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Monthly Report for Fannie Mae's Investors and Dealers

Fannie Mae Fixed Income Securities Offer Investors a Broad Array of Investment Options

Fannie Mae offers fixed income investors a full spectrum of investment products ranging from the structurally simple, low risk short term Benchmark BillsSM product to the structurally complex, higher risk mortgage-backed securities ("MBS"). Investors are able to invest funds in Benchmark Bills to achieve the highest liquidity and safety, or they may achieve the same liquidity and safety while taking slightly greater interest rate exposure by buying longer term non-callable Benchmark Notes[®] and Benchmark BondsSM. Alternatively, they may buy Fannie Mae callable debt securities to enhance yields relative to non-callable debt securities while taking views on interest rate volatility, or they may buy subordinated debt or preferred stock to enhance yields relative to non-callable senior debt securities by accepting subordinated or equity status for

their investment. Finally, as a more complex strategy to enhance yields, investors could buy MBS in order to take advantage of a view that they might have about the expected behavior of mortgage prepayment speeds over time. In this issue of Funding Notes, we explore the range of products and explain the returns and risks that are available from the menu of Fannie Mae fixed income securities offerings.

Fannie Mae offers investors a wide array of high credit quality fixed income investment alternatives ranging from senior debt securities across the maturity spectrum with and without embedded call features, to MBS with embedded prepayment options, and to assets of varying credit profiles such as subordinated debt and preferred stock. Figure 1 summarizes the broad investment-
continued

Fannie Mae fixed income securities offer a range of options to investors along the dimensions of liquidity, credit, spread, maturity, interest rate optionality

	Short term Discount Notes Benchmark Bills	Long term bullets Benchmark Notes/Bonds/Others	Long term Callable Notes	MBS	Subordinated Benchmark/Other Sub	Preferred Stock
Liquidity	Very high	Very high	High	Very high to moderate depending on type	High	Moderate
Level of Structural Complexity	Simple	Simple	Relatively simple call option held by Fannie Mae	Highly complex prepayment option held by homeowner	Fairly simple, except for subordination and interest deferral	Relatively simple call options held by Fannie Mae
Credit/Subordination	Highest seniority	Highest seniority	Highest seniority	Highest seniority	Below senior debt, but above preferred and common stock	Ranks above common, but below all debt categories
Spread	Spread above T-bill yields	Spread above T-note & T-bond yields	Spread above T-notes & T-bonds; spread pickup over Fannie Mae bullets	Spread above T-notes & T-bonds; spread pickup over Fannie Mae bullets & often callables	Spread above T-notes & T-bonds; spread pickup over senior Fannie Mae bullets	Highest spread category; relies on corporate investor DRD exemption
Maturity	1 day to 360 days	Over 1 year to 10 years	Over 10 years to 30 years	Typically 15 to 30 years	Over 1 year to 30 years	Perpetual; no maturity date
Interest rate call options	None	None	Call lockout periods typically ranging from 3-months to 10-years	Prepayable immediately at homeowners' option	None	Call and/or interest reset provisions

Figure 1

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Fannie Mae Debt and Preferred Stock Outstanding as of December 31, 2000

Long term senior debt	\$ 423.2 billion
Short term senior debt	223.3
Long term subordinated debt*	1.3
Total MBS outstanding**	1,058
Preferred Stock***	2.3

* Does not include \$1.5 billion issue of Subordinated Benchmark Notes issued in January 2001

** Net of MBS held in portfolio, the MBS outstanding was \$707 billion

*** Includes \$375 million Series A preferred stock issue to be called on March 1, 2001

Figure 2

Investors will have four public credit rating viewpoints of Fannie Mae.

With the February 27, 2001 release of the independent financial strength rating of Fannie Mae, investors now have available to them four published ratings of our credit standing, each from a different angle:

- First, our senior unsecured debt is currently rated Aaa by Moody's and AAA by Standard & Poor's. This debt has always been rated at these levels at all times that a rating has actually been assigned to it.
- Second, our outstanding Subordinated Benchmark Notes® will at all times be rated by both Moody's and Standard & Poor's. Moody's has issued a rating of Aa2 for the subordinated debt, and Standard & Poor's has issued a rating of AA-.
- Third, our preferred stock is currently rated aa3 by Moody's and AA- by Standard & Poor's.
- Fourth, Standard & Poor's has rated Fannie Mae's independent financial strength or its "risk to the government" at AA-.

Figure 3

ment characteristics of Fannie Mae's fixed income security types.

The company makes a strong effort to serve each of its varied fixed income investor categories through informational, educational and marketing initiatives, as these investors make it possible for Fannie Mae to fulfill its corporate mission of serving the needs of US homeowners. Fixed income investors make it possible for Fannie Mae to finance home mortgages by issuing an appropriate mix of these different types of securities. The types of investors represented among Fannie Mae's fixed income investors are largely institutional but also include retail investors. The domestic and overseas institutional investors include professional fund managers, banks, pension funds, insurance companies, central banks, corporations, local and state authorities and not-for-profit organizations. A few of these investor categories are involved in more than one of Fannie Mae's fixed income securities offerings and others may have a more focused interest.

Figure 2 provides the outstanding amounts of the various classes of Fannie Mae's fixed income securities. Senior debt securities and MBS outstanding are the two most important categories. Short-term debt was a significant component, comprising approximately 34% of total outstanding senior debt securities. Subordinated debt and preferred stock outstanding are smaller categories, but subordinated debt is projected to grow

steadily over the next three years to a relatively larger though still limited share of the total.

Figure 3 lists the four different ratings of Fannie Mae's securities and business that are available to investors for reference purposes. On February 27, Standard & Poor's provided a AA- rating of Fannie Mae's independent financial strength or "risk to the government". Investors now have four different ratings viewpoints from which to evaluate Fannie Mae's financial and operating strength, and its safety and soundness.

All of Fannie Mae's senior debt securities have received ratings of Aaa from Moody's and AAA from Standard & Poor's. Fannie Mae provides investors a wide variety of choices in terms of maturities, ranging from overnight to 30 years through senior *noncallable* Benchmark Securities or other senior noncallable note offerings. Yields available on these securities are at attractive spreads over comparable maturity Treasuries. The liquidity of these securities in the secondary market is generally very strong so that investors are able to buy, sell and obtain valuations for these securities in the secondary market with considerable ease. Fannie Mae's senior *callable* notes and bonds offer investors the opportunity to earn higher spreads than on comparable maturity senior noncallable securities in exchange for taking varying degrees of callability risk. Fannie Mae's *MBS*, which are structurally more complex, provide senior debt investors the opportunity to earn spreads over noncallable securities in exchange for prepayment risk.

Fannie Mae's outstanding Subordinated Benchmark Notes are rated Aa2/AA- (Moody's/Standard & Poor's) and offer investors the opportunity to earn higher yields than from comparable senior Benchmark Notes in return for accepting the subordinated status of these securities. Fannie Mae's aa3/AA- rated (Moody's/Standard & Poor's) preferred stock pays attractive yields to investors, many of whom are able to take advantage of the dividends received exclusion. Preferred stock issuance represents regulatory capital funding for the company.

