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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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):

April 14, 2005

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Federally Chartered Corporation

000-50231

52-0883107

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(I.R.S. Employer  
Identification No.)

3900 Wisconsin Avenue, NW, Washington, District  
of Columbia

20016

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

202-752-7000

Not Applicable

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:

- 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.**

As discussed below, on April 14, 2005, the Board of Directors of Fannie Mae (formally, the Federal National Mortgage Association) elected Greg C. Smith to join Fannie Mae's Board of Directors.

In accordance with Fannie Mae's non-management director compensation practices, Mr. Smith will be paid a retainer at a rate of \$35,000 per year, plus \$1,500 for attendance at each Board or Board committee meeting. Mr. Smith received upon the start of his Board service a total of 1,612 shares of restricted stock and options to purchase 666 shares of Fannie Mae common stock.

Mr. Smith's options have an exercise price of \$54.37 per share, which was the fair market value of Fannie Mae's common stock on the date of grant. The options vest over four years in equal annual installments beginning on the first anniversary of the date of grant, subject to accelerated vesting upon Mr. Smith's departure from the Board of Directors. The options will expire 10 years after the date of grant unless Mr. Smith departs from the Board of Directors. In that case, the options will expire on the earlier of one year following Mr. Smith's departure from the Board of Directors and the original expiration date.

Under the terms of the grants, Mr. Smith's shares of restricted stock are scheduled to vest on the day before each annual meeting at the rate of: 137 shares before the next annual meeting; 825 shares before the following annual meeting; and 650 shares before the next following annual meeting. These shares cannot be sold until they vest, and vesting is contingent on Mr. Smith's service on Fannie Mae's Board at the time of vesting, subject to accelerated vesting upon departure from the Board due to death, disability, or not being renominated after age 70.

As a holder of restricted stock, Mr. Smith will have all of the rights and privileges of a shareholder as to the restricted stock, other than the ability to sell or otherwise transfer it, including the right to receive dividends declared with respect to the stock and the right to provide instructions on how to vote the stock.

Pursuant to Fannie Mae's customary practice, Fannie Mae plans to enter into an Indemnification Agreement with Mr. Smith, the form of which has been filed with the SEC. Mr. Smith will also be eligible to participate in the Fannie Mae Director's Charitable Award Program, pursuant to which Fannie Mae will donate up to a maximum of \$1,000,000 in \$100,000 increments to up to five charitable organizations or educational institutions of the director's choice upon the death of a director.

**Item 1.02. Termination of a Material Definitive Agreement.**

On April 14, 2005, Thomas E. Donilon, Fannie Mae's Executive Vice President, Law & Policy and Secretary, informed the company of his resignation of employment with Fannie Mae to be effective on or before April 30, 2005.

Mr. Donilon will not receive any termination or severance benefits other than those benefits generally available under Fannie Mae's plans. In accordance with the terms of these plans, Mr. Donilon, who is an executive officer of Fannie Mae, is entitled to receive the compensation and benefits described below.

· **Stock options.** As of April 19, 2005, Mr. Donilon held vested and exercisable options to purchase a total of 186,772 shares of common stock at exercise prices ranging from \$62.50 to \$80.95 per share. Based on the closing price of Fannie Mae's common stock on April 19, 2005 of \$53.79, the exercise prices of these options exceed the market price of the underlying shares. Under the terms of Mr. Donilon's stock option grants, Mr. Donilon will have three months following the date of his termination of employment to exercise his vested options.

· **Performance Share Payouts.** As a member of Fannie Mae's senior management, Mr. Donilon has received annual awards entitling him to receive shares of common stock in amounts based upon and subject to Fannie Mae's meeting corporate performance objectives over three-year periods. Generally, the Compensation Committee of Fannie Mae's Board determines in January of the year following completion of the cycle the number of shares of common stock each awardee is entitled to receive, and the shares are paid out to current executives in two annual installments. For the performance cycle completed in 2003, Mr. Donilon was determined in January 2004 to be entitled to receive 23,850 shares, of which he received his first payment of 11,925 shares in January 2004 and was scheduled to receive the balance in January 2005. For the performance cycle concluding in 2004, Mr. Donilon was granted an award that would result in his receipt of 19,431 shares if the target goals were met and he remained employed by Fannie Mae through the time of the scheduled payouts. If the targets were not met, he would still receive shares, in a proportionally reduced amount, so long as the target was at least 40% met. If the targets were exceeded, the number of shares would be proportionally increased, but not above 150%. As announced by Fannie Mae in a Form 8-K filed on January 21, 2005, Fannie Mae's Board and Compensation Committee have determined to defer consideration of and payment of unpaid performance shares for the cycles completed on December 31, 2003 and 2004 until reliable financial data for the relevant periods are available.

