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Fannie Mae Minutes of a Board of Directors Meeting

Federal National Mortgage Association (Fannie Mae)

Stephen B. Ashley

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

April 21, 2007
8:15 am

The Board of Directors of Fannie Mae met at the Fannie Mae headquarters in Washington, D.C. on April 21, 2007.

The following members of the Board participated: Mr. Ashley (Chairman), Mr. Beresford, Ms. Gaines, Ms. Horn, Ms. Macaskill, Mr. Mudd, Mr. Pickett, Ms. Rahl, Mr. Smith, and Mr. Wulff. Mr. Swygert did not participate in the meeting.

Messrs. Blakely, Dallavecchia, Greener, Hisey, Levin, Lund, Lesmes, Niculescu and Williams and Mss. Wilkinson and Reddy of Fannie Mae participated in portions of the meeting. Mr. Brome of Cravath, Swaine & Moore LLP, as counsel to the non-management directors also participated in the meeting.

Chairman Ashley called the meeting to order at 8:15 am.

Approval of Minutes

Upon motion duly made and seconded, the Board approved the minutes from the Board meetings held on February 15, 2007 and March 22, 2007.

Nominating and Corporate Governance Committee Report

The Board discussed a proposed "blended" schedule of meetings on both Mondays and Tuesdays and Thursdays and Fridays in the third week of the month for 2008, and restoration of a Monday/Tuesday schedule in 2009.

Committee Chair Wulff reported that the Nominating and Corporate Governance Committee met and considered the independence and expertise of each Board

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member, with the exception of management Board member, Mr. Mudd. The Committee's deliberation included a review of the legal opinion prepared by Cravath, Swaine and Moore and an identification and discussion of any directors who had a relationship with Fannie Mae in addition to their role as a Board member.

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Committee similarly found that each of the non-management Directors is independent, and recommended Board approval of a resolution so stating.

Upon motion duly made and seconded, the Board approved the following resolution:

RESOLVED, that, based on the recommendation of the Nominating and Corporation Governance Committee, the Board hereby determines that each of the following members of the Board is independent under the director independence standards of the New York Stock Exchange and Fannie Mae's Corporate Governance Guidelines:

Stephen B. Ashley
Dennis R. Beresford
Brenda J. Gaines
Karen N. Horn
Bridget A. Macaskill
Joe K. Pickett
Leslie Rahl
Greg C. Smith
H. Patrick Swygert
John K. Wulff

Next, the Committee considered the expertise of Audit Committee and the composition of Compensation Committee members and found that all of the Audit Committee members are financially literate and all but one of the Audit Committee members are "audit committee financial experts". The Compensation Committee membership is composed of non-employee Directors, the Nominating and Corporate Governance

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Committee found. Therefore, the Nominating and Corporate Governance Committee recommended Board approval of a resolution specifying the qualifications and expertise of these Committees.

Upon motion duly made and seconded, the Board approved the following resolution:

RESOLVED, that, based, on the recommendation of the Nominating and Corporate Governance Committee, the Board hereby determines that all members of the Audit Committee are financially literate as required in Section 303A.07 of the New York Stock Exchange Listing Standards;

RESOLVED, that, based on the recommendation of the Nominating and Corporate Governance Committee, the Board determines that Dennis R. Beresford, Karen N. Horn, Greg C. Smith and John K. Wulff are each an "Audit Committee Financial Expert" as that term is defined in item 407(d)(5)(ii) of the Securities and Exchange Commission's Regulation S-K; and it is further

RESOLVED, that, based on the recommendation of the Nominating and Corporate Governance Committee, the Board hereby determines that all members of the Compensation Committee are "non-employee directors" under Rule 16b-3 under the Securities Exchange Act of 1934.

Committee Chair Wulff explained that the final item considered by the Committee was which individuals should be designated Section 16 insiders and executive officers, and that the Committee recommended Board action on the resolution as proposed.

Upon motion duly made and seconded, the Board approved the following resolution:

RESOLVED, that the Board hereby certifies that the following individuals are section 16 reporting insiders:

All members of the Board of Directors;

President and Chief Executive Officer;

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All Executive Vice Presidents;

Senior Vice President and Chief Compliance Officer;
and

Senior Vice President and Controller.

and it is further

RESOLVED, that the Board determines that the following individuals are designated as executive officers for all other SEC disclosure and filings:

President and Chief Executive Officer;

All Executive Vice Presidents; and

Senior Vice President and Chief Compliance Officer.

