FannieMae

EXECUTIVE SUMMARY

COMPENSATION COMMITTEE

2007 ANNUAL INCENTIVE PLAN ("AIP") GOALS ACHIEVEMENT

ISSUE: Performance against 2007 corporate goals under the AIP.

ACTION: No action required.

HISTORICAL SUMMARY: At the December Compensation Committee meeting, the Committee reviewed preliminary performance relative to corporate goals and set tentative AIP pool funding at 90 percent of target. For the Internal Audit and Compliance groups, in separate meetings, the respective Committees of the Board determined that each group's performance was within the range of meets expectations to partially exceeds expectations and established funding at 105 percent of target.

Now that year-end results are available, the Compensation Committee will confirm corporate achievement and funding under the AIP during its January meeting.

Actual AIP awards for Executive Vice Presidents and the CEO will be reviewed and approved, as appropriate, by the Board. Additionally, high performing employees (i.e., those receiving a Significantly Exceeds – "SE" – performance rating) could receive a supplemental bonus in addition to the base AIP award.

2007 Annual Incentive Plan Results and Assessment

Board of Directors

January 18, 2008

Executive Summary

- **Company achievement against nearly all of the goals has been very solid**
  - Markets: Strong response to the market in turbulent times, while securing significant market share at higher returns and fees
  - Mission: Provided liquidity to the market, achieved base HUD and minority lending goals, and launched HomeStay initiative to support subprime borrowers
  - Get Current: Filed our 2007 Q3 10-Q on time, returning to timely filing with the SEC
  - SOX: Remediated all SOX material weaknesses and significant deficiencies with 2007 10-K filing
  - Expenses: Restructured the company's cost basis, reducing expenses by over $350M
  - IT: Significant progress in rebuilding the IT function
- **There have been challenges as well:**
  - Share price
  - GAAP financial results have been highly volatile
  - Constant diligence and attention to capital
  - HUD sub goals
- **Management presented preliminary results to the Compensation Committee in December**
- **Based on these results, the Committee determined a preliminary pool funding level of 90% of target**
- **The only substantive change since December is that management will achieve base HUD goals, Multifamily Special Affordable goal, and one HUD sub goal**

The Committee made their final determination on the funding level of the AIP pool based on management's achievement of the 2007 AIP Goals

Executive Summary

	December	January
1. Business Goals		
a. Achieve SF Book Growth Target	Green	
b. Achieve SF Return Target	Green	
c. Achieve MF Book Growth Target	Green	
d. Achieve MF Charged Fees	Green	
e. Other HCD Business	Yellow	
f. Achieve a Total Return on the Portfolio	Green	
g. Technology	Green	
2. Mission Goals		
a. Achieve HUD Regulatory Goals	Yellow →	Green
b. Achieve Minority Lending Goals	Green	
3. Financial Goals		
a. Catch Up & Get Current	Green	
b. Operational Risk & SOX	Green	
c. Administrative Expenses	Green	
d. Review Overall Financial Performance	Red	
4. Risk Management Goal	Green	
5. Compliance and Culture Goals		
a. Legal and Regulatory Compliance	Green	
b. Constructive and Professional Engagement with our Regulators	Green	
c. Accelerate Culture Change	Green	

Green	Meets or Exceeds Expectations
Yellow	May Meet Minimum Expectations
Red	Below Expectations

Overview – Annual Incentive Plan Process

- The Annual Incentive Plan ("AIP") is Fannie Mae's bonus program for officers and director-level employees (the "management group")

- Achievement of corporate goals and funding of the AIP pool are determined by the Compensation Committee

- AIP awards are made based on corporate and individual performance relative to goals established at the beginning of the year

- AIP award targets are approved by the Committee at the beginning of the year and actual awards to individuals are determined as follows:
  - The Compensation Committee approves actual awards for SVPs and makes recommendations to the Board for EVPs and the CEO
  - The independent Directors of the Board approve CEO awards
  - Awards for employees below the SVP level are approved by management, based on individual performance

- Performance against Internal Audit department and Compliance department goals is evaluated and approved separately by their respective Board Committees

AIP is the annual bonus program for management group employees

2007 AIP Goals

- **Business Goals:** Optimize the company's performance through achievement of targets for new business, book growth, and economic returns and through the transformation of the IT platforms that support the businesses.

