



---

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): **April 15, 2003**

**Federal National Mortgage Association**

*(Exact name of registrant as specified in its charter)*

**Fannie Mae**

---

**Federally chartered corporation**

*(State or other jurisdiction  
of incorporation)*

**3900 Wisconsin Avenue, NW  
Washington, DC**

*(Address of principal executive offices)*

**0-50231**

*(Commission  
File Number)*

**52-0883107**

*(IRS Employer  
Identification Number)*

**20016**

*(Zip Code)*

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

---

---

**Item 7. *Financial Statements and Exhibits.***

- (a) Not applicable.
- (b) Not applicable.
- (c) Exhibits.

99.1 Press release issued by Fannie Mae on April 14, 2003.

99.2 Monthly summary release issued by Fannie Mae on April 14, 2003.

**Item 9. *Regulation FD Disclosure.***

On April 14, 2003, Federal National Mortgage Association (Fannie Mae) issued a press release relating to the Company's earnings for the first quarter of fiscal year 2003. A copy of the press release is attached as Exhibit 99.1. On April 14, 2003, Fannie Mae released a monthly summary of financial data for March 2003. A copy of the summary is attached as Exhibit 99.2.

This information set forth under "Item 9. Regulation FD Disclosure" is intended to be furnished under "Item 12. Results of Operations and Financial Condition." We are furnishing this information under Item 9 in accordance with SEC Release No. 33-8216. Such information, including the exhibits attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any disclosure document of the Company, except as shall be expressly set forth by specific reference in such document.

---

## 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

By /s/ LEANNE G. SPENCER

---

Leanne G. Spencer  
Senior Vice President and Controller

Date: April 15, 2003

---

## EXHIBIT INDEX

The following is a list of the Exhibits furnished herewith.

Exhibit Number	Description of Exhibit
99.1	Press release issued by Fannie Mae on April 14, 2003
99.2	Monthly summary release issued by Fannie Mae on April 14, 2003.

Janis Smith  
202-752-6673

2485

April 14, 2003

### Fannie Mae Reports First Quarter 2003 Financial Results

**Net income at \$1,941 million, up 60.5 percent over the first quarter of 2002; Diluted earnings per share at \$1.93, up 65.0 percent**

**Core business earnings at \$1,850 million, up 21.8 percent over the first quarter of 2002; Core business diluted earnings per share at \$1.84, up 24.3 percent**

WASHINGTON, DC – Fannie Mae (FNM/NYSE), the nation’s largest source of financing for home mortgages, today reported financial results for the first quarter of 2003.

	Reported GAAP Results				Core Business Earnings		
	Q1 2003	Q1 2002	Change		Q1 2003	Q1 2002	Change
Net Income (in millions)	\$1,941	\$1,209	60.5%	Core Business Earnings (in millions)	\$1,850	\$1,519	21.8%
EPS* (in dollars)	\$1.93	\$1.17	65.0%	Core Business EPS* (in dollars)	\$1.84	\$1.48	24.3%

\* Diluted

The company’s reported results are based on generally accepted accounting principles (GAAP). Management also tracks and analyzes Fannie Mae’s financial results based on a supplemental non-GAAP measure called “core business earnings” (previously referred to as “operating net income” or “operating earnings”). While core business earnings is not a substitute for GAAP net income, management relies on core business earnings in operating Fannie Mae’s business because it believes that core business earnings provides management and investors with a better measure of the company’s financial results and better reflects its risk management strategies than GAAP net income. Core business earnings was developed in conjunction with the company’s January 1, 2001 adoption of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities (FAS 133)*, to adjust for accounting differences between alternative transactions used to hedge interest rate risk that produce similar economic results but require different accounting treatment under FAS 133.

(more)

## **Fannie Mae First Quarter Earnings**

### **Page Two**

The difference in the values and percentage changes between net income and core business earnings, and EPS and core business EPS are entirely attributable to those accounting differences for interest rate hedges. Refer to the attachments to this release for a reconciliation of the company's non-GAAP financial measures to its GAAP results.

### **Reported results**

Fannie Mae's reported net income for the first quarter of 2003 was \$1,941 million, a 60.5 percent increase compared with \$1,209 million in the first quarter of 2002. Diluted earnings per share (EPS) were \$1.93 in the first quarter of 2003, up 65.0 percent from \$1.17 in the first quarter of 2002.

Strong growth in net interest income contributed significantly to the company's reported results. Net interest income for the first quarter of 2003 was \$3,368 million, up 38.6 percent from the first quarter of 2002. This increase was driven by an 11.7 percent rise in the average net investment balance and a 29 basis point increase in the net interest yield.

The company's net interest yield averaged 160 basis points in the first quarter of 2003 compared with 131 basis points in the first quarter of 2002. Fannie Mae's net interest yield benefited from an increase in the amount of purchased options used as a substitute for callable debt, since the cost of these options is not included in our net interest income or net interest yield. Prior to the adoption of FAS 133 the company included the amortization of purchased option premiums as a component of interest expense. This amortization expense is now included as a component of purchased options expense on the income statement and excluded from interest expense. Net interest margin, discussed below, is calculated consistently with the company's previous methodology.

In the first quarter of 2003 the company recorded \$625 million of mark-to-market losses on purchased options compared with \$787 million in the first quarter of 2002. These unrealized losses were recorded in accordance with FAS 133. The reduction in the unrealized losses positively affected reported results.

(more)

---

**Core business earnings**

Core business earnings for the first quarter of 2003 was \$1,850 million, a 21.8 percent increase compared with \$1,519 million in the first quarter of 2002. Core business diluted EPS for the first quarter of 2003 was \$1.84, or 24.3 percent above the first quarter of 2002. Growth in core business earnings and diluted EPS was paced by a 10 basis point increase in the net interest margin, a 34.1 percent increase in guaranty fee income, and a \$110 million increase in fee and other income.

**Highlights**

Highlights of Fannie Mae's financial performance in the first quarter of 2003 compared with the first quarter of 2002 include:

- Core taxable-equivalent revenue of \$3,603.2 million, up 26.9 percent;
- An average net interest margin of 125 basis points compared with 115 basis points;
- Core net interest income of \$2,604.1 million, up 22.8 percent;
- Guaranty fee income of \$546.6 million, up 34.1 percent;
- Fee and other income of \$113.3 million compared with \$3.6 million;
- Credit-related losses of \$20.4 million compared with \$21.5 million;
- Losses of \$392.2 million from the call and repurchase of debt compared with \$171.7 million, and also;
- The combined book of business grew at an annualized 24.7 percent during the quarter.

The annualized growth in the total book of business included a 34.0 percent increase in outstanding mortgage-backed securities (MBS) and 13.3 percent increase in the mortgage portfolio.

Franklin D. Raines, Fannie Mae's Chairman and Chief Executive Officer, said, "Fannie Mae recorded extremely strong and balanced growth during the first quarter of 2003, continuing a record of financial performance that few other companies have matched." Raines noted that compared with the first quarter of 2002 the company experienced double-digit growth in both its mortgage portfolio and outstanding MBS, and also posted increases in its net interest margin and average guaranty fee rate. Raines added that Fannie Mae's first quarter credit-related losses were \$14 million below the previous quarter and \$1 million below the first quarter of 2002. Said Raines, "For the last few years housing has been one of the notable bright spots of the U.S. economy. Fannie Mae's disciplined response to the demands for credit from this sector has benefited both home buyers and our shareholders."

(more)

---



## **Fannie Mae First Quarter Earnings**

### **Page Four**

Fannie Mae's Chief Financial Officer, Timothy Howard, said that the company's 24.3 percent growth in core business diluted earnings per share compared with the first quarter of 2002 was paced by a 26.9 percent increase in core taxable-equivalent revenue over the same period. Strong growth in core net interest income, MBS guaranty fees and fee and other income all contributed to this increase, Howard said.

Howard said that during the three months ended March 31, 2003 the company's total book of business grew at an annual rate of 24.7 percent. Howard said that Fannie Mae's outstanding MBS grew at a 34.0 percent annual rate during this period, while the company's mortgage portfolio grew at a 13.3 percent annual rate. Howard noted that the company's mortgage portfolio had grown at a slower rate than its outstanding MBS during seven out of the last eight quarters. Said Howard, "Fannie Mae takes a disciplined approach to portfolio growth. Recently, commercial banks and other investors have been strong bidders for fixed-rate mortgages. We have been able to accommodate these demands by stepping up our issuance of MBS, and doing relatively less purchasing of mortgages and MBS ourselves."