Committee Chair Wulff informed the Board that a candidate report on a prospective Board member was available for each Board member to review and that this candidate will be meeting with Chairman Ashley shortly. Upon Chairman Ashley's recommendation, the due diligence phase of the process will begin, and a Board vote may be proposed for the May meeting, with the goal of having the new Board member participate in the May Board meeting. The Board discussed the qualifications and skills sought for the vacancies on the Board, and concluded that capital market expertise, and recent Chief Executive Officer Expertise will be important priorities. Committee Chair Wulff asked Board members to continue to provide him with recommendations, and suggestions regarding priorities and skills sought.

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Risk Policy and Capital Committee Report

Risk Policy and Capital Committee Chair Rahl informed the Board that the Committee had an engaged and productive discussion regarding the capital strategy and possible changes to the dividends upon the achievement of key milestones as the

Company "gets current," and returns to normalcy. The Board discussed the communications with regulators about the capital strategy. The Committee also extensively considered the market risk limits and will further address proposed limits at its May meeting. Committee Chair Rahl recommended that all Board members review the market risk limit presentation provided to the Committee, and that Board members also consider scheduling time with the Chief Risk Officer to discuss this issue, as risk appetite will be an important consideration during the July strategic discussions. She asked that the Board consider three action items recommended to the Board by the Committee. The first item, she explained to the Board, is the recommendation for payment of second quarter dividends.

Upon motion duly made, seconded and approved, the Board approved the following resolution:

RESOLVED, that with respect to the Preferred Stock, Series D, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.65625 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series E, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.63750 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series F, of the corporation that is outstanding at the close of

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business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.5700 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series G, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.5738 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series H, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.7263 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series I, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.6719 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series L, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.6406 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, to the registered holders of Preferred Stock, Series L, of the corporation as

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shown on the books of the corporation at the close of business on June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series M, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.5938 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series N, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.6875 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Preferred Stock, Series O, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$.8750 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007;

RESOLVED, that with respect to the Convertible Series 2004-1 Preferred Stock, of the corporation that is outstanding at the close of business on June 15, 2007, there hereby is declared (and thereby set apart) a dividend of \$1,343.75 per share for the period from and including March 31, 2007 to but excluding June 30, 2007, payable on June 30, 2007, 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 June 15, 2007; and it is further

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RESOLVED, that with respect to the common stock of the corporation that is outstanding at the close of business on April 30, 2007, there hereby is declared a dividend of \$0.40 per share payable on May 25, 2007 to the registered holders of common stock of the corporation as shown on the books of the corporation at the close of business on April 30, 2007.

Next, Committee Chair Rahl asked the Board to consider an Enterprise Risk Governance policy, and upon motion duly made, seconded and approved, the Board approved the following resolution:

WHEREAS, the Risk Policy and Capital Committee (the "Committee") has delegated authority under its current charter to recommend for Board approval enterprise-wide risk management policies, metrics and limits consistent with the mission, safety and soundness of Fannie Mae;

WHEREAS, the Committee will have delegated authority under its proposed revised charter to recommend for Board approval enterprise risk governance policy and limits consistent with the mission, safety and soundness of Fannie Mae; and

WHEREAS, the Committee has recommended that the Board approve the proposed corporate level Enterprise Risk Governance Policy; it is hereby

RESOLVED, that the proposed Enterprise Risk Governance Policy is hereby approved in the form attached hereto as Exhibit A.

Finally, Committee Chair Rahl asked that the Board accept the recommendation of the Risk Policy and Capital Committee that it amend its charter to better delineate the responsibilities of the Committee.

Upon motion duly made, seconded and approved, the Board approved the following resolution:

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RESOLVED, that the Board of Directors adopts the Risk Policy and Capital Committee Charter in the form attached hereto as Attachment B.