Senior Debt Securities

There are four categories of senior debt securities apart from mortgage-backed securities that Fannie Mae issues – (1) short term debt securities including Benchmark Bills, (2) Benchmark Notes and Bonds, (3) callable debt securities and (4) other noncallable notes and bonds, floating rate securities, foreign currency securities.

The Benchmark Securities program offers large size, regularly scheduled noncallable issues that provides increased efficiency, liquidity, and tradeability to the market. Experience over the past three years has taught us that investors greatly appreciate these features. The program offers securities throughout the curve with Benchmark Bills in the short end and Benchmark Notes and Benchmark Bonds in the long end. As the program has evolved, Benchmark Securities

continued

have come to be used in a growing variety of investment, trading, hedging, financing and other market transactions.

Short-term debt securities

Fannie Mae's short term debt securities are highly liquid safe securities with little price risk. Investors buy them to match short-term obligations, for short term cash management purposes, to "park" money while they decide whether and when to increase or change their asset allocations, and also to outperform longer term securities when they expect a decline in longer term bond prices or a steepening in the yield curve.

Fannie Mae is one of the largest issuers of short-term debt securities as well as one of the most consistent issuers of longer-dated (beyond two weeks) short-term securities. Through the Discount Notes and Benchmark Bills programs, Fannie Mae provides investors from around the world with superior credit quality investments and strong secondary market liquidity. Benchmark Bills are auctioned according to fixed schedules, either every week or every two weeks, depending on their maturity dates. On the other hand, Discount Notes are issued by Fannie Mae on a reverse inquiry basis, in which investors reflect their interests in specific maturities to dealers, and the dealers, in turn, work with Fannie Mae to underwrite the desired securities. In other respects, Discount Notes and Benchmark Bills are identical, so that Discount Notes that have the same maturity dates as outstanding Benchmark Bills are fungible with the latter in secondary trading.

Through Discount Notes, Fannie Mae issues in a wide range of maturities from overnight to 360 days from the date of issuance, excluding three- and six-month and one-year issuances. Discount Notes are available in minimum amounts of \$1,000 and increments of \$1,000 and are sold at a discount from the principal amount and mature at par. They are available on a cash-, regular-, or skip-day settlement basis.

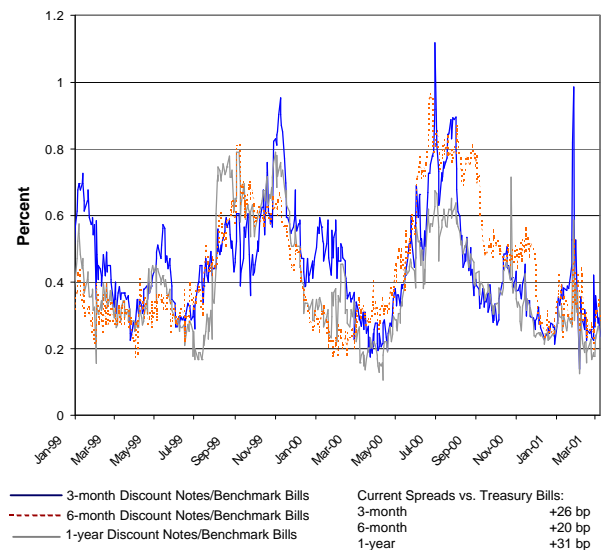
Benchmark Bills are similar to Discount Notes in their financial terms but are distinguished by their disciplined, aggregated issuance in 3- and 6-month and 1-year maturities. Benchmark Bills are issued via a web-based Dutch auction system, and the 3- and 6-month maturities are issued on a fixed weekly auction schedule while the 1-year is on a biweekly auction schedule. Dealers who participate in the auction submit bids and receive results through Fannie Mae's web-based Dutch auction system at www.fanniemae.com. Both competitive and non-competitive bids are accepted. Fannie Mae will not issue Discount Notes during any week that mature within one week's time of the Benchmark Bills that are to be auctioned that week. The parameters of the program are summarized in Figure 4. Fannie Mae implemented a new syndication system for Benchmark Bills in November 2000 in order to increase pricing efficiency and transparency in the secondary market.

Benchmark Bills Parameters.

- Issuance via web-based Dutch Auction.
- Three-month, six-month and one-year maturities. Size Ranges:
3-month \$4.0 - \$8.0 billion 6-month \$1.5 - \$4.0 billion 1-year minimum \$1.0 billion
- Weekly issuance calendar:
 - Tuesday: Announce size of 3- and 6-month auctions mid-morning EST.
 - Wednesday:
 - Both auctions open for bidding between 8:30 a.m. and 9:30 a.m. EST
 - Announcement of results generally within 30 minutes of auction
 - Cash settlement of 3- and 6-month Benchmark Bill.
 - Thursday: Regular settlement of 3- and 6-month Benchmark Bills.
 - Same schedule will be followed every alternate week for 1-year Benchmark Bills.
- Issued in book-entry form through the US Federal Reserve Banks.
- No periodic payment of interest on Benchmark Bills, sold at a discount and payable at par at maturity. Bid types accepted are competitive and non-competitive.
- Regular settlement (next day) and cash settlement (same day) offered.
- Authorized dealers submit minimum bids of \$50,000 and incremental amounts of \$1,000.
- Investors can purchase a minimum of \$1,000 principal amount of Benchmark Bills with increments of \$1,000 from dealers.
- Year-to-date through March 7, 2001, we have issued \$53.5 billion in 3-month, \$18.5 billion in 6-month and \$12 billion in 1-year Benchmark Bills.
- Issued in 2000 \$239 billion in 3-month, \$85.5 billion in 6-month, and \$9.5 billion in 1-year Benchmark Bills.

Figure 4

Fannie Mae Benchmark Bills offer attractive spreads over comparable maturity Treasury Bills.



Source: Fannie Mae
As of March 6, 2001

Figure 5

The effectiveness of the Discount Notes and Benchmark Bills programs is apparent in the activity and liquidity of the issues. The market for these securities is characterized by liquidity, transparency and by the involvement of a wide range of institutional investors. These securities attract a large number of institutional investors, such as fund managers, governments and municipalities, banks and credit unions, overseas central banks, corporations, and non-profit organizations.

