Fannie Mae's Approach to Single-Family Credit Risk Management

September 2013

Updated- April 2014 (to reflect 2013 10-K)

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This presentation contains a number of forecasts, expectations, and other forward-looking statements, including statements regarding future macroeconomic conditions, Fannie Mae's future dividend payments and serious delinquencies, our expectations regarding the future profitability of our current book of business, and the future value of operational initiatives. These estimates, forecasts, expectations, beliefs, and other forward-looking statements are based on the company's current assumptions regarding numerous factors and are subject to change. Actual outcomes may differ materially from those reflected in these forward-looking statements due to a variety of factors, including, but not limited to, those described in "Executive Summary," "Forward-Looking Statements," and "Risk Factors" in our quarterly report on Form 10-Q for the quarter ended September 30, 2013 and our annual report on Form 10-K for the year ended December 31, 2013. In addition, many factors will determine the impact of future macroeconomic conditions on Fannie Mae.

Any forward-looking statements made by Fannie Mae speak only as of the date on which they were made. Fannie Mae is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, subsequent events, or otherwise.

Agenda

➊ Executive Summary

➋ Fannie Mae Today

➌ Single-Family Book of Business

➍ End-to-End Credit Risk Management Approach

- Managing Lender Risk
- Managing Loan Risk
- Managing Servicing Risk

➎ Closing

➏ Question and Answer Session

EXECUTIVE SUMMARY

Executive Summary

Fannie Mae is offering a new opportunity for financial institutions to invest in the credit performance of our single-family book of business through our **Connecticut Avenue Securities** program.

Connecticut Avenue Securities

- Includes our strongest-performing book of business—
  - Newly-originated, qualifying mortgage loans
  - Underwritten using strict credit standards and enhanced risk controls (implemented post-housing crisis)
- First issued in 2013
- Offers ongoing investment opportunities (repeatable process)

Who We Are

We actively manage credit risk…

Fannie Mae is the largest mortgage investor in the U.S. –
$2.9 trillion single-family conventional guaranty book of business*

We control risk throughout the entire loan lifecycle…

with quality enhancements fed back into the existing controls in a continuous cycle

We have a high-quality new book of business…

evidenced by high average borrower FICO at origination (753) and low weighted average original LTV ratio (76%) for 2013

We mitigate risk and losses through…

our comprehensive risk management processes and strengthened credit, lending, and servicing standards

**Excludes non-Fannie Mae securities held in portfolio and those Alt-A and subprime wraps for which Fannie Mae does not have loan-level information. Fannie Mae had access to detailed loan-level information for approximately 99% of its single-family conventional guaranty book of business as of December 31 , 2013.*

FANNIE MAE TODAY

Mission

We are committed to:

- supporting the housing recovery
- helping to lay the foundation for a better housing finance system going forward

We are managed by:

- a diverse executive team
- leaders dedicated to moving the industry forward

We are focused on the market:

Since January 1, 2009 >>*

- provided approximately $4.1 trillion in liquidity to the market
- helped 1.5 million families avoid foreclosure
- provided financing for 2.2 million units of multifamily housing
- enabled borrowers to complete:
  - 12.3 million mortgage refinancings
  - 3.7 million home purchases

**Through December 31, 2013.*

Financial Performance

As of December 31, 2013 >>

- **$4.1 trillion** in mortgage credit since 2009
- **17.6 million** single-family conventional loans in total book of business

In 2013 >>

- **$38.6 billion** pre-tax income
- **$84.0 billion** net income

Eighth consecutive quarterly profit

As of March 31, 2014 >>

- **$121.1 billion** total dividend payments have been made to the Treasury

New Book of Business

As of December 31, 2013 >>

- **Remain largest issuer** of single-family mortgage-related securities in secondary market
  - Estimated 47% market share of new single-family mortgage-related securities issuances in 2013
- Show **continued reduction** in serious delinquency rate (SDQ), which remains substantially lower than private market levels
  - Single-family conventional loans acquired in 2013 had:
    - 753 weighted average borrower FICO credit score at origination
    - 76% weighted average original loan-to-value (LTV) ratio

Our high-quality new book of business, comprised of loans acquired since 2009, accounts for 77% of our single-family guaranty book of business.

"The credit quality of agency loans originated since the start of 2009 is notably better than that in prior vintages. Together with the addition of strengthened risk management and quality controls at the GSEs, Fitch expects defaults on recent vintage loans to outperform historical levels."

– GSE Mortgage Credit Risk Analysis, Fitch Ratings Special Report, www.fitchratings.com, July 1, 2013

Commitment

Through Connecticut Avenue Securities, we're demonstrating our commitment to:

- moving the housing industry forward;
- attracting private capital into the market;
- providing market insight into the pricing of credit risk;
- reducing the government's role in the housing industry; and
- protecting taxpayers.

Strengths

❶ Facilitating liquidity and stability to the secondary mortgage market

- We facilitate the flow of global capital into the U.S. mortgage market by assuming and managing credit risk.
- 1,200 lenders (approximately) delivered single-family mortgage loans to us, either for securitization or for purchase, during 2013.

