companies and introduced this amendment to place Bernanke-like limitations on our portfolio – namely we can only hold assets deemed by our regulator to support "affordable housing". The amendment was clobbered in committee, and defeated again last week on the House floor. Why is this important? The Senate bill, introduced by Senator Hagel has a very restrictive portfolio provision that closely tracks the language rejected in the Garrett amendment. This is an important consideration for Chairman Dodd as he puts together a Senate GSE bill.
  3. The affordable housing fund advanced with partisan objection. This is notable only because a purely partisan bill is more likely to be "checked" at the Senate floor until some workable resolution is reached.
- Each step of the legislative process is important to all stakeholders, and we do all we can to improve the bill every step of the way. Some progress was made in committee in March, and now some additional progress has been made on the House floor. The success of the Bean/Neugebauer amendment and the defeat of the Garrett amendment are strong measures of the support of the mission and charters of Fannie Mae and Freddie Mac on Capitol Hill.
- As the bill moves to the Senate later this year, we turn our attention to improving the product approval provision as well as making a strong case for managing the annual affordable housing fund – including integrating the fund with our modernized affordable housing goals.
- While the Senate has not forecasted any movement on a similar bill, this week's legislative activity was an important first step in the new legislation.

Special Topic – Housing Goals

What are the Goals and How are They Increasing?

Base Goals	2005	2006	2007	2008
Low- and Moderate-Income (Less than 100% AMI)	52%	53%	55%	56%
Underserved Areas (Low AMI or 30% minority tracts)	37%	38%	38%	39%
Special Affordable (Very low-income, low-income in low-income areas)	22%	23%	25%	27%

Home Purchase (PMM) Subgoals	2005	2006	2007	2008
Low- and Moderate-Income	45%	46%	47%	47%
Underserved Areas	32%	33%	33%	34%
Special Affordable	17%	17%	18%	18%

Multifamily Special Affordable Subgoal	$5.49 billion

Fannie Mae and Freddie Mac Goals Performance 2006

	HUD Goals/Subgoals	2006 Goal	2006 Final Results Fannie Mae	2006 Final Results Freddie Mac
Base Goals	Low-Mod	53.0%	56.9% ✓	55.9% ✓
	Underserved	38.0%	43.6% ✓	42.6% ✓
	Special Affordable	23.0%	27.8% ✓	26.5% ✓
Subgoals	Low-Mod	46.0%	46.9% ✓	46.9% ✓
	Underserved	33.0%	34.5% ✓	33.7% ✓
	Special Affordable	17.0%	17.9% ✓	16.9% ✗
	MF Special Affordable Subgoal	$5.9 B	$13.39 B ✓	$14.01 B ✓

evere are the Current Shortfalls?

Goals/Subgoals	2007 Goal	YTD May 2007	YTD Actual May 2007 Overage/ Shortage	To 2
	55.0%	53.07%	-28,137	
ed	38.0%	42.56%	71,008	
fordable	25.0%	24.09%	-13,300	
	47.0%	42.14%	-21,489	
ed	33.0%	34.03%	4,564	
fordable	18.0%	15.53%	-10,930	
l Affordable	$5.9 B	$5.22 B	NA	

	PLS*		M
me required to close LMI shortfall (70,000):	**$45 Billion**	**or**	**$**

