Fannie Mae's Strategy and Business Model

Supplementary Exhibits

December 2007

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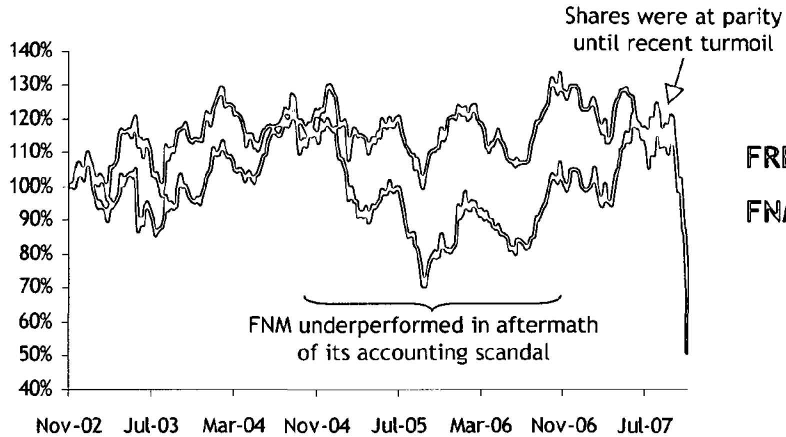
Investors and Customers View Fannie and Freddie as Largely the Same

Total Return to Shareholders

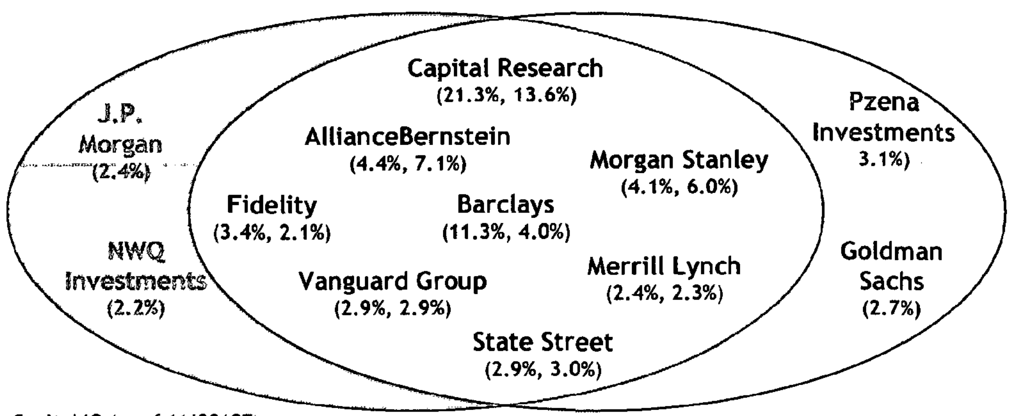


	Price-to-Book*	Price-to-Earnings*
FRE	0.7	n/a
FNM	0.7	5.1

** 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

Significant Overlap Among Top 10 Shareholders

FNM Top Ten Shareholders *(% FNM, % FRE of common shares outstanding)* **FRE Top Ten Shareholders**



Source: Capital IQ (as of 11/20/07)

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)*

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):

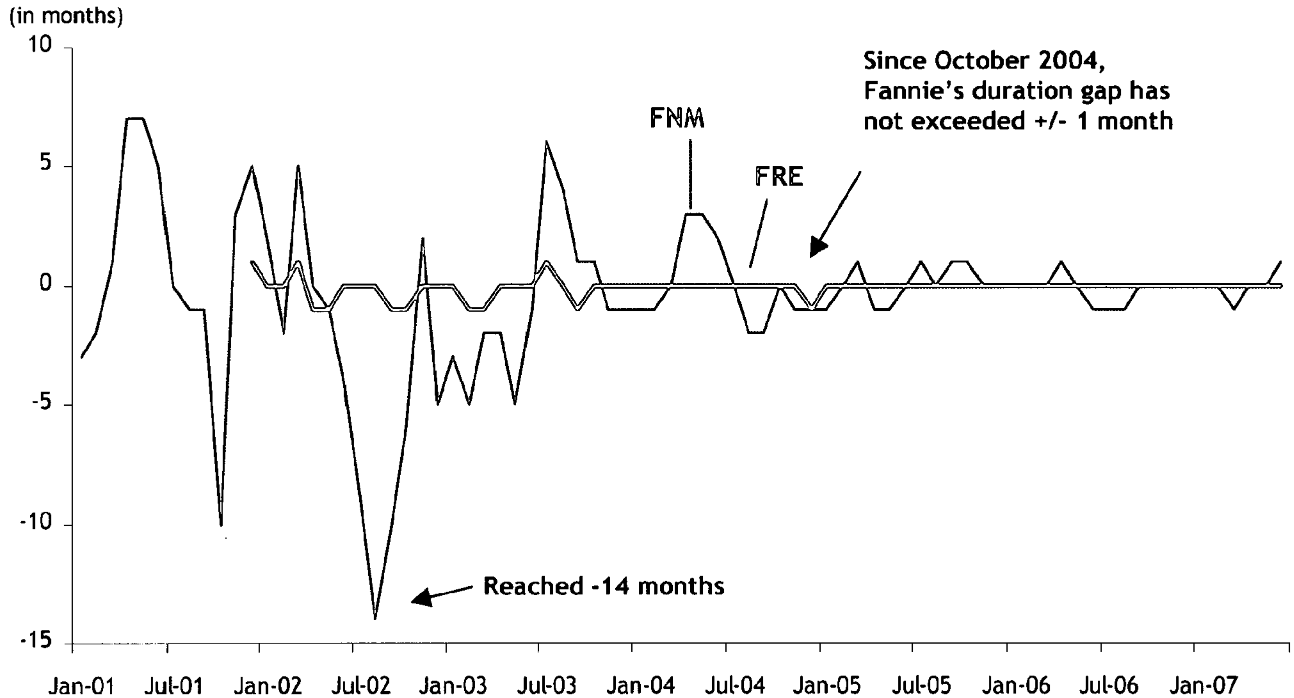
- Grow revenue
- Reduce costs
- Exceed mission
- "Get current"
- Operate in "real time"
- Accelerate culture change

