

June 14, 2004

Alfred M. Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street NW
Washington, DC 20552

Re: *Comments/RIN 2550-AA24*

Dear Mr. Pollard:

The Fannie Mae Nominating and Corporate Governance Committee submits the following comments on the proposed amendments to the Office of Federal Housing Enterprise Oversight's ("OFHEO") corporate governance regulation for Fannie Mae and Freddie Mac (the "Enterprises"). The Nominating and Corporate Governance Committee is composed entirely of independent directors with more than 90 years of collective service on boards of directors. Our members have experience as current and former CEOs, a former U.S. Secretary of Labor, a professor and former Dean of the Wharton School, trustees of respected nonprofit organizations, a former director of the National Association of Securities Dealers and the New York Stock Exchange, and directors of numerous public companies, including AMR Corporation, Host Marriott Corporation, Kellogg Company, Microsoft Corporation, CVS Corporation, Knight-Ridder, Inc., Sunoco, Inc. and Hercules, Inc.

We have reviewed OFHEO's proposed amendments to its corporate governance regulation. Based on our experience, we have serious concerns about the impact of these amendments on our role as directors of Fannie Mae and especially as members of the Nominating and Corporate Governance Committee. In particular, we believe that the amendments could dilute directors' accountability to shareholders and weaken our role as representatives of Fannie Mae's shareholders.

As an initial matter, Fannie Mae is widely recognized as a strong corporate governance company and has been named one of America's Most Admired Companies (*Fortune*, 2003), 100 Best Corporate Citizens (*Business Ethics*, Spring 2003) and the Best Stakeholder Board for Outstanding Corporate Governance (*The Corporate Library*, June 2003). We received a score of 9.0 on a 10-point scale from independent ratings agency Standard & Poor's, which noted that "Fannie Mae's corporate governance practices are judged . . . to be at a very strong level on a global basis of comparison."

At Fannie Mae, we put a premium on upholding four simple, core principles: transparency, integrity, responsibility and accountability. We strive to hold every individual at Fannie Mae – from our directors to our Chairman and CEO to our employees – to the highest standards of honesty, integrity and accountability. More than two-thirds of our directors are independent from management under criteria that exceed New York Stock Exchange ("NYSE") listing standards, and we have entirely independent Audit, Compensation and Nominating and Corporate Governance Committees. We annually benchmark our published Corporate Governance Guidelines with best-in-class corporate governance practices and make appropriate changes. We have a Code of Business Conduct that applies to all employees and a Code of Business Conduct and Ethics and Conflicts of Interest Policy for directors. And, as Standard & Poor's recognized, we have "consistently undertaken to provide disclosure to [our] shareholders and stakeholders at a level that meets, or in some cases, exceeds that required by the SEC."

OFHEO bases its determination that the Enterprises should adhere to corporate governance practices that are not applicable to all companies in part on the "size and significance" of their operations in capital markets and the banking system. This argument, however, is true of many companies, including large bank holding companies and other financial institutions. Moreover, the past few years have seen significant corporate governance reforms by Congress, the SEC and the NYSE, some of which are still being implemented. The regulators of bank holding companies and other financial institutions have not found it necessary to prescribe detailed corporate governance rules that go beyond SEC and NYSE standards. We suggest that OFHEO also give the recent corporate governance reforms a chance to work before imposing another layer of regulation.

Finally, we are concerned that the proposal's focus on the federal charters and "public mission" of the Enterprises may detract from our role as representatives of Fannie Mae's shareholders. As directors, our duty is to act in the best interests of the shareholders. While we obviously recognize, oversee and support Fannie Mae's important public mission and the significance of Fannie Mae's operations in capital markets, we must be accountable to Fannie Mae's shareholders.

Set forth below are our more specific concerns about the proposed amendments.

Board Leadership. Splitting the roles of Chairman and CEO may or may not be advisable for a particular company at a particular time in its history. The OFHEO proposal to mandate separation would eliminate the Board's flexibility to determine what leadership structure is most appropriate at a particular point in time. It may well be that under certain circumstances, the Board will determine that a split in these roles is appropriate; however, it must have the flexibility to adapt its leadership structure to the company's circumstances and strategy and the particular individuals involved at the time.