❷ Ongoing commitment to housing recovery and building a better housing finance system for the future

- We establish and implement industry standards for sustainable homeownership.

❸ Managing risk

- We are focused on lender, loan, and servicer quality.
- We employ a prudent risk management approach to reduce losses and improve loan performance.

❹ Ongoing Performance

- Our continuous enhancements to our risk management capabilities are demonstrated in the performance of our new book of business.

Fannie Mae's

SINGLE-FAMILY BOOK OF BUSINESS

Single-Family Book of Business

As of December 31, 2013 >>

- **2.8 trillion** in unpaid principal balance (UPB)*
- **0.33% SDQ** rate on 2009 forward book of business
- **2.38% SDQ** rate on total book of business
  - Declined every quarter since the first quarter of 2010
  - Significantly lower than private market levels

Strong credit profiles due to strengthened underwriting and eligibility standards

**Excludes non-Fannie Mae securities held in portfolio and those Alt-A and subprime wraps for which Fannie Mae does not have loan-level information. Fannie Mae had access to detailed loan-level information for approximately 99% of its single-family conventional guaranty book of business as of December 31, 2013.*

Origination Credit Risk Profile

We have built a strong new book of business since the credit crisis

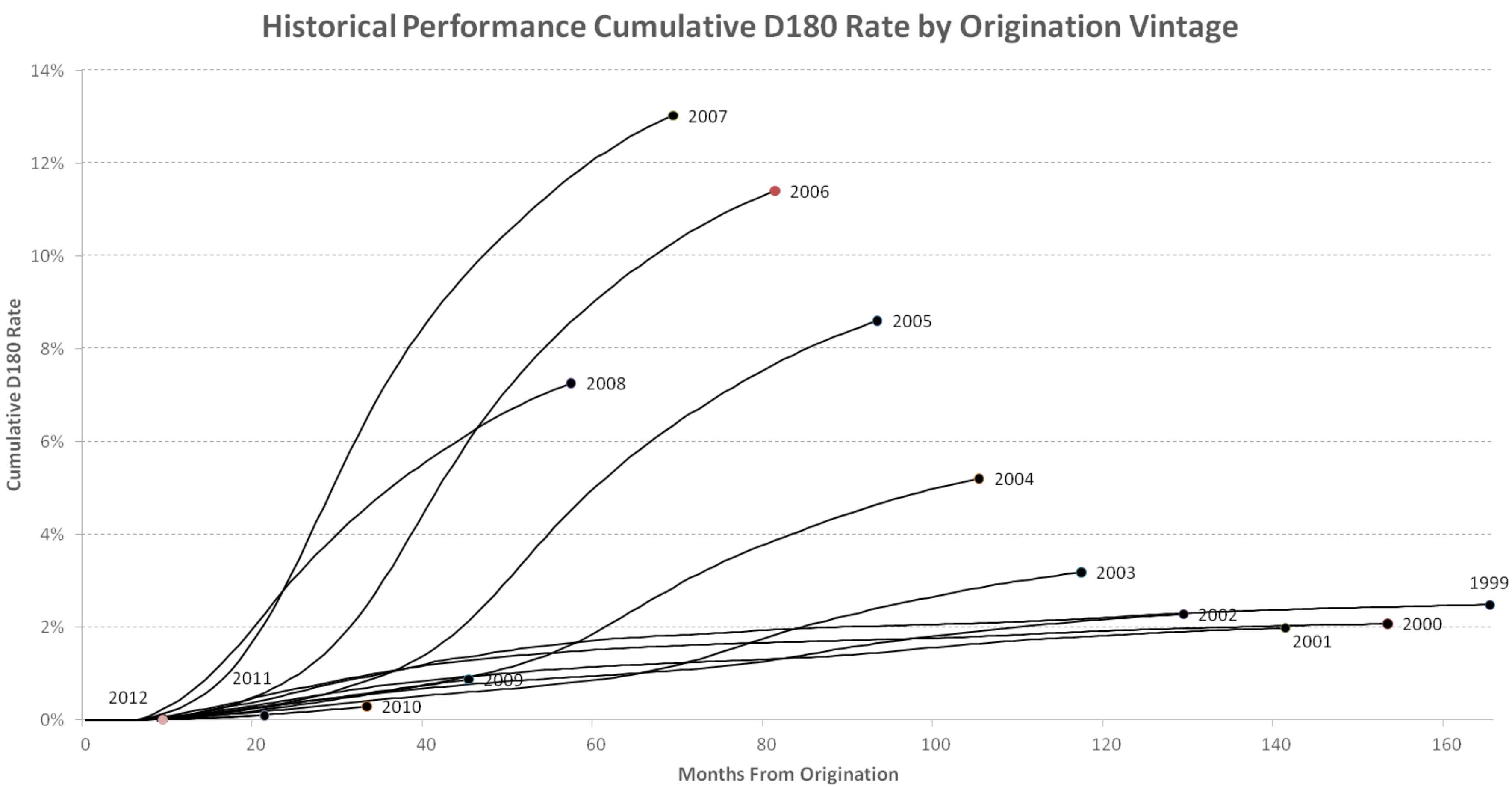
			Origination Characteristics[1]										
Origination Vintage	Loan Count	Original UPB[1] ($B)	WAC	FICO	DTI	OLTV	CLTV	2nd Lien	Investor	Refi	PMI	TPO	California
1999	127,307	16	7.80	709	35	79	80	0%	3%	28%	38%	51%	14%
2000	1,071,248	141	8.13	712	36	79	79	2%	3%	24%	36%	56%	15%
2001	2,348,313	350	6.99	713	34	75	76	3%	4%	62%	25%	56%	19%
2002	2,392,085	375	6.50	717	34	73	73	4%	5%	67%	20%	57%	21%
2003	3,009,703	497	5.75	720	34	71	72	6%	5%	74%	15%	58%	22%
2004	1,193,746	201	5.84	715	37	72	74	12%	4%	57%	16%	60%	19%
2005	1,133,039	209	5.84	719	38	71	73	16%	4%	58%	13%	62%	15%
2006	896,482	173	6.42	718	39	72	74	16%	5%	55%	13%	64%	12%
2007	1,066,239	219	6.36	718	39	73	75	16%	6%	59%	19%	67%	12%
2008	1,183,455	263	6.04	740	38	73	75	11%	7%	55%	21%	62%	20%
2009	1,761,816	418	4.97	761	34	68	69	11%	3%	74%	8%	50%	23%
2010	1,228,316	304	4.72	764	33	70	71	11%	5%	63%	9%	57%	30%
2011	1,041,709	243	4.55	763	33	72	73	10%	7%	57%	15%	58%	30%
2012	1,708,059	417	3.84	**765**	32	**72**	73	10%	7%	65%	17%	56%	30%
2013	242,240	59	3.60	**762**	32	**71**	73	10%	8%	73%	18%	46%	32%
TOTAL	**20,403,774**	**3,885**	**5.64**	**736**	**35**	**72**	**73**	**9%**	**5%**	**63%**	**17%**	**58%**	**22%**