"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*



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)

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

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

Source: FNM financials; BlackRock analysis

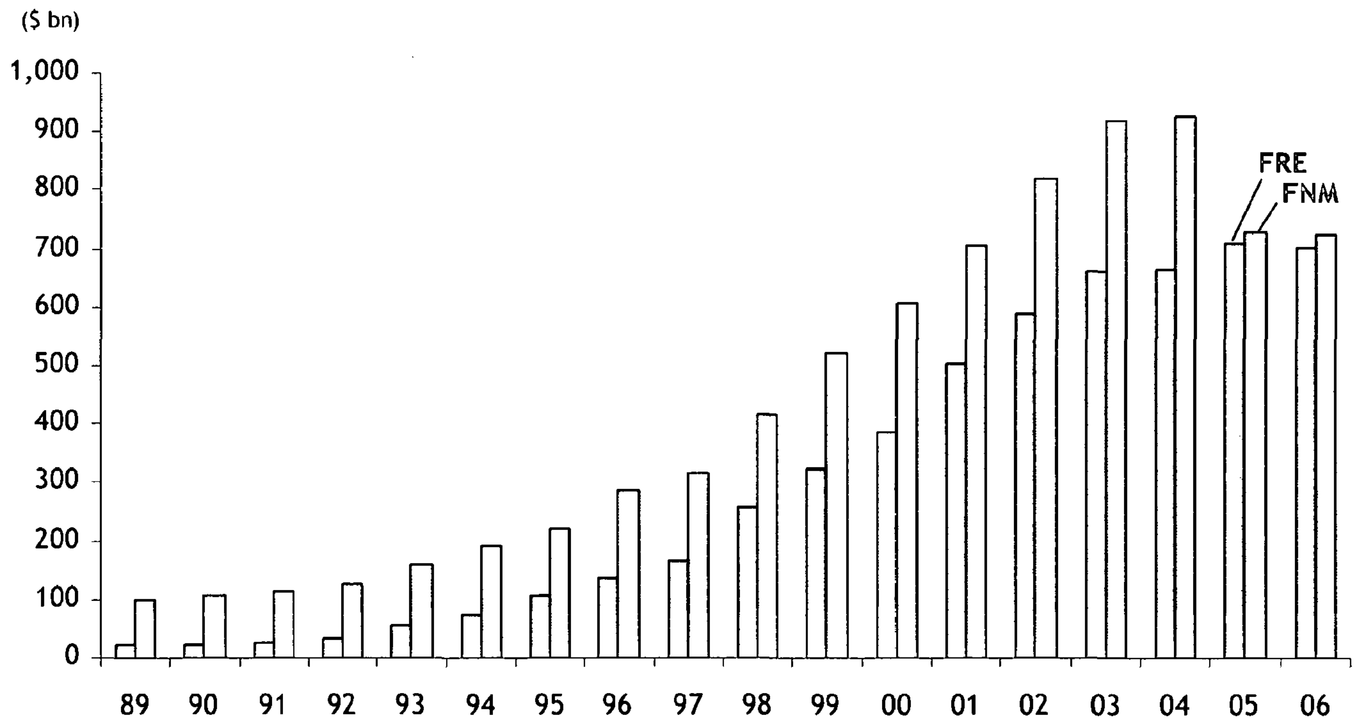
We don't know Fannie Mae's internal capital requirements - but all indications are that Fannie believes Single Family business requires less capital than Freddie does

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



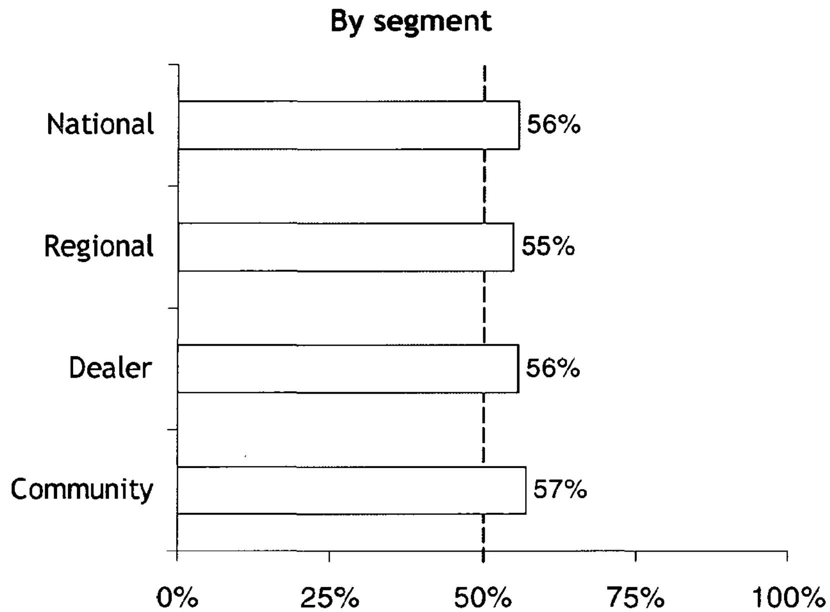
Source: OFHEO Annual Report 2007; company financials

