FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form DEF 14A
April 23, 2004
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SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ PreliminaryProxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

¨ Confidential, For Use of the Commission Only(as permitted by Rule 14a-6(e)(2))

Federal National Mortgage Association

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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3900 Wisconsin Avenue NW

Washington, DC 20016

April 23, 2004

Dear Shareholder:

We cordially invite you to attend the annual shareholders meeting of the Federal National Mortgage Association. The meeting will be held on Tuesday, May 25, 2004, at 10 a.m. (local time) at the Park Hyatt Chicago, 800 North Michigan Avenue, Chicago, Illinois.

At the meeting, shareholders will vote on a number of important matters. Please take the time to carefully read each of the proposals described in the attached proxy statement.

Thank you for your support of Fannie Mae.

Sincerely,

Franklin D. Raines

Chairman of the Board

and Chief Executive Officer

This proxy statement and the accompanying form of proxy are first

being mailed to Fannie Mae shareholders on or about April 23, 2004.

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3900 Wisconsin Avenue NW

Washington, DC 20016

Notice of Annual Meeting of Shareholders

Dear Shareholder:

Fannie Mae s annual shareholders meeting will be held on Tuesday, May 25, 2004, at 10 a.m. (local time) at the Park Hyatt Chicago, 800 North Michigan Avenue, Chicago, Illinois. Shareholders of record on the record date will be admitted to the meeting with verification of stock ownership. If your shares are not registered in your name, evidence of ownership (such as a recent bank or brokerage firm account statement, together with proper identification) must be presented for admission to the meeting.

At the meeting, shareholders will be asked to:

- elect directors,
- ratify the selection by the Audit Committee of KPMG LLP as auditors for 2004,
- approve an amendment to the Fannie Mae Employee Stock Purchase Plan,
- consider a shareholder proposal to reinstate cumulative voting for directors, and
- transact any other business that may properly come before the meeting.

The close of business on April 6, 2004 is the record date for determining shareholders entitled to notice of, and to vote at, the annual meeting.

Your proxy is important. Whether or not you plan to attend the meeting, please sign, date, and return the enclosed proxy card, or vote by telephone or Internet (instructions are on your proxy card), so that your shares will be represented at the annual meeting.

By Order of the Board of Directors

Thomas E. Donilon

Secretary

April 23, 2004

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About the Annual Meeting

Who is soliciting my vote?

The Board of Directors of Fannie Mae is soliciting your vote at the 2004 annual meeting of Fannie Mae s shareholders.

What will I be voting on?

- Election of directors (see page 8).
- Ratification of KPMG LLP as Fannie Mae s auditors for 2004 (see page 31).
- Approval of an amendment to the Fannie Mae Employee Stock Purchase Plan (see page 33).
- A shareholder proposal to reinstate cumulative voting for directors (see page 35).

How many votes do I have?

You will have one vote for every share of Fannie Mae common stock you owned on April 6, 2004 (the record date).

How many votes can be cast by all shareholders?

971,751,760, consisting of one vote for each of Fannie Mae s shares of common stock that was outstanding on the record date. No other class of voting stock is outstanding. There is no cumulative voting.

Do I need proof of ownership to attend the annual meeting?

Yes, you will need proof of ownership of Fannie Mae stock to enter the meeting. If you are a shareholder of record on the record date, you will be admitted to the meeting. If your shares are not registered in your name, you must present evidence of ownership (such as a recent bank or brokerage firm account statement, together with proper identification) for admission to the meeting.

How many votes must be present to hold the meeting?

A majority of the votes that can be cast, or voted. We urge you to vote by proxy even if you plan to attend the annual meeting so that we will know as soon as possible that enough votes will be present for us to hold the meeting.

Does any shareholder control as much as five percent of any class of Fannie Mae s voting stock?

As of December 31, 2003, FMR Corp. has reported beneficial ownership of approximately 8.28 percent of Fannie Mae s common stock, Capital Research and Management Company has reported beneficial ownership of approximately 6.9 percent of Fannie Mae s common stock, and Barclays Global Investors, NA has reported beneficial ownership of approximately 5.21 percent of Fannie Mae s common stock. No other shareholder has reported beneficial ownership of more than five percent of any class of Fannie Mae s voting stock.

How do I vote?

You can vote either in person at the annual meeting or by proxy without attending the annual meeting.

To vote by proxy, you must either:

fill out the enclosed proxy card, date and sign it, and return it in the enclosed postage-paid envelope,
vote by telephone (instructions are on the proxy card), or
vote by Internet (instructions are on the proxy card).

What if I hold shares indirectly?

If you hold your shares in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker or nominee. You may not vote directly any shares held in street name, but as the beneficial owner you have the right to direct your broker how to vote.

If you hold shares in street name and you want to vote in person at the annual meeting, you must obtain a proxy from your broker or nominee and bring that proxy to the meeting.

Can I change my vote?

Yes. Just send in a new proxy card with a later date, cast a new vote by telephone or Internet, or send a written notice of revocation to Fannie Mae s Secretary at the address on the cover of this proxy statement. If you attend the annual meeting and want to vote in person, you can request that your previously submitted proxy not be used.

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What if I hold my shares through a Fannie Mae benefit plan?

Except as noted below, Fannie Mae employees who participate in Fannie Mae s benefit plans may receive their proxy cards separately.

Only Equiserve Trust Company, N.A., the agent for participants under the Fannie Mae Stock Compensation Plan of 1993 and the Fannie Mae Stock Compensation Plan of 2003, is authorized to vote shares of restricted common stock granted under the plan, according to the instructions of the participants. Only Fidelity Management Trust Company, trustee of the trust established under the Fannie Mae Employee Stock Ownership Plan (the ESOP), is authorized to vote shares held under the ESOP. If Fidelity Management Trust Company receives proxies of ESOP participants, it must vote expressly as the participants direct in their proxies. These qualifications apply to all references in this statement about how proxies may be voted.

The proxy card serves to provide voting instructions for the shares held in these plans.

What if I don t vote for some of the matters listed on my proxy card?

If you return a duly signed proxy card without indicating your vote, your shares will be voted FOR the nominees listed on the card, FOR ratification of KPMG LLP as auditors for 2004, FOR approval of an amendment to the Fannie Mae Employee Stock Purchase Plan, and AGAINST the shareholder proposal.

What if I vote abstain ?

Abstentions will be treated as shares present and entitled to vote for purposes of determining the presence of a quorum. Abstentions do not constitute a vote for or against any matter and thus will have no effect on the outcome of a vote on a proposal.

Can my shares be voted if I don t return my proxy card and don t attend the annual meeting?

If you don t direct your nominee as to how to vote your shares held in street name, your broker generally may vote your shares on any of the routine matters scheduled to come before the meeting.

Your broker will not be able to vote on any shareholder proposals because such proposals are not considered routine matters. In addition, pursuant to New York Stock Exchange (NYSE) rules, your broker may not vote on the amendment of the Employee Stock Purchase Plan (or on matters relating to any equity compensation plans) without your specific instructions.

If your broker does not have discretion to vote your shares held in street name on a particular proposal because it is not considered to be a routine matter and you don t give your broker instructions on how to vote your shares, the votes will be broker non-votes . We count broker non-votes for quorum purposes but we do not count broker non-votes (or abstentions) as votes for or against any proposal.

If you don t vote shares registered in your name, your shares will not be voted.

Could other matters be decided at the annual meeting?

We don t know of any other matters that will be considered at the annual meeting. If a shareholder proposal that was excluded from this proxy statement by Fannie Mae or any other matter is properly brought before the meeting, the proxies will be voted at the discretion of the proxy holders.

What happens if the meeting is postponed or adjourned?

Your proxy will still be valid and may be voted at the postponed or adjourned meeting. You will still be able to change or revoke your proxy until it is voted.

Can I access Fannie Mae s proxy materials and annual report electronically?

Our proxy statement and annual report to shareholders are available on Fannie Mae s Web site at www.fanniemae.com.

If I cannot attend the annual meeting in person, will it be webcast?

Yes, we will provide a live webcast of the meeting, accessible from www.fanniemae.com.

If I cannot attend the annual meeting in person, may I submit a question I would like the company to answer?

Yes, you may e-mail your questions prior to the meeting to board@fanniemae.com, or send them via U.S. mail to the Office of the Secretary, Fannie Mae, 3900 Wisconsin Avenue NW, Washington DC 20016. We will make every effort to answer your question either before or during the meeting.