- **Mission Goals:** Ensure that the company achieves its housing mission through attainment of regulatory and minority housing goals.

- **Financial Goals:** Complete and file the Form 10-K for FY2005 no later than August 2007 and complete and file the Form 10-K for FY2006 by the end of 2007, and remediate all known SOX material weaknesses (with the exclusion of Financial Reporting); control administrative expenses while doing so.

- **Risk Goals:** Detail and finalize risk tolerances for the company's business lines and ensure compliance with these risk policies and risk limits.

- **Compliance and Culture:** Enforce a comprehensive compliance, ethics, and investigations program ensuring legal and regulatory compliance; continue to build and maintain constructive relationships with regulators; and take tangible steps to accelerate culture change.

These are the 2007 goals as presented to and approved by the Board. The detailed goals and management's assessment are contained in the Appendix

2007 AIP Goals – Business

Business

Mission

Financial

Risk

Compliance & Culture

- **Management Assessment:**
  - Exceeded expectations for Single Family (SF) and Multifamily (MF) book growth, MF charged fees, and Portfolio returns
  - Achieved target expectations for SF returns
  - Achieved target expectations for IT goals
  - Achieved minimum expectations for other HCD business
- **Management Commentary:**
  - The SF business expanded product offerings (seconds, standby commitments), secured new customers (Wells Fargo), raised prices, all while reducing the "tails" on their risk position
  - The HCD business acquired 3 large portfolios with significant charged fees, while simultaneously expanding the small MF loan business and revamping our DUS business
  - Capital Markets effectively managed risk, while purchasing assets in excess of hurdle rates
  - IT rebuilt the organization, established financial discipline, and remediated control weaknesses
  - The HCD AD&C lending business was initially constrained by regulatory actions and later, when the market deteriorated, by management

2007 AIP Goals – Mission

Business

Mission

Financial

Risk

Compliance & Culture

- **Management Assessment:**
  - Expect to achieve 3 HUD base goals and achieved Multifamily special affordable goal; however, 2 of 3 HUD sub goals not achievable
  - Expect to achieve all minority lending goals (total, African American, Hispanic)
- **Management Commentary:**
  - With HUD goals increasing each year, the deterioration in the market, the need to eliminate risk at the tails and preserve capital, not all of the sub goals were not achievable
  - The company has provided liquidity to the market in a period of significant dislocation
  - The HomeStay Initiative helped qualified sub prime borrowers get into a prime mortgage ($10.1B), keep people in their homes (34.4K), and help counselors reach borrowers facing foreclosure ($8M in grants)*
  - Extraordinary MF year enabled the company to achieve some of the HUD goals
  - Management has effectively and constructively engaged HUD on feasibility of achieving goals in this market

*All numbers as of 10/31/07

2007 AIP Goals – Financial Goals

Business

Mission

Financial

Risk

Compliance & Culture

- **Management Assessment:**
  - Exceeded expectations by 'getting current' with the filing of the Q3 2007 10-Q on time
  - Achieved target expectations in SOX by remediating all material weaknesses
  - Achieved target expectations by conducting risk assessments for all businesses
  - Exceeded expectations for administrative expenses
  - Did not meet expectations on overall financial performance
- **Management Commentary:**
  - Filed 2005 10-K in May, 2006 10-K in August, and all three 10-Qs for 2007 on 11/9. All three events were ahead of schedule and under budget
  - All SOX material weaknesses and known significant deficiencies will be remediated with the filing of the 2007 10-K
  - Reduced admin expenses, year over year, by $388M and will operate the company on $2B in 2008
  - Reduced headcount by over 10% by year-end
  - On overall financial performance, the negative impact of a deteriorating housing market and illiquid capital markets significantly impacted our GAAP financials, fair value, and share price

2007 AIP Goals – Risk Management

Business

Mission

Financial

Risk

Compliance & Culture

- **Management Assessment:**
  - Achieved target expectations for the risk management goal
- **Management Commentary:**
  - Complied with all Board-level risk limits
  - Established and secured Board approval for credit and market risk limits
  - Implemented operational risk plan including risk assessments for all the businesses and operations
  - Validated all models used in financial reporting and risk reporting
  - Continued focus on the development of the economic capital framework and refinement of roles and responsibilities