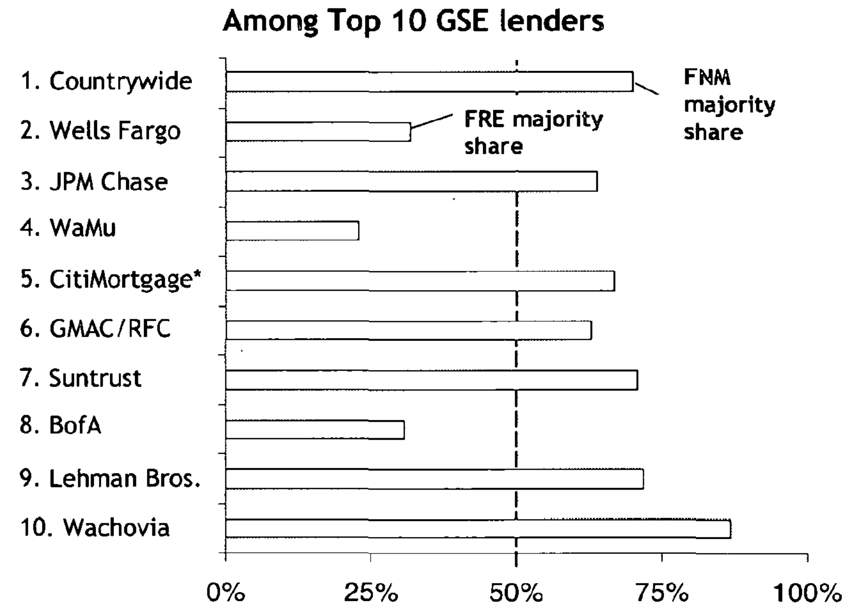
In Single Family, Fannie Mae Dominates Across All Segments

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





Source: Mission and Sourcing Management Committee, September 2007

* Includes ABN Amro

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DU Is the Market-Standard Automated Underwriting System

Lenders tend to prefer DU due to:

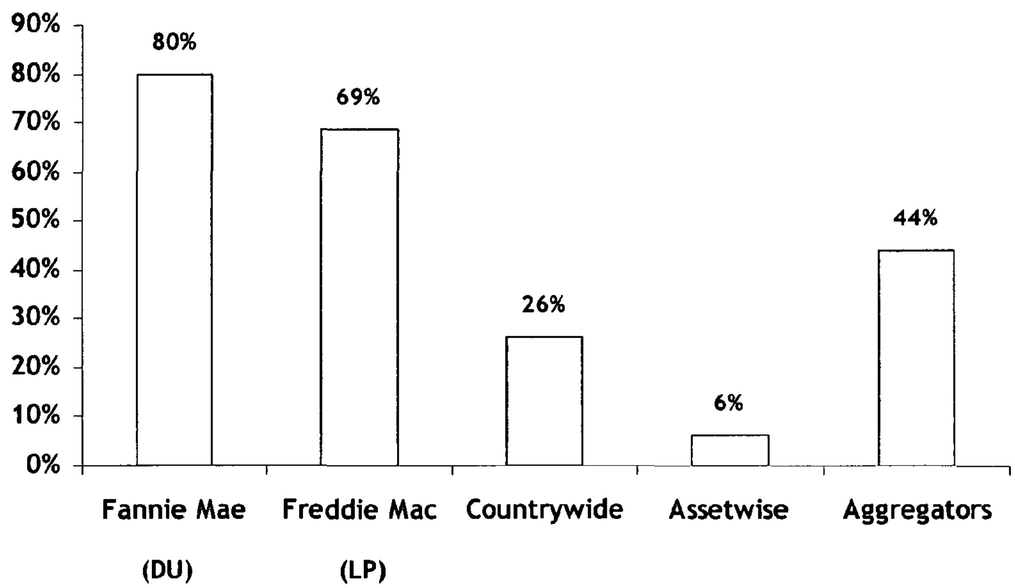
- **Higher "accept" rate** (driven by Fannie's underlying more liberal view of credit)
- **Ease of use**

  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

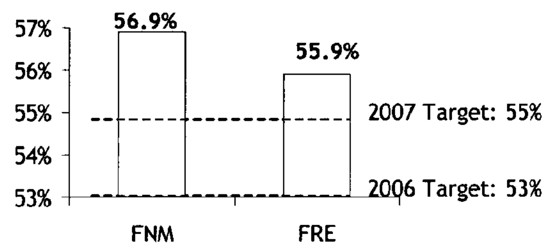
Source: Mortech Presentation for Freddie Mac

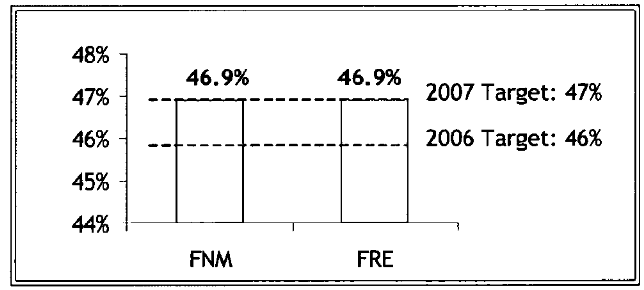
Fannie Is More Easily Able to Meet Its HUD Goals and Subgoals . . .

