FANNIE MAE REPORT ON COMPENSATION

TO

THE COMMITTEE ON FINANCIAL SERVICES

OF THE U.S. HOUSE OF REPRESENTATIVES

AND

THE COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS

OF THE U.S. SENATE

PURSUANT TO P.L. 102-550

SECTION 1381(j)(2)

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I. INTRODUCTION

Section 1381(j)(2) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("the 1992 Act") requires that Fannie Mae (also referred to as "the company") submit an annual report on compensation to the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs (collectively, "the Committees"). Specifically, the 1992 Act requires that Fannie Mae report on:

"(i) the comparability of the compensation policies of the corporation with the compensation policies of other similar businesses,

(ii) in the aggregate, the percentage of total cash compensation and payments under employee benefit plans (which shall be defined in a manner consistent with the corporation's proxy statement for the annual meeting of shareholders for the preceding year) earned by executive officers[1] of the corporation during the preceding year that was based on the corporation's performance, and

(iii) the comparability of the corporation's financial performance with the performance of other similar businesses.

The report shall include a copy of the company's proxy statement for the annual meeting of shareholders for the preceding year."[2]

Fannie Mae has not issued a proxy statement for the preceding year, because the company has not scheduled an annual meeting of shareholders. The information relating to compensation that would have been disclosed in Fannie Mae's proxy statement relating to the preceding year's compensation is included in Fannie Mae's Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Form 10-K/A"), filed with the Securities and Exchange Commission on March 9, 2012, and the relevant sections of the 2011 Form 10-K/A are being provided with this report.

Fannie Mae has been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to Fannie Mae's Board of Directors and has delegated to management the authority to conduct the company's day-to-day operations.

II. COMPARABILITY OF COMPENSATION POLICIES OF THE COMPANY

The 1992 Act requires that this report address the comparability of the compensation policies of Fannie Mae with the compensation policies of other similar businesses. Congress has

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[1] For the purposes of this report, the list of executive officers consists of the officer positions designated by the Federal Housing Finance Agency ("FHFA") effective as of April 7, 2011, as those positions were occupied as of December 2011. As defined in the 1992 Act, "executive officer" means "the chairman of the board of directors, chief executive officer, chief financial officer, president, vice chairman, and executive vice president, and any senior vice president in charge of a principal business unit, division, or function." 12 U.S.C. 4502(12). By agreement in 2005 with the Office of Federal Housing Enterprise Oversight, FHFA's predecessor, Fannie Mae segregated the functions of the Chairman of the Board and Chief Executive Officer. As a result, the Chairman of the Board is not an employee or officer of Fannie Mae and is not included in this discussion of performance-based compensation for executive officers.

[2] 12 U.S.C. 1723a(d)(3)(A).

recognized that Fannie Mae must compete with other large financial institutions for the purpose of setting reasonable compensation. Section 309(d)(2) of the Federal National Mortgage Association Charter Act ("Charter Act") establishes the authority of the Board to hire employees and to set reasonable compensation that is "comparable with compensation for employment in other similar businesses (including other publicly-held financial institutions or major financial services companies) involving similar duties and responsibilities" and provides that "any such action shall be without regard to the Federal civil service and classification laws."[3]

While this report addresses the company's compensation program that was in effect for 2011 executive compensation, as described below under "*II.C. 2012 Executive Compensation Program*," FHFA instituted a new executive compensation program for the company's executives that is applicable for 2012 compensation.

A. Overview of the Executive Compensation Program for 2011

The company's 2011 executive compensation program was developed in December 2009 after the company entered into conservatorship. The program was approved by FHFA in consultation with the Department of the Treasury.

The company's 2011 executive compensation program was designed to fulfill two primary objectives:

- attract and retain executive talent with the specialized skills and knowledge necessary to manage a large financial services company; and
- link pay to performance through the use of performance-based elements of compensation.

Management and the Board of Directors appreciate the public interest in executive compensation at companies receiving taxpayer support and understand the company's responsibility for appropriate stewardship of those resources at Fannie Mae. A market-based, competitive executive compensation program is consistent with good stewardship of taxpayer support, as it enables the company to attract and retain able and experienced executives who are essential to effectively manage the company's $3.1 trillion book of business. The company requires highly qualified executives to continue to mitigate the losses in the legacy book of business that was acquired prior to conservatorship, as well as to manage the strong new book of business that the company has acquired since 2009.

