PROPRIETARY AND CONFIDENTIAL –
CONFIDENTIAL TREATMENT REQUESTED
BY FANNIE MAE

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

June 13, 2006
5:00 p.m.

The Board of Directors of Fannie Mae met by telephone on June 13, 2006.

The following members of the Board participated:

Mr. Ashley (Chairman)	Mr. Mudd
Mr. Beresford	Mr. Pickett
Mr. Duberstein	Ms. Rahl
Mr. Gerrity	Mr. Smith
Ms. Macaskill	Mr. Swygert
Mr. Marron	Mr. Wulff

Mr. Joffe of Cravath, Swaine & Moore LLP, as counsel to the nonmanagement directors and Mss. Wilkinson, Hinrichs and Reddy and Messrs. Williams, Weber, and Senhauser of Fannie Mae also participated.

Chairman Ashley called the meeting to order at 5:00 p.m. Chairman Ashley briefed the Board on his meeting with OFHEO Acting Director Lockhart earlier in the day, and informed the Board that the meeting had been cordial. In order to demonstrate the differences between the OFHEO 2005 Report of Examination and the OFHEO 2005 draft Report to Congress, Chairman Ashley brought redlined and bluelined versions of the current proposed Report to Congress for Mr. Lockhart's review. During the meeting, Mr. Lockhart indicated that the Report to Congress would be released on June 15th, 2006, following the Senate Banking Committee hearing, and not before the hearing. The Board discussed some of the differences between the two reports and various questions to be raised with the OFHEO Examiner-in-Charge and his team during the briefing to be provided by OFHEO representatives.

FMSE 705993

Chair Ashley invited the OFHEO representatives to join the meeting. Mssrs. Kerr, Newell and Corona and Ms. Connelly of OFHEO joined the meeting. Mr. Kerr reviewed for the Board the examination objectives, scope and conclusions, all as contained in a written version of the presentation circulated to the Board prior to the telephonic briefing. He explained that the report emphasizes the issues and the areas the Board needs to understand and/or address going forward. The scope of the examination was a broad based review, including remediation pursuant to the Fannie Mae's agreements with OFHEO. Review of counter-party risk will occur in the 2006 examination, according to Mr. Kerr. The conclusions of the examination for 2005 are as follows: 1) safety and soundness concerns remain; and 2) it may take years to fully address the IT and data systems issues. In addition, the examination found that: 1) there are data and systems issues which impact controls, reports, performance and risk management, volume and new products; 2) there exists a varying culture and knowledge of financial industry standards which impacts controls and management and communication of performance and risks; 3) there remains deficient business unit policies and procedures for risks, controls and delegation of authority; 4) the restatement effort has aggressive timelines and overlapping workstreams, but the restatement for 2004 is on track for completion by 2006 year end; and 5) there is insufficient personnel for ongoing operations, and resource strain from the restatement is delaying critical projects such as model implementation and validation.

Mr. Kerr indicated to the Board that the major risks in credit, liquidity and IRR are reasonably to satisfactorily controlled, and he reviewed the progress made in 2005. Fannie Mae is at or near compliance with the first two OFHEO agreements, having completed most corporate risk policies, having made organizational improvements, having created new management and positions, having implemented a Sarbanes-Oxley program to identify issues, having launched an internal audit program and having made reasonable progress on the restatement efforts. In addition, Mr. Kerr stated that the new committees have improved oversight, and the discipline shown by Fannie Mae in planning both short term and long term project management with interim controls in several areas will serve Fannie Mae well in the long term. He asked that the Board emphasize to management the importance of accuracy and of prioritization of projects for alignment across the Company, and the importance of ensuring that deadlines are established for delayed critical projects. Mr. Kerr also indicated that while the culture has been changing at the top and through new hires, the culture, accountability and knowledge varies in the established staff. Improvements in the culture and the knowledge should be accelerated through a deliberate program which should include training, establishment of policies and delegations of authority which are incorporated into actual practices, a formalized structure for decision making, business unit and Chief Risk Officer division risk management, expense control and coordinated and rationalized strategic planning. Mr. Kerr again stated that there exist significant weaknesses in data and systems though progress has been made in addressing IT issues through interim and permanent solutions.

