MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF FANNIE MAE

May 24, 2005
7:30 a.m.

The Fannie Mae Board of Directors met at Fannie Mae's headquarters in Washington, D.C. on May 24, 2005.

The following members of the Board were present:

Mr. Ashley (Chairman)	Mr. Mudd
Mr. Duberstein	Mr. Pickett
Mr. Gerrity	Ms. Rahl
Ms. Korologos (by phone)	Mr. Smith
Mr. Malek	Mr. Swygert
Mr. Marron (by phone)	Mr. Wulff

Also participating were Messrs. Levin and Weber, and Ms. Kappler of Fannie Mae, and Messrs. Brome and Joffe of Cravath, Swaine & Moore LLP as counsel to the non-management directors. Messrs. Williams and Duncan of Fannie Mae were present for parts of the meeting.

Mr. Ashley called the meeting to order at 7:30 a.m.

Mr. Kerr, accompanied by Ms. Connelly and Mr. Newell, provided the Board with a summary of OFHEO's 2004 Report of Examination. Mr. Kerr noted that the report, which had been previously circulated to the Board, was longer than normal and is designed to provide the Board with OFHEO's assessment of the company's safety and soundness. He observed that OFHEO encourages the company to far exceed industry standards, given its role in the market. He noted that going forward, OFHEO would provide quarterly exam reports to management, stressing open and strong communication throughout the exam process. He discussed OFHEO's changed approach to examination, helping management to see the root causes of issues and concentrating on the highest risks, currently operation risk and model risk, and emerging risks.

The focus of OFHEO's 2004 examination was to assess how things operate. The main conclusions are that there are significant safety and soundness concerns. Although management has made substantial progress, remediation is in its initial stages. The root cause of the issues, in OFHEO's view, is the culture of former management which did not institute sufficient controls. Mr. Kerr emphasized that the examination was not comprehensive. Thus, although they could conclude that many areas are run quite well, they cannot comment on areas that had not been examined.

Mr. Kerr predicted that corrections would take a long time and that short-term fixes would be needed in some areas. The biggest issue, based on his experience, is the amount of systems work that needs to be done, and focus should be accuracy not speed. He noted that OFHEO is looking for stronger involvement from the Board, which has already been demonstrated. The Board's most important task is to pick appropriate management and set the appropriate culture and tone; it should also focus on strategic plans and policies including risk tolerances, and ensure it is getting appropriate information.

Mr. Kerr discussed OFHEO's observance of a culture of frugality, especially in connection with Internal Audit and the Controller division, which led to insufficient and inadequate resources. He commented favorably on the recent hires. He noted that going forward, the line of business management must be held accountable for controls and be tested by Internal Audit, with proper oversight authority vested in the Chief Risk Officer.

He noted that products and lines of business should not be permitted to grow without adequate approvals and oversight.

Not in the report is the area OFHEO will next be examining – model risk. Mr. Kerr noted the kinds of issues they will be reviewing as they relate to controls.

Mr. Kerr discussed OFHEO's observations of the systems limitations that led to insufficient reports. In response to questions from Board members, he discussed OFHEO staff exchanges with management on additional portfolio risk measures, which OFHEO believes are needed. Mr. Kerr offered to share what he had observed to work well in other companies he has examined.

After noting observations on weaknesses in company policies, Mr. Kerr explained that the area of highest risk relates to systems and operations. He noted that the move to a centralized Chief Risk Officer division should address the issues over time. He reviewed the company's capital status during 2004, observing that its ability to build surplus demonstrates its ability to generate earnings.

In concluding, Mr. Kerr stated that management and OFHEO exam staff need to focus on the full range of risks facing the company and that future capital supervision will include an assessment beyond regulatory requirements.

In response to a question from Mr. Marron, Mr. Kerr reported that OFHEO had not examined the appropriate level of capital during 2004, but their focus will be ensuring that there is sufficient capital to cover the company's risks. He shared his view that the company should take some concepts from Basel II and determine what is appropriate. In response to a question from Ms. Korologos, Mr. Kerr explained that OFHEO's Special Examination is focused on the past, especially in connection with accounting policies, practices and controls. He suggested that a special examination should not be necessary if the regular exam process is working, and stated that he anticipated that the Special Examination would wrap up within the next six months and all examination would transition to his team. Board members urged Mr. Kerr to meet with new management hires; Mr. Kerr agreed. In response to a question from Mr. Duberstein, Mr. Kerr shared he was surprised how the company grew so large without sufficient controls, particularly given the complexity of risk and operations. Mr. Swygert indicated that the Board is interested in hearing OFHEO's recommendations about how the Board's processes can be strengthened. Mr. Kerr responded that he is pleased with the new company structure and the Board structure, but the Board should oversee the adoption of appropriate controls.

