
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 23, 2006

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation

*(State or other jurisdiction
of incorporation)*

000-50231

(Commission File Number)

52-0883107

*(IRS Employer
Identification Number)*

**3900 Wisconsin Avenue, NW
Washington, DC**

(Address of principal executive offices)

20016

(Zip Code)

Registrant's telephone number, including area code: 202-752-7000

(Former Name or Former Address, if Changed Since Last Report): _____

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On May 23, 2006, Fannie Mae (formally, the Federal National Mortgage Association) announced that it had entered into comprehensive settlements resolving matters with the Office of Housing Enterprise Oversight, or OFHEO, and the Securities and Exchange Commission, or the SEC. As part of the settlements, Fannie Mae agreed to pay a civil penalty totaling \$400 million to the United States government, with \$50 million payable to the United States Treasury in the manner specified by OFHEO and \$350 million payable to the SEC for distribution pursuant to the Fair Fund provisions of the Sarbanes-Oxley Act of 2002.

OFHEO SETTLEMENT

Fannie Mae entered into a Stipulation and Consent to the Issuance of a Consent Order with OFHEO on May 23, 2006, pursuant to which Fannie Mae agreed to OFHEO's issuance of a consent order on that date. In entering into this settlement with OFHEO, Fannie Mae made no admission regarding any wrongdoing or any asserted or implied finding or other basis for the consent order.

Under the consent order, in addition to the civil penalty, Fannie Mae must take specified remedial actions within specified time frames generally ranging from 30 to 180 days from the date of the consent order. The remedial actions relate to:

- corporate governance,
- Board of Directors,
- capital plans and limitation on specific corporate actions,
- internal controls,
- accounting,
- personnel,
- compensation,
- reports, data and disclosures, and
- cooperation.

Among other matters, the consent order provides that, except as described in this paragraph, Fannie Mae shall not increase its "mortgage portfolio" assets above the amount shown in the minimum capital report to OFHEO for December 31, 2005. Within 60 days of the consent order, Fannie Mae may submit to OFHEO for approval a plan for managing the company's business, which can include a moderate per annum increase in the mortgage portfolio assets for reasons including liquidity, housing goals, portfolio flexibility and competitive considerations. The plan must include particular attention to risk management (related to controls, models and specific risk measures including operational risk) and to compliance with Fannie Mae's capital plan. The Director of OFHEO shall make a determination on the plan within 60 days of its submission. The consent order also provides that this limitation on increases in Fannie Mae's mortgage portfolio assets shall expire upon the Director's determination that expiration is appropriate in light of information regarding (1) capital, (2) market liquidity issues, (3)

housing goals, (4) risk management improvements, (5) the outside auditor's opinion that the company's consolidated financial statements present fairly in all material respects the financial condition of the company, (6) receipt of an unqualified opinion from an outside audit firm that Fannie Mae's internal controls are effective pursuant to section 404 of the Sarbanes-Oxley Act or (7) other relevant information. This provision relating to Fannie Mae's mortgage portfolio assets excludes Fannie Mae guarantees.

In addition, Fannie Mae has agreed to seek approval of the Director of OFHEO before engaging in any transaction that could have the effect of reducing the capital surplus below the 30% surplus above minimum required capital set forth in Fannie Mae's February 2005 capital restoration plan. Fannie Mae also will submit a written report to OFHEO detailing the rationale and process for any proposed capital distribution before making the distribution. These agreements will continue in effect until the Director of OFHEO determines that the requirements of the capital restoration plan should be modified or should expire, considering factors such as resolution of accounting and internal control issues.

The settlement resolves all matters addressed by the September 2004 and May 2006 OFHEO reports of the Special Examination of Fannie Mae and supersedes the September 2004 agreement, as supplemented.

A copy of the stipulation and consent, including the consent order, is filed as Exhibit 10.1 and incorporated herein by reference.

SEC SETTLEMENT

Without admitting or denying any wrongdoing, Fannie Mae consented to the entry of a final judgment requiring Fannie Mae to pay the civil penalty previously described and permanently restraining and enjoining Fannie Mae from future violations of certain provisions of the federal securities laws. The settlement resolves all claims asserted against Fannie Mae in the SEC's civil proceeding against Fannie Mae.

A copy of Fannie Mae's consent to the final judgment is filed as Exhibit 10.2 and incorporated herein by reference.

Item 7.01 Regulation FD Disclosure

On May 23, 2006, Fannie Mae issued a news release announcing that, contemporaneously with the release by OFHEO of the final report of its special examination of Fannie Mae, the company had entered into comprehensive settlements resolving matters with OFHEO and the SEC. The news release is furnished as Exhibit 99.1 to this Form 8-K.

A copy of the entire final report is available on Fannie Mae's website at www.fanniemae.com and on OFHEO's website at www.ofheo.gov.

The information in this item, including the exhibits submitted herewith, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of Section 18, nor shall it be deemed incorporated by reference into any disclosure document relating to Fannie Mae, except to the extent, if any, expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits

(d) The exhibit index filed herewith is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By /s/ Beth A. Wilkinson

Beth A. Wilkinson

Executive Vice President and General Counsel

Date: May ____, 2006

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Title of Exhibit</u>
10.1	Stipulation and Consent to the Issuance of a Consent Order, dated May 23, 2006, between Office of Federal Housing Enterprise Oversight and Federal National Mortgage Association, including Consent Order
10.2	Consent of Defendant Federal National Mortgage Association, dated May 23, 2006
99.1	Press Release, dated May 23, 2006

**United States of America
Office of Federal Housing Enterprise Oversight**

**In the Matter of
THE FEDERAL NATIONAL MORTGAGE ASSOCIATION (“FANNIE MAE”)
May 23, 2006**

STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER

The Director of the Office of Federal Housing Enterprise Oversight (“OFHEO”) has determined to initiate cease and desist proceedings and has determined to impose a civil money penalty against the Federal National Mortgage Association (“Fannie Mae”) pursuant to 12 U.S.C. § 4631 and 12 U.S.C. §4636.