Institutional investors are attracted by the spread pick-up to comparable Treasury bills (see Figure 5). Investors are able to use Discount Notes and Benchmark

Year 2001 Noncallable Benchmark Bills, Notes and Bonds Calendar*

	January			February			March			April			May			June		
	A	P	S	A	P	S	A	P	S	A	P	S	A	P	S	A	P	S
3/6-mo bill	Weekly Auction			Weekly Auction			Weekly Auction			Weekly Auction			Weekly Auction			Weekly Auction		
1-year bill	Biweekly Auction			Biweekly Auction			Biweekly Auction			Biweekly Auction			Biweekly Auction			Biweekly Auction		
2/3-year	14th 22nd 23rd			14th 22nd 23rd			16th 22nd 26th			18th 24th 26th			17th 23rd 25th			14th 20th 22nd		
5-year	11th 18th 22nd			14th 22nd 23rd			16th 22nd 26th			18th 24th 26th			17th 23rd 25th			14th 20th 22nd		
10-year	11th 18th 22nd			14th 22nd 23rd			16th 22nd 26th			18th 24th 26th			17th 23rd 25th			14th 20th 22nd		
30-year	11th 18th 22nd			14th 22nd 23rd			16th 22nd 26th			18th 24th 26th			17th 23rd 25th			14th 20th 22nd		

	July			August			September			October			November			December		
	A	P	S	A	P	S	A	P	S	A	P	S	A	P	S	A	P	S
3/6-mo bill	Weekly Auction			Weekly Auction			Weekly Auction			Weekly Auction			Weekly Auction			Weekly Auction		
1-year bill	Biweekly Auction			Biweekly Auction			Biweekly Auction			Biweekly Auction			Biweekly Auction			Biweekly Auction		
2/3-year	17th 23rd 27th			17th 23rd 27th			21st 27th 28th			17th 23rd 25th			14th 20th 23rd			14th 20th 24th		
5-year	12th 18th 20th			17th 23rd 27th			21st 27th 28th			17th 23rd 25th			14th 20th 23rd			14th 20th 24th		
10-year	12th 18th 20th			17th 23rd 27th			21st 27th 28th			17th 23rd 25th			14th 20th 23rd			14th 20th 24th		
30-year	12th 18th 20th			17th 23rd 27th			21st 27th 28th			17th 23rd 25th			14th 20th 23rd			14th 20th 24th		

A = Announcement Date P = Pricing Date S = Settlement Date
 * Scheduled issuance of a specific Benchmark Note/Bond maturity in a given month is defined by the issue's settlement date.
 Minimum new issue size for Benchmark Notes (2 years - 10 years in maturity) is \$4.0 billion.
 Minimum new issue size for Benchmark Bonds (maturities greater than 10 years) is \$2.0 billion.

3- and 6-month Benchmark Bills are auctioned on a weekly basis, and the 1-year Benchmark Bills are auctioned on a biweekly basis. Fannie Mae announces the amount of the 3-month, 6-month, and, in relevant weeks, the 1-year Benchmark Bills on each Tuesday. The Dutch auctions are conducted on Wednesday and the issues settle, cash or regular. If one of the given days is a holiday, a new schedule will be announced on Tuesday of the prior week.

Figure 6

Bills as collateral for various purposes as well. They are accepted as collateral for margin deposits at various exchanges and clearing corporations as well as in repurchase transactions entered into with the Federal Reserve Bank. Benchmark Bills may in certain cases be an acceptable investment for escrow accounts associated with municipal bond offerings.

Benchmark Notes and Benchmark Bonds

Benchmark Notes and Benchmark Bonds are highly liquid senior non-callable (bullet) debt securities issued

across the yield curve from two years to thirty years. In the primary market at the time of issue and in the secondary market they trade at attractive yield spreads above comparable maturity Treasury yields. In making a decision to buy these securities, investors must consider the yield of the security in relation to the shape of the yield curve, and also the attractiveness of the yield spread of the security over comparable maturity Treasury securities and relative to other fixed income securities.

The hallmark features of the Benchmark Notes and Benchmark Bonds program are the liquidity and transparency of these securities in the secondary market. An important tool that Fannie Mae has employed to achieve this has been the Benchmark Securities issuance calendar (see Figure 6). Fannie Mae has followed through consistently on the 2000 and 2001 calendars with respect to bringing issues of predetermined maturity each month of the year. Since the inception of the program in 1998, Fannie Mae has brought monthly issues totaling \$189 billion in Benchmark Notes and Benchmark Bonds, with \$77 billion in 2000 alone (see Figure 7). Fannie Mae has not missed issuing Benchmark Notes in any month since inaugurating the program more than three years ago. We anticipate issuing more than \$75 billion in Benchmark Notes and Bonds in 2001.

Benchmark Notes and Benchmark Bonds are brought to market by a syndication system of approved dealers. The issues are brought to market according to the Benchmark Securities calendar and off Fannie Mae's Universal Debt Facility. For each transaction, Fannie Mae will appoint three lead managers, several more co-managers and a selling group of dealers. As of April 2000, all new issues are listed on the Luxembourg

continued

Fannie Mae's funding summary from 1997 through January 31, 2001.

<u>All Issuance (\$ in millions)</u>	<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>YTD 1/31/2001</u>		
Discount Notes	\$	697,929	\$	645,594	\$	1,031,276	\$	782,948	\$	108,435	
Benchmark Bills		-		-		48,000		334,000		36,630	
Other Short Term		57,352		49,901		59,724		26,183		967	
Total Short Term	\$	755,281	\$	695,495	\$	1,139,000	\$	1,143,131	\$	146,032	
Benchmark Notes & Bonds	\$	-	\$	42,250	\$	54,750	\$	77,000	\$	3,000	
Callable Benchmark Notes		-		-		8,100		-		-	
Debentures		5,400		1,650		-		-		-	
Global		9,202		4,428		1,938		-		-	
Other Callable & Noncallable Notes & Bonds		71,723		99,102		74,232		33,215		5,317	
Total Long Term	\$	86,325	\$	147,430	\$	139,020	\$	110,215	\$	8,317	
	\$	841,606	\$	842,925	\$	1,278,020	\$	1,253,346	\$	154,349	
Net Issuance Long Term	\$	22,645	\$	52,702	\$	77,229	\$	59,879	\$	(13,790)	
YTD 2001											
Short Term Outstanding		97 days average maturity								\$	247,496
Long Term Outstanding		68 months average maturity								\$	410,757
Total Debt		44 months average maturity								\$	658,253

Figure 7

Fannie Mae has established a yield curve in noncallable Benchmark Securities.

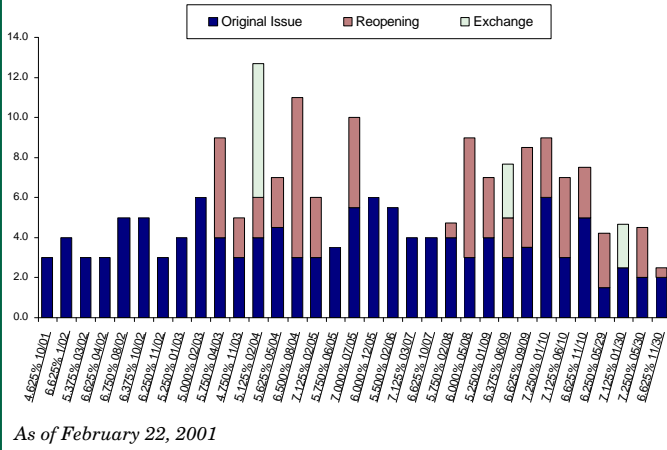
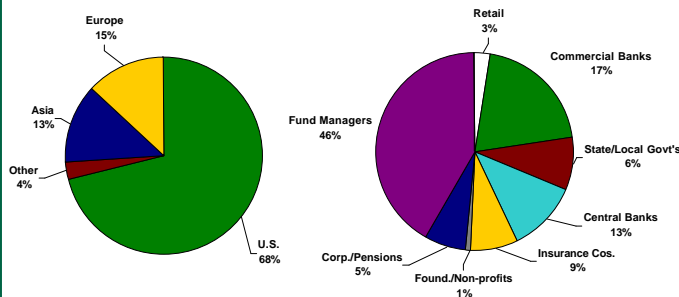


Figure 8

Aggregate Distribution of Fannie Mae's noncallable Benchmark Securities*.