Compliance Committee Report

Committee Chair Gaines updated the Board on the last Compliance Committee meeting, which was on March 21st. She informed the Board that the Company continues to be in compliance with the OFHEO Consent Order. Committee Chair Gaines directed the Board to their written materials, and to Tab C, where a sample 2007 Compliance Plan was provided. This annual plan is modeled after the 2006 Compliance Plan, and provides the Office of Federal Housing Enterprise Oversight with information regarding how the Company will fulfill its obligations under the May 23, 2006 Consent Order. The Compliance Committee has reviewed this Plan and recommends that the Board approve it, Committee Chair Gaines explained. Upon motion duly made and seconded, the Board approved the following resolution:

WHEREAS, the May 23, 2006 Consent Order ("Consent Order") between Fannie Mae and the Office of Federal Housing Finance Oversight ("OFHEO") requires that Fannie Mae develop and submit to OFHEO an annual plan (a "Compliance Plan") describing how Fannie Mae will satisfy its obligations under the Consent Order;

WHEREAS, the Compliance Committee has reviewed and recommends that the Board adopt the 2007 Compliance Plan substantially in the form attached hereto; it is hereby

RESOLVED, that the Board of Directors adopts the 2007 Compliance Plan substantially in the form attached hereto as Attachment C and delegates to the Compliance Committee of the Board of Directors the authority to take such other action deemed necessary or appropriate to implement or amend the 2007 Compliance Plan.

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Compliance Committee Chair Gaines updated the Board on the ongoing meetings between Fannie Mae and both OFHEO and HUD. In addition, Committee Chair Gaines noted that OFHEO Director Lockhart visited the Gulf Coast regions affected by Hurricane Katrina, with Housing and Community Finance Executive Vice President, Ken Bacon. CEO Mudd informed the Board that when Director Lockhart met with Fannie Mae partners in the Gulf Coast, those partners emphasized the value of Fannie Mae directly providing resources to the communities, as opposed to a state run fund. The backlog of investigations handled by the Compliance and Ethics department has been reduced, and a departmental goal for 2007 will be to reduce the backlog even further, Committee Chair Gaines stated.

Audit Committee Report

Committee Chair Beresford provided the Board with a summary of the matters considered by the Audit Committee during its recent meetings. The Audit Committee discussed possible impairments and related disclosures. The Committee reviewed and approved a report detailing the Company's compliance with OFHEO Accounting Exam Guidance, and the report was submitted to OFHEO on April 6, 2007. The Committee approved a new complaint procedure to ensure that relevant "whistleblower" complaints are reported to the Audit Committee through the Compliance and Ethics department. The Committee reviewed management's evaluation of Deloitte and Touche's performance, and discussed some constructive criticism that surfaced as a result of the review. The Committee approved the 2007 AIP and compensation for the Internal Audit function. The 2007 Audit Engagement letter was approved, as were the fees. The trend in the fees charged by Deloitte has been for the fees to be reduced for each year

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since 2004, with the 2004 fees at approximately \$235 million, and the 2007 fees at an estimated \$40 million level. While this trend is moving in the right direction, Committee Chair Beresford indicated that he remains focused on continuing to reduce these fees. The Audit Committee has reviewed drafts of the 2005 10-K several times, and Committee Chair Beresford noted for the Board that this 10-K will include more metrics. The Committee reviewed a preliminary draft of the independent auditor's SAS 61 communication and has been informed by Deloitte that the 2005 audit is on track to be completed at the time of the proposed filing of the 10-K. PriceWaterhouseCoopers has been retained to do a periodic review and evaluation of accounting policies. Finally, the Board discussed its positive experience at the Get Current/Restatement reception the evening before.

Technology and Operations Committee Report

Committee Chair Smith reported on the joint meeting held by the Audit Committee and Technology and Operations Committee. The Committees heard from Chief Information Officer Rahul Merchant about the progress that has been made against the various problems he identified for the Technology Committee when he joined the Company. He has been building out his team, and has sought to emphasize the importance of alignment with the business units and their objectives as he does so. The Committees also participated in a discussion regarding certain of the matters requiring Board oversight, as identified by the 2006 OFHEO Annual Report of Examination. In particular, the discussion focused on the technology and operations infrastructure and information technology systems controls as oversight areas for the Technology and Operations Committee. Remediation of any remaining material

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weaknesses and continuing compliance with Sarbanes-Oxley, as well as ensuring that management has completed its formal structure for optimizing pricing and measurement of risks and performance are responsibilities of the Audit Committee, and progress in these areas was discussed by both Committees. Additional material weaknesses were identified during the preparation and audit for the 2005 10-K and will be disclosed in the 10-K. Technology Committee Chair Smith provided the Board with an overview of the "Get Current" process as described during the meeting, and he highlighted the fact that there are three simultaneous processes, 1) filing the 2005 and 2006 10-Ks; 2) filing the 2007 10-K, and 3) sustaining timely filing by closing the books in 11 calendar days and filing 10-Qs on time. The Committees also discussed meeting jointly more frequently, perhaps twice a year.

