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

July 19, 2005
1:30 p.m.

The Fannie Mae Board of Directors met at Fannie Mae's headquarters in Washington, D.C. on July 19, 2005.

The following members of the Board were present:

Mr. Ashley (Chairman)	Mr. Mudd
Mr. Duberstein	Mr. Pickett
Mr. Gerrity	Ms. Rahl
Ms. Korologos	Mr. Smith
Mr. Malek	Mr. Swygert
	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, Marzol and Senhauser of Fannie Mae, and Brossy of Semler Brossy, LLP were present for part of the meeting.

Mr. Ashley called the meeting to order at 1:30 p.m. and the Board immediately went into executive session with Messrs. Brome and Joffe.

Messrs. Mudd, Levin and Weber and Ms. Kappler joined the meeting. Mr. Ashley recognized Mr. Swygert and congratulated him on his receipt of the 2005 National Urban League Legend Award recognizing his dedicated leadership and commitment to the education of young people.

Upon motion made, and seconded, the Board approved the minutes of the meetings of the Board on May 24, 2005 and June 1, 2005.

Ms. Rahl provided a report of the Risk Policy and Capital Committee. Upon motion made, and seconded, and after discussion, the Board unanimously approved the payment of dividends:

> RESOLVED, that with respect to the Preferred Stock, Series D, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.65625 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series D, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;
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> RESOLVED, that with respect to the Preferred Stock, Series E, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.63750 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series E, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;
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> RESOLVED, that with respect to the Preferred Stock, Series F, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.1713 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series F, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;
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> RESOLVED, that with respect to the Preferred Stock, Series G, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.2938 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005 to the registered holders of Preferred Stock, Series G, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series H, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.7263 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series H, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series I, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.6719 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series I, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series J, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.5895 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series J, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series K of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.6745 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series K, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series L, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.6406 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September

30, 2005, to the registered holders of Preferred Stock, Series L, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series M, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.5938 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series M, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series N, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.6875 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series N, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Preferred Stock, Series O, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $.8750 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Preferred Stock, Series O, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005;

RESOLVED, that with respect to the Convertible Series 2004-1 Preferred Stock, of the corporation that is outstanding at the close of business on September 15, 2005, there hereby is declared (and thereby set apart) a dividend of $1,343.75 per share for the period from and including June 30, 2005 to but excluding September 30, 2005, payable on September 30, 2005, to the registered holders of Convertible Series 2004-1 Preferred Stock, of the corporation as shown on the books of the corporation at the close of business on September 15, 2005; and it is further

RESOLVED, that with respect to the common stock of the corporation that is outstanding at the close of business on July 29, 2005, there hereby is declared a dividend of $.26 per share payable on August 25, 2005 to the registered holders of common stock of the corporation as shown on the books of the corporation at the close of business on July 29, 2005.

[BR05-42]

Ms. Rahl noted that OFHEO had been notified of the Board's likely dividend action, although their approval was not required.

Ms. Rahl reported that the Committee had reviewed and approved revised interest rate risk limits, noting the interaction with OFHEO's exam staff. She reported that the Committee had also approved a revised policy for the management of interest rate risk. She noted that the Committee had discussed the companies risk policies in general, concluding that risk is managed well but communication could be improved. Management had chosen eight areas for development of risk policies this year from the recommended list from Mercer Oliver Wyman; the Committee concurred in the prioritization.

Ms. Rahl explained that the Committee had received reports from two outside consultants – Andrew Davidson, an independent risk analyst with substantial mortgage modeling expertise who evaluated the quality of risk management and the adequacy of risk measurement in the portfolio business; and Lisa Polsky, an independent risk management consultant, who advised the Interim Chief Risk Officer on development and direction of that function especially regarding market risk oversight and risk reporting. Ms. Rahl stated that the consultants had concluded that the risk they examined was managed well by the company, but the process needs some improvement; they made recommendations which both portfolio management and the Interim Chief Risk Officer are adopting. Mr. Ashley observed that there was a good, open exchange between the consultants, the Committee members, and management. Ms. Rahl noted that she had met with Mr. Kerr, OFHEO Examiner-In-Charge, and the consultants and they had had a good discussion.

