UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): **October 6, 2004**

Federal National Mortgage Association
(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**0-50231**	**52-0883107**
(State or other jurisdiction of incorporation)	*(Commission File Number)*	*(IRS Employer Identification Number)*

3900 Wisconsin Avenue, NW **Washington, DC** *(Address of principal executive offices)*	**20016** *(Zip Code)*

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

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

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On October 6, 2004, Fannie Mae (formally the Federal National Mortgage Association) released testimony by Franklin D. Raines, the company's Chairman and Chief Executive Officer, Timothy Howard, the company's Vice Chairman and Chief Financial Officer, and Ann Korologos, the Presiding Director of Fannie Mae's Board of Directors, before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises. This testimony, copies of which are filed as exhibits to this report, is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(c) 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/ Anthony F. Marra

Anthony F. Marra
Senior Vice President and Deputy General Counsel

Date: October 6, 2004

EXHIBIT INDEX

The following exhibits are submitted herewith.

Exhibit Number	Description of Exhibits
99.1	October 6, 2004 Testimony by Franklin D. Raines before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
99.2	October 6, 2004 Testimony by Timothy Howard before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
99.3	October 6, 2004 Testimony by Ann Korologos before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

Exhibit 99.1

Remarks Prepared for Delivery by
Franklin D. Raines
Chairman and CEO, Fannie Mae

Testimony by Franklin D. Raines Before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises (Written Testimony)
Washington, DC
October 06, 2004

Thank you, Chairman Oxley, Ranking Member Frank, Chairman Baker, Ranking Member Kanjorski and members of the Subcommittee.

My name is Frank Raines, and I am Chairman and Chief Executive Officer of Fannie Mae. I greatly appreciate the opportunity to appear here today to answer your questions about issues raised in the September 2004 report by OFHEO of its special examination of Fannie Mae.

I would like to begin by noting that this is the first opportunity that Fannie Mae and its Board are taking to respond in an official forum to the allegations set forth in the OFHEO exam report.

We take this report seriously. Out of respect for the regulatory process — and for OFHEO — we have sought, with great diligence, to follow an orderly process throughout the special examination, which is ongoing. We have chosen not to respond ad hoc to questions about the exam report's content or conclusions. Instead, we will provide our responses in the appropriate forums, including through the Board's independent review, to the Securities and Exchange Commission, and to the Congress. I appreciate that the Committee has provided this forum today.

Some people have mistakenly concluded that the company's agreement with OFHEO constituted an admission by the company to the findings and conclusions of the report. Let me clarify that is not the case. The agreement itself states that the Company was not admitting or denying any wrongdoing as a result of signing the agreement.

Fannie Mae respects the role of OFHEO as our safety and soundness regulator. The strong oversight OFHEO provides is critical, given Fannie Mae's significant role in the U.S. housing finance system and the financial system as a whole. In our view, from a decade of experience working with OFHEO, I believe our safety and soundness regime makes Fannie Mae a better company. OFHEO has more examiners per regulated company than bank regulators do. OFHEO's risk-based capital standard is a model for financial institutions globally, and goes farther than new risk-based capital models being proposed for financial institutions with more complex operations than Fannie Mae.

The best financial institutions will tell you the same thing: they welcome the examination process because it fosters cooperation in making the institution the best that it can be. A confidential and cooperative examination process builds confidence — both the regulator's confidence in the company, but also the company's confidence in its own safety and soundness.

While this special examination departed from standard financial institution examination procedures, our obligation remains the same: to make adjustments needed to respond to OFHEO's concerns just as any financial institution would do with respect to its regulator.

That is why the company, led by our Board, promptly entered into a regulatory agreement with Director Falcon. There were three reasons that it was important to do so.

First, it was important to make it clear that the company sincerely wanted to address any issues our regulator might have that related to the safety and soundness of the company.

Second, it was important to respond quickly to as many of the issues presented by OFHEO as possible, and to establish a process to resolve the remaining issues.

Third, the agreement also recognizes the importance to the marketplace of putting in place an orderly process to move forward.