Fannie Mae, in the interests of compliance and cooperation, consents to the issuance of a Consent Order, dated May 23, 2006 (“Order”), before the filing of any notice and before the finding of any issues of fact or law.

In consideration of the above premises, the Director and Fannie Mae, through its duly authorized representatives, hereby stipulate and agree to the following:

ARTICLE I

Jurisdiction

Fannie Mae is a corporation chartered pursuant to the Federal National Mortgage Association Charter Act, 12 U.S.C. §§ 1717 *et seq.*, and subject to supervision and regulation by OFHEO pursuant to the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. §§ 4501 *et seq.*

ARTICLE II

Agreement

Fannie Mae hereby consents and agrees to the issuance of the Order by the Director. In so doing, the Enterprise neither admits nor denies any wrongdoing or any asserted or implied finding or other basis for the Order. Fannie Mae further consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by OFHEO under the provisions of 12 U.S.C. §§ 4635 and 4636(d).

ARTICLE III

Waivers

Fannie Mae, by signing this Stipulation and Consent, hereby waives:

- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 4631(c)(1);
- (b) written notice of the Director's determination to impose a penalty on the record pursuant to 12 U.S.C. § 4636(c)(1)(A);
- (c) any and all procedural rights available in connection with the issuance of the Order;
- (d) all rights to seek any type of administrative or judicial review of the Order; and
- (e) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

Other Terms

(1) Fannie Mae agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Director from taking any other action affecting Fannie Mae in connection with OFHEO's ongoing regulatory oversight of Fannie Mae, with respect to matters not addressed by the September 2004 or May 2006 reports of the Special Examination of


Fannie Mae, matters occurring subsequent to the date of the Order or with respect to matters relating to third parties not affiliated with Fannie Mae (including separated senior officers of Fannie Mae) if, at any time, the Director deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

(2) Fannie Mae agrees that the provisions of this Stipulation and Consent shall not be construed to limit or otherwise affect regulatory actions by other federal regulatory agencies.

(3) Fannie Mae agrees that the Order represents a written agreement subject to enforcement for violation of its terms by OFHEO and solely by OFHEO.

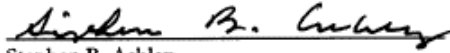
(4) Nothing in this Stipulation and Consent prevents Fannie Mae from seeking the Director's determination to modify, terminate, or suspend any or all provisions in the Order.

IN TESTIMONY WHEREOF, the undersigned, the Director of OFHEO, has hereunto set his hand on behalf of himself and OFHEO.



James B. Lockhart III
Acting Director, Office of Federal Housing Enterprise Oversight

Dated: May 23, 2006

IN TESTIMONY WHEREOF, the undersigned, as the duly authorized representatives of Fannie Mae, have hereunto set their hands on behalf of Fannie Mae.


Stephen B. Ashley
Chairman of the Board of Directors
Federal National Mortgage Association

Dated: May 23, 2006


Daniel H. Mudd
Chief Executive Officer
Federal National Mortgage Association

Dated: May 25, 2006

United States of America
Office of Federal Housing Enterprise Oversight
Order No. 2006-1

In the Matter of
The Federal National Mortgage Association

Consent Order

Whereas, the Acting Director of the Office of Federal Housing Enterprise Oversight (“OFHEO”) has determined to initiate cease and desist proceedings against the Federal National Mortgage Association (“Fannie Mae” or “Enterprise”) pursuant to 12 U.S.C. § 4631;

Whereas, the Acting Director has determined to initiate such proceedings based on his view that Fannie Mae engaged in conduct that does not conform with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the “Safety and Soundness Act”), OFHEO rules, guidances and standards, and the Federal National Mortgage Association Charter Act, and that such conduct has resulted in harm to the Enterprise;

Whereas, the Acting Director believes that the conduct involved provides sufficient grounds to initiate administrative or enforcement proceedings against Fannie Mae, including a claim for the award of civil money penalties and other relief;

Whereas, OFHEO and Fannie Mae previously entered into an Agreement dated September 27, 2004, and a “Supplement to the Agreement of September 27, 2004” dated March 7, 2005, and Fannie Mae and its Board have pursued their obligations under those agreements;

Whereas, Fannie Mae has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated May 23, 2006, that is accepted by the Acting Director, and by such Stipulation and Consent Fannie Mae has consented to the issuance of this Order by the Acting Director;

Whereas, the Acting Director believes that it would be in the public interest to enter into this Consent Order with Fannie Mae;

Therefore, the Acting Director, pursuant to the authority vested in him by the Safety and Soundness Act, 12 U.S.C. §§ 4631 and 4636, hereby orders that:

ARTICLE I. CORPORATE GOVERNANCE

1. The Board shall direct the creation and presentation of an annual plan for compliance with this Order. The plan shall include the following elements:
 - a. A review of accomplishments to date and plans to meet goals set forth by the Board, senior management and OFHEO.
 - b. A multi-year program for planning, development, implementation and evaluation to meet Consent Order goals, including but not limited to goals related to improvements in information technology, internal controls, accounting, staffing and other needs set forth in the plan.
 - c. Annual training programs on corporate culture and expectations as well as assurance that new employees hired between annual programs receive thorough training on corporate expectations.
 - d. Provision for the creation of comprehensive manuals available to all employees detailing policies and procedures, available in written and/or electronic forms.
 - e. Quarterly reporting to OFHEO of the Enterprise's implementation progress.
2. Fannie Mae shall maintain its separation of the functions of CEO and Chairman.
3. The Board agrees that Mr. Franklin Raines and Mr. Timothy Howard may not be engaged, employed or otherwise provide services to Fannie Mae, whether for compensation or not, subsequent to the separation of these employees from Fannie Mae, unless otherwise required by law. Fannie Mae shall report to OFHEO within 90 days of this Order on whether other employees separated from the Enterprise should not be engaged, employed or otherwise provide services to Fannie Mae as provided herein. Fannie Mae may apply to OFHEO for approval to utilize such individuals to meet obligations it may have under regulations or regulatory agreements. Nothing herein precludes the participation of these individuals in any

government inquiry, regulatory matter, litigation, internal investigation or information-gathering related thereto.

4. The Board will complete its review and appropriate revision of bylaws, codes of conduct and internal policies and procedures to assure that they support legal and regulatory compliance and report the results of its review and any planned changes to OFHEO within 120 days of this Order.
5. The Board shall continue a program for no less than annual briefings for the Board and senior management on the legal and regulatory requirements applicable to Fannie Mae. Such briefings also will review policies or practices that are designed to ensure effective compliance with such legal and regulatory requirements and the responsibilities of the Board and management under the corporate charter and the code of conduct.
6. The Board shall cause Fannie Mae to maintain its Compliance, Ethics, and Investigation function that reports to the Chief Executive Officer and independently to the Board's Compliance Committee. Such function shall be headed by an individual who shall have no other responsibilities at Fannie Mae and who shall operate independently, including the ability to communicate with OFHEO and the Board independent of management, particularly on matters of wrongdoing. Such function shall include a separate internal investigation function that has access to adequate resources to perform its duties that shall include, but not be limited to, review of internal complaints, whistleblower reports, ethics matters and related topics. Such investigation function shall report on any investigation and its findings to OFHEO in a prompt manner. The head of the Compliance, Ethics, and Investigation function may only be removed upon approval of the Board.
7. Fannie Mae shall maintain a Chief Risk Officer ("CRO"). The CRO shall direct a risk management organization with responsibility for overseeing risk management for financial and operational risk throughout Fannie Mae. The CRO shall report directly to the CEO and independently to the Risk Policy and Capital Committee of the Board.
8. Fannie Mae shall maintain an independent internal auditor. The Chief Auditor shall report directly to the Audit Committee of the Board and the internal audit department shall have independent access to all of Fannie Mae's internal records and systems, including the general

ledger. The internal audit division's annual compensation shall be based on individual and department goals unrelated to corporate earnings, including, but not limited to, training, achievement of audit plan, and retention.

9. The Board shall cause Fannie Mae to maintain a procedure directing the Chief Compliance Officer to report directly to the Board in a timely fashion any information the Chief Compliance Officer becomes aware of relating to actual or possible misconduct that relates to or may affect Fannie Mae by an executive officer, as defined by OFHEO regulation, or a Board director, or such actual or possible misconduct of a not inconsequential nature by employees. The procedure shall provide for the Board to inform the Director of OFHEO of the substance of such allegations, with any comments by the Board, in a timely manner. Should the Board fail to notify OFHEO in a timely manner, the Chief Compliance Officer shall notify OFHEO of the information reported to the Board.
10. Fannie Mae shall establish a management Compliance Control Coordination Committee composed of the head of the Office of Compliance, Ethics, and Investigations, the General Counsel, the Chief Risk Officer, and the Chief Audit Executive, to ensure cross-enterprise coordination of legal, compliance, and ethics programs and activities.
11. The Compliance Committee shall establish a tracking system in consultation with OFHEO that will allow the Board and OFHEO to monitor the implementation and progress under this Agreement. The Committee shall appoint a key contact in management to assure prompt attention to questions arising under this Agreement.

ARTICLE II. BOARD OF DIRECTORS

1. The Board shall provide written guidance to management regarding the preparation and maintenance of minutes to accurately reflect deliberations of the Board and its committees. The Board shall maintain written policies and procedures for the Board to govern its operations, consistent with legal and regulatory standards and industry best practices. Such policies and procedures should be submitted to OFHEO within 180 days of this Order and shall include a schedule for implementation.

2. The Board and Fannie Mae shall review reports received by the Board to insure appropriate and adequate content, format and distribution. As appropriate, reports may include, at a minimum, useful historical summaries of issues including root causes, indication of limitations of information such as assumption and model risk, trends over a meaningful length of time, narrative descriptions of issues illustrated primarily by numbers and a policy of providing "all meaningful" measures.
3. The Audit Committee of the Board of Directors shall maintain at least one member with sufficient technical expertise to understand the implications of accounting policies to financial statements.
4. The Board shall maintain a Compliance Committee to monitor and coordinate legal and regulatory compliance and compliance with this Agreement. Such committee shall consist of outside directors, at least three in number and one of whom shall serve as chair. Upon request, the committee and its chair shall meet with OFHEO representatives.
5. The Board shall maintain a Risk Policy and Capital Committee, which will oversee the Office of the Chief Risk Officer.
6. The Board shall maintain its procedure of meeting at least eight times annually, and at least once per calendar quarter.