Mr. Swygert, joined by Messrs. Williams and Senhauser, provided a report of the Compliance Committee. Mr. Swygert reviewed a report of actions taken to implement the company's agreements with OFHEO, noting that submissions are being made as required. Mr. Senhauser briefed the Board on the Committee's work on the creation of the new Compliance, Ethics and Investigation organization. He noted that the model had been constructed with substantial input from OFHEO and concerns they had raised, particularly in connection with independence, had been met. Mr. Swygert reviewed the Board and company's work on improving the relationship with OFHEO, noting that progress is being made. Mr. Ashley explained that the Board will need to consider the future of the Compliance Committee, beyond the work on implementation of the OFHEO agreements. He shared that he had received feedback from OFHEO's Acting Director that management is moving in the right direction in connection with improving its regulatory relationships with OFHEO. Messrs. Williams and Senhauser left the meeting.

Mr. Pickett provided the report of the Audit Committee. He noted that this was the first Committee meeting of Jean Hinrichs, the new head of Internal Audit. Internal Audit provided the Committee with a progress report against their audit plan: there are still a number of red and yellow items. Mr. Pickett explained that management has created an integrated restatement plan, which takes the restatement of 2004 financials to

June 2006 at the earliest, which is beyond the date at which delisting would occur under the NYSE rule. He reported that the company is working with the NYSE and SEC on a potential amendment to the rule that would permit the NYSE to decide not to delist. He noted the estimated costs of restatement.

Mr. Pickett then reported that D&T had reopened the question of whether the company's mortgage-backed securities qualify as QSPEs. Mr. Levin explained that the D&T team had previously indicated that the MBS qualified as QSPEs, but now a different team had examined the issue and, in the context of looking at REMICs, seen new issues that they believe relate to standard MBS as well. In response to a question from Mr. Brome, Mr. Levin indicated **REDACTED PRIVILEGED**. The Board discussed with Messrs. Mudd and Levin the potential impact on counterparties and the MBS program generally. Mr. Levin observed that, when FAS 140 was adopted, companies modified their securitization documents to conform to the rule's requirements; Fannie Mae did not change its documentation, but the substance of our business operates consistent with the rule. Mr. Mudd noted that D&T had not yet reached a decision; Mr. Levin added that it may be necessary to take the issue to the SEC and that D&T has not yet addressed potential impact on the balance sheet. Mr. Mudd added that the company is working on revisions to our securities documents for the future, and is looking at ways to speed up the restatement process and reduce costs without jeopardizing accuracy.

Mr. Pickett added that the Committee had received a briefing on securities accounting, the impact of which had been incorporated into capital planning. Mr. Hisey provided the Committee with a report on the build out of his organization and their integration into the businesses. Mr. Pickett noted that, as part of their report, D&T had apologized about the QSPE process failure and indicated that they had revised the process to avoid any similar situation in the future. Nonetheless, D&T reminded the Committee that no issues are final until the external auditors actually sign off.

Mr. Pickett reported that the Committee next heard from Ms. Rock regarding the company's work on SOX 404. She explained the approach to 2004, which is somewhat unique. The company is taking a more traditional approach to 2005. Ms. Rock reported that the company will have material weaknesses because late 2005 SEC filings.

Ms. St. John also provided the Committee with an update on the CORE technology project. Mr. Pickett reported that the project is being revised: it will be broken into pieces and old systems will be replaced in stages, adding to the costs of the project.

The Committee received a report from Ernst & Young regarding the internal audit function, making substantive recommendations on risk assessment, audit practices, organization and staff development, and technology. The Committee instructed Ms. Hinrichs to move forward with implementation of the recommendations.

Ms. Kappler provided the Committee with an update of OFHEO's Special Examination, which is ongoing. She also explained the process under the Memorandum of Understanding with OFHEO relating to the release of attorney/client privileged materials to OFHEO. Ms. Kappler also reported that OFHEO had informed the company that it had a new whistleblower in connection with the operation of the company's REO disposition in Dallas. As a result, OFHEO was conducting a special examination. Ms. Kappler explained the company's pursuit of Olympia Mortgage in connection with fraud.

