Oct. 22

Meeting w/ Fannie Mae
Deloitte, @ FHFA
22 Oct 2008 9:00

Greg Cross Policy
Controllers
Corp Fin
Jonathan Harris Cap Mkts Res
Jeff Swanstrd D&T

Dave Dimartino
Greg Ramsey Policy
Greg Ellen FHFA

Where we are
- In agreement that the warrants w/b like a stock grant

- W/ showing no dilutive shares shown on the F/Ss we believe that ~~it's better to show~~ we will show it ~~only w/outstan~~ w/o the out-of-the money & stock

* Sr. P/S

Capital structure in "geological terms"
Thick layer of PS → killed it
Thin layer of Sr. Preferred → Replaced that thick layer

- Some history to support a 16% yield
some discount
Dividend yield - $600M, not $1B

Why we're here

* We've built models
awaiting inputs

* Met w/ Dom Finance

* Got responses
* unresolved responses
* should there be a control premium - on the warrant
~~* Should there~~
- we also see no evidence of a ctrl premium → no real buyer

GT005593

Re. The Commitment

- We saw M.S dox
- = Incomplete
- Hoping to get a little more info on that from FM today

Model needs inputs

- Series of options to borrow / lend @ GAAP #'s

What are the expectations for future def's
Range of uncertainty
Underlying assumptions that drive the estimates

GAAP - assets
- assets / liab's
- duration
- growth of the gaap guarantee

will drive some deficiencies

What scenarios
underlying assumption
↳ deficiencies

Jonathan Harris → you would need a volatility of our S/H equity

↳ Not a regular stock → just build a risk neutral?
Basic volatility + a RF rate

DD Not much to observe - there's a barrier option
triggers on a decrease what is the range around that deficiency

- We need that starting point
- Different on Sep. 8 & 30?

Bkgrnd on the Accts
- Initial

They are not independently valuing the Commitment

FV amt.
Prescribed by the same framework as 157

Greg Gross Is the mktplace participant a better way to do this?
- yes, but there's no real guidance / comparable
- No real mktplace info interpreting this

Booking it as a derivative?
No, (Bank standby LoC facility
more like a

Pretty clean when it's measured
how it's measured
rate it would yield

What is the outlook for the diff between the assets & liab's?

One of The unusual thing about the Keepwell Agreement - ~~[illegible]~~
FRE & FNM.

Capability to draw doesn't match your ability

DD What, w/the drawdown? the market price for that credit facility?

- We don't see a rational way of doing this by observing the rules

- ~~All kinds of ways~~
- What were your expectations for GAAP
growth - steady state - shrinkage
Asset

AG → Their Projections led to this Facility
MS & Blackrock did an analysis
Why can't that the basis for our figures

JH Blackrock analysis wasn't that great → was subsequently revised

AG The forecasts FNM provided to those guys were GAAP-based

LE Disconnect bet. what GSEs provided & how the deal was ...

JH - [illegible] s/b based on publicly avail. info?
DD - If the analogy is to get someone to step in They'd need some internal info.

TF Delinking the value of the Commitment w/ the compensation than the GSEs believe it is

LE Was there a Rule of Thumb or regulatory basis - connect to GAAP at the time?
Monthly basis to the FHFA → min. capital position for the regulator → specifically GAAP-based

- Risk-based capital - also provide that to FHFA
  to the Capital Supervision
  weekly forecasts → 9 months
  out to

  - what they expect cap. position

  - Linked to Finance Analysis & Planning

LC - If we saw a deficiency on a regulatory basis
  w/it be GAAP

  AOCI is the missing part & not part of
  the cap. calc.

  Def. is a comparison of core capital to min. capital
  acquired

Capital #'s projected → no direct link to the net worth

~~AOCI c/b backed into it as a component of assets~~
but

you'll need the volatility
~~Prob. of the~~
Driver is the option value

Core capital & the new agreements
- Proposing
  Offset to Preferred & Sr. Preferred
  is the value in APIC
  - w/b part of the calc's so there is no impact
  on it

Abr Core capital in Canada is for non cum P/S
Debatable whether this is cumulative
because @ all times Treas. receives cons. to divi
→ makes it non cum. even tho' cum. is in the [illegible]
→ i.e. pref. ↑ @ a higher rate

Core cap.
Regulatory
Reg's

Cap. → def.
~~If then~~

Abr If they drew down on the Facility
to get to a S/h equity mm
Could get below statutory min → not a foregone conclusion

?

MD not opposed to working w/ a proxy for this info
Is there a benchmark
We will have to make some reasonable assumptions
incl. any confirm

Pick a proxy
↓ based on avail. data

~~Why didn't~~
We want to est. based on the best avail. inf.
as of these 2 dates

Best proxy per JH
FV of Pref'd + Common Equity

DM not clear how to use it

JH When it drops ↓ zero
make adj for trans. from FV to SH

MV → adj. to transfer to Shareholders' equity
Market Value

LE Does it track GAAP or FV def?

JH

What drive the Commit?
c/b zero deficiencies
but it's the volatility that drives that

~~→ we want to understand the process that~~
~~came to the~~

DM We need the est. + a narrative surrounding how that
est. was derived

AG What is the SH equity #
DM If it come out <0, anticipate a ddown
+ how it was derived

—

AG — will this become an ongoing update to Treas?