The non-management members of the Board went into executive session with the OFHEO examiners and Messrs. Brome and Joffe to further discuss the examination report. The OFHEO representatives left the meeting, and the non-management members of the Board continued in executive session. Messrs. Mudd, Levin and Weber and Ms. Kappler rejoined the meeting at 10:35 a.m.

Upon motion made and seconded, the Board approved the minutes of the Board's meetings on April 8 and April 15, 2005.

Upon motion made and seconded, and after discussion, the Board adopted the following resolution:

RESOLVED, that the Board of Directors adopts the following amended Audit Committee Charter:

Audit Committee Charter

1. Members. The Committee shall consist of at least three directors, including a chair and such other directors as the Board shall appoint upon recommendation by the Nominating and Corporate Governance Committee. The members of the Committee shall meet the independence and financial literacy requirements of the New York Stock Exchange and at least one member shall possess accounting or related financial management expertise, including sufficient technical expertise to understand the implications of accounting policies to financial statements, in each case as determined by the Board.

2. Purpose, duties and responsibilities.

The purpose of the Committee shall be to:

- oversee (a) the accounting, reporting, and financial practices of the corporation and its subsidiaries, including the integrity of the corporation's financial statements, (b) the corporation's compliance with legal and regulatory requirements, (c) the outside auditor's qualifications and independence, and (d) the performance of the corporation's internal audit function and the corporation's outside auditor; and

- prepare the report required by the rules of the Securities and Exchange Commission to be included in the corporation's annual proxy statement.

Among its duties and responsibilities, the Committee shall:

<u>Oversight of External Auditor Relationship</u>

(i) Be directly responsible for the appointment, compensation, retention and oversight of the work of the outside auditor. In this regard, the Committee shall have the sole authority to appoint and retain, and terminate when appropriate, the corporation's outside auditor, and review and assess the activities of the outside auditor. The outside auditor shall report directly to the Committee. The corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation to the outside auditor.

(ii) At least annually, consider the independence of the outside auditor, including whether the outside auditor's performance of permissible non-audit services is compatible with the auditor's independence, and obtain from the outside auditor a written statement delineating all relationships between the outside auditor and the corporation and any other relationships that may adversely affect the independence of the auditor. Discuss with the outside auditor any disclosed relationships or services that may impact the objectivity and independence of the outside auditor.

(iii) At least annually, obtain and review a report by the outside auditor describing: the outside auditor's internal quality-control procedures; and any material issues raised by the most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

(iv) Review and evaluate the lead partner of the outside auditor team. Oversee the rotation of audit engagement team lead partners as required by law and rules and regulations of the Office of Federal Housing Enterprise Oversight and the Securities and Exchange Commission.

(v) Approve in advance all audit engagement fees and terms for all audit services to be provided by the outside auditor. (By approving the audit engagement, an audit service within the scope of the engagement shall be deemed to have been approved in advance.) Discuss with the outside auditor the planning and staffing of the audit.

(vi) Establish policies and procedures for the engagement of the outside auditor to provide audit and permissible non-audit services and approve in advance all permissible non-audit services to be provided by the outside auditor. The Committee may delegate authority to one or more members to grant pre-approvals of audit and permitted non-audit services, provided that decisions to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

(vii) Establish policies for the hiring of employees and former employees of the outside auditor.

<u>Financial Statement and Disclosure Matters</u>

(viii) Review and discuss with the outside auditor: (a) the scope of the audit, the results of the annual audit examination by the auditor, any difficulties the auditor encountered in the course of its audit work and management's response, any restrictions on the scope of the outside auditor's activities or on access to requested information, any significant disagreements with management, and additional matters required to be discussed under Statement on Auditing Standards No. 61 relating to the conduct of the audit; (b) the scope and resources of the corporation's internal audit function; and (c) any reports of the outside auditor with respect to interim periods.

