
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):

November 7, 2006

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Federally Chartered Corporation

000-50231

52-0883107

(State or other jurisdiction
of incorporation)

(Commission
File Number)

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

3900 Wisconsin Avenue, NW, Washington,
District of Columbia

20016

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

202-752-7000

Not Applicable

Former name or former address, if changed since last report

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

On November 7, 2006, Fannie Mae and Franklin D. Raines, our former Chairman and Chief Executive Officer, entered into a binding consent award partially resolving damages and deferring further arbitration proceedings.

On September 19, 2005, Mr. Raines initiated arbitration proceedings against us relating to rights he asserted under his employment agreement. On April 10, 2006, the arbitrator held an evidentiary hearing to determine whether we were permitted to waive a requirement contained in Mr. Raines' employment agreement that he provide us with six months' notice prior to retiring. On April 24, 2006, the arbitrator found that we could not unilaterally waive the notice period and that the effective date of Mr. Raines' retirement therefore would be deemed to be June 22, 2005, rather than his final day of active employment, which was December 21, 2004. As a result of the arbitrator's decision, we must give effect to Mr. Raines' election to receive a lump-sum payment of a portion of his deferred compensation and pay Mr. Raines any salary and other compensation to which he would have been entitled had he remained employed through June 22, 2005, less any pension benefits that Mr. Raines received during that period.

As a result of our discussions with Mr. Raines regarding the monetary consequences of the arbitrator's award, we entered into the consent award with him to resolve all issues relating to the arbitrator's decision, other than certain issues relating to damages as described below. On November 8, 2006, Mr. Raines and we jointly submitted the consent award for approval by the arbitrator, and it was approved by the arbitrator on November 12, 2006. We have also informed OFHEO about the consent award and our expected payments to Mr. Raines under the consent award.

The consent award provides that we will pay Mr. Raines a lump sum of approximately \$2.6 million consisting of amounts from his deferred compensation and certain other sums, less certain other offsetting items. Within five business days after receiving the arbitrator's approval of the consent award, we are obligated to direct that this amount be paid. In consideration of our payment, Mr. Raines agreed with us that all remedies resulting from the arbitration award have been finally and fully resolved, other than:

- whether Mr. Raines is entitled to additional unpaid base salary of up to approximately \$139,000 for the period from December 2004 to June 2005;
- whether Mr. Raines' employment agreement entitles him to awards under our Annual Incentive Plan for 2004 and 2005;
- whether Mr. Raines is entitled to specified share amounts under our Performance Share Plan, or PSP, up to a possible maximum of 561,480 shares;
- whether Mr. Raines is entitled to any shares for any award cycle under the PSP commencing in 2005; and
- whether Mr. Raines' employment agreement entitles him to any additional stock options.

Final resolution of these issues is expected to be deferred until after the results of our accounting restatement are announced.

The foregoing description of the consent award summarizes the terms and conditions that are material to us and is qualified in its entirety by reference to the full text of the consent award, which is filed as Exhibit 10.1 to this report.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

The information in Item 1.01 above is incorporated into this Item 5.02 by reference.

Item 9.01 Financial Statements and Exhibits.

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



SIGNATURES

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

Federal National Mortgage Association

November 14, 2006

By: */s/ Beth A. Wilkinson*

Name: Beth A. Wilkinson

Title: Executive Vice President and General Counsel

Exhibit Index

Exhibit No.	Description
10.1	Consent Award Partially Resolving Damages and Deferring Further Proceedings, dated November 7, 2006, by and between Plaintiff Franklin D. Raines and Fannie Mae

**CONSENT AWARD PARTIALLY RESOLVING DAMAGES AND
DEFERRING FURTHER PROCEEDINGS**

This Consent Award is made and entered into as of the date set forth on the signature pages hereto by and among Plaintiff Franklin D. Raines, by and through Counsel, and Federal National Mortgage Association (“Fannie Mae”), by and through Counsel. The Parties intend this Consent Award to resolve, discharge and settle all damages issues, fully, finally and forever according to the terms and conditions set forth below, save and except for those issues specifically enumerated below.