The company operates in a difficult environment and faces an uncertain future, limitations on its executive compensation[4], and heightened scrutiny of its actions by Congress and its regulators. These conditions have made it more difficult to attract and retain qualified executive management. The company has already had significant executive departures since entering into conservatorship in September 2008 and, in January 2012, the company's current Chief Executive Officer announced that he will step down from his position when his successor is appointed.

The company faces competition from both within the financial services industry and from businesses outside of the financial services industry for qualified executives. These competitors do not face the same restrictions on their ability to pay market-based compensation to their

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[3] 12 U.S.C. 1723a(d)(2).

[4] The Stop Trading on Congressional Knowledge Act of 2012, signed by President Obama on April 4, 2012, provides that senior executives at Fannie Mae and Freddie Mae are prohibited from receiving bonuses during any period of conservatorship for those entities on or after the date of enactment of the Act.

executives. Moreover, the company's ability to retain employees has been aided by a weak market, and an improving economy is likely to create additional attractive opportunities for the company's executives, which could lead to further management turnover. Further turnover in key management positions could threaten the company's ability to fulfill its responsibilities under its Charter.

Although the company recognizes the importance of paying market-based executive compensation in order to attract and retain qualified executives, the company also recognizes that it must balance this objective with its conservatorship status and its efforts to reduce taxpayer costs. Careful consideration is given to the costs of executive compensation when making compensation determinations.

The company has substantially reduced these costs since entering into conservatorship in September 2008. Actual total direct compensation for the company's Chief Executive Officer for 2011 was more than 50% lower than such compensation for the company's Chief Executive Officer for 2007. Average actual total direct compensation for Fannie Mae's other named executive officers[5] for 2011 was more than 50% lower than such 2007 compensation for its other named executive officers. In addition to lower compensation levels, the company has reduced executive compensation by reducing the total number of executives (senior vice presidents and above) by approximately 28% from the beginning of conservatorship through year-end 2011. The company also seeks to compensate newly hired executives at lower amounts than the executives they are replacing.

As described in more detail below, the company's 2011 executive compensation program consisted of three elements: base salary, deferred salary and a long-term incentive award. In order to align pay with performance, the long-term incentive award is based on performance against corporate goals and individual performance, and 50% of deferred salary is based on performance against corporate goals.

[5] A "named executive officer" is a named executive officer under the rules of the United States Securities and Exchange Commission. *See* Item 402 of Regulation S-K.

B. Executive Compensation Program Components for 2011

The table below summarizes the principal elements, objectives and key features of the company's 2011 executive compensation program. The company's executive officers are covered by this program. As described below under "*II.C. 2012 Executive Compensation Program*," FHFA instituted a new executive compensation program that is applicable for 2012 executive compensation.

Compensation Element	Form	Compensation Objectives	Key Features
Base Salary	Fixed cash payments, paid during the year on a bi-weekly basis.	Attract and retain executives by providing a fixed level of cash compensation.	Base salary reflects the executive's level of responsibility and experience, as well as individual performance over time. Base salary is capped at $500,000 for all of the company's executives, other than the company's Chief Executive Officer and Chief Financial Officer.
2011 Deferred Salary	Payments that are paid to the executives in cash in quarterly installments in the year following the performance year. 50% of deferred salary is performance-based and the remaining 50% is service-based. 2011 deferred salary is paid in four equal quarterly installments in March, June, September and December of 2012.	Retain executives by deferring payment of additional cash compensation until the following year. The performance-based portion of deferred salary provides incentives to the executives to achieve corporate performance goals.	Half of 2011 deferred salary is based on the Board of Directors' determination of corporate performance in 2011, as approved by FHFA. The remaining half of 2011 deferred salary is service based. Except to the extent provided in a termination agreement approved by FHFA, or in the case of death or retirement, the company will pay installments of 2011 deferred salary only if the executive is employed by Fannie Mae on the scheduled payment dates.
Long-term Incentive Award	A performance-based cash award that is paid over two calendar years. Half of the 2011 long-term incentive award was paid in February 2012 and the remaining half of the award will be paid in early 2013.	Provide incentives to executives to achieve corporate and individual performance goals, and serve as a retention incentive.	An executive's target for a long-term incentive award is one-third of the executive's target total direct compensation. Half of the 2011 long-term incentive award was determined in February 2012 based on corporate and individual performance for 2011. The remaining half of the award will be determined in early 2013 based on corporate and individual performance for both 2011 and 2012. Except to the extent provided in a termination agreement approved by FHFA, or in the case of death or retirement, the company will pay installments of a long-term incentive award only if the executive is employed by Fannie Mae on the scheduled payment dates.