[1] Origination Characteristics are UPB-weighted averages, based on UPB at Origination.

Source: *Fannie Mae Loan Performance Data, published March 20, 2014. Fannie Mae Loan Performance Data includes a subset of Fannie Mae's 30-year, fully amortizing, full documentation, single-family, conventional fixed-rate mortgages. For more information please refer to the Loan Performance Data page at* ***www.fanniemae.com****.*

Historical Loan Performance

30-year, fixed-rate, fully amortizing loan population acquired since 2009[1] has experienced cumulative D-180 default rates of 1.0% or less

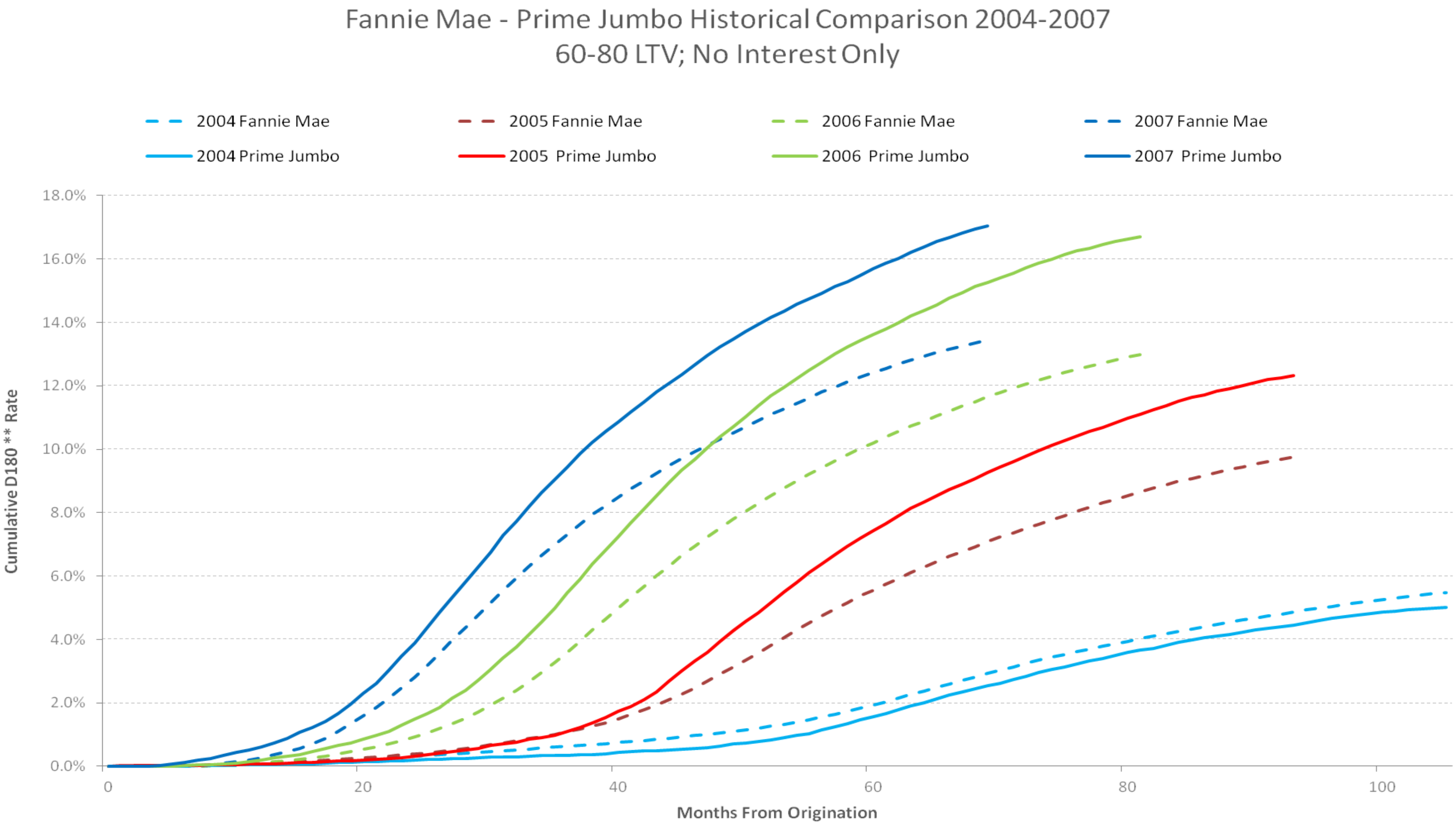


[1]Does not include HARP or RefiPlus. Refer to Source Data for populations that are excluded from this dataset.

Note: *Chart reflects modified loan activity timelines, such that all loans represented in a given vintage curve have the same number of activity periods.*
