



FORM 8-K

FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE – FNM

Filed: January 26, 2007 (period: January 25, 2007)

Report of unscheduled material events or corporate changes.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported):

January 25, 2007

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Federally Chartered Corporation

000-50231

52-0883107

(State or other jurisdiction
of incorporation)

(Commission
File Number)

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

3900 Wisconsin Avenue, NW, Washington,
District of Columbia

20016

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

202-752-7000

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Yesterday Fannie Mae's Board of Directors and its Compensation Committee determined the 2007 salaries, the 2006 performance year cash bonuses and the 2006 performance year variable long-term incentive awards for its executive officers. In accordance with Fannie Mae's capital restoration plan, as agreed to with its regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), all of the non-salary compensation decisions for Fannie Mae's "OFHEO-designated executive officers" (which is a larger group of executive officers than those Fannie Mae has determined are "executive officers" under the rules of the Securities and Exchange Commission) require OFHEO's approval. Fannie Mae has received the required approval from OFHEO for the 2006 bonus and restricted stock awards program.

In determining compensation for the 2006 performance year, the Compensation Committee and the Board focused on Fannie Mae's performance against the corporate performance goals that the Board had established in April 2006 and the importance of the company's ability to recruit, retain and maintain experienced and effective senior management as Fannie Mae works to become current in filing its financial statements, implement its agreements with OFHEO and manage its business. The Compensation Committee, with input from other Board committees, evaluated corporate performance in 2006 against the previously established corporate performance goals, which related to (1) stabilizing the company by building relationships with regulators and investors and restating prior period financial statements; (2) optimizing the company's business model and generating shareholder value through key initiatives; (3) fulfilling Fannie Mae's affordable housing mission; (4) instilling operational discipline into all functions; and (5) renewing the company's culture. The compensation decisions for Fannie Mae's senior management presented in this Form 8-K reflect the assessment of the Board and the Compensation Committee of the company's performance in 2006 against these goals and individual performance of the officers.

Compensation of Fannie Mae's executive officers is determined annually and includes three components: (i) salary, (ii) cash bonuses under an annual incentive plan, and (iii) variable long-term incentive awards. At the senior levels of the company, the largest component of compensation is a variable long-term incentive award, which is delivered as stock that vests, generally over a period of four years. This serves to align management to the company's shareholders.

The Board and the Compensation Committee's decisions discussed below reflect a change in the compensation philosophy that the Board and the Compensation Committee adopted in 2005. Under this approach, management's performance is measured against a broad set of corporate objectives rather than focusing on a single financial measure.

The following table sets forth, opposite the name and title of Fannie Mae's Chief Executive Officer, its Chief Financial Officer and its four most highly compensated officers during 2005 other than the Chief Executive Officer, (i) the 2007 annual base salary for that officer, (ii) the annual cash bonus for the 2006 performance year for that

officer, and (iii) the number of shares of restricted stock or restricted stock units issued to that officer for the 2006 performance year. The executive officers listed in this table are referred to in the discussion below as the “covered executives.” More detailed information about the terms of the compensation and the manner in which the Compensation Committee and the Board review and determine compensation for senior management is set forth following the table.

<u>Name and Title</u>	<u>2007 Salary</u>	<u>2006 Cash Bonus</u>	<u>Restricted Shares(1)</u>
Daniel H. Mudd President and Chief Executive Officer	\$990,000	\$3,500,000	176,506(2)
Robert T. Blakely Executive Vice President and Chief Financial Officer	\$663,000	\$1,290,575	58,236
Robert J. Levin Executive Vice President and Chief Business Officer	\$788,000	\$2,087,250	117,679
Thomas A. Lund Executive Vice President—Single-Family Mortgage Business	\$523,000	\$1,029,515	41,945
Peter S. Niculescu Executive Vice President—Capital Markets	\$585,000	\$1,029,060	50,127
Michael J. Williams Executive Vice President and Chief Operating Officer	\$676,000	\$1,630,200	92,621

- (1) Each award vests at the rate of 25 percent per year, beginning in January 2008. On January 25, 2007, the closing price of Fannie Mae’s common stock was \$56.57 per share.
- (2) One-fifth of this award (net of taxes) must be retained by Mr. Mudd until his employment with Fannie Mae is terminated. The retained shares will not count toward fulfilling Mr. Mudd’s obligation to hold shares of Fannie Mae common stock worth five times his base salary under Fannie Mae’s stock ownership guidelines.