2006 Results

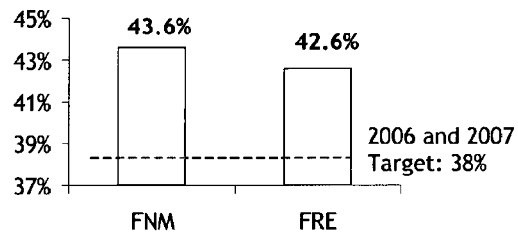
Goals | **Subgoals**

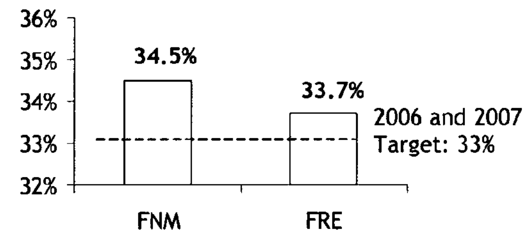
Low-Mod





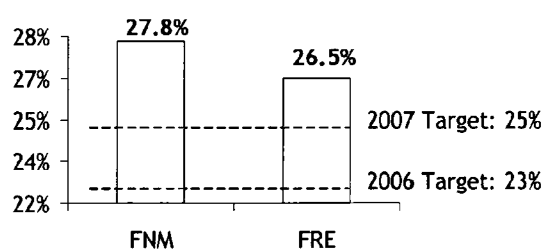
Underserved

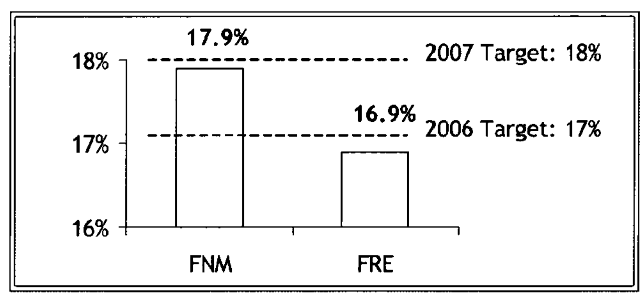




These two subgoals are particularly difficult to meet (see next exhibit)

Special Affordable





Source: FNM financials, FRE financials

. . . Largely Through Higher Hit Rates in Single Family Flow Business

2006 HUD Special Affordable Subgoal Results

	Fannie Mae			Freddie Mac		
	Eligible Loans	Qualifying Loans	Hit Rate	Eligible Loans	Qualifying Loans	Hit Rate
Single Family						
Flow	863,799	137,074	15.9%	633,028	79,564	12.6%
Bulk	103,438	10,393	10.0%	95,254	6,427	6.7%
Subsidized	35,304	18,336	51.9%	14,397	8,442	58.6%
All Single Family	1,002,541	165,803		742,679	94,433	
All ABS	141,799	32,324	22.8%	168,361	57,282	34.0%
Total, Before Imputation	1,144,340	198,127	17.3%	911,040	151,715	16.7%
Income Imputation		7,209	0.6%		3,251	0.4%
All Channels	**1,144,340**	**205,336**	**17.94%**	**911,040**	**154,966**	**17.01%**

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

Note: Figures may not add due to rounding
Source: Freddie Mac Mission Oversight and Development

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

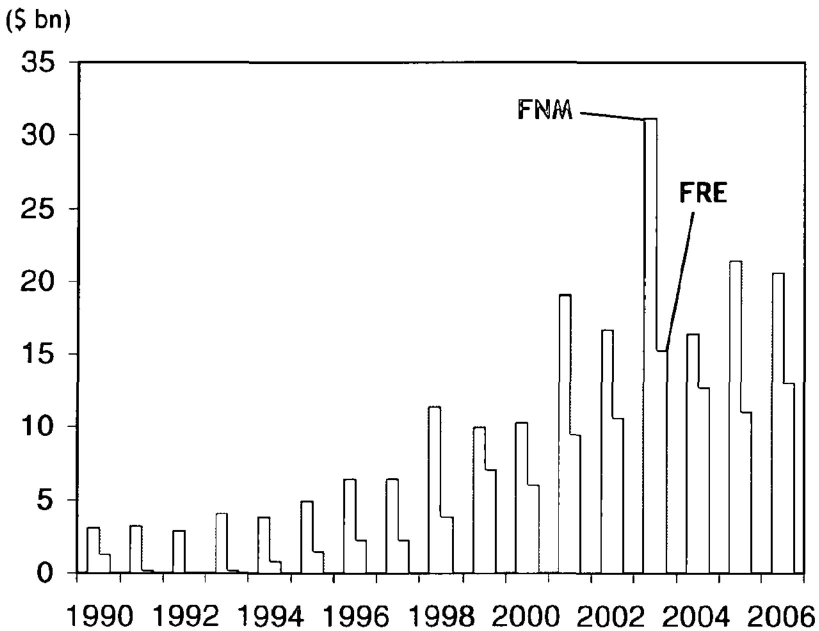
- Fannie's customers on average tend to have more goal-rich business than Freddie's
- Fannie appears to aggressively target goal business from individual customers

Fannie's Dominance in Multifamily Is Even Greater

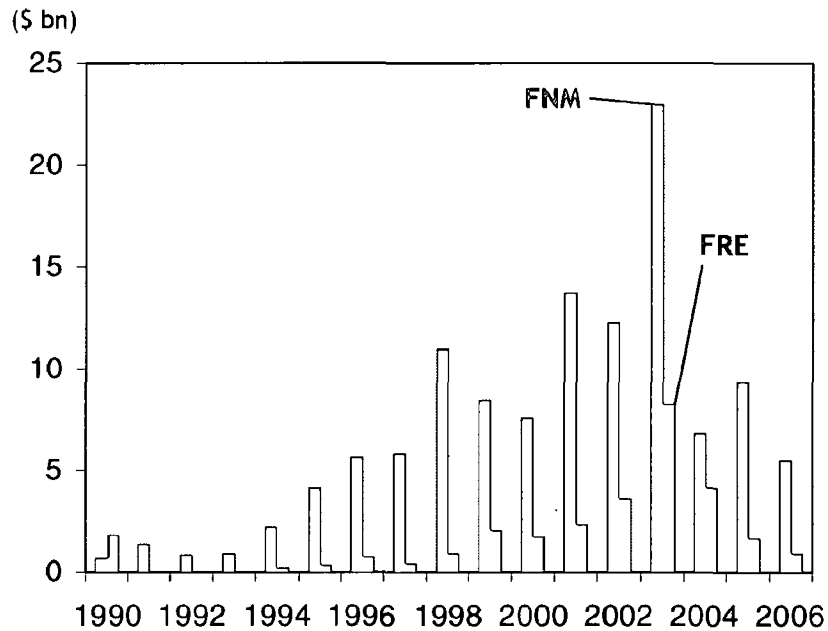
Fannie has pursued a two-fold strategy of