Howard added that Fannie Mae reported improvements in all measures of capital adequacy during the quarter, and at the same time took advantage of market opportunities to repurchase 8.6 million shares of common stock. Between December 31, 2002 and March 31, 2003 the company's core capital rose from \$28.1 billion to \$29.5 billion, while its excess of core capital relative to the statutory minimum rose from \$877 million to \$1.291 billion. Fannie Mae's total capital exceeded its risk-based capital requirement by \$11.4 billion at December 31, 2002 – the latest date for which a risk-based capital requirement has been determined – compared with a \$5.8 billion surplus at September 30, 2002. Fannie Mae's total capital plus subordinated debt was 3.7 percent of total assets at March 31, 2003, approaching the 4.0 percent target for this measure set by the company in October 2000 as part of its voluntary initiatives.

### **Outlook**

Howard said that in light of the company's higher-than-expected first quarter earnings the company has changed its outlook for 2003 growth in core business earnings from the guidance it gave in January. At that time Howard referred to the then-current analyst consensus of 12 to 13 percent growth in core business diluted EPS for 2003 as "a reasonable centering point for estimates." Said Howard, "We now expect to see a moderately higher growth rate in core business earnings this year compared with our previous projection. We also expect the pattern of change in our net interest margin to result in stronger quarterly growth in the first half of the year than in the second half."

(more)

---

Howard noted that continued declines in interest rates during the early months of the year, and a resulting increase in projected mortgage liquidations, led the company to maintain an unusually high percentage of short-term financing for longer than it previously had envisioned. This higher percentage of short-term debt, coupled with its lower cost, caused the company's net interest margin to rise further in the first quarter, rather than falling as had been anticipated. Said Howard, "Once interest rates level off or begin to move higher, we expect to pay down significant amounts of short-term debt with the proceeds of liquidating mortgages. As that occurs, our net interest margin should move toward more normal levels." Howard said the company still describes such levels as being "in the area of 100 basis points or perhaps a bit lower," and added that he expects the margin to return to that area by the end of this year or early 2004.

Howard said that a reduced amount of losses on debt calls and repurchases in 2003 should partially offset the effects of a lower net interest margin during the latter part of the year. Losses on debt calls and repurchases totaled \$710 million in 2002.

Howard noted that while mortgage-to-debt spreads were relatively narrow during the first quarter, the company has not changed its expectation for "mid-teens" portfolio growth for the full year. Howard said, "We do not expect the current rate of growth in commercial bank holdings of fixed-rate mortgages to persist indefinitely. Once the pace of bank buying cools, mortgage spreads should widen and the volume of our portfolio purchases should pick up correspondingly." Howard added, however, that if bank buying does not slow and spreads remain narrow Fannie Mae would be content to grow its mortgage portfolio more slowly.

Finally, Howard said that Fannie Mae continued to anticipate that its credit-related losses will rise moderately in 2003, paced by a likely increase in acquisitions of foreclosed properties. Howard noted, however, that the company expected its credit loss ratio – credit-related losses as a percent of mortgages and MBS financed – to remain under one basis point this year.

Fannie Mae is unable to provide an outlook for net income and net interest yield, the most comparable GAAP measures to core business earnings and net interest margin. These GAAP measures are heavily influenced by unrealized gains or losses in the time value of purchased options, which depend on the volume and mix of purchased options used to finance the company's portfolio as well as fluctuations in interest rates which cannot reliably be projected.

(more)

---

Details of Fannie Mae's first quarter 2003 financial performance follow.

**Business volume**

Fannie Mae's business volume – mortgages purchased for portfolio plus MBS issues acquired by other investors – totaled \$335.9 billion in the first quarter of 2003, compared with \$197.8 billion in the first quarter of 2002 and \$304.5 billion in the fourth quarter of 2002. Business volume in the first quarter of 2003 consisted of \$132.0 billion in portfolio purchases and \$203.9 billion in MBS issues acquired by investors other than Fannie Mae's portfolio. This compares with \$91.0 billion and \$106.8 billion, respectively, in the first quarter of 2002. Retained commitments to purchase mortgages were \$115.9 billion in the first quarter of 2003 compared with \$50.8 billion in the first quarter of 2002. Outstanding portfolio commitments for mandatory delivery totaled \$73.4 billion at March 31, 2003.

Fannie Mae's combined book of business – the gross balance of mortgages held in portfolio and outstanding MBS and other mortgage-related securities guaranteed by Fannie Mae and held by other investors – grew at a compound annual rate of 24.7 percent during the first quarter of 2003, ending the period at \$1.923 trillion. This growth resulted from a 13.3 percent annualized growth rate in the gross mortgage portfolio and a 34.0 percent annualized rate of growth in outstanding MBS.

**Portfolio investment business results**

Fannie Mae's portfolio investment business manages the interest rate risk of the company's mortgage portfolio and other investments. The results of this business are largely reflected in core net interest income, which is net interest income less the amortization expense of purchased options. Core net interest income for the first quarter of 2003 was \$2,604 million, up 22.8 percent from \$2,120 million in the first quarter of 2002. This increase was driven by a 11.7 percent rise in the average net investment balance and a 10 basis point increase in the net interest margin.

Fannie Mae's net investment balance – consisting of the company's liquid investment portfolio together with its mortgage portfolio net of unrealized gains or losses on available for sale securities, deferred balances, and the allowance for loan losses – averaged \$872 billion during the first quarter of 2003 compared with \$781 billion during the first quarter of 2002. The net investment balance was \$885 billion at March 31, 2003.

(more)

---

## **Fannie Mae First Quarter Earnings**

### **Page Seven**

The company's net interest margin averaged 125 basis points in the first quarter of 2003 compared with 115 basis points in the first quarter of 2002 and 114 basis points in the fourth quarter of 2002. Fannie Mae's net interest margin continued to benefit from an unusually steep yield curve and low short-term interest rates, along with a benefit from the difference in timing between the settlement of mortgage commitments, mortgage liquidations, and funding.

For the first quarter of 2003 the company realized losses from debt repurchases and debt calls of \$392.2 million compared with losses of \$171.7 million in the first quarter of 2002. During the quarter the company realized \$377.8 million of losses on debt repurchases and \$14.4 million of losses on debt calls. Debt repurchased and debt called in the first quarter totaled \$3.6 billion and \$44.0 billion, respectively. Fannie Mae regularly calls or repurchases debt as part of its interest rate risk management program.

### **Credit guaranty business results**

Fannie Mae's credit guaranty business manages the company's credit risk. The results of this business are primarily reflected in guaranty fee income and credit-related losses. Guaranty fee income was \$546.6 million in the first quarter of 2003, a 34.1 percent increase compared with the first quarter of 2002. The increase in guaranty fee income was driven by a 22.7 percent rise in average outstanding MBS and a 9.1 percent increase in the effective guaranty fee rate on that business. The effective guaranty fee rate in the first quarter of 2003 was 20.3 basis points compared with 18.6 basis points in the first quarter of 2002 and 20.4 basis points in the fourth quarter of 2002. The increase in the guaranty fee between the first quarters of 2003 and 2002 was a result of higher fee rates on new business, together with the faster amortization of deferred fees due to accelerated prepayments.

Credit-related losses – charge-offs plus foreclosed property income – remained very low in the first quarter, driven by a strong housing market and continued home price gains. Credit-related losses totaled \$20.4 million in the first quarter of 2003 compared with \$21.5 million in the first quarter of 2002. Fannie Mae's credit loss rate – credit-related losses as a percentage of the average combined book of business – was 0.4 basis points in the first quarter of 2003 compared with 0.5 basis points in the first quarter of 2002.

