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Fannie Mae Five Year Earnings Forecast

Federal National Mortgage Association (Fannie Mae)

Five Year Earnings Forecast

PROPRIETARY AND CONFIDENTIAL –
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

Confidential Treatment
Requested By Fannie Mae

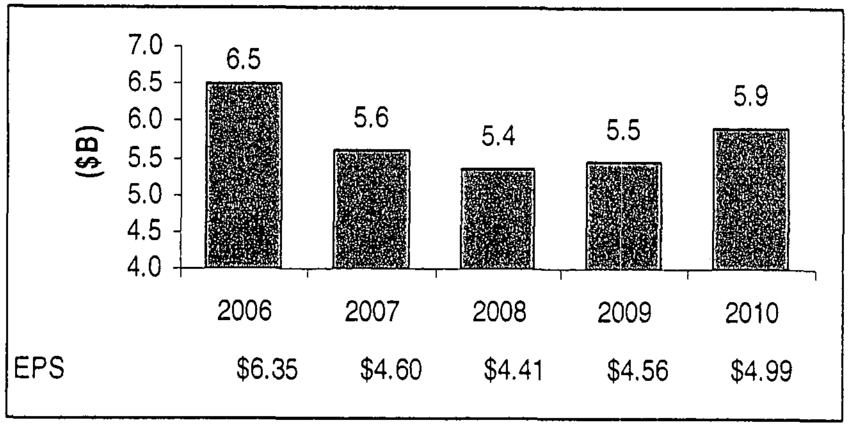
FMSE 705796

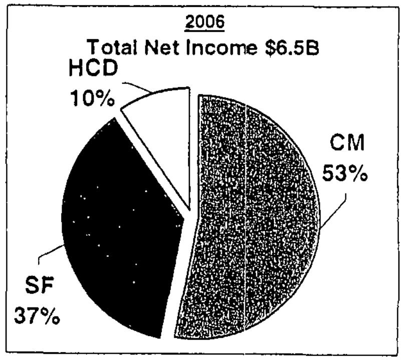
Shareholder Expectations

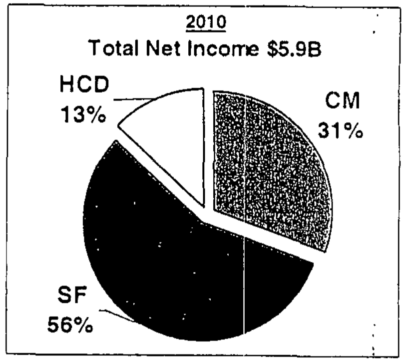
- Overall perceptions of Fannie Mae stock:
  - Currently viewed as a value stock
  - Once restatement/regulatory reviews are completed, stock is expected to offer growth
  - Expectation for dividend restoration and stock repurchases
- Current expectations for GAAP measures:
  - Earnings per share
    - Near term — $5.50 in 2006
    - Longer term — Growth approximating MDO growth (6 – 8%)
  - Return on book equity — Mid teens (14 – 16%)
- Increasing attention on fair value measures
  - Freddie Mac has focused investor attention on fair value
  - Expectation for low to mid teens growth rate
- For both GAAP and fair value measures, volatility is expected
  - Derivatives mark-to-market will create "noise" in the GAAP results
  - Fluctuations in OAS and other market factors will affect the fair value balance sheet

Five Year Forecast – Base Case

Net Income*







Key Observations:

- Significant decrease in GAAP earnings in 2007; modest growth from 2008-2010
  - High portfolio GAAP earnings unsustainable due to lower cost debt maturities
  - Forecasts do not include additional portfolio earnings that may arise as a result of:
    - Opportunistic market conditions that temporarily cause wider OAS
    - Steepened yield curve could improve interest margin
  - GAAP earnings growth in out years driven by Single Family and HCD
- Single Family business grows faster than MDO and becomes an increasingly important component of earnings and contributor to stock value
- Alternative scenarios do not change structural direction of net income (see appendix)