Employee benefits are a fundamental part of the company's compensation program, and serve as an important tool in attracting and retaining employees. The company's employee benefits are described in general in the table below.

Benefit	Form	Primary Objective
Health, Welfare and Other Benefits	In general, the executives are eligible for benefits available to the company's employee population as a whole, including the company's medical insurance plans, life insurance program and matching charitable gifts program. The executives are also eligible to participate in the voluntary supplemental long-term disability plan, which is available to many of the company's employees.	Provide for the well-being of the executive and his or her family.
Retirement Plans:		
Defined Benefit Pension Plans • *Qualified Retirement Plan* • *Non-qualified Supplemental Pension Plan and 2003 Supplemental Pension Plan* • *Non-qualified Executive Pension Plan*	The Retirement Plan is a tax-qualified defined benefit pension plan that was generally available to employees before participation in the plan was frozen in 2007. The non-qualified Supplemental Pension Plans and Executive Pension Plan provide supplemental retirement benefits in addition to those offered by the Retirement Plan. The executives who joined the company prior to 2008 participate in the company's defined benefit pension plans. Benefits under the Executive Pension Plan were frozen in 2009. The executives who joined the company after 2007 are not eligible to participate in any of these plans.	Retain executives by providing a level of retirement income.
Non-qualified Deferred Compensation ("Supplemental Retirement Savings Plan")	The Supplemental Retirement Savings Plan is an unfunded, non-tax-qualified defined contribution plan. The plan supplements the company's qualified defined contribution plan by providing benefits to participants whose annual eligible earnings exceed the IRS limit on eligible compensation for 401(k) plans. The executives who joined the company after 2007 participate in the company's Supplemental Retirement Savings Plan. The executives who joined the company prior to 2008 are not eligible to participate in this plan, as they participate in some or all of the company's defined benefit pension plans.	Attract and retain executives by providing retirement savings.
401(k) Plan ("Retirement Savings Plan")	A tax-qualified defined contribution plan (401(k) plan) available to the employee population as a whole.	Attract and retain executives by providing retirement savings in a tax-efficient manner.

Other Awards

In addition to the direct compensation and employee benefits described in the tables above, from time to time, the company has used sign-on awards to attract executives to join Fannie Mae and/or to compensate them for compensation forfeited upon leaving a prior employer. Also, from time to time, the company has used retention awards to retain a small number of executives with critical skills.

Relocation Benefits and Other Perquisites

The company has also, from time to time, offered relocation and temporary living benefits for new executives. Total perquisites for any SEC executive officer[6] cannot exceed $25,000 per year without FHFA approval.

Clawback

As discussed in more detail in the relevant sections of the company's 2011 Form 10-K/A, beginning with compensation for the 2009 performance year, for executives who are SEC executive officers, compensation is subject to forfeiture and repayment provisions, also known as "clawback" provisions, in the event of certain circumstances, including the grant of incentive compensation based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

C. Establishment of Total Compensation Targets for 2011

Total compensation targets for each executive are set based on the position requirements and the executive's expertise and experience. Consideration is also give to the compensation paid for these positions at comparable financial services companies, with which the company must compete for talent. The executive compensation benchmarking process with regard to the company's named executive officers is described in more detail in the relevant sections of the company's 2011 Form 10-K/A provided with this report.

[6] An "SEC executive officer" is an "executive officer" under Rule 3b-7 of the General Rules and Regulations under the Securities and Exchange Act of 1934.

D. 2012 Executive Compensation Program

On March 8, 2012, FHFA instituted new executive compensation arrangements that it designed in consultation with Treasury. The Board of Directors authorized management to implement these compensation arrangements. The 2012 executive compensation program (the “2012 Program”) is effective as of January 1, 2012.

Under the 2012 Program, FHFA has directed the company to reduce the target compensation of each executive by 10% in 2012, with a few exceptions for executives already positioned at a low percentile of the market data for comparable firms or in some cases for recent hires and promotions. This reduction in compensation seeks to balance the company’s objective of reducing taxpayer costs with the company’s objective of attracting and retaining the executives needed to effectively manage the company.

