UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

FEDERAL NATIONAL MORTGAGE ASSOCIATION

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation (State or other jurisdiction of incorporation or organization)	**52-0883107** (I.R.S. Employer Identification No.)
3900 Wisconsin Avenue, NW **Washington, DC** (Address of principal executive offices)	**20016** (Zip Code)

Registrant’s telephone number, including area code: **(202) 752-7000**

Securities to be registered pursuant to Section 12(b) of the Act: **None**

Securities to be registered pursuant to Section 12(g) of the Act: **Common Stock, without par value**

Explanatory Note

We have included certain information in this Registration Statement on Form 10 pursuant to Section 12(g) of the Securities Exchange Act of 1934 for the registration of the common stock of the Federal National Mortgage Association ("Fannie Mae") by reference to the Annual Report on Form 10-K attached as Exhibit 99.1.

INFORMATION REQUIRED IN REGISTRATION STATEMENT

Item 1. *Business.*

Information on Fannie Mae’s business is set forth under Item 1 of the Annual Report on Form 10-K attached as Exhibit 99.1.

Item 2. *Financial Information.*

Fannie Mae’s financial information is set forth under Items 6, 7 and 7A of the Annual Report on Form 10-K attached as Exhibit 99.1.

Item 3. *Properties.*

Information on Fannie Mae’s properties is set forth under Item 2 of the Annual Report on Form 10-K attached as Exhibit 99.1.

Item 4. *Security Ownership of Certain Beneficial Owners and Management.*

The following table shows the beneficial ownership of Fannie Mae common stock by its directors, certain executive officers and holders of more than 5% of Fannie Mae common stock at January 24, 2003.

		Amount and Nature of Beneficial Ownership(1)		
Name	**Position**	**Common Stock Beneficially Owned Excluding Options**	**Stock Options Exercisable Within 60 Days**	**Total Common Stock Beneficially Owned**
Directors				
Victor H. Ashe	Director	856	7,666	8,522
Stephen B. Ashley	Director	19,351(2)	18,000	37,351
Molly H. Bordonaro	Director	857	7,666	8,523
Kenneth M. Duberstein	Director	3,011	20,000	23,011
Thomas P. Gerrity	Director	17,251(3)	20,000	37,251
Jamie S. Gorelick	Vice Chair of the Board	71,977	296,110	368,087
William R. Harvey	Director	1,356	7,666	9,022
Manuel J. Justiz	Director	1,813	6,666	8,479
Ann McLaughlin Korologos	Director	5,738	29,200	34,938
Frederic V. Malek	Director	1,697	4,000	5,697
Donald B. Marron	Director	1,871	8,000	9,871
Daniel H. Mudd	Vice Chairman of the Board and Chief Operating Officer	39,136	152,804	191,940
Anne M. Mulcahy	Director	1,714	12,667	14,381
Joe K. Pickett	Director	4,881	28,000	32,881
Franklin D. Raines	Chairman of the Board and Chief Executive Officer	134,471	1,049,380	1,183,851
Taylor C. Segue, III	Director	856	7,666	8,522
H. Patrick Swygert	Director	1,409	11,666	13,075

Name	Position	Amount and Nature of Beneficial Ownership(1) Common Stock Beneficially Owned Excluding Options	Stock Options Exercisable Within 60 Days	Total Common Stock Beneficially Owned
Executive Officers				
J. Timothy Howard	Executive Vice President and Chief Financial Officer	185,783(4)	408,624(5)	594,407
Robert J. Levin	Executive Vice President— Housing and Community Development	165,567(6)	386,333	551,900
All directors and executive officers as a group (25 persons)		820,075	2,944,220	3,764,295

5% Holders	Common Stock Beneficially Owned	Percent of Class
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	97,232,983(7)	9.831%

At January 24, 2003, no director or executive officer, nor all directors and executive officers as a group, owned as much as 1% of Fannie Mae’s outstanding common stock.

Notes to Beneficial Ownership Table

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission for computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person. The amounts include beneficial ownership of restricted common stock with sole voting power (including the power to direct the voting of restricted common stock through an escrow agent) and no investment power, as follows: all nonemployee directors, each 697 shares; Mr. Mudd, 15,000 shares; and all directors and executive officers as a group, 87,158 shares.

(2) The amount includes 1,200 shares held by Mr. Ashley’s spouse.

(3) The amount includes 16,380 shares held jointly with Mr. Gerrity’s spouse.

(4) The amount includes 24,000 shares held in trust for the benefit of Mr. Howard’s spouse and 161,783 shares held by the Timothy Howard Revocable Trust.

(5) The amount includes 11,527 options held in separate trusts for the benefit of Mr. Howard’s children.

(6) The amount includes 165,543 shares held jointly with Mr. Levin’s spouse and 24 shares held by his child.

(7) FMR Corp. has informed Fannie Mae that it owns 97,232,983 shares of Fannie Mae common stock, including 91,586,582 shares held by Fidelity Management & Research Company, 3,020,516 shares held by Fidelity Management Trust Company, and 2,344,190 shares owned by Fidelity International Limited. FMR Corp. has sole voting power for 5,134,411 shares and sole dispositive power for 97,232,983 shares. All of the information regarding this stock ownership is as of December 31, 2002.

Item 5. ***Directors and Executive Officers.***

Directors Elected by Stockholders

Our directors elected by stockholders have provided the following information about their principal occupation, business experience and other matters. The term of each director ends on the date of the Fannie Mae annual stockholders' meeting to be held on May 20, 2003, or until his or her successor is elected and qualified.

Stephen B. Ashley, age 63, has been Chairman and Chief Executive Officer of The Ashley Group, a group of commercial and multifamily real estate, brokerage, and investment companies, since January 1997. The Ashley Group is comprised of S.B. Ashley Management Corporation, S.B. Ashley Brokerage Corporation, and S.B. Ashley & Associates Venture Company, LLC. He also serves as a director of The Genesee Corporation and Exeter Fund, Inc. In addition, Mr. Ashley serves as a trustee of Cornell University. He is a past President of the Mortgage Bankers Association of America. Mr. Ashley has been a Fannie Mae director since 1995.

Kenneth M. Duberstein, age 58, has been Chairman and Chief Executive Officer of The Duberstein Group, Inc., an independent strategic planning and consulting company, since July 1989. He served as Chief of Staff to the President of the United States from 1988 to 1989. Mr. Duberstein also serves as a director of The Boeing Company, Conoco, Inc., Fleming Companies, Inc., and St. Paul Companies, Inc. In addition, he serves as a member of the Board of Governors of the NASD, Inc. and the American Stock Exchange. Mr. Duberstein has been a Fannie Mae director since 1998.

Thomas P. Gerrity, age 61, has been Professor of Management since 1990, and Director, Wharton Electronic Business Initiative since July 1999, and was Dean from July 1990 to July 1999, of The Wharton School of the University of Pennsylvania, an educational institution. He was President of CSC Consulting and Vice President of Computer Sciences Corporation from May 1989 to June 1990 and Chairman and Chief Executive Officer of Index Group, Inc., from March 1969 to April 1989. Mr. Gerrity also serves as a director of CVS Corporation, Internet Capital Group, Inc., Knight-Ridder, Inc., Sunoco, Inc., and Morgan Stanley Institutional Funds. Mr. Gerrity has been a Fannie Mae director since 1991.

Jamie S. Gorelick, age 52, has been Vice Chair of the Board of Fannie Mae since May 1997. Before joining Fannie Mae, Ms. Gorelick was Deputy Attorney General of the United States, beginning in 1994. She served as General Counsel of the United States Department of Defense from May 1993 to March 1994 and was a partner at Miller, Cassidy, Larroca & Lewin, a law firm, from January 1981 to April 1993. Ms. Gorelick also serves as a director of United Technologies Corporation and Schlumberger Limited. In addition, Ms. Gorelick is a member of the Harvard Board of Overseers. Ms. Gorelick has been a Fannie Mae director since 1997. Ms. Gorelick will leave the Board as of the annual stockholders' meeting to be held on May 20, 2003 and will leave Fannie Mae on June 30, 2003.

Ann McLaughlin Korologos, age 61, has been Vice Chairman, RAND Board of Trustees, a nonprofit institution, since May 2001. Ms. McLaughlin Korologos has been Chairman Emeritus, since August 2000, Chairman from October 1996 to August 2000, and Vice Chairman from August 1993 to September 1996, of the Aspen Institute, a nonprofit organization. Ms. McLaughlin Korologos serves as Senior Advisor to Benedetto, Gartland and Company, Inc., an investment banking firm. Ms. McLaughlin Korologos also serves as a director of AMR Corporation (and its subsidiary, American Airlines), Harman International Industries, Inc., Host Marriott Corporation, Kellogg Company, Microsoft Corporation, and Vulcan Materials Company. Ms. McLaughlin Korologos has been a Fannie Mae director since 1994.

Frederic V. Malek, age 66, has been Chairman of Thayer Capital Partners, a private equity investment firm, since 1993. He served as Co-Chairman of CB Commercial Real Estate Group from 1989 to 1996. He also served as President of Northwest Airlines, Inc., from 1989 to 1990 and Vice Chairman from 1990 to 1992. Mr. Malek also serves as a director of Automatic Data Processing Corp., FPL Group, Inc., Northwest Airlines, Inc., Aegis Communications Group, Inc., American Management Systems, Inc., CB Richard Ellis, Manor Care, Inc., and UBS Global Asset Management (US), Inc. Mr. Malek has been a Fannie Mae director since 2002.

Donald B. Marron, age 68, has been Chairman of UBS America, a non-executive position, since January 2001. He has also been Managing Member of Lightyear Capital, an independent private equity firm, since November 2000. Mr. Marron was President of Paine Webber Group Inc. from 1977, Chief Executive Officer thereof from 1980, and Chairman and Chief Executive Officer thereof from 1981 until its merger with a subsidiary of UBS AG in November 2000, and Chief Executive Officer of UBS PaineWebber Inc. (formerly PaineWebber Incorporated), until January 2001. He also is a director of Shinsei Bank. He is a former director of the National Association of Securities Dealers and the New York Stock Exchange and former governor of the Securities Industries Association. Mr. Marron also is the Private Sector Co-Chairman, National Commission on Retirement Policy (Center for Strategic and International Studies) and Chairman of the Center for the Study of the Presidency. He is a member of the Board of Overseers and Managers, Memorial Sloan-Kettering Cancer Center, and Vice Chairman of the Board of Trustees of The Museum of Modern Art. Mr. Marron has been a Fannie Mae director since 2001.

Daniel H. Mudd, age 44, has been Vice Chairman of the Board and Chief Operating Officer of Fannie Mae since February 2000. Prior to his employment with Fannie Mae, Mr. Mudd was President and Chief Executive Officer of GE Capital, Japan, a diversified financial services company and a wholly-owned subsidiary of the General Electric Company, from April 1999 to February 2000. He also served as President of GE Capital, Asia Pacific, from May 1996 to June 1999. Mr. Mudd also serves as a director of Ryder System, Inc. Mr. Mudd has been a Fannie Mae director since 2000.

Anne M. Mulcahy, age 50, has been Chairman of Xerox Corporation since January 2002 and Chief Executive Officer since August 2001. Xerox Corporation is a global company serving document processing markets. Ms. Mulcahy served as President and Chief Operating Officer of Xerox from May 2000 through July 2001. She was Executive Vice President and President, General Markets Operations, from January 1999 to May 2000, and Senior Vice President, Chief Staff Officer from March 1997 to January 1999. Ms. Mulcahy also serves as a director of Target Corporation. Ms. Mulcahy has been a Fannie Mae director since 2000.

Joe K. Pickett, age 57, retired from HomeSide International, Inc. on June 30, 2001, where he had served as Chairman from February 1996. He also served as Chief Executive Officer of HomeSide International, Inc. from February 1996 to February 2001. HomeSide International was the parent of HomeSide Lending, Inc., a mortgage banking company that was formerly known as BancBoston Mortgage Corporation. HomeSide International, Inc. was a wholly-owned subsidiary of National Australia Bank in 2001. Mr. Pickett also served as Chairman and Chief Executive Officer of HomeSide Lending from April 1990 to April 1999. Mr. Pickett is a past President of the Mortgage Bankers Association of America. Mr. Pickett has been a Fannie Mae director since 1996.

Franklin D. Raines, age 54, has been Chairman of the Board and Chief Executive Officer of Fannie Mae since January 1999 and was Chairman of the Board and Chief Executive Officer—Designate of Fannie Mae from May 1998 to December 1998. Prior to his current position with Fannie Mae, Mr. Raines was Director of the United States Office of Management and Budget from September 1996 to May 1998. Previously, Mr. Raines had been Vice Chairman of the Board of Fannie Mae from September 1991 to September 1996. He joined Fannie Mae in July 1991 as Vice Chairman—Designate. Before joining Fannie Mae, Mr. Raines was with Lazard Freres & Co., an investment banking firm, which he joined in 1979 and in which he was a General Partner from January 1985 to December 1990 and a Limited Partner from January 1991 to June 1991. Mr. Raines also serves as a director of AOL Time Warner, PepsiCo, Inc., and Pfizer Inc. Mr. Raines was a Fannie Mae director from 1991 to 1996 and has been a Fannie Mae director since 1998.

H. Patrick Swygert, age 60, has been President of Howard University, a Washington, D.C. educational institution, since 1995. He also serves as a director of Hartford Financial Services Group, Inc. and United Technologies Corporation. Mr. Swygert has been a Fannie Mae director since 2000.

Directors Appointed by the President of the United States

Our directors appointed by President George W. Bush have provided the following information about their principal occupation, business experience and other matters. Each director's term ends on the date of the Fannie Mae annual stockholders' meeting to be held on May 20, 2003.

Victor H. Ashe, age 58, has been Mayor of Knoxville, Tennessee since 1988. Mr. Ashe is a member of the U.S. Conference of Mayors Executive Committee. He is a past President of the U.S. Conference of Mayors. Mr. Ashe has been a Fannie Mae director since 2001.

Molly H. Bordonaro, age 34, has been a principal at the Gallatin Group, a strategic consulting and public affairs firm, since May 2002. She was an associate at Norris, Beggs, & Simpson from 1999 to 2002 and was owner and President of The Bordonaro Group from 1995 to 1999. Ms. Bordonaro has been a Fannie Mae director since 2001.

William R. Harvey, age 62, has been the President of Hampton University, a private educational institution, since 1978. He is the owner of the Pepsi-Cola Bottling Company of Houghton, Michigan. Mr. Harvey has been a Fannie Mae director since 2001.

Manuel J. Justiz, age 54, has been Dean of the College of Education at the University of Texas at Austin, an educational institution, since 1990 and holds the A.M. Aikin Regents Chair in Education Leadership and the Lee Hage Jamail Regents Chair in Education. In addition, he serves as a director of Voyager Expanded Learning. Mr. Justiz has been a Fannie Mae director since 2001.

Taylor C. Segue, III, age 48, has been with the Michigan law firm of Howard and Howard since June 2002. He served as Interim Director of the Detroit Housing Authority from August 2002 to December 2002 and was a partner at Butzel, Long, P.C. from February 1999 to May 2002. Mr. Segue was a partner at Segue, Fair, Adams, & Pope, P.L.C. from 1990 to 1999. Mr. Segue has been a Fannie Mae director since 2001.

Executive Officers

Our executive officers who are not also members of the Board of Directors have provided the following information about their principal occupation, business experience and other matters.

J. Timothy Howard, age 54, has been Executive Vice President and Chief Financial Officer since February 1990. Mr. Howard became a member of the Office of the Chairman in November 2000. He joined Fannie Mae in 1982. Mr. Howard serves on the Board of Directors of CarrAmerica Realty Corporation.

Thomas E. Donilon, age 47, has been Executive Vice President— Law and Policy and Secretary since May 2000. He served as Senior Vice President, General Counsel and Secretary from September 1999 to May 2000. Mr. Donilon was a partner with the law firm of O'Melveny & Myers from February 1991 to March 1993 and November 1996 to September 1999 when he joined Fannie Mae. Mr. Donilon served as Assistant Secretary of State for Public Affairs and Chief of Staff to the Secretary of State from March 1993 to November 1996.

Louis W. Hoyes, age 54, has been Executive Vice President— Single-Family Mortgage Business since May 2000. He served as Senior Vice President— Multifamily Lending and Investment from September 1995 to May 2000. Prior to his employment with Fannie Mae, Mr. Hoyes was a managing director of Citicorp Real Estate, holding various management positions over his 22-year career in their commercial real estate division and Latin American banking group. He also served as a Senior Credit Officer of Citibank, N.A., from 1982 until he joined Fannie Mae.

Robert J. Levin, age 47, has been Executive Vice President— Housing and Community Development since June 1998. He was Executive Vice President— Marketing from June 1990 to June 1998. He joined Fannie Mae in 1981.

Adolfo Marzol, age 42, has been Executive Vice President—Finance and Credit since November 2002. He was Executive Vice President and Chief Credit Officer from June 1998 to November 2002. He was Senior Vice President— Single-Family Business Management from July 1996 to June 1998. He was Senior Vice President— Capital Markets from February 1996 to July 1996. Prior to his employment with Fannie Mae, Mr. Marzol was Executive Vice President and Chief Financial Officer from July 1993 to January 1996 and Senior Vice President— Interest Rate Risk from January 1991 to June 1993 of Chase Manhattan Mortgage Corporation, a mortgage company.

Peter S. Niculescu, age 43, has been Executive Vice President— Mortgage Portfolio Business since November 2002. He was Senior Vice President— Portfolio Strategy from March 1999 to November 2002. Prior to his employment with Fannie Mae, Mr. Niculescu was a Managing Director and Co-Head of Fixed Income Research for Goldman Sachs & Co. He joined Goldman Sachs in 1990 and held a variety of positions including Managing Director— Mortgage Research, Vice President— Mortgage Research and Corporate Bond Strategist.

Julie St. John, age 51, has been Executive Vice President and Chief Technology Officer since July 2000. She served as Senior Vice President— Mortgage Business Technology from November 1999 to July 2000. She was Senior Vice President— Guaranty and Franchise Technologies from November 1993 to November 1999. Ms. St. John joined Fannie Mae in 1990.

Michael J. Williams, age 45, has been President— Fannie Mae eBusiness since July 2000. He served as Senior Vice President — e-Commerce from March 2000 to July 2000. He was Senior Vice President— Customer Applications and Technology Integration from November 1993 to March 2000. Mr. Williams joined Fannie Mae in 1991.

Under Fannie Mae’s bylaws, each officer holds office until his or her successor is chosen and qualified or until he or she dies, resigns, retires, or is removed from office by the Board of Directors, whichever occurs first.

Section 16(a) Beneficial Ownership Reporting Compliance.

Fannie Mae is organized under the Federal National Mortgage Association Charter Act, 12 U.S.C., § 1716 *et seq.* (the “Charter Act”). Because the Charter Act provides that Fannie Mae common stock is an “exempted security” under the Securities Exchange Act of 1934, Fannie Mae’s executive officers and directors have not been subject to Section 16(a) beneficial ownership reporting. However, Fannie Mae has adopted reporting policies similar to the Section 16 requirements for its executive officers and directors. The reports are available on our Internet web site at www.fanniemae.com. During 2002, no Fannie Mae executive officer or director failed to file on a timely basis any report required under such policies.

Upon effectiveness of this Registration Statement, our directors and officers will file Section 16(a) reports with the SEC. Those reports will be available at www.fanniemae.com.

Item 6. *Executive Compensation.*

Directors’ Compensation

Retainer Fees

During 2002, Fannie Mae paid directors an annual retainer of $35,000, plus $1,000 for attending each Board or Board committee meeting. Committee chairmen received an additional $500 for each committee meeting they chaired. Directors who participated in telephone conference meetings of the Board or Board committees received $600 per meeting plus an additional $300 for each telephone conference committee meeting that they chaired. In addition, each nonmanagement director received or vested in restricted common stock and stock options under the Fannie Mae Stock Compensation

Plan of 1993, as discussed below. As of January 1, 2003, the annual retainer paid to Fannie Mae directors who are committee chairmen was increased to $45,000.

Directors who are employees of Fannie Mae receive no compensation for their service as directors.

Stock Options

Each nonmanagement director is granted an annual nonqualified stock option to purchase 4,000 shares of Fannie Mae common stock at the fair market value on the date of grant. The date of grant is the date of the annual meeting of stockholders. A nonmanagement director appointed or elected as a mid-term replacement will receive a nonqualified stock option to purchase at the fair market value on the date of grant a pro rata number of shares equal to the fraction of the remainder of the term. In May 2002, each nonmanagement director received an option to purchase 4,000 shares of common stock, with a fair market value on the date of grant of $78.885. Each option granted in 2002 will expire 10 years after the date of grant and was exercisable immediately on the date of grant. The options held by nonmanagement directors who have served on the Board for at least 10 years may be exercised for a period of one year following their retirement from the Board.

Restricted Stock

Fannie Mae has a restricted stock award program for nonmanagement members of the Board of Directors. The shares currently are awarded under the Fannie Mae Stock Compensation Plan of 1993. The award program provides for consecutive five-year cycles of awards of restricted common stock to nonmanagement members of the Board of Directors. Restricted common stock is common stock that cannot be sold until it vests over an extended period of time, with vesting contingent on the director's continued service on the Board. Restricted common stock issued to participants is held in an escrow account for each participant until it vests. At vesting, the restricted period ends and the escrow agent delivers stock certificates to participants.

Each participant has all of the rights and privileges of a stockholder as to the restricted common stock, other than the ability to transfer it, including the right to receive any cash or stock dividends declared with respect to the stock and the right to instruct the escrow agent in voting the stock. Awards vest over five years at the rate of 20 percent per year, provided the participant is serving on the Board. If a director joins the Board during a five-year cycle, he or she receives the number of shares of restricted common stock that represents their pro rata portion of the grant for the cycle, based on the time remaining in the cycle. These grants vest in the same annual amounts as those of directors who participate in the full five-year cycle. Vesting accelerates upon departure from the Board due to death, disability, or the 70th birthday of an elected director.

In May 2001, Fannie Mae granted 871 shares of restricted common stock for the 2001–2006 cycle to each nonmanagement director who was a member of the Board at that time. The full award for the 2001–2006 cycle had a fair market value on the grant date of $65,813. The current members of the Board who were not members in May 2001 received pro rata awards upon their appointment or election to the Board, as follows: 856 shares to Mr. Ashe, Ms. Bordonaro, Mr. Harvey and Mr. Segue in July 2001; 813 shares to Mr. Justiz in October 2001; and 697 shares to Mr. Malek in May 2002.

In May 2002, the following nonmanagement directors vested in shares of restricted common stock as follows: 174 shares to Mr. Ashley, Mr. Duberstein, Mr. Gerrity, Ms. Korologos, Mr. Marron, Ms. Mulcahy, Mr. Pickett, and Mr. Swygert; 159 shares to Mr. Ashe, Ms. Bordonaro, Mr. Harvey, and Mr. Segue; and 116 shares to Mr. Justiz. In addition, in May 2002, Mr. Vincent Mai, who left the Board in May 2002, and Mr. Stephen Friedman, who left the Board in December 2002, each vested in 174 shares of restricted common stock.

Fannie Mae Director's Charitable Award Program

In 1992, Fannie Mae established the Federal National Mortgage Association Director's Charitable Award Program. The purpose of the program is to acknowledge the service of Fannie Mae's directors, recognize the interest of Fannie Mae and its directors in supporting worthy institutions, and enhance Fannie Mae's director benefit program to enable Fannie Mae to continue to attract and retain directors of the highest caliber. Under the program, when a director dies, Fannie Mae will donate up to an aggregate of $1,000,000 in $100,000 increments to a maximum of five charitable organizations or educational institutions of the director's choice. To be eligible to receive a donation, a recommended organization must be an educational institution or charitable organization and must qualify to receive tax-deductible donations under the Internal Revenue Code. The program is funded by life insurance contracts on the lives of participating directors; the funding is structured in a manner that will allow Fannie Mae to recover the entire program cost through the receipt of life insurance benefits. The program has no direct compensation value to directors because they do not receive any direct cash or tax benefit.

Executive Compensation Tables

The tables on pages 9 to 12 profile Fannie Mae's compensation for the Chief Executive Officer and its four other most highly compensated executive officers (the "covered executives"), including salaries and bonuses paid during the last three years and 2002 option grants and exercises.

Summary Compensation Table

The following table shows the compensation of the covered executives for 2002, 2001 and 2000. Awards made in January 2003 are reported as compensation for 2002.

					Long Term Compensation		
					Awards		Payouts
		Annual Compensation(1)					
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s)(2) ($)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)
Franklin D. Raines	2002	$992,250	$3,300,000	$ 78,692		311,731	$7,233,679
Chairman of the Board	2001	992,250	3,125,650	3,085		277,335	6,803,068
and Chief Executive Officer	2000	992,250	2,480,625	2,907		421,358	4,588,616
Daniel H. Mudd	2002	689,124	911,250	1,358		82,918	2,339,702
Vice Chairman of the Board	2001	656,429	1,083,109	1,320		87,194	1,188,846
and Chief Operating Officer	2000	537,063	735,130	265,052	$1,319,533	321,295	414,090
Jamie S. Gorelick	2002	689,124	911,250	1,583		0	3,049,012
Vice Chair of the Board	2001	656,429	1,083,109	1,837		87,194	2,791,087
	2000	625,170	859,609	1,819		186,517	2,458,528
J. Timothy Howard	2002	498,614	781,250	1,169		81,661	1,947,368
Executive Vice President	2001	463,315	694,983	1,103		75,617	1,987,119
and Chief Financial Officer	2000	435,540	544,425	1,126		129,142	2,088,542
Robert J. Levin	2002	480,092	575,000	950		72,445	1,947,368
Executive Vice President—	2001	457,317	686,028	994		44,735	1,987,119
Housing & Community Development	2000	435,540	544,425	1,043		100,002	2,088,542

[Additional columns below]

[Continued from above table, first column(s) repeated]

Name and Principal Position	All Other Compensation(3) ($)
Franklin D. Raines	$ 24,248
Chairman of the Board	25,215
and Chief Executive Officer	41,315
Daniel H. Mudd	9,569
Vice Chairman of the Board	8,412

and Chief Operating Officer	342,796
Jamie S. Gorelick Vice Chair of the Board	15,589 15,420 22,015
J. Timothy Howard Executive Vice President and Chief Financial Officer	12,213 12,150 18,543
Robert J. Levin Executive Vice President— Housing & Community Development	9,811 9,373 12,877

Notes to Summary Compensation Table

(1) "Salary" includes annual salary deferred to later years. "Bonus" includes amounts accrued under the Annual Incentive Plan and, for 2001, the value of shares the covered executives received under the 2001 Special Award Program. "Other Annual Compensation" for Mr. Raines in 2002 includes $37,225 for tax counseling and financial planning services and

$38,307 for the personal use of company transportation that has been imputed to Mr. Raines as income for tax purposes. For Mr. Mudd, "Other Annual Compensation" in 2000 includes $264,565 for reimbursement of taxes in connection with his relocation from Tokyo, Japan to Washington, D.C.

(2) Because restricted common stock is held in escrow until vested, as of December 31, 2002, Equiserve Trust Company, N.A., acting as escrow agent, held 15,000 shares of unvested restricted common stock for Mr. Mudd, subject to a vesting schedule through February 2005, with an aggregate value of $964,950. Dividends are paid on restricted common stock at the same rate as the dividends paid on Fannie Mae's common stock.

(3) "All Other Compensation" for each covered executive in 2002 includes a $6,000 employer matching contribution under the Retirement Savings Plan for Employees. "All Other Compensation" for 2002 also includes an amount allocated to the premiums paid by Fannie Mae for the term life portion of split-dollar life insurance coverage and an amount equal to the estimated value of the total premiums paid by Fannie Mae for the split-dollar insurance coverage, as follows: Mr. Raines, $2,144 and $14,247; Mr. Mudd, $744 and $1,850; Ms. Gorelick, $1,254 and $7,360; Mr. Howard, $630 and $4,608; and Mr. Levin, $364 and $2,472. Each Fannie Mae officer (other than Mr. Raines, Mr. Mudd, and Ms. Gorelick) has coverage based on annual salary. The coverage for Mr. Raines, Mr. Mudd, and Ms. Gorelick equals approximately two times salary. Fannie Mae also has provided to Mr. Raines an additional term life insurance benefit in the amount of $900,000, with an annual premium allocated to Mr. Raines of $882. "All Other Compensation" also includes premiums of $975 paid on behalf of each covered executive in 2002 for excess liability insurance coverage. For Mr. Mudd, the 2000 amount includes $340,164 for hiring costs and reimbursement of expenses in connection with his relocation from Tokyo, Japan to Washington, D.C.

Options Grants in Last Fiscal Year

The following table shows stock option grants for 2002 to the covered executives. These options represent part of Fannie Mae's variable long-term awards program for its officers, which also includes performance shares as described below in the Long-Term Incentive Plan Awards Table. The value of stock options depends upon a long-term increase in the market price of the common stock. If the stock price does not increase, the options will be worthless; if the stock price does increase, the increase will benefit all stockholders.

	Individual Grants				
Name	**Number of Securities Underlying Options Granted(1)**	**% of Total Options Granted to Employees for 2002(1)**	**Exercise or Base Price ($/Sh)**	**Expiration Date**	**Grant Date Present Value(2) ($)**
Franklin D. Raines	311,731	8.27%	$69.43	1/21/13	$6,680,395
Daniel H. Mudd	82,918	2.20%	69.43	1/21/13	1,776,933
Jamie S. Gorelick(3)	n/a	n/a	n/a	n/a	n/a
J. Timothy Howard	81,661	2.17%	69.43	1/21/13	1,749,995
Robert J. Levin	72,445	1.92%	69.43	1/21/13	1,552,496

<u>Notes to Option Grants Table</u>

(1) Includes options granted on January 21, 2003. Options vest 25% per year beginning on the first anniversary of the grant date, or upon the optionee's retirement (at age 65 or later), early retirement (from age 60 to 64, with at least five years of service), total disability, or death, and in certain cases upon a change in control, and expire 10 years after the date of grant. The options granted to officers at and above the level of executive vice president are subject to accelerated vesting under certain circumstances. Mr. Raines generally will have the right to exercise any vested nonqualified stock option, whenever granted, until it expires by its terms, regardless of whether he is a Fannie Mae employee.

(2) The “Grant Date Present Value” numbers in the table were derived by application of a variation of the Black-Scholes option pricing model. The following assumptions were used in the model:

- an exercise price on the option equal to the fair market value of the underlying stock on the date of grant;
- an option term of 10 years and an interest rate of 3.97%, which represents the interest rate on a U.S. Treasury security with a maturity date corresponding to that of the option term;
- volatility of 31.87%, calculated using 5-year weekly volatility prior to the grant date; and
- current dividends at the rate of $1.56 per share, representing the annualized dividends paid with respect to a share of common stock and representing a constant percentage of 2.25% at the date of grant.

(3) As announced by Fannie Mae on January 10, 2003, Ms. Gorelick will leave Fannie Mae on June 30, 2003.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

The following table shows the aggregate number of shares underlying options exercised in 2002 and the value at year-end 2002 of outstanding options, whether or not exercisable.

Name	Shares Acquired on Exercise (#)	Value Realized(1) ($)	Number of Securities Underlying Unexercised Options December 31, 2002 Exercisable/ Unexercisable (#)	Value of Unexercised In-the-Money Options December 31, 2002(2) Exercisable/ Unexercisable ($)
Franklin D. Raines	n/a	$ n/a	1,000,630/618,843	$1,441,600/$ 390,793
Daniel H. Mudd	n/a	n/a	124,090/284,399	663,207/ 2,011,068
Jamie S. Gorelick	n/a	n/a	296,110/227,281	1,661,516/ 177,120
J. Timothy Howard	20,000	1,246,362	408,624/161,395	9,899,535/ 103,527
Robert J. Levin	20,900	1,025,314	386,333/123,664	9,899,535/ 103,527

Notes to Option Exercises/ Year End Values

(1) “Value Realized” is the difference between the exercise price and the market price on the exercise date, multiplied by the number of options exercised. “Value Realized” numbers do not necessarily reflect what the executive might receive when he or she sells the shares acquired by the option exercise, since the market price of the shares at the time of sale may be higher or lower than the price on the exercise date of the option.

(2) “Value of Unexercised In-the-Money Options” is the aggregate, calculated on a grant by grant basis, of the product of the number of unexercised options at the end of 2002 multiplied by the difference between the exercise price for the grant and the year-end market price ($64.33), excluding grants for which the difference is equal to or less than zero.

Long-Term Incentive Plan Awards Table

Name	Number of Performance Shares(1)	Performance or Other Period Until Maturation or Payout: Award Cycle	Performance or Other Period Until Maturation or Payout: Payout Period (if any)	Estimated Future Payouts Under Non-Stock Price Based Plans: Threshold (#)	Estimated Future Payouts Under Non-Stock Price Based Plans: Target (#)	Estimated Future Payouts Under Non-Stock Price Based Plans: Maximum (#)
Franklin D. Raines	107,505	2003-2005	2006, 2007	43,002	107,505	161,258
Daniel H. Mudd	28,596	2003-2005	2006, 2007	11,438	28,596	42,894
Jamie S. Gorelick	n/a	n/a	n/a	n/a	n/a	n/a
J. Timothy Howard	28,162	2003-2005	2006, 2007	11,265	28,162	42,243
Robert J. Levin	24,984	2003-2005	2006, 2007	9,994	24,984	37,476

Note to Long-Term Incentive Plan Awards Table

(1) Contingent grants of performance shares were made as part of Fannie Mae's variable long- term awards program on January 21, 2003 for the 2003-2005 cycle, for which distributions will be made in 2006 and 2007. Actual awards range from 40 percent to 150 percent of a participant's performance shares based on equally weighted goals for growth in earnings per share and performance in strategic areas. If Fannie Mae does not meet the requirement to achieve 40 percent awards, no award will be paid. The value of an actual award depends on the level of achievement and the value of Fannie Mae's common stock at the end of the cycle. The fair value of a performance share for the 2003-2005 cycle is subject to a limit of three times the fair market value of Fannie Mae's common stock on January 21, 2003, the date of grant. The fair market value of Fannie Mae's common stock on the date of grant was $69.43.

Fannie Mae Retirement Plans

Fannie Mae Retirement Plan

The Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law (the "Fannie Mae Retirement Plan") provides benefits for those employees who are not covered by the federal Civil Service retirement law. Normal retirement benefits are computed on a single life basis using a formula based on final average annual earnings and years of credited service. Participants are fully vested when they complete five years of credited service. In addition, the Fannie Mae Retirement Plan is coordinated with Social Security Covered Compensation as defined in Internal Revenue Service regulations. Since 1989, Internal Revenue Code provisions have limited the amount of annual compensation that may be used for calculating pension benefits and the annual benefit that may be paid. For 2002, the statutory compensation and benefit caps were $200,000 and $160,000, respectively, and they remain unchanged for 2003. Before 1989, some employees accrued benefits based on higher income levels. For employees who retire before age 65, benefits are reduced by stated percentages for each year that they are younger than 65.

The covered executives have approximately the following years of credited service: Mr. Levin, 22 years; Mr. Howard, 21 years; Mr. Raines, 11 years; Ms. Gorelick, 6 years; and Mr. Mudd, 3 years.

The benefits under the Fannie Mae Retirement Plan are not subject to deductions for social security benefits or other offset amounts.

Supplemental Pension Plans

Fannie Mae adopted the Supplemental Pension Plan to provide supplemental retirement benefits to employees who do not participate in the Executive Pension Plan and whose salary exceeds the statutory compensation cap applicable to the Fannie Mae Retirement Plan or whose benefit under the Fannie Mae Retirement Plan is limited by the statutory benefit cap applicable to that Plan. Fannie Mae adopted the 2003 Supplemental Pension Plan to provide similar additional benefits to Fannie

Mae officers based on the annual cash bonus received by an officer, but limited to 50 percent of the officer's salary.

The benefits under the supplemental pension plans are not subject to deductions for social security benefits or other offset amounts.

The following table shows the estimated annual benefits that are payable under the Fannie Mae Retirement Plan and, if applicable, the supplemental pension plans, to an employee who does not participate in the Executive Pension Plan and who turned 65 and retired on January 1, 2003, using years of service accrued through January 1, 2003.

Fannie Mae Retirement Plan and Supplemental Pension Plans

Final Average Annual Earnings	Estimated Annual Pension for Representative Years of Service					
	10	15	20	25	30	35
$ 50,000	$ 7,802	11,883	16,688	21,493	26,298	31,103
100,000	17,802	26,883	36,688	46,493	56,298	66,103
150,000	27,802	41,883	56,688	71,493	86,298	101,103
200,000	37,802	56,883	76,688	96,493	116,298	136,103
250,000	47,802	71,883	96,688	121,493	146,298	171,103
300,000	57,802	86,883	116,688	146,493	176,298	206,103
350,000	67,802	101,883	136,688	171,493	206,298	241,103
400,000	77,802	116,883	156,688	196,493	236,298	276,103
450,000	87,802	131,883	176,688	221,493	266,298	311,103
500,000	97,802	146,883	196,688	246,493	296,298	346,103
550,000	107,802	161,883	216,688	271,493	326,298	381,103
600,000	117,802	176,883	236,688	296,493	356,298	416,103
650,000	127,802	191,883	256,688	321,493	386,298	451,103
700,000	137,802	206,883	276,688	346,493	416,298	486,103
1,876,900	373,182	559,953	747,448	934,943	1,122,438	1,309,933

Executive Pension Plan

Fannie Mae adopted an Executive Pension Plan to supplement the benefits payable to key officers under the Fannie Mae Retirement Plan. The Compensation Committee selects the participants and determines the pension benefits for each participant. The Board of Directors approves the pension benefits for participants who are at the level of executive vice president and above. Payments are reduced by any amounts payable under the Fannie Mae Retirement Plan, any amounts payable under the Civil Service retirement system attributable to Fannie Mae's contributions for service with it, and, in certain circumstances, any amounts attributable to employer contributions payable under a prior employer's tax-qualified plan.

Participants are granted pension benefits ranging from 30 percent to 60 percent of the average total compensation for the three consecutive years of the participant's last ten years of employment when total compensation was the highest. Total compensation generally is a participant's average annual base salary, including deferred compensation, plus the participant's other taxable compensation paid by Fannie Mae for the relevant year, up to 50 percent of annual base salary for that year. (Payments earned over multiyear periods are allocated equally over the years.)

Participants who retire before age 60 generally receive a reduced benefit. Participants typically vest fully in their pension benefit after 10 years of Fannie Mae service as a participant in the Executive Pension Plan, with partial vesting usually beginning after 5 years. The benefit payment typically is a monthly amount equal to 1/12th of the participant's annual retirement benefit payable during the lives of the participant and the participant's surviving spouse. If a participant dies before receiving benefits under the Executive Pension Plan, generally his or her surviving spouse will be entitled to a death benefit that begins when the spouse reaches age 55, based on the participant's pension benefit at the date of death.

Estimated annual benefits payable upon retirement, assuming that Fannie Mae's corporate performance causes a participant's other compensation to equal or exceed 50 percent of annual base salary and full vesting at normal retirement age, for each of the covered executives are as follows: Mr. Raines (60 percent pension benefit), $1,037,727; Mr. Mudd (50 percent pension benefit), $537,098; Ms. Gorelick (50 percent pension benefit), $537,098; Mr. Howard (40 percent pension benefit), $375,000; and Mr. Levin (40 percent pension benefit), $345,000.

Employment Arrangements

Fannie Mae's employment agreements with Mr. Raines, Mr. Mudd, and Ms. Gorelick end on June 30, 2003, June 30, 2003, and April 30, 2003, respectively. Under the agreements, his or her current salary may not be reduced, and the agreements may be extended for additional periods. The Board expects to enter into new contracts with Mr. Raines and Mr. Mudd prior to June 30, 2003.

Among other things, the agreements provide that if the officer is terminated other than for cause, is not nominated for election to the Board of Directors, is removed from his or her current position, if the agreement is not extended after the end of its term, if there is a material change in responsibilities or, if for any reason his or her employment is terminated within six months after a change in control of Fannie Mae, the officer will be entitled to receive his or her then current annual salary until the later of the close of the remaining term of the employment agreement or one year after its termination or nonextension (reduced, starting six months after termination, by amounts earned through other employment). Each employment agreement contains a similar provision if the officer's employment terminates due to disability, except that the amount of annual salary will be reduced by any disability benefits received, to the extent that the benefits are attributable to payments made by Fannie Mae, and by any amounts earned through other employment, until the employment agreement expires.

If Mr. Raines dies during the term of his employment agreement, his designated beneficiary will receive a cash sum equal to two times Mr. Raines' annual salary at the time of death. His surviving spouse will begin to receive the Executive Pension Plan's surviving spouse's benefit immediately, regardless of her age, and the benefit will be reduced only if Mr. Raines dies before age 55. If Mr. Mudd or Ms. Gorelick dies during the term of his or her employment agreement, the designated beneficiary or estate will receive a cash sum equal to his or her annual salary in effect at death.

For 2002, the Board of Directors set Mr. Raines' cash base salary at $992,250, unchanged since 2000. For the purposes of calculating his pension benefits, life insurance benefits and bonus opportunity, however, the Board of Directors set Mr. Raines' annual base salary at $1,093,956, reflecting a 5 percent merit increase over the prior year. Consistent with Fannie Mae's "pay for performance" philosophy, the difference between Mr. Raines' cash base salary and annual base salary is awarded as additional long-term, equity-based compensation.

As announced by Fannie Mae on January 10, 2003, Ms. Gorelick will leave Fannie Mae later this year to devote substantial time to the bipartisan national commission investigating the attacks of September 11, 2001, and to pursue other interests. Ms. Gorelick will remain an employee of Fannie Mae through June 30, 2003. Until that date, Ms. Gorelick will continue to receive her current salary and benefits, including the vesting of stock-based compensation and pension benefits pursuant to her agreement.

Fannie Mae has agreements with Mr. Howard and Mr. Levin, executive vice presidents of Fannie Mae. Each agreement provides that if the officer is terminated for reasons other than for cause, he will continue to receive his base salary for a period of 12 months from the date of termination and will continue to be covered by Fannie Mae's life, medical, and long-term disability insurance plans for a 12-month period, or until re-employment that provides certain coverage, whichever occurs first. Any disability benefits that the officer receives during the 12-month period will reduce the amount otherwise payable by Fannie Mae, but only to the extent the benefits are attributable to payments made by Fannie Mae.

Item 7. ***Certain Relationships and Related Transactions.***

Board of Directors

During 2002, 2001, and 2000, Fannie Mae was a party to certain business transactions with institutions related to directors. These transactions were done in the ordinary course of business, with terms and conditions substantially the same as those prevailing for comparable transactions with other persons. They represent an insignificant portion of Fannie Mae's business.

2002

Mr. Duberstein is Chairman and Chief Executive Officer of The Duberstein Group, an independent strategic planning and consulting company. The firm has provided services to Fannie Mae since 1991. From 2000 through 2002, the firm provided services on an annual fixed-fee basis of $375,000, and will continue to provide similar services during 2003.

Mr. Swygert's son is employed by Fannie Mae as a non-officer employee in Fannie Mae's eBusiness Marketing area.

2001 and 2000

Mr. Pickett retired from Homeside International, Inc. ("HomeSide") on June 30, 2001, where he served as Chairman from February 1966. HomeSide, through its primary operating subsidiary, HomeSide Lending, Inc. ("HSL"), was active in the mortgage banking and servicing business during 2001 and 2000 and as such, regularly engaged with Fannie Mae in those types of transactions. During 2001 and 2000, respectively, HSL transferred $11,935 million and $5,995 million of mortgages pursuant to swap transactions involving Fannie Mae; Fannie Mae purchased mortgages with aggregate principal balances of $858 million and $66 million for its own portfolio from HSL; and serviced 818,679 and 742,138 mortgages in Fannie Mae's mortgage-backed securities and portfolio with balances of $76,519 million and $66,521 million. Fees generated from such servicing in 2001 and 2000 were approximately $287 million and $216 million, respectively. After June 30, 2001, Mr. Pickett had no formal relationship with HomeSide.

As part of Fannie Mae's community revitalization efforts in many cities, Fannie Mae formed a strategic partnership with the District of Columbia Housing Finance Agency, Howard University and other community leaders to improve LeDroit Park, an area surrounding Howard University. As part of that initiative, Fannie Mae extended an $800,000 line of credit to Howard University, a non-profit educational institution of which Mr. Swygert is President. Amounts drawn under the line of credit carried an annual interest rate of 7.1%. During 2001 and 2000, the largest amount outstanding under the credit line was $800,000. The line of credit was repaid in full on June 29, 2001.

Until January 22, 2001, prior to his election to Fannie Mae's Board in May 2001, Mr. Marron served as Chief Executive Officer of UBS PaineWebber Inc., a wholly-owned subsidiary of UBS AG. During 2001, UBS AG, directly and through its subsidiaries, provided various investment banking services to Fannie Mae and may continue to provide similar or other services during 2003. Mr. Marron has served as Chairman of UBS America, a non-executive position, since January 2001.

Executive Officers

Mr. Levin's sister is employed by Fannie Mae as a non-officer employee in Fannie Mae's Enterprise Systems Operations area.

Item 8. ***Legal Proceedings.***

Information on Fannie Mae's legal proceedings is set forth under Item 3 of the Annual Report on Form 10-K attached as Exhibit 99.1.

Item 9. ***Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.***

Fannie Mae's common stock is publicly traded on the New York, Pacific, and Chicago stock exchanges and is identified by the ticker symbol "FNM." The transfer agent and registrar for the common stock is EquiServe Trust Company, N.A., P.O. Box 43069, Providence, Rhode Island 02940. The following table shows, for the periods indicated, the high and low sales prices per share of Fannie Mae's common stock on the New York Stock Exchange Composite Transactions as reported in the Bloomberg Financial Markets service and the dividends paid in each period.

Quarterly Common Stock Data

	2002			2001		
Quarter	**High**	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First	$83.75	$75.08	$.33	$87.94	$72.08	$.30
Second	84.10	72.00	.33	87.87	74.00	.30
Third	77.55	58.85	.33	87.10	73.71	.30
Fourth	72.12	61.45	.33	85.14	75.19	.30

The closing price of Fannie Mae's common stock on March 27, 2003, as so reported, was $66.77.

At February 28, 2003, there were outstanding approximately 987 million shares of common stock. At December 31, 2002, there were approximately 26,000 stockholders of record and, based on the number of requests for proxies and quarterly reports, Fannie Mae estimates that there are approximately 380,000 additional stockholders who held shares through banks, brokers and nominees.

Fannie Mae's payment of dividends is subject to certain statutory restrictions, including approval by the Director of the Office of Federal Housing Enterprise Oversight, of any dividend payment that would cause Fannie Mae's capital to fall below specified capital levels. See the information under Item 11 of this Registration Statement. Fannie Mae has exceeded the applicable capital standards since the adoption of these restrictions in 1992 and, consequently, has been making dividend payments without the need for such approval.

Payment of dividends on common stock is also subject to payment of dividends on preferred stock outstanding.

Equity Compensation Plan Information

(as of December 31, 2002)

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)**	**Weighted-average exercise price of outstanding options, warrants and rights ($)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (#)**
Equity compensation plans approved by stockholders	25,131,000	$59.16	16,297,084(1)
Equity compensation plans not approved by stockholders	n/a	n/a	n/a(2)
Total	25,131,000	$59.16	16,297,084

(1) Stockholder Approved Plans: 4,727,809 shares under the 1985 Employee Stock Purchase Plan and 11,569,275 shares under the Stock Compensation Plan of 1993.

(2) Fannie Mae has no equity compensation plans that have not received stockholder approval.

Item 10. ***Recent Sales of Unregistered Securities.***

The securities Fannie Mae issues are “exempt securities” under laws administered by the SEC to the same extent as securities that are obligations of, or guaranteed as to principal and interest by, the United States. Registration statements with respect to offerings of Fannie Mae securities are not filed with the SEC, except for this voluntary filing of Form 10 with respect to Fannie Mae common stock. The following table indicates the securities sold by Fannie Mae through various underwriters over the last three years. All securities were sold for cash, except for $4,253 million aggregate principal amount of debt securities which were exchanged for $2,325 million aggregate principal amount of other debt securities. Fannie Mae used the cash proceeds from these sales for general corporate purposes.

	Amount ($ in millions)			
Security	**2002**	**2001**	**2000**	**Total**
Debt Securities(1)	$1,773,185	$1,931,850	$1,227,163	$4,932,198
Mortgage-backed Securities(2)	723,299	525,321	210,311	1,458,931
Non-Cumulative Preferred Stock	1,000	400	978	2,378

(1) Includes all unsecured debt securities issued under Fannie Mae’s Universal Debt Facility.
(2) Includes lender-originated MBS. Does not include MBS originated by Fannie Mae which amounted to $16,296 million, $3,101 million and $1,351 million for 2002, 2001 and 2000, respectively.

In addition, Fannie Mae provided $2,670 million, $2,135 million and $1,812 million in 2002, 2001 and 2000, respectively, of credit enhancement and liquidity support for taxable or tax-exempt housing bonds issued by state and local governmental entities to finance multifamily housing.

Item 11. ***Description of Registrant’s Securities to be Registered.***

Section 303(a) of the Charter Act provides that Fannie Mae shall have common stock, without par value. Each share of common stock is entitled to one vote at all elections of directors and on all other matters presented for common stockholder vote. The common stock has no conversion or pre-emptive rights or redemption or sinking fund provisions. The outstanding shares of common stock are fully paid and nonassessable. There is no prohibition against the purchase by Fannie Mae of its own common stock, holding such common stock in its treasury, and reselling such stock. In the event of liquidation of Fannie Mae, holders of common stock are entitled to share ratably, in accordance with their holdings, in the remaining assets of Fannie Mae after payment of all liabilities and amounts payable to the holders of preferred stock. The holders of the common stock elect thirteen directors, and the President of the United States appoints the remaining five directors. Holders of common stock have one vote for every share owned on the related record date. The Charter Act, Fannie Mae’s governing instrument, cannot be amended by the stockholders, but only by an Act of Congress.

Fannie Mae also is authorized by the Charter Act to have preferred stock on such terms and conditions as the Board of Directors of Fannie Mae may prescribe. No common stockholder approval is required to issue preferred stock. As of March 27, 2003, Fannie Mae had outstanding $150 million of non-cumulative preferred stock issued in 1998, $150 million issued in 1999, $978 million issued in 2000, $400 million issued in 2001, $1 billion issued in 2002, and $400 million issued in 2003, all of which is redeemable at Fannie Mae’s option beginning in 1999, 2004, 2002, 2006, 2007 (for Series I preferred stock issued in 2002), 2004 (for Series J preferred stock issued in 2002), and 2005, respectively. Holders of these preferred stock issues are entitled to receive noncumulative, quarterly dividends when, and if, declared by Fannie Mae’s Board of Directors or a duly authorized committee of the Board. Payment of dividends on preferred stock is not mandatory, but has priority over payment of dividends on common stock. See “Notes to Financial Statements—Note 12” in Item 8 of the attached Form 10-K for additional information on preferred stock.

The Charter Act contains no limitation on the amount of stock that may be issued.

Holders of common and preferred stock are entitled to receive cash dividends if, as, and when declared by the Board of Directors. The Charter Act as amended by the Federal Housing Enterprises Financial Safety and Soundness Act (the “1992 Act”) restricts the ability of the Board of Directors to make capital distributions, including any dividends, in certain circumstances. The 1992 Act established risk-based capital, minimum capital and critical capital requirements for Fannie Mae. See “Government Regulation and Charter Act” in Item 1 of the attached Form 10-K and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Resources—Regulatory Environment” in Item 7 of the Annual Report on Form 10-K attached as Exhibit 99.1 regarding the capital standards applicable to Fannie Mae. Fannie Mae may not pay any dividend, without the approval of the Office of Federal Housing Enterprise Oversight (“OFHEO”), if the dividend payment would decrease its total capital below the risk-based capital level or its core capital below the minimum capital level. If Fannie Mae does not meet the risk-based capital standard but does meet the minimum capital standard, it may not make any dividend payment that would cause it to fail to meet the minimum capital standard. If Fannie Mae meets neither the risk-based capital standard nor the minimum capital standard but does meet the critical capital standard established under the 1992 Act, it may make a dividend payment only if it would not fail to meet the critical capital standard as a result of the payment and the Director of OFHEO approves the payment after finding that the payment satisfies certain statutory conditions. The Director has the authority to require Fannie Mae to submit a report to the Director regarding any capital distribution (including any dividend) declared by Fannie Mae before Fannie Mae makes the distribution.

The payment of dividends on common stock also is subject to the payment of dividends on any preferred stock outstanding. No cash dividend may be declared or paid or set apart for payment on common stock unless cash dividends have been declared and paid or set apart (or ordered to be set apart) on preferred stock outstanding for the current dividend period. Dividends on common stock have been declared and paid for each quarter during Fannie Mae’s two most recent fiscal years. See Item 9 for quarterly dividends paid on common stock during 2002 and 2001.

This description is summarized from the Charter Act, the 1992 Act, Fannie Mae’s bylaws and certain resolutions of the Board of Directors and stockholders of Fannie Mae. This description does not purport to be complete, and is qualified in its entirety by reference to the Charter Act, the 1992 Act, Fannie Mae’s bylaws and the resolutions.

Item 12. *Indemnification of Directors and Officers.*

Fannie Mae’s bylaws authorize the Board of Directors to indemnify Fannie Mae directors and officers and, in the circumstances set forth below, require such indemnification.

Article 6 of Fannie Mae’s bylaws provides as follows:

Section 6.01. *General Indemnification*. The Board of Directors may, in such cases or categories of cases as it deems appropriate, indemnify and hold harmless, or make provision for indemnifying and holding harmless, members of the Board of Directors, officers, employees, and agents of the corporation, and persons who formerly held such positions, and the estates of any of them against any or all claims and liabilities (including reasonable legal fees and other expenses incurred in connection with such claims or liabilities) to which any such person shall have become subject by reason of his or her having held such a position or having allegedly taken or omitted to take any action in connection with such position.

Section 6.02. *Indemnification of Board Members and Officers.* Pursuant to a federal regulation, Fannie Mae designated Delaware General Corporation Law as the body of law to follow for its corporate governance practices and procedures, to be applicable to the extent not inconsistent with Fannie Mae’s Charter Act and other federal laws, rules, and regulations. Pursuant to Delaware General Corporation Law, a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation) by reason of the fact that the person is or was a director, officer, employee or agent of such corporation, or serving at the request of such corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding, if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of such corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Delaware General Corporation Law also permits indemnification by a corporation under similar circumstances for expenses (including attorneys' fees) actually and reasonably incurred by such persons in connection with the defense or settlement of a derivative action, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to such corporation unless the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

Delaware General Corporation Law provides that the indemnification described above shall not be deemed exclusive of other indemnification that may be granted by a corporation pursuant to its bylaws, disinterested directors' vote, stockholders' vote, agreement or otherwise.

Delaware General Corporation Law also provides corporations with the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability as described above.

Fannie Mae's bylaws provide that, to the fullest extent permitted by Delaware statutory or decisional law, as amended or interpreted, no director shall be personally liable to Fannie Mae or its stockholders for monetary damages for breach of fiduciary duty as a director.

Fannie Mae's bylaws also provide that to the fullest extent permitted by Delaware General Corporation Law, as currently in effect or as subsequently amended to provide for increased (but not decreased) indemnification rights, Fannie Mae will indemnify and hold harmless each officer and member of the Board against any and all claims, liabilities and expenses actually and reasonably incurred arising out of any threatened, pending, or completed action, suit or proceeding (including civil, criminal, administrative, and investigative actions, suits or proceedings), to which such officer or director has become subject by reason of having held his or her position or having allegedly taken or omitted to take any action in connection with such position.

In addition, Fannie Mae has entered into indemnification agreements that provide indemnification to directors and officers. These agreements provide a contractual right to indemnification for expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, administrative or investigative (including, to the extent permitted by law, any derivative action) by reason of the fact that such person is or was serving as a director, officer, employee or agent of Fannie Mae. The agreements also entitle the persons to be indemnified to have all expenses incurred in advance of the final disposition of a proceeding paid by Fannie Mae, upon receipt of an undertaking to repay any amounts advanced if it is ultimately determined that such person is not entitled to indemnification.

Policies of insurance are maintained by Fannie Mae under which its directors and officers are insured, within the limits and subject to the exclusions of the policies, against certain expenses in connection with the defense of, and certain liabilities which might be imposed as a result of, actions, suits or proceedings to which they are party by reason of being or having been directors or officers.

Item 13. ***Financial Statements and Supplementary Data.***

Information on Fannie Mae's financial statements is set forth under Item 8 of the Annual Report on Form 10-K attached as Exhibit 99.1.

Item 14. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

Item 15. ***Financial Statements and Exhibits.***

(a) Fannie Mae's financial statements are listed under Item 15 of the Annual Report on Form 10-K attached as Exhibit 99.1.

(b) Exhibits.

An exhibit index has been filed as part of this Registration Statement beginning on page E-1 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Date: March 31, 2003

By: /s/ FRANKLIN D. RAINES

Name: Franklin D. Raines
Title: Chairman of the Board and
Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS

TO

FORM 10

Federal National Mortgage Association

Fannie Mae

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EXHIBIT 3.1

Title 12 – Banks and Banking

Chapter 13 – National Housing

Subchapter III – National Mortgage Associations

Section 1716. Declaration of purposes of subchapter {Section 301}

The Congress declares that the purposes of this subchapter are to establish secondary market facilities for residential mortgages, to provide that the operations thereof shall be financed by private capital to the maximum extent feasible, and to authorize such facilities to –

(1) provide stability in the secondary market for residential mortgages;

(2) respond appropriately to the private capital market;

(3) provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing;

(4) promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and

(5) manage and liquidate federally owned mortgage portfolios in an orderly manner, with a minimum of adverse effect upon the residential mortgage market and minimum loss to the Federal Government.

Section 1717. Federal National Mortgage Association and Government National Mortgage Association {Section 302}

(a) Creation; succession; principal and other offices

(1) There is created a body corporate to be known as the "Federal National Mortgage Association'', which shall be in the Department of Housing and Urban Development. The Association shall have succession until dissolved by Act of Congress. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident thereof. Agencies or offices may be established by the Association in such other place or places as it may deem necessary or appropriate in the conduct of its business.

(2) On September 1, 1968, the body corporate described in the foregoing paragraph shall cease to exist in that form and is hereby partitioned into two separate and distinct bodies corporate, each of which shall have continuity and corporate succession as a separated portion of the previously existing body corporate, as follows:

(A) One of such separated portions shall be a body corporate without capital stock to be known as Government National Mortgage Association (hereinafter referred to as the "Association''), which shall be in the Department of Housing and Urban Development and which shall retain the assets and liabilities acquired and incurred under sections 1720 and 1721 of this title prior to such date, including any and all liabilities incurred pursuant to subsection (c) of this section. The Association shall have succession until dissolved by Act of Congress. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident thereof. Agencies or offices may be established by the Association in such other place or places as it may deem necessary or appropriate in the conduct of its business.

(B) The other such separated portion shall be a body corporate to be known as Federal National Mortgage Association (hereinafter referred to as the “corporation’’), which shall retain the assets and liabilities acquired and incurred under sections 1718 and 1719 of this title prior to such date. The corporation shall have succession until dissolved by Act of Congress. It shall maintain its principal office in the District of Columbia or the metropolitan area thereof and shall be deemed, for purposes of jurisdiction and venue in civil actions, to be a District of Columbia corporation.

(3) The partition transaction effected pursuant to the foregoing paragraph constitutes a reorganization within the meaning section 368(a)(1)(E) of title 26; and for the purposes of such title 26, no gain or loss is recognized by the previously existing body corporate by reason of the partition, and the basis and holding period of the assets of the corporation immediately following such partition are the same as the basis and holding period of such assets immediately prior to such partition.

(b) Purchase and sale of insured and conventional mortgages; transactions in loans and advances of credit

(1) For the purposes set forth in section 1716 of this title and subject to the limitations and restrictions of this subchapter, each of the bodies corporate named in subsection (a)(2) of this section is authorized pursuant to commitments or otherwise, to purchase, service, sell, or otherwise deal in any mortgages which are insured under this chapter or title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.), or which are insured or guaranteed under the Servicemen’s Readjustment Act of 1944 or chapter 37 of title 38; and to purchase, service, sell, or otherwise deal in any loans made or guaranteed under part B of title VI of the Public Health Service Act (42 U.S.C. 291j-1 et seq.); and the corporation is authorized to lend on the security of any such mortgages and to purchase, sell, or otherwise deal in any securities guaranteed by the Association under section 1721(g) of this title: Provided, That (1) the Association may not purchase any mortgage at a price exceeding 100 per centum of the unpaid principal amount thereof at the time of purchase, with adjustments for interest and any comparable items; (2) the Association may not purchase any mortgage, except a mortgage insured under title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.), if it is offered by, or covers property held by, a State, territorial, or municipal instrumentality; and (3) the Association may not purchase any mortgage under section 1720 of this title, except a mortgage insured under section 1715k of this title or subchapter VIII of this chapter or section 1709(k) of this title, or under subchapter IX-A of this chapter with respect to a new community approved under section 1749cc-1 of this title, or insured under section 1715e of this title and covering property located in an urban renewal area, or a mortgage covering property located in Alaska, Guam, or Hawaii, if the original principal obligation thereof exceeds or exceeded $55,000 in the case of property upon which is located a dwelling designed principally for a one-family residence; or $60,000 in the case of a two- or three-family residence; or $68,750 in the case of a four-family residence; or, in the case of a property containing more than four dwelling units, $38,000 per dwelling unit (or such higher amount not in excess of $45,000 per dwelling unit as the Secretary may by regulation specify in any geographical area where the Secretary finds that cost levels so require) for that part of the property attributable to dwelling use. Notwithstanding the provisions of clause (3) of the preceding sentence, the Association may purchase a mortgage under section 1720 of this title with an original principal obligation which exceeds the otherwise applicable maximum amount per dwelling unit if the mortgage is insured under section 1713(c)(3), 1715e(b)(2), 1715k(d)(3)(B)(iii), 1715l(d)(3)(ii), 1715l(d)(4)(ii), 1715v(c)(2), 1715y(e)(3), or 1715z-1 of this title. For the purposes of this subchapter, the terms “mortgages’’ and “home mortgages’’ shall be inclusive of any mortgages or other loans insured under any of the provisions of this chapter or title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.).

(2) For the purposes set forth in section 1716(a) of this title, the corporation is authorized, pursuant to commitments or otherwise, to purchase, service, sell, lend on the security of, or otherwise deal in mortgages which are not insured or guaranteed as provided in paragraph (1) (such mortgages referred to hereinafter as “conventional mortgages’’). No such purchase of a conventional mortgage secured by a property comprising one- to four-family dwelling units shall be made if the outstanding principal balance of the mortgage at the time of purchase exceeds 80 per centum of the value of the property securing the mortgage, unless (A) the seller retains a participation of not less than 10 per centum in the mortgage; (B) for such period and under such circumstances as the corporation may require, the seller agrees to repurchase or replace the mortgage upon demand of the corporation in the event that the mortgage is in default; or (C) that portion of the unpaid principal balance of the mortgage which is in excess of such 80 per centum is guaranteed or insured by a qualified insurer as determined by the corporation. The corporation shall not issue a commitment to purchase a conventional mortgage prior to the date the mortgage is originated, if such mortgage is eligible for purchase under the preceding sentence only by reason of compliance with the requirements of clause (A) of such sentence. The corporation may purchase a conventional mortgage which was originated more than one year prior to the purchase date only if the seller is the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, the National Credit Union Administration, or any other seller currently engaged in mortgage lending or investing activities. For the purpose of this section, the term “conventional mortgages’’ shall include a mortgage, lien, or other security interest on the stock or membership certificate issued to a tenant-stockholder or resident-member of a cooperative housing corporation, as defined in section 216 of title 26, and on the proprietary lease, occupancy agreement, or right of tenancy in the dwelling unit of the tenant-stockholder or resident-member in such cooperative housing corporation. The corporation shall establish limitations governing the maximum original principal obligation of conventional mortgages that are purchased by it; in any case in which the corporation purchases a participation interest in such a mortgage, the limitation shall be calculated with respect to the total original principal obligation of the mortgage and not merely with respect to the interest purchased by the corporation. Such limitations shall not exceed $93,750 for a mortgage secured by a single-family residence, $120,000 for a mortgage secured by a two-family residence, $145,000 for a mortgage secured by a three-family residence, and $180,000 for a mortgage secured by a four-family residence, except that such maximum limitations shall be adjusted effective January 1 of each year beginning with 1981. Each such adjustment shall be made by adding to each such amount (as it may have been previously adjusted) a percentage thereof equal to the percentage increase during the twelve-month period ending with the previous October in the national average one-family house price in the monthly survey of all major lenders conducted by the Federal Housing Finance Board. The foregoing limitations may be increased by not to exceed 50 per centum with respect to properties located in Alaska, Guam, Hawaii, and the Virgin Islands.

(3) The corporation is authorized to purchase, service, sell, lend on the security of, and otherwise deal in loans or advances of credit for the purchase and installation of home improvements, including energy conserving improvements or solar energy systems described in the last paragraph of section 1703(a) of this title and residential energy conservation measures as described in section 210(11) of the National Energy Conservation Policy Act (42 U.S.C. 8211(11)) and financed by a public utility in accordance with the requirements of title II of such Act (42 U.S.C. 8211 et seq.). To be eligible for purchase, any such loan or advance of credit (other than a loan or advance made with respect to energy conserving improvements or solar energy systems or residential energy conservation measures) not insured under subchapter I of this chapter shall be secured by a lien against the property to be improved.

(4) The corporation is authorized to purchase, service, sell, lend on the security of, and otherwise deal in loans or advances of credit secured by mortgages or other liens against manufactured homes.

(5) (A) The corporation is authorized to purchase, service, sell, lend on the security of, and otherwise deal in (i) conventional mortgages that are secured by a subordinate lien

against a one- to four-family residence that is the principal residence of the mortgagor; and (ii) conventional mortgages that are secured by a subordinate lien against a property comprising five or more family dwelling units. If the corporation, pursuant to paragraphs (1) through (4), shall have purchased, serviced, sold, or otherwise dealt with any other outstanding mortgage secured by the same residence, the aggregate original amount of such other mortgage and the mortgage authorized to be purchased, serviced, sold, or otherwise dealt with under this paragraph shall not exceed the applicable limitation determined under paragraph (2).

(B) The corporation shall establish limitations governing the maximum original principal obligation of conventional mortgages described in subparagraph (A). In any case in which the corporation purchases a participation interest in such a mortgage, the limitation shall be calculated with respect to the total original principal obligation of such mortgage described in subparagraph (A) and not merely with respect to the interest purchased by the corporation. Such limitations shall not exceed (i) with respect to mortgages described in subparagraph (A)(i), 50 per centum of the single-family residence mortgage limitation determined under paragraph (2); and (ii) with respect to mortgages described in subparagraph (A)(ii), the applicable limitation determined under paragraph (2).

(C) No subordinate mortgage against a one- to four-family residence shall be purchased by the corporation if the total outstanding indebtedness secured by the property as a result of such mortgage exceeds 80 per centum of the value of such property unless (i) that portion of such total outstanding indebtedness that exceeds such 80 per centum is guaranteed or insured by a qualified insurer as determined by the corporation; (ii) the seller retains a participation of not less than 10 per centum in the mortgage; or (iii) for such period and under such circumstances as the corporation may require, the seller agrees to repurchase or replace the mortgage upon demand of the corporation in the event that the mortgage is in default. The corporation shall not issue a commitment to purchase a subordinate mortgage prior to the date the mortgage is originated, if such mortgage is eligible for purchase under the preceding sentence only by reason of compliance with the requirements of clause (ii) of such sentence.

(6) The corporation may not implement any new program (as such term is defined in section 4502 of this title) before obtaining the approval of the Secretary under section 4542 of this title.

(c) Administration of trusts; obligations of departments and agencies of the United States; exemption of interest income from taxation; authorization of appropriations for differential reimbursements

(1) Notwithstanding any other provision of this chapter or of any other law, the Association is authorized under section 1721 of this title to create, accept, execute, and otherwise administer in all respects such trusts, receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities, hereinafter in this subsection called “trusts’’, as might be appropriate for financing purposes; and in relation thereto the Association may acquire, hold and manage, dispose of, and otherwise deal in any mortgages or other types of obligations in which any department or agency of the United States listed in paragraph (2) of this subsection may have a financial interest. The Association may join in any such undertakings and activities, hereinafter in this subsection called “trusts’’; notwithstanding that it is also serving in a fiduciary or representative capacity; and is authorized to guarantee any participations or other instruments, whether evidence of property rights or debt, issued for such financing purposes. Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission. The amounts of any mortgages and their obligations acquired by the

Association under section 1721 of this title, pursuant to this subsection, shall not be included in the total amounts set forth in section 1721(c) of this title.

(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as provided in this subsection by each of the following departments or agencies:

(A) The Farmers Home Administration of the Department of Agriculture, but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949 (42 U.S.C. 1472 and 1485(a)), nor with respect to loans for nonfarm recreational development.

(B) The Department of Education, but only with respect to loans made by the Secretary of Education for construction of academic facilities, and loans to help finance student loan programs.

(C) The Department of Housing and Urban Development.

(D) The Department of Veterans Affairs.

(E) The Export-Import Bank.

(F) The Small Business Administration.

The head of each such department or agency, hereinafter in this subsection called the "trustor,'' is authorized to set aside a part or all of any obligations held by the trustor and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association shall be named and shall act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust. The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale with recourse of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of the trustor's responsibility to the trustee on beneficial interests or participations outstanding, and to pay the trustor's proper share of the costs and expenses incurred by the Association as trustee pursuant to the trust instrument.

(3) When any trustor guarantees to the trustee the timely payment of obligations the trustor subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, the trustor is authorized to fulfill such guaranty.

(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or

participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (4) of this subsection. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument. In the event that the insufficiency required by the trustee is on account of principal maturities of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (4) of this subsection, or pursuant hereto, the trustee is authorized to elect to issue additional beneficial interests or participations for refinancing purposes in lieu of requiring any trustor or trustors to make payments to the trustee from appropriated funds or other sources. Each such issue of beneficial interests or participations shall be in an amount determined by the trustee but not in excess of the aggregate amount which the trustee would otherwise require the trustor or trustors to pay from appropriated funds or other sources, and may be issued without regard to the provisions of paragraph (4) of this subsection. All refinancing issues of beneficial interests or participations shall be deemed to have been issued pursuant to the authority contained in the appropriation Act or Acts under which the beneficial interests or participations were originally issued.

Section 1718. Capitalization of Federal National Mortgage Association {Section 303}

(a) Common stock; preferred stock; transferability of shares

The corporation shall have common stock, without par value, which shall be vested with all voting rights, each share being entitled to one vote with rights of cumulative voting at all elections of directors. The corporation may eliminate such rights of cumulative voting by a resolution adopted by its board of directors and approved by the holders of a majority of the shares of common stock voting in person or by proxy at the annual meeting, or other special meeting, at which such resolution is considered. The corporation may have preferred stock on such terms and conditions as the board of directors shall prescribe. The free transferability of the stock at all times to any person, firm, corporation, or other entity shall not be restricted except that, as to the corporation, it shall be transferable only on the books of the corporation. The corporation may issue shares of common stock in return for appropriate payments into capital or capital and surplus.

(b) Fees and charges; annual transfer of earnings to general surplus account

(1) The corporation may impose charges or fees, which may be regarded as elements of pricing, with the objective that all costs and expenses of the operations of the corporation should be within its income derived from such operations and that such operations should be fully self-supporting.

(2) All earnings from the operations of the corporation shall annually be transferred to the general surplus account of the corporation. At any time, funds of the general surplus account may, in the discretion of the board of directors, be transferred to reserves.

(c) Capital distributions from general surplus account; minimum capitalization levels

(1) Except as provided in paragraph (2), the corporation may make such capital distributions (as such term is defined in section 4502 of this title) as may be declared by the board of directors. All capital distributions shall be charged against the general surplus account of the corporation.

(2) The corporation may not make any capital distribution that would decrease the total capital of the corporation (as such term is defined in section 4502 of this title) to an amount less than the risk-based capital level for the corporation established under section 4611 of this title or that would decrease the core capital of the corporation (as such term is defined in section 4502 of this title) to an amount less than the minimum capital level for the corporation established under section 4612 of this title, without prior written approval of the distribution by the

Director of the Office of Federal Housing Enterprise Oversight of the Department of Housing and Urban Development.

(d) Institutions eligible to purchase stock

Notwithstanding any other provision of law, any institution, including a national bank or State member bank of the Federal Reserve System or any member of the Federal Deposit Insurance Corporation, trust company, or other banking organization, organized under any law of the United States, including the laws relating to the District of Columbia, shall be authorized to purchase shares of common stock of the corporation and to hold or dispose of such stock, subject to the provisions of this subchapter.

Section 1719. Secondary market operations {Section 304}

(a) Purchase and sale of mortgages; secondary market operations; advance of funds or origination of loans; settlement or extinguishment of borrower's rights

(1) To carry out the purposes set forth in paragraph (a) of section 1716 of this title, the operations of the corporation under this section shall be confined, so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors. In the interest of assuring sound operation, the prices to be paid by the corporation for mortgages purchased in its secondary market operations under this section, should be established, from time to time, within the range of market prices for the particular class of mortgages involved, as determined by the corporation. The volume of the corporation's purchases and sales, and the establishment of the purchase prices, sale prices, and charges or fees, in its secondary market operations under this section, should be determined by the corporation from time to time, and such determinations should be consistent with the objectives that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities, and that the operations of the corporation under this section should be within its income derived from such operations and that such operations should be fully self-supporting. Nothing in this subchapter shall prohibit the corporation from purchasing, and making commitments to purchase, any mortgage with respect to which the Secretary of Housing and Urban Development has entered into a contract with the corporation to make interest subsidy payments under section 1715z-8 of this title.

(2) The volume of the corporation's lending activities and the establishment of its loan ratios, interest rates, maturities, and charges or fees, in its secondary market operations under this section, should be determined by the corporation from time to time; and such determinations, in conjunction with determinations made under paragraph (1), should be consistent with the objectives that the lending activities should be conducted on such terms as will reasonably prevent excessive use of the corporation's facilities, and that the operations of the corporation under this section should be within its income derived from such operations and that such operations should be fully self-supporting. The corporation shall not be permitted to use its lending authority (A) to advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market; or (B) to originate mortgage loans. Notwithstanding any Federal, State, or other law to the contrary, the corporation is empowered, in connection with any loan under this section, whether before or after any default, to provide by contract with the borrower for the settlement or extinguishment, upon default, of any redemption, equitable, legal, or other right, title, or interest of the borrower in any mortgage or mortgages that constitute the security for the loan; and with respect to any such loan, in the event of default and pursuant otherwise to the terms of the contract, the mortgages that constitute such security shall become the absolute property of the corporation.

(b) Obligations of the Corporation

For the purposes of this section, the corporation is authorized to issue, upon the approval of the Secretary of the Treasury, and have outstanding at any one time obligations having such maturities and bearing such rate or rates of interest as may be determined by the corporation with the approval of the Secretary of the Treasury, to be redeemable at the option of the corporation before maturity in such manner as may be stipulated in such obligations. The corporation shall insert appropriate language in all of its obligations issued under this subsection clearly indicating that such obligations, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof other than the corporation. The corporation is authorized to purchase in the open market any of its obligations outstanding under this subsection at any time and at any price.

(c) Purchase of obligations by Treasury; conditions and restrictions

The Secretary of the Treasury is authorized in the Secretary's discretion to purchase any obligations issued pursuant to subsection (b) of this section, as now or hereafter in force, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under chapter 31 of title 31, and the purposes for which securities may be issued under chapter 31 of title 31 are extended to include such purchases. The Secretary of the Treasury shall not at any time purchase any obligations under this subsection if such purchase would increase the aggregate principal amount of the Secretary's then outstanding holdings of such obligations under this subsection to an amount greater than $2,250,000,000. Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the making of such purchase. The Secretary of the Treasury may, at any time, sell, upon such terms and conditions and at such price or prices as the Secretary shall determine, any of the obligations acquired by the Secretary under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations under this subsection shall be treated as public debt transactions of the United States.

(d) Mortgage-backed securities; issuance; maturities; rates of interest; exempt securities; adequacy of mortgages to permit principal and interest payments; statement in securities

To provide a greater degree of liquidity to the mortgage investment market and an additional means of financing its operations under this section, the corporation is authorized to set aside any mortgages held by it under this section, and, upon approval of the Secretary of the Treasury, to issue and sell securities based upon the mortgages so set aside. Securities issued under this subsection may be in the form of debt obligations or trust certificates of beneficial interest, or both. Securities issued under this subsection shall have such maturities and bear such rate or rates of interest as may be determined by the corporation with the approval of the Secretary of the Treasury. Securities issued by the corporation under this subsection shall, to the same extent as securities which are direct obligations of or obligations guaranteed as to principal and interest by the United States, be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission. Mortgages set aside pursuant to this subsection shall at all times be adequate to enable the corporation to make timely principal and interest payments on the securities issued and sold pursuant to this subsection. The corporation shall insert appropriate language in all of the securities issued under this subsection clearly indicating that such securities, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof other than the corporation.

(e) Subordinated or convertible obligations; issuance; maturities; rate of interest; redemption; exempt securities; debt or obligation of United States; purchases in open market

For the purposes of this section, the corporation is authorized to issue, upon the approval of the Secretary of the Treasury, obligations which are subordinated to any or all other obligations of the corporation, including subsequent obligations. The obligations issued under this subsection shall have such maturities and bear such rate or rates of interest as may be determined by the corporation with the approval of the Secretary of the Treasury and may be made redeemable at the option of the corporation before maturity in such manner as may be stipulated in such obligations. Any of such obligations may be made convertible into shares of common stock in such manner, at such price or prices, and at such time or times as may be stipulated therein. Obligations issued by the corporation under this subsection shall, to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States, be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission. The corporation shall insert appropriate language in all of its obligations issued under this subsection clearly indicating that such obligations, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the corporation. The corporation is authorized to purchase in the open market any of its obligations outstanding under this subsection at any time and at any price.

(f) Prohibition on assessment or collection of fee or charge by United States

Except for fees paid pursuant to section 1723a(g) of this title and assessments pursuant to section 4516 of this title, no fee or charge may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to the purchase, acquisition, sale, pledge, issuance, guarantee, or redemption of any mortgage, asset, obligation, trust certificate of beneficial interest, or other security by the corporation. No provision of this subsection shall affect the purchase of any obligation by the Secretary of the Treasury pursuant to subsection (c) of this section.

Section 1720. Repealed {Section 305}

Section 1721. Management and liquidation functions of Government National Mortgage Association {Section 306}

(a) Separate accountability of assets and liabilities

To carry out the purposes set forth in paragraph (c) of section 1716 of this title, the Association is authorized and directed, as of the close of the cutoff date determined by the Association pursuant to section 1718(d) of this title, to establish separate accountability for all of its assets and liabilities (exclusive of capital, surplus, surplus reserves, and undistributed earnings to be evidenced by preferred stock as provided in section 1718(d) of this title, but inclusive of all rights and obligations under any outstanding contracts), and to maintain such separate accountability for the management and orderly liquidation of such assets and liabilities as provided in this section.

(b) Issuance of obligations to expedite substitution of private financing

For the purposes of this section and to assure that, to the maximum extent, and as rapidly as possible, private financing will be substituted for Treasury borrowings otherwise required to carry mortgages held under the aforesaid separate accountability, the Association is authorized to issue, upon the approval of the Secretary of the Treasury, and have outstanding at any one time obligations having such maturities and bearing such rate or rates of interest as may be determined by the Association with the approval of the Secretary of the Treasury, to be redeemable at the option of the Association before maturity in such manner as may be stipulated in such obligations; but in no event shall any such obligations be issued if, at the time of such proposed issuance, and as a consequence thereof, the resulting aggregate amount of its outstanding obligations under this subsection would exceed the amount of the Association's ownership under the aforesaid separate accountability, free from any liens or encumbrances, of cash, mortgages, and obligations of the United States or guaranteed hereby, or obligations, participations, or other instruments which re lawful investments for fiduciary, trust or public funds. The proceeds of any private financing effected under this subsection shall be paid to the Secretary of the Treasury in reduction of the indebtedness of the Association to the Secretary of the Treasury under the aforesaid separate accountability. The Association shall insert appropriate language in all of its obligations issued under this subsection clearly indicating that such obligations, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the Association. The Association is authorized to purchase in the open market any of its obligations outstanding under this subsection at any time and at any price.

(c) Cutoff date as controlling purchases; total amount of mortgages and commitments

No mortgage shall be purchased by the Association in its operations under this section except pursuant to and in accordance with the terms of a contract or commitment to purchase the same made prior to the cutoff date provided for in section 1718(d) of this title, which contract or commitment became a part of the aforesaid separate accountability, and the total amount of mortgages and commitments held by the Association under this section shall not, in any event, exceed $3,350,000,000: Provided, that such maximum amount shall be progressively reduced by the amount of cash realizations on account of principal of mortgages held under the aforesaid separate accountability and by cancellation of any commitments to purchase mortgages thereunder, as reflected by the books of the Association, with the objective that the entire aforesaid maximum amount shall be eliminated with the orderly liquidation of all mortgages held under the aforesaid separate accountability: And provided further, That nothing in this subsection shall preclude the Association from granting such usual and customary increases in the amounts of outstanding commitments (resulting from increased costs or otherwise) as have theretofore been covered by like increases in commitments granted by the agencies of the Federal Government insuring or guaranteeing the mortgages. There shall be excluded from the total amounts set forth in this subsection the amounts of any mortgages which, subsequent to May 31, 1954, are transferred by law to the Association and held under the aforesaid separate accountability.

(d) Issuance of obligations sufficient to carry out functions; character; purchase

The Association may issue to the Secretary of the Treasury its obligations in an amount outstanding at any one time sufficient to enable the Association to carry out its functions under this section, such obligations to mature not more than five years from their respective dates of issue, to be redeemable at the option of the Association before maturity in such manner as may be stipulated in such obligations. Each such obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the obligation of the Association. The Secretary of the Treasury is authorized to purchase any obligations of the Association to be issued under this section, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under chapter 31 of title 31, and the purposes for which securities may be issued under chapter 31 of title 31 are extended to include any purchases of the Association's obligations hereunder.

(e) Acquisition of mortgages offered by Secretary of Housing and Urban Development

Notwithstanding any other provision of law, the Association is authorized, under the aforesaid separate accountability, to make commitments to purchase, and to purchase, service, or sell any obligations offered to it by the Secretary of Housing and Urban Development, or any mortgages covering residential property offered to it by any Federal instrumentality, or the head thereof. These shall be excluded from the total amounts set forth in subsection (c) of this section the amounts of any obligations or mortgages purchased by the Association pursuant to this subsection.

(f) Transfer of funds

Notwithstanding any of the provisions of this chapter or of any other law, an amount equal to the net decrease for the preceding fiscal year in the aggregate principal amount of all mortgages owned by the Association under this section shall, as of July 1 of each of the years 1961 through 1964, be transferred to and merged with the authority provided under section 1720(a) of this title, and the amount of such authority as specified in section 1720(c) of this title shall be increased by any amounts so transferred.

(g) Guarantee of principal and interest on trust certificates and other securities; fees and charges; subrogation; contract for extinguishment of right, title, or interest in mortgages; protection of interests; full faith and credit; commitments limited; limitation on fees or charges

(1) The Association is authorized, upon such terms and conditions as it may deem appropriate, to guarantee the timely payment of principal of and interest on such trust certificates or other securities as shall (i) be issued by the corporation under section 1719(d) of this title, or by any other issuer approved for the purposes of this subsection by the Association, and (ii) be based on and backed by a trust or pool composed of mortgages which are insured under this chapter or title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.), or which are insured or guaranteed under the Servicemen's Readjustment Act of 1944 or chapter 37 of title 38, or which are guaranteed under title XIII of the Public Health Service Act (42 U.S.C. 300e et seq.); or guaranteed under section 1715z-13a of this title. The Association shall collect from the issuer a reasonable fee for any guaranty under this subsection and shall make such charges as it may determine to be reasonable for the analysis of any trust or other security arrangement proposed by the issuer. In the event the issuer is unable to make any payment of principal of or interest on any security guaranteed under this subsection, the Association shall make such payment as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment. In any case in which (I) Federal law requires the reduction of the interest rate on any mortgage backing a security guaranteed under this subsection, (II) the mortgagor under the mortgage is a person in the military service, and (III) the issuer of such security fails to receive from the mortgagor the full amount of interest payment due, the Association may make payments of interest on the security in amounts not exceeding the difference between the amount payable under the interest rate on the mortgage and the amount of interest actually paid by the mortgagor. The Association is hereby empowered, in connection with any guaranty under this subsection, whether before or after any default, to provide by contract with the issuer for the extinguishment, upon default by the issuer, of any redemption, equitable, legal, or other right, title, or interest of the issuer in any mortgage or mortgages constituting the trust or pool against which the guaranteed securities are issued; and with respect to any issue of guaranteed securities, in the event of default and pursuant otherwise to the terms of the contract, the mortgages that constitute such trust or pool shall become the absolute property of the Association subject only to the unsatisfied rights of the holders of the securities based on and backed by such trust or pool. No State or local law, and no Federal law (except Federal law enacted expressly in limitation of this subsection after October 8, 1980), shall preclude or limit the exercise by the Association of (A) its power to contract with the issuer on the terms stated in the preceding sentence, (B) its rights to enforce any such contract with the issuer, or (C) its ownership rights, as provided in the preceding sentence, in the mortgages constituting the trust or pool against which the guaranteed securities are issued. The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection. There shall be excluded from the total amounts set forth in subsection (c) of this section the amounts of any mortgages acquired by the Association as a result of its operations under this subsection.

(2) Notwithstanding any other provision of law and subject only to the absence of qualified requests for guarantees, to the authority provided in this subsection, and to the extent of or in such amounts as any funding limitation approved in appropriation Acts, the Association shall enter into commitments to issue guarantees under this subsection in an aggregate amount of $110,000,000,000 during fiscal year 1996. There are authorized to be appropriated to cover the costs (as such term is defined in section 661a of title 2) of guarantees issued under this chapter by the Association such sums as may be necessary for fiscal year 1996.

(3) (A) No fee or charge in excess of 6 basis points may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to any guaranty of the timely payment of principal or interest on securities or notes based on or backed by mortgages that are secured by 1- to 4-family dwellings and (i) insured by the Federal Housing Administration under subchapter II of this chapter; or (ii) insured or guaranteed under the Serviceman's Readjustment Act of 1944, chapter 37 of title 38, or title V of the Housing Act of 1949 (42 U.S.C. 1471 et seq.).

(B) The fees charged for the guaranty of securities or on notes based on or backed by mortgages not referred to in subparagraph (A), as authorized by other provisions of law, shall be set by the Association at a level not more than necessary to create reserves sufficient to meet anticipated claims based upon actuarial analysis, and for no other purpose.

(C) Fees or charges for the issuance of commitments or miscellaneous administrative fees of the Association shall not be on a competitive auction basis and shall remain at the level set for such fees or charges as of September 1, 1985, except that such fees or charges may be increased if reasonably related to the cost of administering the program, and for no other purpose.

(D) Not less than 90 days before increasing any fee or charge under subparagraph (B) or (C), the Secretary shall submit to the Congress a certification that such increase is solely for the purpose specified in such subparagraph.

(E)

(i) Notwithstanding subparagraphs (A) through (D), fees charged for the guarantee of, or commitment to guarantee, multiclass securities backed by a trust or pool of securities or notes guaranteed by the Association under this subsection, and other related fees shall be charged by the Association in an amount the Association deems appropriate. The Association shall take such action as may be necessary to reasonably assure that such portion of the benefit, resulting from the Association's multiclass securities program, as the Association determines is appropriate accrues to mortgagors who execute eligible mortgages after August 10, 1993.

(ii) The Association shall provide for the initial implementation of the program for which fees are charged under the first sentence of clause (i) by notice published in the Federal Register. The notice shall be effective upon publication and shall provide an opportunity for public comment. Not later than 12 months after publication of the notice, the Association shall issue regulations for such program based on the notice, comments received, and the experience of the Association in carrying out the program during such period.

(iii) The Association shall consult with persons or entities in such manner as the Association deems appropriate to ensure the efficient commencement and operation of the multiclass securities program.

(iv) No State or local law, and no Federal law (except Federal law enacted expressly in limitation of this clause after August 10, 1993) shall preclude or limit the exercise by the Association of its power to contract with persons or entities, and its rights to enforce such contracts, for the purpose of ensuring the efficient commencement and continued operation of the multiclass securities program.

Section 1722. Benefits and burdens incident to administration of functions and operations under sections 1720 and 1721 {Section 307}

All of the benefits and burdens incident to the administration of the functions and operations of the Association under sections 1720 and 1721, respectively, of this title, after allowance for related obligations of the Association, its prorated expenses, and the like, including amounts required for the establishment of such reserves as the Secretary of Housing and Urban Development shall deem appropriate, shall inure solely to the Secretary of the Treasury, and such related earnings or other amounts as become available shall be paid annually by the Association to the Secretary of the Treasury for covering into miscellaneous receipts.

Section 1723. Management {Section 308}

(a) Government National Mortgage Association

All the powers and duties of the Government National Mortgage Association shall be vested in the Secretary of Housing and Urban Development and the Association shall be administered under the direction of the Secretary. Within the limitations of law, the Secretary shall determine the general policies which shall govern the operations of the Association, and shall have power to adopt, amend, and repeal bylaws governing the performance of the powers and duties granted to or imposed upon it by law. There is hereby established in the Department of Housing and Urban Development the position of President, Government National Mortgage Association, who shall be appointed by the President, by and with the advice and consent of the Senate. The Secretary shall select and effect the appointment of qualified persons to fill the offices of vice president, and such other offices as may be provided for in the bylaws. Persons appointed under the preceding sentence shall perform such executive functions, powers, and duties as may be prescribed by the bylaws or by the Secretary, and such persons shall be executive officers of the Association and shall discharge all such executive functions, powers, and duties.

(b) Federal National Mortgage Association

The Federal National Mortgage Association shall have a board of directors, which shall consist of eighteen persons, five of whom shall be appointed annually by the President of the United States, and the remainder of whom shall be elected annually by the common stockholders. The board shall at all times have as members appointed by the President at least one person from the homebuilding industry, at least one person from the mortgage lending industry, at least one person from the real estate industry, and at least one person from an organization that has represented consumer or community interests for not less than 2 years or one person who has demonstrated a career commitment to the provision of housing for low-income households. Each member of the board of directors shall be appointed or elected for a term ending on the date of the next annual meeting of the stockholders, except that any such appointed member may be removed from office by the President for good cause. Any elective seat on the board which becomes vacant after the annual election of the directors shall be filled by the board, but only for the unexpired portion of the term. Any appointive seat which becomes vacant shall be filled by appointment of the President, but only for the unexpired portion of the term. Within the limitations of law and regulation, the board shall determine the general policies which shall govern the operations of the corporation, and shall have power to adopt, amend, and repeal bylaws governing the performance of the powers and duties granted to or imposed upon it by law. The board of directors shall select and effect the appointment of qualified persons to fill the offices of president and vice president, and such other offices as may be provided for in the bylaws. Any member of the board who is a full-time officer or employee of the Federal Government shall not, as such member, receive compensation for his services.

Section 1723a. General powers of Government National Mortgage Association and Federal National Mortgage Association {Section 309}

(a) Seal, and other matters incident to operation

Each of the bodies corporate named in section 1717(a)(2) of this title shall have power to adopt, alter, and use a corporate seal, which shall be judicially noticed; to enter into and perform contracts, leases, cooperative agreements, or other transactions, on such terms as it may deem appropriate, with any agency or instrumentality of the United States, or with any State, Territory, or possession, or the Commonwealth of Puerto Rico, or with any political subdivision thereof, or with any person, firm, association, or corporation; to execute, in accordance with its bylaws, all instruments necessary or appropriate in the exercise of any of its powers; in its corporate name, to sue and to be sued, and to complain and to defend, in any court of competent jurisdiction, State or Federal, but no attachment, injunction, or other similar process, mesne or final, shall be issued against the property of the Association or against the Association with respect to its property; to conduct its business without regard to any qualification or similar statute in any State of the United States, including the District of Columbia, the Commonwealth of Puerto Rico, and the Territories and possessions of the United States; to lease, purchase, or acquire any property, real, personal, or mixed, or any interest therein, to hold, rent, maintain, modernize, renovate, improve, use, and operate such property, and to sell, for cash or credit, lease, or otherwise dispose of the same, at such time and in such manner as and to the extent that it may deem necessary or appropriate; to prescribe, repeal, and amend or modify, rules, regulations, or requirements governing the manner in which its general business may be conducted; to accept gifts or donations of services, or of property, real, personal, or mixed, tangible, or intangible, in aid of any of its purposes; and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

(b) Determination with respect to obligations and expenditures

Except as may be otherwise provided in this subchapter, in chapter 91 of title 31, or in other laws specifically applicable to Government corporations, the Association shall determine the necessity for and the character and amount of its obligations and expenditures and the manner in which they shall be incurred, allowed, paid, and accounted for.

(c) Exemption from taxation

(1) The Association, including its franchise, capital, reserves, surplus, mortgages or other security holdings, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Association shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

(2) The corporation, including its franchise, capital, reserves, surplus, mortgages or other security holdings, and income, shall be exempt from all taxation now or hereafter imposed by any State, territory, possession, Commonwealth, or dependency of the United States, or by the District of Columbia, or by any county, municipality, or local taxing authority, except that any real property of the corporation shall be subject to State, territorial, county, municipal, or local taxation to the same extent as other real property is taxed.

(d) Appointment and compensation of personnel; use of services of other agencies

(1) Subject to the provisions of section 1723(a) of this title, the Secretary of Housing and Urban Development shall have power to select and appoint or employ such officers, attorneys, employees, and agents of the Association, to vest them with such powers and duties, and to fix and to cause the Association to pay such compensation to them for their services, as he may determine, subject to the civil service and classification laws. With the consent of any Government corporation or Federal Reserve bank, or of any board, commission, independent establishment, or executive department of the Government, the Association may avail itself on a reimbursable basis of the use of information, services, facilities, officers, and employees thereof, including any field service thereof, in carrying out the provisions of the subchapter.

(2) The board of directors of the corporation shall have the power to select and appoint or employ such officers, attorneys, employees, and agents, to vest them with such powers and duties, and to fix and to cause the corporation to pay such compensation to them for their services, as the board of directors determines reasonable and 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, except that a significant portion of potential compensation of all executive officers (as such term is defined in paragraph (3)(C)) of the corporation shall be based on the performance of the corporation; and any such action shall be without regard to the Federal civil service and classification laws. Appointments, promotions, and separations so made shall be based on merit and efficiency, and no political tests or qualifications shall be permitted or given consideration. Each officer and employee of the corporation who is employed by the corporation prior to January 31, 1972, and who on the day previous to the beginning of such employment will have been subject to the civil service retirement law (subch. III of ch. 83 of title 5) shall, so long as the employment of such officer or employee by the corporation continues without a break in continuity of service, continue to be subject to such law; and for the purpose of such law the employment of such officer or employee by the corporation without a break in continuity of service shall be deemed to be employment by the Government of the United States. The corporation shall contribute to

the Civil Service Retirement and Disability Fund a sum as provided by section 8334(a) of title 5, except that such sum shall be determined by applying to the total basic pay (as defined in section 8331(3) of title 5 and except as hereinafter provided) paid to the employees of the corporation who are covered by the civil service retirement law, the per centum rate determined annually by the Director of the Office of Personnel Management to be the excess of the total normal cost per centum rate of the civil service retirement system over the employee deduction rate specified in section 8334(a) of title 5. The corporation shall also pay into the Civil Service Retirement and Disability Fund such portion of the cost of administration of the fund as is determined by the Director of the Office of Personnel Management to be attributable to its employees. Notwithstanding the foregoing provisions, there shall not be considered for the purposes of the civil service retirement law that portion of the basic pay in any one year of any officer or employee of the corporation which exceeds the basic pay provided for positions listed in section 5312 of title 5 on the last day of such year: Provided, That with respect to any person whose employment is made subject to the civil service retirement law by section 806 of the Housing and Community Development Act of 1974, there shall not be considered for the purposes of such law that portion of the basic pay of such person in any one year which exceeds the basic pay provided for positions listed in section 5316 of such title 5 on the last day of such year. Except as provided in this subsection , the corporation shall not be subject to the provisions of title 5.

(3) (A) Not later than June 30, 1993, and annually thereafter, the corporation shall submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate 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 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 corporation's proxy statement for the annual meeting of shareholders for the preceding year.

(B) Notwithstanding the first sentence of paragraph (2), after October 28, 1992, the corporation may not enter into any agreement or contract to provide any payment of money or other thing of current or potential value in connection with the termination of employment of any executive officer of the corporation, unless such agreement or contract is approved in advance by the Director of the Office of Federal Housing Enterprise Oversight of the Department of Housing and Urban Development. The Director may not approve any such agreement or contract unless the Director determines that the benefits provided under the agreement or contract are comparable to benefits under such agreements for officers of other public and private entities involved in financial services and housing interests who have comparable duties and responsibilities. For purposes of this subparagraph, any renegotiation, amendment, or change after October 28, 1992, to any such agreement or contract entered into on or before October 28, 1992, shall be considered entering into an agreement or contract.

(C) For purposes of this paragraph, the term "executive officer'' has the meaning given the term in section 1303 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4502).

(e) Prohibition against use of names; injunction; damages

No individual, association, partnership, or corporation, except the bodies corporate named in section 1717(a)(2) of this title, shall hereafter use the words "Federal National Mortgage Association,'' "Government National Mortgage Association,'' or any combination of such words, as the name or a part thereof under which the individual, association, partnership, or corporation shall do business. Violations of the foregoing sentence may be enjoined by any court of general jurisdiction at the suit of the proper body corporate. In any such suit, the plaintiff may recover any actual damages flowing from such violation, and, in addition, shall be entitled to punitive damages (regardless of the existence or nonexistence of actual damages) of not exceeding $100 for each day during which such violation is committed or repeated.

(f) Preparation of forms of obligations and certificates

In order that the Association may be supplied with such forms of obligations or certificates as it may need for issuance under this subchapter, the Secretary of the Treasury is authorized, upon request of the Association, to prepare such forms as shall be suitable and approved by the Association, to be held in the Treasury subject to delivery, upon order of the Association. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Association shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such forms.

(g) Depositaries, custodians, and fiscal agents

The Federal Reserve banks are authorized and directed to act as depositaries, custodians, and fiscal agents for each of the bodies corporate named in section 1717(a)(2) of this title, for its own account or as fiduciary, and such banks shall be reimbursed for such services in such manner as may be agreed upon; and each of such bodies corporate may itself act in such capacities, for its own account or as fiduciary, and for the account of others.

(h) Repealed.

(i) Repealed.

(j) Audit; access to books, etc.; report of audit

(1) The programs, activities, receipts, expenditures, and financial transactions of the corporation shall be subject to audit by the Comptroller General of the United States under such rules and regulations as may be prescribed by the Comptroller General. The representatives of the General Accounting Office shall have access to such books, accounts, financial records, reports, files, and such other papers, things, or property belonging to or in use by the corporation and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositories, fiscal agents, and custodians. A report on each such audit shall be made by the Comptroller General to the Congress. The corporation shall reimburse the General Accounting Office for the full cost of any such audit as billed therefor by the Comptroller General.

(2) To carry out this subsection, the representatives of the General Accounting Office shall have access, upon request to the corporation or any auditor for an audit of the corporation under subsection (l) of this section, to any books, accounts, financial records, reports, files, or other papers, things, or property belonging to or in use by the corporation and used in any such audit and to any papers, records, files, and reports of the auditor used in such an audit.

(k) Financial reports; submission to Director; contents

(1) The corporation shall submit to the Director of the Office of Federal Housing Enterprise Oversight of the Department of Housing and Urban Development annual and quarterly reports of the financial condition and operations of the corporation which shall be in such form, contain such information, and be submitted on such dates as the Director shall require.

(2) Each such annual report shall include -

(A) financial statements prepared in accordance with generally accepted accounting principles;

(B) any supplemental information or alternative presentation that the Director may require; and

(C) an assessment (as of the end of the corporation's most recent fiscal year), signed by the chief executive officer and chief accounting or financial officer of the corporation, of –

(i) the effectiveness of the internal control structure and procedures of the corporation; and

(ii) the compliance of the corporation with designated safety and soundness laws.

(3) The corporation shall also submit to the Director any other reports required by the Director pursuant to section 1314 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4514).

(4) Each report of financial condition shall contain a declaration by the president, vice president, treasurer, or any other officer designated by the board of directors of the corporation to make such declaration, that the report is true and correct to the best of such officer's knowledge and belief.

(l) Independent audits of financial statements

(1) The corporation shall have an annual independent audit made of its financial statements by an independent public accountant in accordance with generally accepted auditing standards.

(2) In conducting an audit under this subsection, the independent public accountant shall determine and report on whether the financial statements of the corporation (A) are presented fairly in accordance with generally accepted accounting principles, and (B) to the extent determined necessary by the Director, comply with any disclosure requirements imposed under subsection (k)(2)(B) of this section.

(m) Mortgage data collection and reporting requirements

(1) The corporation shall collect, maintain, and provide to the Secretary, in a form determined by the Secretary, data relating to its mortgages on housing consisting of 1 to 4 dwelling units. Such data shall include –

(A) the income, census tract location, race, and gender of mortgagors under such mortgages;

(B) the loan-to-value ratios of purchased mortgages at the time of origination;

(C) whether a particular mortgage purchased is newly originated or seasoned;

(D) the number of units in the housing subject to the mortgage and whether the units are owner-occupied; and

(E) any other characteristics that the Secretary considers appropriate, to the extent practicable.

(2) The corporation shall collect, maintain, and provide to the Secretary, in a form determined by the Secretary, data relating to its mortgages on housing consisting of more than 4 dwelling units. Such data shall include –

(A) census tract location of the housing;

(B) income levels and characteristics of tenants of the housing (to the extent practicable);

(C) rent levels for units in the housing;

(D) mortgage characteristics (such as the number of units financed per mortgage and the amount of loans);

(E) mortgagor characteristics (such as nonprofit, for-profit, limited equity cooperatives);

(F) use of funds (such as new construction, rehabilitation, refinancing);

(G) type of originating institution; and

(H) any other information that the Secretary considers appropriate, to the extent practicable.

(3) (A) Except as provided in subparagraph (B), this subsection shall apply only to mortgages purchased by the corporation after December 31, 1992

(B) This subsection shall apply to any mortgage purchased by the corporation after the date determined under subparagraph (A) if the mortgage was originated before such date, but only to the extent that the data referred in paragraph (1) or (2), as applicable, is available to the corporation.

(n) Report on housing activities; contents; public disclosure

(1) The corporation shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives, the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Secretary a report on its activities under subpart B of part 2 of subtitle A of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4561 et seq.).

(2) The report under this subsection shall -

(A) include, in aggregate form and by appropriate category, statements of the dollar volume and number of mortgages on owner-occupied and rental properties purchased which relate to each of the annual housing goals established under such subpart;

(B) include, in aggregate form and by appropriate category, statements of the number of families served by the corporation, the income class, race, and gender of homebuyers served, the income class of tenants of rental housing (to the extent such information is available), the characteristics of the census tracts, and the geographic distribution of the housing financed;

(C) include a statement of the extent to which the mortgages purchased by the corporation have been used in conjunction with public subsidy programs under Federal law;

(D) include statements of the proportion of mortgages on housing consisting of 1 to 4 dwelling units purchased by the corporation that have been made to first-time homebuyers, as soon as providing such data is practicable, and identifying any special programs (or revisions to conventional practices) facilitating homeownership opportunities for first-time homebuyers;

(E) include, in aggregate form and by appropriate category, the data provided to the Secretary under subsection (m)(1)(B) of this section;

(F) compare the level of securitization versus portfolio activity;

(G) assess underwriting standards, business practices, repurchase requirements, pricing, fees, and procedures, that affect the purchase of mortgages for low- and moderate-income families, or that may yield disparate results based on the race of the borrower, including revisions thereto to promote affordable housing or fair lending;

(H) describe trends in both the primary and secondary multifamily housing mortgage markets, including a description of the progress made, and any factors impeding progress toward standardization and securitization of mortgage products for multifamily housing;

(I) describe trends in the delinquency and default rates of mortgages secured by housing for low- and moderate-income families that have been purchased by the corporation, including a comparison of such trends with delinquency and default information for mortgage products serving households with incomes above the median level that have been purchased by the corporation, and evaluate the impact of such trends on the standards and levels of risk of mortgage products serving low- and moderate-income families;

(J) describe in the aggregate the seller and servicer network of the corporation, including the volume of mortgages purchased from minority-owned, women-owned, and community-oriented lenders, and any efforts to facilitate relationships with such lenders;

(K) describe the activities undertaken by the corporation with nonprofit and for-profit organizations and with State and local governments and housing finance agencies, including how the corporation’s activities support the objectives of comprehensive housing affordability strategies under section 12705 of title 42; and

(L) include any other information that the Secretary considers appropriate.

(3) (A) The corporation shall make each report under this subsection available to the public at the principal and regional offices of the corporation.

(B) Before making a report under this subsection available to the public, the corporation may exclude from the report information that the Secretary has determined is proprietary information under section 1326 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4546).

(o) Affordable Housing Advisory Council

(1) Not later than 4 months after October 28, 1992, the corporation shall appoint an Affordable Housing Advisory Council to advise the corporation regarding possible methods for promoting affordable housing for low- and moderate-income families.

(2) The Affordable Housing Advisory Council shall consist of 15 individuals, who shall include representatives of community-based and other nonprofit and for-profit organizations and State and local government agencies actively engaged in the promotion, development, or financing of housing for low- and moderate-income families.

Section 1723b. Investment of funds {Section 310}

Moneys of the Association not invested in mortgages or other security holdings or in operating facilities shall be kept in cash on hand or on deposit, or invested in obligations of the United States or guaranteed thereby, or in obligations, participations, or other instruments which are lawful investments for fiduciary, trust, or public funds.

Section 1723c. Obligations, participations, or other instruments as lawful investments; acceptance as security; exempt securities {Section 311}

All obligations, participations, or other instruments issued by either of the bodies corporate named in section 1717(a)(2) of this title shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority and control of the United States or any officer or officers thereof. All stock, obligations, securities, participations, or other instruments issued pursuant to this subchapter shall, to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States, be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission.

Section 1723d. Transfer of certain functions to Association {Section 312}

The functions of the Housing and Home Finance Administrator (including the function of making payments to the Secretary of the Treasury) under section 2 of Reorganization Plan Numbered 22 of 1950, together with the notes and capital stock of the Federal National Mortgage Association held by said Administrator thereunder, are transferred to the Federal National Mortgage Association.

Section 1723e. Repealed {Section 313}

Section 1723f. Repealed {Section 314}

Section 1723g. Repealed {Section 315}

Section 1723h. Repealed {Section 316}

Section 1723i. Civil money penalties against issuers {Section 317}

(a) In general

(1) Whenever an issuer or custodian approved under section 1721(g) of this title knowingly and materially violates any provisions of subsection (b) of this section, the Secretary of Housing and Urban Development may impose a civil money penalty on the issuer or the custodian in accordance with the provisions of this section. The penalty shall be in addition to any other available civil remedy or any available criminal penalty and may be imposed whether or not the Secretary imposes other administrative sanctions.

(2) The amount of the penalty, as determined by the Secretary, may not exceed $5,000 for each violation, except that the maximum penalty for all violations by a particular issuer or custodian during any one-year period shall not exceed $1,000,000. Each violation of a provision of subsection (b)(1) of this section shall constitute a separate violation with respect to each pool of mortgages. In the case of a continuing violation, as determined by the Secretary, each day shall constitute a separate violation.

(b) Violations for which penalty may be imposed

(1) The violations by an issuer or a custodian for which the Secretary may impose a civil money penalty under subsection (a) of this section are the following:

(A) Failure to make timely payments of principal and interest to holders of securities guaranteed under section 1721(g) of this title.

(B) Failure to segregate cash flow from pooled mortgages or to deposit either principal and interest funds or escrow funds into special accounts with a depository institution whose accounts are insured by the National Credit Union Administration or by the Federal Deposit Insurance Corporation through the Bank Insurance Fund for banks or through the Savings Association Insurance Fund for savings associations.

(C) Use of escrow funds for any purpose other than that for which they were received.

(D) Transfer of servicing for a pool of mortgages to an issuer not approved under this subchapter, unless expressly permitted by statute, regulation, or contract approved by the Secretary.

(E) Failure to maintain a minimum net worth in accordance with requirements prescribed by the Association;

(F) Failure to promptly notify the Association in writing of any changes that materially affect the business status of an issuer.

(G) Submission to the Association of false information in connection with any securities guaranteed, or mortgages pooled, under section 1721(g) of this title.

(H) Hiring, or retaining in employment, an officer, director, principal, or employee whose duties involve, directly or indirectly, programs administered by the Association while such person was under suspension or debarment by the Secretary.

(I) Submission to the Association of a false certification either on its own behalf or on behalf of another person or entity.

(J) Failure to comply with an agreement, certification, or condition of approval set forth on, or applicable to, the application for approval as an issuer of securities under section 1721(g) of this title.

(K) Violation of any provisions of this subchapter or any implementing regulation, handbook, or participant letter issued under authority of this subchapter.

(2) Before taking action to impose a civil money penalty for a violation under paragraph (1)(G) or paragraph (1)(I), the Secretary shall inform the Attorney General of the United States.

(c) Agency procedures

(1) The Secretary shall establish standards and procedures governing the imposition of civil money penalties under subsection (a) of this section. The standards and procedures –

(A) shall provide for the Secretary to make the determination to impose the penalty;

(B) shall provide for the imposition of a penalty only after an issuer or a custodian has been given notice of, and opportunity for, a hearing on the record; and

(C) may provide for review by the Secretary of any determination or order, or interlocutory ruling, arising from a hearing.

(2) If no hearing is requested within 15 days of receipt of a notice of opportunity for hearing, the imposition of a penalty shall constitute a final and unappealable determination. If the Secretary reviews the determination or order, the Secretary may affirm, modify, or reverse that determination or order. If the Secretary does not review the determination or order within 90 days of the issuance of the determination or order, the determination or order shall be final.

(3) In determining the amount of a penalty under subsection (a) of this section, consideration shall be given to such factors as the gravity of the offense, any history of prior offenses (including offenses occurring before December 15, 1989), ability to pay the penalty, injury to the public, benefits received, deterrence of future violations, and such other factors as the Secretary may determine by regulations.

(4) The Secretary's determination or order imposing a penalty under subsection (a) of this section shall not be subject to review, except as provided in subsection (d) of this section.

(d) Judicial review of agency determination

(1) After exhausting all administrative remedies established by the Secretary under subsection (c)(1) of this section, an issuer or a custodian against which the Secretary has imposed a civil money penalty under subsection (a) of this section may obtain a review of the penalty and such ancillary issues as may be addressed in the notice provided under subsection (c)(1)(A) of this section in the appropriate court of appeals of the United States, by filing in such court, within 20 days after the entry of such order or determination, a written petition praying that the Secretary's order or determination be modified or be set aside in whole or in part.

(2) A court shall not consider any objection that was not raised in the hearing conducted pursuant to subsection (c)(1) of this section unless a demonstration is made of extraordinary circumstances causing the failure to raise the objection. If any party demonstrates to the satisfaction of the court that additional evidence, which was not presented at such hearing, is material and that there were reasonable grounds for the failure to present such evidence at the hearing, the court shall remand the matter to the Secretary for consideration of such additional evidence.

(3) The decisions, findings, and determinations of the Secretary shall be reviewed pursuant to section 706 of title 5.

(4) Notwithstanding any other provision of law, the court shall have the power in any such review to order payment of the penalty imposed by the Secretary.

(e) Action to collect penalty

If any issuer or custodian fails to comply with the Secretary's determination or order imposing a civil money penalty under subsection (a) of this section, after the determination or order is no longer subject to review as provided by subsections (c)(1) and (d) of this section, the Secretary may request the Attorney General of the United States to bring an action in an appropriate United States district court to obtain a monetary judgment against the issuer or custodian and such other relief as may be available. The monetary judgment may, in the discretion of the court, include any attorneys fees and other expenses incurred by the United States in connection with the action. In an action under this subsection, the validity and appropriateness of the Secretary's determination or order imposing the penalty shall not be subject to review.

(f) Settlement by Secretary

The Secretary may compromise, modify, or remit any civil money penalty which may be, or has been, imposed under this section.

(g) "Knowingly'' defined

The term “knowingly’’ means having actual knowledge of or acting with deliberate ignorance of or reckless disregard for the prohibitions under this section.

(h) Regulations

The Secretary shall issue such regulations as the Secretary deems appropriate to implement this section.

(i) Deposit of penalties

The Secretary shall deposit all civil money penalties collected under this section into moneys of the Association pursuant to section 1722 of this title.

EXHIBIT 3.2

FANNIE MAE BYLAWS
As Amended Through January 21, 2003

ARTICLE 1

General Provisions

Section 1.01. *Name*. The name of the corporation is Federal National Mortgage Association. The corporation may also do business under the name Fannie Mae.

Section 1.02. *Principal Office and Other Offices*. The principal office of the corporation shall be in the District of Columbia. Other offices of the corporation shall be in such places as may be deemed by the Board of Directors or the Chairman of the Board to be necessary or appropriate.

Section 1.03. *Seal*. The seal of the corporation shall be of such design as shall be approved and adopted from time to time by the Board of Directors, and the seal or a facsimile thereof may be affixed by any person authorized by the Board of Directors or these Bylaws by impression, by printing, by rubber stamp, or otherwise.

Section 1.04. *Fiscal Year*. The fiscal year of the corporation shall end on the thirty-first day of December of each year.

Section 1.05. *Corporate Governance Practices and Procedures*. Pursuant to Section 1710.10(b) of the Office of Federal Housing Enterprise Oversight (“OFHEO”) corporate governance regulation, 12 CFR 1710.1 *et seq*., to the extent not inconsistent with the Charter Act and other Federal law, rules, and regulations, the corporation has elected to follow the applicable corporate governance practices and procedures of the Delaware General Corporation Law, as the same may be amended from time to time. The inclusion of provisions in these Bylaws shall constitute inclusion in the corporation’s “certificate of incorporation” for all purposes of the Delaware General Corporation Law.

ARTICLE 2

Capital Stock

Section 2.01. *Common Stock*. The common stock, all of which is voting and has no par value, shall have a stated value per share as determined from time to time by the Board of Directors. Shares of the corporation may be acquired and held in the treasury of the corporation, and may be disposed of by the corporation for such consideration and for such purposes as may be determined from time to time by the Board of Directors.

Section 2.02. *Preferred Stock*. The corporation shall have authority to issue up to 100,000,000 shares of preferred stock having no par value. The preferred stock may be issued from time to time in one or more series upon approval by the Board of Directors, or a committee thereof appointed for such purpose, and the Board of Directors or such committee may, by resolution providing for the issuance of such preferred stock, designate with respect to such shares: (a) their voting powers; (b) their rights of redemption; (c) their right to receive dividends (which may be cumulative or non-cumulative) including the dividend rate or rates, conditions to payment, and the relative preferences in relation to the dividends payable on any other class or classes or series of stock; (d) their rights upon the dissolution of, or upon any distribution of the assets of, the corporation; (e) their rights to convert into, or exchange for, shares of any other class or classes of stock of the corporation, including the price or prices or the rate of exchange; and (f) other relative, participating, optional or special rights, qualifications, limitations or restrictions. Notwithstanding Sections 4.12(a)(6) and 4.15 of these Bylaws, the Board of Directors may authorize a committee of the Board to declare dividends on preferred stock.

Section 2.03. *Payment for Shares*. The consideration to be received by the corporation for the issuance of common shares shall be fixed from time to time by the Board of Directors. A subscriber shall be entitled to issuance of shares upon receipt by the corporation of the consideration for which the shares are to be issued. No certificates shall be issued for any share until the share is fully paid, and, when issued, such shares shall be nonassessable.

Section 2.04. *Certificates Representing Shares*. Each registered holder of the capital stock of the corporation shall be entitled to a certificate or certificates signed by the Chairman of the Board of Directors or the President and by the Secretary or an Assistant Secretary of the corporation, and sealed with the seal of the corporation certifying the number of shares owned by him in the corporation. The certificates shall be in such form as the Board, from time to time, may approve. If any certificate is manually signed (i) by a transfer agent other than the corporation or its employee, or (ii) by a registrar other than the corporation or its employee, any other signature on the certificate, including those of the aforesaid officers of the corporation, may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 2.05. *Transfers of Stock*. Transfers of stock shall be made upon the books of the corporation (i) upon presentation of the certificates by the registered holder in person or by duly authorized attorney, or (ii) upon presentation of proper evidence of succession, assignment or authority to transfer the stock, and upon surrender of the appropriate certificate(s).

Section 2.06. *Holder of Record.* The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of Delaware insofar as they are applicable to the stock of stock corporations organized under the Delaware General Corporation Law.