(more)

---

## **Fannie Mae First Quarter Earnings**

### **Page Eight**

Credit-related expense, which includes the provision for losses and foreclosed property income and is the amount recorded on the company's income statement, totaled \$20.3 million in the first quarter of 2003, in line with credit-related losses. Fannie Mae's loss provision was \$23.0 million in the first quarter of 2003, compared with \$28.3 million in the first quarter of 2002. Foreclosed property income was \$2.7 million in the first quarter of 2003 compared with income of \$6.6 million in the first quarter of 2002, primarily due to gains on foreclosed property dispositions. The company's allowance for loan losses and guaranty liability for MBS totaled \$808 million at March 31, 2003, unchanged from December 31, 2002.

Fannie Mae's conventional single-family serious delinquency rate, an indicator of potential future loss activity, was 0.59 percent at February 28, 2003, compared with 0.57 percent at December 31, 2002. The company's reporting of delinquent loans has been expanded from "at risk" loans to include the performance of all seriously delinquent conventional loans, whether or not they benefit from credit enhancement.

### **Fee and other income**

Fee and other income in the first quarter of 2003 totaled \$113.3 million compared with \$3.6 million in the first quarter of 2002. The surge in first quarter volume from a stronger refinancing market drove the combination of transaction, technology, and multifamily fees to \$240.8 million, \$154.1 million higher than the previous year. Partially offsetting the stronger fees were higher operating losses from growth in tax-advantaged investments and lower other miscellaneous income.

Fee and other income includes technology fees, transaction fees, multifamily fees and other miscellaneous items, and is net of operating losses from certain tax-advantaged investments – primarily investments in affordable housing which qualify for the low income housing tax credit. Tax credits associated with housing tax credit investments are included in the provision for federal income taxes.

### **Income taxes**

Provision for federal income taxes on net income was \$706.9 million in the first quarter of 2003 compared with \$362.3 million in the first quarter of 2002. The effective federal income tax rate on net income was 27 percent in the first quarter of 2003 compared with 23 percent for the same period last year. The increase in the effective rate is attributable to an increase in taxable income.

(more)

---

## **Fannie Mae First Quarter Earnings**

### **Page Nine**

Provision for federal income taxes on core business earnings was \$658.0 million in the first quarter of 2003, compared with \$529.2 million in the first quarter of 2002. The effective federal income tax rate on core business earnings was 26 percent in the first quarter of 2003, unchanged from the same period last year.

### **Administrative expenses**

Administrative expenses totaled \$343.8 million in the first quarter of 2003, up 18.5 percent from the first quarter of 2002. On January 1, 2003, the company adopted the fair value method for accounting for stock-based compensation and began expensing all new stock-based compensation. The above-average growth in expenses is related primarily to Fannie Mae's reengineering of its core technology infrastructure to enhance its ability to process and manage the risk on mortgage assets and the expensing of all new stock-based compensation.

The growth rate of administrative expenses in 2003 is expected to decline compared with 2002, but remain above historical levels as the company completes its core infrastructure project.

The company's ratio of administrative expense to the average combined book of business in the first quarter of 2003 was .073 percent, unchanged from the first quarter of 2002. Fannie Mae's efficiency ratio – administrative expense divided by core taxable-equivalent revenue – was 9.5 percent in the first quarter of 2003 compared with 10.2 percent in the first quarter of 2002.

### **Capital**

Fannie Mae's core capital, which is the basis for the company's statutory minimum capital requirement, was \$29.5 billion at March 31, 2003 compared with \$28.1 billion at December 31, 2002 and \$25.5 billion at March 31, 2002. Core capital was an estimated \$1,291 million above the statutory minimum at March 31, 2003. At December 31, 2002, core capital was \$877 million above the statutory minimum.

(more)

---

## **Fannie Mae First Quarter Earnings**

### **Page Ten**

Total capital includes core capital and the total allowance for loan losses and guaranty liabilities for MBS, less any specific loss allowances, and is the basis for the risk-based capital standard. Total capital was \$30.3 billion at March 31, 2003 compared with \$28.9 billion at December 31, 2002 and \$26.3 billion at March 31, 2002. Fannie Mae's total capital exceeded the risk-based requirement by \$11.4 billion as of December 31, 2002, the latest period for which a risk-based capital requirement has been determined. The risk-based standard uses a stress test to determine the amount of total capital the company needs to hold in order to protect against credit and interest rate risk, and requires an additional 30 percent capital for management and operations risk. The higher of Fannie Mae's risk-based or minimum capital standard is binding.

Fannie Mae repurchased 8.6 million shares of common stock during the first quarter of 2003, compared with 7.5 million shares in the first quarter of 2002. At March 31, 2003 Fannie Mae had 981.0 million shares of common stock outstanding compared with 988.8 million shares at December 31, 2002.

The company had \$8.5 billion of subordinated debt outstanding at March 31, 2003. Subordinated debt serves as an important risk-bearing supplement to Fannie Mae's equity capital, although it is not a component of core capital. After providing for capital to support its off-balance sheet MBS, Fannie Mae's total capital and outstanding subordinated debt as a percent of on-balance sheet assets was 3.7 percent at March 31, 2003. The company issued \$400 million of preferred stock during the first quarter of 2003. At March 31, 2003, preferred stock made up 10.4 percent of Fannie Mae's core capital.

### **Voluntary disclosures**

As part of Fannie Mae's voluntary market discipline, liquidity, safety and soundness initiatives of October 2000, the company discloses on a quarterly basis its liquid assets as a percent of total assets along with the sensitivity of its future credit losses to an immediate 5 percent decline in home prices.

At March 31, 2003 Fannie Mae's ratio of liquid assets to total assets was 6.7 percent compared with 6.9 percent at December 31, 2002. Fannie Mae has committed to maintain a portfolio of high-quality, liquid, non-mortgage securities equal to at least 5 percent of total assets.

(more)

---

**Fannie Mae First Quarter Earnings**  
**Page Eleven**

At December 31, 2002 the present value of Fannie Mae's net sensitivity of future credit losses to an immediate 5 percent decline in home prices was \$596 million, taking into account the beneficial effect of third-party credit enhancements. This compares with \$501 million at September 2002. The December 31 figure reflects a gross credit loss sensitivity of \$1,838 million before the effect of credit enhancements, and is net of projected credit risk sharing proceeds of \$1,242 million.

Fannie Mae's quarterly disclosures, together with the monthly interest-rate-risk disclosures, are included in the attachments to this release.

**Derivatives and FAS 133**

Fannie Mae primarily uses derivative instruments as substitutes for noncallable and callable debt issued in the cash markets to help match the cash flow characteristics of its debt with those of its mortgages and reduce the interest rate risk in its portfolio. Fannie Mae accounts for its derivatives under FAS 133.

FAS 133 requires that Fannie Mae mark to market on its income statement the changes in the time value, but not the total value, of its purchased options – interest rate swaptions and interest rate caps. The mark to market of the time value of Fannie Mae's purchased options during the first quarter of 2003 resulted in a net mark-to-market loss of \$624.6 million compared with a net mark-to-market loss of \$787.2 million in the first quarter of 2002, which is reported on the purchased option expense line of the income statement. Purchased option expense in the first quarter of 2003 includes \$764.3 million in amortization expense, which was included in net interest income prior to FAS 133 and currently is included in core net interest income and in core business earnings. This amortization expense represents the straight-line amortization of the up-front premium paid to purchase the options over the expected life of the options.

FAS 133 also requires that the company record any change in the fair values of certain derivatives, primarily interest rate swaps it uses as substitutes for noncallable debt, on the balance sheet in accumulated other comprehensive income (AOCI), which is a separate component of stockholders' equity. For these types of transactions FAS 133 does not require or permit noncallable debt to be marked to market. At March 31, 2003, the AOCI component of stockholders' equity included a reduction of \$15.8 billion, or 1.9 percent of the net mortgage balance, from the marking to market of these derivatives. Accumulated other comprehensive income is not a component of core capital.

(more)

---



**Fannie Mae First Quarter Earnings**  
**Page Twelve**

Fannie Mae's primary credit exposure on derivatives is that a counterparty might default on payments due, which could result in Fannie Mae having to replace the derivative with a different counterparty at a higher cost. Fannie Mae's exposure on derivative contracts (taking into account master settlement agreements that allow for netting of payments and excluding collateral received) was \$3.256 billion at March 31, 2003. All of this exposure was to counterparties rated A-/A3 or higher. Fannie Mae held \$3.0 billion of collateral through custodians to offset the risk of the exposure for these instruments. Fannie Mae's exposure, net of collateral, was \$256 million at March 31, 2003 versus \$197 million at December 31, 2002.