Mr. Kerr asked the Board to focus in particular on monitoring project management, emphasizing the following: 1) evaluating prioritization and coordination, impact and reason for delays; 2) ensuring interim processes and controls are implemented and regularly audited; 3) ensuring strong change management from the business units and independent oversight for permanent solutions; and 4) ensuring that new products and activities are evaluated and understood and that ownership, processes, controls and reports are in place before new product launch. Mr. Kerr advised the Board that the OFHEO examination team has seen several instances where the infrastructure was not in place, and the risk has not been evaluated and communicated properly prior to the launch of a new product. The risk communication reporting presented to the Board by the deputy Chief Risk Officer has improved risk communication, according to Mr. Kerr. More granular information with respect to history and performance, risk and activities is required, he said. The Board was asked by Mr. Kerr to supervise management in the setting of standards and deadlines, to monitor progress in communication, and the production and distribution of meaningful reports and metrics throughout Fannie Mae.

Existing problems are magnified by resource constraints, particularly constraints on human resources, as a significant number of new hires are required for controls, performance, risk management and ongoing operations given the restatement and finance department transformation, as well as for the special projects to change ongoing operations and to continue running ongoing operations, according to Mr. Kerr. New hires will take time to be absorbed and with the large number of contractors currently working, ensuring that the contractor knowledge is transferred to permanent staff will be important. Mr. Kerr suggested that a "post mortem for contractors" be held. He further advised that it will be important to control the volume of new initiatives and to implement controls, reports, risk and performance management prior to launch of new products; at the same time, no critical projects should be excessively delayed. In the interests of time, Mr. Kerr directed the Board to the remaining slides of his presentation which recapped the examination conclusions, and he reminded the Board that these conclusions are explained in more detail in the OFHEO 2005 Report on Examination previously provided to the Board.

Chair Ashley thanked Mr. Kerr for his presentation and asked if there were any questions about the oral presentation or the written report. Board members asked Mr. Kerr to clarify where deficient risk metrics existed, and OFHEO examiner Steve Corona indicated that improvements in the level of granularity with respect to credit risk need to be made. In addition, OFHEO examiner Jamie Newell indicated that there needs to be a "common vocabulary" across the enterprise when risk is evaluated and communicated. Questions were raised with respect to the differences between the OFHEO 2003 Report of Examination and the current Report of Examination and in particular Board members asked whether different standards were being applied to the organization at this time then had been applied in the past. Mr. Kerr responded that he could not address what standards his predecessors might have used, but indicated that at this time, OFHEO has done a very thorough review.

Board members asked Mr. Kerr if there were two to three things that upon reflection Fannie Mae should have done differently in 2005, and Mr. Kerr responded that while mistakes have been made, those mistakes were largely understandable and resolution of issues has been handled "more or less" as it should have been. Mr. Kerr clarified for the Board that the review, examination and evaluation process is continuous and ongoing, and that by its nature the Report is "backward looking". Mr. Kerr was asked if management has been available and responsive to OFHEO requests, and Mr. Kerr indicated that changes in the nature of the relationship have occurred and therefore a better relationship exists between OFHEO and management.

Chair Ashley told the OFHEO representatives that the Board embraces the points made in the 2005 Report of Examination, and will attend to the areas emphasized for further attention by the Board. He asked Mr. Kerr if OFHEO had identified areas for improved Board oversight, and Mr. Kerr indicated that while a review of the Board was not a part of the 2005 scope of review, it will be a part of the 2006 review, and thus the Board will receive a "report card" with respect to 2006. Chair Ashley advised Mr. Kerr that while the Board appreciated the content of the full report to the Board, there had been concern on the part of the Board with respect to the differences between the draft 2005 Report to Congress and the 2005 Report of Examination. Mr. Ashley explained that he had visited with OFHEO Acting Director Lockhart earlier that same day, and had asked for clarification regarding the difference in the two reports.

Mr. Kerr responded that changes between the two reports were not intended to create a different tone or message, but that portions of the Report of Examination were redacted to remove proprietary information and details. Chair Ashley responded that the draft Report to Congress, much more than the Report of Examination, created the impression that the company did not make progress in 2005, and that he discussed this difference with Mr. Lockhart earlier the same day. Mr. Kerr indicated that there was not an intention to deliver a different message, and that he would be happy to meet with Chair Ashley and General Counsel Wilkinson to better understand specific differences between the two draft reports.

The Board thanked Mr. Kerr for his time, and for the presentation, and asked if there were any additional observations that he would like to share with them. Mr. Kerr responded that the importance of culture and knowledge of financial industry standards, as well as improvements to data and systems, will take as long as three to five years to change. For this reason, Mr. Kerr urged the Board to be aggressive in seeking changes to these areas, as the faster that these areas change, the better off the company will be.

Mr. Ashley thanked Mr. Kerr and the OFHEO examiners, and asked that management leave the meeting so that the Board could continue its discussion of the 2005 OFHEO Report of Examination in executive session with the OFHEO representatives, and its counsel, Mr. Joffe.

The meeting was adjourned at 6:00 p.m.

Secretary