

Debt Glossary

American-style call feature:

The call option may be exercised on any business day after an initial lockout period. This type of call feature is also referred to as a continuous call.

Asset-backed security (ABS):

A pass-through security that represents an interest in non-mortgage financial assets.

Basis point:

One hundredth of a percentage point. One BP equals 0.01 percent.

Benchmark Automated Syndication System® (BASS):

An Internet-based, end-to-end syndication system which captures and disseminates to the market information on each Benchmark Securities transaction in a more efficient and effective manner. Dealers in the Benchmark Securities syndicate can provide information to Fannie Mae through a direct electronic submission via systems-to-systems integration or by inputting information directly into the secure, password protected site. Summary information on each transaction is available on the public calendar.

Benchmark Bills®:

These are short-term securities with maturities of three and six months. The three-month issue size is from \$4 to 8 billion, and the six-month issue size is from \$1.5 to 4 billion. Benchmark Bills are issued weekly through a Dutch auction process via an approved group of dealers.

Benchmark Bonds®:

Noncallable debt issued according to a calendar, with maturity dates greater than ten years.

Benchmark Notes®:

Regularly issued non-callable debt of Fannie Mae, with maturity dates from two- to ten-years issued in initial sizes of \$2 to \$5 billion.

Bermudan-style call feature:

The call option may be exercised semiannually on the coupon payment dates after an initial lockout period. This type of call feature is sometimes referred to as a discrete call.

Bullet-debt securities:

These are fixed rate, non-callable securities that pay interest periodically and principal only at maturity. The yield, or internal rate of return, on bullet debt securities is based on the price at which the security is acquired by the investor, the scheduled interest payments (or coupon payments), and the principal payment to be received at maturity.

Callable debt:

A debt security whose issuer has the right to redeem the security prior to its stated maturity date at a price established at the time of issuance, on or after a specified date. Fannie Mae debt securities are always redeemed at par.

Call feature:

The type of call option embedded in a callable security.


Call option:

The option granting the holder the right to buy the underlying asset on (or before) a specified date at a specified (strike) price.

Call risk:

The risk to an investor that a given callable debt security will be redeemed prior to its final maturity date, thus affecting expected cashflows and consequently the yield on the security.

Cap:

The maximum interest rate payable on a floating-rate security.

Collar:

A combination of an interest rate cap and an interest rate floor.

Commercial paper:

Commercial Paper is an unsecured, non-interest bearing, short-term obligation, priced at a discount. Typically maturities on commercial paper is from 3 to 270 days; maturities longer than that are rare because the issue would have to be registered with the SEC.

Coupon:

The stated annualized percentage of interest paid on an investment.

Credit risk:

The possibility that the issuer or another party may have its credit rating downgraded by a rating agency; may experience changes in the market's perceptions of its creditworthiness; or may default on its financial obligations to the investor.

Currency risk:

The risk that a change in value of one or more foreign currencies may cause an asset to lose value.

CUSIP number:

A unique, nine-digit number assigned to each publicly traded security maintained and transferred on the Federal Reserve book-entry system.

Debt security:

A financial instrument representing money borrowed that must be repaid and having a fixed amount, a specified maturity, and usually a specified amount of interest.

Discount:

The amount by which the purchase price of a security is less than its face value. A discount raises the effective yield of the security above the coupon rate or, in the case of securities that have no coupon payments, determines the effective yield.

Discount notes:

Unsecured general obligations of Fannie Mae with maturities of 360 days or less, excluding three- and six-month maturities, and no periodic interest payments that are sold at a discount from the principal amount and payable at maturity. Similar in payment mechanics to a U.S. Treasury bill.

Duration:

The sensitivity of the value of a security to changes in interest rates. The duration of a financial instrument is the expected percentage change in its value in the event of a change in interest rates of 100 basis points.