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How We Have Done

Annual Report

We delivered Fannie Mae s 2003 annual report to shareholders to you with this proxy statement. We urge you to read it carefully.

Performance Graph

The following graph and table compare the annual changes in Fannie Mae s cumulative total return for the last five years with the cumulative total return of:

- the S&P 500 Index; and
- the S&P Financials Index.

The following graph and table show the value at year-end of $100 invested at the closing price on December 31, 1998 in Fannie Mae common stock, the S&P 500, and the S&P Financials. The comparisons in this graph and table are set forth in response to Securities and Exchange Commission (SEC) disclosure requirements, and therefore are not intended to forecast or to be indicative of future performance of our common stock.

December 31	Fannie Mae	S&P 500	S&P Financials
1998	100	100	100
1999	86	121	104
2000	119	109	128
2001	109	95	115
2002	89	73	97
2003	104	92	123

* Cumulative Total Return is calculated with the assumption of dividend reinvestment.

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Corporate Governance

Commitment to Best Practices

Fannie Mae continually strives to attain best-in-class corporate governance and transparency. Fannie Mae puts a premium on upholding core corporate governance principles of openness, integrity, responsibility and accountability, and believes that such principles are essential to the successful and efficient operation of our business and the accomplishment of our mission.

Over the past several years, Fannie Mae has demonstrated a commitment to best practices in corporate governance and disclosure. Examples of voluntary actions include: (1) ongoing enhanced disclosure and risk management initiatives announced in October 2000; (2) registration of our common stock with the SEC under the Securities Exchange Act of 1934; (3) expensing of stock options; (4) expedited reporting on our Web site of insider stock transactions; (5) additional disclosures in our mortgage-backed securities offering documents; and (6) stock ownership guidelines for our senior executives. We will continue to evaluate emerging best practices and adopt them as appropriate. As an SEC reporting and New York Stock Exchange listed company, Fannie Mae complies with the NYSE listing standards and the Sarbanes-Oxley Act of 2002, and implementing regulations of the SEC. In addition, we are subject to oversight by the Office of Federal Housing Enterprise Oversight.

Corporate Governance Guidelines

In January 2003, the Board adopted Corporate Governance Guidelines (the Guidelines) that formalized many of Fannie Mae s corporate governance practices and policies. The Guidelines were updated as part of the Board s annual review of the Guidelines in early 2004 to reflect the final New York Stock Exchange corporate governance listing standards and to incorporate additional current best-in-class corporate governance practices. A copy of the updated Corporate Governance Guidelines is available on our Web site at www.fanniemae.com, and is also attached to this proxy statement as Appendix B.

Codes of Conduct

Fannie Mae has a Code of Business Conduct that is applicable to all employees, a copy of which is posted on our Web site. New employees are required to read and certify that they will comply with the provisions of the Code of Business Conduct, and all employees are required to annually certify their compliance with the Code of Business Conduct. The Audit Committee is responsible for overseeing compliance with the Code of Business Conduct, which also serves as the code of ethics for senior financial officers required by the Sarbanes-Oxley Act of 2002 and implementing regulations of the SEC.

Fannie Mae also has a Code of Business Conduct and Ethics and Conflict of Interests Policy for Members of the Board of Directors. The Code of Business Conduct and Ethics and Conflict of Interests Policy for Members of the Board of Directors is posted on our Web site at www.fanniemae.com. Each director is required to annually certify his or her compliance with the Code. The Nominating and Corporate Governance Committee is responsible for overseeing compliance with the Fannie Mae Code of Business Conduct and Ethics and Conflict of Interests Policy for Members of the Board of Directors.

Director Independence

Fannie Mae believes that a key to successful corporate governance is having a Board that is comprised of a substantial majority of directors who are independent from management. Our standards for director independence, which meet and in some respects exceed those of the NYSE, are set forth in the Corporate Governance Guidelines.

Under these standards, the Board of Directors considers all relevant facts and circumstances in determining director independence. The Board also looks for the presence of material relationships either with a director or director s immediate family members, such as: (1) employment with Fannie Mae; (2) current or prior employment with Fannie Mae s independent auditor; (3) current or prior affiliation with an entity that does business with Fannie Mae; and (4) affiliation with a non-profit organization that receives charitable donations from Fannie Mae or the Fannie Mae Foundation. A relationship is considered material if, in the opinion of the Board, it would interfere with the director s independent judgment.

Applying the categorical standards of independence set forth in the Guidelines and the NYSE listing standards, the Board of Directors has

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determined that each of the following fourteen directors are independent: Messrs. Ashe, Ashley, Gerrity, Harvey, Justiz, Malek, Marron, Pickett, Segue, and Swygert; and Mss. Bordonaro, Korologos, Mulcahy, and Rahl.

Messrs. Raines, Mudd, and Howard are not considered to be independent directors under the Guidelines because of their positions as officers of

Fannie Mae. Mr. Duberstein is not considered independent because of his business relationship with Fannie Mae, which is described in the Certain Transactions and Relationships section of this proxy statement on page 30.

Executive Sessions

Fannie Mae s non-management directors meet regularly in executive session without management present. Time for an executive session is reserved at every regularly scheduled Board meeting, and any non-management director can request an additional executive session as needed. Ann Korologos, in her capacity as the Chairman of the Nominating and Corporate Governance Committee, establishes the agenda and serves as the presiding director for such meetings. In 2003, non-management directors met six times in executive session.

Communications with Directors

Interested parties wishing to communicate any concerns or questions about Fannie Mae to the Board may do so by electronic mail addressed to board@fanniemae.com , or by U.S. mail addressed to Fannie Mae Directors, c/o Office of the Secretary, Fannie Mae, Mail Stop 1H-2S/05, 3900 Wisconsin Avenue NW, Washington, DC 20016-2892. Communications may be addressed to a specific director or directors, or to groups of directors, such as the independent or non-management directors.

The Office of the Secretary is responsible for processing all communications received through these procedures and for forwarding communications to the appropriate director or directors. All communications will be forwarded directly to Board members, except in instances where the communication is vulgar, hostile, or similarly inappropriate, in which case the communication will be discarded.

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Stock Ownership

Fannie Mae encourages its directors, officers, and employees to own Fannie Mae stock in order to align their interests with the interests of shareholders. A significant portion of the compensation paid to directors and officers is paid in Fannie Mae common stock. Employees of Fannie Mae also have the opportunity to own Fannie Mae common stock through our Employee Stock Purchase Plan (see page 33 for details on the proposed amendment of this plan), bonus stock opportunities, and our ESOP. We believe that the stock ownership of our directors, officers, and employees has played a valuable role in Fannie Mae s outstanding performance.

Stock Ownership Guidelines

In April 2003, the Board of Directors added another key component to our stock ownership principles formal stock ownership guidelines for our senior executives. Under the guidelines, senior executives of Fannie Mae are required to hold shares of Fannie Mae common stock as a multiple of their base salary, as follows: Chief Executive Officer five times salary; Vice Chairmen three times salary; and Executive Vice Presidents two times salary. The senior executives have three years to attain the required level of ownership.

Beneficial Ownership

The following table shows the beneficial ownership of Fannie Mae common stock by our directors, nominees, certain executive officers, all directors, nominees and executive officers as a group, and holders of more than five percent of Fannie Mae common stock at April 6, 2004. At April 6, 2004, no director, nominee, or executive officer, nor all directors, nominees and executive officers as a group, owned as much as one percent of Fannie Mae s outstanding common stock.