Compensation Committee Report

Committee Chair Macaskill provided the Board with a report on activities of the Compensation Committee at their March 13th and April 13th meetings. At the March meeting, the Compensation Committee reviewed and approved the filing of a report regarding compliance with the OFHEO Compensation Exam Guidance. The final report was submitted to OFHEO on April 6th, 2007. The Committee also updated the AIP plan, which is the plan under which annual cash bonuses are provided to approximately 1000 management employees, Committee Chair Macaskill explained. The Committee received an overview of Fannie Mae's various compensation and benefits programs, and Towers Perrin briefed the Committee on the consulting work being performed to evaluate Fannie Mae's benefits. Committee Chair Macaskill informed the Board that the goal of the review is to: 1) obtain a holistic view of benefits

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available to employees and 2) reduce the Company's investment in benefits while maintaining employee engagement. The Committee approved the 2007 Annual Incentive Plan ("AIP") targets and preliminary Variable Long-Term Award ("VLTA") targets for management group employees. The Committee was briefed on the number of shares of restricted stock granted by the CEO to employees below the level of SVP as part of the annual VLTA process. CEO Mudd granted 1.6 million shares with an aggregate value of \$90.5 million.

The Committee also reviewed and approved the CEO's 2007 initiatives during its executive session. These initiatives align with the company's goals for 2007. Committee Chair Macaskill informed the Board that in addition to the personnel actions that the full Board considered last Friday, the Compensation Committee took several personnel actions: 1) Kristy Williams was promoted to Senior Vice President -- Single-Family Mortgage Business, reporting to Tom Lund; 2) Rich McGhee was promoted to Senior Vice President for Corporate IT Solutions; 3) salary increases for Senior Vice Presidents, Ramon de Castro and Dave Benson were approved to reflect increased responsibilities and market compensation. Committee Chair Macaskill alerted the Board to the fact that the 2005 10-K will contain a provision showing a reduction in the accrual for the 2 remaining Performance Share Program ("PSP") cycles outstanding, 19 covering 2003 through 2005 and Cycle 20 covering 2004 through 2006. Based on the financial results, the Company will not satisfy the earnings per share targets for the cycle ending in 2005, and it is unlikely that the Company will satisfy the earnings targets for the cycle ending in 2006. As a result, management has reduced the accrual on the 2005 financial statements to reflect an expense at 50% of target (rather than 100%).

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Three extra projects have been undertaken by the Compensation Committee this year, review of the PSPs, a benefits review and work on the Compensation Discussion and Analysis disclosure that will be provided as a part of the 2006 10-K. The Board emphasized the importance of benchmarking other public companies' Compensation Discussion and Analysis disclosures to identify best practices.

Housing and Community Finance Committee Report

Committee member Pickett provided the Housing and Community Finance Committee report on behalf of Committee Chair Swygert, who was unable to attend the meeting. Mr. Pickett informed the Board that Committee met the day before with nearly the full Board in attendance. Mr. Pickett provided highlights of the Committee meeting.

The Committee reviewed the performance metrics for the Company's three business lines. Overall, the Company's February year-to-date income is slightly above plan, with the Single Family and Housing and Community Development business lines performance being strong and above plan and the Capital Markets business below plan. Credit losses in the Single Family business unit are significantly above plan, Mr. Pickett reported. Several major transactions occurred during the quarter, including transactions with Citigroup (the sale of \$700 million in Low Income Housing Tax Credits and a \$1.6 billion second mortgage deal), Mr. Pickett informed the Board. A \$3.6 million transaction with Fortress Investment Group is in the due diligence phase. CEO Mudd, who recently joined the Board of Fortress, explained that he has not been involved in any aspect of the transaction with Fortress. He further clarified that the Fortress Board is not a transactional Board, but that if his relationship to Fortress becomes a problem practically or in appearance, he will step down from the Fortress Board. CEO Mudd

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reminded the Board that he is stepping down from the Ryder Board. Chairman Ashley informed the Board that a series of procedures and protocols have been established to ensure that no conflict of interest situations arise, and that he would review these procedures during the Executive Session portion of the meeting.