Dutch auction:

Dealers submit bids for a security, and only a certain number of these bids are accepted and ranked. Once the auction is over, a stop-out level, the level at which a subscription is completely filled, is determined. The stop-out level then becomes the price of the auctioned security, and dealers who either exceeded or came close to the stop-out level receive the security.

Effective duration:

The option adjusted duration for an option embedded security.

Effective yield:

The annual return on an investment, calculated by dividing the coupon interest rate by the amount invested expressed as a percent of par.

European-style call feature:

The call option may be exercised on a single date at the conclusion of an initial lockout period.

Face value:

The par value principal amount of a debt security.

Fannie Mae mortgage-backed securities or Fannie Mae MBS:

Generally, mortgage-related securities that we issue and with respect to which we guarantee to the related trusts that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We also issue some forms of mortgage-related securities for which we do not provide this guaranty. The term "Fannie Mae MBS" refers to all forms of mortgage-related securities that we issue, including single-class Fannie Mae MBS and multi-class Fannie Mae MBS.

Fixed-rate notes:

Debt securities with interest rates that are fixed at the time of issue.

Floating-rate notes:

Debt securities with interest rates that are subject to periodic adjustment based on an index or formula.

Floor:

The minimum interest rate payable on a floating-rate security.

FNBM:

A Bloomberg page that contains detailed information on each bullet Benchmark Security. The bid/ask spreads are updated every day by Fannie Mae's core group of Benchmark dealers.

FNMI:

This Bloomberg page has current information on each Callable Benchmark Security issued to date.

General obligations:

Debt that is payable from the general funds of the issuer and not from specially designated sources or assets.

Historic volatility:

The security's or similar securities' volatility over past periods.

Implied volatility:

The security's or similar securities' volatility in current market trading.

Interest rate risk:

The risk that the value of a bond will depreciate in response to an increase in interest rates. An inverse relationship exists between bond prices and yields for fixed-income securities. In a rising interest rate environment, bond prices will decrease and in a declining interest rate environment, bond prices will increase.

Issue:

(v.) Create securities and exchange them for cash or other assets; (n.) securities created from a particular act of issuing.

Issue date:

The date on which a new issue Fannie Mae debt security settles.

Issuer:

The borrowing entity that creates a debt security.

LIBOR (London interbank offered rate):

An interest rate charged among banks in London for short-term loans denominated in a specified currency which, unless otherwise specified, is assumed to be U.S. dollars.

Liquidity:

Refers to the ability to readily convert an asset or investment to cash by sale at a fair price.

Liquidity risk:

The possibility that an investor may not be able to find a buyer within a reasonable time at a price that reasonably reflects the theoretical value of the security's discounted cash flows.

Lockout period:

The period ranging from a few months to several years during which a callable debt security cannot be redeemed. This interim period is also referred to as the non-call period.

Market risk:

The possibility that the price of a security will change over time.

Maturity date:

The date on which all of the principal or any remaining principal of a debt security is due to be paid by the issuer as specified at the time of issue, unless the security is redeemed in full earlier.

Negative convexity:

Convexity refers to the change in price sensitivity of a security as the level of prevailing interest rates change. Option embedded securities can have negatively convex characteristics, such that as interest rates fall, the percentage price change of an option-embedded security for a given shift in rates declines as the likelihood of the bond being called increases.

Option:

The right to buy or sell an asset at a specified price on, before, or after a specified date.

Option-adjusted spread or OAS:

The incremental expected return between a security, loan or derivative contract and a benchmark yield curve (typically, U.S. Treasury securities, LIBOR and swaps, or agency debt securities). The OAS provides explicit consideration of the variability in the security's cash flows across multiple interest rate scenarios resulting from any options embedded in the security, such as prepayment options. For example, the OAS of a mortgage that can be prepaid by the homeowner without penalty is typically lower than a nominal yield spread to the same benchmark because the OAS reflects the exercise of the prepayment option by the homeowner, which lowers the expected return of the mortgage investor. In other words, OAS for mortgage loans is a risk-adjusted spread after consideration of the prepayment risk in mortgage loans. The market convention for mortgages is typically to quote their OAS to swaps. The OAS of our debt and derivative instruments are also frequently quoted to swaps. The OAS of our net mortgage assets is therefore the combination of these two spreads to swaps and is the option-adjusted spread between our assets and our funding and hedging instruments.

