Fannie Mae's Strategy and Business Model

Supplementary Exhibits

December 2007
Investors and Customers View Fannie and Freddie as Largely the Same

Total Return to Shareholders

<table>
<thead>
<tr>
<th>Price-to-Book</th>
<th>Price-to-Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRE 0.7</td>
<td>n/a</td>
</tr>
<tr>
<td>FNM 0.7</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Shares were at parity until recent turmoil

FNM underperformed in aftermath of its accounting scandal

* Prices as of 11/20/07; book value and trailing 12-month earnings as of 9/30/07 (FRE reported a net loss for the period)
Source: FRE financials, FNM financials

Customer Comments

Products
- “Fannie’s and Freddie’s product offerings are pretty much the same” (Am Trust)
- “There is not a noticeable difference between the two companies in products” (SunTrust)

Ease of doing business
- “Neither Freddie or Fannie is streamlining the end-to-end process” (Wells Fargo)
- “Both companies could be faster; I wouldn’t describe either one as nimble” (National City)

Pricing
- “The two firms are very close, very tight on price” (Fifth Third)

Significant Overlap Among Top 10 Shareholders

FNM Top Ten Shareholders (% FNM, % FRE of common shares outstanding)
- J.P. Morgan (2.4%, 21.3%, 13.6%)
- Alliance Bernstein (4.4%, 7.1%)
- Fidelity (3.4%, 2.1%)
- Vanguard Group (2.9%, 2.9%)
- State Street (2.9%, 3.0%)
- Forman Investments (2.2%)

FRE Top Ten Shareholders
- Capital Research (21.3%, 13.6%)
- Alliance Bernstein (4.4%, 7.1%)
- Fidelity (3.4%, 2.1%)
- Vanguard Group (2.9%, 2.9%)
- State Street (2.9%, 3.0%)
- Pzena Investments (3.1%)
- Morgan Stanley (4.1%, 6.0%)
- Merrill Lynch (2.4%, 2.3%)
- Goldman Sachs (2.7%)
- Morgan (6.0%, 4.0%)
- Barber (4.0%, 4.0%)

Source: Capital IQ (as of 11/20/07)
Fannie Has Become More Business-Oriented Following Its Accounting Scandal

Select Fannie Mae Leaders Before 2002

Franklin Raines (Chairman and CEO)
  Background: Director, U.S. Office of Management and Budget

Jamie Gorelick (Vice Chair)
  Background: U.S. Deputy Attorney General; General Counsel to Department of Defense

Thomas Donilon (Executive Vice President)
  Background: Assistant Secretary of State for Public Affairs; Chief of Staff to the Secretary of State

Kenneth Duberstein (Director)
  Background: Chief of Staff to the U.S. President

Ann McLaughlin Korologos (Director)
  Background: U.S. Secretary of Labor

Jack Quinn (Director)
  Background: Counsel to the U.S. President; Chief of Staff and Counsel to the U.S. Vice President

Select Fannie Mae Leaders Today

Daniel Mudd (President and CEO)
  Background: GE Capital (President and CEO, Japan; President, Asia Pacific)

Stephen Swad (EVP and CFO)
  Background: AOL (CFO); Time Warner; KPMG

Robert Blakely (Executive Vice President)
  Background: MCI (CFO); Tenneco, Inc.; Lyondell Chemical; Morgan Stanley

Enrico Dallaveccia (EVP and CRO)
  Background: JP Morgan Chase (Head of Market Risk for Chief Investment Office and Retail Financial Services)

Brenda Gaines (Director)
  Background: Diners Club North America (President and CEO)

Greg Smith (Director)
  Background: Ford Motor Company (Vice Chairman, Chairman and CEO Ford Motor Credit)

Current corporate priorities (per 10-K):

- Grow revenue
- Reduce costs
- Exceed mission

- "Get current"
- Operate in "real time"
- Accelerate culture change

"We've been restructuring our company from the bottom up, and taking active steps to strengthen and improve our culture."
  (Dan Mudd, March 2007)

Source: Company financials
Fannie Mae Has Locked Down Its Market Risk Management

**Duration Gap***

Since October 2004, Fannie's duration gap has not exceeded +/- 1 month

Reached -14 months

Source: Company disclosures

* Estimates the net sensitivity of the fair value of financial instruments (assets and liabilities, including derivatives) to movements in interest rates. The calculation excludes any interest rate sensitivity of the guarantee business