2007 AIP Goals – Compliance and Culture

Business

Mission

Financial

Risk

Compliance & Culture

- **Management Assessment:**
  - Achieved target expectations for both legal and regulatory compliance and engagement with our regulator
  - Achieved target expectations for accelerating culture change
- **Management Commentary:**
  - Executed new regulatory and compliance programs in a timely manner
  - Engaged with OFHEO and HUD regularly and in a transparent manner
  - Implemented HR performance management system in Q4
  - Secured Board approval of new compensation and benefits approach
  - Restructured the office of diversity and refined the strategy for rollout in 2008

Appendix – Goal by Goal Assessment

1. Business Goals

a. Achieve Single Family (SF) Book Growth Target

Evaluation Criteria

The Board should expect that management will achieve a SF book growth rate of 105% of the growth in Mortgage Debt Outstanding (MDO). The minimum level of achievement for this goal is SF book growth rate of at least 90% of the growth in MDO. Management will have exceeded expectations if SF book growth rate is greater than 115% of the growth in MDO. In the budget, we have assumed 115%. We regard this as a very aggressive goal.

Management's Assessment

Management has exceeded expectations

Results and commentary as of 12/31/07:

Actual: 206%

- When market corrections occurred in the sub prime and overall credit markets, Fannie Mae grew its share of securitizations significantly from 25.1% in the first quarter to 41.2% in the third quarter, with our November share reaching 45.1%.
- This market penetration gain drove our faster than market growth.
- We secured 50% of Wells Fargo's business due to our ability to respond favorably to sales execution requests.
- We created a new structure to acquire $3.2B of second lien mortgages (seconds) from Citibank.

1. Business Goals

b. Achieve Single Family Return Target

Evaluation Criteria

The Board should expect that management will achieve an economic return on new SF business that is equivalent to the 2006 returns of 12%. The minimum level of achievement for this goal is an economic return of 9%. Management will have exceeded expectations if the economic return is greater than 12%. The Board should evaluate this goal in the context of goal 1(a). If management refines the metrics and methodologies for calculating economic returns, we will ensure that the Board has comparable results for 2006 and 2007 for the purpose of evaluating management's performance.

As a % of 2006 return:

Minimum: 75%

Target: 100%

Exceeds Expectations: >100%

Management's Assessment

Management has met target expectations

Results and commentary as of 12/31/07:

Actual: 101%

- Given market volatility over the course of the year, we made numerous changes to capitalize on market opportunities and made adjustments to improve the risk/return equation in flow business and the bulk channel.
- In addition, we purposefully undertook several key activities that represented incremental business that was brought in at return levels above the target, including:
  - Increasing our share of business from Wells Fargo from 20% to 50%.
  - Executed \$3.2B of seconds business v. \$130M in 2006.
  - Executed \$21.8B of long-term standby business v. \$0 in 2006.
  - Executed \$4.8B of sub prime purchases v. \$3.4B in 2006.
  - Announcing largest price increase ever by instituting 18% across the board price increase on flow business.

1. Business Goals

c. Achieve Multifamily (MF) Book Growth Target

Evaluation Criteria	*Management's Assessment*
The Board should expect that management will achieve a MF (including large and small MF loans) book growth rate of 3.5%-5.5%. The minimum level of achievement for this goal is MF book growth of at least 2.5%-3.5%. Management will have exceeded expectations if the MF book growth is 5.5%-6.5%. We are setting this goal in an attempt to target book growth consistent with market growth. The reason it is stated as a range is because, unlike for SF, it is difficult to measure and to estimate the size of this market. In the budget, we have assumed 4.5%.	***Management has exceeded expectations*** **Results and commentary as of 12/31/07 (preliminary):** Actual: 22.2% • We achieved record MF new business volume of ~$44B in 2007. This is double the full year plan volume of $22B. • MF won 3 highly competitive large acquisition portfolios: the $7B Archstone deal, the $3.3B Harvest deal, and the $1B AIG/Wachovia/Kushner deal. • Small MF loan volume increased in 2007 to $4.3B YTD, exceeding initial plan of $2.2B FY. Volume driven in part by $1.0B Citibank deal (December close). • We rolled out a new underwriting section of the DUS guide in 2007 and will complete roll out revisions to the remaining guide sections in 2008. • A new organizational structure was rolled out for lender account management, allowing for increased production through better certainty and speed of execution for the lender. • We are replacing lower producing DUS lenders with higher producing new lenders (e.g. Goldman Sachs, Meridian Capital, CBRE).