Section 2.07. *Loss or Destruction of Certificate of Stock*. In case of loss or destruction of any certificate of stock, another may be issued in its place, pursuant to such requirements and procedures as may be established by the Secretary of the corporation with the concurrence of the General Counsel (including, without limitation, requiring provision of a surety bond).

Section 2.08. *Stockholder Records*.

(a) The corporation shall keep at its principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number of shares held by each.

(b) The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting, during ordinary business hours, at the principal place of business of the corporation or as may otherwise be permitted by the Delaware General Corporation Law. The list shall be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 2.09. *Registration of Common Stock.* The corporation shall register its common stock with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, and shall take appropriate steps to maintain such registration. Notwithstanding anything to the contrary contained in Article 7 of these Bylaws, this Section 2.09 may be altered, amended, or repealed only by the unanimous vote or consent of all the then incumbent Members of the Board then in office.

ARTICLE 3

The Stockholders

Section 3.01. *Place of Meetings*. Meetings of the stockholders of the corporation shall be held at such place or places, within or without the District of Columbia, as shall be determined by the Board of Directors; and the Chairman of the Board shall preside at all such meetings.

Section 3.02. *Annual Meeting*. The annual meeting of the stockholders shall be held at ten o'clock in the morning of the third Thursday in May of each year, if that day is not a legal holiday, and if a holiday, then on the first following day that is not a legal holiday. If any annual meeting is not held at the designated time, the meeting shall be held as promptly as practicable thereafter at a time to be determined by the Board of Directors.

Section 3.03. *Special Meetings*. Special meetings of the stockholders may be called by the Board of Directors or the Chairman of the Board, or at the request of the holders of not less than one-third of all the shares entitled to vote, to be determined as of the close of the first day of the month preceding the month in which the request is presented to the Secretary. Business transacted at all special meetings shall be confined to the subjects stated in the notice of special meeting.

Section 3.04. *Notice of Meetings—Waiver and Adjourned Meetings*. Written notice stating the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called, shall be delivered not less than 20, nor more than 55, days before the date of the meeting, by the Secretary of the corporation, to each registered holder entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the registered holder at his address as it appears on the stock transfer books of the corporation, with first class postage prepaid. Waiver by a stockholder in writing of notice of a stockholders' meeting, signed by him either before or after the time of the meeting, shall be equivalent to the giving of such notice. Attendance by a stockholder at a stockholders' meeting, whether in person or by proxy, without objection to the notice or lack thereof, shall constitute a waiver of notice of the meeting. Any meeting of stockholders may be adjourned by the chair of the meeting to reconvene at another time or place. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 3.05. *Fixing Record Date*.

(a) For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a date as the record date. Such date, in any case, shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and shall be not more than 55 days and not less than 20 days prior to the date of such meeting. If no such record date is fixed, the close of business on the day next preceding the day on which notice is given, or, if notice is waived, the close of business on the day next preceding the date on which the meeting is held shall be the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders. When a determination of stockholders entitled to vote at any meeting of stockholders has been made, as provided in this section, the determination shall apply to any adjournment thereof, provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) For the purpose of determining stockholders entitled to receive payment of any dividend, or in order to make a determination of stockholders for any other purpose (except as provided in section 3.05 (a)), the Board of Directors or a duly authorized Committee thereof may fix a date as the record date. Such date, in any case, shall not precede the date upon which the resolution fixing the record date is adopted and shall be not more than 55 days prior to the date on which the particular action is to be taken. If no such record date is fixed, the close of business on the day on which the resolution relating thereto is adopted shall be the record date for the determination of stockholders.

Section 3.06. *Quorum*. A majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. The stockholders present at a duly organized meeting may continue to do business until adjournment, notwithstanding the withdrawal of the holders of enough shares to leave less than a quorum. If a meeting cannot be organized because a quorum has not attended, either the chair of the meeting, or those stockholders present, in person or by proxy, by a majority of the votes cast by such stockholders so present, may adjourn the meeting from time to time until a quorum is present when any business may be transacted that may have been transacted at the meeting as originally called.

Section 3.07. *Proxies*. A stockholder may vote either in person or by proxy executed in writing by the stockholder or his duly authorized representative. No proxy shall be valid after 11 months from the date of its execution, unless otherwise expressly provided in the proxy.

Section 3.08. *Voting*. At every meeting of the stockholders, every holder of the common stock shall be entitled to one vote for each share of common stock registered in the name of such holder on the stock transfer books of the corporation at the close of the record date. A proxy purporting to be executed by a corporation shall be presumed to be valid and the burden of proving invalidity shall rest on any challenger. A proxy purporting to be executed by a partnership shall be presumed to be valid and the burden of proving invalidity shall rest on any challenger. At each election for Members of the Board of Directors, every such holder of the common stock shall have the right to cast, for each Board position to be filled, a number of votes equal to the number of shares held by such holder. Such holders shall have no right to cumulate their votes for directors. Unless a higher percentage of affirmative votes is required by the Charter Act, these Bylaws, applicable stock exchange rules or regulations, or other applicable Federal law, rules, or regulations, the stockholders will have approved any matter if, at a meeting at which a quorum is present, the votes cast by the stockholders present, either in person or by proxy and entitled to vote thereon, in favor of such matter exceed the votes cast by such stockholders against such matter. Members of the Board of Directors shall be elected by a plurality of the votes cast.

Section 3.09. *Inspectors of Votes*. The Board of Directors, in advance of any meeting of stockholders, shall appoint one or more Inspectors of Votes to act at the meeting or any adjournment thereof and make a written report thereof. One or more persons may be designated as alternates to replace any Inspector of Votes who fails to act. In case any person so appointed Inspector of Votes or alternate resigns or fails to act, the vacancy shall be filled by appointment made by the chairman of the meeting. The Inspectors of Votes shall (a) ascertain the number of shares outstanding and the voting power of each and determine all questions concerning the qualification of voters; (b) determine the shares represented at the meeting and the validity of proxies and ballots; (c) determine all questions concerning the acceptance or rejection of votes and, with respect to each vote by ballot, shall collect and count all votes and ballots (d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the Inspectors of Votes; and (e) report in writing to the secretary of the meeting their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The Inspectors of Votes need not be stockholders of the corporation. No person who is an officer or Member of the Board of Directors of the corporation, or who is a candidate for election as a Member of the Board of Directors, shall be eligible to be an Inspector of Votes. Any report or certificate by the Inspectors of Votes shall be prima facie evidence of the facts stated and of the votes as certified by them.

Section 3.10. *Stockholder Notices to the Corporation*. Whenever notice is to be given to the corporation by a stockholder under any provision of law or of these Bylaws, such notice shall be delivered to the Secretary at the principal executive offices of the corporation. If delivered by electronic mail or facsimile, the stockholder's notice shall be directed to the Secretary at the electronic mail address or facsimile number, as the case may be, specified in the corporation's most recent proxy statement.

Section 3.11. *Conduct of Meetings*. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at such meeting by the person presiding over the meeting. The Board of Directors may adopt by resolution such rules or regulations for the conduct of meetings of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chair of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chair, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chair of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies, or such other persons as the chair shall permit; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof, and (e) limitations on the time allotted to questions or comments by participants. Meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

Section 3.12. *Notice of Stockholder Proposal*. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder (other than the nomination of a person for election as a director, which is governed by Section 4.19 of these Bylaws), the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not later than the following dates (1) 60 days in advance of such meeting if such meeting is to be held on a day which is within 30 days preceding the anniversary of the previous year's annual meeting, or 90 days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (2) with respect to an annual meeting of stockholders held on any other date, the close of business on the tenth day following the date of public disclosure of the date of such meeting. (For purposes of these Bylaws, public disclosure shall be deemed to include a disclosure made in a press release reported by the Dow Jones News Services, Associated Press or a comparable national news service or in a document filed by the corporation with the Securities and Exchange Commission pursuant to Section 13 of the Securities Exchange Act of 1934, as amended). A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (A) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (B) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (C) the class and number of shares of the corporation that are beneficially owned by the stockholder, and (D) any material interest of the stockholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 3.12. The chair of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 3.12, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

ARTICLE 4

The Board of Directors

Section 4.01. *General Policies*. General policies governing the operations of the corporation shall be determined by the Board of Directors.

Section 4.02. *Membership*. The Board of Directors shall consist of those Members appointed and elected as provided by law.

Section 4.03. *Term of Members*. Each Member shall hold office for the term for which he is elected or appointed and until his successor is chosen and qualified, or his death, resignation, retirement, or removal in accordance with law, whichever event shall first occur.

Section 4.04. *Regular Meetings*. The Board of Directors shall meet in regular meeting at such times as shall be determined by the Board from time to time, except as provided in section 4.05 and except when the Chairman of the Board shall notify the Secretary of a different date prior to a scheduled regular meeting. Each regular meeting shall be held at the principal office of the corporation in the District of Columbia, unless special provision is made by the Board, in advance of any such regular meeting, to hold that meeting at another place, either within or without the District of Columbia.

Section 4.05. *Annual Meeting*. Immediately following the annual meeting of the stockholders, the Board of Directors shall meet each year for the purpose of considering any business that may properly be brought before the meeting, and such annual meeting of the Board shall be a regular meeting.

Section 4.06. *Special Meetings*. Other meetings of the Board of Directors may be held upon the call of the Chairman of the Board of Directors, or of a majority of the then incumbent Members of the Board. Each special meeting shall be held at the principal office in the District of Columbia unless the Chairman of the Board prescribes and the notice specifies another place.

Section 4.07. *Notice of Meetings—Waiver*. No notice of any kind to Members of the Board of Directors shall be necessary for any regular meeting which is held on a date determined by the Board, or for the annual meeting. In the case of a regular meeting on a different date, notice shall be given to each Member by the Secretary; in the case of a special meeting, notice shall be given to each Member by the Secretary at the direction of the calling authority. Such notice shall be in writing and sent to the address on file with the Secretary of the corporation not later than during the third day immediately preceding the day for the meeting; or by word of mouth, telephone, facsimile or electronic mail, directed to the telephone number, facsimile number or electronic mail address, as the case may be, on file with the Secretary of the corporation, not later than during the second day immediately preceding the day for the meeting. Notice of any such meeting may be waived in writing signed by the person or persons entitled thereto, either before or after the time of the meeting. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be specified in the notice or waiver of notice of the meeting.

Section 4.08. *The Chairman of the Board of Directors*. The Chairman of the Board of Directors may be chosen by the Board at any meeting of the Board from among the Members, and his tenure shall commence immediately and continue until the next succeeding annual meeting of the Board, or until his successor is chosen, whichever first occurs. The Chairman of the Board shall be the Chief Executive Officer of the corporation, and shall have such powers and perform such duties as the Board may prescribe. Except as otherwise provided by law, the corporate charter, these Bylaws, or the Board, the Chairman shall have plenary authority to perform all duties ordinarily incident to the office and such other duties as may be assigned to him from time to time by the Board. The Chairman may prescribe, amend and rescind requirements and procedures governing the manner in which the general business of the corporation shall be conducted. The officers, agents and employees, other than the principal officers, shall be appointed by the Chairman or by any other principal officer to whom the Chairman shall have delegated the authority. During the Chairman's absence or inability to act or during the vacancy of the office, the Vice Chairman and Chief Operating Officer shall perform the duties and exercise the authority of the Chairman.

Section 4.08a. *The Vice Chairman of the Board of Directors*. The Board of Directors may from time to time elect from among the Members of the Board one or more Vice Chairmen of the Board. Any such Vice Chairman shall have such powers and shall perform such duties as the Board of Directors may prescribe or as the Chairman of the Board shall delegate to him.

Section 4.09. *Quorum*. The presence, in person or otherwise in accordance with section 4.16 hereof, of a majority of the then incumbent Members of the Board of Directors or of a Board Committee, as applicable, at the time of any meeting of the Board or such Committee, shall constitute a quorum for the transaction of business. The act of the majority of such Members present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the act of a greater number is required by these Bylaws. Members may not be represented by proxy at any meeting of the Board of Directors.

Section 4.10. *Action Without a Meeting*. Any policy or action that may be approved or taken at a meeting of the Board or of any Board Committee may be approved or taken without a meeting if all incumbent Members of the Board or the Committee, as the case may be, consent thereto in writing and the writings are filed with the minutes of the proceedings of the Board or the Committee.

Section 4.11. *Facsimile Signatures*. The Board of Directors, the Chairman of the Board or the President may authorize the use of facsimile signatures in lieu of manual signatures.

Section 4.12. *Executive Committee*.

(a) The Executive Committee of the Board shall consist of at least five Members who shall be designated by the Board and serve at the pleasure of the Board. One of the members of the Executive Committee shall be the Chief Executive Officer of the corporation who may also, but is not required to, be chair of the Committee. The designation of such Committee and the delegation thereto of authority shall not alone relieve any director of any duty he owes the corporation. The Executive Committee, during the interim between Board meetings, shall have all the authority of the Board, except that it shall not have the authority to take any of the following actions:

(1) The submission to stockholders of any action requiring stockholders' authorization.

(2) The filling of vacancies on the Board of Directors or on the Executive Committee.

(3) The fixing of compensation of the directors for serving on the Board or on the Executive Committee.

(4) The appointment or removal of the Chairman of the Board, President, any Vice Chairman, and any Executive Vice President, except that vacancies in established positions may be filled subject to ratification by the Board of Directors.

(5) The amendment or repeal of these Bylaws or the adoption of new bylaws.

(6) The declaration of dividends or the authorizing of the issuance of the corporation's stock.

(7) The amendment or repeal of any resolution of the Board which by its terms is not so amendable or repealable.

(8) The adoption of an agreement of merger or consolidation or the adoption of a certificate of ownership and merger.

(9) The recommendation to stockholders of the sale, lease or exchange of all or substantially all of the corporation's property and assets.

(10) The recommendation to stockholders of a dissolution of the corporation or a revocation of a dissolution.

(b) The Executive Committee shall meet at the call of its chairman or of a majority of its members, and a majority shall constitute a quorum. The action of the majority of the members of the Committee shall be the action of the Committee. Members of the Committee may not be represented by proxy at any meeting of the Committee.

(c) Unless otherwise expressly provided by resolution of the Board of Directors, members of the Executive Committee shall be compensated and shall be reimbursed for travel and expenses on the same basis and at the same rate as is provided for Members of the Board of Directors for attendance at meetings of the Board.

(d) The Executive Committee shall, at each regular meeting of the Board of Directors, present to the Board its report and such recommendations as are in its judgment necessary for the proper operation of the corporation.

Section 4.13. *Audit Committee*. The Board of Directors shall have an Audit Committee and, as required by Section 1710.11(b)(1) of the OFHEO corporate governance regulation, the Audit Committee shall comply with the charter, independence, composition, expertise and other requirements of the New York Stock Exchange, as the same may be amended from time to time, unless otherwise required by OFHEO.

Section 4.14. *Compensation Committee*. The Board of Directors shall have a Compensation Committee and, as required by Section 1710.11(b)(2) of the OFHEO corporate governance regulation, the Compensation Committee shall include at least three independent directors. The duties of the Compensation Committee shall include overseeing the corporation's compensation policies and plans for executive officers and employees and approving the compensation of senior executive officers of the corporation.

Section 4.15. *Other Committees*. In addition to the Executive, Audit and Compensation committees, the Board of Directors may by resolution designate from among its Members such other committees as it deems appropriate, each of which, to the extent provided by resolution of the Board, may exercise all authority of the Board except those actions outside the authority of the Executive Committee. The designation of any such committee and the delegation thereto of authority shall not alone relieve any director of any duty he owes the corporation.

Section 4.16. *Remote Meetings*. Any meeting of the Board of Directors or any meeting of a Board Committee may be held with the Members of the Board or members of such Committee participating in such meeting by telephone or by any other means of communication by which all such persons participating in the meeting are able to speak to and hear one another.

Section 4.17. *Limitation on Liability*. To the fullest extent permitted by Delaware statutory or decisional law, as amended or interpreted, no director of this corporation shall be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. This Section 4.17 does not affect the availability of equitable remedies for breach of fiduciary duties.

Section 4.18. *Eligibility to Make Nominations*. Nominations of candidates for election as directors at an annual meeting of stockholders called for election of directors may be made (i) by any stockholder entitled to vote at such meeting only in accordance with the procedures established by Section 4.19 of these Bylaws, or (ii) by the Board of Directors or by a duly authorized Committee thereof. In order to be eligible for election as a director, any director nominee must first be nominated in accordance with the provisions of these Bylaws.

Section 4.19. *Procedure for Nominations by Stockholders*. Any stockholder entitled to vote for the election of a director at an annual meeting may nominate one or more persons for such election only if written notice of such stockholder's intent to make such nomination is delivered to or mailed and received by the Secretary of the corporation. Such notice must be received by the Secretary not later than the following dates: (a) with respect to an annual meeting of stockholders, 60 days in advance of such meeting if such meeting is to be held on a day which is within 30 days preceding the anniversary of the previous year's annual meeting or 90 days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (b) with respect to an annual meeting of stockholders held on any other date, the close of business on the tenth day following the date of public disclosure of the date of such meeting. The written notice shall set forth: (1) the name, age, business address and residence address of each nominee proposed in such notice, (2) the principal occupation or employment of each such nominee, (3) the number of shares of capital stock of the corporation which are beneficially owned by each such nominee, and (4) such other information concerning each such nominee as would be required, under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such nominee as a director. Such notice shall include a signed consent of each such nominee to serve as a director of the corporation, if elected.

Section 4.20. *Compliance with Procedures*. If the chair of the stockholders' annual meeting determines that a nomination of any candidate for election as a director was not made in accordance with the applicable provisions of these Bylaws, such nomination shall be void.

ARTICLE 5

The Officers

Section 5.01. *Number*. The principal officers of the corporation shall consist of the Chairman of the Board of Directors, a President, one or more Vice Chairmen of the Board if the Board has elected to fill such position or positions, one or more Executive Vice Presidents and Senior Vice Presidents, a General Counsel, a Controller, a Treasurer, and a Secretary. There shall be such assistant officers, agents, and employees as may be deemed necessary. Any two or more offices may be held by the same person.

Section 5.02. *General Authority and Duties*. All officers, agents, and employees of the corporation shall have such authority and perform such duties in the management and conduct of the business of the corporation as may be provided for in these Bylaws, as may be established by resolution of the Board of Directors not inconsistent with these Bylaws, or as may be delegated to them in a manner not inconsistent with these Bylaws.

Section 5.03. *Election, Tenure, and Qualifications*. The principal officers shall be selected by the Board of Directors. Each officer shall hold office until his successor is chosen and qualified, or his death, resignation, retirement, or removal from office, whichever event shall first occur. Selection or appointment without express tenure, of an officer, agent, or employee shall not of itself create contract rights.

Section 5.04. *Removal*. Any officer, agent, or employee may be removed by the Board of Directors. Any removal shall be in accordance with such procedures and safeguards as the corporation may establish and shall be without prejudice to the contract rights, if any, of the person so removed.

Section 5.05. *Vacancies*. Any vacancy in any office shall be filled in the manner prescribed in these Bylaws for selection or appointment to the office.

Section 5.06. *The President*. The President shall have such powers and perform such duties as the Board of Directors may prescribe, or as the Chairman of the Board may delegate to him.

Section 5.07. *The Vice Presidents*. Each Vice President shall have such powers and perform such duties as the Board of Directors may prescribe or as the Chairman of the Board may delegate to him.

Section 5.08. *The Treasurer*. The Treasurer shall, in general, perform all the duties ordinarily incident to the office of Treasurer and such other duties as may be assigned to him by the Board of Directors or by the Chairman of the Board. The Treasurer shall render to the Chairman and the Board, whenever the same shall be required, an account of all his transactions as Treasurer. The Treasurer shall, if required to do so by the Board, give the corporation a bond in such amount and with such surety or sureties as may be ordered by the Board for the faithful performance of the duties of his office and for the restoration to the corporation, in case of his death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in his possession or under his control belonging to the corporation. The premium for any such bond shall be paid by the corporation.

Section 5.09. *The General Counsel*. The General Counsel shall be the principal consulting officer of the corporation in all matters of legal significance or import; shall be responsible for and direct all counsel, attorneys, employees, and agents in the performance of all legal duties and services for and on behalf of the corporation; shall perform such other duties and have such other powers as are ordinarily incident to the office of the General Counsel; and shall perform such other duties as, from time to time, may be assigned to him by the Board of Directors or by the Chairman of the Board.

Section 5.10. *The Secretary*. The Secretary shall keep or cause to be kept in books provided for the purpose the minutes of the meetings of the Board of Directors and the minutes or transcripts of the meetings of the stockholders; shall see that all notices are duly given as required by law and in accordance with the provisions of these Bylaws; shall be responsible for the custody and maintenance of all related records and the blank stock certificates of the corporation; shall be custodian of the records and of the seal of the corporation; and, in general, shall perform all the duties ordinarily incident to the office of Secretary and such other duties as may be assigned to him by the Board or by the Chairman of the Board. The Secretary and any Assistant Secretary are expressly empowered to attest signatures of officers of the corporation and to affix the seal of the corporation to documents.

Section 5.11. *The Controller*. The Controller shall keep full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements, and other financial transactions of the corporation; shall certify vouchers for payment by the Treasurer or the Treasurer’s designee, and shall designate, with the written concurrence of the Chairman of the Board, such other officers, agents, and employees, severally, who may so certify; and in general, shall perform all the duties ordinarily incident to the office of Controller and such other duties as may be assigned to him by the Board of Directors or by the Chairman of the Board.

Section 5.12. *Assistant Officers*. Each assistant to an officer, including but not limited to any Assistant Vice President, any Assistant Treasurer, any Assistant General Counsel, and any Assistant Secretary, and any other such assistant to any officer, shall perform such duties as are, from time to time, delegated to him by the officer to whom he is an assistant, by the Chairman of the Board of Directors or by the Board. At the request of the officer to whom he is an assistant, an assistant officer may temporarily perform the duties of that officer, and when so acting shall have the powers of and be subject to the restrictions imposed upon that officer.

Section 5.13. *Compensation*. The compensation of the Chairman, President, any Vice Chairman, and any Executive Vice President shall be fixed, from time to time, by the Board of Directors.

Section 5.14. *Repealed*

ARTICLE 6

Indemnification

Section 6.01. *General Indemnification*. The Board of Directors may, in such cases or categories of cases as it deems appropriate, indemnify and hold harmless, or make provision for indemnifying and holding harmless, Members of the Board of Directors, officers, employees, and agents of the corporation, and persons who formerly held such positions, and the estates of any of them against any or all claims and liabilities (including reasonable legal fees and other expenses incurred in connection with such claims or liabilities) to which any such person shall have become subject by reason of his having held such a position or having allegedly taken or omitted to take any action in connection with such position.

Section 6.02. *Indemnification of Board Members and Officers*.

(a) To the fullest extent permitted by the Delaware General Corporation Law for a corporation subject to such law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits a Delaware corporation to provide broader indemnification rights than said law permitted such corporation to provide prior to such amendment), the corporation will indemnify and hold harmless each Member of the Board and officer of the corporation or any subsidiary against any and all claims, liabilities, and expenses (including attorneys' fees, judgments, fines, and amounts paid in settlement) actually and reasonably incurred and arising from any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, to which any such person shall have become subject by reason of having held such a position or having allegedly taken or omitted to take any action in connection with any such position. However, the foregoing shall not apply to:

(i) any breach of such person's duty of loyalty to the corporation or its stockholders;

(ii) any act or omission by such person not in good faith or which involves intentional misconduct or where such person had reasonable cause to believe his conduct was unlawful; or

(iii) any transaction from which such person derived any improper personal benefit.

(b) The decision concerning whether a particular indemnitee has satisfied the foregoing shall be made by (i) the Board of Directors by a majority vote of a quorum consisting of Members who are not parties to the action, suit, or proceeding giving rise to the claim for indemnity ("Disinterested Directors"), whether or not such majority constitutes a quorum; (ii) a committee of Disinterested Directors designated by a majority vote of Disinterested Directors, whether or not such majority constitutes a quorum; (iii) if there are no Disinterested Directors, or if the Disinterested Directors so direct, by independent legal counsel in a written opinion; or (iv) a vote of the stockholders.

(c) The Board of Directors may authorize the advancement of expenses to any Member of the Board or officer, subject to a written undertaking to repay such advance if it is later determined that the indemnitee does not satisfy the standard of conduct required for indemnification. The Chairman of the Board is authorized to enter into contracts of indemnification with each Member and officer of the corporation with respect to the indemnification provided in the Bylaws and to renegotiate such contracts as necessary to reflect changing laws and business circumstances.

ARTICLE 7

Amendments

The power to alter, amend, or repeal these Bylaws, or to adopt new bylaws, is vested in the Board of Directors, but the affirmative vote of two-thirds of the then full number of authorized Members of the Board of Directors shall be necessary to effect any such action; or such action may be effected in the manner provided in Section 4.10 of these Bylaws. Except by unanimous consent of all the then incumbent Members of the Board, no such action shall be undertaken until at least one week shall have elapsed from either (i) the introduction of the proposal at a meeting of the Board of Directors at which a quorum shall have attended, or (ii) the circulation of such proposed action to all the then incumbent Members of the Board.

ARTICLE 8

Regulatory Powers

Nothing in these Bylaws shall be deemed to affect the regulatory powers of the Secretary of Housing and Urban Development pursuant to the Charter Act, as amended.

EXHIBIT 4.1

CERTIFICATE OF DESIGNATION OF TERMS OF
5.25% NON-CUMULATIVE PREFERRED STOCK, SERIES D

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association (the “Corporation”) created by this resolution shall be “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”), and the number of shares constituting the Series D Preferred Stock is Three Million (3,000,000). Shares of Series D Preferred Stock will have no par value and a stated value and liquidation preference of $50 per share. The Board of Directors of the Corporation, or a duly authorized committee thereof, in its sole discretion, may increase the number of shares of Series D Preferred Stock and may reduce the number of shares of Series D Preferred Stock, provided such reduction is not below the number of shares of Series D Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series D Preferred Stock (each individually a “Holder”, or collectively the “Holders”) will be entitled to receive, when, as and if declared by the Board of Directors of the Corporation, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative, quarterly cash dividends which will accrue from and including September 30, 1998, and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a “Dividend Payment Date”), commencing December 31, 1998, at the annual rate of $2.625 per share or 5.25% of the stated value and liquidation preference of $50 per share (without taking into account any adjustments referred to in clause (b) below). Dividends on the Series D Preferred Stock will be payable to the Holders as they appear on the books and records of the Corporation on the relevant record date fixed by the Board of Directors, or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date.

If declared, the initial dividend, which will be for the period from and including September 30, 1998 to but excluding December 31, 1998, will be $0.65625 per share. Thereafter, the dividend period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding such Dividend Payment Date. If a Dividend Payment Date is not a Business Day, dividends (if declared) on the Series D Preferred Stock will be paid on the succeeding Business Day, without interest. A “Business Day” shall mean any day other than a Saturday, Sunday or other day on which banking institutions in New York, New York are authorized or required by law to close. Dividends payable on the Series D Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed in any period of less than one month. Dividends payable on the Series D Preferred Stock for each full dividend period will be computed by dividing the per annum dividend rate by four.

(b) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of the Corporation or any other stock of the Corporation ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the Corporation, junior to the Series D Preferred Stock) may be declared or paid or set apart for payment on the Corporation’s common stock (or on any other stock of the Corporation ranking, as to the payment of dividends, junior to the Series D Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series D Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series D Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series D Preferred Stock in respect of any prior dividend period. If the full dividend on the Series D Preferred Stock is not paid for any quarterly dividend period, the Holders of Series D Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on the Corporation's common stock (or any other stock of the Corporation ranking, as to the payment of dividends, junior to the Series D Preferred Stock) for such dividend period.

(c) The Board of Directors of the Corporation, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series D Preferred Stock without the payment of any dividends on the Corporation's common stock (or any other stock of the Corporation ranking, as to the payment of dividends, junior to the Series D Preferred Stock).

(d) No full dividends shall be declared or paid or set apart for payment on any stock of the Corporation ranking, as to the payment of dividends, on a parity with the Series D Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series D Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series D Preferred Stock and all other classes or series of stock of the Corporation, if any, ranking, as to the payment of dividends, on a parity with the Series D Preferred Stock, all dividends declared upon shares of Series D Preferred Stock and all such other stock of the Corporation will be declared pro rata so that the amount of dividends declared per share of Series D Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series D Preferred Stock (but without accumulation of unpaid dividends on the Series D Preferred Stock for prior dividend periods) and such other stock bear to each other.

(e) No dividends may be declared or paid or set apart for payment on any shares of Series D Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of the Corporation ranking, as to the payment of dividends, prior to the Series D Preferred Stock.

(f) Holders of Series D Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) On or after September 30, 1999, the Corporation, at its option, may redeem the Series D Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of $50.00 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, but without accumulation of unpaid dividends on the Series D Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series D Preferred Stock are to be redeemed, the Corporation will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of the Corporation, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event the Corporation shall redeem any or all of the Series D Preferred Stock as aforesaid, the Corporation will give notice of any such redemption to Holders of Series D Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of the Corporation, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series D Preferred Stock to be redeemed and, if fewer than all of the shares of Series D Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series D Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series D Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series D Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series D Preferred Stock called for redemption shall cease to accrue and such Series D Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series D Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series D Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid. Any shares of Series D Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series D Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series D Preferred Stock will have no right to require redemption of any shares of Series D Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, after payment or provision for the liabilities of the Corporation and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series D Preferred Stock will be entitled to receive out of the assets of the Corporation or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of the Corporation's common stock (or any other stock of the Corporation ranking, as to the distribution of assets upon dissolution, liquidation or winding up of the Corporation, junior to the Series D Preferred Stock), the amount of $50.00 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, but without accumulation of unpaid dividends on the Series D Preferred Stock for prior dividend periods.

(b) If the assets of the Corporation available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series D Preferred Stock and holders of all other classes or series of stock of the Corporation, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of the Corporation, on a parity with the Series D Preferred Stock, the assets will be distributed to the Holders of Series D Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled, but without accumulation of unpaid dividends on the Series D Preferred Stock for prior dividend periods.

(c) Notwithstanding the foregoing, Holders of Series D Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of the Corporation until holders of any classes or series of stock of the Corporation ranking, as to the distribution of assets upon dissolution, liquidation or winding up of the Corporation, prior to the Series D Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger, consolidation or combination of the Corporation into or with any other corporation or the merger, consolidation or combination of any other corporation into or with the Corporation, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of the Corporation to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series D Preferred Stock will not be entitled to any further participation in any distribution of assets by the Corporation.

5. No Conversion or Exchange Rights.

The Holders of shares of Series D Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of the Corporation.

6. No Pre-emptive Rights.

No Holder of Series D Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series D Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series D Preferred Stock, the Corporation will have the right to amend, alter, supplement or repeal any terms of the Series D Preferred Stock (i) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Certificate of Designation or (ii) to make any other provision with respect to matters or questions arising with respect to the Series D Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series D Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series D Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of the Corporation, whether ranking prior to, on a parity with or junior to the Series D Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series D Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of the Series D Preferred Stock may be amended, altered, supplemented or repealed only with the consent of the Holders of at least two-thirds of the shares of Series D Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series D Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series D Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of the Corporation, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the shares of the Series D Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of the Corporation, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of the Corporation, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series D Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of the Corporation shall be deemed to rank:

(a) Prior to the shares of Series D Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority to the Holders of shares of Series D Preferred Stock.

(b) On a parity with shares of Series D Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series D Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series D Preferred Stock.

(c) Junior to shares of Series D Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, if such class shall be common stock of the Corporation or if the Holders of shares of Series D Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of the Corporation designated “6.41% Non-Cumulative Preferred Stock, Series A” (the “Series A Preferred Stock”), “6.50% Non-Cumulative Preferred Stock, Series B” (the “Series B Preferred Stock”) and “6.45% Non-Cumulative Preferred Stock, Series C” (“the Series C Preferred Stock”) shall be deemed to rank on a parity with shares of Series D Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the Corporation. Accordingly, the holders of record of Series A Preferred Stock, the holders of record of Series B Preferred Stock, the holders of record of Series C Preferred Stock and the Holders of Series D Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

The Corporation hereby appoints First Chicago Trust Company of New York as its initial transfer agent, dividend disbursing agent and registrar for the Series D Preferred Stock. The Corporation may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series D Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series D Preferred Stock by the Corporation shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of the Corporation. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in the Corporation’s judgment, to give notice by mail, then such notification may be made, in the Corporation’s discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of the Corporation.

RECEIPT AND ACCEPTANCE OF A SHARE OR SHARES OF THE SERIES D PREFERRED STOCK BY OR ON BEHALF OF A HOLDER SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY SUCH HOLDER (AND ALL OTHERS HAVING BENEFICIAL OWNERSHIP OF SUCH SHARE OR SHARES) OF ALL OF THE TERMS AND PROVISIONS OF THIS CERTIFICATE OF DESIGNATION. NO SIGNATURE OR OTHER FURTHER MANIFESTATION OF ASSENT TO

THE TERMS AND PROVISIONS OF THIS CERTIFICATE OF DESIGNATION SHALL BE NECESSARY FOR ITS OPERATION OR EFFECT AS BETWEEN THE CORPORATION AND THE HOLDER (AND ALL SUCH OTHERS).

EXHIBIT 4.2

CERTIFICATE OF DESIGNATION OF TERMS OF
5.10% NON-CUMULATIVE PREFERRED STOCK, SERIES E

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association (the "Corporation") created by this resolution shall be "5.10% Non-Cumulative Preferred Stock, Series E" (the "Series E Preferred Stock"), and the number of shares constituting the Series E Preferred Stock is Three Million (3,000,000). Shares of Series E Preferred Stock will have no par value and a stated value and liquidation preference of $50 per share. The Board of Directors of the Corporation, or a duly authorized committee thereof, in its sole discretion, may increase the number of shares of Series E Preferred Stock and may reduce the number of shares of Series E Preferred Stock, provided such reduction is not below the number of shares of Series E Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series E Preferred Stock (each individually a "Holder", or collectively the "Holders") will be entitled to receive, when, as and if declared by the Board of Directors of the Corporation, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative, quarterly cash dividends which will accrue from and including April 15, 1999, and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing June 30, 1999, at the annual rate of $2.55 per share or 5.10% of the stated value and liquidation preference of $50 per share (without taking into account any adjustments referred to in paragraphs (b)and (c) of this Section 2). Dividends on the Series E Preferred Stock will be payable to the Holders as they appear on the books and records of the Corporation on the relevant record date fixed by the Board of Directors, or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date. If declared, the initial dividend, which will be for the period from and including April 15, 1999 to but excluding June 30, 1999, will be $.53125 per share. Thereafter, the dividend period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding such Dividend Payment Date. If a Dividend Payment Date is not a Business Day, dividends (if declared) on the Series E Preferred Stock will be paid on the succeeding Business Day, without interest. A "Business Day" shall mean any day other than a Saturday, Sunday or other day on which banking institutions in New York, New York are authorized or required by law to close. Dividends payable on the Series E Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed in any period of less than one month. Dividends payable on the Series E Preferred Stock for each full dividend period will be computed by dividing the per annum dividend rate by four.

(b)(i) If, prior to 18 months after the date of original issuance of the Series E Preferred Stock, one or more amendments to the Internal Revenue Code of 1986, as amended (the "Code"), are enacted that reduce the percentage of the dividends-received deduction applicable to the Series E Preferred Stock (a "Dividends-Received Reduction Amendment") as specified in section 243(a)(1) of the Code or any successor provision thereto (the "Dividends-Received Percentage"), the adjustments set forth in this paragraph (b) shall be made in respect of the dividends payable by the Corporation.

(ii) Subject to subclauses (v) and (vi) of this paragraph (b), the amount of each dividend payable (if declared) per share of Series E Preferred Stock for dividend payments made on or after the effective date of a Dividends-Received Reduction Amendment will be adjusted by multiplying the amount of the dividend payable pursuant to paragraph (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the "DRD Formula"), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1-.35(1-.70)}{1-.35(1-DRP)}$$

For the purposes of the DRD Formula, “DRP” means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends-Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series E Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment.

(iii) Notwithstanding the foregoing and subject to subclauses (v) and (vi) of this paragraph (b), if any Dividends-Received Reduction Amendment is enacted after the dividend payable on a Dividend Payment Date has been declared, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the “Post Declaration Date Dividends”), equal to the excess, if any, of (x) the product of the dividend paid by the Corporation on such Divided Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (y) the dividend paid by the Corporation on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date or, if the Series E Preferred Stock is called for redemption prior to such record date, to Holders on the applicable redemption date, as the case may be, in addition to any other amounts payable on such date.

(iv) Subject to subclauses (v) and (vi) of this paragraph (b), if any Dividends-Received Reduction Amendment is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which the Corporation previously paid dividends on the Series E Preferred Stock (each, an “Affected Dividend Payment Date”), the Corporation will pay (if declared) additional dividends (the “Retroactive Dividends”) to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment) or, if the Series E Preferred Stock is called for redemption prior to such record date, to Holders on the applicable redemption date, as the case may be, in an amount equal to the excess of (x) the product of the dividend paid by the Corporation on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and .50 applied to each Affected Dividend Payment Date) over (y) the sum of the dividend paid by the Corporation on each Affected Dividend Payment Date. The Corporation will only make one payment of Retroactive Dividends for any such amendment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, the Corporation receives either an unqualified opinion of nationally recognized independent tax counsel selected by the Corporation or a private letter ruling or similar form of authorization from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series E Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

(v) Notwithstanding the foregoing provisions, if, with respect to any Dividends-Received Reduction Amendment, the Corporation receives either an unqualified opinion (which opinion shall be based on the Dividends-Received Reduction Amendment or upon a published pronouncement of the IRS addressing such legislation) of nationally recognized independent tax counsel selected by the Corporation or a private letter ruling or similar form of authorization from the Internal Revenue Service (the “IRS”) to the effect that such an amendment does not apply to a dividend payable on the Series E Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. The Corporation’s calculation of the dividends payable as so adjusted shall be final and not subject to review.

(vi) Notwithstanding the foregoing, no adjustment in the dividends payable by the Corporation shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by the Corporation, in respect of the enactment of any Dividends-Received Reduction Amendment occurring 18 months or more after the date of original issuance of the Series E Preferred Stock.

(vii) In the event that the amount of dividends payable per share of Series E Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, the Corporation will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series E Preferred Stock.

(c)(i) If one or more amendments to the Code (the “Debt Financed Purchase Amendments”) are enacted in substantially the form that was proposed by the President of the United States in a budget plan released on February 1, 1999 (the determination of which shall be in the Corporation’s sole discretion) and that (1) would deny a percentage of a corporation’s dividends-received deduction attributable to the percentage of Series E Preferred Stock that is indirectly financed by indebtedness (including using a pro-rata allocation of interest expense similar to the one used in section 264(f) of the Code) and (2) would be effective for Series E Preferred Stock acquired on or after the effective date of such changes to the Code, the adjustments set forth in this paragraph (c) (the “Debt Financed Purchase Adjustments”) shall be made in respect of dividends payable by the Corporation; provided, however, that no Debt Financed Purchase Adjustments shall be made unless the Corporation has been offered the right to purchase the affected shares of Series E Preferred Stock pursuant to subclause (vi) of this paragraph (c).

(ii) Subject to subclauses (iv) through (vi) of this paragraph (c), upon any transfer of shares of Series E Preferred Stock that closes on or after the effective date of the Debt Financed Purchase Amendments, the dividends payable on the transferred shares of Series E Preferred Stock for the period beginning on the date of transfer shall be equal to (1) the amount of the dividend that would be payable for such period on such shares if the shares were not entitled to adjustment multiplied by (2) 1.08485 (the “Sale Factor”), rounded to the nearest cent (with one-half cent rounded upwards).

(iii) Notwithstanding the foregoing, if a Debt Financed Purchase Adjustment is required after the dividend payable on a Dividend Payment Date has been declared, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the “Second Post Declaration Date Dividends”), equal to the excess, if any, of (x) the amount of the dividend that would have been payable if the adjustment described in subclause (ii) of this paragraph (c) had been made over (y) the dividend paid by the Corporation on such Dividend Payment Date, will be payable (if declared) to the Holders of the affected shares of Series E Preferred Stock on the record date applicable to the next succeeding Dividend Payment Date or, if the Series E Preferred Stock is called for redemption prior to such record date, to Holders of the affected shares of Series E Preferred Stock on the applicable redemption date, as the case may be, in addition to any other amounts payable on such date.

(iv) Notwithstanding the foregoing provisions, if, with respect to the Debt Financed Purchase Amendments, the Corporation receives either an unqualified opinion (which shall be based upon the Debt Financed Purchase Amendments or upon a published pronouncement of the IRS addressing such amendments) of a nationally recognized independent tax counsel selected by the Corporation or a private letter ruling or similar form of authorization from the IRS to the effect that such amendments do not apply to a dividend payable on the Series E Preferred Stock, then such amendments will not result in a Debt Financed Purchase Adjustment.

(v) Notwithstanding the foregoing, no adjustment in the dividends payable by the Corporation shall be made, and no Second Post Declaration Date Dividends shall be payable by the Corporation, in respect of the enactment of any Debt Financed Purchase Amendment occurring 18 months or more after the date of original issuance of the Series E Preferred Stock.

(vi) No Debt Financed Purchase Adjustment shall be made, or Second Post Declaration Date Dividends paid, to any Holder of shares of Series E Preferred Stock unless, after the date of enactment of the Debt Financed Purchase Amendment and prior to any transfer to the Holder that gives rise to the rights to such adjustment, the Corporation is offered the right to purchase such shares upon reasonable terms and at a fair market price (which determination shall be in the sole discretion of the Corporation). If the Corporation has not notified the Holder of its intent to exercise such right in writing within three trading days of receipt of written notice from the Holder, the Corporation will be deemed to have declined to exercise such right.

(vii) If a Debt Financed Purchase Adjustment is made, or Second Post Declaration Date Dividends are to be paid, with respect to certain shares of Series E Preferred Stock, the Corporation will give notice of each such occurrence to the applicable Holders of such shares of Series E Preferred Stock.

(d) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of the Corporation or any other stock of the Corporation ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the Corporation, junior to the Series E Preferred Stock) may be declared or paid or set apart for payment on the Corporation's common stock (or on any other stock of the Corporation ranking, as to the payment of dividends, junior to the Series E Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series E Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series E Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series E Preferred Stock in respect of any prior dividend period. If the full dividend on the Series E Preferred Stock is not paid for any quarterly dividend period, the Holders of Series E Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on the Corporation's common stock (or any other stock of the Corporation ranking, as to the payment of dividends, junior to the Series E Preferred Stock) for such dividend period.

(e) The Board of Directors of the Corporation, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series E Preferred Stock without the payment of any dividends on the Corporation's common stock (or any other stock of the Corporation ranking, as to the payment of dividends, junior to the Series E Preferred Stock).

(f) No full dividends shall be declared or paid or set apart for payment on any stock of the Corporation ranking, as to the payment of dividends, on a parity with the Series E Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series E Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series E Preferred Stock and all other classes or series of stock of the Corporation, if any, ranking, as to the payment of dividends, on a parity with the Series E Preferred Stock, all dividends declared upon shares of Series E Preferred Stock and all such other stock of the Corporation will be declared pro rata so that the amount of dividends declared per share of Series E Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series E Preferred Stock (including any adjustments in dividends payable pursuant to Sections 2(b) and 2(c) but without accumulation of unpaid dividends on the Series E Preferred Stock for prior dividend periods) and such other stock bear to each other.

(g) No dividends may be declared or paid or set apart for payment on any shares of Series E Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of the Corporation ranking, as to the payment of dividends, prior to the Series E Preferred Stock.

(h) Holders of Series E Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) On or after April 15, 2004, the Corporation, at its option, may redeem the Series E Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of $50.00 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, including any adjustments in dividends payable pursuant to Sections 2(b) and 2(c) but without accumulation of unpaid dividends on the Series E Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series E Preferred Stock are to be redeemed, the Corporation will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of the Corporation, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event the Corporation shall redeem any or all of the Series E Preferred Stock as aforesaid, the Corporation will give notice of any such redemption to Holders of Series E Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of the Corporation, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series E Preferred Stock to be redeemed and, if fewer than all of the shares of Series E Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder’s certificate(s) representing shares of Series E Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series E Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series E Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series E Preferred Stock called for redemption shall cease to accrue and such Series E Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series E Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series E Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid. Any shares of Series E Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series E Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series E Preferred Stock will have no right to require redemption of any shares of Series E Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, after payment or provision for the liabilities of the Corporation and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series E Preferred Stock will be entitled to receive out of the assets of the Corporation or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of the Corporation’s common stock (or any other stock of the Corporation ranking, as to the distribution of assets upon dissolution, liquidation or winding up of the Corporation, junior to the Series E Preferred Stock), the amount of $50.00 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable pursuant to Sections 2(b) and 2(c) but without accumulation of unpaid dividends on the Series E Preferred Stock for prior dividend periods.

(b) If the assets of the Corporation available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series E Preferred Stock and holders of all other classes or series of stock of the Corporation, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of the Corporation, on a parity with the Series E Preferred Stock, the assets will be distributed to the Holders of Series E Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled, including any adjustments in dividends payable pursuant to Sections 2(b) and 2(c) but without accumulation of unpaid dividends on the Series E Preferred Stock for prior dividend periods.

(c) Notwithstanding the foregoing, Holders of Series E Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of the Corporation until holders of any classes or series of stock of the Corporation ranking, as to the distribution of assets upon dissolution, liquidation or winding up of the Corporation, prior to the Series E Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger, consolidation or combination of the Corporation into or with any other corporation or the merger, consolidation or combination of any other corporation into or with the Corporation, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of the Corporation to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series E Preferred Stock will not be entitled to any further participation in any distribution of assets by the Corporation.

5. No Conversion or Exchange Rights.

The Holders of shares of Series E Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of the Corporation.

6. No Pre-emptive Rights.

No Holder of Series E Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series E Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series E Preferred Stock, the Corporation will have the right to amend, alter, supplement or repeal any terms of the Series E Preferred Stock (i) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Certificate of Designation or (ii) to make any other provision with respect to matters or questions arising with respect to the Series E Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series E Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series E Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of the Corporation, whether ranking prior to, on a parity with or junior to the Series E Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series E Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of the Series E Preferred Stock may be amended, altered, supplemented or repealed only with the consent of the Holders of at least two-thirds of the shares of Series E Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series E Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series E Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of the Corporation, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the shares of the Series E Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of the Corporation, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of the Corporation, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series E Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of the Corporation shall be deemed to rank:

(a) Prior to the shares of Series E Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority to the Holders of shares of Series E Preferred Stock.

(b) On a parity with shares of Series E Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series E Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series E Preferred Stock.

(c) Junior to shares of Series E Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Corporation, if such class shall be common stock of the Corporation or if the Holders of shares of Series E Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of the Corporation designated “6.41% Non-Cumulative Preferred Stock, Series A” (the “Series A Preferred Stock”), “6.50% Non-Cumulative Preferred Stock, Series B” (the “Series B Preferred Stock”), “6.45% Non-Cumulative Preferred Stock, Series C” (“the Series C Preferred Stock”) and “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”) shall be deemed to rank on a parity with shares of Series E Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the Corporation. Accordingly, the holders of record of Series A Preferred Stock, the holders of record of Series B Preferred Stock, the holders of record of Series C Preferred Stock, the holders of record of Series D Preferred Stock and the Holders of Series E Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

The Corporation hereby appoints First Chicago Trust Company of New York, a division of EquiServe, as its initial transfer agent, dividend disbursing agent and registrar for the Series E Preferred Stock. The Corporation may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series E Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series E Preferred Stock by the Corporation shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of the Corporation. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in the Corporation's judgment, to give notice by mail, then such notification may be made, in the Corporation's discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of the Corporation.

With respect to any right to purchase shares of the Series E Preferred Stock afforded the Corporation under Section 2(c)(vi) hereof, a Holder must submit notice via facsimile transmission of the terms and price of the offer to each of the following persons at the Corporation:

Facsimile number: (202) 752-5980
Attention: Executive Vice President and Chief Financial Officer

Facsimile number: (202) 752-4948
Attention: General Counsel

Facsimile number: (202) 752-0410
Attention: Vice President – Corporate Finance

The notice also must contain the name, title, address, telephone number and facsimile transmission number of an authorized representative of the Holder to whom the Corporation should respond.

RECEIPT AND ACCEPTANCE OF A SHARE OR SHARES OF THE SERIES E PREFERRED STOCK BY OR ON BEHALF OF A HOLDER SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY SUCH HOLDER (AND ALL OTHERS HAVING BENEFICIAL OWNERSHIP OF SUCH SHARE OR SHARES) OF ALL OF THE TERMS AND PROVISIONS OF THIS CERTIFICATE OF DESIGNATION. NO SIGNATURE OR OTHER FURTHER MANIFESTATION OF ASSENT TO THE TERMS AND PROVISIONS OF THIS CERTIFICATE OF DESIGNATION SHALL BE NECESSARY FOR ITS OPERATION OR EFFECT AS BETWEEN THE CORPORATION AND THE HOLDER (AND ALL SUCH OTHERS).

EXHIBIT 4.3

CERTIFICATE OF DESIGNATION OF TERMS OF VARIABLE RATE NON-CUMULATIVE PREFERRED STOCK, SERIES F

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association (“Fannie Mae”) created by this resolution shall be “Variable Rate Non-Cumulative Preferred Stock, Series F” (the “Series F Preferred Stock”), and the number of shares initially constituting the Series F Preferred Stock is Twelve Million (12,000,000)[1]. Shares of Series F Preferred Stock will have no par value and a stated value and liquidation preference of $50.00 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series F Preferred Stock, provided such reduction is not below the number of shares of Series F Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series F Preferred Stock (each individually a “Holder”, or collectively the “Holders”) will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including March 20, 2000 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a “Dividend Payment Date”), commencing June 30, 2000. If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A “Business Day” shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date.

If declared, the dividend rate for the period from and including March 20, 2000 to but excluding March 31, 2002 will be 6.295% per annum. Thereafter, dividends will accrue at a variable per annum rate (not greater than 11%) equal to the “CMT Rate” (as defined below) minus 0.16%, without taking into account any adjustments pursuant to clause (c) of this Section 2. On March 31, 2002, and on March 31 every two years thereafter, the previous dividend rate will be replaced by the then current CMT Rate minus 0.16%. The CMT Rate for each two-year period will be determined by Fannie Mae on the second Business Day immediately preceding the first day of such period (each, a “CMT Determination Date”). If declared, the initial dividend, which will be for the “Dividend Period” from and including March 20, 2000 to but excluding June 30, 2000, will be $0.8830 per share and will be payable on June 30, 2000. Thereafter, the Dividend Period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the related Dividend Payment Date. If Fannie Mae redeems the Series F Preferred Stock, the dividend that would otherwise be payable for the Dividend Period ending on the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable.

Dividends payable on the Series F Preferred Stock for any period greater or less than a full Dividend Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series F Preferred Stock for each full Dividend Period will be computed by dividing the per annum dividend rate by four. The amount of quarterly dividends per share will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

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[1] Plus up to 1,800,000 additional shares pursuant to the Underwriters’ overallotment option.

(b) The “CMT Rate” for any CMT Determination Date with respect to any Dividend Period will be the rate equal to (in the following order of priority):

(1) the one-week average yield on 2-year United States Treasury securities at “constant maturity” as estimated from the United States Department of the Treasury’s weekly yield curve, as published in the latest H.15(519) (as defined below) available on the applicable CMT Determination Date with respect to such Dividend Period, provided that such H.15(519) was first available not earlier than ten calendar days before such CMT Determination Date, under the column “Week Ending” for the week most recently ended opposite the heading “U.S. government securities-Treasury Constant Maturities, 2-year.”

(2) if the latest H.15(519) available on the applicable CMT Determination Date with respect to such Dividend Period was first available prior to ten calendar days before such CMT Determination Date, the CMT Rate will be such 2-year United States Treasury constant maturity rate (or other 2-year United States Treasury rate) for such CMT Determination Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that Fannie Mae determines to be comparable to the rate formerly published in H.15(519).

(3) if the CMT Rate as described in clause (2) is not published by 10:00 a.m. (New York City time) on the applicable CMT Determination Date, the CMT Rate will be calculated by Fannie Mae and will be a yield to maturity (expressed as a bond equivalent as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such CMT Determination Date of three leading primary United States government securities dealers in The City of New York selected by Fannie Mae (from five such dealers and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for direct noncallable fixed rate obligations of the United States (“Treasury Notes”) most recently issued with an original maturity of approximately two years and a remaining term to maturity of not less than one year. If three or four (and not five) of such dealers are quoting as described in this clause (iii), then the CMT Rate will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated.

(4) if fewer than three dealers selected by Fannie Mae are quoting as described in clause (3), the CMT Rate will be calculated by Fannie Mae and will be a yield to maturity (expressed as a bond equivalent and as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on the applicable CMT Determination Date of three leading primary United States government securities dealers in The City of New York selected by Fannie Mae (from five such dealers and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for Treasury Notes with an original maturity of approximately ten years and a remaining term to maturity closest to two years. If three or four (and not five) of such dealers are quoting as described in this clause (4), then the CMT Rate will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated.

(5) if fewer than three dealers selected by Fannie Mae are quoting as described in clause (4), the CMT Rate will be the CMT Rate in effect for the prior Dividend Period.

In the case of clause (4), if two Treasury Notes with an original maturity of approximately ten years have remaining terms to maturity equally close to two years, the quotes for the Treasury Note with the shorter remaining term to maturity will be used.

“H.15(519)” means the weekly statistical release designated as the H.15(519), as officially published by the Board of Governors of the Federal Reserve System.

Fannie Mae’s determination of the CMT Rate and the dividend rate will be final and binding.

(c) If, prior to September 20, 2001, one or more amendments to the Internal Revenue Code of 1986, as amended (the “Code”), are enacted that eliminate or reduce the percentage of the dividends-received deduction applicable to the Series F Preferred Stock as specified in section 243(a)(1) of the Code or any successor provision thereto (the “Dividends-Received Percentage”), certain adjustments may be made in respect of the dividends payable by Fannie Mae, and Post Declaration Date Dividends and Retroactive Dividends (as such terms are defined below) may become payable, as described below.

The amount of each dividend payable (if declared) per share of Series F Preferred Stock for dividend payments made on or after the effective date of such change in the Code will be adjusted by multiplying the amount of the dividend payable pursuant to clause (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the “DRD Formula”), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1-.35(1-.70)}{1-.35(1-\mathrm{DRP})}$$

For the purposes of the DRD Formula, “DRP” means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends- Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series F Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the Internal Revenue Service (the “IRS”) to the effect that such an amendment does not apply to a dividend payable on the Series F Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. The opinion referenced in the previous sentence shall be based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. Fannie Mae’s calculation of the dividends payable as so adjusted shall be final and not subject to review.

Notwithstanding the foregoing, if any such amendment to the Code is enacted after the dividend payable on a Dividend Payment Date has been declared but before such dividend is paid, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the “Post Declaration Date Dividends”), equal to the excess, if any, of (1) the product of the dividend paid by Fannie Mae on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (2) the dividend paid by Fannie Mae on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date.

If any such amendment to the Code is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which Fannie Mae previously paid dividends on the Series F Preferred Stock (each, an “Affected Dividend Payment Date”), Fannie Mae will pay (if declared) additional dividends (the “Retroactive Dividends”) to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment) or, if the Series F Preferred Stock is called for redemption prior to such record date, to Holders on the applicable redemption date, as the case may be, in an amount equal to the excess of (1) the product of the dividend paid by Fannie Mae on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and .50 applied to each Affected Dividend Payment Date) over (2) the sum of the dividend paid by Fannie Mae on each Affected Dividend Payment Date. Fannie Mae will only make one payment of Retroactive Dividends for any such amendment.

Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series F Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

Notwithstanding the foregoing, no adjustment in the dividends payable by Fannie Mae shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by Fannie Mae, in respect of the enactment of any amendment to the Code after September 20, 2001 that eliminates or reduces the Dividends-Received Percentage.

In the event that the amount of dividends payable per share of Series F Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, Fannie Mae will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series F Preferred Stock.

(d) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series F Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae's common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series F Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series F Preferred Stock for the then current quarterly Dividend Period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series F Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series F Preferred Stock in respect of any prior dividend period. If the full dividend on the Series F Preferred Stock is not paid for any quarterly dividend period, the Holders of Series F Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series F Preferred Stock) for such Dividend Period.

(e) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series F Preferred Stock without the payment of any dividends on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series F Preferred Stock).

(f) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series F Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series F Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series F Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series F Preferred Stock, all dividends declared upon shares of Series F Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series F Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series F Preferred Stock (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series F Preferred Stock for prior Dividend Periods) and such other stock bear to each other.

(g) No dividends may be declared or paid or set apart for payment on any shares of Series F Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series F Preferred Stock.

(h) Holders of Series F Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series F Preferred Stock shall not be redeemable prior to March 31, 2002. On that date and on March 31 every two years thereafter, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series F Preferred Stock, in whole or in part, out of funds legally available therefor, at the redemption price of $50.00 per share plus an amount, determined in accordance with Section 2 above, equal to the amount of the dividend (whether or not declared) for the then-current quarterly Dividend Period accrued to but excluding the date of such redemption, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series F Preferred Stock for prior Dividend Periods. If less than all of the outstanding shares of Series F Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series F Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series F Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series F Preferred Stock to be redeemed and, if fewer than all of the shares of Series F Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder’s certificate(s) representing shares of Series F Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series F Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series F Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series F Preferred Stock called for redemption shall cease to accrue and such Series F Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series F Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series F Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series F Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series F Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series F Preferred Stock will have no right to require redemption of any shares of Series F Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series F Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae’s common stock (or any other stock of

Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series F Preferred Stock), the amount of $50.00 per share plus an amount, determined in accordance with Section 2 above, equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series F Preferred Stock for prior Dividend Periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series F Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series F Preferred Stock, the assets will be distributed to the Holders of Series F Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series F Preferred Stock for prior Dividend Periods).

(c) Notwithstanding the foregoing, Holders of Series F Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series F Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series F Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion Or Exchange Rights.

The Holders of shares of Series F Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series F Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series F Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series F Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series F Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series F Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series F Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series F Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series F Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series F Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series F Preferred Stock may be amended, altered, supplemented or repealed only with the consent of the Holders of at least two-thirds of the shares of Series F Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series F Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series F Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series F Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series F Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series F Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series F Preferred Stock.

(b) On a parity with shares of Series F Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series F Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series F Preferred Stock.

(c) Junior to shares of Series F Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series F Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated "6.41% Non-Cumulative Preferred Stock, Series A" (the "Series A Preferred Stock"), "6.50% Non-Cumulative Preferred Stock, Series B" (the "Series B Preferred Stock"), "6.45% Non-Cumulative Preferred Stock, Series C" ("the Series C Preferred Stock"), "5.25% Non-Cumulative Preferred Stock, Series D" ("the Series D Preferred Stock") and "5.10% Non-Cumulative Preferred Stock, Series E" ("the Series E Preferred Stock") shall be deemed to rank on a parity with shares of Series F Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series A Preferred Stock, the holders of record of Series B Preferred Stock, the holders of record of Series C Preferred Stock, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock and the Holders of Series F Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints First Chicago Trust Company a division of EquiServe as its initial transfer agent, dividend disbursing agent and registrar for the Series F Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series F Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series F Preferred Stock by Fannie Mae shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae's judgment, to give notice by mail, then such notification may be made, in Fannie Mae's discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series F Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).

EXHIBIT 4.4

CERTIFICATE OF DESIGNATION OF TERMS OF VARIABLE RATE NON-CUMULATIVE PREFERRED STOCK, SERIES G

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association ("Fannie Mae") created by this resolution shall be "Variable Rate Non-Cumulative Preferred Stock, Series G" (the "Series G Preferred Stock"), and the number of shares initially constituting the Series G Preferred Stock is Five Million (5,000,000)[1]. Shares of Series G Preferred Stock will have no par value and a stated value and liquidation preference of $50.00 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series G Preferred Stock, provided such reduction is not below the number of shares of Series G Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series G Preferred Stock (each individually a "Holder", or collectively the "Holders") will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including August 8, 2000 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing September 30, 2000. If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date.

If declared, the dividend rate for the period from and including August 8, 2000 to but excluding September 30, 2002 will be 6.023% per annum. Thereafter, dividends will accrue at a variable per annum rate (not greater than 11%) equal to the "CMT Rate" (as defined below) minus 0.18%, without taking into account any adjustments pursuant to clause (c) of this Section 2. On September 30, 2002 and on September 30 every two years thereafter until redemption, the previous dividend rate will be replaced by the then-current CMT Rate minus 0.18%. The CMT Rate for each two-year period will be determined by Fannie Mae on the second Business Day immediately preceding the first day of such period (each, a "CMT Determination Date"). If declared, the initial dividend, which will be for the "Dividend Period" from and including August 8, 2000 to but excluding September 30, 2000, will be $0.4350 per share and will be payable on September 30, 2000. Thereafter, the Dividend Period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the related Dividend Payment Date. If Fannie Mae redeems the Series G Preferred Stock, the dividend that would otherwise be payable for the Dividend Period ending on the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable.

Dividends payable on the Series G Preferred Stock for any period greater or less than a full Dividend Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series G Preferred Stock for each full Dividend Period will be computed by dividing the per annum dividend rate by four. The amount of quarterly dividends per share will be calculated by multiplying the preceding rate by the stated value per share of $50, the product of which will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

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[1] Plus up to 750,000 additional shares pursuant to the Underwriters' overallotment option.

(b) The “CMT Rate” for any CMT Determination Date with respect to any Dividend Period will be the rate equal to (in the following order of priority):

(1) the one-week average yield on 2-year United States Treasury securities at “constant maturity” as estimated from the United States Department of the Treasury’s weekly yield curve, as published in the latest H.15(519) (as defined below) available on the applicable CMT Determination Date with respect to such Dividend Period, provided that such H.15(519) was first available not earlier than ten calendar days before such CMT Determination Date, under the column “Week Ending” for the week most recently ended opposite the heading “U.S. government securities-Treasury Constant Maturities, 2-year.”

(2) if the latest H.15(519) available on the applicable CMT Determination Date with respect to such Dividend Period was first available prior to ten calendar days before such CMT Determination Date, the CMT Rate will be such 2-year United States Treasury constant maturity rate (or other 2-year United States Treasury rate) for such CMT Determination Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that Fannie Mae determines to be comparable to the rate formerly published in H.15(519).

(3) if the CMT Rate as described in clause (2) is not published by 10:00 a.m. (New York City time) on the applicable CMT Determination Date, the CMT Rate will be calculated by Fannie Mae and will be a yield to maturity (expressed as a bond equivalent as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such CMT Determination Date of three leading primary United States government securities dealers in The City of New York selected by Fannie Mae (from five such dealers and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for direct noncallable fixed rate obligations of the United States (“Treasury Notes”) most recently issued with an original maturity of approximately two years and a remaining term to maturity of not less than one year. If three or four (and not five) of such dealers are quoting as described in this clause (iii), then the CMT Rate will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated.

(4) if fewer than three dealers selected by Fannie Mae are quoting as described in clause (3), the CMT Rate will be calculated by Fannie Mae and will be a yield to maturity (expressed as a bond equivalent and as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on the applicable CMT Determination Date of three leading primary United States government securities dealers in The City of New York selected by Fannie Mae (from five such dealers and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for Treasury Notes with an original maturity of approximately ten years and a remaining term to maturity closest to two years. If three or four (and not five) of such dealers are quoting as described in this clause (4), then the CMT Rate will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated.

(5) if fewer than three dealers selected by Fannie Mae are quoting as described in clause (4), the CMT Rate will be the CMT Rate determined on the immediately preceding CMT Determination Date.

In the case of clause (4), if two Treasury Notes with an original maturity of approximately ten years have remaining terms to maturity equally close to two years, the quotes for the Treasury Note with the shorter remaining term to maturity will be used.

“H.15(519)” means the weekly statistical release designated as the H.15(519), as officially published by the Board of Governors of the Federal Reserve System.

Fannie Mae's determination of the CMT Rate and the dividend rate will be final and binding.

(c) If, prior to February 8, 2002, one or more amendments to the Internal Revenue Code of 1986, as amended (the "Code"), are enacted that eliminate or reduce the percentage of the dividends-received deduction applicable to the Series G Preferred Stock as specified in section 243(a)(1) of the Code or any successor provision thereto (the "Dividends-Received Percentage"), certain adjustments may be made in respect of the dividends payable by Fannie Mae, and Post Declaration Date Dividends and Retroactive Dividends (as such terms are defined below) may become payable, as described below.

The amount of each dividend payable (if declared) per share of Series G Preferred Stock for dividend payments made on or after the effective date of such change in the Code will be adjusted by multiplying the amount of the dividend payable pursuant to clause (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the "DRD Formula"), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1-.35(1-.70)}{1-.35(1-\mathrm{DRP})}$$

For purposes of the DRD Formula, "DRP" means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends-Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series G Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the Internal Revenue Service (the "IRS") to the effect that such an amendment does not apply to a dividend payable on the Series G Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. The opinion referenced in the previous sentence shall be based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. Fannie Mae's calculation of the dividends payable as so adjusted shall be final and not subject to review.

Notwithstanding the foregoing, if any such amendment to the Code is enacted after the dividend payable on a Dividend Payment Date has been declared but before such dividend is paid, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the "Post Declaration Date Dividends"), equal to the excess, if any, of (1) the product of the dividend paid by Fannie Mae on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (2) the dividend paid by Fannie Mae on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date.

If any such amendment to the Code is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which Fannie Mae previously paid dividends on the Series G Preferred Stock (each, an "Affected Dividend Payment Date"), Fannie Mae will pay (if declared) additional dividends (the "Retroactive Dividends") to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment) or, if the Series G Preferred Stock is called for redemption prior to such record date, to Holders on the applicable redemption date, as the case may be, in an amount equal to the excess of (1) the product of the dividend paid by Fannie Mae on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and .50 applied to each Affected Dividend

Payment Date) over (2) the sum of the dividend paid by Fannie Mae on each Affected Dividend Payment Date. Fannie Mae will only make one payment of Retroactive Dividends for any such amendment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series G Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

Notwithstanding the foregoing, no adjustment in the dividends payable by Fannie Mae shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by Fannie Mae, in respect of the enactment of any amendment to the Code after February 8, 2002 that eliminates or reduces the Dividends-Received Percentage.

In the event that the amount of dividends payable per share of Series G Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, Fannie Mae will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series G Preferred Stock.

(d) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series G Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae’s common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series G Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series G Preferred Stock for the then current quarterly Dividend Period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series G Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series G Preferred Stock in respect of any prior dividend period. If the full dividend on the Series G Preferred Stock is not paid for any quarterly dividend period, the Holders of Series G Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series G Preferred Stock) for such Dividend Period.

(e) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series G Preferred Stock without the payment of any dividends on Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series G Preferred Stock).

(f) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series G Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series G Preferred Stock for the then-current quarterly Dividend Period. When dividends are not paid in full upon the Series G Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series G Preferred Stock, all dividends declared upon shares of Series G Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series G Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series G Preferred Stock (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior Dividend Periods) and such other stock bear to each other.

(g) No dividends may be declared or paid or set apart for payment on any shares of Series G Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series G Preferred Stock.

(h) Holders of Series G Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series G Preferred Stock shall not be redeemable prior to September 30, 2002. On that date and on September 30 every two years thereafter, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series G Preferred Stock, in whole or in part, out of funds legally available therefor, at the redemption price of $50.00 per share plus an amount, determined in accordance with Section 2 above, equal to the amount of the dividend (whether or not declared) for the then-current quarterly Dividend Period accrued to but excluding the date of such redemption, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series G Preferred Stock for prior Dividend Periods. If less than all of the outstanding shares of Series G Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series G Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series G Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series G Preferred Stock to be redeemed and, if fewer than all of the shares of Series G Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series G Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series G Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series G Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series G Preferred Stock called for redemption shall cease to accrue and such Series G Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series G Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series G Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series G Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series G Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series G Preferred Stock will have no right to require redemption of any shares of Series G Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series G Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series G Preferred Stock), the amount of $50.00 per share plus an amount, determined in accordance with Section 2 above, equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series G Preferred Stock for prior Dividend Periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series G Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series G Preferred stock, the assets will be distributed to the Holders of Series G Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior Dividend Periods).

(c) Notwithstanding the foregoing, Holders of Series G Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series G Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series G Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion Or Exchange Rights.

The Holders of shares of Series G Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series G Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series G Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series G Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series G Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series G Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series G Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series G Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series G Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series G Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series G Preferred Stock may be amended, altered, supplemented or repealed only with the consent of the Holders of at least two-thirds of the shares of Series G Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series G Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series G Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series G Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series G Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series G Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series G Preferred Stock.

(b) On a parity with shares of Series G Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series G Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series G Preferred Stock.

(c) Junior to shares of Series G Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series G Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated "6.41% Non-Cumulative Preferred Stock, Series A" (the "Series A Preferred Stock"), "6.50% Non-Cumulative Preferred Stock, Series B" (the "Series B Preferred Stock"), "6.45% Non-Cumulative Preferred Stock, Series C" (the "Series C Preferred Stock"), "5.25% Non-Cumulative Preferred Stock, Series D" (the "Series D Preferred Stock"), "5.10% Non-Cumulative Preferred Stock, Series E" (the "Series E Preferred Stock") and "Variable Rate Non-Cumulative Preferred Stock, Series F" (the "Series F Preferred Stock") shall be deemed to rank on a parity with shares of Series G Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series A Preferred Stock, the holders of record of Series B Preferred Stock, the holders of record of Series C Preferred Stock, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock and the Holders of Series G Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints First Chicago Trust Company a division of EquiServe as its initial transfer agent, dividend disbursing agent and registrar for the Series G Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series G Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series G Preferred Stock by Fannie Mae shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae's judgment, to give notice by mail, then such notification may be made, in Fannie Mae's discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series G Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).

EXHIBIT 4.5

CERTIFICATE OF DESIGNATION OF TERMS OF 5.81% NON-CUMULATIVE PREFERRED STOCK, SERIES H

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association ("Fannie Mae") created by this resolution shall be "5.81% Non-Cumulative Preferred Stock, Series H" (the "Series H Preferred Stock"), and the number of shares initially constituting the Series H Preferred Stock is Eight Million (8,000,000). Shares of Series H Preferred Stock will have no par value and a stated value and liquidation preference of $50 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series H Preferred Stock, provided such reduction is not below the number of shares of Series H Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series H Preferred Stock (each individually a "Holder", or collectively the "Holders") will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including April 6, 2001 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing June 30, 2001 at the annual rate of $2.9052 per share or 5.81% of the stated value and liquidation preference of $50 per share (without taking into account any adjustments referred to in clause (b) below). If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date. If declared, the initial dividend, which will be for the period from and including April 6, 2001 to but excluding June 30, 2001, will be $0.6778 per share and will be payable on June 30, 2001 and, thereafter, if declared, quarterly dividends will be $0.7263 per share. After the initial dividend, the dividend period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the related Dividend Payment Date. If Fannie Mae redeems the Series H Preferred Stock, the dividend that would otherwise be payable for the then-current quarterly dividend period accrued to but excluding the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable. Dividends payable on the Series H Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

(b) If, prior to October 6, 2002, one or more amendments to the Internal Revenue Code of 1986, as amended (the "Code"), are enacted that eliminate or reduce the percentage of the dividends-received deduction applicable to the Series H Preferred Stock as specified in section 243(a)(1) of the Code or any successor provision thereto (the "Dividends-Received Percentage"), certain adjustments may be made in respect of the dividends payable by Fannie Mae, and Post Declaration Date Dividends and Retroactive Dividends (as such terms are defined below) may become payable, as described below. The amount of each dividend payable (if declared) per share of Series H Preferred Stock for dividend payments made on or after the effective date of such change in the Code will be adjusted by multiplying the amount of the dividend payable pursuant to clause (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the "DRD Formula"), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1-.35(1-.70)}{1-.35(1-DRP)}$$

For purposes of the DRD Formula, "DRP" means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends-Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series H Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the Internal Revenue Service (the "IRS") to the effect that such an amendment does not apply to a dividend payable on the Series H Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. The opinion referenced in the previous sentence shall be based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. Fannie Mae's calculation of the dividends payable as so adjusted shall be final and not subject to review.

Notwithstanding the foregoing, if any such amendment to the Code is enacted after the dividend payable on a Dividend Payment Date has been declared but before such dividend is paid, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the "Post Declaration Date Dividends"), equal to the excess, if any, of (1) the product of the dividend paid by Fannie Mae on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (2) the dividend paid by Fannie Mae on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date.

If any such amendment to the Code is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which Fannie Mae previously paid dividends on the Series H Preferred Stock (each, an "Affected Dividend Payment Date"), Fannie Mae will pay (if declared) additional dividends (the "Retroactive Dividends") to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment), in an amount equal to the excess of (1) the product of the dividend paid by Fannie Mae on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and .50 applied to each Affected Dividend Payment Date) over (2) the sum of the dividend paid by Fannie Mae on each Affected Dividend Payment Date. Fannie Mae will only make one payment of Retroactive Dividends for any such amendment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series H Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

Notwithstanding the foregoing, no adjustment in the dividends payable by Fannie Mae shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by Fannie Mae, in respect of the enactment of any amendment to the Code on or after October 6, 2002 that eliminates or reduces the Dividends-Received Percentage.

In the event that the amount of dividends payable per share of Series H Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, Fannie Mae will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series H Preferred Stock.

(c) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series H Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae's common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series H Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series H Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series H Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series H Preferred Stock in respect of any prior dividend period. If the full dividend on the Series H Preferred Stock is not paid for any quarterly dividend period, the Holders of Series H Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series H Preferred Stock) for such dividend period.

(d) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series H Preferred Stock without the payment of any dividends on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series H Preferred Stock).

(e) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series H Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series H Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series H Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series H Preferred Stock, all dividends declared upon shares of Series H Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series H Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series H Preferred Stock (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods) and such other stock bear to each other.

(f) No dividends may be declared or paid or set apart for payment on any shares of Series H Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series H Preferred Stock.

(g) Holders of Series H Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series H Preferred Stock shall not be redeemable prior to April 6, 2006. On or after that date, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series H Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of $50 per share plus an amount equal to the amount of the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series H Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series H Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series H Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series H Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series H Preferred Stock to be redeemed and, if fewer than all of the shares of Series H Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series H Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series H Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series H Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series H Preferred Stock called for redemption shall cease to accrue and such Series H Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series H Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series H Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series H Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series H Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series H Preferred Stock will have no right to require redemption of any shares of Series H Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series H Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series H Preferred Stock), the amount of $50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series H Preferred Stock for prior dividend periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series H Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series H Preferred Stock, the assets will be distributed to the Holders of Series H Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods).

(c) Notwithstanding the foregoing, Holders of Series H Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series H Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series H Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion Or Exchange Rights.

The Holders of shares of Series H Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series H Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series H Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series H Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series H Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series H Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series H Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series H Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series H Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series H Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series H Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the shares of Series H Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series H Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series H Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series H Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series H Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series H Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series H Preferred Stock.

(b) On a parity with shares of Series H Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series H Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series H Preferred Stock.

(c) Junior to shares of Series H Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series H Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated “6.50% Non-Cumulative Preferred Stock, Series B” (the “Series B Preferred Stock”), “6.45% Non-Cumulative Preferred Stock, Series C” (the “Series C Preferred Stock”), “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”), “5.10% Non-Cumulative Preferred Stock, Series E” (the “Series E Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series F” (the “Series F Preferred Stock”) and “Variable Rate Non-Cumulative Preferred Stock, Series G” (the “Series G Preferred Stock”) shall be deemed to rank on a parity with shares of Series H Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series B Preferred Stock, the holders of record of Series C Preferred Stock, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock, the holders of record of Series G Preferred Stock and the Holders of Series H Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints First Chicago Trust Company a division of EquiServe as its initial transfer agent, dividend disbursing agent and registrar for the Series H Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series H Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series H Preferred Stock by Fannie Mae shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae’s judgment, to give notice by mail, then such notification may be made, in Fannie Mae’s discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series H Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).

EXHIBIT 4.6

CERTIFICATE OF DESIGNATION OF TERMS OF
5.375% NON-CUMULATIVE PREFERRED STOCK, SERIES I

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association ("Fannie Mae") created by this resolution shall be "5.375% Non-Cumulative Preferred Stock, Series I" (the "Series I Preferred Stock"), and the number of shares initially constituting the Series I Preferred Stock is 6,000,000*. Shares of Series I Preferred Stock will have no par value and a stated value and liquidation preference of $50 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series I Preferred Stock, provided such reduction is not below the number of shares of Series I Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series I Preferred Stock (each individually a "Holder", or collectively the "Holders") will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including October 28, 2002 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing December 31, 2002 at the annual rate of $2.6875 per share or 5.375% of the stated value and liquidation preference of $50 per share (without taking into account any adjustments referred to in clause (b) below). If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date. If declared, the initial dividend, which will be for the period from and including October 28, 2002 to but excluding December 31, 2002, will be $0.4703 per share and will be payable on December 31, 2002 and, thereafter, if declared, quarterly dividends will be $0.6719 per share. After the initial dividend, the dividend period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the related Dividend Payment Date. If Fannie Mae redeems the Series I Preferred Stock, the dividend that would otherwise be payable for the then-current quarterly dividend period accrued to but excluding the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable. Dividends payable on the Series I Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

(b) If, prior to April 28, 2004, one or more amendments to the Internal Revenue Code of 1986, as amended (the "Code"), are enacted that eliminate or reduce the percentage of the dividends-received deduction applicable to the Series I Preferred Stock as specified in section 243(a)(1) of the Code or any successor provision thereto (the "Dividends-Received Percentage"), certain adjustments may be made in respect of the dividends payable by Fannie Mae, and Post Declaration Date Dividends and Retroactive Dividends (as such terms are defined below) may become payable, as described below.

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* Plus up to 900,000 additional shares pursuant to the Underwriters' overallotment option.

The amount of each dividend payable (if declared) per share of Series I Preferred Stock for dividend payments made on or after the effective date of such change in the Code will be adjusted by multiplying the amount of the dividend payable pursuant to clause (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the “DRD Formula”), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1–.35(1–.70)}{1–.35(1–DRP)}$$

For purposes of the DRD Formula, “DRP” means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends-Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series I Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the Internal Revenue Service (the “IRS”) to the effect that such an amendment does not apply to a dividend payable on the Series I Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. The opinion referenced in the previous sentence shall be based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. Fannie Mae’s calculation of the dividends payable as so adjusted shall be final and not subject to review.

Notwithstanding the foregoing, if any such amendment to the Code is enacted after the dividend payable on a Dividend Payment Date has been declared but before such dividend is paid, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the “Post Declaration Date Dividends”), equal to the excess, if any, of (1) the product of the dividend paid by Fannie Mae on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (2) the dividend paid by Fannie Mae on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date. If any such amendment to the Code is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which Fannie Mae previously paid dividends on the Series I Preferred Stock (each, an “Affected Dividend Payment Date”), Fannie Mae will pay (if declared) additional dividends (the “Retroactive Dividends”) to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment), in an amount equal to the excess of (1) the product of the dividend paid by Fannie Mae on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and .50 applied to each Affected Dividend Payment Date) over (2) the sum of the dividend paid by Fannie Mae on each Affected Dividend Payment Date. Fannie Mae will only make one payment of Retroactive Dividends for any such amendment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series I Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

Notwithstanding the foregoing, no adjustment in the dividends payable by Fannie Mae shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by Fannie Mae, in respect of the enactment of any amendment to the Code on or after April 28, 2004 that eliminates or reduces the Dividends- Received Percentage.

In the event that the amount of dividends payable per share of Series I Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, Fannie Mae will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series I Preferred Stock.

(c) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series I Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae's common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series I Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series I Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series I Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series I Preferred Stock in respect of any prior dividend period. If the full dividend on the Series I Preferred Stock is not paid for any quarterly dividend period, the Holders of Series I Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series I Preferred Stock) for such dividend period.

(d) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series I Preferred Stock without the payment of any dividends on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series I Preferred Stock).

(e) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series I Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series I Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series I Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series I Preferred Stock, all dividends declared upon shares of Series I Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series I Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series I Preferred Stock (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods) and such other stock bear to each other.

(f) No dividends may be declared or paid or set apart for payment on any shares of Series I Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series I Preferred Stock.

(g) Holders of Series I Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series I Preferred Stock shall not be redeemable prior to October 28, 2007. On or after that date, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series I Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of $50 per share plus an amount equal to the amount of the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series I Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series I Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series I Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series I Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series I Preferred Stock to be redeemed and, if fewer than all of the shares of Series I Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder’s certificate(s) representing shares of Series I Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series I Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series I Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series I Preferred Stock called for redemption shall cease to accrue and such Series I Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series I Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series I Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series I Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series I Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series I Preferred Stock will have no right to require redemption of any shares of Series I Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series I Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series I Preferred Stock), the amount of $50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series I Preferred Stock for prior dividend periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series I Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series I Preferred Stock, the assets will be distributed to the Holders of Series I Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods).

(c) Notwithstanding the foregoing, Holders of Series I Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series I Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series I Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion or Exchange Rights.

The Holders of shares of Series I Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series I Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series I Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series I Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series I Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series I Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series I Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series I Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series I Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series I Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series I Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the shares of Series I Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series I Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series I Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series I Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series I Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series I Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series I Preferred Stock.

(b) On a parity with shares of Series I Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series I Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series I Preferred Stock.

(c) Junior to shares of Series I Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series I Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”), “5.10% Non-Cumulative Preferred Stock, Series E” (the “Series E Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series F” (the “Series F Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series G” (the “Series G Preferred Stock”) and “5.81% Non-Cumulative Preferred Stock, Series H” (the “Series H Preferred Stock”) shall be deemed to rank on a parity with shares of Series I Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock, the holders of record of Series G Preferred Stock, the Holders of Series H Preferred Stock and the Holders of Series I Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints EquiServe Trust Company, N.A., as its initial transfer agent, dividend disbursing agent and registrar for the Series I Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series I Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series I Preferred Stock by Fannie Mae shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae’s judgment, to give notice by mail, then such notification may be made, in Fannie Mae’s discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series I Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).

EXHIBIT 4.7

CERTIFICATE OF DESIGNATION OF TERMS OF
VARIABLE RATE NON-CUMULATIVE PREFERRED STOCK, SERIES J

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association ("Fannie Mae") created by this resolution shall be "Variable Rate Non-Cumulative Preferred Stock, Series J" (the "Series J Preferred Stock"), and the number of shares initially constituting the Series J Preferred Stock is 12,500,000*. Shares of Series J Preferred Stock will have no par value and a stated value and liquidation preference of $50 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series J Preferred Stock, provided such reduction is not below the number of shares of Series J Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series J Preferred Stock (each individually a "Holder", or collectively the "Holders") will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including November 26, 2002 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing March 31, 2003. If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date.

If declared, the dividend rate for the period from and including November 26, 2002 to but excluding November 26, 2004 will be 3.78% per annum. Thereafter, dividends will accrue at a per annum rate equal to the "Swap Rate" (as defined below) plus 1.38% without taking into account any adjustments described below, subject to a cap of 8.00% per annum. On November 26, 2004 and every two years thereafter until any redemption, the previous dividend rate will be replaced by the applicable Swap Rate plus 1.38%, subject to a cap of 8.00% per annum. The Swap Rate for each two-year period will be determined by Fannie Mae on the second Business Day immediately preceding the first day of such period (each, a "Swap Determination Date"). If declared, the initial dividend for the dividend period from and including November 26, 2002 to but excluding March 31, 2003, will be $0.6563 per share and will be payable on March 31, 2003. Thereafter, the dividend period related to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the applicable Dividend Payment Date. If Fannie Mae redeems the Series J Preferred Stock, the dividend that would otherwise be payable for the then-current quarterly dividend period accrued to but excluding the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable.

Dividends payable on the Series J Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series J Preferred Stock for each full dividend period will be computed by dividing the per annum dividend rate by four. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

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* Plus up to 1,500,000 additional shares pursuant to the Underwriters' overallotment option.

(b) The “Swap Rate” for any Swap Determination Date will be the rate equal to (in the following order of priority):

(1) the average rate for two-year U.S. Dollar swaps, expressed as a percentage, which appears on the Reuters Screen ISDAFIX3 Page at 11:30 a.m., New York City time, available on the applicable Swap Determination Date, with respect to such dividend period;

(2) if the average rate for two-year U.S. Dollar swaps described in clause (1) does not appear on the Reuters Screen ISDAFIX3 Page at 11:30 a.m. on the applicable Swap Determination Date, the Swap Rate will be the mid-market rate for two-year U.S. Dollar swaps, expressed as a percentage, which appears on the Moneyline Telerate Page 19901 at 11:30 a.m., New York City time, available on the applicable Swap Determination Date with respect to such dividend period;

(3) if the mid-market rate for two year U.S. Dollar swaps described in clause (2) does not appear on the Moneyline Telerate Page 19901 at 11:30 a.m. on the applicable Swap Determination Date, the Swap Rate will be a percentage determined by Fannie Mae, based on the arithmetic mean of the mid-market rate for two-year U.S. Dollar swap quotations provided by five leading primary securities dealers in The City of New York selected by Fannie Mae, at approximately 3:00 p.m., New York City time, on the applicable Swap Determination Date with respect to such dividend period. If four or five of such dealers are quoting as described in this clause, the Swap Rate will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Swap Rate will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. The Swap Rate determined pursuant to clause (3) will be rounded to the third digit after the decimal (if the fourth digit is five or greater, the third digit will be rounded up by one); or

(4) if fewer than three dealers selected by Fannie Mae are quoting as described in clause (3), the Swap Rate will be the Swap Rate determined on the immediately preceding Swap Determination Date, which will be replaced by the applicable Swap Rate on the first day on which it can be determined as described above in clause (1), clause (2) or clause (3) (in that order of priority).

If the rate of interest will reset within a dividend period, accrued dividends will be calculated by multiplying the stated value of the Preferred Stock by an accrual factor. This accrual factor will be computed by the totaling of the factors calculated for each day in the dividend period. The daily dividend period factor for each day will be computed by dividing the annual dividend rate applicable for that day by 360. If the same annual dividend rate is applicable for all days of a calendar month, the daily dividend period factor is multiplied by 30. If different annual dividend rates are applicable for one or more days in a calendar month and the entire calendar month is within the dividend period, a weighted average is to be calculated for the sum of the daily dividend period factors in that month divided by the actual number of days in that month. The weighted average daily dividend period factor then is multiplied by 30.

If the format of a page, screen, display, press release or other source related to an index to be used in determining the dividend rate of the Preferred Stock changes but, in the discretion of Fannie Mae, the source continues to disclose the information necessary to determine the rate substantially as described in this section, then the procedure for obtaining information from the source shall be deemed to be amended by Fannie Mae.

Fannie Mae’s determination of the Swap Rate and dividend rate will be final and binding on all parties, absent manifest error.

“Moneyline Telerate” means, when used in connection with any designated page and any Swap Rate, the display page so designated on Moneyline Telerate (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that Swap Rate).

“Moneyline Telerate Page 19901” means page 19901 (or any other page as may replace such page) on the display of Moneyline Telerate (or any successor service).

“Reuters Screen” means, when used in connection with any designated page and any Swap Rate, the display page so designated on the Reuters Money 3000 Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that Swap Rate).

“Reuters Screen ISDAFIX3 Page” means page ISDAFIX3 (or any other page as may replace such page) on the display of Reuters Screen (or any successor service);

(c) If, prior to May 26, 2004, one or more amendments to the Internal Revenue Code of 1986, as amended (the “Code”), are enacted that eliminate or reduce the percentage of the dividends-received deduction applicable to the Series J Preferred Stock as specified in section 243(a)(1) of the Code or any successor provision thereto (the “Dividends-Received Percentage”), certain adjustments may be made in respect of the dividends payable by Fannie Mae, and Post Declaration Date Dividends and Retroactive Dividends (as such terms are defined below) may become payable, as described below.

The amount of each dividend payable (if declared) per share of Series J Preferred Stock for dividend payments made on or after the effective date of such change in the Code will be adjusted by multiplying the amount of the dividend payable pursuant to clause (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the “DRD Formula”), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1-.35(1-.70)}{1-.35(1-\mathrm{DRP})}$$

For purposes of the DRD Formula, “DRP” means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends-Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series J Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the Internal Revenue Service (the “IRS”) to the effect that such an amendment does not apply to a dividend payable on the Series J Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. The opinion referenced in the previous sentence shall be based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. Fannie Mae’s calculation of the dividends payable as so adjusted shall be final and not subject to review.

Notwithstanding the foregoing, if any such amendment to the Code is enacted after the dividend payable on a Dividend Payment Date has been declared but before such dividend is paid, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the “Post Declaration Date Dividends”), equal to the excess, if any, of (1) the product of the dividend paid by Fannie Mae on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (2) the dividend paid by Fannie Mae on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date.

If any such amendment to the Code is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which Fannie Mae previously paid dividends on the

Series J Preferred Stock (each, an “Affected Dividend Payment Date”), Fannie Mae will pay (if declared) additional dividends (the “Retroactive Dividends”) to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment), in an amount equal to the excess of (1) the product of the dividend paid by Fannie Mae on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and .50 applied to each Affected Dividend Payment Date) over (2) the sum of the dividend paid by Fannie Mae on each Affected Dividend Payment Date. Fannie Mae will only make one payment of Retroactive Dividends for any such amendment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series J Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

Notwithstanding the foregoing, no adjustment in the dividends payable by Fannie Mae shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by Fannie Mae, in respect of the enactment of any amendment to the Code on or after May 26, 2004 that eliminates or reduces the Dividends-Received Percentage.

In the event that the amount of dividends payable per share of Series J Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, Fannie Mae will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series J Preferred Stock.

(d) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series J Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae’s common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series J Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series J Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series J Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series J Preferred Stock in respect of any prior dividend period. If the full dividend on the Series J Preferred Stock is not paid for any quarterly dividend period, the Holders of Series J Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series J Preferred Stock) for such dividend period.

(e) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series J Preferred Stock without the payment of any dividends on Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series J Preferred Stock).

(f) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series J Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series J Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series J Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series J Preferred Stock, all dividends declared upon shares of Series J Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series J Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series J Preferred Stock (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods) and such other stock bear to each other.

(g) No dividends may be declared or paid or set apart for payment on any shares of Series J Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series J Preferred Stock.

(h) Holders of Series J Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series J Preferred Stock shall not be redeemable prior to November 26, 2004. On or after that date, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series J Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of $50 per share plus an amount equal to the amount of the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series J Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series J Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series J Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series J Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series J Preferred Stock to be redeemed and, if fewer than all of the shares of Series J Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series J Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series J Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series J Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series J Preferred Stock called for redemption shall cease to accrue and such Series J Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series J Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series J Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series J Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series J Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series J Preferred Stock will have no right to require redemption of any shares of Series J Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series J Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series J Preferred Stock), the amount of $50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series J Preferred Stock for prior dividend periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series J Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series J Preferred Stock, the assets will be distributed to the Holders of Series J Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods).

(c) Notwithstanding the foregoing, Holders of Series J Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series J Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series J Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion or Exchange Rights.

The Holders of shares of Series J Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series J Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series J Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series J Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series J Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that maybe defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series J Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series J Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series J Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series J Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series J Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series J Preferred Stock maybe amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the shares of Series J Preferred Stock then outstanding, given in person or by proxy , either in writing or at a meeting of stockholders at which the Holders of Series J Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series J Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series J Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series J Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series J Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case maybe, in preference or priority to the Holders of shares of Series J Preferred Stock.

(b) On a parity with shares of Series J Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series J Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series J Preferred Stock.

(c) Junior to shares of Series J Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series J Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”), “5.10% Non-Cumulative Preferred Stock, Series E” (the “Series E Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series F” (the “Series F Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series G” (the “Series G Preferred Stock”), “5.81% Non-Cumulative Preferred Stock, Series H” (the “Series H Preferred Stock”) and “5.375% Non-Cumulative Preferred Stock, Series I” (the “Series I Preferred Stock”) shall be deemed to rank on a parity with shares of Series J Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock, the holders of record of Series G Preferred Stock, the Holders of Series H Preferred Stock, the Holders of Series I Preferred Stock and the Holders of Series J Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints EquiServe Trust Company, N.A., as its initial transfer agent, dividend disbursing agent and registrar for the Series J Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series J Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series J Preferred Stock by Fannie Mae shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae’s judgment, to give notice by mail, then such notification may be made, in Fannie Mae’s discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series J Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).

EXHIBIT 4.8

CERTIFICATE OF DESIGNATION OF TERMS OF VARIABLE RATE NON-CUMULATIVE PREFERRED STOCK, SERIES K

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association (“Fannie Mae”) created by this resolution shall be “Variable Rate Non-Cumulative Preferred Stock, Series K” (the “Series K Preferred Stock”), and the number of shares initially constituting the Series K Preferred Stock is 7,000,000*. Shares of Series K Preferred Stock will have no par value and a stated value and liquidation preference of $50 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series K Preferred Stock, provided such reduction is not below the number of shares of Series K Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series K Preferred Stock (each individually a “Holder”, or collectively the “Holders”) will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including March 18, 2003 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a “Dividend Payment Date”), commencing June 30, 2003. If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A “Business Day” shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date. If declared, the dividend rate for the period from and including March 18, 2003 to but excluding March 18, 2005 will be 3.00% per annum. Thereafter, dividends will accrue at a per annum rate equal to the “Swap Rate” (as defined below) plus 1.33% without taking into account any adjustments described below, subject to a cap of 8.00% per annum. On March 18, 2005 and every two years thereafter until any redemption, the previous dividend rate will be replaced by the applicable Swap Rate plus 1.33%, subject to a cap of 8.00% per annum. The Swap Rate for each two-year period will be determined by Fannie Mae on the second Business Day immediately preceding the first day of such period (each, a “Swap Determination Date”). If declared, the initial dividend for the dividend period from and including March 18, 2003 to but excluding June 30, 2003, will be $0.4250 per share and will be payable on June 30, 2003. Thereafter, the dividend period related to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the applicable Dividend Payment Date. If Fannie Mae redeems the Series K Preferred Stock, the dividend that would otherwise be payable for the then-current quarterly dividend period accrued to but excluding the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable. Dividends payable on the Series K Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series K Preferred Stock for each full dividend period will be computed by dividing the per annum dividend rate by four. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

(b) The “Swap Rate” for any Swap Determination Date will be the rate equal to (in the following order of priority):

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* Plus up to 1,050,000 additional shares pursuant to the Underwriters’ overallotment option.

(1) the average rate for two-year U.S. Dollar swaps, expressed as a percentage, which appears on the Reuters Screen ISDAFIX3 Page at 11:30 a.m., New York City time, available on the applicable Swap Determination Date, with respect to such dividend period;

(2) if the average rate for two-year U.S. Dollar swaps described in clause (1) does not appear on the Reuters Screen ISDAFIX3 Page at 11:30 a.m. on the applicable Swap Determination Date, the Swap Rate will be the mid-market rate for two-year U.S. Dollar swaps, expressed as a percentage, which appears on the Moneyline Telerate Page 19901 at 11:30 a.m., New York City time, available on the applicable Swap Determination Date with respect to such dividend period;

(3) if the mid-market rate for two year U.S. Dollar swaps described in clause (2) does not appear on the Moneyline Telerate Page 19901 at 11:30 a.m. on the applicable Swap Determination Date, the Swap Rate will be a percentage determined by Fannie Mae, based on the arithmetic mean of the mid-market rate for two-year U.S. Dollar swap quotations provided by five leading primary securities dealers in The City of New York selected by Fannie Mae, at approximately 3:00 p.m., New York City time, on the applicable Swap Determination Date with respect to such dividend period. If four or five of such dealers are quoting as described in this clause, the Swap Rate will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Swap Rate will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. The Swap Rate determined pursuant to clause (3) will be rounded to the third digit after the decimal (if the fourth digit is five or greater, the third digit will be rounded up by one); or

(4) if fewer than three dealers selected by Fannie Mae are quoting as described in clause (3), the Swap Rate will be the Swap Rate determined on the immediately preceding Swap Determination Date, which will be replaced by the applicable Swap Rate on the first day on which it can be determined as described above in clause (1), clause (2) or clause (3) (in that order of priority). If the rate of interest will reset within a dividend period, accrued dividends will be calculated by multiplying the stated value of the Preferred Stock by an accrual factor. This accrual factor will be computed by the totaling of the factors calculated for each day in the dividend period. The daily dividend period factor for each day will be computed by dividing the annual dividend rate applicable for that day by 360. If the same annual dividend rate is applicable for all days of a calendar month, the daily dividend period factor is multiplied by 30. If different annual dividend rates are applicable for one or more days in a calendar month and the entire calendar month is within the dividend period, a weighted average is to be calculated for the sum of the daily dividend period factors in that month divided by the actual number of days in that month. The weighted average daily dividend period factor then is multiplied by 30.

If the format of a page, screen, display, press release or other source related to an index to be used in determining the dividend rate of the Preferred Stock changes but, in the discretion of Fannie Mae, the source continues to disclose the information necessary to determine the rate substantially as described in this section, then the procedure for obtaining information from the source shall be deemed to be amended by Fannie Mae.

Fannie Mae’s determination of the Swap Rate and dividend rate will be final and binding on all parties, absent manifest error.

“Moneyline Telerate” means, when used in connection with any designated page and any Swap Rate, the display page so designated on Moneyline Telerate (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that Swap Rate).

“Moneyline Telerate Page 19901” means page 19901 (or any other page as may replace such page) on the display of Moneyline Telerate (or any successor service).

“Reuters Screen” means, when used in connection with any designated page and any Swap Rate, the display page so designated on the Reuters Money 3000 Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that Swap Rate).

“Reuters Screen ISDAFIX3 Page” means page ISDAFIX3 (or any other page as may replace such page) on the display of Reuters Screen (or any successor service);

(c) If, prior to September 18, 2004, one or more amendments to the Internal Revenue Code of 1986, as amended (the “Code”), are enacted that eliminate or reduce the percentage of the dividends-received deduction applicable to the Series K Preferred Stock as specified in section 243(a)(1) of the Code or any successor provision thereto (the “Dividends-Received Percentage”), certain adjustments may be made in respect of the dividends payable by Fannie Mae, and Post Declaration Date Dividends and Retroactive Dividends (as such terms are defined below) may become payable, as described below. The amount of each dividend payable (if declared) per share of Series K Preferred Stock for dividend payments made on or after the effective date of such change in the Code will be adjusted by multiplying the amount of the dividend payable pursuant to clause (a) of this Section 2 (before adjustment) by a factor, which will be the number determined in accordance with the following formula (the “DRD Formula”), and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1-.35(1-.70)}{1-.35(1-DRP)}$$

For purposes of the DRD Formula, “DRP” means the Dividends-Received Percentage (expressed as a decimal) applicable to the dividend in question; provided, however, that if the Dividends-Received Percentage applicable to the dividend in question shall be less than 50%, then the DRP shall equal .50. No amendment to the Code, other than a change in the percentage of the dividends-received deduction applicable to the Series K Preferred Stock as set forth in section 243(a)(1) of the Code or any successor provision thereto, will give rise to an adjustment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the Internal Revenue Service (the “IRS”) to the effect that such an amendment does not apply to a dividend payable on the Series K Preferred Stock, then such amendment will not result in the adjustment provided for pursuant to the DRD Formula with respect to such dividend. The opinion referenced in the previous sentence shall be based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation. Unless the context otherwise requires, references to dividends herein will mean dividends as adjusted by the DRD Formula. Fannie Mae’s calculation of the dividends payable as so adjusted shall be final and not subject to review. Notwithstanding the foregoing, if any such amendment to the Code is enacted after the dividend payable on a Dividend Payment Date has been declared but before such dividend is paid, the amount of the dividend payable on such Dividend Payment Date will not be increased; instead, additional dividends (the “Post Declaration Date Dividends”), equal to the excess, if any, of (1) the product of the dividend paid by Fannie Mae on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage applicable to the dividend in question and .50) over (2) the dividend paid by Fannie Mae on such Dividend Payment Date, will be payable (if declared) to Holders on the record date applicable to the next succeeding Dividend Payment Date. If any such amendment to the Code is enacted and the reduction in the Dividends-Received Percentage retroactively applies to a Dividend Payment Date as to which Fannie Mae previously paid dividends on the Series K Preferred Stock (each, an “Affected Dividend Payment Date”), Fannie Mae will pay (if declared) additional dividends (the “Retroactive Dividends”) to Holders on the record date applicable to the next succeeding Dividend Payment Date (or, if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, to Holders on the record date applicable to the second succeeding Dividend Payment Date following the date of enactment), in an amount equal to the excess of (1) the product of the dividend paid by Fannie Mae on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the Dividends-Received Percentage and

.50 applied to each Affected Dividend Payment Date) over (2) the sum of the dividend paid by Fannie Mae on each Affected Dividend Payment Date. Fannie Mae will only make one payment of Retroactive Dividends for any such amendment. Notwithstanding the foregoing provisions, if, with respect to any such amendment, Fannie Mae receives either an unqualified opinion of nationally recognized independent tax counsel selected by Fannie Mae or a private letter ruling or similar form of assurance from the IRS to the effect that such amendment does not apply to a dividend payable on an Affected Dividend Payment Date for the Series K Preferred Stock, then such amendment will not result in the payment of Retroactive Dividends with respect to such Affected Dividend Payment Date. The opinion referenced in the previous sentence shall be based upon legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation.

Notwithstanding the foregoing, no adjustment in the dividends payable by Fannie Mae shall be made, and no Post Declaration Date Dividends or Retroactive Dividends shall be payable by Fannie Mae, in respect of the enactment of any amendment to the Code on or after September 18, 2004 that eliminates or reduces the Dividends-Received Percentage. In the event that the amount of dividends payable per share of Series K Preferred Stock is adjusted pursuant to the DRD Formula and/or Post Declaration Date Dividends or Retroactive Dividends are to be paid, Fannie Mae will cause notice of each such adjustment and, if applicable, Post Declaration Date Dividends and Retroactive Dividends to be given as soon as practicable to the Holders of Series K Preferred Stock.

(d) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series K Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae’s common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series K Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series K Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series K Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series K Preferred Stock in respect of any prior dividend period. If the full dividend on the Series K Preferred Stock is not paid for any quarterly dividend period, the Holders of Series K Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series K Preferred Stock) for such dividend period.

(e) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series K Preferred Stock without the payment of any dividends on Fannie Mae’s common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series K Preferred Stock).

(f) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series K Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series K Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series K Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series K Preferred Stock, all dividends declared upon shares of Series K Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series K Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series K Preferred Stock (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods) and such other stock bear to each other.

(g) No dividends may be declared or paid or set apart for payment on any shares of Series K Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series K Preferred Stock.

(h) Holders of Series K Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series K Preferred Stock shall not be redeemable prior to March 18, 2005. On or after that date, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series K Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of $50 per share plus an amount equal to the amount of the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series K Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series K Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series K Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series K Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series K Preferred Stock to be redeemed and, if fewer than all of the shares of Series K Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series K Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series K Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series K Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series K Preferred Stock called for redemption shall cease to accrue and such Series K Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series K Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series K Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series K Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series K Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series K Preferred Stock will have no right to require redemption of any shares of Series K Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series K Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series K Preferred Stock), the amount of $50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without accumulation of unpaid dividends on the Series K Preferred Stock for prior dividend periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series K Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series K Preferred Stock, the assets will be distributed to the Holders of Series K Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (including any adjustments in dividends payable due to changes in the Dividends-Received Percentage but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods).

(c) Notwithstanding the foregoing, Holders of Series K Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series K Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series K Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion or Exchange Rights.

The Holders of shares of Series K Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series K Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series K Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series K Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series K Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series K Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series K Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series K Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series K Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series K Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series K Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the shares of Series K Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series K Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series K Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series K Preferred Stock are listed at the time.

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series K Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series K Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series K Preferred Stock.

(b) On a parity with shares of Series K Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series K Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series K Preferred Stock.

(c) Junior to shares of Series K Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series K Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated "5.25% Non-Cumulative Preferred Stock, Series D" (the "Series D Preferred Stock"), "5.10% Non-Cumulative Preferred Stock, Series E" (the "Series E Preferred Stock"), "Variable Rate Non-Cumulative Preferred Stock, Series F" (the "Series F Preferred Stock"), "Variable Rate Non-Cumulative Preferred Stock, Series G" (the "Series G Preferred Stock"), "5.81% Non-Cumulative Preferred Stock, Series H" (the "Series H Preferred Stock"), "5.375% Non-Cumulative Preferred Stock, Series I" (the "Series I Preferred Stock") and "Variable Rate Non-Cumulative Preferred Stock, Series J" (the "Series J Preferred Stock") shall be deemed to rank on a parity with shares of Series K Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock, the holders of record of Series G Preferred Stock, the Holders of Series H Preferred Stock, the Holders of Series I Preferred Stock, the Holders of Series J Preferred Stock and the Holders of Series K Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints EquiServe Trust Company, N.A., as its initial transfer agent, dividend disbursing agent and registrar for the Series K Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series K Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series K Preferred Stock by Fannie Mae shall be made by first-class mail, postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae's judgment, to give notice by mail, then such notification may be made, in Fannie Mae's discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series K Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

between

FANNIE MAE

and

FRANKLIN D. RAINES

INCLUDING ALL AMENDMENTS TO DATE

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, effective as of the 21st day of May, 1998, is by and between FANNIE MAE (the "Corporation") and FRANKLIN D. RAINES ("Employee").

WITNESSETH THAT:

WHEREAS, the Corporation desires to employ Employee, from the date of this Agreement through December 31, 1998, as Chairman of the Board-Designate and Chief Executive Officer-Designate of the Corporation and, commencing on January 1, 1999, as Chief Executive Officer and Chairman of the Board, and Employee desires to serve in such capacities;

WHEREAS, the Corporation and Employee desire to set forth the terms and conditions of such employment; and

WHEREAS, the Board of Directors of the Corporation (the "Board") duly approved and authorized the terms of this Agreement for and on behalf of the Corporation at a meeting held on July 21, 1998, at which meeting a quorum was present, and the Board authorized the Chairman of the

Board to finalize and enter into this Agreement with Employee on behalf of the Corporation;

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants herein contained, the parties hereto agree as follows:

A. EMPLOYMENT TERM

1. Term and Duties

(a) The Corporation hereby agrees to employ Employee, and Employee hereby agrees to serve, as Chairman of the Board-Designate and Chief Executive Officer-Designate of the Corporation, upon the terms and conditions herein contained, for a term commencing on May 21, 1998 (the “Effective Date”) and, subject to the terms hereof, terminating on December 31, 1998, and, as Chairman of the Board and Chief Executive Officer of the Corporation, upon the terms and conditions herein contained, for a term commencing on January 1, 1999 and, subject to the terms hereof, terminating on June 30, 2003 (the “Termination Date”). As used in this Agreement, “Employment Term” shall mean the period from the Effective Date through the Termination Date, plus any extension of such period pursuant to the written agreement of the parties.

(b) During the Employment Term, Employee shall be nominated for election to the Board, and shall be identified as a nominee recommended for election by the Board, at each annual meeting of the stockholders of the Corporation, beginning with the annual meeting held in 1998.

(c) While serving as Chairman of the Board-Designate and Chief Executive Officer-Designate, Employee shall perform such duties for the Corporation as may be determined from time to time by the Chairman of the Board, provided that such duties are reasonable and customary for a chairman of the board-designate and chief executive officer-designate. While serving as Chairman of the Board and Chief Executive Officer, Employee shall perform such duties for the Corporation as may be determined from time to time by the Board, provided that such duties are reasonable and customary for a chairman of the board and chief executive officer.

(d) The Corporation and Employee acknowledge that the Employment Term may be extended for an additional period by mutual written agreement entered into at any time prior to the expiration of the Employment Term.

2. Annual Salary

(a) Commencing on the Effective Date and, subject to Paragraphs 4, 5, 7 and 8 below, during the remainder of the Employment Term, the Corporation shall pay to Employee an annual base salary of not less than $900,000 (such amount to be prorated for 1998), payable in equal biweekly installments on the same dates the other senior officers of the Corporation are paid. Employee's annual base salary payable pursuant to this Paragraph 2 (including any increases in such salary approved by the Board pursuant to this Paragraph 2) is hereinafter referred to as "Employee's Basic Compensation."

(b) The Board shall, from time to time, review Employee's Basic Compensation and may increase (but in no event decrease) such compensation for any year after 1999 by such amounts as the Board deems proper. The criteria that the Board may take into consideration in providing for any such increases are the base compensation payable to chairmen and chief executive officers and other comparable officers of comparable financial institutions and corporations, Employee's ability and performance, any increases in the responsibilities assumed by Employee, the success achieved by the Corporation, any increase or change in the volume, character or variety of the business of the Corporation, increases in the cost of living and any other criteria the Board may deem relevant.

3. Employee's Rights Under Certain Plans and Other Benefits

(a) Executive Pension Plan. Employee and the Corporation acknowledge that the Corporation has previously designated Employee as a participant in the Executive Pension Plan of the Federal National Mortgage Association (the "Executive Pension Plan"). Notwithstanding any of the provisions of the Executive Pension Plan to the contrary, the following provisions shall apply to Employee:

(i) Employee's Pension Goal under the Executive Pension Plan shall at all times be equal to at least 60% of his High-Three Total Compensation (as such terms are defined in the Executive Pension Plan as modified in this Agreement);

(ii) Employee's Total Compensation and High-Three Total Compensation shall be determined solely by reference to Employee's Employment Term;

(iii) As of the Effective Date, Employee shall be 60% vested in his Pension Goal in recognition of his prior service as Vice-Chairman and in recognition of his agreement to serve in the positions described in this Agreement. Employee's vesting in his Pension Goal shall be increased an additional 10% per year in accordance with the provisions of the Executive Pension Plan, calculated on the basis of Employee's Hours of Service in each year, starting in 1998, so that, assuming that Employee's employment under this Agreement has not been terminated for any reason, Employee would become 100% vested in his Pension Goal in 2001.

(iv) At termination of his employment with the Corporation for any reason (including non-extension of the Employment Term) upon and after reaching the age of 55, Employee shall commence to receive, within 30 days after the date his employment terminates, his vested normal retirement benefit (as determined under the Executive Pension Plan as modified in this Agreement and in the form provided in the Executive Pension Plan). If Employee's employment with the Corporation is terminated for any reason (including non-extension of the Employment Term) prior to Employee's reaching the age of 55, then, within 30 days after Employee's reaching the age of 55, he shall commence to receive his vested normal retirement benefit (as determined under the Executive Pension Plan as modified in this Agreement and in the form provided in the Executive Pension Plan). There shall be no actuarial adjustment to any benefits payable under this Paragraph 3(a)(iv) by reason of the commencement of benefit payments prior to age 60.

(v) If Employee dies after the commencement of payments to him under the Executive Pension Plan, his Surviving Spouse, as such term is defined in such plan, shall receive (regardless of her age at the time of Employee's death) monthly payments, commencing on the first day of the month coincident with or next following the date of Employee's death and continuing for her lifetime, equal to 100% of the monthly amount which was being paid to Employee at the time of his death.

(vi) If Employee dies before the commencement of payments to him under the Executive Pension Plan, his Surviving Spouse, as such term is defined in such plan, shall receive (regardless of her age at the time of Employee's death) a monthly preretirement surviving spouse's benefit, commencing within 30 days of Employee's death and continuing for her lifetime, equal to the monthly normal retirement benefit that Employee would have received (under the Executive Pension Plan as modified in this Agreement) had he terminated employment on the day prior to the date of his death and had he attained at least age 55 prior to his death. There shall be no age-based actuarial reduction in the preretirement surviving spouse's benefit, except that, where Employee dies before reaching the age of 55, there shall be an age-based actuarial reduction based solely on the number of years, if any, that Employee's age at the date of his death is less than 55.

(vii) The Corporation may amend the Executive Pension Plan from time to time; provided, however, that no such amendment shall adversely modify the vesting schedule or decrease Employee's Pension Goal or the vested benefits to which Employee or his Surviving Spouse, if any, would have been entitled under such plan, as modified in this Agreement, as in effect on the date hereof or, if benefits are improved, as of the date of such improvement.

(b) Stock Options. The Corporation has granted to Employee, as of May 21, 1998, a Nonqualified Stock Option (the "May 1998 Option"), pursuant to the Fannie Mae Stock Compensation Plan of 1993 (the "1993 Stock Compensation Plan"), to purchase 358,830 shares of common stock of the Corporation (the "Stock") for a price equal to the Fair Market Value (as defined in the 1993 Stock Compensation Plan) of the Stock on the date of such grant. The Corporation shall also grant to Employee, as of January 4, 1999 (the first business day following January 1, 1999), a Nonqualified Stock Option (the "January 1999 Option"), pursuant to the 1993 Stock Compensation Plan, to purchase 195,000 shares of Stock for a price equal to the Fair Market Value (as defined in the 1993 Stock Compensation Plan) of the Stock on the date of such grant. Employee shall be considered for additional grants of Nonqualified Stock Options or Incentive Stock Options at any time the Corporation grants Nonqualified Stock Options or Incentive Stock Options to other officers. Notwithstanding the foregoing or any provision of the 1993 Stock Compensation Plan or any successor plan, the following provisions shall apply to Employee:

(i) The May 1998 Option shall expire on May 21, 2008 and shall become exercisable with respect to 25% of the Stock covered thereby on May 21 of each of 1999, 2000, 2001 and 2002, or earlier as provided in (iv) below, provided, however, that in the case of termination pursuant to Paragraph 5(a) or 5(b) below, any portion of the May 1998 Option not exercisable on the date of such termination shall become exercisable from and after the date of such termination only as provided in the 1993 Stock Compensation Plan.

(ii) The January 1999 Option shall expire on January 2, 2009 and shall become exercisable with respect to 25% of the Stock covered thereby on January 4 of each of 2000, 2001, 2002, and 2003, or earlier as provided in (iv) below, provided, however, that in the case of termination pursuant to Paragraph 5(a) or 5(b) below, any portion of the January 1999 Option not exercisable on the date of such termination shall become exercisable from and after the date of such termination only as provided in the 1993 Stock Compensation Plan.

(iii) Any additional Nonqualified Stock Option or any Incentive Stock Option granted to Employee shall become exercisable as provided in the 1993 Stock Compensation Plan or any successor plan, or earlier as provided in (iv) below, provided, however, that in the case of termination pursuant to Paragraph 5(a) or 5(b) below, any portion of such Nonqualified Stock Option or Incentive Stock Option not exercisable on the date of such termination shall become exercisable from and after the date of such termination only as provided in the 1993 Stock Compensation Plan or any successor plan.

(iv) In the event that (v) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (w) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (x) the Employment Term expires because of the failure of the Corporation to extend this Agreement as set forth in Paragraph 4(a) below, (y) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, or (z) Employee dies while employed under this Agreement, all of Employee's Incentive Stock Options and Nonqualified Stock Options, including the May 1998 Option and the January 1999 Option specified above in this Paragraph 3(b), shall become immediately exercisable.

(v) Employee (or, in the case of serious illness, disability or death, the person or persons to whom Employee's rights under any Incentive Stock Option or any Nonqualified Stock Option pass by will or applicable law or, if no such person has such rights, Employee's executors or administrators) shall have the right to exercise any exercisable Incentive Stock Option and any exercisable Nonqualified Stock Option, until it expires by its terms, regardless of whether Employee is employed by the Corporation at the time of such exercise, provided, however, that in the case of a termination pursuant to Paragraph 5(a) or 5(b) below, all stock options, including the May 1998 Option and the January 1999 Option specified above in this Paragraph 3(b), may be exercised from and after the date of such termination only as provided in the 1993 Stock Compensation Plan or any successor plan.

(c) Annual Incentive Plan. Employee's Maximum Potential Award (as defined in the Federal National Mortgage Association Annual Incentive Plan (the "Annual Incentive Plan")) for each year during the Employment Term shall be at least 200% of Employee's Basic Compensation. The amount to be paid with respect to such award for each such year shall be determined by the extent to which any Corporate Goals (as defined in the Annual Incentive Plan) are attained. Employee shall be entitled to participate in the Annual Incentive Plan for 1998 on a pro rata basis. Notwithstanding any provision of the

Annual Incentive Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below or (z) Employee dies while employed under this Agreement, the Corporation shall pay to Employee at the time of payment of awards to other participants in the Annual Incentive Plan (regardless of whether Employee is employed by the Corporation on the date of payment) (A) the amount of any bonus earned by and payable to Employee pursuant to the Annual Incentive Plan for a completed calendar year (with the period May 21-December 31, 1998 being considered a completed calendar year for such purposes) but not yet paid by the Corporation for such year and (B) a pro rata award calculated assuming 100% attainment of the target Corporate Goal specified by the Board for the Annual Incentive Plan for the year in which such termination or resignation occurred.

(ii) In the event that the Employment Term expires because of the failure of the Corporation to extend this Agreement, the Corporation shall pay to Employee the amount of any bonus earned by and payable to Employee pursuant to the Annual Incentive Plan for a completed calendar year (with the period May 21-December 31, 1998 being considered a completed calendar year for such purposes) but not yet paid by the Corporation for such year.

(d) Performance Shares. The Corporation has granted to Employee, as of May 21, 1998, Performance Shares pursuant to the 1993 Stock Compensation Plan for the 1996-1998, 1997-1999 and 1998-2000 Award Periods (as defined in the 1993 Stock Compensation Plan) in amounts equal to 14,973, 20,251 and 55,132 Performance Shares, respectively. The Corporation shall also grant to Employee, as of January 4, 1999 (the first business day following January 1, 1999), Performance Shares pursuant to the 1993 Stock Compensation Plan for the 1997-1999 and 1998-2000 Award Periods (as defined in the 1993 Stock Compensation Plan) in amounts equal to 938 and 3,162 Performance Shares, respectively. The Employee shall be considered for additional grants of Performance Shares at any time the Corporation grants Performance Shares to other employees. Notwithstanding any provision of the 1993 Stock Compensation Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) the Employment Term expires because of the failure of the Corporation to extend this Agreement or (z) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, the Corporation shall pay to Employee, after the end of each such Award Period, Actual Awards with respect to Performance Shares awarded for each Award Period of the Performance Share Plan in which Employee has completed at least 18 months of service, in each case on a pro rata basis reflecting Employee's completed months of service in the Award Period, based on the actual achievement of Program Targets for the Award Period and using as the Valuation Date (as defined in the 1993 Stock Compensation Plan) (A) in the case of a termination upon a Change in Control, the date of such Change in Control, and (B) in the case of a termination without Cause, the failure of the Corporation to extend the Employment Term or a termination because of serious illness or disability, the last day of the Award Period.