Background

Fannie Mae’s Board sets the compensation of Fannie Mae’s executive vice presidents, while compensation of Fannie Mae’s President and Chief Executive Officer is determined by the independent members of the Board. In each case, compensation decisions are based on the recommendation of the Compensation Committee.

In determining compensation for senior management, the goal of the Compensation Committee and the Board is to ensure, as required under the Fannie Mae Charter Act, that Fannie Mae’s compensation is reasonable and comparable with the compensation of executives with similar duties and responsibilities in other similar businesses. For these compensation decisions involving senior officers, the Compensation Committee and the Board used as a guideline the 50th percentile of compensation paid at a comparison group of diversified financial services companies. The company’s philosophy prior to 2005

had been to target total compensation at approximately the 65th percentile of companies in Fannie Mae's comparison group. Information regarding compensation paid at other companies, including actual 2005 compensation and estimated 2006 compensation for chief executive officers, was provided by a nationally recognized executive compensation consulting firm retained to assist in this comparability analysis. The Compensation Committee retained its own nationally recognized compensation consultant to act as an independent advisor with regard to compensation decisions for the covered executives, especially those relating to Mr. Mudd's compensation. The Compensation Committee considered compensation scenarios for each covered executive, taking into account the executive's outstanding stock options, restricted shares, and performance share balances; existing severance arrangements with the executive, if any; and the other benefits (such as life insurance, pension plan participation and health benefits) available to the executive under the terms of his employment.

Salary

The Board (and, in the case of the Chief Executive Officer, the independent members of the Board) established the base salaries for the covered executives based on the recommendation of the Compensation Committee.

Cash Bonuses

The cash bonuses for the covered executives are set each year in accordance with Fannie Mae's Annual Incentive Plan. Fannie Mae's Annual Incentive Plan governs the payment of annual cash incentive awards (i.e., cash bonuses) to Fannie Mae's executive officers and other management-level employees. Pursuant to the terms of the plan, on April 24, 2006 and April 25, 2006, the Board and the Compensation Committee approved the corporate performance goals for 2006 that are described above and bonus award targets for the covered executives and other executive officers. In January 2007, the Compensation Committee, with input from other Board committees, evaluated corporate performance against the goals, including what it determined to be the appropriate weighting of the goals at that time, and determined that it was appropriate to fund the bonus pool. The Board (and, in the case of the President and Chief Executive Officer, the independent members of the Board) then determined, based on the recommendation of the Compensation Committee, the individual bonus amounts for each covered executive.

Variable Long-Term Incentive Awards

Variable long-term incentive compensation awards are awards that vest over a period of years. Fannie Mae believes that providing a portion of senior management compensation through variable long-term incentive awards that have a multi-year vesting schedule and that are based in large part on Fannie Mae common stock aligns the interests of its senior management with those of other Fannie Mae stockholders, reinforcing their shared interests in company performance.

Consistent with this compensation philosophy, on January 25, 2007, the Board determined, based on the recommendation of the Compensation Committee, that variable

long-term incentive awards to Fannie Mae's executive officers for 2006 performance would be made in the form of shares of restricted Fannie Mae common stock or restricted stock units that would vest at the rate of 25 percent per year, beginning in January of 2008. Vesting is contingent on the executive's continued employment with Fannie Mae, subject to accelerated vesting as a result of death, disability, retirement or, under specified circumstances, a negotiated separation from Fannie Mae. Fannie Mae's restricted stock confers voting and dividend rights on its holders. Each restricted stock unit represents the right to receive a share of common stock at the time of vesting. As a result, restricted stock units are generally similar to restricted stock, except that restricted stock units do not confer voting rights on their holders.

Prior to January 2005, Fannie Mae granted long-term incentive awards under its performance share program. Under the program, senior management was compensated for meeting performance objectives over a period of three calendar years. Objectives were set at the beginning of the three-year period, and after the end of the period the Compensation Committee determined achievement against the goals and the amount of the award payout. No award cycles have been established under the program since 2004 and, since January 2005, the Board and the Compensation Committee have deferred the determination of the amount of any payouts under the program.

Item 9.01. Financial Statements and Exhibits.