As of February 22, 2001, Fannie Mae had issued thirty-four Benchmark Notes and Bonds and twenty-four reopenings for a total of \$188.5 billion since inception of the program. There was an additional \$11.7 billion of Benchmark Securities issued concurrent with Fannie Mae's three debt exchange offerings. The total amount of bullet Benchmark Securities outstanding is currently \$200.2 billion.

*1998-2001

Figure 9

Stock Exchange. Information on distribution of these securities during the underwriting process is gathered on a real time basis on the Benchmark Automated Syndication System (BASS), and summary distribution figures are published on our Web site following the pricing of each transaction.

Benchmark Notes are securities with maturities ranging from two to ten years. Each new issue comes to market at a minimum size of \$4 billion or greater. To maximize liquidity, outstanding issues may be reopened to sizes of \$6 billion or larger. Benchmark Bonds are noncallable securities with maturities greater than ten years. Each new issue comes to market with a minimum size of \$2 billion and may be reopened to sizes as large as \$6 billion or even greater. Figure 8 depicts the yield curve of outstanding Benchmark Notes and Bonds.

As with the Benchmark Bills, institutional investors are some of the larger investors in Benchmark Notes and Bonds. Figure 9 shows that fund managers, commercial banks, and central banks were the three largest investor segments in Benchmark Notes and Bonds making up 76% of the distribution, with 46%, 17%, and 13% respectively.

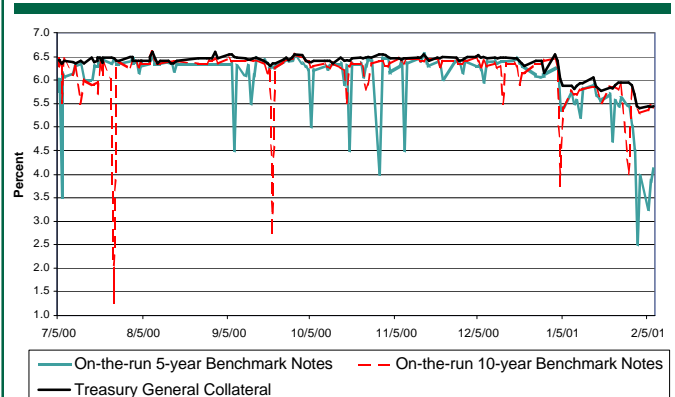
Investors are using Benchmark Securities for a variety of market transactions. The development of the term repo market and futures contract market over the past year increasingly has resulted in investors using Benchmark Notes and Bonds in hedging strategies. Since Benchmark Notes and Bonds are strip eligible, as the number of these issues increase, the ability to strip and reconstitute them will be further enhanced.

Benchmark Securities are increasingly being used by swaps trading desks to hedge their inventories; by corporate issuers to hedge new issue transactions; and by investors and bond dealers to hedge their exposure to other credit spread products. The repo market rate levels for Benchmark SecuritiesSM, in general, are attractive, but the repo levels for the on-the-run Benchmark Securities, especially for the 5- and 10-year maturities, have consistently traded at special levels below general Treasury collateral repo rates (see Figure 10). The repo specialness of on-the-run 5- and 10-year Benchmark Notes is due to their demand for hedging and related activity.

The agency futures contract has become well established in a short period of time. Futures on 10-year Benchmark Notes are trading actively, and the 5-year futures contracts have recently been introduced. Many participants have used the Chicago Board of Trade

continued

Repo levels for five- and ten-year Benchmark Notes have been equal to or inside of those available for U.S. Treasury general collateral.



Current repo levels for:
 On-the-run 5-year Benchmark Notes 4.05
 On-the-run 10-year Benchmark Notes 5.40
 Treasury General Collateral 5.48

Source: Fannie Mae
 As of March 7, 2001

Figure 10

agency futures contract to express their views on the spread between Treasury futures over agency futures (TAG). In addition, hedging activity using the futures contract is on the rise as the market becomes more established and liquid.

Callable securities

Fannie Mae callable debt securities are high quality debt securities with maturities ranging from just over one year to thirty years and call lockout periods ranging from three months to ten or fifteen years. Typically, the call lockout periods of Fannie Mae callable debt is one year or greater. Investors buy these securities to enhance yields relative to non-callable securities in exchange for taking the risk that the securities may be called by Fannie Mae prior to their maturity date. Investors may buy these securities specifically as a way to take a view on interest rate volatility, i.e., if they expect future interest rate volatility to be low they might buy callables that are priced at higher implied interest rate volatility levels. In addition, investors may buy Fannie Mae callable debt securities in order to benefit from a specific view of how the yield curve shape may change in the future. For instance, investors who believe that the yield curve may flatten may buy a callable security to enhance returns relative to barbell or bullet portfolios of duration similar to that of the callable.

Fannie Mae callable securities are typically issued under the category of callable notes. Callable notes are usually issued through a reverse inquiry process that enables investors to obtain the structure that they want. If investors have specific interest in a certain structure, the dealer involved will reflect this to Fannie Mae. If the terms of the proposed structure meet internal benchmarks, then Fannie Mae will quickly provide feedback to the dealer. At times, Fannie Mae may bring together several dealers if they have similar interests in callable structures to form a single, larger callable issue. The reverse inquiry process is kept as flexible as possible so as to enable investors to meet their needs for callable investments in the most fair and transparent manner.

Most of the investor categories active in Fannie Mae senior noncallable debt securities are also active in callable notes, with commercial banks, fund managers, and state and local authorities being particularly prominent. Investors buy callable notes mostly to enhance yield or return over noncallable securities. The incremental spread offered by callable debt leads to a greater yield to maturity than is provided by noncallable debt of the same maturity. However, even in the event the security is called before the maturity date, the investment will provide a greater yield than non-callable debt maturing on the call date. Investors enhance returns with minimal credit risk with Fannie Mae callable notes.