Source: Fannie Mae Loan Performance Data, published March 20, 2014.

Prime Jumbo Comparison

30-year, fixed-rate, fully amortizing loan population[1] has performed comparable to or better than prime jumbo with similar characteristics



***For this chart only: D180 rate includes both D180s and pre-D180 defaults. [1]Does not include HARP or RefiPlus. Refer to Source Data for populations that are excluded from this dataset.*

***Source:** Fannie Mae Loan Performance Data, published March 20, 2014; Prime Jumbo: CoreLogic Solutions, LLC (LoanPerformance)*

Fannie Mae's

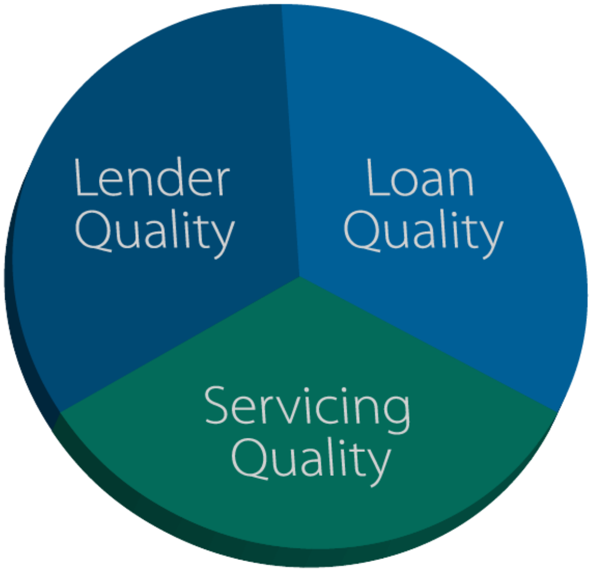
END-TO-END CREDIT RISK MANAGEMENT APPROACH

Comprehensive Risk Management

We have a comprehensive and proactive risk management approach to strengthen loan performance and reduce losses.

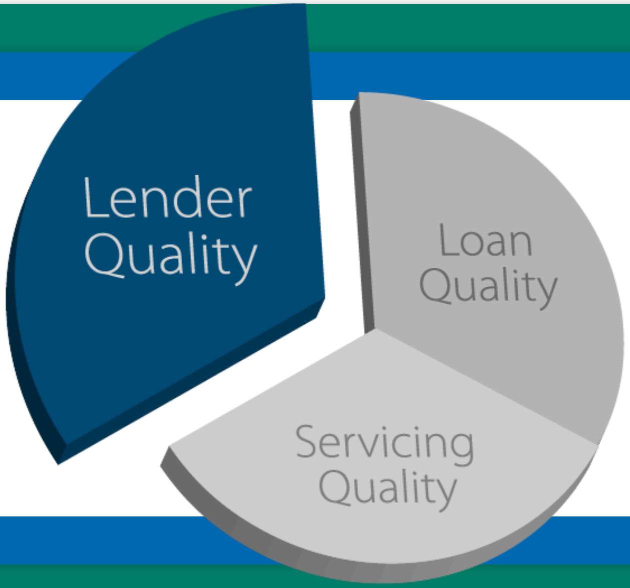
Our risk approach focuses on ensuring lender quality, loan quality, and servicing quality by:

- Managing lender risk
- Managing loan risk
- Managing servicing risk

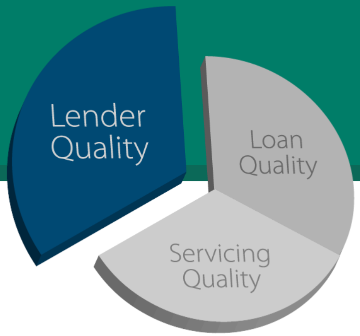


Managing Risk >>

LENDER QUALITY



Managing Lender Risk



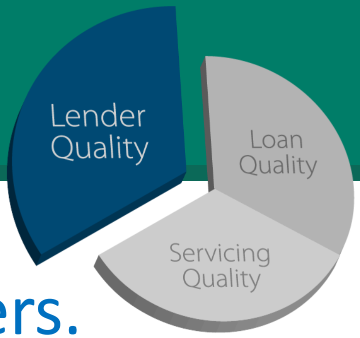
Fannie Mae uses a delegated business model and manages lender risk through:

❶ Focusing on Lender Quality and Performance

❷ Managing Loan Performance

❸ Holding Lenders Accountable

Delegated Business Model



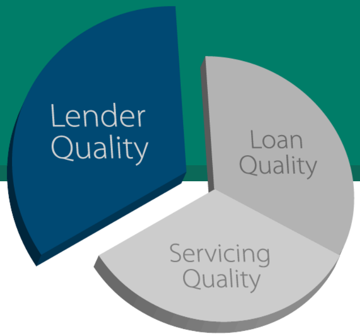
Loan approval authority is delegated to lenders. The effectiveness of this model is due to our rigorous management and oversight of our lender partners.

Representations and Warranties

- Assurance from the lender that we can rely on certain facts and circumstances concerning the lender and the mortgage loans.
- Violation of any representation and warranty is a breach of the lender contract, entitling us to pursue legal remedies, including, but not limited to, a loan repurchase request.

Representations and warranties go hand-in-hand with quality process controls and lender oversight.

Lender Quality and Performance



Quality Lender Profiles

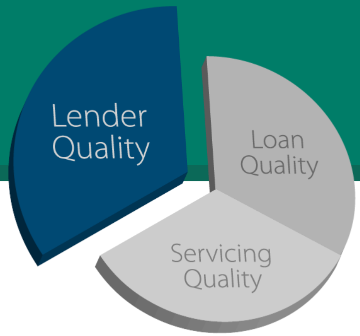
Rigorous lender approval and monitoring process results in:

- higher quality,
- higher performance,
- reduced reliance on lender representations and warranties, and
- ensuring our lenders have adequate financial capacity to handle their obligations.

We require lenders to:

- establish a quality-focused credit culture,
- refine credit policies and standards,
- implement quality control processes/procedures,
- conduct quality control reviews,
- use the results of QC reviews to implement policies and procedures that ensure high-quality loans are originated or acquired by lender, and
- maintain financial eligibility and capacity commensurate with business activities.

Loan Performance



Mortgage Analytics Team

Dedicated mortgage analytics and risk management team continuously produces and monitors extensive reporting of our acquisitions and book. They:

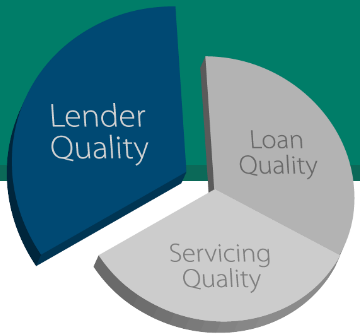
- analyze acquisition profile and segment reporting focusing on trends in origination channel, property types, loan-to-value, credit scores, debt-to-income ratios, and other characteristics;
- assess delinquency trends over time;
  - >> 60 in 6 metrics, 90 in 12 metrics, and 90 in 24 metrics
- conduct deep dive reviews on underperforming segments of the business to determine if actions are needed; and
- engage with lenders as to their specific acquisition and book profile and performance.

Lender Risk Management Support

Unique to the industry, dedicated teams provide hands-on risk management based on lender segments to:

- assess, monitor, and positively influence lender's credit culture through ongoing interaction, regular on-site visits, and senior-level engagement; and
- lead remediation efforts to address performance/quality issues.

Lender Accountability



Lender Quality Control and Operations Monitoring

Ongoing reviews, assessments, and training drive continuous improvement to lenders' manufacturing processes and effectiveness of their controls.

- 80 -100 lender operational reviews are conducted on an annual basis (covering 70-80% of acquisition volumes), 15 of which are conducted with top volume lenders (covering 60-70% of acquisition volumes).*

- Risk-based selection model identifies lenders presenting more risk and exposure to Fannie Mae.