**Conference call**

Fannie Mae will host a conference call with CFO Howard to respond to investor questions about its first quarter results and the outlook for the remainder of 2003 on Monday, April 14, 2003 at 4:00 p.m. ET. Investors are invited to e-mail their questions ahead of the call, beginning at 9:00 a.m. on April 14th to [ask\\_the\\_cfo@fanniemae.com](mailto:ask_the_cfo@fanniemae.com). The dial-in number for the call is (888) 428-4473 or, for international callers, (612) 332-0228. The confirmation code is 679906. Please dial in 5 to 10 minutes prior to the start of the call. Fannie Mae will also provide an audio webcast of the conference call, which interested parties can access from Fannie Mae's Web site. A replay of the conference call will be available on Fannie Mae's Web site starting April 14, 2003 at 7:00 p.m. ET. This press release, including the attachments that provide a reconciliation of the company's non-GAAP financial measures to its GAAP results, is available at [www.fanniemae.com/ir](http://www.fanniemae.com/ir).

**Forward-looking statements**

This release includes forward-looking statements based on management's estimates of trends and economic factors in the markets in which Fannie Mae is active as well as the company's business plans. Such estimates and plans may change without notice and future results may vary from expected results if there are significant changes in economic, regulatory, or legislative conditions affecting Fannie Mae or its competitors. For a discussion of these factors, investors should review our Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission (SEC) and available on our Web site at [www.fanniemae.com/ir](http://www.fanniemae.com/ir) and SEC's Web site at [www.sec.gov](http://www.sec.gov) under "Federal National Mortgage Association" or CIK number 0000310522. We undertake no duty to update these forward-looking statements.

(more)

---

###

*Fannie Mae is a New York Stock Exchange company and the largest non-bank financial services company in the world. It operates pursuant to a federal charter and is the nation's largest source of financing for home mortgages. Fannie Mae is working to shrink the nation's "homeownership gaps" through a \$2 trillion "American Dream Commitment" to increase homeownership rates and serve 18 million targeted American families by the end of the decade. Since 1968, Fannie Mae has provided \$4.5 trillion of mortgage financing for more than 49 million families. More information about Fannie Mae can be found on the Internet at <http://www.fanniemae.com>.*

*Style Usage: Fannie Mae's Board of Directors has authorized the company to operate as "Fannie Mae," and the company's stock is now listed on the NYSE as "FNM." In order to facilitate clarity and avoid confusion, news organizations are asked to refer to the company exclusively as "Fannie Mae."*

---

## Glossary of Business Terms

**Amortization Cost of Purchased Options** – the cost of purchased options amortized over the original expected life of the options.

**Business Volume** – Mortgages purchased for portfolio plus MBS issues acquired by other investors.

**Combined Book of Business** – The net mortgage portfolio plus outstanding MBS. Also referred to as the book of business. (Formerly referred to as total book of business).

**Core Capital** – Total stockholders' equity excluding other comprehensive income (OCI).

**Core Net Interest Income** – Net interest income and the amortization cost of purchased options (Comparable to net interest income pre-FAS 133).

**Core Taxable Equivalent Revenue** – The sum of net interest income, the amortization cost of purchased options, guaranty fee income and fee and other income, together with a taxable-equivalency adjustment for tax-exempt income and investment credits (principally mortgage revenue bonds and low income housing tax credit investments).

**Efficiency Ratio** – Administrative expense divided by core taxable equivalent revenue.

**Gross Mortgage Portfolio** – Unpaid principal balance of mortgages held in portfolio, excluding deferred balances and the allowance for loss.

**MBS Issues Acquired by Other Investors** – Lender-originated MBS issues less MBS purchased by Fannie Mae's mortgage portfolio. Also referred to as MBS issues. (Formerly referred to as net MBS issues). Does not include Fannie Mae-originated MBS, which generally are immaterial and disclosed in a footnote.

**Net Interest Yield** – Taxable-equivalent net interest income divided by the average net investment balance.

**Net Investment Balance** – The sum of Fannie Mae's net mortgage portfolio and other liquid investments (including float).

**Net Mortgage Portfolio** – Unpaid principal balance of mortgages held in portfolio, less unamortized purchase premium or discount and deferred price adjustments and allowance for loan losses.

**Outstanding MBS** – Mortgage-backed securities (MBS) and other mortgage related-securities held by investors other than Fannie Mae's mortgage portfolio. (Formerly referred to as net MBS outstanding).

**Realized Common Equity** – Total stockholders' equity excluding preferred stock and OCI. Realized common equity is used in calculating return on equity.

---



(Dollars and shares in millions, except per share amounts)

Income Statement:	Quarter Ended				
	3/31/2003	12/31/2002	9/30/2002	6/30/2002	3/31/2002
Net interest income	\$3,368.4	\$ 3,012.3	\$ 2,591.3	\$2,532.1	\$2,430.4
Guaranty fee income	546.6	522.3	462.5	423.5	407.6
Fee and other income (expense), net	113.3	95.4	91.6	41.6	3.6
Credit-related expenses	(20.3)	(32.6)	(13.2)	(24.2)	(21.7)
Administrative expenses	(343.8)	(313.2)	(314.6)	(301.3)	(290.1)
Purchased options income (expense)	(624.6)	(1,881.1)	(1,378.3)	(498.2)	(787.2)
Debt extinguishments, net	(392.2)	(176.1)	(138.0)	(224.7)	(171.7)
Income before taxes	2,647.4	1,227.0	1,301.3	1,948.8	1,570.9
Federal income taxes	(706.9)	(274.8)	(307.0)	(485.1)	(362.3)
Net income	\$1,940.5	\$ 952.2	\$ 994.3	\$1,463.7	\$1,208.6
Preferred stock dividends	(30.3)	(19.9)	(21.6)	(24.1)	(32.8)
<b>Earnings per diluted common share</b>	<b>\$ 1.93</b>	<b>\$ .94</b>	<b>\$ .98</b>	<b>\$ 1.44</b>	<b>\$ 1.17</b>
Cash dividends per share	.39	.33	.33	.33	.33
Weighted average diluted common shares outstanding	990.2	992.4	994.1	1,000.4	1,001.7
Effective tax rate on reported income	27%	22%	24%	25%	23%
Return on common equity	53.6%	26.6%	28.9%	33.9%	29.1%
<b>Core Business Earnings Data: (1)</b>					
Core business earnings (2)	\$1,849.7	\$ 1,671.9	\$ 1,630.7	\$1,572.7	\$1,518.7
<b>Core business earnings per diluted common share (2)</b>	<b>1.84</b>	<b>1.66</b>	<b>1.62</b>	<b>1.55</b>	<b>1.48</b>
Core net interest income (3)	2,604.1	2,238.4	2,192.1	2,201.7	2,120.2
Core taxable-equivalent revenue (4)	3,603.2	3,098.0	2,986.7	2,971.2	2,839.9
Core taxable-equivalent revenue growth	26.9%	7.9%	15.3%	21.4%	24.8%
Effective tax rate on core business earnings	26%	28%	28%	26%	26%
Return on average realized common equity (5)	28.0%	26.4%	26.2%	25.8%	25.8%

- (1) Core business earnings data are non-GAAP (generally accepted accounting principles) measures management uses to track and analyze financial performance. For information regarding why management believes non-GAAP financial measures provide useful information to investors and how management uses these measures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Core Business Earnings and Business Segment Results" in our Annual Report on Form 10-K for the year ended December 31, 2002.
- (2) Excludes unrealized gains and losses on purchased options recorded under FAS 133 and includes purchased options premiums amortized on a straight-line basis over the original estimated life of the option. Presented net of tax.
- (3) Includes non-GAAP adjustment for straight-line amortization of purchased options premiums that would have been recorded prior to the adoption of FAS 133 in 2001.
- (4) Includes revenues net of operating losses on low-income housing tax credit limited partnerships and amortization expense of purchased options premiums, plus taxable-equivalent adjustments for tax-exempt income and investment credits using the applicable federal income tax rate.
- (5) Core business earnings less preferred stock dividends divided by average realized common stockholders' equity (common stockholders' equity excluding accumulated other comprehensive income).



