
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):

June 14, 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 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On June 14, 2006, Ann McLaughlin Korologos resigned from the Board of Directors of Fannie Mae (formally, the Federal National Mortgage Association), effective July 31, 2006.

Item 7.01 Regulation FD Disclosure.

On June 15, 2006, Fannie Mae released testimony prepared for delivery by Stephen B. Ashley, the Chairman of Fannie Mae's Board of Directors, and Daniel H. Mudd, the company's President and Chief Executive Officer, before the Senate Committee on Banking, Housing and Urban Affairs. This testimony, copies of which are filed as exhibits to this report, is incorporated herein by reference.

The information in this item, including Exhibits 99.1 and 99.2 submitted herewith, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of Section 18, nor shall it be deemed incorporated by reference into any disclosure document relating to Fannie Mae, except to the extent, if any, expressly set forth by specific reference in such document.

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

June 15, 2006

By: */s/ Beth Wilkinson*

Name: Beth Wilkinson

Title: Executive Vice President and General Counsel

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
99.1	Testimony prepared for delivery on June 15, 2006 by Stephen B. Ashley before the Senate Committee on Banking, Housing and Urban Affairs
99.2	Testimony prepared for delivery on June 15, 2006 by Daniel H. Mudd before the Senate Committee on Banking, Housing and Urban Affairs

[Fannie Mae Logo]

**Opening Statement Prepared for Delivery by
Stephen B. Ashley
Chairman of the Board, Fannie Mae**

**U.S. Senate Committee on Banking, Housing and Urban Affairs
Washington, DC
June 15, 2006**

Mr. Chairman, Senator Sarbanes and Members of the Committee. My name is Stephen B. Ashley. I have been in the mortgage business for over 40 years, and the last time I had the privilege of testifying before this Committee was when I served as President of the Mortgage Bankers Association of America. I appreciate the opportunity to appear before the Committee today.

Eighteen months ago, I was asked to become independent Chairman of the Fannie Mae Board of Directors, whose job it is to protect the interests of shareholders and stakeholders by holding management accountable, putting in place the proper corporate governance, and ensuring that the company is operated in a safe and sound manner.

The Fannie Mae of 1998-2004 portrayed in the final OFHEO report of its special examination is a far different company than was portrayed to the Fannie Mae Board by departed management, our former external auditor, and annual regular examination reports. I would like to comment briefly on the Board and the company's response to the OFHEO special examination of Fannie Mae and the changes we have made and are continuing to make to address the problems identified.

On September 20, 2004, when we received OFHEO's interim report, we acted immediately to examine and respond to its findings. Within a week of receiving the report, we reached an agreement on a process to resolve the issues raised by the report, we pledged to work cooperatively with OFHEO, and we began supervising the work of fixing the company.

Also in September 2004, the Special Review Committee of the Board initiated an independent review of the issues raised in the OFHEO report and other matters relating to the company's accounting, governance, structure and internal controls. To conduct the review, the Committee engaged former Senator Warren Rudman and his law firm of Paul, Weiss, which retained the services of a forensic accounting firm. The Board directed that the work of Paul, Weiss be transparent to OFHEO, the SEC and the Department of Justice through the entire period of the review.

In October 2004, the Board established an ongoing Compliance Committee to ensure that the company fulfilled its agreement with OFHEO and all the company's legal and regulatory obligations.

By the end of 2004, working with OFHEO, we had taken action to replace our outside auditor; launch our restatement; and replace our Chief Executive Officer and Chief Financial Officer. Since September 27, 2004, the full Board has met 43 times; Board Committees have met 146 times. Since January 1, 2005, I have met directly with the Director or Acting Director of OFHEO 17 times. As independent Chairman of Fannie Mae, I typically spend two to three days a week at the company, providing direct oversight.

In March, 2005, the Board also entered into a supplemental agreement with OFHEO to enhance Fannie Mae's internal financial controls and accounting policies and practices to ensure they conform to GAAP, disclosure and other regulatory standards.

We also agreed to take steps to further strengthen the company's corporate governance. Let me describe some of these and other changes the Board has made:

- We separated the roles of the chief executive officer and the chairman of the board, as it was essential to establish the appropriate governance and oversight of management, assuring all parties that we were progressing on our agreed upon goals.
- Five of the 12 non-management members are new since 2004, and the newest member, Dennis Beresford, is a former chairman of the Financial Accounting Standards Board and will serve as chairman of the Audit Committee. All five of the new Board members are independent of management. We eliminated two of the seats held by management, retaining just one, to increase the proportion of independent board members.
- In addition, in accordance with our corporate policy and OFHEO's corporate governance rules on length of service, another Board member, Ann Korologos, will be leaving the Board effective July 31. As lead director and chairman of the Governance Committee in 2004, she felt it was her duty to remain on the Board an extra two years to see us through the investigative phase, which is now complete.
- To ensure accountability and the timely flow of information, we established reporting lines to the Board for the positions of Chief Audit Executive, Chief Compliance and Ethics Officer, and Chief Risk Officer.
- To improve our relationship with our regulators and to hear about any problems directly, I and other members of the Board have established regular interactions with OFHEO.