· **Pension plans.** Under Fannie Mae's pension plans, estimated monthly payments of approximately \$11,669 will be payable during the lives of Mr. Donilon and his surviving spouse commencing when he reaches age 55.

· **Retirement savings plan.** Mr. Donilon has accumulated benefits in the company's Employee Stock Ownership Plan (ESOP) and the company's retirement savings plan (a 401(k) plan), including vested company contributions, to which he is entitled in accordance with the terms of those plans.

· As a result of Mr. Donilon's termination, all unvested stock options and shares of restricted stock will be forfeited. Mr. Donilon also will forfeit 50% of the shares he would otherwise be entitled to receive for the performance cycle completed on December 31, 2004 and will not be eligible to receive shares for any performance cycles that have not yet concluded.

**Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

On April 14, 2005, the Board of Directors of Fannie Mae elected Greg C. Smith to join the Board effective Monday, April 18, 2005. The Board also appointed Mr. Smith to the Board's Audit and Compensation Committees.

Mr. Smith is the Executive Vice President and President, The Americas, of Ford Motor Company ("Ford"), a position he has held since April 2004. Mr. Smith has held several positions at Ford including serving as the Group Vice President, Ford, and Chairman and Chief Executive Officer of Ford Motor Credit Company ("Ford Credit"), an indirect, wholly-owned subsidiary of Ford, from 2002 to 2004. He also served as the Vice President and Chief Operating Officer of Ford Credit from 2001 to 2002, and President, Ford Credit North America from 1997 to 2001. Mr. Smith is also a director of The Hertz Corporation, an indirect, wholly-owned subsidiary of Ford.

**Item 7.01. Regulation FD Disclosure.**

On April 19, 2005, Fannie Mae announced that its Board of Directors approved dividends on the company's common stock and preferred stock. The announcement, a copy of which is furnished as Exhibit 99.1 to this report, is incorporated herein by reference.

On April 20, 2005, Fannie Mae released testimony by Daniel H. Mudd, the company's Vice Chairman and Interim Chief Executive Officer, submitted to the US Senate Committee on Banking, Housing, and Urban Affairs. His testimony, a copy of which is furnished as Exhibit 99.2 to this report, is incorporated herein by reference.

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, nor shall it be deemed incorporated by reference in any disclosure document of Fannie Mae, except as shall be expressly set forth by specific reference in such document.

**Item 9.01. Financial Statements and Exhibits.**

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

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**SIGNATURES**

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

April 20, 2005

By: */s/ Ann M. Kappler*

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*Name: Ann M. Kappler*

*Title: Executive Vice President and General Counsel*

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Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
99.1	April 19, 2005 news release regarding common and preferred stock dividends
99.2	April 20, 2005 Testimony by Daniel H. Mudd submitted to the US Senate Committee on Banking, Housing, and Urban Affairs

# news release [Fannie Mae Logo]

Media Hotline: 1-888-326-6694  
Consumer Resource Center: 1-800-732-6643

Contact: Janis Smith

202-752-6673

Number: 3501

Date: April 19, 2005

## **Fannie Mae Announces Second Quarter Common and Preferred Stock Dividends; Company Maintains Common Stock Dividend of Twenty-Six Cents Per Share**

WASHINGTON, DC – The Board of Directors of Fannie Mae (FNM/NYSE) today declared its second quarter dividend on the company's common stock of twenty-six cents (\$0.26) per share, unchanged from the first quarter. The Board also declared dividends on the company's preferred stock in accordance with the terms of the stock. The Office of Federal Housing Enterprise Oversight (OFHEO) has approved payment of these dividends.

