

**2007 Subprime Business Unit Policy Update and
Book of Business Limits**

Presentation to Credit Risk Committee

January 17, 2007

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Purpose

- Discuss highlights of 2007 Subprime Business Unit objectives
- Inform the Corporate Risk Committee that the Subprime Business Unit has converted the policy into the compliant format
- Review changes in 2007
 - Book of business limits
 - Deal level parameters
 - Loan limits and eligibility guidelines
- Gain approval of 2007 book of business limits

Subprime Business Unit Objectives

Pending approval, in 2007 the Subprime Business plans to deliver:

- At least \$11.25 Billion of production
- 13.8% ROC
- Access to target lenders that offer broader production opportunities
- An infrastructure that will eventually allow for flow acquisitions.
- A risk management framework that can maximize the value of credit sensitive assets

Risk Mitigants

Operational	Credit
• Manage to P&L	• Modeling and analytic resources dedicated to subprime
• Special Servicing for life of assets	• Evergreen pricing and product strategy
• Third-party surveillance	• Centralized subprime deal management
• Dedicated subprime organization	• Partnerships with shared risk partners (beyond MI)
• Servicer performance expectation paths	• Targeted lenders
• Performance triggers incorporated into SSAs	• Senior analysts in subprime deal management
• Service Level Agreement with NSO	

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Book of Business Limits

- 2006 book of business limits managed risk by imposing hard stops on difficult to control concentrations (runoff, defaults, etc)
- Propose that in 2007:
 - Focus on portfolio limit in 2007 and manage risk using limits, guidelines, pricing strategies, and special servicing protocols
 - Maximize value over life of asset (aggressive monitoring and risk management)

Book of Business Limits

	2006 NBI	2007 Proposed
Production Limit	\$5 Billion	Based on portfolio limit
Portfolio Limit	\$5 Billion	\$20 billion
Geographic Concentration	No more than 20% of the book of business UPB within any single state	No more than 25% within any single state (Eventually based on MSA)
Borrower-stated, unverified incomes	No more than 35% of the book of business UPB will consist of mortgage loans underwritten using borrower-stated, unverified incomes	Eliminate
FICO	No more than 12% of the book of business UPB will consist of mortgages with FICO scores less than 550	Eliminate

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