In particular, Fannie Mae has agreed to several measures:

- We will build up to a 30 percent capital surplus over the next 270 days.
- We will appoint a Chief Risk Officer, who will be independent of other corporate responsibilities and have duties crafted in consultation with OFHEO.
- The Board will hire an independent counsel and independent accounting consultant to review our accounting policies and practices and then report back to the Board and to OFHEO. And the Board will direct and oversee changes based on that review.
- We are making two changes to our accounting going forward. With respect to FAS 91, we will discontinue in the fourth quarter 2004 the use of a range to which OFHEO has objected. With respect to FAS 133, we will shift in the first quarter to the "long haul" approach where applicable to evaluating hedge effectiveness.
- We will separate our economic modeling and accounting functions.
- And we will separate our business planning and forecasting functions from the Controller's function.

Going forward, Fannie Mae's management is committed to working with OFHEO and our Board of Directors to comply with and carry out the terms of the agreement.

Let me thank our Board members, particularly our presiding director, Ann Korologos, for their dedication and efforts on behalf of Fannie Mae in the past 16 days. Their diligence made it possible to quickly set forth an orderly process to resolve the concerns raised by the OFHEO report.

In conjunction with the agreement, the Board's independent review committee has hired the law firm of Paul, Weiss, Rifkind, Wharton & Garrison to conduct an independent investigation, led by former Senator Warren Rudman, of the allegations in the special examination report. The issue of whether our implementation of FAS 91 and FAS 133 was consistent with Generally Accepted Accounting Principles (GAAP) remains with the SEC.

This agreement and these measures are important steps toward addressing the matters raised in the OFHEO report, and a way to move forward. Adopting these measures will make Fannie Mae stronger and even better able to pursue our mission and the business that fuels our mission.

That mission, after all, is our central function. Congress chartered Fannie Mae to expand access to homeownership for low- and moderate-income Americans. And we are committed to that mission. Earlier this year we announced a commitment to create six million first-time homebuyers — including 1.8 million minority first-time homebuyers — over the next decade, and do our part to raise the minority homeownership rate to 55 percent. By quickly reaching agreement with OFHEO where we could, we are able to maintain our mission focus.

For those that may be concerned that some of these steps, particularly the 30 percent capital surcharge, will constrain our mission activities, let me say this: Fannie Mae will do everything in our power to meet our commitments to expanding homeownership and affordable housing while also meeting the requirements of the agreement.

I would like to address the issues raised by the OFHEO report concerning our implementation of the accounting standards FAS 133 and FAS 91. These accounting standards are highly complex and require determinations over which experts often disagree.

I want to be clear that, in an effort to understand OFHEO's concerns and to prepare for today's hearing, I have made efforts to understand the facts related to the issues discussed in the OFHEO report, some of which involve highly detailed issues that I would not normally focus on in my role as CEO. My comments today will therefore include a combination of my own recollections and the facts about these issues that I have learned recently.

As to the two major allegations in the report, first, the report alleges that in 1998, the company willfully violated GAAP in order to maximize executive bonuses. This is a serious allegation, and we strongly disagree with it.

Second, the report alleges that we misapplied GAAP with respect to the two accounting standards, FAS 91 and FAS 133. We believe we applied those standards in accordance with GAAP, and our independent auditor, KPMG, reviewed our application of those standards and concurred.

Fannie Mae has previously issued and filed with the SEC financial statements that reflect the accounting and financial statement presentation that OFHEO has alleged to be inappropriate. Those financial statements were certified by me and by our Chief Financial Officer, Tim Howard, after a thorough process, and audited by our independent auditor, KPMG.

Fannie Mae has not withdrawn those financial statements and KPMG has not withdrawn its opinion that those financial statements were prepared consistent with GAAP in all material respects. Rather, the issues that have been raised by OFHEO will be taken up directly with the staff of the SEC, which ultimately has the final authority over GAAP.

FAS 133, the standard for derivative and hedge accounting, is considered one of the most complicated accounting standards ever issued. Parties, including Fannie Mae, submitted over 300 comment letters when it was first proposed in 1996, and it took five years to complete. To deal with the complex interpretations it requires, the Financial Accounting Standards Board, or FASB, formed a Derivatives Implementation Group, which has issued over 170 interpretive rulings. The standard and its implementation guidance fill over 900 pages.

There is no dispute that Fannie Mae uses derivatives for one reason: that is to reduce risk through hedging. Unlike many other major investors, Fannie Mae does not make money by speculating or trading in derivatives. We purchase derivatives — from major established financial firms — to help us reduce the interest rate risk that is inherent in financing long-term, fixed-rate mortgages in a floating rate economy. We use derivatives in the way Federal Reserve Board Chairman Alan Greenspan has said is healthy for the financial system — to help reduce risk.