Under the 2012 Program, which is described in the table below, direct compensation consists solely of salary paid in cash. Salary has two components: base salary and deferred salary.

Summary of 2012 Program

Compensation Element	Form	Primary Compensation Objectives	Key Features
Base Salary	Fixed cash payments, which are paid during the year on a bi-weekly basis.	Attract and retain executives by providing a fixed level of current cash compensation.	Base salary reflects the executive’s level of responsibility and experience, as well as individual performance over time. Base salary is capped at $500,000 for all of the company’s executives, other than the company’s Chief Executive Officer and Chief Financial Officer.
Deferred Salary	Deferred salary is earned in bi-weekly installments over the course of the performance year, and is paid in quarterly installments in March, June, September and December of the following year. There are two elements of deferred salary: (1) fixed and (2) at-risk. The amount of fixed deferred salary is fixed, while the amount of at-risk deferred salary may be reduced based on corporate and individual performance.	*Fixed Deferred Salary*	
		Retain executives.	Treatment of earned but unpaid fixed deferred salary upon termination of employment is described in the company’s 2011 Form 10-K/A.
		At-Risk Deferred Salary	
		Retain executives and provide incentives to executives to achieve corporate and individual performance objectives.	Equal to 30% of the executive’s total target direct compensation, half of which is subject to reduction based on corporate performance and half of which is subject to reduction based on individual performance. Treatment of earned but unpaid at-risk deferred salary upon termination of employment is described in the company’s 2011 Form 10-K/A.

Compensation for New President and Chief Executive Officer

Fannie Mae appointed a new President and Chief Executive Officer, effective June 18, 2012. Effective January 1, 2013, his direct compensation will consist solely of base salary at the rate of $600,000 per year. Through December 31, 2012, he will continue to earn compensation under the 2012 Program. See Fannie Mae’s report on Form 8-K filed with the Securities and Exchange Commission on June 5, 2012 for more detailed information.

III. EXECUTIVE COMPENSATION AND PERFORMANCE-BASED PAY

This section addresses performance-based compensation for Fannie Mae's executive officers. Fannie Mae structures its compensation program in accordance with its statutory obligations under the Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq. The Charter Act provides that compensation be reasonable and comparable to that of similar businesses (including other publicly-held financial institutions or major financial services companies) involving similar duties and responsibilities, and that a significant portion of potential compensation for all executive officers of Fannie Mae be based on the company's performance.

Under the company's 2011 executive compensation program, all of the 2011 long-term incentive awards and half of the 2011 deferred salary awards are at-risk, variable and based on corporate performance and, in the case of the long-term incentive award, also individual performance. Under the SEC rules governing the Summary Compensation Table included in the company's 2011 Form 10-K/A, 40% of total compensation earned by executive officers in 2011 was performance-based.[7] As described above under "II.C. 2012 Executive Compensation Program," FHFA instituted a new executive compensation program for the company's executives beginning in 2012. Under this program, direct compensation consists solely of salary paid in cash, there is no long-term incentive award, and the at-risk portion of deferred salary may be reduced, but not increased, based on corporate and individual performance.

IV. COMPARABILITY OF FINANCIAL PERFORMANCE

The 1992 Act requires that Fannie Mae report on the comparability of Fannie Mae's financial performance with the performance of other similar businesses. In prior years, Fannie Mae provided information on the five-year cumulative return for shareholders of Fannie Mae measured against two financial indices. This information for the five-year period ending in 2011 is provided below. However, for 2011, as discussed below, neither Fannie Mae's Board of Directors nor FHFA measured Fannie Mae's performance by reference to the cumulative return for shareholders.

A. Information Regarding Shareholders' Cumulative Return

Consistent with previous years, the company has measured shareholders' cumulative return on investment for the five years ending in 2011.[8] The return for Fannie Mae's shareholders is measured against two indices – Standard & Poor's S&P 500 and S&P Financials. Fannie Mae's common stock was delisted from the New York Stock Exchange and the Chicago Stock Exchange on July 8, 2010 and since then has been traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol "FNMA."