ARTICLE III. CAPITAL PLANS AND LIMITATIONS ON CERTAIN CORPORATE ACTIONS

1. In consultation with OFHEO, Fannie Mae will continue diligent and good faith pursuit of commitments set forth in the capital restoration plan as approved by OFHEO on February 17, 2005 until such time as the Director determines the requirement should be modified or expire, considering factors such as resolution of accounting and internal control issues.
2. While the capital restoration plan as approved by OFHEO on February 17, 2005 is in effect, Fannie Mae shall seek the OFHEO Director's approval before engaging in transactions that could have the effect of reducing the capital surplus below the 30% level referenced in the plan.

3. Fannie Mae shall submit a written report to OFHEO detailing the rationale and process for proposed capital distributions before making any such distribution.
4. Fannie Mae shall not increase its “mortgage portfolio” assets as shown in the minimum capital report to OFHEO for December 31, 2005, except as provided in the following:

(a) Fannie Mae may provide OFHEO within 60 days of this Order a plan for managing its business — either expanding or decreasing its market activities — with particular attention to risk management (related to controls, models, and specific risk measures including operational risk) and to compliance with its capital plan. Such a plan can include a moderate per annum increase in the “mortgage portfolio” assets for reasons including liquidity, housing goals, portfolio flexibility, and competitive considerations. The Director shall make a determination on the plan within 60 days of its submission

(b) This limitation on growth provision shall expire upon the Director’s determination that such expiration is appropriate in light of information regarding (i) capital; (ii) market liquidity issues; (iii) housing goals; (iv) risk management improvements; (v) outside auditor’s opinion that Fannie Mae’s consolidated financial statements present fairly in all material respects the financial condition of the Company; (vi) receipt of an unqualified opinion from an outside audit firm that Fannie Mae internal controls are effective pursuant to section 404 of the Sarbanes Oxley Act; or (vii) other relevant information.

This provision excludes Enterprise guarantees. Compliance with this provision shall be determined at month’s end with any non-compliance due to market fluctuations corrected subject to OFHEO examination and guidance.

ARTICLE IV. INTERNAL CONTROLS

1. The Board shall prepare a statement setting forth the respective roles of the Board and management for meeting corporate goals and legal requirements, including the appropriate extent of reliance on outside consultants and experts and the responsibility of the company. This statement shall be provided for review to OFHEO within 180 days of this Order.

2. Fannie Mae shall develop an effective external testing program for internal controls, including, where appropriate, blind testing (without system operator knowledge). Such program shall be submitted to OFHEO within 90 days of this Order for its approval.
3. Fannie Mae shall develop a program for regular review of critical financial models. Where appropriate and in consultation with OFHEO, such program shall include review by an external party. Such program shall be submitted to OFHEO for its approval within 90 days of this Order.
4. Fannie Mae shall have in place a system to assure that a control environment exists to address proper “tone at the top,” assignment of authority, consistency of policies and practices and adherence to code of conduct.
5. Fannie Mae shall provide to OFHEO within 180 days of this Order a plan for the build out of the Enterprise’s operational risk oversight function over the next three years. Fannie Mae shall move expeditiously to implement the plan.
6. The Board shall direct management to establish appropriate policies and procedures to: (a) provide an analytical framework for debt buyback transactions, (b) contemporaneously document debt buyback transactions, and (c) ensure appropriate internal controls regarding debt buyback transactions. Such policies and procedures shall be provided to OFHEO within 120 days of this Order.
7. The Board shall direct that Fannie Mae maintain a separation of the function of business planning and forecasting from the controller’s function.
8. The Board shall direct that Fannie Mae maintain a separation of the modeling and accounting functions for the amortization of premiums and discounts.
9. The Board shall cause to be completed the implementation of improved procedures surrounding the preparing, revising, validating, authorizing and recording of journal entries and report to OFHEO on such implementation.
10. The Board shall direct management to complete its development and implementation of written policies and procedures for journal entries. Such policies and procedures must

include, but are not limited to, prohibition of employees from falsifying signatures in journal entries as well as from signing such entries without proper authorization; requirements that journal entry preparers understand the purpose for which the journal entry is made; requirements that personnel reviewing or approving journal entries determine that an entry is valid and appropriate; requirements that journal entries be supported by appropriate documentation; and requirements that journal entries be independently reviewed by an authorized person other than the preparer.

11. The Board shall direct management to complete its development and implementation of a plan that addresses deficiencies in the current portfolio accounting system, including, but not limited to, ensuring the ability to: calculate the amortization of deferred price adjustments pursuant to SFAS 91; automate marking the mortgage-backed securities portfolio to market, to the degree practicable; properly account for mortgage revenue bonds; properly account for dollar roll transactions; and properly account for interest-only strips pursuant to EITF 99-20. The implementation of the plan shall be subject to no less than quarterly reporting to OFHEO until completion.
12. The Board shall direct management to complete its assessment and correct deficiencies in internal controls relating to modifications of databases supporting the general ledger. The Board shall direct management to adopt appropriate internal controls, including documentation, to govern when, if ever, technology application support personnel, at the direction of management, may overwrite database records in order to make changes or corrections. The report shall be submitted to OFHEO for review and the implementation plan shall be the subject of no less than quarterly status reports until completion.