(ii) In the event that Employee dies while employed under this Agreement, the Corporation shall pay to Employee's designated beneficiary or, if none, Employee's estate as soon as is practicable after the date of Employee's death, Actual Awards with respect to Performance Shares awarded for each Award Period of the Performance Share Plan, in each case on a pro rata basis reflecting the Board's determination of the likelihood of the Corporation's achievement of Program Targets for the Award Period and using the date of death as the Valuation Date (as defined in the 1993 Stock Compensation Plan).

(e) Restricted Stock. In the event that (i) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (ii) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (iii) the Employment Term expires because of the failure of the Corporation to extend this Agreement or (iv) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, any grants of restricted stock made to Employee shall continue to vest in accordance with the schedule included in each such grant through the end of the Employment Term, but any unvested shares at the end of the Employment Term shall be forfeited. Upon the death of Employee, all grants of restricted stock made to Employee, not previously forfeited, but not yet vested on the date of death, shall immediately vest. In the case of a termination pursuant to Paragraph 5(a) or 5(b) below, Employee shall receive any restricted stock vested on or prior to the date of such termination, but shall forfeit any restricted stock not vested on the date of such termination.

(f) Other Benefits. The Corporation shall also provide Employee with the following benefits:

(i) The Corporation shall reimburse Employee for actual expenses incurred by Employee while Employee is employed under this Agreement in obtaining tax and investment assistance and advice.

(ii) The Corporation shall pay the legal expenses incurred by Employee in connection with the negotiation of this Agreement.

(iii) The Corporation shall provide Employee with access to a car and driver for transportation relating to business purposes while Employee is employed under this Agreement.

(iv) The Corporation shall, on no more than a yearly basis, pay or reimburse Employee for actual expenses incurred by Employee while Employee is employed under this Agreement for a complete physical examination at a medical facility of his choice.

(v) The Corporation shall pay or reimburse Employee for all reasonable travel expenses incurred by Employee's spouse in accompanying Employee on his trips made on behalf of the Corporation while Employee is employed under this Agreement.

(vi) While Employee is employed under this Agreement, the Corporation shall provide

Employee, at its own expense, term life insurance in the face amount of $900,000.

(vii) If Employee incurs a Reimbursable Expense, as described below, and the Corporation includes the amount of any reimbursement for that expense on Employee's Wage and Tax Statement, the Corporation agrees to pay to Employee, in addition to reimbursement for the amount of the expense, any additional amount necessary to make Employee whole on an after-tax basis. Reimbursable Expense means any expense for travel (including travel expenses of Employee's spouse as described in this Paragraph 3(f)), entertainment or other activity undertaken in connection with the performance of Employee's duties for the Corporation.

(viii) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) the Employment Term expires because of the failure of the Corporation to extend this Agreement or (z) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, the Corporation shall continue to provide to Employee, until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination, resignation or expiration, an office and secretary and job assistance services, as appropriate to his position held on the last date of his employment under this Agreement.

(g) General Rights Under Benefit Plans. Nothing contained herein is intended to or shall be deemed to affect adversely any of Employee's rights as a participant under any long- or short-term bonus, stock option, restricted stock or other executive compensation plans, or under any program of perquisites or disability, retirement, stock purchase, retirement savings, health, medical, life insurance, expense reimbursement or similar plans of the Corporation now or hereafter in effect. Employee shall at all times during the Employment Term be entitled to participate in all long- or short-term bonus, stock option, restricted stock, and other executive compensation plans, and in all perquisite programs and disability, retirement, stock purchase, thrift and savings, health, medical, life insurance, expense reimbursement and similar plans of the Corporation which are from time to time in effect and in which other senior officers of the Corporation generally are entitled to participate. Except as otherwise provided in this Agreement, Employee's participation in such plans and programs shall be in accordance with the provisions of such plans and programs applicable from time to time, it being the intent of the parties hereto that nothing in this Agreement shall decrease the rights and benefits of Employee under any such plans and programs as may be in effect from time to time. Except as specifically set forth in this Agreement, or as specifically permitted by the terms of any such plan or program, no right or benefit under any such plan or program shall become vested or exercisable after the termination of Employee's employment by the Corporation. If for any reason any benefits payable pursuant to this Agreement cannot be paid under the Corporation's employee benefit or executive compensation plans, such payments shall be made out of the general assets of the Corporation.

4. Termination Without Cause, Termination or Resignation Upon a Change of Control or Failure to Extend

(a) Notwithstanding any other provision hereunder, the Corporation shall have the right to terminate Employee's employment hereunder without Cause (as defined in Paragraph 5(b) below) at any time for any reason in its sole discretion on not less than thirty (30) days' prior written notice to Employee. In the event that (i) the Corporation terminates Employee's employment pursuant to the immediately preceding sentence, (ii) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below) or (iii) the Employment Term expires because of the failure of the Corporation to extend this Agreement, the Corporation shall, subject to Paragraph 4(b) below, continue to pay Employee's Basic Compensation to Employee at the rate in effect at the time of such termination, resignation or expiration until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination, resignation or expiration. Employee shall, subject to Paragraph 4(b) below, continue to participate in all Employee Welfare Benefit Plans (as such term is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder) maintained by the Corporation during the remainder of the Employment Term or until such later date as may be expressly provided under the terms of any such plan.

(b) Following a termination or resignation pursuant to Paragraph 4(a) above or the expiration of the Employment Term because of the failure of the Corporation to extend this Agreement, Employee shall have the duty, commencing on the date six (6) months after the date of such termination, resignation or expiration, to seek other employment or to become self-employed; provided, however, that Employee shall not be required to accept other employment or to become self-employed in any position not at least substantially equivalent (in terms of importance, dignity and responsibilities) to his position last held pursuant to this Agreement. Any income received from such employment (including self-employment but excluding service on boards of directors) after such six-month period shall reduce, on a dollar-for-dollar basis (but not below zero), the Corporation's obligation to pay Employee's Basic Compensation. Any employee benefits provided to Employee in consideration of such employment after such six (6) month period shall relieve the Corporation of its obligation to provide comparable benefits hereunder to the extent of the benefits so provided; provided, however, that Employee's retirement benefit, if any, pursuant to Paragraph 3(a) above shall not be reduced on account of any such income or benefits resulting from such employment.

(c) If at any time during the Employment Term, (i) there is a material reduction of Employee's authority or any material change in Employee's functions, duties or responsibilities which would in any material way cause Employee's position to become less important, (ii) the Corporation shall require Employee to relocate his office outside the Washington, D.C. area, or (iii) the Corporation shall breach materially any other material obligation under this Agreement, Employee shall have the right, upon not less than thirty (30) days' written notice to the Corporation, which notice must be given within four calendar months after the event giving rise to said right, to treat such event as a termination by the Corporation of his employment without Cause pursuant to Paragraph 4(a) above for all purposes under this Agreement, and all of the provisions of this Agreement applicable to such a termination without Cause shall be operative with respect to such termination.

(d) A “Change of Control” shall have occurred if there is a change in the composition of a majority of the Board of Directors elected by the stockholders within twelve (12) months after any “person” (as defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”), as such sections are in effect on the Effective Date) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act, as such rule is in effect on the Effective Date) of securities representing 25% or more of the combined voting power of the then outstanding securities of the Corporation.

5. Termination by Employee; Breach by Employee

(a) Notwithstanding any other provision hereunder, Employee shall have the right to terminate his employment by the Corporation at any time for any reason in his sole discretion on not less than thirty (30) days’ prior written notice to the Corporation. Upon receipt of any such notice from Employee, the Corporation shall have the option, exercisable by giving Employee written notice within thirty (30) days of such receipt, to designate any date after the date of such notice to Employee and prior to the expiration of the aforesaid notice period as the date on which Employee shall cease to be an officer and employee of the Corporation, and the effective date of termination hereunder shall be any such earlier date so designated by the Corporation. In no event shall the termination of Employee’s employment by the Corporation without Cause pursuant to Paragraph 4(a) above, Employee’s termination or resignation within six (6) months following a Change of Control pursuant to Paragraph 4(a) above or the expiration of the Employment Term because of the failure of the Corporation to extend this Agreement be deemed to be a termination by Employee pursuant to this Paragraph 5(a).

(b) Notwithstanding any other provision hereunder, the Corporation may terminate Employee’s employment hereunder for “Cause,” which shall mean that Employee has materially harmed the Corporation by, in connection with his service under this Agreement, engaging in dishonest or fraudulent actions or willful misconduct, or performing his duties in a negligent manner. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause unless the Corporation shall have provided (i) reasonable notice to Employee setting forth the reasons for the Corporation's intention to terminate for Cause, (ii) where remedial action is feasible, a reasonable opportunity for such action, (iii) an opportunity for Employee, together with his counsel, to be heard before the Board and (iv) Employee with a notice of termination stating that Employee was guilty of the conduct set forth in this Paragraph 5(b) and specifying the particulars thereof in detail. No act or failure to act will be considered "willful" unless it is done, or omitted to be done, by Employee in bad faith or without reasonable belief that his action or omission was in the best interests of the Corporation.

(c) In the event of a termination pursuant to Paragraph 5(a) or 5(b) above, Employee shall be entitled to all of Employee's Basic Compensation which has accrued to the date of termination and any benefits or awards (whether of options, stock or other property) which have vested prior to such date. The Corporation shall have no further obligations to Employee.

(d) In the event of a termination by Employee pursuant to Paragraph 5(a) above, during the period from the effective date of termination to the earlier of (i) the first anniversary thereof and (ii) the expiration of the Employment Term, Employee shall not, directly or indirectly (x) Compete with the Corporation in the United States, (y) solicit any officer or employee of the Corporation or any of its affiliates to engage in any conduct prohibited hereby for Employee or to terminate any existing relationship with the Corporation or such affiliate or (z) assist any other person to engage in any activity in any manner prohibited hereby to Employee. As used herein, “Compete” shall mean to engage directly or indirectly in any business, or to become connected directly or indirectly with any business or firm, if a substantial part of such business or the business of any such firm involves transactions in what is commonly known as the secondary market in residential mortgages; provided, however, that Employee shall not be deemed, directly or indirectly, to Compete with the Corporation solely by virtue of Employee’s employment with any corporation or firm involved in transactions in what is commonly known as the secondary market in residential mortgages so long as Employee himself does not participate in such corporation’s or firm’s involvement in such transactions.

(e) The need to protect the Corporation against Employee's competition, as well as the nature and scope of such protection, has been carefully considered by the parties hereto in light of the uniqueness of Employee's talent and his importance to the Corporation. Accordingly, Employee agrees that, in addition to any other relief to which the Corporation may be entitled, the Corporation shall be entitled to seek and obtain injunctive relief (without the requirement of a bond) from a court of competent jurisdiction for the purpose of restraining Employee from any actual or threatened breach of the covenant contained in Paragraph 5(d) above. If for any reason a final decision of any court determines that the restrictions under Paragraph 5(d) above are not reasonable or that consideration therefor is inadequate, such restrictions shall be interpreted, modified or rewritten by such court to include as much of the duration, scope and geographic area identified in Paragraph 5(d) above as will render such restrictions valid and enforceable.

6. Resignation as Board Member

In the event Employee ceases to be employed by the Corporation and Employee is then a member of the Board, Employee hereby agrees that, unless otherwise requested by the Board, he shall submit his resignation as a member of the Board and of the Fannie Mae Foundation in writing on or before the date he ceases to be an officer of the Corporation. If Employee fails or neglects to submit such resignations in writing, this Paragraph 6 may be deemed by the Corporation to constitute Employee's written resignation as a member of the Board and of the Fannie Mae Foundation effective on the same date that Employee ceases to be employed by the Corporation.

B. DISABILITY

7. Disability

(a) In the event that, while employed under this Agreement, Employee is prevented from performing his duties hereunder by reason of serious illness or disability, the Corporation may, on sixty (60) days' prior written notice to Employee, terminate Employee's employment. If, within sixty (60) days of such notice, Employee recovers and is again able to perform his duties hereunder, such notice shall be void, and the Employee's employment shall not be terminated thereby. Upon the termination of Employee's employment pursuant to this Paragraph 7(a), the Corporation shall, subject to Paragraphs 7(b) and (c) below, continue to pay Employee's Basic Compensation at the rate in effect at the time of such termination until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination. Employee shall, subject to Paragraph 7(b) below, continue to participate in all Employee Welfare Benefit Plans maintained by the Corporation and receive benefits to which he is entitled under such plans during the remainder of the Employment Term or until such later date as may be expressly provided under the terms of any such plan.

(b) Employee may, in his sole discretion, after the date he ceases to be employed by the Corporation pursuant to Paragraph 7(a) above, engage in regular employment (whether as the employee of another or as a self-employed person). Any income received from such employment, including self-employment, shall reduce, on a dollar-for-dollar basis (but not below zero), the Corporation's obligation to pay Employee's Basic Compensation under Paragraph 7(a) above. Any employee benefits provided to Employee in consideration of such employment shall relieve the Corporation of its obligation to provide comparable benefits hereunder to the extent of the benefits so provided; provided, however, that Employee's retirement benefits, if any, pursuant to Paragraph 3(a) above shall not be reduced on account of any such income or benefits resulting from such employment.

(c) If Employee becomes entitled to and receives disability benefits under any disability payment plan, including disability insurance, the amount of Employee's Basic Compensation otherwise payable by the Corporation to Employee pursuant to Paragraph 7(a) above shall be reduced, on a dollar-for-dollar basis (but not below zero), by the amount of any such disability benefits received by him, but only to the extent such benefits are attributable to premium payments made by the Corporation.

C. DEATH

8. Death

(a) In the event Employee dies while employed under this Agreement, the Corporation shall pay Employee's designated beneficiary or, if none, Employee's estate, in one cash payment an amount equal to 200% of Employee's Basic Compensation in effect on the date of his death.

(b) At all times while employed under this Agreement, Employee shall be covered at the Corporation's expense under the Corporation's Executive Insurance Plan by a whole life insurance policy in a face amount equal to 200% of Employee’s Basic Compensation. In order to eliminate the income tax burden on Employee by reason of the imputation of income as a result of such insurance coverage, the Corporation shall pay to Employee an amount equal to the income taxes imposed on such imputed income plus the income taxes imposed on such payment. In the event this Agreement terminates or expires other than pursuant to Paragraph 5(a) or 5(b) above, Employee may, pursuant to the terms of the insurance policy through which such benefits are provided and the agreement between the Corporation and Employee entered into thereunder, acquire such insurance policy by paying the Corporation an amount equal to the sum of all premium payments made by the Corporation on such policy, and the Corporation shall pay to Employee an amount equal to the income taxes imposed on Employee with respect to such acquisition plus the income taxes imposed on such payment. In the event Employee completes thirteen (13) years of service with the Corporation pursuant to this Agreement, such insurance policy shall automatically be transferred to Employee pursuant to the terms of such policy and the agreement between the Corporation and Employee entered into thereunder. In the event of any such transfer, in order to eliminate the income tax burden on Employee by reason of the income arising from such transfer, the Corporation shall pay to Employee an amount equal to the income taxes imposed on such income plus the income taxes imposed on such payment. Nothing contained herein shall reduce any benefit payable pursuant to Paragraph 3(a) above or under the terms of any other qualified or nonqualified pension, executive compensation or welfare plan of the Corporation.

(c) Unless Employee’s employment shall have terminated pursuant to Paragraph 5(a) or 5(b) above, after Employee’s death at any time during or after the expiration of the Employment Term, the Corporation shall continue the health and medical coverage elected by the Employee, without direct premium payments by Employee’s family, for Employee’s surviving spouse for her life, and for his other dependents so long as they remain dependents as defined in said health and medical plan.

D. MISCELLANEOUS

9. Payment of Certain Expenses

The Corporation agrees to pay promptly as incurred, to the fullest extent permitted by law, all legal fees and expenses which Employee may reasonably incur as a result of any contest by the Corporation, Employee or others of the validity or enforceability of, or liability under, any provision of this Agreement (including as a result of any contest initiated by Employee about the amount of any payment due pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended; provided, however, that the Corporation shall not be obligated to make such payment with respect to any contest in which the Corporation prevails over Employee.

10. Secretary and Office

If Employee's employment under this Agreement is terminated on or after his reaching age fifty-five (55), other than pursuant to Paragraph 5(a) or 5(b) above, the Corporation shall provide to Employee, at any time Employee is not employed by any person on a full-time basis, an office and secretary.

11. Assignment by Employee

Except as otherwise expressly provided in this Agreement, the rights and benefits of Employee pursuant hereto are personal to him, and no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer.

12. Funding Prohibitions

All payments to be made under this Agreement shall be paid from the general funds of the Corporation or from the funds set aside or reserved for payment of the Corporation’s obligations under its employee benefit or executive compensation plans, if any. Employee shall have no right, title or interest in or to any investments which the Corporation may make to aid it in meeting its obligations under this Agreement. All such assets shall be the property solely of the Corporation and shall be subject to the claims of the Corporation’s unsecured general creditors. To the extent Employee or any other person acquires a right to receive payments from the Corporation under this Agreement, such right shall be no greater than the right of any unsecured general creditor of the Corporation and such person shall have only the unsecured contractual agreement of the Corporation that such payments shall be made.

13. Disclosure of Information to the Corporation

In the event Paragraph 4 or 7 above becomes applicable, Employee or, in the event of Employee’s incapacity or death, his personal representative shall make available to the Corporation on a confidential basis such records, documents and other information reasonably necessary to enable the Corporation to verify the amount of income available to offset the payments otherwise due Employee pursuant to Paragraph 4 or 7 above.

14. Nondisclosure of Confidential Information

Employee shall not, without the prior written consent of the Corporation, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity any Confidential Information pertaining to the business of the Corporation, except (i) while employed by the Corporation, in the business of and for the benefit of the Corporation, or (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Corporation, or by any administrative body or legislative body (including a committee thereof) with purported or apparent jurisdiction to order Employee to divulge, disclose or make accessible such information. For purposes of this Paragraph 14, “Confidential Information” shall mean nonpublic information concerning the Corporation’s financial data, strategic business plans, product development (or other proprietary product data), marketing plans and other nonpublic, proprietary and confidential information of the Corporation that is not otherwise available to the public. Confidential Information, however, shall not include information the disclosure of which cannot reasonably be expected to affect adversely the business of the Corporation to a material degree.

15. Waiver

The failure of either party hereto to insist upon strict compliance by the other party with any term, covenant or condition hereof shall not be deemed a waiver of such term, covenant or condition, nor shall any waiver or relinquishment or failure to insist upon strict compliance of any right or power hereunder at any one time or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

16. Notice

Any notice required or desired to be given pursuant to this Agreement shall be sufficient if in writing transmitted by hand delivery or sent by prepaid courier or registered or certified mail, postage prepaid, to the addresses hereinafter set forth or to such other address as any party hereto may designate in writing and transmit in such manner. Any such notice shall be deemed given when delivered, if transmitted by hand delivery, 24 hours after deposit with a prepaid courier service or 72 hours after deposit in the United States mail, if sent by registered or certified mail.

17. Applicable Law

This Agreement shall be governed by the laws of the District of Columbia without regard to any otherwise applicable conflict of laws principles.

18. Taxes

The Corporation shall deduct from all amounts payable under this Agreement all federal, state, local and other taxes required by law to be withheld with respect to such payments.

19. Benefit

Except as is otherwise herein expressly provided, this Agreement shall inure to the benefit of and be binding upon the Corporation, its successors and assigns, and upon Employee, his spouse, heirs, executors and administrators; provided, however, that the obligations of Employee hereunder shall not be delegated. The Corporation shall require any successor (whether direct or indirect, by purchase, merger, reorganization, consolidation, acquisition of property or stock, liquidation, or otherwise) to all or a substantial portion of its assets, by agreement in form and substance reasonably satisfactory to Employee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform this Agreement if no such succession had taken place. Regardless of whether such an agreement is executed, this Agreement shall be binding upon any successor of the Corporation in accordance with the operation of law, and such successor shall be deemed the “Corporation” for purposes of this Agreement.

20. Entire Agreement

The parties hereto agree that this Agreement contains the entire understanding and agreement between them and cannot be amended, modified or supplemented in any respect except by an agreement in writing signed by both parties.

21. Arbitration

Except as to any controversy or claim which Employee elects, by written notice to the Corporation, to have adjudicated by a court of competent jurisdiction, any controversy or claim arising out of or relating to this Agreement or the breach hereof shall be settled by arbitration in the District of Columbia in accordance with the laws of the District of Columbia. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association. The costs and expenses of the arbitrator(s) shall be borne by the Corporation.

The award of the arbitrator(s) shall be binding upon the parties. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction.

22. Interpretation

Wherever reference is made herein to the "failure of the Corporation to extend this Agreement," such a failure shall be deemed to have occurred if and only if the Corporation either notifies Employee that it does not desire to extend this Agreement or that it desires to do so only on terms in the aggregate materially less favorable to Employee than those contained herein. If the Corporation notifies Employee it desires to extend this Agreement on terms that are in the aggregate substantially equivalent to or more favorable to Employee than those contained herein, any nonextension shall not be deemed to be a "failure of the Corporation to extend this Agreement."

23. Severability

It is the intent and understanding of each party hereto that, if any term, restriction, covenant, or promise is found to be invalid or otherwise unenforceable, then such term, restriction, covenant, or promise shall not thereby be terminated but shall be deemed modified to the extent necessary to make it enforceable and, if it cannot be so modified, shall be deemed amended to delete therefrom such provision or portion found to be invalid or unenforceable, such modification or amendment in any event to apply only with respect to the operation of this Agreement in the particular jurisdiction in which such finding is made.

IN WITNESS WHEREOF, the Corporation has caused its name to be ascribed to this Agreement by its duly authorized representative and Employee has executed this Agreement, each as of the day and the year first above written.

Attest:	**FANNIE MAE** 3900 Wisconsin Avenue, N.W. Washington, D.C. 20016
/s/ Elizabeth Berg	By: /s/ James A. Johnson
	Chairman of the Board of Directors
Witness:	
/s/ Equilla Ford	/s/ Franklin D. Raines
	FRANKLIN D. RAINES

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

between

FANNIE MAE

and

DANIEL H. MUDD

INCLUDING ALL
AMENDMENTS TO DATE

TABLE OF CONTENTS

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, effective as of the 23rd day of February, 2000, is by and between FANNIE MAE (the "Corporation") and DANIEL H. MUDD ("Employee").

WITNESSETH THAT:

WHEREAS, the Corporation desires to employ Employee as Vice Chairman of the Board and Chief Operating Officer of the Corporation, and Employee desires to serve in such capacity;

WHEREAS, the Corporation and Employee desire to set forth the terms and conditions of such employment; and

WHEREAS, the Board of Directors of the Corporation (the "Board") duly approved and authorized the terms of this Agreement for and on behalf of the Corporation at a meeting held on February 23, 2000, at which meeting a quorum was present, and the Board authorized the Chairman of the Board to finalize and enter into this Agreement with Employee on behalf of the Corporation;

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants herein contained, the parties hereto agree as follows:

A. EMPLOYMENT TERM

1. Term and Duties

(a) The Corporation hereby agrees to employ Employee, and Employee hereby agrees to serve, as Vice Chairman of the Board and Chief Operating Officer of the Corporation, upon the terms and conditions herein contained, for a term commencing on February 23, 2000 (the “Effective Date”) and, subject to the terms hereof, terminating on June 30, 2003 (the “Termination Date”). As used in this Agreement, “Employment Term” shall mean the period from the Effective Date until the Termination Date, plus any extension of such period pursuant to the written agreement of the parties.

(b) The Corporation hereby agrees that, as of February 23, 2000, Employee shall become a member of the Board. During the Employment Term (including any extension thereof), Employee shall be nominated for election to the Board, and shall be identified as a nominee recommended for election by the Board, at each annual meeting of the stockholders of the Corporation, beginning with the annual meeting held in 2000.

(c) Employee shall perform such duties for the Corporation as may be determined from time to time by the Chairman of the Board, provided that such duties are reasonable and customary for a corporate vice chairman and chief operating officer.

(d) The Corporation and Employee acknowledge that the Employment Term may be extended for an additional period by mutual written agreement entered into at any time prior to the expiration of the Employment Term.

2. Annual Salary; Certain Reimbursements and Fringe Benefits

(a) Commencing on the Effective Date and, subject to Paragraphs 4, 5, 7 and 8 below, during the remainder of the Employment Term, the Corporation shall pay to Employee an annual base salary of not less than $625,170 (such amount being prorated for 2000), payable in equal biweekly installments on the same dates the other senior officers of the Corporation are paid. Employee’s annual base salary payable pursuant to this Paragraph 2 (including any increases in such salary approved by the Board pursuant to this Paragraph 2) is hereinafter referred to as “Employee’s Basic Compensation.”

(b) The Board shall, from time to time, review Employee’s Basic Compensation and may increase (but in no event decrease) such compensation for any year after 2000 by such amounts as the Board deems proper. The criteria that the Board may take into consideration in providing for any such increases are the recommendation of the Chairman of the Board, the base compensation payable to vice chairmen or chief operating officers and other comparable officers of comparable financial institutions and corporations, Employee’s ability and performance, any increases in the responsibilities assumed by Employee, the success achieved by the Corporation, any increase or change in the volume, character or variety of the business of the Corporation, increases in the cost of living and any other criteria the Board may deem relevant.

(c) The Corporation shall reimburse Employee for actual expenses incurred by Employee while Employee is employed under this Agreement or any successor agreement in obtaining tax and investment assistance and advice; provided, however, that in no event shall the Corporation be obligated to reimburse Employee under this Paragraph 2(c) for more than $25,000 for expenses incurred in any calendar year.

(d) The Corporation shall provide Employee with access to a car and driver for transportation relating to business purposes while Employee is employed under this Agreement or any successor agreement on the same terms as the other members of the Office of the Chairman.

3. Employee's Rights Under Certain Plans

(a) Executive Pension Plan. The Corporation hereby designates Employee as a participant in the Executive Pension Plan of the Federal National Mortgage Association (the "Executive Pension Plan") with a Pension Goal at all times equal to no less than 50% of his High-Three Total Compensation (as such terms are defined in the Executive Pension Plan), as of the Effective Date. The Corporation may amend the Executive Pension Plan from time to time; provided, however, that no such amendment shall adversely modify the vesting schedule or decrease Employee's Pension Goal or the vested benefits to which Employee or his surviving spouse, if any, would have been entitled under such plan as in effect on the date hereof or, if benefits are improved, as of the date of such improvement.

(b) Stock Options. The Corporation shall grant the following stock options to Employee.

(i) The Corporation shall grant to Employee, as of February 23, 2000, a Nonqualified Stock Option (the "Option"), pursuant to the Federal National Mortgage Association Stock Compensation Plan of 1993 (the "1993 Stock Compensation Plan"), to purchase 114,855 shares of common stock of the Corporation (the "Stock") for a price equal to the Fair Market Value (as defined in such plan) of the Stock on the date of such grant. The Option shall expire on February 23, 2010 and shall become exercisable with respect to 25% of the Stock covered thereby on February 23, of each of 2001, 2002, 2003 and 2004; provided, in each case, that Employee is still employed by the Corporation on such date. Notwithstanding the foregoing or any provision of the 1993 Stock Compensation Plan to the contrary, in the event that (v) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (w) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (x) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, (y) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below or (z) Employee dies while employed under this Agreement or any successor agreement, Employee (or, in the case of serious illness, disability or death, the person or persons to whom Employee’s rights under the Option pass by will or applicable law or, if no such person has such rights, Employee’s executors or administrators) shall be entitled to exercise the Option with respect to 100% of the Stock covered thereby until February 23, 2010.

(ii) The Corporation shall grant to Employee, as of February 23, 2000, an Earnings Per Share Challenge Option ("EPS Option"), pursuant to the 1993 Stock Compensation Plan, to purchase 116,710 shares of stock for a price equal to the Fair Market Value (as defined in such plan) of the Stock on the date of such grant. The EPS Option shall expire on January 18, 2010. If the Corporation's earnings per share for 2003 is $6.46 or greater, the EPS Option shall become exercisable with respect to all of the Stock covered thereby on the date of the Corporation's January 2004 Board meeting; however, if the Corporation's earnings per share for 2003 is less than $6.46, the EPS Option shall become exercisable with respect to 25% of the Stock covered thereby on January 18 of each 2005, 2006, 2007 and 2008; provided, in each case, that Employee is still employed by the Corporation on such date. Notwithstanding the foregoing or any provision of the 1993 Stock Compensation Plan to the contrary, in the event that (v) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (w) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (x) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, (y) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below or (z) Employee dies while employed under this Agreement or any successor agreement, Employee (or, in the case of serious illness, disability or death, the person or persons to whom Employee's rights under the EPS Option pass by will or applicable law or, if no such person has such rights, Employee's executors or administrators) shall be entitled to exercise the EPS Option with respect to 100% of the Stock covered thereby until January 18, 2010.

(c) Annual Incentive Plan. Employee's Maximum Potential Award (as defined in the Federal National Mortgage Association Annual Incentive Plan (the "Annual Incentive Plan")) for each year during the Employment Term shall be 137.5% of Employee's Basic Compensation. The amount to be paid with respect to such award for each such year shall be determined by the extent to which any Corporate Goals (as defined in the Annual Incentive Plan) are attained. Employee shall be entitled to participate in the Annual Incentive Plan for 2000 on a pro rata basis. Notwithstanding any provision of the Annual Incentive Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (x) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (y) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below) or (z) Employee is terminated by reason of serious illness, disability pursuant to Paragraph 7(a) below, or death, the Corporation shall pay to Employee at the time of payment of awards to other participants in the Plan (A) the amount of any bonus earned by and payable to Employee pursuant to the Annual Incentive Plan for a completed calendar year (with the period February 23-December 31, 2000 being considered a completed calendar year for such purposes) but not yet paid by the Corporation for such year and (B) an award calculated assuming 100% attainment of the target corporate goal specified by the Board for the Annual Incentive Plan for the year in which such termination or resignation occurred.

(ii) In the event that the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, the Corporation shall pay to Employee the amount of any bonus earned by and payable to Employee pursuant to the Annual Incentive Plan for a completed calendar year (with the period February 23-December 31, 2000 being considered a completed calendar year for such purposes) but not yet paid by the Corporation for such year.

(d) Restricted Stock. The Corporation shall grant to Employee, as of February 23, 2000, 25,000 shares of Restricted Common Stock (“Restricted Stock”) pursuant to the 1993 Stock Compensation Plan. Twenty percent (20%) of such shares of Restricted Stock shall vest, and the Restricted Period applicable to such shares shall end, on February 23 in each of 2001, 2002, 2003, 2004 and 2005; provided, in each case, that Employee is still employed by the Corporation under this Agreement or any successor agreement on such date. Notwithstanding the foregoing or any provision of the 1993

Stock Compensation Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement or (z) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, Employee's rights with respect to (A) shares of Restricted Stock awarded on February 23, 2000 shall become immediately vested and the Restricted Period applicable to all such shares shall end in accordance with the terms of the 1993 Stock Compensation Plan and (B) shares of Restricted Stock awarded after February 23, 2000 shall continue to vest and the Restricted Period applicable to such shares shall end in accordance with the schedule included in each such grant through the end of the Employment Term.

(ii) In the event that Employee dies while employed under this Agreement or any successor agreement, Employee's rights with respect to all shares of Restricted Stock shall become immediately vested and the Restricted Period applicable to such shares shall end in accordance with the terms of the 1993 Stock Compensation Plan.

(e) Performance Shares. The Corporation shall grant to Employee, as of February 23, 2000, Performance Shares pursuant to the 1993 Stock Compensation Plan for the 1998-2000, 1999-2001 and 2000-2002 Award Periods (as defined in the 1993 Stock Compensation Plan) in amounts equal to 7,028, 16,152 and 34,620 Performance Shares, respectively. The 7,028 Performance Shares represent a proration of a full 24,610 Performance Share Grant for the 1998-2000 Award Period, prorated to reflect Employee's employment by the Corporation for a portion (313 days) of such three-year Award Period. The 16,152 Performance Shares represent a proration of a full 26,110 Performance Share grant for the 1999-2001 Award Period, prorated to reflect Employee's employment by the Corporation for a portion (678 days) of such three-year Award Period. The grant of 34,620 Performance Shares for the 2000-2002 Award Period has not been prorated. If grants are made to other Participants for future Award Periods, Employee shall likewise be awarded a grant for each such future Award Period. Notwithstanding any provision of the 1993 Stock Compensation Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement or (z) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, the Corporation shall pay to Employee, after the end of each such Award Period, Actual Awards with respect to Performance Shares previously awarded for each Award Period of the Performance Share Plan in which Employee has completed at least 18 months of service, in each case on a pro rata basis reflecting Employee's completed months of service in the Award Period, based on the actual achievement of Program Targets for the Award Period and using as the Valuation Date (as defined in the 1993 Stock Compensation Plan) (A) in the case of a termination upon a Change in Control, the date of such Change in Control, and (B) in the case of a termination without Cause, the failure of the Corporation to extend the Employment Term or a termination because of serious illness or disability, the last day of the Award Period.

(ii) In the event that Employee dies while employed under this Agreement or any successor agreement, the Corporation shall pay to Employee's designated beneficiary or, if none, Employee's estate as soon as is practicable after the date of Employee's death, Actual Awards with respect to Performance Shares previously awarded for (x) the 1999-2001 Award Period, if Employee's death occurs after February 22, 2001, and (y) each other Award Period of the Performance Share Plan in which Employee has completed at least

18 months of service, in each case on a pro rata basis reflecting Employee's completed months of service in the Award Period, based on the Board's determination of the likelihood of the Corporation's achievement of Program Targets for the Award Period and using the date of death as the Valuation Date (as defined in the 1993 Stock Compensation Plan).

(f) General Rights Under Benefit Plans. Nothing contained herein is intended to or shall be deemed to affect adversely any of Employee's rights as a participant under any long- or short-term bonus, stock option, restricted stock or other executive compensation plans, or under any program of perquisites or disability, retirement, stock purchase, retirement savings, health, medical, life insurance, or similar plans of the Corporation now or hereafter in effect. Employee shall at all times during the Employment Term be entitled to participate in all long- or short-term bonus, stock option, restricted stock, and other executive compensation plans, and in all perquisite programs and disability, retirement stock purchase, thrift and savings, health, medical, life insurance, and similar plans of the Corporation which are from time to time in effect and in which other senior officers of the Corporation generally are entitled to participate. Except as otherwise provided in this Agreement, Employee's participation in such plans and programs shall be in accordance with the provisions of such plans and programs applicable from time to time, it being the intent of the parties hereto that nothing in this Agreement shall decrease the rights and benefits of Employee under any such plans and programs as may be in effect from time to time. Except as specifically set forth in this Agreement, or as specifically permitted by the terms of any such plan or program, no right or benefit under any such plan or program shall become vested or exercisable after the termination of Employee's employment by the Corporation. If for any reason any benefits payable pursuant to this Agreement cannot be paid under the Corporation's employee benefit or executive compensation plans, such payments shall be made out of the general assets of the Corporation.

4. Termination Without Cause, Termination or Resignation Upon a Change of Control or Failure to Extend

(a) Notwithstanding any other provision hereunder, the Corporation shall have the right to terminate Employee's employment hereunder without Cause (as defined in Paragraph 5(b) below) at any time for any reason in its sole discretion on not less than ninety (90) days' prior written notice to Employee. In the event that (i) the Corporation terminates Employee's employment pursuant to the immediately preceding sentence, (ii) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below) or (iii) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, the Corporation shall, subject to Paragraph 4(b) below, continue to pay Employee's Basic Compensation to Employee at the rate in effect at the time of such termination, resignation or expiration until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination or resignation or notification to Employee of such failure to extend. Employee shall, subject to Paragraph 4(b) below, continue to participate in all Employee Welfare Benefit Plans (as such term is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder) maintained by the Corporation during the remainder of the Employment Term or until such later date as may be expressly provided under the terms of any such plan.

(b) Following a termination or resignation pursuant to Paragraph 4(a) above or the expiration of the Employment Term because of the failure of the Corporation to extend this Agreement or any successor agreement, Employee shall have the duty, commencing on the date six (6) months after the date of such termination, resignation or expiration, to seek other employment or to become self-employed; provided, however, that Employee shall not be required to accept other employment or to become self-employed in any position not at least substantially equivalent (in terms of importance, dignity and responsibilities) to his position as Vice Chairman of the Board and Chief Operating Officer of the Corporation pursuant to this Agreement. Any income received from such employment (including self-employment but excluding service on boards of directors) after such six-month period shall reduce, on a dollar-for-dollar basis (but not below zero), the Corporation's obligation to pay Employee's Basic Compensation. Any employee benefits received by Employee in consideration of such employment after such six (6) month period shall relieve the Corporation of its obligation to provide comparable benefits hereunder to the extent of the benefits so received; provided, however, that Employee's retirement benefit, if any, pursuant to Paragraph 3(a) above shall not be reduced on account of any such income or benefits received from such employment.

(c) If at any time during the Employment Term, there is a material reduction of Employee's authority as Vice Chairman of the Board and Chief Operating Officer of the Corporation, or any material change in Employee's functions, duties or responsibilities which would in any material way cause Employee's position to become less important or if Employee reports to anyone other than the Chairman of the Board or if the Corporation appoints a person other than Employee to the position of President, Deputy Chairman or a similar position superior to Employee's position and inferior to the position of Chairman of Fannie Mae, with the understanding that a change in the functions reporting to him is not per se material, or if the Corporation shall require Employee to relocate outside the Washington, D.C. area, Employee shall have the right, upon not less than ninety (90) days' written notice to the Corporation, which notice must be given within four calendar months after the event giving rise to said right, to treat such event as a termination by the Corporation of his employment without Cause pursuant to Paragraph 4(a) above for all purposes under this Agreement, and all of the provisions of this Agreement applicable to such a termination without Cause shall be operative with respect to such termination.

(d) "Change of Control" shall have occurred if there is a change in the composition of a majority of the Board of Directors elected by the stockholders within twelve (12) months after any "person" (as defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), as such sections are in effect on the Effective Date) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as such rule is in effect on the Effective Date) of securities representing 25% or more of the combined voting power of the then outstanding securities of the Corporation.

5. Termination by Employee; Breach by Employee

(a) Notwithstanding any other provision hereunder, Employee shall have the right to terminate his employment by the Corporation at any time for any reason in his sole discretion on not less than ninety (90) days' prior written notice to the Corporation. Upon receipt of any such notice from Employee, the Corporation shall have the option, exercisable by giving Employee written notice within thirty (30) days of such receipt, to designate any date after the date of such notice to Employee and prior to the expiration of the aforesaid notice period as the date on which Employee shall cease to be an officer and employee of the Corporation, and the effective date of termination hereunder shall be any such earlier date so designated by the Corporation. In no event shall the termination of Employee's employment by the Corporation without Cause pursuant to Paragraph 4(a) above, Employee's termination or resignation within six (6) months following a Change of Control pursuant to Paragraph 4(a) above or the expiration of the Employment Term because of the failure of the Corporation to extend this Agreement or any successor agreement be deemed to be a termination by Employee pursuant to this Paragraph 5(a).

(b) Notwithstanding any other provision hereunder, the Corporation may terminate Employee's employment hereunder for "Cause," which shall mean that Employee has materially breached this Agreement by engaging in dishonest or fraudulent actions or willful misconduct or has materially harmed the Corporation by performing his duties in a negligent manner. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause unless the Corporation shall have provided (i) reasonable notice to Employee setting forth the reasons for the Corporation's intention to terminate for Cause, (ii) an opportunity for Employee, together with his counsel, to be heard before the Board and (iii) Employee with a notice of termination stating that Employee was guilty of the conduct set forth in this Paragraph 5(b) and specifying the particulars thereof in detail.

(c) In the event of a termination pursuant to Paragraph 5(a) or 5(b) above, Employee shall be entitled to all of Employee's Basic Compensation which has accrued to the date of termination and any benefits or awards (whether of options, stock or other property) which have vested prior to such date. The Corporation shall have no further obligations to Employee.

(d) In the event of a termination by Employee pursuant to Paragraph 5(a) above, during the period from the effective date of termination to the earlier of (i) the first anniversary thereof and (ii) the expiration of the Employment Term, Employee shall not, directly or indirectly (x) Compete with the Corporation in the United States of America, (y) solicit any officer or employee of the Corporation or any of its affiliates to engage in any conduct prohibited hereby for Employee or to terminate any existing relationship with the Corporation or such affiliate or (z) assist any other person to engage in any activity in any manner prohibited hereby to Employee. As used herein, "Compete" shall mean to engage directly or indirectly in any business, or to become connected directly or indirectly with any business or firm, if a substantial part of such business or the business of any such firm involves transactions in what is commonly known as the secondary market in residential mortgages; provided, however, that Employee shall not be deemed, directly or indirectly, to Compete with the Corporation solely by virtue of Employee's employment with any corporation or firm involved in transactions in what is commonly known as the secondary market in residential mortgages so long as Employee himself does not participate in such corporation's or firm's involvement in such transactions.

(e) The need to protect the Corporation against Employee's competition, as well as the nature and scope of such protection, has been carefully considered by the parties hereto in light of the uniqueness of Employee's talent and his importance to the Corporation. Accordingly, Employee agrees that, in addition to any other relief to which the Corporation may be entitled, the Corporation shall be entitled to seek and obtain injunctive relief (without the requirement of a bond) from a court of competent jurisdiction for the purpose of restraining Employee from any actual or threatened breach of the covenant contained in Paragraph 5(d) above. If for any reason a final decision of any court determines that the restrictions under Paragraph 5(d) above are not reasonable or that consideration therefor is inadequate, such restrictions shall be interpreted, modified or rewritten by such court to include as much of the duration, scope and geographic area identified in Paragraph 5(d) above as will render such restrictions valid and enforceable.

6. Resignation as Board Member

In the event Employee ceases to be employed by the Corporation and Employee is then a member of the Board, Employee hereby agrees that, unless otherwise requested by the Board, he shall submit his resignation as a member of the Board and of the Fannie Mae Foundation in writing on or before the date he ceases to be an officer of the Corporation. If Employee fails or neglects to submit such resignations in writing, this Paragraph 6 may be deemed by the Corporation to constitute Employee's written resignation as a member of the Board and of the Fannie Mae Foundation effective on the same date that Employee ceases to be an officer of the Corporation.

B. DISABILITY

7. Disability

(a) In the event that, while employed under this Agreement or any successor agreement, Employee is prevented from performing his duties hereunder by reason of serious illness or disability, the Corporation may, on sixty (60) days' prior written notice to Employee, terminate Employee's employment. Upon the termination of Employee's employment pursuant to this Paragraph 7(a), the Corporation shall, subject to Paragraphs 7(b) and (c) below, continue to pay Employee's Basic Compensation at the rate in effect at the time of such termination until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination. Employee shall, subject to Paragraph 7(b) below, continue to participate in all Employee Welfare Benefit Plans maintained by the Corporation during the remainder of the Employment Term or until such later date as may be expressly provided under the terms of any such plan.

(b) Employee may, in his sole discretion, after the date he ceases to be employed by the Corporation pursuant to Paragraph 7(a) above, engage in regular employment (whether as the employee of another or as a self-employed person). Any income received from such employment, including self-employment, shall reduce, on a dollar-for-dollar basis (but not below zero), the Corporation's obligation to pay Employee's Basic Compensation under Paragraph 7(a) above. Any employee benefits received by Employee in consideration of such employment shall relieve the Corporation of its obligation to provide comparable benefits hereunder to the extent of the benefits so received; provided, however, that Employee's retirement benefits, if any, pursuant to Paragraph 3(a) above shall not be reduced on account of any such income or benefits resulting from such employment.

(c) If Employee becomes entitled to and receives disability benefits under any disability payment plan, including disability insurance, the amount of Employee's Basic Compensation otherwise payable by the Corporation to Employee pursuant to Paragraph 7(a) above shall be reduced, on a dollar-for-dollar basis (but not below zero), by the amount of any such disability benefits received by him, but only to the extent such benefits are attributable to premium payments made by the Corporation.

C. DEATH

8. Death

(a) In the event Employee dies while employed under this Agreement or any successor agreement, the Corporation shall pay Employee's designated beneficiary or, if none, Employee's estate, in one cash payment an amount equal to 100% of Employee's Basic Compensation at the rate in effect on the date of his death.

(b) At all times while employed under this Agreement or any successor agreement, Employee shall be covered at the Corporation's expense under the Corporation's Executive Insurance Plan by a whole life insurance policy in a face amount equal to 200% of Employee's Basic Compensation. In order to eliminate the income tax burden on Employee by reason of the imputation of income as a result of such insurance coverage, the Corporation shall pay to Employee an amount equal to the income taxes imposed on such imputed income plus the income taxes imposed on such payment. In the event this Agreement or any successor agreement expires because of the failure of the Corporation to extend such agreement, Employee may, pursuant to the terms of the insurance policy through which such benefits are provided and the agreement between the Corporation and Employee entered into thereunder, acquire such insurance policy by paying the Corporation an amount equal to the sum of all premium payments made by the Corporation on such policy. In the event Employee completes sixteen (16) years of service with the Corporation pursuant to this Agreement or any successor agreement, such insurance policy shall automatically be transferred to Employee pursuant to the terms of such policy and the agreement between the Corporation and Employee entered into thereunder. In the event of any such transfer, in order to eliminate the income tax burden on Employee by reason of the income arising from such transfer, the Corporation shall pay to Employee an amount equal to the income taxes imposed on such income plus the income taxes imposed on such payment. Nothing contained herein shall reduce any benefit payable pursuant to Paragraph 3(a) above or under the terms of any other qualified or nonqualified pension, executive compensation or welfare plan of the Corporation.

D. MISCELLANEOUS

9. Assignment by Employee

Except as otherwise expressly provided in this Agreement, the rights and benefits of Employee pursuant hereto are personal to him and no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer.

10. Funding Prohibitions

All payments to be made under this Agreement shall be paid from the general funds of the Corporation or from the funds set aside or reserved for payment of the Corporation’s obligations under its employee benefit or executive compensation plans, if any. Employee shall have no right, title or interest in or to any investments which the Corporation may make to aid it in meeting its obligations under this Agreement. All such assets shall be the property solely of the Corporation and shall be subject to the claims of the Corporation’s unsecured general creditors. To the extent Employee or any other person acquires a right to receive payments from the Corporation under this Agreement, such right shall be no greater than the right of any unsecured general creditor of the Corporation and such person shall have only the unsecured contractual agreement of the Corporation that such payments shall be made.

11. Disclosure of Information to the Corporation

In the event Paragraph 4 or 7 above becomes applicable, Employee or, in the event of Employee’s incapacity or death, his personal representative shall make available to the Corporation on a confidential basis such records, documents and other information reasonably necessary to enable the Corporation to verify the amount of income available to offset the payments otherwise due Employee pursuant to Paragraph 4 or 7 above.

12. Nondisclosure of Confidential Information

Employee shall not, without the prior written consent of the Corporation, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity any Confidential Information pertaining to the business of the Corporation, except (i) while employed by the Corporation, in the business of and for the benefit of the Corporation, or (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Corporation, or by any administrative body or legislative body (including a committee thereof) with purported or apparent jurisdiction to order Employee to divulge, disclose or make accessible such information. For purposes of this Paragraph 12, “Confidential Information” shall mean nonpublic information concerning the Corporation’s financial data, strategic business plans, product development (or other proprietary product data), marketing plans and other nonpublic, proprietary and confidential information of the Corporation that is not otherwise available to the public. Confidential Information, however, shall not include information the disclosure of which cannot reasonably be expected to affect adversely the business of the Corporation to a material degree.

13. Waiver

The failure of either party hereto to insist upon strict compliance by the other party with any term, covenant or condition hereof shall not be deemed a waiver of such term, covenant or condition, nor shall any waiver or relinquishment or failure to insist upon strict compliance of any right or power hereunder at any one time or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

14. Notice

Any notice required or desired to be given pursuant to this Agreement shall be sufficient if in writing transmitted by hand delivery or sent by prepaid courier or registered or certified mail, postage prepaid, to the addresses hereinafter set forth or to such other address as any party hereto may designate in writing and transmit in such manner. Any such notice shall be deemed given when delivered, if transmitted by hand delivery, 24 hours after deposit with a prepaid courier service or 72 hours after deposit in the United States mail, if sent by registered or certified mail.

15. Applicable Law

This Agreement shall be governed by the laws of the District of Columbia without regard to any otherwise applicable conflict of laws principles.

16. Taxes

The Corporation shall deduct from all amounts payable under this Agreement all federal, state, local and other taxes required by law to be withheld with respect to such payments.

17. Benefit

Except as is otherwise herein expressly provided, this Agreement shall inure to the benefit of and be binding upon the Corporation, its successors and assigns, and upon

Employee, his spouse, heirs, executors and administrators; provided, however, that the obligations of Employee hereunder shall not be delegated.

18. Entire Agreement

The parties hereto agree that this Agreement contains the entire understanding and agreement between them and cannot be amended, modified or supplemented in any respect except by an agreement in writing signed by both parties.

19. Interpretation

Wherever reference is made herein to the “failure of the Corporation to extend this Agreement or any successor agreement,” such a failure shall be deemed to have occurred if and only if the Corporation either notifies Employee that it does not desire to extend this Agreement or any successor agreement or that it desires to do so only on terms in the aggregate that are materially less favorable to Employee than those applicable to Employee at the time of said notice. If the Corporation notifies Employee it desires to extend this Agreement or any successor agreement on terms that are in the aggregate substantially similar to or more favorable than those applicable to Employee at the time of said notice, any nonextension shall not be deemed to be a “failure of the Corporation to extend this Agreement or any successor agreement.”

20. Severability

Except as provided in Section 21, it is the intent and understanding of each party hereto that, if any term, restriction, covenant, or promise is found to be invalid or otherwise unenforceable, then such term, restriction, covenant, or promise shall not thereby be terminated but shall be deemed modified to the extent necessary to make it enforceable and, if it cannot be so modified, shall be deemed amended to delete therefrom such provision or portion found to be invalid or unenforceable, such modification or amendment in any event to apply only with respect to the operation of this Agreement in the particular jurisdiction in which such finding is made.

21. Regulatory Approved

The parties hereto acknowledge and agree that pursuant to Section 309(d) of the Federal National Mortgage Association Charter Act, as amended by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as so amended, the “Act”), 12 U.S.C. 1723a(d), no provision of this Agreement relating to the terms of Employee’s termination of employment shall be effective unless and until such provision has been reviewed and approved by the Director (the “Director”) of the Office of Federal Housing Enterprise Oversight (“OFHEO”). The parties therefore agree as follows:

(a) The Corporation shall promptly hereafter submit this Agreement to the Director for his review and approval of those terms hereof relating to termination of employment and shall seek diligently to obtain such approval;

(b) No such provisions shall become effective unless and until the Director’s approval thereof shall have been obtained; and

(c) The Director’s approval of all such provisions shall be a condition subsequent to the continued effectiveness of this Agreement such that, in the event that the Director shall reject or otherwise refuse to approve any such provision in a timely manner, this Agreement shall thereafter be voidable by Employee on thirty (30) days notice to the Corporation.

IN WITNESS WHEREOF, the Corporation has caused its name to be ascribed to this Agreement by its duly authorized representative, and Employee has executed this Agreement, each as of the day and the year first above written.

Attest:	FANNIE MAE 3900 Wisconsin Avenue, N.W. Washington, D.C. 20016
/s/ Rebecca Culverson	By: /s/ Franklin D. Raines
	Chairman of the Board of Directors
Witness:	
/s/ Thomas R. Nides	/s/ Daniel H. Mudd
	DANIEL H. MUDD

EXHIBIT 10.3

EMPLOYMENT AGREEMENT

between

FANNIE MAE

and

JAMIE S. GORELICK

INCLUDING ALL
AMENDMENTS TO DATE

TABLE OF CONTENTS

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, effective as of the 1st day of May, 1997, is by and between FANNIE MAE (the “Corporation”) and JAMIE S. GORELICK (“Employee”).

WITNESSETH THAT:

WHEREAS, the Corporation desires to employ Employee as Vice Chair of the Board and Employee desires to serve in such capacity;

WHEREAS, the Corporation and Employee desire to set forth the terms and conditions of such employment; and

WHEREAS, the Board of Directors of the Corporation (the “Board”) duly approved and authorized the terms of this Agreement for and on behalf of the Corporation at a meeting held on May 7, 1997, at which meeting a quorum was present, and the Board authorized the Chairman of the Board to finalize and enter into this Agreement with Employee on behalf of the Corporation;

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants herein contained, the parties hereto agree as follows:

A. EMPLOYMENT TERM

1. Term and Duties

(a) The Corporation hereby agrees to employ Employee, and Employee hereby agrees to serve, as Vice Chair-Designate and Vice Chair of the Board of the Corporation, upon the terms and conditions herein contained, for a term commencing on May 1, 1997 (the "Effective Date") and, subject to the terms hereof, terminating on April 30, 2003 (the "Termination Date"). As used in this Agreement, "Employment Term" shall mean the period from the Effective Date until the Termination Date, plus any extension of such period pursuant to the written agreement of the parties.

(b) The Corporation hereby agrees that, as of May 7, 1997, Employee shall become a member of the Board and shall be reappointed as a member of the Board immediately following the annual meeting of the stockholders in 1997. During the Employment Term (including any extension thereof), Employee shall be nominated for election to the Board, and shall be identified as a nominee recommended for election by the Board, at each annual meeting of the stockholders of the Corporation, beginning with the annual meeting held in 1998.

(c) Employee shall perform such duties for the Corporation as may be determined from time to time by the Chairman of the Board, provided that such duties are reasonable and customary for a corporate vice chair.

(d) The Corporation and Employee acknowledge that the Employment Term may be extended for an additional period by mutual written agreement entered into at any time prior to the expiration of the Employment Term.

2. Annual Salary; Certain Reimbursements and Fringe Benefits

(a) Commencing on the Effective Date and, subject to Paragraphs 4, 5, 7 and 8 below, during the remainder of the Employment Term, the Corporation shall pay to Employee an annual base salary of not less than $567,000 (such amount being prorated for 1997), payable in equal biweekly installments on the same dates the other senior officers of the Corporation are paid. Employee's annual base salary payable pursuant to this Paragraph 2 (including any increases in such salary approved by the Board pursuant to this Paragraph 2) is hereinafter referred to as "Employee's Basic Compensation."

(b) The Board shall, from time to time, review Employee's Basic Compensation and may increase (but in no event decrease) such compensation for any year after 1998 by such amounts as the Board deems proper. The criteria that the Board may take into consideration in providing for any such increases are the recommendation of the Chairman of the Board, the base compensation payable to vice chairs and other comparable officers of comparable financial institutions and corporations, Employee’s ability and performance, any increases in the responsibilities assumed by Employee, the success achieved by the Corporation, any increase or change in the volume, character or variety of the business of the Corporation, increases in the cost of living and any other criteria the Board may deem relevant.

(c) The Corporation shall reimburse Employee for actual expenses incurred by Employee while Employee is employed under this Agreement or any successor agreement in obtaining tax and investment assistance and advice; provided, however, that in no event shall the Corporation be obligated to reimburse Employee under this Paragraph 2(c) for more than $25,000 for expenses incurred in any calendar year.

(d) The Corporation shall provide Employee with access to a car and driver for transportation relating to business purposes while Employee is employed under this

Agreement or any successor agreement on the same terms as the other members of the Office of the Chairman.

3. Employee's Rights Under Certain Plans

(a) Executive Pension Plan. The Corporation hereby designates Employee as a participant in the Executive Pension Plan of the Federal National Mortgage Association (the "Executive Pension Plan") with a Pension Goal at all times equal to no less than 50% of her High-Three Total Compensation (as such terms are defined in the Executive Pension Plan), as of the Effective Date. The Corporation may amend the Executive Pension Plan from time to time; provided, however, that no such amendment shall adversely modify the vesting schedule or decrease Employee's Pension Goal or the vested benefits to which Employee or her surviving spouse, if any, would have been entitled under such plan as in effect on the date hereof or, if benefits are improved, as of the date of such improvement.

(b) Stock Options. The Corporation shall grant to Employee, as of May 7, 1997, a Nonqualified Stock Option (the "Option"), pursuant to the Federal National Mortgage Association Stock Compensation Plan of 1993 (the "1993 Stock Compensation Plan"), to purchase 42,100 shares of common stock of the Corporation (the "Stock") for a price equal to the Fair Market Value (as defined in such plan) of the Stock on the date of such grant. The Option shall expire on May 7, 2007 and shall become exercisable with respect to 25% of the Stock covered thereby on May 7, of each of 1998, 1999, 2000 and 2001; provided, in each case, that Employee is still employed by the Corporation on such date. Notwithstanding the foregoing or any provision of the 1993 Stock Compensation Plan to the contrary, in the event that (i) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (ii) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (iii) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, (iv) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below or (v) Employee dies while employed under this Agreement or any successor agreement, Employee (or, in the case of serious illness, disability or death, the person or persons to whom Employee's rights under the Option pass by will or applicable law or, if no such person has such rights, Employee's executors or administrators) shall be entitled to exercise the Option with respect to 100% of the Stock covered thereby until May 7, 2007.

(c) Annual Incentive Plan. Employee's Maximum Potential Award (as defined in the Federal National Mortgage Association Annual Incentive Plan (the "Annual Incentive Plan")) for each year during the Employment Term shall be 112.5% of Employee's Basic Compensation. The amount to be paid with respect to such award for each such year shall be determined by the extent to which any Corporate Goals (as defined in the Annual Incentive Plan) are attained. Employee shall be entitled to participate in the Annual Incentive Plan for 1997 on a pro rata basis. Notwithstanding any provision of the Annual Incentive Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (x) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (y) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below) or (z) Employee is terminated by reason of serious illness, disability pursuant to Paragraph 7(a) below, or death, the

Corporation shall pay to Employee at the time of payment of awards to other participants in the Plan (A) the amount of any bonus earned by and payable to Employee pursuant to the Annual Incentive Plan for a completed calendar year (with the period May 1-December 31, 1997 being considered a completed calendar year for such purposes) but not yet paid by the Corporation for such year and (B) an award calculated assuming 100% attainment of the target corporate goal specified by the Board for the Annual Incentive Plan for the year in which such termination or resignation occurred.

(ii) In the event that the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, the Corporation shall pay to Employee the amount of any bonus earned by and payable to Employee pursuant to the Annual Incentive Plan for a completed calendar year (with the period May 1-December 31, 1997 being considered a completed calendar year for such purposes) but not yet paid by the Corporation for such year.

(d) Restricted Stock. The Corporation shall grant to Employee, as of May 7, 1997, 25,000 shares of Restricted Common Stock (“Restricted Stock”) pursuant to the 1993 Stock Compensation Plan. Twenty percent (20%) of such shares of Restricted Stock shall vest, and the Restricted Period applicable to such shares shall end, on May 7 in each of 1998, 1999, 2000, 2001 and 2002; provided, in each case, that Employee is still employed by the Corporation under this Agreement or any successor agreement on such date. Notwithstanding the foregoing or any provision of the 1993 Stock Compensation Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement or (z) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, Employee's rights with respect to (A) shares of Restricted Stock awarded on May 7, 1997 shall become immediately vested and the Restricted Period applicable to all such shares shall end in accordance with the terms of the 1993 Stock Compensation Plan and (B) shares of Restricted Stock awarded after May 7, 1997 shall continue to vest and the Restricted Period applicable to such shares shall end in accordance with the schedule included in each such grant through the end of the Employment Term.

(ii) In the event that Employee dies while employed under this Agreement or any successor agreement, Employee's rights with respect to all shares of Restricted Stock shall become immediately vested and the Restricted Period applicable to such shares shall end in accordance with the terms of the 1993 Stock Compensation Plan.

(e) Performance Shares. The Corporation shall grant to Employee, as of May 7, 1997, Performance Shares pursuant to the 1993 Stock Compensation Plan for the 1995-1997, 1996-1998 and 1997-1999 Award Periods (as defined in the 1993 Stock Compensation Plan) in amounts equal to 8,756, 15,522 and 16,084 Performance Shares, respectively. This represents an award of (x) 39,400 Performance Shares for the 1995-1997 Award Period prorated to reflect Employee's employment by the Corporation for a maximum of eight (8) months of such three-year Award Period, (y) 27,940 Performance Shares for the 1996-1998 Award Period prorated to reflect Employee's employment by the Corporation for a maximum of twenty (20) months of such three-year Award Period and (z) 18,045 Performance Shares for the 1997-1999 Award Period prorated to reflect Employee's employment for a maximum of thirty-two (32) months of such three-year Award Period. If grants are made to other Participants for future Award Periods, Employee shall likewise be awarded a grant for each such future Award Period. Notwithstanding any provision of the 1993 Stock Compensation Plan to the contrary, the following provisions shall apply to Employee:

(i) In the event that (w) Employee is terminated without Cause pursuant to Paragraph 4(a) below, (x) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below), (y) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement or (z) Employee is terminated by reason of serious illness or disability pursuant to Paragraph 7(a) below, the Corporation shall pay to Employee, after the end of each such Award Period, Actual Awards with respect to Performance Shares previously awarded for each Award Period of the Performance Share Plan in which Employee has completed at least 18 months of service, in each case on a pro rata basis reflecting Employee's completed months of service in the Award Period, based on the actual achievement of Program Targets for the Award Period and using as the Valuation Date (as defined in the 1993 Stock Compensation Plan) (A) in the case of a termination upon a Change in Control, the date of such Change in Control, and (B) in the case of a termination without Cause, the failure of the Corporation to extend the Employment Term or a termination because of serious illness or disability, the last day of the Award Period.

(ii) In the event that Employee dies while employed under this Agreement or any successor agreement, the Corporation shall pay to Employee's designated beneficiary or, if none, Employee's estate as soon as is practicable after the date of Employee's death, Actual Awards with respect to Performance Shares previously awarded for (x) the 1996-1998 Award Period, if Employee's death occurred after April 30, 1998, and (y) each other Award Period of the Performance Share Plan in which Employee has completed at least 18 months of service, in each case on a pro rata basis reflecting Employee's completed months of service in the Award Period, based on the Board's determination of the likelihood of the

Corporation's achievement of Program Targets for the Award Period and using the date of death as the Valuation Date (as defined in the 1993 Stock Compensation Plan).

(f) General Rights Under Benefit Plans. Nothing contained herein is intended to or shall be deemed to affect adversely any of Employee's rights as a participant under any long- or short-term bonus, stock option, restricted stock or other executive compensation plans, or under any program of perquisites or disability, retirement, stock purchase, retirement savings, health, medical, life insurance, or similar plans of the Corporation now or hereafter in effect. Employee shall at all times during the Employment Term be entitled to participate in all long- or short-term bonus, stock option, restricted stock, and other executive compensation plans, and in all perquisite programs and disability, retirement stock purchase, thrift and savings, health, medical, life insurance, and similar plans of the Corporation which are from time to time in effect and in which other senior officers of the Corporation generally are entitled to participate. Except as otherwise provided in this Agreement, Employee's participation in such plans and programs shall be in accordance with the provisions of such plans and programs applicable from time to time, it being the intent of the parties hereto that nothing in this Agreement shall decrease the rights and benefits of Employee under any such plans and programs as may be in effect from time to time. Except as specifically set forth in this Agreement, or as specifically permitted by the terms of any such plan or program, no right or benefit under any such plan or program shall become vested or exercisable after the termination of Employee's employment by the Corporation. If for any reason any benefits payable pursuant to this Agreement cannot be paid under the Corporation's employee benefit or executive compensation plans, such payments shall be made out of the general assets of the Corporation.

4. Termination Without Cause, Termination or Resignation Upon a Change of Control or Failure to Extend

(a) Notwithstanding any other provision hereunder, the Corporation shall have the right to terminate Employee's employment hereunder without Cause (as defined in Paragraph 5(b) below) at any time for any reason in its sole discretion on not less than ninety (90) days' prior written notice to Employee. In the event that (i) the Corporation terminates Employee's employment pursuant to the immediately preceding sentence, (ii) Employee is terminated or resigns within six (6) months following a Change of Control (as defined in Paragraph 4(d) below) or (iii) the Employment Term expires because of the failure of the Corporation to extend this Agreement or any successor agreement, the Corporation shall, subject to Paragraph 4(b) below, continue to pay Employee's Basic Compensation to Employee at the rate in effect at the time of such termination, resignation or expiration until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination or resignation or notification to Employee of such failure to extend. Employee shall, subject to Paragraph 4(b) below, continue to participate in all Employee Welfare Benefit Plans (as such term is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder) maintained by the Corporation during the remainder of the Employment Term or until such later date as may be expressly provided under the terms of any such plan.

(b) Following a termination or resignation pursuant to Paragraph 4(a) above or the expiration of the Employment Term because of the failure of the Corporation to extend this Agreement or any successor agreement, Employee shall have the duty, commencing on the date six (6) months after the date of such termination, resignation or expiration, to seek other employment or to become self-employed; provided, however, that Employee shall not be required to accept other employment or to become self-employed in any position not at least substantially equivalent (in terms of importance, dignity and responsibilities) to her position as Vice Chair pursuant to this Agreement. Any income received from such employment (including self-employment but excluding service on boards of directors) after such six-month period shall reduce, on a dollar-for-dollar basis (but not below zero), the Corporation's obligation to pay Employee's Basic Compensation. Any employee benefits received by Employee in consideration of such employment after such six (6) month period shall relieve the Corporation of its obligation to provide comparable benefits hereunder to the extent of the benefits so received; provided, however, that Employee's retirement benefit, if any, pursuant to Paragraph 3(a) above shall not be reduced on account of any such income or benefits received from such employment.

(c) If at any time during the Employment Term, there is a material reduction of Employee's authority as Vice Chair or any material change in Employee's functions, duties or responsibilities which would in any material way cause Employee's position to become less important, with the understanding that a change in the functions reporting to her is not per se material, or if the Corporation shall require Employee to relocate outside Washington, D.C., Employee shall have the right, upon not less than ninety (90) days' written notice to the Corporation, which notice must be given within four calendar months after the event giving rise to said right, to treat such event as a termination by the Corporation of her employment without Cause pursuant to Paragraph 4(a) above for all purposes under this Agreement, and all of the provisions of this Agreement applicable to such a termination without Cause shall be operative with respect to such termination.

(d) "Change of Control" shall have occurred if there is a change in the composition of a majority of the Board of Directors elected by the stockholders within twelve (12) months after any "person" (as defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”), as such sections are in effect on the Effective Date) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act, as such rule is in effect on the Effective Date) of securities representing 25% or more of the combined voting power of the then outstanding securities of the Corporation.

5. Termination by Employee; Breach by Employee

(a) Notwithstanding any other provision hereunder, Employee shall have the right to terminate her employment by the Corporation at any time for any reason in her sole discretion on not less than ninety (90) days’ prior written notice to the Corporation. Upon receipt of any such notice from Employee, the Corporation shall have the option, exercisable by giving Employee written notice within thirty (30) days of such receipt, to designate any date after the date of such notice to Employee and prior to the expiration of the aforesaid notice period as the date on which Employee shall cease to be an officer and employee of the Corporation, and the effective date of termination hereunder shall be any such earlier date so designated by the Corporation. In no event shall the termination of Employee’s employment by the Corporation without Cause pursuant to Paragraph 4(a) above, Employee's termination or resignation within six (6) months following a Change of Control pursuant to Paragraph 4(a) above or the expiration of the Employment Term because of the failure of the Corporation to extend this Agreement or any successor agreement be deemed to be a termination by Employee pursuant to this Paragraph 5(a).

(b) Notwithstanding any other provision hereunder, the Corporation may terminate Employee's employment hereunder for "Cause," which shall mean that Employee has materially breached this Agreement by engaging in dishonest or fraudulent actions or willful misconduct or has materially harmed the Corporation by performing her duties in a negligent manner. Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Cause unless the Corporation shall have provided (i) reasonable notice to Employee setting forth the reasons for the Corporation's intention to terminate for Cause, (ii) an opportunity for Employee, together with her counsel, to be heard before the Board and (iii) Employee with a notice of termination stating that Employee was guilty of the conduct set forth in this Paragraph 5(b) and specifying the particulars thereof in detail.

(c) In the event of a termination pursuant to Paragraph 5(a) or 5(b) above, Employee shall be entitled to all of Employee’s Basic Compensation which has accrued to the date of termination and any benefits or awards (whether of options, stock or other property) which have vested prior to such date. The Corporation shall have no further obligations to Employee.

(d) In the event of a termination by Employee pursuant to Paragraph 5(a) above, during the period from the effective date of termination to the earlier of (i) the first anniversary thereof and (ii) the expiration of the Employment Term, Employee shall not, directly or indirectly (x) Compete with the Corporation in the United States, (y) solicit any officer or employee of the Corporation or any of its affiliates to engage in any conduct prohibited hereby for Employee or to terminate any existing relationship with the Corporation or such affiliate or (z) assist any other person to engage in any activity in any manner prohibited hereby to Employee. As used herein, “Compete” shall mean to engage directly or indirectly in any business, or to become connected directly or indirectly with any business or firm, if a substantial part of such business or the business of any such firm involves transactions in what is commonly known as the secondary market in residential mortgages; provided, however, that Employee shall not be deemed, directly or indirectly, to Compete with the Corporation solely by virtue of Employee's employment with any corporation or firm involved in transactions in what is commonly known as the secondary market in residential mortgages so long as Employee herself does not participate in such corporation's or firm's involvement in such transactions.

(e) The need to protect the Corporation against Employee's competition, as well as the nature and scope of such protection, has been carefully considered by the parties hereto in light of the uniqueness of Employee's talent and her importance to the Corporation. Accordingly, Employee agrees that, in addition to any other relief to which the Corporation may be entitled, the Corporation shall be entitled to seek and obtain injunctive relief (without the requirement of a bond) from a court of competent jurisdiction for the purpose of restraining Employee from any actual or threatened breach of the covenant contained in Paragraph 5(d) above. If for any reason a final decision of any court determines that the restrictions under Paragraph 5(d) above are not reasonable or that consideration therefor is inadequate, such restrictions shall be interpreted, modified or rewritten by such court to include as much of the duration, scope and geographic area identified in Paragraph 5(d) above as will render such restrictions valid and enforceable.

6. Resignation as Board Member

In the event Employee ceases to be employed by the Corporation and Employee is then a member of the Board, Employee hereby agrees that, unless otherwise requested by the Board, she shall submit her resignation as a member of the Board and of the Fannie Mae Foundation in writing on or before the date she ceases to be an officer of the Corporation. If Employee fails or neglects to submit such resignations in writing, this Paragraph 6 may be deemed by the Corporation to constitute Employee's written resignation as a member of the Board and of the Fannie Mae Foundation effective on the same date that Employee ceases to be an officer of the Corporation.

B. DISABILITY

7. Disability

(a) In the event that, while employed under this Agreement or any successor agreement, Employee is prevented from performing her duties hereunder by reason of serious illness or disability, the Corporation may, on sixty (60) days' prior written notice to Employee, terminate Employee's employment. Upon the termination of Employee's employment pursuant to this Paragraph 7(a), the Corporation shall, subject to Paragraphs 7(b) and (c) below, continue to pay Employee's Basic Compensation at the rate in effect at the time of such termination until the later of (A) the expiration of the Employment Term or (B) one year following the date of such termination. Employee shall, subject to Paragraph 7(b) below, continue to participate in all Employee Welfare Benefit Plans maintained by the Corporation during the remainder of the Employment Term or until such later date as may be expressly provided under the terms of any such plan.

(b) Employee may, in her sole discretion, after the date she ceases to be employed by the Corporation pursuant to Paragraph 7(a) above, engage in regular employment (whether as the employee of another or as a self-employed person). Any income received from such employment, including self-employment, shall reduce, on a dollar-for-dollar basis (but not below zero), the Corporation’s obligation to pay Employee’s Basic Compensation under Paragraph 7(a) above. Any employee benefits received by Employee in consideration of such employment shall relieve the Corporation of its obligation to provide comparable benefits hereunder to the extent of the benefits so received; provided, however, that Employee’s retirement benefits, if any, pursuant to Paragraph 3(a) above shall not be reduced on account of any such income or benefits resulting from such employment.

(c) If Employee becomes entitled to and receives disability benefits under any disability payment plan, including disability insurance, the amount of Employee’s Basic Compensation otherwise payable by the Corporation to Employee pursuant to Paragraph 7(a) above shall be reduced, on a dollar-for-dollar basis (but not below zero), by the amount of any such disability benefits received by her, but only to the extent such benefits are attributable to premium payments made by the Corporation.

C. DEATH

8. Death

(a) In the event Employee dies while employed under this Agreement or any successor agreement, the Corporation shall pay Employee's designated beneficiary or, if none, Employee's estate, in one cash payment an amount equal to 100% of Employee's Basic Compensation at the rate in effect on the date of her death.

(b) At all times while employed under this Agreement or any successor agreement, Employee shall be covered at the Corporation's expense under the Corporation's Executive Insurance Plan by a whole life insurance policy in a face amount equal to 200% of Employee's Basic Compensation. In order to eliminate the income tax burden on Employee by reason of the imputation of income as a result of such insurance coverage, the Corporation shall pay to Employee an amount equal to the income taxes imposed on such imputed income plus the income taxes imposed on such payment. In the event this Agreement or any successor agreement expires because of the failure of the Corporation to extend such agreement, Employee may, pursuant to the terms of the insurance policy through which such benefits are provided and the agreement between the Corporation and Employee entered into thereunder, acquire such insurance policy by paying the Corporation an amount equal to the sum of all premium payments made by the Corporation on such policy. In the event Employee completes sixteen (16) years of service with the Corporation pursuant to this Agreement or any successor agreement, such insurance policy shall automatically be transferred to Employee pursuant to the terms of such policy and the agreement between the Corporation and Employee entered into thereunder. In the event of any such transfer, in order to eliminate the income tax burden on Employee by reason of the income arising from such transfer, the Corporation shall pay to Employee an amount equal to the income taxes imposed on such income plus the income taxes imposed on such payment. Nothing contained herein shall reduce any benefit payable pursuant to Paragraph 3(a) above or under the terms of any other qualified or nonqualified pension, executive compensation or welfare plan of the Corporation.

D. MISCELLANEOUS

9. Assignment by Employee

Except as otherwise expressly provided in this Agreement, the rights and benefits of Employee pursuant hereto are personal to her and no such right or benefit shall be subject to voluntary or involuntary alienation, assignment or transfer.

10. Funding Prohibitions

All payments to be made under this Agreement shall be paid from the general funds of the Corporation or from the funds set aside or reserved for payment of the Corporation's obligations under its employee benefit or executive compensation plans, if any. Employee shall have no right, title or interest in or to any investments which the Corporation may make to aid it in meeting its obligations under this Agreement. All such assets shall be the property solely of the Corporation and shall be subject to the claims of the Corporation's unsecured general creditors. To the extent Employee or any other person acquires a right to receive payments from the Corporation under this Agreement, such right shall be no greater than the right of any unsecured general creditor of the

Corporation and such person shall have only the unsecured contractual agreement of the Corporation that such payments shall be made.

11. Disclosure of Information to the Corporation

In the event Paragraph 4 or 7 above becomes applicable, Employee or, in the event of Employee's incapacity or death, her personal representative shall make available to the Corporation on a confidential basis such records, documents and other information reasonably necessary to enable the Corporation to verify the amount of income available to offset the payments otherwise due Employee pursuant to Paragraph 4 or 7 above.

12. Nondisclosure of Confidential Information

Employee shall not, without the prior written consent of the Corporation, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity any Confidential Information pertaining to the business of the Corporation, except (i) while employed by the Corporation, in the business of and for the benefit of the Corporation, or (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Corporation, or by any administrative body or legislative body (including a committee thereof) with purported or apparent jurisdiction to order Employee to divulge, disclose or make accessible such information. For purposes of this Paragraph 12, “Confidential Information” shall mean nonpublic information concerning the Corporation’s financial data, strategic business plans, product development (or other proprietary product data), marketing plans and other nonpublic, proprietary and confidential information of the Corporation that is not otherwise available to the public. Confidential Information, however, shall not include information the disclosure of which cannot reasonably be expected to affect adversely the business of the Corporation to a material degree.

13. Waiver

The failure of either party hereto to insist upon strict compliance by the other party with any term, covenant or condition hereof shall not be deemed a waiver of such term, covenant or condition, nor shall any waiver or relinquishment or failure to insist upon strict compliance of any right or power hereunder at any one time or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

14. Notice

Any notice required or desired to be given pursuant to this Agreement shall be sufficient if in writing transmitted by hand delivery or sent by prepaid courier or registered or certified mail, postage prepaid, to the addresses hereinafter set forth or to such other address as any party hereto may designate in writing and transmit in such manner. Any such notice shall be deemed given when delivered, if transmitted by hand delivery, 24 hours after deposit with a prepaid courier service or 72 hours after deposit in the United States mail, if sent by registered or certified mail.

15. Applicable Law

This Agreement shall be governed by the laws of the District of Columbia without regard to any otherwise applicable conflict of laws principles.

16. Taxes

The Corporation shall deduct from all amounts payable under this Agreement all federal, state, local and other taxes required by law to be withheld with respect to such payments.

17. Benefit

Except as is otherwise herein expressly provided, this Agreement shall inure to the benefit of and be binding upon the Corporation, its successors and assigns, and upon Employee, her spouse, heirs, executors and administrators; provided, however, that the obligations of Employee hereunder shall not be delegated.

18. Entire Agreement

The parties hereto agree that this Agreement contains the entire understanding and agreement between them and cannot be amended, modified or supplemented in any respect except by an agreement in writing signed by both parties.

19. Interpretation

Wherever reference is made herein to the “failure of the Corporation to extend this Agreement or any successor agreement," such a failure shall be deemed to have occurred if and only if the Corporation either notifies Employee that it does not desire to extend this Agreement or any successor agreement or that it desires to do so only on terms in the aggregate materially less favorable to Employee than those contained herein. If the Corporation notifies Employee it desires to extend this Agreement or any successor agreement on terms that are in the aggregate substantially similar to or more favorable than those contained herein, any nonextension shall not be deemed to be a "failure of the Corporation to extend this Agreement or any successor agreement."

20. Severability

It is the intent and understanding of each party hereto that, if any term, restriction, covenant, or promise is found to be invalid or otherwise unenforceable, then such term, restriction, covenant, or promise shall not thereby be terminated but shall be deemed modified to the extent necessary to make it enforceable and, if it cannot be so modified, shall be deemed amended to delete therefrom such provision or portion found to be invalid or unenforceable, such modification or amendment in any event to apply only with respect to the operation of this Agreement in the particular jurisdiction in which such finding is made.

IN WITNESS WHEREOF, the Corporation has caused its name to be ascribed to this Agreement by its duly authorized representative and Employee has executed this Agreement, each as of the day and the year first above written.

Attest:	FANNIE MAE 3900 Wisconsin Avenue, N.W. Washington, D.C. 20016
/s/ Ann Marie Wheelock	By: /s/ James A. Johnson
	Chairman of the Board of Directors
Witness:	
/s/ Carol Banks	/s/ Jamie S. Gorelick
	JAMIE S. GORELICK

EXHIBIT 10.4

[LOGO]

September 18, 1987

Mr. John Timothy Howard
Executive Vice President—Economics,
Strategic Planning, and Financial Analysis
Federal National Mortgage Association
3900 Wisconsin Avenue, N.W.
Washington, DC 20016

Dear Tim:

This will confirm our understanding that you are an employee-at-will of the Federal National Mortgage Association (the “Corporation”) and hence the Corporation shall have the right to terminate your employment at any time for any reason in the sole discretion of the Corporation by not less than ten days prior written notice to you. However, if such termination is other than for “cause,” as defined herein, the Corporation shall continue your base salary for a period of twelve months from the date of such termination. For this purpose, a termination will be for cause if it is based upon reasonable evidence presented in writing to you that you have materially breached your duties as an officer of the Corporation by engaging in dishonest or fraudulent actions or willful misconduct. If during such twelve-month period you become entitled to and receive disability benefits under any disability payment plan paid for by the Corporation, including disability insurance, the amount otherwise payable by the Corporation to you hereunder shall be reduced (but not below zero) by the amount of any such disability benefits received by you, but only to the extent such benefits are attributable to payments made by the Corporation. Except as specifically noted below, the payments hereunder shall be in full satisfaction of all and any rights you may have and the receipt thereof shall constitute a general release to the Corporation.

Nothing herein shall adversely affect any rights you may have on the date of termination under any employee benefit plan or executive compensation arrangement maintained by the Corporation. Your coverage under the Corporation's life, medical, and long-term disability insurance plans shall be continued until the end of the twelve-month period noted above or, if earlier, until you are reemployed by a new employer that provides coverage for benefits. If this conforms to your understanding of our agreement, please countersign the duplicate copy of this letter and return it to me.

Sincerely,

/s/ David O. Maxwell

I agree with the terms of this letter.

/s/ John Timothy Howard	September 18, 1987
John Timothy Howard Executive Vice President—Economics, Strategic Planning, and Financial Analysis	Date

EXHIBIT 10.5

[LOGO]

June 19, 1990

Mr. Robert J. Levin
Executive Vice President—Marketing
Federal National Mortgage Association
3900 Wisconsin Avenue, N.W.
Washington, DC 20016

Dear Rob:

This will confirm our understanding that you are an employee-at-will of the Federal National Mortgage Association (the "Corporation") and hence the Corporation shall have the right to terminate your employment at any time for any reason in the sole discretion of the Corporation by not less than ten days prior written notice to you. However, if such termination is other than for "cause," as defined herein, the Corporation shall continue your base salary for a period of twelve months from the date of such termination. For this purpose, a termination will be for cause if it is based upon reasonable evidence presented in writing to you that you have materially breached your duties as an officer of the Corporation by engaging in dishonest or fraudulent actions or willful misconduct. If during such twelve-month period you become entitled to and receive disability benefits under any disability payment plan paid for by the Corporation, including disability insurance, the amount otherwise payable by the Corporation to you hereunder shall be reduced (but not below zero) by the amount of any such disability benefits received by you, but only to the extent such benefits are attributable to payments made by the Corporation. Except as specifically noted below, the payments hereunder shall be in full satisfaction of all and any rights you may have and the receipt thereof shall constitute a general release to the Corporation.

Nothing herein shall adversely affect any rights you may have on the date of termination under any employee benefit plan of executive compensation arrangement maintained by the Corporation. Your coverage under the Corporation's life, medical, and long-term disability insurance plans shall be continued until the end of the twelve-month period noted above or, if earlier, until you are employed by a new employer that provides coverage for benefits. If this conforms to your understanding of our agreement, please countersign the duplicate copy of this letter and return it to me.

Sincerely,

/s/ David O. Maxwell

I agree with the terms of this letter.

/s/ Robert J. Levin	June 19, 1990
Robert J. Levin Executive Vice President— Marketing	Date

EXHIBIT 10.6

[LOGO]

October 21, 1998

Mr. Adolfo Marzol
Executive Vice President and
Chief Credit Officer
Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, DC 20016

Dear Adolfo:

This will confirm our understanding that you are an employee-at-will of Fannie Mae (the "Corporation") and hence the Corporation shall have the right to terminate your employment at any time for any reason in the sole discretion of the Corporation by not less than ten days prior written notice to you. However, if such termination is other than for "cause," as defined herein, the Corporation shall continue your base salary for a period of twelve months from the date of such termination. For this purpose, a termination will be for cause if it is based upon reasonable evidence presented in writing to you that you have materially breached your duties as an officer of the Corporation by engaging in dishonest or fraudulent actions or willful misconduct. If during such twelve-month period you become entitled to and receive disability benefits under any disability payment plan paid for by the Corporation, including disability insurance, the amount otherwise payable by the Corporation to you hereunder shall be reduced (but not below zero) by the amount of any such disability benefits received by you, but only to the extent such benefits are attributable to payments made by the Corporation. Except as specifically noted below, the payments hereunder shall be in full satisfaction of all and any rights you may have and the receipt thereof shall constitute a general release to the Corporation.

Nothing herein shall adversely affect any rights you may have on the date of termination under any employee benefit plan or executive compensation arrangement maintained by the Corporation. Your coverage under the Corporation's life, medical, and long-term disability insurance plans shall be continued until the end of the twelve-month period noted above or, if earlier, until you are reemployed by a new employer that provides coverage for benefits.

If this conforms to your understanding of our agreement, please countersign the duplicate copy of this letter and return it to Thomas R. Nides, Senior Vice President of Human Resources.

Sincerely,

/s/ James A. Johnson

I agree with the terms of this letter.

/s/ Adolfo Marzol	October 24, 1998
Adolfo Marzol Executive Vice President and Chief Credit Officer	Date

EXHIBIT 10.7

INDEMNIFICATION AGREEMENT dated as of , 2003 between

FEDERAL NATIONAL MORTGAGE ASSOCIATION

(“Fannie Mae”), and (“Indemnitee”)

WHEREAS, the Board of Directors has determined that the inability to attract and retain qualified persons as directors and officers is detrimental to the best interests of Fannie Mae’s stockholders and that Fannie Mae should act to assure such persons that there will be adequate certainty of protection through insurance and indemnification against risks of claims and actions against them arising out of their service to and activities on behalf of Fannie Mae; and

WHEREAS, Fannie Mae has adopted provisions in its By-laws providing for indemnification of its officers and directors to the fullest extent permitted by applicable law, and Fannie Mae wishes to clarify and enhance the rights and obligations of Fannie Mae and Indemnitee with respect to indemnification; and

WHEREAS, Fannie Mae has elected to follow the corporate governance practices and procedures of the Delaware General Corporation Law, as the same may be amended from time to time; and

WHEREAS, in order to induce and encourage highly experienced and capable persons such as Indemnitee to serve and continue to serve as directors and officers of Fannie Mae and in any other capacity with respect to Fannie Mae, and to otherwise promote the desirable end that such persons will resist what they consider unjustified lawsuits and claims made against them in connection with the good faith performance of their duties to Fannie Mae, with the knowledge that certain costs, judgments, penalties, fines, liabilities and expenses incurred by them in their defense of such litigation are to be borne by Fannie Mae and they will receive the maximum protection against such risks and liabilities as may be afforded by law, the Board of Directors of Fannie Mae has determined that the following Agreement is reasonable and prudent to promote and ensure the best interests of Fannie Mae and its stockholders; and

WHEREAS, Fannie Mae desires to have Indemnitee continue to serve as a director or officer of Fannie Mae and in such other capacity with respect to Fannie Mae as Fannie Mae may request, as the case may be, free from undue concern for unpredictable, inappropriate or unreasonable legal risks and personal liabilities by reason of Indemnitee acting in good faith in the performance of Indemnitee’s duty to Fannie Mae; and Indemnitee desires to continue so to serve Fannie Mae, provided, and on the express condition, that he or she is furnished with the indemnity set forth hereinafter;

Now, therefore, in consideration of Indemnitee's continued service as a director or officer of Fannie Mae, the parties hereto agree as follows:

1. Service by Indemnitee. Indemnitee will serve and/or continue to serve as a director or officer of Fannie Mae faithfully and to the best of Indemnitee's ability so long as Indemnitee is duly elected or appointed and until such time as Indemnitee is removed as permitted by law or tenders a resignation in writing.

2. Indemnification. Fannie Mae shall indemnify Indemnitee to the fullest extent permitted by the Delaware General Corporation law in effect on the date hereof or as such law may from time to time be amended (but, in the case of any such amendment, only to the extent that such amendment permits Fannie Mae to provide broader indemnification rights than said law permitted Fannie Mae to provide prior to such amendment). Without diminishing the scope of the indemnification provided by this Section, the rights of indemnification of Indemnitee provided hereunder shall include but shall not be limited to those rights hereinafter set forth, except that no indemnification shall be paid to Indemnitee:

(a) to the extent expressly prohibited by Delaware law or the By-laws of Fannie Mae;

(b) for which payment is actually made to Indemnitee under a valid and collectible insurance policy or under a valid and enforceable indemnity clause, by-law or agreement of Fannie Mae or any other company or organization on whose board Indemnitee serves at the request of Fannie Mae, except in respect of any indemnity exceeding the payment under such insurance, clause, by-law or agreement;

(c) in connection with an action, suit or proceeding, or part thereof (including claims and counterclaims) initiated by Indemnitee, except a judicial proceeding or arbitration pursuant to Section 10 to enforce rights under this Agreement, unless the action, suit or proceeding (or part thereof) was authorized by the Board of Directors of Fannie Mae;

(d) with respect to any action, suit or proceeding brought by or on behalf of Fannie Mae against Indemnitee that is authorized by the Board of Directors of Fannie Mae, except as provided in Sections 4, 5 and 6 below.

3. Action or Proceedings Other than an Action by or in the Right of Fannie Mae. Except as limited by Section 2 above, Indemnitee shall be entitled to the indemnification rights provided in this Section if Indemnitee is a party or is threatened to be made a party to any Proceeding (other than an action by or in the name of Fannie Mae) by reason of the fact that Indemnitee is or was a director, officer, employee or agent of Fannie Mae, or is or was serving at the request of Fannie Mae as a director, officer, employee or agent or fiduciary of any other entity (including, but not limited to, another corporation, partnership, joint venture or trust); or by reason of anything done or not done by Indemnitee in any such capacity. Pursuant to this Section, Indemnitee shall be indemnified against all costs, judgments, penalties, fines, liabilities, amounts paid in settlement by or on behalf of Indemnitee, and Expenses (defined below) actually and reasonably incurred by Indemnitee in connection with such Proceeding, if Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests

of Fannie Mae, and with respect to any criminal Proceeding, had no reasonable cause to believe his or her conduct was unlawful.

4. Indemnity in Proceedings by or in the Name of Fannie Mae. Except as limited by Section 2 above, Indemnitee shall be entitled to the indemnification rights provided in this Section if Indemnitee was or is a party or is threatened to be made a party to any Proceeding brought by or in the name of Fannie Mae to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent or fiduciary of Fannie Mae, or by reason of anything done or not done by Indemnitee in any such capacity. Pursuant to this Section, Indemnitee shall be indemnified against all costs, judgments, penalties, fines, liabilities, amounts paid in settlement by or on behalf of Indemnitee, and Expenses actually and reasonably incurred by Indemnitee in connection with such Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of Fannie Mae; provided, however, that no such indemnification shall be made in respect of any claim, issue, or matter as to which Delaware law expressly prohibits such indemnification by reason of any adjudication of liability of Indemnitee to Fannie Mae, unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is entitled to indemnification for such costs, judgments, penalties, fines, liabilities and Expenses as such court shall deem proper.

5. Indemnification for Costs, Charges and Expenses of Successful Party. Notwithstanding the limitations of Section 2(d), 3 and 4 above, to the extent that Indemnitee has been successful, on the merits or otherwise, in whole or in part, in defense of any action, suit or proceeding (including an action, suit or proceeding brought by or on behalf of Fannie Mae) or in defense of any claim, issue or matter therein, including, without limitation, the dismissal of any action without prejudice, or if it is ultimately determined that Indemnitee is otherwise entitled to be indemnified against Expenses, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred in connection therewith.

6. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by Fannie Mae for some or a portion of the costs, judgments, penalties, fines, liabilities or Expenses actually and reasonably incurred in connection with any action, suit or proceeding (including an action, suit or proceeding brought by or on behalf of Fannie Mae), but not, however, for all of the total amount thereof, Fannie Mae shall nevertheless indemnify Indemnitee for the portion of such costs, judgments, penalties, fines, liabilities and Expenses actually and reasonably incurred to which Indemnitee is entitled.

7. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the maximum extent permitted by applicable law, Indemnitee shall be entitled to indemnification against all Expenses actually and reasonably incurred or suffered by Indemnitee or on Indemnitee’s behalf if Indemnitee appears as a witness or otherwise incurs legal expenses as a result of or related to Indemnitee’s service as a director or officer of Fannie Mae, in any threatened, pending or completed legal, administrative, investigative or other proceeding or matter to which Indemnitee neither is, nor is threatened to be made, a party.

8. Determination of Entitlement to Indemnification. Upon written request by Indemnitee for indemnification pursuant to Sections 3, 4, 5, 6 or 7 the entitlement of Indemnitee to indemnification, to the extent not provided pursuant to the terms of this Agreement, shall be determined by the following person or persons who shall be empowered to make such determination: (a) the Board of Directors of Fannie Mae by a majority vote of Disinterested Directors (defined below), whether or not such majority constitutes a quorum; (b) a committee of Disinterested Directors designated by a majority vote of such directors, whether or not such majority constitutes a quorum; (c) if there are no Disinterested Directors, or if the Disinterested Directors so direct, by Independent Counsel (defined below) in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee; or (d) the stockholders of Fannie Mae. Such Independent Counsel shall be selected by the Board of Directors and approved by Indemnitee. Upon failure of the Board so to select such Independent Counsel or upon failure of Indemnitee so to approve, such Independent Counsel shall be selected upon application to a court of competent jurisdiction. Such determination of entitlement to indemnification shall be made not later than 30 calendar days after receipt by Fannie Mae of a written request for indemnification. Such request shall include documentation or information which is necessary for such determination and which is reasonably available to Indemnitee. Any Expenses incurred by Indemnitee in connection with a request for indemnification or payment of Expenses hereunder, under any other agreement, any provision of Fannie Mae's By-laws or any directors' and officers' liability insurance, shall be borne by Fannie Mae. Fannie Mae hereby indemnifies Indemnitee for any such Expense and agrees to hold Indemnitee harmless therefrom irrespective of the outcome of the determination of Indemnitee's entitlement to indemnification. If the person making such determination shall determine that Indemnitee is entitled to indemnification as to part (but not all) of the application for indemnification, such person shall reasonably prorate such partial indemnification among the claims, issues or matters at issue at the time of the determination.

9. Presumptions and Effect of Certain Proceedings. The Secretary of Fannie Mae shall, promptly upon receipt of Indemnitee's request for indemnification, advise in writing the Board of Directors or such other person or persons empowered to make the determination as provided in Section 8 that Indemnitee has made such request for indemnification. Upon making such request for indemnification, Indemnitee shall be presumed to be entitled to indemnification hereunder and Fannie Mae shall have the burden of proof in making any determination contrary to such presumption. If the person or persons so empowered to make such determination shall have failed to make the requested determination with respect to indemnification within 30 calendar days after receipt by Fannie Mae of such request, a requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be absolutely entitled to such indemnification, absent actual and material fraud in the request for indemnification. The termination of any Proceeding described in Sections 3 or 4 by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself: (a) create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of Fannie Mae, or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful; or (b) otherwise adversely affect the rights of Indemnitee to indemnification except as may be provided herein.

10. Remedies of Indemnitee in Cases of Determination not to Indemnify or to Pay Expenses. In the event that a determination is made that Indemnitee is not entitled to indemnification hereunder or if payment has not been timely made following a determination of entitlement to indemnification pursuant to Sections 8 and 9, or if Expenses are not paid pursuant to Section 15, Indemnitee shall be entitled to final adjudication in a court of competent jurisdiction of entitlement to such indemnification or payment. Alternatively, Indemnitee at Indemnitee's option may seek an award in an arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association, such award to be made within sixty days following the filing of the demand for arbitration. Fannie Mae shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration or any other claim. The determination in any such judicial proceeding or arbitration shall be made *de novo* and Indemnitee shall not be prejudiced by reason of a determination (if so made) pursuant to Sections 8 or 9 that Indemnitee is not entitled to indemnification. If a determination is made or deemed to have been made pursuant to the terms of Section 8 or 9 that Indemnitee is entitled to indemnification, Fannie Mae shall be bound by such determination and is precluded from asserting that such determination has not been made or that the procedure by which such determination was made is not valid, binding and enforceable. Fannie Mae further agrees to stipulate in any such court or before any such arbitrator that Fannie Mae is bound by all the provisions of this Agreement and is precluded from making any assertions to the contrary. If the court or arbitrator shall determine that Indemnitee is entitled to any indemnification or payment of Expenses hereunder, Fannie Mae shall pay all Expenses actually and reasonably incurred by Indemnitee in connection with such adjudication or award in arbitration (including, but not limited to, any appellate Proceedings).

11. Other Rights to Indemnification. Indemnification and payment of Expenses provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may now or in the future be entitled under any provision of the By-laws or other organizational documents of Fannie Mae, vote of stockholders or Disinterested Directors, provision of law, agreement or otherwise.

12. Expenses to Enforce Agreement. In the event that Indemnitee is subject to or intervenes in any Proceeding in which the validity or enforceability of this Agreement is at issue or seeks an adjudication or award in arbitration to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee, if Indemnitee prevails in whole or in part in such action, shall be entitled to recover from Fannie Mae and shall be indemnified by Fannie Mae against any actual Expenses incurred by Indemnitee.

13. Continuation of Indemnity. All agreements and obligations of Fannie Mae contained herein shall continue during the period Indemnitee is a director, officer, employee or agent of Fannie Mae or is serving at the request of Fannie Mae as a director, officer, employee or agent or fiduciary of any other entity (including, but not limited to, another corporation, partnership, joint venture or trust) of Fannie Mae and shall continue thereafter with respect to any possible claims based on the fact that Indemnitee was a director, officer employee or agent of Fannie Mae or was serving at the request of Fannie Mae as a director, officer, employee or agent or fiduciary of any other entity (including, but not limited to, another corporation, partnership, joint venture or trust). This Agreement shall be binding upon all successors and assigns of Fannie Mae (including any transferee of all or substantially all of its assets and any

successor by merger or operation of law) and shall inure to the benefit of the heirs, personal representatives and estate of Indemnitee.

14. Notification and Defense of Claim. Promptly after receipt by Indemnitee of notice of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against Fannie Mae under this Agreement, notify Fannie Mae in writing of the commencement thereof; but the omission so to notify Fannie Mae will not relieve it from any liability that it may have to Indemnitee. Notwithstanding any other provision of this Agreement, with respect to any such Proceeding of which Indemnitee notifies Fannie Mae:

(a) Fannie Mae shall be entitled to participate therein at its own expense; and

(b) Except as otherwise provided in this Section 14(b), to the extent that it may wish, Fannie Mae, jointly with any other indemnifying party similarly notified, shall be entitled to assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from Fannie Mae to Indemnitee of its election so to assume the defense thereof, Fannie Mae shall not be liable to Indemnitee under this Agreement for any expenses of counsel subsequently incurred by Indemnitee in connection with the defense thereof except as otherwise provided below. Indemnitee shall have the right to employ Indemnitee’s own counsel in such Proceeding, but the fees and expenses of such counsel incurred after notice from Fannie Mae of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by Fannie Mae, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between Fannie Mae and Indemnitee in the conduct of the defense of such action or (iii) Fannie Mae shall not within 60 calendar days of receipt of notice from Indemnitee in fact have employed counsel to assume the defense of the action, in each of which cases the fees and expenses of Indemnitee’s counsel shall be at the expense of Fannie Mae. Fannie Mae shall not be entitled to assume the defense of any Proceeding brought by or on behalf of Fannie Mae or as to which Indemnitee shall have made the conclusion provided for in (ii) above; and

(c) If Fannie Mae has assumed the defense of a Proceeding, Fannie Mae shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without Fannie Mae’s written consent. Fannie Mae shall not settle any Proceeding in any manner that would impose any penalty or limitation on or disclosure obligation with respect to Indemnitee without Indemnitee’s written consent. Neither Fannie Mae nor Indemnitee will unreasonably withhold its consent to any proposed settlement.

15. Payment of Expenses. All Expenses incurred by Indemnitee in advance of the final disposition of any Proceeding shall be paid by Fannie Mae at the request of Indemnitee, each such payment to be made within twenty calendar days after the receipt by Fannie Mae of a statement or statements from Indemnitee requesting such payment or payments from time to time. Indemnitee’s entitlement to such Expenses shall include those incurred in connection with any Proceeding by Indemnitee seeking a judgment in court or an adjudication or award in arbitration pursuant to this Agreement (including the enforcement of this provision). Such statement or statements shall reasonably evidence the expenses and costs incurred by Indemnitee

in connection therewith and shall include or be accompanied by an undertaking, in substantially the form attached as Exhibit 2, by or on behalf of Indemnitee to reimburse such amount if it is finally determined, after all appeals by a court of competent jurisdiction that Indemnitee is not entitled to be indemnified against such Expenses by Fannie Mae as provided by this Agreement or otherwise. Indemnitee's undertaking to reimburse any such amounts is not required to be secured.

16. Separability; Prior Indemnification Agreements. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not by themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent of the parties that Fannie Mae provide protection to Indemnitee to the fullest enforceable extent. This Agreement shall supersede and replace any prior indemnification agreements entered into by and between Fannie Mae and Indemnitee and any such prior agreements shall be terminated upon execution of this Agreement.

17. Headings; References; Pronouns. The headings of the sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof. References herein to section numbers are to sections of this Agreement. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as appropriate.

18. Definitions. For purposes of this Agreement:

(a) "Disinterested Director" means a director of Fannie Mae who is not or was not a party to the Proceeding in respect of which indemnification is being sought by Indemnitee.

(b) "Expenses" includes, without limitation, expenses incurred in connection with the defense or settlement of any and all investigations, judicial or administrative proceedings or appeals, attorneys' fees, witness fees and expenses, fees and expenses of accountants and other advisors, retainers and disbursements and advances thereon, the premium, security for, and other costs relating to any bond (including cost bonds, appraisal bonds or their equivalents), and any expenses of establishing a right to indemnification under Sections 8, 10 and 12 above but shall not include the amount of judgments, fines or penalties actually levied against Indemnitee.

(c) "Independent Counsel" means a law firm or a member of a law firm that neither is presently nor in the past five years has been retained to represent: (i) Fannie Mae or Indemnitee in any matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either Fannie Mae or Indemnitee in an action to determine Indemnitee’s right to indemnification under this Agreement.

(d) “Proceeding” includes any threatened, pending or completed investigation (other than internal investigations of the conduct of Fannie Mae employees), action, suit or other proceeding, whether brought in the name of Fannie Mae or otherwise, against Indemnitee, for which indemnification is not prohibited under Sections 2(a)-(c) above and whether of a civil, criminal, administrative or investigative nature, including, but not limited to, actions, suits or proceedings in which Indemnitee may be or may have been involved as a party or otherwise, by reason of the fact that Indemnitee is or was a director, officer, employee or agent of Fannie Mae, or is or was serving, at the request of Fannie Mae, as a director, officer, employee or agent or fiduciary of any other entity, including, but not limited to, another corporation, partnership, joint venture or trust, or by reason of anything done or not done by Indemnitee in any such capacity, whether or not Indemnitee is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Agreement.

19. Other Provisions.

(a) This Agreement shall be interpreted and enforced in accordance with the laws of Delaware.

(b) This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced as evidence of the existence of this Agreement.

(c) This agreement shall not be deemed an employment contract between Fannie Mae and any Indemnitee who is an officer of Fannie Mae, and, if Indemnitee is an officer of Fannie Mae, Indemnitee specifically acknowledges that Indemnitee may be discharged at any time for any reason, with or without cause, and with or without severance compensation, except as may be otherwise provided in a separate written contract between Indemnitee and Fannie Mae.

(d) Upon a payment to Indemnitee under this Agreement, Fannie Mae shall be subrogated to the extent of such payment to all of the rights of Indemnitee to recover against any person for such liability, and Indemnitee shall execute all documents and instruments required and shall take such other actions as may be necessary to secure such rights, including the execution of such documents as may be necessary for Fannie Mae to bring suit to enforce such rights.

(e) No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By ____________________________

Chairman of the Board
and Chief Executive Officer

____

Indemnitee

EXHIBIT 1

**THE FOLLOWING IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY
AND DOES NOT CONSTITUTE LEGAL ADVICE**

Delaware General Corporation Law
Title 8, § 145 (December 2002)

§ 145. Indemnification of officers, directors, employees and agents; insurance.

(a) A corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful.

(b) A corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) To the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of this section, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

(d) Any indemnification under subsections (a) and (b) of this section (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in subsections (a) and (b) of this section. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

(e) Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in this section. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems appropriate.

(f) The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this section shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

(g) A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under this section.

(h) For purposes of this section, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this section with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this section, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to “serving at the request of the corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this section.

(j) The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(k) The Court of Chancery is hereby vested with exclusive jurisdiction to hear and determine all actions for advancement of expenses or indemnification brought under this section or under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise. The Court of Chancery may summarily determine a corporation’s obligation to advance expenses (including attorneys’ fees).

HISTORY: 8 Del. C. 1953, § 145; 56 Del. Laws, c. 50; 56 Del. Laws, c. 186, § 6; 57 Del. Laws, c. 421, § 2; 59 Del. Laws, c. 437, § 7; 63 Del. Laws, c. 25, § 1; 64 Del. Laws, c. 112, § 7; 65 Del. Laws, c. 289, §§ 3-6; 67 Del. Laws, c. 376, § 3; 69 Del. Laws, c. 261, §§ 1, 2; 70 Del. Laws, c. 186, § 1; 71 Del. Laws, c. 120, §§ 3-11.

EXHIBIT 2

UNDERTAKING TO REPAY INDEMNIFICATION EXPENSES

I , agree to reimburse Federal National Mortgage Association (“Fannie Mae”) for all expenses paid to me by Fannie Mae for my defense in any civil or criminal action, suit, or proceeding, in the event, and to the extent that it shall ultimately be determined that I am not entitled to be indemnified by Fannie Mae for such expenses.

Signature ______________________________

Typed Name ______________________________

Office ______________________________

DISTRICT OF COLUMBIA) ss:

Before me , on this day personally appeared , known to me to be the person whose name is subscribed to the foregoing instrument, and who, after being duly sworn, stated that the contents of said instrument is to the best of his/her knowledge and belief true and correct and who acknowledged that he/she executed the same for the purpose and consideration therein expressed.

GIVEN under my hand and official seal at Washington, D.C., this day of , 200 .

____
Notary Public

My commission expires:

EXHIBIT 10.8

INDEMNIFICATION AGREEMENT dated as of
between FEDERAL NATIONAL MORTGAGE ASSOCIATION
(“Fannie Mae”), and (“Indemnitee”)

WHEREAS, Section 6.02 of Article 6 of the Bylaws of Fannie Mae (the “Amendment”) approved by the stockholders at the Annual Meeting, May 21, 1987 and by the Board of Directors on that same date requires Fannie Mae to indemnify directors and officers of Fannie Mae provided certain conditions are met;

WHEREAS, this indemnification bylaw amendment and this Indemnification Agreement (“Agreement”) represent a response to recent changes in the market for directors’ and officers’ liability insurance and the increasing threat of potential litigation which the directors and officers of all companies face in carrying out their responsibilities;

WHEREAS, this Amendment and this Agreement are designed to assist the corporation in obtaining and retaining qualified individuals to serve as directors and officers by providing them with assurance of protection against costly litigation; and

WHEREAS, Fannie Mae is not subject to a particular state corporation code; nonetheless, the proposed amendment incorporates by reference the standards for indemnification permitted under the Delaware General Corporation Law because that statute represents the most modern formulation of corporate indemnity powers and has been used as a model by other jurisdictions;

Now, therefore, in consideration of the Indemnitee’s continued service as a director or officer of Fannie Mae, the parties hereto agree as follows:

1. Indemnification. (a) To the fullest extent permitted by the Delaware General Corporation Law for a corporation subject to such law (a copy of Section 145 is attached as Exhibit 1), as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits a Delaware corporation to provide broader indemnification rights than said law permitted such corporation to provide prior to such amendment), Fannie Mae hereby indemnifies and holds harmless the Indemnitee against any and all claims, liabilities, and expenses (including attorneys’ fees, judgments, fines, and amounts paid in settlement) actually and reasonably incurred and arising from any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (collectively referred to as “Claims”), to which the Indemnitee shall have become subject by reason of having held the position of director or officer of Fannie Mae, or having allegedly taken or omitted to take any action in connection with any such position. However, the foregoing indemnification shall not apply to:

(i) any breach of the Indemnitee’s duty of loyalty to Fannie Mae or its stockholders;

(ii) any act or omission by Indemnitee not in good faith or which involves intentional misconduct or where Indemnitee and reasonable cause to believe his or her conduct was unlawful;

(iii) any transaction from which the Indemnitee derived any improper personal benefit; or

(iv) any fines or other obligations or fees imposed by law or otherwise which Fannie Mae is prohibited by Delaware law or other applicable law from paying as indemnity or for any other reason.

(b) The decision concerning whether Indemnitee has satisfied the foregoing shall be made by the Board of Directors by a majority vote of a quorum consisting of members of the Board of Directors (“Members”) who are not parties to the action, suit, or proceeding giving rise to the claim for indemnity. If such a quorum is not obtainable, or if obtainable, where a quorum of disinterested Members so directs, the determination may be made either by independent legal counsel in a written opinion or by a vote of the stockholders.

2. Indemnification for Service on Nonprofit Boards. This Agreement shall cover the Indemnitee for service on the board of directors or similar governing body of a nonprofit institution, (i) where the Indemnitee serves without compensation from such institution, and (ii) at the request of Fannie Mae as evidenced by a memorandum, substantially in the form attached hereto as Exhibit 2, signed by the Chairman of the Board or the President acknowledging that the Indemnitee's membership on such board furthers Fannie Mae's community service objectives, provided, however, that the Indemnitee is not entitled to indemnification from Fannie Mae for any portion of the loss for which he or she is, in fact, reimbursed by insurance or otherwise or for claims based on actions or occurrences subsequent in time to the Indemnitee's termination of service as a director or officer of Fannie Mae.

3. Continuation of Indemnity. All agreements and obligations of Fannie Mae contained herein shall continue during the period the Indemnitee is a director or officer of Fannie Mae and shall continue thereafter with respect to any possible Claims based on the fact that the Indemnitee was a director or officer of Fannie Mae. This Agreement shall be binding upon all successors and assigns of Fannie Mae (including any transferee of all or substantially all of its assets and any successor by merger or operation of law) and shall inure to the benefit of the heirs, personal representatives and estate of the Indemnitee.

4. Notification and Assumption of Defense. Promptly after receipt by the Indemnitee of notice of the commencement of any action, suit, or proceeding, Indemnitee shall notify Fannie Mae of the commencement thereof if a claim in respect thereof is to be made against Fannie Mae under this Agreement. With respect to any such action, suit, or proceeding as to which Indemnitee notifies Fannie Mae of the commencement thereof:

(a) Fannie Mae will be entitled to participate therein at its own expense.

(b) Except as otherwise provided below, to the extent that it may wish, Fannie Mae, individually or jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof, and to designate counsel and such counsel designated by Fannie Mae shall be counsel of record. Such counsel shall be acceptable to Indemnitee or to a majority of indemnitees if there are more than one, but Indemnitee's consent shall not be unreasonably withheld. Upon notice from Fannie Mae to Indemnitee of its election so to assume the defense thereof, Fannie Mae's obligation to the Indemnitee under this Agreement will terminate with respect to any legal or other expenses subsequently incurred by the Indemnitee in connection with the defense thereof other than as provided below. Indemnitee will have the right to employ his or her counsel in such action, suit or proceeding, in addition to counsel designated by Fannie Mae, but the fees and expenses of such counsel incurred after notice from Fannie Mae of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by Fannie Mae, (ii) the Indemnitee or Fannie Mae shall have reasonably concluded that there may be a conflict of interest between Fannie Mae and the Indemnitee in the conduct of the defense of such action and the Indemnitee or Fannie Mae shall have been so advised in writing by counsel, or (iii) Fannie Mae shall not in fact have designed counsel to assume the defense of such action, in each of which cases the reasonable fees and expenses of counsel shall be at the expense of Fannie Mae.

(c) Fannie Mae will not be liable to the Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. Fannie Mae will not settle any action or claim effected without its written consent. Fannie Mae will not settle any action or claim in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. Neither Fannie Mae nor the Indemnitee will unreasonably withhold their consent to any proposed settlement.

5. Advancement of Expenses. The Board of Directors shall authorize the advancement of funds to Indemnitee for reasonable expenses, provided Indemnitee provides a written undertaking to repay such advance in substantially the form attached hereto as Exhibit 3 if it is later determined that the Indemnitee does not satisfy the standard of conduct required for indemnification. Indemnitee agrees to reimburse Fannie Mae for all reasonable expenses paid by Fannie Mae in defending any civil or criminal action, suit

or proceeding against Indemnitee in the event, and only to the extent, that it shall be ultimately determined that Indemnitee is not entitled to be indemnified by Fannie Mae for such expenses under the provisions of this Agreement. The Board of Directors may, at its discretion, require that Indemnitee post collateral to guarantee repayment of expenses actually advanced if the Board of Directors later determines that the Indemnitee is not entitled to indemnification under this Agreement.

6. Separability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not by themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this agreement (including, without limitation all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent of the parties that Fannie Mae provide protection to Indemnitee to the fullest enforceable extent.

7. Other Provisions.

(a) This Agreement shall be interpreted and enforced in accordance with the laws of the District of Columbia except that issues concerning the interpretation of Section 145 of the Delaware General Corporation Law or any successor Delaware statute concerning indemnification of directors and officers shall be interpreted in accordance with the laws of the state of Delaware.

(b) This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one document.

(c) This Agreement shall not be deemed an employment contract between Fannie Mae and any Indemnitee who is an officer of Fannie Mae, and, if the Indemnitee is an officer of Fannie Mae, the Indemnitee specifically acknowledges that the Indemnitee may be discharged at any time for any reason, with or without cause, and with or without severance compensation, except as may be otherwise provided in a separate written contract between the Indemnitee and Fannie Mae.

(d) Upon a payment to the Indemnitee under this Agreement, Fannie Mae shall be subrogated to the extent of such payment to all of the rights of the Indemnitee to recover against any person for such liability, and the Indemnitee shall execute all documents and instruments required and shall take such other actions as may be necessary to secure such rights, including the execution of such documents as may be necessary for Fannie Mae to bring suit to enforce such rights.

(e) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By ______________________________

Chairman of the Board and Chief Executive Officer

____

Indemnitee

EXHIBIT 10.9

FEDERAL NATIONAL MORTGAGE ASSOCIATION

SUPPLEMENTAL PENSION PLAN

(Effective January 1, 1994)

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FEDERAL NATIONAL MORTGAGE ASSOCIATION
SUPPLEMENTAL PENSION PLAN

Effective as of January 1, 1994

ARTICLE I.

PURPOSE

1.1 Establishment. The Federal National Mortgage Association (the “Corporation”) establishes this Federal National Mortgage Association Supplemental Pension Plan effective as of January 1, 1994 for the benefit of its eligible employees.

1.2 Purpose. The Corporation intends by the adoption of this Plan to recognize the value to the Corporation of past and present services of a select group of managerial or highly compensated employees who are eligible to participate and to encourage their continued service with the Corporation by making more adequate provision for their future retirement security. The establishment of this Plan is made necessary by certain limitations on benefits which are imposed by the Code on the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law.

1.3 Compliance. This Plan is intended to be an unfunded plan for purposes of the Code and Title I of ERISA. It is the Corporation’s intent that this Plan be exempt from ERISA’s provisions to the maximum extent permitted by law. To the extent this Plan is an excess benefit plan (as defined in Section 3(36) of ERISA), it shall be exempt from coverage entirely. This Plan is intended to be an unfunded “top-hat” plan maintained primarily for a select group of management or highly-compensated employees under Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA, and therefore is not subject to participation and vesting, funding and fiduciary requirements under ERISA.

ARTICLE II.

DEFINITIONS

When used herein, the following terms shall have the following meanings:

2.1 “Administrator” means the Benefit Plans Committee.

2.2 “Board” means the Board of Directors of the Federal National Mortgage Association.

2.3 “Code” means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.

2.4 “Committee” means the Benefit Plans Committee of the Corporation appointed in accordance with the terms of the Retirement Plan.

2.5 “Corporation” means the Federal National Mortgage Association.

2.6 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.7 “Executive” shall mean any officer or other member of the management group of the Corporation.

2.8 “Qualified Plan Benefit” shall mean the monthly normal, early, deferred vested, disability or preretirement survivor annuity benefit that is permitted to be paid to or on behalf of a Participant under the terms of the Retirement Plan including, but not limited to, those provisions of the Retirement Plan necessary in order for the Retirement Plan to comply with Sections 401(a)(17) and 415 of the Code.

2.9 “Participant” means any Executive employee of the Corporation who is entitled to receive a benefit under this Plan.

2.10 “Plan” means this Supplemental Pension Plan of Federal National Mortgage Association.

2.11 “Retirement Plan” means the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law, as amended from time to time.

2.12 “Unrestricted Benefit” shall mean the monthly normal, early, deferred vested, disability or preretirement survivor annuity benefit, as the case may be, which may be paid to or on behalf of a Participant in accordance with the terms of the Retirement Plan as in effect on the date of the determination, but determined with the following modifications: (i) the terms of the Retirement Plan included solely to comply with Sections 401(a)(17) and 415 of the Code shall be disregarded; and (ii) “Earnings” under the Retirement Plan (determined without regard to the terms of the Retirement Plan included solely to comply with Section 401(a)(17) of the Code) shall include amounts of compensation deferred under the Federal National Mortgage Association Career Deferred Compensation Plan and the Federal National Mortgage Association Elective Deferred Compensation Plan that would have seen included in Earnings had such amount not been deferred under such Plans.