Fannie has also adopted fair value management and disclosures for its retained portfolio, following Freddie's lead
Single Family Is the Crown Jewel in Fannie Mae's Franchise

“The guarantee side of the business... is a much more efficient business from a capital consumption standpoint than putting assets on balance sheets” (Dan Mudd, January 2007)

Estimated Fannie Mae Segment Returns Using Statutory Minimum Capital - 2006

($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>Single Family</th>
<th>HCD</th>
<th>Capital Markets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$6,073</td>
<td>$510</td>
<td>$5,202</td>
<td>$11,785</td>
</tr>
<tr>
<td>Net Income</td>
<td>$2,044</td>
<td>$338</td>
<td>$1,677</td>
<td>$4,059</td>
</tr>
<tr>
<td>Estimated Capital</td>
<td>$8,255</td>
<td>NA</td>
<td>$20,083</td>
<td>$29,359</td>
</tr>
<tr>
<td>ROE</td>
<td>25%</td>
<td>NA</td>
<td>8%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Suggests Single Family is a high-ROE business vs. FRE's perspective of low-teens ROEs

Source: FNM financials; BlackRock analysis

We don’t know Fannie Mae’s internal capital requirements - but all indications are that Fannie believes Single Family business requires less capital than Freddie does
The Retained Portfolio Is Not an Engine of Growth for Fannie

Freddie Mac's retained portfolio was a substantial source of growth in the 1990s, growing at a faster rate than Fannie's

Today, the two portfolios are effectively the same size (due to caps and capital constraints)

Retained Portfolio Assets

Source: OFHEO Annual Report 2007; company financials
In Single Family, Fannie Mae Dominates Across All Segments

Fannie Mae leads in every segment of lenders

Fannie also has the majority share of the top 10 originators, which control 71% of the market

Fannie Mae’s Single Family market share - 2007 YTD

By segment

- National: 56%
- Regional: 55%
- Dealer: 56%
- Community: 57%

Among Top 10 GSE lenders

1. Countrywide
2. Wells Fargo
3. JPM Chase
4. WaMu
5. CitiMortgage*
6. GMAC/RFC
7. Suntrust
8. BofA
9. Lehman Bros.
10. Wachovia

Importantly, Fannie Mae has a FRE majority share and a FNM majority share.

Source: Mission and Sourcing Management Committee, September 2007

* Includes ABN Amro
DU is the Market-Standard Automated Underwriting System

Lenders tend to prefer DU due to:

- Higher “accept” rate (driven by Fannie’s underlying more liberal view of credit)
- Ease of use
  
  Example: “We can’t merge credit reports in LP” (Flagstar)
- Continued investment over time vs. LP
  
  “LP use is declining because of features in Custom DU” (National City)

Many lenders use Custom DU as the engine for their non-Agency products (evaluated using their own underwriting rules)

AUS Market Penetration

Many lenders use multiple AUS platforms

Source: Mortech Presentation for Freddie Mac
Fannie Is More Easily Able to Meet Its HUD Goals and Subgoals . . .

2006 Results

**Goals**

- **Low-Mod**
  - 2006 Target: 53%
  - 2007 Target: 55%
  - **FNMI**
  - **FRE**

- **Underserved**
  - 2006 and 2007 Target: 38%
  - **FNMI**
  - **FRE**

- **Special Affordable**
  - 2006 Target: 23%
  - 2007 Target: 25%
  - **FNMI**
  - **FRE**

**Subgoals**

- **FNMI**
- **FRE**

These two subgoals are particularly difficult to meet (see next exhibit)

Source: FNMI financials, FRE financials
Largely Through Higher Hit Rates in Single Family Flow Business