		Amount and Nature of Beneficial Ownership (1)		
Name	**Position**	**Common Stock Beneficially Owned Excluding Stock Options**	**Stock Options Exercisable Within 60 Days of Record Date**	**Total Common Stock Beneficially Owned**
Victor H. Ashe*	Director	3,456	11,666	15,122
Stephen B. Ashley	Director	21,747(2)	22,000	43,747
Molly H. Bordonaro*	Director	3,466	11,666	15,132
Thomas E. Donilon	Executive Vice President Law and Policy and Secretary to the Board	25,858(3)	125,469	151,327
Kenneth M. Duberstein	Director	6,111	24,000	30,111
Thomas P. Gerrity	Director	19,851(4)	24,000	43,851
William R. Harvey*	Director	3,956	11,666	15,622
Timothy Howard	Vice Chairman of the Board and Chief Financial Officer	215,771(5)	476,501(6)	692,272
Manuel J. Justiz*	Director	3,123	10,666	13,789
Ann Korologos	Director	8,407	33,200	41,607
Robert J. Levin	Executive Vice President Housing and Community Development	191,674(7)	413,682	605,356
Frederic V. Malek	Director	4,297	8,000	12,297
Donald B. Marron	Director	4,471	12,000	16,471

Daniel H. Mudd	Vice Chairman of the Board and Chief Operating Officer	47,482	363,188	410,670
Anne M. Mulcahy	Director	4,314	16,667	20,981
Joe K. Pickett	Director	7,556	32,000	39,556
Leslie Rahl	Director	3,281	1,333	4,614
Franklin D. Raines	Chairman of the Board and Chief Executive Officer	232,366	1,506,784	1,739,150
Taylor C. Segue, III*	Director	3,456	11,666	15,122
H. Patrick Swygert	Director	3,468	15,666	19,134
All directors, nominees, and executive officers as a group (26 persons)		937,332	3,959,006	4,896,338

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5% Holders	Common Stock Beneficially Owned	Percent of Class
FMR Corp. 82 Devonshire Street Boston, MA 02109	80,437,717(8)	8.28
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	66,948,100(9)	6.9
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	50,719,216(10)	5.21

Notes to Stock Ownership Table

* Directors appointed by the President of the United States.

(1) Beneficial ownership is determined in accordance with the rules of the SEC for computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person. The amounts include beneficial ownership of restricted common stock with sole voting power (including the power to direct the voting of restricted common stock through an escrow agent) and no investment power, as follows: all non-management directors (except Ms. Rahl), each 3,123 shares; Ms. Rahl, 2,681 shares; Mr. Mudd, 5,000 shares; Mr. Donilon, 23,777 shares; Mr. Levin, 2,920 shares; and all directors and executive officers as a group, 98,857 shares.

(2) The amount includes 1,200 shares held by Mr. Ashley s spouse.

(3) The amount includes 100 shares held by Mr. Donilon s spouse.

(4) The amount includes 16,728 shares held jointly with Mr. Gerrity s spouse.

(5) The amount includes 24,000 shares held in trust for the benefit of Mr. Howard s spouse and 191,771 shares held by the Timothy Howard Revocable Trust.

(6) The amount includes 11,527 options held in separate trusts for the benefit of Mr. Howard s children.

(7) The amount includes 188,730 shares held jointly with Mr. Levin s spouse and 24 shares held by his child.

(8) FMR Corp. has informed Fannie Mae that it beneficially owns 80,437,717 shares of Fannie Mae common stock, including 74,825,911 shares held by Fidelity Management & Research Company, 3,105,588 shares held by Fidelity Management Trust Company, 140,029 shares held by Strategic Advisers, Inc., and 2,354,689 shares owned by Fidelity International Limited. FMR Corp. has sole voting power

for 5,242,336 shares and sole dispositive power for 80,437,717 shares. The information provided by FMR Corp. is as of December 31, 2003.

(9) Capital Research and Management Company has informed Fannie Mae that in its capacity as an investment adviser, it is deemed to be the beneficial owner of 66,948,100 shares of Fannie Mae common stock, with sole dispositive power and no voting power as to such shares. The information provided by Capital Research and Management Company is as of December 31, 2003.

(10) Barclays Global Investors, NA, has informed Fannie Mae that it, along with Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Japan Trust and Banking Company Limited, Barclays Life Assurance Company Limited, Barclays Bank PLC, Barclays Capital Securities Limited, Barclays Capital Inc., Barclays Private Bank & Trust (Isle of Man) Limited, Barclays Private Bank and Trust (Jersey) Limited, Barclays Bank Trust Company Limited, Barclays Bank (Suisse) SA, and Barclays Private Bank Limited, together beneficially own 50,719,216 shares of Fannie Mae common stock held in trust accounts for the economic benefit of the named beneficiaries of such accounts, with sole voting as to 44,528,555 shares and sole dispositive power as to 44,578,655 shares. The information provided by Barclays Global Investors, NA regarding the beneficial ownership of Fannie Mae s common stock is as of December 31, 2003.

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PROPOSAL 1: ELECTION OF DIRECTORS

Pursuant to the Fannie Mae Charter Act, thirteen of our directors are elected annually by shareholders and five of our directors are appointed annually by the President of the United States. Upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated the thirteen persons named below to stand for election at the annual meeting to serve a one-year term ending on the annual meeting of shareholders in 2005.

All nominees have consented to being named in this proxy statement and to serve if elected. However, if any nominee should become unwilling or unable to serve as a director, the proxy holders,

in the absence of contrary instruction, will vote the proxies for the election of such persons as shall be designated by the Board of Directors. A plurality of the votes cast at the annual meeting is required for the election of each nominee for director.

We have been informed by the Office of the Counsel of the President that the President does not intend to reappoint the current Presidential appointees and has declined, at this time, to exercise his authority to appoint five directors to our Board. The terms of the current Presidential appointees, Messrs. Ashe, Harvey, Justiz and Segue and Ms. Bordonaro, will expire on May 25, 2004, the date of the annual shareholders meeting. Pursuant to current Charter Act provisions, those five Board positions will remain open unless and until the President names new appointees.

Nominees for Election

The nominees have provided the following information about their principal occupation, business experience, and other matters.

The Board of Directors recommends

that shareholders vote *for* each of the nominees.

Stephen B. Ashley, age 64, has been Chairman and Chief Executive Officer of The Ashley Group, a group of commercial and multifamily real estate, brokerage, and investment companies, since January 1997. The Ashley Group is comprised of S.B. Ashley Management Corporation, S.B. Ashley Brokerage Corporation, and S.B. Ashley & Associates Venture Company, LLC. He also serves as a director of The Genesee Corporation and Exeter Fund, Inc. In addition, Mr. Ashley serves as a trustee of Cornell University. He is a past President of the Mortgage Bankers Association of America. Mr. Ashley has been a Fannie Mae director since 1995.

Kenneth M. Duberstein, age 59, has been Chairman and Chief Executive Officer of The Duberstein Group, Inc., an independent strategic planning and consulting company, since July 1989. He served as Chief of Staff to the President of the United States from 1988 to 1989. Mr. Duberstein also serves as a director of The Boeing Company, ConocoPhillips, Inc., Fleming Companies, Inc., and St. Paul Companies, Inc. Mr. Duberstein has been a Fannie Mae director since 1998.

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Thomas P. Gerrity, age 62, has been Professor of Management since 1990, and was Dean from June 1990 to July 1999 of The Wharton School of the University of Pennsylvania, an educational institution. He was President of CSC Consulting and Vice President of Computer Sciences Corporation from May 1989 to June 1990 and Chairman and Chief Executive Officer of Index Group, Inc., from March 1969 to April 1989. Mr. Gerrity also serves as a director of CVS Corporation, Internet Capital Group, Inc., Knight-Ridder, Inc., Sunoco, Inc., and Hercules, Inc. Mr. Gerrity has been a Fannie Mae director since 1991.

Timothy Howard, age 55, has been Vice Chairman of the Board and Chief Financial Officer since May 2003. Mr. Howard was Executive Vice President and Chief Financial Officer from February 1990 to May 2003. Mr. Howard became a member of the Office of the Chairman in November 2000. He joined Fannie Mae in 1982. Mr. Howard also serves as a director of CarrAmerica Realty Corporation. Mr. Howard has been a Fannie Mae director since 2003.

Ann Korologos, age 62, has been Vice Chairman, RAND Board of Trustees, a nonprofit institution, since May 2001. Ms. Korologos has been Chairman Emeritus since August 2000, Chairman from October 1996 to August 2000, and Vice Chairman from August 1993 to September 1996, of the Aspen Institute, a nonprofit organization. Ms. Korologos serves as Senior Advisor to Benedetto, Gartland and Company, Inc., an investment banking firm. Ms. Korologos also serves as a director of AMR Corporation (and its subsidiary, American Airlines), Harman International Industries, Inc., Host Marriott Corporation, Kellogg Company, and Microsoft Corporation. Ms. Korologos will retire as a director of Vulcan Materials Company in May 2004. Ms. Korologos has been a Fannie Mae director since 1994.