Mr. Pickett informed the Board that the Company is currently exceeding the HUD housing goals, though once again it is likely that year-end achievement of the goals will come down to the wire, despite management's plan to meet these goals. The Committee spent time discussing current events in the subprime market, the disruption in the market and the resulting higher credit premiums. The Company's plan to provide liquidity in the subprime market will include an expanded approval process to move subprime borrowers into fixed rate Fannie Mae product. The number of Community Business Centers will be decreased from 53 to 36 locations pursuant to a strategic plan, Mr. Pickett reported. The focus of these Centers will be tightened from a diverse range of activities to four housing challenges: 1) urban revitalization and workforce housing; 2) rural and Native American communities; 3) Gulf Coast renewal; 4) homelessness.

The Committee reviewed and approved a policy to address transactions posing a significant legal, reputational or safety and soundness risk. In addition, the Committee considered the 2007 tax plan with respect to the utilization of Low Income Housing Tax Credits, and a proposal to sell LIHTC investments. The final topic considered by the Committee was the credit loss management plan to minimize credit losses through loan workouts, Mr. Pickett informed the Board. Chairman Ashley heartily encouraged each Director to attend the meetings of the Housing and Community Finance Committee, as

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the Committee is addressing, through a series of “deep dives”, issues of key importance to the business.

2006 OFHEO Report on Examination—Matters for Board Consideration

Chief Operating Officer Williams joined the meeting. Chairman Ashley asked him to provide the Board with an update on the progress made on those items identified in the 2006 OFHEO Report on Examination as requiring Board attention. COO Williams reminded the Board that Chairman Ashley assigned the majority of the items to Committees for their oversight; however, the full Board has oversight of the matters related to enterprise-wide project management and coordination. He drew the Board’s attention to page 4 of his presentation, which identifies how the project management requirement is being executed by key business units, and he explained that structures have been put in place to ensure senior management oversight of projects. For remediation efforts, the Chief Risk Officer and Chief Compliance Officer have established monthly deficiency tracking and will report to the management Executive Committee on any “off-track” remediation projects. The Board commented on how many different types of projects are underway at the Company, and asked for periodic updates on progress with respect to these matters. COO Williams left the meeting.

2005 10-K Review

Chief Financial Officer Blakely, Controller Hisey and Senior Vice President Lesmes joined the meeting, and Chairman Ashley asked that they provide the Board with an update on the 2005 10-K timeline and an overview of the key changes between this 10-K and the 2004 10-K. Mr. Lesmes explained the review process, which has included

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two Audit Committee reviews and comment periods, several management Disclosure Committee reviews and comment periods, as well as an extensive back-up and certification process. Final comments on the 10-K are due April 27th, with final Audit Committee review and recommendation to the Board and Board review and approval scheduled for May 1st. The Company expects to file the 2005 10-K with the Securities and Exchange Commission on May 2nd, Mr. Lesmes informed the Board. Mr. Lesmes next directed the Board's attention to the memo included with their materials summarizing the key disclosures in the 2005 10-K and identifying changes from the 2004 10-K. The Board discussed the changes in the timeline for getting current, given the early filing of the 2005 10-K. Mr. Lesmes asked the Board to turn to page 21 of the draft 10-K, and to the section on "Investment Activities and Objectives". In this section, the strategy of the Capital Markets business to maximize long-term total returns is clarified. He next asked that the Board focus on page 84 of the 10-K, Item 7, Management's Discussion and Analysis, Executive Summary, where summaries of the 2005 business results are shown; information about the Company's expectations regarding a decline in net income for 2006 are included, as is a disclosure regarding the level of administrative expenses. Controller Hisey next described key highlights of Management's Discussion and Analysis, including the consolidated results of operations and business segment results, as depicted in a series of tables. A new table, Table 9 includes information related to purchased options premiums and the average remaining life of these options. He then reviewed the fair value balance sheet and refinements made to the fair value attribution. An increase in fair value of \$2.3 billion from 2004 to 2005, due primarily to an increase in the guaranty fee business is shown. Next

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Controller Hisey identified the enhancements to the interest rate and capital markets disclosures and directed the Board to turn to Item 9A, which provides a report on the status of the internal controls over financial reporting and the status of remediation efforts. He reminded the Board that in the 2004 filing, approximately 25 material weaknesses were identified. In the 2005 10-K filing, there are 7 identified; however, in that 7, is one new finding of a material weakness in the area of multifamily lender loss sharing modifications. The Board discussed areas that in the 2006 10-K will require clarification and refinement, including the discussion of risk management and emphasized that for the 2006 10-K, the disclosures should continue to evolve with clarity and brevity as key goals.