(ix) Meet to review and discuss with management and the outside auditor the annual audited and quarterly unaudited financial statements of the corporation and the corporation's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its Form 10-K and Forms 10-Q. The review and discussion shall include: (a) an analysis of the outside auditor's judgment as to the quality of the corporation's accounting principles and (b) significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including any significant changes in the corporation's selection or application of accounting principles and financial statement presentations.

(x) Receive, review and discuss reports from the outside auditors on: (a) all critical accounting policies and practices to be used; (b) all alternative treatments of financial information within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the outside auditor; and (c) other material written communications between the outside auditor and management, such as any management letter or schedule of unadjusted differences.

(xi) Recommend to the Board, based on the review and discussion described in paragraphs (viii) – (x) above, whether the audited financial statements should be included in the annual report on Form 10-K.

(xii) Review earnings releases, and review and discuss generally the types of information to be disclosed and the type of presentations to be made, including the use of "non-GAAP financial measures," in the corporation's earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies.

(xiii) Review and discuss with management, the head of the internal audit department and the outside auditor the adequacy and effectiveness of: (a) the corporation's internal controls, including any significant deficiencies in internal controls, significant changes in internal controls reported to the Committee by the outside auditor or management, and any special steps adopted in light of material control deficiencies; and (b) the corporation's disclosure controls and procedures and management reports thereon.

(xiv) Review and discuss with the CEO and CFO the basis for the certifications to be provided in the corporation's Form 10-K and Form 10-Qs.

(xv) Review and discuss with management and the outside auditor any correspondence with regulators or governmental agencies which raises material issues regarding Fannie Mae's financial statements, financial disclosures or accounting policies.

(xvi) Review and discuss in a general way the corporation's processes for managing and assessing risk.

Oversight of Internal Audit Function

(xvii)Oversee internal audit activities, including the appointment and replacement of the head of the corporation's internal audit department; the head of the internal audit department shall report directly to the Committee. Discuss with the head of the corporation's internal audit department and the outside auditor the scope and performance of the internal audit function, including a review of the annual internal audit plan and budget and staffing for the internal audit department, and whether there are any restrictions or limitations on the department.

(xviii)Obtain periodic reports from the head of the internal audit department regarding internal audit findings and the corporation's progress in remedying any material control deficiencies.

Compliance Oversight Responsibilities

(xix) Review and discuss the status of compliance with accounting, legal, regulatory, tax, and other developments of major significance to the corporation, and oversee the corporation's responses to any regulatory examination or other inquiry.

(xx) Review and discuss Fannie Mae's Code of Business Conduct ("Code") and the activities of management's Corporate Compliance Advisory Committee, including the monitoring of compliance with the Code and any significant violations of the Code.

(xxi) Establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls or auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting or auditing matters.

(xxii) Meet with representatives from the Office of Federal Housing Enterprise Oversight as required.

Other Duties

(xxiii)Provide oversight for major corporate information technology projects.

(xxiv)Annually evaluate the performance of the Committee, and reassess the adequacy of the Committee charter and submit any recommended changes to the Board for approval.

(xxv)Make regular reports to the Board on the Committee's activities. These reports generally shall occur at the next Board meeting following each Committee meeting or at such other times as the Committee deems appropriate.

(xxvi)Perform such other duties as the Board or the Committee considers appropriate.

3. Outside advisors. The Committee shall have the authority, without seeking board approval, to retain such outside counsel, accountants, experts and other advisors as it deems appropriate to assist the Committee in the performance of its functions. The corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to any advisor retained by the Committee.

4. Meetings. The Committee shall meet as often as may be deemed necessary or appropriate in its judgment, but not less than quarterly, either in person or telephonically, and at such times and places as the Committee shall determine. The Committee shall meet separately in executive session, periodically, with each of management, the head of the internal audit department, and the outside auditor. At least once per year, the Committee shall meet in joint session with the Risk Policy and Capital Committee to receive an enterprise risk oversight report from the Chief Risk Officer.

5. Subcommittees. In its discretion, the Committee may establish subcommittees consisting of one or more members, who shall report on their activities to the Committee.

[BR05-42]

Mr. Gerrity presented the report of the Audit Committee. He reported the Internal Audit has seen an increase in red and yellow audit items, in particularly because they are focusing on higher risk areas and have adopted a stricter reporting methodology. He noted that the Committee had heard a detailed report on the audit of debt funding. Mr. Gerrity next summarized Mr. Levin's report to the Committee regarding capital classification, the new NYSE delisting rules and the implications for the company, work on SOX 404 and the need to make a decision regarding further work on 2004, progress on the restatement (noting that reaching the objective of completing in the first quarter 2006 would be a stretch), and new hiring in the Controller's office. He also discussed the AIP goals relating to progress on the restatement.