ARTICLE III.

ELIGIBILITY AND PARTICIPATION

3.1 Eligibility. Each Executive employee of the Corporation whose Qualified Plan Benefit under the Retirement Plan is less than his or her Unrestricted Benefit shall be eligible to participate in this Plan. As a condition of initial and continued participation in the Plan, an eligible Executive must complete and submit to the Administrator any and all forms as may be required by the Administrator, including, but not limited to, authorization to withhold from other compensation payable by the Corporation to the Executive any applicable taxes resulting from participation in the Plan.

3.2 Benefits. A Participant (or surviving spouse of a deceased Participant) who is eligible to commence receiving a benefit under the Retirement Plan shall receive a benefit under this Plan equal to the Participant's Unrestricted Benefit reduced by (i) the Participant's Qualified Plan Benefit (including for this purpose the annual amount of any payment which he or she is then entitled to receive from the Corporation pursuant to Section 4.1(g) of the Federal National Mortgage Association Career Deferred Compensation Plan and/or the Federal National Mortgage Association Elective Deferred Compensation Plan or any successor provision to said section of said plans), and (ii) the actuarial equivalent value of the vested benefits accrued under the Executive Pension Plan of the Federal National Mortgage Association.

All benefit offsets described in preceding clauses (i) and (ii) of this Section 3.2 shall be determined by the Administrator in its sole discretion and taking into account all applicable actuarial adjustments. Such benefit offsets shall be based, if necessary, upon actuarial assumptions similar to those used for computing benefits payable at a different time or different form under the Retirement Plan.

3.3 Cost of Living Adjustments to Retirement Plan. A cost of living adjustment to benefits paid by the Retirement Plan shall automatically adjust the amount of benefits payable by this Plan, unless the Board or Committee determines otherwise.

3.4 Commencement of Benefit Payments. Benefits shall commence at the same time as Participant's (or surviving spouse's) benefits commence under the Retirement Plan. Furthermore, any suspension or termination of benefits payable from the Retirement Plan shall also result in a suspension or termination of benefits under this Plan. In no event will any benefit under the Plan be payable to a Participant prior to the later of (i) the date of his termination of employment with the Corporation or (ii) the date he attains age 55.

3.5 Form of Benefit Payments. Payments under this Plan shall be made monthly to a Participant, the Participant's surviving spouse, or the Participant's contingent annuitant (determined in accordance with the Participant's benefit election under the Retirement Plan) in the same form of payment and at the same time as the Participant's benefit is payable under the Retirement Plan. Notwithstanding the foregoing, in the event that the Administrator determines that a Participant must elect the form and timing of benefits under this Plan earlier than the date such election must be made under the Retirement Plan in order to conform the Plan's operation to tax laws and interpretations affecting the intended operation of the Plan, then the Administrator may adopt additional rules and requirements regarding the election of the timing and form of payment of benefits under the Plan.

ARTICLE IV.

ADMINISTRATION

4.1 Administration. The Plan shall be administered by the Committee. The Committee shall have all powers necessary to carry out the provisions of the Plan, including, without reservation, discretionary authority to interpret the provisions of the Plan, and the power to delegate to other persons the duty to perform administrative matters and the discretionary authority to interpret the provisions of the Plan.

4.2 No Liability of Committee Members. No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his or her behalf in his or her capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Corporation shall indemnify and hold harmless each employee, officer or director of the Corporation to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person’s own fraud or bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against the Committee or any member of the Committee.

4.3 Claims Procedures. Claims for benefits under the Plan shall be submitted in writing to and decided by the person designated by the Committee. A claimant or his duly authorized representative may review pertinent documents and may submit issues and comments in writing prior to the time when a decision is rendered on the claim. Under normal circumstances a final decision on a claimant’s request for benefits shall be made within ninety (90) days after receipt of the claim. However, if special circumstances require an extension of time to process a claim, a final decision may be deferred up to one hundred eighty (180) days after receipt of the claim if prior to the end of the initial ninety (90) day period the claimant is furnished written notice of the special circumstances requiring the extension and the anticipated date of a final decision. If the claim is denied, within the applicable period of time set out above, the claimant shall receive written notification of the denial, which notice shall set forth in a manner reasonably calculated to be understood by such claimant (i) the specific reason or reasons for the denial, (ii) specific reference to the pertinent provision of the Plan on which the denial is based, (iii) a description of any additional material or information necessary for the claimant to perfect such claim and an explanation of why such material or information is necessary, and (iv) an explanation of the Plan's review procedure. If such a notice is not furnished and such claim has not been allowed within the ninety (90) day period after receipt of the claim, such claim shall be deemed to have been denied.

In the event a claim is denied or in the event no action is taken on the claim within the above-described period(s) of time, the following procedure shall be used:

(a) First, in the event that the claimant does not timely receive the above-described written notification, the claimant's request for benefits shall be deemed to be denied as of the last day of the relevant period and the claimant shall be entitled to a full review of his or her claim in accordance with the following provisions of this Section.

(b) Second, a claimant is entitled to a full review of his or her claim after actual or constructive notification of a denial. A claimant or the authorized representative of claimant desiring a claim review must make a written request to the Committee requesting such a review, which request shall contain all information which the claimant wishes the Committee to consider. Incident to the review, the claimant or the claimant's authorized representative will have the right to inspect all documents pertaining to the claim and to submit issues and comments in writing. The Committee may conduct any independent investigation which it deems necessary to render its decision.

A request for a review must be filed with the Committee within sixty (60) days after the denial of the claim for benefits was actually or constructively received by the claimant. If no request is received within the sixty (60) day time limit, the denial of benefits will be final. However, if a request for review of a denied claim is timely filed, the Committee must render its decision under normal circumstances within sixty (60) days of the receipt of the request for review. However, if special circumstances require an extension of time, the decision may be delayed if prior to expiration of the initial sixty (60) day period the claimant is notified of the extension, but must in any event be rendered no later than one hundred twenty (120) days after the receipt of the request. If the decision on review is not furnished the claimant within the applicable time period(s) set out above, the claim shall be deemed denied on the last day of the relevant period. All decisions of the Committee shall be in writing setting forth in a manner reasonably calculated to be understood by the claimant the specific reasons for whatever action has been taken, and the provisions of the Plan on which the decision is based. A claimant shall be precluded from bringing suit for benefits unless a review of the claimant's benefit claim has been properly requested and an adverse decision on review received. For all purposes of the Plan, said decisions on claims (where no review is requested) and decisions or review (where review is requested) shall be final, binding and conclusive on all interested persons as to participation and benefit eligibility, the computation of the employee's amount of benefit and as to any other matter of fact or interpretation relating to the Plan.

ARTICLE V.

MISCELLANEOUS

5.1 General Creditor Status. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Corporation and such person shall have only the unsecured promise of the Corporation that such payment shall be made. All payments to be made hereunder shall be paid from the general funds of the Corporation and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. Participants and their surviving spouses shall have no right, title or interest in or to any investments which the Company may make to aid it in meeting its obligations under the Plan.

All such assets shall be the property solely of the Corporation and shall be subject to the claims of the Corporation's unsecured general creditors.

5.2 Change in Control or other Discontinuance. The obligations of the Corporation under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization or from any reincorporation or change of name of the Corporation, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Corporation. The Corporation agrees that it will make appropriate provision for the preservation of Participant's rights under the Plan in any agreement or plan which it may enter into or adopt to effect such merger, consolidation, reorganization, reincorporation, change of name or transfer of assets.

5.3 Non-Alienation of Benefits. To the extent permitted by law, Participants and their surviving spouses shall not have the right to alienate, anticipate, commute, sell, assign, transfer, pledge, encumber or otherwise convey the right to receive any payments under the Plan, and any payments under the Plan or rights thereto shall not be subject to the debts, liabilities, contracts, engagements or torts of Participants or their surviving spouses nor to attachment, garnishment or execution, nor shall they be transferable by operation of law in the event of bankruptcy or insolvency. Any attempt, whether voluntary or involuntary, to effect any such action shall be null, void and of no effect.

5.4 Payments to Persons other than Participants. If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his or her affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his or her estate (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Committee so directs the Corporation (or trustee in the event a trust fund is established in connection with the Plan), be paid to his spouse, child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Plan, any trust fund established in accordance with Section 5.6 hereof and the Corporation therefor.

5.5 Amendment or Termination. The Board may, with prospective or retroactive effect, amend, suspend, or terminate the Plan or any portion thereof at any time, and delegates to the Committee the authority to adopt amendments which may be necessary or appropriate to facilitate the administration, management and interpretation of the Plan or to conform the Plan thereto, provided any such amendment does not significantly affect the cost to the Corporation of maintaining the Plan. However, no amendment, suspension or termination of the Plan shall without the consent of a Participant impair or adversely affect any benefits accrued under the Plan as of the date of such action (determined as if the Participant then employed had terminated his employment as of the date of such amendment, suspension or termination).

5.6 Effect of Trust Fund. The Corporation shall be responsible for the payment of all benefits to the employees as provided under the Plan. The Corporation may (but shall not be required to) establish one or more trusts, with such trustees as the Committee may approve, for the purpose of providing for the payment of such benefits. Although a trust may be irrevocable, its assets shall be held for payment of the Corporation's general creditors in the event of the Corporation's bankruptcy or insolvency. To the extent any benefits provided under the Plan are paid from a trust, the Corporation shall have no further obligation to pay that portion of the benefit due. If not paid from the trust, the benefits shall remain the obligation of the Corporation.

5.7 Unfunded Plan; Governing Law. As provided in Section 1.3, the Plan is intended to constitute an excess benefit plan and/or an unfunded deferred compensation arrangement for a select group of management or highly compensated personnel and all rights thereunder shall be governed by and be construed in accordance with the laws of the District of Columbia.

5.8 Taxes. The amount of any taxes required to be withheld from a Participant's distribution by any federal, state, or local government shall be deducted from the distribution. The Participant shall bear any and all federal, state, or local or other taxes imposed on amounts accrued under or distributed from the Plan. The Corporation does not represent or guarantee that any particular federal or state, income, payroll, personal property or other tax consequences will result from participation in the Plan.

5.9 Other Plans. Benefits payable under the Plan shall not be deemed salary or other compensation to the Participant for the purpose of computing benefits to which he may be entitled under any other plan or arrangement of the Corporation. Notwithstanding any provision of the Plan to the contrary, no benefit (or portion of a benefit) shall be payable as a result of participation in the Plan to the extent a benefit is payable to or on behalf of such participant under a plan, program or agreement with purposes similar to those of this Plan and the payment of the benefit (or portion of such benefit) under this Plan would provide a benefit to or on behalf of the participant which duplicates the benefit payable under such other plan, program or agreement.

5.10 Gender. Whenever used in the Plan, the masculine gender includes the feminine.

5.11 Captions. The captions preceding the Sections of the Plan have been inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision of the Plan.

5.12 Effective Date. The Plan shall become effective as of January 1, 1994.

EXHIBIT 10.10

EXECUTIVE PENSION PLAN
OF THE FEDERAL NATIONAL MORTGAGE ASSOCIATION
AS AMENDED AND RESTATED
EFFECTIVE AS OF SEPTEMBER 16, 1986

1. Purpose

In order to secure and retain the services of key employees of outstanding ability and motivate such employees to exert their best efforts, the Board has adopted a policy designed to assure such employees a reasonable level of retirement income. The purpose of the Executive Pension Plan of Federal National Mortgage Association is to enable the Board to carry out such policy with respect to a designated group of senior officers.

2. Definitions

When used herein, the following terms shall have the following meanings:

"Board" means the Board of Directors of Federal National Mortgage Association.

"Code" means the Internal Revenue Code of 1954, as now in effect or as hereafter amended. All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.

"Committee" means the Compensation Committee of the Board.

"Corporation" means Federal National Mortgage Association.

"High-Three Total Compensation" means a Participant's average annual Total Compensation from the Corporation, as determined by the Committee, for the 36 consecutive months of the last 120 months of the Participant's employment by the Corporation when such Participant's Total Compensation is the highest, or during his total period of employment by the Corporation if less than 36 months.

"Participant" means any officer of the Corporation, who is employed by the Corporation on a full-time basis, who is compensated for such employment by a regular salary, who, in the opinion of the Committee, based upon such criteria as it shall from time to time establish, is in a position to contribute materially to its continued growth and development and to its future financial success and who is selected to participate in the Plan in the manner described in Section 4.

"Pension Goal" means the annual pension goal established by the Committee for each

Participant in accordance with Section 5.

"Plan" means the Executive Pension Plan of Federal National Mortgage Association.

"Qualified Plan" means the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law, as amended from time to time.

"Surviving Spouse" means the person to whom the Participant is legally married (i) at the time of his death, if the Participant dies before his payments under the Plan commence, and (ii) if the Participant dies after his payments under the Plan commence, both at the time of his death and at the time benefits under the Plan so commenced.

"Total Compensation" means annual base salary, including amounts deferred by the Participant under the Federal National Mortgage Association Optional Deferred Compensation Plan, and its successor plans, and amounts which, pursuant to the election of the Participant, the Corporation has contributed to any cash or deferred arrangement qualified under Section 401(k) of the Code, plus the Participant's other taxable compensation paid by the Corporation with respect to the calendar year for which the determination is made; provided, however, that such other taxable compensation (i) shall be allocated equally over the years in which it is earned and (ii) shall be limited in each such year to 50 percent of the Participant's annual base salary for such year.

3. Administration

The Plan shall be administered by the Committee. In no event shall a member of the Committee be eligible for an Award under the Plan.

A majority of the Committee shall constitute a quorum, and the acts of a majority of the members physically present at a meeting or participating in a telephonic meeting, or acts unanimously approved in writing by the Committee without a meeting, shall be the acts of the Committee.

The Committee shall have the authority to:

(i) Select the Participants;

(ii) Determine the Pension Goal for each Participant; provided, however, that the Pension Goals determined for the Chief Executive Officer, the President, and the Executive Vice Presidents shall be approved by the Board;

(iii) Establish from time to time regulations for the administration of the Plan, interpret the Plan, and make all determinations considered necessary or advisable for the administration of the Plan.

All decisions, actions or interpretations of the Committee shall be final, conclusive, and binding upon all parties.

4. Participation

Participants in the Plan shall be limited to those employees of the Corporation who have received written notification from the Committee, or from a person designated by the Committee, that they have been selected to participate in the Plan. No employee shall at any time have the right to be selected as a Participant. Neither the Plan nor any action taken thereunder shall be construed as giving any employee any right to be retained in the employ of the Corporation

5. Pension Goal

At the time an employee is designated a Participant, the Committee shall determine his Pension Goal based upon his position with and achievements for the Corporation and other factors, such as age and the presence of prior pension plan benefits. A Participant's Pension Goal shall be a percentage (not less than 30 percent nor more than 60 percent) of his High-Three Total Compensation. In exceptional circumstances the Committee may, in its sole discretion, increase a Participant's initial Pension Goal to a higher percentage, up to a maximum of 60 percent, subject to the satisfaction of such additional vesting requirements as the Committee shall establish. Without regard to whether such 60 percent limitation shall have become operative, the Committee may, in its sole discretion, after the date the Participant becomes fully vested in his Pension Goal, on a year-by-year basis, add up to 2 percentage points to the Pension Goal then established for him for each year of additional service.

6. Normal Retirement Benefit

The amount of a Participant's annual normal retirement benefit shall be payable within 30 days after the date he attains age 60 or, if later, within 30 days after the date his employment with the Corporation terminates, and shall be equal to the amount of his Pension Goal in which he is vested less (i) the annual amount of any benefit which he is then entitled to receive under the Qualified Plan (including for this purpose the annual amount of any payment which he is then entitled to receive from the Corporation pursuant to Section 4.1(g) of the Federal National Mortgage Association Optional Deferred Compensation Plan or any successor provision to said section of said plan), (ii) the annual amount of any benefits not attributable to his own contributions which he is then entitled to receive under the Civil Service Retirement Act, solely to the extent such benefits are attributable to periods of employment with the Corporation, and (iii) if the Committee in its sole discretion so determines, the annual amount of any benefits not attributable to his own contributions which he is then entitled to receive under any plan which is designated by the Committee, qualified under Section 401(a) of the Code and maintained by the Participant's prior employer, if years of service with such employer are counted for purposes of vesting under the Plan.

All benefit offsets described in (i), (ii), and (iii) of this Section 6 shall be determined by the Committee in its sole discretion and taking into account all applicable actuarial adjustments (i) in the case of a Participant who is married on the date of determination, as if he had elected to receive such benefits as a joint and 100 percent survivor annuity and (ii) in the case of a Participant who is not married on the date of determination, as if he had elected to receive such benefits as a single life annuity. Such benefit offsets shall be based, if necessary, upon actuarial assumptions similar to those used in the Qualified Plan. If, notwithstanding any election which the Participant could make, any such benefit offset could not be payable (i) at the time benefits under the Plan commence, or (ii) in the form of a joint and 100% survivor annuity, then such offset shall (i) be taken into account on the earliest date it could be payable, or (ii) be determined as if the Participant had elected that form of benefit which provides the largest possible survivor benefit for which his Surviving Spouse would have qualified, or both, as appropriate. Cost of living adjustments made to benefits payable under the Civil Service Retirement Act shall be taken into account in the calendar year following the calendar year in which such adjustments are made.

7. Early Retirement Benefits

Subject to Section 9, any Participant may elect to commence to receive an early retirement benefit in the event his employment with the Corporation terminates prior to the date he attains age 60. Such election must be made on or prior to the date he becomes a Participant in the Plan pursuant to Section 4 and shall be irrevocable after such date. The amount of a Participant’s annual early retirement benefit shall be computed in the same manner as his annual normal retirement benefit, but shall be adjusted by reducing the Pension Goal in which he is vested by 1/12 of 2 percentage points for each full month by which the commencement of payments precedes the Participant’s attainment of age 60. The payment of such Participant’s early retirement benefit, if any, under the Plan shall commence within 30 days after his employment with the Corporation terminates or, if later, within 30 days after the date he attains age 55.

8. Deferred Retirement Benefit

There shall be no actuarial increase or, except as provided in Section 5, other adjustment of the Pension Goal of a Participant who remains in the employ of the Corporation after attaining age 60. The payment of such Participant’s normal retirement benefit, if any, under the Plan shall commence within 30 days after the date his employment with the Corporation terminates.

9. Commencement of Benefit Payments

In no event will any benefit under the Plan be payable to a Participant prior to the later of (i) the date of his termination of employment with the Corporation or (ii) the date he attains age 55.

10. Vesting

Except as otherwise provided in this Section 10. a Participant shall vest in his initial Pension Goal in accordance with the following schedule:

Years of Service with the Corporation as a Participant	**Percent Vested in Pension Goal**
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

In computing a Participant's years of service for purposes of the Plan, the Committee shall follow rules similar to those in effect under the Qualified Plan.

In exceptional circumstances, the Committee may, in its sole discretion, at any time, recognize up to five years of service with the Participant's immediate prior employer. Such recognition shall be conditional upon the Participant's completion of five years of service with the Corporation as a Participant. In exceptional circumstances, if an employee of the Corporation attains age 50 by January 1, 1984, the Committee may, in its sole discretion, recognize years of service completed with the Corporation prior to the effective date of the Plan. In addition, the Committee may, in its sole discretion, at any time, recognize one or more years of service with the Corporation after the effective date of the Plan but prior to the date the employee becomes a Participant. However, in no case shall a Participant completely or partially vest in his Pension Goal prior to the date he completes two years of service with the Corporation as a Participant.

11. Form of Benefit Payments

Payments under this Plan shall be made monthly to a Participant for as long as he shall live in an amount equal to one-twelfth of the annual normal or early retirement benefit, as applicable, in which the Participant is vested. In addition, if a Participant dies after his payments under the Plan commence, his Surviving Spouse (regardless of her age at the time of the Participant's death) shall be entitled to monthly payments, commencing on the first day of the month coincident with or next following the date of the Participant's death and continuing for the duration of her life, of 100% of the monthly amount which was being paid to the Participant at the time of his death.

12. Preretirement Surviving Spouse's Benefit

If a Participant (whether or not he has terminated employment with the Corporation or attained age 55) dies before his payments under the Plan commence, his Surviving Spouse shall be entitled to monthly payments for life (a "Surviving Spouse's Benefit") equal to 1/12 of the Pension goal in which the Participant was vested on his date of death, if any, as adjusted and paid in accordance with the following rules:

(i) the Pension Goal in which the Participant is vested shall be reduced by 1/12 of 2 percentage points for each full month by which the date of the Participant's death precedes the date on which he would have attained age 60, and he survived, subject to a maximum reduction of 10 percentage points;

(ii) the Surviving Spouse's Benefit shall take full account of all benefit offsets described in clauses (i), (ii), and (iii) of the first paragraph of Section 6 above, as determined by the Committee in its sole discretion, but in determining the amount of such offsets:

(A) if the Participant's benefits had already commenced under one or more of the benefit offset plans referred to in Section 6 above, the offset under such plan or plans shall be determined by reference to the largest possible survivor benefit which the Participant could have elected to have his Surviving Spouse continue to receive after his death; and

(B) if the Participant's benefits had not already commenced under one or more of such benefit offset plans, then the benefit offset under each such plan or plans shall be determined by reference to the benefit which would have been payable had the Participant elected the largest possible survivor benefit which he could have elected to have his Surviving Spouse receive (or, if no such election is provided, the survivor benefit, if any, which is automatically provided under such plan or plans), without having his own benefits commence, and had such elective or automatic survivor benefit commenced on the earliest possible date under each respective offset plan;

(iii) if a Participant's Surviving Spouse has not attained age 55 on the date of the Participant's death, payment of the Surviving Spouse's Benefit shall be deferred and shall commence within 30 days after the date she attains age 55, without actuarial increase; and

(iv) if a Particpant's Surviving Spouse has attained age 55 by the date of the Participant's death, the Surviving Spouse's Benefit shall commence within 30 days after the date of the Participant's death.

13. Optional Forms of Benefit Payments

In lieu of the form of payment described in Section 11 or 12 above, the Committee may designate in writing another form of benefit for a Participant (or, in the event of his death, his Surviving Spouse), provided (i) such written designation is irrevocable and is made on or prior to the date he becomes a Participant in the Plan pursuant to Section 4 and (ii) such form is actuarially equivalent (determined on the basis of conversion assumptions adopted by the Committee) to the prescribed form of payment. Notwithstanding the foregoing, if a Participant dies before his payments under the Plan commence and he is not survived by a Surviving Spouse, no benefit shall be payable under the Plan.

14. General Creditor Status

To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Corporation and such person shall have only the unsecured promise of the Corporation that such payments shall be made. All payments to be made hereunder shall be paid from the general funds of the Corporation and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. Participants and their Surviving Spouses shall have no right, title or interest in or to any investments which the Company may make to aid it in meeting its obligations under the Plan. All such assets shall be the property solely of the corporation and shall be subject to the claims of the Corporation's unsecured general creditors.

15. Change in Control or other Discontinuance

The obligations of the Corporation under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization or from any reincorporation or change of name of the Corporation, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Corporation. The Corporation agrees that it will make appropriate provisions for the preservation of Participants' rights under the Plan in any agreement or plan which it may enter into or adopt to effect any such merger, consolidation, reorganization, reincorporation, change of name or transfer of assets.

16. Non-Alienation of Benefits

To the extent permitted by law, Participants and their Surviving Spouses shall not have the right to alienate, anticipate, commute, sell, assign, transfer, pledge, encumber or otherwise convey the right to receive any payments under the Plan, and any payments under the Plan or rights thereto shall not be subject to the debts, liabilities, contracts, engagements or torts of Participants or their Surviving Spouses nor to attachment, garnishment or execution, nor shall they be transferable by operation of law in the event of bankruptcy or insolvency. Any attempt, whether voluntary or involuntary, to effect any such action shall be null, void and of no effect.

17. Taxes

The Corporation shall deduct from all amounts paid under the Plan all federal, state, local, and other taxes required by law to be withheld with respect to such payments.

18. Payments to Persons other than Participants

If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his estate (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Committee so directs the Corporation, be paid to his spouse, child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person other- wise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Corporation therefor.

19. No Liability of Committee Members

No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Corporation shall indemnify and hold harmless each employee, officer or director of the Corporation to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person’s own fraud or bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against the Committee or any member of the Committee.

20. Amendment or Termination

The Board may, with prospective or retroactive effect, amend, suspend or terminate the Plan or any portion thereof at any time, and delegates to the Committee the authority to adopt amendments which may be necessary or appropriate to facilitate the administration, management and interpretation of the Plan or to conform the Plan thereto, provided any such amendment does not significantly affect the cost to the Corporation of maintaining the Plan. However, no amendment, suspension or termination of the Plan shall deprive any Participant of any vested rights without his written consent.

21. Unfunded Plan; Governing Law

The Plan is intended to constitute an unfunded deferred compensation arrangement for a select group of management or highly compensated personnel and all rights thereunder shall be governed by and construed in accordance with the laws of the District of Columbia.

22. Other Plans

Benefits payable under the Plan shall not be deemed salary or other compensation to the Participant for the purpose of computing benefits to which he may be entitled under any other plan or arrangement of the Corporation.

23. Gender

Whenever used in the Plan, the masculine gender includes the feminine.

24. Captions

The captions preceding the Sections of the Plan have been inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision of the Plan.

25. Effective Date

The Plan as amended and restated shall become effective as of September 16, 1986.

EXHIBIT 10.11

FANNIE MAE ANNUAL INCENTIVE PLAN

(As Amended Through January 16, 2001)

1. Purpose. The purpose of the Fannie Mae Annual Incentive Plan is to encourage greater focus on performance among the Management Group of Fannie Mae by relating a significant portion of their total compensation to the achievement of annual financial, strategic or operational objectives.

2. Definitions. The following definitions are applicable to the Plan:

"Award" means an amount of money expressed as a percentage of a Participant's annual base salary and earned in accordance with the provisions of the Plan.

"Beneficiary" means the beneficiary or beneficiaries designated in accordance with Section 8 to receive the amount, if any, payable under the Plan in the event of the death of a Participant.

"Board" means the Board of Directors of Fannie Mae.

"Business Unit" means the annual performance objectives of a business unit of the Company established for purposes of the Plan.

"Committee" means the Compensation Committee of the Board.

"Company" means Fannie Mae.

"Corporate Goals" means the annual performance objectives of the Company established for purposes of the Plan.

“Individual Goals” means the annual performance objectives of individual Participants established for purposes of the Plan.

“Maximum Potential Award” means the maximum Award that can be earned by a Participant during a calendar year.

“Management Group” means the group of employees of the Company holding positions at or above the grade level equivalent to that of a director, or an equivalent title.

“Participant” means each member of the Management Group of the Company who is employed by the Company and who is compensated for such employment by a regular salary.

“Plan” means the Fannie Mae Annual Incentive Plan.

3. Administration. The Plan shall be administered by the Committee. In no event shall a member of the Committee be eligible for an Award under the Plan. In this regard, an employee of the Company who is present at a Committee meeting by reason of his office shall not be deemed to be a member of the Committee and in no event shall be entitled to vote on any matter on which the Committee is required or permitted to vote under the Plan.

A majority of the Committee shall constitute a quorum, and the acts of a majority of the members physically present at a meeting or participating in a telephonic meeting, or acts unanimously approved in writing by the Committee without a meeting, shall be the acts of the Committee.

The Committee shall have the authority to establish from time to time regulations for the administration of the Plan, interpret the Plan, and make all determinations considered necessary or advisable for the administration of the Plan.

Except with respect to matters requiring action by the Board, all decisions, actions or interpretations of the Committee shall be final, conclusive and binding upon all parties.

The Chairman, the President, and the Vice Chairman are authorized to delegate their authority under this Plan.

4. Participation. Participants in the Plan shall be limited to members of the Management Group of the Company. No Participant shall at any time have the right to be entitled automatically to an Award. Neither the Plan nor any action taken thereunder shall be construed as giving any employee the right to be retained in the employ of the Company.

5. Awards. Awards will be earned on the basis of performance measured against preestablished goals consisting of (i) either Corporate or Business Unit Goals, (ii) Individual Goals or (iii) a combination of either Corporate or Business Unit Goals and Individual Goals.

Corporate Goals shall be established by the Board and shall be based upon the Company’s annual return on shareholders’ equity or upon such other corporate objectives as the Board shall determine annually. The Committee shall determine the extent to which each year’s Corporate Goals are attained. The Committee shall also have the authority, with the approval of the Board, to adjust Corporate Goals, or performance measurement standards for such goals, for any calendar year as it deems equitable in recognition of (i) extraordinary or non-recurring events experienced by the Company during the calendar year, or by any other company whose performance is relevant to the determination of the amount of any Award hereunder, (ii) changes in applicable accounting rules or principles or changes in the Company's or in any other such company's methods of accounting during the calendar year, or (iii) the occurrence of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the capital structure of the Company, or of any other such company. If the minimum Corporate Goal set for any calendar year by the Board is met, the Chairman, the President, or the Vice Chairman may increase or decrease the amount of the Corporate Goal-related Award to be paid to each Participant at or below the level of Executive Vice President based on an evaluation of the individual performance of such Participant; provided however that such adjustment may not cause the total amount of Corporate Goal-related Awards to be paid under the Plan to exceed the maximum fund for Corporate Goal-related Awards set by the Board for such calendar year, or, if a separate fund has not been set for Corporate Goal-related Awards, such adjustment may not cause the total amount of Corporate Goal-related Awards, when combined with Business Unit Goal-related Awards, to be paid under the Plan to exceed the maximum fund for all Awards set by the Board for such calendar year. In the event that the Company's annual return on shareholders' equity or other measurement of corporate performance for any calendar year is less than the minimum Corporate Goal set for such year by the Board, no Award for corporate performance will be made for such year, and, except as otherwise provided in the penultimate paragraph of this Section 5, no Award for individual performance will be made for such year even though Individual Goals have been met.

Business Unit Goals for a business unit with employees eligible for Awards based, in whole or in part, on a Business Unit Goal, shall be established by the Board and shall be based upon performance objectives for such business unit established annually by the Board. The Committee shall determine the extent to which each year's Business Unit Goals are attained. The Committee shall also have the authority, with the approval of the Board, to adjust Business Unit Goals, or performance measurement standards for such goals, for any calendar year as it deems equitable in recognition of (i) extraordinary or non-recurring events experienced by the business unit or the Company during the calendar year, or by any other company whose performance is relevant to the determination of the amount of any Award hereunder, (ii) changes in applicable accounting rules or principles or changes in the Company's or in any other such company's methods of accounting during the calendar year, or (iii) changes in the business unit's function or role within the Company. If the minimum Business Unit Goal for a business unit set for any calendar year by the Board is met, the Chairman, the President, or the Vice Chairman may increase or decrease the amount of the Business Unit Goal-related Award to be paid to each Participant in such business unit at or below the level of Executive Vice President (or an equivalent title) based on evaluation of the individual performance of such Participant; provided however that such adjustment may not cause the total amount of Business Unit Goal-related Awards to be paid under the Plan to exceed the maximum fund for Business Unit Goal-related Awards set by the Board for such calendar year, or, if a separate fund has not been set for Business Unit Goal-related Awards, such adjustment may not cause the total amount of Business Unit Goal-related Awards, when combined with Corporate Goal-related Awards, to be paid under the Plan to exceed the maximum fund for all Awards set by the Board for such calendar year. In the event that the business unit does not satisfy its minimum Business Unit Goal set by the Board for such year, no Award for business unit performance will be made for such year, and, except as otherwise provided in the next following paragraph of this Section 5, no Award to a Participant in the business unit for individual performance will be made for such year even though Individual Goals have been met.

The Chairman of the Board, the President, or the Vice Chairman shall set the Individual Goals and measure the performance of Participants each year; provided, however, that the Board shall set the Individual Goals, if any, of the Chairman, the President, and the Vice Chairman of the Company and, if it sets such goals, shall measure their performance. In any case where the Individual Goals of a Participant, at or below the level of Executive Vice President, have been substantially satisfied, the Chairman, the President, or Vice Chairman may, but shall not be required to, determine that such Participant's Individual Goals have been partially attained and, in any such case, the percentage of the Participant's Award that is based on individual performance shall be appropriately adjusted and, if the other requirements for the payment of an Award are met, shall be paid. The Chairman, the President, or the Vice Chairman may, but shall not be required to, adjust Individual Goals of Participants, at or below the level of Executive Vice President, at any time prior to the end of the year for which they were established, to reflect changed responsibilities of such Participants or other material changes in circumstances. With respect to the Individual Goals, if any, of the Chairman, the President, and the Vice Chairman, the Board shall exercise the discretion granted to the Chairman, the President, and the Vice Chairman in the preceding two sentences of this Section 5. The Committee may provide in any year that as to any or all Participants at or below the level of Executive Vice President and under such conditions as may be imposed by the Committee some or all Awards for individual performance for such year may be earned whether or not the relevant minimum Business Unit Corporate Goal has been met; the Board may make such provision for the Chairman, the President, and the Vice Chairman.

The Committee shall determine for each year for each Participant the Maximum Potential Award as a percentage of his or her aggregate regular basic salary paid during such year while a Participant (including any such salary deferred by the Participant under a Fannie Mae plan or program) and may make such determination either on an individual basis or by categories of Participants. The Committee shall also determine the percentage of each Participant’s Maximum Potential Award that is to be earned on the basis of business unit, corporate or individual performance, and may make such determination either on an individual basis or by categories of Participants. Notwithstanding other provisions of this Plan, the Chairman, the President, or the Vice Chairman may determine that the amount of any Award payable to a Participant at or below the level of Executive Vice President, may exceed the Maximum Potential Award for any year; provided, however that such adjustment may not cause the total amount of business unit, corporate or all combined Awards, to be paid under the Plan to exceed the maximum fund for business unit, corporate or all combined Awards, whichever is applicable, set by the Board for such calendar year.

6. Payment of Awards. The amount payable with respect to an Award earned under the Plan shall be paid by the Company in cash as soon as practicable after the end of the calendar year with respect to which it is earned, unless the Participant has effectively elected to defer all or any part of such amount pursuant to the terms and conditions of any Fannie Mae plan or program. All amounts that are so deferred shall be paid in accordance with the terms and conditions of such Fannie Mae plan or program. Except as otherwise provided in Section 7 of the Plan, no Award shall be payable to any Participant who is not a member of the Management Group of the Company on December 31 of the calendar year with respect to which such Award is earned. The Chairman, the President, or the Vice Chairman shall report the total amount of each Participant’s actual Award to the Committee each year.

7. Partial Awards. A Participant who, except on account of death, permanent disability or retirement, is not a member of the Management Group of the Company on the last day of a Plan year and, therefore, is a Participant for less than a full year may, upon the approval of the Chairman, receive a pro rata portion of an Award, if any, for such partial year of participation. An employee who is a Participant for less than a full year by reason of promotion, commencement of employment, or termination of employment on account of death, permanent disability or retirement shall receive a pro rata portion of an Award, if any, for that year. A Participant who is eligible for more than one Award during any calendar year by reason of a promotion within the Management Group or a transfer to a different business unit shall receive a pro rata portion of each Award, if any, for that year.

8. Designation and Change of Beneficiary. Each Participant shall file with the Committee or its designee, on a form prescribed for such purpose by the Committee or its designee, a written designation of one or more persons as the Beneficiary who shall be entitled to receive the amount, if any, payable under the Plan in the event of the Participant’s death. A Participant may, from time to time, revoke or change the Participant’s Beneficiary designation without the consent of any prior

Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant’s death, and in no event shall it be effective as of a date prior to such receipt.

9. Unsecured Creditor Status. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts.

10. Change in Control or other Discontinuance. The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization or from any reincorporation or change of name of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company. The Company agrees that it will make appropriate provision for the preservation of Participants’ rights under the Plan in any agreement or plan that it may enter into or adopt to effect any such merger, consolidation, reorganization, reincorporation, change of name, or transfer of assets.

11. Non-Alienation of Benefits. A Participant shall not assign, sell, encumber, transfer, or otherwise dispose of any rights or interests under the Plan and any attempted disposition shall be null and void.

12. Taxes. The Company shall deduct from all amounts paid under the Plan all federal, state, local, and other taxes required by law to be withheld with respect to such payments.

13. Payments to Persons other than Participants. If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his estate (unless a prior claim therefor has been made a duly appointed legal representative), may, if the Committee so directs the Company, be paid to his spouse, child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

14. No Liability of Committee Members. No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each employee, officer, or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against the Committee or any member of the Committee.

15. Amendment or Termination. The Board may, with prospective or retroactive effect, amend, suspend, or terminate the Plan or any portion thereof at any time, and delegates to the Committee the authority to adopt amendments which may be necessary or appropriate to facilitate the administration, management, and interpretation of the Plan or to conform the Plan to the Committee's administration, management, and interpretation of the Plan, provided any such amendment does not significantly affect the cost to the Company of maintaining the Plan. However, no amendment, suspension, or termination of the Plan shall be permitted if it would

materially and adversely affect the right of any Participant, without his written consent, to earn or receive an Award for a particular year once such year has commenced.

16. Unfunded Plan; Governing Law. The Plan is intended to constitute an unfunded deferred compensation arrangement for a select group of management or highly compensated personnel and all rights thereunder shall be governed by and construed in accordance with the laws of the District of Columbia.

17. Other Plans. No Award shall be deemed salary or other compensation to the Participant for the purpose of computing benefits to which he may be entitled under `any other plan or arrangement of the Company except as specifically provided in any such plan or arrangement or as otherwise determined by the Board.

18. Gender. Whenever used in the Plan, the masculine gender includes the feminine.

19. Captions. The captions preceding the Sections of the Plan have been inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision of the Plan.

20. Effective Date. The Plan shall become effective as of January 1, 1985.

EXHIBIT 10.12

FANNIE MAE

STOCK COMPENSATION PLAN OF 1993

I. The Plan

1.1 Purpose. The purpose of the Fannie Mae Stock Compensation Plan of 1993 is to promote the success of the Federal National Mortgage Association by providing an additional means through the grant of Awards to provide officers and employees with stock compensation that is comparable with compensation for employment with other similar companies in order to attract, motivate, retain and reward officers and employees; to provide incentives for high levels of individual performance and improved financial performance; to attract, motivate and retain experienced and knowledgeable independent directors; and to promote a close identity of interests between directors, officers, employees and stockholders.

1.2 Definitions.

The following terms shall have the meanings set forth below:

(1) *"Award"* shall mean an award of any Option, Stock Appreciation Right, Restricted Stock, Performance Share Award, Stock Bonus, or any other award authorized under Section 1.6, or any combination thereof, whether alternative or cumulative, authorized by and granted under this Plan.

(2) *"Award Date"* shall mean the date upon which the Nonmanagement Board or the Committee, as applicable as determined pursuant to Section 1.3, takes the action granting an Award or such later date as the Nonmanagement Board or the Committee designates as the Award Date at the time of granting the Award or, in the case of Awards under Articles VI or VII, the applicable dates set forth therein.

(3) *"Award Document"* shall mean any writing, which may be an agreement, setting forth the terms of an Award that has been granted by the Nonmanagement Board or the Committee.

(4) *"Award Period"* shall mean the period beginning on an Award Date and ending on the expiration date of such Award.

(5) *"Beneficiary"* shall mean the person or persons designated by a Participant or Permitted Transferee in writing to the Benefit Plans Committee to receive the benefits specified in an Award Document and under this Plan in the event of the death of such Participant or Permitted Transferee, or, if the Participant or Permitted Transferee has not designated such person or persons, or such person or persons shall all have pre-deceased the Participant or Permitted Transferee, the executor or administrator of the estate of such Participant or Permitted Transferee.

(6) “*Benefit Plans Committee*” shall mean the Benefit Plans Committee established by the Board, consisting of employees of the Corporation.

(7) “*Board*” shall mean the Board of Directors of the Corporation.

(8) “*Change in Control Event*” shall mean any of the following:

(a) A change in the composition of a majority of the Board elected by stockholders within 12 months after any “person” (as such term is used in Sections 3(a)(9), 13(d) and 14(d) of the Securities Exchange Act of 1934) is or becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing more than 25 percent of the combined voting power of the then outstanding securities of the Corporation entitled to then vote generally in the election of directors of the Corporation.

(b) A change in the authority of the Corporation to carry on its business that would materially restrict the general scope of its authorized business activities.

(c) A change in the current legal or regulatory structure, other than one sought by management, that would materially impair the Corporation’s ability to borrow as a “federal agency” borrower.

(9) “*Code*” shall mean the Internal Revenue Code of 1986, as amended from time to time.

(10) “*Committee*” shall mean the Compensation Committee of the Board.

(11) “*Common Stock*” shall mean the common stock of the Corporation and, in the event such common stock is converted to another security or property pursuant to Section 8.2, such other security or property.

(12) “*Corporation*” shall mean Federal National Mortgage Association and its successors, and, where the context requires, its Subsidiaries.

(13) “*Director Term*” shall mean the period starting with the annual meeting of the stockholders at which directors are elected to serve on the Board and ending with the next annual meeting at which directors are elected.

(14) “*Early Retirement*” means separation from service with the Corporation at or after the attainment of age 60 (but before attainment of age 65) with five years of service with the Corporation, or at an earlier age only if permitted by the Nonmanagement Board or the Committee (as the case may be) in its sole discretion. For purposes of this Section 1.2(14), a year of service shall be determined in accordance with the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law.

(15) *“Eligible Employee”* shall mean any employee of the Corporation.

(16) *“ERISA”* shall mean the Employee Retirement Income Security Act of 1974, as amended.

(17) *“Escrow Agent”* shall mean Chemical Bank or any additional or successor escrow agent designated by the Benefit Plans Committee.

(18) *“Escrow Agreement”* shall mean the document approved by the Benefit Plans Committee that sets forth the agreement among the Corporation, the Participant and the Escrow Agent pursuant to which an Award of Restricted Stock, including an Award of Restricted Stock to a Nonmanagement Director pursuant to Article VII, is held in escrow pursuant to its terms.

(19) *“Fair Market Value”* shall mean

(i) for the purpose of determining the exercise price of an Option or the number of shares of Restricted Stock to be granted under Article VII, the per share value of Common Stock as determined by using the mean between the high and low selling prices of such Common Stock on the Award Date (or, if the NYSE is not open that day, the next subsequent day that the NYSE is open for trading and the Common Stock is traded) as reported for such date in the table entitled “NYSE—Composite Transactions,” contained in The Wall Street Journal; and

(ii) for the purpose of valuing Common Stock used in payment upon the exercise of an Option or other Award or to satisfy a tax withholding obligation or of calculating the gain upon the exercise of a Stock Appreciation Right, the per share value of Common Stock as determined by using the closing price of such Common Stock on the day preceding the date of exercise or payment (or, if the NYSE is not open that day, the closest preceding day that the NYSE is open for trading and the Common Stock is traded) as reported for such date in the table entitled “NYSE—Composite Transactions,” contained in The Wall Street Journal, or for the purpose of computing the value of a Limited SAR, the average of such closing prices of such Common Stock on each day during the period or on the date specified in the Award Document.

(20) “*Immediate Family Member”* shall mean, with respect to a Participant, (i) such Participant’s child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, half-sibling, stepsibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relations where the adopted individual shall not have attained the age of 18 years prior to such adoption); (ii) such Participant’s Domestic Partner (as defined in Section 2.18 of the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law and determined pursuant to the guidelines and procedures established thereunder); (iii) any

lineal ascendant or descendant of any individual described in (i) or (ii) above; (iv) any partnership, limited liability company, association, corporation or other entity all of whose beneficial interests (including without limitation all pecuniary interests, voting rights and investment power) are held by and for the benefit of the Participant and/or one or more individuals described in (i), (ii) or (iii) above; or (v) any trust for the sole benefit of the Participant and/or one or more individuals described in (i), (ii) or (iii) above.

(21) "*Incentive Stock Option*" shall mean an Option that is designated as an incentive stock option within the meaning of Section 422 of the Code, or any successor provision, and that otherwise satisfies the requirements of that section.

(22) "*Limited SAR*" shall mean a Stock Appreciation Right granted pursuant to Section 3.4.

(23) "*NMD Participant*" shall mean a Nonmanagement Director who holds an Award granted pursuant to Article VI or Article VII.

(24) "*Nonmanagement Board*" shall mean the Nonmanagement Directors, as a group.

(25) "*Nonmanagement Director*" shall mean a member of the Board who is not an officer or employee of the Corporation.

(26) "*Nonqualified Stock Option*" shall mean an Option that is not an Incentive Stock Option.

(27) "*NYSE*" shall mean the New York Stock Exchange.

(28) "*Option*" shall mean an option to purchase Common Stock pursuant to an Award.

(29) "*Participant*" shall mean a Nonmanagement Director or an Eligible Employee who has been granted an Award under this Plan.

(30) "*Performance Share Award*" shall mean an Award granted under Section 5.1.

(31) "*Permitted Transferee*" *s*hall mean (i) any Immediate Family Member with respect to the Participant, (ii) (A) an extended family member or any person who has provided or is providing long-term assistance or care to the Participant or to an individual who is an Immediate Family Member with respect to the Participant or (B) an Immediate Family Member of a person described in (A), and (iii) in the case of an Eligible Employee, any organization that is described in Section 170(c) of the Code or any intermediary designated to exercise an Option for the benefit of such organization.

(32) *"Personal Representative"* shall mean the person or persons who, upon the incompetence of a Participant, shall have acquired on behalf of the Participant, by legal proceeding or otherwise, the power to exercise the rights or receive benefits under this Plan and who shall have become the legal representative of the Participant.

(33) *"Plan"* shall mean this Fannie Mae Stock Compensation Plan of 1993.

(34) *"Plan Termination Date"* shall mean the tenth anniversary of the date of the meeting at which stockholders of the Corporation approve the Plan.

(35) *"QDRO"* shall mean a qualified domestic relations order as defined in Section 414(p) of the Code or Section 206(d)(3) of ERISA (to the same extent as if this Plan were subject thereto), or the applicable rules thereunder.

(36) *"Restricted Stock"* shall mean shares of Common Stock awarded to a Participant subject to payment of such consideration, if any, and such conditions on vesting and such transfer and other restrictions as are established in or pursuant to this Plan, for so long as such shares remain nonvested under the terms of the applicable Award Document.

(37) *"Retirement"* shall mean, in the case of an Eligible Employee, separation from service with the Corporation under conditions entitling such Eligible Employee to an immediate annuity under the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law or under the Civil Service retirement law, whichever is applicable to such Eligible Employee, at or after the attainment of age 65.

(38) *"Rule 16a-1"* shall mean Rule 16a-1 as promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended from time to time, and any successor provision.

(39) *"Rule 16b-3"* shall mean Rule 16b-3 as promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended from time to time, and any successor provision.

(40) *Stand-Alone SAR"* shall mean a Stock Appreciation Right granted independently of any other Award.

(41) *"Stock Appreciation Right"* shall mean a right pursuant to an Award to receive a number of shares of Common Stock or an amount of cash, or a combination of shares and cash, the aggregate amount or value of which is determined by reference to a change in the Fair Market Value of the Common Stock.

(42) *"Stock Bonus"* shall mean an Award of shares of Common Stock under Section 5.2.

(43) *"STSP"* shall mean the Federal National Mortgage Association Securities Transactions Supervision Program and the guidelines thereunder.

(44) *"Subsidiary"* shall mean an organization whose employees are identified by the Board as eligible to participate in benefit plans of the Corporation.

(45) *"Total Disability"* shall mean complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which the Participant was employed when the illness commenced or accident occurred, as determined by the Corporation's independent medical consultant, and, in the case of Eligible Employees at or above the rank of Executive Vice President, ratified by the Nonmanagement Board.

(46) *"Without Consideration"* shall mean that a transfer of an Option is being made for a purely donative purpose, with no other promise or receipt of payment, goods, services or other thing of value in exchange therefor, provided, however, if the terms of a transfer of Options to an otherwise Permitted Transferee requires that, upon proper notice of exercise of such Options by or on behalf of such Permitted Transferee, (i) the Corporation may reduce the number of shares of Common Stock or sell such number of shares of Common Stock otherwise deliverable thereunder to the extent required to fund any additional withholding tax on behalf of the Eligible Employee necessitated by such exercise, delivering only the balance of the shares of Common Stock due upon the exercise of such Option to the Permitted Transferee, and/or (ii) the Permitted Transferee is required to sell the shares of Common Stock so received upon exercise of the Option, apply a portion of the net proceeds thereof to the payment of any additional taxes, fees or other costs or expenses incurred by the donor Eligible Employee in connection with or as a result of such transfer and then deliver (if an intermediary) or retain (if an organization described in Section 170(c) of the Code) the remaining net proceeds from such sales of shares of Common Stock, such transfer shall nevertheless continue to be Without Consideration for the purposes hereof. A distribution of an Option by an entity or trust described in section 1.2(20)(iv) or (v) to an owner or beneficiary thereof shall be treated as a transfer Without Consideration

1.3 Administration and Authorization; Power and Procedure.

(a) *The Nonmanagement Board and the Committee.* This Plan shall be administered by, and all Awards to Eligible Employees shall be authorized by, the Nonmanagement Board in the case of Eligible Employees at or above the rank of Executive Vice President and the Committee in the case of Eligible Employees below the rank of Executive Vice President. Action of the Nonmanagement Board or the Committee with respect to the administration of this Plan shall be taken pursuant to a majority vote or by unanimous written consent of the respective members. All references in this Plan to actions or determinations in respect of Awards by the Nonmanagement Board shall be references to Awards granted to Eligible Employees at or above the rank of Executive Vice President. All references in this Plan to actions or determinations in respect of Awards by the Committee shall be references to Awards granted to Eligible Employees below the rank of Executive

Vice President. The Nonmanagement Board shall administer this Plan with respect to all Awards held by Eligible Employees at or above the rank of Executive Vice President, including Awards granted prior to the time that any such Eligible Employee is elevated to that rank.

(b) *Plan Awards; Interpretation; Powers.* Subject to the express provisions of this Plan, the Nonmanagement Board or the Committee shall have the authority:

(i) to determine the Eligible Employees who will receive Awards;

(ii) to grant Awards to such Eligible Employees, to determine the amount of and the price at which Common Stock will be offered or awarded thereto, to determine the other specific terms and conditions of such Awards consistent with the express limits of this Plan, to establish the installments (if any) in which such Awards shall become exercisable or shall vest, and to establish the expiration date and the events of termination of such Awards;

(iii) to construe and interpret this Plan and any Award Documents, to further define the terms used in this Plan, and to prescribe, amend and rescind rules and regulations relating to the administration of this Plan;

(iv) to cancel, to modify, or waive the Corporation’s rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding Awards held by Eligible Employees, subject to any required consents under Section 8.5;

(v) to accelerate or extend the ability to exercise or extend the term of any or all outstanding Awards (subject to the maximum term of Awards under Section 1.7); and

(vi) to make all other determinations and take such other actions as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan and the effectuation of its purposes.

Notwithstanding the foregoing, the provisions of Articles VI and VII relating to Nonmanagement Director Awards shall be automatic and, to the maximum extent possible, self-effectuating, and the discretion of the Nonmanagement Board or the Committee shall not extend to such Awards in any manner that would be impermissible under Rule 16b-3(c)(2). Ministerial, non-discretionary actions with respect to implementation of the provisions of Articles VI and VII shall be performed by individuals who are officers or employees of the Corporation at the direction of the Benefit Plans Committee.

(c) *Binding Determinations.* Any action taken by, or inaction of, the Corporation, any Subsidiary, the Board, the Nonmanagement Board, the Committee or the Benefit Plans Committee relating or pursuant to this Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Subject only to compliance with the express provisions hereof, the Board, the Nonmanagement Board and the Committee may act in their absolute discretion in matters within their authority related to this Plan.

(d) *Reliance on Experts.* In making any determination or in taking or not taking any action under this Plan, the Board, the Nonmanagement Board or the Committee may obtain and may rely upon the advice of experts, including professional advisors to the Corporation.

(e) *Delegation.* The Committee may delegate some or all of its authority under the Plan to one or more members of the Board. The Nonmanagement Board and the Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Corporation.

(f) *No Liability.* No member of the Board, the Committee or the Benefit Plans Committee, or director, officer or employee of the Corporation or any Subsidiary shall be liable, responsible or accountable in damages or otherwise for any determination made or other action taken or any failure to act by such person so long as such person is not determined to be guilty by a final adjudication of willful misconduct with respect to such determination, action or failure to act.

(g) *Indemnification.* To the extent permitted by law, each of the members of the Board, the Committee and the Benefit Plans Committee and each of the directors, officers and employees of the Corporation and any Subsidiary shall be held harmless and be indemnified by the Corporation for any liability, loss (including amounts paid in settlement), damages or expenses (including reasonable attorneys' fees) suffered by virtue of any determinations, acts or failures to act, or alleged acts or failures to act, in connection with the administration of this Plan so long as such person is not determined by a final adjudication to be guilty of willful misconduct with respect to such determination, action or failure to act.

1.4 Participation. Awards may be granted by the Nonmanagement Board or the Committee only to Eligible Employees. An Eligible Employee who has been granted an Award may, if otherwise eligible, be granted additional Awards if the Nonmanagement Board or the Committee shall so determine. Nonmanagement Directors shall not be eligible to receive any Awards except for Awards granted automatically pursuant to Articles VI and VII.

1.5 Shares Available for Awards.

(a) *Common Stock.* Subject to the provisions of Section 8.2, the Common Stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock, any shares of Common Stock held as treasury shares, and shares of Common Stock purchased by the Corporation on the open market.

(b) *Number of Shares.* Subject to adjustments in accordance with Section 8.2, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted to Eligible Employees and Nonmanagement Directors under this Plan shall not exceed 13,500,000 shares plus shares previously approved by the stockholders for awards under the Fannie Mae Stock Compensation Plan, the Federal National Mortgage Association Restricted Stock Plan for Directors, the Federal National Mortgage Association 1984 Stock Option Plan and the Federal National Mortgage Association Performance Share Plan that have never been subject to awards under such plans or that have become available as of March 29, 1993 under such plans through the expiration, cancellation or termination of outstanding awards.

(c) *Calculation of Available Shares and Replenishment.* A good faith estimate of the number of shares of Common Stock subject to outstanding Awards that will be satisfied by delivery of shares of Common Stock, plus the number of shares of Common Stock referenced for purposes of determining other Awards, shall be reserved from the number of shares of Common Stock available for Awards under this Plan. The aggregate number of shares of Common Stock delivered under this Plan plus the number of shares referenced with respect to Awards paid in cash shall reduce the number of shares of Common Stock remaining available. If any Award shall expire or be canceled or terminated without having been exercised in full, or any Common Stock subject to a Restricted Stock Award or other Award shall not vest or be delivered, the unpurchased, nonvested or undelivered shares of Common Stock subject thereto or the shares of Common Stock referenced with respect thereto shall again be available under this Plan; provided, however, that no such unpurchased, nonvested or undelivered shares shall again be available if the holder received dividends with respect to such shares or any other benefits of ownership of such shares, other than voting rights or the accumulation of dividends that are never paid to the holder. In the case of Awards granted in combination such that the exercise of one results in a proportionate cancellation of the other, the number of shares of Common Stock reserved for issuance shall be the greater of the number that would be reserved if one or the other alone was outstanding. If the Corporation withholds shares of Common Stock pursuant to Section 8.4, the number of shares that would have been deliverable with respect to an Award but that are withheld pursuant to the provisions of Section 8.4 shall be treated as issued and the aggregate number of shares issuable with respect to the applicable Award and under this Plan shall be reduced by the number of shares so withheld and such shares shall not be available for additional Awards.

1.6 Grant of Awards. Subject to the express provisions of this Plan, the Nonmanagement Board or the Committee shall determine the number of shares of Common Stock subject to each Award, the price (if any) to be paid for the shares or the Award and other terms and conditions of the Award. Each Award to an Eligible Employee shall be evidenced by an Award Document signed by the Corporation and, if required by the Nonmanagement Board or the Committee, by the Eligible Employee. Awards are not restricted to any specified form or structure and may include, without limitation, the types of Awards set forth in Articles II, III, IV and V hereof or, without limitation, any other transfers of Common Stock or any options or warrants to acquire Common Stock, or any similar right with a value related to or derived from the value of Common Stock, as may be determined by the Nonmanagement Board or the Committee. An Award may consist of one such benefit, or two or more of them in any combination or alternative.

1.7 Award Period. Each Award and all executory rights or obligations under the related Award Document shall expire on such date (if any) as shall be determined by the Nonmanagement Board or the Committee, but in the case of Options or other rights to acquire Common Stock, not later than ten (10) years and one day after the Award Date.

1.8 Limitations on Exercise and Vesting of Awards.

(a) *Provisions for Exercise.* An Award shall be exercisable or shall vest as determined by the Nonmanagement Board or the Committee.

(b) *Procedure.* Any exercisable Award shall be exercised when the person appointed by the Nonmanagement Board or the Committee receives written notice of such exercise from the Participant, together with satisfactory arrangements for any required payment to be made in accordance with Sections 2.2 or 8.4 or the terms of the Award Document, as the case may be.

(c) *Fractional Shares/Minimum Issue.* Fractional share interests shall be disregarded, but may be accumulated. However, the Nonmanagement Board or the Committee may determine that cash will be paid or transferred in lieu of any fractional share interests.

1.9 Acceptance of Notes to Finance Exercise. Where the Nonmanagement Board or the Committee deems it appropriate under the circumstances as indicated by its written approval, the Corporation may accept one or more notes from any Eligible Employee Participant in connection with the exercise or receipt of any outstanding Award or the payment of the amount of any taxes that the Corporation may be required to withhold with respect to such exercise or receipt; provided that any such note shall be subject to the following terms and conditions:

(1) The principal of the note shall not exceed the amount required to be paid to the Corporation upon the exercise or receipt of one or more Awards under the Plan, including the amount of any taxes required to be withheld, and the note shall be delivered directly to the Corporation in consideration of such exercise or receipt.

(2) The initial term of the note shall be determined by the Nonmanagement Board or the Committee; provided that the term of the note, including extensions, shall not exceed ten years.

(3) The note shall provide for full recourse to the Participant, including a right of set-off against amounts otherwise payable by the Corporation to the Participant, and shall bear interest at a rate determined by the Nonmanagement Board or the Committee, but not less than the applicable federal rate determined under Section 1274, or any successor provision of the Code.

(4) If the employment of the Participant terminates, the unpaid principal balance of

the note shall become due and payable on the 10th business day after such termination; provided, however, that if a sale of shares of Common Stock would cause such Participant to incur liability under the STSP, the unpaid balance shall become due and payable on the 10th business day after the first day on which a sale of such shares can be made without incurring such liability, assuming for these purposes that, subsequent to such termination, the Participant has entered into no other transactions involving shares of Common Stock.

(5) If required by the Nonmanagement Board or the Committee or by applicable law, the note shall be secured by a pledge of any shares or rights financed thereby in compliance with applicable law.

(6) The terms, repayment provisions, and collateral release provisions of the note and the pledge securing the note shall conform with applicable rules and regulations of the Federal Reserve Board as then in effect.

1.10 Transferability.

(a) *General Restrictions*. Awards may be exercised only by the Participant; the Participant's Personal Representative, if any; the Participant's Beneficiary, if the Participant has died; in the case of any Option (other than an Incentive Stock Option), a person who was a Permitted Transferee at the time the Option was transferred to such person; or a Permitted Transferee's Beneficiary, if the Permitted Transferee has died. Amounts payable or shares of Common Stock issuable pursuant to an Award shall be paid to (or registered in the name of) such person or persons as specified by the person exercising the Award. Other than by will or the laws of descent and distribution or pursuant to a QDRO (except to the extent not permitted in the case of an Incentive Stock Option) or (subject to (b), (c), (d), (e), and (f) below) to a Permitted Transferee in the case of any Option (other than an Incentive Stock Option), no right or benefit under this Plan or any Award, including without limitation any Option, Performance Share Award or share of Restricted Stock that has not vested, shall be transferable by a Participant or Permitted Transferee or shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge (other than to the Corporation), and any such attempted action shall be void. The Corporation shall disregard any attempt at transfer, assignment or other alienation prohibited by the preceding sentences and only shall pay or deliver such cash or shares of Common Stock in accordance with the provisions of this Plan. The designation of a Beneficiary hereunder shall not constitute a transfer for these purposes.

(b) *Tax Withholding*. An Eligible Employee may not transfer Options ("Transferred Options") to a Permitted Transferee, other than a Permitted Transferee described in Section 1.2(31)(iii), unless the Eligible Employee agrees to retain, and not to exercise, until the exercise of the Transferred Options, at least 50 percent of the exercisable Options held by the Eligible Employee with the same exercise price and expiration date as the Transferred Options. The condition set forth in the preceding sentence, however, may be waived at any time by (A) the Chairman of the Committee in the case of an Eligible Employee who is either a member of the Board or the General Counsel of the Corporation, or (B) the General Counsel of the Corporation in the case of any other Eligible Employee, and, as a condition of such waiver, the Chairman of the Committee or the General Counsel of the Corporation, as the case may be, may specify other steps that the Eligible Employee must take to provide for the collection by the Corporation of all federal, state, local and other taxes required by law to be withheld upon the exercise of such Transferred Options.

(c) *Notice of Transfer.* A transfer of an Option to a Permitted Transferee shall not be effective unless, prior to making the transfer, the transferor (i) provides written notice of the transfer to (A) the Chairman of the Committee in the case of a transfer by a Participant who is either a member of the Board or the General Counsel of the Corporation (or a transfer by a Permitted Transferee of an Option originally granted to a member of the Board or to the General Counsel of the Corporation), or (B) the General Counsel of the Corporation in the case of any other transfer, and (ii) certifies in writing to the Chairman of the Committee or the General Counsel of the Corporation, as the case may be, that the transfer will be Without Consideration.

(d) *Approval of Transfer*. A transfer of an Option to a Permitted Transferee described in section 1.2(31)(ii) or (iii) shall not be effective unless, after receiving the notice described in (c) above, the Chairman of the Committee or the General Counsel of the Corporation, as the case may be, either approves the proposed transfer in writing or does not disapprove the proposed transfer in writing within ten business days after receipt of such notice. The Chairman of the Committee or the General Counsel of the Corporation, as the case may be, may disapprove such a proposed transfer if he or she determines, in his or her good faith judgment, that (i) the proposed Permitted Transferee has philosophies, purposes, policies, objectives, goals or practices inconsistent with those of the Corporation or (ii) the Participant has not taken such steps as may be necessary or appropriate to provide for the collection by the Corporation of all federal, state, local and other taxes required by law to be withheld upon exercise of the Option.

(e) *Time of Transfer.* A transfer to a Permitted Transferee other than a Permitted Transferee described in Section 1.2(31)(iii) may be made not earlier than March 14, 1997 and not later than March 21, 1997 or, thereafter, only on the first business day of a subsequent calendar quarter.

(f) *Transfer of Nonvested Options*. A nonvested Option may be transferred to a Permitted Transferee other than a Permitted Transferee described in section 1.2(31)(iii) only with the prior consent of (A) the Chairman of the Committee in the case of a Participant who is either a member of the Board or the General Counsel of the Corporation, or (B) the General Counsel of the Corporation in the case of any other Participant.

1.11 Gain Deferral. Any participant who is eligible to participate in the Fannie Mae Stock Option Gain Deferral Plan may elect to exercise a Nonqualified Stock Option pursuant to the provisions of such plan.

1.12 Section 83(b) Elections. If a Participant shall file an election with the Internal

Revenue Service to include the value of any Award in the Participant's gross income while such Award remains subject to restrictions, the Participant shall promptly furnish the Corporation with a copy of such election.

1.13 Payments to Persons Other Than Participants or Beneficiaries. If the Nonmanagement Board or the Committee determines that any Participant or Beneficiary to whom any amount is payable under the Plan is unable to care for such person's affairs because of illness or accident, or is a minor, then any payment due to such person (unless a prior claim therefor has been made by a duly appointed legal representative) may, in the discretion of the Nonmanagement Board or the Committee, be paid to such person's spouse, child, other relative, an institution maintaining or having custody of such person, or any other person deemed by the Nonmanagement Board or the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of any liability under this Plan.

II. Options

2.1 Grants. One or more Options may be granted under this Article to any Eligible Employee. Each Option granted may be either an Incentive Stock Option or a Nonqualified Stock Option.

2.2 Option Price.

(a) *Pricing Limits.* The exercise price for shares of Common Stock covered by Options shall be determined by the Nonmanagement Board or the Committee at the time of the Award, but shall not be less than 100% of the Fair Market Value of the Common Stock on the Award Date.

(b) *Payment Provisions.* The exercise price for any shares of Common Stock purchased on exercise of an Option granted under this Article shall be paid in full at the time of each exercise in one or a combination of the following methods: (i) in cash or by electronic funds transfer; (ii) by check payable to the order of the Corporation; (iii) by notice and third party payment; (iv) by the delivery of shares of Common Stock already owned by the Participant; (v) if authorized by the Nonmanagement Board or the Committee or specified in the applicable Award Document, by a promissory note of the Participant consistent with the requirements of Section 1.9; or (vi) through simultaneous sale through a broker of shares of Common Stock acquired on exercise, as permitted under Regulation T of the Board of Governors of the Federal Reserve System; provided, however, that the Nonmanagement Board or the Committee may, in its absolute discretion, limit the Participant's ability to exercise an Option by delivering shares of Common Stock, including by imposing a requirement that the Participant satisfy a minimum holding period with respect to the shares so delivered. Shares of Common Stock used to satisfy the exercise price of an Option shall be valued at their Fair Market Value on the date of exercise.

2.3 Limitations on Incentive Stock Options. There shall be imposed in any Award Document relating to Incentive Stock Options such terms and conditions as from time to time are required in order that the Option be an “incentive stock option” as that term is defined in Section 422 of the Code, or any successor provision.

2.4 Option Period.

(a) *Award Period.* Each Option shall specify the Award Period for which the Option is granted and shall provide that the Option shall expire at the end of such Award Period. The Nonmanagement Board or the Committee may extend the Award Period by amendment of an Option. Notwithstanding the foregoing, the Award Period with respect to an Option, including all extensions, shall not exceed: (i) in the case of an Incentive Stock Option, 10 years, and (ii) in the case of any other Option, 10 years and one day.

b) *Effect of Termination of Employment.* Notwithstanding the provisions of Section 2.4(a), unless otherwise provided by the Nonmanagement Board or the Committee, (i) for a Participant who terminates employment with the Company for any reason other than Retirement, Early Retirement, Total Disability or, death or having attained age 55 with five years of service and is not covered by Section 2.5(d), an Option shall expire on the earlier to occur of (A) the end of the Award Period or (B) the date three months following the Participant’s termination of employment, (ii) for a Participant who terminates employment with the Company and is covered by Section 2.5(d), an Option shall expire on the earlier to occur of (A) the end of the Award Period or (B) the date 12 months following the Participant’s termination, or (iii) for a Participant who terminates employment by reason of Retirement, Early Retirement, Total Disability, death or having attained age 55 with five years of service, an Option shall expire on the end of the Award Period.

c) *Death of Permitted Transferee.* Unless otherwise provided by the Nonmanagement Board or the Committee, an Option held by a Permitted Transferee shall expire on the earlier of its expiration pursuant to Section 2.4(a) or (b) or the date 12 months following the Permitted Transferee’s death.

2.5 Vesting; Forfeiture.

(a) *Vesting Generally*. An Option shall be exercisable and vested upon such terms and conditions or pursuant to such schedule as the Nonmanagement Board or the Committee shall determine at the time of the Award. Except as otherwise provided in this Section 2.5 or unless otherwise specified by the Nonmanagement Board or the Committee, an Option that is not vested upon a Participant’s termination of employment shall be forfeited.

(b) *Change in Control*. Unless otherwise specified by the Nonmanagement Board, Options held for more than one year from the Award Date by Participants at or above the rank of Executive Vice President shall become immediately exercisable and fully vested upon a Change in Control Event.

(c) *Retirement, Early Retirement, Total Disability or Death*. Unless otherwise specified by the Nonmanagement Board or the Committee, an Option shall become immediately exercisable and fully vested upon the Participant's termination of employment with the Corporation by reason of Retirement, Early Retirement, Total Disability or death.

(d) *Vesting Upon Termination with Separation Agreements*. Notwithstanding the foregoing, (i) for a Participant who executes, prior to the termination of his or her employment, a separation agreement with the Corporation pursuant to the Corporation's Voluntary Separation Agreement program ("VSA"), one-half of the portion of each Award that would have vested within 12 months of the date of such Participant's termination of employment with the Corporation shall become immediately exercisable and fully vested upon such Participant's termination; (ii) (A) for a Participant who accepts the Corporation's offer to terminate employment voluntarily and executes, prior to the termination of such Participant's employment, a separation agreement with the Corporation pursuant to an Elective Severance Window under the Federal National Mortgage Association Discretionary Severance Benefit Plan, the portion of each Award that would have vested within 12 months of the date of such Participant's termination of employment with the Corporation, and one-half of the portion of each Award that would have vested within 13-24 months of the date of such Participant's termination, shall become immediately exercisable and fully vested upon such Participant's termination, and (B) for a Participant who is not given the opportunity to terminate employment under an Elective Severance Window but voluntarily executes, prior to the termination of his or her employment, a separation agreement with the Corporation pursuant to a Displacement Program under the Federal National Mortgage Association Discretionary Severance Benefit Plan, the portion of each Award that would have vested within 12 months of the date of such Participant's termination of employment with the Corporation shall become immediately exercisable and fully vested upon such Participant's termination, and (iii) for a Participant who executes, prior to the termination of his or her employment, a separation agreement with the Corporation pursuant to the Fannie Mae Individual Severance Plan, the portion of each Award that would have vested within 12 months of the date of such Participant's termination of employment with the Corporation shall become immediately exercisable and fully vested upon such Participant's termination.

(e) *"EPS Challenge Grants."* Section 2.5(d) shall not apply to Options granted pursuant to "EPS Challenge Grants," initially granted on January 18, 2000.

2.6 Option Repricing, Cancellation, Substitution or Waiver of Restrictions. Subject to Sections 1.5 and 8.5 and the specific limitations on Awards contained in this Plan, the Nonmanagement Board or the Committee from time to time may authorize, generally or in specific cases only, for the benefit of any Participant who is an Eligible Employee, any adjustment in the exercise or purchase price, the vesting schedule, the number of shares subject to, the restrictions upon or the term of, an Award granted under this Article by cancellation of an outstanding Award and a subsequent granting of an Award, by amendment, by substitution of an outstanding Award, by waiver or by other legally valid means. Such amendment or other action may result, among other changes, in an exercise or purchase price that is higher or lower than the exercise or purchase price of the original or prior Award, provide for a greater or lesser number of shares subject to the Award, or provide for a longer or shorter vesting or exercise period.

III. Stock Appreciation Rights

3.1 Grants. In its discretion, the Nonmanagement Board or the Committee may grant to any Eligible Employee Stock Appreciation Rights either concurrently with the grant of another Award or in respect of an outstanding Award, in whole or in part, or may grant to any Eligible Employee Stand-Alone SARs. Any Stock Appreciation Right granted in connection with an Incentive Stock Option shall contain such terms as may be required to comply with the provisions of Section 422 of the Code (or any successor provision) and the regulations promulgated thereunder. Each Stand-Alone SAR shall specify the Award Period for which the Stand-Alone SAR is granted and shall provide that the Stand-Alone SAR shall expire at the end of such Award Period. The Nonmanagement Board or the Committee may extend the Award Period by amendment of a Stand-Alone SAR; provided, however, that the Award Period, including all extensions, shall not exceed 10 years and one day.

3.2 Exercise of Stock Appreciation Rights.

(a) *Related Awards.* Unless the Award Document or the Nonmanagement Board or the Committee otherwise provides, a Stock Appreciation Right related to another Award shall be exercisable at such time or times, and to the extent, that the related Award shall be exercisable.

(b) *Stand-Alone SARs*. Stand-Alone SARs shall be exercisable and vest upon such terms and conditions or pursuant to such schedule as the Nonmanagement Board or the Committee shall determine at the time of the Award. Unless otherwise provided by the Nonmanagement Board or the Committee, (i) in the case of a Participant’s termination of employment with the Corporation by reason of Retirement, Early Retirement, Total Disability or death, Stand-Alone SARs shall become immediately exercisable and fully vested upon the Participant’s termination of employment, and Stand-Alone SARs shall expire and no longer be exercisable at the end of the Award Period; and (ii) in the case of a Participant’s termination of employment with the Corporation for any reason other than Retirement, Early Retirement, Total Disability or death, Stand-Alone SARs shall expire and no longer be exercisable on the earlier to occur of (A) the end of the Award Period or (B) the date three months following the Participant’s termination of employment. Unless otherwise provided by the Nonmanagement Board, Stand-Alone SARs held for more than one year from the Award Date by Participants at or above the rank of Executive Vice President shall become immediately exercisable and fully vested upon a Change in Control Event.

3.3 Payment.

(a) *Amount.* Unless the Nonmanagement Board or the Committee otherwise provides, upon exercise of a Stock Appreciation Right and surrender of the appropriate exercisable portion of any related Award, the Participant shall be entitled to receive payment of an amount determined by multiplying

(i) the difference obtained by subtracting the exercise price per share of Common Stock under the related Award (if applicable) or the initial share value specified in the Award from the Fair Market Value upon exercise, by

(ii) the number of shares of Common Stock with respect to which the Participant is exercising the Stock Appreciation Right.

(b) *Form of Payment.* The Nonmanagement Board or the Committee, in its sole discretion, shall determine the form in which payment shall be made of the amount determined under paragraph (a) above, which may be solely in cash, solely in shares of Common Stock (valued at their Fair Market Value on the date of exercise of the Stock Appreciation Right), or partly in such shares and partly in cash. If the Nonmanagement Board or the Committee permits the Participant to elect to receive cash or shares (or a combination thereof) on such exercise, any such election shall be subject to such conditions as the Nonmanagement Board or the Committee may impose.

3.4 Limited Stock Appreciation Rights. The Committee may grant to any Eligible Employee Limited SARs exercisable only upon or in respect of a Change in Control Event or any other specified event and such Limited SARs may relate to or operate in combination with or in substitution for Options, other Stock Appreciation Rights or other Awards (or any combination thereof), and may be payable in cash or shares of Common Stock based on the spread between the exercise price of the Limited SAR and a price based upon the Fair Market Value of the shares during a specified period or on a specified date within a range of six months before or after such event.

IV. Restricted Stock Awards

4.1 Grants. The Nonmanagement Board or the Committee may, in its discretion, grant one or more Restricted Stock Awards to any Eligible Employee. Each Restricted Stock Award Document shall specify the number of shares of Common Stock to be issued to the Participant, the date of such issuance, the consideration for such shares, if any, by the Participant, the restrictions imposed on such shares, and the conditions of release or lapse of such restrictions. Stock certificates evidencing shares of Restricted Stock pending the lapse of the restrictions shall be held by the Corporation or by a third party designated by the Nonmanagement Board or the Committee until the restrictions on such shares shall have lapsed and the shares shall have vested in accordance with the provisions of the Award. Promptly after the lapse of restrictions, a certificate or certificates evidencing the number of shares of Common Stock as to which the restrictions have lapsed (or such lesser number as may be permitted pursuant to Section 8.4) shall be delivered to the Participant or other person entitled under the Plan to receive the shares. The Participant or such other person shall deliver to the Corporation such further assurance and documents as the Nonmanagement Board or the Committee may require.

4.2 Restrictions.

(a) *Pre-Vesting Restraints.* Except as provided in Section 1.10, shares of Common Stock comprising any Restricted Stock Award may not be sold, assigned, transferred, pledged or otherwise disposed of or encumbered, either voluntarily or involuntarily, until the restrictions have lapsed.

(b) *Dividend and Voting Rights.* Unless otherwise provided in the applicable Award Document, a Participant receiving a Restricted Stock Award shall be entitled to cash dividend and voting rights for all shares of Common Stock issued even though they are not vested, provided that such rights shall terminate immediately as to any Restricted Stock that ceases to be eligible for vesting.

(c) *Accelerated Vesting.* Unless otherwise provided by the Nonmanagement Board or the Committee, the restrictions on Restricted Stock shall lapse upon the Participant's termination of employment with the Corporation by reason of Retirement, Early Retirement, Total Disability or death, and restrictions on Restricted Stock held for more than one year from the Award Date by Participants at or above the rank of Executive Vice President shall lapse upon a Change in Control Event.

(d) *Forfeiture.* Unless otherwise specified by the Nonmanagement Board or the Committee, Restricted Stock as to which the restrictions have not lapsed in accordance with the provisions of the Award or pursuant to Section 4.2(c) shall be forfeited upon a Participant's termination of employment. Upon the occurrence of any forfeiture of shares of Restricted Stock, such forfeited shares shall be automatically transferred to the Corporation without payment of any consideration by the Corporation and without any action by the Participant.

V. Performance Share Awards and Stock Bonuses

5.1 Grants of Performance Share Awards. The Nonmanagement Board or the Committee may, in its discretion, grant Performance Share Awards to Eligible Employees. An Award shall specify the maximum number of shares of Common Stock (if any) subject to the Performance Share Award and its terms and conditions. The Nonmanagement Board shall establish the specified period (a "performance cycle") for the Performance Share Award and the measure(s) of the performance of the Corporation (or any part thereof) or the Participant. The Nonmanagement Board may, during the performance cycle, make such adjustments to the measure(s) of performance as it may deem appropriate to compensate for, or reflect, any significant changes that may occur in accounting practices, tax laws, other laws or regulations that alter or affect the computation of the measure(s). The Award Document shall specify how the degree of attainment of the measure(s) over the performance cycle is to be determined. The Nonmanagement Board or the Committee may provide for full or partial credit, prior to completion of such performance cycle or the attainment of the performance achievement specified in the Award, in the event of the Participant's death or other termination of employment. Unless otherwise provided by the Nonmanagement Board, upon a Change in Control Event payments shall be made with respect to a Performance Share Award held for more than one year from the Award Date by a Participant at or above the rank of Executive Vice President, based on the assumption that the performance achievement specified in the Award would have been attained by the end of the performance cycle.

5.2 Grants of Stock Bonuses. The Nonmanagement Board or the Committee may grant a Stock Bonus to any Eligible Employee to reward exceptional or special services, contributions or achievements, in such amounts of Common Stock and on such terms and conditions as determined from time to time by the Nonmanagement Board or the Committee.

5.3 Deferred Payments. The Nonmanagement Board or the Committee may authorize for the benefit of any Eligible Employee the deferral of any payment of cash or shares of Common Stock that may become due or of cash otherwise payable under this Plan, and provide for accredit benefits thereon based upon such deferment, at the election or at the request of such Participant, subject to the other terms of this Plan. Such deferral shall be subject to such further conditions, restrictions or requirements as the Nonmanagement Board or the Committee may impose, subject to any then-vested rights of the Participant.

VI. Nonmanagement Director Options

6.1 Participation. Awards under this Article VI shall be made only to Nonmanagement Directors.

6.2 Annual Option Grants.

(a) *Time of Initial Award.* After approval of this Plan by the stockholders of the Corporation, each Nonmanagement Director shall be granted automatically (without any action by the Board, the Nonmanagement Board or the Committee) a Nonqualified Stock Option (the Award Date of which shall be the date of stockholder approval of the Plan) to purchase 4000 shares of Common Stock.

(b) *Subsequent Annual Awards.* Following the initial award described in Section 6.2(a), on the first day of each Director Term for each Nonmanagement Director (which shall be the Award Date) each year prior to the Plan Termination Date, there shall be granted automatically (without any action by the Board, the Nonmanagement Board or the Committee) to each such Nonmanagement Director then in office a Nonqualified Stock Option to purchase 4000 shares of Common Stock. Any Nonmanagement Director appointed or elected to office during a Director Term shall be granted automatically (without any action by the Board, the Nonmanagement Board or the Committee) a Nonqualified Stock Option (the Award Date of which shall be the date such person takes office) to purchase the nearest whole number of shares of Common Stock equal to 4000 multiplied by the number of partial or full calendar months (not to exceed 12) remaining in such Director Term divided by 12.

(c) *Maximum Number of Shares.* Annual grants that would otherwise cause the total Awards under this Plan to exceed the maximum number of shares of Common Stock under Section 1.5(b) shall be prorated to come within such limitation.

6.3 Option Price. The exercise price per share of Common Stock covered by each Option granted pursuant to Section 6.2 shall be 100 percent of the Fair Market Value. The exercise price of any Option granted under this Article shall be paid in full at the time of each purchase, in cash or by check or in shares of Common Stock valued at their Fair Market Value on the date of exercise of the Option, or partly in such shares and partly in cash.

6.4 Option Period and Ability to Exercise. Each Option granted under this Article VI and all rights or obligations thereunder shall commence on the Award Date and expire ten years and one day thereafter and shall be subject to earlier termination as provided below. Each Option granted under Section 6.2 shall be immediately exercisable.

6.5 Termination of Directorship. If an NMD Participant's services as a member of the Board terminate for any reason after at least ten years of service as a NMD, or by reason of such NMD Participant's death, Total Disability or not having been renominated for election by the stockholders of the Corporation after reaching age 70, any Option granted pursuant to this Article VI held by such NMD Participant shall remain exercisable until the earlier of one year after the date of such termination and the expiration of the stated term of such Option. If an NMD Participant's services as a member of the Board terminate for any other reason, any then-outstanding Option may be exercised until the earlier of three months after the date of such termination and the expiration of the stated term of such Option.

6.6 Adjustments. Options granted under this Article VI shall be subject to adjustment as provided in Section 8.2, but only to the extent that such adjustment is based on objective criteria and is consistent with adjustments to Options or other Awards held by persons other than Nonmanagement Directors.

6.7 Limitation on Amendments. The provisions of this Article VI shall not be amended more than once every six months (other than as may be necessary to conform to any applicable changes in the Code or the rules thereunder), unless any such amendment would be consistent with the provisions of Rule 16b-3(c)(2)(ii) (or any successor provision).

VII. Nonmanagement Director Restricted Stock

7.1 Participation. Awards under this Article VII shall be made only to Nonmanagement Directors.

7.2 Amount of Awards. There shall be a five-year cycle of Awards under this Article VII commencing on the date of the annual meeting of the stockholders of the Corporation during the year 2001 and ending on the fifth anniversary of such date in the year 2006. Awards shall be made to each Nonmanagement Director according to the appropriate provision set forth below. No Awards shall be granted later than the end of the five-year cycle. Neither the Plan nor any action taken thereunder shall be construed as giving any NMD Participant the right to be reappointed or renominated to serve as a member of the Board.

(i) Each Nonmanagement Director who is a member of the Board immediately following the annual meeting of the stockholders of the Corporation in the year 2001 shall receive an Award (rounded to the nearest full share) of shares of Restricted Stock having an aggregate Fair Market Value on the date of the first meeting of the Board following such annual meeting equal to the amount computed by adjusting $60,000 for inflation between 1996 and 2001. The computation shall be done by multiplying $60,000 by 100 percent plus the percentage increase in the 12-month Consumer Price Index for All Urban Consumers ("CPI-U"), as published by the U.S. Bureau of Labor Statistics, for the year 2000 over the 12-month CPI-U for 1996. If the CPI-U is not published or otherwise available at the time of the 2001 annual meeting of stockholders of the Corporation, the Benefit Plans Committee is authorized to choose another measure of the inflation between 1996 and 2001 for purposes of this computation.

(ii) A Nonmanagement Director who is newly appointed or elected thereafter shall receive an Award equal to the number of shares (rounded to the nearest full share) that would have been granted had such person been a member of the Board on the date of the first meeting of the Board following the annual meeting of the stockholders of the Corporation in the year 2001 multiplied by the number of partial or full calendar months (not to exceed 60) remaining in the cycle from the date of the Nonmanagement Director's appointment or election divided by 60.

7.3 Terms and Conditions. Each NMD Participant who receives an Award pursuant to Section 7.2 shall execute an Escrow Agreement and appropriate blank stock powers with respect to his or her Restricted Stock. Stock certificates for such Restricted Stock registered in the name of each such NMD Participant shall be issued and deposited, together with the Escrow Agreement and stock powers, with the Escrow Agent. An NMD Participant shall be entitled to the delivery of such stock certificates out of escrow only in accordance with the provisions of Sections 7.6 and 7.7. Except as provided in Section 7.4, all Common Stock, all cash, or other property received by the Escrow Agent on account of the Restricted Stock shall be treated in the same manner as Restricted Stock, shall be subject to all of the terms and conditions of the Escrow Agreement and shall be delivered out of escrow to the NMD Participant or to the Corporation at the same time as the Restricted Stock with respect to which it was issued.

7.4 Rights of NMD Participants. Except for the restrictions under Section 7.5, each NMD Participant who receives an Award pursuant to Section 7.2 shall have all of the rights and privileges of a stockholder of the Corporation as to the Restricted Stock subject to such Award, including the right to receive any cash and stock dividends declared with respect to such Restricted Stock and to direct the Escrow Agent as to the exercise of voting rights; provided, however, that in the case of a stock split in the form of a stock dividend, such dividend shares shall be subject to the same restrictions as the Restricted Stock and held under the Escrow Agreement.

7.5 Restrictions. Restricted Stock covered by an Award under this Article VII shall be subject to the following restrictions, which shall apply from the date the Award is granted and shall continue until such Restricted Stock becomes vested under Section 7.6 or 7.7:

(i) The Restricted Stock shall not be transferable other than to the NMD Participant's Beneficiary upon the NMD Participant's death.

(ii) Each NMD Participant's right to the Restricted Stock shall be forfeited if and when such NMD Participant ceases to be a Nonmanagement Director, except to the extent that the NMD Participant's right to receive the Restricted Stock without restrictions shall have vested under Section 7.6 or 7.7. If forfeited, all such stock shall become the property of the Corporation and all of the rights of such NMD Participant to such Restricted Stock and as a stockholder (including the right to any accrued but unpaid dividends) shall terminate without further obligation on the part of the Corporation.

7.6 Vesting. The right of each NMD Participant to removal of the restrictions from Restricted Stock held for the account of such NMD Participant shall vest in accordance with the provisions of this Section 7.6 and the restrictions for those shares shall lapse, whereupon the Escrow Agent shall deliver to the NMD Participant or the NMD Participant's Beneficiary or Personal Representative a stock certificate evidencing such Restricted Stock, free of the restrictions set forth in the Award and Section 7.5. Except for NMD Participants described in Section 7.7, upon termination of a Nonmanagement Director's service on the Board, all shares awarded under this Article VII that remain subject to restrictions, after the provisions of subsections (i) through (iii) below are applied, shall be forfeited by the NMD Participant and become the property of the Corporation and all of the rights of such NMD Participant to such Restricted Stock and as a stockholder (including the right to accrued but unpaid dividends) shall terminate without further obligation on the part of the Corporation.

(i) Each NMD Participant who is a member of the Board at the first meeting following the annual meeting of the stockholders of the Corporation in the year 2001 shall vest on the day before each subsequent annual meeting of the stockholders during the remainder of the cycle (if he or she is a member of the Board on such date) in the number of full shares closest to and not exceeding 20 percent of the Restricted Stock awarded at the beginning of the full cycle. If an NMD Participant is not reelected or reappointed to membership on the Board, upon such NMD Participant's ceasing to be a Nonmanagement Director all Restricted Stock awarded under this Article VII that then remains subject to restrictions, shall be forfeited.

(ii) An NMD Participant who is elected or appointed to the Board for a complete

Director Term after the first year of the cycle shall vest on the day before each subsequent annual meeting of the stockholders during the remainder of the cycle (if he or she is a member of the Board on such date) as to the number of shares of Restricted Stock in which such NMD Participant would have vested on such date if such NMD Participant had been granted an Award at the beginning of the cycle.

(iii) The rights of an NMD Participant who is elected or appointed to the Board during a Director Term shall vest on the day before each subsequent annual meeting during the remainder of the cycle (if he or she is a member of the Board on such date) as to the number of shares of Restricted Stock in which the replaced predecessor would have vested had the predecessor remained a Nonmanagement Director, except that for the initial partial Director Term, the NMD Participant shall vest in only a fraction of the shares (rounded to the nearest full share) in which an NMD Participant serving for the full Director Term would have vested for that Director Term, such fraction being the number of such shares multiplied by the number of partial or full calendar months (not to exceed 12) of the Director Term served by the NMD Participant, divided by 12.

7.7 Disability, Death or Termination After Age 70. If any NMD Participant's membership on the Board terminates because of (i) Total Disability, (ii) such NMD Participant's death, or (iii) as to a Nonmanagement Director who is elected to the Board by the stockholders, not being renominated after reaching age 70, the restrictions on all of the Restricted Stock held in the account of such NMD Participant shall lapse on the date of such termination of membership on the Board and the full balance of Restricted Stock in such account shall be delivered out of escrow as provided in Section 7.6.

7.8 Adjustments. Restricted Stock granted under this Article VII shall be subject to adjustment as provided in Section 8.2, but only to the extent that such adjustment is based on objective criteria and is consistent with adjustments to Restricted Stock or other Awards held by persons other than Nonmanagement Directors.

7.9 Limitation on Amendments. The provisions of this Article VII shall not be amended more than once every six months (other than as may be necessary to conform to any applicable changes in the Code or the rules thereunder), unless any such amendment would be consistent with the provisions of Rule 16b-3(c)(2)(ii) (or any successor provision).

VIII. Other Provisions

8.1 Rights of Eligible Employees, Participants and Beneficiaries.

(a) *Employment Status.* Status as an Eligible Employee shall not be construed as a commitment that any Award will be made under this Plan to an Eligible Employee or to

Eligible Employees generally.

(b) *No Employment Contract.* Nothing contained in this Plan (or in any other documents related to this Plan or to any Award) shall confer upon any Participant any right to continue in the employ or other service of the Corporation or constitute any contract or agreement of employment or other service, nor shall this Plan interfere in any way with the right of the Corporation to change such person's compensation or other benefits or to terminate the employment of such person, with or without cause; provided, however, that nothing contained in this Plan or any document related hereto shall adversely affect any independent contractual right of any Participant without his or her consent.

(c) *Plan Not Funded.* Awards payable under this Plan shall be payable in shares of Common Stock or from the general assets of the Corporation, and (except as provided in Section 1.5(c)) no special or separate reserve, fund or deposit shall be made to assure payment of such Awards. No Participant, Beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Corporation by reason of any Award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Corporation and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment pursuant to any Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

8.2 Adjustments.

(a) *Events Requiring Adjustments.* If any of the following events occur, the Nonmanagement Board or the Committee shall make the adjustments described in Section 8.2(b): (i) any extraordinary dividend or other extraordinary distribution in respect of the Common Stock (whether in the form of cash, Common Stock, other securities, or other property), (ii) any recapitalization, stock split (including a stock split in the form of a stock dividend), reverse stock split, reorganization, merger, combination, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Corporation, (iii) any issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Corporation (other than to employees) at less than 80 percent of fair value on the date of such issuance, or (iv) any other like corporate transaction or event in respect of the Common Stock or a sale of substantially all the assets of the Corporation.

(b) *Adjustments to Awards.* If any of the events described in Section 8.2(a) occurs, then the Nonmanagement Board or the Committee shall, in such manner and to such extent (if any) as it deems appropriate and equitable, (i) proportionately adjust any or all of (1) the number and type of shares of Common Stock that thereafter may be made the subject of Awards (including the specific maximum set forth in Section 1.5), (2) the number, amount and type of shares of Common Stock subject to any or all outstanding Awards, (3) the grant, purchase, or exercise price of any or all outstanding Awards, (4) the Common Stock or cash deliverable upon exercise of any outstanding Awards, or (5) the performance standards appropriate to any outstanding Awards; or (ii) make provision for a cash payment or for the substitution or exchange of any or all outstanding Awards based upon the distribution or consideration payable to holders of Common Stock upon or in respect of the event; provided, however, in each case, that with respect to Awards of Incentive Stock Options, no such adjustment shall be made that would cause the Plan to violate Section 422 or Section 424(a) of the Code or any successor provisions thereto.

8.3 Compliance with Laws. This Plan, the granting and vesting of Awards under this Plan and the issuance and delivery of shares of Common Stock and the payment of money under this Plan or under Awards granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Corporation, provide such assurances and representations to the Corporation as the Corporation may deem necessary or desirable to assure compliance with all applicable legal requirements.

8.4 Tax Withholding. Upon any exercise, vesting, or payment of any Award or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option prior to satisfaction of the holding period requirements of Section 422 of the Code (or any successor provision), the Nonmanagement Board or the Committee may make such provisions and take such steps as it may deem necessary or appropriate for the withholding by the Corporation of all federal, state, local and other taxes required by law to be withheld, including without limitation, the right, at its option, (i) to require the Participant (or Personal Representative or Beneficiary, as the case may be) to pay or provide for payment of the amount of any taxes that the Corporation may be required to withhold with respect to such transaction as a condition to the release of Common Stock or the making of any payment or distribution, (ii) to deduct from any amount payable in cash, (iii) to reduce the number of shares of Common Stock otherwise deliverable (or otherwise reacquire such shares), based upon their Fair Market Value on the date of delivery, or to grant the Participant the right to elect such reduction in the number of shares upon such terms and conditions as it may establish, or (iv) to permit the Corporation to accept a note for the amount of any taxes that the Corporation may be required to withhold with respect to such transaction in accordance with Section 1.9.

8.5 Plan Amendment, Termination and Suspension.

(a) *Board Authorization.* Subject to this Section 8.5, the Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No Awards may be granted during any suspension of this Plan or after termination of this Plan, but the Nonmanagement Board or the Committee shall retain jurisdiction as to Awards then outstanding in accordance with the terms of this Plan.

(b) *Stockholder Approval.* If any amendment would (i) materially increase the benefits accruing under this Plan, or (ii) materially increase the aggregate number of shares of Common Stock that may be issued under this Plan (except as provided in Section 8.2), then to the extent deemed necessary or advisable by the Board, such amendment shall be subject to stockholder approval.

(c) *Amendments to Awards.* Without limiting any other express authority granted under this Plan, but subject to its express limits, the Nonmanagement Board or the Committee by agreement or resolution may waive conditions of or limitations on Awards to Eligible Employees that the Nonmanagement Board or the Committee in the prior exercise of its discretion has imposed, without the consent of the Participant, and may make other changes to the terms and conditions of Awards that do not affect the Participant's rights and benefits under an Award in any materially adverse manner.

(d) *Limitations on Amendments to Plan and Awards.* No amendment, suspension or termination of the Plan or any change affecting any outstanding Award shall, without the written consent of the Participant, Beneficiary or Personal Representative, as applicable, affect in any manner materially adverse to such person any rights or benefits of any such person or any obligations of the Corporation under any Award granted under this Plan prior to the effective date of such change; however, any changes made pursuant to Section 8.2 shall not be deemed to constitute changes or amendments for purposes of this Section 8.5.

8.6 Privileges of Stock Ownership. Except as otherwise expressly authorized by the Nonmanagement Board or the Committee or this Plan and expressly stated in an Award Document, a Participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the Participant. No adjustment shall be made for dividends or other stockholder rights for which a record date is prior to the date of delivery of such shares.

8.7 Effective Date of the Plan. This Plan shall be effective as of the date of the meeting at which the stockholders of the Corporation approve it.

8.8 Term of the Plan. Except for any Award pursuant to Section 7.2 granted to a Nonmanagement Director who is newly appointed or elected to the Board during the 2001-2006 cycle, no Award shall be granted after the Plan Termination Date. Unless otherwise expressly provided in this Plan or in an applicable Award Document, any Award may extend beyond such date, and all authority of the Nonmanagement Board or the Committee with respect to Awards hereunder shall continue during any suspension of this Plan and in respect of Awards outstanding on the Plan Termination Date.

8.9 Governing Law/Construction/Severability.

(a) *Choice of Law.* This Plan, the Awards, all documents evidencing Awards, and all other related documents shall be governed by, and construed in accordance with the laws of the District of Columbia, without reference to its principles of conflicts of law.

(b) *Severability.* If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

(c) *Plan Construction.* It is the intent of the Corporation that this Plan and the Awards satisfy and be interpreted so that Participants who are or may be subject to the applicable requirements of the STSP will not be subjected to avoidable liability under the STSP. If any provision of this Plan or of any Award would otherwise frustrate or conflict with this intent, to the extent possible that provision shall be interpreted and deemed amended so as to avoid such conflict; if there is any remaining irreconcilable conflict with such intent, such provision shall be deemed void.

8.10 Captions. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

8.11 Effect of Change of Subsidiary Status. For purposes of this Plan and any Award hereunder, if an entity ceases to be a Subsidiary, the employment of all Participants who are employed by such entity shall be deemed to have terminated, except any such Participant who continues as an employee of another entity within the Corporation.

8.12 Nonexclusivity of Plan. Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Committee to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

8.13 Plan Binding on Successors. The obligations of the Corporation under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Corporation, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Corporation. The Corporation agrees that it will make appropriate provisions for the preservation of all Participants' rights under the Plan in any agreement or plan that it may enter into or adopt to effect any such merger, consolidation, reorganization or transfer of assets.

EXHIBIT 10.13

FEDERAL NATIONAL MORTGAGE ASSOCIATION

ELECTIVE DEFERRED COMPENSATION PLAN

ARTICLE I

Establishment and Purpose

1.1 Establishment. The Federal National Mortgage Association (the “Company”) established, effective as of December 20, 1978, a deferred compensation plan known as the Federal National Mortgage Association Executive Optional Deferred Compensation Plan (hereinafter referred to as the “Executive Plan”), and amended the Executive Plan as of November 1982. The Company amended and restated the Executive Plan, effective as of November 15, 1983. The amended and restated plan was designated the “Federal National Mortgage Association Optional Deferred Compensation Plan” (hereinafter referred to as the “Optional Plan”), which plan was further amended and restated, effective as of January 1, 1985. The Optional Plan was amended and restated in its entirety, effective for all purposes and in all respects as of September 16, 1986, as two plans. The amended and restated plans are designated the “Federal National Mortgage Association Career Deferred Compensation Plan” and the “Federal National Mortgage Association Elective Deferred Compensation Plan.” With respect to amounts elected to be deferred under the Optional Plan, as in effect prior to September 16, 1986, to a date prior to the “Retirement” of the “Participant” (as such terms were defined in such plan) making such election, the rights and obligations of the Company, such Participants and their beneficiaries shall be determined under the Federal National Mortgage Association Elective Deferred Compensation Plan. For all deferrals for Deferral Years after 1999, the rate of return for accounts relating to such deferrals will be based on the Participant’s choice among several hypothetical investment funds. If a Participant (other than an Inactive Participant) so elects on or after August 1, 2000, the rate of return on accounts relating to deferrals for Deferral Years prior to 2000, calculated beginning on the business day following the election, will be based on the Participant’s choice among several hypothetical investment funds and not on the Company’s cost of funds. For all deferral elections made for Deferral Years beginning in 2000 and thereafter and, if a

Participant has elected during the period established by the Committee for accounts relating to deferrals made before 2000, the rate of return on deferrals, calculated beginning as of January 1, 2000 will be based on the Participant's choice among several hypothetical investment funds and not on the Company's cost of funds. The terms and conditions of the Federal National Mortgage Association Elective Deferred Compensation Plan are set forth herein.

1.2 Purpose. The purpose of the Federal National Mortgage Association Elective Deferred Compensation Plan is to attract and retain certain individuals of outstanding competence as employees or as members of the Board of Directors of the Company or both by permitting such individuals to elect to defer a portion of their compensation from the Company to a later date or event.

ARTICLE II

Definitions

When used herein the following terms shall have the following meanings:

2.1 "Award" shall mean the amount of money, if any, earned in accordance with the provisions of the Federal National Mortgage Association Annual Incentive Plan, the Portfolio Bonus Plan, the Multifamily Bonus Plan, the REO Bonus Plan and such other incentive and bonus plans designated by the Committee.

2.2 "Board of Directors" shall mean the Board of Directors of the Company.

2.3 "Committee" shall mean the Benefit Plans Committee provided for in Section 6.1.

2.4 "Company" shall mean Federal National Mortgage Association.

2.5 "Compensation" shall mean (i) in the case of an Executive, his or her regular basic salary, excluding any Awards or other forms of additional compensation and (ii) in the case of a Director, the annual retainer and all fees (excluding any reimbursed expenses) payable to such individual in his or her capacity as a member of the Board of Directors in any calendar year; provided, however, that in the case of an individual who becomes a Participant in accordance with Section 3.2(b), "Compensation" for the year in which such individual first becomes eligible to participate in the Plan shall mean only that Compensation of such individual payable with respect to the portion of the calendar year during which he or she was eligible to participate in the Plan.

2.6 “Deferral Year” shall mean each calendar year as to which an election is made to defer Compensation or an Award, or both, in accordance with the provisions of Section 3.3 of the Plan.

2.7 “Deemed Earnings” shall mean the deemed gain or loss with respect to the Deemed Investment Portfolio. The Deemed Earnings with respect to each investment option in a Deemed Investment Portfolio shall be determined by reference to the total actual return, net of applicable fees and expenses, on such investment option for the period in question.

2.8 “Deemed Investment Portfolio” shall mean a hypothetical portfolio chosen by the Participant from among such investment options as the Executive Vice President and Chief Financial Officer, or his designee, may designate as available under the Plan.

2.9 “Director” shall mean any member of the Board of Directors who receives Compensation in his or her capacity as a member of such Board of Directors.

2.10 “Executive” shall mean any officer or other member of the management group of the Company who is among the top 15% of the most highly compensated Company employees and whose regular basic salary is at least equal to the minimum qualifying salary established each year by the Senior Vice President of Human Resources or his designee.

2.11 “Inactive Participant” shall mean a Participant who, on August 1, 2000, is neither an employee nor a Director of the Company, and who has not deferred any Compensation or Award in any Deferral Year beginning after 1999.

2.12 “Incentive Plan” shall mean the Federal National Mortgage Association Annual Incentive Plan, the Portfolio Bonus Plan, the Multifamily Bonus Plan, the REO Bonus Plan and such other incentive and bonus plans designated by the Committee.

2.13 “Investment Administrator” shall mean the investment advisor with responsibility for administering the Deemed Investment Portfolio.

2.14 “Participant” shall mean any Executive or Director who becomes a Participant in the Plan as provided in Section 3.2 of the Plan.

2.15 “Plan” shall mean the Federal National Mortgage Association Elective Deferred Compensation Plan.

2.16 “Retirement” shall mean (i) in the case of an Executive, separation from the employ of the Company either under conditions entitling him or her to an immediate annuity under the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil

Service Retirement Law or under the Civil Service Retirement Law, which ever is applicable to such Executive, or under conditions entitling him or her to long-term disability benefits under any disability payment plan paid for by the Company, including disability insurance, on account of the inability to perform service for the Company due to a physical or mental ailment and (ii) in the case a Director, any termination from the membership of the Board of Directors.

2.17 “Termination of Service” shall mean, in the case of an Executive, termination of employment with the Company other than by reason of Retirement or death.

ARTICLE III

Eligibility and Participation

3.1 Eligibility. All Executives and Directors shall be eligible to participate under the Plan.

3.2 Participation.

(a) An individual eligible to participate in the Plan under Section 3.1 may become a Participant for any calendar year by executing an irrevocable deferral election (on a form prescribed by the Committee) with respect to his or her Compensation for such calendar year or with respect to his or her Award to be paid during the next succeeding calendar year, or both. Except as provided in Sections 3.2(b) and 3.2(c), such election shall be executed on or before the fifth business day in December of the preceding calendar.

(b) With respect to an individual who first becomes eligible to participate in the Plan under Section 3.1 after the beginning of a calendar year by reason of (i) the commencement of employment by the Company as an Executive, (ii) the promotion from a non-executive position to a position as an Executive or (iii) an election or appointment to the Board of Directors, such individual may become a Participant for the remainder of such year by executing an irrevocable deferral election (on a form prescribed by the Committee) with respect to his or her Compensation within thirty (30) days of the date such individual receives notice from the Company that he or she is eligible to participate after becoming an Executive or Director, as applicable.

(c) An individual eligible to participate in the Plan under Section 3.1 who becomes a participant in an Incentive Plan after the beginning of a calendar year may, within thirty

(30) days of becoming a participant in such plan, execute an irrevocable deferral election (on a form prescribed by the Committee) with respect to his or her Award to be paid in the next succeeding calendar year. Such individual shall thereby become a Participant for the remainder of such year, if such individual is not already a Participant by virtue of having executed an irrevocable deferral election with respect to his Compensation for such year pursuant to Section 3.2(a) or 3.2(b).

3.3 Deferral Election.

(a) As a condition of participation under the Plan:

(i) An Executive must agree to defer at least one thousand dollars ($1,000) of Compensation for each calendar year as to which such Executive elects to defer Compensation. The amount of Compensation deferred must be in increments of one thousand dollars ($1,000). The maximum amount that may be deferred for any calendar year under this Plan alone or in combination with the Federal National Mortgage Association Career Deferred Compensation Plan by a Participant who is an Executive is fifty percent (50%) of the Compensation (including any amount deferred under this Plan or the Federal National Mortgage Association Career Deferred Compensation Plan and any amount which, pursuant to the election of the Executive, the Company has contributed to any cash deferred arrangement qualified under Section 401(k) of the Internal Revenue Code) of such Participant for such calendar year.

(ii) An Executive must agree to defer a specified percentage or dollar amount of his or her Award for each calendar year as to which such Executive elects to defer his or her Award. Such deferred amount may be determined as a fixed percentage of the Award, a percentage of the excess over a specified dollar amount, a specified maximum dollar amount or in such other manner as may be provided by the Committee from time to time. A Participant who is an Executive may elect to defer for any calendar year up to one hundred percent (100%) of the Award (including any amount deferred under this Plan) of such Participant for such calendar year.

(iii) A Director must agree to defer at least an amount equal to twenty-five percent (25%) of Compensation for each calendar year as to which such Director elects to defer Compensation. The amount of Compensation deferred must be in increments of twenty-five (25%) of Compensation for such calendar year. A Participant who is a Director may elect to defer for any calendar year up to one hundred percent (100%) of the Compensation (including any amount deferred under this Plan) of such Participant for such calendar year.

(b) An election made under this Plan with respect to Compensation shall relate only to Compensation for the succeeding calendar year, or to Compensation for the remainder of a calendar year if Section 3.2(b) applies, and a separate election must be made in order to defer Compensation during any subsequent year. In the event of a failure to make a timely election to defer as to Compensation for any year, no portion of the Participant's Compensation for such year may be deferred under this Plan.

(c) An election made under this Plan with respect to an Award shall relate only to an Award to be paid during the second succeeding calendar year, or to an Award to be paid during the first succeeding calendar year if Section 3.2(c) applies, and a separate election must be made in order to defer compensation during any subsequent year. In the event of a failure to make a timely election to defer as to an Award for any year, no portion of the Executive's Award for such year may be deferred under this Plan.

(d) Each deferral election under Section 3.2 shall (in accordance with Sections 5.2, 5.3, and 5.4) also designate:

(i) the date or event after which payment is to commence, which shall be stated as the January of a given year or the January commensurate with or next following the event;

(ii) the method of payment;

(iii) for all deferral elections made for Deferral Years beginning in or after 2000, a Deemed Investment Portfolio; and

(iv) the beneficiary to receive any payments if the Participant dies before receiving all amounts to which he or she is entitled under the Plan.

If the Participant fails to designate a Deemed Investment Portfolio as required under Sections 3.3(d)(iii) and 4.1(c), Participant's deferral shall be allocated among the hypothetical investment options in accordance with the Participant's most recent Deemed Investment Portfolio designation. If the Participant has not previously made a Deemed Investment Portfolio designation, the Participant's deferral shall be allocated to the Advantus Money Market Portfolio (or the successor fund designated by the Chief Financial Officer of the Company or his or her designee), and the deferral shall remain allocated to such Portfolio until such time as the Participant changes the allocation under the procedures set forth in Section 4.1(c)(i).

ARTICLE IV

Participant's Account

4.1 Accounts.

(a) The Company shall establish bookkeeping accounts to record the deferrals under this Plan. Each Participant shall have a separate account for each Deferral Year, and each account shall be increased and decreased as provided in this section.

(b) During the Deferral Year, the Company shall credit each Participant's account for that year as follows:

(i) The amount of Compensation deferred under Section 3.2(a) by each Participant who is an Executive shall be credited to such Participant's account on a biweekly basis, by crediting, at the end of each such biweekly period, one-twenty-sixth of the total annual deferral, or on such other basis as may be determined by the Chief Financial Officer of the Company. The amount of Compensation deferred under Section 3.2(b) by each Participant who is an Executive shall be credited to such Participant's account on a biweekly basis, by crediting at the end of each such biweekly period of participation, an amount determined by dividing the total amount the Participant has elected to defer under Section 3.1 by the number of biweekly periods remaining in the calendar year at the time the Executive first became eligible to participate, or on such other basis as may be determined by the Chief Financial Officer of the Company. If as a result of participation in this plan, an Executive is prevented from electing the maximum deferral under the Federal National Mortgage Association Retirement Savings Plan for Employees ("RSP") then an additional amount shall be credited to the account of such Participant who is an Executive as of December 31 of the Deferral Year, equal to the amount the

Company would have contributed as a match to the RSP for such Deferral Year with respect to Compensation deferred under Section 3.2 of this Plan had such Participant elected to make the maximum permissible Participant Contributions (as such term is used in the RSP) to such Retirement Savings Plan during the Deferral Year with respect to his or her Compensation deferred under Section 3.2 of this Plan.

(ii) The amount of the Award deferred under Section 3.2(a) or 3.2(c) by each Participant who is an Executive shall be credited to such Participant's account on the date such Award would have been paid to such Executive had its receipt not been deferred under the Plan.

(iii) The amount of Compensation deferred under Section 3.2 by each Participant who is a Director shall be credited to such Participant's account by a monthly crediting at the end of each month of an amount obtained by multiplying the amount of Compensation which would have been payable to such Participant in such amount (determined without regard to such Participant's deferral election under Section 3.2) by the percentage of Compensation (25%, 50%, 75% or 100%) such Participant has elected to defer in the Deferral Year.

(c) With respect to all accounts relating to deferrals for Deferral Years after 1999 and, if the Participant has elected during the period established by the Committee to have this Section 4.1(c) apply, for accounts relating to deferrals for Deferral Years prior to 2000:

(i) A Participant shall designate a Deemed Investment Portfolio, and shall allocate, the amount credited to his or her account As a result of deferral elections among the hypothetical investment options offered for inclusion in a Deemed Investment Portfolio. A Participant shall so designate a Deemed Investment Portfolio by directly contacting the Investment Administrator. A Participant may change such allocation at any time by notice to the Investment Administrator, in accordance with such procedures as may be established by the Investment Administrator.

(ii) The Participant’s accounts to which this Section 4.1(c) applies shall be adjusted periodically for Deemed Earnings, beginning January 1, 2000.

(iii) A Participant’s account (reduced in accordance with Section 4.1(e)) shall continue to be adjusted in accordance with this Section 4.1(c) during (A) any installment payment period which may have been elected by the Participant under Section 5.3(a), (B) any installment payment period in connection with a financial hardship withdrawal approved by the Committee pursuant to Section 5.3(b) or 5.5(c), and (C) the period following the Participant’s death but prior to the payment of the balance of the Participant’s accounts pursuant to Section 5.4.

(iv) If a Participant elects to have this Section 4.1(c) apply to an account relating to a deferral for any Deferral Year prior to 2000, such election must apply to the Participant’s accounts for all such Deferral Years in this Plan and in the Federal National Mortgage Association Career Deferred Compensation Plan. Notwithstanding the foregoing, such election shall not apply to the Participant’s account for Deferral Year 1981 or 1982 if such account is subject to a fixed, permanent rate of return, unless the Participant signs a special agreement specified by the Committee applying the election to such account.

(d) For any deferrals for Deferral Years prior to 2000 for which a Participant has not elected during the period established by the Committee to have Section 4.1(c) apply:

(i) The amount determined in Sections 4.1(b)(i) and 4.1(b)(ii) (for each Participant who is an Executive) or Section 4.1(b)(iii) (for each Participant who is a Director), as the case may be, shall be increased as of the last day of any month during the Deferral Year by the amount obtained by multiplying the account balance as of the first day of such month by one-twelfth of the rate equivalent to the average annual percent cost of money borrowed by the Company through issuance of debentures (having a maturity of one year or longer) in the first three quarters of the year preceding the Deferral Year.

(ii) The rate established in Section 4.1(d)(i) above shall remain in effect for the Deferral Year. For all years subsequent to the Deferral Year, the rate will be readjusted annually and will be determined by calculating the average annual percent cost of money borrowed by the Company through the issuance of debentures (having a maturity of one year or longer) for the twelve-month period immediately preceding the year with respect to which the interest rate will be effective.

(iii) In all years following the Deferral Year, the Participant's account will be increased as of the last day of each month by an amount equal to the account balance as of the first day of such month multiplied by one-twelfth of the rate as established under Section 4.1(d)(ii) for that year. A Participant's account (reduced in accordance with Section 4.1(e)) shall continue to be increased in accordance with this Section 4.1(d) during any installment payment period which may have been elected by the Participant under Section 5.3(a) or approved by the Committee under Sections 5.3(b) or 5.4.

(e) The Participant's account shall be reduced by any payments made to the Participant, his or her beneficiary, estate or representative. If Section 4.1(c) applies to such account, each payment shall be made from the Participant's account on a pro rata basis from among the hypothetical investments designated for such account by the Participant under Section 4.1(c)(i). If Section 4.1(c) does not apply to such account, each payment shall be made from the account maintained as set forth above in Section 4.1(d).

(f) In the event that, as a result of participation in this Plan by any Participant who is an Executive, the benefits payable to him or her under the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law (the "Retirement Plan") or any other qualified plan sponsored by the Company under which benefits are determined by reference to the rate of salary paid to such Participant during a specified period of time preceding such Participant's retirement are lower than the benefits which would have been payable to such Participant had he or she not been a Participant in the Plan, then the Company shall make monthly payments to the Participant, or, if applicable, to his or her beneficiary entitled to receive benefits under such Retirement Plan or other qualified plan, of an amount equal to such reduction. With respect to any non-qualified employee benefit or welfare plans sponsored by the Company under which the amount of any benefit is based on the rate of salary paid to an employee, a Participant's rate of salary for the purposes of such non-qualified employee benefit or welfare plan shall include any amount of Compensation deferred under this Plan but not any Award, unless otherwise specifically provided in such plan.

4.2 Funding Prohibitions. All entries in a Participant's account shall be bookkeeping entries only and shall not represent a special reserve or otherwise constitute a funding of the Company's unsecured promise to pay any amounts hereunder. All payments to be made under the Plan shall be paid from the general funds of the Company. Participants and their beneficiaries shall have no right, title or interest in or to any investments which the Company may make to aid it in meeting its obligations under the Plan. All such assets shall be the property solely of the Company and shall be subject to the claims of the Company's unsecured general creditors. To the extent a Participant or any other person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company and such person shall have only the unsecured promise of the Company that such payments shall be made.

ARTICLE V

Payment

5.1 Payment of Account. Payment of amounts credited to a Participant's account shall be made in the manner and at the time or times specified herein. All payments shall be made by Company check. The normal payment schedule will consist of one payment in January of each year.

5.2 Commencement of Payment. When the Participant makes the deferral election under Section 3.2 for a Deferral Year, he or she shall also elect the time at which payment of the amounts credited to the account established for such Deferral Year shall commence. The earliest time a Participant may elect to have payment commence shall be the January following the Deferral Year. Such election of the time of commencement of payment of an amount credited to the account established for a Deferral Year may be changed by the Participant, provided that such change is made at least twelve months before the commencement of any payment from such account and that the commencement of any payment specified in such change is at least twelve months from the date of such change. Any such change of the time of commencement of payment shall be made in the manner specified by the Committee. Payment of amounts credited to such account shall commence in the January coincident with or next following the date or event specified by the Participant in such election, or, if changed, in the most recent change pursuant to this Section 5.2.

5.3 Method of Payment.

(a) The Participant shall elect to have the balance of each of his or her accounts paid out in one of the following methods: (1) a single lump sum; (2) annual installments over a period of years (selected by the Participant) not to exceed 15; or (3) an initial installment of an amount specified by the Participant followed by annual installments over a period of years not to exceed 15 and commencing in a year selected by the Participant. Annual installments will be calculated by dividing the balance of the account at the end of the prior year by the number of installments remaining to be paid.

(b) When the Participant makes the deferral election under Section 3.2 for a Deferral Year, he or she shall also elect the method of payment for the account established for such Deferral Year. Such election of payment method for a Deferral Year may be changed by the Participant, provided that such change is made at least twelve months before the commencement of any payment from such account. Any such change of the payment method shall be made in the manner specified by the Committee. Payment of amounts credited to such account shall commence in the January coincident with or next following the date or event specified by the Participant in such election, or, if changed, in the most recent change pursuant to this Section 5.2. Notwithstanding any other provision of the Plan to the contrary, a Participant or beneficiary may withdraw an amount from one or more of his or her accounts upon a finding by the Benefit Plans Committee (or, as provided in Section 6.1, the Compensation Committee of the Board of Directors) in its sole discretion (i) that an unanticipated emergency that is caused by an event beyond the control of such Participant or beneficiary has occurred and that such emergency would result in severe financial hardship to such Participant or beneficiary if early withdrawal were not permitted, or (ii) that the continued participation of a Participant who is employed by the federal government or that of a state or municipality creates a serious hardship for the Participant because of the conflict of interest or ethics rules of such government. The amount that may be withdrawn pursuant to clause (i) above shall not exceed the amount necessary to meet such financial hardship as determined by the Benefit Plans Committee (or the Compensation Committee) in its sole discretion. The entire balance in the Participant's accounts may be withdrawn pursuant to clause (ii) above. The Benefit Plans Committee (or the Compensation Committee) shall have the right to require such Participant or beneficiary to submit such documentation as it deems appropriate for the purpose of determining the existence, cause and extent of such hardship.