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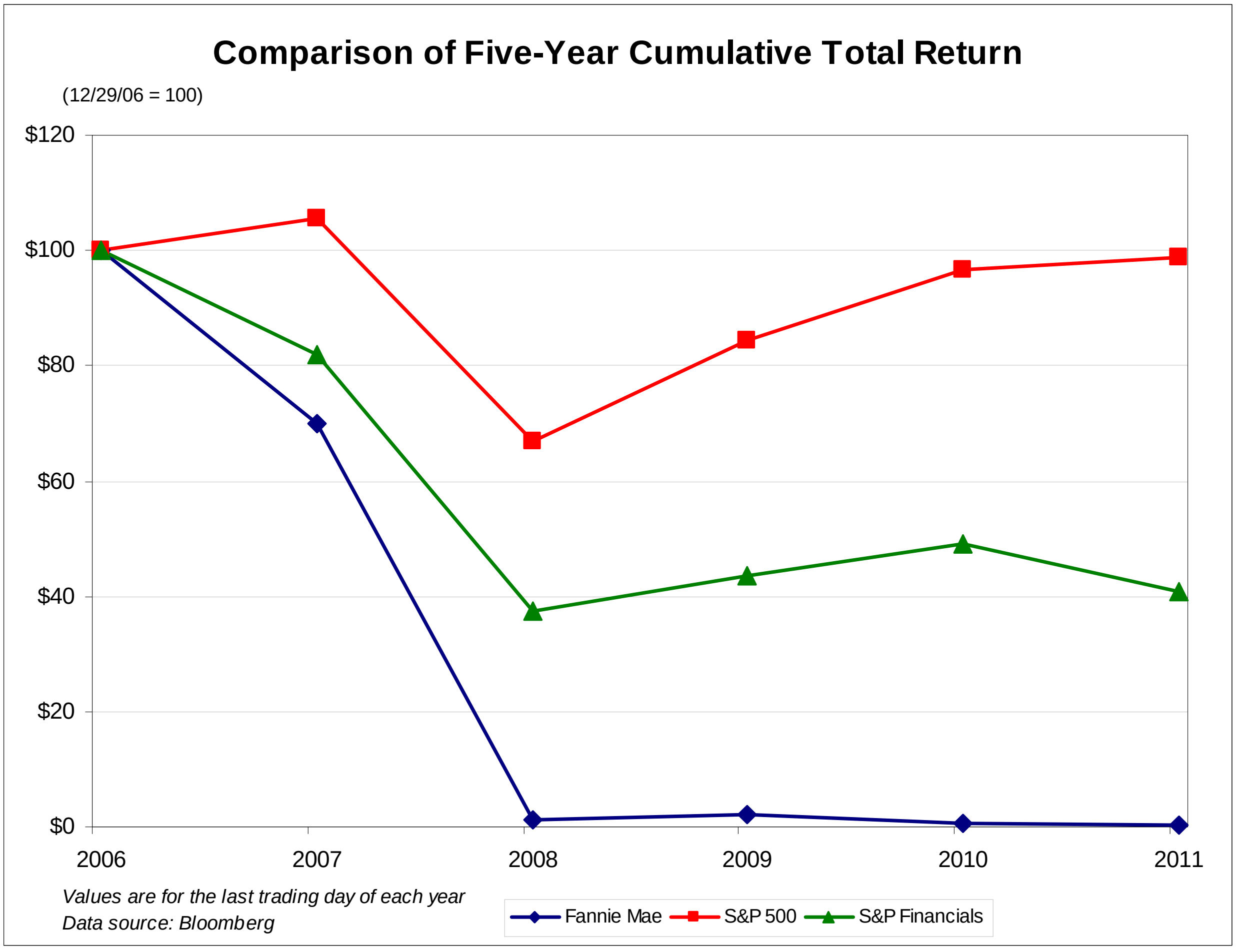
[7] For this calculation, total compensation is defined as it is for the "total" column in the Summary Compensation Table and includes base salary, deferred salary, sign-on awards, non-equity incentive plan compensation, changes in pension value, and "all other compensation" (as defined by the SEC). Variable, at-risk compensation for purposes of this calculation consists of the second installment of the 2010 long-term incentive award, the first installment of the 2011 long-term incentive award and the performance-based portion of the 2011 deferred salary award. The amount of the second installment of the 2011 long-term incentive award is determined using performance in 2011 and 2012, and the amount of this installment will not be determined or paid until 2013.

[8] Cumulative Total Return is calculated assuming reinvestment of all dividends.