Frederic V. Malek, age 67, has been Chairman of Thayer Capital Partners, a private equity investment firm, since 1993. He served as Co-Chairman of CB Commercial Real Estate Group from 1989 to 1996. He also served as President of Northwest Airlines, Inc., from 1989 to 1990 and Vice Chairman from 1990 to 1992. Mr. Malek also serves as a director of Automatic Data Processing Corp., FPL Group Inc., Northwest Airlines, Inc., CB Richard Ellis, and Manor Care, Inc. Mr. Malek will retire as a director of American Management Systems in May 2004. Mr. Malek has been a Fannie Mae director since 2002.

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Donald B. Marron, age 69, has been Chairman, Chief Executive Officer and founder of Lightyear Capital, LLC, a private equity investment firm founded by Mr. Marron, since November 2000. Mr. Marron served as President of Paine Webber Group Inc. from 1977 to 1980, and as Chief Executive Officer thereof from 1981 until its merger with UBS AG in November 2000. Following the merger, Mr. Marron served as Chairman, UBS America, at UBS until September 2003. Mr. Marron also serves as a director of Shinsei Bank and is Chairman of the Board of Directors of Collegiate Funding Services, Inc. He is a former director of the National Association of Securities Dealers, Inc., and the New York Stock Exchange, and a former governor of the Securities Industries Association. Mr. Marron serves as a trustee of the Center for Strategic and International Studies and is Chairman of the Center for the Study of the Presidency. He is a member of the Board of Overseers and Managers, Memorial Sloan-Kettering Cancer Center, and a trustee of the Museum of Modern Art. Mr. Marron has been a Fannie Mae director since 2001.

Daniel H. Mudd, age 45, has been Vice Chairman of the Board and Chief Operating Officer of Fannie Mae since February 2000. Prior to his employment with Fannie Mae, Mr. Mudd was President and Chief Executive Officer of GE Capital, Japan, a diversified financial services company and a wholly-owned subsidiary of the General Electric Company, from April 1999 to February 2000. He also served as President of GE Capital, Asia Pacific, from May 1996 to June 1999. Mr. Mudd also serves as a director of Ryder System, Inc. Mr. Mudd has been a Fannie Mae director since 2000.

Anne M. Mulcahy, age 51, has been Chairman of Xerox Corporation since January 2002 and Chief Executive Officer since August 2001. The Xerox Corporation is a global company serving document processing markets with headquarters in Stamford, Connecticut. Ms. Mulcahy served as President and Chief Operating Officer of Xerox from May 2000 through July 2001. She was Executive Vice President and President, General Markets Operations, from January 1999 to May 2000, and Senior Vice President, Chief Staff Officer from March 1997 to January 1999. Ms. Mulcahy also serves as a director of Target Corporation. Ms. Mulcahy has been a Fannie Mae director since 2000.

Joe K. Pickett, age 58, retired from HomeSide International, Inc. on June 30, 2001, where he had served as Chairman from February 1996. He also served as Chief Executive Officer of HomeSide International, Inc. from February 1996 to February 2001. HomeSide International was the parent of HomeSide Lending, Inc., a mortgage banking company that was formerly known as BancBoston Mortgage Corporation. HomeSide International was a wholly-owned subsidiary of National Australia Bank in 2001. Mr. Pickett also served as Chairman and Chief Executive Officer of HomeSide Lending from April 1990 to April 1999. Mr. Pickett is a past President of the Mortgage Bankers Association of America. Mr. Pickett has been a Fannie Mae director since 1996.

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Leslie Rahl, age 53, is the founder and has been the President of Capital Market Risk Advisors, Inc., a financial advisory firm specializing in risk management, hedge funds, and capital market strategy, since 1994. Previously, Ms. Rahl spent 19 years at Citibank, including nine years as Vice President and Division Head, Derivatives Group North America. Ms. Rahl is currently on the board of the International Association of Financial Engineers, the Fischer Black Memorial Foundation, and 100 Women in Hedge Funds. Ms. Rahl is a former director of the International Swaps Dealers Association. Ms. Rahl was elected to the Fannie Mae Board in February 2004.

Franklin D. Raines, age 55, has been Chairman of the Board and Chief Executive Officer of Fannie Mae since January 1999 and was Chairman of the Board and Chief Executive Officer Designate of Fannie Mae from May 1998 to December 1998. Prior to his current position with Fannie Mae, Mr. Raines was Director of the United States Office of Management and Budget from September 1996 to May 1998. Previously, Mr. Raines had been Vice Chairman of the Board of Fannie Mae from September 1991 to September 1996. He joined Fannie Mae in July 1991 as Vice Chairman Designate. Before joining Fannie Mae, Mr. Raines was with Lazard Freres & Co., an investment banking firm, which he joined in 1979 and was a General Partner from January 1985 to December 1990 and a Limited Partner from January 1991 to June 1991. Mr. Raines also serves as a director of PepsiCo, Inc. and Pfizer Inc. Mr. Raines will retire as a director of Time Warner Inc. in May 2004. In addition, Mr. Raines serves as an Overseer of TIAA-CREF. Mr. Raines was a Fannie Mae director from 1991 to 1996 and has been a Fannie Mae director since 1998.

H. Patrick Swygert, age 61, has been President of Howard University, a Washington, D.C. educational institution, since 1995. He also serves as a director of Hartford Financial Services Group, Inc. and United Technologies Corporation. In addition, Mr. Swygert is a member of Brown v. Board of Education National Commemoration Commission, chairman of the Historically Black Colleges and Universities Capital Finance Advisory Board, U.S. Department of Education, and member of the National Security Agency Advisory Board. Mr. Swygert has been a Fannie Mae director since 2000.

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Board of Directors

The Board of Directors met 19 times during 2003. Each director serving on the Board in 2003 attended at least 75 percent of the total number of meetings of the Board of Directors and Board committees on which he or she served.

Commencing in 2004, Fannie Mae s policy is that all directors attend the annual meeting of shareholders. Seven directors attended the 2003 annual meeting of shareholders.

Committees of the Board of Directors

The standing committees of the Board of Directors are:

The Assets and Liabilities Policy Committee, which assists the Board in its oversight of management s interest rate risk, credit risk, and capital management activities by:

- developing an in-depth and specialized knowledge on matters relating to assets and liabilities management; and
- reviewing management s policy proposals and performance, and making recommendations and reports to the Board, on matters relating to Fannie Mae s assets and liabilities. In this capacity, the Assets and Liabilities Policy Committee, among other things, reviews: credit and interest rate risk management policies and performance; investment guidelines for the liquid investment portfolio and management s compliance with those guidelines; the use of derivative contracts; and dividend payments.

The Audit Committee, which oversees:

- the accounting, reporting and financial practices of Fannie Mae, including the integrity of Fannie Mae s financial statements;
- the creation and administration of financial controls;
- Fannie Mae s compliance with legal and regulatory requirements;
- outside auditors qualifications and independence;
- technology and systems oversight of Fannie Mae s technological improvements; and
- the performance of Fannie Mae s internal audit function and Fannie Mae s outside auditor.

The Compensation Committee, which discharges the responsibilities of the Board relating to compensation of Fannie Mae s executives and oversees and advises the Board on the adoption of policies that govern Fannie Mae s annual compensation and stock ownership plans. The Compensation Committee, among other things:

- ensures that compensation programs reflect Fannie Mae s pay for performance philosophy and that stock compensation aligns the interests of employees, executives, and directors with those of shareholders;
- approves the compensation of Fannie Mae s senior officers;
- reviews and advises Fannie Mae on the process used for gathering information on the compensation paid by other similar businesses;
- reviews Fannie Mae s succession plans relating to the Chief Executive Officer and other senior officers; and

reviews periodic reports from management on matters relating to personnel appointments and practices.

The Executive Committee, which has all the authority of the Board during the interim periods between Board meetings, except for certain specified powers that are stated in the Fannie Mae bylaws.

The Housing and Community Development Committee, which was formed by the Board in July 2003 to:

assist in the development of Fannie Mae s public policy position on housing issues, including (1) the development of initiatives aimed at under-served groups such as low and moderate income purchasers, minorities, central city and rural residents, and people with special housing needs, (2) reviewing new housing finance initiatives that are relevant to Fannie Mae s corporate mission, and (3) Fannie Mae s contributions to public policy issues that are relevant to Fannie Mae and our key business partners; and

oversee Fannie Mae s contributions to affordable housing and community development, including (1) performance with respect to regulatory housing goals, and (2) performance with respect to Fannie Mae s

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own broad-based housing and community development initiatives.