Annual Meeting of Shareholders

General Counsel Wilkinson reminded the Board that due to the restatement and getting current efforts, no annual meeting of the shareholders has been held since 2004. If the 2006 10-K is filed by October 30, 2007, then the Company would be able to hold an annual meeting of the shareholders in 2007. The date of December 14, 2007 is currently being held for this meeting, and due to SEC and other requirements, the public announcement of intent to hold the meeting would occur by June 15th. The current schedule includes a two month cushion between the planned August 30th filing of the 2006 10-K and the October 30th last possible date for filing of 2006 10-K. General Counsel Wilkinson advised the Board that the next step will be for the Nominating and Corporate Governance Committee to review the key shareholder issues for the 2007 proxy season and possible proposals. The Board discussed the risks of making the public announcement before the 2006 10-K is filed, and emphasized the importance of

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having an accessible, shareholder-friendly location for the meeting. It was agreed that the meeting should be in D.C. General Counsel Wilkinson provided the Board

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Nominating and Corporate Governance

Committee Chair Wulff explained to the Board that his Committee would review all potential proposals and best practices before bringing a recommendation to the Board.

Mr. Lesmes and Mr. Hisey left the meeting.

General Counsel Wilkinson advised the Board that there was a review of the Government and Industry Relations department regarding the Political Action Committee and existing controls. A report was provided and accepted by OFHEO on this matter. At this time, a review of activities that occurred in 2001, 2002 and 2003 will not be undertaken. The Board asked that an update regarding the progress with respect to the remedial actions identified in the Consent Order Conduct Committee Report be provided by General Counsel Wilkinson at the next Board meeting.

Management Report

Chief Risk Officer Dallavecchia, Chief Business Officer Levin, COO Williams, and Executive Vice Presidents Lund and Niculescu joined the meeting. CEO Mudd explained that given the attendance of many Board members to the Housing and Community Finance Committee meeting, future Management Reports will be reduced in the areas addressing the same topics as the Housing and Community Finance Committee and the depth with regard to special topics will be increased. CEO Mudd directed the Board to pages 3 and 4 of the Report and the status of the business performance against metrics. CBO Levin explained that the business growth year-to-

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date has been strong, and that the growth is linked to the strategic initiatives implemented. He said that management is currently focused on pricing and credit losses, which in the Single Family business line, are well above plan. The Board discussed how frequently prices are updated, and CBO Levin informed the Board that the frequency of pricing updates depends on the type of transaction and the negotiated agreement with the third party. Some prices are fixed yearly; some prices are set "in real time." Typically, the least risky business, or the "flow" business, is priced annually based on a negotiated agreement.

CFO Blakely provided the Board with an update, as shown on page 6 of the Report, of the actual GAAP net income against plan. The fee and other income line variance, which is a negative variance of \$163.1 million, is driven primarily by losses on the sale of capital market securities. Credit expenses are also higher than plan, CFO Blakely informed the Board. Taxes have a positive variance against plan for year-to-date of \$88.1 million, he said. The Board discussed the financial results of Freddie Mac as compared to Fannie Mae and the impact of hedge accounting and amortization on results. The differences between the volatility in guaranty fee income, and Fannie Mae's much larger percentage of total outstanding Mortgage Backed Securities held by third parties, were also examined by the Board. A discussion regarding the credit risks and how to best understand and evaluate the proportionate amount of risk taken by each of the organizations ensued. CEO Mudd explained that mapping the effects of risk into the financial results of the Company would demonstrate the impact risk has on the Company's performance, and the Board discussed considering this further at its May and July meetings.