As previously disclosed, on December 21, 2004, OFHEO classified Fannie Mae as significantly undercapitalized as of September 30, 2004, which requires the Director of OFHEO's approval before the payment of any dividend on Fannie Mae's capital stock. The Board will continue to assess dividend payments for each quarter, and OFHEO has indicated that it will continue to review dividend payment requests for each quarter based upon the facts and conditions existing at the time.

The dividend payments declared by the Board are as follows:

- a dividend on its outstanding common stock of \$0.26 per share;
- a dividend on its outstanding preferred stock, Series D, of \$0.65625 per share; —
- a dividend on its outstanding preferred stock, Series E, of \$0.63750 per share; —
- a dividend on its outstanding preferred stock, Series F, of \$0.1713 per share; —
- a dividend on its outstanding preferred stock, Series G, of \$0.2938 per share; —
- a dividend on its outstanding preferred stock, Series H, of \$0.7263 per share; —
- a dividend on its outstanding preferred stock, Series I, of \$0.6719 per share; —
- a dividend on its outstanding preferred stock, Series J, of \$0.5895 per share; —
- a dividend on its outstanding preferred stock, Series K, of \$0.6745 per share; —

(more)

## **Second Quarter Common Stock Dividend Page Two**

- a dividend on its outstanding preferred stock, Series L, of \$0.6406 per share; —
- a dividend on its outstanding preferred stock, Series M, of \$0.5938 per share; —
- a dividend on its outstanding preferred stock, Series N, of \$0.6875 per share; —
- a dividend on its outstanding preferred stock, Series O, of \$0.8750 per share; and —
  - a dividend on its outstanding Convertible Series 2004-1 preferred stock, of \$1,343.75 per share.

The dividend payment on the common stock will be made to registered holders of common stock as shown on the books of the corporation at the close of business on April 30, 2005, to be payable on May 25, 2005. The preferred stock dividends were declared in accordance with their respective Certificate of Designation of Terms, all of which are available on the company's Web site, [www.fanniemae.com](http://www.fanniemae.com).

A dividend of \$0.65625 per share will be paid to the registered holders of preferred stock, Series D, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.63750 per share will be paid to the registered holders of preferred stock, Series E, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period

from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.1713 per share will be paid to the registered holders of preferred stock, Series E, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.2938 per share will be paid to the registered holders of preferred stock, Series G, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

(more)

## **Second Quarter Common Stock Dividend**

### **Page Three**

A dividend of \$0.7263 per share will be paid to the registered holders of preferred stock, Series H, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.6719 per share will be paid to the registered holders of preferred stock, Series I, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.5895 per share will be paid to the registered holders of preferred stock, Series J, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.6745 per share will be paid to the registered holders of preferred stock, Series K, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.6406 per share will be paid to the registered holders of preferred stock, Series L, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.5938 per share will be paid to the registered holders of preferred stock, Series M, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

(more)

## **Second Quarter Common Stock Dividend**

### **Page Four**

A dividend of \$0.6875 per share will be paid to the registered holders of preferred stock, Series N, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$0.8750 per share will be paid to the registered holders of preferred stock, Series O, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

A dividend of \$1,343.75 per share will be paid to the registered holders of Convertible Series 2004-1 preferred stock, as shown on the books of the corporation at the close of business on June 15, 2005, that is outstanding at the close of business on June 15, 2005, for the period from and including March 31, 2005, to but excluding June 30, 2005, to be payable on June 30, 2005.

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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>.*

# [Fannie Mae Logo]

Remarks Prepared for Delivery by  
**Daniel H. Mudd**  
Vice Chairman and Interim Chief Executive Officer, Fannie Mae

Testimony by Daniel H. Mudd Before the US Senate Committee on Banking, Housing, and Urban Affairs (Written Testimony)  
Washington, DC  
April 20, 2005

## Introduction

Chairman Shelby, Ranking Member Sarbanes and members of the Committee, I appreciate the opportunity to appear before you this morning. On behalf of Fannie Mae, I thank the committee for the energy and effort you have devoted to reforming the regulatory oversight of the government-sponsored housing enterprises; for the seriousness of purpose you have exhibited throughout; and for the opportunity to offer our views and answer your questions.