5.4 Payment on Death

(a) Notwithstanding any provisions of the Plan to the contrary, in the event of the death of any Participant, the balance in each of the Participant's accounts shall be paid to the Participant's beneficiary in a single lump sum payment within thirty (30) days after the date of such death.

(b) Each Participant shall designate a beneficiary to whom any balance in each account under this Plan shall be payable on his or her death. A Participant may also designate an alternate beneficiary to receive such payment in the event that the designated beneficiary cannot receive payment for any reason. In the event no designated or alternate beneficiary can receive such payment for any reason, payment will be made to the Participant's surviving spouse, if any, or if the Participant has not surviving spouse, then to the following beneficiaries if then living in the following order of priority: (i) to the Participant's children (including adopted children and stepchildren) in equal shares, (ii) to the Participant's parents in equal shares, (iii) to the Participant's brothers and sisters in equal shares, and (iv) to the Participant's estate. Each Participant may at any time change any beneficiary designation. A change of beneficiary designation must be made in writing and delivered to the Committee or its delegate for such purposes. The interest of any beneficiary who dies before the Participant will terminate unless otherwise specified by the Participant.

5.5 Payment on Retirement or Termination of Service.

(a) Upon a Participant's Retirement, payments from the Participant's accounts will be made as the Participant specified in the deferral election, pursuant to Section 3.3(d), or if changed, in the most recent change pursuant to Section 5.2 or 5.3.

(b) Upon the Termination of Service of a Participant who is an Executive, the balance in each of such Participant's account(s) shall be paid to the Participant in a single lump sum payment in the January following Termination of Service, unless, in the case of a Participant's accounts for Deferral Years after 1996, the Participant has elected not to have the foregoing lump sum payment provision apply in his or her deferral election(s), or, in the case of a Participant's accounts for Deferral Years prior to 1997, the Participant has elected in writing, on or before August 16, 1996, not to have the foregoing lump sum payment provision apply, but to have payments from his or her accounts made as he or she specified in his or her deferral elections pursuant to Section 3.3(d). In the event of such an election by a Participant with respect to accounts for Deferral Years prior to 1997, any reference to "retirement" in the Participant's deferral elections with respect to such Deferral Years shall be deemed to refer to the earliest date on which the Participant could have retired and become entitled to an immediate annuity under the Federal National Mortgage Association Retirement Plan For Employees Not Covered Under Civil Service Retirement Law or under the Civil Service Retirement Law, whichever is applicable, had such Participant continued in the employ of the Company until such date. An election made pursuant to this Section 5.5(b) may be changed by the Participant, provided that such change is made at least twelve months prior to any payment from the account or accounts in question. Any change of election shall be made in the manner specified by the Committee.

(c) Notwithstanding Sections 5.5(a) and (b) above, a Participant may withdraw an amount from one or more of his or her accounts prior to the January following his or her Termination of Service upon a finding by the Benefit Plans Committee (or, as provided in Section 6.1, the Compensation Committee of the Board of Directors) in its sole discretion that (i) an unanticipated emergency that is caused by an event beyond the control of such Participant has occurred and that such emergency would result in severe financial hardship to such Participant or beneficiary if early withdrawal were not permitted or (ii) the continued participation of a Participant who is employed by the federal government or that of a state or municipality creates a serious hardship for the Participant because of the conflict of interest or ethics rules of such government. The amount that may be withdrawn pursuant to clause (i) above shall not exceed the amount necessary to meet such financial hardship as determined by the Benefit Plans Committee (or the Compensation Committee) in its sole discretion. The entire balance in the Participant's accounts may be withdrawn pursuant to clause (ii) above. The Benefit Plans Committee (or the Compensation Committee) shall have the right to require such Participant to submit such documentation as it seems appropriate for the purpose of determining the existence, cause, and extent of such hardship.

ARTICLE VI

Administration

6.1 Administration. The Plan shall be administered by the Benefit Plans Committee; provided, however, that all decisions affecting officers having the title of Executive Vice President or a higher ranking title shall be made by the Compensation Committee of the Board of Directors. The Benefit Plans Committee shall consist of not less than three and not more than seven persons, each of whom shall be appointed by, shall remain in office at the will of, and may be removed (with or without cause) by the Board of Directors of the Company. The Benefit Plans Committee shall have all powers necessary to carry out the provisions of the Plan, including, without reservation, the power to delegate administrative matters to other persons and to interpret the Plan in a manner consistent with its express provisions.

ARTICLE VII

Miscellaneous

7.1 Termination of Plan. The Company may at any time by action of its Board of Directors terminate this Plan. Upon termination of the Plan, no further deferrals will be permitted, and the Participant’s Compensation will be restored on a non-deferred basis. Each Participant’s accounts as they then exist will be maintained, credited and paid pursuant to the provisions of this Plan and the Participant’s elections.

7.2 Amendment. The Company may at any time amend this Plan in any respect, (i) in the case of amendments which have a material effect on the cost to the Company of maintaining the Plan, by action of its Board of Directors or, (ii) with respect to any other amendments, by action of the Committee; provided, however, that no such amendment shall adversely affect the rights of Participants or their beneficiaries to any amounts credited to the Participant’s accounts with respect to any Deferral Year which has commenced prior to the adoption of any such amendment.

7.3 No Alienation of Benefits. To the extent permitted by law, Participants and beneficiaries shall not have the right to alienate, anticipate, commute, sell, assign, transfer, pledge, encumber otherwise convey the right to receive any payments under this Plan, and any payments under this Plan or rights thereto shall not be subject to the debts, liabilities, contracts, engagements or torts of Participants or beneficiaries nor to attachment, garnishment or execution, nor shall they be transferable by operation of law in the event of bankruptcy or insolvency. Any attempt, whether voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

7.4 No Rights to Continued Employment. Nothing contained herein shall be construed as conferring upon an Executive the right to continue in the employ of the Company as an Executive or in any other capacity, or as conferring upon a Director the right to continue as a member of the Board of Directors.

7.5 Headings. The headings of paragraphs are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of the Plan.

7.6 Applicable Law. The Plan shall be construed and administered under the laws of the District of Columbia.

EXHIBIT 10.14

PROCEDURES FOR DEFERRAL AND DIVERSIFICATION OF AWARDS

The following guidelines for deferral and diversification of awards ("Awards") under the PSP have been adopted by the Benefit Plans Committee pursuant to Section 5.3 of the Fannie Mae Stock Option Plan of 1993 (the "Plan"), and pursuant to authority granted by the Fannie Mae Board of Directors (the "Board") on November 18, 1997:

1. An individual who has received an Award and who has been designated as eligible by the Board or by the Chairman of the Board to request deferral of such an Award (a "Participant") may make an election ("Election") to defer receipt of an Award.

2. The Election must specify (a) the date on which amounts in the Participant's Account (as defined in paragraph 5 below) attributable to the Award deferred by such Election shall be paid or begin to be paid to the Participant pursuant to paragraph 16 below, and (b) the method of such payment. The payment date must be at least one year from the date that an Award would have been paid to a Participant, but for the Participant's Election to defer receipt of such Award. The Participant may not change the payment date or method specified in his or her Election. In place of a specific date on which distributions under these guidelines will be paid or begin, a Participant may elect to have distributions paid or begin upon his or her Retirement[1] or death.

3. Once made, an Election may not be modified or revoked by the Participant.

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[1] Unless otherwise defined herein, all capitalized terms are as defined in the Fannie Mae Stock Compensation Plan of 1993 (the "Plan").

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4. An Election to defer receipt of an Award must be approved (a) by the Chairman of the Board, in the case of a Participant other than the Chairman of the Board, or (b) by the Chairman of the Compensation Committee, in the case of the Chairman of the Board.

5. Fannie Mae (the "Company") shall establish for each Participant a bookkeeping account ("Account") to record deferrals and subsequent adjustments under these guidelines. Each Participant shall have a separate Account. Within a Participant's Account, each Award deferred under these guidelines shall be accounted for separately. Each Account shall be credited and debited as described below.

6. On the date that an Award would have been paid to a Participant, but for the Participant's Election to defer receipt of such Award, the Participant's Account shall be credited with the number of shares of the Company's common stock ("Deemed Shares") that would have been payable under such Award.

7. Within 30 days of the end of each quarter, a Participant's Account shall be credited with an amount equal to the dividends that would have been paid with respect to any Deemed Shares credited at the end of such quarter to his or her Account if such Deemed Shares had they been issued and outstanding ("Deemed Dividends"). Upon crediting to a Participant's Account, such Deemed Dividend shall be converted to shares (or a partial share) of Common Stock using the Fair Market Value on the last day of the most recently ended quarter as the date of valuation to calculate the number of shares (or the partial share) to be so credited.

8. For purposes of these guidelines, "Fair Market Value" shall mean the per share value of Common Stock as determined by using the mean between the high and low selling prices of Common Stock on the day preceding date of valuation (or, if the New York Stock Exchange ("NYSE") is not open or the Common Stock is not trading that day, the most recent prior date that the NYSE was open for trading and the Common Stock was traded) as reported for such date on the table entitled "NYSE -- Composite Transactions" contained in the Wall Street Journal.

9. If any of the following events occurs, appropriate adjustments will be made with respect to any Deemed Shares and shares attributable to Deemed Dividends in a Participant's Account: (a) any extraordinary dividend or other extraordinary distribution in respect of Common Stock (whether in the form of cash, Common Stock, other securities or other property), (b) any recapitalization, stock split (including a stock split in the form of a stock dividend), reverse stock split, reorganization, merger, combination, consolidation, split-up, spin-off, combination, repurchase or exchange of Common Stock or other securities of the Company, (c) any issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company (other than to employees) at less than 80 percent of fair value on the date of such issuance, or (d) any other like corporate transaction or event in respect of the Common Stock or a sale of substantially all the assets of the Company.

10. A Participant may elect to have Deemed Shares and Deemed Dividends previously credited to his or her Account converted into a cash credit, provided that such election must be approved (a) by the Chairman of the Board, in the case of a Participant other than the Chairman of the Board, or (b) by the Chairman of the Compensation Committee, in the case of the Chairman of the Board. Such cash credit shall be equal to the Fair Market Value, on the date of conversion, of such Deemed Shares and, upon crediting, will be deemed to be invested in a hypothetical portfolio chosen by the Participant from among such investment options as the Benefit Plans Committee ("Committee") may designate as available under these guidelines (the "Deemed Investment Portfolio")."

11. Amounts credited to a Participant's Account pursuant to paragraph 10 above shall be adjusted for the deemed gain or loss with respect to the Deemed Investment Portfolio (the "Deemed Earnings"). The Deemed Earnings with respect to each investment option in a Deemed Investment Portfolio shall be determined by reference to the total actual return on such investment option for the period in question.

12. A Participant's Account shall be reduced by any payments made to the Participant, his or her beneficiary, estate or representative.

13. If a Participant elects, pursuant to paragraph 10 above, to have cash credited to his or her Account, he or she shall also designate a Deemed Investment Portfolio, and shall allocate the amount credited to his or her Account as a result of such Election among the investment options offered in the Deemed Investment Portfolio in integral multiples of five percent. A Participant shall so designate a Deemed Investment Portfolio by directly contacting the investment advisor with responsibility for administering the Deemed Investment Portfolio (the "Investment Administrator"). A Participant may change such allocation at any time by notice to the Investment Administrator, in accordance with such procedures as may be established by the Investment Administrator. By allocating amounts to a Deemed Investment Portfolio, a Participant directs the Investment Administrator to notify the Company of such allocation and any changes thereto.

14. The Company shall have no responsibility for the performance of any hypothetical investment options selected by a Participant.

15. All entries to a Participant's Account shall be bookkeeping entries only and shall not represent a special reserve or otherwise constitute a funding of the Company's unsecured promise to pay any amounts hereunder. All payments to be made under these guidelines shall be paid from the general funds of the Company. Participants and their beneficiaries shall have no right, title or interest in or to any investments which the Company may make to aid it in meeting its obligations under these guidelines. All such assets shall be the property solely of the Company and shall be subject to the claims of the Company's unsecured general creditors. To the extent a Participant or any other person acquires a right to receive payments from the Company under these guidelines, such right shall be no greater than the right of any unsecured general creditor of the Company, and such person shall have only the unsecured promise of the Company that such payments shall be made.

16. Except as otherwise provided in paragraphs 23 and 27 below, all payments from an Account will be made or will commence as soon as practicable after the payment date selected by the Participant pursuant to paragraph 2 above.

17. Except as provided in paragraph 19 below, payment from a Participant's Account with respect to Deemed Shares or Deemed Dividends credited thereto shall be made in shares of Common Stock. Payments from a Participant's Account with respect to cash credited to such Account pursuant to paragraph 10 above, and as adjusted by Deemed Earnings thereon, shall be made in cash.

18. A Participant may elect to receive payments hereunder in one of the following methods:

a. a single payment,

b. annual installments over a period of years (selected by the Participant) not to exceed 15, with the amount of each annual installment calculated by dividing the balance of the Account at the end of the prior year by the number of installments remaining to be paid, or

c. an initial installment of an amount specified by the Participant followed by annual installments over a period of years not to exceed 15 and commencing in a year selected by the Participant, with each annual installment calculated by dividing the balance of the Account at the end of the prior year by the number of installments remaining to be paid.

19. If any annual installment (other than the last installment), calculated as set forth in paragraph 18 above, would result in the payment of a fractional share of Common Stock, such annual installment shall be reduced to the next lowest whole number of shares of Common Stock. If, as part of the final installment payment, a fractional share of Common Stock would be paid, then in lieu thereof the Fair Market Value of such fractional share on the date the payment is calculated shall be paid in cash.

20. Notwithstanding any other provision of these guidelines to the contrary, a Participant or beneficiary may receive a payment with respect to his or her Account upon a finding by the Committee in its sole discretion (a) that an unanticipated emergency caused by

an event beyond the control of such Participant or beneficiary has occurred and that such emergency would result in financial hardship to such Participant or beneficiary if early payment were not permitted, or (b) that the continued participation of a Participant who is employed by the federal government or that of a state or municipality creates a serious hardship for the Participant because of the conflict of interest or ethics rules of such government. The amount that may be paid pursuant to clause (a) above shall not exceed the amount necessary to meet such financial hardship as determined by the Committee in its sole discretion. The entire balance in the Participant's Account may be paid pursuant to clause (b) above. The Committee shall have the right to require such Participant or beneficiary to submit such documentation as it deems appropriate for the purpose of determining the existence, cause and extent of such hardship.

21. Notwithstanding any other provision in these guidelines to the contrary, the Company may apply, at a Participant's request, such Participant's Account or a portion thereof in accordance with the provisions of the Fannie Mae Estate Enhancement Plan.

22. The Company shall have the right to deduct from any payment to be made pursuant to these guidelines any federal, state or local taxes required by law to be withheld.

23. In the event of the death of a Participant, an amount equal to the balance of the Participant's Account shall be paid to the Participant's beneficiary in a single payment within 30 days after the date of such death.

24. Each Participant shall designate a beneficiary to whom an amount equal to any balance in the Participant's Account shall be payable on the Participant's death. A Participant may also designate an alternate beneficiary to receive such payment in the event that the designated beneficiary cannot receive payment for any reason. In the event no designated or alternate beneficiary can receive such payment for any reason, payment will be made to the Participant's surviving spouse, if any, or if the Participant has no surviving spouse, then to the following beneficiaries if then living in the following order of priority: (a) to the Participant's children (including adopted children and stepchildren) in equal shares, (b) to the Participant's parents in equal shares, (c) to the Participant's brothers and sisters in

equal shares and (d) to the Participant's estate. Each Participant may at any time change his or her beneficiary designation. A change of beneficiary designation must be made in writing and delivered to the Committee for such purposes. The interest of any beneficiary who predeceases the Participant will terminate unless otherwise specified by the Participant.

25. Upon a Participant's Retirement, payments from the Participant's Account will be made as the Participant specified in his or her Election.

26. Upon Termination of Service of a Participant, the balance of such Participant's Account shall be paid to the Participant in a single payment as soon as practicable after such Termination of Service, unless the Participant elected, in his or her Election, not to have such a single payment provision apply.

27. If a Participant's employment with the Company is terminated other than by reason of Retirement or death and the Participant, in his or her Election, elected to have the balance of his or her Account paid, or begin to be paid, after Retirement, and not in a single payment under paragraph 26, the Participant's date of "Retirement" shall be deemed to be the earliest date on which the Participant could have retired and become entitled to an immediate annuity under the Federal National Mortgage Association Retirement Plan For Employees Not Covered Under Civil Service Retirement Law or under the Civil Service Retirement Law, whichever is applicable, had the Participant continued in the employ of the Company until such date.

28. Claims for benefits under these guidelines shall be filed with the Committee. If any Participant or other person claims to be entitled to a benefit under these guidelines and the Committee determines that such claim should be denied in whole or in part, the Committee shall notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain (a) specific reasons for the denial, (b) specific reference to pertinent provisions of these guidelines, (c) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary and (d) information as to the steps to be taken if the person wishes to submit a request for review.

Such notification will be given within 90 days after the claim is received by the Committee. If such notification is not given within such period, the claim will be considered denied as of the last day of such period, and such person may request a review of his claim.

29. Within 60 days after the date on which a person receives a written notice of a denied claim (or, if applicable, within 60 days after the date on which such denial is considered to have occurred) such person (or his duly authorized representative) may (a) file a written request with the Committee for a review of his denied claim and of pertinent documents and (b) submit written issues and comments to the Committee. The Committee will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent provisions of these guidelines. The decision on review will be made within 60 days after the request for review is received by the Committee. If the decision on review is not made within such period, the claim will be considered denied.

30. These guidelines shall be administered by the Committee. The Committee shall have all powers necessary to carry out the provisions of these guidelines, including, without reservation, the power to delegate administrative matters to other persons and to interpret these guidelines in a manner consistent with its express provisions.

31. The Company may at any time by action of the Board of Directors terminate these guidelines. Upon termination of these guidelines, no further Elections shall be permitted, but Awards subject to prior Elections will be granted under the terms of these guidelines, and each Participant's Account as it then exists will be maintained, credited and paid pursuant to the provisions of these guidelines and the Participant's prior Elections.

32. The Company may at any time amend these guidelines in any respect, (a) in the case of amendments which have a material effect on the cost to the Company of maintaining these guidelines, by action of the Board of Directors, or (b) with respect to any other amendments, by action of the Committee; provided, however, that no such amendment shall adversely affect the rights of Participants or their beneficiaries to any amounts

previously credited to the Participants' Accounts prior to the adoption of any such amendment.

33. To the extent permitted by law, Participants and beneficiaries shall not have the right to alienate, anticipate, commute, sell, assign, transfer, pledge, encumber or otherwise convey the right to receive any payments under these guidelines, and any payments under these guidelines or rights thereto shall not be subject to the debts, liabilities, contracts, engagements or torts of Participants or beneficiaries nor to attachment, garnishment or execution, nor shall they be transferable by operation of law in the event of bankruptcy or insolvency. Any attempt, whether voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

34. Nothing contained in these guidelines shall be construed as conferring upon a Participant the right to continue in the employ of the Company as an officer or in any other capacity.

35. These guidelines shall be construed and administered under the laws of the District of Columbia.

EXHIBIT 10.15

FANNIE MAE

STOCK OPTION GAIN DEFERRAL PLAN

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FANNIE MAE
STOCK OPTION GAIN DEFERRAL PLAN

ARTICLE 1

Establishment and Purpose

1.1. Establishment. The Company has established, effective as of November 18, 1997, this Fannie Mae Stock Option Gain Deferral Plan.

1.2. Purpose.

(a) The purpose of this Plan is to attract and retain certain individuals of outstanding competence as employees or as members of the Board of Directors or both by permitting such individuals to elect to defer to a later date receipt of amounts attributable to the exercise of stock options granted by the Company under a Stock Compensation Plan.

(b) This Plan, as it relates to Executives, is intended to qualify as a "top-hat" plan for purposes of ERISA and is an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

ARTICLE 2

Definitions

When used herein the following terms shall have the following meanings:

2.1. "Account" shall mean the account maintained for a Participant pursuant to Article 4 hereof.

2.2. "Attestation" shall mean the payment of an Option's exercise price by the designation of shares of Common Stock that, unless otherwise approved by the Committee, have been owned by the Participant for at least six months as of the Exercise Date. To designate shares of Common Stock for this purpose, on exercise of an Option pursuant to this Plan, the Participant must attach to the Nonqualified Stock Option Exercise Notification Form a properly completed attestation form (as prescribed by the Committee).

2.3. “Award” shall mean an award of any Option authorized by and granted under a Stock Compensation Plan.

2.4. “Award Document” shall mean any writing, which may be an agreement, setting forth the terms of an Award.

2.5. “Board of Directors” shall mean the Board of Directors of the Company.

2.6. “Code” shall mean the Internal Revenue Code of 1986, as amended.

2.7. “Committee” shall mean the Benefit Plans Committee designated by the Board of Directors.

2.8. “Common Stock” shall mean the common stock of the Company and, in the event such common stock is converted to another security or property, such other security or property.

2.9. “Company” shall mean Fannie Mae.

2.10. “Deemed Dividends” shall mean, with respect to Gain Shares, an amount equal to the dividends that would have been paid with respect to such Gain Shares had they been issued and outstanding.

2.11. “Deferral Exercise Date” shall mean the date on or after which an Option may be exercised pursuant to an Election or pursuant to Section 3.2(c) hereof.

2.12. “Director” shall mean any member of the Board of Directors who receives compensation in his or her capacity as a member of such Board of Directors.

2.13. “Election” shall mean an irrevocable election by a Participant, made on a form prescribed by the Committee and delivered to the Company’s Senior Vice-President of Human

Resources or his designee (or, in the case of a Director, to the Corporate Secretary or Assistant Secretary of the Company), to defer receipt of amounts upon the exercise of an Option under this Plan. Such Election shall be effective when such form is countersigned on behalf of the Company.

2.14. “ERISA” shall mean the Employment Retirement Income Security Act of 1974, as amended.

2.15. “Executive” shall mean any member of the management group of the Company who is among the top 10% of the most highly compensated Company employees, whose base annual compensation is equal to or in excess of the minimum base salary set each year, for such purpose, by the Senior Vice-President of Human Resources, and who has been designated by the Company’s Chairman of the Board as eligible to participate in this Plan.

2.16. “Exercise Date” shall mean the date of exercise of an Option as to which an Election has been made.

2.17. “Fair Market Value” shall mean the per share value of Common Stock as determined by using the mean between the high and low selling prices of Common Stock on the day preceding the date of valuation (or, if the New York Stock Exchange (“NYSE”) is not open or the Common Stock is not trading that day, the most recent prior date that the NYSE was open for trading and the Common Stock was traded) as reported for such date on the table entitled “NYSE -- Composite Transactions” contained in the Wall Street Journal.

2.18. “Gain Shares” shall mean, with respect to the exercise of an Option under this Plan, the excess of (a) the number of shares of Common Stock as to which such Option was exercised, over (b) the number of shares of Common Stock utilized to pay the exercise price of the Option.

2.19. “Option” shall mean a stock option that is granted under a Stock Compensation Plan and that is not an incentive stock option within the meaning of Section 422 of the Code.

2.20. “Participant” shall mean any Executive or Director who becomes a Participant in this Plan by making an Election pursuant to Section 3.2 hereof.

2.21. “Plan” shall mean this Fannie Mae Stock Option Gain Deferral Plan.

2.22. “Retirement” shall mean (i) in the case of an Executive, separation from the employ of the Company either under conditions entitling him or her to an immediate annuity under the Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law or under the Civil Service Retirement Law, whichever is applicable to such Executive, or under conditions entitling the Executive to long-term disability benefits under any disability payment plan paid for by the Company, including disability insurance, on account of the inability to perform service for the Company due to a physical or mental ailment and (ii) in the case of a Director, any termination from the membership of the Board of Directors.

2.23. “Stock Compensation Plan” shall mean the Fannie Mae Stock Compensation Plan of 1986, as amended, or the Fannie Mae Stock Compensation Plan of 1993, as amended.

2.24. “Termination of Service” shall mean termination of an Executive’s employment with the Company other than by reason of Retirement or death.

ARTICLE 3

Eligibility, Election and Exercise

3.1. Eligibility. All Directors and Executives who have been granted an Option under a Stock Compensation Plan shall be eligible to participate in this Plan.

3.2. Election.

(a) Method of Election. An individual eligible to participate in this Plan under Section 3.1 hereof may make an Election as described in Section 2.13 hereof. An Election must be with respect to an Option (or portion thereof) covering shares of Common Stock with a Fair Market Value, at the time of the Election, that is at least $25,000 in excess of the exercise price of such Option (or such portion thereof). Unless otherwise determined under Section 3.2(c) or approved by the Committee, the Deferral Exercise Date indicated in the Election shall be at least six months subsequent to the date of such Election.

(b) Date and Method of Payment. An Election must specify the date on which amounts in the Participant's Account attributable to the Option exercise covered by such Election shall be paid or begin to be paid to the Participant pursuant to Section 5.2 hereof, and the method of such payment. The payment date specified in the Participant's Election must be at least one year from the Deferral Exercise Date. The Participant may not change the payment date or method specified in the Participant's Election. In place of a specific date on which distributions under the Plan will be paid or begin, a Participant may elect to have distributions paid or begin upon his or her Retirement or death.

(c) Irrevocability and Modification. Once made, an Election may not be modified or revoked by the Participant. If, however, before the Deferral Exercise Date specified in the Election, the Participant's employment with the Company is terminated, the Deferral Exercise Date shall be deemed to be the earlier of six months prior to the date an Option covered by the Election would expire or the Deferral Exercise Date specified in the Election.

(d) Deferral of Partial Option. If a Participant files an Election under this Plan with respect to only a portion of an Option, the Participant must further elect at the time of such Election whether the Election applies to:

(i) the first portion of such Option, so that the Participant may not exercise any other portion of the Option until he or she has exercised under this Plan that portion of the Option covered by the Election; or

(ii) the last portion of such Option, so the Participant must exercise all other portions of the Option before he or she may exercise any portion of the Option pursuant to the Election.

3.3. Exercise of Options.

(a) Exercise Price. Except as provided in the next sentence, the exercise price of an Option (or portion thereof) exercised pursuant to this Plan must be paid in full at the time of exercise by Attestation, and, once an Election is made with respect to an Option, no method of paying the exercise price for such Option, other than Attestation, may be used. If, however, payment of the full exercise price by Attestation would otherwise require the delivery or issuance of a fractional share of Common Stock, the number of shares of Common Stock required to pay the exercise price by Attestation shall be reduced to the next lowest whole number of shares of Common Stock, and the Participant shall pay the balance of the exercise price in cash.

(b) Exercise Notification Form. In order to exercise an Option (or portion thereof) under this Plan, a Participant shall file a Nonqualified Stock Option Exercise Notification Form specifying the date of exercise and shall provide the Company with sufficient funds to satisfy any federal, state, local or other taxes required by law to be withheld upon the exercise of the Options covered by the Notification Form.

(c) Minimum Exercise Amount. Unless otherwise permitted by the Committee, an exercise of an Option (or portion thereof) as to which an Election has been made must be with respect to (i) shares of Common Stock with a Fair Market Value, at the time of exercise, that is at least $25,000 in excess of the exercise price of the Option (or portion thereof) being exercised, or (ii) if less, all the shares of Common Stock covered by the entire remaining Option (or entire remaining portion thereof) that is subject to the Election.

(d) Exercise After Death. If a Participant dies after making an Election under this Plan but before all Options covered by such Election have been exercised, the outstanding Options covered by such Election may be exercised as permitted in Section 1.10(a) of the Fannie Mae Stock Compensation Plan of 1993, as amended, or Section 2.1(e) of the Fannie Mae Stock Compensation Plan of 1986, as amended, whichever is applicable to the Option being exercised.

(e) Effect of Award Documents and Stock Compensation Plans. Any Option exercised pursuant to this Plan must be exercisable on the Exercise Date under the applicable Award Document and Stock Compensation Plan and in accordance with the Federal National Mortgage Association Securities Transactions Supervision Program and the guidelines thereunder, if applicable.

ARTICLE 4

Accounts

4.1. Maintenance of Accounts.

(a) Establishment. The Company shall establish for the Participants bookkeeping accounts to record the deferrals and adjustments under this Plan. Each Participant shall have a separate Account. Within a Participant's Account, Option exercises shall be accounted for separately with respect to each Election. Each Account shall be credited and debited as provided in this Article 4.

(b) Gain Shares. Upon a Participant’s exercise of an Option under this Plan, the Participant’s Account shall be credited with the Gain Shares with respect to such exercise.

(c) Deemed Dividends. Within 30 days of the end of each quarter, a Participant’s Account shall be credited with Deemed Dividends on the Gain Shares in his or her Account. Upon crediting to a Participant’s Account, such Deemed Dividend shall be converted to shares (or a partial share) of Common Stock using the Fair Market Value on the last day of the most recently ended quarter as the date of valuation to calculate the number of shares (or the partial share) to be so credited.

(d) Payments. A Participant’s Account shall be reduced by any payments made to the Participant, his or her beneficiary, estate or representative.

(e) Adjustments. If any of the following events occurs, the Committee shall make appropriate adjustments with respect to Gain Shares and shares attributable to Deemed Dividends in a Participant’s Account: (i) any extraordinary dividend or other extraordinary distribution in respect of Common Stock (whether in the form of cash, Common Stock, other securities or other property), (ii) any recapitalization, stock split (including a stock split in the form of a stock dividend), reverse stock split, reorganization, merger, combination, consolidation, split-up, spin-off, combination, repurchase or exchange of Common Stock or other securities of the Company, (iii) any issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company (other than to employees) at less than 80 percent of fair value on the date of such issuance, or (iv) any other like corporate transaction or event in respect of the Common Stock or a sale of substantially all the assets of the Company.

4.2. Funding Prohibitions. All entries to a Participant's Account shall be bookkeeping entries only and shall not represent a special reserve or otherwise constitute a funding of the Company's unsecured promise to pay any amounts hereunder. All payments to be made under this Plan shall be paid from the general funds of the Company. Participants and their beneficiaries shall have no right, title or interest in or to any investments which the Company may make to aid it in meeting its obligations under this Plan. All such assets shall be the property solely of the Company and shall be subject to the claims of the Company's unsecured general creditors. To the extent a Participant or any other person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company, and such person shall have only the unsecured promise of the Company that such payments shall be made.

ARTICLE 5

Payment

5.1. Payment of Account. Payment of amounts credited to a Participant's Account shall be made as specified in this Article 5.

5.2. Commencement of Payment. Except as otherwise provided in Sections 5.5 and 5.6 hereof, all payments from an Account will be made or will commence as soon as practicable after the payment date selected by the Participant pursuant to Section 3.2(b) hereof. 5.3.

Method of Payment.

(a) Form. Except as provided in Section 5.3(c) hereof, payment from a Participant's Account shall be made in shares of Common Stock.

(b) Payment Methods. A Participant may elect to receive such payments in one of the following methods:

(i) a single payment,

(ii) annual installments over a period of years (selected by the Participant) not to exceed 15, with the amount of each annual installment calculated by dividing the balance of the Account at the end of the prior year by the number of installments remaining to be paid, or

(iii) an initial installment of an amount specified by the Participant followed by annual installments over a period of years not to exceed 15 and commencing in a year selected by the Participant, with each annual installment calculated by dividing the balance of the Account at the end of the prior year by the number of installments remaining to be paid.

(c) Fractional Shares. If any annual installment (other than the last installment), calculated as set forth in Section 5.3(b)(ii) or (iii) hereof, would result in the payment of a fractional share of Common Stock, such annual installment shall be reduced to the next lowest whole number of shares of Common Stock. If, as part of the final installment payment, a fractional share of Common Stock would be paid, then in lieu thereof the Fair Market Value of such fractional share on the date the payment is calculated shall be paid in cash.

(d) Hardship Payment. Notwithstanding any other provision of this Plan to the contrary, a Participant or beneficiary may receive a payment with respect to his or her Account upon a finding by the Committee (or, in the case of a Director, by the General Counsel of the Company) in its (or his or her) sole discretion (i) that an unanticipated emergency caused by an event beyond the control of such Participant or beneficiary has occurred and that such emergency would result in financial hardship to such Participant or beneficiary if early payment were not permitted, or (ii) that the continued participation of a Participant who is employed by the federal government or that of a state or municipality creates a serious hardship for the Participant because of the conflict of interest or ethics rules of such government. The amount that may be paid pursuant to clause (i) above shall not exceed the amount necessary to meet such financial hardship as determined by the Committee (or the General Counsel) in its (or his or her) sole discretion. The entire balance in the Participant's Account may be paid pursuant to clause (ii) above. The Committee (or the General Counsel) shall have the right to require such Participant or beneficiary to submit such documentation as it (or he or she) deems appropriate for the purpose of determining the existence, cause and extent of such hardship.

5.4. Withholding. The Company shall have the right to deduct from any payment to be made pursuant to this Plan any federal, state or local taxes required by law to be withheld.

5.5. Payment on Death.

(a) Single Payment. In the event of the death of a Participant, an amount equal to the balance of the Participant's Account shall be paid to the Participant's beneficiary in a single payment within 30 days after the date of such death.

(b) Beneficiary Designation. Each Participant shall designate a beneficiary to whom an amount equal to any balance in the Participant's Account shall be payable on the Participant's death. A Participant may also designate an alternate beneficiary to receive such payment in the event that the designated beneficiary cannot receive payment for any reason. In the event no designated or alternate beneficiary can receive such payment for any reason, payment will be made to the Participant's surviving spouse, if any, or if the Participant has no surviving spouse, then to the following beneficiaries if then living in the following order of priority: (i) to the Participant's children (including adopted children and stepchildren) in equal shares, (ii) to the Participant's parents in equal shares, (iii) to the Participant's brothers and sisters in equal shares and (iv) to the Participant's estate. Each Participant may at any time change his or her beneficiary designation. A change of beneficiary designation must be made in writing and delivered to the Committee or its designee for such purposes. The interest of any beneficiary who predeceases the Participant will terminate unless otherwise specified by the Participant.

5.6. Payment on Retirement or Termination of Service.

(a) Retirement. Upon a Participant's Retirement, payments from the Participant's Account will be made as the Participant specified in his or her Election.

(b) Termination of Service. Upon Termination of Service of a Participant, the balance of such Participant's Account shall be paid to the Participant in a single payment as soon as practicable after such Termination of Service, unless the Participant elected, in his or her Election, not to have such a single payment provision apply.

(c) Deemed Date of Retirement. If a Participant's employment with the Company is terminated other than by reason of Retirement or death and the Participant, in his or her Election, elected to have the balance of his or her Account paid, or begin to be paid, as soon as practicable after Retirement, and not in a single payment under Section 5.6(b), the Participant's date of "Retirement" shall be deemed to be the earliest date on which the Participant could have retired and become entitled to an immediate annuity under the Federal National Mortgage Association Retirement Plan For Employees Not Covered Under Civil Service Retirement Law or under the Civil Service Retirement Law, whichever is applicable, had the Participant continued in the employ of the Company until such date.

5.7. Claims Procedure. Claims for benefits under this Plan shall be filed with the Committee. If any Participant or other person claims to be entitled to a benefit under this Plan and the Committee determines that such claim should be denied in whole or in part, the Committee shall notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain (a) specific reasons for the denial, (b) specific reference to pertinent provisions of this Plan, (c) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary and (d) information as to the steps to be taken if the person wishes to submit a request for review. Such notification will be given within 90 days after the claim is received by the Committee. If such notification is not given within such period, the claim will be considered denied as of the last day of such period, and such person may request a review of his claim.

5.8. Review Procedure. Within 60 days after the date on which a person receives a written notice of a denied claim (or, if applicable, within 60 days after the date on which such denial is considered to have occurred) such person (or his or her duly authorized representative) may (a) file a written request with the Committee for a review of his or her denied claim and of pertinent documents and (b) submit written issues and comments to the Committee. The Committee will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent provisions of this Plan. The decision on review will be made within 60 days after the request for review is received by the Committee. If the decision on review is not made within such period, the claim will be considered denied.

ARTICLE 6

Administration

6.1. Administration. This Plan shall be administered by the Committee; provided however, that determinations under Section 5.3(d) shall be made by the Committee and the General Counsel as provided therein. The Committee shall have all powers necessary to carry out the provisions of this Plan, including, without reservation, the power to delegate administrative matters to other persons and to interpret this Plan in a manner consistent with its express provisions.

ARTICLE 7

Miscellaneous

7.1. Termination of Plan. The Company may at any time by action of the Board of Directors terminate this Plan. Upon termination of this Plan, no further Elections shall be permitted, but Options subject to prior Elections may continue to be exercised under the terms of this Plan, and each Participant’s Account as it then exists will be maintained, credited and paid pursuant to the provisions of this Plan and the Participant’s prior Elections.

7.2. Controlling Provisions. Unless otherwise provided in this Plan, the Stock Compensation Plans will continue to control all aspects of Awards granted under each such Stock Compensation Plan.

7.3. Amendment. The Company may at any time amend this Plan in any respect, (a) in the case of amendments which have a material effect on the cost to the Company of maintaining this Plan, by action of the Board of Directors, or (b) with respect to any other amendments, by action of the Committee; provided, however, that no such amendment shall adversely affect the rights of Participants or their beneficiaries to any amounts previously credited to the Participants’ Accounts prior to the adoption of any such amendment.

7.4. No Alienation of Benefits. To the extent permitted by law, Participants and beneficiaries shall not have the right to alienate, anticipate, commute, sell, assign, transfer, pledge, encumber or otherwise convey the right to receive any payments under this Plan, and any payments under this Plan or rights thereto shall not be subject to the debts, liabilities, contracts, engagements or torts of Participants or beneficiaries nor to attachment, garnishment or execution, nor shall they be transferable by operation of law in the event of bankruptcy or insolvency. Any attempt, whether voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

7.5. No Rights to Continued Employment or Board Membership. Nothing contained herein shall be construed as conferring upon an Executive the right to continue in the employ of the Company as an Executive or in any other capacity, or as conferring upon a Director the right to continue as a member of the Board of Directors.

7.6. Separate Plans. For purposes of ERISA, this Plan shall be treated as consisting of two separate plans, one for the benefit of Executives and one for the benefit of Directors.

7.7. Headings. The headings of the Sections hereof are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Plan.

7.8. Applicable Law. This Plan shall be construed and administered under the laws of the District of Columbia.

EXHIBIT 10.16

2003 SUPPLEMENTAL PENSION PLAN

On January 21, 2003 the Fannie Mae Board of Directors authorized the creation of the 2003 Supplemental Pension Plan (the “Plan”). The Plan will be a supplement to the current Fannie Mae Pension Plan, and will include in the pension calculation of any officer of the corporation (persons at the level of Vice President and higher), amounts received as a bonus for officer service, limited to 50% of base salary. The Plan is to be effective as of January 1, 2003.

Fannie Mae currently is in the process of drafting the Plan.

EXHIBIT 10.17

FANNIE MAE

DIRECTOR’S CHARITABLE AWARD PROGRAM

1. PURPOSE OF THE PROGRAM

The Fannie Mae Director’s Charitable Award Program (the “Program”) allows each eligible Director of Fannie Mae (the “Company”) to recommend that the Company make a donation of up to $1,000,000 to the eligible tax-exempt organization(s) (the “Donee(s)”) selected by the Director, with the donation to be made, in the Director’s name, in ten equal annual installments, with the first installment to be made as soon as is practicable after the Director’s death. The purpose of the Program is to acknowledge the service of the Company’s Directors, recognize the interest of the Company and its Directors in supporting worthy institutions, and enhance the Company’s Director benefit program so that the Company is able to continue to attract and retain Directors of the highest caliber.

2. ELIGIBILITY

All persons serving as Directors of Fannie Mae as of January 1, 1993, shall be eligible to participate in the Program. All Directors who join the Company’s Board of Directors after that date shall be immediately eligible to participate in the Program upon election or appointment to the Board.

3. RECOMMENDATION OF DONATION

When a Director becomes eligible to participate in the Program, he or she shall make a written recommendation to the Company, on a form approved by the Company for this purpose, designating the Donee(s) which he or she intends to be the recipient(s) of the Company donation to be made on his or her behalf. A Director may revise or revoke any such recommendation prior to his or her death by signing a new recommendation form and submitting it to the Company.

Rev. December 1997

4. AMOUNT AND TIMING OF DONATION

Each eligible Director may choose one organization to receive a Company donation of $1,000,000, or up to five organizations to receive donations aggregating $1,000,000. Each recommended organization must be recommended to receive a donation of at least $100,000. The donation will be made by Fannie Mae in ten equal annual installments, with the first installment to be made as soon as is practicable after the Director's death. If a Director recommends more than one organization to receive a donation, generally each will receive a prorated portion of each annual installment. Each annual installment payment will be divided among the recommended organizations in the same proportions as the total donation amount has been allocated among the organizations by the Director. However, a Director may instruct the Company to allocate the installment payments in a different manner.

5. DONEES AND RESTRICTIONS ON USE OF FUNDS

In order to be eligible to receive a donation, a recommended organization must be an educational institution or charitable organization, and must initially, and at the time a donation is to be made, qualify to receive tax-deductible donations under the Internal Revenue Code. Also, the organization must be reviewed and approved by The Ayco Company, L. P. An organization will be approved by Ayco unless it determines, in the exercise of its good faith judgment and in consultation with Fannie Mae's Director of Employee Benefits, that a donation to the organization would be detrimental to the best interests of the Company. Private foundations are not eligible to receive donations under the Program.

A Director may impose restrictions on the manner in which a recommended organization may use the funds it receives as the result of a Program donation made on the Director's behalf. Any such restrictions must be reviewed and approved by Ayco; the restrictions will be approved by Ayco unless it determines, in the exercise of its good faith judgment and in consultation with Fannie Mae's Director of Employee Benefits, that the restrictions imposed would be detrimental to the best interests of Fannie Mae.

After a donation is made to a Donee, neither the Company nor Ayco shall be responsible for monitoring the use of the funds by the Donee to determine whether the Donee is complying with any restrictions imposed by the Director on the donation. However, if Ayco becomes aware that a Donee is not complying with the restrictions imposed by a Director, it may, in consultation with the Director of Employee Benefits of Fannie Mae, suspend any further donations to the Donee until the restrictions are complied with, or it may decide that no further donations will be made to the Donee, as it deems appropriate.

If a recommended organization becomes ineligible to receive a donation under the Program, and the Director does not complete a new Beneficiary Recommendation Form before his or her death, or if Ayco determines that no further donations will be made to a Donee because of the Donee’s failure to comply with restrictions imposed by the Director on the donation, the amount recommended to be donated to the Donee (or the remaining amount, if a portion of the donation has been paid to the Donee) shall be donated to the Director’s other Donee(s) on a prorata basis. The amount in question shall be prorated among the remaining eligible Donees based on the recommended donation amounts for each such Donee. If there are no remaining eligible Donees, the amount in question shall be donated to the eligible Donee(s) selected by the Committee.

6. VESTING

A Director will become vested in the Program donation at the rate of $100,000 for each twelve full months of Board service. Therefore, a Director will be vested in the entire $1,000,000 donation amount when he or she completes ten years of Board service. However, a Director will become fully vested in the Program if termination of Board service is due to death, disability or other circumstances deemed appropriate by the Compensation Committee of the Board of Directors of the Company (the “Committee”). Also, for Directors serving on January 1, 1993, Board service prior to adoption of the Program will be counted as vesting service. Even though a Director is partially or fully vested under the Program, the amendment, suspension or termination of the Program by the Board of Directors may operate to reduce or cancel all future contributions under the Program.

7. FUNDING AND PROGRAM ASSETS

Fannie Mae may fund the Program or it may choose not to fund the Program. If the Company elects to fund the Program in any manner, neither the Directors nor their recommended Donee(s) shall have any rights or interests in any assets of the Company identified for such purpose. Nothing contained in the Program shall create, or be deemed to create, a trust, actual or constructive, for the benefit of a Director or any Donee recommended by a Director to receive a donation, or shall give, or be deemed to give, any Director or recommended Donee any interest in any assets of the Program or the Company. If the Company elects to fund the Program through life insurance policies, a participating Director agrees to cooperate and fulfill the enrollment requirements necessary to obtain insurance on his or her life.

8. CLAIMS

All disputed claims for benefits under the Program shall be submitted to, and within a reasonable period of time decided by, the Committee or a person or persons designated by the Committee. Written notice of the decision on each such claim shall be furnished reasonably promptly to the claimant. If the claim is wholly or partially denied, such written notice shall set forth an explanation of the specific findings and conclusions on which such denial is based. A claimant may review all pertinent documents and may request a review by the Committee of such a decision denying the claim. Such a request shall be made in writing and filed with the Committee within a reasonable period of time, as specified by said Committee in writing from time to time, after delivery to said claimant of written notice of said decision. Such written request for review shall contain all additional information which the claimant wishes the Committee to consider. The Committee may hold any hearing or conduct any independent investigation which it deems necessary to render its decision, and the decision on review shall be made as soon as possible after said Committee’s receipt of the request for review. Written notice of the decision on review shall be promptly furnished to the claimant and shall include specific reasons for such decision. This administrative procedure is the sole remedy available for disputes concerning the Program. Directors and claimants have no right to arbitration or court action for disputes arising under the Program. For all purposes under the Program, such decisions on claims (where no review is requested) and decisions on review (where review is requested) shall be final, binding, and conclusive on all parties.

9. AMENDMENT OR TERMINATION

The Board of Directors of the Company may, at any time, without the consent of the Directors participating in the Program, amend, suspend, or terminate the Program, and delegates to the Committee the authority to adopt amendments that may be necessary or appropriate to facilitate the administration, management and interpretation of the Program or to conform the Program thereto, or that may be necessary or appropriate to qualify or maintain the Program as a Program meeting the requirements of any applicable section of law, provided any such amendment does not significantly affect the cost to the Company of maintaining the Program.

10. ADMINISTRATION

The Program shall be administered by the Committee. A majority of the members of the Committee shall constitute a quorum. The Committee may act at a meeting by action of a majority of the members present, or without a meeting by unanimous written consent. The Committee shall have plenary authority in its discretion, but subject to the provisions of the Program, to prescribe, amend, and rescind from time to time any guidelines deemed necessary or appropriate for the administration or interpretation of the Program, and to interpret the Program, and make all determinations and take all other actions considered necessary or advisable for the administration of the Program. All decisions, actions or interpretations of the Committee shall be final, conclusive and binding upon all parties. The Committee may delegate to any agent or individual or to any subcommittee or member of the Committee its authority to perform any act hereunder, including without limitation those matters involving the exercise of discretion, provided that such delegation shall be subject to revocation at any time at the discretion of said Committee.

11. GOVERNING LAW

The Program shall be construed and enforced according to the laws of the District of Columbia, and all provisions thereof shall be administered according to the laws of said District.

12. EFFECTIVE DATE

The effective date of the Program is January 1, 1993. The recommendation of an individual Director will be effective when he or she completes all enrollment requirements.

EXHIBIT 12.1

Computation of Ratios of Earnings to Fixed Charges

Dollars in millions

	Year Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Income before cumulative effect of change in accounting principle	$ 4,619	$ 5,726	$ 4,448	$ 3,912	$ 3,418
Add:					
Provision for taxes	1,429	2,041	1,583	1,514	1,187
Interest expense on all indebtedness	40,287	41,080	37,107	30,601	25,885
Earnings, as adjusted	$46,335	$48,847	$43,138	$36,027	$30,490
Fixed charges:					
Interest expense on all indebtedness	$40,287	$41,080	$37,107	$30,601	$25,885
Fixed charges	$40,287	$41,080	$37,107	$30,601	$25,885
Ratio of earnings to fixed charges	1.15	1.19	1.16	1.18	1.18

EXHIBIT 12.2

Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends

Dollars in millions

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Income before cumulative effect of change in accounting principle	$ 4,619	$ 5,726	$ 4,448	$ 3,912	$ 3,418
Add:					
Provision for taxes	1,429	2,041	1,583	1,514	1,187
Interest expense on all indebtedness	40,287	41,080	37,107	30,601	25,885
Earnings, as adjusted	$46,335	$48,847	$43,138	$36,027	$30,490
Fixed charges:					
Interest expense on all indebtedness	$40,287	$41,080	$37,107	$30,601	$25,885
Preferred stock dividends	99	138	121	78	66
Fixed charges including preferred stock dividends	$40,386	$41,218	$37,228	$30,679	$25,951
Ratio of earnings to combined fixed charges and preferred dividends	1.15	1.19	1.16	1.17	1.17

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File No.:

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation *(State or other jurisdiction of incorporation or organization)*	**52-0883107** *(I.R.S. Employer Identification No.)*
3900 Wisconsin Avenue, NW **Washington, DC** *(Address of principal executive offices)*	**20016** *(Zip Code)*

Registrant's telephone number, including area code:

(202) 752-7000

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No ☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No ☑

As of the close of business on February 28, 2003, there were 986,925,508 shares of common stock outstanding. As of June 28, 2002 (the last business day of Registrant's most recent second fiscal quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $73,217 million. As of February 28, 2003, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $63,262 million.

DOCUMENTS INCORPORATED BY REFERENCE

Material contained in the registration statement of Fannie Mae on Form 10 filed with the Securities and Exchange Commission on March 31, 2003 is incorporated by reference in Part II, Item 5, and Part III of this Form 10-K.

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PART I

Item 1. ***Business***

Overview

Introduction

At Fannie Mae (formally, the Federal National Mortgage Association), our purpose is to facilitate the flow of low-cost mortgage capital in order to increase the availability and affordability of homeownership for low-, moderate-, and middle-income Americans. We operate under a federal charter and our primary regulator is the Office of Federal Housing Enterprise Oversight ("OFHEO"). However, we are a private, shareholder-owned company. The U.S. government does not guarantee, directly or indirectly, Fannie Mae's debt securities or other obligations.

Fannie Mae is the nation's largest source of funds for mortgage lenders and investors, providing resources for our customers to make additional mortgage loans or investments in mortgage-related securities. We provide liquidity to the mortgage market for the benefit of borrowers; however, we do not lend money directly to consumers. We operate exclusively in the secondary mortgage market by purchasing mortgages and mortgage-related securities, including Fannie Mae mortgage-related securities, from primary market institutions, such as commercial banks, savings and loan associations, mortgage companies, securities dealers and other investors. We provide additional liquidity in the secondary mortgage market by issuing and guaranteeing mortgage-related securities.

We also offer fee-based services to our customers that facilitate our purpose and mission. These services include issuing and administering a variety of mortgage-related securities, providing credit enhancements and offering technology products to aid in originating and underwriting mortgage loans.

Fannie Mae expands equal housing access and opportunity in America by helping our lender customers reach the nation's underserved families and communities. In 1994, we launched our Trillion Dollar Commitment to provide $1 trillion in home financing for 10 million families traditionally underserved by mainstream mortgage finance. After achieving that goal ahead of plan, in 2000 Fannie Mae announced a new, redoubled affordable housing plan, our $2 trillion American Dream Commitment®, to serve 18 million underserved families by 2010.

Under the American Dream Commitment, Fannie Mae has pledged to promote mortgage consumer rights, including broader, more equal access to lowest-cost mortgage credit; fight mortgage discrimination and lead the housing market in serving minority families, including a pledge to provide $700 billion in financing for 4.6 million minority households; address the unique housing needs of women-headed households, young families, new immigrants, seniors, and urban and rural dwellers; strengthen inner-city communities and older suburban areas; provide new technologies to mortgage lenders and consumers in order to lower mortgage financing costs; and increase the supply of affordable rental housing.

Fannie Mae was established in 1938 as a United States government-owned entity to provide supplemental liquidity to the secondary market for residential mortgages and to promote access to mortgage credit throughout the nation. We became a stockholder-owned and privately-managed corporation by legislation enacted in 1968, which we refer to as the "Charter Act" (the Federal National Mortgage Association Charter Act, 12 U.S.C. §1716 et seq.). Our common stock is traded primarily on the New York Stock Exchange under the symbol "FNM."

Business Segments

We provide liquidity in the secondary mortgage market through our two primary business segments: the portfolio investment business and the credit guaranty business.

In the portfolio investment business, we purchase loans and mortgage-related securities from mortgage lenders, which replenishes those lenders' funds for making additional mortgage loans. We also purchase loans, mortgage-related securities and other investments from securities dealers, investors and other market participants. In addition, our liquid investment portfolio invests in high quality, short-term, non-mortgage assets that can provide us with liquidity as the need arises. We acquire the funds to purchase these loans, mortgage-related securities and other investments from our equity capital and by selling debt securities to domestic and international capital markets investors. By doing so, we expand the total amount of funds available to finance housing in the United States. Income from our portfolio investment business comes primarily from the difference, or spread, between the yield on mortgage loans and other investments in our portfolio and our borrowing costs.

In the credit guaranty business, we receive fees for our guaranty of timely payment of scheduled principal and interest on mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae. For segment reporting purposes, we also allocate a fee comparable to an MBS guaranty fee from the portfolio investment business to the credit guaranty business for management of the credit risk on mortgage portfolio investments. The guaranty fees we charge are based on the credit risk we assume, the costs of administering the mortgage-related securities and market and competitive factors. In a typical mortgage-related securities transaction, a lender will deliver mortgage loans to us that it has originated or purchased. We place these loans in a trust and issue certificates evidencing beneficial interests in the trust, then deliver the certificates with our guaranty to the lender or its designee. The lender may then hold the mortgage-related securities as an investment or sell the securities in the market to replenish its funds for additional lending. This activity provides liquidity to the lender because mortgage-related securities, with Fannie Mae's guaranty, are more readily marketable than mortgage loans without this guaranty.

We have described our business segments in more detail under "Business — Overview — Business Segments."

Additional Information

In this document, we refer to both whole loans and participation interests in loans as "loans," "mortgage loans" and "mortgages." The term "mortgage" also is used to refer to the deed of trust or other security instrument securing a loan. The terms "loans" and "mortgage loans" may include loans secured by manufactured housing. Mortgage loans secured by four or fewer dwelling units are referred to as "single-family" mortgage loans and mortgage loans secured by more than four dwelling units are referred to as "multifamily" mortgage loans. We use the term "mortgage-related securities" generally to refer to mortgage pass-through trust certificates representing beneficial interests in pools of mortgage loans or other mortgage-related securities. The term "MBS" (mortgage-backed securities) specifically refers to mortgage-related securities we issue and on which we guarantee timely payment of scheduled principal and interest.

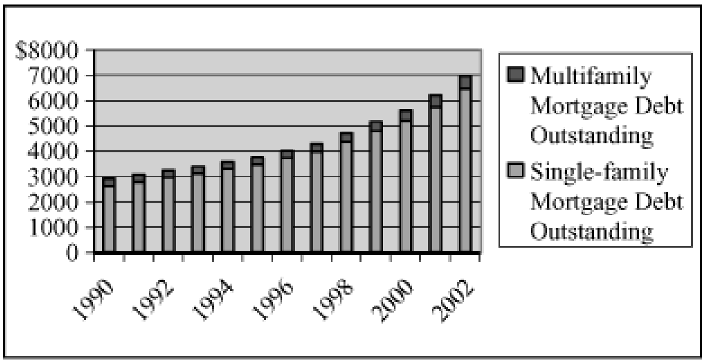
Debt, equity and mortgage-related securities we issue are exempt from registration under the Securities Act of 1933 and are "exempted securities" under the Securities Exchange Act of 1934. In July 2002, we announced a voluntary initiative to register our common stock, without par value, with the Securities and Exchange Commission under Section 12(g) of the Securities Exchange Act of 1934. The registration of our common stock became effective on March 31, 2003. Registration of our common stock does not impact the exempt status of debt, equity and mortgage-related securities we issue.

We file reports, proxy statements and other information with the Securities and Exchange Commission, beginning in 2003. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy statements, and other information that we file with the SEC. You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, NY 10005 or obtain them, free of charge, from our website at http://www.fanniemae.com. We are providing the addresses of the SEC's and our Internet sites solely for the information of investors. We do not intend the Internet addresses to be active links.

The Residential Mortgage Market

Residential Mortgage Debt Outstanding

The housing market in which we operate consists of the supply, or "stock," of total outstanding residential mortgages. In its Flow of Funds Accounts, the Board of Governors of the Federal Reserve System estimates and publishes figures each quarter on the stock of residential mortgages. The total residential mortgage debt outstanding figures published by the Federal Reserve include loans secured by single-family properties and multifamily properties. As of December 31, 2002, the latest date for which information is available, the Federal Reserve's estimate for total residential mortgage debt outstanding was $7 trillion. (See "Business — Fannie Mae Business Standards — Principal Balance Limits" for a discussion of the limits on mortgages we purchase.) The following table shows the Federal Reserve's estimate for residential mortgage debt outstanding for the last 12 years.



We expect growth in residential mortgage debt outstanding over the next ten years to be driven by the following factors:

- *Household Formation.* Household formation represents the number of new households that will need homes. Household formation is a principal driver of demand for homes. Growth in household formation is driven by growth in the population and "headship rates," the rate at which the population forms into households.

- *Homeownership Rates.* Homeownership rates reflect the percentage of the population that owns a home. As reported by the Census Bureau, Department of Commerce, the national homeownership rate grew at approximately one-half a percent a year during the decade of the 1990s, rising from 64 percent to over 67 percent. The growth in homeownership rates was driven by increased affordability of homes, improved technology (*e.g.*, automated underwriting), and low downpayment lending. We expect future growth in homeownership rates to be driven by economic growth, increases in minority homeownership rates, and demographic trends as baby-boomers move into age groups that traditionally experience higher homeownership rates. We anticipate that minority homeownership rates will benefit from a shortage in rental housing, the expansion of more flexible, low downpayment lending, and tax incentives.

- *Home Price Appreciation.* Home price appreciation reflects the combined effect of two components: the underlying rate of inflation and the amount that home prices appreciate net of inflation. Home price appreciation allows current homeowners to borrow against the additional equity in their homes and causes new homebuyers to borrow more to finance the purchase of a home. Home prices have typically appreciated faster than inflation. While inflation and home price appreciation over inflation were relatively low for most of the 1990s, home price appreciation over inflation returned to more historical levels in the latter part of the decade. Home price appreciation in the current decade will depend upon the demand and supply for housing. We expect the supply of housing to be somewhat constrained relative to demand due to limited availability of land and the increase of land use controls.

- *Debt-to-Value Ratios.* The debt-to-value ratio represents the percentage of total housing value that is financed with mortgage debt. Over the past 50 years, homeowners have steadily increased the percentage of their home value that is financed with debt, from around 20 percent to 44.4 percent at the end of 2002. This increase reflects the rising prices of homes, the increased popularity of cash-out refinancing as a means to tap equity wealth, availability of home equity lines of credit, and increased lower downpayment lending. Growth in the mortgage debt-to-value ratio over the coming decade will be driven by continued expansion of lower downpayment lending, and increased use by homeowners of the equity, or value, in their homes for other purposes.

As of December 31, 2002, Fannie Mae held 11 percent of total residential mortgage debt outstanding in our mortgage portfolio, which includes mortgage-related securities. MBS issued by Fannie Mae and held by investors other than Fannie Mae represented an additional 15 percent of total residential mortgage debt outstanding.

Our Role in the Secondary Mortgage Market

Our lender customers are part of the primary mortgage market, where mortgages are originated and funds are loaned to borrowers. Primary market lenders include mortgage companies, savings and loan associations, commercial banks, credit unions, and state and local housing finance agencies.

Lenders sell mortgages into the "secondary market," where mortgages are bought and sold by various investors. Secondary market investors include Fannie Mae, the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Federal Home Loan Banks, pension funds, insurance companies, securities dealers, and other financial institutions. Lenders may sell their mortgages into the secondary market in the form of whole loans or in the form of mortgage-related securities. For lenders that want to hold or sell mortgages in the form of mortgage-related securities, we may create those securities for them.

As the secondary market leader, Fannie Mae's central role in providing a steady stream of mortgage funds to lenders across the country is supported by technologies that help us manage our risks and make the process of buying a home quicker, easier, and less expensive. We have developed an automated underwriting system for single-family mortgage loans that our lender customers are using nationwide, and allows consumers to obtain loan approval more quickly and consistently, and with lower closing costs than ever before.

We purchase mortgage loans for our portfolio and exchange mortgage-related securities for mortgage loans from over two thousand primary market lenders that have a selling and servicing contract with us. Five of those customers accounted for approximately 50 percent of the single-family mortgage loans that we purchased or guaranteed in 2002. Ten lender customers accounted for approximately 63 percent of the single-family mortgage loans that we purchased or guaranteed in 2002. In addition, we purchase mortgage loans and mortgage-related securities from securities dealers, investors and other participants in the secondary market.

Fannie Mae Business Standards

The mortgage loans we purchase or guarantee must meet standards required by the Charter Act, including maximum principal balance limits and credit enhancement requirements. The Charter Act also requires that, so far as practicable and in our judgment, the mortgage loans be of a quality, type, and class that meet, generally, the purchase standards imposed by private institutional mortgage investors. Consistent with those requirements, and with the purposes for which we were chartered, we establish additional eligibility criteria and policies for the mortgage loans we purchase or guaranty, and for the sellers and servicers of those mortgage loans. Servicers are the entities that collect loan payments and perform other administrative functions with respect to the mortgage loans we purchase or guarantee.

Principal Balance Limits

Our purchase and guaranty of single-family "conventional" mortgage loans (loans not federally insured or guaranteed) are subject to certain maximum original principal balance limits, often referred to as the "conforming loan limit." For 2002, the limit for a one-family residence was $300,700 (except for loans secured by properties in Alaska, Hawaii, Guam, and the Virgin Islands). Higher principal balance limits apply to loans secured by properties in those areas or secured by two- to four-family residences. We can adjust the maximum principal balance limits applicable to conventional single-family mortgage loans annually based on the year-to-year change in the national average price of a one-family house as surveyed by the Federal Housing Finance Board each October. In November 2002, the limit for loans acquired in 2003, secured by a one-family residence, was increased to $322,700. There are no statutory limits on the maximum principal balance of multifamily mortgage loans that we purchase or guarantee. Mortgage loans insured by the Federal Housing Administration ("FHA") are subject to separate statutory maximum amount limitations. There are no statutory limits on the principal balance of loans guaranteed by the Department of Veterans Affairs ("VA") or by the Rural Housing Service ("RHS").

Loan-to-Value Ratios

The loan-to-value ratio requirements for loans we purchase or guaranty may vary depending upon a variety of factors such as the loan purpose, the number of dwelling units in the property securing the loan, the repayment terms, borrower credit history, and FHA or VA loan-to-value limits. Depending upon these factors, the loan-to-value ratio for loans we purchase or guarantee can be in excess of 100 percent.

The Charter Act requires credit enhancement on any conventional single-family mortgage loan that we purchase or guarantee if it has a loan-to-value ratio over 80 percent at the time of purchase or guaranty. Credit enhancement may take several forms, including insurance or a guaranty issued by a qualified insurer, repurchase arrangements with the seller of the mortgage loans, and seller-retained participation interests. We may require credit enhancement in excess of the minimum required to satisfy this provision of the Charter Act.

Underwriting Guidelines

We have established underwriting guidelines for the purchase or guaranty of mortgage loans to effectively manage the risk of loss from borrower defaults. Lenders determine whether to make mortgage loans and frequently have several investors to whom they sell loans. When originating loans to be purchased or guaranteed by Fannie Mae, lenders look to our underwriting guidelines. We designed these guidelines to assess the creditworthiness of the borrower, as well as the value of the mortgaged property relative to the amount of the mortgage loan. At our discretion, we may grant waivers from these underwriting guidelines. We also review and change these guidelines from time to time. As part of our affordable housing initiatives, we continue to introduce new underwriting criteria in an attempt to make the mortgage finance system more accessible to minorities, low- and moderate-income families, underserved and rural residents, and people with special housing needs. In addition, we continue to look for more effective methods of assessing the creditworthiness of potential borrowers and property values.

We generally rely on lender representations and warranties that the mortgage loans we purchase or guaranty conform to our applicable guidelines. We also perform quality control reviews of selected loans to monitor compliance with the guidelines. In the event that a lender is found to have breached its representations with respect to a loan's compliance with the guidelines, we can require that the lender repurchase the loan, indemnify us against any loss or, in some cases, share a greater percentage of any loss.

Over the last several years, we have enhanced Desktop Underwriter®, our automated underwriting system, to assist lenders in applying Fannie Mae underwriting standards for single-family loans. Desktop Underwriter is designed to help lenders process mortgage applications in a more efficient and accurate manner and to apply our underwriting criteria consistently, objectively, and in a more customized manner to all prospective borrowers. If Desktop Underwriter provides an "approve/ eligible" or "expanded approval/ eligible" recommendation to a lender regarding a loan application, we waive certain representations by the lender as long as the information that was submitted by the lender through Desktop Underwriter is accurate and the lender complies with other specified requirements.

The Mortgage Seller or Servicer

Before we approve a lender or other customer to become a seller or servicer, we require that it meet certain standards which include demonstrating, to our satisfaction, that it:

- has a proven ability to originate or service the type of mortgages for which our approval is being requested;
- employs a staff with adequate experience;
- has as one of its principal business purposes the origination or servicing of residential mortgages;
- is properly licensed, or otherwise authorized, to originate, sell, or service residential mortgages in each of the jurisdictions in which it does business;
- meets financial criteria and standards;
- has quality control and management systems to evaluate and monitor the overall quality of its loan production and servicing activities; and
- is adequately covered by a fidelity bond and errors and omissions insurance.

We enter into a written mortgage selling and servicing contract with each approved customer. In this contract, the customer agrees to a number of obligations, including ongoing compliance with the foregoing provisions to our satisfaction.

Mortgage Committing and Servicing Arrangements

Single-Family Mortgage Commitments

We enter into master agreements with lenders to facilitate ongoing transactions. Mortgage loans delivered to us for pooling into MBS generally require a master agreement, while mortgage loans purchased in cash transactions may or may not be under a master agreement. Pursuant to a master agreement, a lender agrees to deliver a specified volume of mortgage loans over a specified period of time, usually 12 months.

The master agreement usually requires mandatory delivery by the lender of an agreed upon volume, but may also contain an amount that is optional for the lender to deliver after it has met the required mandatory delivery commitment. If a lender does not deliver the mandatory portion of the specified volume, we may assess a buyout fee based on the undelivered amount. The optional portion of the volume does not obligate the lender to sell loans to us.

Whether or not there is a master agreement, we purchase mortgage loans for our portfolio pursuant to “mandatory delivery commitments,” which can be for either standard or negotiated loan products. Under these commitments, lenders are obligated to sell to us the mortgage loans described in the commitment at an agreed-upon price and within an agreed-upon time period (generally from one to ninety days for fixed-rate mortgages and from one to sixty days for adjustable-rate mortgages). If a lender is unable to deliver some or all of the mortgage loans required under a mandatory delivery commitment during the term of the commitment, the lender may repurchase the remaining balance of the commitment for a “pair-off ” fee. We may assess the pair-off fee based on the amount of the commitment being paired off and the difference between the commitment price and the current price.

Servicing Arrangements

Mortgage loans held in our mortgage portfolio or in a trust for holders of our MBS may be serviced only by an approved servicer. We do not service mortgage loans directly. Typically, lenders who sell single-family mortgage loans and conventional multifamily loans to Fannie Mae initially service the mortgage loans they sell to us. There is an active market in which lenders sell servicing rights to other servicers. In addition, we may at times engage a servicing entity to service loans on our behalf due to termination of a servicer or for other reasons.

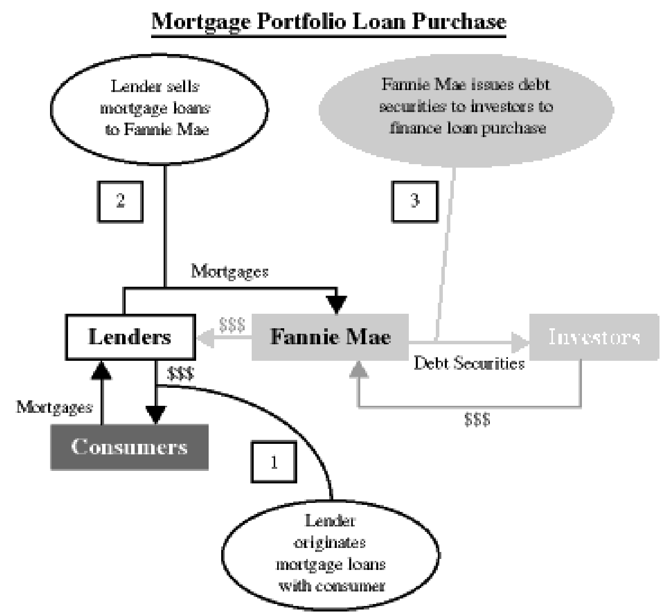
Mortgage servicers collect and remit principal and interest payments, administer escrow accounts, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. For problem loans, servicing includes negotiating workouts and, if necessary, inspecting and preserving properties and processing foreclosures and bankruptcies. In the case of multifamily loans, servicing also may include performing routine property inspections, evaluating the financial condition of owners, and administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance). We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan, called a “servicing fee.” The weighted average servicing fee for conventional single-family loans owned or guaranteed by Fannie Mae in 2002 was .389 percent. We have the right to remove servicing responsibilities from any lender under criteria established in our contractual arrangements with lenders.

Business Segments

Portfolio Investment Business

Overview. Our portfolio investment business has two principal components: a mortgage portfolio and a liquid investment portfolio. The mortgage portfolio purchases mortgage loans, mortgage-related securities, and other investments from lenders, securities dealers, investors, and other market participants. The liquid investment portfolio primarily purchases readily marketable, high credit quality, non-mortgage securities from securities dealers. The securities have short term maturities or can be sold as a source of funds to meet our cash flow needs. We fund the purchase of assets for our mortgage and liquid investment portfolios primarily by borrowing money in the domestic and international capital markets through the sale of debt securities. We derive income from the difference, or “spread,” between the yield we earn on our portfolio investments and the interest we pay on our borrowings.

The following diagram illustrates the basic structure of how we purchase a loan and fund that mortgage portfolio investment.



Lenders originate mortgages with consumers and may decide to sell them as whole loans. Fannie Mae purchases the loans for its portfolio, and issues debt in the capital markets to fund the purchases.

Most of the single-family mortgage loans in our mortgage portfolio or backing mortgage-related securities in our portfolio may be prepaid by the borrower at any time without penalty. We, therefore, bear the risk that if our mortgage assets are paid off as interest rates decline, or as a result of other factors, we may not be able to prepay the outstanding indebtedness used to finance those assets or to reinvest the prepayment proceeds at a rate at or above our borrowing costs. If interest rates rise, our debt costs could rise faster than the yield on our mortgage assets and thereby reduce our interest spread. In contrast, most multifamily loans contain a prepayment premium that compensates us for the loss of yield in the event of a prepayment, or provide some other mechanism to protect us from prepayment risk. We actively manage our mortgage portfolio to mitigate prepayment risks. Our approach to managing interest rate risk includes three central elements. First, we attempt to fund purchases of mortgage assets with liabilities that have similar cash flow patterns through time and in different interest rate environments. We use a combination of debt securities and interest rate derivatives to achieve the appropriate funding mix. Second, we regularly assess the mortgage portfolio’s exposure to changes in interest rates using a diverse set of analyses and measures. Third, we establish appropriate parameters for taking rebalancing actions that meet our objectives, and undertake rebalancing actions as necessary.

Our mortgage portfolio is also exposed to the credit risk that borrowers may fail to repay mortgage loans held in our portfolio or backing mortgage-related securities held in our portfolio. Our credit guaranty business is responsible for managing mortgage credit risk on loans and mortgage-related securities held in our portfolio and mortgage-related securities guaranteed by us that are held by other investors. Accordingly, for segment reporting purposes, we allocate a fee comparable to an MBS guaranty fee from the portfolio investment business to the credit guaranty business for management of the credit risk on the mortgage loans and mortgage-related securities held in the portfolio. Likewise, all mortgage-related credit expenses are allocated to the credit guaranty business. We establish a loss reserve for credit risk allocated to the credit guaranty business. This intersegment allocation of a credit risk management fee and mortgage-related credit expenses has no impact on Fannie Mae's reported net income.

Mortgage Portfolio

Assets Purchased. Fannie Mae purchases primarily single-family, conventional, fixed- or adjustable-rate, first lien mortgage loans, or mortgage-related securities backed by such loans. In addition, we purchase loans insured by the FHA, loans guaranteed by the VA or RHS, manufactured housing loans, multifamily mortgage loans, subordinate mortgage loans (*e.g.*, loans secured by second liens) and other mortgage-related securities. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Business Segment Results — Portfolio Investment Business — Mortgage Portfolio — Table 8" for information on the composition of our mortgage portfolio.

Maturities. Fannie Mae purchases conventional, single-family fixed-rate mortgages with original maturities of up to 30 years and conventional, single-family adjustable-rate mortgages ("ARMs") with maturities of up to 40 years. Only a small portion of ARMs we purchase have maturities of more than 30 years. The multifamily mortgage loans we purchase generally are fixed-rate loans with maturities of up to 30 years.

Payment Structure; Balloon Payments. The majority of fixed-rate mortgage loans we purchase provide for equal or "level" monthly installments of principal and interest. Some of these loans have larger or "balloon" payments due 5, 7, or 10 years after origination, but with monthly payments based on longer (*e.g.*, 30-year) amortization schedules. Most of the 7-year balloon single-family mortgage loans permit the borrower to refinance the balloon payment at maturity with a 23-year fixed-rate mortgage loan if certain requirements are satisfied. Many of the multifamily mortgage loans have balloon payments due 5, 7, 10, or 15 years after origination, but with payments based on 25- or 30-year amortization schedules.

Adjustable-Rate Mortgage Loans. The interest rates on ARMs are determined by formulas providing for automatic adjustment, up or down, at specified intervals in accordance with changes in specified indices. Fixed-period ARMs have an interest rate that is fixed for the first 2 to 10 years, and is adjusted at specified intervals after the initial period. The payments of interest, or principal and interest, on substantially all ARMs adjust (up or down) after the interest rate on the loan is adjusted because of changes in the applicable index. We currently purchase single-family ARMs only if the ARMs limit the amount the interest rate may change over the life of the loan. We purchase a small amount of ARMs that may permit negative amortization. We generally require that those loans be reamortized at least annually to limit the amount of negative amortization that may accrue.

We also purchase certain ARMs, called reverse mortgages, that provide for periodic installments of principal to be paid to the borrower. Over the life of these loans, interest and certain other fees accrue on the balance of the payments made to the borrower. Generally, the loan is due when the borrower no longer occupies the property. We currently purchase reverse mortgages only if the reverse mortgages are subject to a limit on the amount the interest rate may change over the life of the loan. Most of the reverse mortgages we purchase are guaranteed by the Federal government.

Liquid Investment Portfolio

The liquid investment portfolio serves principally as a source of liquidity and an investment vehicle for our surplus capital. If our access to the debt capital markets is ever impeded, we first will utilize assets in our liquid investment portfolio to generate cash to meet our liquidity needs. We may use funds received at maturity of the short-term investments in the portfolio or sell assets from the portfolio to generate those funds. The liquid investment portfolio primarily invests in high quality securities that are readily marketable or have short-term maturities. The liquid investment portfolio does not invest in mortgage loans or mortgage-related securities.

We have set a goal to maintain liquid assets equal to at least 5 percent of total on balance-sheet assets. Our ratio of liquid assets to total assets at December 31, 2002 and 2001 was 6.9 percent and 9.5 percent, respectively. Because our liquid assets are maintained for liquidity purposes and not principally as an investment business, the income generated from these investments is considerably lower than the income generated by mortgage portfolio investments. See “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Business Segment Results — Portfolio Investment Business — Nonmortgage Investments — Tables 11 and 12” for information on our liquid investment portfolio.

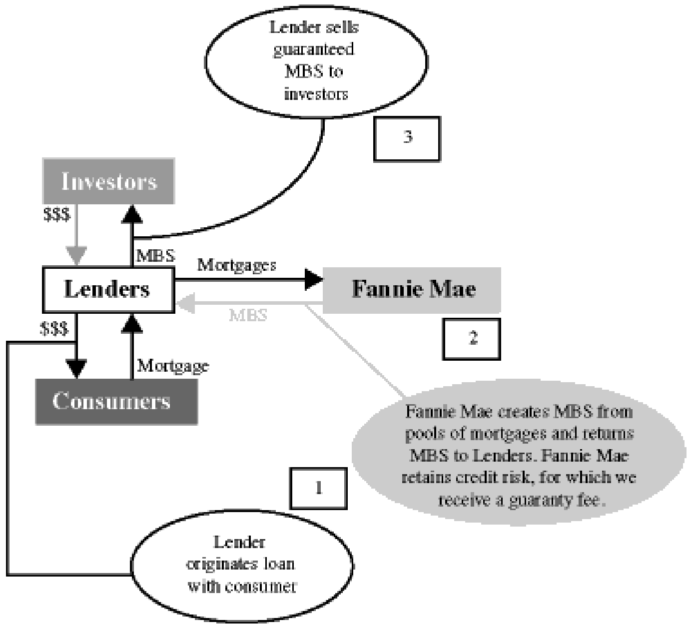
Credit Guaranty Business

Overview. Our credit guaranty business has primary responsibility for managing our mortgage credit risk. Credit risk is the risk of nonpayment by borrowers and counterparties. The primary source of income for the credit guaranty business is fees we receive for our guaranty of the timely payment of scheduled principal and interest on MBS that are held by other investors, less the cost of providing this service. In addition, the portfolio investment business compensates the credit guaranty business, for segment reporting purposes, through a fee comparable to an MBS guaranty fee. Consequently, we generally allocate mortgage credit expenses, including credit losses, to the credit guaranty business for business segment reporting purposes. The credit guaranty business also provides investment capital to the portfolio investment business for which it is allocated income, and earns interest income on the temporary investment of principal and interest payments on mortgage loans underlying MBS prior to remittance to investors.

Our credit guaranty business manages Fannie Mae’s mortgage credit risk through sound asset acquisition practices, use of credit enhancements, active management of the credit book of business, and aggressive problem loan management. We share mortgage credit risk with third parties as an integral part of our risk management strategy. In our credit enhancement arrangements, we bear institutional counterparty risk that the parties assuming credit enhancement obligations may be unable to meet their contractual obligations. Mortgage credit enhancements are primarily mortgage insurance, lender recourse, and other risk sharing contracts. We routinely monitor the risks associated with credit enhancement and other risk sharing arrangements. We have provided a detailed description of how we manage the mortgage-related credit risk associated with the credit guaranty business, as well as other types of credit risk, in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Credit Risk Management.”

The following diagram illustrates the basic structure of how we create a typical MBS in the case where a lender chooses to sell the MBS to a third party.

MBS Guaranty Process



In the credit guaranty business, lenders originate mortgages with consumers. They “swap” the loans for MBS with Fannie Mae assuming the credit risk on the loans and guaranteeing the timely payment of scheduled principal and interest on the MBS, for which Fannie Mae receives a guaranty fee. Fannie Mae returns the MBS to the lender, who sells it to investors.

MBS. We create both single-class and multi-class MBS. The MBS represent beneficial interests in pools of mortgage loans or in other mortgage-related securities. The MBS, and the mortgage loans and mortgage-related securities backing MBS, are not assets of Fannie Mae, except when we acquire them for mortgage portfolio investment purposes.

We create MBS backed by mortgage loans bearing interest at either fixed or adjustable rates, and secured by first or subordinate liens on either single-family or multifamily residential properties. Mortgage loans can be either conventional mortgage loans or government guaranteed or insured mortgage loans. Conventional single-family and multifamily loans are subject to the underwriting guidelines applicable to our loan purchases. The majority of our outstanding MBS represent beneficial interests in conventional fixed-rate first mortgage loans secured by single-family dwellings.

We are the trustee for each trust and hold the underlying mortgage loans or mortgage-related securities separate and apart from our assets, for the benefit of the certificateholders.

Single-Class MBS. Single-class MBS are MBS that are typically created through single-lender transactions in which a lender delivers mortgage loans in exchange for MBS representing beneficial interests in those mortgage loans and our guaranty. Another form of single-class MBS, referred to as “Fannie Majors®”, allows multiple lenders to pool mortgage loans that are delivered to us and, in exchange, receive MBS representing each lender’s proportionate share of the larger pool. We also create single-class MBS referred to as “Fannie Megas®” or “Megas.” Megas are pass-through certificates backed by pooled multiple single-class MBS with similar characteristics and/or other pooled Megas with similar characteristics. Megas are issued in transactions in which a lender or investment banker exchanges pooled single-class MBS and/or other pooled Megas for newly issued Mega certificates.

Principal and interest from the mortgage loans underlying the single-class MBS are passed through to the certificateholders less a fee for servicing the mortgage loans and a fee for our guaranty. We guarantee the timely payment of scheduled principal due on the underlying mortgage loans and interest at the MBS pass-through rate to the certificateholders, even if we have not received the payments on the underlying mortgage loans. In other words, through our guaranty to certificateholders, we assume the credit risk of borrower defaults on the underlying mortgage loans, as well as any risk arising from a default or bankruptcy of the seller and servicer of the loans.

We have a responsibility to certificateholders for the servicing of the mortgage loans underlying the MBS and certain other mortgage-related securities, although we do not directly service the mortgage loans. See "Item 1 — Business — Fannie Mae Business Standards — Servicing Arrangements." We are also responsible for certain administrative functions, such as the collection and receipt of payments from the contract servicer, maintaining accounting records for each trust, and for the distribution of payments and reports due to certificateholders.

The MBS TBA Market. Single-class MBS outstanding constituted approximately 75 percent of Fannie Mae's total MBS outstanding as of December 31, 2002. The vast majority of these MBS are sold by lenders into the "TBA" ("to be announced") securities market. A TBA trade represents a contract for the purchase or sale of single-family mortgage-related securities to be delivered at a future agreed-upon date. The specific pool numbers that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. Parties to a TBA trade agree upon the issuer and product type to be delivered (denoted by a pool prefix), the coupon or interest rate of the security to be delivered, the settlement date of the trade, the amount of securities to be delivered, and the price of those securities. The single-class MBS that ultimately will be delivered, and the loans backing that MBS, frequently have not been created or originated at the time of the TBA trade, even though a price for the securities is agreed to at that time. A TBA trade may be entered into as much as several months before actual settlement of that trade. TBA sales enable the originating lender to hedge its interest rate risk and "lock-in" interest rates for mortgage loan applicants throughout the loan origination process. A lender may satisfy its delivery requirement under a TBA trade by delivering any mortgage-related security meeting the agreed-upon terms.

Multi-Class MBS. We also create and guarantee multi-class MBS, such as real estate mortgage investment conduits, commonly referred to as "REMICs", certain grantor trust certificates, and stripped mortgage-backed certificates, commonly referred to as "SMBS". REMICs are a vehicle by which an issuer can restructure interest and principal payments on mortgage assets into separately tradeable interests. By redirecting the cash flows from the underlying mortgage assets, we can create a security having several classes, also called "tranches," which, among other things, may have different coupon rates, average lives, repayment sensitivities and final maturities. SMBS operate in a manner similar to REMICs, though we typically use SMBS to create tranches that pay only principal or only interest. We generally receive one-time fees for swapping mortgage loans, MBS and other mortgage-related securities for our multi-class MBS. If the multi-class MBS are backed by whole loans or securities we have not already guaranteed, we may receive a guaranty fee in addition to a transaction fee. We otherwise receive no separate guaranty fees for these transactions because we have already assumed the credit risk on the underlying securities and receive guaranty fees for that assumption on the underlying securities.

Multi-class MBS provide a variety of cash flow options for investors. In multi-class MBS, each class is entitled to different cash flows. For example, these cash flows may consist of (1) principal only payments from the underlying mortgage loans, (2) interest only payments from the underlying mortgage loans, or (3) different percentages of principal and interest payments. In addition, the timing of payments may vary among the classes of REMIC certificates. For example, a REMIC class may receive payments for only a limited period during the life of the trust. Our multi-class MBS may be backed directly by mortgage loans or by other mortgage-related securities, including single-class MBS, REMIC certificates, grantor trust certificates, or mortgage-related securities of an issuer other than Fannie Mae. In general, our guaranty for multi-class mortgage-related securities covers timely payment of scheduled principal and interest due on these certificates and ultimate payment of principal by the date specified for each class of certificates. We have created a limited number of subordinated REMIC classes that are not guaranteed by Fannie Mae. Most Fannie Mae multi-class mortgage-related securities are created in transactions in which an investment banker, or less frequently a lender or a mortgage banker, exchanges mortgage loans or mortgage-related securities, or a combination of both, for the newly-issued Fannie Mae multi-class MBS.

Guaranty Fees. We receive guaranty fees for our guaranty of timely payment of scheduled principal and interest on MBS. When we create an MBS, we establish a guaranty fee for the MBS, taking into consideration the credit risk associated with the loans backing the MBS. We either (1) determine a weighted average guaranty fee based on the characteristics of the loans in the trust and assign that fee to each loan in the trust or (2) assign each loan in the trust a guaranty fee based on its risk characteristics. In the latter instance, our weighted average guaranty fee for the MBS may increase or decrease over time depending upon prepayment activity. Guaranty fees generally are paid to us on a monthly basis from a portion of the interest payments received on the underlying mortgage loans, as long as the loans are in the MBS. Guaranty fees are typically calculated for MBS at the loan level as a percent of the unpaid principal balance remaining on a loan. The monthly guaranty fee may be adjusted up or down through a cash payment to or from the lender at the time the MBS is issued.

The aggregate amount of guaranty fees we receive in any financial statement period depends primarily upon the amount of Fannie Mae MBS outstanding during that financial statement period and on the applicable guaranty fee rates. The amount of MBS outstanding is influenced by factors including the rates at which the underlying mortgage loans are repaid, the rate of defaults on loans or breaches of lender representations resulting in repurchases from the pool, and the rate at which we issue new MBS and purchase or sell MBS in our mortgage portfolio business. In general, when prevailing interest rates decline below the interest rates on loans underlying outstanding MBS, both the rate of mortgage loan prepayments and the issuance of new MBS are likely to increase. Conversely, when interest rates rise above the interest rates on mortgage loans underlying our outstanding MBS, the rate of mortgage loan prepayments and new MBS issuance is likely to slow. The rate of principal prepayments also is influenced by a variety of economic, demographic, and other factors.

Delinquencies and REO. We manage loans in partnership with our servicers to minimize the frequency of foreclosure and the severity of loss in the event of foreclosure. When a loan is in default, generally the servicer takes appropriate loss mitigation steps or, if necessary, pursues foreclosure on behalf of Fannie Mae. If a mortgage is liquidated through foreclosure or deed in lieu of foreclosure we would acquire the underlying property (as real estate owned, or "REO") and attempt to sell the REO. If the defaulted loan backs an MBS, we may repurchase the loan out of the MBS trust and pay the principal balance on the loan to the MBS certificateholders when the loan is delinquent by four or more consecutive monthly payments (or eight biweekly installments.) This is generally our current practice given the level of interest rates, because it is often less expensive for us to fund the purchase of the loan at our lower borrowing cost than to continue to pass through to the investor the coupon rate of the MBS. We have a policy to repurchase the loan if it is delinquent by twenty-four consecutive months or at the time of foreclosure, if it is still in the MBS trust at that time. As long as the loan or REO remains in the MBS trust, we continue to pay scheduled principal and interest to the certificateholders and defer payment of the remaining principal balance until the earlier of the repurchase of the loan from the MBS trust, the sale of the REO or the third year following foreclosure.

The level of delinquencies and number of REO are affected by economic conditions, loss mitigation efforts (which include contacting delinquent borrowers to offer a repayment plan, loan modification, preforeclosure sale, or other options), contractual provisions in credit enhancements, and a variety of other factors. We manage the risk of delinquencies and REO, including the risk on loans and mortgage-related securities held in our mortgage portfolio, as described in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Credit Risk Management."

Fee-Based Services

We offer services to lenders and other customers in return for fees. These include transaction fees for issuing and administering REMICs, SMBS, Fannie Megas and certain grantor trust securities, and facilitating securities transactions.

We also receive fee income in return for providing technology-related services, such as Desktop Underwriter, Desktop Originator®, and other on-line services. These services provide lenders the ability to underwrite mortgage loans electronically, communicate with third-party originators, access our loan pricing schedules, and enter into sale commitments with us on a real-time basis.

We also facilitate securities transactions for customers. For this service, we may earn a spread on the purchase and sale of MBS and certain other mortgage-related securities, such as Ginnie Mae certificates, or may receive a fee from the customer. In addition, we receive fee income through other activities, such as providing credit enhancements and other investment alternatives for customers.

Housing Goals

The Federal Housing Enterprises Financial Safety and Soundness Act (the “1992 Act”) requires the Secretary of the U.S. Department of Housing and Urban Development (“HUD”) to establish a low-and moderate-income, an underserved areas, and a special affordable housing goal for loans purchased or guaranteed by Fannie Mae. We are required to submit an annual report to the House Committee on Financial Services, the Senate Committee on Banking, Housing and Urban Affairs, and the Secretary of HUD regarding our performance in meeting the housing goals. By regulation, HUD has established the low- and moderate-income housing goal at 50 percent of the total number of dwelling units financed by eligible mortgage purchases annually, the underserved areas housing goal at 31 percent, and the special affordable housing goal, a more targeted measure, at 20 percent. “Eligible mortgage purchases” include MBS guarantees but exclude several activities, including the purchase or guaranty of non-conventional mortgages and mortgages on second homes, commitments to purchase or guarantee mortgages at a later date, and equity investments in low-income housing tax credits. For the year ended December 31, 2002, “eligible mortgage purchases” represented approximately 97% of our business volume. In addition, HUD has established Fannie Mae’s targeted multifamily subgoal at $2.85 billion.

Each of these goals applies annually during 2001 through 2003. If HUD does not establish different goals for 2004 and after, the goals will continue at the current levels. The goals also include certain provisions that reduce penalties for missing data and provide incentive points for serving small multifamily and owner-occupied rental housing. A loan may be counted in more than one category of goals. If HUD determines that Fannie Mae has failed to meet its housing goals and that achievement of the goals was feasible, taking into account market and economic conditions and Fannie Mae’s financial condition, Fannie Mae must submit a housing plan to HUD describing the actions it will take to meet the goal in the next calendar year. If HUD determines that Fannie Mae has failed to submit a housing plan or failed to make a good faith effort to comply with the plan, HUD may take certain administrative actions. The following table shows Fannie Mae’s housing goals and results for the past three years.

	2002		2001		2000	
Housing Goals	**Goal(1)**	**Result**	**Goal(1)**	**Result**	**Goal(1)**	**Result**
			(Dollars in billions)			
Low- and moderate-income housing	50.0%	51.8%	50.0%	51.6%	42.0%	49.5%
Underserved areas	31.0	32.8	31.0	32.5	24.0	31.0
Special affordable housing	20.0	21.4	20.0	21.6	14.0	22.3
Multifamily minimum in special affordable housing	$2.85	$7.22	$2.85	$7.40	$1.30	$3.78

(1) Goals are expressed as a percentage of the total number of dwelling units financed through eligible mortgage purchases during the period, except for the targeted multifamily goal.

Competition

In the case of single-family mortgage loans, Fannie Mae competes, within the limits prescribed by the Charter Act, for the purchase of mortgage loans for our own portfolio, for the guaranty of mortgage credit risk, and for the issuance in the secondary mortgage market of mortgage-related securities. For single-family products, we compete with Freddie Mac (another government-sponsored enterprise with a mission, authority, and regulatory oversight that are virtually identical to our own), commercial banks, savings and loan associations, savings banks, pension funds, insurance companies, securities dealers, and other financial entities that purchase single-family mortgage loans or mortgage-related securities for their own portfolio or pool single-family mortgage loans for sale to investors as whole loans or mortgage-related securities. We compete with the Federal Home Loan Banks, which also finance single-family mortgage loans through a variety of programs that were initiated in 1997. We compete with mortgage insurers, bond insurers, and other financial guarantors that provide mortgage credit guaranty services on loans and pools of loans.

Commercial banks and thrifts are the largest participants in the U.S. mortgage industry. Banks and thrifts originate mortgages (which we are not empowered to do under the Charter Act), have access to low cost, FDIC-insured deposits and can borrow advances from Federal Home Loan Banks. There has been significant consolidation among commercial banks and thrifts, increasing the size of individual organizations and resulting in concentration in the banking industry. This has created larger institutions with the scale necessary to permit them to securitize their own mortgages and manage large and complex portfolios. As institutions become larger, they have increasing bargaining power in their negotiations with Fannie Mae, and are able to offer us volume in return for lower guaranty fees and customization of services.

We compete with the FHA insurance program, a program of HUD, for the business of guaranteeing the credit performance of mortgage loans and, because of the eligibility of such FHA-insured loans for securitization by the Government National Mortgage Association (“Ginnie Mae”), an entity within HUD, with Ginnie Mae as well. The base maximum principal balance for loans eligible for the FHA insurance program is 48 percent of our loan limit. The loan limit for FHA-insured loans in high-cost areas is as much as 87 percent of our limit. These higher FHA limits may result in increased competition for our credit guaranty business.

We compete primarily on the basis of price, products, structures, and services offered. Competition based on advances in technology-related and other fee-based services continues to increase, as do the types and nature of the products offered by us and other market participants. Our market share of loans purchased for cash or swapped for mortgage-related securities is affected by the volume of mortgage loans offered for sale in the secondary market by loan originators and other market participants and the amount purchased by our competitors.

In the case of multifamily mortgage loans, we generally compete with government housing programs, Freddie Mac, insurance companies, and the same kinds of entities we compete with in the single-family market. In addition, there is competition for multifamily mortgage loans from certain entities typically sponsored by investment banks and commercial banks that purchase such loans and pool them for sale to investors in the commercial mortgage-related securities market. Such entities are referred to as “conduits,” and their role in the multifamily mortgage market has increased significantly over the last five years. Conduits continue to be a strong source of competition.

Competition is particularly intense for multifamily mortgage loans eligible for government subsidies, which have low-income rent and occupancy restrictions. Commercial banks contemplating merger or expansion plans seek to fund such loans to secure favorable review under the Community Reinvestment Act and may either hold such loans as an investment or sell them to a secondary market investor. We compete for these investments in the secondary market to meet our housing goals.

Under the 1992 Act, the Secretary of HUD must approve any new Fannie Mae or Freddie Mac conventional mortgage program that is significantly different from those approved or engaged in prior to that Act’s enactment. Our ability to compete could be affected by this requirement. See “Government Regulation and Charter Act.”

Competition also is a consideration in connection with the issuance of Fannie Mae’s debt securities. We compete with Freddie Mac, the Federal Home Loan Bank system, and other government-sponsored entities for funds raised through the issuance of unsecured debt in the “agency” debt market. Increases in the issuance of unsecured debt by other government-sponsored entities generally, and in the issuance of callable debt in particular, may have an adverse effect on the issuance of our unsecured debt or result in the issuance of such debt at higher interest rates than would otherwise be the case. In addition, the availability and cost of funds raised through the issuance of certain types of unsecured debt may be adversely affected by regulatory initiatives that may reduce investments by depository institutions in unsecured debt with greater than normal volatility or interest-rate sensitivity.

Employees

As of February 28, 2003, Fannie Mae employed approximately 4,800 permanent personnel.

Government Regulation and Charter Act

Charter Act

We were established in 1938 under Title III of the National Housing Act as a government owned entity. In 1954, under the Federal National Mortgage Association Charter Act, the entity became a mixed-ownership corporate instrumentality of the United States. Under the Housing and Urban Development Act of 1968, the entity was divided into two separate institutions, the present Fannie Mae and Ginnie Mae. Fannie Mae became an entirely stockholder-owned corporation, organized and existing under the Charter Act. The Charter Act provides that the corporation will continue until dissolved by an act of Congress. The Charter Act was further amended by the 1992 Act.

Under the Charter Act, our purpose is:

> "to (1) provide stability in the secondary market for residential mortgages, (2) respond appropriately to the private capital market, (3) provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low-and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing, [and] (4) promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing."

The Charter Act authorizes us to "deal in" conventional mortgage loans, and "purchase," "sell," "service," and "lend on the security of" such mortgages, subject to limitations on the quality of mortgages purchased and credit enhancement requirements. Fannie Mae can act as a depositary, custodian, or fiscal agent "for its own account or as fiduciary, and for the account of others." The Charter Act expressly enables Fannie Mae "to lease, purchase, or acquire any property, real, personal, or mixed, or any interest therein, to hold, rent, maintain, modernize, renovate, improve, use, and operate such property, and to sell, for cash or credit, lease, or otherwise dispose of the same, at such time and in such manner as and to the extent that it may deem necessary or appropriate." The Charter Act also permits Fannie Mae to "purchase," "service," "sell," "lend on the security of" and otherwise deal in loans or advances of credit for the purchase and installation of home improvements (so long as the loans are secured by a lien against the property to be improved).

Under the Charter Act, we may not originate mortgage loans or advance funds on an interim basis pending the sale of a mortgage in the secondary market. We may not purchase loans in excess of the amount of the current loan limits. (See "Business—Fannie Mae Business Standards—Principal Balance Limits.") We may conduct business only in the United States, its territories and possessions, the District of Columbia and the Commonwealth of Puerto Rico. Our activities must relate to housing, mortgages and related financial products.

Thirteen members of our eighteen-member Board of Directors are elected by the holders of our common stock. The President of the United States appoints the remaining five members. The appointed directors must include one person from the home building industry, one person from the mortgage lending industry, one person from the real estate industry, and one person from a consumer or community interest organization or who has demonstrated a career commitment to providing low-income housing. Any member of the Board of Directors that is appointed by the President of the United States may be removed by the President for good cause. All members of the Board of Directors are elected or appointed annually.

In general, HUD and OFHEO oversee the activities of Fannie Mae. HUD has “general regulatory power” over Fannie Mae. The 1992 Act established OFHEO to ensure that Fannie Mae is adequately capitalized and is operating safely.

The Secretary of the Treasury has the authority to approve Fannie Mae’s issuance of debt obligations and mortgage-related securities. At the discretion of the Secretary of the Treasury of the United States, the U.S. Treasury may purchase obligations of Fannie Mae up to a maximum of $2.25 billion outstanding at any one time. This facility has not been used since our transition from government ownership in 1968. Neither the United States nor any agency thereof is obligated to finance our operations or to assist us in any other manner. The Federal Reserve Banks are authorized to act as depositories, custodians, and fiscal agents for Fannie Mae, for the Bank’s own account, or as fiduciary.

Securities we issue are “exempt securities” under laws administered by the SEC to the same extent as securities that are obligations of, or guaranteed as to principal and interest by, the United States. Registration statements with respect to offerings of our securities are not filed with the SEC. In July 2002, we announced our voluntary initiative to register our common stock with the SEC under Section 12(g) of the Securities Exchange Act of 1934. The registration of our common stock became effective on March 31, 2003. As a result, we will file periodic reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, together with any required exhibits. These filings will be available on the SEC’s Electronic Data Gathering, Analysis, and Retrieval (“EDGAR”) system at www.sec.gov. Registration of our common stock with the SEC will not impact the status of our securities (including equity, debt and MBS) as exempt securities within the meaning of the laws administered by the SEC.

We are exempt from taxation by states, counties, municipalities, or local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from payment of federal corporate income taxes. We also may conduct our business without regard to any qualification or similar statute in any state of the United States, including the District of Columbia, the Commonwealth of Puerto Rico, and the territories and possessions of the United States.

Regulatory Approval and Oversight

As a federally chartered corporation, Fannie Mae is subject to Congressional legislation and oversight and is regulated for various purposes by HUD, OFHEO and the U.S. Department of the Treasury, to the extent authorized by statute. In addition, the financial institutions with whom we do business are subject to extensive federal and state law and regulation. Changes to legislation, regulations or policy that impact us or our business partners could adversely or favorably affect the performance, development, or results of our business.

OFHEO, an independent office within HUD, is responsible for ensuring that we are adequately capitalized and operating safely in accordance with the 1992 Act. OFHEO conducts on-site examinations of Fannie Mae for purposes of ensuring our financial safety and soundness. We are required to submit annual and quarterly reports of our financial condition and operations to OFHEO. OFHEO is authorized to levy annual assessments on Fannie Mae and Freddie Mac, pursuant to annual Congressional appropriations, to cover OFHEO’s reasonable expenses. OFHEO’s formal enforcement powers include the power to impose temporary and final cease-and-desist orders and civil monetary penalties on us and on our directors and executive officers, provided certain conditions are met. OFHEO may use other informal supervisory tools of the type that are generally used by agencies with authority to regulate other financial institutions. In accordance with OFHEO regulation, Fannie Mae has elected to follow the applicable corporate governance practices and procedures of the Delaware General Corporation Law, as it may be amended from time to time. On January 21, 2003, OFHEO proposed regulations that would require Fannie Mae to file with the SEC all reports, statements and forms relating to our common stock that are required to be filed under Sections 14(a) and (c) of the Exchange Act and the rules and regulations under those sections and require Fannie Mae’s directors and officers to file all reports and forms relating to our common stock that are required to be filed under Section 16 of the Exchange Act and the rules and regulations under that section.

The Secretary of the Treasury has the authority to approve Fannie Mae’s issuance of debt obligations and mortgage-related securities. The General Accounting Office is authorized to audit the programs, activities, receipts, expenditures, and financial transactions of Fannie Mae. The Secretary of HUD has general regulatory authority to promulgate rules and regulations to carry out the purposes of the Charter Act, excluding authority over matters granted exclusively to OFHEO. The Secretary of HUD has authority to approve any new conventional mortgage program that is significantly different from those approved or engaged in prior to the 1992 Act. The Secretary must approve any new program unless it is not authorized by the Charter Act or the Secretary finds that it is not in the public interest. The Secretary has adopted regulations related to the program approval requirement. We are also required to meet certain goals established by the Secretary of HUD to promote affordable housing and to serve the housing needs of those in underserved areas. See “Business — Housing Goals.”

Capital Requirements

The 1992 Act established minimum capital, risk-based capital, and critical capital requirements for Fannie Mae. See also “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources — Regulatory Environment.” OFHEO issued a final rule in 1996 that sets forth the minimum capital requirements for Fannie Mae and Freddie Mac, which are to be calculated, reported, and classified on a quarterly basis. We were in compliance with the minimum capital rule as of December 31, 2002, and have been in compliance for every reporting period since the rule became effective. OFHEO issued regulations in September 2001, as subsequently amended, to establish a risk-based capital test to be used to determine the amount of total capital Fannie Mae must hold to meet the risk-based capital standard. Fannie Mae and Freddie Mac are required to hold enough capital to withstand a severe 10-year stress period, characterized by extreme interest-rate movements and credit losses occurring simultaneously, plus 30 percent of that amount for management and operations risk. The risk-based capital test evaluates combined interest-rate and credit stress for both rising and declining interest-rate scenarios. The more stringent of these two scenarios determines the required risk-based capital. The test assumes that (1) interest rates increase or decrease by up to 600 basis points over the first year, and remain constant at this new level for the remaining 9 years of the test; (2) severe credit conditions apply nationwide; and (3) we acquire no new business during this period except to meet outstanding mortgage commitments. The regulations specify that “benchmark loss experience” will be combined with other assumptions and applied each quarter to our book of business to establish expected credit losses based on the stress assumptions under the risk-based capital standard. The regulations also specify the housing price index that OFHEO will use in connection with the standard and how the test will be used to determine Fannie Mae’s risk-based capital requirements. On March 31, 2003, OFHEO announced that Fannie Mae complied with the risk-based capital rule as of December 31, 2002. See “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Resources — Regulatory Environment.”

If we fail to meet the capital standards, OFHEO is permitted or required to take remedial measures, depending on the standards we fail to meet. Compliance with the capital standards could limit operations that require intensive use of capital and restrict our ability to repay debt or pay dividends on our common stock. We are required to submit a capital restoration plan if we fail to meet any of the capital standards. If OFHEO determines that we are engaging in conduct not approved by the Director that could result in a rapid depletion of core capital or that the value of the property subject to mortgages we hold or have securitized has decreased significantly, or if OFHEO does not approve the capital restoration plan or determines that we have failed to make reasonable efforts to comply with the plan, OFHEO may take remedial measures as if we were not meeting the capital standards we otherwise meet. The 1992 Act gives OFHEO authority, after following prescribed procedures, to appoint a conservator if we do not meet the critical capital level.

Dividend Restrictions

The Charter Act as amended by the 1992 Act restricts the ability of our Board of Directors to make capital distributions, including any dividends, in the following circumstances:

- Fannie Mae may not pay any dividend, without the approval of OFHEO, if the dividend payment would decrease our total capital below the risk-based capital level or our core capital below the minimum capital level.

- If we do not meet the risk-based capital standard but do meet the minimum capital standard, we may not make any dividend payment that would cause us to fail to meet the minimum capital standard.

- If we meet neither the risk-based capital standard nor the minimum capital standard but do meet the critical capital standard established under the 1992 Act, we may make a dividend payment only if we would not fail to meet the critical capital standard as a result of the payment and the Director of OFHEO approves the payment after finding that the payment satisfies certain statutory conditions.

The Director has the authority to require us to submit a report to the Director regarding any capital distribution we declare before we make the distribution.

Item 2. ***Properties***

We own our principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, offices at 3939 Wisconsin Avenue, NW, and 4250 Connecticut Avenue, NW, in Washington, DC, and two facilities in Herndon, Virginia. These owned facilities total approximately 829,000 square feet of space. In addition, we lease 375,000 square feet of office space at 4000 Wisconsin Avenue, NW, which is adjacent to Fannie Mae's principal office. The present lease for 4000 Wisconsin Avenue expires in 2008, and we have options to extend the lease for up to 10 additional years, in 5-year increments. We also lease an additional 377,000 square feet of office space in four locations in Washington, D.C. and suburban Virginia.

We maintain offices in leased premises in Pasadena, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and Dallas, Texas. In addition, we have 54 "Fannie Mae Partnership Offices" in leased premises around the United States which work with cities, rural areas, and underserved communities.

Item 3. ***Legal Proceedings***

In the ordinary course of business, we are involved in legal proceedings that arise in connection with properties acquired either through foreclosure on properties securing delinquent mortgage loans we own or by receiving deeds to those properties in lieu of foreclosure. For example, claims related to possible tort liability arise from time to time, primarily in the case of single-family REO.

We are a party to legal proceedings from time to time arising from our relationships with our seller/ servicers. Disputes with lenders concerning their loan origination or servicing obligations to us, or disputes concerning termination by us (for any of a variety of reasons) of a lender's authority to do business with us as a seller and/or servicer, can result in litigation. Also, loan servicing and financing issues have resulted from time to time in claims against us brought as putative class actions for borrowers. We also are a party to legal proceedings from time to time arising from other aspects of our business and administrative policies.

Claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. However, in the case of the legal proceedings and claims that are currently pending against us, management believes that their outcome will not have a material adverse effect on our financial condition, results of operations or cashflows.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

Information on the market for our common stock and related stockholder matters is set forth under Item 9 of the Form 10 we filed on March 31, 2003 (the "Form 10") and incorporated by reference herein.

Item 6. ***Selected Financial Data***

The following selected financial data have been summarized or derived from our audited financial statements. This financial information should be read in conjunction with "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations," "Item 1 — Business," and our financial statements and related notes, included elsewhere in this report.

	Year Ended December 31,				
Income Statement Data:	**2002**	**2001**	**2000**	**1999**	**1998**
	(Dollars and shares in millions, except per common share amounts)				
Interest income	$ 50,853	$ 49,170	$ 42,781	$ 35,495	$ 29,995
Interest expense	(40,287)	(41,080)	(37,107)	(30,601)	(25,885)
Net interest income	10,566	8,090	5,674	4,894	4,110
Guaranty fee income	1,816	1,482	1,351	1,282	1,229
Fee and other income (expense), net	232	151	(44)	191	275
Provision for losses	(128)	(94)	(122)	(151)	(245)
Foreclosed property income (expense)	36	16	28	24	(16)
Administrative expense	(1,219)	(1,017)	(905)	(800)	(708)
Special contribution	—	(300)	—	—	—
Purchased options expense[1]	(4,545)	(37)	—	—	—
Debt extinguishments, net	(710)	(524)	49	(14)	(40)
Income before federal income taxes and cumulative effect of change in accounting principle	6,048	7,767	6,031	5,426	4,605
Provision for federal income taxes	(1,429)	(2,041)	(1,583)	(1,514)	(1,187)
Income before cumulative effect of change in accounting principle	4,619	5,726	4,448	3,912	3,418
Cumulative effect of change in accounting principle, net of tax effect[2]	—	168	—	—	—
Net income	$ 4,619	$ 5,894	$ 4,448	$ 3,912	$ 3,418
Preferred stock dividends	(99)	(138)	(121)	(78)	(66)
Net income available to common stockholders	$ 4,520	$ 5,756	$ 4,327	$ 3,834	$ 3,352
Basic earnings per common share:					
Earnings before cumulative effect of change in accounting principle	$ 4.56	$ 5.58	$ 4.31	$ 3.75	$ 3.26
Cumulative effect of change in accounting principle	—	.17	—	—	—
Net earnings	$ 4.56	$ 5.75	$ 4.31	$ 3.75	$ 3.26
Diluted earnings per common share:					
Earnings before cumulative effect of change in accounting principle	$ 4.53	$ 5.55	$ 4.29	$ 3.72	$ 3.23
Cumulative effect of change in accounting principle	—	.17	—	—	—
Net earnings	$ 4.53	$ 5.72	$ 4.29	$ 3.72	$ 3.23
Cash dividends per common share	$ 1.32	$ 1.20	$ 1.12	$ 1.08	$ .96

	December 31,				
Balance Sheet Data:	**2002**	**2001**	**2000**	**1999**	**1998**
Mortgage portfolio, net	$797,693	$705,324	$607,551	$522,921	$415,355
Liquid assets	61,554	76,072	55,585	41,850	59,258
Total assets	887,515	799,948	675,224	575,308	485,146
Borrowings:					
Due within one year	382,412	343,492	280,322	226,582	205,413
Due after one year	468,570	419,975	362,360	321,037	254,878
Total liabilities	871,227	781,830	654,386	557,679	469,693

Preferred stock	2,678	2,303	2,278	1,300	1,150
Stockholders’ equity	16,288	18,118	20,838	17,629	15,453

Core Business Earnings Data[3]:	2002	2001	2000	1999	1998
	Year ended December 31,				
	(Dollars and Shares in millions, except per common share amounts)				
Core business earnings[4]	$ 6,394	$ 5,367	$4,448	$3,912	$3,418
Total taxable-equivalent revenues[5]	11,896	10,187	7,825	6,975	6,272
Net interest margin	1.15%	1.11%	1.01%	1.01%	1.03%
Return on average assets[6]	.76	.71	.71	.73	.78
Return on average realized common equity[7]	26.1	25.4	25.2	25.0	25.2

Other Data:	2002	2001	2000	1999	1998
	December 31,				
Average effective guaranty fee rate	.191%	.190%	.195%	.193%	.202%
Credit loss ratio[8]	.005	.006	.007	.011	.027
Administrative expense ratio[9]	.072	.071	.072	.071	.074
Efficiency ratio[10]	10.2	10.0	11.6	11.5	11.3
Dividend payout ratio	29.0	20.9	26.0	28.8	29.5
Ratio of earnings to combined fixed charges and preferred stock dividends[11]	1.15:1	1.19:1	1.16:1	1.17:1	1.17:1
Mortgage purchases	$ 370,641	$270,584	$154,231	$195,210	$188,448
MBS issues acquired by others[12]	478,260	344,739	105,407	174,850	220,723
Outstanding MBS[13]	1,029,456	858,867	706,684	679,169	637,143
Weighted-average diluted common shares outstanding	997	1,006	1,009	1,031	1,037
Return on average assets	.55%	.78%	.71%	.73%	.78%
Average equity to average assets	2.1	2.3	3.1	3.1	3.3
Return on common equity	30.2	39.8	25.6	25.2	25.2
Core capital[14]	$ 28,079	$ 25,182	$ 20,827	$ 17,876	$ 15,465
Total capital[15]	28,871	25,976	21,634	18,677	16,257

(1) Represents the change in the fair value of the time value of purchased options under FAS 133, “Accounting for Derivative Instruments and Hedging Activities” (FAS 133).

(2) Represents the after-tax effect on income of the adoption of FAS 133 on January 1, 2001.

(3) Core business earnings data are non-GAAP (generally accepted accounting principles) measures management uses to track and analyze our financial performance. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations— Core Business Earnings and Business Segment Results” for additional discussion of these measures.

(4) Core business earnings is a non-GAAP measure developed by management, in conjunction with the adoption of FAS 133, to evaluate and assess the quality of Fannie Mae’s earnings from its principal business activities on a consistent basis. Core business earnings is presented on a net of tax basis and excludes the transition adjustment from the adoption of FAS 133 and 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.

(5) Includes revenues net of operating losses on low-income housing tax credit limited partnerships (accounted for using the equity method of accounting) and amortization expense of purchased options premiums, plus taxable-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate. This is a non-GAAP measure.

(6) Core business earnings less preferred stock dividends divided by average assets. This is a non-GAAP measure.

(7) Core business earnings less preferred stock dividends divided by average realized common stockholders’ equity (common stockholders’ equity excluding accumulated other comprehensive income). This is a non-GAAP measure.

(8) Charge-offs, net of recoveries, and foreclosed property income (expense) as a percentage of average mortgage portfolio (on an amortized cost basis) and average outstanding MBS.

(9) Administrative expenses as a percentage of average net mortgage portfolio and average outstanding MBS.

(10) Administrative expenses as a percentage of taxable-equivalent revenues.

(11) “Earnings” consists of (a) income before federal income taxes and cumulative effect of accounting changes and (b) fixed charges. Fixed charges represent interest expense.

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

(13) Includes MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae.

(14) 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. Core capital represents a regulatory measure of capital. Refer to Note 11 of the financial statements, “Dividend Restrictions and Regulatory Capital Ratios,” for a discussion of core capital.

(15) The sum of (a) core capital and (b) the total allowance for loan losses and guaranty liability for MBS, less (c) the specific loss allowance. Total capital represents a regulatory measure of capital. Specific loss allowances totaled $19 million, $13 million, $2 million, $3 million, and $10 million for the years ended December 31, 2002, 2001, 2000, 1999, and 1998, respectively. Refer to Note 11 of the financial statements, “Dividend Restrictions and Regulatory Capital Ratios,” for a discussion of total capital.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Forward-Looking Information

From time to time, we make forward-looking statements relating to matters such as our anticipated financial performance, business prospects, future business plans, financial condition, or other matters. This report includes forward-looking statements that are not historical facts or explanations of historical data. The words "believes," "anticipates," "expects," "should" and similar expressions generally identify forward-looking statements.

Forward-looking statements reflect our management's expectations based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. As such, forward-looking statements are subject to risks and uncertainties, and our actual results may differ (possibly significantly) from those indicated in such statements. Among the factors that may affect the performance, development, or results of our business, and thereby cause actual results to differ from management's expressed expectations, are the following:

- significant changes in borrower preferences for fixed- or adjustable-rate mortgages, originator preferences for selling mortgages in the secondary market, investor preferences for our securities versus other investments, the availability of funding at attractive spreads in the financial markets (in particular from callable debt), and other factors affecting the overall mix of mortgage loans available for purchase, our funding opportunities, or our net interest margins;
- significant changes in housing price valuations, employment rates, or other factors affecting delinquency or foreclosure levels and credit losses;
- significant changes in our policies or strategies, such as our underwriting requirements or our interest rate risk management, credit loss mitigation, or investment strategies;
- regulatory or legislative changes affecting us, our competitors, or the markets in which we are active, including changes in tax law or capital requirements applicable to us or our activities, or loss of certain exemptions or the Treasury's ability to purchase our obligations (see "Item 1 — Business — Government Regulation and Charter Act");
- competitive developments in the markets for mortgage purchases and for the sale of mortgage-related and debt securities, or significant changes in the rate of growth in conforming residential mortgage debt;
- significant changes in the amount and rate of growth of our expenses, and the costs (and effects) of legal or administrative proceedings (see "Item 3 — Legal Proceedings") or changes in accounting policies or practices;
- significant changes in general economic conditions or the monetary or fiscal policy of the United States;
- unanticipated, substantial changes in interest rates. It is possible that sudden, severe swings in interest rates could have at least a short-term significant effect on our results; and
- political events in the United States and internationally.

We do not undertake to update any forward-looking statement in this document or that we may make from time to time.