In addition, in a wide range of interest rate environments, the extra yield of callable notes provides inves-

tors with a rate of return superior to that of U.S. Treasuries. In a declining interest rate scenario, investors expect their issues to be called, so they may buy callable debt to maximize the yield to the call date. In a stable interest rate scenario and an upward sloping yield curve investors may also expect their investments to be called, and therefore may buy callable debt to enjoy a high yield up to the call date. Some investors buy European callable debt when they have the view that interest rates will be higher on the call date so that their issue will not be called. Because of the yield advantage of the callable, they expect to outperform noncallables that have similar maturity dates. In a rising and inverted yield curve scenario, investors may choose to buy callable debt to outperform noncallables of the same maturity. This is because they expect the callable debt not to be called and, therefore, to outperform noncallables of the same maturity. Investors may also buy callables as a way to outperform other fixed income spread product, such as MBS (see later detailed discussion in this issue of Fundingnotes) or corporates if they expect callable spreads to narrow relative to corporate bond spreads.

Fannie Mae exercises its call option on outstanding callable debt securities very efficiently from an economic perspective. If an outstanding callable could theoretically be replaced with similar but cheaper cost funding, the company will call the outstanding issue. Investors can use this predictability on Fannie Mae's part in calling issues when modeling the option-adjusted spread and expected future performance of its callable notes. Investors appreciate this predictable aspect of Fannie Mae callables relative to other negatively convex fixed income product, such as MBS, which involve harder to model uncertain prepayment behavior.

Other Long-term Debt Securities

Fannie Mae's long-term debt securities primarily carry a fixed interest rate and are denominated in U.S. dollars. However, various floating rate, zero-coupon, step-up securities, as well as securities denominated in a wide range of foreign currencies, are also available to investors. These securities typically have been issued on a reverse inquiry process in which investors reflect their investment interests to their dealer, who then approaches Fannie Mae to structure the investment.

Subordinated Debt

As stipulated in the company's October 19, 2000 voluntary commitments made jointly with Freddie Mac, Fannie Mae will issue publicly traded and externally rated subordinated debt. These new securities, which are called Subordinated Benchmark Notes, are junior in priority of payment to all of our senior liabilities, and also to the two existing 9% Capital Debentures due 2019 and Zero Coupon Capital Debenture due 2019.

Subordinated Benchmark Notes

The structure of Fannie Mae's Subordinated Benchmark Notes is quite straightforward. Investors considering investing in these securities need to closely consider

continued

Fannie Mae's financial strength, safety and soundness. Investors may buy Fannie Mae's Subordinated Benchmark Notes as a way to enhance yields relative to senior noncallable Fannie Mae debt, and may view them as an attractive alternative to high grade corporate bonds or other credit based spread product.

Fannie Mae's Subordinated Benchmark Notes program incorporates some of the hallmark features of the senior Benchmark Notes and Benchmark Bonds program, which are consistency, liquidity, and transparency. They are brought to market consistently through a traditional syndicate underwriting structure similar to that of Benchmark Notes and Bonds. Cashflow, date convention, settlement and other aspects of these securities mirror those of Fannie Mae's senior Benchmark Notes and Bonds. Subordinated Benchmark Notes settle through the Federal Reserve's book-entry system.

Fannie Mae expects to issue Subordinated Benchmark Notes quarterly during 2001, the first year of the program, and at least semi-annually thereafter, with a minimum issue size of \$1 billion. From time to time in order to enhance liquidity, Fannie Mae may also reopen an existing Subordinated Benchmark Notes issue. Fannie Mae currently expects that individual issue size could ultimately be \$1.5 billion or larger. Subordinated Benchmark Notes will be issued in such a manner that the weighted-average maturity of outstanding Subordinated Benchmark Notes will be at least five years.

Subordinated Benchmark Notes are listed on the Luxembourg Stock Exchange. Also, Subordinated Benchmark Notes are independently rated and are included in major dealer fixed-income indices. Our web-based Benchmark Automated Syndication System (BASS) that captures distribution information directly from underwriters during the book-building process is also used in the distribution process of Subordinated Benchmark Notes. The latest announcements, pricing information and other information releases about upcoming and past Subordinated Benchmark Notes issues are available from the Debt Securities section of Fannie Mae's web-site www.fanniemae.com.

A distinguishing feature of Fannie Mae's Subordinated Benchmark Notes is the existence of triggers to defer interest payments in conditions of financial stress causing the company's core capital level to fall below minimum and critical capital levels. In the event of interest deferral being triggered, it would simultaneously be triggered for all outstanding Subordinated Benchmark Notes. The interest deferral would last for a maximum of five years, but would not extend beyond the stated maturity of the issue. If the conditions cease to hold, then the interest deferral would end and the deferred interest, if any, along with compounded interest would be paid.

Unlike senior Benchmark Notes and Bonds, Subordinated Benchmark Notes are not strip eligible, and so cannot be stripped into single payment securities by investors. For further details on Fannie Mae Subordi-

nated Benchmark Notes, please see the January 2001 issue of *fundingnotes*.

A significant number of investors in the inaugural 10-year issue that Fannie Mae brought to market in January this year were not traditional, agency investors. Figure 11 depicts the initial distribution of this issue on a geographic basis and by investor type. Many high-grade corporate bond investors such as insurance companies, money managers, and pension funds were attracted to the issue. In particular, corporate bond investors who fear under-performance of certain credit sectors due to a slowing economy and the possibility of declining earnings, may choose to move assets into Fannie Mae Subordinated Benchmark Notes as an alternative strategy. Fannie Mae encourages the maintenance of a liquid secondary market in these securities, so that total rate of return oriented investors can easily trade them with a number of dealer counterparties when they see opportunities to buy or sell these securities.

The risk weighting for bank capital calculations on Subordinated Benchmark Notes has yet to be determined by regulators in the United States and abroad. Fannie Mae anticipates receiving clarification on this matter some time this year. Once this clarification is received, commercial banks' investment in subordinated debt could increase from current levels.

Traditional agency debt investors are also active participants in Subordinated Benchmark Notes since several leading index providers have included Fannie Mae subordinated debt in the agency component of their widely followed fixed-income indices. Investors in the Subordinated Benchmark Notes are attracted by the

continued

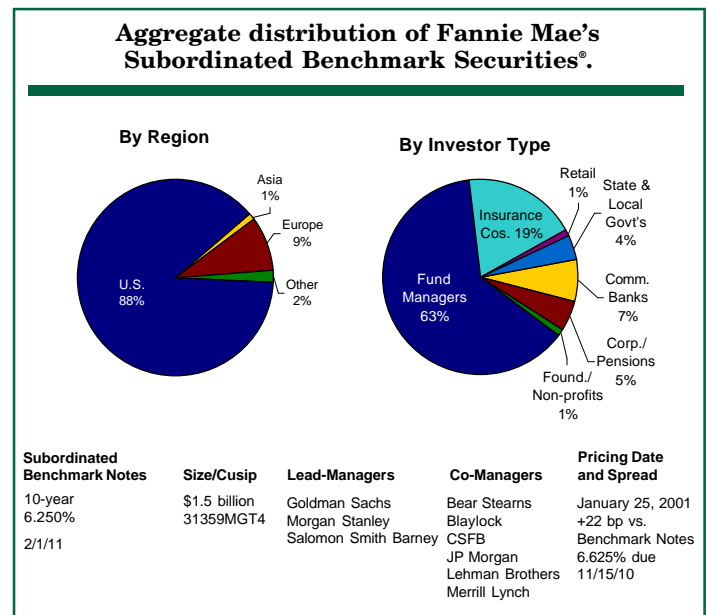


Figure 11

Senior and Subordinated debt spread relationships.