Par:

One hundred percent of face value.

Premium:

A price exceeding one hundred percent of face value.

Pricing supplement:

A document that provides details about the specific security issuance, including the CUSIP number, settlement and maturity dates, principal amount, coupon or formula, frequency of interest payments, interest payment dates, and underwriters.

Prime rate:

The interest rate banks charge their most creditworthy customers.

Put option:

An option granting the holder the right to sell the underlying asset at a specified price on (or before) a specified date.

Reinvestment risk:

The risk that the effective yield of an investment may be reduced because of a decline in interest rates during the life of the investment that results in less income being obtained from reinvesting the investment's interest payments. Also reinvestment risk refers to the risk of reinvesting an investment's principal payments - particularly those received prior to the stated maturity date.

Repo (repurchase agreement):

An agreement between a seller of securities and a buyer, whereby the seller agrees to repurchase the securities at an agreed upon price and at a stated time.

Reverse inquiry:

A method of initiating issuance of debt securities whereby an investor consults a broker/dealer and then the broker/dealer approaches an issuer with a proposal for a specific security issuance that will meet the investor's needs.

Secondary market:

The market in which existing securities are bought and sold subsequent to a new issue.

Security:

A financial instrument that indicates ownership or equity (such as common stock), indebtedness (such as a debt security), or potential ownership (such as an option).

Spread:

Typically, in the context of pricing debt securities, the difference in percentage or basis points between the yield of a non-U.S. Treasury debt security being priced and the yield of a comparable U.S. Treasury security. Also refers generally to the difference in yields or coupons between any two debt securities. Usually noted in basis points.

Structure risk:

Risk related to structure that are other than fixed-rate, non-redeemable, such as for securities with principal or interest payments that are determined by reference to one or more interest rate indices or with interest rates that otherwise may vary. For example, floating interest rates may vary unexpectedly.

Universal debt facility:

The omnibus program through which Fannie Mae issues its various types of debt securities. The Universal Debt Facility offering circular is a legal document that outlines all material details of Fannie Mae's funding programs.

U.S. Treasury bills:

U.S. Treasury bills are short-term (maturity dates up to 364 days), discounted U.S. government obligations sold through competitive bidding at weekly and monthly auctions.

Volatility:

A measurement of how much variability there may be in the prices (or yields as is typically the case in reference to callable securities) of an underlying security over a specified period of time.

Yield:

The rate of return on an investment over a given time, expressed as an annual percentage rate. Yield is affected by the price paid for the investment as well as the timing of principal and interest payments.

Yield curve or shape of the yield curve:

A graph showing the relationship between the yields on bonds of the same credit quality with different maturities. For example, a "normal" or positive sloping yield curve exists when long-term bonds have higher yields than short-term bonds. A "flat" yield curve exists when yields are relatively the same for short-term and long-term bonds. A "steep" yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An "inverted" yield curve exists when yields on long-term bonds are lower than yields on short-term bonds.

Yield-to-call:

The yield of a callable security is the annualized internal rate of return calculated from the cash flows from the coupon payments up to the assumed call date and the redemption proceeds at the assumed time of the call.

Yield-to-maturity:

The internal rate of return of a series of cash flows from a given time until maturity.


Yield-to-worst:

The lowest yield on a security as determined after calculating the yield-to-maturity and the yield-to-call on the first call date and on all subsequent call dates up to maturity.

Zero coupon security:

A debt security on which no coupon interest is paid to the investor. Instead, the security is purchased at a deep discount and matures at par. The security's yield is based on the difference between the original-issue-discount price and the par payment at maturity.

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