(Dollars in millions)

Other Data:	Quarter Ended				
	3/31/2003	12/31/2002	9/30/2002	6/30/2002	3/31/2002
<b>Mortgage portfolio:</b>					
Retained commitments	\$ 115,883	\$ 149,322	\$ 128,026	\$ 59,928	\$ 50,783
Mortgage purchases	132,005	148,551	74,227	56,917	90,946
Mortgage liquidations	105,608	107,824	62,148	46,475	60,972
Mortgage sales	1,271	1,386	1,436	3,629	3,131
Mortgage portfolio, gross (1)	815,964	790,800	751,423	740,744	733,894
Mortgage portfolio growth, gross (compounded)	13.3%	22.7%	5.9%	3.8%	16.1%
<b>Mortgage-Backed Securities:</b>					
MBS issues acquired by others (2)	\$ 203,934	\$ 155,955	\$ 112,592	\$ 102,909	\$ 106,804
Outstanding MBS liquidations	127,029	125,219	69,087	57,285	72,586
Outstanding MBS (3) (4)	1,107,520	1,029,456	990,393	945,497	896,310
Outstanding MBS growth rate (compounded)	34.0%	16.7%	20.4%	23.8%	18.6%
Average effective MBS guaranty fee rate (bp)	20.3	20.4	19.0	18.3	18.6
<b>Book-of-Business:</b>					
Business volume	\$ 335,938	\$ 304,506	\$ 186,819	\$ 159,826	\$ 197,750
Book of business (4)	1,923,484	1,820,256	1,741,816	1,686,241	1,630,204
Book of business growth rate (compounded)	24.7%	19.3%	13.8%	14.5%	18.0%
<b>Expense Ratios:</b>					
Ratio of administrative expense to average net mortgage portfolio and average outstanding MBS (annualized)	0.073%	0.070%	0.073%	0.073%	0.073%
Efficiency ratio (5)	9.5%	10.1%	10.5%	10.1%	10.2%
<b>Credit-related:</b>					
Single-family properties acquired	5,918	5,415	5,060	4,688	4,337
Single-family conventional serious delinquency rate (6)					
Non-credit enhanced	0.31% (7)	0.31%	0.29%	0.27%	0.31%
Credit enhanced	1.36% (7)	1.29%	1.12%	1.02%	1.06%
Total	0.59% (7)	0.57%	0.53%	0.49%	0.53%
Multifamily serious delinquency rate (8)	.06% (7)	0.05%	0.08%	0.12%	0.24%
<b>Charge-offs:</b>					
Single-family	\$ 21.6	\$ 27.0	\$ 25.2	\$ 25.7	\$ 27.1
Multifamily	1.5	15.6	1.0	0.8	1.0
Total	23.1	42.6	26.2	26.5	28.1
<b>Foreclosed property (income) expense:</b>					
Single-family	(2.7)	(8.4)	(12.1)	(9.4)	(6.4)
Multifamily	—	0.1	(0.2)	0.2	(0.2)
Total	(2.7)	(8.3)	(12.3)	(9.2)	(6.6)
Credit-related losses	20.4	34.3	13.9	17.3	21.5
Allowance for loan losses and guaranty liability for MBS	808.2	808.4	808.1	811.9	804.6
Provision for losses (6)	23.0	40.9	25.5	33.4	28.3
Credit-related expenses	20.3	32.6	13.2	24.2	21.7
Credit-related losses as a percentage of average net mortgage portfolio and average outstanding MBS (annualized)	0.004%	0.008%	0.003%	0.004%	0.005%

(1) Represents unpaid principal balance on mortgages. Excludes the effect of unrealized gains or losses on available for sale securities, deferred balances, and the allowance for loan losses.

(2) MBS and other mortgage-related securities guaranteed by Fannie Mae.

(3) MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae's portfolio.

(4) Based on unpaid principal balances.

(5) Administrative expense divided by core taxable-equivalent revenue.

- (6) Includes conventional loans three or more months delinquent or in foreclosure process as a percent of the number of loans.
  - (7) As of February 28, 2003, most recent data available.
  - (8) Includes loans two or more months delinquent as a percent of loan dollars.
-



(Dollars in millions)

	Quarter Ended				
	3/31/2003	12/31/2002	9/30/2002	6/30/2002	3/31/2002
<b>Net Interest Yield and Net Interest Margin:</b>					
Average balances:					
Net mortgage investment	\$804,804	\$756,560	\$738,812	\$732,796	\$715,604
Liquid investments	67,135	75,696	64,584	69,187	65,165
<b>Total net investment</b>	<b>\$871,939</b>	<b>\$832,256</b>	<b>\$803,396</b>	<b>\$801,983</b>	<b>\$780,769</b>
Net interest yield, taxable-equivalent basis (1)	1.60%	1.51%	1.35%	1.33%	1.31%
Net interest margin, taxable-equivalent basis (2)	1.25%	1.14%	1.16%	1.16%	1.15%

**Fee and Other Income (Expense):**

Transaction fees	\$ 136.7	\$ 91.8	\$ 43.2	\$ 36.0	\$ 33.8
Technology fees	70.1	62.1	60.6	40.6	33.7
Multifamily fees	34.0	26.2	20.4	20.1	19.2
Tax-advantaged investments	(71.3)	(27.5)	(57.0)	(75.1)	(64.9)
Credit enhancement expense	(41.4)	(38.2)	(20.5)	(23.4)	(40.9)
Other	(14.8)	(19.0)	44.9	43.4	22.7
<b>Total</b>	<b>\$ 113.3</b>	<b>\$ 95.4</b>	<b>\$ 91.6</b>	<b>\$ 41.6</b>	<b>\$ 3.6</b>

	March 31, 2003	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002
--	-------------------	----------------------	-----------------------	------------------	-------------------

**Selected Balance Sheet Data:**

Mortgage portfolio, net	\$823,329	\$797,693	\$758,100	\$740,756	\$731,877
Liquid assets	61,142	61,553	53,358	64,863	57,290
<b>Total assets</b>	<b>913,264</b>	<b>887,515</b>	<b>837,880</b>	<b>826,843</b>	<b>808,122</b>
Debentures, notes, and bonds, net	873,920	850,982	800,255	788,909	769,775

**Stockholders' Equity:**

Preferred stock	\$ 3,078	\$ 2,678	\$ 1,678	\$ 1,928	\$ 1,928
Realized common equity	26,438	25,402	24,807	24,454	23,572
Accumulated other comprehensive income (OCI)					
Unrealized gains on securities, net	4,237	4,459	4,974	861	86
Cash flow hedging results, net	(15,849)	(16,251)	(16,495)	(9,513)	(4,833)
<b>Total accumulated OCI</b>	<b>(11,612)</b>	<b>(11,792)</b>	<b>(11,521)</b>	<b>(8,652)</b>	<b>(4,747)</b>
<b>Total stockholders' equity</b>	<b>\$ 17,904</b>	<b>\$ 16,288</b>	<b>\$ 14,964</b>	<b>\$ 17,730</b>	<b>\$ 20,753</b>
Core capital (3)	\$ 29,517	\$ 28,079	\$ 26,484	\$ 26,382	\$ 25,500
<b>Total capital (4)</b>	<b>30,309</b>	<b>28,871</b>	<b>27,282</b>	<b>27,179</b>	<b>26,290</b>

(1) Annualized net interest income on a tax-equivalent basis divided by the weighted average net investment balance.

(2) Annualized core net interest income on a tax-equivalent basis divided by the weighted average net investment balance.

(3) The sum of (a) the stated value of common stock, (b) the stated value of outstanding noncumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings, less treasury stock. Represents a regulatory measure of capital.

(4) The sum of (a) core capital and (b) the total allowance for loan losses and guaranty liability for MBS, less (c) any specific loss allowances. Represents a regulatory measure of capital.