- Monthly exchange of QC results with our lenders whom we randomly sample.

- Fannie Mae QC specialists work with lenders to identify potential areas for loan manufacturing improvements.

**Percent of acquisition volumes may fluctuate based on evaluation of lender risk attributes that drive a lender review.*

Managing Risk >>

LOAN QUALITY

Managing Loan Risk

Fannie Mae manages loan risk by:

❶ Optimizing Loan Performance

❷ Implementing Loan Lifecycle Controls

- origination and delivery
- post-purchase

❸ Enforcing Our Policies

Loan Performance

Credit Policy

Continuous development of guidelines and policy strengthens performance and helps reduce losses.

Underwriting

Post 2008, we virtually eliminated high-risk products, raised minimum credit scores, and reduced maximum LTV ratios.

Loan Lifecycle Controls

End-to-end risk management provides controls at every stage of the loan process.

- Origination and delivery
- Post-purchase
- Ongoing monitoring and surveillance

Loan Lifecycle Controls

Origination & Delivery

Proactive approach validates loan quality early in the cycle using proprietary and shared tools, processes, and standards:

- EarlyCheck™
- Desktop Underwriter® (DU®)
- Uniform Loan Delivery Dataset (ULDD)
- Appraisal Data >>
  - Uniform Appraisal Dataset (UAD®)
  - Uniform Collateral Data Portal (UCDP®)

UCDP is a trademark of Freddie Mac

Lifecycle Controls

Origination & Delivery

Desktop Underwriter (DU)

Fannie Mae's proprietary automated underwriting system that assists lenders in making informed credit decisions by:

- evaluating mortgage delinquency risk through the comprehensive examination of primary and contributory risk factors in a mortgage application;
- providing a risk assessment recommendation;
- listing the steps necessary for the lender to completely process the loan file;
- automating Fannie Mae's underwriting eligibility guidelines and credit policies for the mortgage industry; and
- enabling the efficient deployment of new policies and products to lenders.

- More than **1,700 lenders** used DU in 2013
- More than **85%** of non-Refi Plus deliveries to Fannie Mae were evaluated through DU in 2013

Lifecycle Controls

Origination & Delivery

DU Risk Assessment Factors and Findings

- DU performs a comprehensive evaluation of each borrower's credit profile and other mortgage risk factors, weighing each based on the amount of risk it represents and its importance to the recommendation.
- Evaluation results are analyzed to arrive at the underwriting recommendation.

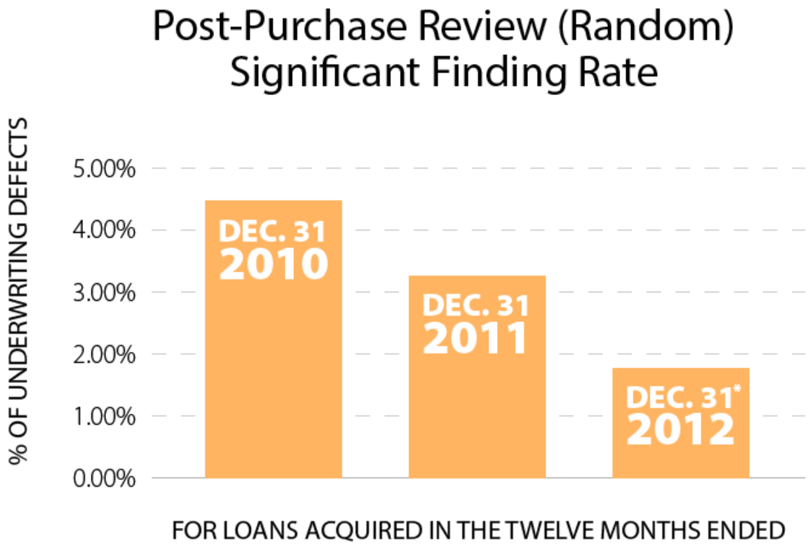
Credit Profile Risk Factors → Credit History, Delinquent Accounts, Mortgage Accounts, Revolving Credit Utilization, Public Records, Foreclosures & Collections, Credit Inquiries

Additional Risk Factors → Borrower's Equity & LTV, Liquid Reserves, Loan Purpose, Loan Term, Loan Amortization Type, Occupancy Type, Total Expense Ratio, Property Type, Co-Borrowers

Lifecycle Controls

Post-Purchase Review Process

- Holds lenders accountable for loan quality.
- Helps protect against losses.
- Reviews of performing loans measure the quality of new acquisitions and target potential problem loans.
- Reviews of non-performing loans aim to mitigate potential credit losses.



- Rate of loans with underwriting defects has been reduced substantially in recent years.
- Policy, process, and procedural changes that mitigate credit risk drive trends in defect rates.