is $27.0 Billion

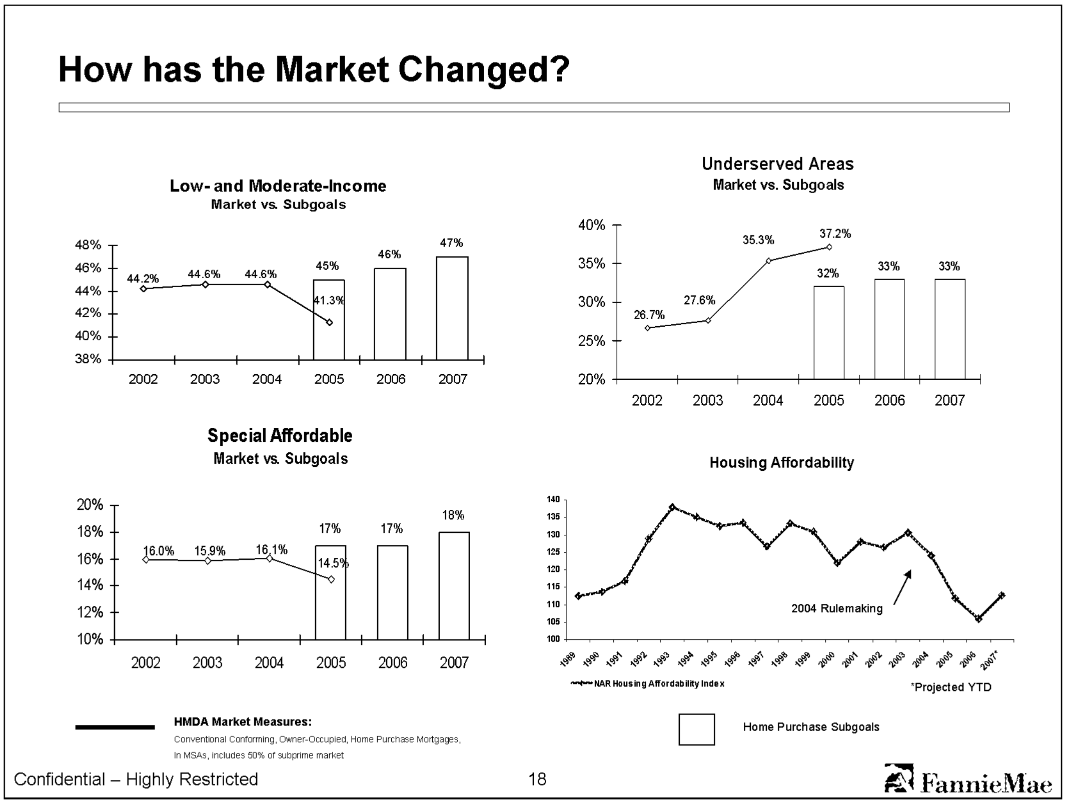
is $45.2 Billion

We have not experienced mid-year shortfalls on our Low-Mod Special Affordable base goals since 2003

- New forecast is depressing. As SF volumes rise, gaps between our performance and subgoals are also rising. Forecast assumes $21 billion in MCM production, $24.9 billion in MF production, and $15 billion in CMBS purchases
- Most notably, we are now also projecting a small 3,000 unit deficit on the base goals

What has Changed Since Last Year?

	2006	2007
Base Goals and Subgoals Increased		
Low-Mod Base Goal	53%	55%
Low-Mod Subgoal	46%	47%
SF Volumes Increased and Goals Richness Declined		
SF Volumes	$526 B	$625 B
SF Low-Mod Score (YTD May)	46.6%	43.5%
SF Low-Mod PMM Score (YTD May)	37.6%	39.6%
Countrywide (YTD May)	44.5%	40.9%
Wells Fargo (YTD May)	41.8%	37.3%
Private Label Securities have Dropped Due to Subprime Crisis		
PLS Volumes	$48 billion	$20 billion (Year End)
PLS Low-Mod Score (YTD May)	54.7%	57.3%
Higher MF, but Fewer Units/$B and Lower Goal Levels		
Volumes Multifamily	$32 billion	$42 billion
Multifamily Share of Units	16.4%	17.0% (YTD)
Multifamily Units/$B	24,000/$B	20,000/$B
* MF includes CMBS Low-Mod Scores	91.0%	89.0%
Declines in New HUD Income Levels have Hurt Income standards declined in 65% of MSAs Potential that HUD will provide help by revising incomes		-.30 percentage points relative to 1Q Base Scores



- We strongly believe that the Home Purchase Goals are out of synch with the market.
- Our two data points are the 2005 HMDA data shown in red here on this chart and the REALTORS affordability index shown in the lower right hand corner of this chart.
- The 2005 HMDA data for home purchase lending showed a significant break in the pattern of
- The other piece of evidence we have about the market was the precipitous drop in affordability beginning in 2003. Despite a small uptick projected in 2007, housing affordability is still at historically low levels. The problem we are seeing is an income and affordability problem.
- Now in fairness, the underserved market in HMDA is running above the home purchase subgoals. One of the interesting things we see in the HMDA data is that the role of subprime lending is less of a factor on the size of the market for low mod and special affordable, but has a profound impact on the size of the market for underserved.