[FANNIE MAE LOGO]

Reconciliation of Core Business Earnings to Reported Results

Dollars and shares in millions, except per share amounts

	Quarter Ended March 31, 2003			Quarter Ended March 31, 2002		
	Core Business Earnings	Reconciling Items	Reported Results	Core Business Earnings	Reconciling Items	Reported Results
Net interest income	\$3,368.4	\$ —	\$3,368.4	\$2,430.4	\$ —	\$2,430.4
Purchased options amortization expense (1)	(764.3)	764.3	—	(310.2)	310.2	—
Core net interest income	2,604.1	764.3	3,368.4	2,120.2	310.2	2,430.4
Guaranty fee income (expense)	546.6	—	546.6	407.6	—	407.6
Fee and other income (expense), net	113.3	—	113.3	3.6	—	3.6
Credit-related expenses	(20.3)	—	(20.3)	(21.7)	—	(21.7)
Administrative expenses	(343.8)	—	(343.8)	(290.1)	—	(290.1)
Purchased options expense under FAS 133 (2)	—	(624.6)	(624.6)	—	(787.2)	(787.2)
Debt extinguishments, net	(392.2)	—	(392.2)	(171.7)	—	(171.7)
Income before federal income taxes	2,507.7	139.7	2,647.4	2,047.9	(477.0)	1,570.9
Provision for federal income taxes (3)	(658.0)	(48.9)	(706.9)	(529.2)	166.9	(362.3)
<b>Net income</b>	<b>\$1,849.7</b>	<b>\$ 90.8</b>	<b>\$1,940.5</b>	<b>\$1,518.7</b>	<b>\$(310.1)</b>	<b>\$1,208.6</b>
Preferred stock dividends	\$ (30.3)	\$ —	\$ (30.3)	\$ (32.8)	\$ —	\$ (32.8)
Weighted average diluted common shares outstanding	990.2	—	990.2	1,001.7	—	1,001.7
<b>Diluted earnings per common share</b>	<b>\$ 1.84</b>	<b>\$ 0.09</b>	<b>\$ 1.93</b>	<b>\$ 1.48</b>	<b>\$( 0.31)</b>	<b>\$ 1.17</b>

	Reported Results		Core Business Earnings	
	Quarter Ended		Quarter Ended	
	3/31/03	3/31/02	3/31/03	3/31/02
Net interest income	\$ 3,368.4	\$ 2,430.4	\$ 3,368.4	\$ 2,430.4
Taxable-equivalent adjustment on tax-exempt investments (4)	122.9	123.0	122.9	123.0
Taxable-equivalent net interest income	\$ 3,491.3	\$ 2,553.4	3,491.3	2,553.4
Purchased options amortization expense			(764.3)	(310.2)
Taxable-equivalent core net interest income			\$ 2,727.0	\$ 2,243.2
Average net investment balance	\$871,939	\$780,769	\$871,939	\$780,769
Average investment yield	5.94%	6.49%	5.94%	6.49%
Average borrowing cost	4.51%	5.36%	4.51%	5.36%
Purchased options amortization expense			0.37%	0.16%
Average core borrowing cost (5)			4.88%	5.52%
Net interest yield, taxable- equivalent basis (6)	1.60%	1.31%		
Net interest margin, taxable-equivalent basis (7)			1.25%	1.15%
Net interest income	\$ 3,368.4	\$ 2,430.4	\$ 3,368.4	\$ 2,430.4
Guaranty fee income	546.6	407.6	546.6	407.6
Fee and other income (expense), net	113.3	3.6	113.3	3.6
Total revenues	4,028.3	2,841.6	4,028.3	2,841.6
Investment tax credits (8)	216.3	185.5	216.3	185.5
Tax-exempt investments (4)	122.9	123.0	122.9	123.0
Total taxable-equivalent adjustments	339.2	308.5	339.2	308.5
Taxable-equivalent revenues	\$ 4,367.5	\$ 3,150.1	4,367.5	3,150.1
Purchased options amortization expense			(764.3)	(310.2)



- 
- (1) This amount represents the straight-line amortization of purchased options expense allocated to interest expense over the original expected life of the options. Included in core business earnings instead of the unrealized gains and losses on purchased options to make it consistent with the accounting for the embedded options in our callable debt and the vast majority of our mortgages.
  - (2) This amount represents unrealized gains and losses on purchased options recorded in accordance with FAS 133.
  - (3) The reconciling item represents the net federal income tax effect of core business earnings adjustments based on the applicable federal income tax rate of 35 percent.
  - (4) Reflects non-GAAP adjustments to permit comparison of yields on tax-exempt and taxable assets based on a 35 percent marginal tax rate.
  - (5) Includes the effect of purchased options amortization expense allocated to interest expense over the original expected life of the options.
  - (6) Annualized taxable-equivalent net interest income divided by the weighted average net investment balance.
  - (7) Annualized taxable-equivalent core net interest income divided by the weighted average net investment balance.
  - (8) Represents non-GAAP adjustments for tax credits related to losses on certain affordable housing tax-advantaged equity investments and other investment tax credits using a 35% marginal tax rate.
-



**Voluntary Initiatives Disclosure**  
March 2003

**INTEREST RATE RISK**

	Effective Duration Gap (in months)	Rate Level Shock (50bp)		Rate Slope Shock (25bp)	
		1 Year Portfolio Net Interest Income at Risk	4 Year Portfolio Net Interest Income at Risk	1 Year Portfolio Net Interest Income at Risk	4 Year Portfolio Net Interest Income at Risk
<b>2000</b>					
1st Qtr	5	0.1%	4.3%	1.0%	3.0%
2nd Qtr	4	0.6%	4.8%	1.0%	3.0%
3rd Qtr	2	0.8%	4.3%	1.0%	3.1%
4th Qtr	-3	0.5%	2.0%	3.0%	4.3%
<b>2001</b>					
1st Qtr	1	3.8%	3.2%	3.1%	4.7%
2nd Qtr	5	1.7%	4.4%	0.9%	2.0%
3rd Qtr	-1	2.4%	3.6%	2.8%	4.0%
4th Qtr	5	5.1%	4.5%	2.4%	4.3%
<b>2002</b>					
1st Qtr	5	3.8%	6.1%	1.0%	3.1%
2nd Qtr	-4	1.2%	2.4%	3.0%	5.7%
3rd Qtr	-10	4.4%	3.9%	5.3%	6.4%
4th Qtr	-5	0.6%	1.6%	4.7%	6.6%
<b>2003</b>					
January	-3	2.9%	3.8%	3.5%	5.7%
February	-5	3.6%	1.3%	4.9%	6.8%
March	-2	1.7%	2.8%	4.4%	6.7%

- Effective duration gap — measures the extent the effective duration of the portfolio’s assets and liabilities are matched. A positive duration gap indicates that the effective duration of our assets exceeds the effective duration of our liabilities by that amount, while a negative duration gap indicates the opposite.

Effective January 2003, the duration gap is a weighted average for the month. Prior to 2003, the duration gap was calculated on the last day of the month.

- Net interest income at risk — compares Fannie Mae’s projected change in portfolio net interest income under the financially more adverse of a 50 basis point increase and decrease in interest rates. Fannie Mae also compares the expected change in portfolio net interest income for the more adverse of a 25 basis point decrease and increase in the slope of the yield curve. Both measurements are done for one-year and four-year periods.

A positive number indicates the percent by which net interest income could be reduced by the increased rate shock. A negative number would indicate the percent by which net interest income could be increased by the shock.

**LIQUIDITY**

Ratio of liquid to total assets	Ratio
December 31, 2000	8.2%
March 31, 2001	6.4%
June 30, 2001	8.0%
September 30, 2001	7.8%
December 31, 2001	9.5%
March 31, 2002	7.1%
June 30, 2002	7.8%
September 30, 2002	6.4%
December 31, 2002	6.9%
March 31, 2003	6.7%

- Fannie Mae will maintain at least three months of liquidity to ensure the company can meet all of its obligations in any period of time in which it does not have access to the debt markets. Fannie Mae also will comply with the Basel Committee on Banking Supervision’s fourteen principles for sound liquidity management.