During this period the Board exercised one of its paramount functions: to select and review the performance of the CEO of the company. We made a change in leadership at Fannie Mae when we appointed Dan Mudd as interim CEO of Fannie Mae on December 21, 2004.

We directed Mr. Mudd to begin working with the Board and OFHEO to implement our regulatory agreements, carry out other necessary and appropriate changes to the company, and put Fannie Mae on a new track.

More specifically, we made clear that his duties included the following:

- Restoring the company's capital;
- Restating Fannie Mae's financial results;
- Building a new management team, particularly in the areas of finance, accounting and audit;
- Rebuilding relationships with regulators, customers and stakeholders;
- Garnering credibility with the investment community, both the debt and equity markets;
- Boosting the company's investments in our financial systems and internal controls; and,
- Rebuilding the company's culture on a foundation of service, respect and openness.

In June 2005, the Board selected Dan Mudd as permanent President and CEO of Fannie Mae, after an extensive, competitive nationwide search and careful and deliberate consideration, including consultation with OFHEO and a very thorough review by Senator Rudman. As interim CEO, Mr. Mudd demonstrated an ability to lead a large financial institution through a major and challenging transition, including the ability to reach out and rebuild confidence with our regulators, Congress and others. He demonstrated his capacity for the job by doing the job.

On May 23 of this year, the company took a big step forward when we reached settlements with the Securities and Exchange Commission and OFHEO. The settlement with OFHEO addresses the recommendations found in the OFHEO final report. The Board is committed to ensuring full and total compliance with these agreements.

Mr. Chairman, I can report to this Committee that there is a strong determination — on the part of the Board,

management, and employees — for Fannie Mae to grow into a very different company than it was from 1998 to 2004, and that changes have been made up, down and across the organization. At the same time, the Board understands that Fannie Mae has much more to do, and working with our regulators and with this Committee and the counterpart committees in the House, we intend to hold ourselves and the management team accountable for the changes that need to be made.

I welcome this chance to report to you and to answer any questions you have.

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**Opening Statement Prepared for Delivery by
Daniel H. Mudd
President and CEO, Fannie Mae**

**U.S. Senate Committee on Banking, Housing and Urban Affairs
Washington, DC
June 15, 2006**

Mr. Chairman, Senator Sarbanes and members of the Committee. My name is Daniel H. Mudd, and I appreciate the opportunity to appear before you today to update you on the progress we have made at Fannie Mae, where I have served as Chief Executive Officer since December 2004.

The final OFHEO report, and the special investigation by former Senator Warren Rudman and the law firm of Paul, Weiss for our Board of Directors, have provided a detailed picture of the failings at Fannie Mae during the years 1998 through 2004.

I appreciate the opportunity to comment on that period, and I would like to report on what we have done to overhaul the company since the start of 2005, and also respond to your questions.

It is clear from the reports that Fannie Mae got a lot of things wrong from 1998 to 2004. Bad decisions about accounting and many other matters let a lot of people down, and in doing so, broke a public trust. We have learned some painful lessons about getting things right, and about hubris and humility.

We have made changes. We are making progress. And we have much more to do. I am determined to do it.

We began with a plan to fix the company on December 21, 2004, the day I was appointed as Fannie Mae's interim CEO. We set out to: Restore our capital. Restate our prior financial statements. Rebuild relationships with our regulators, partners, stakeholders and Congress. Manage our business. Re-center the company on serving families who need affordable housing. Armor-plate our financial controls. And finally, fix our corporate culture, which the OFHEO report makes clear led to a lot of our problems.

I have heard your comments today, and I have heard many more in private. The days of arrogant, defiant, "my way" Fannie Mae had to end. We have begun to build a Fannie Mae that listens better, welcomes accountability, works with our regulators and with Congress, and serves the market by putting our mission to serve housing first.

Let me describe some of the tangible steps we're taking, starting with the people.

First, we have established a new senior management team to provide the leadership, talent and ethical standards worthy of our role and mission.

Of the 55 members of the company's senior-most management, 75 percent are new or in different positions and a third are entirely new to the company, especially in the critical finance, accounting and risk areas.

We have a new Chief Financial Officer. We have a new Controller. A new Chief Audit Executive. A new Chief of Accounting Policy. We have a new General Counsel, a new Chief Risk Officer, and a new head of Corporate Strategy. These leaders join us from important roles in major financial institutions, large corporations, and highly regarded firms.