ORGANIZATION OF INFORMATION

Management's Discussion and Analysis ("MD&A") provides a narrative on Fannie Mae's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- 2002 Overview
- About Fannie Mae
- Results of Operations
- Core Business Earnings and Business Segment Results
- Off-Balance Sheet Transactions
- Application of Critical Accounting Policies
- Risk Management
- Liquidity and Capital Resources
- Performance Outlook
- New Accounting Standards

2002 OVERVIEW

2002 was a year of notable achievements for Fannie Mae. We produced strong financial results and made continued progress on our key strategic initiatives in an uncertain economic environment marked by significant interest rate volatility and more intense competition for mortgages in the secondary market. We reported net income of $4.619 billion and diluted earnings per share ("diluted EPS") of $4.53 in 2002, compared with $5.894 billion and $5.72 in 2001, and $4.448 billion and $4.29 in 2000. Our reported results are based on generally accepted accounting principles ("GAAP"), which include the effects of our January 1, 2001 adoption of Financial Accounting Standard No. 133 ("FAS 133"), *Accounting for Derivative Instruments and Hedging Activities.* FAS 133 generates significant volatility in our reported net income because it requires that we record in our income changes in the time value portion of purchased options that we use to manage interest rate risk, but it does not allow us to record in earnings changes in the intrinsic value portion of some of those options or similar changes in the fair value of options in all of our callable debt or mortgage assets. We expect purchased options expense to vary, often substantially, from period to period with changes in interest rates, expected interest rate volatility, and derivative activity.

The 22 percent decrease in our 2002 net income resulted primarily from a $4.508 billion increase in purchased options expense, which occurred due to an increase in the notional amount of purchased options outstanding and the declining interest rate environment. We recorded $4.545 billion in purchased options expense in 2002, compared with $37 million in 2001. Excluding the impact of purchased options expense, we experienced solid growth in our business operations. Taxable-equivalent net interest income increased 29 percent over 2001 because of strong growth in our average net mortgage portfolio and actions taken during 2002 and 2001 to lower our debt costs. Guaranty fee income increased 23 percent, primarily due to an increase in the volume of outstanding MBS. These increases were partially offset by a modest rise in credit-related expenses and higher administrative expenses and losses on debt extinguishments.

Management also tracks and analyzes Fannie Mae's financial results based on a supplemental non-GAAP measure called "core business earnings" (previously referred to by us as "operating net income"). While core business earnings is not a substitute for GAAP net income, we rely on core business earnings in operating our business because we believe core business earnings provides our management and investors with a better measure of our financial results and better reflects our risk management strategies than our GAAP net income. We developed core business earnings in conjunction with our January 1, 2001 adoption of FAS 133 to adjust for accounting differences between alternative transactions we use to hedge interest rate risk that produce similar economic results but require different accounting treatment under FAS 133. For example, our core business earnings measure allows management and investors to evaluate the quality of earnings from Fannie Mae's principal business activities in a way that accounts for comparable hedging transactions in a similar manner. We discuss our core business earnings results in "MD&A—Core Business Earnings and Business Segment Results."

While the overall U.S. economy was weak during 2002, the U.S. housing market remained strong, with both home sales and mortgage originations reaching record levels. The decline in mortgage interest rates during the third quarter of 2002 to the lowest levels since the 1960s sparked a refinance boom and fueled record refinance as well as purchase originations. Single-family mortgage originations in 2002 totaled $2.6 trillion, surpassing 2001's record of $2.0 trillion by 29 percent. Our market—residential mortgage debt outstanding—increased 12 percent in 2002 to $7.0 trillion as the demand for housing continued to grow, marking the first two consecutive years of double-digit residential mortgage debt outstanding ("MDO") growth since 1988-1989.

During 2002, we made progress on several key strategic initiatives to support our mission of increasing homeownership and affordable rental housing for all Americans. We align our strategies with and measure our performance against six long-term corporate goals.

1. *Acknowledged Leadership in Increasing Access to Affordable Housing:* One of our most significant initiatives to increase homeownership rates and serve 18 million targeted American families is our ten-year, $2 trillion American Dream Commitment. In 2002, we provided $670 billion for 5.5 million targeted families to own or rent a home, bringing us almost two-thirds of the way toward achieving this ten-year goal in three years.

2. *Leading Presence in the Secondary Market and Partner of Choice:* Our goal is to be the secondary market partner of choice for mortgage lenders. We now have alliance agreements with 17 of the 30 largest lenders, and our business with smaller lenders has grown by over 150 percent during the past year. We achieved a net gain in major partnership accounts during 2002. We have provided increased liquidity to mortgage markets by owning approximately 11 percent of mortgage debt outstanding and guaranteeing 15 percent owned by other investors.

3. *Optimal Risk Management:* Our financial success depends on the ability of our two core lines of business to effectively manage interest rate risk and credit risk on home mortgages. By taking an active, highly disciplined approach in managing these risks, we have honed our risk management tools over the years to reduce our risk exposure, expand our service to American homebuyers, and deliver double-digit core business earnings growth for the last 16 years through all kinds of economic scenarios.

4. *Record Financial Performance:* One of our key financial performance goals, announced in 1999, is a five-year goal to double Fannie Mae's core business diluted earnings per share to $6.46 by the end of 2003. With an increase in core business earnings of nearly 90 percent over the last 4 years, we are on track to achieve this five-year goal.

5. *Corporate Culture to Enhance Strategy Execution:* Developing a corporate culture that ensures a diverse and fully engaged workforce is critical in executing our key strategic initiatives and fulfilling Fannie Mae's mission to help more families achieve the American Dream of homeownership. In 2002, Fannie Mae received several awards in recognition of our commitment to being a world-class, diverse organization.

6. *E-Commerce Company Infrastructure to Increase Capabilities and Lower Costs:* Our e-commerce strategy is intended to help us grow our business, while lowering the cost of mortgages and reducing our underwriting risk. For example, by expanding utilization of Desktop Underwriter® ("DU"), our automated underwriting system, we can help lenders streamline their processes and enhance further our credit risk management effectiveness. Today, approximately 60 percent of our total single-family business is processed through DU. In addition, we committed significant resources in 2002 to upgrading our core technology infrastructure to enhance the acquisition of mortgages through multiple channels, facilitate new products, and generate cost reductions for our customers.

Because of Fannie Mae's critical role in the housing finance system, one of our core commitments is to maintain the highest standard of transparency in our financial disclosures. In our on-going efforts to enhance Fannie Mae's transparency, we announced in 2002 our voluntary initiative to register Fannie Mae's common stock with the Securities and Exchange Commission under Section 12(g) of the Securities Exchange Act of 1934. This report is our first periodic report filed pursuant to our voluntary initiative.

ABOUT FANNIE MAE

Fannie Mae's purpose is to facilitate the flow of low-cost mortgage capital to increase the availability and affordability of homeownership for low-, moderate-, and middle-income Americans. We operate under a federal charter, and our primary regulator is the Office of Federal Housing Enterprise Oversight ("OFHEO"). However, we are a private, shareholder-owned company. The U.S. government does not guarantee, directly or indirectly, Fannie Mae's debt securities or other obligations.

As the nation's largest source of funds for mortgage lenders and investors, Fannie Mae provides resources for our customers to make additional mortgage loans or investments in mortgage-related securities. We provide liquidity to the mortgage market for the benefit of borrowers; however, we do not lend money directly to consumers. We operate exclusively in the secondary mortgage market by purchasing mortgages and mortgage-related securities, including Fannie Mae MBS, from primary market institutions, such as commercial banks, savings and loan associations, mortgage companies, securities dealers, and other investors. We provide additional liquidity in the secondary market by issuing and guaranteeing mortgage-related securities.

We have two lines of business that generate revenue. These business lines also focus on managing our key business risks. We measure the results of our lines of business based on core business earnings. We evaluate the results of our business lines as though each were a stand-alone business. Hence, we allocate certain income and expenses to each line of business for purposes of business segment reporting. We eliminate certain inter-segment allocations in our consolidated core business earnings results (see "MD&A—Core Business Earnings and Business Segment Results").

Portfolio Investment Business: The Portfolio Investment business has two principal components: a mortgage portfolio and a liquid investment portfolio ("LIP"). The mortgage portfolio purchases mortgage loans, mortgage-related securities, and other investments from lenders, securities dealers, investors, and other market participants. The LIP serves as an alternative source of funds to meet our cash flow needs by investing in high quality, short-term investments that provide an ongoing supply of funds. We can use these funds as necessary for liquidity purposes or to reinvest in readily marketable, high credit quality securities that can be sold to raise cash. We fund the purchase of the assets in our Portfolio Investment business from our equity capital and by issuing debt in the global capital markets. The Portfolio Investment business generates profits by ensuring that the interest income from the mortgages, MBS, mortgage-related securities, and liquid investments we purchase is greater than our borrowing costs. A primary measure of profitability for the Portfolio Investment business is our "net interest margin". Our net interest margin reflects the difference between taxable-equivalent income on our mortgage assets and non-mortgage investments and our borrowing expense divided by average interest earning assets.

Our Portfolio Investment business focuses on managing Fannie Mae's interest rate risk. Interest rate risk is the risk that changes in interest rates could change cash flows on our mortgage assets and debt in a way that adversely affects Fannie Mae's earnings or long-term value.

Credit Guaranty Business: Our Credit Guaranty business has primary responsibility for managing all of our mortgage credit risk. Credit risk is the risk of loss to future earnings and future cash flows that may result from the failure of a borrower or counterparty to fulfill its contractual obligation to Fannie Mae. The Credit Guaranty business primarily generates income from guaranty fees for guaranteeing the timely payment of scheduled principal and interest on mortgage-related securities we guarantee that are not owned by the Portfolio Investment business. The primary source of income for the Credit Guaranty business is the difference between the guaranty fees earned and the costs of providing this service. Income is also allocated to the Credit Guaranty business for the following activities:

- *Managing the credit risk on mortgage-related assets held by the Portfolio Investment business*. The Portfolio Investment business compensates the Credit Guaranty business through a guaranty fee comparable to an MBS guaranty fee. These fees are recognized as guaranty fee income by the Credit Guaranty business. Similarly, all credit expenses, including credit losses on loans and on MBS and other mortgage-related securities held in Fannie Mae's mortgage portfolio, are allocated to the Credit Guaranty business for business segment reporting purposes. Net interest income for the Credit Guaranty business is net of charges paid to the Portfolio Investment business for forgone interest on delinquent loans.

- *Providing capital to the Portfolio Investment business.* The Portfolio Investment business also compensates the Credit Guaranty business for the temporary use of capital generated by the Credit Guaranty business, which the Portfolio Investment business uses to fund investments. This compensation is classified as net interest income.

- *Temporarily investing principal and interest payments on loans underlying MBS and other mortgage-related securities prior to remittance to investors.* Interest income on the temporary investment of these funds is allocated to the Credit Guaranty business.

Our Credit Guaranty business manages Fannie Mae's mortgage credit risk by managing the profile and quality of mortgages in the mortgage credit book of business, using credit enhancements to reduce our losses, assessing the sensitivity of credit losses to changes in economic conditions, and aggressively managing problem assets to mitigate losses.

Revenue growth in our business lines is driven fundamentally by growth in residential mortgage debt outstanding. This market has usually been one of the strongest growth markets in the U.S. economy, typically growing faster than the gross domestic product ("GDP"). During the 1990s, mortgage debt outstanding grew 7 percent annually. Since 2000, MDO has grown at an average annual rate of 11.3 percent. Our economic projections indicate an average annual growth rate of 8 to 10 percent during the current decade due to four fundamental demographic and economic drivers: (1) projected growth in immigration, population, and household formation; (2) increased rates of homeownership particularly by minorities, whose homeownership rates lag the average by 20 percentage points; (3) continued growth in property values as the average home grows larger, demand remains strong, and supply remains constrained because of land shortages and growth restrictions; and (4) projected growth in debt-to-value ratios as consumers increasingly use the equity in their homes as a financial investment option. In addition, our business has typically grown faster than our market because of our efficiency, innovation, and low costs, which have helped make Fannie Mae a preferred source of liquidity for fixed-rate mortgages.

The expenses related to our lines of business stem largely from costs incurred to manage our two primary business risks—interest rate risk and credit risk. We have highly skilled teams of experienced risk management professionals who take an active, highly disciplined approach in managing these risks to meet our objective of delivering consistent earnings growth and target returns on capital in a wide range of economic environments. They have been successful in dispersing Fannie Mae's risk and loss exposure over the years within the global financial system by developing various mortgage risk management tools that increase our level of expertise and efficiency in managing mortgage prepayment and credit risk.

RESULTS OF OPERATIONS

The following discussion of our results of operations is based on Fannie Mae's reported results. We have reclassified certain amounts in our prior years' reported results to conform to our current presentation. We provide a separate discussion of our core business earnings and business segment results in "MD&A—Core Business Earnings and Business Segment Results."

Net Interest Income

Reported net interest income is the difference between interest income and interest expense. Net interest income represents a principal source of earnings for Fannie Mae and is affected by net volume, asset yield, and the cost of debt and certain derivatives. Reported net interest income subsequent to our adoption of FAS 133 only includes a portion of the cost associated with using purchased options to hedge the borrowers' prepayment option in mortgages. Prior to the adoption of FAS 133, we amortized purchased options premiums on a straight-line basis and reflected the cost in our net interest income as a component of our interest expense. With the adoption of FAS 133, we now report the change in the fair value of the time value of purchased options in a separate income statement category "purchased options expense." We also present net interest income and the related net interest yield on a taxable-equivalent basis to consistently reflect income from taxable and tax-exempt investments based on a 35 percent marginal tax rate.

Table 1 presents Fannie Mae's net interest yield based on our reported net interest income adjusted for tax-exempt investments and average balances of mortgage assets, nonmortgage investments, and debt. The net interest yield calculation subsequent to our adoption of FAS 133 does not fully reflect the cost of our purchased options (see "MD&A—Core Business Earnings and Business Segment Results—Core Net Interest Income" for a discussion of our supplemental non-GAAP measures, core net interest income and net interest margin).

Table 1: Taxable-Equivalent Net Interest Income and Average Balances

	2002	2001	2000
		(Dollars in millions)	
Interest income:			
Mortgage portfolio	$ 49,265	$ 46,478	$ 39,403
Nonmortgage investments and cash equivalents	1,588	2,692	3,378
Total interest income	50,853	49,170	42,781
Interest expense(1):			
Short-term debt	2,978	5,897	4,204
Long-term debt	37,309	35,183	32,903
Total interest expense	40,287	41,080	37,107
Net interest income	10,566	8,090	5,674
Taxable-equivalent adjustment on tax-exempt investments (2)	502	470	414
Taxable-equivalent net interest income	$ 11,068	$ 8,560	$ 6,088
Average balances(3):			
Interest-earning assets(4):			
Mortgage portfolio, net	$735,943	$658,195	$553,531
Nonmortgage investments and cash equivalents	68,658	58,811	51,490
Total interest-earning assets	804,601	717,006	605,021
Interest-free funds(5)	(23,992)	(23,630)	(20,595)
Total interest-earning assets funded by debt	$780,609	$693,376	$584,426
Interest-bearing liabilities(1):			
Short-term debt	$141,727	$137,078	$ 73,351
Long-term debt	638,882	556,298	511,075
Total interest-bearing liabilities	$780,609	$693,376	$584,426
Average interest rates(2, 3):			
Interest-earning assets:			
Mortgage portfolio, net	6.73%	7.11%	7.16%
Nonmortgage investments and cash equivalents	2.34	4.63	6.60
Total interest-earning assets	6.35	6.90	7.11
Interest-free return(5)	.18	.21	.25
Total interest-earning assets funded by debt	6.53	7.11	7.36
Interest-bearing liabilities(1):			
Short-term debt	1.90	4.16	5.70
Long-term debt	5.88	6.35	6.44
Total interest-bearing liabilities	5.15	5.92	6.35
Net interest yield	1.38%	1.19%	1.01%

(1) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of derivative financial instruments.
(2) Reflects non-GAAP adjustments to permit comparison of yields on tax-exempt and taxable assets based on 35 percent marginal tax rate.
(3) Averages have been calculated on a monthly basis based on amortized cost.
(4) Includes average balance of nonaccrual loans of $4.6 billion in 2002, $2.6 billion in 2001, and $2.1 billion in 2000.
(5) Interest-free funds represent the portion of our investment portfolio funded by equity and non-interest bearing liabilities.

Taxable-equivalent net interest income totaled $11.068 billion in 2002, compared with $8.560 billion in 2001 and $6.088 billion in 2000. The increase of $2.508 billion, or 29 percent, in taxable-equivalent net interest income was due primarily to 12 percent growth in our average net mortgage portfolio and a higher net interest yield, which was favorably affected by the low interest rate environment and unusually steep yield curve. As mortgage interest rates fell to the lowest level in 40 years and fixed-rate mortgage originations reached record levels, we took advantage of opportunities to grow our mortgage portfolio at attractive spreads relative to our debt costs. Our net interest yield continued to benefit and remained elevated during 2002 because of actions we took during 2002 and 2001 to lower our debt costs by calling or retiring higher-cost debt and temporarily replacing it with shorter-term, lower-cost debt.

During 2001, taxable-equivalent net interest income increased $2.472 billion or 41 percent over 2000, partially due to the effect of the change in accounting for our purchased options under FAS 133. Our taxable-equivalent net interest income in 2001 does not include all of the cost of purchased options. However, our taxable-equivalent net interest income in 2000 includes $231 million of expense related to the amortization of purchased options premiums on a straight-line basis. Prior to the adoption of FAS 133, we recorded purchased options premiums as interest expense in our reported net interest income. FAS 133 changed our accounting for purchased options, requiring that we report changes in the fair value of the time value of purchased options instead of expensing purchased options premiums on a straight-line basis. We report changes in the fair value of the time value of our purchased options in a separate income statement category "purchased options expense." Our taxable-equivalent net interest income in 2001 also benefited from 19 percent growth in our average net mortgage portfolio and a significant decrease in our debt costs that elevated our net interest yield. A reduction in intermediate-term rates during 2001 boosted mortgage refinancings and originations, fueling an increase in the supply of mortgage assets in the secondary market and attractive mortgage-to-debt spreads.

Table 2 shows the changes in our reported and taxable-equivalent net interest income between 2002 and 2001 and 2001 and 2000 attributable to changes in rates and volume on our mortgage assets, nonmortgage investments, and debt.

Table 2: Rate/ Volume Analysis of Reported Net Interest Income

	Increase (Decrease)	Attributable to Changes in[1] Volume	Attributable to Changes in[1] Rate
	(Dollars in millions)		
2002 vs. 2001			
Interest income:			
Mortgage portfolio	$ 2,787	$5,292	$(2,505)
Nonmortgage investments and cash equivalents	(1,104)	394	(1,498)
Total interest income	1,683	5,686	(4,003)
Interest expense:[2]			
Short-term debt	(2,919)	194	(3,113)
Long-term debt	2,126	4,959	(2,833)
Total interest expense	(793)	5,153	(5,946)
Change in net interest income	$ 2,476	$ 533	$ 1,943
Change in taxable-equivalent adjustment on tax-exempt investments[3]	32		
Change in taxable-equivalent net interest income	$ 2,508		

	Increase (Decrease)	Attributable to Changes in[1] Volume	Rate
		(Dollars in millions)	
2001 vs. 2000			
Interest income:			
Mortgage portfolio	$7,075	$7,393	$ (318)
Nonmortgage investments and cash equivalents	(686)	434	(1,120)
Total interest income	6,389	7,827	(1,438)
Interest expense:[2]			
Short-term debt	1,693	2,945	(1,252)
Long-term debt	2,280	2,868	(588)
Total interest expense	3,973	5,813	(1,840)
Change in net interest income	$2,416	$2,014	$ 402
Change in taxable-equivalent adjustment on tax-exempt investments[3]	56		
Change in taxable-equivalent net interest income	$2,472		

(1) Combined rate/volume variances, a third element of the calculation, are allocated to the rate and volume variances based on their relative size.
(2) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of derivative financial instruments.
(3) Reflects non-GAAP adjustments to permit comparison of yields on tax-exempt and taxable assets based on a 35 percent marginal tax rate.

Guaranty Fee Income

Guaranty fee income reported in our total corporate results and our average guaranty fee rate primarily include guaranty fees we receive on mortgage-related securities we issue that are held by other investors. We classify guaranty fees on Fannie Mae mortgage-related securities held in our portfolio as net interest income. The guaranty fee income allocated for line of business reporting purposes to the Credit Guaranty business on mortgage-related securities held in our portfolio is eliminated by an equal and offsetting allocation of guaranty expense to the Portfolio Investment business. We exclude the administrative costs of managing outstanding MBS and other mortgage-related securities from guaranty fee income.

Guaranty fee income increased 23 percent or $334 million in 2002 to $1.816 billion and 10 percent in 2001 to $1.482 billion. The increases were driven primarily by a 22 percent increase in average outstanding MBS (MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae) during 2002 and a 12 percent increase during 2001.

Our average guaranty fee rate on outstanding MBS during 2002 increased slightly to 19.1 basis points from 19.0 basis points in 2001. During the last half of 2002, our average effective guaranty fee rate rose as a result of higher fee rates on new business and the faster amortization of deferred fees as we adjusted our prepayment amortization rates to reflect the acceleration of mortgage prepayments in the heavy refinance environment. Our average effective guaranty fee rate declined by ..5 basis points between 2000 and 2001, primarily due to increased competition and general market conditions. Recently, rates on new credit guaranty products have been higher because of our efforts to better align our pricing with the relative underlying risks of loans we guarantee and expansion into market segments that demand higher guaranty fees. As a result of these trends, we anticipate a modest increase in our average effective guaranty fee rates in the future. Table 3 presents our average effective guaranty fee rate for the past three years.

Table 3: Guaranty Fee Data

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Guaranty fee income	$ 1,816	$ 1,482	$ 1,351
Average balance of outstanding MBS[1]	950,232	779,647	694,165
Average effective guaranty fee rate (basis points)	19.1	19.0	19.5

(1) "Outstanding MBS" refers to MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae. If an MBS has been resecuritized into another MBS, we only include the principal amount once in the outstanding balance.

Fee and Other Income (Expense), Net

Fee and other income (expense) consists of transaction fees, technology fees, multifamily fees, and other miscellaneous items and is net of costs associated with the purchase of additional mortgage insurance to protect against credit losses ("credit enhancement expense") and operating losses from certain tax-advantaged investments in affordable housing projects. These tax-advantaged investments represent equity interests in limited partnerships that own rental housing and generate tax credits, which reduce Fannie Mae's effective federal income tax rate. We account for the majority of these investments using the equity method. We do not guarantee any obligations of these partnerships, and our exposure is limited to the amount of our investments. We record the tax benefit related to these investments as a reduction in the provision for federal income taxes and as an increase in taxable-equivalent revenues.

We recorded $232 million of fee and other income in 2002, up from $151 million of income in 2001. The $81 million increase in fee and other income was driven by a $114 million increase in transaction and technology fees resulting primarily from increased REMIC transaction volumes and a $69 million increase in net gains from the sale of securities. These increases were offset partially by a $78 million increase in credit enhancement expenses and a $61 million increase in impairment write-downs on a variety of investments. The increase in credit enhancement expenses was attributable to an increase in the volume of business covered by credit enhancements purchased directly by Fannie Mae, stemming from our expansion into new products and markets.

Fee and other income totaled $151 million for 2001, up $195 million over expense of $44 million recorded in 2000 primarily because of a $146 million increase in technology and transaction fees. The increase in technology and transaction fees resulted largely from greater use of Fannie Mae's Desktop Underwriter and Desktop Originator systems and higher structured transaction fees, such as REMIC fees, attributable to record mortgage business volumes. A hedging loss on an anticipated Benchmark Notes® issuance that occurred in April 2000 also contributed to the year-over-year increase in fee and other income in 2001.

Credit-Related Expenses

Credit-related expenses include foreclosed property expenses (income) and the provision for losses. In 2002, we reclassified recoveries in excess of charged-off amounts on foreclosed properties from "charge-off recoveries" to "foreclosed property expense (income)." In addition, with the rescission of the American Institute of Certified Public Accountants ("AICPA") Statement of Position 92-3, "Accounting for Foreclosed Assets" ("SOP 92-3") in the fourth quarter of 2002, we now include estimated selling costs in the determination of our initial charge-off when we foreclose on a loan. We adjusted our provision for losses to reflect a charge equal to the net change in charge-offs. We have also retroactively reclassified any excess recoveries in previous periods for comparability purposes.

Credit-related expenses increased $14 million over 2001 to $92 million, primarily due to an increase in multifamily credit-related losses stemming from two properties. We recorded a provision for losses of $128 million in 2002, an increase of $34 million over 2001. The increase in our provision was partially offset by $20 million in additional foreclosed property income primarily due to gains on foreclosed property dispositions. Foreclosed property income totaled $36 million in 2002, compared with $16 million in 2001. The 2002 increase in credit-related expenses follows a $16 million decline in 2001 that was largely due to a reduction in our provision for losses. Our provision for losses decreased $28 million in 2001 to $94 million. We also had forgone interest on non-performing assets that reduced our net interest income by $148 million in 2002, $70 million in 2001, and $43 million in 2000. Although foreclosed single-family property acquisitions increased in 2002 to 19,500 from 14,486 in 2001 and 14,351 in 2000, average severities declined due to strong home prices and credit enhancement proceeds.

We previously recorded gains from the sale of foreclosed properties and related mortgage insurance claims against our allowance for losses as a recovery of charge-offs. During 2002, we reclassified these gains to foreclosed property expense (income). Additionally, the AICPA rescinded SOP 92-3 during the fourth quarter of 2002. Under SOP 92-3, we recorded selling costs related to the disposition of foreclosed properties in our income statement under foreclosed property expense (income). We now include selling costs in our initial charge-off estimate. All prior periods have been reclassified to conform to the current year presentation. The reclassified amounts result in equal and offsetting changes to our provision for losses and foreclosed property expense (income) line items within our previously reported income statements. These reclassifications have no impact on previously reported net income, total credit-related expenses, total credit-related losses, or the combined balance of the allowance for loan losses and guaranty liability.

Despite significant growth in our book of business and overall weaker economic conditions during 2002 and 2001, credit losses as a percentage of Fannie Mae's average book of business have steadily declined to .5 basis points in 2002, from .6 basis points in 2001, and .7 basis points in 2000. Our book of business includes mortgages and MBS in our mortgage portfolio and outstanding MBS held by other investors. Credit losses include charge-offs (net of recoveries) and foreclosed property income. The strong appreciation in home prices during 2002 and 2001 helped in strengthening the credit risk profile of our book of business. In addition, we have been able to effectively manage credit risk by using credit enhancements to minimize our credit losses during the economic slowdown, monitoring and assessing the sensitivity of our credit risk to changes in the economic environment, and taking an aggressive approach to problem asset management.

Administrative Expenses

Administrative expenses include those costs incurred to run our daily operations, such as personnel costs and technology expenses.

Administrative expenses increased 20 percent to $1.219 billion in 2002. The above average growth in administrative expenses was due primarily to costs incurred on a multi-year project initiated in 2001 to re-engineer our core infrastructure systems and expenses associated with relocating our primary data center. In addition, compensation expense increased 13 percent to $683 million in 2002, resulting primarily from a 5 percent increase in the number of employees and annual salary increases.

Administrative expenses grew 12 percent to $1.017 billion in 2001 from $905 million in 2000, primarily due to increased compensation expense related to 8 percent growth in the number of employees and annual salary increases, increased costs related to the multi-year core infrastructure project, and a contribution of $10 million in 2001 to support victims and families of victims affected by the September 11 tragedy.

We evaluate growth in administrative expenses based on growth in taxable-equivalent revenues and our average book of business. Taxable-equivalent revenues is a supplemental non-GAAP measure discussed further in "MD&A — Core Business Earnings and Business Segment Results." While administrative expenses have grown in the past two years, the ratio of administrative expenses to taxable-equivalent revenues, which we refer to as our efficiency ratio, has increased only modestly to 10.2 percent from 10.0 percent in 2001. Our efficiency ratio for 2002 and 2001 remained fairly steady and improved over the 11.6 percent level of 2000 primarily due to strong growth in net interest income during both years. The ratio of administrative expenses to our average book of business has also remained relatively stable at ..072 percent in 2002, compared with .071 percent in 2001, and .072 percent in 2000.

Special Contribution

Special contribution expense reflects a contribution we made to the Fannie Mae Foundation.

We committed during the fourth quarter of 2001 to contribute $300 million of our common stock to the Fannie Mae Foundation. The Fannie Mae Foundation creates affordable homeownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the United States. It is a separate, private, nonprofit organization that we do not consolidate, but is supported solely by Fannie Mae. We expect the 2001 contribution to the Fannie Mae Foundation to reduce the Foundation's need for contributions over the next several years. We acquired the shares through open market purchases and contributed them to the Foundation in the first quarter of 2002.

Purchased Options Expense

Purchased options expense includes the change in the fair value of the time value of purchased options in accordance with FAS 133. The change in the fair value of the time value of purchased options will vary from period to period with changes in interest rates, market pricing of options, and our derivative activity.

Our reported income results for 2002 were unfavorably affected by $4.545 billion in purchased options expense related to changes in the time value of purchased options, significantly more than the $37 million expense recorded in 2001. The substantial increase in expense during 2002 was caused by an increase in the average notional balance of caps and swaptions, two types of purchased options we commonly use to manage interest rate risk, to $287 billion in 2002 from $154 billion in 2001, coupled with a sharp decline in interest rates that resulted in a decrease in time value. Under FAS 133, we are not allowed to recognize in earnings changes in the intrinsic value of some of these options, which, in combination with the fair value of options in our mortgage assets and callable debt, would have more than offset the decrease in the time value of these options during 2002. Prior to the adoption of FAS 133 on January 1, 2001, we amortized premiums on purchased options into interest expense on a straight-line basis. In 2000, we recorded $231 million in purchased options amortization expense that is included as a component of net interest income.

During the fourth quarter of 2002, we refined our methodology for estimating the initial time value of interest rate caps at the date of purchase and prospectively adopted a preferred method that resulted in a $282 million pre-tax reduction in purchased options expense and increased our diluted EPS for 2002 by $.18. Under our previous valuation method, we treated the entire premium paid on purchased "at-the-money" caps as time value with no allocation to intrinsic value. Our new methodology allocates the initial purchase price to reflect the value of individual caplets, some of which are above the strike rate of the cap, which results in a higher intrinsic value and corresponding lower time value at the date of purchase. This approach is more consistent with our estimation of time value subsequent to the initial purchase date. This change does not affect the total expense that will be recorded in our income statement over the life of our caps and has no effect on our non-GAAP core business earnings measure.

Debt Extinguishments

Fannie Mae strategically repurchases or calls debt securities and related interest rate swaps on a regular basis as part of our interest rate risk management efforts and to reduce future debt costs. We record gains and losses on debt extinguishments in this category.

We recognized a pre-tax loss of $710 million in 2002 from the call and repurchase of debt, compared with a pre-tax loss of $524 million in 2001. Market conditions during 2002 and 2001 made it advantageous for us to repurchase $8 billion and $9 billion, respectively, of debt securities that were trading at historically wide spreads to other fixed-income securities. We also called over $174 billion of high-coupon debt securities and notional principal of interest rate swaps in 2002 and $173 billion in 2001. The weighted-average cost of redeemed debt and interest rate swaps in 2002 and 2001 was 5.36 percent and 6.23 percent, respectively. During 2000, we repurchased or called $18 billion in debt securities and notional principal of interest rate swaps carrying a weighted-average cost of 7.10 percent and recognized a gain of $49 million.

During the second quarter of 2002, we adopted Financial Accounting Standard No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("FAS 145"). This standard eliminates the extraordinary treatment of the gains and losses on our debt repurchases because debt extinguishment is a normal and recurring component of our interest rate risk management strategy. For comparative purposes, we have reclassified all prior periods to conform to the current presentation.

Income Taxes

The provision for federal income taxes, including tax related to the cumulative effect of change in accounting principle, decreased to $1.429 billion in 2002 from $2.131 billion in 2001. The 2002 decrease in tax expense was primarily related to the tax benefit recorded on the increased purchased options expense. Our tax provision totaled $1.583 billion in 2000. The combined effect of our low income housing tax credits and the reduction in our 2002 pre-tax income from purchased options expense caused our effective tax rate on reported net income to decline to 24 percent from 27 percent in 2001 and 26 percent in 2000. Our effective tax rate based on our core business earnings, which is adjusted for the impact of FAS 133 on our purchased options, was 27 percent in 2002 and 26 percent in 2001 and 2000. See “MD&A—Core Business Earnings and Business Segment Results.”

Cumulative Effect of Change in Accounting Principle

Effective January 1, 2001, we adopted FAS 133, as amended by Financial Accounting Standard No. 138, *Accounting for Derivative Instruments and Certain Hedging Activities— an amendment of FASB Statement No. 133*. Our adoption of FAS 133 on January 1, 2001, resulted in a cumulative after-tax increase to income of $168 million ($258 million pre-tax) in 2001. The cumulative effect on earnings from the change in accounting principle was primarily attributable to recording the fair value of the time value of purchased options, which are used as a substitute for callable debt securities.

CORE BUSINESS EARNINGS AND BUSINESS SEGMENT RESULTS

Management relies primarily on core business earnings, a supplemental non-GAAP measure developed in conjunction with our January 1, 2001 adoption of FAS 133, to evaluate Fannie Mae’s financial performance. While core business earnings is not a substitute for GAAP net income, we rely on core business earnings in operating our business because we believe core business earnings provides our management and investors with a better measure of our financial results and better reflects our risk management strategies than our GAAP net income. Core business earnings excludes the unpredictable volatility in the time value of purchased options because we generally intend to hold these options to maturity, and we do not believe the period-to-period variability in our reported net income from changes in the time value of our purchased options accurately reflects the underlying risks or economics of our hedging strategy. Core business earnings includes amortization of purchased options premiums on a straight-line basis over the original expected life of the options. The net amount of purchased options amortization expense recorded under our core business earnings measure will equal the net amount of purchased options expense ultimately recorded under FAS 133 in our reported net income over the life of our options. However, our amortization treatment is more consistent with the accounting for embedded options in our callable debt and more accurately reflects the underlying economics of our use of purchased options as a substitute for issuing callable debt— two alternate hedging strategies that are economically very similar but require different accounting under FAS 133.

Management also relies on several other non-GAAP performance measures related to core business earnings to evaluate Fannie Mae’s performance. These key performance measures include taxable-equivalent revenues, core net interest income, and net interest margin. We discuss these measures further in this section and provide a discussion of our business segments, which we also evaluate based on core business earnings. Our core business earnings measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies.

Core Business Earnings

We delivered record core business earnings in 2002 for the 16th consecutive year. Core business earnings increased 19 percent over 2001 to $6.394 billion due primarily to strong mortgage portfolio and net interest margin growth. Our core business earnings in 2001 grew 21 percent over 2000 to $5.367 billion, also due to strong portfolio and net interest margin growth.

2002 financial highlights include:

- *17 percent increase in total taxable-equivalent revenues*
- *12 percent growth in the average net mortgage portfolio*
- *16 percent increase in the total book of business*
- *4 basis point increase in the net interest margin*
- *Decline in our credit loss ratio to .5 basis points from .6 basis points in 2001*

While our core business earnings measures should not be construed by investors as an alternative to net income and other measures determined in accordance with GAAP, they are critical performance indicators for Fannie Mae's management. Core business earnings is the primary financial performance measure used by Fannie Mae's management not only in developing the financial plans of our lines of business and tracking results, but also in establishing corporate performance targets and determining incentive compensation. In addition, the investment analyst community has traditionally relied on our core business earnings measures to evaluate Fannie Mae's earnings performance and to issue earnings guidance. We believe these measures also can serve as valuable assessment tools for investors to judge the quality of our earnings because they provide more consistent accounting and reporting for economically similar interest rate risk hedging transactions, which allows investors to more readily identify sustainable trends and gauge potential future earnings trends.

Table 4 shows our line of business and consolidated core business earnings results for 2002, 2001, and 2000. We have reclassified certain amounts in our prior years' results to conform to our current presentation. The only difference in core business earnings and reported net income relates to the FAS 133 accounting treatment for purchased options, which affects our Portfolio Investment business. The FAS 133 related reconciling items between our core business earnings and reported results have no effect on our Credit Guaranty business.

Table 4: Reconciliation of Core Business Earnings to Reported Results

	2002[1]				
	Portfolio Investment	Credit Guaranty	Total Core Business Earnings	Reconciling Items Related to Purchased Options	Reported Results
			(Dollars in millions)		
Net interest income	$ 9,869	$ 697	$10,566	$ —	$10,566
Purchased options amortization expense	(1,814)	—	(1,814)	1,814 (a)	—
Core net interest income	8,055	697	8,752	1,814	10,566
Guaranty fee income (expense)	(1,374)	3,190	1,816	—	1,816
Fee and other income (expense), net	348	(116)	232	—	232
Credit-related expenses[2]	—	(92)	(92)	—	(92)
Administrative expenses	(357)	(862)	(1,219)	—	(1,219)
Purchased options expense under FAS 133	—	—	—	(4,545)(b)	(4,545)
Debt extinguishments, net	(710)	—	(710)	—	(710)
Income before federal income taxes	5,962	2,817	8,779	(2,731)	6,048
Provision for federal income taxes	(1,747)	(638)	(2,385)	956 (d)	(1,429)
Net income	$ 4,215	$2,179	$ 6,394	$(1,775)	$ 4,619

	2001[1]				
	Portfolio Investment	Credit Guaranty	Total Core Business Earnings	Reconciling Items Related to Purchased Options	Reported Results
Net interest income	$ 7,369	$ 721	$ 8,090	$ —	$ 8,090
Purchased options amortization expense	(590)	—	(590)	590 (a)	—
Core net interest income	6,779	721	7,500	590	8,090
Guaranty fee income (expense)	(1,109)	2,591	1,482	—	1,482
Fee and other income (expense), net	211	(60)	151	—	151
Credit-related expenses[2]	—	(78)	(78)	—	(78)
Administrative expenses	(302)	(715)	(1,017)	—	(1,017)
Special contribution	(192)	(108)	(300)	—	(300)
Purchased options expense under FAS 133	—	—	—	(37)(b)	(37)
Debt extinguishments, net	(524)	—	(524)	—	(524)
Income before federal income taxes and effect of accounting change	4,863	2,351	7,214	553	7,767
Cumulative effect of accounting change, net of tax effect	—	—	—	168 (c)	168
Provision for federal income taxes	(1,374)	(473)	(1,847)	(194)(d)	(2,041)
Net income	$ 3,489	$1,878	$ 5,367	$ 527	$ 5,894

	2000				
	Portfolio Investment	Credit Guaranty	Total Core Business Earnings	Reconciling Items Related to Purchased Options	Reported Results
Net interest income	$ 5,055	$ 619	$ 5,674	$ —	$ 5,674
Purchased options amortization expense	—	—	—	—	—
Core net interest income	5,055	619	5,674	—	5,674
Guaranty fee income (expense)	(1,079)	2,430	1,351	—	1,351
Fee and other income (expense), net	27	(71)	(44)	—	(44)
Credit-related expenses[2]	—	(94)	(94)	—	(94)

Administrative expenses	(254)	(651)	(905)	—	(905)
Debt extinguishments, net	49	—	49	—	49
Income before federal income taxes	3,798	2,233	6,031	—	6,031
Provision for federal income taxes	(1,053)	(530)	(1,583)	—	(1,583)
Net income	$ 2,745	$1,703	$ 4,448	$ —	$ 4,448

(1) Reported net income for 2002 and 2001 includes the effect of FAS 133, which was adopted on January 1, 2001.
(2) Credit-related expenses include the income statement line items “Provision for losses” and “Foreclosed property expense (income).”

While the reconciling items to derive our core business earnings are significant components in understanding and assessing our reported results and financial performance, investors may not be able to directly discern the underlying economic impact of our interest rate risk management strategies without our core business results. We believe our core business earnings measures help to improve transparency and enhance investors' understanding of our operations, as well as facilitate trend analysis. The specific FAS 133 related adjustments affecting our Portfolio Investment business that we identify in Table 4 include:

(a) *Purchased options amortization expense:* This amount represents the straight-line amortization of purchased options premiums over the original expected life of the options that we include in our core net interest income. We include this amount in core business earnings instead of recording changes in the time value of purchased options because it is more consistent with the accounting for the embedded options in our callable debt and the vast majority of our mortgages.

(b) *Purchased options expense:* This amount, which is recorded in our income statement under purchased options expense, represents changes in the fair value of the time value of purchased options recorded in accordance with FAS 133. We exclude this amount from our core business earnings measure because the period-to-period fluctuations in the time value portion of our options does not reflect the economics of our current risk management strategy, which generally is to hold our purchased options to maturity or exercise date. Consequently, we do not expect to realize the period-to-period fluctuations in time value.

(c) *Cumulative after-tax gain upon adoption of FAS 133:* This non-recurring amount represents the one-time transition recorded upon the adoption of FAS 133 on January 1, 2001. We exclude the transition gain from core business earnings because it relates to unrealized gains on purchased options that were recorded when we adopted FAS 133.

(d) *Provision for federal income taxes adjustment:* Represents the net federal income tax effect of core business earnings adjustments based on the applicable federal income tax rate of 35 percent.

Core business earnings does not exclude any other accounting effects related to the application of FAS 133 or any other non-FAS 133 related adjustments. The guaranty fee income that we allocate to the Credit Guaranty business for managing the credit risk on mortgage-related assets held by the Portfolio Investment business is offset by a corresponding guaranty fee expense allocation to the Portfolio Investment business in our line of business results. Thus, there is no inter-segment elimination adjustment between our total line of business guaranty fee income and our reported guaranty fee income. We allocate transaction fees received for structuring and facilitating securities transactions for our customers primarily to our Portfolio Investment business. We allocate technology-related fees received for providing Desktop Underwriter and other on-line services and fees received for providing credit enhancement alternatives to our customers primarily to our Credit Guaranty business.

As discussed in "MD&A—Risk Management— Interest Rate Risk— Derivative Instruments," we use various funding alternatives, including option-based derivative instruments, that produce similar economic results to manage interest rate risk and protect against the prepayment option in mortgages. The adjustments made to our Portfolio Investment business to derive core business earnings provide consistent accounting treatment for purchased options and the embedded option in callable debt securities— economically equivalent funding transactions— by allocating the cost of purchased options on a straight-line basis over the original expected life of the option in a manner similar to our accounting for options in callable debt. We calculate the original expected life of "European" options based on the exercise date. We calculate the original expected life of "American" options based on the expected life at the time the option is purchased. There is a difference in the original expected lives of European and American options because European options are exercisable only on one specific date in the future, while American options are exercisable any time after a specific future date. The actual life of an American option may differ from our original expected life because of movements in interest rates subsequent to the exercise date that may affect the value and benefit of exercising the option at a given time.

We can protect our net interest margin against changes in interest rates by either issuing callable debt to fund the purchase of mortgages or using a combination of callable debt, purchased options, and noncallable debt. We generally use the method that helps us achieve our desired funding flexibility and lowest cost. If interest rates fall and our mortgages prepay, we have the option of retiring callable debt and issuing debt at a lower rate to preserve our interest spread on new mortgage purchases. If interest rates fall and we have instead used a combination of noncallable debt and purchased options— such as a swaption that would allow us to enter into a pay-variable interest rate swap— we can exercise our option to allow us to pay a variable or lower interest rate and receive a fixed rate of interest. The fixed rate of interest that we receive would offset the cost of our noncallable, fixed-rate debt. This hedging strategy would lower our funding costs and preserve our net interest margin as interest rates fall in a manner very similar to retiring callable debt and issuing new, lower cost debt. However, because the accounting for this hedging strategy is different under FAS 133, the cost of the purchased option would not be reflected in our reported net interest yield. We would be required to record the change in the fair value of the time value of the purchased option as a separate amount in our income statement. On the other hand, if interest rates increase, we would not exercise the option to call debt since the cost of issuing new debt would be higher. Similarly, we would not exercise the option provided by a purchased swaption to enter a pay-variable swap because under a higher interest rate environment, we could enter into a similar transaction with more favorable terms. See “MD&A— Risk Management— Interest Rate Risk Management— Derivative Instruments” for further discussion on how we use purchased options to simulate callable debt.

If we issue noncallable debt and purchased options to fund the purchase of mortgages and protect against the prepayment option in mortgages, we are required under FAS 133 to record the unrealized period-to-period fluctuations in the changes in time value of the purchased options in earnings. If instead, we issue callable debt to fund the purchase of the same mortgages, the expense related to the option in our callable debt would be recognized ratably over the option period as part of interest expense. Although the two transactions produce similar economic results, GAAP requires different accounting treatment. Under our core business earnings measure, the accounting treatment for purchased options is consistent and also comparable to the accounting treatment applied to these items in periods prior to the adoption of FAS 133.

Taxable-Equivalent Revenues

Taxable-equivalent revenues represent total revenues adjusted to reflect the benefits of investment tax credits and tax-exempt income based on applicable federal income tax rates and is net of the straight-line amortization of purchased options expense that would have been recorded prior to the adoption of FAS 133. For analytical purposes, we calculate revenues on a taxable-equivalent basis to measure income from lower yielding investments that are tax-exempt or generate tax credits on a basis comparable to higher yielding taxable investments.

Table 5 compares taxable-equivalent revenues and the components for 2002, 2001, and 2000.

Table 5: Taxable-Equivalent Revenues

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in millions)		
Net interest income	$10,566	$ 8,090	$5,674
Guaranty fee income	1,816	1,482	1,351
Fee and other income (expense), net[(1)]	232	151	(44)
Total revenues	12,614	9,723	6,981
Taxable-equivalent adjustments:			
Investment tax credits[(2)]	594	584	430
Tax-exempt investments[(3)]	502	470	414
Purchased options amortization expense[(4)]	(1,814)	(590)	—
Taxable-equivalent revenues	$11,896	$10,187	$7,825

(1) Includes net losses on certain tax-advantaged investments totaling $225 million, $222 million, and $188 million in 2002, 2001, and 2000, respectively.
(2) Represents non-GAAP taxable-equivalent adjustments for tax credits related to losses on certain affordable housing tax- advantaged equity investments and other investment tax credits using the applicable federal income tax rate of 35 percent.
(3) Reflects non-GAAP adjustments to permit comparisons of yields on tax-exempt and taxable assets based on a 35 percent marginal tax rate.
(4) Represents 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. This expense is included in net interest income in 2000.

Taxable-equivalent revenues increased 17 percent to $11.896 billion in 2002, compared with a 30 percent increase in 2001 to $10.187 billion. The increase in both years was primarily attributable to growth in net interest income resulting from the low rate environment that contributed to strong mortgage portfolio growth and a reduction in our average cost of debt relative to our mortgage asset yields. Tighter mortgage-to-debt spreads reduced mortgage portfolio growth during the first half of 2002 and slowed the increase in taxable-equivalent revenues to levels more in line with our expectations. Our 2001 growth rate was higher than expected because of the increased supply of mortgages in the secondary market and attractive mortgage-to-debt spreads.

Core Net Interest Income

Core net interest income and our related net interest margin are supplemental non-GAAP measures that management uses to evaluate Fannie Mae's performance. Core net interest income includes our reported net interest income adjusted for the non-GAAP amortization of purchased options premiums on a straight-line basis over the original expected life of the options to reflect the cost associated with using purchased options to hedge the borrowers' prepayment option in mortgages. We also calculate core net interest income on a taxable-equivalent basis to determine our net interest margin. We believe these measures are beneficial in understanding and analyzing Fannie Mae's performance because they reflect consistent accounting for purchased options and callable debt, two of the principal instruments we use interchangeably to hedge the prepayment option in our mortgage investments. These measures also consistently reflect income from taxable and tax-exempt investments.

Table 6 reconciles taxable-equivalent core net interest income to our reported net interest income and presents an analysis of our net interest margin based on the average balances and yields of mortgage assets, nonmortgage investments, and debt. Our taxable-equivalent core net interest income and net interest margin are significantly different than our reported taxable-equivalent net interest income and net interest yield because our core measures include the amortization of our purchased options premiums on a straight-line basis over the life of the option, which is not in accordance with GAAP.

Table 6: Taxable-Equivalent Core Net Interest Income and Average Balances

	2002	2001	2000
		(Dollars in millions)	
Net interest income	$ 10,566	$ 8,090	$ 5,674
Purchased options amortization expense[1]	(1,814)	(590)	—
Core net interest income	8,752	7,500	5,674
Taxable-equivalent adjustment on tax-exempt investments [2]	502	470	414
Taxable-equivalent core net interest income	$ 9,254	$ 7,970	$ 6,088
Average balances:[3]			
Interest-earning assets:[4]			
Mortgage portfolio, net	$735,943	$658,195	$553,531
Nonmortgage investments and cash equivalents	68,658	58,811	51,490
Total interest-earning assets	804,601	717,006	605,021
Interest-free funds[5]	(23,992)	(23,630)	(20,595)
Total interest-earning assets funded by debt	$780,609	$693,376	$584,426
Interest-bearing liabilities:[6]			
Short-term debt	$141,727	$137,078	$ 73,351
Long-term debt	638,882	556,298	511,075
Total interest-bearing liabilities	$780,609	$693,376	$584,426
Average interest rates:[2, 3]			
Interest-earning assets:			
Mortgage portfolio, net	6.73%	7.11%	7.16%
Nonmortgage investments and cash equivalents	2.34	4.63	6.60
Total interest-earning assets	6.35	6.90	7.11
Interest-free return[5]	.18	.21	.25
Total interest-earning assets funded by debt	6.53	7.11	7.36
Interest-bearing liabilities:[6]			
Short-term debt	2.15	4.28	5.70
Long-term debt	6.10	6.43	6.44
Total interest-bearing liabilities	5.38	6.00	6.35
Net interest margin	1.15%	1.11%	1.01%

(1) Reflects 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.

(2) Reflects non-GAAP adjustments to permit comparison of yields on tax-exempt and taxable assets based on a 35 percent marginal tax rate.

(3) Averages have been calculated on a monthly basis based on amortized cost.

(4) Includes average balance of nonaccrual loans of $4.6 billion in 2002, $2.6 billion in 2001, and $2.1 billion in 2000.

(5) Interest-free funds represent the portion of our investment portfolio funded by equity and non-interest bearing liabilities.

(6) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of derivative financial instruments. The cost of debt includes expense for the amortization of purchased options.

Taxable-equivalent core net interest income totaled $9.254 billion in 2002, compared with $7.970 billion in 2001 and $6.088 billion in 2000. The $1.284 billion or 16 percent increase in taxable-equivalent core net interest income during 2002 was due primarily to a 12 percent increase in our average net mortgage portfolio and a 4 basis point increase in the net interest margin to 1.15 percent. During 2001, taxable-equivalent core net interest income increased $1.882 billion or 31 percent as the average net mortgage portfolio grew by 19 percent, and the net interest margin expanded by 10 basis points to 1.11 percent. Table 7 shows the changes in taxable-equivalent core net interest income for 2002 and 2001 attributable to changes in rates and the volume of our mortgage assets, nonmortgage investments, and debt and changes in purchased options amortization expense and taxable-equivalent adjustments.

Table 7: Rate/ Volume Analysis of Core Net Interest Income

	Increase (Decrease)	Attributable to Changes in[1]	
		Volume	Rate
	(Dollars in millions)		
2002 vs. 2001			
Interest income:			
Mortgage portfolio	$ 2,787	$5,292	$(2,505)
Nonmortgage investments and cash equivalents	(1,104)	394	(1,498)
Total interest income	1,683	5,686	(4,003)
Interest expense[2]:			
Short-term debt	(2,919)	194	(3,113)
Long-term debt	2,126	4,959	(2,833)
Total interest expense	(793)	5,153	(5,946)
Change in net interest income	$ 2,476	$ 533	$ 1,943
Change in purchased options amortization expense[3]	(1,224)		
Change in core net interest income	1,252		
Change in taxable-equivalent adjustment on tax-exempt investments[4]	32		
Change in taxable-equivalent core net interest income	$ 1,284		
2001 vs. 2000			
Interest income:			
Mortgage portfolio	$ 7,075	$7,393	$ (318)
Nonmortgage investments and cash equivalents	(686)	434	(1,120)
Total interest income	6,389	7,827	(1,438)
Interest expense[2]:			
Short-term debt	1,693	2,945	(1,252)
Long-term debt	2,280	2,868	(588)
Total interest expense	3,973	5,813	(1,840)
Change in net interest income	$ 2,416	$2,014	$ 402
Change in purchased options amortization expense[3]	(590)		
Change in core net interest income	1,826		
Change in taxable-equivalent adjustment on tax-exempt investments[4]	56		
Change in taxable-equivalent core net interest income	$ 1,882		

(1) Combined rate/volume variances, a third element of the calculation, are allocated to the rate and volume variances based on their relative size.

(2) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of derivative financial instruments.

(3) Reflects 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) Reflects non-GAAP adjustments to permit comparison of yields on tax-exempt and taxable assets based on a 35 percent marginal tax rate.

Business Segment Results

Portfolio Investment Business

Core business earnings for our Portfolio Investment business totaled $4.215 billion in 2002, compared with $3.489 billion in 2001, and $2.745 billion in 2000. Core business earnings grew 21 percent in 2002, down from 27 percent growth in 2001. Growth in mortgage debt outstanding, combined with our ability to offer reliable, low-cost mortgage funds, helped us grow our average net mortgage portfolio by 12 percent in 2002 despite a record level of liquidations. The Portfolio Investment business also capitalized on opportunities presented by the decline in interest rates that began in 2001 to reduce our debt costs and increase the net interest margin 4 basis points to 115 basis points. In 2001, the average net mortgage portfolio grew 19 percent and the net interest margin increased 10 basis points to 111 basis points.

Low mortgage rates boosted originations of fixed-rate mortgages in the primary market to record levels in 2002. However, during the first half of 2002, primary market lenders retained a higher than traditional level of mortgage loans in their own portfolios. The demand for mortgage investments also increased among other secondary market participants. We believe this occurrence was in response to equity market volatility and the perceived safety of mortgage-related investments in a period of significant uncertainty about the impact of the economy on corporate creditworthiness. In addition, the steep yield curve lowered borrowing costs for banks and other primary market participants, which made it more attractive to hold mortgage investments. The increased competition for mortgages in the first half of 2002 resulted in tighter spreads between mortgage yields and our debt costs (mortgage-to-debt spreads), which slowed our overall portfolio growth. Our portfolio growth accelerated in the second half of the year as a sharp drop in mortgage rates sparked a refinancing wave that increased the supply of mortgages in the secondary market and generated wider mortgage-to-debt spreads. We substantially increased our mortgage commitments in response to these more attractive spreads. We also experienced higher portfolio growth in 2001 because of attractive mortgage-to-debt spreads stemming from an increased supply of mortgage assets in the secondary market because of a reduction in intermediate-term rates that boosted mortgage refinancings and originations.

The sharp decline in short-term interest rates relative to long-term interest rates during 2001 resulted in a steeper yield curve that persisted throughout 2002. Our net interest margin in 2002 continued to benefit from actions taken during 2001 in response to opportunities presented by the unusually steep yield curve and low short-term interest rates. The Portfolio Investment business was able to replace significant amounts of called or maturing debt in 2001 with lower cost, shorter-term debt more quickly than our mortgage assets matured or prepaid. These actions temporarily reduced our debt cost relative to asset yield and elevated our net interest margin in 2001. Our net interest margin remained elevated in 2002 as the unusually steep yield curve and low interest rate environment persisted, and we called or otherwise retired additional high-cost debt.

Primary investing activities for the Portfolio Investment business include purchasing mortgage loans, mortgage-related securities, and other investments from lenders, securities dealers, investors, and other market participants. The Portfolio Investment business also issues real estate mortgage investment conduits ("REMICs"), Megas, and SMBS as a source of fee income. The Portfolio Investment business maintains the LIP, which consists of nonmortgage investments and serves as an alternative source of liquidity and an investment vehicle for our surplus capital. Our primary financing activities involve issuing various debt securities to fund our mortgage purchases and other business activities.

Mortgage Portfolio

Our mortgage portfolio includes whole loan mortgages, mortgage-related securities, and other mortgage investments, including other agency securities purchased from lenders, securities dealers, investors, and other market participants. We grew our net mortgage portfolio by 13 percent to $798 billion at December 31, 2002. In comparison, we expanded our net mortgage portfolio by 16 percent in 2001. We grew our portfolio more selectively and at a slower pace in 2002 in accordance with our disciplined approach to growth because of tighter mortgage-to-debt spreads during the first half of 2002. Table 8 shows the distribution of Fannie Mae's mortgage portfolio by product type.

Table 8: Mortgage Portfolio Composition[(1)]

	2002	2001	2000	1999	1998
			(Dollars in millions)		
Mortgages					
Single-family:					
Government insured or guaranteed	$ 5,458	$ 5,070	$ 4,762	$ 4,472	$ 4,404
Conventional:					
Long-term, fixed-rate	103,220	96,417	87,005	86,787	87,739
Intermediate-term, fixed-rate[(2)]	54,503	43,522	39,134	43,878	47,818
Adjustable-rate	9,045	10,410	13,243	6,058	7,632
Total conventional single-family	166,768	150,349	139,382	136,723	143,189
Total single-family	172,226	155,419	144,144	141,195	147,593
Multifamily:					
Government insured or guaranteed	1,353	1,551	1,814	2,347	2,594
Conventional	12,218	8,987	6,547	5,564	5,591
Total multifamily	13,571	10,538	8,361	7,911	8,185
Total mortgages	$185,797	$165,957	$152,505	$149,106	$155,778
Mortgage-related securities					
Single-family:					
Government insured or guaranteed	$ 33,293	$ 37,111	$ 39,404	$ 36,557	$ 17,401
Conventional:					
Long-term, fixed-rate	510,435	456,046	367,344	298,534	209,367
Intermediate-term, fixed-rate[(2)]	39,409	25,890	27,965	25,317	23,948
Adjustable-rate	13,946	10,355	13,892	8,049	4,241
Total conventional single-family	563,790	492,291	409,201	331,900	237,556
Total single-family	597,083	529,402	448,605	368,457	254,957
Multifamily:					
Government insured or guaranteed	7,370	6,481	5,370	4,392	2,765
Conventional	7,050	5,636	3,642	1,986	1,015
Total multifamily	14,420	12,117	9,012	6,378	3,780
Total mortgage-related securities	$611,503	$541,519	$457,617	$374,835	$258,737
Mortgage portfolio, net					
Single-family:					
Government insured or guaranteed	$ 38,751	$ 42,181	$ 44,166	$ 41,029	$ 21,805
Conventional:					
Long-term, fixed-rate	613,655	552,463	454,349	385,321	297,106
Intermediate-term, fixed-rate[(2)]	93,912	69,412	67,099	69,195	71,766
Adjustable-rate	22,991	20,765	27,135	14,107	11,873
Total conventional single-family	730,558	642,640	548,583	468,623	380,745
Total single-family	769,309	684,821	592,749	509,652	402,550
Multifamily:					
Government insured or guaranteed	8,723	8,032	7,184	6,739	5,359
Conventional	19,268	14,623	10,189	7,550	6,606
Total multifamily	27,991	22,655	17,373	14,289	11,965
Total mortgage portfolio	797,300	707,476	610,122	523,941	414,515
Unamortized premium (discount) and deferred price adjustments, net[(3)]	472	(2,104)	(2,520)	(964)	919
Allowance for loan losses[(4)]	(79)	(48)	(51)	(56)	(79)

Mortgage portfolio, net	$797,693	$705,324	$607,551	$522,921	$415,355

(1) Amounts presented have been restated to conform to the current year presentation. Data represents unpaid principal balance adjusted to include mark-to-market gains and losses on available-for-sale securities.

(2) Intermediate-term, fixed-rate consists of portfolio loans with contractual maturities at purchase equal to or less than 20 years and MBS and other mortgage-related securities held in portfolio with maturities of 15 years or less at issue date.

(3) Includes net unamortized premiums of $135 million, $536 million, and $559 million at December 31, 2002, 2001, and 1998, respectively, and net unamortized discounts of $2,311 million and $586 million at December 31, 2000 and 1999, respectively, related to available-for-sale and held-to-maturity mortgage-related securities.

(4) Guaranty liability for probable losses on loans underlying Fannie Mae guaranteed MBS is included in “Guaranty liability for MBS.”

The average yield on our net mortgage portfolio decreased to 6.73 percent in 2002, from 7.11 percent in 2001, and 7.16 percent in 2000. The decrease in yield during 2002 and 2001 resulted largely from the general decline in mortgage rates on loans originated in the primary market and sold into the secondary market plus an increase in the level of liquidations of older, higher-rate loans. The liquidation rate on mortgages in portfolio (excluding sales) increased to 37 percent in 2002 from 25 percent in 2001— more than triple the 2000 liquidation rate of 10 percent. Mortgage liquidations in 2002, 2001, and 2000 totaled $277 billion, $164 billion, and $57 billion, respectively. Liquidations increased significantly in 2002 and 2001 largely because of extensive refinancing in response to falling mortgage interest rates.

Table 9 summarizes mortgage portfolio activity on a gross basis and average yields from 2000 through 2002.

Table 9: Mortgage Portfolio Activity[1]

	Purchases			Sales			Repayments[2]		
	2002	**2001**	**2000**	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
	(Dollars in millions)								
Single-family:									
Government insured or guaranteed	$ 9,493	$ 6,001	$ 6,940	$ 139	$ —	$ 521	$ 13,057	$ 8,125	$ 3,423
Conventional:									
Long-term, fixed-rate	280,815	226,516	113,444	8,253	7,621	9,219	216,218	120,787	35,208
Intermediate-term, fixed-rate	62,102	26,146	11,607	464	442	599	37,544	23,391	13,105
Adjustable-rate	10,739	3,777	17,683	347	228	374	8,806	9,937	4,293
Total conventional single-family	353,656	256,439	142,734	9,064	8,291	10,192	262,568	154,115	52,606
Total single-family	363,149	262,440	149,674	9,203	8,291	10,713	275,625	162,240	56,029
Multifamily	7,492	8,144	4,557	379	690	269	1,794	2,172	1,204
Total	$370,641	$270,584	$154,231	$9,582	$8,981	$10,982	$277,419	$164,412	$57,233
Average net yield	5.92%	6.56%	7.62%				6.83%	7.23%	7.18%
Repayments as a percentage of average mortgage portfolio							37.4%	24.7%	10.3%

(1) Excludes premiums, discounts, and other deferred price adjustments.

(2) Includes mortgage loan prepayments, scheduled amortization, and foreclosures.

We classify mortgage loans on our balance sheet as either held-for-investment or held-for-sale. Our mortgage portfolio also includes MBS and other mortgage-related securities that we classify as either held-to-maturity or available-for-sale. On September 13, 2002, concurrent with the implementation of a new risk-based capital rule issued by OFHEO, we reclassified $124 billion of securities in our mortgage portfolio from held-to-maturity to available-for-sale in accordance with Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 115"). At the time of this noncash transfer, these mortgage-related securities had gross unrealized gains of $5.364 billion and unrealized losses of $53 million. Table 10 shows gross unrealized gains and losses on our MBS and mortgage-related securities at the end of 2002, 2001, and 2000.

Table 10: Mortgage-Related Securities in Mortgage Portfolio

	2002			
	Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Held-to-maturity:				
MBS[(2)]	$286,422	$11,173	$ (1)	$297,594
REMICs and Stripped MBS	110,423	4,339	(87)	114,675
Other mortgage-related securities	41,087	2,813	(45)	43,855
Total	$437,932	$18,325	$(133)	$456,124
Available-for-sale:				
MBS[(2)]	$116,081	$ 5,425	$ (1)	$121,505
REMICs and Stripped MBS	33,763	678	(369)	34,072
Other mortgage-related securities	17,358	782	(11)	18,129
Total	$167,202	$ 6,885	$(381)	$173,706

	2001			
	Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
MBS[(2)]	$333,896	$3,536	$ (54)	$337,378
REMICs and Stripped MBS	127,675	2,432	(579)	129,528
Other mortgage-related securities	47,584	1,411	(87)	48,908
Total	$509,155	$7,379	$(720)	$515,814
Available-for-sale:				
MBS[(2)]	$ 9,119	$ 105	$ (27)	$ 9,197
REMICs and Stripped MBS	1,083	211	(240)	1,054
Other mortgage-related securities	22,236	425	(12)	22,649
Total	$ 32,438	$ 741	$(279)	$ 32,900

	2000			
	Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
MBS[(2)]	$272,829	$3,414	$(1,414)	$274,829
REMICs and Stripped MBS	114,022	1,736	(652)	115,106
Other mortgage-related securities	57,021	760	(178)	57,603
Total	$443,872	$5,910	$(2,244)	$447,538
Available-for-sale:				
MBS[(2)]	$ 2,814	$ 18	$ (7)	$ 2,825
REMICs and Stripped MBS	220	57	(64)	213
Other mortgage-related securities	8,403	33	(40)	8,396
Total	$ 11,437	$ 108	$ (111)	$ 11,434

(1) Amortized cost includes unamortized premiums, discounts, and other deferred price adjustments.

(2) Excludes REMICs and Stripped MBS.

Nonmortgage Investments

Nonmortgage investments consist of the LIP and other investments. We classify and account for these investments as either held-to-maturity or available-for-sale according to FAS 115. Concurrent with the September 13, 2002 implementation of our new risk-based capital rule, we reclassified securities in our nonmortgage investment portfolio that had an amortized cost of $11 billion from held-to-maturity to available-for-sale in accordance with FAS 115. These nonmortgage securities had gross unrealized gains of $139 million and unrealized losses of $6 million at the time of this noncash transfer. Nonmortgage investments decreased 20 percent to $60 billion at December 31, 2002, from $75 billion at December 31, 2001. Our nonmortgage investments totaled $55 billion at December 31, 2000. Tables 11 and 12 show the composition, weighted-average maturities, and credit ratings of our held-to-maturity and available-for-sale nonmortgage investments.

Table 11: Nonmortgage Investments Classified as Held-to-Maturity

	2002					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted-Average Maturity in Months	% Rated A or Better
	(Dollars in millions)					
Held-to-maturity:						
Repurchase agreements	$20,732	$ —	$ —	$20,732	.5	100.0
Eurodollar time deposits	1,398	—	—	1,398	.8	100.0
Auction rate preferred stock	402	—	—	402	1.0	100.0
Federal funds	150	—	—	150	1.9	100.0
Commercial paper	100	—	—	100	.7	100.0
Other	268	1	—	269	4.9	100.0
Total	$23,050	$ 1	$ —	$23,051	.6	100.0

	2001					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted-Average Maturity in Months	% Rated A or Better
Held-to-maturity:						
Repurchase agreements	$ 9,380	$ —	$—	$ 9,380	.5	100.0
Eurodollar time deposits	11,185	—	—	11,185	.3	100.0
Auction rate preferred stock	2,127	—	—	2,127	1.7	100.0
Federal funds	4,904	—	—	4,904	.4	100.0
Commercial paper	2,844	1	—	2,845	.6	100.0
Asset-backed securities	6,065	89	(1)	6,153	10.6	100.0
Other	2,166	73	—	2,239	16.7	56.4
Total	$38,671	$163	$ (1)	$38,833	3.0	97.5

	2000					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted-Average Maturity in Months	% Rated A or Better
Held-to-maturity:						
Repurchase agreements	$ 2,722	$ —	$ —	$ 2,722	.5	100.0
Eurodollar time deposits	4,046	—	—	4,046	1.2	100.0
Auction rate preferred stock	1,812	—	—	1,812	1.9	98.6
Federal funds	3,493	—	—	3,493	2.1	100.0
Commercial paper	8,893	2	—	8,895	.7	90.1
Asset-backed securities	9,043	30	(7)	9,066	22.6	100.0
Other	3,823	40	(11)	3,852	17.6	100.0
Total	$33,832	$ 72	$(18)	$33,886	8.7	97.3

Table 12: Nonmortgage Investments Classified as Available-for-Sale

	2002					
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted-Average Maturity in Months**	**% Rated A or Better**
	(Dollars in millions)					
Available-for-sale:						
Asset-backed securities	$22,281	$ 98	$ (68)	$22,311	30.0	100.0
Floating-rate notes[1]	11,754	10	(29)	11,735	10.6	87.6
Corporate bonds	1,149	42	—	1,191	12.8	25.2
Taxable auction notes	949	—	—	949	.2	100.0
Auction rate preferred stock	112	—	(4)	108	2.5	43.5
Commercial paper	100	—	—	100	2.2	100.0
Other	400	—	—	400	1.1	100.0
Total	$36,745	$150	$(101)	$36,794	22.0	93.5

	2001					
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted-Average Maturity in Months**	**% Rated A or Better**
Available-for-sale:						
Asset-backed securities	$14,876	$ 21	$(25)	$14,872	26.2	99.9
Floating-rate notes[1]	12,114	12	(45)	12,081	18.2	84.3
Commercial paper	8,879	1	—	8,880	.9	100.0
Other	50	—	—	50	9.5	100.0
Total	$35,919	$ 34	$(70)	$35,883	17.2	94.7

	2000					
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted-Average Maturity in Months**	**% Rated A or Better**
Available-for-sale:						
Asset-backed securities	$ 8,469	$ —	$ —	$ 8,469	49.6	100.0
Floating-rate notes[1]	12,237	4	(17)	12,224	18.5	99.7
Commercial paper	443	—	—	443	.6	100.0
Other	—	—	—	—	—	—
Total	$21,149	$ 4	$(17)	$21,136	30.6	99.8

(1) As of December 31, 2002, 2001, and 2000, 100 percent of floating-rate notes repriced at intervals of 90 days or less.

Nonmortgage investments rated below single A totaled $2.4 billion and equaled 8.5 percent of our core capital at December 31, 2002, $2.9 billion and 11.4 percent of core capital at December 31, 2001, and $1 billion and 4.6 percent of core capital at December 31, 2000.

Our nonmortgage investments serve as Fannie Mae's primary source of liquidity and an investment vehicle for our surplus capital. Nonmortgage investments include our early funding portfolio, which consists primarily of repurchase agreements, and our LIP. Our LIP consists primarily of high-quality securities that are short-term or readily marketable and includes investments in nonmortgage assets, such as federal funds and time deposits, commercial paper, asset-backed securities, and corporate floating-rate notes. The majority of LIP investments classified as held-to-maturity consist of federal funds and time deposits and auction rate preferred stock with maturities of three months or less. We obtain liquidity from our LIP through maturity of short-term investments or the sale of assets. Investments in our LIP totaled $39 billion at December 31, 2002, compared with $65 billion at year-end 2001 and $52 billion at year-end 2000. At the end of 2001, our LIP balance was at the highest level of the past three years because of delayed settlement of 2001 portfolio purchase commitments, which resulted in additional temporary capital for short-term investment in the LIP.

The LIP combined with our early funding portfolio and cash and cash equivalents represent our total liquid investments. The average yield on liquid investments during 2002, 2001, and 2000 was 2.34 percent, 4.63 percent, and 6.60 percent, respectively. The average yield decreased during 2002 and 2001 because of the sharp drop in short-term interest rates.

Debt Securities

As part of our disciplined interest rate risk management strategy, we issue a variety of noncallable and callable debt securities in the domestic and global capital markets in a wide range of maturities to meet our large and consistent funding needs. We strive to structure debt products that match the needs of our portfolio with the interests of debt investors. A description of our principal debt securities follows.

• Benchmark Securities® Program

Our Benchmark Securities program encompasses large, regularly scheduled issues of noncallable and callable debt securities designed to provide enhanced liquidity to investors while reducing the relative cost of debt. By issuing Benchmark Securities, we have consolidated much of our debt issuances from a large number of smaller, unscheduled issues to a smaller number of larger, more liquid scheduled issues.

During 2002, we issued noncallable and callable Benchmark Securities in every month. Benchmark Bills® served as our weekly source for three-month and six-month discount debt issuances during the year. We issued one-year Benchmark Bills on a biweekly schedule during 2002 and 2001. Our issuances of Benchmark Bills totaled $420 billion, $437 billion, and $334 billion in 2002, 2001, and 2000, respectively. Issuances of Benchmark Bonds® and Benchmark Notes totaled $89 billion, $100 billion, and $77 billion, respectively, during the same period. Benchmark Notes have maturities of one to ten years, and Benchmark Bonds have maturities of more than ten years. We reintroduced Fannie Mae's Callable Benchmark Notes in June 2001 and issued $22 billion and $10 billion of these securities during 2002 and 2001, respectively.

• Discount Notes and Other Debt Securities

We also issue other debt securities outside Fannie Mae's Benchmark Securities program. These debt securities have various maturities, interest rates, and call provisions. We issue short-term debt securities called "Discount Notes" outside of our Benchmark Bills program. We sell discount notes at a market discount from the principal amount payable at maturity. They have maturities ranging from overnight to 360 days from the date of issuance and are available in minimum amounts of $1,000. We issued $1.107 trillion and $1.216 trillion of Discount Notes during 2002 and 2001, respectively. Outstanding discount notes increased to $134 billion at year-end 2002 from $93 billion at year-end 2001.

• Subordinated Debt

As part of our voluntary safety and soundness initiatives announced in October 2000, we began issuing Subordinated Benchmark Notes in the first quarter of 2001 on a periodic basis, which created a new class of fixed-income investments for investors under the Benchmark Securities program. We issued subordinated debt securities totaling $3.5 billion and $5.0 billion during 2002 and 2001, respectively. Outstanding Subordinated Benchmark Notes totaled $8.5 billion at December 31, 2002, versus $5.0 billion at the end of 2001.

Total debt outstanding increased 11 percent to $851 billion at December 31, 2002, from $763 billion at December 31, 2001. Table 13 summarizes our outstanding debt due within one year at the end of 2002, 2001, and 2000. Table 14 shows a comparison of our debt issuances and repayments for 2002, 2001, and 2000, the total outstanding at the end of each year, and the average cost.

Table 13: Outstanding Debt Due Within One Year

	2002				
	Outstanding at December 31,		Average Outstanding During Year		Maximum Outstanding at Any Month-end
	Amount	Cost(1)	Amount	Cost(1)	
	(Dollars in millions)				
Short-term notes	$290,091	1.55%	$252,857	1.98%	$290,091
Other short-term debt	12,522	1.33	18,512	1.70	28,126
Current portion of borrowings due after one year (2):					
Universal Standard Debt	41,681	2.25			
Universal Benchmark Debt	37,376	4.89			
Universal Retail Debt	73	9.52			
Other	669	3.24			
Total due within one year	$382,412	1.95%			

	2001				
	Outstanding at December 31,		Average Outstanding During Year		Maximum Outstanding at Any Month-end
	Amount	Cost(1)	Amount	Cost(1)	
Short-term notes	$256,905	2.58%	$247,060	4.31%	$265,953
Other short-term debt	29,891	1.96	31,479	4.40	43,811
Current portion of borrowings due after one year (2):					
Universal Standard Debt	34,413	3.67			
Universal Benchmark Debt	21,987	5.31			
Universal Retail Debt	—	—			
Other	296	4.96			
Total due within one year	$343,492	2.81%			

	2000				
	Outstanding at December 31,		Average Outstanding During Year		Maximum Outstanding at Any Month-end
	Amount	Cost(1)	Amount	Cost(1)	
Short-term notes	$178,292	6.50%	$150,242	6.33%	$178,292
Other short-term debt	42,157	6.58	37,880	6.36	42,157
Current portion of borrowings due after one year (2):					
Universal Standard Debt	51,185	6.02			
Universal Benchmark Debt	6,984	5.71			
Universal Retail Debt	785	6.62			
Other	919	6.57			
Total due within one year	$280,322	6.38%			

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps. Averages have been calculated on a monthly average basis.

(2) Information on average amount and cost of debt outstanding during the year and maximum amount outstanding at any month-end is not meaningful. See "Table 14—Short-Term and Long-Term Debt Activity" for additional information.

Table 14: Short-Term and Long-Term Debt Activity

	2002	2001	2000
		(Dollars in millions)	
Issued during the year:			
Short-term[1]:			
Amount	$1,635,919	$1,756,691	$1,143,131
Average cost	1.67%	3.69%	6.27%
Long-term[1]:			
Amount	$ 238,467	$ 249,352	$ 110,215
Average cost	3.78%	4.83%	6.92%
Total issued:			
Amount	$1,874,386	$2,006,043	$1,253,346
Average cost	2.21%	3.97%	6.34%
Repaid during the year:			
Short-term[1]:			
Amount	$1,620,644	$1,691,240	$1,106,956
Average cost	1.84%	4.22%	6.15%
Long-term[1]:			
Amount	$ 175,809	$ 196,610	$ 50,335
Average cost	4.85%	6.03%	6.33%
Total repaid:			
Amount	$1,796,453	$1,887,850	$1,157,291
Average cost	2.34%	4.47%	6.14%
Outstanding at year-end:			
Due within one year:			
Net amount	$ 382,412	$ 343,492	$ 280,322
Cost[2]	1.95%	2.81%	6.40%
Average term in months[4]	5	4	5
Due after one year:			
Net amount	$ 468,570	$ 419,975	$ 362,360
Cost[2]	5.14%	5.52%	6.46%
Average term in months[4]	67	70	76
Total debt:			
Net amount	$ 850,982	$ 763,467	$ 642,682
Cost[3]	4.81%	5.49%	6.47%
Average term in months[4]	58	66	69

(1) "Short-term" refers to the face amount of debt issued with an original term of one year or less. "Long-term" refers to the face amount of debt issued with an original term greater than one year.

(2) Cost includes the effects of currency, debt, and amortization of premiums, discounts, issuance costs, and hedging results.

(3) Cost includes the effects of currency, debt, and interest rate swaps and amortization of premiums, discounts, issuance costs, and hedging results.

(4) Average term includes the effects of interest rate swaps.

We took advantage of opportunities to repurchase $8 billion of debt in 2002 and $9 billion of debt in 2001 that was trading at historically wide spreads to other fixed-income securities. In addition, we continued to call significant levels of debt in 2002 as a result of the sharp decline in interest rates that began in 2001. We called $174 billion in debt and interest rate swaps in 2002 and $173 billion in 2001. We reissued much of this debt with short-term maturities in anticipation of the expected increase in mortgage liquidations. Interest rate swaps lengthened the weighted-average final maturity of our outstanding debt by 20 months at December 31, 2002, down from 26 months at December 31, 2001. Table 15 shows our adjusted effective short- and long-term debt at the end of 2002, 2001, and 2000.

Table 15: Effective Short-Term and Long-Term Debt

	2002	2001	2000
		(Dollars in millions)	
Outstanding at year-end:			
Short-term[1]:			
Net amount	$192,702	$138,986	$103,852
Cost	1.52%	2.75%	6.13%
Weighted-average maturity (in months)	3	5	5
Percent of total debt outstanding	23%	18%	16%
Long-term[2]:			
Net amount	$651,827	$627,196	$543,964
Cost	5.48%	5.96%	6.48%
Weighted-average maturity (in months)	75	78	79
Percent of total debt outstanding	77%	82%	84%
Total:			
Net amount[3]	$844,529	$766,182	$647,816
Cost	4.81%	5.49%	6.47%
Weighted-average maturity (in months)	58	66	69

(1) Represents the redemption value of short-term debt adjusted to include the effect of derivative instruments that replicate short-term, variable-rate debt securities and exclude short-term debt securities that have been economically converted into long-term debt funding through interest rate swaps.

(2) Represents the redemption value of long-term debt adjusted to include the effect of short-to-long interest rate swaps that economically convert short-term debt securities into long-term debt securities and exclude long-term debt securities that have been economically converted into short-term funding through interest rate swaps.

(3) Represents the redemption value of outstanding debt at year-end. Excludes the effect of amortization of premiums, discounts, issuance costs, and hedging results.

Our asset-liability management strategies, combined with favorable market conditions for borrowing, had the following effect on the debt portfolio:

- The average cost of outstanding debt during 2002 decreased to 5.38 percent from 6.00 percent in 2001. At December 31, 2002 and 2001, the cost of debt outstanding was 4.81 percent and 5.49 percent, respectively.

- Effective long-term debt, which takes into consideration the effect of derivative instruments on the maturity of long- and short-term debt, decreased to 77 percent of total debt outstanding at December 31, 2002 from 82 percent at year-end 2001.

- The weighted-average maturity of effective long-term, fixed-rate debt outstanding decreased to 75 months at year-end 2002 from 78 months at year-end 2001.

- Effective long-term debt as a percentage of the net mortgage portfolio decreased to 82 percent at the end of 2002 from 89 percent at the end of 2001.

- Option-embedded debt outstanding as a percentage of the net mortgage portfolio temporarily increased above historic levels to 75 percent at year-end 2002 versus 54 percent at the end of 2001. Table 16 presents option-embedded debt instruments as a percentage of our net mortgage portfolio for the past three years. Option-based derivative instruments represented 42 percent and callable debt accounted for 58 percent of the $601 billion in option-embedded debt outstanding at December 31, 2002. In comparison, option-based derivative instruments and callable debt represented 38 percent and 62 percent, respectively of the $378 billion in option-embedded debt outstanding at December 31, 2001.

Table 16: Option-Embedded Debt Instruments

	2002	2001	2000
	(Dollars in billions)		
Issued during the year	$384	$286	$ 65
Outstanding at year-end	601	378	280
Percentage of total net mortgage portfolio	75%	54%	46%

Credit Guaranty Business

Core business earnings for our Credit Guaranty business grew 16 percent in 2002 to $2.179 billion and 10 percent in 2001 to $1.878 billion. The increase in 2002 core business earnings was driven primarily by a 23 percent increase in guaranty fee income. Guaranty fee income for our Credit Guaranty business increased largely due to 17 percent growth in our average book of business and a .9 basis point increase in the average fee rate to 18.9 basis points. The average fee rate for our Credit Guaranty business includes the effect of guaranty fee income allocated to the Credit Guaranty business for managing the credit risk on mortgage-related assets held by the Portfolio Investment business. It therefore differs from our consolidated effective average guaranty fee rate, which excludes guaranty fees on Fannie Mae MBS held in our portfolio because these fees are reported as interest income. Growth in earnings for the Credit Guaranty business lagged growth in guaranty fee income primarily due to increases in credit enhancement expenses, higher administrative expenses, and an increase in the effective tax rate. Administrative expenses increased primarily due to higher compensation costs and expenses related to re-engineering our core infrastructure systems and relocating our primary data center.

Record expansion of residential mortgage debt outstanding during 2002 and 2001, combined with our ability to offer reliable, low-cost mortgage funds, fueled growth in our book of business. The demand for housing was strong throughout 2002 and 2001, and borrowers also took advantage of the low interest rate environment to refinance their mortgages and extract equity from the appreciation in their homes. Residential mortgage debt outstanding increased 12.4 percent in 2002 to $7.0 trillion, 10.3 percent in 2001 to $6.2 trillion, and 8.9 percent in 2000 to $5.6 trillion. Refinancings represented 62 percent of total market originations in 2002 and 57 percent in 2001, compared with 19 percent in 2000. Growth in Fannie Mae’s mortgage credit book of business outpaced growth in residential mortgage debt outstanding during 2002, 2001, and 2000.

Earnings growth in 2001 for the Credit Guaranty business was also driven by an increase in guaranty fees. Guaranty fees rose 7 percent, stemming from 15 percent growth in the average book of business that more than offset a 1.4 basis point drop in the average fee rate to 18.0 basis points. Despite significant growth in our mortgage credit book of business and a softer economy, the Credit Guaranty business was successful in reducing credit losses as a percentage of Fannie Mae’s average book of business to .5 basis points in 2002, from .6 basis points in 2001 and .7 basis points in 2000.

In the third quarter of 2002, we announced increases in the upfront-price adjustment Fannie Mae charges on cash-out refinance mortgages with loan-to-value (“LTV”) ratios between 70.01 and 85 percent that we plan to implement during 2003. As a result of these increases, which will better compensate us for the higher risk on these loans, the upfront-price adjustments on cash-out refinance mortgages we purchase or guarantee with LTV ratios greater than 70 percent will range from 50 to 75 basis points.

In conjunction with these increases and to better align our underwriting, pricing policy, and relative risk profile of refinance transactions, we modified our loan purpose definitions on refinance transactions. We now define cash-out refinance transactions as a refinance transaction in which the funds are used for purposes other than to pay off an existing first mortgage lien, to pay off any permissible subordinate mortgage liens, and to provide limited unrestricted cash proceeds to the borrower. We expect the increased price adjustments, which will be allocated to our Credit Guaranty business, to modestly increase our future guaranty fees.

OFF-BALANCE SHEET TRANSACTIONS

We enter into certain off-balance sheet financial arrangements to facilitate our statutory purpose of providing mortgage funds to the secondary market and reduce Fannie Mae's exposure to interest rate fluctuations. These arrangements, which may involve elements of credit and interest rate risk in excess of amounts recognized on Fannie Mae's balance sheet, primarily include guaranteed MBS and other mortgage-related securities and commitments to purchase mortgage assets or issue and guarantee MBS. Following is an overview of our off-balance sheet exposure related to these transactions, including a description of how our MBS are created and our role in the process.

Guaranteed MBS and Other Mortgage-Related Securities

We issue MBS that are backed by mortgage loans from a single lender or from multiple lenders, or that are transferred from our held-for-sale mortgage portfolio. Single-lender MBS are typically issued through lender swap transactions whereby a lender exchanges pools of mortgages for MBS. Multiple-lender MBS allow several lenders to pool mortgages and receive, in return, MBS (referred to as "Fannie Majors") representing a proportionate share of a larger pool. Lenders may retain the MBS or sell them to other investors. When we issue MBS, we assume trustee responsibilities. The loans underlying MBS are not our assets. Therefore, we do not record them on our balance sheet except when acquired and held in our mortgage portfolio for investment purposes, nor do we record them as liabilities. In some instances we buy mortgage loans or mortgage-related securities and concurrently enter into a forward sale commitment. We designate these loans as held-for-sale when acquired, and we sell them from the mortgage portfolio as MBS.

The Credit Guaranty business receives a guaranty fee for assuming the credit risk and guaranteeing timely payment of scheduled principal and interest to MBS investors and investors in other mortgage-related securities. The guaranty fee varies, depending on factors such as the risk profile of the loans securitized as well as the level of credit risk we assume. We are ultimately responsible for guaranteeing timely payment of scheduled principal and interest to investors whether or not we share primary default risk on loans underlying outstanding MBS. We accrue a liability on our balance sheet for our guaranty obligation based on the probability that mortgages underlying the $1.029 trillion of outstanding MBS will not perform according to contractual terms. At December 31, 2002, we have accrued a liability of $471 million for estimated losses on our guaranty of outstanding MBS, compared with $598 million at December 31, 2001. These amounts are a component of the "Guaranty liability for MBS" line on our balance sheet.

We issue REMICs backed by single-class MBS, Stripped MBS ("SMBS"), Government National Mortgage Association ("Ginnie Mae") mortgage-related securities, other REMIC securities, or whole loans that are not owned or guaranteed by Fannie Mae. The Portfolio Investment business receives transaction fees for structuring REMICs backed by MBS, SMBS, Ginnie Mae securities, or existing Fannie Mae REMIC classes. When we issue REMICs, we assume trustee responsibilities. REMICs backed by guaranteed MBS do not subject us to any additional mortgage credit risk. We are only subject to additional credit risk if Fannie Mae guarantees REMICs backed by whole loans owned by other entities or private label securities. REMICs are not our assets except when acquired and held in our mortgage portfolio for investment purposes, nor do we record them as liabilities.

Table 17 summarizes issued and outstanding amounts for guaranteed MBS and other mortgage-related securities, including REMICs, for the years ended December 31, 2002, 2001, and 2000.

Table 17: Guaranteed MBS and Other Mortgage-Related Securities(1)

	Outstanding		Issues	
	Held by Other Investors	Total(2)	Acquired by Others	Total Issued(3)
	(Dollars in millions)			
2002	$1,029,456	$1,538,287	$478,260	$723,299
2001	858,867	1,290,351	344,739	525,321
2000	706,684	1,057,750	105,407	210,311

(1) MBS may be resecuritized to back Fannie Megas, SMBS, or REMICs. With respect to those MBS, the amounts shown only include the principal amount of the MBS once. Amounts also include REMICs created from whole loans not owned or guaranteed by Fannie Mae.

(2) Includes $509 billion, $431 billion, and $351 billion at December 31, 2002, 2001, and 2000, respectively, of MBS and other mortgage-related securities in Fannie Mae's portfolio.

(3) Total issued includes $245 billion, $181 billion, and $105 billion of MBS purchased by Fannie Mae in 2002, 2001, and 2000, respectively. Total issued excludes $16 billion, $3 billion, and $2 billion of MBS in 2002, 2001, and 2000, respectively, that Fannie Mae issued from loans in our portfolio.

Guaranteed MBS and other mortgage-related securities held by investors other than Fannie Mae, which we refer to as outstanding MBS, grew 20 percent to $1.029 trillion at December 31, 2002, from $859 billion at December 31, 2001. REMICs that could subject Fannie Mae to additional credit exposure totaled $35 billion at December 31, 2002 or 3 percent of outstanding MBS held by investors other than Fannie Mae. Total MBS, which includes guaranteed MBS and other mortgage-related securities held in our mortgage portfolio, grew 19 percent to $1.538 trillion at year-end 2002 from $1.290 trillion at year-end 2001.

MBS issues acquired by investors other than Fannie Mae increased $134 billion to $478 billion in 2002, while liquidations of outstanding MBS increased $124 billion to $324 billion. The increase in MBS issuances and liquidations in 2002 was attributable to the decline in mortgage interest rates during the year resulting in higher levels of mortgage originations, including refinancings. Total MBS issues, excluding MBS issued from Fannie Mae's portfolio, increased 38 percent to $723 billion in 2002 from $525 billion in 2001, while total MBS liquidations grew 69 percent to $499 billion from $296 billion in 2001.

REMIC issuances totaled $144 billion in 2002, compared with $124 billion in 2001. Our REMIC issuances rebounded in 2001 with the rest of the REMIC market and steadily increased in 2002. The steeper yield curve made the REMIC market more attractive, resulting in an increased demand for REMICs. In addition, lower interest rates contributed to higher MBS issuances and increased collateral available for REMICs. The outstanding balance of REMICs (including REMICs held in Fannie Mae's portfolio) was $347 billion at December 31, 2002, compared with $346 billion at December 31, 2001.

Commitments

Fannie Mae enters into master delivery commitments on either a mandatory or an optional basis. Under a mandatory master commitment, a lender must either deliver loans under an MBS contract at a specified guaranty fee rate or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment. We also accept mandatory or lender-option delivery commitments not issued pursuant to a master commitment. These commitments may be for our portfolio or for issuances of Fannie Mae MBS. The guaranty fee rate on MBS lender-option commitments is specified in the contract, while the yield for portfolio lender-optional commitments is set at the date of conversion to a mandatory commitment. We generally hedge the cost of funding future portfolio purchases upon issuance of, or conversion to, a mandatory commitment. Therefore, we largely mitigate the interest rate risk relating to loans purchased pursuant to those commitments. Our outstanding mandatory portfolio commitments, excluding commitments under master agreements, totaled $85 billion and $55 billion at December 31, 2002 and 2001, respectively.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Fannie Mae's financial statements and reported results are based on GAAP, which requires us in some cases to use estimates and assumptions that may affect our reported results and disclosures. We describe our significant accounting policies in the Notes to Financial Statements under Note 1, "Summary of Significant Accounting Policies." Several of our accounting policies involve the use of accounting estimates we consider to be critical because: (1) they are likely to change from period to period because they require significant management judgment and assumptions about highly complex and uncertain matters; and (2) the use of a different estimate or a change in estimate could have a material impact on our reported results of operations or financial condition. Our critical accounting estimates include determining the adequacy of the allowance for loan losses and guaranty liability for MBS; projecting mortgage prepayments to calculate the amortization of deferred price adjustments on mortgages and mortgage-related securities held in portfolio and guaranteed mortgage-related securities; and estimating the time value of our purchased options. Management has specifically discussed the development and selection of each critical accounting estimate with the Audit Committee of Fannie Mae's Board of Directors. Our Audit Committee has also reviewed our disclosures in this MD&A regarding Fannie Mae's critical accounting estimates.

Allowance for Loan Losses and Guaranty Liability for MBS

We establish an allowance for loan losses and guaranty liability for MBS on single-family and multifamily loans in our book of business. We maintain a separate allowance for loan losses and guaranty liability for MBS. However, we use the same methodology to determine the amounts of each because the risks are the same. The allowance for loan losses is held against loans in our mortgage portfolio. We also have a guaranty liability for our guaranty of MBS held by us or by other investors. Our allowance and guaranty liability for MBS consist of the following key elements:

- *Single-family:* We evaluate various risk characteristics such as product type, original loan-to-value ratio, and loan age to determine the allowance and guaranty liability for single-family assets. We estimate defaults for each risk characteristic based on historical experience and apply a historical severity to each risk category in accordance with Financial Accounting Standard No. 5, *Accounting for Contingencies* ("FAS 5"). Severity refers to the amount of loss suffered on a default relative to the unpaid principal balance of the loan. In addition, we apply Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan* ("FAS 114"), to determine the amount of impairment on specific loans that have been restructured. We charge-off single-family loans when we foreclose on the loans.

- *Multifamily:* We determine the multifamily allowance and guaranty liability by separately evaluating loans that are impaired and all other loans. Impaired loans consist of loans that are not performing according to their original contractual terms. For loans that we consider impaired, we apply FAS 114 to estimate the amount of impairment. For all other loans, we apply FAS 5 to establish an allowance and guaranty liability by rating each loan not individually evaluated for impairment and segmenting the loan into one of the main risk categories we use to monitor the multifamily portfolio. We then apply historical default rates, adjusted for current conditions, and a corresponding severity to the loans in each segment to estimate the probable loss amount at each balance sheet date.

We believe the accounting estimate related to our allowance for loan losses and guaranty liability for MBS is a "critical accounting estimate" because it requires us to make significant judgments about probable future losses in our book of business as of the balance sheet date based on assumptions that are uncertain. We may have to increase or decrease the size of our overall allowance for loan losses and guaranty liability based on changes in delinquency levels, loss experience, economic conditions in areas of geographic concentration, and profile of mortgage characteristics. Different assumptions about default rates, severity, counterparty risk, and other factors that we could use in estimating our allowance for loan losses and guaranty liability could have a material effect on our results of operations.

We include the allowance for loan losses in the balance sheet under "Mortgage portfolio, net." We include the guaranty liability for estimated losses on MBS held by us or other investors as a liability under

"Guaranty liability for MBS." Table 18 shows the amounts of these components and summarizes the changes for the years 1998 to 2002.

Table 18: Allowance for Loan Losses and Guaranty Liability for MBS

	2002	2001	2000	1999	1998
			(Dollars in millions)		
Allowance for loan losses[1]:					
Beginning balance	$ 48	$ 51	$ 56	$ 79	$ 131
Provision	44	7	9	(5)	(16)
Charge-offs[2]	(13)	(10)	(14)	(18)	(36)
Ending balance	$ 79	$ 48	$ 51	$ 56	$ 79
Guaranty liability for MBS[1]:					
Beginning balance	$ 755	$ 755	$ 745	$ 720	$ 668
Provision	84	87	113	156	261
Charge-offs	(110)	(87)	(103)	(131)	(209)
Ending balance	$ 729	$ 755	$ 755	$ 745	$ 720
Combined allowance for loan losses and guaranty liability for MBS[3]:					
Beginning balance	$ 803	$ 806	$ 801	$ 799	$ 799
Provision	128	94	122	151	245
Charge-offs[2]	(123)	(97)	(117)	(149)	(245)
Ending balance	$ 808	$ 803	$ 806	$ 801	$ 799
Balance at end of each period attributable to[3]:					
Single-family	$ 641	$ 636	$ 639	$ 634	$ 632
Multifamily	167	167	167	167	167
	$ 808	$ 803	$ 806	$ 801	$ 799
Percent of allowance and guaranty liability in each category to related total book of business[4]:					
Single-family	.037%	.042%	.051%	.055%	.063%
Multifamily	.211	.247	.313	.359	.412
	.044%	.051%	.061%	.067%	.076%
Charge-offs[2]:					
Single-family	$ 104	$ 96	$ 114	$ 145	$ 237
Multifamily	19	1	3	4	8
	$ 123	$ 97	$ 117	$ 149	$ 245
Charge-offs as a percentage of average book of business	.007%	.007%	.009%	.013%	.026%
Credit losses as a percentage of average book of business	.005	.006	.007	.011	.027

(1) In 2002, we reclassified from our "Allowance for loan losses" to a "Guaranty liability for MBS" the amount associated with the guaranty obligation for MBS that we own. Prior period balances, the provision for losses, and charge-off amounts have been reclassified to reflect the current year's presentation.

(2) Charge-offs exclude $1 million in 2002 and $1 million in 1998 on charge-offs related to foreclosed Federal Housing Administration loans that are reported in the balance sheet under "Acquired property and foreclosure claims, net."

(3) The total excludes $2 million at year-end 2002 and $3 million at the end of 2001, 2000, 1999, and 1998 related to foreclosed Federal Housing Administration loans that are reported in the balance sheet under "Acquired property and foreclosure claims, net."

(4) Represents ratio of allowance and guaranty liability balance by loan type to book of business by loan type.

Over the past five years, our combined allowance for loan losses and guaranty liability for MBS have remained relatively stable although our book of business has expanded. This trend reflects improvements in the credit performance of our book of business. Fannie Mae's allowance and guaranty liability as a percentage of the book of business has declined to .04 percent in 2002, from .05 percent in 2001 and ..06 percent in 2000, based on positive credit trends. Over the last three years, our credit loss ratio has declined in each year to .5 basis points in 2002, from .6 basis points in 2001, and .7 basis points in 2000. We recorded a provision for losses of $128 million, $94 million, and $122 million, respectively, in 2002, 2001, and 2000. Our provision represented between 1 and 2 percent of our pre-tax reported income and core business earnings in each of the past three years. Management believes the combined balance of our allowance for loan losses and guaranty liability for MBS are adequate to absorb losses inherent in Fannie Mae's book of business.

Deferred Price Adjustments

When Fannie Mae buys MBS, loans, or mortgage-related securities, we may not pay the seller the exact amount of the unpaid principal balance (“UPB”). If we pay more than the UPB and purchase the mortgage assets at a premium, the premium reduces the yield we recognize on the assets below the coupon amount. If we pay less than the UPB and purchase the mortgage assets at a discount, the discount increases the yield above the coupon amount. In addition, we may charge an upfront payment in lieu of a higher guaranty fee for certain loan types that have higher credit risk. To facilitate the pooling of mortgages into a Fannie Mae MBS, we also may adjust the monthly MBS guaranty fee rate that we receive by either negotiating an upfront cash disbursement to the lender (a “buy-up”) or an upfront cash receipt from the lender (a “buy-down”) when the MBS is formed. The upfront payment results in an adjustment to the monthly guaranty fee so that the coupons on MBS are always in increments of whole or half interest rates, which are more easily traded.

We recognize the impact of premiums, discounts, and other purchase price adjustments over the estimated life of the purchased assets as an adjustment to income in accordance with Financial Accounting Standard No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (“FAS 91”). We amortize deferred premium and discount into interest income, which affects the results of our Portfolio Investment business. Amortization of deferred price adjustments relating to our guaranty fees affects guaranty fee income, which affects the results of our Credit Guaranty business.

We apply the interest method to amortize the premiums, discounts, and other purchase price adjustments into income. We estimate future mortgage prepayments to calculate the constant effective yield necessary to apply the interest method. We believe the accounting estimates related to deferred premium/discount and deferred guaranty fees are “critical accounting estimates” because they require us to make significant judgments and assumptions about borrower prepayment patterns in various interest rate environments that involve a significant degree of uncertainty. On a periodic basis, we evaluate whether we should change the estimated prepayment rates used in the amortization calculation. We reassess our estimate of the sensitivity of prepayments to changes in interest rates and compare actual prepayments versus anticipated prepayments. If changes are necessary, we recalculate the constant effective yield and adjust net interest income or guaranty fee income for the amount of premiums, discounts, and other purchase price adjustments that would have been recorded if we had applied the new effective yield since acquisition of the mortgage assets or inception of a guaranty. Table 19 presents an analysis of the effect of our deferred price adjustments in 2002, 2001, and 2000.

Table 19: Deferred Price Adjustments

	2002		2001		2000	
	Deferred Premium/ (Discount)	Deferred Guaranty Fees	Deferred Premium/ (Discount)	Deferred Guaranty Fees	Deferred Premium/ (Discount)	Deferred Guaranty Fees
	(Dollars in millions)					
Unamortized premium (discount) and deferred price adjustments, net[1]	$472	$(1,454)	$(2,104)	$(382)	$(2,520)	$305
Increase (decrease) in net interest income/guaranty fee income from net amortization[2]	71	104	358	(87)	207	(22)
Percentage effect on reported net income[3]	1%	1%	4%	(1)%	3%	—%
Percentage effect on net interest income/guaranty fee income of:[4]						
100 basis point increase in interest rates	(.3)	—	—	.1	—	.8
50 basis point increase in interest rates	—	—	—	—	—	—
Percentage effect on net interest income/guaranty fee income of:[4]						
50 basis point decrease in interest rates	1.0	.8	.3	(.3)	1.0	(6.1)
100 basis point decrease in interest rates	2.4	3.1	2.2	(2.7)	1.9	(9.9)

(1) Includes unamortized premium (discount) and deferred price adjustments for available-for-sale and held-to-maturity mortgage-related securities and loans held-for-investment.

(2) Amortization of premium/discount amounts is recorded in net interest income, while amortization of deferred price adjustments related to guaranty fees is recorded in guaranty fee income.

(3) Reflects after-tax effect on reported net income from the change in net amortization based on the applicable federal income tax rate of 35 percent.

(4) Calculated based on an instantaneous change in interest rates.

Deferred Premium/Discount

As shown in Table 19, Fannie Mae moved to a net premium position of $472 million in our mortgage portfolio at the end of 2002 from a net discount position of $2.104 billion at year-end 2001 and $2.520 billion at year-end 2000. Because of declining interest rates throughout 2002, we paid premiums on a higher than average proportion of our mortgage purchases during the year. Net interest income recognized from the amortization of deferred price adjustments related to our mortgage portfolio increased our reported net income by 1 percent in 2002, 4 percent in 2001, and 3 percent in 2000.

Table 19 discloses the estimated adjustments that we would have to make to our net interest income based on 50 and 100 basis point instantaneous changes in interest rates at year-end beyond the levels assumed in our base prepayment rate models. Our prepayment sensitivity analysis indicates that a 100 basis point instantaneous increase in interest rates beyond the levels assumed in base prepayment rate models would have resulted in less than a .4 percent decrease in net interest income in 2002, 2001, and 2000. We estimate that a 100 basis point decrease in interest rates at December 31, 2002, 2001, and 2000 would have increased our net interest income in each of those years by approximately 2 percent.

The effect of declines in interest rates has a larger impact on net interest income than interest rate increases because declines in interest rates result in prepayments that lower the weighted-average coupon of our mortgage assets more significantly than instantaneous increases in interest rates raise the weighted-average coupon of our mortgage assets. As a result, the adjustment of net interest income from a downward shift in interest rates would be larger than the adjustment of net interest income from a rising shift in interest rates. Despite being in a net premium position at year-end 2002, an instantaneous decrease in interest rates would have a positive impact on 2002 net interest income largely because those mortgage assets in a net premium position have a lower average coupon than those mortgage assets in a net discount position. Consequently, the estimated downward adjustment of 2002 net interest income for the amortization of the premium after an instantaneous decline in interest rates would be lower than the estimated upward adjustment of 2002 net interest income for the amortization of the discount.

This sensitivity analysis is only one component of Fannie Mae's overall net interest income at risk assessment. It does not include the effect of new business or the impact of changes in interest rates on our debt costs or net cash flows related to our derivatives contracts. A comprehensive analysis of the impact of interest rate changes on projected net interest income is presented in "MD&A— Risk Management— Interest Rate Risk Management—Net Interest Income at Risk."

Deferred Guaranty Fees

Our net discount position on deferred guaranty fee price adjustments increased to $1.454 billion at year-end 2002 from a net discount position of $382 million at year-end 2001 and a net premium position of $305 million at year-end 2000. A net discount position reflects that the combined up-front payments we collect in lieu of higher guaranty fees on more risky loans and the up-front payments we receive from lenders in exchange for a lower guaranty fee rate over time exceed the up-front payments we make to lenders in exchange for a higher guaranty fee rate over time. A net premium position indicates that our upfront payments to lenders exceed the upfront fees collected from lenders. The significant increase in our net discount position on deferred guaranty fees in 2002 was largely attributable to an increase in up-front payments collected on loans with higher credit risk.

Amortization of deferred guaranty fee adjustments increased guaranty fee income by $104 million in 2002 (1 percent of reported net income) and reduced guaranty fee income by $87 million in 2001 (1 percent of reported net income) and $22 million in 2000 (less than 1 percent of reported net income). The upward adjustment to guaranty fee income in 2002 was primarily related to accelerating the recognition of discount during the second half of 2002 as interest rates fell to historically low levels and prepayments accelerated. In addition, we made enhancements in 2002 to better reflect the impact of interest rates on prepayment behavior and guaranty fee income that accelerated the recognition of discount.

Our prepayment sensitivity analysis at the end of each year for deferred guaranty fees indicates that a 100 basis point instantaneous increase in interest rates beyond the levels assumed in base prepayment rate models at year-end would have less than a 1 percent upward effect on guaranty fee income in 2002, 2001, and 2000. A 100 basis point instantaneous decrease in interest rates at year-end would have increased our guaranty fee income by approximately 3 percent in 2002 and reduced our guaranty fee income by approximately 3 percent and 10 percent in 2001 and 2000, respectively. The growth and age of the net discount position in 2002 is the primary driver of the positive impact on guaranty fee income from an instantaneous 100 basis point decrease in interest rates.

Time Value of Purchased Options

Fannie Mae issues various types of debt to finance the acquisition of mortgages. We typically use derivative instruments to supplement our issuance of debt in the capital markets and hedge against the effect of fluctuations in interest rates on our debt costs to preserve our net interest margin. With the adoption of FAS 133, we began recording all derivatives on our balance sheet at estimated fair value. We record changes in the fair value of derivatives designated as cash flow hedges in accumulated other comprehensive income ("AOCI"). We recognize in our reported earnings changes in the fair value of the time value associated with purchased options and changes in the fair value of derivatives designated as fair value hedges.

Fannie Mae's purchased options portfolio currently includes swaptions and caps, which are discussed in more detail under "MD&A—Risk Management—Interest Rate Risk Management—Derivative Instruments." The total fair value for purchased options consists of the time value plus the intrinsic value. Under FAS 133, the mark-to-market on the time value component of our purchased options flows through our reported earnings. The time value of purchased options will vary from period to period with changes in interest rates, expected interest rate volatility, and derivative activity. However, the total expense included in earnings over the original expected life of an option will generally equal the initial option premium paid. Since adopting FAS 133, we have reported significant fluctuations in our reported net income because of unrealized fluctuations in the estimated time value of purchased options. As a result of the declining interest rate environment in 2002 and the increase in the notional value of our purchased options, we recorded $4.545 billion in purchased options expense in 2002, compared with $37 million in 2001.

Our methodology for valuing purchased options is based on commonly used market conventions and assumptions. We obtain quoted market prices for a benchmark set of interest rate options, which include caps and swaptions. Based on these quoted market prices, we apply our valuation model, which effectively utilizes these prices to estimate the fair value of our purchased options. We then allocate the fair value of our purchased options into the time value and intrinsic value components. Because the benchmark securities are only a subset of the purchased options that we hold, the estimation of time value is not exact and can vary depending on the market source and methodology used. This variation could have a material effect on our reported net income. Hence, we believe our estimate of the time value component of purchased options is a "critical accounting estimate."

During the fourth quarter of 2002, we refined our methodology for estimating the initial time value of interest rate caps at the date of purchase. Under our previous valuation method, we treated the entire premium paid on purchased "at-the-money" caps as time value with no allocation to intrinsic value. We now allocate the purchase price to reflect the value of individual caplets, some of which are above the strike rate of the cap. This approach, which is more consistent with our estimation of time value subsequent to the initial purchase date, results in a higher intrinsic value and lower time value at the date of purchase. We adopted this preferred valuation method prospectively on caps purchased after third quarter 2002, which resulted in a $282 million pre-tax reduction in our 2002 purchased options expense. The change has no effect on the total expense that will be recorded in our income statement over the life of our caps and no effect on our core business earnings.

To gauge the potential sensitivity of changes in the estimated time value of our purchased options, we recalculated our estimates based on plus and minus changes of 5 percent and 10 percent in the time value portion of our outstanding purchased options at December 31, 2002 and 2001. An increase in the estimated time value of our purchased options would reduce our purchased options expense and increase our reported net income and stockholders' equity, while a decrease in the estimated time value would increase purchased options expense and reduce our reported net income and stockholders' equity. These changes are generally greater than changes we have observed historically in our valuation process. Table 20 shows the potential effect on our 2002 and 2001 reported results from these changes in time value. There would be no effect on our 2000 results as we adopted FAS 133 on January 1, 2001.

Table 20: Impact of Changes in the Time Value of Purchased Options

	Change in Fair Value Adjustment			Percentage of Reported Net Income(1)			Percentage of Total Stockholders' Equity		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(Dollars in millions)								
10% change in time value	$543	$493	NA	8%	5%	NA	2%	2%	NA
5% change in time value	271	246	NA	4	3	NA	1	1	NA

(1) Reflects after-tax effect of time value adjustment based on applicable federal income tax rate of 35 percent.

Table 20 reveals that a plus or minus change of 10 percent in the time value portion of our purchased options at December 31, 2002 and 2001 would change our reported net income by 8 percent and 5 percent, respectively. A plus or minus change of 5 percent in the time value portion of our purchased options at December 31, 2002 and 2001 would change our reported net income by approximately 4 percent and 3 percent, respectively. Changing the time value portion of our purchased options by 10 percent or 5 percent would change our total stockholders' equity by approximately 2 percent or 1 percent, respectively, at December 31, 2002 and 2001. Our core business earnings results would not be affected by these estimates because we amortize purchased options premiums on a straight-line basis over the original expected life of the option in measuring core business earnings and do not include mark-to-market changes in the fair value of purchased options.

RISK MANAGEMENT

Fannie Mae is subject to three major areas of risk: interest rate risk, credit risk, and operations risk. Active management of these risks is an essential part of our operations and a key determinant of our ability to maintain steady earnings growth. The following discussion highlights the strategies we use to manage these three risks.

Interest Rate Risk Management

Interest rate risk is the risk of loss to future earnings or long-term value that may result from changes in interest rates. Our interest rate risk is concentrated primarily in our mortgage portfolio where nearly 90 percent of our mortgages are intermediate-term or long-term, fixed-rate loans that borrowers have the option to prepay at any time without penalty. We are exposed to interest rate risk because the cash flows of our mortgage assets and the liabilities that fund them are not perfectly matched through time and across all possible interest rate scenarios. The cash flows from our mortgage assets are highly sensitive to changes in interest rates because of the borrower's prepayment option. As interest rates decrease, borrowers are more likely to refinance fixed-rate mortgages, resulting in increased prepayments and mortgage cash flows that are received earlier than expected. Replacing the higher-rate loans that prepay with lower-rate loans has the potential of reducing our interest spread unless we are able to also reduce our debt cost. Conversely, an increase in interest rates may result in slower than expected prepayments and mortgage cash flows that are received later than expected. In this case, we have the risk that our debt may reprice faster than our mortgage assets and at a higher cost, which could also reduce our interest spread. The objective of our interest rate risk management process is to maintain long-term value through a low variability of future earnings due to changes in interest rates, while preserving stable earnings growth and a competitive return on equity over time.

The Board of Directors oversees interest rate risk management through the adoption of corporate goals and objectives and the review of regular reports on performance against them. Senior management is responsible for ensuring that appropriate long-term strategies are in place to achieve the goals and objectives. Management establishes reference points for the key performance measures that we use to signal material changes in risk and to assist in determining whether we should adjust portfolio strategy to achieve long-term objectives. Management regularly reports these measures and reference points to the Board of Directors.

The Portfolio Investment Committee, which includes our senior mortgage portfolio managers, meets weekly and reviews current financial market conditions, portfolio risk measures, and performance targets. The Committee develops and monitors near-term strategies and the portfolio's standing relative to its long-term objectives. The results of Portfolio Investment Committee meetings are reported to the weekly Asset and Liability Management Committee, which is comprised of senior management and includes our Chief Executive Officer.

Fannie Mae's overall objective in managing interest rate risk is to deliver consistent net interest income growth and target returns on capital over a wide range of interest rate environments. Central elements of our approach to managing interest rate risk include: (1) funding assets by issuing liabilities that have similar cash flow patterns through time and in different interest rate environments, (2) regularly assessing the portfolio's exposure to changes in interest rates using a diverse set of analyses and measures, and (3) setting parameters for rebalancing actions to help attain corporate objectives.

1. ***Funding mortgage assets with liabilities that have similar cash flow patterns through time and in different interest rate environments.***

   When we purchase mortgages we attempt to match the initial estimated life, or duration, of our liabilities to our assets within a range to achieve a stable and competitive net interest margin. We issue a mix of debt securities across a broad spectrum of final maturities to achieve the desired liability durations. Because the estimated lives of mortgage assets change as interest rates change, we frequently issue callable debt or use derivatives to alter the estimated life of our liabilities to partially match the expected change in duration of our mortgage assets. The duration of callable debt, like that of a mortgage, shortens when interest rates decrease and lengthens when interest rates increase. If interest rates decrease, we are likely to call debt that carries an interest rate higher than the current market. We use interest rate swaps and other derivatives with embedded interest rate options to achieve our desired liability structure and to better match both the duration and prepayment risk of our mortgage assets. These derivatives, coupled with appropriate debt securities, are close substitutes for callable and noncallable debt. Through the use of these derivatives, we can synthetically create debt with cash flows similar to our mortgage assets.

2. Regularly assessing the portfolio's exposure to changes in interest rates using a diverse set of analyses and measures.

Interest Rate Risk Measurement

We utilize a wide range of risk measures and analyses to manage the interest rate risk inherent in the mortgage portfolio. We categorize these risk measures and analyses into three types: ongoing business risk measures and analyses, run-off measures of the existing portfolio, and stress test scenarios. The combination of ongoing business and run-off risk measures and analyses present a comprehensive picture of Fannie Mae's current risk position that we use for day-to-day risk management decisions. Stress test scenarios provide information on our risk to more extreme but lower probability events.

Our ongoing business risk measures and analyses include net interest income at risk and repricing gap analyses. We base net interest income at risk measures on the mortgage portfolio as of a certain date plus projections of future business activity. Future business activity includes projected mortgage purchases and funding actions. Management believes that ongoing business risk measures and analyses provide a better perspective on the interest rate risk we face as a continuing business and a more comprehensive depiction of our risk profile than run-off measures. However, they contain more assumption risk due to the inherent uncertainty in projecting future business activity.

Run-off measures of interest rate risk include duration, convexity, and repricing gaps. We base run-off measures on the mortgage portfolio as of a certain date without incorporating future business activity. Run-off measures provide an assessment of the interest rate risk of the existing portfolio without the assumption risk inherent in projecting future business activity. However, we believe it is important to manage interest rate risk in the context of ongoing business activity because future business is highly probable and has a pronounced effect on our interest rate risk profile.

Stress test scenarios include extreme movements in risk factors on both ongoing business and run-off measures of risk. We periodically measure and analyze the effects that extreme movements in the level of interest rates and the slope of the yield curve would have on the company's risk position. In addition, we evaluate stress scenarios that include severe changes in expected prepayment speeds and the level of interest rate volatility. While stress testing is an integral part of our risk management process, the ongoing business and run-off measures of risk are the primary inputs in daily risk management decisions.

Many of our projections of mortgage cash flows in our interest rate risk measures depend on our proprietary prepayment models. While we are highly confident in the quality of these models, we recognize the historical patterns that serve as input for our models may not continue in the future. The models contain many assumptions, including those regarding borrower behavior in certain interest rate environments and borrower relocation rates. Other assumptions such as projections of interest rates, shape of the yield curve, and interest rate volatility are also critical components to our interest rate risk measures. We maintain a research program to constantly evaluate, update, and enhance these assumptions, models, and analytical tools as appropriate to reflect management's best assessment of the environment.

• Net Interest Income at Risk

Net interest income at risk is our primary ongoing business measure of interest rate risk. Net interest income at risk measures the projected impact of changes in the level of interest rates and the shape of the yield curve on the mortgage portfolio's expected or "base" core net interest income over the immediate future one- and four-year periods. To determine our base core net interest income, we estimate core net interest income over a wide range of interest rate environments using stochastic interest rate simulations. Stochastic interest rate simulations are a widely used statistical method to estimate the path and pattern of interest rates. Our stochastic simulations produce probability distributions of future interest rates based on expected interest rate volatility and are based on proprietary interest rate models. We generate several hundred interest rate paths distributed around the current Fannie Mae yield curve from these simulations. The Fannie Mae yield curve represents market assumptions regarding our expected cost of funds over a variety of maturities and takes into account the risk premium on our debt relative to benchmark interest rates. We project core net interest income for four years along each path based on the characteristics of the current mortgage portfolio and projected future business activity. The expected or "base" core net interest income is calculated based on the average core net interest income across all simulation paths and serves as the basis for determining our interest rate risk profile. Our projections of future business activity used in these simulations are reported to senior management and our Board of Directors and provide the basis for Fannie Mae's current earnings forecasts.