1. Business Goals

d. Achieve Multifamily Charged Fees

Evaluation Criteria	*Management's Assessment*
The Board should expect that management will achieve a charged fee of 23.8 bps on new MF debt business, including large and small loans. The minimum level of achievement for this goal is 21.8 bps. Management will have exceeded expectations if the MF charged fee is greater than 25.8 bps. Similar to SF, this should be viewed in the context of goal 1(c).	***Management has exceeded expectations*** **Results and commentary as of 12/31/07 (preliminary):** Actual: 32.0 bps ▪ We secured higher fees on large pool and cash loan deals in Q2 and Q3 (e.g., $7B Archstone deal at 62.1 bps), higher fees overall in Q4, and higher fees on several billion worth of production originated for conduit execution that was shifted to Fannie Mae in Q4. ▪ Lender utilization of the new DUS guide delegations was maximized to lower costs and further increase the speed of execution against the competition's prior approval model. ▪ We have begun to grow high margin segments (e.g., seniors, affordable, small/micro) with more work to do in 2008. ▪ The all-in weighted average spread to Fannie Mae (including both OAS and g-fee) increased from 53 bps in 2006 to 71 bps in 2007.

1. Business Goals

e. Other HCD Business

Evaluation Criteria	*Management's Assessment*
The Board should expect that management will achieve business volume of $2.1B, at returns greater than the cost of capital from its new HCD business initiatives, including but not limited to Acquisition, Development & Construction (AD&C), non-LIHTC equity investments, and Community Development. The minimum level of achievement for this goal is $1.5B or a 60% increase over 2006 volumes of $0.9B. Management will have exceeded expectations if the business volume is greater than $2.4B.	***Management has met minimum expectations*** **Results and commentary as of 12/31/07:** Actual: $1.6B ▪ For sale/for rent equity and mezzanine financing were above plan. ▪ We remediated the control weakness in the AD&C business. ▪ Excluding the AD&C segment, the overall new initiative volume was 10% above plan. AD&C production was delayed primarily due to regulatory actions; also, management reduced SF production due to market concerns.

1. Business Goals

f. Achieve a Total Return on the Portfolio

Evaluation Criteria

The Board should expect that management will achieve a total fair value return pre-administrative expenses, adjusted for changes in spreads, on the Portfolio of LIBOR + 400 bps. The company will develop by May 2007 a portfolio policy and a benchmark, and if necessary, will redefine the portfolio return objective, and will propose new minimum, target, and maximum levels of achievement.

Management's Assessment

Management has exceeded expectations

Results and commentary as of 12/31/07:

Actual: 658 bps

Established a total return policy and benchmark in May

- We purchased assets with spreads in excess of hurdle rates.
- We effectively managed risk and maintained established market risk limits.
- Actual interest rate movements did not pose significant challenges during this period.
- Accounting requirements limiting sales of assets in loss was constraining.

1. Business Goals

g. Technology

Evaluation Criteria	*Management's Assessment*
The Board should expect that the company will undertake a multi-year transformation of its technological capabilities and platforms, with completion in 2007 of the build-out of the IT Leadership team, the restructuring of the organization and its financial controls and procedures, and the development of technology blueprints to support the businesses and their growth strategies.	***Management has met expectations*** **Results and commentary as of 12/31/07:** ▪ The new leadership team is complete and in place. Talent and skills have been upgraded and we have launched people development initiatives. ▪ The organization was restructured to directly line up with business units and a new Technology Risk & Controls group was created. ▪ The HCD technology blueprint has been completed and the Capital Markets technology blueprint is on track for Q4 completion. Servicer and Investor Reporting (SIR) platform development is on track for Q3 2008 implementation. ▪ We have remediated all SOX control material weaknesses (access control) and implemented risk and control self assessments. ▪ We established financial discipline and reduced the cost of operations (base) by almost 15% v. 2006. ▪ Utilization of overall IT assets has improved and we have decommissioned 1,100 servers. ▪ Get Current was implemented while establishing IT blueprints for the businesses.