Mr. Wulff observed that the Committee had very open discussions with management and the external auditors and is getting the information it needs to conduct its oversight.

At the request of Mr. Pickett, Ms. Kappler explained Ms. Spencer's apparent lack of cooperation with the Paul Weiss investigation and the company's intended response to terminate her employment, absent cooperation to Paul Weiss' satisfaction. Mr. Pickett indicated that the Committee concurred.

The Board resumed executive session with Messrs. Brome and Joffee, meeting separately with Messrs. Mudd and Brossey.

Messrs. Mudd, Levin and Weber and Ms. Kappler rejoined the meeting. Mr. Wulff provided a report of the Nominating and Corporate Governance Committee. He noted the Committee's regarding one candidate as a potential new Board member. He reported that Ms. Kappler had reviewed the new D&O insurance policy and OFHEO new corporate governance examination guidelines, which the Committee will work with management on implementing. He reminded the Board that the annual self-assessment process would begin shortly, and that there would be a half-day education session in connection with the September Board meeting.

Mr. Mudd delivered his report. Mr. Mudd observed that the company had fallen short in delivering on the CORE project, and took responsibility. He noted that the team had been torn between resource constraints and increasing demands for flexibility. After bringing in two outside consultants, the company decided to restructure the project. Senior management changes have been made, and David Voth had been brought in to lead the project. Although additional costs would be incurred, changes to legacy systems are necessary. And valuable lessons had been learned.

Mr. Mudd discussed the turnover of management and his concern that the company continue to lead in the area of diversity. Mr. Ashley indicated that he had heard this concern expressed in his meetings with employees. Mr. Mudd explained diversity's importance to the company's business initiatives. Board members discussed with management various methods that might be used to increase diversity. Mr. Mudd discussed the company's work on improving corporate culture and explained the SEAM initiative. He reviewed the status and prospects for legislation. Finally, he provided an update on the Fannie Mae Foundation.

Mr. Levin provided his report as Interim Chief Financial Officer. He reported that earnings net of the mark-to-market of derivatives are good; the company has increased its forecast. He noted that Bank of America had initiated analyst coverage of Fannie Mae, taking a sell position. It is neutral on Freddie Mac, noting Fannie's portfolio reduction and increased time to have current financials as compared to Freddie. In response to questions, Mr. Levin explained that he would expect to do forecast for 2006 shortly. Mr. Levin indicated that he did not expect the QSPE issue to affect earnings.

Mr. Marzol provided his report as Interim Chief Risk Officer. He first reviewed key interest rate risk measures, which are fairly well contained. He explained duration gap history as well as a new measure, market value of equity sensitivity, which will become the new basis for the company's interest rate risk policy limits. He expressed the view that the biggest risk facing the portfolio business is strategic pressure. Mr. Marzol then reviewed credit risk: Key indicators were either stable or trending favorable

He noted the decline of the mark-to-market LTV on outstanding single-family loans. He also discussed the company's exposure to GMAC. In reviewing the single family market, Mr. Marzol reported that home price appreciation has been robust and some local markets are of concern, especially where there are heavy investor purchases and/or borrowers are taking out mortgage products designed to provide low initial payments in order to get borrowers into homes. These products risk "payment shock" in the future if interest rates increase. Finally, Mr. Marzol gave an overview of operational risk, which remains high. He observed that the magnitude of simultaneous challenges on a small leadership team is itself a risk factor. Board members discussed.

Mr. Ashley noted that there would be a meeting of the Board with Paul Weiss on August 2, 2005. He also informed the Board that he was looking at obtaining an apartment in town in that the economics would be better for the company than hotel expenses. The Board expressed its support.

Mr. Ashley thanked Mr. Mudd and the management team for their work on the strategic retreat.

The Board adjourned at 4:00 p.m.

Secretary