Fannie Mae's Board is committed to providing independent oversight and leadership. In this regard, we reserve time for executive sessions of the non-management directors at every regularly scheduled Board meeting, and any non-management director can request an additional executive session. The Nominating and Corporate Governance Committee chair establishes the agenda and serves as the presiding director for these executive sessions. We believe this

structure works well for Fannie Mae, as noted by Standard & Poor's (the Fannie Mae Board "appears to be an effective leader of the company and monitor of management").

Limits on Director Service. The proposed amendments would limit the service of a Fannie Mae Board member to no more than 10 years or past the age of 72, whichever comes first. We believe this proposal would restrict the Board's flexibility in selecting and retaining qualified, capable director nominees. Under Fannie Mae's Corporate Governance Guidelines, a director generally will not be re-nominated after having served on the Board for 10 years, but the Nominating and Governance Committee may for good reason propose the re-nomination of such a director. This year, for example, the Committee proposed the re-nomination of two directors who had served on the Board for 10 or more years. As discussed in Fannie Mae's 2004 proxy statement, the Committee based its decision on the directors' extensive experience in serving on the boards of public companies, their knowledge of Fannie Mae, their expertise and the Board's desire for their continued leadership as chairs of the Audit and Nominating and Corporate Governance Committees. In the current climate of increasing legal requirements and workload demands on directors generally, and on audit and nominating and corporate governance committees specifically, the Committee concluded that it was in the best interests of Fannie Mae and its shareholders that the directors continue their service on the Board. There is no reasonable basis for depriving the Fannie Mae Board of this flexibility.

Board meetings. The proposed amendments would require Fannie Mae's Board to meet at least twice per quarter. We believe that such micromanagement of the Board's meeting schedule is particularly inappropriate. The Fannie Mae Board meets as often as necessary, when necessary, to fulfill its responsibilities – which may include meeting more often in one quarter than another. We have a base commitment to meet seven times per year. Often we have met more than that.

Compensation. The proposed amendments would prohibit compensation in excess of what is "appropriate" for the Enterprises and consistent with their long-term goals, in addition to current language barring compensation in excess of what is reasonable. We are concerned that there is no standard by which "appropriate" compensation is to be determined. Further, Fannie Mae's compensation programs already explicitly balance long-term and short-term objectives and the achievement of earnings growth with other measures that address the quality of earnings and the achievement of our mission. These programs are overseen by Fannie Mae's Compensation Committee, which is comprised entirely of independent directors, retains its own outside compensation consultant and is accountable to the full Board and the shareholders through its charter.

Auditor Rotation. The proposed amendments would require Fannie Mae to change its outside auditors at least every 10 years, in order to have "the most impartial oversight and review of accounting and other matters." Although we strongly agree with the importance of safeguarding the independence of our outside auditors, we believe existing measures better accomplish this goal. Currently, in accordance with SEC rules and NYSE listing standards, Fannie Mae's outside auditors report directly to the Audit Committee, and the Audit Committee has the sole authority to appoint and retain the outside auditors, including consideration of whether rotation of the auditors is appropriate. The Audit Committee approves in advance the fees for and terms of all audit and non-audit services to be provided by the outside auditors. In

addition, the Audit Committee annually reviews the outside auditors' independence and performance and submits the appointment of the auditors to Fannie Mae's shareholders for ratification. As noted by Standard & Poor's, our Audit Committee "demonstrates a commitment to the independence of the audit process."

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In conclusion, we believe that Fannie Mae consistently pursues "best practices" in corporate governance. It is an ongoing process. Our Board must retain the flexibility to address governance issues, including Board leadership, director tenure and Board meeting schedules, in the best interests of our shareholders.

Thank you for considering our comments on OFHEO's proposed corporate governance amendments. Please do not hesitate to contact us if we can be of further assistance.

Sincerely,

Ann M. Korologos
Chair, Nominating and Corporate Governance
Committee
Fannie Mae