ARTICLE V. ACCOUNTING

1. Fannie Mae shall complete its ongoing restatement of prior period financial statements as necessary and have such financial statements reaudited by Fannie Mae's external auditor consistent with the auditing standards of the Public Company Accounting Oversight Board. Changes occurring as a result of such reaudit and restatement shall be reported promptly to OFHEO. Fannie Mae's Board of Directors shall direct the Audit Committee to direct

management to take all necessary actions to assure that Fannie Mae's accounting policies and practices conform to GAAP, disclosure and other regulatory standards.

2. Fannie Mae will assure that in any engagement of an external auditor, including its current engagement of Deloitte & Touche LLP, the engagement letter shall provide that: (a) upon OFHEO's request, the external auditor will provide OFHEO with access to senior audit partners on the engagement and any other personnel whom such partners deem necessary, (b) OFHEO will have access to the auditor's working papers prepared in the course of performing the services set forth in the letter, and (c) OFHEO will have such access to the external auditor without Fannie Mae personnel in attendance.
3. Fannie Mae will attempt to assure that in any future engagement of an external auditor, the engagement letter will not contain provisions characterized as "unsafe and unsound" in the "Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters."
4. Not less than every two years, the Board should cause to be conducted by an independent consultant or accounting firm, a targeted evaluation of one or more accounting policy areas, such as but not limited to derivatives, securitizations, amortization of premium and discount, and report its findings to the Board and to OFHEO. OFHEO shall review the appointment of such firm, the work plan for such engagement including periodic updates to OFHEO and OFHEO access to such firm during its engagement.
5. Fannie Mae shall develop policies and procedures for Board approval and notice to OFHEO of any transactions or accounting treatments or policies identified as having significant legal, reputational, or safety and soundness risk with a focus on transactions or accounting treatments or policies that do not employ industry standards for preferred methods. Such policies and procedures shall be provided to OFHEO within 90 days of this Order for its approval.
6. Fannie Mae shall provide OFHEO within 90 days of this Order a plan for assuring accounting policies are reviewed and updated on an ongoing basis.

7. Fannie Mae shall, consistent with applicable law, provide OFHEO with any materials or information management comes to possess concerning any actual or alleged misconduct related to Fannie Mae by its outside auditor, including any information received from any federal or state agency, or any other individual or organization.

ARTICLE VI. PERSONNEL

1. The Board shall cause to be prepared by management a plan for succession for senior officers as well as any other levels of officers for which such planning would be prudent. Such plan shall be provided to OFHEO within 120 days of this Order.
2. The Board shall cause to be conducted an external review of existing controls concerning external relations programs relating to government and industry relations. Such review of controls shall address activities of internal staff and external consultants, advisors or other retained firms. A plan must be provided setting policies for activities of external parties for government and industry relations as well as assurance that funds deployed for lobbying are subject to such control environment. Within 180 days of this Order, Fannie Mae shall provide to OFHEO a report including findings, planned changes and written statements of policy.
3. The Board shall cause to be conducted a review of all individuals, including Board members, mentioned in OFHEO's report of May 2006, as participating in any misconduct, for suitability to remain in their positions. Such review shall consider any appropriate disciplinary actions, including removal, transfer or other remedial steps. Within 30 days, the Board shall report to OFHEO on which individuals are subject to such review. Within 120 days thereafter, the Board shall report to OFHEO on such determinations with respect to any such individual or any other individual identified as bearing responsibility for any misconduct identified by OFHEO in its report. Such report shall include plans to seek restitution, disgorgement or other remedies to recover funds from individuals, taking into consideration limitations by the Employee Retirement Income Security Act (ERISA), existing contracts, any other applicable law or regulation, and the subsidiary or collateral effect on proceedings.

4. OFHEO shall continue to oversee appointment of officers to OFHEO-named executive offices for five years.
5. Fannie Mae shall review with OFHEO within 120 days of this Order and annually thereafter the budget and staffing plan for each department in the Enterprise with attention to the number of personnel and the appropriate skills and expertise required.
6. Fannie Mae should provide OFHEO training plans for all departments to assure skills to perform jobs as well as familiarity with Fannie Mae requirements (including but not limited to bylaws, code of conduct, compliance, employment policies, balance of meeting obligations with earnings per share goals) and legal, regulatory and compliance requirements.

ARTICLE VII. COMPENSATION

1. The Board shall direct that Fannie Mae's compensation practices for officers and employees shall include financial and non-financial metrics and shall not exclusively be tied to earnings-per-share. Such direction shall ensure that compensation metrics for the internal auditor, chief compliance officer, controller and such others, as determined in consultation with OFHEO, be appropriate to their roles and do not create conflicts of interest.
2. Fannie Mae shall ensure that any future contracts with senior officers provide for an escrow of benefit payments not protected from alienation or forfeiture under ERISA or any other applicable law or regulation where OFHEO or any other agency has communicated allegations of misconduct concerning such officer's official duties at Fannie Mae and OFHEO has directed Fannie Mae to escrow such funds. Such contract terms shall be provided to OFHEO within 120 days of this Order for review.
3. Within 120 days Fannie Mae shall submit to OFHEO for review new contract terms for future employment agreements to appropriately address "termination for cause" or similar provisions as well as so-called "claw-back" provisions by setting clear standards for taking such actions with appropriate thresholds and legal standards, consistent with ERISA, and any other applicable law or regulation.