As of year-end 2011, Fannie Mae's five-year cumulative total return was substantially less than that of both the S&P 500 and of the S&P Financials, as illustrated by the chart below. A $100 investment in Fannie Mae common stock at the end of 2006 (assuming full reinvestment of dividends) would have yielded $0.36 by the end of 2011. A similar $100 investment during the same period (1) in companies included in the S&P 500 would have yielded $98.81 and (2) in S&P Financials would have yielded $40.72.



Return in Dollars Based on $100 Investment in Each Category			
Year	Fannie Mae	S&P 500	S&P Financials
2006	100.00	100.00	100.00
2007	70.00	105.48	81.86
2008	1.37	66.93	37.47
2009	2.13	84.28	43.72
2010	0.54	96.78	49.00
2011	0.36	98.81	40.72

Assuming full reinvestment of dividends

Note: Fannie Mae stock price data prior to 2010 reflects NYSE quotes. Fannie Mae stock price data for year-end 2010 and 2011 reflects OTC Bulletin Board quotes.

B. *Discussion of Corporate Performance Goals for the 2011 Executive Compensation Program*

As discussed in more detail in the relevant sections of the 2011 Form 10-K/A provided with this report, the company's 2011 corporate performance goals were designed to support the company's business objectives, which included providing liquidity to the housing market, mitigating credit losses on the company's pre-2009 book of business, reducing administrative expenses, meeting the company's obligations as program administrator of Treasury's Making Home Affordable program, and improving the company's controls and infrastructure. These goals were approved by FHFA.

The Compensation Committee of the Board of Directors determined that the company achieved most of its 2011 corporate performance goals in a challenging operating environment. For example, in 2011, the company:

- Acquired and managed a strong, high-quality book of new business that is expected to be profitable over its lifetime and met specified net revenue margin metrics, return on capital metrics and credit quality metrics;
- provided over $550 billion of liquidity to the housing market enabling families to buy and refinance homes;
- met the target for limiting credit-related expenses on loans acquired prior to 2009 by offering home retention solutions, such as loan modifications, and working with servicers to improve the servicing of delinquent loans;
- met its obligations as program administrator of Treasury's Making Home Affordable program; and
- reduced core administrative expenses by over 10% from 2010.

In evaluating 2011 corporate performance, the Committee considered the challenging regulatory and operating environment and the challenges presented by management turnover. Based on its evaluation and considering input from FHFA, the Committee determined that the pools for the first installment of the 2011 long-term incentive awards and for the second installment of the 2010 long-term incentive awards for executive officers would be funded at 85% of target, and the performance-based portion of 2011 deferred salary would be paid at 85% of target. In making these decisions, the Committee also took into account that, while the company made significant progress in improving its infrastructure and risk and controls environment, it did not fully achieve all of the metrics relating to these goals. The Board of Directors and FHFA approved the Compensation Committee's determinations.

V. CONCLUSION

The company's 2011 executive compensation program was designed to fulfill the two primary objectives of attracting and retaining executive talent with the specialized skills and knowledge necessary to manage a large financial services company and linking pay to performance through the use of performance-based elements of compensation. In describing FHFA's establishment of the company's executive compensation for the years 2009 to 2011, FHFA Acting Director DeMarco explained that for FHFA, "It was important to set pay at levels sufficient to compete for quality talent because the Enterprises had many key vacancies to fill, potential departures to avoid, and pay has been a significant issue in some cases. That need was, as it must be, balanced by our efforts to keep the cost to taxpayers as low as we possibly could."[9] Looking forward to 2012, the company has a new executive compensation program instituted by FHFA. Under this new program, corporate performance will be measured against a scorecard provided by FHFA, with objectives that include building a new infrastructure; contracting Fannie Mae's and Freddie Mac's dominant presence in the marketplace while simplifying and shrinking certain operations; maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages; and managing efficiently in support of Conservatorship goals. With respect to the new program, FHFA Acting Director DeMarco has stated that he believes, "the new compensation program strikes the balance between prudent executive pay including the elimination of bonuses, with the need to safeguard quality staffing in order to protect the taxpayers' investment and achieve the objectives in the Conservatorship Scorecard."[10]

[9] Statement of Edward J. DeMarco, Acting Director Federal Housing Finance Agency, before the U.S. Senate Committee on Banking, Housing, and Urban Affairs hearing on "Oversight of the Federal Housing Finance Agency" on November 15, 2011.

[10] FHFA press release "FHFA Announces New Conservatorship Scorecard for Fannie Mae and Freddie Mac; Reduces Executive Compensation" dated March 9, 2012.