2. Mission Goals

a. Achieve HUD Regulatory Goals

Evaluation Criteria

As we have done for the past 2 years, management will brief the HCF committee on its progress on achievement of this goal, including an assessment of the market conditions impacting our achievement. The minimum level of achievement for this goal is to meet the 3 HUD base goals (statutory) and the MF special affordable goal. Management will have exceeded expectations if it achieves all 7 of the HUD goals.

HUD Base Goals:
Low/Mod = 55%
Special Affordable = 25%
Underserved = 38%

HUD Sub-Goals:
Low/Mod = 47%
Special Affordable = 18%
Underserved = 33%
Multifamily Special Affordable = $5.49B

Management's Assessment

Management expects to meet minimum expectations

Results and commentary as of 12/31/07 (preliminary):
Expect to achieve 3 base goals, MF special affordable goal, and 1 sub goal

	HUD Base Goals	HUD Sub Goals
Low/Mod	55.43%	42.16%
Special Affordable	26.28%	15.42%
Underserved	43.39%	33.43%
MF Special Affordable	n/a	$19.8B

- We have proactively and constructively engaged with HUD on the difficulty of making the Low/Mod and Special Affordable home purchase sub goals in this market environment in a year where the goals increased over the prior year.
- Market volume was lower in sub prime and private label securities segments, typically the goals-rich segments.
- The tightening of credit standards has negatively affected affordable lending.
- Record MF and My Community Mortgage volumes have contributed significantly to the attainment of the base goal objective.
- The HomeStay initiative have helped to qualify sub prime borrowers into a prime mortgage.

2. Mission Goals

b. Achieve Minority Lending Goals

Evaluation Criteria

The Board should expect management to achieve each of the self-imposed minority lending goals. The goals are: total minority of 25.9%, total African-American of 7.2%, and total Hispanic of 12%. The minimum level of achievement for these goals is 24.5% for total minority, 6.7% for total African-American, and 11.0% for total Hispanic. Management will have exceeded expectations if the total minority is greater than 27%, total African-American is greater than 7.5%, and total Hispanic is greater than 12.5%.

Management's Assessment

Management expects to meet expectations

Results and commentary as of 12/31/07 (preliminary):

	Result
Total Minority	27.13%
African American	8.05%
Hispanic	12.41%

3. Financial Goals

a. Catch Up & Get Current

Evaluation Criteria

The Board should expect management to file Forms 10-K for 2005 and for 2006 in calendar year 2007. The minimum level of achievement for this goal is that management files the 2005 10-K and the 2006 10-K by year-end. Management will have exceeded expectations if it files the 2005 10-K in Q2/2007 and the 2006 10-K in Q3/2007 and is positioned to file the 2007 10-K on time in Q1/2008. The Board should evaluate this level of achievement in context of the $650M budget (excluding Deloitte fees which management cannot control) that has been authorized for this effort.

Management's Assessment

Management has exceeded expectations

Results and commentary as of 12/31/07:

- We filed the 2005 10-K on 5/2, ahead of the stretch target of 6/30.
- We filed the 2006 10-K on 8/16, ahead of the stretch target of 9/30.
- We filed all 3 10-Qs by 11/9, nearly 4 months ahead of schedule.
- We are on track to file the 2007 10-K and annual report in Q1 2008.
- Full year Catch up & Get Current expenses were $544M v. $650M FY budget.
- We executed the 11-day close in October and November.

3. Financial Goals

b. Operational Risk & SOX

Evaluation Criteria

The Board should expect that management will remediate all known significant deficiencies and material weaknesses, with the exception of Disclosure Controls and Procedures, since we will not be a timely filer before year-end. Additionally, no new material deficiencies should arise and all high risk operational issues should be internally identified through the operational risk assessment process and should have remediation plans in place.