Given the complexities of FAS 133, from the beginning, Fannie Mae's approach to adopting the standard was careful, considered, and thorough.

We spent three years preparing to implement FAS 133 before it was adopted in 2001. We worked closely with FASB to ensure it understood how Fannie Mae uses derivatives, and to ensure Fannie Mae understood the FASB's approach. Then, when FASB adopted the standard, Fannie Mae put together a multi-disciplined task force to work on its implementation.

Before we implemented FAS 133, our independent auditor, KPMG, reviewed both our detailed policy and the operational processes and systems that we developed to apply the policy. We then ran our FAS 133 processes and systems in parallel with the existing accounting for the year before FAS 133 became effective to ensure that everything was operating properly.

Finally, KPMG re-reviewed our policies on two different occasions — once when Fannie Mae revised its hedge guidelines in 2003, and again in 2004.

I believe that we have tried hard to apply FAS 133 the right way, and that the transactions in question were eligible for hedge accounting. OFHEO has stated otherwise. We look forward to a determination by the SEC.

As for FAS 91, this standard requires that premiums we pay, or discounts we receive, on the purchase of mortgage backed securities be amortized over the expected average life of the security. Since homeowners often prepay mortgages and refinance when interest rates fall, we determine the period of amortization using two estimates. First, we estimate future interest rate changes. Second, we estimate prepayments — that is, how homeowners will react to interest rate changes.

As these estimates change, so does the expected average life of the mortgage. Therefore, under FAS 91 the amount of amortization that must be booked as income or expense changes in any given period.

Given these imprecisions, Fannie Mae decided to use a range of possible outcomes for our FAS 91 amortization. KPMG reviewed our FAS 91 policy when it was implemented in 2000.

Our internal accounting experts believed that using a range was consistent with GAAP. In preparing our financial reports, as recently as last quarter's SEC Form 10-Q, KPMG told us they concurred with our use of a range.

As is the case with FAS 133, the SEC will ultimately decide whether our policy was, or was not, consistent with GAAP. We have agreed with OFHEO to discontinue the use of a range in implementing FAS 91 beginning in the fourth quarter of 2004.

Our accounting staff has repeatedly determined that our policies and practices with regard to FAS 91 and 133 are reasonable and in accord with GAAP and KPMG has issued unqualified opinions on our financial statements. That remains their position today. Our purpose in describing our approach to these standards is not to argue that we are right and OFHEO is wrong. What we want to demonstrate is that we intended to do the right thing and we took care to do the right thing.

In fact, when I certify our financial statements, I certify that these documents "fairly present in all material respects the financial condition, results of operations and cash flows" of the company. That is a very serious statement, and I take it very seriously. We engage in a rigorous due diligence process before I ever put a pen to paper and make that certification.

First, our draft financial reports are reviewed by dozens of people, including key businesspersons. Each senior businessperson must formally sign off on each report.

Next, our Disclosure Committee, made up of seven senior officers including the Controller, the General Counsel and the head of internal audit, reviews drafts of the report and meets to discuss the draft. The Disclosure Committee represents to the CFO and the CEO that the report is accurate and controls around disclosures are effective.

In addition, over 30 officers provide representation that they have disclosed to the head of internal audit any issues in their areas that could be material to the financial statements or internal controls.

At this point, I engage in a rigorous due diligence session with our controller, our head of internal audit, our general counsel, chief operating officer, and chief financial officer, attended by KPMG, where I receive reports about the financial statements, accounting policy developments, key disclosures, and any internal control considerations. The CFO and I ensure that any questions raised during this session are answered prior to finalizing the report.

Then the Board's Audit Committee reviews the draft report, and holds a conference call with senior management, and attended by KPMG, to discuss the report and results of our due diligence session. And of course, KPMG provides its opinion on the financials.

I only certify after receiving assurance that I can say with confidence that our financial statements "fairly present in all material respects the financial condition, results of operations and cash flows" of the company.

Conclusion

Mr. Chairman, no one is more interested in a full and open examination of these issues than I am.

I cherish this company. I believe in the mission that Congress challenged Fannie Mae to carry out. And I am inspired by the 5,000 women and men who come to work every day trying to help lenders help people get into homes.