4. Fannie Mae shall include in any future employment contracts a provision that individuals discharged for misconduct or for cause may not be engaged, employed or otherwise provide services to Fannie Mae, whether for compensation or not, subsequent to the separation of these employees from Fannie Mae, unless otherwise required by law, except upon request to OFHEO in exceptional circumstances. Nothing in such provision shall preclude the participation of any individuals in any government inquiry, regulatory matter, litigation, internal investigation or information-gathering related thereto. Such term shall be provided to OFHEO within 120 days of this Order for review.

ARTICLE VIII. REPORTS, DATA AND DISCLOSURES

1. Fannie Mae shall develop and provide to OFHEO within 120 days of this Order a plan to make improvement to its regulatory reporting, public disclosures, and Board and management reports. Such plan shall include a timetable for implementation and enhancements to data quality to support such reporting and disclosure.
2. Fannie Mae shall present proposals for enhanced and uniform public disclosures of its performance and risk measures. Fannie Mae shall submit to OFHEO, within 180 days of this Order, proposals detailing performance and risk measures to be disclosed, approaches to attaining uniformity and a timetable for implementation of such disclosures that OFHEO shall supervise.

ARTICLE IX. COOPERATION

1. Fannie Mae shall use reasonable good faith efforts to cooperate with OFHEO in OFHEO's pursuit of administrative or enforcement proceedings or litigation with respect to other persons concerning the subject matter of OFHEO's Special Examination of Fannie Mae, including, under the terms set forth in this Article: (1) by making Fannie Mae's documents and records relating to such proceedings available to OFHEO without subpoena (subject to any privilege or protection available under any applicable law), and (2) by making Fannie Mae personnel available for interviews.
2. Fannie Mae shall, within 30 days of any request by OFHEO, provide OFHEO with the names of all present and former Fannie Mae employees that Fannie Mae believes have or

may have information relevant to the allegations in any Notice of Charges filed by OFHEO in any proceeding concerning the subject matter of OFHEO's Special Examination of Fannie Mae ("Notice of Charges").

3. Fannie Mae shall arrange and facilitate OFHEO interviewing, normally in a non-transcribed format, any current Fannie Mae employees regarding any Notice of Charges filed by OFHEO and shall encourage its employees to cooperate in such interviews. Fannie Mae shall promptly facilitate the scheduling of interviews upon OFHEO's request and shall provide logistic support for the interviews, if requested by OFHEO. Employee interviews shall be held during the employees' normal work hours, and shall be scheduled on dates and at times and locations that are mutually agreeable, unless an employee and OFHEO otherwise agree. Any current employee may be accompanied to an OFHEO interview by counsel for Fannie Mae and, if the employee so elects, counsel for the employee.
4. Within 30 days of Fannie Mae's receipt of notification from OFHEO of any former Fannie Mae employees OFHEO wishes to interview, Fannie Mae shall provide OFHEO with the last known address of such former employees as reflected in Fannie Mae's records and, at OFHEO's request, encourage any former employee to cooperate with OFHEO. When OFHEO cannot contact a former employee through his or her last known address provided by Fannie Mae, Fannie Mae shall promptly: (a) make its best efforts to locate the former employee, and (b) report the former employee's whereabouts to OFHEO. Any former employee may be accompanied to an OFHEO interview by counsel for the former employee, if the former employee so elects, and with the agreement of OFHEO, counsel for Fannie Mae.
5. If OFHEO identifies documents relevant to the allegations in any Notice of Charges filed by OFHEO that it needs Fannie Mae to produce, Fannie Mae either will: (a) search for and produce the documents, (b) produce the documents if no search is required, or (c) provide OFHEO the information necessary to find the documents among the documents already produced by Fannie Mae. If OFHEO, in consultation with Fannie Mae, is still unable to locate the identified documents among the documents it has received from

Fannie Mae, Fannie Mae will conduct another search for the identified documents and, if possible, produce them to OFHEO.

6. Fannie Mae shall take action to determine whether the termination of any former officer can and should be converted to a termination “for cause” and shall report to OFHEO within 60 days any former officers who can and should be so designated. To the extent consistent with ERISA, existing contracts, and any other applicable law, regulation or proceeding Fannie Mae determines termination of any officer can and should be converted to a termination “for cause,” Fannie Mae shall (a) seek to terminate any further compensation due such employee; and (b) act to secure reimbursement, indemnification or other redress from such employees terminated for cause for unjust enrichment or for other harm to the Enterprise. Fannie Mae shall report to OFHEO as it proceeds to undertake any such actions.

ARTICLE X. REPORTS TO OFHEO

1. Unless Fannie Mae is otherwise informed by OFHEO of exceptions, all plans, reports and implementation programs required by this Order should provide for quarterly progress reports.

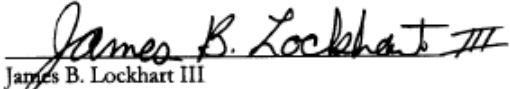
ARTICLE XI. PENALTY

1. Fannie Mae shall pay to the government a penalty of \$400 million. Within ten business days from the date of this Order, the Enterprise shall transfer \$50 million, in the manner specified by OFHEO, in the name of the United States Treasury. This amount shall constitute a civil money penalty imposed on the Enterprise pursuant to 12 U.S.C. §4636. The Enterprise shall transfer \$350 million in a manner directed by the Securities and Exchange Commission.

ARTICLE XII. PREVIOUS AGREEMENTS

1. Pursuant to paragraph VI. 5(a) of the September 27, 2004 agreement and paragraph III.I(a) of the "Supplement to the Agreement of September 27, 2004," this Order supersedes and terminates those agreements.

It is so ordered, this 23rd day of May 2006.