My name is Dan Mudd. I have worked at Fannie Mae for slightly over 5 years, serving most of that time as the company's Chief Operating Officer. Prior to joining Fannie Mae in 2000, I was the President and CEO of GE Capital, Japan. I am a graduate of the University of Virginia and Harvard University. I am also a veteran of the United States Marine Corps and served in Beirut, Lebanon.

I assumed the role of interim CEO of Fannie Mae last December, after the Securities and Exchange Commission agreed with our regulator, the Office of Federal Housing Enterprises Oversight (OFHEO), that Fannie Mae had not complied with Generally Accepted Accounting Principles, or GAAP.

Let me say right here at the outset: Fannie Mae understands that we have disappointed a lot of people — people who count on us to get things right; people who count on us to provide liquidity and low-cost financing to America's housing system in a safe and sound manner; people, such as the members of this Committee, who have a right to expect that our books and our internal controls are above reproach.

## Putting Fannie Mae's House In Order

Now it is our responsibility to put our house in order and we are working overtime to do so. I have set some clear priorities to help us build a new Fannie Mae for the future — one that Congress and the housing finance system can rely upon going forward.

We must restore our capital; become a first-rate regulated company; restate and re-audit our prior financial statements; and rebuild relationships with our regulators, partners, stakeholders, and Congress. As we address these urgent priorities, we also need to manage our business; re-center our company on our affordable housing mission; instill operational discipline in everything we do; and maintain our workforce while changing our corporate culture.

Over the past several months, we have made important progress on these priorities.

We have a new external auditor that is on the job, working on the re-audit of our financial information.

OFHEO has approved our capital restoration plan.

We are working to control costs, including reducing dividends for shareholders, canceling plans for a major new office complex here in the District, and reducing our advertising.

We are fully complying with the agreements reached between OFHEO and Fannie Mae, and we have appointed an interim Chief Risk Officer and an interim Chief Financial Officer.

The Chairman of our Board, Steve Ashley, and I meet regularly with OFHEO to sort through issues as they arise, and throughout all levels of the company Fannie Mae employees are in daily contact with their counterparts at the agency.

Finally, Fannie Mae's Board of Directors has commissioned an independent review of the issues raised by OFHEO's special examination. Former U.S. Senator Warren Rudman is leading this review and we anticipate his full report later this year.

One by one, Fannie Mae is building the links in a chain of progress that will take us from the company we were to the company we want to become.

We want to be a company that lets its actions speak louder than its words. A company with financial statements that are accurate, transparent and timely. A company that fully appreciates that we are in the secondary mortgage market, and that we exist to meet the needs of the primary market. A company whose business is totally centered on the affordable housing mission Congress created us to serve.

## New Legislation

To assure that Fannie Mae and the other housing GSEs always fulfill that mission in a safe and sound manner, Fannie Mae welcomes the creation of a new regulator that has powers on par with those of bank regulators. This is the theme of my testimony. We believe that appropriate supervisory authorities should be vested in our regulator, as those authorities are vested in bank regulatory agencies, rather than being prescribed in detail in statute.

Let me be very clear: we want legislation to pass this year. More specifically, I address below the issues listed in the Chairman's letter of invitation.

## Capital

We believe the new regulator should have the authority to rewrite our risk-based capital standard to meet best practices in the industry and the power to adjust our minimum capital requirement in the face of additional risk. Just as the new regulator would have the flexibility that bank regulators have to raise capital levels, we believe the new regulator should have the flexibility that bank regulators have to include a broader range of loss-absorbing instruments as capital.

## Program Approval and the "Bright Line"

We believe a new regulator should have the power to ensure the companies' adherence to our mission and compliance with our charters. That includes the power to approve or disapprove new programs and to monitor new and existing activities through on-site examination.



More particularly, we believe the current program approval standard is appropriate. Any time one of the enterprises proposes to engage in a program that is significantly different from their existing business, the company should be required to affirmatively seek prior regulatory approval. That request for approval should be judged on whether the new program is consistent with our safety and soundness and within the boundaries of our charters.

On the other hand, we believe that the introduction of new mortgage products and features that expand access to homeownership should not require affirmative, prior approval from the regulator. Instead, the regulator should monitor all new products and business activities during the course of its regular on-site examinations. This supervisory process ensures that we can continue to innovate with our lender partners to reach underserved populations and markets while also ensuring that our regulator is free at any time to restrict or halt an activity or product that raises concerns through the examination process.