**As of June 30, 2013 for the period ending December 31, 2012.*

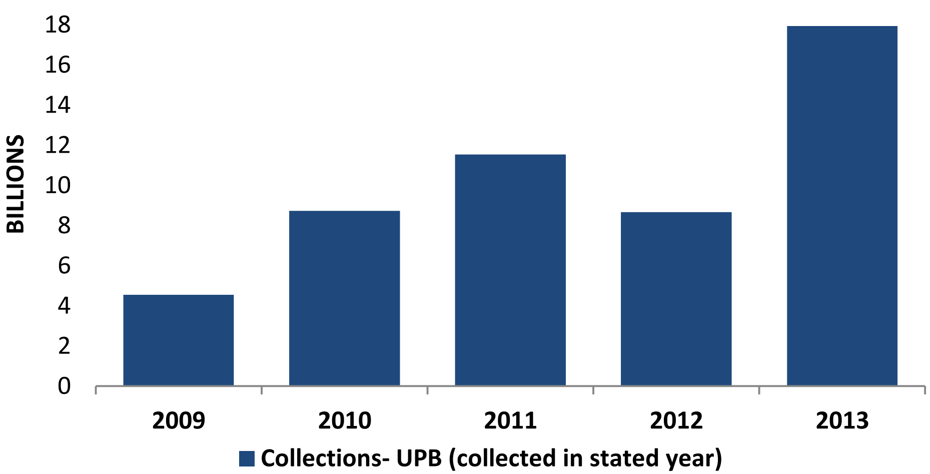
Significant findings rate based on random sample selection post-purchase reviews of non-HARP loans. These estimates are subject to change, perhaps materially, as we work through reconciliation of loans with defects acquired during these periods with originators.

Policies

We actively enforce our contractual rights when a loan defect is uncovered.

- Remedies are based on the significance of the defect and impact on loan eligibility, including:
  - loan repurchase,
  - indemnification, and
  - pricing adjustment (for loans that are otherwise eligible under our guidelines).
- Failure to repurchase a loan or to otherwise make us whole for our losses may result in the imposition of sanctions up to and including termination.

From 2009 - 2013, Fannie Mae has collected approximately $51 billion on a UPB basis.



Source: Fannie Mae, National Underwriting Center

Managing Risk >>

SERVICING QUALITY

Managing Servicing Risk

Fannie Mae manages servicing risk through:

➊ Benchmarking servicer performance and operational assessments – STAR

➋ Measuring compliance to Fannie Mae's *Servicing Guide* – SQR

➌ Performance remediation via remedies, including compensatory fees and servicing transfers

The National Service Organization's vision is
to build the best loss mitigation platform in the U.S.

Servicer Performance

Service and Support

- On-site relationship managers assist servicers with daily portfolio management.
- Dedicated servicer call center and response teams provide centralized support.

Tools and Technology

- Proprietary Servicing Management Default Underwriter™ (SMDU™) provides timely and uniform decisioning for loss mitigation.
- Know Your Options™ Customer CARE provides servicer training on loss mitigation techniques.

Metrics and Management

- Loss mitigation incentives align servicer performance to Fannie Mae objectives.
- STAR Program establishes industry benchmarks for servicer effectiveness.

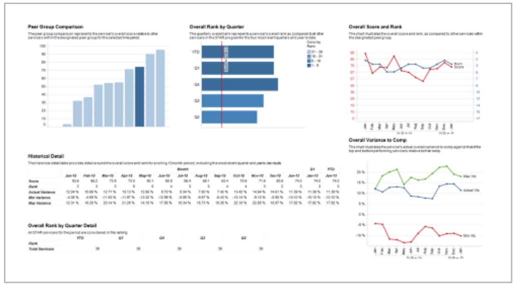
STAR >> Servicer Total Achievement & Rewards

Implementing Servicer Performance Program – STAR

FannieMae STAR
SERVICER TOTAL ACHIEVEMENT & REWARDS

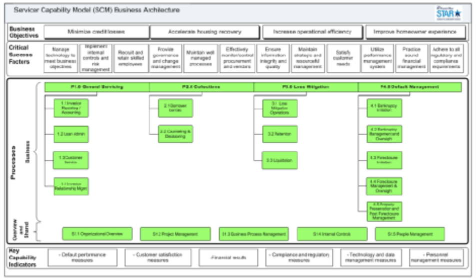
Set key objectives and align incentives with performance.

Performance Scorecard



Highlights key areas of improvement.

Servicer Capability Model (SCM)



Trending and data analysis reveals progress against expectations.

Links operational capability and performance outcomes.

The STAR Program establishes a framework to align servicer performance to Fannie Mae objectives.

The Performance Scorecard gauges servicer effectiveness in meeting Fannie Mae objectives.

The SCM provides a detailed framework to evaluate servicer capabilities via an operational assessment.

STAR

STAR >> Performance Scorecard

Metrics and weights on the scorecard are selected based on the correlation between how servicers performed and the impact those same servicers had on reducing Fannie Mae's credit losses.