Second, in cooperation and consultation with OFHEO, we are fundamentally reorganizing the company to ensure that strong checks and balances are in place. For example:

- To ensure appropriate segregation of duties, we have separated the portfolio business from the CFO's responsibilities.
- Under the new CFO, we have reorganized the Finance function and brought in entirely new leadership from outside the company.
- We are reorganizing and strengthening Internal Audit, and the new Chief Audit Executive has a direct and independent line to the Board's Audit Committee.

We have also replaced our outside auditor with Deloitte & Touche, which is conducting a comprehensive re-audit of the entire company. Deloitte, which formerly provided advice to OFHEO when several of the accounting problems were first identified, has over 300 auditors on site at Fannie Mae.

We are making further key organizational changes, which include:

- Establishing a new and separate Compliance and Ethics Organization to provide a robust compliance and internal investigation function, led by a senior executive, with a reporting line to the Board. We have written and pledged ourselves to a standard of ethical, honest and transparent conduct inside and outside the company.
- Establishing a new Risk Organization with an independent and comprehensive view of all the risks the company is taking, and again, with a reporting line to the Board. We have recruited and hired a senior executive from JP Morgan Chase to lead this function.
- Disbanding the so-called Law and Policy division so that each function reports directly and separately to me. These are staff functions that exist to support our business and our mission — not a center of command and control.

Third, we have restored and maintained our capital adequacy, including the 30-percent surplus mandated in our agreement with OFHEO and supervised by their examiners. We now have roughly \$39 billion dollars of capital in reserve; our ratio of capital to assets is higher than it has ever been in our history.

Fourth, we are paying people to do the job — not to hit targets. We have adopted a new executive compensation structure with broad performance goals that include achieving affordable housing mission goals, improving our culture, complying with regulatory standards, and delivering shareholder value.

Fifth, we are making steady progress on completing our financial restatement, which will be done by the end of 2006.

We have put over 1,000 full-time and 2,500 contract employees on the job and invested over \$800 million, a large part of that on new systems. We have completed an exhaustive review of our accounting policies and practices to determine their consistency with Generally Accepted Accounting Principles.

We have completed the restatement of several, significant portions of our balance sheet, and developed systems to support and control our business. We are in the process of putting in place systems and controls to ensure we are GAAP and Sarbanes-Oxley compliant. There is absolutely no routine, process or control anywhere in the company that is beyond the scope of overhaul and improvement to the highest standard. We have over 150 projects underway and 200 associates working on this alone. We can get this done — our overarching goal is to get it done *right* the first time, and to make the investments to ensure this never happens again.

* * *

Mr. Chairman, I would like to reiterate a commitment I made in my testimony last April, that Fannie Mae will work cooperatively to support the efforts of Congress to pass legislation to strengthen GSE regulation.

In particular, we continue to support legislation to create a strong, well-funded regulator that would oversee both the safety and soundness and the housing mission of the enterprises.

We believe the regulator should have bank-like regulatory powers, including the authority to reduce on-balance sheet activities, based on safety and soundness. We also support housing goals, and an affordable housing fund, that strengthen our affordable housing mission and our role in the U.S. housing economy.

With respect to how we engage with Congress — that is part of the new Fannie Mae as well. I hope you have seen a new tone and manner of quiet, fact-based engagement from us. Where we disagree, we do so respectfully. You have my pledge to do all we can to help move this process forward.

Mr. Chairman, from the day I was appointed to lead Fannie Mae, we have been moving forward aggressively to fix the problems OFHEO has cited. The question may be, why is this worth doing? The reason this company exists is because of our housing and liquidity mission to help put people into homes.

Indeed, in these past 18 months:

- We have purchased or guaranteed more than four million home loans.
- We helped to create 136,000 more minority homeowners and serve 600,000 low- and moderate-income families overall.
- We helped provide financing to build, rehab or refinance 600,000 units of affordable rental housing.
- Nearly two-thirds of our overall business serves one or more of our HUD affordable housing goals.
- We are investing literally billions of dollars in the Gulf Coast region to help finance and rebuild homes and communities there.
- We attracted more than \$21 billion of overseas investment to provide liquidity to the U.S. housing finance market.
- Most important, we are providing what we estimate is roughly half a trillion dollars this year to finance homes for three million Americans, 25 percent of them African American, Hispanic and/or first-time home buyers.

I know that you are counting on us to fulfill our mission, and help to serve this growing nation and its growing housing needs. That is what makes this worth doing.

Mr. Chairman, this company is changing and will continue to change thanks to the lessons we have been given to learn. My obligation and pledge to you, the Congress, and the market we serve is to get this right and move forward. We are building a new Fannie Mae that is able to truly serve affordable housing in America.

I thank you for the opportunity to appear before you today. I look forward to your questions.

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