- Buying for the portfolio - roughly twice Freddie's purchases
- Securitization, although activity has subsided since a peak in 2003

Multifamily Purchases



Multifamily MBS Issuance



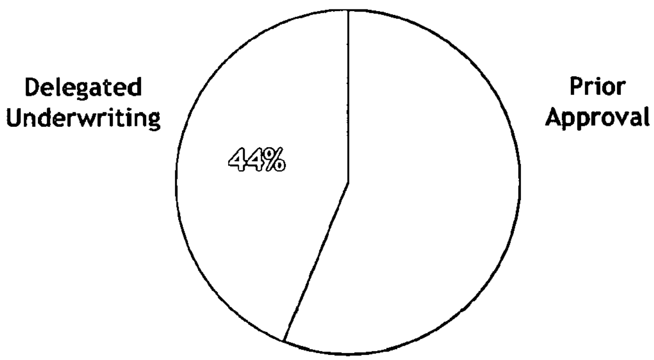
Source: OFHEO Annual Report 2007; company financials

Fannie Takes on Greater Credit Risk in Multifamily

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

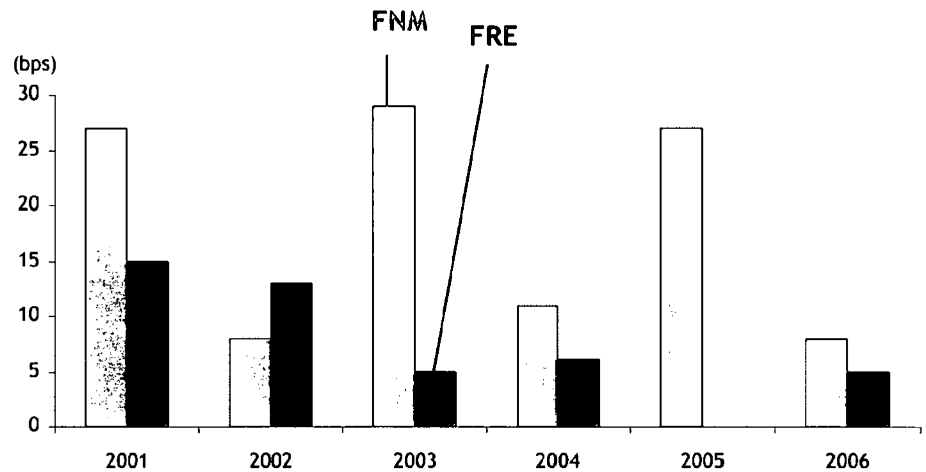
The company also appears to be comfortable taking higher and more volatile credit losses

Fannie Mae's 2006 Production



Source: Company financials

Multifamily Credit Losses



Source: OFHEO 2007 Annual Report

Fannie's Single Family Edge Lies Mostly in Scale / Liquidity and Credit Appetite

Fannie Mae advantages | Relative importance

Scale and liquidity

- Scale: **larger G&A budget** for same efficiency
- Liquidity: 2-4 bp **lower funding costs**
- Allows **for additional investment and higher profit margins**

Credit appetite

- Willing to take on **more credit risk exposure** (e.g., Alt-A, 90-day forward commitments)
- **More accommodating** to customer requests (e.g., streamlined refi with Countrywide, condo-tels with Wells Fargo)

Execution

- **Nimbler product development** (e.g., ARM offerings, reverse mortgages)
- **Easier to transact with**

Business model

- Historic ties to Washington establishment and **housing policy**
- Each business run as **separate P&Ls**

= 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)

	Fannie Mae[1]	Freddie Mac[2]	
Net interest income	4 bp	1 bp	Better security performance?
Guarantee fee income	20	16	**Higher G-fees; Freddie's internal estimates are that Fannie's G-fees are 2-3 bp higher**
Fee and other income	1	2	
Total revenues	**25 bp**	**19 bp**	
Provision	2 bp	1 bp	No significant difference in credit costs
Other expenses (i.e., G&A)	4 bp	6 bp	33% more efficient - due to scale advantage?
Pretax income	21 bp	13 bp	**8 bp (or 60%) higher pre-tax income**
Taxes	6 bp	3 bp	
Aftertax income	**14 bp**	**10 bp**	
ROE[3]	**38.7 %**	**25.6 %**	Assumes same view of capital required (regulatory capital)