Most of all, I believe Fannie Mae's biggest challenge ahead is helping the financial system and mortgage industry to meet the growing and changing housing needs of our growing and changing nation. This decade is expected to produce 30 million more Americans who will create 13-15 million new households. Minorities will represent 80 percent of the growth. As a result, we estimate that 46 percent of future first-time homebuyers will be minorities and immigrants. Serving their housing needs will require new ideas and innovations in mortgage financing, and we look forward to helping the industry with this challenge.

Given this public mission for which Congress created us, and as an instrument of national housing policy, Fannie Mae expects and welcomes OFHEO's rigorous oversight to ensure that we are safe, sound, solid and stable for the long run. As I said the last time I appeared before this Committee, strong oversight is in the best interest of Fannie Mae, our shareholders, financial markets, and homeowners.

Thank you, Mr. Chairman and members of the Committee. I look forward to answering any questions you may have.

Exhibit 99.2

Remarks Prepared for Delivery by
Timothy Howard
Vice Chairman and CFO, Fannie Mae

Testimony by Timothy Howard Before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises (Written Testimony)
Washington, DC
October 06, 2004

Good morning, Chairman Oxley, Ranking Member Frank, Chairman Baker and Ranking Member Kanjorski and members of the Subcommittee. I thank you for inviting me to be here today.

I joined Fannie Mae in 1982, when the company was in the midst of a severe financial crisis brought on by flaws in its interest rate risk management. Under the leadership of David Maxwell we were able to turn the company around and establish the solid financial footing that has enabled Fannie Mae to reliably provide hundreds of billions of dollars in affordable, fixed-rate mortgage financing to millions of low, moderate and middle-income Americans. I consider it a privilege to have been able to devote the past 22 years of my career to this company and its mission. Throughout this time I have tried my absolute best to do the right thing for the homebuyers Fannie Mae helps to serve, the employees I lead, and the investors who have placed their trust in our company.

All of my judgments regarding accounting issues were made in openness and good faith, with the goal of providing investors with the most meaningful and understandable information possible. When accounting issues arose I worked with the head of my accounting policy group, who I know to be knowledgeable and highly respected in the industry. I also made certain that any accounting approaches we adopted were reviewed with our outside auditor.

I had a clear objective in guiding Fannie Mae's implementation of the two accounting standards that are at issue in the OFHEO report — FAS 133 and FAS 91. And that was to preserve the accuracy and utility to investors of our financial statements by reporting on what I honestly believed were the true economics of our business. At all times I believed that the accounting applications we adopted were within the boundaries defined by GAAP, as interpreted and understood by our accounting experts both inside and outside the company.

We filed financial statements with the SEC that were fully audited by KPMG, and as Frank Raines said, Fannie Mae has not withdrawn those financial statements and KPMG has not withdrawn its opinion that those financial statements were prepared consistent with GAAP in all material respects.

FAS 133 is widely considered to be the most complicated accounting standard ever issued. Its implementation had the potential to greatly reduce the clarity and utility of Fannie Mae's financial statements. We recognized this challenge from the outset, but we did not attempt either to circumvent the standard or to violate GAAP to deal with it. Instead, we developed a separate earnings measure — core business earnings — to convey to investors our financial results in the absence of FAS 133.

FAS 91 requires that we estimate the average lives of the mortgages in our portfolio to determine the rates at which premiums or discounts on these mortgages should be amortized into our income statement. By definition this estimation process is imprecise. From the inception of FAS 91 in the late 1980s, we have used ranges to address the imprecision inherent in estimating mortgage prepayments. KPMG concurred with our use of a range.

Ultimately, the SEC will resolve the issue as to whether our implementation of FAS 133 and FAS 91 is consistent with GAAP. This is entirely appropriate, and I look forward to receiving the results of their review. It is important to note, however, that the matters to be reviewed relate to accounting judgments and not issues of risk management. Financially, Fannie Mae is as strong as ever, and our ability to carry out our mission remains intact.

I look forward to responding to your questions on these matters.

Exhibit 99.3

FannieMae

Remarks Prepared for Delivery by
Ann Korologos
Presiding Director of the Board of Directors of Fannie Mae

Testimony Before the Capital Markets, Insurance, and Government Sponsored Enterprises Subcommittee Of the House Financial Services Committee (Written Testimony)
Washington, DC
October 06, 2004

Introduction

Thank you Chairman Oxley, Ranking Member Frank, Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee. My name is Ann Korologos, and I am the Presiding Director of Fannie Mae's Board of Directors. I also currently serve as the Chair of Nominating and Corporate Governance Committee and on the Compensation Committee. I am a shareholder-elected, independent director.