Management's Assessment

Management has met expectations

Results and commentary as of 12/31/07:

- We are on track for completion with the filing of the 2007 10-K; 2 of 2 significant deficiencies and 6 of 8 material weaknesses were remediated since the beginning of the year and the balance will be remediated with the filing of the 2007 10-K
- No new material deficiencies were identified. One new significant deficiency was added and remediated.
- Risk control self-assessments of high risk areas completed.
- 3 main Operations teams (SF, HCD, Capital Markets) completed risk control self-assessments and no major operational risks were identified.
- We coordinated closely with D&T on the definition of success.

3. Financial Goals

c. Administrative Expenses

Evaluation Criteria

The Board should expect that management will reduce administrative expenses by $200M in 2007 relative to 2006. The minimum level of achievement for this goal is that management achieves its administrative targets for running the business and the only possible overage is the result of getting current in our financial reporting. Management will have exceeded expectations if it secures over $200M in savings and exits the year at a run rate at or below $2B annually. The settlement of litigation, restructuring costs, and other extraordinary activity approved by the Board should not factor into this particular calculation, but would be considered (pro or con) as a factor in the overall corporate performance.

Management's Assessment

Management has exceeded expectations

Results and commentary as of 12/31/07:

- We reduced expenses year over year, by over $388M.
- We will exit the year at a $1,950M run rate.
- We are positioned to run the company on $2B in operating expenses in 2008.
- We reduced headcount by more than 10%.
- We have reduced contractors and consultants, with more to do.

3. Financial Goals

d. Review Overall Financial Performance

Evaluation Criteria

GAAP net income and fair value returns are important measures for assessing the long-term performance of the company. However, their volatility makes it difficult to use these metrics for assessing annual periods. In the future, management expects to incorporate these components into the company's long-term compensation plan. In the interim, management will prepare for the Board a thorough analysis and review of the company's GAAP net income, EPS, dividend growth, total shareholder return and fair value returns, including an evaluation of the effectiveness of the company's use of derivatives.

Management's Assessment

Financial Results are below expectations

Results and commentary as of 1/08/08*:

- We did not establish a specific financial goal for 2007 given where we were with the Restatement/Catch-up/Get Current. However, this goal was intended to provide an overall assessment of our financial performance.
- Our financial performance on a GAAP and fair value basis was negatively affected by a difficult housing market and illiquid capital markets. As a result, net income, EPS, and fair value returns were well below acceptable levels, but reflective of the severe housing crisis.
- Net Revenues are forecast at $10.9B for 2007 v. $11.8B for 2006
- Net Income is forecast at ($1.4B) for 2007 v. $4.1B for 2006
- Primary drivers of the decline in Net Income were:

– Day 1 Losses	2007 - $1.4B	2006 - $0.4B
– Derivative Losses	2007 - $4.3B	2006 - $1.5B
– Credit Exp (incl SOP 03-3)	2007 - $4.4B	2006 - $0.8B
– Credit Exp (excl SOP 03-3)	2007 - $3.3B	2006 - $0.6B
– Admin Expenses	2007 - $2.7B	2006 - $3.1B

- The change in Fair Value as of 3Q07 was -$8.7B or -20%
- The share price dropped approximately 33% in 2007. Freddie Mac is down 50% and our comparator group is down an average of 29%.

Note: 2007 GAAP results are based on estimates of 4Q as the financial books and records are not closed as of the date of this board mailing.

4. Risk Management Goal

Evaluation Criteria

The Office of the Chief Risk Officer will recommend risk limits for Board approval. Once approved, the CRO will establish corporate and divisional risk limits, including a comprehensive set of interest rate, credit, and operational risk measures. These risk limits will then be implemented this year. The minimum level of achievement for this goal will be the definition, implementation, and compliance with the corporate risk limits. In addition, the Board will evaluate management's performance in delivering a risk reporting framework, developing an economic capital methodology, implementing the 2007 Operational Risk plan, and completing model validations.