Through a case-by-case analysis, the regulator will be able to police the border separating the primary and secondary markets. We believe this approach is better than attempting to craft a legislative or regulatory “bright line” definition of these markets that might not anticipate future innovations in mortgage finance.

### **Limitations on the GSEs’ Mortgage Portfolio Holdings**

We believe that our portfolio — our original and only line of business from 1938 to 1981 — makes an important contribution to the liquidity and affordability of the U.S. mortgage market. By issuing debt to purchase mortgages, Fannie Mae has drawn in billions of dollars from investors abroad to expand the availability and lower the cost of housing for low- and moderate-income Americans. For example, our senior, long-term Benchmark Securities outstanding represented 47 percent of our total long-term debt outstanding as of the end of the first quarter of 2005, and we know that over the last six years international investors purchased approximately one-third of those Benchmark issuances in aggregate, or \$158 billion. It is not at all clear that those foreign investors would place their money in the U.S. housing market without the predictability and convenience provided by agency debt issuances.

Our portfolio serves a number of other purposes as well.

First, our mortgage portfolio allows us to play a shock-absorbing function for the finance system during times of potential difficulty, such as September 11th.

Second, the portfolio gives us the flexibility to work with small- and medium-sized lenders to provide new products to help low- and moderate-income borrowers that cannot be easily securitized, such as Expanded Approval<sup>®</sup>.

Third, by increasing the demand for mortgages and mortgage-backed securities in the secondary market, our portfolio activities put downward pressure on the interest rates charged to homeowners.

Finally, our portfolio increases the availability and affordability of the 30-year fixed-rate mortgage with a prepayment option, a home loan that distinguishes our system from almost all others in the world. By creating two companies that invest only in residential mortgages, Congress laid the foundation for the 30-year fixed-rate pre-payable mortgage, which is an important tool for wealth creation, stabilizing communities and neighborhoods and allowing low- and middle-income homeowners to manage their other financial obligations without having to worry about their mortgage costs changing. Because we are principally a buy-and-hold investor, we have built the tools to manage the interest rate risk of those instruments. Depositories, hedge funds, insurance companies and others come in and out of the mortgage market according to the prevailing returns, and therefore prefer adjustable rate mortgages, which require less risk management. It is unclear how limitations on the enterprises’ portfolios might affect the availability of the 30-year fixed-rate mortgage that protects homeowners from bearing interest rate risk.

That said, we expect our regulator to oversee our portfolio operations to ensure they are conducted in a safe and sound manner. We believe that, like bank regulators, a new regulator should have the ability to address ongoing mortgage portfolio activities, including the ability to limit portfolio holdings in response to a clearly identified and quantifiable safety and soundness risk, taking into account the enterprises’ obligation to provide liquidity to the market and achieve our affordable housing mission.

### **Prompt Corrective Action and Receivership**

Our regulator should have the power to place an enterprise into receivership in the face of extreme financial distress, with appropriate protections for the mortgage-backed securities the enterprise guarantees.

### **Housing Goals Oversight**

Fannie Mae supports proposals to move the companies’ affordable housing goals and mission oversight to the new GSE regulator. Over the past decade, the housing goals have transformed our company, thoroughly integrating our mission into our business.

We are a secondary market institution. We can purchase only the mortgages that primary market institutions make available to us. Consequently, we are concerned that housing goals requiring the enterprises to devote fixed percentages of our business to various defined populations can lead to unwanted market distortions when those percentages do not reflect the actual mix of business available in the market. We believe that a single regulator with responsibility for overseeing both our safety and soundness and our mission performance will be best positioned to assess our business strategies and avoid market distortions.

To ensure the enterprises continue to address the nation’s affordable housing needs and to avoid potential distortions of fixed-percentage housing goals, Congress or the new regulator may want to consider broadening the definition of what it means to lead the market in affordable lending. For example, the definition of leadership could be expanded to include such factors as: qualitative contributions to expand affordable housing markets (including product innovation, enhanced underwriting flexibilities, and improved lending standards); efforts that address housing needs through investment activities such as the purchase of Low-Income Housing Tax Credits; and performance in addressing specific housing needs, such as affordable multifamily preservation or manufactured housing finance.