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CRO Dallavecchia provided the Board with an update on the current risk environment and the exposure of the Company to key types of risk, as shown in the Report. Overall, he explained, the market risk metrics remain within recent historical norms. The credit risks of the Single Family business line were discussed, and CRO Dallavecchia explained that the Chief Risk Office division has stress tested the subprime investments held by the Company, by running five year scenarios based in part on historical stress events. Even in an extreme situation, due to the credit enhancement, the Company losses would be minimized, CRO Dallavecchia informed the Board. The next step will be for the Chief Risk Office to perform similar stress tests on Alt-A investments. The Board discussed the types of loans that might be described as "Alt-A," and EVP Lund explained that a loan might be categorized as Alt-A due to a lack of documentation, or because of a different Loan to Value ratio. CRO Dallavecchia indicated that after subprime, Alt-A is the next risk category to monitor carefully. EVP Lund clarified that currently the Alt-A investments are still performing according to plan, and CRO Dallavecchia added that the Alt-A held by the Company tends to be fixed rate and is therefore safer.

COO Williams discussed the progress and upcoming deliverables with respect to Technology, Operations and Enterprise Data. In each of these areas, functions are being built out with increased discipline and controls. In the Human Resources area, a comprehensive review of benefits is underway, as is a workforce reduction. A leadership and talent review, to ensure a robust succession planning process occurred during the first quarter. Diversity and culture change remain key priorities for the Company, COO Williams explained. The Board inquired about

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and General Counsel Wilkinson informed the Board that

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CEO Mudd reviewed the legislative and regulatory status, and the continued engagement and commitment of the Company to legislation that provides bank-like regulation while also permitting the Company to run a successful business.

CBO Levin explained that in response to feedback from the Board, a business metrics report will be provided, addressing the performance of the Company as a whole, by business unit, and against the mission. Performance in each of these areas will be measured by GAAP metrics, value metrics and business metrics. The Board discussed the metric of "total shareholder return" and asked that it be further enhanced and clarified. CBO Levin asked that Board members continue to provide him with all suggestions and comments for improvement.

EVP Lund provided a brief update on subprime, given the lengthy discussion at the Housing and Community Finance Committee meeting on the topic. He highlighted several key points: 1) the market dislocation has caused liquidity issues, but is an opportunity for the Company to carefully reclaim market share; 2) underwriting guidelines have tightened; and 3) the products are getting better and the Company can price these products appropriately. EVP Lund also discussed how the Company will be a part of the solution for the individuals impacted by the market turmoil. The HomeStay initiative will help to refinance subprime borrowers who are current for 12 months into a fixed rate product. EVP Lund brought to the attention of the Board his concern that mortgage insurers will be critical to the ability of the Company to offer the product to all of those who are eligible. He directed the Board's attention to page 19 of the Report

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which shows the distribution of outstanding subprime loans by FICO score and conforming loan to value ratios, and identifies the opportunity to provide the product.

COO Williams reviewed the productivity improvement and cost reduction goals based on historical levels of administrative expenses. The first goal is to reduce administrative expenses by \$200 million in 2007 so that in 2008, the business can be run on \$2 billion or less, which is the second goal. The first goal has been achieved through the reduction in headcount, authorized contractors, and a review of the strategic initiatives. For the second goal, additional reductions in personnel costs and expenses will be implemented. The focus of the efforts to drive down administrative costs for 2008 will position the Company to both be more productive and to operate more competitively. The Board discussed the level of personnel reductions necessary to achieve the desired level of employees, and the costs associated with the personnel reductions. The proposed voluntary retirement program was discussed and the pros and cons of the proposal were considered. The need for an ongoing, annual "productivity" plan was emphasized by the Board.

CEO Mudd described the current strategic planning process and directed the Board to pages 27 and 28 of the Report. Cross-functional teams are focusing on three "crystallizing" strategies: 1) market processor; 2) risk intermediary; and 3) housing enabler. At the Board meeting in July, several key "discussion catalyst" questions will be asked to help determine the outputs of the analysis. Over the year, there will be updates and reports so that the strategic discussions are ongoing, and not a "once a year" occurrence.

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Executive Session

Mr. Brome reported that the Board went into executive session at 11:47 a.m. with Ms. Wilkinson. They discussed the conflict of interest protocol in light of the transaction with Fortress. Mr. Mudd then rejoined the meeting and reported on the resolution through mediation of the issue with Emmanuel Bailey. The Board then discussed the request of John Kerr the OFHEO examiner to meet with the Board committees. Ms. Wilkinson then left the meeting and Mr. Mudd informed the Committee of the status of a senior management search. Mr. Mudd then left the meeting and the Board discussed the content of Board meetings and the mix with committee work, especially with regard to business issues.

The meeting was adjourned by Chairman Ashley at 12:16 p.m.

Beth A. Wilkinson
Corporate Secretary

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