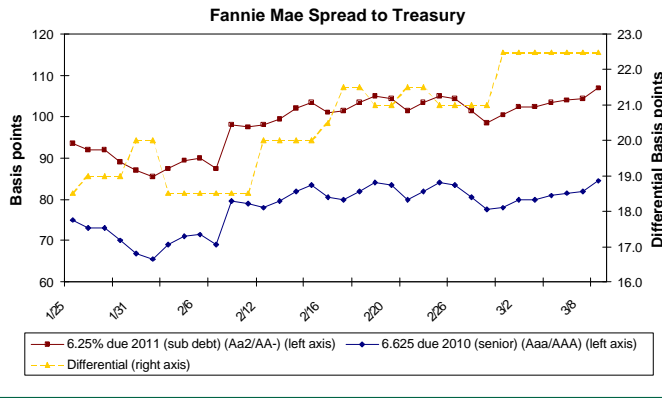


Figure 12

spread differential that these securities offer over senior Benchmark Notes and Bonds (see Figure 12).

Mortgage Backed Securities

Fannie Mae issues MBS that are rated Aaa/AAA (Moody’s/Standard & Poor’s) and rank pari passu with its senior debt securities in priority of payment. These securities are backed by home mortgages held by a grantor trust and the resulting cashflows of the underlying mortgages are passed through on a pooled and prorated basis to the holders of the MBS. Fannie Mae guarantees the timely payment of the homeowners’ mortgage cashflows for the benefit of the MBS holders.

Figure 13 provides a breakdown of the broad types of MBS that Fannie Mae issues and currently has outstanding. The vast majority of these mortgages are 30-year and 15-year fixed rate conventional mortgages. Another sizeable group of outstanding MBS is adjustable rate mortgage pools (“ARMS”), where the final maturity of the mortgage may be 30 years, but the interest rate remains fixed for varying periods, from one month to ten years, with periodic interest resets occurring thereafter. Another grouping of MBS is

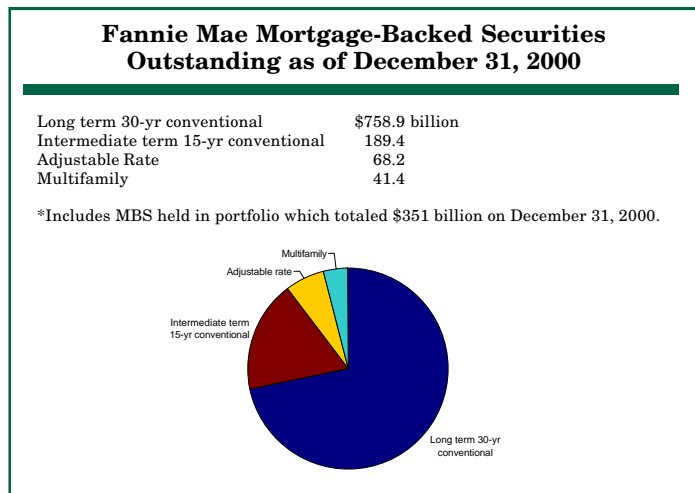


Figure 13

created from Fannie Mae’s multifamily loans from the Delegated Underwriter Servicing (“DUS”) lending program. Finally, Fannie Mae also issues REMIC securities and Stripped MBS that are unique derivative security structures of varied maturities, payment characteristics and sensitivities that are created by carving up and redirecting the cashflows of pools of MBS or unpooled mortgage whole loans with similar interest rates in the desired patterns. Depending on the interest and maturity characteristics of the underlying loans, these securities are included in the appropriate categories listed in Figure 13.

The vast majority of the MBS issued by Fannie Mae are backed by loans that are prepayable at the option of the underlying homeowners. This can be construed as the investors in MBS having sold a potentially valuable interest rate option to the homeowners. The impact, and therefore the value, of this option is high in 30-year and 15-year conventional fixed rate fixed rate MBS, as well as in ARM MBS. Fixed rate MBS are frequently viewed by investors as very high credit quality investment vehicles providing ways to pick up yield spreads over other fixed rate debt investments in exchange for the optionality risk, sometimes also referred to as the negative convexity risk of mortgages. ARM MBS provide investors high credit quality investment vehicles for picking up yield spreads above other floating rate debt investments available in the marketplace. Investors in ARM MBS also have sold the underlying ARM borrowers a rather more complex set of interest rate options resulting from a combination of the prepayment options and the interest rate and payment caps enjoyed by the borrowers.

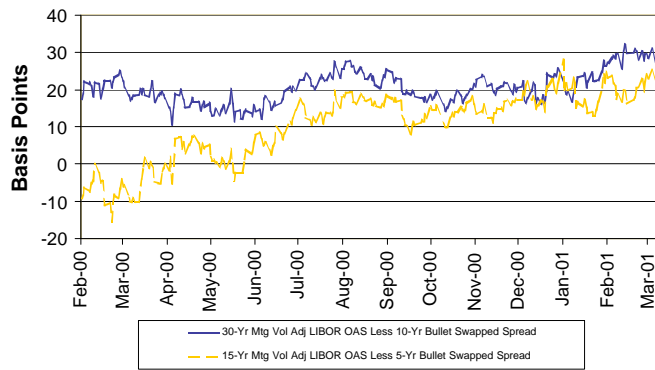
The ability to earn potentially enhanced yields from MBS of very high credit quality attracts fixed income investors of all kinds. In addition, the high level of liquidity of certain types of MBS in the secondary market makes these securities attractive. The same types of institutions who invest in Fannie Mae’s senior and subordinated debt securities also actively invest in MBS, namely fund managers, pension funds, banks, insurance companies, state and local authorities and not-for-profit institutions.

Investment Tradeoffs between MBS and Fannie Mae Senior Debt Securities

Certain investors occasionally buy Fannie Mae’s senior callable and noncallable debt securities and at other times buy Fannie Mae’s 30-year or 15-year MBS based on an evaluation of the tradeoff between the two securities by making spread comparisons. In the last two or three years the tradeoff has been most frequently evaluated between MBS and Fannie Mae’s senior noncallable Benchmark Notes, whereas in years before that the tradeoff was often evaluated between MBS and Fannie Mae’s callable securities. Figure 14 shows the differentials during the last year between the option-adjusted spreads of current coupon 30-year and 15-year MBS relative to the spreads of Fannie Mae’s 10- and 5-year senior noncallable Benchmark Notes. As the chart

continued

5- and 10-year bullets are attractive relative to current coupon 15- and 30-year MBS pass-throughs based on historical LIBOR comparisons.