The Nominating and Corporate Governance Committee:

develops and monitors implementation of Fannie Mae s corporate governance guidelines and key practices; conducts periodic benchmarking of corporate governance practices and as needed, recommends appropriate changes; and otherwise plays a leadership role in shaping Fannie Mae s corporate governance; and

identifies individuals qualified to become members of the Board; recommends to the Board the slate of director nominees to be elected by shareholders; and recommends directors to be elected by the Board to fill any vacancies.

At the July 2003 Board of Directors meeting, the Board voted to discontinue the Technology Committee after the November 2003 meeting. The Technology Committee met three times in 2003. Ongoing oversight of technological improvements is now carried out by the Audit Committee.

Committee Table

The following table shows the current membership of each committee, the number of meetings held by each committee during 2003, and the independence of our directors:

Director	Executive	Audit	Compensation	Nominating and Corporate Governance	Assets and Liabilities Policy	Housing and Community Development	Independent
Mr. Ashe				X		X	X
Mr. Ashley	X			X		Chair	X
Ms. Bordonaro					X	X	X
Mr. Duberstein	X				Chair	X	
Mr. Gerrity	X	Chair		X			X
Mr. Harvey		X				X	X
Mr. Howard							
Mr. Justiz					X	X	X
Ms. Korologos	X		X	Chair			X
Mr. Malek		X			X		X
Mr. Marron				X	X		X
Mr. Mudd							
Ms. Mulcahy	X	X	Chair				X
Mr. Pickett		X	X				X
Ms. Rahl					X	X	X
Mr. Raines	Chair						
Mr. Segue		X	X				X
Mr. Swygert					X	X	X
2003 Meetings	0	9	7	4	5	1	

The Board has determined that Mr. Malek and Ms. Mulcahy have the requisite experience to qualify as audit committee financial experts under the rules and regulations of the SEC and has designated them as such.

Directors Compensation

Retainer Fees

Through October 2003, we paid our directors an annual retainer of $35,000, plus $1,000 for attending in person each Board or Board committee meeting, and $600 for participating in each Board or Board committee telephone meeting. Committee chairmen received an additional annual retainer of $10,000, plus an additional $500 for each committee meeting chaired and $300 for each telephone committee meeting chaired.

In October 2003, after a comprehensive benchmarking project on board compensation, meeting fees for all meetings (regular and telephonic) were increased to $1,500 and other changes in director compensation were made as discussed below. The purpose of the board compensation benchmarking project was to review our current board compensation package against board compensation practices at comparable companies to ensure we could continue to attract and retain top director candidates. In accordance with our compensation philosophy, we targeted our board compensation at approximately the 65th percentile of identified comparable companies, which is the same percentile target used to calculate total compensation for executive officers (see page 18 for details on our compensation philosophy and approach).

Stock Options

Each non-management director is granted an annual nonqualified stock option to purchase 4,000 shares of common stock at the fair market value on the date of grant. The date of grant is the date of the annual meeting of shareholders. A non-management director appointed or elected as a mid-term replacement will receive a nonqualified stock option to purchase at the fair market value on the date of grant a pro rata number of shares equal to the fraction of the remainder of the term. In May 2003, each non-management director then serving on the Board received an option to purchase 4,000 shares of common stock with an exercise price of $72.515, which was the fair market value on the date of grant. In February 2004, Ms. Rahl received an option to purchase 1,333 shares of common stock, with an exercise price of $79.2175, which was the fair market value on the date of grant. Each option granted in 2003 and to Ms. Rahl in 2004 will expire ten years after the date of grant and was exercisable immediately on the date of grant. The options held by non-management directors who have served on the Board for at least ten years may be exercised for a period of one year following their retirement from the Board. Otherwise, non-management directors have three months to exercise the options when they leave the Board.

Beginning with the annual stock option award to directors in 2004, options will vest over four years in equal annual installments and non-management directors will have one year to exercise the options when they leave the Board.

Restricted Stock

Fannie Mae has a restricted stock award program for non-management directors established under the Fannie Mae Stock Compensation Plan of 2003. The award program provides for consecutive four-year cycles of awards of restricted common stock. Restricted common stock is common stock that cannot be sold until it vests over an extended period of time, with vesting contingent on the director s continued service on the Board.

Holders of restricted stock have all of the rights and privileges of a shareholder as to the restricted common stock, other than the ability to transfer it, including the right to receive any cash or stock dividends declared with respect to the stock and the right to provide instructions on how to vote the stock. Awards vest over four years at the rate of 25 percent per year, provided the participant is serving on the Board. If a director joins the Board during a four-year cycle, he or she receives a pro rata portion of the grant for the cycle, based on the time remaining in the cycle. These grants vest in the same annual amounts as those of directors who participate in the full four-year cycle. Vesting generally accelerates upon departure from the Board due to death, disability, or for elected directors, not being renominated after age 70.

In October 2003, as part of the comprehensive benchmarking project, Fannie Mae granted 2,600 shares of restricted common stock to each non-management director who was a member of the Board at that time. The restricted shares granted to the directors pursuant to these awards will vest in four equal annual installments, beginning with the date of the 2004 annual meeting. The full award to each director had a fair market value on

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the grant date of $191,568. In February 2004, Fannie Mae made a pro rata grant of 2,275 shares of restricted common stock to Ms. Rahl. The fair market value on the grant date was $180,220.

Each current Board member also has an outstanding grant of restricted common stock under the Fannie Mae Stock Compensation Plan of 1993. In May 2001, Fannie Mae granted 871 shares of restricted common stock for the 2001-2006 cycle to each non-management director who was a member of the Board at that time. The full award for the 2001-2006 cycle had a fair market value on the grant date of $65,813 and vests over a five-year period at the rate of 20 percent per year. The current members of the Board who were not members in May 2001 received pro rata awards upon their appointment or election to the Board, as follows: 856 shares to Mr. Ashe, Ms. Bordonaro, Mr. Harvey, and Mr. Segue in July 2001; 813 shares to Mr. Justiz in October 2001; 697 shares to Mr. Malek in May 2002; and 406 shares to Ms. Rahl in February 2004.

Directors who are employees of Fannie Mae receive no compensation for their service as directors.

Fannie Mae Director s Charitable Award Program

In 1992, we established the Federal National Mortgage Association Director s Charitable Award Program. The purpose of the program is to acknowledge the service of Fannie Mae s directors, recognize the interest of Fannie Mae and its directors in supporting worthy institutions, and enhance Fannie Mae s director benefit program to enable Fannie Mae to continue to attract and retain directors of the highest caliber. Under the program, when a director dies, 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. To be eligible to receive a donation, a recommended organization must be an educational institution or charitable organization and must qualify to receive tax-deductible donations under the Internal Revenue Code of 1986. The program is funded by life insurance contracts on the lives of participating directors; the funding is structured in a manner that will allow Fannie Mae to recover the entire program cost through the receipt of life insurance benefits. The program has no direct compensation value to directors because they do not receive any direct cash or tax benefit.

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Audit Committee Report

The Audit Committee of Fannie Mae s Board of Directors is composed of six directors. In the business judgment of the Board of Directors, each Committee member meets the independence, qualification, and expertise requirements of the NYSE listing standards and Fannie Mae s Corporate Governance Guidelines. The Board has determined that Mr. Malek and Ms. Mulcahy have the requisite experience to qualify as audit committee financial experts under the rules and regulations of the SEC and has designated them as such.

The Audit Committee operates under a written charter that is reviewed annually and was last revised and approved by the Board of Directors in February 2004. A copy of the charter is attached as Appendix A to this proxy statement, and is also available on our Web site at www.fanniemae.com. In addition to preparing this Audit Committee report, the purpose of the Audit Committee under the charter is to oversee:

- the accounting, reporting, and financial practices of Fannie Mae including the integrity of Fannie Mae s financial statements;
- Fannie Mae s compliance with legal and regulatory requirements;
- the outside auditors qualifications and independence; and
- the performance of Fannie Mae s internal audit function and Fannie Mae s outside auditors.

In accordance with this purpose, the outside auditors report directly to the Audit Committee and the Committee has the sole authority to appoint and retain the outside auditors. The Audit Committee approves in advance the fees for and terms of all auditing and non-audit services to be provided by Fannie Mae s outside auditors. The Committee meets separately on a periodic basis with each of management, the head of the internal audit department, and the outside auditors. The Committee has the authority to retain counsel, accountants, and other advisors to assist the members in carrying out their duties.