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

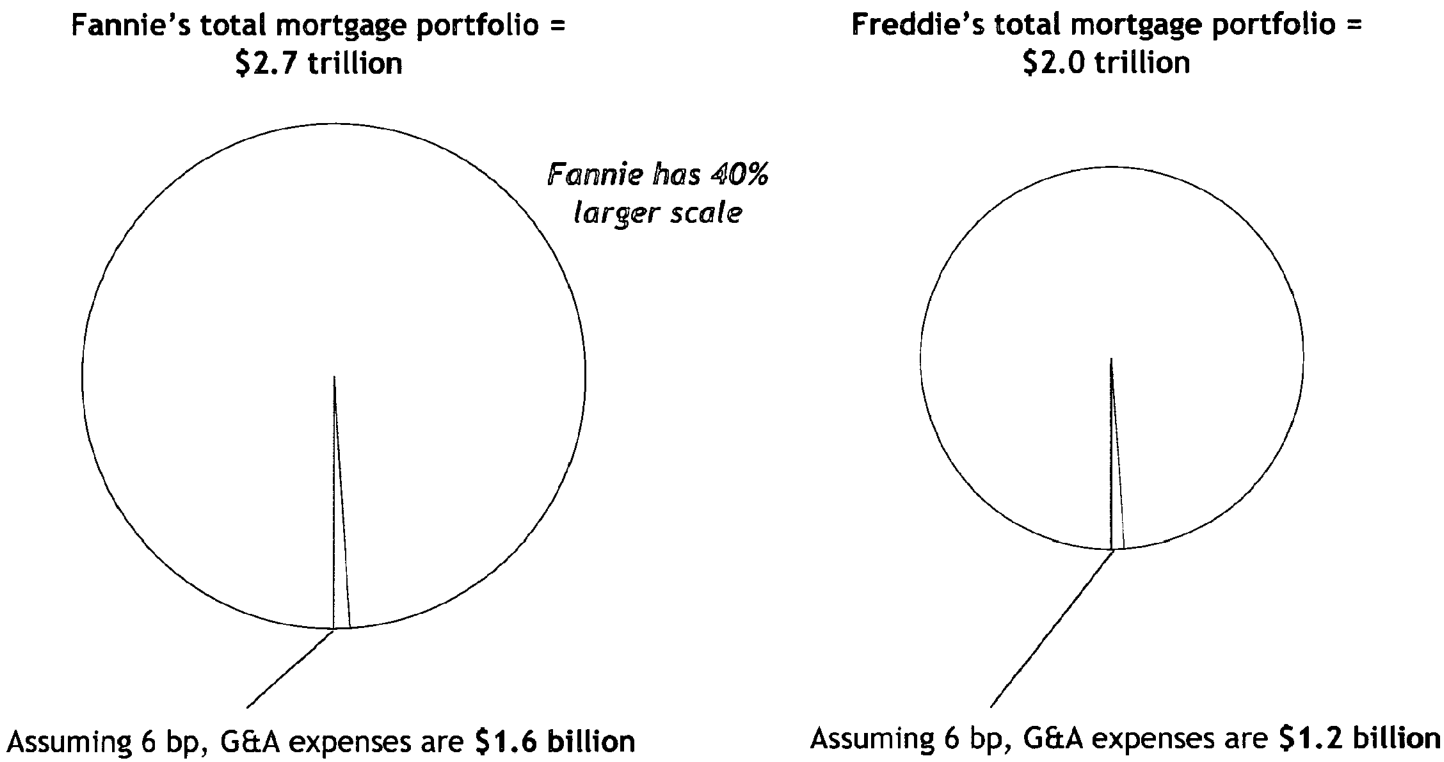
3 Assumes 45 bp of total equity (20% preferred stock) at 6% dividend yield

Note: figures may not sum due to rounding

Source: Morgan Stanley research ("Fannie Mae: 2005 10-K Reveals Power of the Credit Segment," May 28, 2007)

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



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

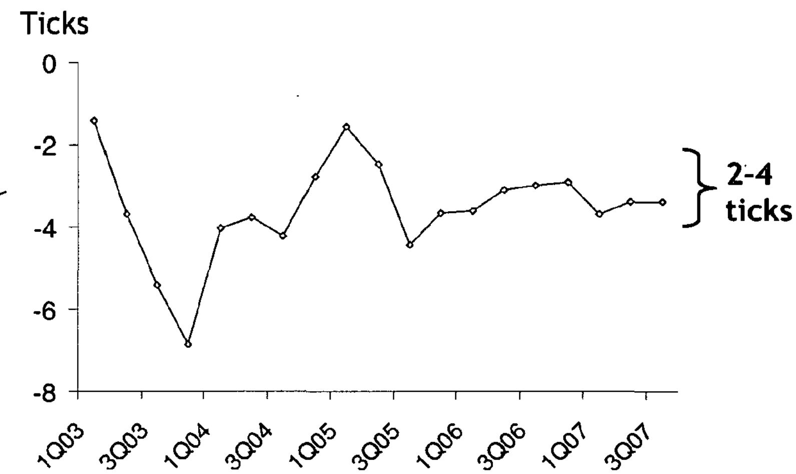
- Freddie and Fannie securities trade roughly at the same price (Freddie Golds traded +1/32 over Fannie's on 11/20/07*)
- But Freddie pays investors 10 days earlier (45-day payment delay vs. 55-day for Fannie)
- **Adjusting for timing differences, Freddie securities underperform Fannie's** (10 days of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