As of March 9, 2001
Source: Goldman Sachs

Figure 14

shows, the spread has been quite volatile over this period, resulting in numerous trading opportunities for investors. Investors typically buy the noncallable Benchmark Notes and sell MBS when the spread is small or negative and vice-versa when the spread is significantly positive. It is typical for MBS to trade at a positive spread over noncallable senior Benchmark Notes because of the vastly greater structural complexity of MBS relative to Benchmark Notes. The high levels of secondary market liquidity that is available in both of these security types makes it possible for investors to undertake such strategies without incurring substantial transaction costs. Many institutional market participants, including investment fund managers and Wall Street mortgage traders, have been watching this spread relationship very closely in recent years and entering into hedging or arbitrage transactions based on its day-to-day movements.

Fannie Mae's senior callable debt securities can offer many of the same investment characteristics and benefits as 30-year and 15-year fixed rate MBS. This is because both are investments that enable investors to enhance yields relative to Fannie Mae's noncallable debt securities' yields. Callables may be called by Fannie Mae prior to the maturity date, and in return for this option the yield that an investor receives from these securities is higher than on noncallable securities of the same maturity. Likewise, MBS investors earn higher yields in exchange for the prepayment option that the underlying homeowners have at the expense of the MBS investor. The call option embedded in callable debt is efficiently exercised by Fannie Mae if interest rates fall to a point that it is cost-effective for the company to refinance the callable issue. In contrast, the prepayment option embedded in MBS is only imperfectly exercised as it is based on the average of all underlying homeowners' abilities and propensities to prepay their home mortgage loans if interest rates fall. Valuing the option embedded in callables is therefore

much easier than valuing the corresponding MBS prepayment option. The option-adjusted spreads calculated for MBS can sometimes exceed the option-adjusted spreads of similar duration callables by as much as 20-30 basis points in large part because of the greater complexity of the MBS prepayment option.

Preferred Stock

Fannie Mae issues preferred stock from time to time for financial management reasons. Preferred stock issuance is counted towards regulatory core capital for Fannie Mae so long as the issue meets certain criteria. These criteria are, in brief, as follows:

- 1) The issue must be perpetual, i.e., it may not have a stated maturity date. The issue may have call or rate reset features.
- 2) The issue may not be redeemable at the option of the investor.
- 3) Dividends may not be cumulative.
- 4) Fannie Mae preferred stock ranks senior in claim of payment to common equity holders, but must rank junior in claim of payment to all debt-holders, including subordinated debt-holders.
- 5) Preferred stock may pay fixed or floating dividends, but can have no provision that will require future redemption of the issue or will reset the dividend based upon Fannie Mae's then-current credit standing. Further, any provision that may cause the dividend to increase to a level that could create an incentive for Fannie Mae to redeem the issue, such as in exploding rate stock, is not permitted.

Dividends paid on preferred stock are not tax deductible for Fannie Mae as the issuer. Fannie Mae does not issue trust preferred stock since this structure does not qualify as regulatory capital for the company.

Fannie Mae's preferred stock issues are typically purchased by corporate investors who are able to avail of the 70% dividends received deduction. In addition, since Fannie Mae equity, whether common or preferred, is deemed a legal investment from a regulatory viewpoint for banks and thrifts, these institutions have been an important investor segment for the company's preferred stock. Other corporate investors, insurance companies and investment advisers acting for corporate investors are also active in our preferred stock.

As of March 2001 there was a total of \$1.9 billion of preferred stock outstanding. Figure 15 lists each of

continued

Fannie Mae Preferred Stock Issues Outstanding as of March 1, 2000

Issue Date	Series	Coupon	Coupon Type	Amount	Par Amount	Next Call Date	Exchange Listing
4/12/1996	B	6.50%	Fixed	\$375 million	\$50	4/12/2001	NYSE
9/20/1996	C	6.45%	Fixed	\$250 million	\$50	9/20/2001	NYSE
9/30/1998	D	5.25%	Fixed	\$150 million	\$50	2/19/2001	-na-
4/15/1999	E	5.1%	Fixed	\$150 million	\$50	4/15/2004	-na-
3/20/2000	F	6.295%	2-yr reset	\$690 million	\$50	3/31/2002	NYSE
8/8/2000	G	6.023%	2yr reset	\$287.5 million	\$50	9/30/2002	NYSE

* As of Fannie Mae's \$375 million Series A preferred stock issue was redeemed in total.

Figure 15

these preferred stock issues. The redemption in total of one issue, the \$375 million 6.41% Series A preferred stock, was announced at the end of January to be effective March 1, 2001. All of the preferred securities issued are callable at Fannie Mae's option after periods ranging from one year to five years from the date of issue. Two of the issues are resettable on their second anniversary, and these issues are also callable at Fannie Mae's option on the reset dates.

Conclusion

Fannie Mae offers a wide choice of investment alternatives to fixed income investors. The company's Aaa/AAA rated senior debt securities offer a full range of maturity alternatives to investors, and also enable investors to earn enhanced returns in exchange for taking call or convexity risk. At the other end of the spectrum of structural complexity, Fannie Mae's Aaa/AAA rated MBS provide opportunities to enhance returns in exchange for prepayment risk, and many investors evaluate these securities relative to Fannie Mae's structurally simpler senior noncallable and callable debt securities. Fannie Mae's Aa2/AA- rated Subordinated Benchmark Notes provide investors an opportunity to enhance yields in exchange for the lower payment claim status of these securities. Fannie Mae aa3/AA- rated preferred stock issues appeal to corporate investors who are able to take advantage of the dividends received deduction available to traditional preferred stock dividend payments. Fannie Mae takes very seriously its role in designing these securities issuance programs, in providing investors information to facilitate trading and investment, and in encouraging the existence of liquid and transparent secondary markets for these securities in different ways. The maintenance of strong and smoothly functioning markets for its securities, and achieving the satisfaction of the various investor groups involved in its fixed income securities, are of prime importance to Fannie Mae in fulfilling its corporate mission of providing affordable housing finance to US homeowners.

Noteworthy Transactions

In accordance with the Benchmark Securities calendar, in January Fannie Mae issued \$2.5 billion reopening of 10-year Benchmark Notes[®] with a 6.625% coupon maturing on November 15, 2010. The issue was priced at 74.0 basis points over the 10-year Treasury yield, and the lead underwriters were J.P. Morgan Securities Inc., Lehman Brothers Inc., and Merrill Lynch & Co. Placement was widespread with the following geographic breakdown: US 74%, Europe 13%, Asia 11%, and Other 2%. The institutional breakdown was: fund managers 37%, commercial banks 31%, insurance 16%, central banks 6%, other 4%, corporate pension funds 3%, state & local 2%, and retail 1%.