Management's Assessment

Management has met expectations

Results and commentary as of 12/31/07:
The company has established and is in compliance with Board-level risk limits

- We established Board-level and management-level market and credit risk limits.
- We completed 167 model reviews v. 110 for the full year plan.
- Board-level risk reporting for interest, credit, and operational risk was implemented.
- We completed the model review of economic capital methodology.
- We implemented the 2007 operational risk plan including risk assessments for all the businesses and operations.

5. Compliance and Culture Goals

a. Legal and Regulatory Compliance

Evaluation Criteria	Management's Assessment
The Board should expect that management will implement a compliance, ethics, and investigations program that includes an annual assessment of legal and regulatory compliance risks and controls, training and review of the Code of Conduct for all employees, and an average age of closed cases of less than 90 days. Management will have exceeded expectations if there is an absence of significant legal or regulatory compliance breaches resulting from a failure of compliance controls, including full compliance with regulatory exam guidance without significant exceptions or extensions of time, 100% adherence to the policy and procedure frameworks for all new policies in 2007, and a reduction in the average age of closed cases to less than 60 days.	***Management has met expectations*** **Results and commentary as of 12/31/07:** ▪ The new risk-based program was successfully deployed including compliance risk control assessments and action plans for SF, Capital Markets, HCD, and GIR. ▪ 100% of all employees completed electronic training on the Code and confirmed their adherence to it. ▪ The average case cycle time was 82 days. ▪ The company has experienced no significant compliance breaches and is compliant with OFHEO guidance. ▪ All new policies in 2007 have been reviewed and certified as framework-compliant prior to publication. ▪ The average age of closed cases is not fewer than 60 days.

5. Compliance and Culture Goals

b. Constructive and Professional Engagement with our Regulators

Evaluation Criteria	*Management's Assessment*
The Board should expect that management will engage in regular, constructive dialogue on multiple fronts with our regulators. The minimum level of achievement is compliance with the OFHEO Consent Decree. At the end of the year, the Board should assess our position with each of the regulators to ascertain how effective we have been in achieving this goal.	*Management has met expectations* **Results and commentary as of 12/31/07:** ▪ OFHEO confirmed in writing that no items in the Consent Order were out of compliance and current OFHEO tracking reflects this status. ▪ The company is in compliance with all outstanding exams, reviews, and inquiries as confirmed orally with OFHEO and HUD. ▪ Remediation of all deficiencies identified by HUD and OFHEO are on track and a process has been implemented to disseminate lessons learned. ▪ We have made measurable progress with HUD that is likely to result in incremental business volume in Seniors and Native American housing, and also partnered with HUD on disaster relief and homelessness initiatives. ▪ Recent engagements on housing goals (HUD) and nontraditional/sub prime mortgages (OFHEO) have been constructive and productive. ▪ We will focus continued attention to Consent Order items. ▪ We have engaged in merit-based and transparent engagement with OFHEO and HUD.

5. Compliance and Culture Goals

c. Accelerate Culture Change

Evaluation Criteria	*Management's Assessment*
To effect Culture Change in the broadest sense, the Board should expect that management will (a) drive accountability and engagement through the performance management system; (b) focus on "pay for performance" through the rigorous implementation of the new compensation system that embodies the Board-approved compensation philosophy; (c) develop a leadership pipeline that embodies SEAM and the new leadership qualities and measure their progress through development plans and performance management; and (d) continue to make progress in "Looking like America" through our diversity programs.	***Management has met expectations*** **Results and commentary as of 12/31/07:** ▪ Performance management process and system changes completed. ▪ All Executive Committee members have a culture goal in the performance management system. ▪ New compensation structure finalized; to implement in Q1 2008: – Business unit reviews of job slotting are underway. – We completed 2008 benefits changes and open enrollment. – Retirement changes approved by Board and communicated to all employees. ▪ The strategic plan for Diversity and Inclusion rolled out. ▪ More than 67% of closed officer slates had 1 or more female or minority candidates. ▪ The Board approved a new compensation and benefits approach.

C

Confidential Treatment
Requested By Fannie Mae

FMSE 730488

FannieMae

EXECUTIVE SUMMARY

BOARD OF DIRECTORS

EXECUTIVE VICE PRESIDENT ("EVP") PERFORMANCE ASSESSMENT AND COMPENSATION APPROVAL

ISSUE: At the end of each year, the Compensation Committee reviews the performance of each EVP and makes recommendations to the Board of Directors regarding compensation for each.