For the year ended December 31, 2003, the Audit Committee met 9 times. During the year, the Committee met with members of senior management (including the Chairman and Chief Executive Officer, the Vice Chairman and Chief Operating Officer, the Vice Chairman and Chief Financial Officer, the Controller, the head of the internal audit department, the Chief Technology Officer, the Executive Vice President for Law & Policy, and the General Counsel) and internal tax, finance, legal, technology, and internal audit personnel, as well as representatives from Fannie Mae s outside auditors, to discuss and review the audit scope and plans, the results of internal and external audit examinations, evaluations by the auditors of Fannie Mae s internal controls, the quality of Fannie Mae s financial reporting, Fannie Mae s compliance with legal and regulatory requirements, and Fannie Mae employees compliance with the Code of Business Conduct, and other matters. Specifically, the Committee, among other things:

- reviewed, and discussed with management, the audited financial statements for the year ended December 31, 2003;
- discussed with the outside auditors the matters required to be discussed by Statement on Auditing Standards No. 61;
- received the written disclosures and the letter from the outside auditors, KPMG LLP, required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with the outside auditor their independence from Fannie Mae; conducted due diligence regarding the outside auditors independence from Fannie Mae and its management;
- considered whether the rendering of non-audit services by the outside auditors was compatible with the auditors independence;
- reviewed and discussed the scope and resources for the internal audit function; and
- reviewed and oversaw the process by which Fannie Mae s Chief Executive Officer and Chief Financial Officer certified Fannie Mae s periodic disclosures.

In reliance on the reviews, reports, and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements be included in Fannie Mae s Annual Report on Form 10-K for the year ended December 31, 2003.

In addition, the Audit Committee has approved the reappointment of Fannie Mae s outside auditors,

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KPMG LLP, for 2004, and has submitted the reappointment to shareholders for ratification at the 2004 annual meeting.

The Committee pre-approved the fees for and terms of all audit and non-audit services to be provided by the outside auditors in 2004. The Audit Committee chairman may pre-approve any additional audit or non-audit services to be provided by the outside auditors and will report any pre-approvals to the Committee at the next scheduled meeting.

Interested parties may contact the Audit Committee by electronic mail, sent to auditcommittee@fanniemae.com , or by U.S. mail, sent to Audit Committee, c/o Office of the Secretary, Fannie Mae, Mailstop: 1H-2S/05, 3900 Wisconsin Avenue NW, Washington DC 20016-2892.

The Audit Committee

Thomas P. Gerrity, Chairman

William R. Harvey

Frederic V. Malek

Anne M. Mulcahy

Joe K. Pickett

Taylor C. Segue

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Compensation Committee Report on Executive Compensation

The Compensation Committee of Fannie Mae s Board of Directors is composed of four directors. In the business judgment of the Board of Directors, each Committee member meets the independence requirements of the NYSE listing standards and Fannie Mae s Corporate Governance Guidelines. The Compensation Committee met seven times in 2003.

The Compensation Committee charter setting forth the Committee s organization, purpose, and duties is available at www.fanniemae.com.

Fannie Mae s Compensation Philosophy and Approach

Fannie Mae became a shareholder-owned corporation in 1968, and since that time has become one of the world s largest financial institutions. In carrying out its mission, Fannie Mae has become the country s largest source of financing for home mortgages and the largest issuer of private-sector corporate debt and mortgage-backed securities.

Because of the scope and complexity of Fannie Mae s activities and its role in the U.S. economy and housing finance system, and the importance of its mission, it is imperative that the corporation always be in a position to attract and retain the best possible talent. To this end, Fannie Mae s Board of Directors has adopted a compensation policy designed to help the corporation compete with other large, sophisticated financial services companies for the talent Fannie Mae needs.

In formulating and implementing Fannie Mae s compensation philosophy, the Board of Directors, through its Compensation Committee, also has carefully considered its statutory obligations under the Fannie Mae Charter Act. The Charter Act states that the Board of Directors shall pay its executive officers compensation that the Board determines to be reasonable and comparable with compensation for employment in other similar businesses (including other publicly held financial institutions or major financial services corporations) involving similar duties and responsibilities. Moreover, the Charter Act requires that a significant portion of potential compensation of all executive officers of [Fannie Mae] shall be based on the performance of [Fannie Mae]. The Compensation Committee has based its compensation philosophy on these statutory requirements and has established review processes to ensure that this philosophy is implemented rigorously and carefully.

Accordingly, the central tenets of Fannie Mae s compensation philosophy are pay for performance and comparability. Pay for performance is reflected clearly in the structure of Fannie Mae s compensation programs. It is the core principle underlying the programs. Other than base salary, all major elements of Fannie Mae s compensation program for the most senior members of the executive officer group are tied to annual and long-term performance goals. Furthermore, through the use of stock vesting over multi-year terms, Fannie Mae tightly aligns the interests of executives with those of shareholders over extended periods of time.

The Committee acts to ensure that Fannie Mae s compensation is reasonable and comparable with the compensation of executives in other similar businesses that involve similar duties and responsibilities. Each year, the Compensation Committee reviews compensation survey data to analyze current compensation practices at companies comparable to Fannie Mae in terms of asset size, line of business, market capitalization, and other relevant factors. Specific Fannie Mae officer positions are compared to positions involving similar duties and responsibilities. The market data reviewed by the Committee for specific officer positions comes from companies included in the S&P Financials Index shown in the performance graph on page 3, as well as other publicly-held financial institutions and major financial services companies that compete for executives whose skills and experience are sought by Fannie Mae. The Committee uses as an advisor a nationally-recognized executive compensation consulting firm, Johnson & Associates, to assist in this comparability analysis.

At the Committee s request, the executive compensation consultant conducted a comprehensive assessment of Fannie Mae s compensation philosophy to assist the Committee in its analysis of that pay philosophy, market comparability, and types of long-term incentives used. Based on that review, the Committee decided to continue to target cash compensation (*i.e*., salary and annual bonus) at approximately the 50th percentile of the market data and positions total compensation (cash plus stock-based awards) at approximately the 65th percentile. The market data is used to determine specific salary, bonus, and variable long-term incentive award targets by officer position. The proportion of the total compensation package tied to performance measures increases with the rank of the executive officer.

In addition to Johnson & Associates, as authorized by its charter, the Committee retained an outside advisor wholly independent of management to assist it and provide the Committee with advice and support on certain compensation matters. The outside advisor is Roger Brossy of Semler Brossy Consulting Group, and he reports directly to the Committee.

In implementing Fannie Mae s compensation philosophy, the Committee each year conducts an assessment of corporate and individual performance. Individual performance reviews are rigorous. Each officer s individual performance is assessed on both individual business results and the demonstration of specific leadership qualities throughout the year. Evaluation of leadership qualities is assessed through the collection of reviews from the officer s subordinates, peers and superiors. In the final step of the performance review process, an overall performance rating is assigned reflecting a balance of business results and demonstration of leadership.

The performance rating is used to determine actual pay for salary, bonus, and variable long-term incentive awards relative to the targets. The Committee has final authority over compensation decisions for senior vice presidents, and the full non-management board determines compensation for executive vice presidents and the members of Office of the Chairman.

Our executive compensation program has three primary tools: base salary, an annual bonus award, and variable long-term incentive awards. The program ties a large portion of each officer s total compensation to performance over different time periods. To achieve a balanced result, Fannie Mae s pay for performance approach provides a cash payment for achieving annual financial goals and stock-based awards for medium and long-term performance generating increases in shareholder returns. This program is expressly designed not to put too much reliance on any one form of compensation.

Base Salary. Base salary for executive officers is determined principally by the Committee s judgment as to the market for comparable positions, informed by an annual market comparability review conducted by Fannie Mae s third-party consultant. Final salary determinations also reflect individual performance, leadership, and experience level. In general, the Committee seeks to target annual total cash (salary plus bonus) to the 50th percentile of the comparative market.

Annual Incentive Plan. The Annual Incentive Plan puts a portion of each executive officer s annual cash compensation at risk. Financial goals, measured by earnings per share (EPS) growth, established by the Board at the beginning of the year and achievement against these goals determine the funding of the bonus pool from which the actual bonuses are paid.

Variable Long-Term Incentive Awards. Variable long-term incentive awards are delivered in the form of stock options, and performance shares or restricted stock. All variable long-term incentive compensation programs are paid solely in Fannie Mae common stock, thereby reinforcing the shared interests of officers and shareholders. Officers at the senior vice president level and above receive half of the value of their annual variable long-term incentive award in the form of performance shares and half in the form of stock options.