2006 HUD Special Affordable Subgoal Results

<table>
<thead>
<tr>
<th></th>
<th>Fannie Mae</th>
<th></th>
<th>Freddie Mac</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Eligible</td>
<td>Qualifying</td>
<td>Eligible</td>
<td>Qualifying</td>
</tr>
<tr>
<td></td>
<td>Loans</td>
<td>Loans</td>
<td>Loans</td>
<td>Hit Rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Family</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flow</td>
<td>863,799</td>
<td>137,074</td>
<td>633,028</td>
<td>79,564</td>
</tr>
<tr>
<td>Bulk</td>
<td>103,438</td>
<td>10,393</td>
<td>95,254</td>
<td>6,427</td>
</tr>
<tr>
<td>Subsidized</td>
<td>35,304</td>
<td>18,336</td>
<td>14,397</td>
<td>8,442</td>
</tr>
<tr>
<td>All Single Family</td>
<td>1,002,541</td>
<td>165,803</td>
<td>742,679</td>
<td>94,433</td>
</tr>
<tr>
<td>All ABS</td>
<td>141,799</td>
<td>32,324</td>
<td>168,361</td>
<td>57,282</td>
</tr>
<tr>
<td>Total, Before Imputation</td>
<td>1,144,340</td>
<td>198,127</td>
<td>911,040</td>
<td>151,715</td>
</tr>
<tr>
<td>Income Imputation</td>
<td></td>
<td>7,209</td>
<td>3,251</td>
<td>0.4%</td>
</tr>
<tr>
<td>All Channels</td>
<td>1,144,340</td>
<td>205,336</td>
<td>911,040</td>
<td>154,966</td>
</tr>
</tbody>
</table>

FNM achieves a much higher hit rate from Single Family flow - which accounts for more than half of subgoal-qualifying loans

As a result, FNM relies much less on ABS purchases

Reasons for Fannie's higher Single Family flow hit rates:

- Fannie's customers on average tend to have more goal-rich business than Freddie's
- Fannie appears to aggressively target goal business from individual customers

Note: Figures may not add due to rounding
Source: Freddie Mac Mission Oversight and Development
Fannie’s Dominance in Multifamily Is Even Greater

Fannie has pursued a two-fold strategy of
- Buying for the portfolio - roughly twice Freddie’s purchases
- Securitization, although activity has subsided since a peak in 2003

Source: OFHEO Annual Report 2007; company financials
Fannie Takes on Greater Credit Risk in Multifamily

Fannie relies heavily on delegated underwriting to source new loans for the portfolio.

The company also appears to be comfortable taking higher and more volatile credit losses.

Fannie Mae’s 2006 Production

Multifamily Credit Losses

Source: Company financials

Source: OFHEO 2007 Annual Report
## Fannie's Single Family Edge Lies Mostly in Scale / Liquidity and Credit Appetite

<table>
<thead>
<tr>
<th></th>
<th>Fannie Mae advantages</th>
<th>Relative importance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scale and liquidity</strong></td>
<td>Scale: larger G&amp;A budget for same efficiency</td>
<td>[ ]</td>
</tr>
<tr>
<td></td>
<td>Liquidity: 2-4 bp lower funding costs</td>
<td>[ ]</td>
</tr>
<tr>
<td></td>
<td>Allows for additional investment and higher profit margins</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Credit appetite</strong></td>
<td>Willing to take on more credit risk exposure (e.g., Alt-A, 90-day forward commitments)</td>
<td>[ ]</td>
</tr>
<tr>
<td></td>
<td>More accommodating to customer requests (e.g., streamlined refi with Countrywide, condo-tels with Wells Fargo)</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Execution</strong></td>
<td>Nimblcer product development (e.g., ARM offerings, reverse mortgages)</td>
<td>[ ]</td>
</tr>
<tr>
<td></td>
<td>Easier to transact with</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Business model</strong></td>
<td>Historic ties to Washington establishment and housing policy</td>
<td>[ ]</td>
</tr>
<tr>
<td></td>
<td>Each business run as separate P&amp;Ls</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

= most important
Fannie’s Single Family Business Is Likely More Profitable Than Freddie’s

Below is one analyst’s interpretation of the comparative profitability

Estimated Single Family economics (per Morgan Stanley)

<table>
<thead>
<tr>
<th></th>
<th>Fannie Mae¹</th>
<th>Freddie Mac²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>4 bp</td>
<td>1 bp</td>
</tr>
<tr>
<td>Guarantee fee income</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Fee and other income</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>25 bp</strong></td>
<td><strong>19 bp</strong></td>
</tr>
<tr>
<td>Provision</td>
<td>2 bp</td>
<td>1 bp</td>
</tr>
<tr>
<td>Other expenses (i.e., G&amp;A)</td>
<td>4 bp</td>
<td>6 bp</td>
</tr>
<tr>
<td><strong>Pretax income</strong></td>
<td><strong>21 bp</strong></td>
<td><strong>13 bp</strong></td>
</tr>
<tr>
<td>Taxes</td>
<td>6 bp</td>
<td>3 bp</td>
</tr>
<tr>
<td><strong>Aftertax income</strong></td>
<td><strong>14 bp</strong></td>
<td><strong>10 bp</strong></td>
</tr>
<tr>
<td><strong>ROE³</strong></td>
<td><strong>38.7 %</strong></td>
<td><strong>25.6 %</strong></td>
</tr>
</tbody>
</table>

1 Excludes restatement expenses, investment gains, and Katrina-related losses
2 G-fees based on Freddie 2006 10-K; all other figures are Morgan Stanley estimates
3 Assumes 45 bp of total equity (20% preferred stock) at 6% dividend yield

Note: figures may not sum due to rounding

Even If Both Companies Are Equally Efficient, Fannie Has a Substantial G&A Advantage

Directly comparing G&A expenses at Fannie and Freddie is difficult now due to significant remediation-related expenses.