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

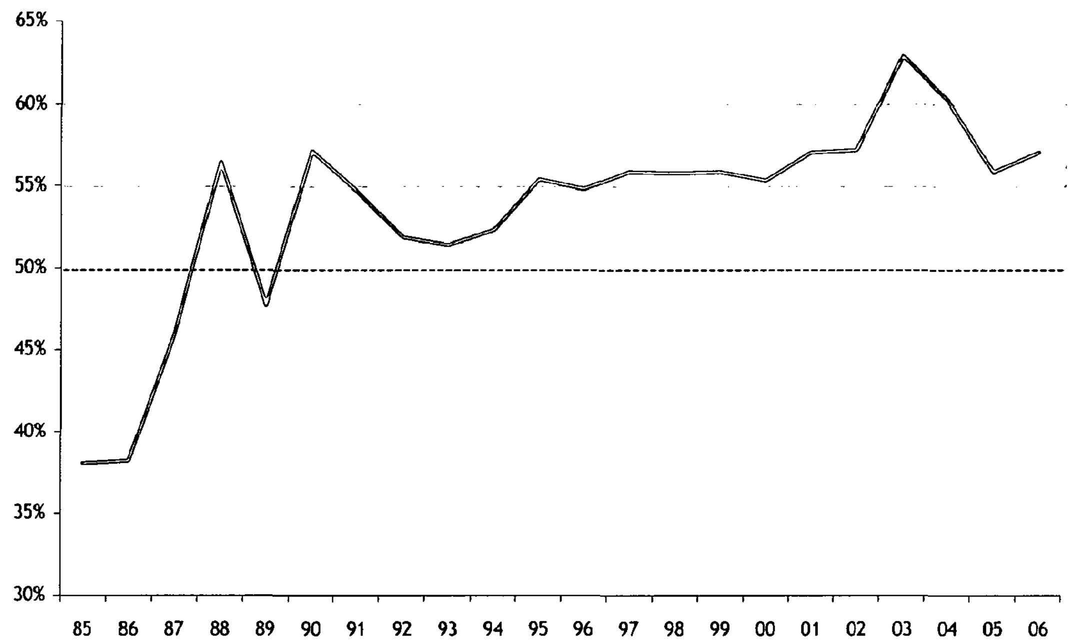
Source: Freddie Mac Mortgage Funding

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



Source: OFHEO Annual Report

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

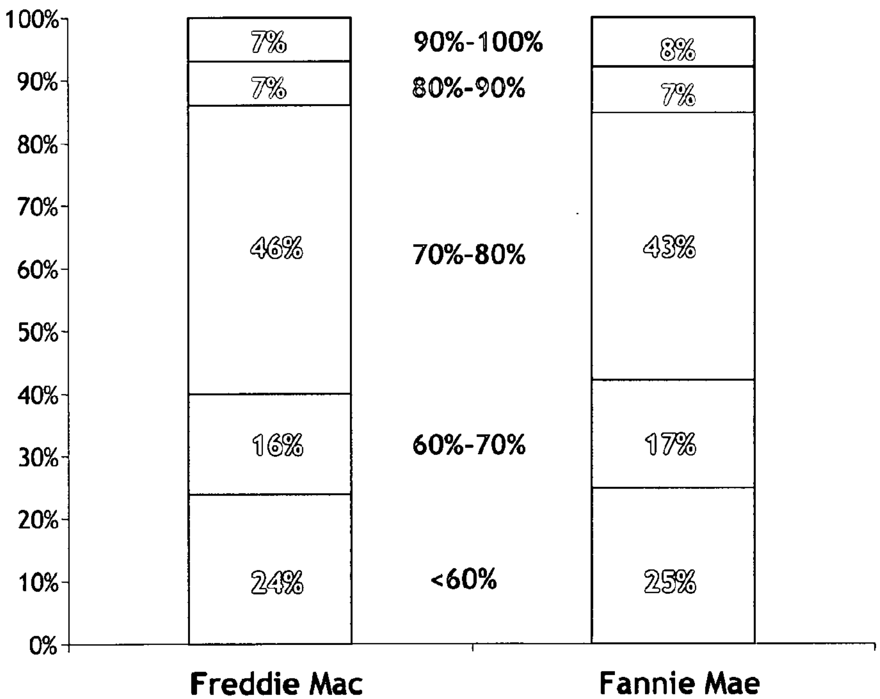
  "We do business with both companies to maintain competition" (Flagstar)