WITNESSETH:

WHEREAS, On September 19, 2005, Plaintiff in *Franklin D. Raines v. Federal National Mortgage Association*, by and through counsel, initiated an arbitration before the American Arbitration Association, Case No. 16 166 00609 05, alleging that Raines was prematurely retired from Fannie Mae on December 21, 2004, rather than June 22, 2005, when Fannie Mae improperly purported unilaterally to waive the requirement contained in section 4.2(b) of Raines’s Employment Agreement that he provide six months’ notice before retiring;

WHEREAS, on April 10, 2006, the Parties convened an evidentiary hearing before Arbitrator Stanley Mazaroff;

WHEREAS, on April 24, 2006, the Arbitrator issued a decision (“the Arbitration Award”) finding that the effective date of Mr. Raines’s retirement was June 22, 2005;

WHEREAS, the Parties have come to an agreement on all damages issues relating to the Arbitration Award save for those specifically enumerated below; and

WHEREAS, the Parties believe that the proper resolution of at least some of these additional damages issues may depend on actions yet to be taken by Fannie Mae;

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and between the Parties that, subject to the approval of the Arbitrator, all but certain specified damages issues relating to the Arbitration Award be finally and fully resolved, compromised, discharged and settled under the following terms and conditions:

(1) Within five (5) business days after receiving the Arbitrator’s approval of this Consent Award, Fannie Mae shall direct that funds in the amount of two million, six hundred two thousand, seventeen dollars and thirty-one cents (\$2,602,017.31) be disbursed to Mr. Raines, consisting of a payment of two million, seven hundred forty-three thousand, two hundred thirty-six dollars and thirty-nine cents (\$2,743,236.39) from his deferred compensation balance and certain other sums, less certain offsetting items. Disbursement shall be made by wire transfer to a United States account identified by Mr. Raines in writing.

(2) The parties shall jointly submit this Consent Award to the Arbitrator for approval within two (2) business days, and each shall make reasonable efforts to gain his approval in a timely manner.

(3) In consideration for the payment referenced in paragraph 1, the Parties agree that all remedies resulting from the Arbitration Award shall be finally and fully resolved, save and except for the following issues:

- a. Whether Mr. Raines is entitled to additional compensation in cash (as “Base Salary”) for the period from December 22, 2004 to June 22, 2005 in an amount up to one hundred thirty-nine thousand, one hundred ten dollars and eighty-five cents (\$139,110.85)?
- b. Whether, pursuant to Article 3.2(c) and 5.4 of the Agreement, Mr. Raines is entitled to awards under Fannie Mae’s Annual Incentive Plan for 2004 and 2005?
- c. Whether Mr. Raines is entitled to any additional installments under cycle 17 of Fannie Mae’s Performance Share Plan (“PSP”), the maximum possible number of such shares being delineated in Table 1 hereto?
- d. Whether Mr. Raines is entitled to all or any portion of the maximum shares for which he is eligible under cycles 18-20 of Fannie Mae’s PSP, the maximum possible number of such shares being delineated in Table 1 hereto?
- e. Whether and in what amount Mr. Raines is entitled to shares under Fannie Mae’s PSP for any cycle commencing in 2005?
- f. Whether Mr. Raines is entitled to any additional options pursuant to the Agreement, including pursuant to Article 5.4(a)(iii) of the Agreement?

(4) The Parties agree to notify the Arbitrator within sixty (60) days of the announcement of the results of any accounting restatement by Fannie Mae whether either party believes that further proceedings are necessary, and, if so, a description of what the party or parties believe to be necessary.

(5) At any time prior to sixty (60) days after Fannie Mae publicly announces the results of any accounting restatement for the period including 2001-2005, the Parties may jointly request that the matter be dismissed or that additional adversarial proceedings be convened to resolve any remaining outstanding issues. In the event that the parties have resolved all outstanding disputes within sixty (60) days after the announcement of the results of such accounting restatement, they will inform the arbitrator of such resolution.

PLAINTIFF FRANKLIN D. RAINES

/s/ Kevin M. Downey

Kevin M. Downey, Esq.

WILLIAMS & CONNOLLY LLP

Counsel for Franklin D. Raines

Date: 11/7/06

DEFENDANT FANNIE MAE

/s/ Brian D. Boyle

Brian D. Boyle, Esq.

O'MELVENY & MYERS LLP

Counsel for Fannie Mae

Date: 11/7/06

TABLE 1
Performance Share Plan (“PSP”)

PSP Cycle	Covered Period	Maximum PSP Shares Allowable
<u>17</u>	<u>2001-03</u>	<u>69,578</u>
<u>18</u>	<u>2002-04</u>	<u>180,693</u>
<u>19</u>	<u>2003-05</u>	<u>161,258</u>
<u>20</u>	<u>2004-06</u>	<u>149,951</u>