Mr. Gerrity explained that Mr. Hisey, in his now regular briefings on important accounting issues, had provided an overview of the company's derivatives and hedge accounting policy. He reported that the company would not be able to take the transition adjustment relating to the implementation of FAS 133. He also noted that Deloitte & Touche had provided a status of their audit work.

Mr. Gerrity discussed the presentation by Ms. Rock and PricewaterhouseCoopers (PwC) regarding their work on SOX 404. PwC has completed an assessment of the work done for 2004, and made recommendations for improvement. There are significant challenges to completing the 2004 work and there may be a need to consider 2004 and 2005 separately.

Finally, Mr. Gerrity reported that Ms. Kappler had updated the Committee on pending litigation as well as Office of Corporate Justice matters. There are no new accounting matters, although some remain under investigation and there are a few new non-accounting matters. Ms. Kappler also briefed the Committee on the new OFHEO examination guidance, which requires rotation of the external audit firm every ten years. He noted that the Committee met in executive session as is their usual course.

Mr. Pickett provided the report of the Compensation Committee. He walked the Board through the AIP goals and what is being asked of Committees in making assessments. He explained that the Committee would give guidance on how to evaluate the goals, including how to assess effort versus results. He noted that the Committee had been provided with a draft of the company's annual report to Congress on compensation and would provide any comments. He reported that the Committee had been given a report on the turnover of employees, particularly officers, as well as the diversity impact;

he stated that the Committee had instructed management to ensure a diverse pool of candidates for open positions. He also reported on the personnel action relating to Mr. Voth. Finally, Mr. Pickett discussed the Committee's judgment to defer a decision on option payments and the vesting of restricted stock awards to Board members in 2004 absent an annual meeting. Mr. Brome explained the issue and outlined options available to the Committee. Board members discussed the issue and agreed that deferral was the appropriate course at this time, particularly since senior management did not receive bonuses in 2004. The Board observed that it was unclear what the impact of deferral would be, since there is no way to know how the stock may perform at a later time.

Mr. Wulff provided the report of the Nominating and Corporate Governance Committee. Upon motion made and seconded, and after discussion, the Board adopted the following resolution:

> WHEREAS, the Office of Federal Housing Enterprise Oversight has amended its regulations relating to the corporate governance of the enterprises;
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> WHEREAS, Fannie Mae's Corporate Governance Guidelines must be consistent with the revised corporate governance regulations; it is therefore
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> RESOLVED, that the Board of Directors adopts the amended Corporate Governance Guidelines in the form attached hereto.
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> [BR05-43]

Mr. Wulff explained that Mr. Ashley had requested a waiver of the director term-limits in OFHEO's new corporate governance regulations in order to permit a three-year orderly transition. He briefed the Board on work the Committee is doing to build a pipeline of potential new, diverse Board members. He discussed a new potential candidate and invited Board members to interview candidates. Mr. Ashley expressed the Board's preference for shareholder-elected directors, rather than Board-appointed.

Mr. Wulff reported that the Committee reviewed director compensation, finding that it currently is between 50-65% of comparable Boards, although there are issues relating to stock valuation. He explained that the Committee unanimously concluded not to change director compensation at this time; the Board expressed its concurrence.

Upon motion made and seconded, and after discussion, the Board adopted the following resolution:

> RESOLVED, that the Board of Directors established as of January, 2005 a Search Committee that performs the functions described in its charter; and it is further
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> RESOLVED, that the Board of Directors adopts the charter for the Search Committee in the form attached hereto; and it is further
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> RESOLVED, that the members of the Search Committee are Ann Korologos, who is the Chair, Stephen B. Ashley, who serves *ex officio*, Donald B. Marron, and John K. Wulff.

[BR05-44]

Mr. Wulff reported on Ms. Kappler's update regarding D&O insurance – the company is looking for a $275 million policy with a possible additional $25 million coverage for non-management directors. In response to a question from Mr. Pickett, Ms. Kappler explained that the company is considering either extension of the existing policy or a new policy.

Finally, Mr. Wulff discussed the upcoming self-appraisal process, indicating that the written assessments would be supplemented with conversations with individual directors.