Performance Shares. Performance shares are pay for performance incentive awards that compensate senior management for meeting performance objectives over a three-year period. Each year, the Committee establishes designated award periods (cycles) of three years. At the beginning of each cycle, at the Committee s request, the Board establishes program targets based on both financial and non-financial goals. The financial goals currently are tied to growth in EPS and the non-financial goals are tied to Fannie Mae s strategic plan. The Committee has established a scorecard to measure Fannie Mae s achievement of the strategic plan in the following areas:

- leadership in increasing access to affordable housing;
- leading presence in the secondary mortgage market;

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- optimal interest rate, credit, and policy risk management;
- development of a corporate culture to enhance strategy execution; and
- development of an e-commerce infrastructure to increase capabilities and lower costs.

The EPS goals and the strategic goals are given equal weighting (*i.e.*, 50 percent each) in determining award payout. The Committee determines actual achievement against these goals at the conclusion of each cycle. An actual award payout can range from 40 percent of the performance shares granted for threshold achievement to 150 percent for goal achievement at maximum levels. No payment is made if achievement is below the pre-determined threshold. Fannie Mae began a new three-year performance share cycle in January 2004.

Stock Options. Stock options link the interests of executives and shareholders by providing value to the executive only when the stock price increases over a number of years. Stock options generally vest over a four-year period at the rate of 25% per year and have a ten-year term. The number of stock options received by Fannie Mae executive officers as a group is targeted, when combined with performance shares, to bring total compensation to the 65^{th} percentile of the comparative market.

Chief Executive Officer Compensation

All of the executive compensation processes and policies described above are applied in setting the compensation and assessing the performance of Mr. Raines. In addition to reviews from a range of officers at the company, all non-management members of the Board participate in the review of Mr. Raines performance.

Without Mr. Raines present, the non-management members of the Board discussed the Committee s review of Mr. Raines performance for 2003. They assessed Mr. Raines performance against a broad range of leadership criteria including: strategic thinking, providing vision and direction, accelerating change, intellectual honesty, integrity, motivating and developing people, teamwork and partnering, influencing ideas and initiatives, fostering diversity and delivering results. The Board considered feedback from Mr. Raines subordinates and Board members obtained through the same survey instrument used to collect performance feedback for other officers. Mr. Raines performance also was measured against the financial and non-financial goals established for Fannie Mae s strategic plan.

All of this information was used to make the performance-based compensation decisions for Mr. Raines. Overall, the Board concluded that the performance of Fannie Mae under Mr. Raines leadership exceeded targets set in advance and met or exceeded that of comparable companies. Specifically noted were the following 2003 achievements:

- total business volume grew by 68 percent for a new record of $1.4 trillion;
- core business earnings per share grew more than 15 percent, producing Fannie Mae s 17th consecutive year of double-digit growth;
- core taxable equivalent revenues grew by 24 percent, to $14.8 billion;
- the mortgage portfolio business grew by 13 percent in a highly competitive market for purchasing mortgages;
- the mortgage guaranty business (outstanding Fannie Mae mortgage-backed securities) grew by 26 percent;
- strong and concrete efforts to maintain best in class corporate governance;
- expansion of corporate transparency, through implementation of voluntary commitments and increased investor disclosures, including the completion of the landmark registration of Fannie Mae s common stock under the Securities Exchange Act of 1934 with the SEC; and investment in Fannie Mae s future through the development of a new core technology infrastructure and new mortgage products and lender services.

Additionally, the Committee took note of Mr. Raines leadership of Fannie Mae and achievement of its housing and other goals in a challenging business environment and intensive policy environment. The Committee also took note of Mr. Raines leadership on behalf of housing and his strong leadership in the national business community on corporate governance.

The Committee s specific 2003 compensation determinations with respect to Mr. Raines are as follows and are reflected in the Summary Compensation Table at page 25.

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Base Salary. For 2003, the Board set Mr. Raines cash base salary at $992,250, unchanged since 2000, and slightly below the midpoint of the market. For the purposes of calculating his pension and life insurance benefits, however, the Board set a reference annual base salary for Mr. Raines at $1,153,030, reflecting a 5.4 percent increase over the prior year. Consistent with Fannie Mae s pay for performance philosophy, the difference between Mr. Raines cash base salary and reference annual base salary is awarded as additional long-term, equity-based compensation.

Annual Bonus. For 2003, Mr. Raines annual bonus is measured against targets set at the beginning of the year based on corporate financial performance for the year, measured by growth in EPS. Fannie Mae significantly exceeded those targets and Mr. Raines bonus for the year reflects his contributions to that performance.

Other Annual Compensation. The Board also approved other benefits for Mr. Raines, including his reimbursement for tax counseling and financial planning services and personal use of company transportation. The value of these benefits was considered by the board in setting Mr. Raines total compensation.

Variable Long-Term Incentive Compensation. The information provided in this proxy statement on variable long-term compensation reflects two actions taken by the Committee. First, the Committee awarded the long-term incentive payouts reported in the Summary Compensation Table at page 25. These stock payouts reflect the achievement of performance share program goals from 1999 through 2003. During that time and under Mr. Raines leadership, Fannie Mae reached financial and strategic milestones including: record financial performance, significant revenue growth in both of our business segments, and early achievements of the $2 trillion American Dream Commitment goal and the Trillion Dollar Commitment.

Second, in line with Fannie Mae s pay for performance goals and to continue to align Mr. Raines compensation directly with the long-term interests of shareholders, the Committee granted Mr. Raines performance shares and stock options vesting over multi-year periods, based on his performance evaluation. The Committee awarded Mr. Raines 314,634 stock options based on Fannie Mae s and Mr. Raines outstanding performance in 2003. Mr. Raines proposed to the Committee and it concurred that, for no additional compensation, he retain only 135,020 of those options. Those awards are reflected in the tables at pages 26 and 27.

Conclusion

The Committee believes both the design of Fannie Mae s compensation programs and the actual total compensation levels described in this proxy statement reflect adherence to the Board of Directors obligations under the Charter Act and careful thinking about what is appropriate from both a competitive and shareholder perspectives, and clearly reflect Fannie Mae s compensation philosophy.

The Compensation Committee

Anne M. Mulcahy, Chairman

Ann Korologos

Joe K. Pickett

Taylor C. Segue

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Nominating and Corporate Governance Committee Report

The Nominating and Corporate Governance Committee of the Fannie Mae Board of Directors is composed of five directors and operates under a written charter that was last approved by the Board in April 2004. The Nominating and Corporate Governance Committee Charter is available on our Web site. In the business judgment of the Board of Directors, each Committee member meets the independence requirements of the NYSE listing standards and Fannie Mae s Corporate Governance Guidelines. The Nominating and Corporate Governance Committee met four times in 2003.

Among its responsibilities, the Nominating and Corporate Governance Committee makes recommendations to the Board about individuals to be elected by the shareholders as Fannie Mae directors. The Committee also plays a leadership role in shaping Fannie Mae s corporate governance. The Nominating and Corporate Governance Committee recommended each of the thirteen nominees standing for election by the shareholders in this proxy statement.

Director Nomination and Evaluation Process

Fannie Mae s Charter Act provides that we are to have eighteen directors, thirteen elected by shareholders and five appointed by the President of the United States. The Nominating and Corporate Governance Committee is responsible for evaluating, selecting, and recommending to the Board the thirteen nominees for the Board to stand for election at the annual meeting of shareholders.

The Nominating and Corporate Governance Committee employs a variety of methods for identifying and evaluating director nominees. Candidates for vacancies on the Board may come to the attention of the Nominating and Corporate Governance Committee through several different means, including recommendations from Board members, senior management, professional search firms, shareholder nominations, and other sources.

In evaluating candidates for the Board, the Nominating and Corporate Governance Committee focuses on the strategic needs of Fannie Mae. The committee seeks out individuals who: (1) possess the highest personal values, judgment, and integrity; (2) have an understanding of the regulatory and policy environment in which Fannie Mae conducts its business; and (3) have diverse experiences in the key business, financial, and other challenges that face a major American enterprise.

Candidates who are nominated by shareholders are considered by the Nominating and Corporate Governance Committee using the same criteria employed by the Committee to evaluate nominees from other sources. The process for shareholders to nominate a candidate for the Board for the 2005 annual meeting is described in Shareholder Proposals and Nominations for 2005 on page 36 of this proxy statement.