DZ → TBD - not addressed yet, but ~~at the~~ prob. annually

LE FV of equity
what is the assumption of the req'd dividend

An ~~[illegible]~~ They anticipate
~~[illegible]~~ is that mgmt
FM would rec'd to Directors to pay in cash
to the Treas. the 10% dividend + NOT increase the liq. pref.
→ no economic benefit to incurring the 12% compounded

~~[illegible]~~ Purely economic 10% v. 12% compounded

LE If we had a FV of equity → would it have embedded the 10% in it?

An yes

LE any + Δ in equity
– any report implied?

An Can only be done on an external capital raise
If they increase the liquidity preference
~~limiting or reduces flexibility to~~
their only way to raise cash is then
the ~~to~~ an equity raise [~~so~~ get this nailed down]
→ it w/b limiting

DD we're asking for what's already been done

(9)

AM – How will FNM's info be used
~~LOI re as~~ GT is a kicp for info that h/n/b certified
that forecast is not a robust / certified doc.

LG – Yes, it's perilous in this environ

JH – There is precedent for mkt-based
not = KMV approach or analyzing default risk
Reconst. some kind of risk of B/R from the B/S
then ~~when the~~ based on stock price volatility
you can predict B/R

no great predictor of volatility

DD → not ~~important~~ that big
JH → it is the critical component

The relevant volatility is the GAAP deficiency

JH Look @ the components the FV of the firm from GAAP value

DT guy → how Robust are the analysts' reports?
~~today~~ → There are a few

Mkt concerns → understanding the uncertainty around Vol. & securities markets around AOCI
→ Trading portfolio or AOCI will drive it
→ ~~On~~ assumptions about credit & mkt place valuing
Sec's

What about debt rating

affirm triple a rating on LT + ST debt

P'D stock ↓ o lowest ratings

S+P brought our rede to the gov'd rating

Earnings projections

Rating agencies have not published

[Some < 6 decimal points of certainty] Greg Cross

Our std: What was known or knowable

TFay $\boxed{\text{Summarize where we are}}$

Must meet w/ forecast group → $\boxed{\text{asap}}$

What factors ~~[illegible]~~ are in the forecast

AG Last time we'd discussed the Accts.

DG Treas. → still taking all this in

AG The warrants

\# of shares in the face of Q2

5th Sep
30 Sep > Exact count on CoB [illegible] these dates

→

LE Outstanding — — → AG not includes in the public domain
Adj. — — ↳ ~~but~~ not a significant #

↳ it's an

Provide us w/ that # → what is in the public domain ??

→ we want to be able to reconcile to the F/S

AG will work w/ D&T ~~on~~ on their valuation

1 → will GT ~~___~~ share the valuation?
→ Can FNM have access to the model?

2 → Any expectation that FNM's ~~___~~ #'s must match GT's #'s

LE Is their concern about differences
we need to speak to Al Runnels on this

AG Was the info. we rec'd from Dom Fin MS
~~[illegible]~~
did we include a look @ Black Rock's figures?

LE We saw under confidentiality D&T's representation of the MS mtg — ~~___~~ AG → why didn't ~~upon~~ you close the loop w/ MS?

LE They weren't available and we don't expect them to be available

JH ~~Not~~ Was this an at-mkt. xtn or not?

LG Not

(12)

Capital Structure

(12) Sr P/S → looking that it's ~~H~~ like the P/S and then

He doesn't agree

the S/PS (?) come w/ certain covenants

→ took away S/H rights

→ Removed ~~[illegible]~~ ~~[illegible]~~ the pref'd. mkt. for FNM x FRE

→ They get dividends

LB

→ AG argues it's way better than the P/S

→ Covenants

— Restricting the size (?) the debt they can use

~~[illegible]~~

We're ~~[illegible]~~ saying it's more like

21 billion of preferred that still acts as a buffer

16% is the floor, 10W

Possible to come up w/a disc. or a premium

AM What inputs are we using?

LE Look @ entire mkt of pref'd's to get observable mkt inputs

Pref'd MKT is trading @ yields that reflect the uncertainty of the receiving dividends, risk, etc.

Pref'd was trading very much on the fact that Moody's downgraded them prior to the Conservatorship

AG Sr. Pref'd => if they were rating, they w/b trading @ AA+ AAA rating (but they're not)

LE we w/b happy to have these discussions

AG The Actual issuance of the SPS Defining moment for Agency Pref'd Mkt

Negative
Not comparable
They're treating it as a separate class
They're treating it as a separate class of Pref'd stock
→ not like any other class of Pref'd stock they've done over the yrs.

DM ~~[illegible]~~ We recognize also that it "created its own weather"

Timing
AG → will caucus w/ Exec. Mgmt.
→ will respond get things moving, provide a response to get us info

→ Conf. on Sr. Pref'd. → AG w/think thru that - figure out who else needs to be there

JH If they had a history of SH Equity - w/b/a to get a correlation run to reveal the volatilities

DD – we have generated some info
–Historically no deficiencies

JH → no, he means the volatility

In the Value of the Commitment – LIBOR +
Volatility is a huge driver
c/b 6 bps or 16

What we need is a base projection + a risk prem.

LG 9.30 F/S avail?

TF → yes

DD Regulatory v. GAAP issues
→ do those track pretty closely

Core capital #'s compared to the agreement's def.n

AG AOCI is the diff.
→ it's significant

Large # of securities impacting AOCI

Blackrock was where the projections came from