I welcome this opportunity to speak on behalf of the Board regarding the OFHEO Report of Findings to Date in the Special Examination (the "Report") issued to the public on September 22. I want to thank the Committee for holding this hearing.

The Board takes the issues raised by the OFHEO Report very seriously. We are here to do the right thing, and by that I mean: to respond to OFHEO, the SEC, and Congress, and do so in a way that protects the shareholders and restores confidence. In this way, the Company can continue to fulfill its critical housing mission — to use the financial flexibility of a private company to pursue the societal goals of increased homeownership.

In my opening statement, I would like to focus directly on how the Board has responded to the OFHEO Report, including the agreement we have reached with OFHEO, and the important work we will do going forward to properly resolve the issues raised in the Report.

Most importantly, let me assure you that the Board takes the issues raised in the OFHEO Report seriously and is fully committed to addressing and resolving them expeditiously and appropriately. We will do it right the first time, and we will be held accountable.

The Board Took Action Immediately to Respond to OFHEO's Report

The Board has actively participated through our Audit Committee in overseeing the Company's response to the examination since it began over a year ago. We have received regular reports from the Committee on the examination's progress.

Upon receiving the Report, the Board acted immediately to examine and respond to OFHEO's findings. We are moving quickly to address the complex accounting, internal control, and other issues raised by the Report. The Board has demonstrated its commitment to our oversight and fiduciary responsibilities, by swiftly working to reach agreement with OFHEO to put into place a process that will thoughtfully and carefully resolve these issues.

As a board of directors, we must meet our fiduciary duties of loyalty, care, and good faith. These duties have meaning. We do not take these responsibilities lightly. They require us to gather the facts, conduct an objective investigation, and render judgment based on the facts. We must look at the issues in the Report deeply, thoughtfully, and carefully, using whatever resources are necessary. Every board of directors is subject to these duties but even more so at Fannie Mae because we have a mission to serve the public: our shareholders, investors, homeowners, renters, and their communities. We believe our actions demonstrate the Board's seriousness in responding to the Report.

Less than three weeks ago, on Friday afternoon, September 17, Director Falcon contacted me to say that OFHEO wished to share its findings to date with the outside directors on the Board. I immediately convened a meeting of the Board for the next business day, Monday, September 20.

Despite the short notice, every non-management director attended in person or by telephone. Director Falcon's senior staff presented the OFHEO Report to us and the Company's outside counsel. During the approximately two hour meeting, OFHEO's senior staff made a presentation on the Report and provided the Board a draft agreement to be entered into over next 48 hours. This meeting was the Board's first exposure to the Report. OFHEO proposed that the Board conduct an independent review by lawyers and accountants of the issues and questions raised by the Report.

I assured Director Falcon on the morning of Tuesday, September 21, that the Board would work cooperatively and openly with OFHEO and its staff. I expressed the Board's hope that this work together would set a model for a constructive relationship built on mutual respect and trust going forward. I told him, however, that the Board could not, consistent with its fiduciary responsibilities, sign a document in 48 hours. During this conversation, the Director assured me that the draft agreement presented on September 20 was intended to ascertain the Board's seriousness.

I informed the Director that I had been authorized to hire former Senator Warren Rudman and his law firm, Paul, Weiss Rifkind, Wharton & Garrison LLP, subject to OFHEO approval, to conduct the Board's independent review. I also advised Director Falcon that we would provide him on the following day a draft work plan, based on OFHEO's draft agreement, of actions we and the Company would take to address all of OFHEO's concerns.

That same day, I worked with management to develop a work plan based on actions required by OFHEO's draft agreement to present to OFHEO within their 48 hour deadline. The Board convened and approved the work plan.

And so, two business days after receiving the Report, on Wednesday, September 22, I presented to Director Falcon, on behalf of the Board, the draft work plan. I have attached a copy of this plan to this statement.

After reviewing the draft work plan, Director Falcon told me later that evening that he thought the work plan was substantive and addressed each of the areas of concern raised by the Report. On Thursday, in a conversation with OFHEO's General Counsel, however, it became clear that OFHEO wanted a written agreement with the Board. The Board met again that evening, September 23, and directed the Company to do their best to reach an agreement with OFHEO.