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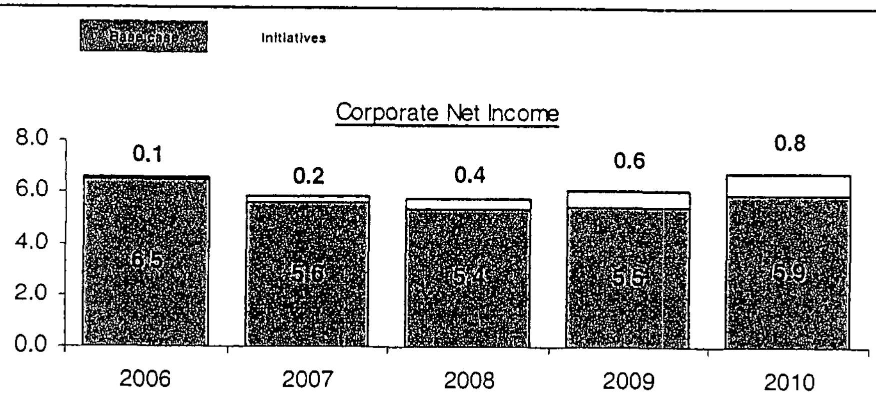
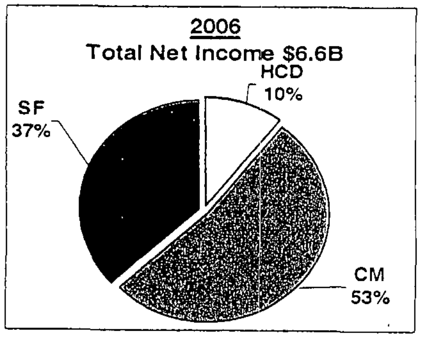
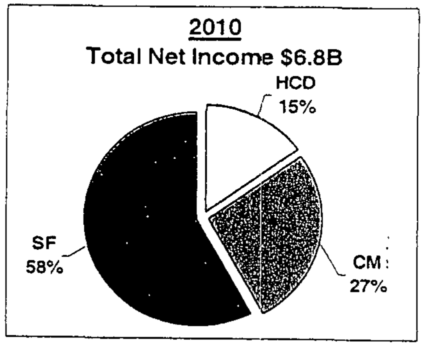
* Net income is before gain/loss on derivative mark-to-market. 2006 is normalized to remove the impact of actual gains/losses on sales and debt extinguishments.

Five Year Forecast – Base Case with New Initiatives



EPS	$6.58	$4.83	$4.85	$5.20	$5.82



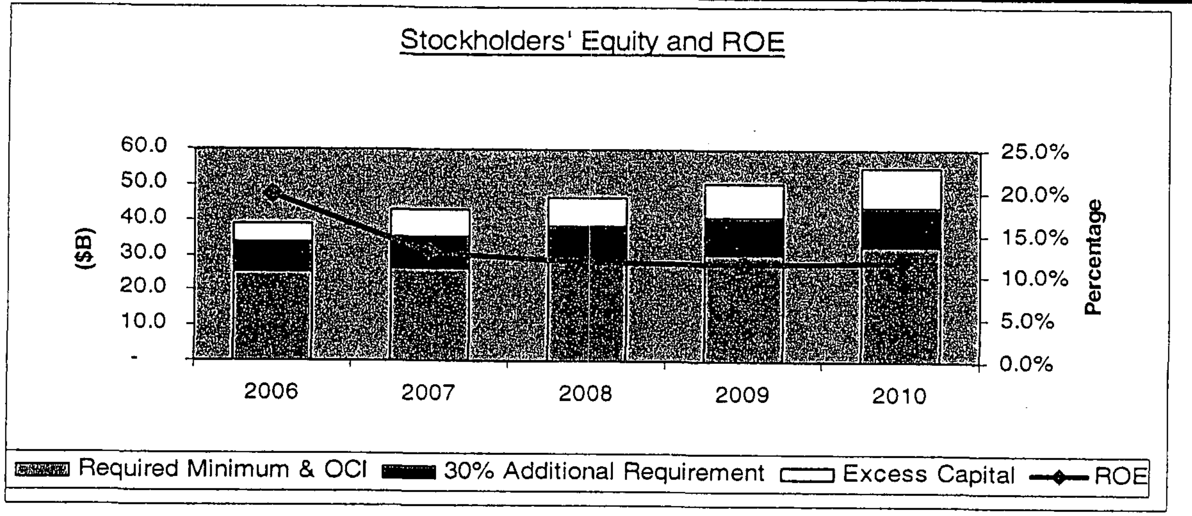


Key Observation:

- New initiatives add to earnings and improve growth rates, but corporate growth is still below MDO growth:

	Base Case		Base Case with New Initiatives	
CAGR	'06-'10	'07-'10	'06-'10	'07-'10
HCD	5.6%	6.4%	9.6%	11.9%
CM	(16.5%)	(9.5%)	(16.5%)	(9.5%)
SF	7.0%	6.8%	11.1%	10.9%
FNM Overall	(1.8%)	1.8%	1.1%	5.0%

Shareholders' Equity Considerations



- Assuming current dividend rate, forecast scenarios drive a significant growth in shareholders equity beyond current regulatory requirements
- Base case plus new initiative earnings trajectory results in return on equity of 12% in 2010
- Distribution of all except $3.5B of excess capital would improve capital efficiency and result in a return on equity of 13% in 2010
- If 30% additional equity requirement were lifted, ROE increases to 16%, and if the excess capital was utilized for a share repurchase, 2010 EPS increases from $5.82 per share to $6.67 per share

ROE calculation: Net Income less preferred dividends divided by 2-point average of stockholders' equity less preferred stock and other comprehensive income

Key Take Aways

- It will be difficult to achieve shareholder expectations
  - Net interest income compression
  - Limited portfolio growth expectation with out years average annual growth of 6%
  - Even with Single Family and Housing and Community Development growing faster than mortgage debt outstanding, they do not offset decline in Capital Markets earnings
- Important to aid market with an array of measures, including fair value
- Given excess capital build-up by 2010:
  - Capital distributions will be an increasingly important component of stock performance
  - Appropriate capital distribution would significantly improve ROE and EPS growth