Also in accordance with its calendar, in January Fannie Mae issued \$0.5 billion reopening of 30-year Benchmark Bonds[®] with a 6.625% coupon maturing on November 15, 2030. The issue was priced at 68.0 basis points over the 30-year Treasury yield, and the lead underwriters were J.P. Morgan Securities Inc., Lehman Brothers Inc., and Merrill Lynch & Co. Placement was widespread with the following geographic breakdown: US 93%, Europe 6%, and other 1%. The institutional breakdown was: fund managers 60%, insurance 27%, commercial banks 7%, state & local 4%, and retail 2%.

Fannie Mae Debt Securities Index Report (January 2001)

	January % of Big	January Total ROR	Last 3 mos Total ROR	Last 6 mos Total ROR	YTD Total ROR	Last 12 mos Total Return
Salomon Brothers						
Fannie Mae Index:	5.30	1.49	5.48	9.25	1.49	14.22
1-3 Years	1.51	1.24	3.47	6.13	1.24	1.08
1-5 Years	2.95	1.44	4.25	7.32	1.44	11.66
1-10 Years	4.83	1.57	5.17	8.78	1.57	13.55
10+ Years	0.47	0.71	8.88	14.67	0.71	22.38
Callable	1.77	1.33	4.04	7.44	1.33	12.22
Noncallable	3.53	1.57	6.26	10.26	1.57	15.35
Globals	3.16	1.63	6.39	10.43	1.63	15.59
Agency:	12.15	1.45	5.36	8.98	1.45	14.16
Callable	33.00	1.31	4.05	7.45	1.31	12.23
Noncallable	8.86	1.50	5.89	9.60	1.50	14.98
Globals	4.96	1.58	5.89	9.65	1.58	14.49
Salomon Broad						
Index*:	100.00	1.65	5.25	8.16	1.65	13.75
Treasury	27.47	0.78	4.80	7.46	78.00	14.10
GSE**	12.95	1.45	5.39	8.99	1.45	14.20
Mortgage	33.90	1.55	4.71	8.19	1.55	13.89
Corporate	25.68	2.79	6.33	8.47	2.79	12.69

	February % of Big	February Total ROR	Last 3 mos Total ROR	Last 6 mos Total ROR	YTD Total ROR	Last 12 mos Total Return
Lehman Brothers						
Fannie Mae Index:	4.58	1.55	5.74	9.39	1.55	14.31
1-10 Years	4.10	1.63	5.39	8.86	1.63	13.67
10+ Years	0.48	0.82	9.13	14.96	0.82	21.25
Callable	1.18	1.37	4.25	7.19	1.37	12.13
Noncallable	3.40	1.61	6.31	10.27	1.61	15.16
Globals	2.83	1.64	6.26	10.24	1.64	15.28
Agency:	10.79	1.48	5.53	9.06	1.48	14.20
Callable	2.15	1.32	4.25	7.21	1.32	12.17
Noncallable	8.64	1.53	5.91	9.61	1.53	14.80
Globals***	5.97	1.63	5.93	9.71	1.63	14.50
Lehman Aggregate						
Index:	100.00	1.63	5.21	8.12	1.63	13.82
Government**	36.96	1.01	5.05	7.92	1.01	14.22
US Credit	24.45	2.74	6.09	8.14	2.74	12.78
ABS	1.80	1.66	5.11	8.06	1.66	12.72
CMBS	1.70	1.68	6.23	10.53	1.68	16.44
MBS	35.09	1.56	4.74	8.21	1.56	13.88

* Components of Broad (BIG) Index: Treasury, GSE, Corporate, Mortgage
 ** Includes U.S. Agencies
 *** Includes World Bank global issues

This data has been compiled from reports supplied by Salomon Smith Barney and Lehman Brothers and is reproduced here with their permission. The indexes are constructed according to rules developed by these firms and the index values are calculated by them.

Summary Breakdown Of Fannie Mae 2001 Debt Issuance Year to Date

Includes all settled fixed rate debt issues with maturities greater than one year. Fixed rate US dollar and foreign currency global debt is included in the bullet and callable breakdowns below as well as listed separately. Variable rate debt is not included included in totals.

Fannie Mae Fixed Rate Bullet Debt

	January 2001 Par Amount (# Issues)	2001 Year to Date Par Amount (# Issues)
3 Year	\$ 25,000,000 (1)	\$ 25,000,000 (1)
4 Years	\$ 32,000,000 (1)	\$ 32,000,000 (1)
5 Years (Z)	\$ 33,507,300 (2)	\$ 33,507,300 (2)
10 Years (B)	\$ 2,500,000,000 (1)	\$ 2,500,000,000 (1)
30 Years (B)	\$ 500,000,000 (1)	\$ 500,000,000 (1)
Total	\$ 3,090,507,300 (6)	\$ 3,090,507,300 (6)

(B) Benchmark Securities Programs
 (Z) Zero Coupon: Net Proceeds = Par amount * Issue Price

Fannie Mae Fixed Rate Callable Debt

	January 2001 Par Amount (# Issues)	2001 Year to Date Par Amount (# Issues)
1.5NC0.5	\$ 37,000,000 (1)	\$ 37,000,000 (1)
2NC0.5	\$ 310,000,000 (4)	\$ 310,000,000 (4)
2NC1	\$ 865,000,000 (5)	\$ 865,000,000 (5)
2.5NC0.5	\$ 190,000,000 (2)	\$ 190,000,000 (2)
2.5NC1	\$ 50,000,000 (1)	\$ 50,000,000 (1)
3NC0.5	\$ 150,000,000 (2)	\$ 150,000,000 (2)
3NC1	\$ 625,000,000 (5)	\$ 625,000,000 (5)
3NC2	\$ 100,000,000 (1)	\$ 100,000,000 (1)
3.5NC0.25	\$ 100,000,000 (1)	\$ 100,000,000 (1)
4NC1	\$ 90,000,000 (3)	\$ 90,000,000 (3)
5NC0.5	\$ 550,000,000 (6)	\$ 550,000,000 (6)
5NC1	\$ 555,000,000 (6)	\$ 555,000,000 (6)
5NC1.5	\$ 100,000,000 (1)	\$ 100,000,000 (1)
5NC2	\$ 150,000,000 (3)	\$ 150,000,000 (3)
6NC2	\$ 100,000,000 (2)	\$ 100,000,000 (2)
7NC1	\$ 135,000,000 (5)	\$ 135,000,000 (5)
7NC2	\$ 250,000,000 (2)	\$ 250,000,000 (2)
7NC3	\$ 25,000,000 (1)	\$ 25,000,000 (1)
7.5NC1	\$ 15,000,000 (1)	\$ 15,000,000 (1)
10NC0.5	\$ 30,000,000 (1)	\$ 30,000,000 (1)
10NC1	\$ 275,000,000 (3)	\$ 275,000,000 (3)
10NC2	\$ 190,000,000 (4)	\$ 190,000,000 (4)
10NC3	\$ 250,000,000 (1)	\$ 250,000,000 (1)
15NC1	\$ 75,000,000 (3)	\$ 75,000,000 (3)
Total	\$ 5,217,000,000 (64)	\$ 5,217,000,000 (64)

* Callable Benchmark Note Program



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