We determine the amount of net interest income at risk by assuming a sudden change or shock to the current yield curve and repeating the simulation. We regularly evaluate a wide range of instantaneous shocks to both the level and shape of the yield curve and create the net interest income at risk profile by comparing the percentage change in core net interest income between each shocked simulation and the base simulation. Our net interest income at risk disclosures, which we report to the public on a monthly basis, represent the extent to which our core net interest income over the next one-year and four-year periods is at risk due to a plus or minus 50 basis point parallel change in the current Fannie Mae yield curve and from a 25 basis point change in the slope of Fannie Mae's yield curve. We selected these shocks for our monthly disclosure because they capture approximately 95 percent of historical changes in interest rates over a one-month reporting period.

• Duration Gap

The portfolio duration gap is a run-off measure of interest rate risk. The duration gap is the difference between the estimated durations of portfolio assets and liabilities. Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time and across interest rate scenarios. A positive duration gap signals a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap signals a greater exposure to declining interest rates because the duration of our assets is less than the duration of our liabilities. We apply the same interest rate process, prepayment models, and volatility assumptions used in our net interest income at risk measure to generate the portfolio duration gap. The duration gap reflects the current mortgage portfolio, including priced asset and debt commitments. We do not incorporate projected future business activity or nonmortgage investments into our duration gap measure.

We regularly evaluate the sensitivity of the duration gap over a wide range of instantaneous changes to both the level and shape of the yield curve. The duration gap provides a relatively concise and simple measure of the interest rate risk inherent in the existing mortgage portfolio, but it is not directly linked to expected future earnings performance. Future business activity, which is not reflected in the duration gap, can have a significant effect even over a very short horizon. We disclose on a monthly basis our duration gap at the end of each month along with our net interest income at risk, which together we believe provide a more informative profile of our overall interest rate risk position than either measure alone.

3. Setting the parameters for rebalancing actions to help attain corporate objectives.

Management develops rebalancing actions based on a number of factors that include the relative standing of both net interest income at risk and duration gap, as well as analyses based on additional risk measures and current market activities and conditions. We establish internal reference points, or indicators, for our risk measures to signal when we should re-examine the risk profile of our assets. Our reference points are set by Fannie Mae's management, not by any external or regulatory requirement, to provide a tool for determining when and to what extent we should consider rebalancing actions. These reference points do not represent absolute risk limits. They are generally consistent with levels of interest rate risk that we project will not result in significant variability in future earnings and long-term value.

As these risk measures begin to move beyond our internally established reference points, we consider actions to bring them within our preferred ranges in a manner that is consistent with achieving Fannie Mae's earnings objectives. As a risk measure moves further outside our preferred range, we place significantly greater emphasis on reducing our risk exposure and less emphasis on earnings objectives. We have not established a specific time horizon over which rebalancing actions must take place.

Risk Management Results

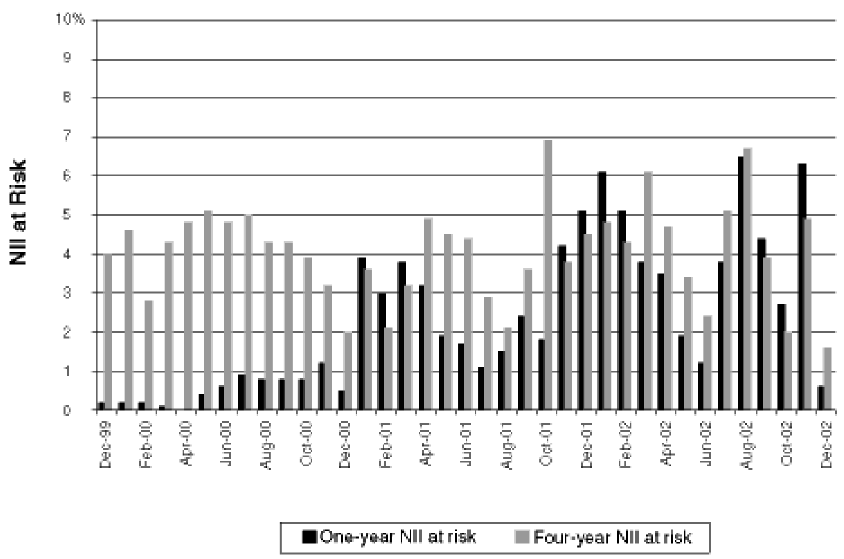
2002 was a year of significant interest rate movements coupled with unprecedented levels of interest rate volatility. Fannie Mae's disciplined risk management process was critical to successfully meeting the company's interest rate risk objectives throughout this challenging environment. During the first half of 2002, our interest rate risk measures were within our reference points, and no significant rebalancing actions were considered necessary. Between June and September 2002, interest rates declined significantly and our primary risk measures began to move outside of our preferred range. As these risk measures approached our internally established reference points, we developed strategies to moderately rebalance the portfolio. As rates continued to fall, we increased the pace of rebalancing significantly. After our interest rate risk measures reached peak levels in August 2002, we continued to aggressively rebalance to bring our risk measures within our established reference points. We utilized a wide range of tools to execute this rebalancing, including increased mortgage purchases, reduced fixed-rate debt issuances, debt repurchases, and derivative transactions.

• Net Interest Income at Risk

At December 31, 2002, our one-year and four-year net interest income at risk measures for a 50 basis point change across the Fannie Mae yield curve were .6 percent and 1.6 percent, respectively, compared with 5.1 percent and 4.5 percent, respectively, at December 31, 2001. The one-year and four-year net interest income at risk measures for a 25 basis point change in the slope of the Fannie Mae yield curve were 4.7 percent and 6.6 percent, respectively, compared with 2.4 percent and 4.3 percent, respectively, at December 31, 2001.

The following graphs show the monthly net interest income at risk for each of the last three years under both a 50 basis point change across the Fannie Mae yield curve and a 25 basis point change in the slope of the Fannie Mae yield curve. Compared to 2001 and 2000, the net interest income at risk was at somewhat higher levels and more variable during 2002. The results for 2002 reflect the extreme low level of interest rates as well as unprecedented levels of interest rate volatility related to uncertainty about the economic outlook.

Mortgage Portfolio Net Interest Income at Risk - 50 Basis Point Level Shock



Mortgage Portfolio Net Interest Income at Risk - 25 Basis Point Slope Shock

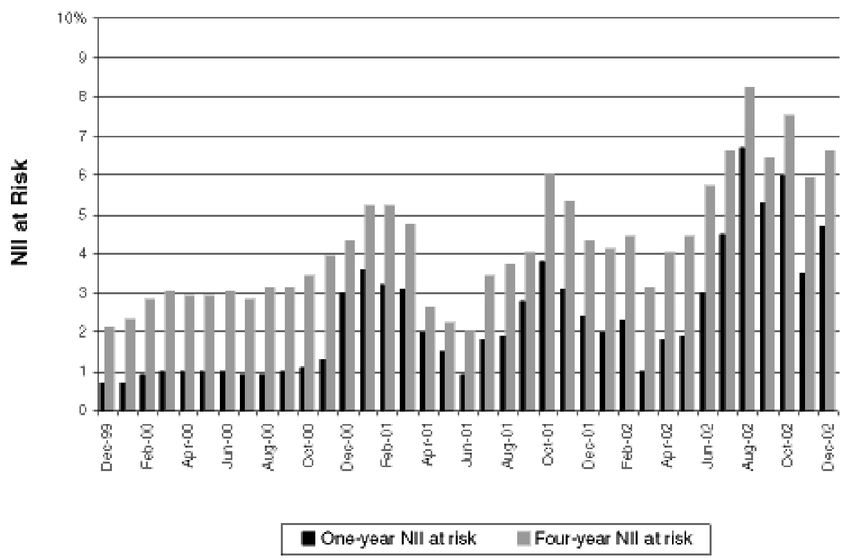


Table 21 presents our net interest income at risk based on an instantaneous 100 basis point increase and a 50 basis point decrease in interest rates. The risk measure is an extension of our voluntary monthly net interest income at risk disclosure, and we use the same data, assumptions, and methodology. We consider our net interest income at risk at December 31, 2002 to be low as our exposure to a 100 basis point instantaneous increase in interest rates was estimated not to exceed 4 percent and 6 percent over a 1-year and 4-year horizon, respectively, and our exposure to a 50 basis point instantaneous decrease in rates was estimated not to exceed more than 1 percent over a 1-year and 4-year horizon. In comparison, we had what we consider to be a moderate level of risk exposure at December 31, 2001 to increasing rates and a benefit from decreasing rates. The changes in the profile of net interest income at risk from December 31, 2001 to December 31, 2002 were driven by changes in the level of interest rates and shape of the yield curve, changes in the composition of the portfolio, and changes in forecast assumptions. Actual portfolio net interest income may differ from these estimates because of specific interest rate movements, changing business conditions, changing prepayments, and management actions.

Table 21: Net Interest Income at Risk

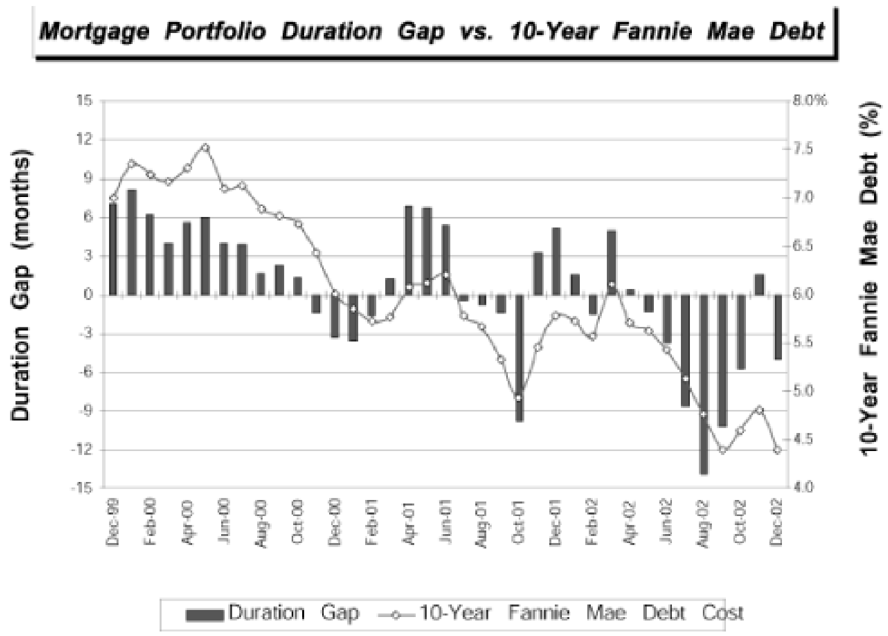
	December 31, 2002		December 31, 2001	
	1-Year Portfolio Net Interest Income at Risk	4-Year Portfolio Net Interest Income at Risk	1-Year Portfolio Net Interest Income at Risk	4-Year Portfolio Net Interest Income at Risk
Assuming a 100 basis point increase in interest rates	4%	6%	10%	10%
Assuming a 50 basis point decrease in interest rates	1	—	(4)	(2)

- Duration Gap

Fannie Mae's duration gap was minus 5 months at December 31, 2002, versus plus 5 months at December 31, 2001. The negative shift in our duration gap during 2002 was primarily the result of historically low interest rates that resulted in a surge in expected refinancings. The significant increase in our expectation of mortgage prepayments caused the durations of our mortgages to shorten by more than the durations of our debt during 2002. Our monthly duration gap turned sharply negative during the year, falling to minus 14 months at the end of August 2002 before narrowing to minus 5 months by the end of the year. The movement in the duration gap during 2002 was not unusual given our historical experience during previous refinance waves or periods of significant interest rate volatility. Our duration gap also moved significantly during each of the prior major refinancing waves in 2001, 1998, and 1993. Over the past decade, Fannie Mae's duration gap has been wider than plus or minus 6 months approximately one-third of the time. During 2002, our monthly duration gap was wider than plus or minus 6 months three times.

Although periods of heavy refinancing are typically associated with somewhat higher risk levels, these periods historically have provided positive opportunities for our portfolio. Through our normal business activities of buying mortgages and issuing debt, we historically have been able to bring our duration gap measure within our target range in a manner and pace that does not put undue demands on the market. Opportunities to add new business during the latter half of 2002 developed at about the pace we anticipated in a low rate environment. The increased business activity fueled our purchase of long-term, fixed-rate mortgages, which helped to lengthen the duration of our mortgage assets and offset our negative duration gap. In addition, we took a number of specific rebalancing actions in the latter half of 2002 to reduce our negative duration gap, including funding our longer duration mortgage purchases with shorter-term debt, repurchasing long-term outstanding debt, terminating certain long-term pay-fixed interest rate swaps, and entering into option-based derivatives transactions. If interest rates increase, some of our rebalancing actions could result in lower portfolio returns than would have occurred without the rebalancing. However, our objective is to maintain an interest rate risk profile that is balanced to protect us against both increases and decreases in interest rates. Because managing our duration gap through rebalancing actions is a routine part of our interest rate risk management strategy, we do not expect these actions to have a material adverse effect on our future earnings objectives.

The graph below shows Fannie Mae's monthly duration gap compared with the yield on Fannie Mae 10-year debt for the last three years.



• Convexity

Convexity measures are commonly used as a supplement to duration measures to reflect the degree to which durations are likely to change in response to movements in interest rates. Convexity provides us with information on how quickly and by how much the portfolio's duration gap may change in different interest rate environments. Our primary strategy for managing convexity risk is to either issue callable debt or purchase interest-rate derivatives with embedded options. We may also change the mix of assets we purchase to manage convexity risk. For example, ARMs, shorter-term fixed rate mortgages, and some seasoned loans have less prepayment risk relative to new 30-year fixed rate mortgages, and as a result, reduce convexity risk. Generally, our preferred option is to issue callable debt or purchase optionality rather than change the mix of our assets because we find greater value in investing in longer term, fixed-rate loans.

During 2002, we continued to take advantage of the opportunity to reduce our debt costs by redeeming significant amounts of callable debt in response to the sharp decline in short-term interest rates that began in 2001. At the same time, we continued to reduce the portfolio's convexity by aggressively increasing the amount of option protection through the issuance of callable debt or the purchase of interest-rate derivatives with embedded options. These instruments give us the option to reduce the duration of our liabilities to offset potential increases in mortgage prepayments that usually occur when mortgage rates fall.

By the end of 2002, we had increased our option-embedded debt, which includes callable debt and option-based derivatives, as a percentage of our net mortgage portfolio to 75 percent from 54 percent at the end of 2001. As part of our rebalancing strategy during the last half of 2002, we increased our use of short-term European options, which temporarily increased the percentage of our mortgage portfolio with option-embedded rate protection beyond the average range of the past 3 years. At December 31, 2002, the remaining outstanding notional amount of these options totaled approximately 9 percent of our net mortgage portfolio. Callable debt and option-based derivative instruments debt represented 58 percent and 42 percent, respectively of the $601 billion in option-embedded debt outstanding at December 31, 2002. In comparison, callable debt and option based derivative instruments, represented 62 percent and 38 percent, respectively of the $378 billion in option-embedded debt outstanding at December 31, 2001.

• Interest Rate Sensitivity of Net Asset Value

Another indicator of the interest rate exposure of Fannie Mae’s existing business is the sensitivity of the fair value of net assets (net asset value) to changes in interest rates. Table 22 presents our estimated net asset value as of December 31, 2002 and 2001, and the impact on our estimated net asset value of a hypothetical plus 100 and minus 50 basis point instantaneous shock in interest rates. Our analysis is based on these interest rates changes because we believe they reflect reasonably possible near-term outcomes.

Table 22: Interest Rate Sensitivity of Net Asset Value

	2002		2001	
	Net Asset Value	Percentage of Net Asset Value	Net Asset Value	Percentage of Net Asset Value
	(Dollars in millions)			
December 31	$22,130	—%	$22,675	—%
Assuming a 100 basis point increase in interest rates	22,727	103	18,502	82
Assuming a 50 basis point decrease in interest rates	18,819	85	22,215	98

Changes in net asset value incorporate various factors, including:

• estimated changes in the values of all mortgage assets and the debt funding these assets,

• estimated changes in the value of net guaranty fee income from off-balance-sheet MBS obligations,

• estimated changes in the value of interest rate derivatives.

As indicated in Table 22, the projected fair value of our net assets at December 31, 2002 for a 100 basis point instantaneous increase would increase by approximately 3 percent, while a 50 basis point instantaneous decline in interest rates would reduce the fair value by approximately 15 percent. The sensitivities at December 31, 2002 reflect that we have greater risk exposure to a decline in interest rates, similar to the results generated by our duration gap, but slightly different than the results of our net interest income at risk measure due to the effects of the future business activity included in that measure. The difference in the risk profile from December 31, 2002 and December 31, 2001 is largely due to lower interest rates and a change in the mix of the portfolio.

The net asset value at December 31, 2002, as presented in Table 22, is the same as that disclosed in the Notes to Financial Statements under Note 16, “Disclosures of Fair Value of Financial Instruments.” We derived the net asset values for the hypothetical interest rate scenarios in a manner consistent with the estimation procedures described in Note 16. The net asset value sensitivities do not necessarily represent the changes that would actually occur because the sensitivities are based on liquidating business and do not include the going-concern effects of adding new business.

Derivative Instruments

Purpose and Benefit of Derivatives

Derivative instruments are important tools that we use to manage interest rate risk and supplement our issuance of debt in the capital markets. We are an end user of derivatives and do not take speculative positions with derivatives or any other financial instrument. We use a combination of option embedded and non-option embedded derivatives to better match the cash flow variability inherent in mortgages. We also use derivative instruments to hedge against changes in interest rates prior to debt issuance. Interest rate derivatives allow us to essentially lock in our funding cost at the time we commit to purchase mortgages rather than at the time of our next benchmark debt issuance. In addition, we use currency derivatives to convert debt issued in foreign currencies to U.S. dollars to minimize or negate any currency risk.

Fannie Mae primarily uses derivatives as a substitute for notes and bonds we issue in the debt markets. When we purchase mortgage assets, we fund the purchases with a combination of equity and debt. The debt we issue is a mix that typically consists of short- and long-term, noncallable debt and callable debt. The varied maturities and flexibility of these debt combinations help us in reducing the cash flow mismatch between the performance of our assets and liabilities.

We can use a mix of debt issuances and derivatives to achieve the same duration matching that would be achieved by issuing only debt securities. The following is an example of funding alternatives that we could use to achieve similar economic results:

- Rather than issuing a 10-year noncallable fixed-rate note, we could issue short-term debt and enter into a 10-year interest rate swap with a highly rated counterparty. The derivative counterparty would pay a floating rate of interest to us on the swap that we would use to pay the interest expense on the short-term debt, which we would continue to reissue periodically. We would pay the counterparty a fixed rate of interest on the swap, thus achieving the economics of a 10-year fixed-rate note issue.

- Similarly, instead of issuing a 10-year fixed-rate note callable after three years, we could issue a 3-year note and enter into a pay-fixed swaption that would have the same economics as a 10-year callable note. If we want to extend the debt beyond three years, the swaption would give us the option to enter into a swap agreement where we would pay a fixed rate of interest to the derivative counterparty over the remaining 7-year period.

The ability to either issue debt securities or modify debt through the use of derivatives increases our funding flexibility and potentially reduces our overall funding costs. We may be able to obtain a specific funding structure using derivatives that we cannot obtain through the issuance of callable debt. In addition, it can be less expensive to use the mix of debt securities and derivatives to achieve a given funding objective. We generally use the method that provides the lowest funding costs and desired flexibility.

Table 23 gives an example of equivalent funding alternatives for a mortgage purchase with funding derived solely from debt securities versus funding with a blend of debt securities and derivatives. As illustrated by Table 23, we can achieve similar economic results by funding our mortgage purchases with either debt securities or a combination of debt securities and derivatives.

Table 23: Equivalent Debt and Derivative Funding

Fund With:(1)			
Debt Securities		Debt Securities and Derivatives	
Percentage	Type of Debt	Percentage	Type of Debt
10%	Short-term debt	10%	Short-term debt
15	3-year noncallable debt	15	3-year noncallable debt
25	10-year noncallable debt	25	Short-term debt plus 10-year swap
50	10-year callable in 3 years	50	3-year noncallable debt plus pay-fixed swaption
100%		100%	

(1) This example indicates the possible funding mix and does not represent how an actual purchase would necessarily be funded.

Fannie Mae also uses derivatives to hedge against fluctuations in interest rates on planned debt issuances. The hedging of anticipated debt issuances enables us to maintain an orderly and cost-effective debt issuance schedule so we can fund daily loan purchase commitments without significantly increasing our interest rate risk or changing the spread of our funding costs versus other market interest rates. Most of the mortgages that Fannie Mae commits to purchase are for a future settlement date, typically two weeks to three months into the future. Fannie Mae would be exposed to additional interest rate risk from changes in market rates prior to settlement if we did not issue debt at the time of the commitment or did not lock in an interest rate by hedging the anticipated debt issuance. By hedging anticipated debt issuance versus issuing debt at the time of commitment, we are able to issue debt in larger size and on a regular schedule so that liquidity is enhanced while our relative cost of funds is reduced.

Fannie Mae uses derivatives to hedge foreign currency exposure. We occasionally issue debt in a foreign currency. Because all of our assets are denominated in U.S. dollars, we enter into currency swaps to effectively convert the foreign-denominated debt into U.S. dollar-denominated debt. By swapping out of foreign currencies completely at the time of the debt issue, we minimize our exposure to any currency risk. Our foreign denominated debt represents less than one percent of total debt outstanding.

Primary Types of Derivatives Used

Table 24 summarizes the primary derivative instruments Fannie Mae uses along with the key hedging strategies we employ to manage our various interest rate risk exposures.

Table 24: Primary Types of Derivatives Used

Derivative Hedging Instrument	Hedged Item	Purpose of the Hedge Transaction
Pay-fixed, receive-variable interest-rate swap	Variable-rate debt Anticipated issuance of debt	To protect against an increase in interest rates by converting the debt’s variable rate to a fixed rate.
Receive-fixed, pay-variable interest-rate swap	Noncallable fixed-rate debt	To protect against a decline in interest rates. Converts the debt’s fixed rate to a variable rate.
Basis swap or spread-lock	Variable-rate assets and liabilities	To “lock in” or preserve the spread between variable-rate, interest-earning assets and variable-rate, interest-bearing liabilities.
Pay-fixed swaption	Variable-rate debt	To protect against an increase in interest rates by having an option to convert floating-rate debt to a fixed rate.
Caps	Variable-rate debt	To protect against an increase in interest rates by providing a limit on the interest costs on our debt in a rising rate environment.
Receive-fixed swaption	Noncallable fixed-rate debt	To protect against a decline in interest rates by having an option to convert fixed-rate debt to floating-rate debt.
Foreign currency swaps	Foreign currency-denominated debt	To protect against fluctuations in exchange rates on non-U.S. dollar- denominated debt by converting the interest expense and principal payment on foreign-denominated debt to U.S. dollar-denominated debt.

As Table 24 indicates, we use what the marketplace generally regards as relatively straightforward types of interest rate derivative instruments, primarily interest-rate swaps, basis swaps, swaptions, and caps. Swaps provide for the exchange of fixed and variable interest payments based on contractual notional principal amounts. These may include callable swaps (a combination of a swap and swaptions), which gives counterparties or Fannie Mae the right to terminate interest rate swaps before their stated maturities. They may also include foreign currency swaps in which Fannie Mae and counterparties exchange payments in different types of currencies. Basis swaps provide for the exchange of variable payments that have maturities similar to hedged debt, but have payments based on different interest rate indices. Swaptions give Fannie Mae the right to enter into a swap at a future date. Interest rate caps provide ceilings on the interest rates of variable-rate debt. Purchased options are another important risk management tool we use to reduce the cash flow mismatches driven by the prepayment option in mortgages. American homeowners have “options” to pay off their mortgages at any time. We use options of our own to manage this prepayment option risk on the loans we hold in portfolio. We obtain these options by either issuing callable debt or purchasing stand-alone options and linking them to the debt they are hedging.

Summary of Derivative Activity

Table 25 summarizes the notional balances and fair values of our derivatives by type for the years ended December 31, 2002 and 2001.

Table 25: Derivative Notional Amounts and Net Fair Values

	December 31, 2002		December 31, 2001	
	Notional Amounts	Net Fair Values(1)	Notional Amounts	Net Fair Values(1)
	(Dollars in millions)			
Pay-fixed swaps	$168,512	$(17,892)	$213,680	$(9,792)
Receive-fixed swaps	52,370	4,010	39,069	899
Basis swaps	25,525	4	47,054	1
Caps and swaptions	397,868	12,834	219,943	6,267
Other	12,320	(987)	13,393	(1,490)
Total	$656,595	$ (2,031)	$533,139	$(4,115)

(1) Based on year-end fair values, estimated by calculating the cost, on a net present value basis, to settle at current market rates all outstanding derivative contracts.

Table 26 shows the additions and maturities of derivatives by type during 2001 and 2002, along with the expected maturities of derivatives outstanding at December 31, 2002.

Table 26: Derivative Activity and Maturity Data

	Pay-Fixed/Receive-Variable Swaps[2]							
	Amount	Pay Rate[3]	Receive Rate[3]	Receive-Fixed Pay-Variable/ Swaps	Basis Swaps	Caps and Swaptions	Other[4]	Total
	(Dollars in millions)							
Notional Amounts:[1]								
Balance at January 1, 2001	$153,737	6.74%	6.79%	$59,174	$14,559	$ 82,528	$14,742	$324,740
Additions	90,787	5.39	3.95	33,230	46,150	168,350	100	338,617
Maturities[5]	30,844	6.41	4.20	53,335	13,655	30,935	1,449	130,218
Balance at December 31, 2001	213,680	6.21	2.47	39,069	47,054	219,943	13,393	533,139
Additions	35,117	5.17	1.90	57,949	13,275	239,925	7,889	354,155
Maturities[5]	80,285	5.00	1.70	44,648	34,804	62,000	8,962	230,699
Balance at December 31, 2002	$168,512	6.07%	1.67%	$52,370	$25,525	$397,868	$12,320	$656,595
Future Maturities of Notional Amounts:[6]								
2003	$ 26,230	5.03%	1.68%	$15,422	$18,090	$122,718	$ —	$182,460
2004	15,330	5.60	1.68	4,875	6,795	39,100	4,147	70,247
2005	10,600	6.28	1.67	6,355	170	28,200	1,200	46,525
2006	11,450	6.19	1.60	3,650	100	12,350	616	28,166
2007	15,350	5.45	1.69	6,050	100	23,275	—	44,775
Thereafter	89,552	6.51	1.66	16,018	270	172,225	6,357	284,422
Total	$168,512	6.07%	1.67%	$52,370	$25,525	$397,868	$12,320	$656,595

(1) Dollars represent notional amounts that indicate only the amount on which payments are being calculated and do not represent the amount at risk of loss.

(2) Notional amounts include callable swaps of $35 billion and $32 billion with weighted-average pay rates of 6.75 percent and 6.72 percent and weighted-average receive rates of 1.68 percent and 2.54 percent at December 31, 2002 and December 31, 2001, respectively.

(3) The weighted-average interest rate payable and receivable is as of the date indicated. The interest rates of the swaps may be variable-rate, so these rates may change as prevailing interest rates change.

(4) Includes foreign currency swaps, futures contracts, and derivative instruments that provide a hedge against interest rate fluctuations.

(5) Includes matured, called, exercised, and terminated amounts.

(6) Based on stated maturities. Assumes that variable interest rates remain constant at December 31, 2002 levels.

Derivative Counterparty Risk

At December 31, 2002, over 99 percent of the $657 billion notional amount of our outstanding derivative transactions were with counterparties rated A or better both by Standard & Poor's ("S&P") and Moody's. Our derivative instruments were diversified among 21 and 23 counterparties at year-end 2002 and 2001, respectively, to reduce our credit risk concentrations. At December 31, 2002, eight counterparties with credit ratings of A or better represented approximately 76 percent of the total notional amount of outstanding derivatives transactions. The outstanding notional amount for each of these eight counterparties ranged between 5 percent and 15 percent of our total outstanding notional amount at December 31, 2002. Each of the remaining counterparties accounted for less than 5 percent of the total outstanding notional amount at December 31, 2002. In comparison, eight counterparties with credit ratings of A or better accounted for approximately 78 percent of the total notional outstanding amount at December 31, 2001.

The primary credit exposure that we have on a derivative transaction is that a counterparty might default on payments due, which could result in having to replace the derivative with a different counterparty at a higher cost. The exposure to counterparty default after offsetting arrangements, such as master netting agreements and the value of related collateral, is the appropriate measure of the actual credit risk of derivative contracts.

We believe the risk of loss on Fannie Mae's derivatives book is low for three primary reasons: (1) our stringent counterparty eligibility standards, (2) our conservative collateral policy, which has provisions requiring collateral on our derivative contracts in gain positions, and (3) our intensive exposure monitoring and management.

Fannie Mae has never experienced a loss on a derivative transaction due to credit default by a counterparty. The credit risk on our derivative transactions is low because our counterparties are of very high credit quality. Our counterparties consist of large banks, broker-dealers, and other financial institutions that have a significant presence in the derivatives market, most of whom are based in the United States. We manage derivative counterparty credit risk by contracting only with experienced counterparties that have high credit ratings. We initiate derivative contracts only with counterparties rated A or better. As an additional precaution, we have a conservative collateral management policy with provisions for requiring collateral on our derivative contracts in gain positions.

We also monitor credit exposure on our derivatives daily by valuing them using internal pricing models and dealer quotes. We make collateral calls daily based on the results of our internal models and dealer quotes. We enter into master agreements that provide for netting of amounts due to us and amounts due to counterparties under those agreements. New York law governs all of our master derivatives agreements.

The estimated total notional balance of the global derivatives market was $152 trillion at June 30, 2002 based on combined data from the Bank for International Settlements for over-the-counter derivatives and published figures for exchange-traded derivatives. Fannie Mae's outstanding notional principal balance of $657 billion at December 31, 2002 represented less than .5 percent of the total estimated derivatives market. Although notional principal is a commonly used measure of volume in the derivatives market, it is not a meaningful measure of market or credit risk since the notional amount does not change hands other than in the case of foreign currency swaps. Counterparties use the notional amounts of derivative instruments to calculate contractual cash flows to be exchanged. However, the notional amount is significantly greater than the potential market or credit loss that could result from such transactions. The fair value of derivatives in a gain position is a more meaningful measure of our current market exposure on derivatives. Table 27 shows our exposure on derivatives by maturity at December 31, 2002 and 2001 and counterparty credit ratings based on these maturities.

Table 27: Derivative Credit Loss Exposure[1]

	December 31, 2002					December 31, 2001				
	Credit Rating					Credit Rating				
	AAA	AA	A	BBB	Total	AAA	AA	A	BBB	Total
	(Dollars in millions)									
Less than 1 year	$ —	$ 69	$ 6	$ —	$ 75	$ —	$ —	$ —	$ —	$ —
1 to 5 years	—	486	116	—	602	—	43	43	—	86
Over 5 years	21	1,334	2,328	—	3,683	136	671	826	—	1,633
Subtotal	21	1,889	2,450	—	4,360	136	714	869	—	1,719
Maturity distribution netting [2]	(21)	(368)	(670)	—	(1,059)	(136)	(528)	(289)	—	(953)
Exposure	—	1,521	1,780	—	3,301	—	186	580	—	766
Collateral held	—	1,382	1,722	—	3,104	—	95	561	—	656
Exposure net of collateral	$ —	$ 139	$ 58	$ —	$ 197	$ —	$ 91	$ 19	$ —	$ 110
Notional amount	$21,045	$316,813	$318,487	$250	$656,595	$71,173	$316,588	$145,128	$250	$533,139
Number of counterparties	2	11	7	1	21	3	16	3	1	23

(1) Represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position. Reported on a net-by-counterparty basis where a legal right of offset exists under an enforceable master settlement agreement. Derivative gains and losses with the same counterparty in the same maturity category are presented net within the maturity category.

(2) Represents impact of netting of derivatives in a gain position and derivatives in a loss position for the same counterparty across maturity categories.

We estimate exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a gain position. Fannie Mae's exposure on derivative contracts (taking into account master settlement agreements that allow for netting of payments and excluding collateral received) was $3.301 billion at December 31, 2002, compared with $766 million at December 31, 2001. We expect the credit exposure on derivative contracts to fluctuate with both changes in interest rates and implied volatility. We held $3.104 billion of collateral through custodians for derivative instruments at December 31, 2002 and $656 million of collateral at December 31, 2001. Assuming the highly unlikely event that all of our derivative counterparties to which Fannie Mae was exposed at December 31, 2002 were to default simultaneously, it would have cost an estimated $197 million to replace the economic value of those contracts. This replacement cost represents approximately 2 percent of our 2002 pre-tax core business earnings. The replacement cost, or exposure after consideration of collateral held was $110 million at December 31, 2001. Changes in both interest rates and the type of derivative transactions with specific counterparties increased our exposure at the end of 2002.

At December 31, 2002 and December 31, 2001, 100 percent of our exposure on derivatives, before consideration of collateral held, was with counterparties rated A or better by S&P and Moody's. Five counterparties with credit ratings of A or better accounted for approximately 92 percent and 98 percent of our exposure on derivatives before consideration of collateral held at December 31, 2002 and 2001, respectively. Seventy-one percent of our net exposure of $197 million at December 31, 2002 was with six counterparties rated AA or better by S&P and Aa or better by Moody's. The percentage of our exposure with these six counterparties ranged from 2 to 23 percent. In comparison, five counterparties rated AA or better by S&P and Aa or better by Moody's accounted for 83 percent of our net exposure of $110 million at December 31, 2001. The percentage of our net exposure with counterparties rated AA or better by S&P and Aa or better by Moody's fell during 2002 because of a change in the relative mix of our derivative products in response to changes in market conditions that shifted the relative level of activity and exposure between individual counterparties. We mitigate our net exposure on derivative transactions through a collateral management policy, which consists of four primary components: (1) minimum collateral thresholds; (2) collateral valuation percentages; (3) overcollateralization based on rating downgrades; and (4) daily monitoring procedures.

• Minimum Collateral Thresholds

Derivative counterparties are obligated to post collateral to Fannie Mae when we are exposed to credit losses exceeding agreed-upon thresholds that are based on counterparty credit ratings. We determine the collateral amount that counterparties are required to post based on their credit rating and our level of credit exposure. The amount of collateral generally must equal the excess of Fannie Mae's exposure over the threshold amount. Table 28 presents Fannie Mae's general ratings-based collateral thresholds.

Table 28: Fannie Mae Ratings-Based Collateral Thresholds

Credit Rating		
S&P	**Moody's**	**Exposure Threshold**
		(Dollars in millions)
AAA	Aaa	Mutually agreed on
AA+	Aa1	$100
AA	Aa2	50
AA-	Aa3	50
A+	A1	25
A	A2	10
A- or below	A3 or below	0 (see Table 29)

• Collateral Valuation Percentages

We require counterparties to post specific types of collateral to meet their collateral requirements. The collateral posted by our counterparties at December 31, 2002 was principally in the form of cash or

U.S. Treasury securities with a small amount of agency MBS. All of the collateral posted by our counterparties was in the form of cash or U.S. Treasury securities at December 31, 2001. We assign each type of collateral a specific valuation percentage based on its relative risk. For example, cash receives a 100 percent valuation, while certain U.S. Treasury instruments may receive only a 98 percent valuation percentage. In cases where the valuation percentage for a certain type of collateral is less than 100 percent, we require counterparties to post an additional amount of collateral to meet their requirements.

- Overcollateralization Based on Low Credit Ratings

We further reduce our net exposure on derivatives by generally requiring overcollateralization from counterparties whose credit ratings have dropped below predetermined levels. Counterparties falling below these levels must post collateral beyond the amounts previously noted to meet their overall requirements. Table 29 presents Fannie Mae's standard valuation percentages for overcollateralization based on counterparty credit ratings. The percentage of additional collateral is applied to the initial amount of collateral required to be posted.

Table 29: Fannie Mae Standard Collateral Valuation Percentages

Credit Rating	Additional Percentage of Collateral to be Posted
A/A2 or above	0%
A-/A3 to BBB+/ Baa1	10
BBB/Baa2 or below	25

- Frequent Monitoring Procedures

We mark our collateral position daily against exposure using both internal and external pricing models and compare these calculations to our counterparties' valuations. Both Fannie Mae and our derivative counterparties transfer collateral within two business days based on the agreed-upon valuation. Pursuant to Fannie Mae's collateral agreements we reserve the right to value exposure and collateral adequacy at any time. A New York-based third-party custodian holds all of the collateral posted to Fannie Mae and monitors the value on a daily basis.

Credit Risk Management

Credit risk is the risk of loss to future earnings or future cash flows that may result from the failure of a borrower or institution to fulfill its contractual obligation to make payments to Fannie Mae or an institution's failure to perform a service for us. We assume and manage mortgage credit risk and institutional credit risk that arise through a variety of transactions. We actively manage credit risk to maintain credit losses within levels that generate attractive profitability and returns on capital and meet our expectations for consistent financial performance.

The Chief Credit Officer has primary responsibility for setting strategies to achieve the credit risk goals and objectives set by our Board of Directors. The Chief Credit Officer, who reports to our Chief Financial Officer, chairs Fannie Mae's Credit Risk Policy Committee. The Credit Risk Policy Committee works in concert with the Portfolios and Capital Committee and the Operations, Transactions and Investments ("OTI") Committee to provide corporate governance over Fannie Mae's credit risk. Fannie Mae's business units have primary responsibility for managing our business activities in conformity with the credit strategies and requirements set by our committees. Within each business unit, we have a credit officer who has responsibility for certain credit risk decisions outlined in a written delegation of credit authority approved by the Credit Risk Policy Committee. Our business unit credit officers report directly to the business unit leaders and indirectly to the Chief Credit Officer.

In addition, we have corporate credit risk management teams that report to the Chief Credit Officer and work with the business units to identify, measure, and manage credit risks. Our Policy and Standards team establishes and monitors credit policies, standards, and delegations of credit authority throughout the organization. Our Credit Research and Portfolio Management team is responsible for understanding and managing the aggregate risk exposure, risk sensitivity, and usage of risk capital. Our Counterparty Risk Management team is responsible for setting company-wide policies governing Fannie Mae's contractual exposures to institutional counterparties and identifying and measuring these exposures. Our Credit Management Information Systems team prepares analysis that monitors and identifies key credit risk trends in the credit book of business.

Our business units monitor and enforce compliance with credit risk standards and identify changes in market conditions that may warrant changes to credit policies and standards. For example, business units provide quality control oversight by requiring lenders to maintain a rigorous quality control process and by maintaining our own quality assurance process. Our regional offices, which are responsible for managing customer relationships, also play an important risk management role. Working with the business unit leaders, regional customer management teams ensure that pricing and transaction terms are structured appropriately to meet the unique needs and risks of Fannie Mae's various lender partners. Regional officers have credit authority to make credit decisions or develop customized mortgage solutions up to certain thresholds as outlined in the Credit Risk Policy Committee's written delegation of authority. Delegating certain credit authority and responsibility to our regional offices has allowed us to work closely with our lender partners, which has been integral to achieving a track record of effective credit risk management.

Mortgage Credit Risk

Our mortgage credit risk stems from our mortgage credit book of business, where we bear the risk that borrowers fail to make payments required on their mortgages. Our mortgage credit book of business consists of mortgages we own, mortgages and MBS we guarantee, and other contractual arrangements or guarantees. The Credit Guaranty business manages our mortgage credit risk. We are exposed to credit risk on our mortgage credit book of business because we either own the assets or have guaranteed the timely payment of scheduled principal and interest to third parties. For example, in the event of the default of a borrower on a mortgage underlying an MBS, we absorb any losses, net of the proceeds of any credit enhancements, that result and pay to the MBS investor all accrued interest and the full outstanding principal balance of the defaulted loan.

A certain level of credit losses is an inherent consequence of engaging in the Credit Guaranty business. Our risk management focus is on controlling the level and volatility of credit losses that result from changes in economic conditions. Table 30 presents the composition of our mortgage credit book of business for 2002, 2001, and 2000.

Table 30: Composition of Mortgage Credit Book of Business

	December 31, 2002					
	Single-family		Multifamily		Total	
	Conventional	Government	Conventional	Government	Conventional	Government
	(Dollars in millions)					
Mortgage portfolio:(1)						
Mortgage loans	$ 166,772	$ 5,458	$12,217	$1,354	$ 178,989	$ 6,812
Fannie Mae MBS	497,818	2,447	6,765	1,801	504,583	4,248
Agency mortgage securities(2)	31,959	16,453	—	—	31,959	16,453
Other mortgage-related securities (3)	27,833	—	284	—	28,117	—
Mortgage revenue bonds	—	14,086	—	5,552	—	19,638
	724,382	38,444	19,266	8,707	743,648	47,151
Outstanding MBS(4)	953,729	24,616	50,671	440	1,004,400	25,056
Other(5)	360	—	11,479	—	11,839	—
Mortgage credit book of business	$1,678,471	$63,060	$81,416	$9,147	$1,759,887	$72,207

	December 31, 2001					
	Single-family		Multifamily		Total	
	Conventional	Government	Conventional	Government	Conventional	Government
Mortgage portfolio:(1)						
Mortgage loans	$ 150,350	$ 5,069	$ 8,987	$1,551	$ 159,337	$ 6,620
Fannie Mae MBS	420,631	3,438	5,315	2,002	425,946	5,440
Agency mortgage securities(2)	42,105	19,607	—	—	42,105	19,607
Other mortgage-related securities (3)	29,259	—	321	—	29,580	—
Mortgage revenue bonds	—	13,903	—	4,476	—	18,379
	642,345	42,017	14,623	8,029	656,968	50,046
Outstanding MBS(4)	800,411	13,546	44,428	482	844,839	14,028
Other(5)	930	—	15,491	—	16,421	—
Mortgage credit book of business	$1,443,686	$55,563	$74,542	$8,511	$1,518,228	$64,074

	December 31, 2000					
	Single-family		Multifamily		Total	
	Conventional	Government	Conventional	Government	Conventional	Government
Mortgage portfolio:(1)						
Mortgage loans	$ 139,382	$ 4,763	$ 6,547	$1,814	$ 145,929	$ 6,577
Fannie Mae MBS	342,299	3,364	3,308	2,057	345,607	5,421
Agency mortgage securities(2)	32,987	24,137	—	—	32,987	24,137
Other mortgage-related securities (3)	33,931	—	333	—	34,264	—
Mortgage revenue bonds	3	11,890	1	3,309	4	15,199
	548,602	44,154	10,189	7,180	558,791	51,334
Outstanding MBS(4)	662,621	8,076	35,460	527	698,081	8,603
Other(5)	993	—	12,323	—	13,316	—
Mortgage credit book of business	$1,212,216	$52,230	$57,972	$7,707	$1,270,188	$59,937

(1) Excludes mark-to-market gains at December 31, 2002 and 2001 of $6.501 billion and $462 million, respectively. Excludes mark-to-market losses at December 31, 2000 of $3 million.

(2) Includes mortgage-related securities issued by Freddie Mac and Ginnie Mae.

(3) Includes mortgage-related securities issued by entities other than Fannie Mae, Freddie Mac, or Ginnie Mae.

(4) MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae. The principal balance on resecuritized MBS is included only once.

(5) Includes additional single-family and multifamily credit enhancements not otherwise reflected in the table.

Fannie Mae's overall objective in managing mortgage credit risk is to deliver consistent earnings growth and target returns on capital in a wide range of economic environments. Central elements of our approach include: (1) managing the profile and quality of mortgages in the mortgage credit book, (2) using

credit enhancements to reduce credit losses, (3) assessing the sensitivity of the profitability of the mortgage credit book of business to changes in composition and the economic environment, and (4) managing problem assets to mitigate credit losses.

Given the important differences in the nature and management of credit risk between single-family and multifamily loans, we manage and discuss these two types of loans separately.

Single-family

The single-family mortgage credit book primarily consists of loans, MBS in our mortgage portfolio, MBS and other mortgage-related securities guaranteed by Fannie Mae and held by other investors ("outstanding MBS"), and other mortgage-related securities we own backed by loans on properties that have four or fewer residential units. This section details our single-family risk management practices, risk characteristics, and performance. While we manage the credit risk on the entire single-family mortgage credit book, in some cases we may not have certain loan-level information to report risk characteristics and performance disclosures. Therefore, unless otherwise noted, the credit statistics on Fannie Mae's conventional single-family mortgage credit book presented in this section will generally include only mortgage loans in portfolio, MBS in portfolio, and outstanding MBS where we have more comprehensive, detailed loan-level transaction information. These loans represent 96 percent of our single-family mortgage credit book at the end of 2002. Most of the remaining 4 percent of our conventional single-family mortgage credit book consists of mortgage-related securities rated AAA at acquisition, including mortgage-related securities guaranteed by Freddie Mac and Ginnie Mae.

1. Managing the profile and quality of mortgages in the single-family mortgage credit book.

Mortgage credit risk on a particular single-family loan is affected by numerous characteristics, including the type of loan, the down-payment amount, and the strength of the borrower's credit history. These and other factors, such as home price appreciation, affect both the level of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment. We attempt to understand the overall credit risk in our loans, earn an attractive risk-adjusted return from appropriate guaranty fee pricing, and mitigate our risks through the use of credit enhancements and effective asset management. Our risk mitigating activities reduce the incidence and severity of loss and minimize the volatility of credit losses, which helps Fannie Mae in achieving stable earnings growth and a competitive return on equity over time.

We establish detailed policies and employ various processes to validate that the characteristics of the loans purchased or guaranteed comply with key underwriting and eligibility criteria. We also assess the characteristics and quality of a lender's loans and processes through an audit program and our customer relationship management teams. Mortgage loans that we buy or guarantee must comply with certain underwriting and eligibility characteristics to ensure that the overall risk of the particular loan is within acceptable limits.

Lenders represent and warrant compliance with our asset acquisition requirements when they sell mortgage loans or securities to us or seek a guarantee from us. We may require the lender to repurchase a loan or enforce some other remedy if we identify any deficiencies. Since 1995, we have developed and refined DU to assist lenders in underwriting and complying with our other loan eligibility criteria. DU consistently and objectively applies risk analytics, underwriting, and eligibility standards to prospective mortgage loans. Approximately 60 percent of the single-family conventional loans we purchased or guaranteed in 2002 were processed through DU, up from 59 percent in 2001 and 56 percent in 2000. We also buy or guarantee loans underwritten manually or through other automated underwriting systems, subject to appropriate lender representations and warranties. In certain circumstances involving use of automated underwriting, we may relieve lenders of a limited number of the standard representations and warranties.

2. Using credit enhancements to reduce credit losses.

Credit enhancements are contracts in which a third party agrees to pay Fannie Mae if there is a credit event, such as a loan default. Credit enhancements enable us to transform the risk and return profile of the mortgage credit book of business to be consistent with our objectives. Single-family credit enhancements include primary loan-level mortgage insurance, pool mortgage insurance, recourse arrangements with lenders, and other customized risk-sharing contracts.

The majority of our single-family credit enhancement is primary loan-level mortgage insurance. When we require primary loan-level mortgage insurance on loans with loan-to-value ratios above 80 percent, we typically require greater coverage than the minimum level of credit enhancement required by our Charter Act if primary mortgage insurance is the only source used to meet our credit enhancement requirement. Subject to our policies and to the Homeowners Protection Act of 1998, primary loan-level mortgage insurance can be cancelled either automatically or at the borrower's option in certain circumstances where the loan-to-value ratio has decreased below 80 percent. We also may require or acquire supplemental credit enhancement on loans based on risk and pricing. While credit enhancements reduce our mortgage-related credit losses, they also generate institutional counterparty risk that we discuss in the "Institutional Counterparty Credit Risk" section. We focus credit enhancement coverage on loans in our mortgage credit book of business with a higher risk profile. The percentage of our conventional single-family credit book of business with credit enhancements was 27 percent at December 31, 2002, down from 32 percent at December 31, 2001. The decrease in credit enhancement coverage during 2002 was primarily due to the high level of refinance loans acquisitions with lower loan-to-value ratios that did not require credit enhancement. Because of the lower risk profile of these loans, we elected not to purchase credit enhancement on these loans.

3. Assessing the sensitivity of the profitability of the single-family mortgage credit book of business to changes in composition and the economic environment.

We use analytical tools to measure credit risk exposures, assess performance of our single-family mortgage credit book of business, and evaluate risk management alternatives. We continually refine our methods of measuring credit risk, setting risk and return targets, and transferring risk to third parties. We use our analytical models to establish forecasts and expectations for the credit performance of loans in the mortgage credit book of business and compare actual performance to those expectations. Comparison of actual versus projected performance and changes in other key trends may signal a change in risk or return profiles and provide the basis for changing policies, standards, guidelines, credit enhancements, or guaranty fees.

For example, we use models to project guaranty fee income and credit losses, including forgone interest on nonperforming assets, for the single-family mortgage credit book across a wide range of potential interest rate and home price environments. We use current data on home values, borrower payment patterns, non-mortgage consumer credit history, and management's economic outlook to assess our sensitivity to credit losses. We closely examine a range of potential economic scenarios to monitor the sensitivity of credit losses. As part of our voluntary safety and soundness initiatives, we elected to disclose on a quarterly lagged basis the sensitivity of the present value of future single-family credit losses to an immediate 5 percent decline in home prices. Table 31 shows the results at the end of 2002, 2001, and 2000. Our models indicate that home price movements are an important predictor of credit performance. We selected a 5 percent immediate decline in home prices because it is a stressful scenario. Based on housing data from OFHEO, the national average rate of home price appreciation over the last twenty years has been about 4.7 percent, while the lowest national average growth rate in any single year has been .2 percent. Historical statistics from OFHEO's housing index report indicate that there has never been a nationwide decline of 5 percent in home prices within a one-year period since the federal government began tracking this data in 1975.

Table 31: Single-Family Credit Loss Sensitivity[1]

	December 31,		
	2002	2001	2000
	(Dollars in millions)		
Gross credit loss sensitivity[2]	$1,838	$1,332	$1,065
Projected credit risk sharing proceeds	1,242	845	770
Net credit loss sensitivity	$ 596	$ 487	$ 295

(1) Represents total economic credit losses, which include net chargeoffs/recoveries, foreclosed property expenses, forgone interest, and the cost of carrying foreclosed properties.

(2) Measures the gross sensitivity of our expected future economic credit losses to an immediate 5 percent decline in home values for all single-family mortgages held in our single-family mortgage credit book, followed by an increase in home prices at the rate projected by Fannie Mae's credit pricing models.

4. Managing problem assets to mitigate credit losses.

We closely manage single-family loans in partnership with the servicers of our loans to minimize both the frequency of foreclosure and the severity of loss in the event of foreclosure. We have developed detailed servicing guidelines and work closely with the loan servicers to ensure that they take appropriate loss mitigation steps on our behalf. Our loan management strategy begins with payment collection guidelines and work rules designed to minimize the number of borrowers who fall behind on their obligations and help borrowers who are delinquent from falling further behind on their payments. We seek alternative resolutions of problem loans to reduce the legal and management expenses associated with foreclosing on a home. Early intervention is critical to controlling credit expenses. Most of our servicers use Risk Profiler℠, a default prediction model created by Fannie Mae, to monitor the performance and risk of each loan and identify loans requiring problem loan management. Risk Profiler uses credit risk indicators such as mortgage payment record, updated borrower credit data, current property values, and mortgage product characteristics to evaluate the risk of the loan. In 2002, 86 percent of our conventional single-family loans were scored through Risk Profiler, up from 82 percent in 2001.

We may pursue various resolutions of problem loans as an alternative to foreclosure, including: (1) repayment plans in which borrowers repay past due principal and interest over a reasonable period of time (generally no longer than 4 months) through a temporarily higher monthly payment, (2) loan modifications in which past due principal and interest, net of any borrower contribution, are added to the loan amount and recovered over the remaining life of the loan and other terms of the loan may be adjusted, (3) deeds in lieu of foreclosure in which the borrower signs over title to the property without the added expense of a foreclosure proceeding, and (4) preforeclosure sales in which the borrower, working with the servicer, sells the home and pays off all or part of the outstanding loan, accrued interest, and other expenses with the sale proceeds. We use analytical models and work rules to determine which alternative resolution, if any, may be appropriate for each problem loan. We track the ultimate performance of alternative resolutions and adjust our models and rules as appropriate. Of the loans that recover through modification and repayment plans, our performance experience after at least three years following the inception of such plans has been that approximately two-thirds of these loans remain current or pay off in full. If we acquire the property in the event of default, we seek to maximize the sales proceeds and ensure we receive all credit enhancement payments. We maintain a centralized property disposition unit to manage the foreclosure process to minimize foreclosure costs. Table 32 presents statistics on our problem loans for 2002, 2001, and 2000.

Table 32: Statistics on Conventional Single-Family Problem Loans

	Number of Loans		
	2002	2001	2000
Repayment plans	5,470	4,237	5,320
Modifications	14,552	10,506	9,503
Pre-foreclosure sales	1,410	1,182	1,572
Properties acquired through foreclosure(1)	19,500	14,486	14,351
Total conventional single-family problem loans	40,932	30,411	30,746
Conventional single-family loans at December 31(2)	14,492,034	13,414,100	12,092,295

(1) Includes properties acquired via deeds-in-lieu of foreclosure, which totaled 192 in 2002, 163 in 2001, and 235 in 2000.

(2) Represents approximately 96 percent of our conventional single-family mortgage credit book where we have more comprehensive, detailed loan-level transaction information.

Single-Family Mortgage Credit Book Characteristics and Performance

Economic conditions and home values strongly affect the credit risk profile of our single-family mortgage credit book and our credit losses and impact the likelihood of default and the severity of any losses.

• Economic Trends

Beginning in 2001 and extending through early 2002, the U.S. economy experienced a mild recession. Economic growth, as measured by the change in GDP, began to slowly recover in 2002. GDP growth was very robust at 5.0 percent in the first quarter of 2002, but fell to 1.4 percent during the fourth quarter. Unemployment, a lagging economic indicator, peaked at 6.0 percent in April 2002, gradually declined to 5.6 percent in September 2002, before rising again to 6.0 percent by year-end. In spite of these trends, home prices continued to grow at a rate above long-term historical averages in 2002 although home price growth has slowed from the record levels attained in the past few years. Based on OFHEO's fourth quarter 2002 House Price Index report, average home prices at the national level increased 6.89 percent in 2002. No census region or state experienced negative home price growth in 2002. Over the last five years, U.S. home appreciation has averaged 7.66 percent annually.

• Single-Family Loan Risk Characteristics

We monitor an array of risk characteristics to assess the sensitivity of our credit losses to economic changes. Some of these risk characteristics are described below and quantified in Tables 33 and 34. We typically obtain the data for these statistics from the sellers or servicers of the mortgage loans. We receive representations and warranties as to the accuracy of the information from those providing it. Except for quality assurance efforts, we do not independently verify the reported information. We generally collect loan level statistics only on conventional single-family mortgage loans held in our portfolio and loans backing Fannie Mae guaranteed MBS. These loans, collectively, represent the vast majority of our single-family mortgage credit book of business.

- *Loan-to-value ("LTV") ratio:* LTV ratio is the ratio of UPB to the value of the property that serves as collateral. Original LTV is based on the value reported to Fannie Mae at acquisition of the loan. Current LTV is based on current UPB and original value updated for subsequent changes in home values using Fannie Mae's internal home valuation models. LTV ratio is a strong predictor of credit performance. The likelihood of default and the gross severity of a loss in the event of default are lower as the LTV ratio decreases, all other factors held equal. The estimated average current LTV ratio on the mortgage credit book of business (which is a weighted average based on current UPB) increased marginally to 62 percent at December 31, 2002 from 60 percent at the end of 2001, largely due to the substantial volume of new business purchased or guaranteed in 2002 that has not yet had the opportunity to experience home price appreciation.

- *Product type:* Product type is defined by the nature of the interest rate applicable to the mortgage (fixed for the duration of the loan or adjustable subject to contractual terms) and by the maturity of the loan. We divide our business into three categories: long-term, fixed-rate mortgages with original terms of greater than 20 years; intermediate-term, fixed-rate mortgages with original terms of 20 years or less; and adjustable-rate mortgages (ARMs) of any term. ARMs tend to have higher default risk than fixed-rate loans, all other factors held equal. Our single-family mortgage credit book of business continues to be heavily concentrated in long- and intermediate-term, fixed-rate products that are generally regarded as lower risk investments. At December 31, 2002, 93 percent of our single-family book of business consisted of long-term, fixed-rate or intermediate-term, fixed-rate mortgages.

- *Property type:* We classify mortgages secured by housing with up to four living units as single-family. Mortgages on one-unit properties tend to have lower credit risk than mortgages on multiple-unit properties, such as duplexes, all other factors held equal. The majority of Fannie Mae's book of business consists of loans secured by one-unit properties. The proportion of loans secured by multiple-unit properties has remained relatively stable over the past two years.

- *Occupancy type:* Borrowers may purchase a home as a primary residence, second or vacation home, or investment rental property. Mortgages on properties occupied by the borrower as a principal or second residence tend to have lower credit risk than mortgages on investment properties, all other factors held equal. The vast majority of Fannie Mae's book of business consists of mortgages on properties occupied by the borrower as the principal residence. The proportion of loans secured by investment properties has remained relatively stable over the past three years.

- *Credit score:* Borrower credit history is a record of the use and repayment of varying forms of credit by the borrower. Since this information is typically complex and voluminous, statistical models are employed to summarize the information—typically into a single numeric indicator of borrower credit quality. We use several internal proprietary models to assess borrower credit quality at acquisition. Credit score is one measure often used by the financial services industry, and by Fannie Mae in some cases, to assess borrower credit quality. Credit scores are generated by credit repositories and calculated based on proprietary statistical models that evaluate many types of information on a borrower's credit report and compare this information to the patterns in other credit reports. One statistical model used widely in the financial services industry was developed by Fair, Isaac & Company, Inc. ("Fair Isaac"). This model is used to create a credit score called the FICO® score. FICO® scores can vary depending on which credit repository is using the Fair Isaac model to supply the score. FICO® scores, as reported by the credit repositories, may range from a low of 150 to a high of 950. According to Fair Isaac, a high FICO® score indicates a lesser degree of risk. A higher credit score is an indicator of lower default risk, while a lower credit score indicates higher risk, all other factors held equal. On approximately two-thirds of the mortgages on which we acquire credit risk through purchase or guaranty, lenders provide credit scores that typically reflect the borrower's credit history just prior to our acquisition of the loan. For most of the remaining loans, we obtain credit scores soon after acquisition. For a small proportion of loans, credit scores are not available. The credit score of an individual borrower can vary depending upon several factors, including the timing of when the score is calculated and the credit repository from which the score is obtained. Management believes, however, that the average credit score across our book of business is a strong indicator of default risk within the single-family mortgage credit book of business. The credit quality of borrowers in our book remained high at December 31, 2002, as evidenced by an average credit score of 714 at the time of loan purchase or guarantee.

- *Loan purpose:* Loan purpose indicates how the borrower intends to use the funds. We designate the loan purpose as either purchase, cash-out refinance, or other refinance. The funds in a purchase transaction are used to acquire a property. The funds in a cash-out refinance transaction are used for purposes other than to pay off an existing first mortgage lien, to pay off any permissible subordinate mortgage liens, and to provide limited unrestricted cash proceeds to the borrower. All other refinance transactions are defined as other refinancings. Cash-out refinance transactions generally have a higher risk profile than purchase or other refinance transactions, all other factors held equal. The significant refinance activity of the past two years resulted in a substantial shift in the proportion of refinance loans in our conventional single-family mortgage credit book to 62 percent at December 31, 2002 from 54 percent at the end of 2001.

- *Geographic concentration:* Local economic conditions affect borrowers' ability to repay loans and the value of the collateral underlying a loan, all other factors held equal. We analyze geographic exposure at a variety of levels of geographic aggregation, including at the regional level. Geographic diversification reduces mortgage credit risk, and our geographic distributions have been consistently well diversified. We have significant business volumes in the West, with 26 percent at the end of 2002, 2001, and 2000. However, this exposure is low relative to the distribution of the overall mortgage market because of our conforming loan limit, which restricts us in serving the financing needs of borrowers in higher cost areas such as California.

- *Loan age:* We closely track year of origination and loan age, defined as the number of years since origination. The peak ages for default are from three to seven years after origination. The average age of our portfolio has decreased in the past year largely due to the high level of refinancings. As of December 31, 2002, approximately 69 percent of our portfolio was three years old or less and only 26 percent of the loans were in the peak default years, down from 42 percent at the end of 2001. At December 31, 2001, 57 percent of the loans were three years old or less. At the end of 2000, 61 percent were three years old or less and 48 percent were within their peak default years.

Table 33 shows our conventional single-family mortgage credit book of business at December 31, 2002, 2001, and 2000, based on these risk characteristics. Table 34 shows conventional single-family purchase and guaranty acquisition volumes for the mortgage credit book of business based on these risk characteristics, while Table 35 presents a comparison of conventional single-family loans with some level of credit enhancement and loans without any credit enhancement based on selected risk characteristics. As we work to expand Fannie Mae's presence, activities, and customer base in underserved markets through products such as Expanded Approval/ Timely Payment Rewards™, the overall credit risk profile of our conventional single-family mortgage credit book of business may change.

Table 33: Characteristics of Conventional Single-Family Mortgage Credit Book

	Percent of Book of Business[1]		
	2002	**2001**	**2000**
Original loan-to-value ratio[2]:			
<= 60.00%	20%	17%	16%
60.01% to 70.00%	15	14	14
70.01% to 80.00%	42	43	42
80.01% to 90.00%	13	14	15
Greater than 90.00%	10	12	13
Total	100%	100%	100%
Weighted average	73%	74%	75%
Current loan-to-value ratio[2]:			
<= 60.00%	41%	47%	45%
60.01% to 70.00%	18	19	24
70.01% to 80.00%	28	23	20
80.01% to 90.00%	9	7	8
Greater than 90.00%	4	4	3
Total	100%	100%	100%
Weighted average	62%	60%	60%
Average loan amount	$111,169	$102,095	$94,360
Product type[3]:			
Long-term, fixed-rate	70%	74%	73%
Intermediate-term, fixed-rate	23	20	20
Adjustable-rate	7	6	7
Total	100%	100%	100%

	Percent of Book of Business[1]		
	2002	2001	2000
Property type:			
1 unit	96%	96%	97%
2-4 units	4	4	3
Total	100%	100%	100%
Occupancy type:			
Principal residence	93%	94%	94%
Second/vacation home	3	2	2
Investor	4	4	4
Total	100%	100%	100%
Credit score:			
<620	6%	5%	4%
620 to< 660	11	11	10
660 to< 700	18	17	16
700 to< 740	22	22	21
>= 740	36	33	30
Not available	7	12	19
Total	100%	100%	100%
Weighted average	714	713	713
Loan purpose:			
Purchase	38%	46%	53%
Cash-out refinance	27	22	17
Other refinance	35	32	30
Total	100%	100%	100%
Geographic concentration[4]:			
Midwest	18%	19%	19%
Northeast	19	18	18
Southeast	21	21	21
Southwest	16	16	16
West	26	26	26
Total	100%	100%	100%
Origination year:			
<= 1993	6%	11%	18%
1994	2	3	4
1995	1	3	4
1996	2	3	6
1997	2	5	7
1998	11	18	27
1999	7	13	20
2000	4	9	14
2001	27	35	—
2002	38	—	—
Total	100%	100%	100%

(1) Percentages calculated based on unpaid principal balance at the end of each period.

(2) Excludes loans for which this information is not readily available.

(3) Intermediate-term, fixed-rate includes second mortgage loans.

(4) Midwest includes IL, IN, IA, MI, MN, NE, ND, OH, SD, and WI. Northeast includes CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT, and VI. Southeast includes AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA, and WV. Southwest includes AZ, AR, CO, KS, LA, MO, NM, OK, TX, and UT. West includes AK, CA, GU, HI, ID, MT, NV, OR, WA, and WY.

Table 34: Characteristics of Conventional Single-Family Mortgage Acquisitions

	Percent of Acquisition Volume[1]		
	2002	2001	2000
Original loan-to-value ratio[2]:			
<= 60.00%	23%	17%	13%
60.01% to 70.00%	16	14	11
70.01% to 80.00%	42	45	45
80.01% to 90.00%	11	13	15
Greater than 90.00%	8	11	16
Total	100%	100%	100%
Weighted average	71%	74%	77%
Average loan amount	$145,553	$136,376	$118,776
Product type[3]:			
Long-term, fixed-rate	63%	73%	73%
Intermediate-term, fixed-rate	27	21	12
Adjustable-rate	10	6	15
Total	100%	100%	100%
Property type:			
1 unit	96%	96%	96%
2-4 units	4	4	4
Total	100%	100%	100%
Occupancy type:			
Principal residence	92%	93%	91%
Second/vacation home	3	3	3
Investor	5	4	6
Total	100%	100%	100%
Credit score:			
<620	6%	6%	6%
620 to< 660	11	12	12
660 to< 700	18	20	20
700 to< 740	23	24	24
>= 740	41	37	36
Not available	1	1	2
Total	100%	100%	100%
Weighted average	717	712	712
Loan purpose:			
Purchase	30%	37%	72%
Cash-out refinance	32	30	15
Other refinance	38	33	13
Total	100%	100%	100%
Geographic concentration[4]:			
Midwest	20%	21%	19%
Northeast	18	17	17
Southeast	20	20	21
Southwest	15	16	17
West	27	26	26
Total	100%	100%	100%

(1) Percentages calculated based on unpaid principal balance.

(2) Excludes loans for which this information is not readily available.

(3) Intermediate-term, fixed-rate includes second mortgage loans.

(4) See Table 33 for states included in each geographic region.

Table 35: Conventional Single-Family Mortgage Credit Book Characteristics

	Weighted Average Credit Characteristics Based on UPB[1]								
	2002			2001			2000		
	Credit Enhanced	Non-Credit Enhanced	Total	Credit Enhanced	Non-Credit Enhanced	Total	Credit Enhanced	Non-Credit Enhanced	Total
Weighted average original LTV	87%	67%	73%	87%	68%	74%	86%	68%	75%
Weighted average current LTV	75	58	62	71	55	60	72	53	60
Weighted average credit score	694	721	714	699	719	713	702	720	713

(1) Indicates the principal amount of loans that have credit enhancement but does not reflect the level of credit enhancement. Excludes assets for which loan level data is not available.

- Serious Delinquency

A key measure of credit performance and future defaults for the single-family mortgage credit book is the serious delinquency rate, although not all loans that become seriously delinquent result in a default. A serious delinquency occurs when a borrower has missed three or more consecutive monthly payments, and the loan has not yet been brought current or been extinguished through foreclosure, payoff, or other resolution. A loan referred to foreclosure but not yet foreclosed is also considered seriously delinquent. The serious delinquency rate is the number of mortgages that are seriously delinquent divided by the total number of loans outstanding. The rate at which new loans become seriously delinquent and the rate at which existing seriously delinquent loans are resolved significantly affects the level of future credit losses.

Effective December 31, 2002, we changed how we report our single-family serious delinquency rate to be more consistent with our current business and credit risk management practices. Traditionally, we reported our single-family serious delinquency rate for those loans where we have the primary risk of default. For example, we did not include loans that had substantial recourse to lenders or were covered by significant supplemental pool insurance from mortgage insurance companies in our serious delinquency statistics. A significant portion of our business represents loans where we bear some risk, but share a portion of that risk with others. As a result, we believe it is more meaningful to report our single-family delinquency rate on all of our conventional loans and distinguish between loans on which we benefit from credit enhancement and loans on which we do not benefit from credit enhancement. We have reclassified prior period statistics to conform to the current year's presentation. Table 36 compares the serious delinquency rates for conventional single-family loans with credit enhancements and without credit enhancements.

Table 36: Conventional Single-Family Serious Delinquency Rates

	2002		2001		2000	
	Book Outstanding[1]	Serious Delinquency Rate[2]	Book Outstanding[1]	Serious Delinquency Rate[2]	Book Outstanding[1]	Serious Delinquency Rate[2]
Credit enhanced	27%	1.29%	32%	1.05%	38%	.77%
Non-credit enhanced	73	.31	68	.33	62	.29
Total conventional loans	100%	.57%	100%	.55%	100%	.45%

(1) Reported based on unpaid principal balance.

(2) Reported based on number of loans.

For conventional loans in our single-family mortgage credit book, our total serious delinquency rate increased modestly to .57 percent at December 31, 2002, from .55 percent at December 31, 2001. This increase was primarily due to an increase in the serious delinquency rate of our credit-enhanced book. The serious delinquency rate for conventional loans in our single-family mortgage credit book without credit enhancement declined to ..31 percent at December 31, 2002, from ..33 percent at December 31, 2001, a level more consistent with our delinquency rates prior to the September 11, 2001 terrorist attacks and reflective of the low risk profile of these loans. The serious delinquency rate for conventional loans in our single-family mortgage credit book with credit enhancement increased to 1.29 percent from 1.05 percent in 2001. These loans have a higher risk profile and tend to be more sensitive to changes in the economy than loans without credit enhancement.

- Nonperforming Single-Family Loans

We stop accruing interest on single-family loans that we own, including delinquent loans purchased from an MBS trust pursuant to the terms of the trust indenture, when: a) principal and interest on these loans is at least 90 days past due and b) collection of principal and interest is doubtful. These loans are classified as nonperforming. Table 37 provides a summary for each of the past five years of the following information on our single-family nonperforming loans: the amount of nonaccrual loans that we owned within our single-family mortgage portfolio at the end of each year, the amount of forgone interest income that we would have recorded each year if these loans had performed according to contractual terms during the year, and the amount of interest income recognized during the year on the loans when they were performing.

Table 37: Nonperforming Single-Family Loans

	2002	2001	2000	1999	1998
			(Dollars in millions)		
Nonaccrual loans at December 31	$5,463	$3,691	$1,931	$2,635	$3,135
Interest income forgone(1)	155	101	91	119	110
Interest income recognized during year(2)	245	173	56	87	141
Accruing loans past due 90 days and greater at December 31(3)	663	560	297	335	395

(1) Forgone interest income represents the amount of interest income that would have been recorded during the year on nonperforming loans at December 31 had the loans performed according to contractual terms.

(2) Represents estimated interest income recognized during the year on loans classified as nonperforming at December 31.

(3) Principal balance of loans at December 31 that are 90 days or greater past due and continuing to accrue interest because we believe collection of principal and interest is reasonably assured.

Forgone interest income on non-accrual loans increased significantly in 2002 because we purchased a higher level of seriously delinquent loans out of MBS pools and added them to our portfolio. We take this action pursuant to the terms of the relevant securities when the cost of advancing interest to MBS investors at the security coupon rate exceeds the cost of holding the nonperforming loan in our mortgage portfolio. Any net interest remitted to MBS investors but not received from the servicer is included as part of the charge-offs should the loan be foreclosed. Subsequent to a decision to purchase the seriously delinquent loan out of the MBS, the cost of holding the loan in our portfolio is reflected as a reduction to net interest income. We may recover a portion of forgone interest income when we liquidate foreclosed properties and collect credit enhancement proceeds.

- Single-Family Credit Losses

The application of various credit risk management strategies throughout a loan's life helped minimize single-family credit losses in 2002 despite weak economic conditions.

Single-family credit losses include charge-offs plus foreclosed property expense (income). Interest forgone on nonperforming loans and other assets in our mortgage portfolio, which is presented in Table 37, reduces our net interest income but is not reflected in our credit loss total.

As shown in Table 38, single-family credit-related losses decreased $7 million in 2002 to $69 million. The credit loss ratio (ratio of credit losses to the average mortgage portfolio and outstanding MBS) on our single-family credit book of business decreased by .2 basis points in 2002 to .4 basis points despite weaker economic conditions.

Table 38: Single-Family Credit Loss Performance

	2002	2001	2000
	(Dollars in millions)		
Charge-offs[1,2]	$ 105	$ 96	$ 114
Foreclosed property income	(36)	(20)	(29)
Credit-related losses	$ 69	$ 76	$ 85
Credit loss ratio[3]	.004%	.006%	.007%
Charge-off ratio[4]	.007	.007	.010

(1) Prior period amounts have been reclassified to conform with the current year's presentation.

(2) Charge-offs for 2002 include $1 million in charge-offs related to foreclosed Federal Housing Administration loans that are reported in the balance sheet under "Acquired property and foreclosure claims, net."

(3) Represents credit losses divided by average conventional single-family book of business.

(4) Represents charge-offs divided by average conventional single-family book of business.

Strong housing prices helped boost recoveries on foreclosed properties, which offset the increase in foreclosed property expense associated with a larger number of foreclosed properties. The number of properties acquired through foreclosure increased to 19,500 in 2002 from 14,486 in 2001, contributing to a $9 million increase in charge-offs. While the number of acquired properties increased 35 percent credit-related losses fell by $7 million as average severities continued to drop, especially in the Northeast and West regions where foreclosure costs had been higher in the recent past. This trend is primarily due to the effect of strong home prices and proceeds from credit enhancements. Finally, low interest rates led us to repurchase a higher level of seriously delinquent loans out of MBS, resulting in an increased amount of forgone interest income.

Table 39 shows foreclosed property or REO activity in Fannie Mae's single-family mortgage credit book for the last three years.

Table 39: Single-Family Foreclosed Property Activity

	2002	2001	2000
Inventory of foreclosed properties (REO)[1]	9,975	7,073	6,414
Dispositions of REO	16,598	13,827	15,041
Geographic analysis of acquisitions[2]:			
Midwest	4,742	2,836	2,138
Northeast	2,053	2,165	2,788
Southeast	5,614	4,061	3,575
Southwest	4,461	2,691	2,333
West	2,630	2,733	3,517
Total properties acquired through foreclosure	19,500	14,486	14,351

(1) Includes deeds-in-lieu of foreclosure.

(2) See Table 33 for states included in each geographic region.

Multifamily

We also purchase or guarantee loans on multifamily properties — properties with more than four residential units. We provide financing either in the form of a single asset loan, principally through the Delegated Underwriting and Servicing (DUS) product line, or through a negotiated transaction involving a pool of multifamily properties. The principal credit risks of multifamily property financings involve the following:

- Physical condition and financial performance of the property

- Market conditions in the geographic location of the property

• Ability and intent of the borrower to repay the loan

• Structure of the financing

1. Managing the profile and quality of mortgages in the multifamily mortgage credit book.

Numerous characteristics impact the mortgage credit risk on a particular multifamily loan. These characteristics include the type of mortgage loan, the type and location of the property, the condition and value of the property, counterparty strength, and the current and anticipated cash flows on the property. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment. We attempt to understand and control the overall risk in each loan we purchase or guarantee. Under the DUS product line, we purchase or securitize mortgages from approved risk sharing lenders without prior review of the mortgages if the mortgages are less than $20 million. Lenders represent and warrant that DUS loans they originate are consistent with our underwriting requirements. Approximately 67 percent of our multifamily mortgage credit book consisted of DUS products or business at December 31, 2002, compared with 62 percent at the end of 2001.

We manage multifamily mortgage credit risk throughout the investment life cycle. The cycle begins with the formulation of sound underwriting and servicing policies and procedures. When application of these policies and procedures is delegated to our lending partners, we actively monitor results through post-purchase underwriting reviews of loans delivered to us. We conduct on-site assessments of DUS lenders' servicing and their financial condition. We closely track property condition and financial performance throughout the life of the assets we finance. We also evaluate borrower, geographic, and other types of risk concentrations at the loan and portfolio level.

2. Using credit enhancements to reduce credit losses.

We use credit enhancements to transform the risk and return profile of multifamily loans that we purchase or guarantee consistent with our corporate credit risk management objectives. In most of our business arrangements, lenders in the DUS product line bear losses on the first five percent of UPB and share in remaining losses up to a prescribed limit. On structured transactions, we generally have full or partial recourse to lenders or third parties for loan losses. The recourse provider may back up its obligation with letters of credit, investment agreements, or pledged collateral. Third-party recourse providers for structured and other transactions include government and private mortgage insurers. While credit enhancements reduce our mortgage-related credit losses, they also generate institutional counterparty risk, which we discuss further in the Institutional Counterparty Credit Risk section. We seek to concentrate credit enhancement coverage on the riskier loans. Table 40 presents our multifamily credit risk sharing profile at December 31, 2002, 2001, and 2000.

Table 40: Multifamily Credit Risk Sharing Profile[1]

	December 31,		
	2002	**2001**	**2000**
Fannie Mae risk	15%	18%	16%
Shared risk[2]	66	65	60
Recourse[3]	19	17	24
Total	100%	100%	100%

(1) Prior year numbers have been restated to include Fannie Mae's credit enhancement of housing bonds issued by state and local government entities.

(2) Includes loans in which the lender initially bears losses of up to 5 percent of UPB and shares any remaining losses with Fannie Mae up to a prescribed limit.

(3) Includes loans not included in "shared risk" that have government mortgage insurance or full or partial recourse to lenders or third parties.

3. Assessing the sensitivity of the profitability of the multifamily mortgage credit book of business to changes in composition and the economic environment.

We use analytical tools to measure credit risk exposures, assess performance of our book, and evaluate risk management alternatives. We combine these analyses with assessments of any problem loan situations to develop forecasts of future guaranty fee revenue and credit losses. We carefully monitor the relevant local market economic indicators that may signal changing risk or return profiles in the book and cause a change in risk management policies, credit enhancements, or guaranty fees. For example, we closely monitor rental payment trends and vacancy levels in local markets to identify loans meriting closer attention or loss mitigation actions.

4. Managing problem assets to mitigate credit losses.

As part of our risk management activities, we perform detailed loss reviews, address borrower and geographic concentrations, assess lender qualifications, evaluate counterparty risk, and track property performance and contract compliance. The loss mitigation team manages troubled assets from default through foreclosure and property disposition, if necessary. Given the size of multifamily loans, we generally require servicers to submit periodic operating information and property condition reviews to monitor the performance of individual loans. We use this information to evaluate the credit quality of our book, identify potential problem loans, and initiate appropriate loss mitigation activities.

Multifamily Mortgage Credit Book Performance

The economic downturn in the U.S. economy had a modest impact on multifamily credit losses in 2002 because property values have remained strong. If the economy weakens further and property values decline, we would anticipate a higher level of credit losses in 2003 than we have experienced in the recent past. Multifamily credit-related losses totaled $19 million in 2002, up $14 million from 2001. The higher level of credit losses in 2002 was due primarily to two large properties in the Midwest. Although the level of multifamily losses increased in 2002, we have had historically low credit loss ratios of less than 3 basis points over the past three years as shown in Table 41.

Table 41: Multifamily Credit Loss Performance

	Year Ended December 31,		
	2002	**2001**	**2000**
	(Dollars in millions)		
Charge-offs	$ 19	$ 1	$ 3
Foreclosed property expense	—	4	1
Credit-related losses	$ 19	$ 5	$ 4
Credit loss ratio(1)	.025%	.008%	.007%
Serious delinquency rate(1)	.05	.27	.07
Properties acquired through foreclosure	2	1	3

(1) Prior year numbers have been restated to reflect our new method of reporting delinquencies and include Fannie Mae's credit enhancement of housing bonds issued by state and local government entities.

Multifamily serious delinquencies include loans that are 60 days or more past due. We base the multifamily serious delinquency rate on the UPB of delinquent loans divided by the UPB of multifamily loans we own or guarantee. Our multifamily serious delinquency rate declined to ..05 percent at year-end 2002 from .27 percent at the end of 2001. At the end of 2000, our multifamily serious delinquency rate was .07 percent. The increase in 2001 was due to two seriously delinquent loans totaling $118 million on properties in New York City affected by the World Trade Center disaster. These obligations were restructured or became current in 2002.

Over the last three years, multifamily credit losses and serious delinquencies have been at historically low levels. Management anticipates that multifamily credit losses, over time, will return to a level more reflective of the current economic environment.

We generally stop accruing interest on multifamily loans that we own when principal and interest on these loans is 90 days past due and collection of principal and interest is doubtful. Table 42 summarizes the amount of nonaccrual multifamily loans at December 31, 1998 through December 31, 2002. In addition, it identifies the amount of interest income that we would have recorded during those periods if nonperforming loans had performed according to contractual terms during the year, the amount of interest income accrued on those loans during the portion of the year when they were performing, and the amount of any interest income accrued on loans past 90 days due.

Table 42: Nonperforming Multifamily Loans

	2002	2001	2000	1999	1998
			(Dollars in millions)		
Nonaccrual loans at December 31	$ 14	$ 22	$ —	$ 4	$ 29
Interest income forgone(1)	1	—	—	—	2
Interest income recognized during year(2)	—	1	—	—	—
Accruing loans past due 90 days and greater at December 31(3)	10	5	3	9	11

(1) Forgone interest income represents the amount of interest income that would have been recorded during the year on nonperforming loans at December 31 had the loans performed according to contractual terms.

(2) Represents estimated interest income recognized during the year on loans classified as nonperforming at December 31.

(3) Principal balance of loans at December 31 that are 90 days or greater past due and continuing to accrue interest because we believe collection of principal and interest is reasonably assured.

Equity Financing for Multifamily Properties

We also provide equity financing for multifamily properties. Equity financing typically takes the form of limited partnership investments in affordable housing projects that produce low-income housing tax credits. The tax benefits we receive from these properties represents our primary economic return on our equity investments.

Because our equity financings have the same property-related credit risks as other multifamily financings, we track property condition and financial performance throughout the life of these investments. We also evaluate the strength of our investment sponsors and third party asset managers through periodic financial and operational assessments. Approximately 33 percent of our equity investments in low-income housing tax credit properties have an economic return guaranteed by an investment grade counterparty.

Internal Revenue Service requirements govern the recognition of tax credits. These requirements include maintaining the properties with a specified level of affordable housing units over a 15-year period. Failure to meet IRS requirements can trigger a recapture of tax credits from the IRS. For the years ended December 31, 2002, 2001, and 2000 the amounts of tax credit recapture were not significant.

Institutional Counterparty Credit Risk

A secondary credit risk is the possibility that institutional counterparties may be unable to fulfill their contractual obligations to us. For example, our credit losses would increase if a credit enhancement counterparty were unable to reimburse us in the event of loss on a covered mortgage loan. Accepting a certain level of counterparty risk is integral to our interest rate and credit risk management and liquidity objectives.

We have a dedicated Counterparty Risk Management team that quantifies aggregate counterparty risk exposures across business activities, maintains a corporate credit policy framework for managing counterparty risk, and manages the counterparty risk associated with mortgage insurance companies.

Our overall objective in managing institutional counterparty credit risk is to maintain individual counterparty exposures within a range that allows us to achieve our overall financial performance objective of stable and predictable earnings. Central elements of our approach to managing institutional counterparty credit risk include: (1) stringent counterparty eligibility standards appropriate to each exposure type and level, (2)collateralization of exposures where appropriate, (3) policies to ensure our counterparty exposures are diversified to avoid excessive concentration of risk, and (4) intensive exposure monitoring and management.

1. Maintaining stringent counterparty eligibility standards appropriate to each exposure type.

We generally require that our counterparties have an investment grade credit rating. A rating of BBB-/Baa3/BBB or higher by Standard & Poor's, Moody's Investor Service, and Fitch, respectively, is considered an investment grade rating. For mortgage insurance counterparties, we have generally required a minimum rating of AA-/ Aa3. For our risk sharing, recourse, and mortgage servicing counterparties, we do not always require an investment grade credit rating because we believe the risk of loss is lower. We have ongoing, extensive mortgage purchase and mortgage servicing relationships with these counterparties. In some instances, we also have collateral, letters of credit, or investment agreements to secure the obligation.

Individual business units maintain policies and procedures governing the eligibility of counterparties and approval requirements for accepting exposure to them. For example, we maintain requirements governing eligibility of insurers to provide primary loan-level mortgage insurance on single-family loans we buy or guarantee. We conduct a comprehensive counterparty analysis before approving a mortgage insurance company. We review a mortgage insurer's business plan, financial statements, insurance portfolio characteristics, master insurance policies, reinsurance treaties, and ratings on ability to pay claims. We monitor approved insurers through a quarterly reporting and analysis process combined with onsite business reviews.

2. Requiring collateralization of exposures, where appropriate.

We may require collateral, letters of credit, or investment agreements as a condition to accepting exposure to a particular counterparty. We may also require that a counterparty post collateral in the event of an adverse event such as a ratings downgrade.

We also have contractual rights that can offset exposure in the event of a counterparty default. For example, if an insurer cannot provide mortgage insurance in accordance with our requirements, most of our mortgages have provisions that allow us to use borrower paid mortgage insurance premiums to obtain substantially equivalent protection. If this insurance is unavailable at an acceptable cost, we can retain the premium and use it to obtain other credit enhancement or as a loss reserve. Similarly, we have the contractual right to terminate a single-family or multifamily lender's status as a servicer in the event the lender fails to fulfill its servicing obligations or fails to reimburse Fannie Mae for losses that the lender assumed. In that event, we would either sell the servicing rights or use the servicing fees to offset any losses related to the lender's failure.

3. Establishing policies to ensure diversification of our exposure.

We monitor counterparty exposure in total by industry and by individual counterparty. In addition, we have established exposure tolerance levels by counterparty based on our assessment of each counterparty's credit strength. These tolerance thresholds allow us to prioritize our monitoring activities and avoid excessive concentrations of credit risk.

4. Monitoring and managing exposures intensively within business lines and across Fannie Mae.

Individual business units are responsible for managing the counterparty exposures routinely associated with their activities. The Counterparty Risk Management team reviews business unit policies, procedures, and approval authorities, and the Credit Risk Policy Committee approves these internal controls.

Non-derivative institutional counterparty risk primarily includes exposure created by mortgage insurance policies, other credit enhancement arrangements with lenders and others, mortgage servicing contracts with lenders, and liquidity investments in corporate obligations or nonmortgage asset-backed securities.

Lenders with Risk Sharing

The primary risk associated with lenders where we have risk sharing agreements is that they will fail to reimburse us for losses as required under these agreements. We had recourse to lenders for losses on single-family loans totaling an estimated $44 billion at December 31, 2002 and $42 billion at December 31, 2001. The quality of these counterparties is high, with investment grade counterparties accounting for 53 percent and 59 percent of lender recourse obligations at the end of 2002 and 2001, respectively. We also require some lenders to pledge collateral to secure their recourse obligations. At December 31, 2002 and 2001, we held $204 million and $247 million in collateral, respectively, to secure single-family lender recourse transactions. In addition, single-family lenders with recourse obligations received servicing fees on $1.452 trillion and $1.288 trillion of mortgages at year-end 2002 and 2001, respectively. A portion of these servicing fees effectively serves as collateral.

We had recourse to lenders on multifamily loans totaling $77 billion and $63 billion at December 31, 2002 and 2001, respectively. Our multifamily recourse obligations were secured by reserves held in custodial accounts, insurance policies, letters of credit from investment grade counterparties rated A or better, and investment agreements. In addition, all multifamily lenders with recourse obligations received servicing fees, a portion of which effectively serves as collateral.

Mortgage Servicers

The primary risk associated with mortgage servicers is that they will fail to fulfill their servicing obligations. Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. A servicing contract breach could result in credit losses for us, or we could incur the cost of finding a replacement servicer, which could be substantial for loans that require a specialized servicer. We mitigate this risk by requiring mortgage servicers to maintain a minimum reserve servicing fee rate to compensate a replacement servicer in the event of a servicing contract breach. We also manage this risk by requiring servicers to follow specific servicing guidelines and by monitoring each servicer’s performance using loan-level data. We conduct on-site reviews of compliance with servicing guidelines and mortgage servicing performance. We also work on-site with nearly all of our major servicers to facilitate loan loss mitigation efforts and improve the default management process. In addition, we review quarterly financial information on servicers. Our ten largest single-family mortgage servicers serviced 63 percent of our single-family book of business at the end of 2002 and 2001. Fannie Mae’s 15 largest multifamily mortgage servicers serviced 70 percent of our multifamily book of business at year-end 2002, compared with 67 percent at year-end 2001.

We have purchased mortgage-related securities secured by manufacturing housing that were issued by entities other than Fannie Mae both for our portfolio and, to a limited extent, for securitization into REMIC securities we have issued and guaranteed. We currently own or guarantee approximately $10 billion of these securities. Due to weakness in the manufactured housing sector and the financial condition of Conseco Finance Corp., which services approximately 70 percent of these securities, the major securities rating agencies downgraded several of the securities. As of December 31, 2002, the vast majority of these securities were rated AA- or better, and the entire $10 billion of securities either had investment grade ratings or were insured by counterparties which had investment grade ratings. Management believes that any potential impairment that might be recorded in the future will not be material to Fannie Mae’s operating results.

On March 14, 2003, the U.S. Bankruptcy Court for the Northern District of Illinois issued a final order approving the servicing arrangements for the securities serviced by Conseco Finance Corp. The order, based upon an agreement reached between Conseco Finance, CFN Investment Holdings (the new owner and servicer), Fannie Mae and other certificate holders, provided for revised servicing fees and an enhanced servicing protocol. CFN is expected to complete the acquisition in the second quarter of 2003.

Mortgage Insurers

The primary risk associated with mortgage insurers is that they will fail to fulfill their obligations to reimburse us for claims under insurance policies. We were the beneficiary of primary mortgage insurance coverage on $316 billion of single-family loans in portfolio or underlying MBS at December 31, 2002 and

$314 billion at December 31, 2001. Seven mortgage insurance companies, all rated AA or higher by Standard & Poor's, provided approximately 99 percent of the total coverage at the end of 2002 and 2001.

Liquid Investments

The primary credit risk associated with our liquid investments, which includes the LIP, our early funding portfolio, and cash and cash equivalents, is that issuers will not repay us in accordance with contractual terms. The level of credit risk in our liquid investments is low because these investments are primarily high-quality, short and medium-term investments. These investments include our early funding portfolio, which consists primarily of repurchase agreements, and other high-quality short-term investments in nonmortgage assets, such as federal funds and time deposits, commercial paper, asset-backed securities, and corporate floating rate notes. The majority of our nonmortgage asset-backed securities are rated AAA by Standard & Poor's. Unsecured investments in the portfolio are generally rated A or higher by Standard & Poor's. Our LIP, which accounts for the majority of our liquid investments, totaled $39 billion and $65 billion at the end of 2002 and 2001, respectively. Approximately 94 percent of our LIP had a credit rating of A or higher at December 31, 2002, compared with 96 percent at December 31, 2001.

Operations Risk Management

Operations risk is the risk of potential loss resulting from a breakdown in, or failure to establish, controls and procedures. Examples of control breakdowns include circumvention of internal controls, human error, systems failure and fraud. Management has implemented extensive policies and procedures to both establish and monitor internal controls to decrease the likelihood of any control breakdowns. Fannie Mae's Office of Auditing also independently tests the adequacy of, and adherence to, internal controls and related policies and procedures. We actively manage Fannie Mae's operations risk through numerous oversight functions, such as:

- Exception reporting and management oversight of financial and forecasting information through verification, reconciliation and independent testing
- Management questionnaires that identify key risks, controls in place to mitigate those risks, and control weaknesses
- Key performance indicators (KPIs) that track operational metrics and potential risk exposure
- Quarterly senior and executive management internal control certifications
- Internal audit work that substantiates the adequacy of the internal control environment as well as direct reporting of this work to the Audit Committee of the Board of Directors
- Comprehensive disaster recovery planning and testing

Management regularly reconciles financial and accounting information and model results to source documents to ensure completeness and accuracy of financial reporting. Financial forecast model results are regularly reconciled to actual results and the models are recalibrated as necessary to mitigate modeling risk. The Office of Auditing also periodically benchmarks the critical models, evaluates the reasonableness of the underlying assumptions, and validates the key algorithms embedded within them. Control weaknesses are identified as well as the steps being taken to address them. The Office of Auditing reviews and validates these assessments for reasonableness and accuracy.

KPIs have been established to monitor primary operational metrics and to facilitate quick and effective senior management attention should any adverse trends develop. KPIs focus on the following operational risks:

- Modeling: Losses due to improperly modeled interest rate risk and credit risk
- Underwriting Effectiveness: Losses due to the failure of management or our lender counterparties to apply appropriate underwriting techniques
- Counterparty: Losses due to inadequate monitoring and risk mitigation resulting in exposure to counterparties who fail to meet their obligations to Fannie Mae. These counterparties include

lender/servicers, providers of credit enhancement, document custodians, derivatives counterparties, and other service providers

- Transaction Processing: Losses due to inadequate transaction processing controls, such as ineffective management oversight and reconciliation processes. Examples include erroneous wire transfers or loan deliveries, fraud, trade failures, or release of inaccurate securities information

- Systems Availability: Inability to achieve corporate goals due to a lack of systems availability, consistent performance, or capacity to recover from a disaster

- Information Security: Financial loss and incurrence of additional liability due to unauthorized systems access, corruption or destruction of critical, proprietary or confidential data

- Mission Alignment: Ineffective leadership or inappropriate business models resulting in litigation, regulatory sanctions, and reputation damage due to noncompliance with applicable laws, regulations, and Charter Act requirements

- Financial Reporting: Economic and reputational loss or disruption due to erroneous or delayed release of financial reports

Each KPI is based upon clearly defined and quantifiable performance thresholds that are monitored by our Office of Auditing. Senior managers are responsible for evaluating and monitoring KPI activity as well as implementing prompt corrective action. The Office of Auditing also tests the integrity of this process on a periodic basis. The Operations, Transactions and Investments Committee headed by our Chief Operating Officer reviews the KPIs and ensures prompt and effective resolutions.

On a quarterly basis, senior and executive management certify that internal controls are adequate, questionnaires and KPIs are accurate, and that all significant issues or control weaknesses that could have a material impact on the financial statements have been disclosed. The Office of Auditing reviews these certifications for reasonableness. The quarterly certifications are one of the key inputs for our Chief Executive Officer and Chief Financial Officer's written certifications that our financial statements fairly present Fannie Mae's financial condition and results of operations in all material respects.

In addition to the oversight functions indicated above, the Office of Auditing assesses risk and the underlying control environment annually throughout the company and then implements a comprehensive audit plan to assess risk and validate key controls.

The Office of Auditing also performs third-party audits as an important part of assessing counterparty exposure as well as to further substantiate adequacy of related internal controls. A primary example is performing audits of entities that sell loans to Fannie Mae or who service loans for us. In these audits, we evaluate the financial and operational controls of these entities by:

- reviewing the financial statements and assessing compliance with our net worth and insurance coverage requirements to assess eligibility and capability of doing business with us;

- testing cash and custodial accounting controls to ensure both Fannie Mae and borrower funds are held in qualified institutions and that the funds are properly accounted for, safeguarded and remitted.

- determining that key controls associated with loan underwriting, accounting, reporting and servicing are in place and operating effectively, that activity is reported to us accurately and that our mortgage assets are protected.

Fannie Mae has also developed comprehensive disaster recovery plans covering both systems and business operations that are designed to restore critical operations with minimal interruption. Major elements of this plan are tested annually at established contingency sites.

Controls and Procedures

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information we disclose in our periodic reports is recorded, processed, summarized, and reported within the designated time periods.

In addition, based on this most recent evaluation, we have concluded that there were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their last evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

LIQUIDITY AND CAPITAL RESOURCES

Fannie Mae’s statutory mission requires that we provide ongoing assistance to the secondary market for mortgages. Our ability to continually raise low-cost capital is critical to fulfilling our housing mission of providing liquidity to the secondary mortgage market and promoting homeownership to low- and moderate-income families. We primarily rely on debt to purchase mortgage assets and to supply liquidity to the secondary market. In 2002, our mortgage asset purchases totaled $371 billion based on unpaid principal balance. We issued $1.874 trillion in debt to fund those purchases and to replace maturing, called or repurchased debt. We take a long-term approach to our funding and capital management strategy because of our continuous requirements for large amounts of funding. Fannie Mae’s liquidity and capital position is actively managed to preserve stable, reliable, and cost-effective sources of cash to meet all current and future normal operating financial commitments, meet our regulatory capital requirements, and handle any unforeseen liquidity crisis.

Liquidity

Fannie Mae’s primary sources of liquidity include proceeds from the issuance of debt, principal and interest received on our mortgage portfolio, guaranty fees earned on our MBS, and principal and interest received on our liquid investment portfolio. Primary uses of liquidity include the purchase of mortgage assets, repayment of debt, interest payments, administrative expenses, taxes, and fulfillment of Fannie Mae’s MBS guaranty obligations. Our liquid assets totaled $62 billion at December 31, 2002, compared with $76 billion at December 31, 2001. In 2001, we adopted the 14 principles for sound liquidity management established by the Basel Committee on Banking Supervision as part of our voluntary safety and soundness initiatives. These principles outline the appropriate structure for managing liquidity and market access, a process for measuring and monitoring net funding requirements, the need for contingency plans, the necessary controls for liquidity risk management, and the role of public disclosure and regulatory oversight. We monitor our liquidity position through a combination of daily, weekly and monthly reports to help set strategies and make funding decisions. Our analyses include:

- projected cash flows and funding needs,
- targeted funding terms and various funding alternatives for achieving those terms,
- cost of debt and the most efficient ways to achieve desired funding, and
- market conditions and upcoming economic indicators and other factors that could impact the capital markets and our funding capabilities.

We have historically had ready access to funding for the following reasons:

- ***Our Credit Quality:*** In February 2001, Standard & Poor’s assigned Fannie Mae a AA- “risk to the government” rating. In February 2002, Moody’s Investors Service assigned us an A- Bank Financial Strength Rating. The highest possible levels for these ratings are AAA from Standard & Poor’s and A from Moody’s. These ratings are continuously monitored by each rating agency. Additionally, our senior unsecured debt has been rated AAA, Aaa, and AAA by Fitch, Inc., Moody’s Investors Service, and Standard & Poor’s, respectively. Fitch, Moody’s, and Standard & Poor’s rated our short-term debt F1+, Prime-1 or P-1, and A-1+, respectively.

- ***Our Standing in the Capital Market:*** We are an active participant in the global financial markets and one of the world's largest private issuers of debt securities. Our debt obligations are traded in the "agency securities market." The agency securities market includes securities issued by government-sponsored enterprises (GSEs). While the U.S. government does not guarantee our debt, directly or indirectly, securities issued by GSEs are typically perceived to be of high credit quality.

- ***Our Efficiency:*** We have demonstrated a long-term commitment to investors in the organized way we bring debt issues to market and monitor performance in the secondary market. We have successfully developed new funding products and markets with a variety of terms and features to appeal to a wide spectrum of investors. In addition, we may transform the debt into terms and other features that better match our funding needs through our efficient use of derivatives.

Given the importance of debt to our funding strategy, we have a contingency plan to protect us in the event of a major market disruption that would prevent us from issuing debt. As part of our voluntary safety and soundness initiatives, we maintain contingency plans for handling a liquidity crisis under an assumption that we cannot access the new-issue debt markets for a period of at least three months.

Each day we update and analyze cash commitments and anticipated cash flows for the next 90 days. Our analysis indicates how we expect to obtain funds during that period in the event we cannot access the capital markets. In the event of a market disruption in which we could not issue debt, we could liquidate our liquid investment portfolio or borrow against our mortgage portfolio to meet our operational needs:

- ***Fannie Mae's Liquid Investment Portfolio*** primarily consists of high-quality securities that are readily marketable or have short-term maturities and serves as the primary means for ensuring that we maintain sufficient liquidity. If our access to the debt capital markets is ever impeded, we first will utilize assets in our LIP to generate the cash necessary to meet our liquidity needs. Our initial source of funds would come from the ongoing maturity of short-term investments in the portfolio. If additional funds were needed, we would sell assets from the LIP to generate these funds. As part of our voluntary commitments, we have publicly pledged to maintain a portfolio of high-quality, liquid, nonmortgage-related securities equal to at least 5 percent of total on-balance-sheet assets. Our LIP and other liquid assets together totaled $62 billion and $76 billion at December 31, 2002 and 2001, respectively. The ratio of our liquid assets to total assets was 6.9 percent and 9.5 percent at December 31, 2002 and 2001, respectively.

- ***Fannie Mae's Mortgage Portfolio*** consists of assets that could be pledged as collateral for financing in the repurchase agreement market. We are able to borrow against Fannie Mae's mortgage assets in the market for mortgage repurchase agreements. We test this capability through periodic issuance. At December 31, 2002 and 2001, we had approximately $410 billion and $359 billion, respectively, in eligible mortgage securities.

At December 31, 2002, we had $85 billion in outstanding mandatory commitments and $3 billion in outstanding optional commitments for the purchase and delivery of mortgages in 2003. At December 31, 2001, Fannie Mae had $55 billion in outstanding mandatory commitments and $2 billion in outstanding optional commitments for the purchase and delivery of mortgages in 2002.

Capital Resources

Core capital (defined by OFHEO as the stated value of outstanding common stock, the stated value of outstanding noncumulative perpetual preferred stock, paid-in capital, and retained earnings, less treasury stock) grew to $28.1 billion at December 31, 2002 from $25.2 billion at December 31, 2001. Core capital excludes accumulated other comprehensive income because AOCI incorporates unrealized gains (losses) on derivatives and certain securities, but not the unrealized losses (gains) on the remaining mortgages and securities or liabilities used to fund the purchase of these items. Total capital (defined by OFHEO as core capital plus the general allowance for losses) grew to $28.9 billion at year-end 2002 from $26.0 billion at year-end 2001.

At December 31, 2002, AOCI totaled negative $11.8 billion, compared with a negative balance of $7.1 billion at December 31, 2001. Upon adoption of FAS 133 on January 1, 2001, we recorded a $3.9 billion reduction in AOCI, which was primarily attributable to recording derivatives (mostly pay-fixed interest rate swaps) that qualify as cash flow hedges on the balance sheet at fair value. The decline in interest rates during 2002 and 2001 caused a decline in the fair value of these derivatives and has reduced AOCI since the adoption of FAS 133. In conjunction with the adoption of FAS 133, we also, in a non-cash transfer, reclassified investment securities and MBS with an amortized cost of approximately $20 billion and unrealized gains and unrealized losses of $164 million and $32 million, respectively, from held-to-maturity to available-for-sale. On September 13, 2002, concurrent with the implementation of a new risk-based capital rule issued by OFHEO, we reclassified $135 billion of securities in our mortgage and nonmortgage investment portfolios from held-to-maturity to available-for-sale in accordance with FAS 115. At the time of this noncash transfer, the securities had gross unrealized gains of $5.503 billion and losses of $59 million. Prior to OFHEO's risk-based capital rule, Fannie Mae was not subject to a risk-based capital standard. OFHEO's new risk-based capital rule establishes a risk weight for Fannie Mae's assets. FAS 115 specifically identifies "a significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes" as a change in circumstance under which a company may reclassify securities from held-to-maturity to available-for-sale without calling into question the intent to hold other securities to maturity in the future. See "Government Regulation and Charter Act — Capital Requirements" for additional information on our risk-based capital rule.

Common shares outstanding, net of shares held in treasury, totaled approximately 989 million and 997 million at December 31, 2002 and 2001, respectively. During 2002, Fannie Mae issued 7.0 million common shares from treasury to fund our 2001 commitment of $300 million to the Fannie Mae Foundation and for employee and other stock compensation plans. We issued 4.5 million common shares from treasury during 2001 for employee and other stock compensation plans. As part of the continuation of our capital restructuring program, we repurchased 15.4 million common shares at a weighted average cost per share of $76.01 in 2002 and 6.0 million common shares at a weighted average cost per share of $76.95 in 2001. We repurchased the stock pursuant to our Board of Directors' approval to repurchase up to 6 percent of outstanding common shares as of December 27, 1995 (adjusted for a stock split) and to offset the dilutive effect of common shares issued in conjunction with various stock compensation programs.

We raised additional equity of $1 billion in 2002 and $400 million in 2001 by issuing Non-Cumulative Preferred Stock. On February 28, 2002, we redeemed all outstanding shares of our 6.5 percent Non-Cumulative Preferred Stock, Series B at $50.51458 per share, which represents the stated redemption price of $50.00 per share plus an amount equal to the dividend for the quarterly dividend period ending March 31, 2002, accrued to, but excluding the redemption date of February 28, 2002. On July 31, 2002, we redeemed all outstanding shares of our 6.45 percent Non-Cumulative Preferred Stock, Series C at $50.27771 per share, which represents the stated redemption price of $50.00 per share plus an amount equal to the dividend for the quarterly dividend period ending September 30, 2002, accrued to, but excluding the redemption date of July 31, 2002. Preferred stock accounted for 9.5 percent of our core capital at December 31, 2002, versus 9.1 percent at December 31, 2001. On March 18, 2003, we issued 8 million shares or $400 million of variable rate Non-Cumulative Preferred Stock, Series K.

In January 2003, our Board of Directors approved a quarterly common stock dividend for 2003 of $.39 per common share. The quarterly dividend rate per common share was $.33 and $.30 in 2002 and 2001, respectively. Our Board of Directors also approved preferred stock dividends for the period commencing December 31, 2002, up to but excluding March 31, 2003, as identified in Table 43.

Table 43: Preferred Stock Dividends

	Issue Date	Shares Issued and Outstanding	Stated Value per Share	Annual Dividend Rate	Redeemable on or After
Series D	September 30, 1998	3,000,000	$ 50	5.250%	September 30, 1999
Series E	April 15, 1999	3,000,000	50	5.100	April 15, 2004
Series F	March 20, 2000	13,800,000	50	3.540(1)	March 31, 2002(3)
Series G	August 8, 2000	5,750,000	50	1.830(2)	September 30, 2002(3)
Series H	April 6, 2001	8,000,000	50	5.810	April 6, 2006
Series I	October 28, 2002	6,000,000	50	5.375	October 28, 2007
Series J	November 26, 2002	14,000,000	50	3.780(4)	November 26, 2004
Total		53,550,000			

(1) Rate effective March 31, 2002. Variable dividend rate that resets every two years thereafter at the Constant Maturity U.S. Treasury Rate minus .16 percent with a cap of 11 percent per year.

(2) Rate effective September 30, 2002. Variable dividend rate that resets every two years thereafter at the Constant Maturity U.S. Treasury Rate minus .18 percent with a cap of 11 percent per year.

(3) Represents initial call date. Redeemable every two years thereafter.

(4) Initial rate. Variable dividend rate that resets every two years thereafter at the two-year U.S. Dollar Swap Rate plus 1.38 percent with a cap of 8 percent per year.

During 2002, we issued $3.5 billion of subordinated debt securities that received ratings of AA- from Standard & Poor's, Aa2 from Moody's Investors Service, and AA by Fitch Ratings. We issued $5 billion of subordinated debt securities that received a rating of AA- from Standard & Poor's and Aa2 from Moody's Investors Service in 2001. Subordinated debt serves as a supplement to our equity capital, although it is not a component of core capital. It provides a risk-absorbing layer to supplement core capital for the benefit of senior debt holders and is intended to serve as a consistent and early market signal of credit risk for investors. By the end of 2003, we intend to issue sufficient subordinated debt to bring the sum of total capital and outstanding subordinated debt to at least 4 percent of on-balance-sheet assets, after providing adequate capital to support off-balance sheet MBS. Total capital and outstanding subordinated debt represented 3.7 percent of on-balance-sheet assets at December 31, 2002, compared with 3.4 percent at December 31, 2001.

Regulatory Environment

Fannie Mae is subject to capital adequacy standards established by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (1992 Act) and continuous examination by OFHEO, which was established by the 1992 Act. The capital adequacy standards require that our core capital equal or exceed a minimum capital standard and a critical capital standard. The Portfolios and Capital Committee, chaired by the Chief Financial Officer, ensures compliance with economic and regulatory risk-based capital requirements. Table 44 shows our core capital and total capital at year-end 2002 and 2001 compared with the requirements.

Table 44: Capital Requirements

	December 31, 2002	December 31, 2001
	(Dollars in millions)	
Core capital(1)	$28,079	$25,182
Required minimum capital(2)(5)	27,203	24,182
Excess of core capital over minimum capital(5)	$ 877	$ 1,000
Total capital(3)	$28,871	$25,976
Required risk-based capital	17,434	NA
Excess of total capital over required risk-based capital	$11,437	NA
Required critical capital(4)(5)	$13,880	$12,324
Excess of core capital over required critical capital(5)	14,199	12,859

(1) 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. Core capital excludes accumulated other comprehensive income (AOCI).

(2) The sum of (a) 2.50 percent of on-balance sheet assets; (b) .45 percent of outstanding MBS; and (c) .45 percent of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances (See 12 CFR 1750.4 for existing adjustments made by the Director of OFHEO).

(3) The sum of (a) core capital and (b) the total allowance for loan losses and guaranty liability, less (c) the specific loss allowance. Specific loss allowances totaled $19 million and $13 million at December 31, 2002 and 2001, respectively.

(4) The sum of (a) 1.25 percent of on-balance sheet assets; (b) .25 percent of outstanding MBS; and (c) .25 percent of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

(5) These amounts do not reflect the reclassification from our "Allowance for loan losses" to a "Guaranty liability for MBS" the amount associated with the guaranty obligation for MBS that we own that occurred in 2002. See Note 1 to the notes to the financial statements, Summary of Significant Accounting Policies — Allowance for Loan Losses and Guaranty Liability for MBS. The reclassification will not have a material effect on these amounts.

The 1992 Act also established our risk-based capital requirements, and it required OFHEO to adopt regulations establishing a risk-based capital test. OFHEO published regulations under the 1992 Act in September 2001, as amended on March 15, 2002, establishing a risk-based capital test to determine the amount of total capital we must hold under the risk-based capital standard on a quarterly basis. OFHEO implemented the risk-based capital standard on September 13, 2002. At December 31, 2002, our risk-based capital requirement was $17.4 billion. Our total capital was $28.9 billion at year-end 2002, $11.4 billion higher than the risk-based capital requirement.

PERFORMANCE OUTLOOK

We expect Fannie Mae's core business earnings to continue to increase in 2003, although at a growth rate below the above-average trend rates of 2002 and 2001. We project that our net interest margin will move lower in 2003 as the benefits from the actions we took during 2002 and 2001 to lower our debt costs begin to diminish. We anticipate some increase in our effective average guaranty fee rates because of recent pricing trends. We also believe that while credit expenses may move higher in 2003, they will remain at historically low levels. Should economic conditions deteriorate, we believe our book of business is well-positioned to perform better than in prior slowdowns because of improved loan underwriting through Desktop Underwriter, lower loan-to-value ratios, more third-party credit enhancements, and superior credit loss mitigation efforts. Our administrative expense growth rate should decline in 2003 but remain above historical levels as we complete our core infrastructure project and begin to expense stock-based compensation. See "MD&A— Forward Looking Information."

NEW ACCOUNTING STANDARDS

Accounting for Stock Compensation

We elected to adopt the expense recognition provisions of Financial Accounting Standard No. 123 ("FAS 123"), *Accounting for Stock-Based Compensation*, effective January 1, 2003. In accordance with FAS 123, we will recognize the fair value of stock-based compensation at grant date over the service period of the employee as an administrative expense in our income statement. We have elected to apply this change in accounting prospectively to all awards granted on January 1, 2003 and thereafter. We will continue to account for stock-based compensation awarded prior to January 1, 2003 under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). We estimate that the impact of adopting the expense recognition provisions of FAS 123 will result in additional expense of approximately $28 million in 2003.

Guarantor's Accounting and Disclosure Requirements for Guarantees

In November 2002, FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other* ("FIN 45"). FIN 45 will primarily apply to guaranteed MBS issued to investors other than Fannie Mae on or after January 1, 2003 by Fannie Mae as trustee, and it will require that we recognize the fair value of our guarantee on MBS as an asset and the fair value of our guaranty obligations as a liability. Under FIN 45, we will amortize our guaranty asset and liability amounts equally over the estimated life of the loans underlying the MBS as an adjustment to guaranty fee income. There will be no effect on Fannie Mae's guaranty fee income or stockholders' equity from adopting this accounting rule because the guaranty asset and liability will be equal under FIN 45.

Special Purpose Entities ("SPEs")

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 provides guidance on when a company should include in its financial statements the assets, liabilities and activities of a variable interest entity ("VIE"). Under FIN 46, a variable interest entity must be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. We have not identified any current Fannie Mae arrangements that meet the VIE consolidation criteria of FIN 46. Therefore, we do not believe that FIN 46 will have a material impact on Fannie Mae. Our off-balance sheet MBS activities are outside the scope of FIN 46 because we conduct those activities through trusts that are qualifying SPEs. Our investments in low-income housing tax credit partnerships are also outside the scope of FIN 46 because they do not meet the definition of variable interest entities.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Quantitative and qualitative disclosure about market risk is set forth on pages 61 to 72 of this Form 10-K under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Item 8. ***Financial Statements and Supplementary Data***

FANNIE MAE

STATEMENTS OF INCOME

	Year Ended December 31,		
	2002	2001	2000
	(Dollars and shares in millions, except per common share amounts)		
Interest income:			
Mortgage portfolio	$49,265	$46,478	$39,403
Nonmortgage investments and cash equivalents	1,588	2,692	3,378
Total interest income	50,853	49,170	42,781
Interest expense:			
Short-term debt	2,978	5,897	4,204
Long-term debt	37,309	35,183	32,903
Total interest expense	40,287	41,080	37,107
Net interest income	10,566	8,090	5,674
Other income:			
Guaranty fee income	1,816	1,482	1,351
Fee and other income (expense), net	232	151	(44)
Total other income	2,048	1,633	1,307
Other expenses (income):			
Provision for losses	128	94	122
Foreclosed property income	(36)	(16)	(28)
Administrative expenses	1,219	1,017	905
Special contribution	—	300	—
Purchased options expense	4,545	37	—
Debt extinguishments, net	710	524	(49)
Total other expenses (income)	6,566	1,956	950
Income before federal income taxes and cumulative effect of change in accounting principle	6,048	7,767	6,031
Provision for federal income taxes	1,429	2,041	1,583
Income before cumulative effect of change in accounting principle	4,619	5,726	4,448
Cumulative effect of change in accounting principle, net of tax effect	—	168	—
Net income	$ 4,619	$ 5,894	$ 4,448
Preferred stock dividends	99	138	121
Net income available to common stockholders	$ 4,520	$ 5,756	$ 4,327
Basic earnings per common share:			
Earnings before cumulative effect of change in accounting principle	$ 4.56	$ 5.58	$ 4.31
Cumulative effect of change in accounting principle	—	.17	—
Net earnings	$ 4.56	$ 5.75	$ 4.31
Diluted earnings per common share:			
Earnings before cumulative effect of change in accounting principle	$ 4.53	$ 5.55	$ 4.29
Cumulative effect of change in accounting principle	—	.17	—
Net earnings	$ 4.53	$ 5.72	$ 4.29
Cash dividends per common share	$ 1.32	$ 1.20	$ 1.12
Weighted-average common shares outstanding:			

Basic	992	1,000	1,003
Diluted	997	1,006	1,009

See Notes to Financial Statements.

FANNIE MAE

BALANCE SHEETS

	December 31,	
	2002	**2001**
	(Dollars in millions, except share stated values)	
Assets		
Mortgage portfolio:		
Mortgage-related securities:		
Held-to-maturity	$437,932	$509,155
Available-for-sale	173,706	32,900
Total	611,638	542,055
Loans held-for-investment	185,652	165,917
Allowance for loan losses	(79)	(48)
Unamortized premiums (discounts) and deferred price adjustments, net	337	(2,640)
Loans held-for-sale	145	40
Mortgage portfolio, net	797,693	705,324
Nonmortgage investments:		
Held-to-maturity	23,050	38,671
Available-for-sale	36,794	35,883
Cash and cash equivalents	1,710	1,518
Accrued interest receivable	4,915	4,705
Acquired property and foreclosure claims, net	1,033	684
Derivatives in gain positions	3,666	954
Other	18,654	12,209
Total assets	$887,515	$799,948
Liabilities and Stockholders' Equity		
Liabilities:		
Debentures, notes and bonds, net:		
Senior debt:		
Due within one year	$382,412	$343,492
Due after one year	458,600	413,582
Subordinated debt:		
Due after one year	9,970	6,393
Total	850,982	763,467
Accrued interest payable	8,379	8,529
Derivatives in loss positions	5,697	5,069
Guaranty liability for MBS	729	755
Other	5,440	4,010
Total liabilities	871,227	781,830
Stockholders' Equity:		
Preferred stock, $50 stated value, 100 million shares authorized — 53.6 million shares issued and outstanding in 2002 and 46 million shares issued and outstanding in 2001	2,678	2,303
Common stock, $.525 stated value, $1.32 of dividends per share paid in 2002 and $1.20 of dividends per share paid in 2001, no maximum authorization — 1,129 million shares issued	593	593
Additional paid-in capital	1,839	1,651
Retained earnings	29,385	26,175
Accumulated other comprehensive loss	(11,792)	(7,065)
	22,703	23,657
Less: Treasury stock, at cost, 140 million shares in 2002 and 132 million shares in 2001	6,415	5,539
Total stockholders' equity	16,288	18,118
Total liabilities and stockholders' equity	$887,515	$799,948

See Notes to Financial Statements.