James B. Lockhart III
Acting Director, Office of Federal Housing Enterprise Oversight

UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE
COMMISSION,
100 F Street, NE
Washington, DC 20549,

Plaintiff,

v.

FEDERAL NATIONAL MORTGAGE
ASSOCIATION,
3900 Wisconsin Avenue, NW
Washington, DC 20016

Defendant.

CONSENT OF DEFENDANT FEDERAL NATIONAL MORTGAGE ASSOCIATION

1. Defendant Federal National Mortgage Association (“Defendant”) waives service of a summons and the Complaint in this action, enters a general appearance, and admits the Court’s jurisdiction over Defendant and over the subject matter of this action.

2. Without admitting or denying the allegations of the Complaint (except as to personal and subject matter jurisdiction, which Defendant admits), Defendant hereby consents to the entry of the final Judgment in the form attached hereto (the “Final Judgment”) and incorporated by reference herein, which, among other things:

- (a) permanently restrains and enjoins Defendant from violation of Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78j(b); 78m(a); 78m(b)(2)(A); and 78m(b)(2)(B)], and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13

[17 C.F.R. §§ 240.10b-5; 240.12b-20; 240.13a-1; 240.13a-11; and 240.13a-13] promulgated thereunder, and Sections 17(a)(2) and (3) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77q(a)(2) and (3)];

- (b) orders Defendant to pay disgorgement in the amount of \$1; and
- (c) orders Defendant to pay a civil penalty in the amount of \$350,000,000 pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

3. Defendant acknowledges that the civil penalty paid pursuant to the Final Judgment may be distributed pursuant to the Fair Fund provisions of Section 308(a) of the Sarbanes-Oxley Act of 2002. Regardless of whether any such Fair Fund distribution is made, the civil penalty shall be treated as a penalty paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Defendant agrees that it shall not, after offset or reduction of any award of compensatory damages in any Related Investor Action based on Defendant’s payment of disgorgement in this action, argue that it is entitled to, nor shall it further benefit by, offset or reduction of such compensatory damages award by the amount of any part of Defendant’s payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Defendant agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission’s counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this action. For purposes of this paragraph, a “Related Investor Action”

means a private damages action brought against Defendant by or on behalf of one or more investors based on substantially the same facts as alleged in the Complaint in this action.

4. Defendant agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any civil penalty amounts that Defendant pays pursuant to the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to a distribution fund or otherwise used for the benefit of investors. Defendant further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any penalty amounts that Defendant pays pursuant to the Final Judgment, regardless of whether such penalty amounts or any part thereof are added to a distribution fund or otherwise used for the benefit of investors.

5. Defendant waives the entry of findings of fact and conclusions of law pursuant to Rule 52 of the Federal Rules of Civil Procedure.

6. Defendant waives the right, if any, to a jury trial and to appeal from the entry of the Final Judgment.

7. Defendant enters into this Consent voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Commission or any member, officer, employee, agent, or representative of the Commission to induce Defendant to enter into this Consent.

8. Defendant agrees that this Consent shall be incorporated into the Final Judgment with the same force and effect as if fully set forth therein.

9. Defendant will not oppose the enforcement of the Final Judgment on the ground, if any exists, that it fails to comply with Rule 65(d) of the Federal Rules of Civil Procedure, and hereby waives any objection based thereon.

10. Defendant waives service of the Final Judgment and agrees that entry of the Final Judgment by the Court and filing with the Clerk of the Court will constitute notice to Defendant of its terms and conditions. Defendant further agrees to provide counsel for the Commission, within thirty days after the Final Judgment is filed with the Clerk of the Court, with an affidavit or declaration stating that Defendant has received and read a copy of the Final Judgment.

11. Consistent with 17 C.F.R. 202.5(f), this Consent resolves only the claims asserted against Defendant in this civil proceeding. Defendant acknowledges that no promise or representation has been made by the Commission or any member, officer, employee, agent, or representative of the Commission with regard to any criminal liability that may have arisen or may arise from the facts underlying this action or immunity from any such criminal liability. Defendant waives any claim of Double Jeopardy based upon the settlement of this proceeding, including the imposition of any remedy or civil penalty herein. Defendant further acknowledges that the Court's entry of a permanent injunction may have collateral consequences under federal or state law and the rules and regulations of self-regulatory organizations, licensing boards, and other regulatory organizations. Such collateral consequences include, but are not limited to, a statutory disqualification with respect to membership or participation in, or association with a member of, a self-regulatory organization. This statutory disqualification has consequences that are separate from any sanction imposed in an administrative proceeding. In addition, in any disciplinary proceeding before the Commission based on the entry of the injunction in this

action, Defendant understands that it shall not be permitted to contest the factual allegations of the Complaint in this action.

12. Defendant understands and agrees to comply with the Commission's policy "not to permit a defendant or respondent to consent to a judgment or order that imposes a sanction while denying the allegation in the complaint or order for proceedings." 17 C.F.R. § 202.5. In compliance with this policy, Defendant agrees: (i) not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any allegation in the Complaint or creating the impression that the Complaint is without factual basis; and (ii) that upon the filing of this Consent, Defendant hereby withdraws any papers filed in this action to the extent that they deny any allegation in the Complaint. If Defendant breaches this agreement, the Commission may petition the Court to vacate the Final Judgment and restore this action to its active docket. Nothing in this paragraph affects Defendant's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Commission is not a party.