- To fulfill its liquidity commitment, Fannie Mae will maintain more than five percent of its on-balance sheet assets in high-quality, liquid, non-mortgage

---

**CREDIT RISK**


---

Lifetime credit loss sensitivity as of:	Before credit enhancements	After credit enhancements
<i>(Dollars in millions)</i>		
December 31, 2000	\$1,065	\$295
March 31, 2001	\$1,061	\$307
June 30, 2001	\$1,045	\$332
September 30, 2001	\$1,349	\$467
December 31, 2001	\$1,332	\$487
March 31, 2002	\$1,285	\$425
June 30, 2002	\$1,361	\$465
September 30, 2002	\$1,738	\$501
December 31, 2002 /1	\$1,838	\$596

- Lifetime credit loss sensitivity measures the sensitivity of Fannie Mae's expected future credit losses to an immediate five percent decline in home values for all single-family mortgages held in Fannie Mae's retained portfolio and underlying guaranteed MBS.
- Credit loss sensitivity is reported in present value terms and measures expected losses in two ways: before receipt of private mortgage insurance claims and any other credit enhancements and after receipt of expected mortgage insurance and other credit enhancements.

---

**RISK-BASED CAPITAL**


---

Risk-based capital stress test	Risk-based Capital Requirement	Total Capital Held	Capital Surplus
<i>(Dollars in billions)</i>			
September 30, 2002	\$21.440	\$27.278	\$ 5.838
December 31, 2002 1/	17.434	28.871	11.437

- The risk-based capital standard became effective on September 13, 2002. The standard uses a stress test to determine the amount of total capital the company needs to hold in order to protect against credit and interest rate risk, and requires an additional 30 percent capital for management and operations risk. The higher of Fannie Mae's risk-based or minimum capital standard is binding.

1 / Most recent data available.



**Statement by Jayne Shontell, Senior Vice President for Investor Relations  
On March Financial Data**

Our monthly results for March continue to show strong results from a robust housing market and our disciplined growth strategies.

Highlights include very strong growth in outstanding MBS and our total book of business. Following portfolio growth in January of 34.6 percent and in February of 9.5 percent, purchase and commitment volumes declined in March as tighter mortgage-to-debt spreads made such activity less attractive, and Fannie Mae's portfolio contracted slightly as a result. As noted in our earnings press release, however, we have not changed our expectation for mid-teens portfolio growth for the full year.

Risk measures, including the portfolio duration gap, remained favorable.

This monthly release includes three changes, which are highlighted below:

**Enhanced Credit Delinquency Disclosures**

The March Monthly Summary includes Fannie Mae's enhanced delinquency disclosures reported and included in our initial 10-K filing with the Securities and Exchange Commission on March 31.

The change in reporting of delinquent loans has been expanded from "at risk" loans to include the performance of all seriously delinquent conventional loans with and without third party credit enhancement. Included in the 10-K and beginning with the March Monthly Summary, we will report the single-family delinquency rate for three categories:

1. Non-Credit Enhanced, which includes high quality loans without primary mortgage insurance (PMI) or other credit enhancements. As of December 31, 2002, these high-quality loans represented 73 percent of our conventional single-family book.
2. Credit Enhanced, which includes loans that have PMI or other credit enhancements such as supplemental pool insurance or lender recourse.
3. Total, for all loans included in the previous two categories (where loan level data is available).

As is detailed in the 10-K, loans where Fannie Mae assumes full risk have lower serious delinquency rates than loans where it shares the risk with partners. This reflects Fannie Mae's disciplined strategy of pricing for risk and using risk sharing on higher-risk loans.

---

### Duration Gap Provided As A Monthly Average

Starting this month, we are releasing the duration gap as a monthly average, and this will be the duration gap number we will release going forward. Previously a duration gap for the last business day of the month was published. This change will reduce the chance that a financial event on the last day of the month will make this measure unrepresentative of the portfolio's average risk position for the month as a whole.

In order to provide a complete data set for 2003 we are publishing today the monthly average duration gap for January and February. As seen in the chart below the difference between the month-end duration gap and the monthly average duration gap for the first three months this year was approximately one month.

Month	End of the Month	Monthly Average
January	-4	-3
February	-5	-5
March	-3	-2

### Net Interest Margin And Net Interest Yield To Be Released Quarterly.

To carry out our compliance with the SEC's new rule on the use of non-GAAP financial measures, effective March 28, 2003 for all public companies, Fannie Mae will report net interest margin and its GAAP equivalent, "net interest yield," on a quarterly basis only.

Net interest margin is a non-GAAP measure. The GAAP equivalent is "net interest yield." A full reconciliation of these two measures requires both net interest income and purchased options expense, two income statement items, and therefore can only be done on a quarterly basis when we publish the quarterly income statement. (See Fannie Mae's First Quarter 2003 Financial Results press release issued today for the margin, net interest yield and the reconciliation of the two measures for the first quarter, 2003.)

---

**BUSINESS BALANCES AND GROWTH (\$ in Millions)**

	Mortgage Portfolio Balance 1/		Outstanding MBS 2/		Book of Business	
	End Balance	Growth Rate 3/	End Balance	Growth Rate 3/	End Balance	Growth Rate 3/
April 2002	\$739,277	9.2%	\$ 910,563	20.8%	\$1,649,840	15.5%
May 2002	741,084	3.0%	925,419	21.4%	1,666,503	12.8%
June 2002	740,744	-0.5%	945,497	29.4%	1,686,241	15.2%
July 2002	743,025	3.8%	960,114	20.2%	1,703,140	12.7%
August 2002	746,101	5.1%	974,021	18.8%	1,720,122	12.6%
September 2002	751,423	8.9%	990,393	22.1%	1,741,816	16.2%
October 2002	751,347	-0.1%	1,018,303	39.6%	1,769,650	21.0%
November 2002	760,759	16.1%	1,019,031	.9%	1,779,790	7.1%
December 2002	790,800	59.2%	1,029,456	13.0%	1,820,256	31.0%
<b>YTD 2002</b>	<b>\$790,800</b>	<b>11.9%</b>	<b>\$1,029,456</b>	<b>19.9%</b>	<b>\$1,820,256</b>	<b>16.4%</b>
January 2003	\$810,609	34.6%	\$1,047,903	23.8%	\$1,858,512	28.3%
February 2003	816,747	9.5%	1,073,564	33.7%	1,890,311	22.6%
March 2003	815,964	-1.1%	1,107,520	45.3%	1,923,484	23.2%
<b>YTD 2003</b>	<b>\$815,964</b>	<b>13.3%</b>	<b>\$1,107,520</b>	<b>34.0%</b>	<b>\$1,923,484</b>	<b>24.7%</b>

**BUSINESS VOLUMES (\$ in Millions)**

	MBS						
	Single-family Issues	Multi-family Issues	Total Lender-originated Issues 4/	Fannie Mae MBS Purchases 5/	MBS Issues Acquired by Others	Portfolio Purchases	Business Volume
April 2002	\$ 46,402	\$ 967	\$ 47,369	\$ 12,506	\$ 34,863	\$ 23,175	\$ 58,038
May 2002	40,856	597	41,453	8,396	33,057	17,432	50,489
June 2002	42,641	579	43,220	8,231	34,989	16,310	51,299
July 2002	41,523	826	42,349	10,618	31,731	17,586	49,317
August 2002	49,941	548	50,489	14,447	36,042	23,123	59,165
September 2002	63,426	597	64,023	19,204	44,819	33,518	78,338
October 2002	80,624	699	81,323	19,043	62,280	32,853	95,132
November 2002	80,375	951	81,326	33,535	47,791	47,807	95,599
December 2002	94,054	3,777	97,831	51,947	45,884	67,891	113,775
<b>YTD 2002</b>	<b>\$710,961</b>	<b>\$12,336</b>	<b>\$723,299</b>	<b>\$245,039</b>	<b>\$478,260</b>	<b>\$370,641</b>	<b>\$848,901</b>

January 2003	\$105,256	\$ 1,390	\$106,646	\$ 42,858	\$ 63,788	\$ 57,281	\$121,069
February 2003	92,720	465	93,185	27,530	65,655	40,420	106,075
March 2003	92,023	719	92,742	18,252	74,490	34,304	108,794
<b>YTD 2003</b>	<b>\$289,999</b>	<b>\$ 2,574</b>	<b>\$292,573</b>	<b>\$ 88,640</b>	<b>\$203,933</b>	<b>\$132,005</b>	<b>\$335,938</b>