FANNIE MAE

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Net Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
	(Dollars and shares in millions)							
Balance, January 1, 2000	1,019	$1,300	$593	$1,585	$18,417	$ (246)	$(4,020)	$17,629
Comprehensive income:								
Net income	—	—	—	—	4,448	—	—	4,448
Other comprehensive income, net of tax effect:								
Unrealized gains on available-for-sale securities	—	—	—	—	—	256	—	256
Total comprehensive income								4,704
Dividends	—	—	—	—	(1,246)	—	—	(1,246)
Shares repurchased	(25)	—	—	—	—	—	(1,406)	(1,406)
Preferred stock issued	—	978	—	(10)	—	—	—	968
Treasury stock issued for stock options and benefit plans	5	—	—	13	—	—	176	189
Balance, December 31, 2000	999	2,278	593	1,588	21,619	10	(5,250)	20,838
Comprehensive income:								
Net income	—	—	—	—	5,894	—	—	5,894
Other comprehensive income, net of tax effect:								
Transition adjustment from the adoption of FAS 133.	—	—	—	—	—	(3,972)	—	(3,972)
Unrealized gain on securities transferred to available-for-sale	—	—	—	—	—	86	—	86
Net cash flow hedging losses	—	—	—	—	—	(3,387)	—	(3,387)
Unrealized gains on available-for-sale securities	—	—	—	—	—	198	—	198
Total comprehensive loss								(1,181)
Dividends	—	—	—	—	(1,338)	—	—	(1,338)
Shares repurchased	(6)	—	—	—	—	—	(464)	(464)
Preferred stock issued	—	400	—	(4)	—	—	—	396
Preferred stock redeemed	—	(375)	—	—	—	—	—	(375)
Treasury stock issued for stock options and benefit plans	4	—	—	67	—	—	175	242
Balance, December 31, 2001	997	2,303	593	1,651	26,175	(7,065)	(5,539)	18,118
Comprehensive income:								
Net income	—	—	—	—	4,619	—	—	4,619
Other comprehensive income, net of tax effect:								
Net cash flow hedging losses	—	—	—	—	—	(8,892)	—	(8,892)
Reclassification of securities from held-to-maturity to available-for-sale under FAS 115.	—	—	—	—	—	3,539	—	3,539
Unrealized gains on available-for-sale securities	—	—	—	—	—	626	—	626
Total comprehensive loss								(108)
Dividends	—	—	—	—	(1,409)	—	—	(1,409)
Shares repurchased	(15)	—	—	—	—	—	(1,167)	(1,167)
Preferred stock issued	—	1,000	—	(9)	—	—	—	991
Preferred stock redeemed	—	(625)	—	—	—	—	—	(625)
Treasury stock issued for stock options and benefit plans	3	—	—	61	—	—	127	188
Treasury stock issued for special contribution	4	—	—	136	—	—	164	300
Balance, December 31, 2002	989	$2,678	$593	$1,839	$29,385	$(11,792)	$(6,415)	$16,288

See Notes to Financial Statements.

FANNIE MAE

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
		(Dollars in millions)	
Cash flows from operating activities:			
Net income	$ 4,619	$ 5,894	$ 4,448
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of discount/premium and deferred price adjustments	5,801	11,045	10,278
Provision for losses	128	94	122
Loss (gain) on debt extinguishments	710	524	(49)
Cumulative effect of change in accounting principle, net of tax	—	(168)	—
Purchased options expense	4,545	37	—
Deferred income taxes	(1,626)	(190)	161
Other decreases, net	(2,039)	(2,904)	(659)
Net cash provided by operating activities	12,138	14,332	14,301
Cash flows from investing activities:			
Mortgage portfolio purchases	(373,169)	(270,609)	(153,837)
Proceeds from sales from mortgage portfolio	9,691	8,967	10,599
Mortgage portfolio principal repayments	274,941	164,408	56,568
Net proceeds from disposition of foreclosed properties	2,281	1,827	1,962
Purchases of held-to-maturity nonmortgage investments	(1,819,326)	(1,359,614)	(1,184,924)
Maturities of held-to-maturity nonmortgage investments	1,823,915	1,343,328	1,173,546
Purchases of available-for-sale nonmortgage investments	(54,534)	(78,632)	(13,610)
Maturities of available-for-sale nonmortgage investments	58,617	68,269	1,190
Proceeds from sales of available-for-sale nonmortgage investments	6,158	7,193	8,995
Net cash used in investing activities	(71,426)	(114,863)	(99,511)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	238,252	249,454	110,298
Payments to redeem long-term debt	(175,809)	(196,610)	(49,769)
Proceeds from issuance of short-term debt	1,631,404	1,746,381	1,130,698
Payments to redeem short-term debt	(1,620,644)	(1,690,806)	(1,104,694)
Proceeds from zero-coupon swap calls	478	203	—
Net payments to purchase or settle hedge instruments	(12,119)	(5,569)	(1,245)
Net payments from stock activities	(2,082)	(1,621)	(1,560)
Net cash provided by financing activities	59,480	101,432	83,728
Net increase (decrease) in cash and cash equivalents	192	901	(1,482)
Cash and cash equivalents at beginning of year	1,518	617	2,099
Cash and cash equivalents at end of year	$ 1,710	$ 1,518	$ 617
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 40,401	$ 40,361	$ 34,863
Income taxes	3,032	2,088	1,595

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Fannie Mae is a federally chartered and stockholder-owned corporation operating in the residential mortgage finance industry.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have reclassified certain amounts in prior years' financial statements to conform to the current presentation.

Principles of Consolidation

We regularly invest in qualified low-income housing tax credit partnerships as a limited partner. In accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, we typically do not consolidate these partnerships because we are a limited partner and do not have voting rights or control the activities of these partnerships. We account for these non-consolidated investments using the equity method of accounting. Under the equity method of accounting, we record the amount of our investment as an asset on our balance sheet. We recognize our share of partnership income or losses in the income statement line item "Fee and other income, net" with an offset to the investment account on our balance sheet. Partnership losses reduce the size of our asset and partnership income increases our asset. We account for any cash received from these partnerships as a return of investment and reduce the asset balance. These limited partnership investments are qualified affordable housing projects that are eligible for tax credits. We record these tax credits as a reduction in our provision for federal income taxes in the income statement when received. We regularly evaluate these investments for impairment. If there is other-than-temporary impairment in the value of these investments, we recognize the decline in value as an expense in "Fee and other income, net." If an investment grade third party guarantees the return on these investments, we account for the investments using the effective yield method according to Emerging Issues Task Force Issue No. 94-1, *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects*. Under this method, we recognize tax credits as they are allocated to us and amortize the initial cost of the investment to provide a level yield over the period we are allocated tax credits. We recognize both the tax credits and the amortization of the investment, net of taxes, in the provision for federal income taxes.

We also sponsor trusts that facilitate the issuance of Fannie Mae mortgage-backed securities (MBS). MBS include real estate mortgage investment conduits (REMICs). In this capacity, we serve as trustee for the creation and issuance of these MBS. To create MBS, lenders transfer loans to us and we immediately transfer these loans into a trust and deliver certificates to the lender or other purchaser. These certificates represent beneficial interests in the loans underlying the MBS that are held in trust. The trust pays us to guarantee the timely payment of scheduled principal and interest on MBS to investors. To create REMICs, investors transfer loans, MBS, or mortgage-related securities to us and we immediately transfer them into a trust and deliver certificates to the investor. These REMIC certificates represent beneficial interests in the underlying collateral held in trust by us.

The loans underlying MBS and the collateral underlying REMICs are not our assets, and we do not reflect them on our balance sheet unless our portfolio investment business buys them. In accordance with Financial Accounting Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Debt* (FAS 140), we do not consolidate the trusts used to issue MBS because these trusts meet the definition of a qualifying special purpose entity. We recognize a guaranty liability for estimated losses on our guaranty obligation in accordance with Financial Accounting Standard No. 5, *Accounting for*

Contingencies (FAS 5). For more information on the accounting for our guaranty, refer to the sections in this footnote entitled “Guaranteed Mortgage-Related Securities,” “Mortgage-Related Securities,” and “Allowance for Loan Losses and Guaranty Liability for MBS.”

Mortgage Portfolio

Loans

Loans are mortgage loans. We classify mortgages that we have the original intent at the time of purchase to hold for investment purposes as “held-for-investment.” We measure these assets at their unpaid principal balance (UPB) adjusted for unamortized purchase discount or premium and other deferred price adjustments. We classify mortgages that we intend to sell as “held-for-sale.” We measure mortgages held-for-sale at the lower of cost or market, determined on a portfolio basis, with any unrealized losses included in current period earnings.

In accordance with Financial Accounting Standard No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91), we use actual principal prepayment experience and estimate future principal prepayments to calculate the constant effective yield necessary to apply the interest method in the amortization of purchase discount or premium and other deferred price adjustments. We aggregate loans by similar characteristics such as loan type, acquisition date, interest rate, and maturity to evaluate prepayments. We use historical prepayment data and expected prepayment performance under varying interest rate scenarios to estimate future prepayments.

We do not accrue interest income on nonperforming loans. We classify conventional single-family and multifamily loans as nonperforming and reverse previously accrued interest against current period income when the loan is 90 days or more delinquent and we estimate the interest to be uncollectible. We return loans to accrual status when the borrower is less than 90 days delinquent because the probability of default is low and management believes collections of future payments are reasonably assured.

Pursuant to our guaranty obligation, we are required to purchase at par a loan underlying MBS pools when the borrower has not made a payment for 24 consecutive months. We have the option under the terms of the trust indenture to purchase the loan out of the pool after the borrower has missed their fourth consecutive payment. We usually purchase the loan out of the pool after the fourth consecutive missed payment. When the loan is purchased out of the pool, we record the loan at its approximate fair value. When estimating fair value, we take into account the underlying real-estate collateral, estimated costs to sell, and estimated receipts from third-party credit enhancements.

Mortgage-Related Securities

We classify mortgage-related securities that we have the ability and positive intent to hold to maturity as “held-to-maturity.” We measure these assets at their unpaid principal balance adjusted for unamortized purchase discount or premium and other deferred price adjustments. We classify mortgage-related securities that we intend to hold for an undetermined period, but not necessarily to maturity, as “available-for-sale.” We measure available-for-sale mortgage-related securities at fair value with any valuation adjustments reported as a component of accumulated other comprehensive income (AOCI), net of deferred taxes, in stockholders’ equity. We use the specific identification method for determining cost in computing realized gains or losses on these assets. Realized gains or losses from the sale of these investments are recognized through the “Fee and other income, net” line item on the income statement. We classify and account for these investments as either held-to-maturity or available-for-sale, according to Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115).

We record impairment for mortgage-related securities held in our mortgage portfolio by determining whether an other-than-temporary decline in fair value below a security’s amortized cost basis has occurred. If such a decline has occurred, the cost basis of the security is written down to fair value and is accounted for as a realized loss through the “Fee and other income, net” line item on the income statement. The new cost basis is not changed for subsequent recoveries in fair value.

We also provide a guaranty liability on mortgage-related securities held in the mortgage portfolio that are guaranteed by Fannie Mae because we have the risk of loss of individual loans underlying these securities. See “Summary of Significant Accounting Policies — Allowance for Loan Losses and Guaranty Liability for MBS” for further discussion.

In accordance with FAS 91, we use actual principal prepayment experience and estimate future principal prepayments to calculate the constant effective yield necessary to apply the interest method in the amortization of purchase discount or premium and other deferred price adjustments. We aggregate mortgage-related securities by similar characteristics such as loan type, acquisition date, interest rate, and maturity to evaluate prepayments. We use historical prepayment data and expected prepayment performance under varying interest rate scenarios to estimate future prepayments.

Nonmortgage Investments

Nonmortgage investments consist of our liquid investment portfolio (LIP) and other investments. We classify and account for these investments as either held-to-maturity or available-for-sale, according to FAS 115. We measure held-to-maturity securities at historical cost, adjusted for unamortized discount or premium. We measure available-for-sale securities at fair value as of the balance sheet date, with any valuation adjustments reported as a component of AOCI, net of deferred taxes, in stockholders’ equity. We use the specific identification method for determining a security’s cost basis in computing realized gain or loss. We accrue interest income unless the collection of interest income is considered doubtful. If collection of interest is doubtful, we recognize interest income on a cash basis. We regularly evaluate these investments for impairment. If there is other-than-temporary impairment in the value of these investments, we recognize the decline in value as an expense in “Fee and other income, net.”

Guaranteed Mortgage-Related Securities

We charge a guaranty fee in return for guaranteeing the timely payment of scheduled principal and interest on MBS and other mortgage-related securities to investors. We accrue and collect guaranty fees monthly based on a fixed rate multiplied by the outstanding balance of the guaranteed MBS and other mortgage-related securities. We apply the effective yield method of accounting and amortize any upfront guaranty fee price adjustments over the estimated life of the loans underlying the MBS and other mortgage-related securities. For MBS and other mortgage-related securities not held in our mortgage portfolio, we record the guaranty fee in “Guaranty fee income.” For MBS and other mortgage-related securities held in our mortgage portfolio, we record the guaranty fee in “Interest income.”

In November 2002, the Financial Accounting Standards Board (FASB) issued *Interpretation No. 45: Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. We are required to provide disclosures about guarantees beginning with our December 31, 2002 financial statements. The disclosures are located in Footnote 14, “Financial Instruments with Off-Balance-Sheet Risk.” The new interpretation also will require us to recognize the fair value of our MBS guaranty fee and other guaranty fees as assets and the fair value of our MBS guaranty obligation and other guaranty obligations as liabilities for MBS and other guarantees issued by us to investors other than Fannie Mae on or after January 1, 2003. Under this interpretation, we will record an asset representing the fair value of the guaranty along with a liability of equal value. We will amortize the asset and the liability over the estimated life of the loans underlying the MBS or other guarantees as an adjustment to guaranty fee income. However, because the asset and liability will be equal and the amortization rates will be the same, there will be no net effect on guaranty fee income or stockholders’ equity.

Allowance for Loan Losses and Guaranty Liability for MBS

We have an allowance for loan losses for loans in the mortgage portfolio (excluding loans held-for-sale). The allowance for loan losses is included in the balance sheet under “Mortgage portfolio, net.” We also have a guaranty liability for loans underlying MBS held by us or other investors, which is included in the balance sheet under “Guaranty liability for MBS.”

The allowance for loan losses and the guaranty liability for MBS represent our estimate of probable credit losses arising from loans and loans underlying Fannie Mae MBS we own as well as MBS we guarantee for others as of the balance sheet date. We perform regular, ongoing reviews to identify probable losses. We monitor delinquency, default, loss rates, and other portfolio risk characteristics. These risk characteristics include geographic concentration, loan-to-value ratio, mortgage product type, and loan age.

We increase the allowance for loan losses and the guaranty liability for MBS by recording a provision for losses in the income statement. Charge-offs reduce the allowance or guaranty liability and loan recoveries increase the allowance or guaranty liability. We consider current delinquency levels, historical loss experience, current economic conditions, and mortgage characteristics when evaluating the adequacy of our allowance and guaranty liability.

We determine the adequacy of the allowance and guaranty liability for single-family assets by evaluating risk characteristics such as product type, original loan-to-value ratio, and loan age. We estimate defaults for each risk characteristic based on historical experience and apply a historical severity to each risk category, in accordance with FAS 5. In addition, we apply Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan* (FAS 114), to determine the amount of impairment on specific loans that have been restructured. We charge-off single-family loans when we foreclose on the loans.

We divide multifamily’s allowance and guaranty liability into two parts: loans that are impaired and loans that are not impaired. A loan is impaired when, based on current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We apply FAS 114 to determine the amount of impairment on specific loans that are not performing according to contractual terms. We apply FAS 5 to loans that are not individually assessed for impairment and set up an allowance for loan losses or guaranty liability for probable losses as of the balance sheet date. We individually rate loans and segment them into the main risk categories that we use to monitor the multifamily portfolio. We then apply historical default rates and a corresponding severity to the loans in each segment.

In 2002, we reclassified from our “Allowance for loan losses” to “Guaranty liability for MBS” the amount associated with the guaranty obligation for MBS that we own. The guaranty liability for MBS associated with MBS guaranteed for others has historically been included in the caption “Other liabilities” on the balance sheet. The balance sheet line item “Guaranty liability for MBS” now includes the liability associated with MBS on the balance sheet and MBS guaranteed for others. Prior period balances have been restated to reflect this reclassification.

We previously recorded gains from the sale of foreclosed properties and related mortgage insurance claims against our allowance for loan losses and guaranty liability as a recovery of charge-offs. During 2002, we reclassified these gains to “Foreclosed property income”. Additionally, the AICPA rescinded Statement of Position 92-3, *Accounting for Foreclosed Assets* (SOP 92-3), during the fourth quarter of 2002. Under SOP 92-3, we recorded selling costs related to the disposition of foreclosed properties in our income statement under “Foreclosed property income”. We now include selling costs in our initial charge-off estimate. All prior periods have been reclassified to conform to the current year presentation. The reclassified amounts result in equal and offsetting changes to our “Provision for losses” and “Foreclosed property income” line items within our previously reported income statements. These reclassifications have no impact on previously reported net income, total credit-related expenses, or the balance of the allowance for losses.

Acquired Property

We measure foreclosed assets at fair value, less estimated cost to sell, at the time of foreclosure. Fair value is determined based on the estimated net proceeds the company will receive from the disposition of the foreclosed asset. We charge subsequent changes in the collateral's fair value as well as foreclosure, holding, and disposition costs, directly to earnings through foreclosed property income.

We account for and classify deeds in lieu of foreclosure similar to foreclosures. Our accounting for preforeclosure sales of properties by the borrower is slightly different because we do not have title to the underlying properties. In a preforeclosure situation, the loan remains in the mortgage-related security or our mortgage portfolio until the borrower sells the property. At that point, we reduce the carrying amount of the mortgage loan and create a receivable for the sale proceeds in the amount of the sales price. We classify the receivable for the sale proceeds as part of "Acquired property and foreclosure claims, net" on the balance sheet. If there is any remaining investment in the mortgage loan, we charge off the mortgage loan against the allowance for loan losses or guaranty liability for MBS. If the sale proceeds exceed the mortgage loan balance, we record it in "Foreclosed property income" on the income statement.

Derivative Instruments and Hedging Activities

On January 1, 2001, we adopted Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), as amended by Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. Under FAS 133, we recognize all derivatives as either assets or liabilities on the balance sheet at their fair value. Subject to certain qualifying conditions, we may designate a derivative as either a hedge of the cash flows of a variable-rate instrument or anticipated transaction (cash flow hedge) or a hedge of the fair value of a fixed-rate instrument (fair value hedge). For a derivative qualifying as a cash flow hedge, we report fair value gains or losses in a separate component of AOCI, net of deferred taxes, in stockholders' equity to the extent the hedge is effective. We recognize these fair value gains or losses in earnings during the period(s) in which the hedged item affects earnings. For a derivative qualifying as a fair value hedge, we report fair value gains or losses on the derivative in earnings along with fair value gains or losses on the hedged item attributable to the risk being hedged. For a derivative not qualifying as a hedge, or components of a derivative that are excluded from any hedge effectiveness assessment, we report fair value gains and losses in earnings.

If a derivative no longer qualifies as a cash flow or fair value hedge, we discontinue hedge accounting prospectively. We continue to carry the derivative on the balance sheet at fair value and record fair value gains and losses in earnings until the derivative is settled. For discontinued cash flow hedges, we recognize the gains or losses previously deferred in AOCI in earnings in the same period(s) that the hedged item affects earnings. For discontinued fair value hedges, we no longer adjust the carrying amount of the hedged asset or liability for changes in its fair value. We then amortize previous fair value adjustments to the carrying amount of the hedged item to earnings over the remaining life of the hedged item using the effective yield method.

Our adoption of FAS 133 on January 1, 2001, resulted in a cumulative after-tax increase in income of $168 million and an after-tax reduction in AOCI of $3.9 billion. In addition, we reclassified investment securities and MBS with an amortized cost of approximately $20 billion from held-to-maturity to available-for-sale upon the adoption of FAS 133. At the time of this noncash transfer, we had gross unrealized gains and losses of $164 million and $32 million, respectively, on these securities.

We reflect payments to purchase and terminate derivatives used as hedges of our debt as “net payments to purchase or settle hedge instruments” in our cash flow statement. We classify these payments as financing activities because we use these derivatives as hedges of our funding costs.

During the fourth quarter of 2002, we refined our methodology for estimating the initial time value of interest rate caps at the date of purchase and prospectively adopted a preferred method that resulted in a $282 million pre-tax reduction in purchased options expense and increased our diluted earnings per share for 2002 by $.18. Under our previous valuation method, we treated the entire premium paid on purchased “at-the-money” caps as time value with no allocation to intrinsic value. Our new methodology allocates the initial purchase price to reflect the value of individual caplets, some of which are above the strike rate of the cap, which results in a higher intrinsic value and corresponding lower time value at the date of purchase. This approach is more consistent with our estimation of time value subsequent to the initial purchase date. This change does not affect the total expense that will be recorded in our income statement over the life of our caps.

Cash and Cash Equivalents

We consider highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. We record cash equivalents at cost. Cost is representative of fair value for these instruments because changes in short-term interest rates should have a minimal impact on the fair value of securities that have an original term of three months or less.

Administrative Expenses

Administrative expenses include those costs we incur to run our daily operations. A significant component of administrative expenses is compensation expense, which totaled $683 million in 2002, $602 million in 2001, and $541 million in 2000.

Debt Extinguishments

During the second quarter of 2002, we adopted Financial Accounting Standard No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (FAS 145). This standard eliminates the extraordinary treatment of gains and losses on debt and related interest rate swaps for us because the early extinguishment of debt is an ordinary and frequent part of our business. We reclassified all prior periods to conform to the new classification.

Income Taxes

We establish deferred federal income tax assets and liabilities for temporary differences between financial and taxable income. We measure these deferred amounts using the current marginal statutory tax rate. We generally recognize investment and other tax credits when we record these items on the tax return.

Comprehensive Income

Comprehensive income is the change in equity, on a net of tax basis, resulting from transactions and other events and circumstances from nonowner sources during a period. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners.

Special Contribution

We made a commitment during the fourth quarter of 2001 to contribute $300 million of Fannie Mae common stock to the Fannie Mae Foundation. The Fannie Mae Foundation creates affordable homeownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the United States. It is a separate, private nonprofit organization that is not consolidated by Fannie Mae, but is supported solely by Fannie Mae. Fannie Mae acquired the shares through open market purchases and contributed the shares to the Foundation in the first quarter of 2002.

Stock-Based Compensation

At December 31, 2002, we had five stock-based compensation or benefits programs that we describe in Footnote 8, *Stock-Based Compensation Plans*. Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* (FAS 123), gives companies the option of either recording an expense for all stock compensation awards based on the fair value at grant date or continuing to follow Accounting Principles Board Opinion No. 25 (APB 25). Companies that follow APB 25 must disclose, in a footnote, pro forma net income and earnings per share as if they had adopted the expense recognition provisions of FAS 123. Prior to January 2003, we elected to apply APB 25 and related interpretations in accounting for our plans. As a result of applying APB 25, we did not recognize compensation expense for nonqualified stock options and the Employee Stock Purchase Plan. We have elected to change our accounting for stock-based compensation and will record expense for all future stock compensation awards at fair value at grant date under FAS 123 beginning on January 1, 2003. We estimate that the impact of adopting the expense recognition provisions of FAS 123 will result in additional expense of approximately $28 million in 2003.

In accordance with the disclosure requirements of Financial Accounting Standard No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure* (FAS 148), the following table summarizes our net income available to common stockholders and reported basic and diluted earnings per common share for the years 2000-2002 under APB 25, as well as proforma net income available to common stockholders and basic and diluted earnings per common share if we had recognized compensation expense according to FAS 123.

	2002	2001	2000
	(Dollars in millions, except per share amounts)		
Net income available to common stockholders, as reported	$4,520	$5,756	$4,327
Plus: Stock-based employee compensation expense recorded under APB 25, net of related tax effects	25	27	31
Less: Stock-based employee compensation expense determined under fair value based method, net of related tax effects	(105)	(96)	(80)
Pro forma net income available to common stockholders	$4,440	$5,687	$4,278
Earnings per share:			
Basic — as reported	$ 4.56	$ 5.75	$ 4.31
Basic — pro forma	4.47	5.69	4.26
Diluted — as reported	4.53	5.72	4.29
Diluted — pro forma	4.45	5.65	4.24

We determined the fair value of our stock-based compensation using a Black-Scholes pricing model. The following table summarizes the major assumptions used in the model.

	2002	2001	2000
Risk-free rate(1)	3.235-4.995%	3.885-5.155%	5.085-6.815%
Volatility	31-33%	33-34%	29-34%
Dividend(2)	$1.32	$1.20	$1.12
Average expected life	6 yrs.	5 yrs.	5 yrs.

(1) The synthetic 6-year zero-coupon U.S. Treasury strip yield formed by interpolating between the 5-year and 7-year zero-coupon U.S. Treasury strip yields in 2002.

(2) Dividend rate on common stock at date of grant. Dividend rate assumed to remain constant over the option life.

2. Mortgage Portfolio, Net[1]

The mortgage portfolio, net is composed of whole loans and securities backed by loans. The following presents the composition of these two components at December 31,

	2002	2001
	(Dollars in millions)	
Mortgages		
Single-family:		
Government insured or guaranteed	$ 5,458	$ 5,070
Conventional:		
Long-term, fixed-rate	103,220	96,417
Intermediate-term, fixed-rate[2]	54,503	43,522
Adjustable-rate	9,045	10,410
Total conventional single-family	166,768	150,349
Total single-family	172,226	155,419
Multifamily:		
Government insured or guaranteed	1,353	1,551
Conventional	12,218	8,987
Total multifamily	13,571	10,538
Unamortized premium (discount) and deferred price adjustments	337	(2,640)
Allowance for loan losses[3]	(79)	(48)
Total mortgages	$186,055	$163,269
Mortgage-related securities		
Single-family:		
Government insured or guaranteed	$ 33,293	$ 37,111
Conventional:		
Long-term, fixed-rate	510,435	456,046
Intermediate-term, fixed-rate[2]	39,409	25,890
Adjustable-rate	13,946	10,355
Total conventional single-family	563,790	492,291
Total single-family	597,083	529,402
Multifamily:		
Government insured or guaranteed	7,370	6,481
Conventional	7,050	5,636
Total multifamily	14,420	12,117
Unamortized premium	135	536
Total mortgage-related securities	$611,638	$542,055
Mortgage portfolio, net		
Single-family:		
Government insured or guaranteed	$ 38,751	$ 42,181
Conventional:		
Long-term, fixed-rate	613,655	552,463
Intermediate-term, fixed-rate[2]	93,912	69,412
Adjustable-rate	22,991	20,765
Total conventional single-family	730,558	642,640

Total single-family	769,309	684,821
Multifamily:		
Government insured or guaranteed	8,723	8,032
Conventional	19,268	14,623
Total multifamily	27,991	22,655
Total mortgage portfolio	797,300	707,476
Unamortized premium (discount) and deferred price adjustments, net	472	(2,104)
Allowance for loan losses[3]	(79)	(48)
Mortgage portfolio, net	$797,693	$705,324

(1) Data represents unpaid principal balance adjusted to include mark-to-market gains and losses on available-for-sale securities.

(2) Intermediate-term, fixed-rate consists of portfolio loans with contractual maturities at purchase equal to or less than 20 years and MBS and mortgage-related securities held in portfolio with maturities of 15 years or less at issue date.

(3) Allowance for loan losses does not apply to loans held-for-sale of $145 million and $40 million at December 31, 2002 and 2001, respectively.

Nonaccrual loans totaled $5.5 billion and $3.7 billion at December 31, 2002 and 2001, respectively. Accruing loans past 90 days due totaled $673 million and $565 million at December 31, 2002 and 2001, respectively.

At December 31, 2002 and 2001, the balance of whole loans held for sale was $145 million and $40 million, respectively. There were no gross realized gains or losses on sales of whole loans held for sale in 2002, 2001, or 2000.

Within the mortgage portfolio are MBS and other mortgage-related securities that we classify as either held-to-maturity or available-for-sale. Below is a table of the securities held in each of these categories along with their gross unrealized gains and losses and total fair value for the years ending 2002 and 2001.

	December 31, 2002			
	Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Held-to-maturity:				
MBS(2)	$286,422	$11,173	$ (1)	$297,594
REMICs and Stripped MBS	110,423	4,339	(87)	114,675
Other mortgage-related securities	41,087	2,813	(45)	43,855
Total	$437,932	$18,325	$(133)	$456,124
Available-for-sale:				
MBS(2)	$116,081	$ 5,425	$ (1)	$121,505
REMICs and Stripped MBS	33,763	678	(369)	34,072
Other mortgage-related securities	17,358	782	(11)	18,129
Total	$167,202	$ 6,885	$(381)	$173,706

	December 31, 2001			
	Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Held-to-maturity:				
MBS(2)	$333,896	$3,536	$ (54)	$337,378
REMICs and Stripped MBS	127,675	2,432	(579)	129,528
Other mortgage-related securities	47,584	1,411	(87)	48,908
Total	$509,155	$7,379	$(720)	$515,814
Available-for-sale:				
MBS(2)	$ 9,119	$ 105	$ (27)	$ 9,197
REMICs and Stripped MBS	1,083	211	(240)	1,054
Other mortgage-related securities	22,236	425	(12)	22,649
Total	$ 32,438	$ 741	$(279)	$ 32,900

(1) Amortized cost includes unamortized premiums, discounts, and deferred price adjustments.

(2) Excludes REMICs and Stripped MBS.

On September 13, 2002, concurrent with the new risk-based capital rule issued by our regulator, Office of Federal Housing Enterprise Oversight (OFHEO), we reclassified $124 billion of securities in our mortgage portfolio from held-to-maturity to available-for-sale. Prior to September 13, 2002, Fannie Mae was not subject to a risk-based capital standard. OFHEO implemented the risk-based standard on that date and this standard applied to all assets held by Fannie Mae. FAS 115 specifically identifies "a significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes" as a change in circumstance under which a company may reclassify securities from held-to-maturity to available-for-sale without calling into question the intent to hold other securities to maturity in the future. At the time of this noncash transfer, these securities had gross unrealized gains and losses of $5.364 billion and $53 million, respectively.

Total gross realized gains and losses on sales of MBS and other mortgage-related securities in 2002 were $78 million and $21 million, respectively. Total net realized losses on sales of MBS and other mortgage-related securities were $13 million in 2001 and $21 million in 2000.

REMICs and Stripped MBS

Included in the table above are REMICs backed by MBS and whole loans and Stripped MBS (SMBS) backed by MBS. REMICs represent a beneficial interest in a trust having multiple classes of securities. The securities of each class entitle investors to cash flows structured differently from the payments on the underlying assets. SMBS are created by "stripping" or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments. REMICs and SMBS do not subject us to additional credit risk if we already guarantee the underlying MBS. REMICs and SMBS generally have different interest rate risk than MBS. To estimate fair values for these securities, we use a stochastic simulation to model future interest rates and discount factors over a large number of scenarios. The simulation calibrates the distribution of interest rates to the current market yield curve and reflects current option adjusted spreads in its discount factors. To model prepayments, we use our proprietary prepayment models to develop an estimated prepayment level for each point in time along each scenario.

Retained Interests

In some cases, we create REMICs using assets from our mortgage portfolio and retain an interest in the REMICs. In these instances, we measure our retained interests by allocating the carrying amount of the assets we retained based on their fair value at the transfer date relative to the assets we sold. We are a passive investor with regard to the transferred assets, as our continuing involvement is limited to guaranteeing some of the assets underlying these REMICs.

The entire principal balance of REMICs outstanding at December 31, 2002 and December 31, 2001 was $55.6 billion and $21.0 billion, respectively. For the years ended December 31, 2002 and December 31, 2001, we recognized a $25.4 million net gain and a $24.4 million net loss, respectively, on the portion of assets we sold at the time of securitization, which totaled $3.7 billion and $2.2 billion, respectively. Cash proceeds received from the sale of these assets totaled $3.7 billion and $2.2 billion for the years ended December 31, 2002 and December 31, 2001, respectively. Because these REMIC securities are backed by guaranteed MBS, the cash flows from purchases of delinquent loans or foreclosed loans is immaterial. We did not sell any of our retained interests in either 2002 or 2001. Therefore, we did not incur any gains or losses on sales of retained interests for the years then ended. At December 31, 2002 and 2001, the book value of our retained interests was $41.9 billion and $18.9 billion, respectively. These securities are backed by MBS guaranteed by Fannie Mae. As a result, the delinquency and credit loss information associated with these REMIC securities is immaterial because all principal and interest is passed through to the REMIC regardless of how the underlying MBS perform.

Our retained interests are essentially investments of principal in mortgages because there is only a small amount of original premium or discount associated with our investment. As a result, we classify our retained interests as held-to-maturity because they cannot be prepaid or settled in such a way that we would not recover substantially all of our investment. Our retained interests give us the right to receive repayment of the principal we have invested, and the borrowers' obligations are secured by the financed properties.

We use an option-adjusted spread (OAS) approach to measure the fair value of our retained interests, which is the same approach used to measure the fair value for MBS held in our portfolio. The OAS is the incremental spread over our debt rates after taking into account the variability of mortgage cash flows due to the embedded prepayment option. Our proprietary interest rate and prepayment models are key assumptions used in this valuation approach. The OAS approach starts with quoted market prices for a set of benchmark securities that are a representative sample of our portfolio holdings. We use our interest rate model in a stochastic simulation to generate a large number of scenarios. Our prepayment model provides estimated prepayment speeds to determine the cash flows for each time period in each scenario. After the interest rates (including discount factors) and cash flows are generated, the model solves for the OAS associated with the market price of each benchmark security. These option-adjusted spreads are mapped to similar securities, including our retained interests, and the stochastic simulation process is repeated, this time including the appropriate OAS as part of the discount rate to calculate the fair value of each security.

At December 31, 2002 and 2001, the fair value of our retained interests was $42.7 billion and $18.6 billion, respectively, with a weighted-average life of 3.7 years and 7.3 years, respectively. The key assumptions used in measuring the fair value of retained interests at the time of securitization are as follows:

	2002	2001
Weighted-average life	6.0 years	6.0 years
Average lifetime CPR prepayment speed assumption	16.1%	15.8%
Average discount rate assumption	5.2	5.2

To quantify the sensitivity of the fair values of these retained interests to changes in valuation assumptions, we adjust the parameters of the prepayment model in order to change prepayment speeds and directly change the discount factors. Changes in prepayment speeds are specified as the effect on the constant prepayment rate (CPR) over the first 12 months. This is typically the time period where immediate changes in prepayments will have the most significant effect on fair value. Changes in discount rate would incorporate both the debt rate and the OAS.

These sensitivities are hypothetical and should be used with caution. The effect of a variation in one of these assumptions on the fair value of our retained interests is calculated without changing any other assumptions. Changing one assumption could result in variation in another assumption, which may increase or decrease the corresponding sensitivities. These sensitivities only measure changes in the fair value of our retained interests and do not incorporate offsetting changes in the values of associated debt funding the retained interests. At December 31, 2002 and 2001, we modified the following assumptions to quantify the impact of immediate 5 percent, 10 percent, and 15 percent adverse changes in these assumptions on the fair value of our retained interests.

	2002	2001
	(Dollars in millions)	
Prepayment speed assumptions:		
Impact on year-end fair value from 5 percent adverse change in 12 month CPR prepayment speed	$ (68)	$ (24)
Impact on year-end fair value from 10 percent adverse change in 12 month CPR prepayment speed	(131)	(48)
Impact on year-end fair value from 15 percent adverse change in 12 month CPR prepayment speed	(203)	(73)
Average 12 month CPR prepayment speed assumption	49.2%	9.5%
Discount rate assumptions:		
Impact on year-end fair value from 5 percent adverse change	$ (358)	$(307)
Impact on year-end fair value from 10 percent adverse change	(711)	(609)
Impact on year-end fair value from 15 percent adverse change	(1,049)	(898)
Average discount rate assumption	3.3%	6.4%

3. Allowance for Loan Losses and Guaranty Liability for MBS

We maintain a separate allowance for loan losses for our mortgage portfolio as well as a guaranty liability for our guaranty of MBS. Changes for the years 2000 through 2002 are summarized below.

	2002	2001	2000
	(Dollars in millions)		
Allowance for loan losses:(1)			
Beginning balance	$ 48	$ 51	$ 56
Provision	44	7	9
Charge-offs(2)	(13)	(10)	(14)
Ending balance	$ 79	$ 48	$ 51
Guaranty liability for MBS(1):			
Beginning balance	$ 755	$755	$ 745
Provision	84	87	113
Charge-offs	(110)	(87)	(103)
Ending balance	$ 729	$755	$ 755
Combined allowance for loan losses and guaranty liability for MBS(3):			
Beginning balance	$ 803	$806	$ 801
Provision	128	94	122
Charge-offs(2)	(123)	(97)	(117)
Ending balance	$ 808	$803	$ 806

(1) In 2002, we reclassified from our "Allowance for loan losses" to a "Guaranty liability for MBS" the amount associated with the guaranty obligation for MBS that we own. Prior period balances, the provision for losses, and charge-off amounts have been restated to reflect this reclassification.

(2) Charge-offs exclude $1 million in 2002 on charge-offs related to foreclosed Federal Housing Administration loans that are reported in the balance sheet under "Acquired property and foreclosure claims, net."

(3) The total excludes $2 million at year-end 2002 and $3 million at the end of 2001 and 2000, related to foreclosed Federal Housing Administration loans that are reported in the balance sheet under "Acquired property and foreclosure claims, net."

The following table summarizes the UPB of impaired loans and corresponding specific loss allowances for the years 2000 through 2002. The majority of our impaired and restructured loans are multifamily loans. Single-family loans that have not been restructured are exempt from FAS 114 because they are considered to be a group of homogeneous loans that are collectively evaluated for impairment. A loan is impaired when it is probable that all contractual principal and interest payments will not be collected as scheduled in the loan agreement based on current information and events. In the event of impairment, we compare the UPB of impaired and restructured loans with the fair value of the underlying collateral to measure any impairment and provide a specific allowance for estimated losses.

	2002	2001	2000
	(Dollars in millions)		
UPB of impaired loans	$314	$320	$186
UPB of impaired loans with specific loss allowance	137	213	67
Specific loss allowance on impaired and restructured loans	17	13	2
UPB of impaired loans without specific loss allowance	177	107	119
Average UPB of impaired loans[1]	285	204	210
Estimated interest income recognized while loans were impaired	7	8	3

(1) Averages have been calculated on a monthly average basis.

4. Nonmortgage Investments

We classify securities in the LIP and other investments as either available-for-sale or held-to-maturity. We have presented below a schedule of available-for-sale nonmortgage investments at December 31, 2002 and 2001.

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Available-for-sale:				
Asset-backed securities	$22,281	$ 98	$ (68)	$22,311
Floating-rate notes[1]	11,754	10	(29)	11,735
Corporate bonds	1,149	42	—	1,191
Taxable auction notes	949	—	—	949
Auction rate preferred stock	112	—	(4)	108
Commercial paper	100	—	—	100
Other	400	—	—	400
Total	$36,745	$150	$(101)	$36,794

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Available-for-sale:				
Asset-backed securities	$14,876	$ 21	$(25)	$14,872
Floating-rate notes[1]	12,114	12	(45)	12,081
Commercial paper	8,879	1	—	8,880
Other	50	—	—	50
Total	$35,919	$ 34	$(70)	$35,883

(1) As of December 31, 2002 and 2001, 100 percent of floating-rate notes repriced at intervals of 90 days or less.

Total gross realized gains on nonmortgage investments that were classified as available-for-sale was $4.5 million in 2002, $9.9 million in 2001, and $6.6 million in 2000. Total gross realized losses on nonmortgage investments that were classified as available-for-sale was $1.7 million in 2002, $6.1 million in 2001, and $4.3 million in 2000.

On September 13, 2002, concurrent with the new risk-based capital rule issued by our regulator, OFHEO, we reclassified securities in our LIP that had an amortized cost of $11.0 billion and a fair value of $11.2 billion from held-to-maturity to available-for-sale. Prior to September 13, 2002, Fannie Mae was not subject to a risk-based capital standard. OFHEO implemented the risk-based standard on that date and this standard applied to all assets held by Fannie Mae. FAS 115 specifically identifies “a significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes” as a change in circumstance under which a company may reclassify securities from held-to-maturity to available-for-sale without calling into question the intent to hold other securities to maturity in the future. At the time of this noncash transfer, these securities had gross unrealized gains and losses of $139 million and $6 million, respectively. We have presented below a schedule of held-to-maturity nonmortgage investments at December 31, 2002 and 2001.

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Held-to-maturity:				
Repurchase agreements	$20,732	$ —	$ —	$20,732
Eurodollar time deposits	1,398	—	—	1,398
Auction rate preferred stock	402	—	—	402
Federal funds	150	—	—	150
Commercial paper	100	—	—	100
Other	268	1	—	269
Total	$23,050	$ 1	$ —	$23,051

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Held-to-maturity:				
Repurchase agreements	$ 9,380	$ —	$—	$ 9,380
Eurodollar time deposits	11,185	—	—	11,185
Auction rate preferred stock	2,127	—	—	2,127
Federal funds	4,904	—	—	4,904
Commercial paper	2,844	1	—	2,845
Asset-backed securities	6,065	89	(1)	6,153
Other	2,166	73	—	2,239
Total	$38,671	$163	$ (1)	$38,833

The following table shows the amortized cost, fair value, and yield of nonmortgage investments by investment classification and remaining maturity as well as the amortized cost, fair value, and yield of our asset-backed securities at December 31, 2002 and 2001.

	2002			2001		
	Amortized Cost	Fair Value	Yield	Amortized Cost	Fair Value	Yield
	(Dollars in millions)					
Available-for-sale:						
Due within one year	$ 8,844	$ 8,851	2.31%	$10,863	$10,863	2.18%
Due after one year through five years	5,620	5,632	2.42	10,180	10,148	2.49
Due after five through ten years	—	—	—	—	—	—
Due after ten years	—	—	—	—	—	—
	14,464	14,483	2.35	21,043	21,011	2.33
Held-to-maturity:						
Due within one year	23,016	23,017	1.76	31,327	31,347	2.49
Due after one year through five years	34	34	6.21	1,279	1,333	7.11
Due after five through ten years	—	—	—	—	—	—
Due after ten years	—	—	—	—	—	—
	23,050	23,051	1.76	32,606	32,680	2.68
Asset-backed securities[(1)]	22,281	22,311	2.22	20,941	21,025	3.07
Total	$59,795	$59,845	2.08%	$74,590	$74,716	2.69%

(1) Contractual maturity of asset-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to repay their obligations at any time.

5. Debentures, Notes, and Bonds, Net

Borrowings Due Within One Year

Below is a summary of borrowings due within one year at December 31, 2002 and 2001, net of unamortized discount and premium.

	2002				
	Outstanding at December 31,		Average Outstanding During Year		Maximum Outstanding at Any Month-end
	Amount	Cost[(1)]	Amount	Cost[(1)]	
	(Dollars in millions)				
Short-term notes	$290,091	1.55%	$252,857	1.98%	$290,091
Other short-term debt	12,522	1.33	18,512	1.70	28,126
Current portion of borrowings due after one year[(2)] :					
Universal Standard Debt	41,681	2.25			
Universal Benchmark Debt	37,376	4.89			
Universal Retail Debt	73	9.52			
Other	669	3.24			
Total due within one year	$382,412	1.95%			

	2001				
	Outstanding at December 31,		Average Outstanding During Year		Maximum Outstanding at Any Month-end
	Amount	Cost(1)	Amount	Cost(1)	
	(Dollars in millions)				
Short-term notes	$256,905	2.58%	$247,060	4.31%	$265,953
Other short-term debt	29,891	1.96	31,479	4.40	43,811
Current portion of borrowings due after one year(2) :					
Universal Standard Debt	34,413	3.67			
Universal Benchmark Debt	21,987	5.31			
Universal Retail Debt	—	—			
Other	296	4.96			
Total due within one year	$343,492	2.81%			

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps. Averages have been calculated on a monthly average basis.

(2) Information on average amount and cost of debt outstanding during the year and maximum amount outstanding at any month-end is not meaningful. See “Borrowings Due After One Year” for additional information.

Amounts payable for federal funds purchased and securities sold under agreements to repurchase were $9.1 billion and $6.0 billion at December 31, 2002 and 2001, respectively, and are included in the above table under the heading “Other short-term debt.” These amounts include both secured and unsecured debt.

Borrowings Due After One Year

Below is a summary of borrowings due after one year at December 31, 2002 and 2001, net of unamortized discount and premium.

		2002		2001	
	Maturity	Amount Outstanding	Average Cost(1)	Amount Outstanding	Average Cost(1)
		(Dollars in millions)			
Senior debt:					
Universal Benchmark Debt, net of $796 of deferred costs for 2002 ($886 for 2001)	2002-2030	$282,972	5.49%	$246,458	5.88%
Universal Standard Debt, net of $311 of deferred costs for 2002 ($325 for 2001)	2002-2038	152,656	4.31	156,495	4.84
Universal Retail Debt, net of $97 of deferred costs for 2002 ($62 for 2001)	2002-2027	10,556	6.10	7,098	5.87
Long-term other, net of $5,809 of deferred costs for 2002 ($6,998 for 2001)	2002-2032	3,681	7.71	3,383	7.23
		449,865	5.12	413,434	5.50
Subordinated debt:					
Universal Benchmark Debt, net of $43 of deferred costs for 2002 ($10 for 2001)	2002-2012	8,457	5.58	4,990	5.78
Universal Standard Debt, net of $7 of deferred costs for 2002 ($7 for 2001)	2002-2019	244	9.31	243	9.31
Long-term other, net of $5,481 of deferred costs for 2002 ($5,655 for 2001)	2002-2019	1,269	10.01	1,160	9.97
		9,970	6.23	6,393	6.67
Total senior and subordinated debt		459,835	5.14%	419,827	5.52%
Fair value adjustment for FAS 133(2)		8,889		1,423	
Adjustment for foreign currency translation		(154)		(1,275)	
Total due after one year		$468,570		$419,975	

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps. Averages have been calculated on a monthly average basis.

(2) Represents change in the fair value of hedged debt in fair value hedges.

We consolidated our outstanding debt agreements for various funding programs into one comprehensive offering document, the Universal Debt Facility. This supersedes and replaces the Global Debt Facility, Medium-Term Notes, Short-Term Notes, and Debenture Programs.

Debentures, notes, and bonds at December 31, 2002 included $178 billion of callable debt. We can redeem this debt at our option any time on or after a specified date in whole or in part. At December 31, 2002, our debentures, notes, and bonds were not subject to mandatory redemptions tied to certain indices or rates after an initial nonredemption period.

We have summarized in the following table the amounts, call periods, and maturity dates for our option-embedded financial instruments at December 31, 2002. These instruments include callable debt, callable swaps, and receive-fixed swaptions (excluding $9.9 billion of callable debt that was swapped to variable-rate debt) as well as the notional amount of pay-fixed swaptions and caps. We also include universal debt that is redeemable at our option in the table.

	Call Date	Year of Maturity	Amount Outstanding	Average Cost(1)
			(Dollars in millions)	
Callable debt, callable swaps and receive-fixed swaptions:	Currently callable	2004-2020	$ 664	5.08%
	2003	2003-2031	192,419	4.82
	2004	2004-2022	75,191	5.95
	2005	2007-2030	25,831	6.05
	2006	2010-2031	22,384	6.25
	2007	2011-2032	16,733	6.36
	2008 and later	2012-2030	16,611	6.76
			349,833	5.41%
Pay-fixed swaptions			129,225	
Caps			122,393	
Total option-embedded financial instruments			$601,451	

(1) Averages have been calculated on a monthly average basis.

Listed below are the principal amounts of total debt payable as of December 31, 2002, for the years 2004-2008, assuming we pay off callable debt at maturity and we redeem callable debt at the initial call date.

	Total Debt by Year of Maturity(1)	Assuming Callable Debt Redeemed at Initial Call Date(1)
	(Dollars in millions)	
2004	$105,232	$96,020
2005	71,453	46,892
2006	47,415	29,235
2007	67,326	43,317
2008	21,160	15,020

(1) Includes $9.9 billion of callable debt that was swapped to variable-rate debt.

We repurchased or called $182 billion of debt and swaps with an average cost of 5.36 percent in 2002, $183 billion of debt and swaps with an average cost of 6.23 percent in 2001, and $18 billion of debt and swaps with an average cost of 7.10 percent in 2000. We recorded losses of $710 million in 2002, losses of $524 million in 2001, and gains of $49 million in 2000 on our debt extinguishments.

As part of our voluntary safety and soundness initiatives, we began issuing Subordinated Benchmark Notes in the first quarter of 2001 on a periodic basis to create a new, liquid class of fixed-income assets for investors. We issued subordinated debt totaling $3.5 billion and $5.0 billion during 2002 and 2001, respectively. Outstanding Subordinated Benchmark Notes totaled $8.5 billion at December 31, 2002 versus $5.0 billion at the end of 2001. The total subordinated debt balance at December 31, 2002 and December 31, 2001 includes other subordinated debt issuances that preceded this initiative.

Pursuant to Fannie Mae’s Charter Act, the Secretary of the Treasury has the authority to approve Fannie Mae’s issuance of debt obligations.

6. Income Taxes

The components of our federal income tax provision for the years ended December 31, 2002, 2001, and 2000 were as follows:

	2002	2001	2000
	(Dollars in millions)		
Current	$ 3,055	$2,231	$1,422
Deferred	(1,626)	(190)	161
	1,429	2,041	1,583
Tax expense of cumulative effect of change in accounting principle	—	90	—
Net federal income tax provision	$ 1,429	$2,131	$1,583

The table above does not reflect the tax effects of unrealized gains and losses on available-for-sale securities and derivatives. We record the unrealized gains and losses on these items in AOCI, net of deferred taxes. The tax expense associated with these items was a tax benefit of $2.5 billion in 2002 and $3.8 billion in 2001, and a tax expense of $6 million in 2000.

The tax effects of temporary differences between financial income and taxable income that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 consisted of the following:

	2002	2001
	(Dollars in millions)	
Deferred tax assets:		
Derivatives in loss positions, net	$ 9,423	$3,679
Outstanding MBS and REMIC fees	1,337	915
Allowance for loan losses and guaranty liability for MBS	325	314
Other items, net	160	143
Deferred tax assets	11,245	5,051
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	2,401	158
Debt-related expenses	446	536
Benefits from tax-advantaged investments	214	125
Purchase discount and deferred fees	42	356
Other items, net	89	57
Deferred tax liabilities	3,192	1,232
Net deferred tax asset	$ 8,053	$3,819

We anticipate it is more likely than not that the results of future operations will generate sufficient taxable income to realize the entire balance of deferred tax assets.

Our effective tax rates differed from statutory federal tax rates for the years ended December 31, 2002, 2001, and 2000 as follows:

	2002	2001	2000
Statutory corporate tax rate	35%	35%	35%
Tax-exempt interest and dividends received deductions	(5)	(4)	(5)
Equity investments in affordable housing projects	(6)	(4)	(4)
Effective tax rate	24%	27%	26%

We are exempt from state and local taxes, except for real estate taxes.

7. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share.

	Year Ended December 31,					
	2002		2001		2000	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per share amounts)					
Net income before cumulative effect of change in accounting principle	$4,619	$4,619	$5,726	$5,726	$4,448	$4,448
Cumulative effect of change in accounting principle	—	—	168	168	—	—
Preferred stock dividend	(99)	(99)	(138)	(138)	(121)	(121)
Net income available to common stockholders	$4,520	$4,520	$5,756	$5,756	$4,327	$4,327
Weighted average common shares	992	992	1,000	1,000	1,003	1,003
Dilutive potential common shares(1)	—	5	—	6	—	6
Average number of common shares outstanding used to calculate earnings per common share	992	997	1,000	1,006	1,003	1,009
Earnings per common share before cumulative effect of change in accounting principle	$ 4.56	$ 4.53	$ 5.58	$ 5.55	$ 4.31	$ 4.29
Cumulative effect of change in accounting principle	—	—	.17	.17	—	—
Net earnings per common share	$ 4.56	$ 4.53	$ 5.75	$ 5.72	$ 4.31	$ 4.29

(1) Dilutive potential common shares consist primarily of the dilutive effect from employee stock options and other stock compensation plans.

For additional disclosures regarding our stock compensation plans and outstanding preferred stock, refer to Notes 8 and 12, respectively.

8. Stock-Based Compensation Plans

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan that allows us to issue up to 41 million shares of common stock to qualified employees at a price equal to 85 percent of the fair market value of the stock on the grant date. This plan meets the definition of a noncompensatory plan under APB 25; therefore, we did not recognize any compensation expense for grants under the plan. Employees have the option of either receiving cash or shares through a Cashless Exercise Program or purchasing shares directly. In 2002, we granted each qualified employee, excluding certain officers and other highly compensated employees, the right to purchase up to 310 shares of common stock at $68.46 per share in January 2003. Under the 2002 offering, qualified employees purchased 5,580 shares at $68.46 per share, compared with purchasing 1,274,396 common shares at $66.00 per share under the 2001 offering.

Employee Stock Ownership Plan

We have an Employee Stock Ownership Plan (ESOP) for qualified employees who are regularly scheduled to work at least 1,000 hours in a calendar year. Participation is not open to participants in the Executive Pension Plan. We may contribute to the ESOP each year an amount based on achievement of defined corporate earnings goals, not to exceed 4 percent of the aggregate eligible salary for all participants. The Board of Directors determines the contribution percentage annually. We may contribute either shares of Fannie Mae common stock or cash to purchase Fannie Mae common stock. Such contributions are recorded as a current period expense. Unless employees elect to receive cash, ESOP dividends are automatically reinvested in Fannie Mae stock within the ESOP. Dividends are accrued four times a year and paid, pursuant to employees' elections, once a year in February for the four previous quarters. ESOP shares are included as outstanding for purposes of our EPS calculations. Vested benefits are based on years of service. Eligible employees are 100 percent vested in their ESOP accounts either upon attainment of age 65 or more than five years of service. Employees who are at least 55 years of age, and have at least 10 years of participation in the ESOP, may qualify to diversify vested ESOP shares into the same types of funds available under the Retirement Savings Plan without losing the tax deferred status of the value of the ESOP. Expense recorded in 2002, 2001, and 2000 in connection with the ESOP was $7.6 million, $6.5 million, and $6.0 million, respectively. At December 31, 2002, 2001, and 2000, allocated shares held by the ESOP were 1,450,973 common shares, 1,396,610 common shares, and 1,358,486 common shares, respectively, and committed-to-be-released shares held by the ESOP were 115,127 common shares, 80,459 common shares, and 66,495 common shares, respectively. At December 31, 2002, 2001, and 2000, the ESOP shares held in suspense were 2,105 common shares, 729 common shares, and 7,684 common shares, respectively. The fair value of unearned ESOP shares was $1.4 million, $1.7 million, and $1.8 million at December 31, 2002, 2001, and 2000, respectively.

Performance Shares

Fannie Mae's Stock Compensation Plan of 1993 authorizes eligible employees to receive performance awards. We generally issue awards with a performance period that can range from three to five years. The performance shares become actual awards only if we attain our goals set for the award period. At the end of the award period, we pay out common stock in either two or three installments over a period not longer than three years. For the 2003-2005, 2002-2004, and 2001-2003 performance periods, there were 466,216 common shares, 505,588 common shares, and 449,520 common shares, respectively, from outstanding contingent grants.

Nonqualified Stock Options

Fannie Mae may grant stock options to eligible employees and nonmanagement members of the Board of Directors. Employees cannot generally exercise them until at least one year after the grant date. Nonmanagement directors can exercise them on the grant date. The stock options generally expire ten years from the grant date for both groups. The exercise price of the common stock covered by each option is equal to the fair value of the stock on the date we grant the option. Thus, we have not recorded compensation expense for grants under this plan under APB 25.

Under the Stock Compensation Plan of 1993, our Board of Directors approved the EPS Challenge Option Grant in January 2000 for all regular full-time and part-time employees. At that time, all employees, other than management group employees, received an option grant of 350 shares at a price of $62.50 per share, the fair market value of the stock on the grant date. Management group employees received option grants equivalent to a percentage of their November 1999 stock grants. We tied vesting for options granted to the achievement of a core business diluted earnings per share (EPS) goal of $6.46 by the end of 2003. Core business earnings is a non-GAAP performance measure developed by management that ratably allocates the cost of purchased options over the period they are held instead of recognizing unrealized gains and losses on purchased options in earnings. Core business diluted EPS reflects net income less the after-tax unrealized gain or loss on purchased options plus the after-tax purchased options amortization expense. If our core business diluted EPS for 2003 is $6.46 or greater, then 100 percent of the EPS Challenge options will vest in January 2004. If we do not reach a core business diluted EPS of $6.46 by the end of 2003, we delay vesting one year and then vesting begins at a rate of 25 percent per year. The Board of Directors has discretion to offset future option grants or other forms of compensation if the core business diluted EPS goal is not reached. These options expire January 18, 2010.

The following table summarizes our nonqualified stock option activity for the years 2000-2002.

	2002			2001			2000		
	Options	Weighted-Average Exercise Price	Weighted-Average Fair Value at Grant Date	Options	Weighted-Average Exercise Price	Weighted-Average Fair Value at Grant Date	Options	Weighted-Average Exercise Price	Weighted-Average Fair Value at Grant Date
					(Options in thousands)				
Balance, January 1,	26,234	$57.06	$19.22	25,310	$50.86	$16.90	22,349	$40.90	$12.81
Granted	865	78.38	26.23	4,173	80.37	28.07	7,741	66.79	24.11
Exercised	(1,484)	29.58	9.37	(2,611)	31.92	9.90	(4,003)	23.88	7.31
Forfeited	(484)	70.61	24.47	(638)	66.93	23.12	(777)	61.98	20.42
Balance, December 31,	25,131	$59.16	$22.76	26,234	$57.05	$19.22	25,310	$50.86	$16.90
Options vested, December 31,	15,619	$51.48	$16.71	13,919	$44.10	$13.92	13,551	$36.83	$11.36

The following table summarizes information about our nonqualified stock options outstanding at December 31, 2002.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options(1)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options(1)	Weighted-Average Exercise Price
$18.00 – $35.00	4,444	1.5yrs.	$22.96	4,444	$22.96
35.01 – 53.00	4,010	4.6	46.14	3,827	45.82
53.01 – 70.00	6,717	6.5	64.06	3,140	66.48
70.01 – 87.00	9,960	8.1	77.25	4,208	75.56
Total	25,131	6.1yrs.	$59.16	15,619	$51.48

(1) Options in thousands.

Restricted Stock

In 2002, we awarded, issued, and placed in escrow 85,927 shares of restricted stock under the Stock Compensation Plan of 1993 (117,447 shares in 2001). We released 106,062 shares in 2002 as awards vested (105,560 shares in 2001).

Options Available for Future Issuance

At December 31, 2002, 4,727,809 and 11,569,275 shares remained available for grant under the Employee Stock Purchase Plan and the Stock Compensation Plan of 1993, respectively. The Stock Compensation Plan of 1993 expires in May 2003, at which time we will ask shareholders to approve a new plan.

9. Employee Retirement Benefits

Retirement Savings Plan

All regular employees of Fannie Mae scheduled to work 1,000 hours or more in a calendar year are eligible to participate in our Retirement Savings Plan, which includes a 401(k) option. In 2002, employees could contribute up to the lower of 25 percent of their base salary or the current annual dollar cap established and revised annually by the Internal Revenue Service. Fannie Mae matches employee contributions up to 3 percent of base salary in cash. Under the plan, employees may allocate investment balances to a variety of investment options. As of December 31, 2002, there was no option to invest directly in stock of Fannie Mae. Expense recorded in 2002, 2001, and 2000 in connection with the Retirement Savings Plan was $10.8 million, $9.3 million, and $8.5 million, respectively.

Postretirement Benefit Plans

All regular employees of Fannie Mae scheduled to work 1,000 hours or more in a calendar year are covered by a noncontributory corporate retirement plan or by the contributory Civil Service Retirement Law. Benefits payable under the corporate plan are based on years of service and compensation using the average pay during the 36 consecutive highest-paid months of the last 120 months of employment. Our policy is to contribute an amount no less than the minimum required employer contribution under the Employee Retirement Income Security Act of 1974. We contribute to the corporate plan in cash based on benefits attributed to employees' service to date and compensation expected to be paid in the future. A contribution of $41 million was made to the corporate plan in 2002. Corporate plan assets consist primarily of listed stocks, fixed-income securities, and other liquid assets. Plan assets do not directly include any shares of Fannie Mae stock.

At December 31, 2002 and 2001, the projected benefit obligations for services rendered were $391 million and $319 million, respectively, while the plan assets were $234 million and $237 million, respectively. At December 31, 2002 and 2001, the pension liability (included on the balance sheet under "Other liabilities") was $51 million and $65 million, respectively. Net periodic pension costs were $27 million, $14 million, and $5 million for the years ended December 31, 2002, 2001, and 2000, respectively. We use the straight-line method of amortization for prior service costs.

The assumptions we used to determine the net periodic pension costs and projected benefit obligations were as follows:

	2002	2001	2000
Discount rate used to determine pension expense	7.25%	7.75%	8.00%
Discount rate used to determine projected benefit obligation at year-end	6.75	7.25	7.75
Average rate of increase in future compensation levels	6.50	6.50	6.50
Expected long-term weighted average return on plan assets	8.50	9.50	9.00

Fannie Mae also has an Executive Pension Plan, Supplemental Pension Plan, and a bonus-based Supplemental Pension Plan, which supplement the benefits payable under the retirement plan. We fund accrued benefits under the Executive Pension Plan through a Rabbi trust. We accrue estimated benefits under the supplementary plans as an expense over the period of employment.

We sponsor a post-retirement Health Care Plan that covers substantially all full-time employees. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after meeting a stated deductible. Participants become eligible for the subsidized benefits as follows: (1) for employees hired prior to January 1, 1998, if they retire from Fannie Mae after reaching age 55 with five or more years of service; or (2) for employees hired January 1, 1998, or later, if they retire from Fannie Mae after reaching age 55 with ten or more years of service. Employees hired January 1, 1998 or later who retire with less than ten years of service may purchase coverage by paying the full premium. The plan is contributory, with retiree contributions adjusted annually. We charge the expected cost of these benefits to expense during the years that the employees render service and we pay all benefits out of our general assets. We base cost-sharing percentages on length of service with Fannie Mae, eligibility for and date of retirement, and a defined dollar benefit cap.

Our accrued post-retirement health care cost liability for the years ended December 31, 2002 and 2001 was $65 million and $52 million, respectively. The net post-retirement health care costs were $15 million, $9 million, and $8 million for the years ended December 31, 2002, 2001, and 2000, respectively. In determining the net post-retirement health care cost for 2002, we assumed a 13.50 percent annual rate of increase in the per capita cost of covered health care claims with the rate decreasing over the next five years to 4.50 percent and remaining at that level thereafter. In determining the net post-retirement health care cost for 2001, we assumed a 4.75 percent annual rate of increase in the per capita cost of covered health care claims with the rate decreasing gradually over the next year to 4.50 percent and remaining at that level thereafter. In determining the net post-retirement health care cost for 2000, we assumed a 5.00 percent annual rate of increase in the per capita cost of covered health care claims with the rate decreasing gradually over the next two years to 4.50 percent and remaining at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated post-retirement benefit obligation as of December 31, 2002 by $5 million and the aggregate of the service and interest cost components of net post-retirement health care cost for the year by $1 million. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated post-retirement benefit obligation as of December 31, 2002 by $12 million and the aggregate of the service and interest cost components of net post-retirement health care cost for the year by $2 million.

The weighted-average discount rates we used to determine the health care cost and the year-end accumulated post-retirement benefit obligation were 6.75 percent at December 31, 2002, 7.25 percent at December 31, 2001, and 7.75 percent at December 31, 2000.

10. Line of Business Reporting

We have two lines of business that generate revenue. These business lines also focus on managing our key business risks. We measure the results of our lines of business based on core business earnings. We evaluate the results of our business lines as though each were a stand-alone business. Hence, we allocate certain income and expenses to each line of business for purposes of business segment reporting. We eliminate certain inter-segment allocations in our consolidated core business earnings results.

Portfolio Investment Business: The Portfolio Investment business has two principal components: a mortgage investment portfolio and a liquid investment portfolio. The mortgage investment portfolio purchases mortgage loans, mortgage-related securities, and other investments from lenders, securities dealers, and other market participants. The LIP serves as an alternative source of funds to meet our cash flow needs by investing in high quality, short-term and medium-term investments that provide an ongoing supply of funds that can be used as necessary for liquidity or reinvestment, or readily marketable, high credit quality securities that can be sold to raise cash. We fund the purchase of the assets in our Portfolio Investment business by issuing debt in the global capital markets. The Portfolio Investment business generates profits by ensuring that the interest income from the mortgages, MBS, mortgage-related securities, and liquid investments we purchase is greater than our borrowing costs. A primary measure of profitability for the Portfolio Investment business is our net interest margin. Our net interest margin reflects the difference between taxable-equivalent income on our mortgage assets and non-mortgage investments and our borrowing expense, divided by average interest earning assets.

Our Portfolio Investment business focuses on managing Fannie Mae’s interest rate risk. Interest rate risk is the risk that changes in interest rates could change cash flows on our mortgage assets and debt in a way that adversely affects Fannie Mae’s earnings or long-term value.

Credit Guaranty Business: Our Credit Guaranty business has primary responsibility for managing all of our mortgage credit risk. Credit risk is the risk of loss to future earnings and future cash flows that may result from the failure of a borrower or counterparty to fulfill their contractual obligation to Fannie Mae. The Credit Guaranty business primarily generates income from guaranty fees for guaranteeing the timely payment of scheduled principal and interest on mortgage-related securities we guarantee that are not owned by the Portfolio Investment business. The primary source of income for the Credit Guaranty business is the difference between the guaranty fees earned and the costs of providing this service. Income is also allocated to the Credit Guaranty business for the following activities:

- Managing the credit risk on mortgage-related assets held by the Portfolio Investment business.
- Providing capital to the Portfolio Investment business.
- Temporarily investing principal and interest payments on loans underlying MBS prior to remittance to investors.

Our Credit Guaranty business manages Fannie Mae’s mortgage credit risk by managing the profile and quality of mortgages in the mortgage credit book of business, using credit enhancements to reduce our losses, assessing the sensitivity of credit losses to changes in economic conditions, and aggressively managing problem assets to mitigate losses.

We assign actual direct revenues and expenses among our two lines of business. We use estimates to apportion overhead and other corporate items. For example, we allocate administrative expenses as direct expenses for the line of business. If we cannot allocate expenses to a particular business, we base the allocation on revenues, profits, or volumes as applicable. We allocate capital to the lines of business through an assessment of the interest rate risk and credit risk associated with each business.

Core Business Earnings: The difference between core business earnings and reported net income relates to the FAS 133 accounting treatment for purchased options. Core business earnings does not exclude any other accounting effects related to the application of FAS 133 or any other non-FAS 133 related adjustments. The guaranty fee income that we allocate to the Credit Guaranty business for managing the credit risk on mortgage-related assets held by the Portfolio Investment business is offset by a corresponding guaranty fee expense allocation to the Portfolio Investment business in our line of business results. Thus, there is no reconciling adjustment between our total line of business guaranty fee income and our reported guaranty fee income. We allocate transaction fees received for structuring and facilitating securities transactions for our customers primarily to our Portfolio Investment business. We allocate technology-related fees received for providing Desktop Underwriter and other on-line services and fees received for providing credit enhancement alternatives to our customers primarily to our Credit Guaranty business.

The following table shows our line of business results for the years ended December 31, 2002, 2001, and 2000, and reconciles total core business earnings to reported GAAP results.

	2002[a]				
	Portfolio Investment	Credit Guaranty	Total Core Business Earnings	Reconciling Items Related to Purchased Options	Reported Results
	Dollars in millions				
Net interest income	$ 9,869	$ 697	$10,566	$ —	$10,566
Purchased options amortization expense	(1,814)	—	(1,814)	1,814 (c)	—
Core net interest income	8,055	697	8,752	1,814	10,566
Guaranty fee income (expense)	(1,374)	3,190	1,816	—	1,816
Fee and other income (expense), net	348	(116)	232	—	232
Credit-related expenses[b]	—	(92)	(92)	—	(92)
Administrative expenses	(357)	(862)	(1,219)	—	(1,219)
Purchased options expense under FAS 133	—	—	—	(4,545)[d]	(4,545)
Debt extinguishments, net	(710)	—	(710)	—	(710)
Income before federal income taxes	5,962	2,817	8,779	(2,731)	6,048
Provision for federal income taxes	(1,747)	(638)	(2,385)	956 (f)	(1,429)
Net income	$ 4,215	$2,179	$ 6,394	$(1,775)	$ 4,619

	2001[a]				
	Portfolio Investment	Credit Guaranty	Total Core Business Earnings	Reconciling Items Related to Purchased Options	Reported Results
	Dollars in millions				
Net interest income	$ 7,369	$ 721	$ 8,090	$ —	$ 8,090
Purchased options amortization expense	(590)	—	(590)	590 (c)	—
Core net interest income	6,779	721	7,500	590	8,090
Guaranty fee income (expense)	(1,109)	2,591	1,482	—	1,482
Fee and other income (expense), net	211	(60)	151	—	151
Credit-related expenses[b]	—	(78)	(78)	—	(78)
Administrative expenses	(302)	(715)	(1,017)	—	(1,017)
Special contribution	(192)	(108)	(300)	—	(300)
Purchased options expense under FAS 133	—	—	—	(37)[d]	(37)
Debt extinguishments, net	(524)	—	(524)	—	(524)
Income before federal income taxes and effect of accounting change	4,863	2,351	7,214	553	7,767
Cumulative effect of accounting change	—	—	—	168 (e)	168
Provision for federal income taxes	(1,374)	(473)	(1,847)	(194)[f]	(2,041)
Net income	$ 3,489	$1,878	$ 5,367	$ 527	$ 5,894

	2000				
	Portfolio Investment	**Credit Guaranty**	**Total Core Business Earnings**	**Reconciling Items Related to Purchased Options**	**Reported Results**
			Dollars in millions		
Net interest income	$ 5,055	$ 619	$ 5,674	$ —	$ 5,674
Purchased options amortization expense	—	—	—	—	—
Core net interest income	5,055	619	5,674	—	5,674
Guaranty fee income (expense)	(1,079)	2,430	1,351	—	1,351
Fee and other income (expense), net	27	(71)	(44)	—	(44)
Credit-related expenses[b]	—	(94)	(94)	—	(94)
Administrative expenses	(254)	(651)	(905)	—	(905)
Debt extinguishments, net	49	—	49	—	49
Income before federal income taxes	3,798	2,233	6,031	—	6,031
Provision for federal income taxes	(1,053)	(530)	(1,583)	—	(1,583)
Net income	$ 2,745	$1,703	$ 4,448	$ —	$ 4,448

(a) Reported net income for 2002 and 2001 includes the effect of FAS 133, which was adopted on January 1, 2001.

(b) Credit-related expenses includes the income statement line items “Provision for losses” and “Foreclosed property income.”

(c) This amount represents the straight-line amortization of purchased options expense that we allocate to interest expense over the original expected life of the options. We include this amount in core business earnings instead of recording 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.

(d) This amount, which is recorded in our income statement under purchased options expense, represents unrealized gains and losses on purchased options recorded in accordance with FAS 133. We exclude this amount from our core business earnings measure because it does not reflect our strategy to hold options to maturity or exercise date and it is not our strategy to realize the period-to-period fluctuations in the value of options.

(e) This non-recurring amount represents the one-time transition recorded upon the adoption of FAS 133 on January 1, 2001. We exclude the transition gain from core business earnings because it relates to unrealized gains on purchased options that were recorded when we adopted FAS 133.

(f) This amount represents the net federal income tax effect of core business earnings adjustments based on the applicable federal income tax rate of 35 percent.

The Portfolio Investment business represented $869 billion, or 98 percent of total assets, at December 31, 2002 and $785 billion, or 98 percent of total assets, at December 31, 2001.

11. Dividend Restrictions and Regulatory Capital Ratios

Our ability to pay dividends may be subject to certain statutory restrictions. We would need approval by the Director of OFHEO for any dividend payment that would cause our capital to fall below specified capital levels. We have exceeded the applicable capital standard since the adoption of these restrictions in 1992; therefore, we have been making dividend payments without the need for director approval. The capital adequacy standard requires that our core capital equal or exceed a minimum capital standard and a critical capital standard.

OFHEO published regulations under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 in September 2001, as amended on March 15, 2002, establishing a risk-based capital test to determine the amount of total capital we must hold under the risk-based capital standard on a quarterly basis. The risk-based capital standard was implemented by OFHEO on September 13, 2002.

The following table shows how our capital at December 31, 2002 and 2001 compared with these requirements.

	2002	2001
	(Dollars in millions)	
Core capital[1]	$28,079	$25,182
Required minimum capital[2][5]	27,203	24,182
Excess of core capital over minimum capital[5]	$ 877	$ 1,000
Total capital[3]	$28,871	$25,976
Required risk-based capital	17,434	N/A
Excess of total capital over required risk-based capital	11,437	N/A
Required critical capital[4][5]	$13,880	$12,324
Excess of core capital over required critical capital[5]	14,199	12,859

(1) 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. Core capital excludes accumulated other comprehensive income (AOCI).

(2) The sum of (a) 2.50 percent of on-balance sheet assets; (b) .45 percent of outstanding MBS; and (c) .45 percent of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances (See 12 CFR 1750.4 for existing adjustments made by the Director of OFHEO).

(3) The sum of (a) core capital and (b) the total allowance for loan losses and guaranty liability, less (c) the specific loss allowance. Specific loss allowances totaled $19 million and $13 million for the years ended December 31, 2002 and December 31, 2001, respectively.

(4) The sum of (a) 1.25 percent of on-balance sheet assets; (b) .25 percent of outstanding MBS; and (c) .25 percent of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

(5) These amounts do not reflect the reclassification from our “Allowance for loan losses” to a “Guaranty liability for MBS” the amount associated with the guaranty obligation for MBS that we own that occurred in 2002. See Note 1 to the notes to the financial statements, Summary of Significant Accounting Policies — Allowance for Loan Losses and Guaranty Liability for MBS. The reclassification will not have a material effect on these amounts.

Payment of dividends on common stock is subordinate to any payment of dividends on preferred stock outstanding. Payment of preferred stock dividends is not mandatory.

12. Preferred Stock

The following table presents preferred stock outstanding as of December 31, 2002.

	Issue Date	Shares Issued and Outstanding	Stated Value per Share	Annual Dividend Rate	Redeemable On or After
Series D	September 30, 1998	3,000,000	$ 50	5.250%	September 30, 1999
Series E	April 15, 1999	3,000,000	50	5.100	April 15, 2004
Series F	March 20, 2000	13,800,000	50	3.540(1)	March 31, 2002(3)
Series G	August 8, 2000	5,750,000	50	1.830(2)	September 30, 2002(3)
Series H	April 6, 2001	8,000,000	50	5.810	April 6, 2006
Series I	October 28, 2002	6,000,000	50	5.375	October 28, 2007
Series J	November 26, 2002	14,000,000	50	3.780(4)	November 26, 2004
Total		53,550,000			

(1) Rate effective March 31, 2002. Variable dividend rate that resets every two years thereafter at the Constant Maturity U.S. Treasury Rate minus .16 percent with a cap of 11 percent per year.

(2) Rate effective September 30, 2002. Variable dividend rate that resets every two years thereafter at the Constant Maturity U.S. Treasury Rate minus .18 percent with a cap of 11 percent per year.

(3) Represents initial call date. Redeemable every two years thereafter.

(4) Initial rate. Variable dividend rate that resets every two years thereafter at the two-year U.S. Dollar Swap Rate plus 1.38 percent with a cap of 8 percent per year.

In general, our preferred stock has no par value, has a stated value and liquidation preference of $50 per share, and is not convertible into or exchangeable for any of our other stock or obligations. Holders of preferred stock are entitled to receive noncumulative, quarterly dividends when, and if, declared by our Board of Directors, but will have no right to require redemption of any shares of preferred stock. Payment of dividends on preferred stock is not mandatory, but has priority over payment of dividends on common stock. After a specified period, we have the option to redeem preferred stock at its stated value. All outstanding preferred stock is nonvoting.

We redeemed all 7.5 million of our outstanding Series B preferred stock on February 28, 2002 and all 5.0 million shares of our outstanding Series C preferred stock on July 31, 2002.

13. Derivative Instruments and Hedging Activities

Fannie Mae issues various types of debt to finance the acquisition of mortgages. We typically use derivative instruments to hedge against the impact of interest rate movements on our debt costs to preserve mortgage-to-debt spreads. We do not engage in trading or other speculative usage of derivative instruments.

We principally use interest-rate swaps, basis swaps, swaptions, and caps in our hedging activities. Swaps provide for the exchange of fixed and variable interest payments based on contractual notional principal amounts. These may include callable swaps, which give counterparties or us the right to terminate interest rate swaps before their stated maturities. Or, these may include foreign currency swaps, where Fannie Mae and our counterparties exchange payments in different types of currencies. Basis swaps provide for the exchange of variable payments that have maturities similar to hedged debt, but have payments based on different interest rate indices. Swaptions give us the option to enter into swaps at a future date, thereby mirroring the economic effect of callable debt. Interest rate caps provide ceilings on the interest rates of variable-rate debt.

We formally document all relationships between hedging instruments and the hedged items, including the risk management objective and strategy for undertaking various hedge transactions. We link all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions and designate them as cash flow or fair value hedges. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that we use in hedging transactions are highly effective in offsetting changes in the cash flows or fair values of the hedged items.

The following table reflects the hedge classification of the notional balances of derivatives by type that we held at December 31, 2002 and 2001.

	2002			2001		
	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total
	(Dollars in millions)					
Interest rate swaps:						
Pay-fixed	$ 16,355	$152,157	$168,512	$ 7,063	$206,617	$213,680
Receive-fixed and basis	29,636	48,259	77,895	10,989	75,134	86,123
Interest rate caps	—	122,393	122,393	—	75,893	75,893
Swaptions:						
Pay-fixed	—	129,225	129,225	—	69,650	69,650
Receive-fixed	94,750	51,500	146,250	74,400	—	74,400
Other[(1)]	4,120	8,200	12,320	8,843	4,550	13,393
Total	$144,861	$511,734	$656,595	$101,295	$431,844	$533,139

(1) Includes foreign currency swaps, forward starting swaps, asset swaps, and other derivatives used to hedge anticipated debt issues.

We discontinue hedge accounting prospectively when

- the derivative is no longer effective in offsetting changes in the cash flows or fair value of a hedged item;
- the derivative expires or is sold, terminated, or exercised;
- the derivative is de-designated as a hedge instrument because it is unlikely that a forecasted transaction will occur; or,
- designation of the derivative as a hedge instrument is no longer appropriate.

Cash Flow Hedges

Objectives and Context

We employ cash flow hedges to lock in the interest spread on purchased assets by hedging existing variable-rate debt and the forecasted issuance of debt through our Benchmark Program. The issuance of short-term Discount Notes and variable-rate long-term debt during periods of rising interest rates can result in a mismatch of cash flows relative to fixed-rate mortgage assets. We minimize the risk of mismatched cash flows by converting variable-rate interest expense to fixed-rate interest expense in order to lock-in our funding costs and interest spread.

Risk Management Strategies and Policies

We enter into interest rate swaps, swaptions, and caps to hedge the variability of cash flows resulting from changes in interest rates. We enter into pay-fixed interest rate swaps to protect against an increase in interest rates by converting the debt's variable rate to a fixed rate and to protect against fluctuations in market prices of anticipated debt issuances.

We enter into pay-fixed interest rate swaps and swaptions as well as interest rate caps to change the variable-rate cash flow exposure on our short-term Discount Notes and long-term variable-rate debt to fixed-rate cash flows. Under the swap agreements, we effectively create fixed-rate debt by receiving variable interest payments and making fixed interest payments. We purchase swaptions that give us the option to enter into a pay-fixed, receive-variable interest rate swap at a future date. Under interest rate cap agreements, we reduce the variability of cash flows on our variable-rate debt by purchasing the right to receive cash if interest rates rise above a specified level.

We continually monitor changes in interest rates and identify interest rate exposures that may adversely impact expected future cash flows on our mortgage and debt portfolios. We use analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on our future cash flows. We did not discontinue any cash flow hedges during the year because it was no longer probable that the hedged debt would be issued. We had no open positions for hedging the forecasted issuance of debt at December 31, 2002.

Financial Statement Impact

Consistent with FAS 133, we record changes in the fair value of derivatives used as cash flow hedges in AOCI to the extent they are effective hedges. We amortize fair value gains or losses in AOCI into the income statement and reflect them as either a reduction or increase in interest expense over the life of the hedged item. We recognize the income or expense associated with derivative instruments as an adjustment to the effective cost of the hedged debt. We will amortize an estimated $4.7 billion, net of taxes, out of AOCI and into earnings during the next 12 months. Actual amortization results in 2003 will likely differ from the amortization estimate because actual swap yields during 2003 will change from the swap yield curve assumptions at December 31, 2002.

The reconciliation below reflects the change in AOCI, net of taxes, from January 1, 2001 through December 31, 2002 associated with FAS 133:

(Dollars in millions)	FAS 133 Impact on AOCI
Transition adjustment to adopt FAS 133, January 1, 2001	$ (3,972)
Losses on cash flow hedges, net	(5,530)
Reclassifications to earnings, net	2,143
Balance at December 31, 2001	(7,359)
Losses on cash flow hedges, net	(14,274)
Reclassifications to earnings, net	5,382
Balance at December 31, 2002	$(16,251)

If there is any hedge ineffectiveness or derivatives do not qualify as cash flow hedges, we record the ineffective portion in the “Fee and other income, net” line item on the income statement. We included a pre-tax loss of $.4 million in 2002 and $3 million in 2001 related to the ineffective portion of cash flow hedges in “Fee and other income, net.”

We include only changes in the intrinsic value of swaptions and interest rate caps in our assessment of hedge effectiveness. Therefore, we exclude changes in the time value of these contracts from the assessment of hedge effectiveness and recognize them in the “Purchased options expense” line item on the income statement. We recorded a pre-tax loss of $2.57 billion in 2002 and $34 million in 2001 in “Purchased options expense” for the change in time value of options designated as cash flow hedges.

Fair Value Hedges

Objectives and Context

We employ fair value hedges to preserve our mortgage-to-debt interest spreads when there is a decline in interest rates by converting fixed-rate debt to variable-rate debt. A decline in interest rates increases the risk of mortgage assets repricing at lower yields while fixed-rate debt remains at above-market costs. We limit the interest rate risk inherent in our fixed-rate debt instruments by using fair value hedges to convert fixed-rate debt to variable-rate debt.

Risk Management Strategies and Policies

We enter into various types of derivative instruments, such as receive-fixed interest rate swaps and swaptions, to convert fixed-rate debt to floating-rate debt and preserve mortgage-to-debt interest spreads when interest rates decline. Under receive-fixed interest rate swaps, we receive fixed interest payments and make variable interest payments, thereby creating floating-rate debt. Receive-fixed swaptions give us the option to enter into an interest rate swap at a future date. In this event, we effectively create callable debt that reprices at a lower interest rate because we will receive fixed interest payments and make variable interest payments.

Financial Statement Impact

We record changes in the fair value of derivatives used as fair value hedges in the “Fee and other income, net” line item on the income statement along with offsetting changes in the fair value of the hedged items attributable to the risk being hedged. Our fair value hedges produced hedge ineffectiveness totaling $.2 million of expense during the year ended December 31, 2002. Our fair value hedges produced no hedge ineffectiveness during the year ended December 31, 2001.

We only include changes in the intrinsic value of swaptions in our assessment of hedge effectiveness. We exclude changes in the time value of receive-fixed swaptions used as fair value hedges from the assessment of hedge effectiveness and record them in the “Purchased options expense” line item on the income statement. For the years ended December 31, 2002 and 2001, we recorded pre-tax purchased options expense of $1.97 billion and $3 million, respectively, in the income statement for the change in the time value of these contracts.

Foreign Currency Hedges

Fannie Mae uses derivatives to hedge foreign currency exposure on debt issued in a foreign currency. Because all of our assets are denominated in U.S. dollars, we enter into currency swaps to effectively convert the foreign currency debt into U.S. dollars. Our foreign denominated debt is not material, representing .5 percent of total debt outstanding.

14. Financial Instruments with Off-Balance-Sheet Risk

We are involved in financial instrument transactions that create off-balance-sheet risk. We enter into these transactions to fulfill our statutory purpose of meeting the financing needs of the secondary residential mortgage market and to reduce our own exposure to interest rate fluctuations. These financial instruments include guaranteed MBS and other mortgage-related securities, commitments to purchase mortgage portfolio assets or to issue and guarantee MBS, and credit enhancements. These instruments involve elements of credit and interest rate risk in excess of amounts recognized on the balance sheet to varying degrees.

Guaranteed MBS and Mortgage-Related Securities

As guarantor of MBS, we are obligated to disburse scheduled monthly installments of principal and interest at the certificate rate plus the UPB of any foreclosed mortgage to MBS investors whether or not they have been received. We are paid a guaranty fee for assuming this credit risk. We also are obligated to disburse unscheduled principal payments received from borrowers on MBS. The borrower, lender, or Fannie Mae may purchase credit enhancements, such as mortgage insurance, to protect against the risk of loss from borrower default. Occasionally, lenders may elect to remain at risk for the loans underlying MBS through recourse arrangements. Lenders that keep recourse retain the primary default risk, in whole or in part, in exchange for a lower guaranty fee. We may also enter into other credit enhancement arrangements. Fannie Mae, however, bears the ultimate risk of default on MBS. To a much more limited extent, we guarantee the payment of principal and interest on other mortgage-related securities.

At December 31, 2002, the maximum potential amount of future principal payments we could be required to make under our guarantee of MBS and other mortgage-related securities was $1.029 trillion. We have recognized a liability of $471 million at year-end 2002 for these guaranty obligations based on our estimate of probable credit losses in the loans underlying MBS and other mortgage-related securities as of December 31, 2002.

In the event we were required to make the maximum amount of future payments under the guarantees, we would first pursue recovering these payments by proceeding against the underlying collateral of the loans. If the value of the collateral was less than the payments made under our guarantees, then we would recover payments from third-party providers of credit enhancements. In the event that the principal amount of single-family loans exceeds the value of the underlying properties, then we have credit enhancements with maximum coverage totaling $66.1 billion in primary mortgage insurance, $7.0 billion in pool insurance, and $31.5 billion in full recourse to lenders on single-family loans. If the collateral proceeds for multifamily loans were insufficient, then we have credit enhancements totaling $4.2 billion in recourse to multifamily lenders.

Commitments

We enter into master delivery commitments with lenders on either a mandatory or an optional basis. Under a mandatory master commitment, a lender must either deliver loans under an MBS contract at a specified guaranty fee rate or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

We will also accept mandatory or lender-option delivery commitments not issued pursuant to a master commitment. These commitments may be for purchases for our mortgage portfolio or for issuances of our MBS. The guaranty fee rate on MBS lender-option commitments is specified in the contract, while the yield for portfolio lender-option commitments is set at the date of conversion to a mandatory commitment.

We generally hedge the cost of funding future portfolio purchases upon issuance of, or conversion to, a mandatory commitment. Therefore, we largely mitigate the interest rate risk relating to loans purchased pursuant to those commitments.

Credit Enhancements

Credit enhancements typically represent credit enhancement and liquidity support for taxable or tax-exempt housing bonds issued by state and local governmental entities to finance multifamily housing for low- and moderate-income families and for other obligations related to the financing. We issue MBS, pledge an interest in certain mortgages we own, or otherwise provide contractual assurance of payment to a trustee for the bonds or another party in the transaction. Our direct credit enhancement improves the rating on the bonds, thus resulting in lower-cost financing for multifamily housing.

Credit Exposure for Off-Balance-Sheet Financial Instruments

The following table presents the contractual amount of off-balance-sheet financial instruments at December 31, 2002 and 2001. Contractual or notional amounts do not necessarily represent the credit risk of the positions.

	2002	2001
	(Dollars in billions)	
Contractual amounts:		
Outstanding MBS[1]	$1,029	$859
Master commitments:		
Mandatory	41	24
Optional	6	16
Portfolio commitments:		
Mandatory	85	55
Optional	3	2
Other investments	3	2
Credit enhancements	12	16

(1) Includes MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae.

15. Concentrations of Credit Risk

Concentrations of credit risk exist when a number of counterparties engage in similar activities and have similar economic characteristics that make them susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. In our case, these counterparties include single-family borrowers, servicers, mortgage insurers, and derivative counterparties.

Regional economic conditions affect a borrower’s ability to repay and the value of the collateral underlying a loan. Geographic concentrations increase the susceptibility of our portfolio to changes in credit risk. Our single-family geographic concentrations have been consistently diversified over the past three years with our largest exposure to the western region of the U.S. No region or state experienced negative home price growth. No significant concentration existed at the state level at December 31, 2002 and 2001 except for California, where 18 percent of the gross UPB of our conventional single-family mortgage loans in portfolio and those underlying MBS in portfolio and outstanding MBS was located at both December 31, 2002 and 2001. The following table presents the regional geographic distribution of properties underlying our conventional single-family mortgage loans in portfolio and those underlying MBS in portfolio and outstanding MBS at December 31, 2002 and 2001. Excluded from this population at December 31, 2002 and 2001 are non-Fannie Mae mortgage securities for which geographic information is not available.

	Geographic Distribution[1]					
	Midwest	Northeast	Southeast	Southwest	West	Total
2002	18%	19%	21%	16%	26%	100%
2001	19	18	21	16	26	100

(1) Midwest includes IL, IN, IA, MI, MN, NE, ND, OH, SD, WI; Northeast includes CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT, VI; Southeast includes AL, DC, FL, GA, KY, MD, NC, MS, SC, TN, VA, WV; Southwest includes AZ, AR, CO, KS, LA, MO, NM, OK, TX, UT; West includes AK, CA, GU, HI, ID, MT, NV, OR, WA, WY.

To manage credit risk and comply with legal requirements, we require primary mortgage insurance or other credit enhancement if the current LTV ratio of a single-family conventional mortgage loan is greater than 80 percent when the loan is delivered to us. We may also require credit enhancement if the original LTV ratio of a single-family conventional mortgage loan is less than 80 percent when the loan is delivered to us.

The primary credit risk associated with mortgage insurers is that they will fail to fulfill their obligations to reimburse us for claims under insurance policies. We were the beneficiary of primary mortgage insurance coverage on $316 billion of single-family loans in portfolio or underlying MBS at December 31, 2002 and $314 billion at December 31, 2001. Seven mortgage insurance companies, all rated AA or higher by Standard & Poor’s, provided approximately 99 percent of the total coverage at the end of 2002 and 2001.

The primary risk associated with mortgage lenders is that they will fail to fulfill their servicing obligations. Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. A servicing contract breach could result in credit losses for us, or we could incur the cost of finding a replacement servicer, which could be substantial for loans that require a special servicer. Our ten largest single-family mortgage servicers serviced 63 percent of our single-family book of business at both year-end 2002 and year-end 2001. Our fifteen largest multifamily mortgage servicers serviced 70 percent of our multifamily book of business at year-end 2002, compared with 67 percent at year-end 2001.

The primary credit exposure we have on a derivative transaction is that a counterparty might default on payments due, which could result in having to replace the derivative with a different counterparty at a higher cost. Over 99 percent of the $657 billion and $533 billion notional amount of our outstanding derivative transactions were with counterparties rated A or better both by Standard & Poor’s (S&P) and Moody’s at December 31, 2002 and 2001, respectively (one counterparty was downgraded below an A rating after the contract was entered into). Our derivative instruments were diversified among 21 and 23 counterparties at year-end 2002 and 2001, respectively, to reduce our credit risk concentrations. At December 31, 2002, eight counterparties with credit ratings of A or better represented approximately 76 percent of the total notional amount of outstanding derivatives transactions. At December 31, 2001, eight counterparties with credit ratings of A or better represented approximately 78 percent of the total notional amount of outstanding derivatives transactions.

Seventy-one percent of our net exposure of $197 million at December 31, 2002 was with six counterparties rated AA or better by S&P and Aa or better by Moody’s. The percentage of our exposure with these six counterparties ranged from 2 to 23 percent. In comparison, five counterparties rated AA or better by S&P and Aa or better by Moody’s accounted for 83 percent of our net exposure of $110 million at December 31, 2001. The percentage of our net exposure with counterparties rated AA or better by S&P and Aa or better by Moody’s fell during 2002 because of a change in the relative mix of our derivative products in response to changes in market conditions that shifted the relative level of activity and exposure between individual counterparties.

16. Fair Value of Financial Instruments

The basic assumptions used and the estimates disclosed in the Fair Value Balance Sheets represent our best judgment of appropriate valuation methods. These estimates are based on pertinent information available to us as of December 31, 2002 and 2001. In certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors, and our evaluation of those factors, change. Although we use our best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, these fair value estimates are not necessarily indicative of the amounts that we would realize in a market transaction. The accompanying Fair Value Balance Sheets do not represent an estimate of the overall market value of Fannie Mae as a going concern, which would take into account future business opportunities.

Fair Value Balance Sheets

	December 31, 2002		December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in millions)			
Assets				
Mortgage portfolio, net	$797,693	$826,870	$705,324	$720,174
Nonmortgage investments	59,844	59,845	74,554	74,716
Cash and cash equivalents	1,710	1,710	1,518	1,518
Other assets	24,602	19,316	17,598	13,020
Derivatives in gain positions	3,666	3,666	954	954
	887,515	911,407	799,948	810,382
Off-balance-sheet items:				
Guaranty fee income, net[1]	—	5,146	—	6,451
Mortgage purchase commitments[2]	—	1,650	—	(567)
Total assets	$887,515	$918,203	$799,948	$816,266
Liabilities and Net Assets				
Liabilities:				
Senior debt				
Due within one year	$382,412	$382,453	$343,492	$343,648
Due after one year	458,600	485,297	413,582	427,209
Subordinated debt				
Due within one year	—	—	—	—
Due after one year	9,970	12,424	6,393	7,625
	850,982	880,174	763,467	778,482
Other liabilities	14,548	10,202	13,294	10,040
Derivatives in loss positions	5,697	5,697	5,069	5,069
Total liabilities	871,227	896,073	781,830	793,591
Net assets, net of tax effect	$ 16,288	$ 22,130	$ 18,118	$ 22,675

(1) At December 31, 2002 and 2001, total MBS was $1,538 billion and $1,290 billion, respectively. Refer to Note 14, “Financial Instruments with Off-Balance-Sheet Risk,” for more information on the nature of this item.

(2) At December 31, 2002 and 2001, the amount of mandatory mortgage purchase commitments was $85 billion and $55 billion, respectively. Refer to Note 14, “Financial Instruments with Off-Balance-Sheet Risk,” for more information on the nature of this item.

See accompanying Notes to Fair Value Balance Sheets.

Notes to Fair Value Balance Sheets

The following discussion summarizes the significant methodologies and assumptions we used to estimate the fair values in the accompanying Fair Value Balance Sheets.

Mortgage Portfolio, Net

The fair value calculations of our mortgage portfolio considered such variables as interest rates, credit quality, and loan collateral. Because an active market does not exist for a portion of mortgage loans in the portfolio, the portfolio’s unsecuritized mortgages were aggregated into pools by product type, coupon, and maturity and converted into notional MBS. A normal guaranty fee that our securitization business would charge for a pool of loans with similar characteristics was subtracted from the weighted-average coupon rate less servicing fees. We describe the method for estimating this guaranty fee and the credit risk associated with the mortgage portfolio under “Guaranty fee income.”

We then employed an option-adjusted spread (OAS) approach to estimate fair values for MBS held in portfolio and other mortgage-related securities. The OAS approach represents the risk premium or incremental interest spread over some market benchmark rates, typically our debt rates, that is included in a security’s yield to compensate an investor for the uncertain effects of embedded prepayment options on mortgages. The OAS was calculated using quoted market values for selected benchmark securities and provided a generally applicable return measure that considers the effect of prepayment risk and interest rate volatility.

Nonmortgage Investments

We based fair values of our nonmortgage investment portfolio on actual quoted prices or prices quoted for similar financial instruments.

Cash and Cash Equivalents

We used the carrying amount of cash and cash equivalents as a reasonable estimate of their fair value.

Other Assets

Other assets include accrued interest receivable, net currency swap receivables, and several other smaller asset categories. The fair value of other assets, excluding certain deferred items that have no fair value and net currency swap receivables, approximates their carrying amount. We estimated the fair value of net currency swap receivables based on either the expected cash flows or quoted market values of these instruments.

The fair value amount also includes the estimated effect on deferred income taxes of providing for federal income taxes for the difference between net assets at fair value and at cost at the statutory corporate tax rate of 35 percent.

Derivatives

We enter into interest rate swaps, including callable swaps that, in general, extend or adjust the effective maturity of certain debt obligations. Under these swaps, we generally pay a fixed rate and receive a floating rate based on a notional amount. We also enter into interest rate swaps that are linked to specific investments (asset swaps) or specific debt issues (debt swaps). We estimated the fair value of interest rate swaps based on either the expected cash flows or quoted market values of these instruments, net of tax. We included the effect of netting under master agreements in determining swap obligations in a gain position or loss position.

In addition, we enter into swaptions and interest rate caps. Under a swaption, we have the option to enter into a swap, as described above, at a future date. We use interest rate caps to effectively manage our interest expense in a period of rising interest rates by entering into an agreement whereby a counterparty makes payments to us for interest rates above a specified rate. We estimated the fair values of these derivative instruments based on either the expected cash flows or the quoted market values of these instruments, net of tax.

Guaranty Fee Income

Guaranteed MBS and other mortgage-related securities are not assets owned by us, except when acquired for investment purposes. We receive a guaranty fee calculated on the outstanding principal balance of the MBS or other mortgage-related assets held by third-parties. The guaranty fee represents a future income stream for us. Under generally accepted accounting principles, we recognize this guaranty fee as income over the life of the securities. The Fair Value Balance Sheets reflect the present value of guaranty fees, net of estimated future administrative costs and credit losses, taking into account estimated prepayments.

We estimated the credit loss exposure attached to the notional amount of guaranteed MBS and other mortgage-related securities held by third-party investors. We deducted estimated credit losses from the projected guaranty fee cash flows to arrive at fair value. We calculated estimated credit losses with an internal forecasting model based on our actual historical loss experience. We then valued the net guaranty fee cash flows with reference to the pricing of similar assets.

Noncallable and Callable Debt

We estimated the fair value of our noncallable debt using quotes for selected Fannie Mae debt securities with similar terms. We estimated the fair value of callable debt with an OAS model similar to the valuation of the mortgage portfolio.

Other Liabilities

Other liabilities primarily include accrued interest payable, amounts payable to MBS holders, estimated losses on guaranteed MBS, net currency swap payables, and several other smaller liability categories. The fair value of other liabilities often approximates their carrying amount; however, certain deferred liabilities have no fair value. We included credit loss exposure for guaranteed MBS and other mortgage-related securities as a component of the net MBS guaranty fee. We estimated the fair value of net currency swap payables based on the expected cash flows or quoted market values of these instruments.

Mortgage Purchase Commitments

Mortgage purchase commitments include mandatory commitments to purchase MBS and loans. We estimated their fair value based on the prices for similar MBS that are being traded in the marketplace.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have audited the accompanying balance sheets of Fannie Mae as of December 31, 2002 and 2001, and the related statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of Fannie Mae's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fannie Mae as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, Fannie Mae changed its method of accounting for derivative instruments and hedging activities in 2001 in accordance with the adoption of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

We also have audited in accordance with auditing standards generally accepted in the United States of America the supplemental fair value balance sheets of Fannie Mae as of December 31, 2002 and 2001, included in Note 16 to the financial statements. As described in Note 16, the supplemental fair value balance sheets have been prepared by management to present relevant financial information that is not provided by the financial statements and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. In addition, the supplemental fair value balance sheets do not purport to present the net realizable, liquidation, or market value of Fannie Mae as a whole. Furthermore, amounts ultimately realized by Fannie Mae from the disposal of assets may vary significantly from the fair values presented. In our opinion, the supplemental fair value balance sheets included in Note 16 present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Washington, DC

January 14, 2003

REPORT OF MANAGEMENT

To The Stockholders Of Fannie Mae:

The management of Fannie Mae is responsible for the preparation, integrity, and fair presentation of the accompanying financial statements and other information appearing elsewhere in this report. In our opinion, the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances, and the other financial information in this report is consistent with such statements. In preparing the financial statements and in developing the other financial information, it has been necessary to make informed judgments and estimates of the effects of business events and transactions. We believe that these judgments and estimates are reasonable, that the financial information contained in this report reflects in all material respects the substance of all business events and transactions to which the corporation was a party, and that all material uncertainties have been appropriately accounted for or disclosed.

The management of Fannie Mae is also responsible for maintaining internal control over financial reporting that provides reasonable assurance that transactions are executed in accordance with appropriate authorization, permits preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, and establishes accountability for the assets of the corporation.

Internal control over financial reporting includes controls for the execution, documentation, and recording of transactions, and an organizational structure that provides an effective segregation of duties and responsibilities. Fannie Mae has an internal Office of Auditing whose responsibilities include monitoring compliance with established controls and evaluating the corporation's internal controls over financial reporting. Organizationally, the internal Office of Auditing is independent of the activities it reviews.

Fannie Mae's financial statements are audited by KPMG LLP, the corporation's independent auditors, whose audit is performed in accordance with auditing standards generally accepted in the United States of America. In addition, KPMG LLP obtained an understanding of our internal controls over financial reporting and conducted such tests and other auditing procedures as they considered necessary to express the opinion on the financial statements in their report that follows.

The Board of Directors of Fannie Mae exercises its oversight of financial reporting and related controls through an Audit Committee, which is composed solely of directors who are not officers or employees of the corporation. The Audit Committee meets with management and the internal Office of Auditing periodically to review the work of each and to evaluate the effectiveness with which they discharge their respective responsibilities. In addition, the committee meets periodically with KPMG LLP, who has free access to the committee, without management present. The appointment of the independent auditors is made annually by the Board of Directors subject to ratification by the stockholders.

Management recognizes that there are inherent limitations in the effectiveness of any internal control environment. However, management believes that, as of December 31, 2002, Fannie Mae's internal control environment, as described herein, provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information.

/s/ TIMOTHY HOWARD	/s/ LEANNE G. SPENCER
Timothy Howard *Executive Vice President and* *Chief Financial Officer*	Leanne G. Spencer *Senior Vice President and* *Controller*

FANNIE MAE

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following unaudited results of operations include, in the opinion of management, all adjustments necessary for a fair presentation of the results of operations for such periods.

	2002 Quarter Ended			
	December	September	June	March
	(Dollars in millions, except per common share amounts)			
Net interest income	$ 3,012	$ 2,591	$2,532	$2,431
Guaranty fee income	523	463	423	407
Fee and other income (expense), net	95	91	42	4
Provision for losses	(41)	(26)	(33)	(28)
Foreclosed property income	8	12	9	7
Administrative expenses	(313)	(315)	(301)	(290)
Purchased options expense	(1,881)	(1,378)	(499)	(787)
Debt extinguishments, net	(176)	(138)	(224)	(172)
Income before federal income taxes	1,227	1,300	1,949	1,572
Provision for federal income taxes	(275)	(307)	(485)	(362)
Net income	$ 952	$ 993	$1,464	$1,210
Preferred stock dividends	(20)	(22)	(24)	(33)
Net income available to common stockholders	$ 932	$ 971	$1,440	$1,177
Diluted earnings per common share	$ .94	$ .98	$ 1.44	$ 1.17
Cash dividends per common share	.33	.33	.33	.33

	2001 Quarter Ended			
	December	September	June	March
	(Dollars in millions, except per common share amounts)			
Net interest income	$2,404	$2,079	$1,900	$1,707
Guaranty fee income	398	384	357	343
Fee and other income (expense), net	51	49	24	27
Provision for losses	(21)	(18)	(24)	(31)
Foreclosed property income	5	3	6	2
Administrative expenses	(251)	(273)	(254)	(239)
Special contribution	(300)	—	—	—
Purchased options income (expense)	578	(413)	36	(238)
Debt extinguishments, net	(91)	(207)	(142)	(84)
Income before federal income taxes and cumulative effect of change in accounting principle	2,773	1,604	1,903	1,487
Provision for federal income taxes	(804)	(375)	(500)	(362)
Income before cumulative effect of change in accounting principle	1,969	1,229	1,403	1,125
Cumulative effect of change in accounting principle, net of tax effect	—	—	—	168
Net income	$1,969	$1,229	$1,403	$1,293
Preferred stock dividends	(35)	(35)	(35)	(33)
Net income available to common stockholders	$1,934	$1,194	$1,368	$1,260
Diluted earnings per common share:				
Earnings before cumulative effect of change in accounting principle	$ 1.92	$ 1.19	$ 1.36	$ 1.08
Cumulative effect of change in accounting principle	—	—	—	.17
Net earnings	$ 1.92	$ 1.19	$ 1.36	$ 1.25
Cash dividends per common share	$ .30	$ .30	$ .30	$ .30

FANNIE MAE

FINANCIAL AND STATISTICAL SUMMARY (Unaudited)

For the Year	2002	2001	2000	1999	1998
	(Dollars in millions, except per common share amounts)				
Summary Statements of Income:					
Interest income	$ 50,853	$ 49,170	$ 42,781	$ 35,495	$ 29,995
Interest expense	(40,287)	(41,080)	(37,107)	(30,601)	(25,885)
Net interest income	10,566	8,090	5,674	4,894	4,110
Guaranty fee income	1,816	1,482	1,351	1,282	1,229
Fee and other income (expense), net	232	151	(44)	191	275
Provision for losses	(128)	(94)	(122)	(151)	(245)
Foreclosed property income (expense)	36	16	28	24	(16)
Administrative expenses	(1,219)	(1,017)	(905)	(800)	(708)
Special contribution	—	(300)	—	—	—
Purchased options expense	(4,545)	(37)	—	—	—
Debt extinguishments (loss) gain, net	(710)	(524)	49	(14)	(40)
Income before federal income taxes and cumulative effect of change in accounting principle	6,048	7,767	6,031	5,426	4,605
Provision for federal income taxes	(1,429)	(2,041)	(1,583)	(1,514)	(1,187)
Income before cumulative effect of change in accounting principle	4,619	5,726	4,448	3,912	3,418
Cumulative effect of change in accounting principle, net of tax effect	—	168	—	—	—
Net income	$ 4,619	$ 5,894	$ 4,448	$ 3,912	$ 3,418
Preferred stock dividends	(99)	(138)	(121)	(78)	(66)
Net income available to common stockholders	$ 4,520	$ 5,756	$ 4,327	$ 3,834	$ 3,352
Basic earnings per common share:					
Earnings before cumulative effect of change in accounting principle	$ 4.56	$ 5.58	$ 4.31	$ 3.75	$ 3.26
Cumulative effect of change in accounting principle	—	.17	—	—	—
Net earnings	$ 4.56	$ 5.75	$ 4.31	$ 3.75	$ 3.26
Diluted earnings per common share:					
Earnings before cumulative effect of change in accounting principle	$ 4.53	$ 5.55	$ 4.29	$ 3.72	$ 3.23
Cumulative effect of change in accounting principle	—	.17	—	—	—
Net earnings	$ 4.53	$ 5.72	$ 4.29	$ 3.72	$ 3.23
Cash dividends per common share	$ 1.32	$ 1.20	$ 1.12	$ 1.08	$ .96
Mortgages purchased:					
Single-family	$ 363,149	$ 262,440	$ 149,674	$ 191,642	$185,863
Multifamily	7,492	8,144	4,557	3,568	2,585
Total mortgages purchased	$ 370,641	$ 270,584	$ 154,231	$ 195,210	$188,448
Average net yield on mortgages purchased	5.92%	6.56%	7.62%	6.88%	6.61%
Debt issued:					
Short-term debt	$1,635,919	$1,756,691	$1,143,131	$1,136,001	$695,495
Long-term debt	238,467	249,352	110,215	139,020	147,430
Total	$1,874,386	$2,006,043	$1,253,346	$1,275,021	$842,925
Average cost of debt issued	2.21%	3.97%	6.34%	5.33%	5.49%
MBS issues acquired by others	$ 478,260	$ 344,739	$ 105,407	$ 174,850	$220,723

FANNIE MAE

FINANCIAL AND STATISTICAL SUMMARY (Unaudited)

	At December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
	(Dollars in millions, except per common share amounts)				
Summary Balance Sheets:					
Mortgage portfolio:					
Mortgage-related securities:					
Held-to-maturity	$ 437,932	$ 509,155	$ 443,872	$ 365,749	$ 250,274
Available-for-sale	173,706	32,900	11,434	8,501	9,021
Total	611,638	542,055	455,306	374,250	259,295
Loans held-for-investment	185,652	165,917	152,437	149,101	155,774
Allowance for loan losses	(79)	(48)	(51)	(56)	(79)
Unamortized premiums (discounts) and deferred price adjustments, net	337	(2,640)	(209)	(378)	360
Loans held-for-sale	145	40	68	4	5
Mortgage portfolio, net	797,693	705,324	607,551	522,921	415,355
Other assets	89,822	94,624	67,673	52,387	69,791
Total assets	$ 887,515	$ 799,948	$ 675,224	$ 575,308	$ 485,146
Debentures, notes, and bonds, net:					
Due within one year	$ 382,412	$ 343,492	$ 280,322	$ 226,582	$ 205,413
Due after one year	468,570	419,975	362,360	321,037	254,878
Total debentures, notes, and bonds, net	850,982	763,467	642,682	547,619	460,291
Guaranty liability for MBS	729	755	755	745	720
Other liabilities	19,516	17,608	10,949	9,315	8,682
Total liabilities	871,227	781,830	654,386	557,679	469,693
Stockholders’ equity	16,288	18,118	20,838	17,629	15,453
Total liabilities and stockholders’ equity	$ 887,515	$ 799,948	$ 675,224	$ 575,308	$ 485,146
Core capital	$ 28,079	$ 25,182	$ 20,827	$ 17,876	$ 15,465
Excess of core capital over minimum capital	877	1,000	533	106	131
Excess of core capital over required critical capital	14,199	12,859	10,490	8,748	7,602
Yield on net mortgage portfolio	6.45%	6.95%	7.24%	7.08%	7.12%
Yield on total interest earning assets	6.13	6.53	7.21	7.01	6.95
Cost of debt outstanding	4.81	5.49	6.47	6.18	6.10
Book value per common share	$ 13.76	$ 15.86	$ 18.58	$ 16.02	$ 13.95
Common shares outstanding	989	997	999	1,019	1,025
Outstanding MBS	$1,029,456	$ 858,867	$ 706,684	$ 679,169	$ 637,143
Book of business	1,820,256	1,564,034	1,314,083	1,201,949	1,052,366

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

There were no changes in or disagreements with our accountants on accounting and financial disclosure during the two most recent fiscal years.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Information relating to directors and executive officers of Fannie Mae is set forth under Item 5 of the Form 10 and incorporated by reference herein.

Section 16(a) Beneficial Ownership Reporting Compliance

During 2002, no Fannie Mae executive officer or director failed to file any report required by Section 16(a) with respect to equity securities of Fannie Mae on a timely basis.

Item 11. ***Executive Compensation***

Information on certain transactions with directors and indebtedness of executive officers is set forth under Item 6 of the Form 10 and incorporated by reference herein.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information about the beneficial ownership of Fannie Mae common stock by each Fannie Mae director, certain executive officers, and by all directors and executive officers as a group is set forth under Item 4 of the Form 10 and incorporated by reference herein.

The table setting forth information on our compensation plans under which common stock is authorized for issuance is set forth under Item 9 of the Form 10 and incorporated by reference herein. The material features of each plan are briefly described under Item 6 of the Form 10 and incorporated by reference herein.

Item 13. ***Certain Relationships and Related Transactions***

Information about certain relationships and related transactions is set forth under Item 7 of the Form 10 and incorporated by reference herein.

Item 14. ***Controls and Procedures***

Franklin D. Raines, our Chairman of the Board of Directors and Chief Executive Officer, and J. Timothy Howard, our Executive Vice President and Chief Financial Officer, have evaluated Fannie Mae's disclosure controls and procedures, as defined in Rule 13a-14(c), within 90 days of the filing date of this Annual Report and concluded that they have been effective. Mr. Raines and Mr. Howard have also indicated that there were no significant changes in Fannie Mae's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) Documents filed as part of this report

1. Financial Statements

The financial statements required to be filed as part of this report are contained in Item 8 beginning on page 103, and included in this report following page 103.

2. Financial Statement Schedules

The financial statement schedule required to be filed as part of this report is listed on page 103 and appears on page 148. All other schedules have been omitted because they are not required or are not applicable or because the required information is included in the Financial Statements or the Notes.

3. Exhibits

An index to exhibits has been filed as part of this Report beginning on page E-1 and is incorporated herein by reference.

(b) Reports on Form 8-K

Fannie Mae filed no reports on Form 8-K during the period covered by this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Date: March 31, 2003

By: /s/ FRANKLIN D. RAINES

Franklin D. Raines
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRANKLIN D. RAINES Franklin D. Raines	Chairman of the Board of Directors and Chief Executive Officer	March 31, 2003
/s/ J. TIMOTHY HOWARD J. Timothy Howard	Executive Vice President and Chief Financial Officer	March 31, 2003
/s/ LEANNE G. SPENCER Leanne G. Spencer	Senior Vice President and Controller	March 31, 2003
/s/ VICTOR H. ASHE Victor H. Ashe	Director	March 31, 2003
/s/ STEPHEN B. ASHLEY Stephen B. Ashley	Director	March 31, 2003
/s/ MOLLY H. BORDONARO Molly H. Bordonaro	Director	March 31, 2003
/s/ KENNETH M. DUBERSTEIN Kenneth M. Duberstein	Director	March 31, 2003
/s/ THOMAS P. GERRITY Thomas P. Gerrity	Director	March 31, 2003
/s/ JAMIE S. GORELICK Jamie S. Gorelick	Vice Chair	March 31, 2003
/s/ WILLIAM R. HARVEY William R. Harvey	Director	March 31, 2003
/s/ MANUEL J. JUSTIZ Manuel J. Justiz	Director	March 31, 2003

Signature	Title	Date
/s/ ANN MCLAUGHLIN KOROLOGOS Ann McLaughlin Korologos	Director	March 31, 2003
/s/ FREDERIC V. MALEK Frederic V. Malek	Director	March 31, 2003
/s/ DONALD B. MARRON Donald B. Marron	Director	March 31, 2003
/s/ DANIEL H. MUDD Daniel H. Mudd	Vice Chairman and Chief Operating Officer	March 31, 2003
/s/ ANNE M. MULCAHY Anne M. Mulcahy	Director	March 31, 2003
/s/ JOE K. PICKETT Joe K. Pickett	Director	March 31, 2003
/s/ TAYLOR C. SEGUE, III Taylor C. Segue, III	Director	March 31, 2003
/s/ H. PATRICK SWYGERT H. Patrick Swygert	Director	March 31, 2003

CERTIFICATIONS

PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, Franklin D. Raines, certify that:

1. I have reviewed this annual report on Form 10-K of Fannie Mae (formally, the Federal National Mortgage Association);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions abut the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ FRANKLIN D. RAINES

Franklin D. Raines
Chairman of the Board of Directors and
Chief Executive Officer

Date: March 31, 2003

I, J. Timothy Howard, certify that:

1. I have reviewed this annual report on Form 10-K of Fannie Mae (formally, the Federal National Mortgage Association);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions abut the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ J. TIMOTHY HOWARD

J. Timothy Howard
Executive Vice President and Chief Financial Officer

Date: March 31, 2003

INDEX TO EXHIBITS

Item 14(a)(3)

3.1	Fannie Mae Charter Act (12 U.S.C. § 1716 et seq.)*
3.2	Fannie Mae Bylaws, effective as of January 21, 2003*
4.1	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series D*
4.2	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series E*
4.3	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series F*
4.4	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series G*
4.5	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series H*
4.6	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series I*
4.7	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series J*
4.8	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series K*
10.1	Employment Agreement between Fannie Mae and Franklin D. Raines*†
10.2	Employment Agreement between Fannie Mae and Daniel H. Mudd*†
10.3	Employment Agreement between Fannie Mae and Jamie S. Gorelick*†
10.4	Letter Agreement between Fannie Mae and J. Timothy Howard*†
10.5	Letter Agreement between Fannie Mae and Robert J. Levin*†
10.6	Letter Agreement between Fannie Mae and Adolfo Marzol*†
10.7	Form of Indemnification Agreement for Non-Management Directors of Fannie Mae*
10.8	Form of Indemnification Agreement for Officers of Fannie Mae*
10.9	Federal National Mortgage Association Supplemental Pension Plan*†
10.10	Executive Pension Plan of the Federal National Mortgage Association*†
10.11	Fannie Mae Annual Incentive Plan*†
10.12	Fannie Mae Stock Compensation Plan of 1993*†
10.13	Fannie Mae Elective Deferred Compensation Plan*†
10.14	Fannie Mae Procedures for Deferral and Diversification of Awards*†
10.15	Fannie Mae Stock Option Gain Deferral Plan*†
10.16	Description of 2003 Supplemental Pension Plan*†
10.17	Director's Charitable Award Program*†
12.1	Statement re computation of ratios of earnings to fixed charges*
12.2	Statement re computation of ratios of earnings to combined fixed charges and preferred stock dividends*
99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

* Incorporated by reference to the corresponding exhibit to Fannie Mae's registration statement on Form 10.

† This exhibit is a management contract or compensatory plan or arrangement.