ACTION: The Board will be asked to approve the compensation for the EVPs.

HISTORICAL SUMMARY: At the end of each year, the Board is responsible for reviewing EVP performance and approving salary increases for the upcoming year, actual bonuses and actual long-term incentive awards for EVPs based on recommendations made by the Compensation Committee. Following Board approval, the compensation recommendations will be presented to OFHEO for approval. OFHEO must approve all non-salary compensation actions (i.e., bonuses and stock-based awards) for EVPs, as well as other OFHEO-designated officers.

The following materials are provided for each EVP for consideration as decisions are made about compensation.

- CEO's assessment of performance and compensation recommendation. The compensation recommendations for EVPs reflect guidance provided by the Compensation Committee.
- Market data by position, provided by Johnson Associates.
- Summary sheets that show the value of each compensation element or executive benefit/perquisite, as well as the recent stock award history for each EVP.

BOARD OF DIRECTORS
PROPOSED RESOLUTION

WHEREAS, in determining the compensation of the Executive Vice Presidents, the Compensation Committee and the Board of Directors have reviewed and given consideration to comparability data and recommendations prepared by Alan Johnson, the outside executive compensation consultant engaged by management;

WHEREAS, the Compensation Committee has reviewed performance against the Corporate Goals for 2007 under the Annual Incentive Plan (the "AIP");

WHEREAS, the Compensation Committee and the Board of Directors have reviewed the performance of the Executive Vice Presidents of Fannie Mae; it is therefore

RESOLVED, that the annual salaries paid to the Executive Vice Presidents shall be adjusted as of February 17, 2008, to the amounts set forth on H.R. Document 2008-2;

RESOLVED, that the Executive Vice Presidents shall be paid cash bonuses for 2007 performance under the AIP in the amounts set forth on H.R. Document 2008-2;

RESOLVED, that the Executive Vice Presidents shall be awarded grants of Restricted Stock under the Fannie Mae Stock Compensation Plan of 2003 in the dollar amounts, and vesting over the periods, set forth on H.R. Document 2008-2;

RESOLVED, that the number of Restricted Stock shares shall be determined by dividing the dollar amounts set forth on H.R. Document 2008-2 by the average of the high and low selling prices of Fannie Mae common stock on January 28, 2008, or if later, the date that OFHEO approves the grants of Restricted Stock to the Executive Vice Presidents; and it is further

RESOLVED, that the cash bonuses and Restricted Stock awards for Executive Vice Presidents shall not be paid or granted until OFHEO approves the bonuses and awards.

BOARD OF DIRECTORS
PROPOSED RESOLUTION

WHEREAS, in determining Mr. Mudd's compensation, the Compensation Committee and the Board of Directors have reviewed and given consideration to comparability data and recommendations prepared by Roger Brossy, the outside executive compensation consultant engaged by the Compensation Committee;

WHEREAS, the Compensation Committee has reviewed performance against the Corporate Goals for 2007 under the Annual Incentive Plan (the "AIP");

WHEREAS, the Compensation Committee and the Board have reviewed the performance of Mr. Mudd; it is therefore

RESOLVED, that the annual salary paid to Mr. Mudd shall be adjusted as of February 17, 2008, to the amount set forth on H.R. Document 2008-1;

RESOLVED, that Mr. Mudd shall be paid a cash bonus for 2007 performance under the AIP in the amount set forth on H.R. Document 2008-1;

RESOLVED, that Mr. Mudd shall be awarded a grant of Restricted Stock under the Fannie Mae Stock Compensation Plan of 2003 in the dollar amount, and vesting over the period, set forth on H.R. Document 2008-1;

RESOLVED, that the number of Restricted Stock shares shall be determined by dividing the dollar amount set forth on H.R. Document 2008-1 by the average of the high and low selling prices of Fannie Mae common stock on January 28, 2008, or if later, the date that OFHEO approves the grant of Restricted Stock to Mr. Mudd; and it is further

RESOLVED, that Mr. Mudd's cash bonus and Restricted Stock award shall not be paid or granted until OFHEO approves the bonus and award.