Fannie's total mortgage portfolio = $2.7 trillion

Freddie's total mortgage portfolio = $2.0 trillion

Even assuming equal efficiency, Fannie has a roughly $400 million annual G&A advantage:
- Can invest the additional budget in initiatives such as affordable housing and CRA partnership offices.
Fannie Mae’s Better Security Performance Results in Lower Funding Costs

Fannie MBS trade at higher prices than Freddie securities

- Freddie and Fannie securities trade roughly at the same price (Freddie Golds traded +1/32 over Fannie’s on 11/20/07*)
- But Freddie pays investors 10 days earlier (45-day payment delay vs. 55-day for Fannie)
- Adjusting for timing differences, Freddie securities underperform Fannie’s (10 days of float = 4.5 ticks in price)

The difference is the greater liquidity of Fannie securities - 8x the trading volume in TBAs

Security performance matters because it is the currency used to pay originators for much of the guarantee business - the gap manifests itself in two ways:

- Freddie Mac has to lower its average G-fees to remain competitive
- Freddie also offers lenders discounts on G-fees when its PCs trade 2+ ticks below Fannie’s (these discounts have totalled as much as $100+ million in recent years)

FRE-FNM price difference*, assuming same delay

Ticks

-8
-6
-4
-2
 0

1000 3003 1004 1005 1006 1007 3006 3005

2-4 ticks

* Based on a weighted average of 30- and 15-year single class securities

Source: Freddie Mac Mortgage Funding

1/32 in price
≈ 1 bp in G-fee
≈ 1% in ROE

* 30-year TBA, December delivery, 6% coupon
Fannie Mae Has Maintained 55-60% Share Over the Last 10+ Years

Fannie Mae Share of Single Family MBS Issuance

Fannie could theoretically grab additional share - but doesn't

- Likely anticipates a price war if they surpass 60%
- Most customers say they give at least some share to both institutions

"We do business with both companies to maintain competition" (Flagstar)

- Regulatory / anti-trust concerns

Source: OFHEO Annual Report
At First Pass, Fannie and Freddie's Single Family Credit Books Appear Similar

**Original LTV**

*As of 12/31/06*

<table>
<thead>
<tr>
<th>LTV Range</th>
<th>Freddie Mac</th>
<th>Fannie Mae</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;60%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>60%-70%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>70%-80%</td>
<td>46%</td>
<td>49%</td>
</tr>
<tr>
<td>80%-90%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>90%-100%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Product Distribution**

*As of 12/31/06*

**Freddie Mac**

- 30yr: 65%
- 15yr: 20%
- IO: 8%
- ARM: 4%
- Option ARM (1%): 1%
- Option ARM (2%): 1%

**Fannie Mae**

- 30yr: 68%
- 15yr: 18%
- IO: 13%
- Option ARM (1%): 2%
- Option ARM (2%): 1%

Source: Company disclosures
However, Fannie Appears to Have Taken on More Credit Risk

Higher proportion of Alt-A and perhaps more risk-layered purchases could account for the difference

Single Family 90+ Delinquency Rates

Product Distribution

As of 12/31/06

Source: Company disclosures
Unclear Whether Fannie Will Ultimately Suffer Greater Credit Losses

Despite higher credit losses for Fannie in recent quarters (e.g., 5 bp in third quarter vs. 3 bp for Freddie), investors do not seem to differentiate their credit outlook for the two institutions.

- Both institutions have projected similar credit losses for 2008.

**Freddie Mac's Credit Losses***

(Basis points)

- Charge-offs, net of recoveries and foreclosed property expense (income)

Source: Company disclosures; OFHEO Annual Report 2007

**Fannie Mae's Credit Losses***

(Basis points)

Management guidance

Management guidance

*Charge-offs, net of recoveries and foreclosed property expense (income)