- We obviously won't know for sure what the size of the 2006 market was until we get the HMDA data later in the year, but we estimated that the market was smaller last year because of the increase in the conforming loan limits from 2005 to 2006. This year we are estimating that the market is the same as last year because the conforming loan limits are the same. However, given the turmoil in the subprime markets it is quite possible that the market this year for low- and moderate income home purchases is smaller.

- So this is what we're seeing let me turn it over to Tom.

What Have We Done Already?

Category	2006 YTD May Volume ($B)	2006 YTD May Opportunity Cost ($M)	2007 YTD May Volume ($B)	2007 YTD May Opportunity Cost ($M)	Projected Year-End 2007 Volume ($B)	Year-End 2007 Costs Already Committed Opportunity Costs ($M)
Multifamily	$9.8	---	$14.6	---	$27.0	TBD
CMBS	$2.5	---	$3.5	---	$15.0	TBD
My Community Mortgage	$1.6	$40.6	$8.5	$216.8	$18.0	$457-535
DU Boost	$0.1	$1.5	$2.7	$42.5	$4.0	$63-74
HFA	$0.6	$10.6	$1.4	$24.5	$3.1	$54-64
Investor Channel	$.2	$4.1	$.34	$7.0	$.34	$7-8
Private Label Securities	$12.0	$2.4	$6.6	$1.3	$20.0	*$4-5
Manufactured Housing	$0.0	$0.0	$0.0	$0.0	$2.2	TBD
Total Opportunity Costs		**$59.2**		**$291.1**		**$585-685**

* Assumes additional costs from forward commitments

The company has already committed to opportunity costs this year that exceed last year's estimated costs of $375 million

What are Our Choices?

	Choices	Goal Levels Implied	Expected Opportunity Cost	Comments
A	**Pursue Plan to Meet Base Goals**	Expect to meet base goals Likely miss 2 of 3 subgoals	$1.2 billion	Cost is defined as difference between actual fee and fair value
B	**Limit Costs Of Goals Efforts**	Potentially fall short on one or more base goal	$585 million to $800 million	Pursue base goals but limit total opportunity costs
C	**Agree to Beat a Reasonable Market Standard**	Adopt 3-yr market average (concept in House bill) or other estimate of current market	$585 million	Market standard will require negotiation with regulator with many of the market variables unknown
D	**Create $100 Million "Keep People in Homes" Initiative in Lieu of Year-End Goals Push**	Fall short of one or more base goal Create new effort	$685 million	Shift business subsidies to activities that help consumers

All options assume that it will be extremely difficult to meet the home purchase subgoals

Housing Goals – Next Steps

1. Continue to source goals-rich business: Up to $100 million in additional opportunity costs

2. Mudd call to HUD Secretary: Alert to challenge; follow up

3. Delegation to visit Assistant Secretary Montgomery

4. Make go/no go decision on feasibility

Appendix

Plan A: Meet Base Goals

Category	Initiative Volume ($B)	Cost per Incremental	Total Cost ($M)	Low Mod Incrementals	Special Affordable Incrementals
Committed 2007 Costs			($585.1)		
Additional Costs in May Plan			($125.8)		
Projected Shortfall				(70,000)	(34,000)
Investor Channel Removal of Original Commitments	($4.50)	$6,618	+$92.7	(11,000)	(6,000)
MF Community Lending Small Loan Pools	$1.00	TBD	TBD	6,000	4,000
MF extra flow	$2.50	TBD	TBD	16,000	13,000
**MF Missing Data		TBD	TBD	5,000	2,000
Reverse Mortgages Bulk	$.15	$1,414	($.8)	1,000	500
Reverse Mortgages PLS	$1.00	$1,414	($2.7)	2,000	1,000
Reverse Mortgage Flow	$2.55	$2,073	(18.7)	9,000	4,000
Manufactured Housing	$1.40	$2,400	($25.5)	11,000	9,000
PLS Seconds	$.63	$5,000	($5.0)	1,000	500
HFA	$.35	$7,222	($7.9)	1,000	500
Investor Channel 2-4s	$.63	$10,375	($2.75)	2,000	1,000
Investor Channel Deals	$9.08	$17,245	($472.0)	27,000	17,000
Total Costs/ Unit (Shortfall)/Surplus			(1,153.5)	0	12,500

*FV Accounting method used for MCM, HFA, DU Boost and Deferrals. 2006 FV costing used for Investor Channel, PLS and Manufactured Housing.
** Actual incrementals TBD.