#### MORTGAGE PORTFOLIO COMMITMENTS, PURCHASES, AND SALES (\$ in Millions)

	Retained Commitments	Purchases			Net Yield 6/	Mortgage Portfolio Sales
		Single- family	Multifamily	Total Purchases		
April 2002	\$ 19,582	\$ 22,594	\$ 582	\$ 23,175	6.15%	\$ 936
May 2002	18,181	16,695	737	17,432	6.49%	223
June 2002	22,165	15,897	414	16,310	6.52%	2,470
July 2002	29,724	17,173	413	17,586	6.27%	51
August 2002	41,263	22,650	473	23,123	5.97%	2
September 2002	57,039	33,112	406	33,518	5.75%	1,383
October 2002	67,342	32,297	556	32,853	5.61%	951
November 2002	52,766	47,131	676	47,807	5.52%	142
December 2002	29,214	66,703	1,188	67,891	5.42%	293
<b>YTD 2002</b>	<b>\$388,059</b>	<b>\$363,149</b>	<b>\$7,492</b>	<b>\$370,641</b>	<b>5.92%</b>	<b>\$9,582</b>
January 2003	\$ 25,097	\$ 56,402	\$ 879	\$ 57,281	5.44%	\$ 60
February 2003	51,238	39,814	606	40,420	5.32%	780
March 2003	39,548	33,621	683	34,304	5.20%	431
<b>YTD 2003</b>	<b>\$115,883</b>	<b>\$129,837</b>	<b>\$2,168</b>	<b>\$132,005</b>	<b>5.34%</b>	<b>\$1,271</b>

1/ Excludes mark-to-market adjustments, deferred balances and allowance for losses. Includes \$530 billion of Fannie Mae MBS as of March 31, 2003.

2/ MBS held by investors other than Fannie Mae's portfolio.

3/ Growth rates are compounded.

4/ Excludes MBS issued from Fannie Mae's portfolio, which was \$1,439 million in March 2003.

5/ Included in total portfolio purchases.

6/ Yields shown on a taxable-equivalent basis.

**LIQUIDATIONS (\$ in Millions)**
**DELINQUENCY RATES**

	Mortgage Portfolio Liquidations		Outstanding MBS Liquidations		Single-family Conventional 1/			
	Amount	Annual Rate	Amount	Annual Rate	No Credit Enhancement 2/	Credit Enhancement 3/	Total 4/	Multifamily Total 5/
April 2002	\$ 16,868	27.48%	\$ 21,544	28.62%	0.28%	1.02%	0.50%	0.39%
May 2002	15,414	24.99%	18,357	24.00%	0.27%	0.99%	0.48%	0.27%
June 2002	14,193	22.99%	17,383	22.30%	0.27%	1.02%	0.49%	0.12%
July 2002	15,265	24.69%	17,153	21.60%	0.27%	1.04%	0.49%	0.10%
August 2002	20,059	32.33%	22,137	21.47%	0.28%	1.07%	0.51%	0.10%
September 2002	26,824	42.99%	29,797	36.40%	0.29%	1.12%	0.53%	0.08%
October 2002	31,990	51.09%	35,321	42.20%	0.29%	1.16%	0.53%	0.08%
November 2002	38,265	60.73%	47,184	55.58%	0.30%	1.24%	0.56%	0.10%
December 2002	37,569	58.11%	42,714	50.04%	0.31%	1.29%	0.57%	0.05%
<b>YTD 2002</b>	<b>\$277,419</b>	<b>37.35%</b>	<b>\$324,177</b>	<b>34.37%</b>				
January 2003	\$ 37,423	56.09%	\$ 45,342	52.38%	0.32%	1.34%	0.59%	0.03%
February 2003	33,517	49.43%	40,771	46.12%	0.31%	1.36%	0.59%	0.06%
March 2003	34,668	50.96%	40,915	45.02%				
<b>YTD 2003</b>	<b>\$105,608</b>	<b>52.25%</b>	<b>\$127,029</b>	<b>47.73%</b>				

**AVERAGE INVESTMENT BALANCES (\$ in Millions)**

	Net Mortgages	Liquid Investments	Total Net Investments
April 2002	\$729,248	\$66,039	\$795,287
May 2002	733,400	72,043	805,443
June 2002	735,741	69,478	805,219
July 2002	736,718	67,460	804,178
August 2002	737,600	62,434	800,034
September 2002	742,119	63,856	805,975
October 2002	746,529	64,923	811,452
November 2002	749,432	76,959	826,391
December 2002	773,717	85,206	858,923
<b>YTD 2002</b>	<b>\$735,943</b>	<b>\$68,658</b>	<b>\$804,601</b>
January 2003	\$794,278	\$75,849	\$870,127
February 2003	808,377	63,706	872,083



March 2003	811,757	61,851	873,608
<b>YTD 2003</b>	<b>\$810,067</b>	<b>\$62,779</b>	<b>\$872,846</b>

## INTEREST RATE RISK DISCLOSURES

	Effective Duration Gap 6/ (in months)	Rate Level Shock (50bp) 7//		Rate Slope Shock (25bp) 7/	
		1 Year Portfolio Net Interest Income at Risk	4 Year Portfolio Net Interest Income at Risk	1 Year Portfolio Net Interest Income at Risk	4 Year Portfolio Net Interest Income at Risk
April 2002	0	3.5%	4.7%	1.8%	4.0%
May 2002	-1	1.9%	3.4%	1.9%	4.4%
June 2002	-4	1.2%	2.4%	3.0%	5.7%
July 2002	-9	3.8%	5.1%	4.5%	6.6%
August 2002	-14	6.5%	6.7%	6.7%	8.2%
September 2002	-10	4.4%	3.9%	5.3%	6.4%
October 2002	-6	2.7%	2.0%	6.0%	7.5%
November 2002	2	6.3%	4.9%	3.5%	5.9%
December 2002	-5	0.6%	1.6%	4.7%	6.6%
January 2003	-3	2.9%	3.8%	3.5%	5.7%
February 2003	-5	3.6%	1.3%	4.9%	6.8%
March 2003	-2	1.7%	2.8%	4.4%	6.7%

1/ Includes conventional loans three or more months delinquent or in foreclosure process as a percent of the number of loans.

2/ Loans without primary mortgage insurance or any credit enhancements.

3/ Loans with primary mortgage insurance and other credit enhancements.

4/ Total of single-family non-credit enhanced and credit enhanced loans.

5/ Includes loans two or more months delinquent as a percent of loan dollars and includes the total credit book-of-business.

6/ Effective January 2003, the duration gap is a weighted average for the month. Prior to 2003, the duration gap was calculated on the last day of the month.

7/ Expresses projected core net interest income under the more adverse of the interest rate and yield curve scenarios as a percentage of projected net interest income without the rate shocks.

## MARCH 2003

Fannie Mae's regular monthly financial disclosures for March reflect the company's continued record of disciplined growth.

### HIGHLIGHTS FOR MARCH INCLUDE:

- Total business volume rose to \$108.8 billion, the third largest on record.
- Fannie Mae's book of business grew at a compound annual rate of 23.2 percent.
- Outstanding MBS grew at a compound annual rate of 45.3 percent, the highest in a decade.
- Retained commitments were \$39.5 billion and portfolio purchases were \$34.3 billion. The portfolio balance fell at a 1.1 percent annual rate while outstanding portfolio commitments were a strong \$73.4 billion at month-end.
- Risk measures continued to be favorable. Fannie Mae's portfolio duration gap moved to minus two months.

### DISCLOSURE CHANGES:

- The monthly summary table includes expanded delinquency disclosures, providing more information on single-family and multifamily along with a break-out of single-family conventional loans with and without credit enhancement.
- Effective this month, the duration gap will be reported as a weighted average for the month. Previously a duration gap for the last business day of the month was published. We have published new numbers for January and February consistent with March so that all of 2003 is on the same basis.
- To carry out our compliance with the SEC's new rule on the use of non-GAAP financial measures, effective March 28, 2003 for all public companies, Fannie Mae will report net interest margin and its GAAP equivalent, "net interest yield," on a quarterly basis only. Net interest margin is a non-GAAP measure. The GAAP equivalent is "net interest yield." A full reconciliation of these two measures requires both net interest income and purchased options expense, two income statement items, and therefore can only be done on a quarterly basis when we publish the quarterly income statement.