13. Defendant hereby waives any rights under the Equal Access to Justice Act, the Small Business Regulatory Enforcement Fairness Act of 1996, or any other provision of law to seek from the United States, or any agency, or any official of the United States acting in his or her official capacity, directly or indirectly, reimbursement of attorney's fees or other fees, expenses, or costs expended by Defendant to defend against this action. For these purposes, Defendant agrees that Defendant is not the prevailing party in this action since the parties have reached a good faith settlement.

14. In connection with this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a

party, Defendant (i) agrees to make available its employees and agents to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice; (ii) will accept service by mail or facsimile transmission of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iii) appoints Defendant's undersigned attorney as agent to receive service of such notices and subpoenas; (iv) with respect to such notices and subpoenas, waives the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Defendant's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (v) consents to personal jurisdiction over Defendant in any United States District Court for purposes of enforcing any such subpoena.

15. Defendant agrees that the Commission may present the Final Judgment to the Court for signature and entry without further notice.

16. Defendant agrees that this Court shall retain jurisdiction over this matter for the purpose of enforcing the terms of the Final Judgment.

Federal National Mortgage Association

Dated: 23 May 2006

By: /s/ Daniel H. Mudd
Daniel H. Mudd
President and Chief Executive Officer
3900 Wisconsin Avenue, NW
Washington, DC 20016

On May 23, 2006, Daniel H. Mudd, a person known to me, personally appeared before me and acknowledged executing the foregoing Consent with full authority to do so on behalf of Federal National Mortgage Association as its [attorney].

/s/ Katherine E. Coles
Notary Public
Commission expires: 10/14/08

Approved as to form:

/s/ William R. McLucas

William R. McLucas

Wilmer Cutler Pickering Hale and Dorr LLP

2445 M Street NW

Washington, DC 20037

202-663-6000

Attorney for Defendant Federal National Mortgage Association

**news release****Media Hotline: 1-888-326-6694****Consumer Resource Center: 1-800-732-6643****Contact:** Chuck Greener
202-752-2616**Number:** 3738**Date:** May 23, 2006**Fannie Mae Agrees to Comprehensive Settlements with OFHEO and SEC**

WASHINGTON, DC — Fannie Mae (FNM/NYSE) today announced that, contemporaneous with the release of the final report of the Office of Federal Housing Enterprise Oversight (OFHEO) special examination, the company has agreed to comprehensive settlements resolving matters with OFHEO and the U.S. Securities and Exchange Commission (SEC).

The primary terms of the comprehensive settlement agreements are as follows:

- Fannie Mae has agreed to a consent order with OFHEO under which the company will be undertaking remedial actions to address all the recommendations contained in the OFHEO special examination report, including accounting practices, internal controls, governance, capital plans, corporate culture, disclosure, personnel oversight and compensation, and oversight of certain corporate activities. As part of the agreement, the company agreed not to increase its “mortgage portfolio” assets except as provided in a plan to be submitted to OFHEO within 60 days and subject to its approval. Such plan can include a moderate per annum increase for reasons of liquidity, housing goals, portfolio flexibility and competitive considerations.
- Fannie Mae has also agreed to a settlement with the SEC in which it will agree to be enjoined from future violations of certain provisions of the federal securities laws.
- In the combined agreements with OFHEO and the SEC, the company has agreed to a \$400 million civil penalty.

Fannie Mae has agreed to these comprehensive agreements in the interest of resolving matters with OFHEO and the SEC fully and expeditiously and in the interest of the company’s shareholders and stakeholders. In reaching these comprehensive agreements, the company neither admitted nor denied any wrongdoing.

(more)

Comprehensive Settlements with OFHEO and SEC

Page Two

“We are pleased that we have been able to reach a comprehensive agreement and bring these matters to a conclusion,” said Stephen B. Ashley, Chairman of the Board. “This important step today builds on some of the changes and progress we have made over the past 18 months to rebuild the company and restore the confidence of our shareholders and stakeholders.”

Ashley also said, “The Board has read the report and is committed to implementing the terms of the settlement. The company has undertaken a number of remedial steps. Over the course of the past two years, the Board has made a number of changes in its structure and membership, and its relationship to the company. We are also pleased with the steps Dan Mudd has taken as President and CEO and are confident in his leadership. He has established a new leadership team, restructured the finance, controllers, internal audit and compliance organizations and functions, and begun to change the corporate culture, repair relationships with our regulators, and refocus the business to serve the company’s affordable housing mission. The Board and new management team are fully committed to working closely and cooperatively with our regulators to ensure that the progress made so far will continue and that the future of our company remains bright for our shareholders, investors and employees.”

“We are glad to resolve these matters. We have all learned some powerful lessons here about getting things right and about hubris and humility. We are a much different company than before. But we also recognize that we have a long road ahead of us,” said Daniel H. Mudd, President and Chief Executive Officer.

Mudd also said, “We pledge to continue to work closely and cooperatively with our regulators as we continue to move forward with remedial measures, carry out the terms of our regulatory agreements, complete our restatement and build a better company. A lot of people are counting on us to build a company that is worthy of our public purpose to help the housing finance system serve affordable housing.”

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Fannie Mae is a New York Stock Exchange Company. It operates pursuant to a federal charter. Fannie Mae has pledged through its American Dream Commitment to expand access to homeownership for millions of first-time home buyers; help raise the minority homeownership rate to 55 percent; make homeownership and rental housing a success for millions of families at risk of losing their homes; and expand the supply of affordable housing where it is needed most. More information about Fannie Mae can be found on the Internet at <http://www.fanniemae.com>.