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

SIGNATURE

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By: /s/ Beth A. Wilkinson

Beth A. Wilkinson

Executive Vice President and General Counsel

Date: January 26, 2007

EXHIBIT INDEX

The following exhibits are submitted herewith:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
99.1	Form of Restricted Stock Award Document
99.2	Form of Restricted Stock Units Award Document

**FANNIE MAE
RESTRICTED STOCK AWARD
Award Document**

This grant of Restricted Stock from Fannie Mae (the "Award") is made to you as an Eligible Employee (the "Awardee") effective as of the date of grant set forth in the grant detail available for you to view on the UBS website.

1. **Grant of Stock.** Pursuant to the provisions of the Fannie Mae Stock Compensation Plan of 2003 (the "Plan"), Fannie Mae hereby grants to the Awardee, subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth in this Award Document, restricted shares of Common Stock of Fannie Mae (the "Restricted Stock") as set forth in the grant detail found on the "Restricted" page under the "Grants/Awards/Units" tab on the UBS website.

2. **Definitions.** Unless provided otherwise herein, all defined terms are written with initial capital letters and shall have the meaning stated in the Plan.

3. **Terms and Conditions.** By accepting the Award, the Awardee agrees that the Award is subject to the following terms and conditions:

(a) **Pre-Vesting Limitations.** The Restricted Stock, the right to vote the Restricted Stock, and the right to receive dividends or other distributions with respect to the Restricted Stock may not, except in accordance with Plan provisions, be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise disposed of or encumbered, either voluntarily or involuntarily, until the restrictions have lapsed. Fannie Mae reserves the right to impose similar restrictions on any cash or property distributed with respect to any shares of Restricted Stock. Restrictions shall lapse in accordance with the vesting schedule set forth in the grant detail or, if earlier, upon the Awardee's Retirement, Early Retirement, Total Disability or death or at such earlier time and in such circumstances, if any, as may be determined under the Plan (including, without limitation, pursuant to Section 4.2(d) of the Plan if applicable). Notwithstanding the foregoing, restrictions shall not lapse upon the Awardee's Retirement or Early Retirement if the Committee determines that the Awardee's termination of employment is "For Cause." For the purpose of this Award, "For Cause" is defined in Section 6 below.

(b) **Treatment of Restricted Stock Upon Termination of Employment.** Unless otherwise provided by the Committee, all shares of Restricted Stock as to which the restrictions have not lapsed in accordance with the provisions hereof shall be immediately forfeited upon the termination of employment of the Awardee. Forfeited shares of Restricted Stock shall be automatically transferred to Fannie Mae without payment of any consideration by Fannie Mae and without any required consent or other action by the Awardee, and all rights of Awardee with respect to such shares of Restricted Stock shall thereupon cease.

(c) **Shareholder Rights.** The Awardee shall be entitled to voting rights and the right to any dividends or other distributions with respect to the shares of Restricted Stock held by the Awardee, regardless of whether such shares are vested or unvested, provided that such rights shall terminate immediately as to any Restricted Stock that is forfeited. Dividends and other distributions paid on unvested shares of Restricted Stock may be taxable to the Awardee as additional compensation.

(d) **Payment of Taxes.** This Award is conditioned upon prompt and timely payment by the Awardee to Fannie Mae of any and all taxes required to be withheld by Fannie Mae with respect to the grant or with respect to the vesting of the Restricted Stock. The Awardee shall pay such taxes as follows: (i) if the withholding obligation arises in connection with the vesting of any shares of Restricted Stock, by electing to have a portion of such shares with a value equal to the required withholding transferred to Fannie Mae, or (ii) by the delivery of a check in form satisfactory to the plan administrator, or (iii) by wire transfer. Fannie Mae's obligation to release unencumbered shares of Common Stock upon the lapse of restrictions on any Restricted Stock shall be subject to the satisfaction by the Awardee of these obligations.

(e) **Award Confers No Rights with Respect to Continuance of Employment.** This Award shall not confer upon the Awardee any right with respect to continued employment by Fannie Mae, nor shall it interfere in any way with the right of Fannie Mae to terminate the Awardee's employment at any time.

(f) Compliance with Law and Regulations. This Award and the obligation of Fannie Mae to release unencumbered shares hereunder shall be subject to applicable federal and state laws, rules and regulations, and to such approvals by any government or regulatory agency as may be required.