On Friday, September 24, the Company's counsel began meeting with OFHEO to reach the contents of such an agreement. Discussions continued throughout the weekend. After this series of meetings and two Board meetings on Sunday, September 26, Fannie Mae and OFHEO announced the September 27 written agreement outlining our next steps.

The September 27 Agreement Guides Our Work Going Forward

As I said in announcing the agreement, the Board is pleased to have worked cooperatively with the Director and staff of OFHEO. I thanked the Director and his staff for their accessibility and noted that these are significant steps and the Board is fully committed to their timely implementation.

The agreement is only the beginning of what will be a thorough process to implement changes at Fannie Mae that address OFHEO's concerns. Management has pledged its cooperation to the Board in undertaking these reviews and changes, and the Board will hold management accountable to that pledge. The Board will supervise the entire process, with a number of Board members following closely those areas in which they have expertise and experience.

Under the agreement, Fannie Mae will take a series of steps with respect to its internal controls, organization and staffing, accounting, and capital. The Company will hire a Chief Risk Officer and structure the responsibilities of that office in accordance with OFHEO's guidance and best practices in the industry. The Board is already undertaking a nationwide search to ensure we bring in an experienced and talented person for that job. The Company will modify its implementation of FAS 133 and FAS 91 going forward. The Company is developing a capital plan under which the Company will achieve a capital surplus of 30 percent within the next 270 days.

Finally, the Board has hired, and OFHEO has approved, independent counsel former Senator Warren Rudman and his law firm, who will in turn hire independent accountants also subject to the approval of OFHEO. We expect Senator Rudman to conduct his independent review as described in our agreement with OFHEO and to report his findings to the Board, OFHEO, and the SEC for resolution. The independent review will also make recommendations with regard to staff structure, function and compensation, as well as the implementation of policies to ensure adherence to new accounting treatment and internal controls.

The Company and its outside auditors have a disagreement with OFHEO about some aspects of implementation of FAS 133 and FAS 91. To date, that difference has not been resolved. The agreement sets up a process going forward to resolve these issues. The SEC will determine what is and is not compliant with GAAP. The SEC has not prejudged these issues. As anyone who reads the Report can tell, these are very complex accounting issues.

Let me assure you, Mr. Chairman and members of the committee, Fannie Mae's Board will closely supervise the adoption of each element of the agreement. We will work diligently with the independent review to ensure a timely resolution of the remaining issues. The Board is not going to prejudge, and I respectfully urge you not to prejudge, the outcome of Senator Rudman's independent review. We must allow this process to go forward before we draw conclusions, assign motive, render verdict, and determine accountability.

The Board's Deep Experience in Business and Government

I have known some of you over the years, from my experiences in both public service and the private sector, and I think you know my commitment to ensuring that our laws are upheld and the institutions of our economy maintain the highest levels of integrity.

I have served in three Cabinet Departments, including as Secretary of Labor under President Ronald Reagan, and I headed the Presidential Commission on Aviation Security and Terrorism specifically investigating the bombing of Pan American Airways Flight 103.

I currently serve on a number of other corporate boards. I am the Chairman of the RAND Corporation, a nonprofit organization. I am also a member of the Board of Overseers of the Wharton School of the University of Pennsylvania.

We believe we have built a sturdy corporate governance structure to be prepared for any challenge this organization may face. How this Board and the Company handle themselves when things go wrong is the ultimate character test. We have benchmarked our governance against other companies. Our non-management directors meet as a group, without management, every time the full Board meets, and often in between. These are candid, probing discussions. Our standards for director independence more than meet those of the New York Stock Exchange.

I want to assure you that we will use this experience, and what we learn from the OFHEO Report and the Rudman review, to enhance our practices in these areas.

Conclusion

I believe in this Company that Congress created and in its mission. It is a privilege to serve on its Board. I cannot state strongly enough the Board's belief that Fannie Mae must meet the highest standards of openness, integrity, accountability, and responsibility. The role that Congress assigned in chartering this Company to expand affordable housing and homeownership in America remains absolutely critical as the nation and its housing needs continue to grow.

I believe a thorough and objective review of the facts on the issues in the OFHEO Report is the surest means to resolve this matter. I assure the members of this Subcommittee, the Congress as a whole, our regulators, our shareholders, investors and homebuyers, in other words the public, that we take these matters seriously and will move forward expeditiously.

Thank you.