### **Corporate Governance and Compensation**

We believe that the new regulator should maintain the authority currently placed in OFHEO to oversee the companies’ corporate governance. Earlier this year, OFHEO issued a new corporate governance regulation for the companies, which Fannie Mae is in the process of implementing. Some have proposed codifying that regulation in law. We believe it would be better to grant corporate governance oversight to the new regulator, giving the regulator the flexibility to issue new regulations as needed to stay current with best practices.

In addition, we believe our regulator should have the same authorities a bank regulator has over executive compensation.

### **Guaranty Fees**

We believe that the companies' new regulator, like OFHEO, should have the authority to review all aspects of our customer relations through the examination process. This would include the authority to examine the guaranty fees lenders pay our companies to ensure the timely payment of interest and principal on the mortgages we package for them into Mortgage-Backed Securities. Like any other service bought or sold in the market, these fees are negotiated between buyer and seller — in this case Fannie Mae and our lender customers. Like other prices negotiated between two businesses, the fees are part of proprietary contracts and should not be made public.

Different lenders in the primary market target different geographies and different kinds of borrowers. Therefore, they bring to the secondary market very different kinds of loan portfolios. The price paid to guaranty any given package of loans reflects a number of factors that vary widely among different lender customers, including:

- The risks associated with the loans being presented for securitization and, correspondingly, the capital that we must hold against those loans;
- The lender's financial soundness and its ability to service the loans;
- The expected administrative costs to Fannie Mae;
- The lender's business volume and the percentage of that volume that helps us meet our affordable housing goals.

These prices are negotiated in a competitive market, and lenders execute with Fannie Mae only if there is value for them. Indeed, lenders can — and do — turn to Wall Street to securitize mortgages in the so-called "private label" market, which has been growing rapidly in recent years. In fact, so far this year 54 percent of all mortgage securitizations have been handled by the private label market. That is up from 44 percent in 2004 and only about 20 percent in 2003 and 2002.

### **Non-Mortgage Assets**

We believe that, like OFHEO, a new regulator should have the authority to examine the portfolio of non-mortgage assets the companies hold for liquidity purposes, just as the regulator would examine all aspects of the companies' business operations to assess our safety and soundness.

Prudent liquidity risk management requires that we maintain enough liquidity to ensure that the company could meet all of its obligations if it did not have access to the debt markets for as long as three months. To manage this risk, the company currently holds liquid assets equal to a minimum of 5 percent of its total assets as a liquidity buffer. This liquidity buffer, consisting of non-mortgage investments, would be the first source of funding for the company in a liquidity crisis. In other words, since we only plan to access these investments in the event of a disruption to the mortgage market, it is best if these assets are not mortgage-related.

Currently, we report our non-mortgage asset holdings to HUD every quarter and OFHEO conducts regular reviews of our liquidity plan. Our new regulator should retain this review authority.

### **Conclusion**

Let me close by praising Congress' role in expanding homeownership through its creation of Fannie Mae and Freddie Mac as shareholder-owned, profit-generating companies with a public mission. The GSE model works because it gives the enterprises the tools to attract capital and then restricts them to using that capital to expand access to homeownership and affordable rental housing for low- and moderate-income Americans. This model gives investors across the globe — in Europe and in Asia — an incentive to invest in American housing. These investments from abroad help make mortgage funds less expensive and more easily available for low- and moderate-income American homeowners. Preserving this essential business model will give investors an incentive to continue making their capital available, and give us the ability to continue deploying that capital to help lenders reach underserved populations.

I deeply appreciate the hard work of Congress to find solutions to concerns about the companies' safety and soundness supervision while maintaining our business model. That is a delicate balance, and a worthy goal — one that we strongly support.

I know there is some sense that Fannie Mae has stated in the past that we support the creation of a world-class regulator for the companies, while simultaneously taking other actions that caused some to cast doubt on the sincerity of that claim. I want to assure the committee in the strongest terms possible that we support your goals and we support many of the specific ideas you and others have proposed. Because we sit in a different place than Congress, we may have a different perspective on some issues. And we will always offer our candid and, we hope, constructive views on any reform ideas, when asked.

We are fully committed to working cooperatively with this committee to make your efforts a success.

Thank you.