4. Awardee Bound by Plan and Administrator's Records. Awardee is bound by all the terms and provisions of the Plan and the records of the Plan's administrator (including any third-party recordkeeper). In the event of a conflict between the Award Document and the terms of the Plan or the records of the Plan's administrator, the terms of the Plan and records of the Plan's administrator shall control.

5. Legends. Prior to the lapse of the restrictions on the Restricted Stock, Fannie Mae or its designee shall hold the Restricted Stock in book entry or certificate form and any certificates shall contain the following legend:

“The shares of stock represented hereby are subject to the terms and conditions (including the risks of forfeiture and restrictions against transfer) contained in the Fannie Mae Stock Compensation Plan of 2003 and the Restricted Stock Award Document. Release from such terms and conditions shall be made only in accordance with the provisions of the Plan and this Award Document, a copy of each of which is on file in the office of the Department of Human Resources of Fannie Mae.”

6. Definition of “For Cause”. “For Cause” means Fannie Mae determines that the Awardee has:

(a) materially harmed Fannie Mae by, in connection with the Awardee's performance of the Awardee's duties for Fannie Mae, engaging in dishonest or fraudulent actions or willful misconduct, or performing the Awardee's duties in a grossly negligent manner, or

(b) been convicted of, or pleaded nolo contendere with respect to, a felony.

The Awardee will not be deemed to have been terminated For Cause following an event described in (a) above unless Fannie Mae has provided (i) reasonable notice to the Awardee setting forth Fannie Mae's intention to terminate For Cause, (ii) where remedial action is appropriate and feasible, a reasonable opportunity for such action, (iii) an opportunity for the Awardee, together with the Awardee's counsel, to be heard before the Compensation Committee of the Board of Directors or its delegate, and (iv) the Awardee with a notice of termination stating that the Awardee was guilty of the conduct set forth in (a) above and specifying the particulars thereof in detail. No act or failure to act by the Awardee will be considered “willful” unless it is done, or omitted to be done, by the Awardee in bad faith or without reasonable belief that the Awardee's action or omission was in the best interests of Fannie Mae.

**FANNIE MAE
RESTRICTED STOCK UNITS AWARD
Award Document**

This grant of units of Restricted Stock from Fannie Mae (the "Award") is made to you as an Eligible Employee (the "Awardee") effective as of the date of grant set forth in the grant detail available for you to view on the UBS website.

1. **Grant of Units.** Pursuant to the provisions of the Fannie Mae Stock Compensation Plan of 2003 (the "Plan"), Fannie Mae hereby grants to the Awardee, subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth in this Award Document, restricted units (the "Restricted Stock units") relating to the Common Stock of Fannie Mae as set forth in the grant detail found on "Restricted" page under the "Grants/Awards/Units" tab on the UBS website. Each unit represented by this Award represents the unfunded and unsecured contractual right to the future delivery of one share of Common Stock, subject to the restrictions herein and in the Plan.

2. **Definitions.** Unless provided otherwise herein, all defined terms are written with initial capital letters and shall have the meaning stated in the Plan.

3. **Terms and Conditions.** By accepting the Award, the Awardee agrees that the Award evidenced by the Award Document is subject to the following terms and conditions:

(a) **Pre-Vesting Limitations.** The Restricted Stock units and the right to receive payments from Fannie Mae in lieu of dividends or other distributions with respect to the Common Stock represented by the units may not, except in accordance with Plan provisions, be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise disposed of or encumbered, either voluntarily or involuntarily. Restrictions shall lapse in accordance with the vesting schedule set forth in the grant detail or, if earlier, upon the Awardee's Retirement, Early Retirement, Total Disability or death or at such earlier time and in such circumstances, if any, as may be determined under the Plan (including, without limitation, pursuant to Section 4.2(d) of the Plan if applicable). Notwithstanding the foregoing, restrictions shall not lapse upon the Awardee's Retirement or Early Retirement if the Committee determines that the Awardee's termination of employment is "For Cause." For the purpose of this Award, "For Cause" is defined in Section 5 below.