Ms. Rahl provided the report of the Risk Policy and Capital Committee. She reported that the Committee had been provided background information regarding supplemental portfolio risk limits in anticipation of a new policy to be adopted in July. The Committee approved new private label security investment limits.

Mr. Duberstein provided the report of the Housing and Community Development Committee. The Committee received a briefing on the AIP milestones relating to mission and recommended refined measures. Mr. Duberstein discussed Mr. Lund's briefing regarding challenges in "leading the market" with regard to minority lending due to the prevalence of products that layer risk in a way that the company believes is inappropriate. He explained that management is in the process of redefining the market, using new metrics that will be tracked. He made clear that meeting 2005 targets will be a challenge. At Mr. Duberstein's request, Ms. Kappler updated the Board on the work management is doing to analyze its 2004 loan purchases in relation to the new HMDA pricing data. After discussing the new rules and their implications, Ms. Kappler reported that our data does not show abnormal price differentials as they relate to borrowers' race, but more work must be done. Mr. Duberstein reported that Mr. Hayward briefed the Committee on ADC 3.0 and discussed repositioning the partnership offices to source and close affordable housing business for the company. Finally, he indicated that Mr. Bacon had updated the Committee on true sale issues that have arisen in connection with the DUS program. He explained that there does not appear to be a material balance sheet impact to the company, but there is reputational risk. The Committee felt outreach to potentially impacted partners was appropriate.

Mr. Mudd discussed market reaction to the capital classification. He noted that first quarter numbers showed significant income, but that trend would not be reflected in the full year as currently forecasted. He noted that analysts appear to understand the business discussion in the company's recent Form 12b-25. Mr. Mudd explained that the real financial plan for the company is the capital restoration plan and discussed the pressure to shrink the portfolio. Board members discussed the impact of interest rate moves on capital, especially in connection with the historic lows of Treasury bonds. In response to questions, Mr. Mudd stated that the company could issue preferred stock in June, if needed for capital, and still remain at 25% of outstanding equity.

Mr. Mudd provided an update on GAAP earnings against plan, noting the limitations of the plan based on assumptions now out of date. In response to a question from Mr. Pickett, Mr. Mudd explained that the company would not be calculating and disclosing core earnings for 2004, and needs to decide if a similar measure will be used going forward. He added that analysts are looking for a fair value measure. Board members discussed with Messrs. Mudd and Levin the volatility created by the lack of hedge accounting and the classification of portfolio securities as held for sale. In response to a question from Mr. Marron, Mr. Levin explained that investors assume that the dividend will stay flat at least through the capital plan. Messrs. Mudd and Levin discussed with Board members the impact of the capital plan on portfolio growth, explaining that mortgages have cheapened some and Freddie Mac has been able to grow its portfolio by 10% as compared to our shrinkage.

Mr. Mudd highlighted the market challenges to the Single Family business and reported that the Multifamily business is performing well. As to administrative expenses, Mr. Mudd reported that we are above budget due to expenses related to litigation, restatement and regulatory matters. In addition, the budget did not anticipate a full year of costs incurred by the internal review.

Mr. Ashley asked Mr. Mudd to address OFHEO's 2004 examination report. Mr. Mudd responded that management is finding many operational controls inconsistent or insufficient, and that operational discipline needs to be instilled in all businesses. He noted that he would be meeting with Mr. Kerr and the Acting Director monthly to ensure the company stays on track with the work that needs to be accomplished. Ms. Rahl added that an educational process as to how other large financial companies operate would be helpful. Mr. Mudd agreed.

Mr. Duncan joined the meeting to update the Board on legislative issues. He discussed the structure of the bill before the House Financial Services Committee. In response to questions, Mr. Duncan indicated that he believed there was a better than 50/50 chance a bill would get done before the end of the year, but many things could change. He anticipates that the Senate bill in June or July will be tougher than the House bill. He and Mr. Duberstein explained the Administration's position on legislation. Ms. Kappler described the corporate governance provisions in the House bill. Mr. Duncan left the meeting.

Mr. Ashley informed the Board that Mr. Weber had been appointed Corporate Secretary. He discussed the document requests from Paul Weiss to Board members and asked them to work with staff to collect and produce documents. Mr. Ashley described work being done for the Board's strategic retreat in July, and indicated that there did not appear to be a need for a full Board meeting in June.

The Board adjourned at 12:30 p.m.

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Secretary