- Regulatory / anti-trust concerns

At First Pass, Fannie and Freddie's Single Family Credit Books Appear Similar

Original LTV

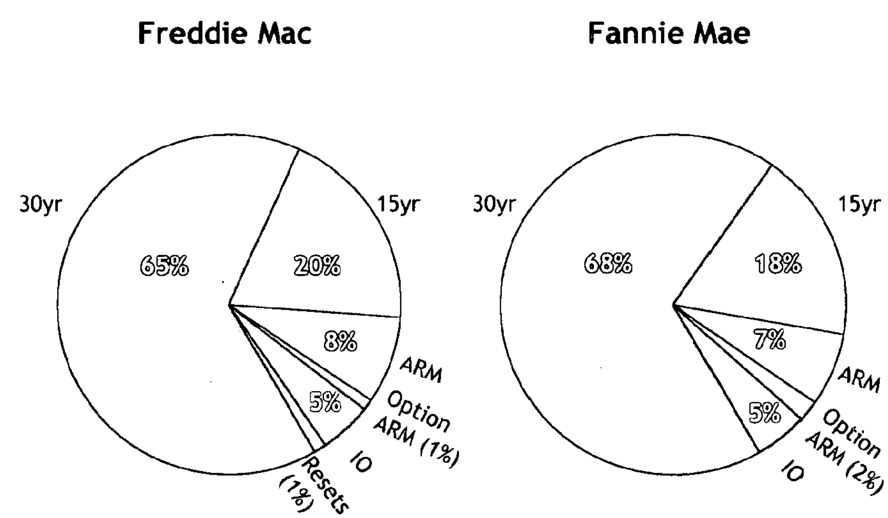
As of 12/31/06



Source: Company disclosures

Product Distribution

As of 12/31/06

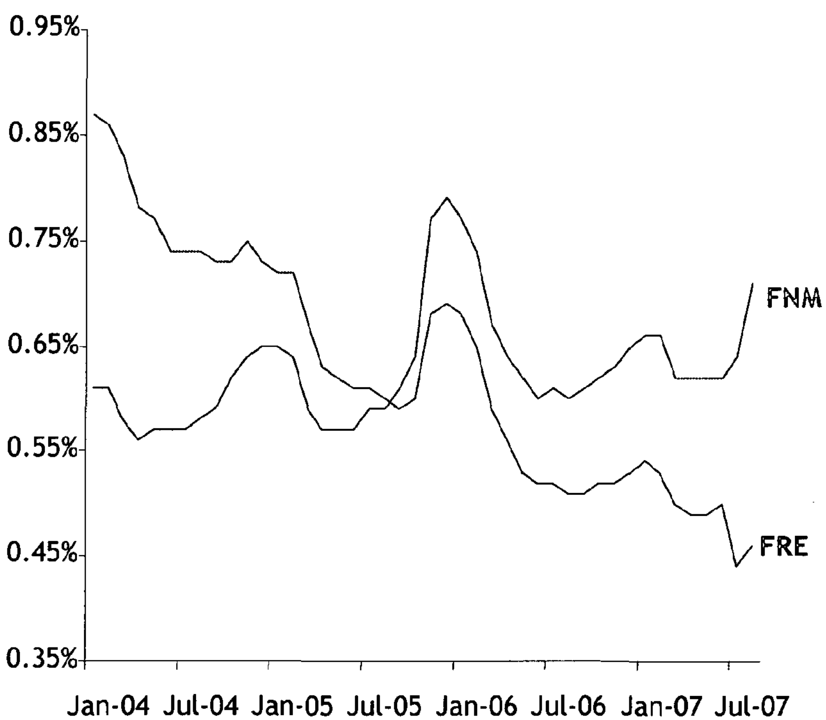


Source: Company disclosures

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

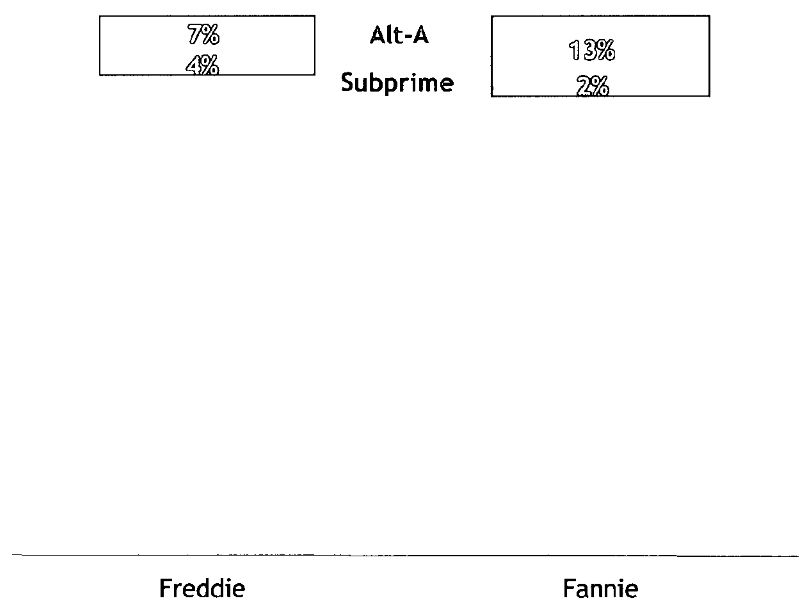
Single Family 90+ Delinquency Rates



Source: Company disclosures

Product Distribution

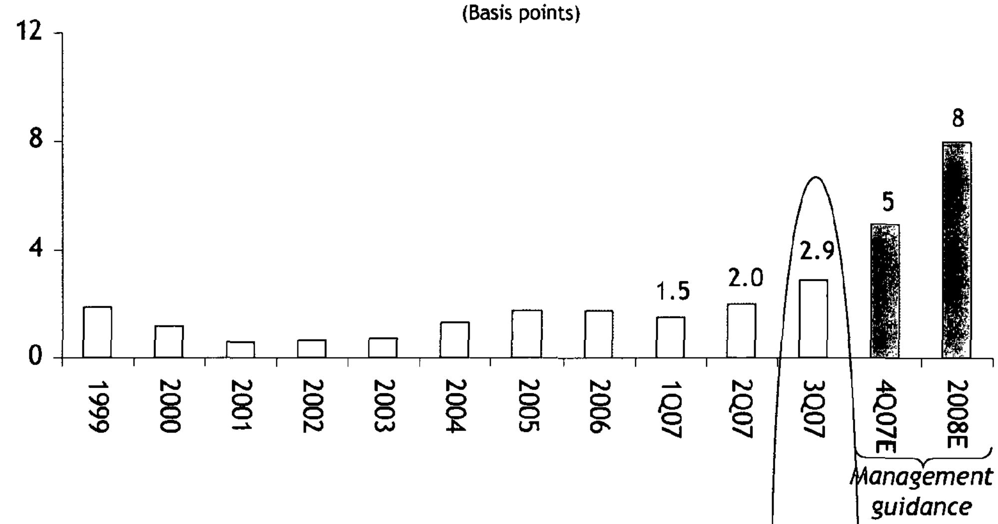
As of 12/31/06



Unclear Whether Fannie Will Ultimately Suffer Greater Credit Losses

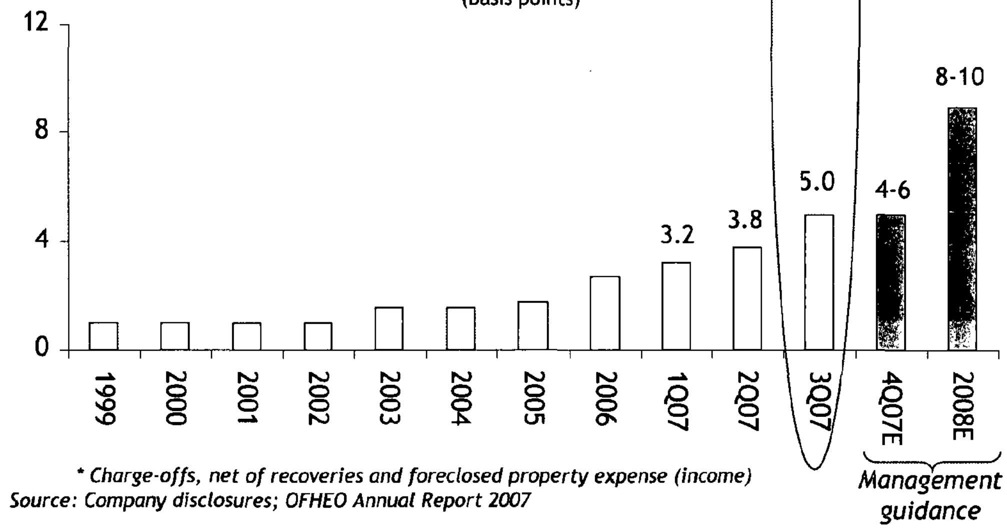
Freddie Mac's Credit Losses*

(Basis points)



Fannie Mae's Credit Losses*

(Basis points)



** Charge-offs, net of recoveries and foreclosed property expense (income)*
Source: Company disclosures; OFHEO Annual Report 2007

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

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