(b) **Treatment of Restricted Stock Units Upon Termination of Employment.** Unless otherwise provided by the Committee, the Awardee's rights under the Restricted Stock units as to which the restrictions have not lapsed in accordance with the provisions hereof, including without limitation the right to the future delivery of shares of Common Stock, shall be immediately forfeited upon the termination of employment of the Awardee without payment of any consideration by Fannie Mae and without any consent or other action by the Awardee, and all rights of Awardee with respect to such Restricted Stock units shall thereupon cease.

(c) **Delivery of Shares; Shareholder Rights.** As soon as practicable following the vesting of a Restricted Stock unit, Fannie Mae will cause one share of Common Stock to be transferred to the Awardee (or, in the event of the Awardee's death, except, as otherwise provided within the Plan, to the Awardee's estate). Notwithstanding the foregoing, to the extent necessary to avoid the imposition of an additional tax under Section 409A of the Internal Revenue Code, any Restricted Stock units that vest by reason of the Awardee's termination of employment due to the Awardee's Retirement or Early Retirement will be paid no earlier than six months and one day following the Awardee's Retirement or Early Retirement. Until such time as such share of Common Stock is transferred to the Awardee, the Awardee shall not be treated as a shareholder with respect thereto and shall have no rights to related dividends or other distributions, or voting rights; provided, that during such periods, prior to the actual delivery of shares of Common Stock, as the Awardee holds units hereunder, the Awardee shall be entitled to receive payments from Fannie Mae in lieu of the regular cash dividends that would have been payable had such units been actual shares of Common Stock owned by the Awardee. Any such payments in lieu of cash dividends from Fannie Mae shall be taxable as additional compensation to the Awardee. If there is a stock split, stock dividend or similar change affecting the Common Stock, Fannie Mae shall appropriately adjust the outstanding units of Restricted Stock to reflect such change.

(d) Payment of Taxes. This Award and Fannie Mae's obligation to deliver shares of Common Stock upon the vesting of this Award are conditioned upon the prompt and timely payment by the Awardee to Fannie Mae of any and all taxes required to be withheld by Fannie Mae with respect to the vesting of the Award or the delivery of shares of Common Stock hereunder. The Awardee shall pay such taxes as follows: (i) if the withholding obligation arises in connection with the delivery of shares of Common Stock, by electing to have a portion of such shares with a value equal to the required withholding held back by Fannie Mae; or (ii) by the delivery of a check in form satisfactory to the plan administrator, or (iii) by wire transfer.

(e) Award Confers No Rights with Respect to Continuance of Employment. This Award shall not confer upon the Awardee any right with respect to continued employment by Fannie Mae, nor shall it interfere in any way with the right of Fannie Mae to terminate the Awardee's employment at any time.

(f) Compliance with Law and Regulations. This Award and the obligation of Fannie Mae to deliver shares hereunder shall be subject to applicable federal and state laws, rules and regulations, and to such approvals by any government or regulatory agency as may be required.

4. Awardee Bound by Plan and Administrator's Records. Awardee is bound by all the terms and provisions of the Plan and the records of the Plan's administrator (including any third-party recordkeeper). In the event of a conflict between the Award Document and the terms of the Plan or the records of the Plan's administrator, the terms of the Plan and records of the Plan's administrator shall control.

5. Definition of "For Cause". "For Cause" means Fannie Mae determines that the Awardee has:

(a) materially harmed Fannie Mae by, in connection with the Awardee's performance of the Awardee's duties for Fannie Mae, engaging in dishonest or fraudulent actions or willful misconduct, or performing the Awardee's duties in a grossly negligent manner, or

(b) been convicted of, or pleaded nolo contendere with respect to, a felony.

The Awardee will not be deemed to have been terminated For Cause following an event described in (a) above unless Fannie Mae has provided (i) reasonable notice to the Awardee setting forth Fannie Mae's intention to terminate For Cause, (ii) where remedial action is appropriate and feasible, a reasonable opportunity for such action, (iii) an opportunity for the Awardee, together with the Awardee's counsel, to be heard before the Compensation Committee of the Board of Directors or its delegate, and (iv) the Awardee with a notice of termination stating that the Awardee was guilty of the conduct set forth in (a) above and specifying the particulars thereof in detail. No act or failure to act by the Awardee will be considered "willful" unless it is done, or omitted to be done, by the Awardee in bad faith or without reasonable belief that the Awardee's action or omission was in the best interests of Fannie Mae.