Selection of New Director

Throughout 2003, the Nominating and Corporate Governance Committee engaged in an extensive search to find a candidate to fill the seat vacated by Stephen Friedman, who left the Board to serve as the Director of the National Economic Council. The Committee expressed a preference for finding a candidate with extensive business experience in the areas of finance and financial derivatives to replace Mr. Friedman and one who would add diversity to the Board.

The Nominating and Corporate Governance Committee engaged a search firm to assist with the search. After conducting extensive interviews, the search firm presented several candidates to the Nominating and Corporate Governance Committee.

The Committee evaluated and considered the candidates and recommended to the Board Leslie Rahl, who was originally identified by the search firm. In February 2004, the Board, acting on the recommendation of the Committee, elected her to the Board effective as of the February 2004 Board meeting. As described in her biography on page 11, Ms. Rahl has extensive business experience in financial derivatives.

Director Independence Standards Review

In early 2004, the Nominating and Corporate Governance Committee recommended, and the Board adopted, amendments to the director independence standards in the Corporate

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Governance Guidelines to strengthen them as part of Fannie Mae s goal of having best-in-class corporate governance.

The director independence standards set forth in the Corporate Governance Guidelines now exceed NYSE director independence requirements in four significant areas: (1) a director will not be considered independent if he or she receives any payments from Fannie Mae (other than payment for Board service from Fannie Mae); (2) a director will not be considered independent if Fannie Mae or the Fannie Mae Foundation makes contributions of more than $100,000 to a charity affiliated with such director; (3) Fannie Mae will look back five years when reviewing whether certain relationships or affiliations between a director and Fannie Mae would result in such director not being considered independent; and (4) a director will not be considered independent if a Fannie Mae executive officer sits on the compensation committee of the director s employer, regardless of whether the director is an executive officer of that company.

Review of Incumbent Directors

In evaluating incumbent directors for renomination, the Nominating and Corporate Governance Committee takes into consideration a number of factors, including: (1) the director s contributions as a member of the Board; (2) any change in the director s employment, including retirement; (3) whether the director continues to bring relevant experience to the Board; (4) whether the director has the ability to attend meetings and fully participate in the activities of the Board; (5) whether any circumstances have arisen, including the development of a relationship with Fannie Mae or another organization, that might make it inappropriate for the director to continue his or her service on the Board; and (6) the director s age and length of service on the Board.

The Corporate Governance Guidelines provide that as a general matter, directors will not be renominated after having served on the Board for ten years, unless the Nominating and Corporate Governance Committee determines there is a good reason to propose renomination. Two members of the Board of Directors, Mr. Gerrity and Ms. Korologos, have served on the Board for ten or more years.

In accordance with the Guidelines, the Committee (with Ms. Korologos and Mr. Gerrity abstaining from the determination) carefully considered the re-nomination of Ms. Korologos and Mr. Gerrity and decided to re-nominate both directors. The Committee noted their extensive experience in serving on the boards of directors of public companies, their knowledge of Fannie Mae, their expertise and the Board s desire for their continued leadership as the chairs of the Audit and Nominating and Corporate Governance Committees, respectively.

The Committee concluded that in the current climate of increasing legal requirements and workload demands on boards of directors generally, and on audit and nominating and corporate governance committees specifically, it is in the best interests of the shareholders and Fannie Mae that they continue their service on the Board.

The Nominating and Corporate Governance Committee

Ann Korologos, Chairman

Victor H. Ashe

Stephen B. Ashley

Thomas P. Gerrity

Donald B. Marron

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Executive Officers Who Are Not Nominees

Our executive officers who are not nominees for election to the Board of Directors have provided the following information about their principal occupation, business experience, and other matters.

Thomas E. Donilon, age 48, has been Executive Vice President Law and Policy and Secretary to the Board of Directors since May 2000. Mr. Donilon became a member of the Office of the Chairman in 2003. He served as Senior Vice President, General Counsel and Secretary from September 1999 to May 2000. Mr. Donilon was a partner with the law firm of O Melveny & Myers from February 1991 to March 1993 and November 1996 to September 1999 when he joined Fannie Mae. Mr. Donilon served as Assistant Secretary of State for Public Affairs and Chief of Staff to the Secretary of State from March 1993 to November 1996.

Louis W. Hoyes, age 55, has been Executive Vice President Single-Family Mortgage Business since May 2000. He served as Senior Vice President Multifamily Lending and Investment from September 1995 to May 2000. Prior to his employment with Fannie Mae, Mr. Hoyes was a managing director of Citicorp Real Estate, holding various management positions over his 22-year career in their commercial real estate division and Latin American banking group. He also served as a Senior Credit Officer of Citibank, N.A., from 1982 until he joined Fannie Mae.

Ann M. Kappler, age 46, has been Senior Vice President and General Counsel since May 2000. She was Senior Vice President and Deputy General Counsel from January 1999 to May 2000. Prior to joining Fannie Mae, she was a partner with Jenner & Block, a law firm, from January 1994 to December 1998.

Robert J. Levin, age 48, has been Executive Vice President Housing and Community Development since June 1998. He was Executive Vice President Marketing from June 1990 to June 1998. He joined Fannie Mae in 1981.

Adolfo Marzol, age 43, has been Executive Vice President Finance and Credit since November 2002. He was Executive Vice President and Chief Credit Officer from June 1998 to November 2002. He was Senior Vice President Single-Family Business Management from July 1996 to June 1998. He was Senior Vice President Capital Markets from February 1996 to July 1996. Prior to his employment with Fannie Mae, Mr. Marzol was Executive Vice President and Chief Financial Officer from July 1993 to January 1996 and Senior Vice President Interest Rate Risk from January 1991 to June 1993 of Chase Manhattan Mortgage Corporation, a mortgage company.

Peter S. Niculescu, age 44, has been Executive Vice President Mortgage Portfolio Business since November 2002. He was Senior Vice President Portfolio Strategy from March 1999 to November 2002. Prior to his employment with Fannie Mae, Mr. Niculescu was a Managing Director and Co-Head of Fixed Income Research for Goldman Sachs & Co. He joined Goldman Sachs in 1990 and held a variety of positions including Managing Director Mortgage Research, Vice President Mortgage Research, and Corporate Bond Strategist.

Julie St. John, age 52, has been Executive Vice President and Chief Information Officer since March 2004. She was Executive Vice President and Chief Technology Officer from July 2000 until March 2004. She served as Senior Vice President Mortgage Business Technology from November 1999 to July 2000. She was Senior Vice President Guaranty and Franchise Technologies from November 1993 to November 1999. Ms. St. John joined Fannie Mae in 1990.

Michael J. Williams, age 46, has been President Fannie Mae eBusiness since July 2000. He served as Senior Vice President e-Commerce from March 2000 to July 2000. He was Senior Vice President Customer Applications and Technology Integration from November 1993 to March 2000. Mr. Williams joined Fannie Mae in 1991.

Under Fannie Mae s bylaws, each officer holds office until his or her successor is chosen and qualified or until he or she dies, resigns, retires, or is removed from office by the Board of Directors.

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Executive Compensation

Compensation Tables

The tables on pages 25 to 27 profile Fannie Mae s compensation for the Chief Executive Officer and its four other most highly compensated executive officers (the covered executives), including salaries and bonuses, option grants and exercises, and performance share awards. Awards made in January 2004 are reported as compensation for 2003.

Summary Compensation Table

The following table shows the compensation of the covered executives for 2003, 2002, and 2001.

		Annual Compensation (1)				Long Term Compensation (2)			All Other Compensation (3)
						Awards		Payouts	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Total Annual Compensation**	**Restricted Stock Awards**	**Securities Underlying Options / SARs(#)**	**LTIP Payouts**	
Franklin D. Raines	2003	$ 992,250	$ 4,180,365	$ 237,246	$5,409,861	$	135,020	$ 11,621,280	$ 25,501
Chairman of the Board	2002	992,250	3,300,000	163,923	4,456,173		311,731	7,233,679	24,248
and Chief Executive Officer	2001	992,250	3,125,650	3,085	4,120,985		277,335	6,803,068	25,215
Daniel H. Mudd	2003	714,063	1,288,189	92,762	2,095,014		105,749	4,674,015	10,167
Vice Chairman of the	2002	689,124	911,250	1,358	1,601,732		82,918	2,339,702	9,569
Board and Chief Operating Officer	2001								