CATEGORY	MEASURE	METRIC WEIGHT	CATEGORY WEIGHT
Roll Rates	Transition to 60+ delinquency	25%	40.0%
	60 to Worse Roll Rate	2.5%	
	90+ to Better Roll Rate	10%	
	90+ to Worse Roll Rate	2.5%	
Solution Delivery	Retention Efficiency Ratio	12.5%	25.0%
	Liquidation (PLMS) Efficiency Ratio	12.5%	
Workout Effectiveness	Liquidation Solution Timing	2.5%	12.5%
	6-Month Modification Performance Rate	5.0%	
	12-Month Modification Performance Rate	5.0%	
Timeline Management	Loans Beyond Foreclosure Timeline	15.0%	22.5%
	Average Age of Loans Beyond Foreclosure Timeline	7.5%	

2013 STAR Program Year Scorecard Metrics

STAR

STAR >> Servicer Capability Model (SCM)

Servicer capabilities are evaluated across standard dimensions of people, processes, and technology resulting in clear and actionable direction.

BUSINESS PROCESS	PROCESS AREA
General Servicing	• Customer Service • Investor Reporting/Accounting • Loan Administration • Investor Relationship Management
Collections	• Borrower Contact • Counseling and Decisioning
Loss Mitigation	• Single Point of Contact • Retention • Liquidation
Foreclosure and Bankruptcy	• Foreclosure Management • Post Foreclosure Management • Property Maintenance • Bankruptcy

OVERALL RATING/MATURITY LEVELS
5 Optimizing
4 Managed
3 Standardized
2 Initial
1 Undeveloped

2013 STAR Program Year Business Processes

Portfolio Management

Servicer Quality and Risk (SQR) Reviews

- Measure compliance against the Fannie Mae *Servicing Guide* and decisioning of loss mitigation programs,
- combine loan level and procedural compliance testing, and
- use a random sampling for trend identification within the overall population.

Full Scope Reviews

Top 40 servicers, subservicers, and special servicers underwent full scope reviews in 2012, resulting in coverage of 85% of the book of business/95% of total delinquent (TDQ) (by units).

Targeted Servicers Reviews

Servicers may be selected for targeted reviews if a risk is indentified, such as a distressed lender.

Standalone Cash Management Reviews

Servicers may be selected for standalone cash management reviews if they do not meet the full SQR review criteria.

CLOSING

Connecticut Avenue Securities

➊ Profitable loans with strong credit profiles

SDQ rate remains lower than private market and has declined each quarter since first quarter 2010.*

➋ An active approach to credit risk management

End-to-end controls for assessing and mitigating risk, including dedicated customer risk management function.

➌ Loans underwritten by strengthened lending and eligibility standards

Improved infrastructure, processes, and credit quality.

➍ Loan servicing supported by industry-leading loss mitigation platform

Improved tools, technology, and support.

➎ The opportunity to share credit risk in a strong book of business

We will retain a share of all the risk we transfer.

*As of December 31, 2013

Resources

For more information >>

Fannie Mae Investor Helpline | 202-752-7115
credit_securities@fanniemae.com

Resources

- **Single-Family Loan Performance Data**
  http://www.fanniemae.com/portal/funding-the-market/data/loan-performance-data.html
- **Single-Family *Selling Guide***
  https://www.fanniemae.com/content/guide/sel102213.pdf
- **Loan Quality Page**
  https://www.fanniemae.com/singlefamily/loan-quality
- **Origination & Underwriting Learning Center**
  https://www.fanniemae.com/singlefamily/originating-underwriting-learning-center?taskId=task-67
- ***Selling Guide* Announcement: New Lender Selling Representations and Warranties Framework**
  https://www.fanniemae.com/content/announcement/sel1208.pdf
- **Lender Letters: Fannie Mae's Quality Control Process**
  https://www.fanniemae.com/content/announcement/ll1205.pdf
  https://www.fanniemae.com/content/announcement/ll1207.pdf
- ***Beyond the Guide* – Recommendations for getting the most out of your Quality Control Program**
  https://www.fanniemae.com/content/tool/beyond-qc-guide.pdf

Resources

- **QC Self-Assessment Executive Summary**
  https://www.fanniemae.com/content/fact_sheet/qc-self-assessment-summary.pdf
- **Manage your Post-Purchase Risk: Strategies to Increase Your Confidence in Loan and Data Quality**
  https://www.fanniemae.com/content/tool/manage-post-purchase-risk.pdf
- **STAR Reference Guide**
  https://www.fanniemae.com/content/tool/star-reference-guide.pdf
- **STAR Scorecard White Paper 2013**
  https://www.fanniemae.com/content/tool/star-scorecard-whitepaper-2013.pdf
- **STAR Operational Performance Scorecard White Paper 2013**
  https://www.fanniemae.com/content/tool/star-operational-scorecard-white-paper-definitions.pdf
- **Servicing Management Default Underwriter (SMDU)**
  https://www.fanniemae.com/singlefamily/servicing-management-default-underwriter
- **Know Your Options Customer CARE**
  https://www.fanniemae.com/singlefamily/know-your-options
- **Fannie Mae Housing Industry Forum**
  http://www.housingindustryforum.com