FANNIE MAE DEBT SECURITIES

Contents

Introduction to Fannie Mae Debt Securities

Fannie Mae is a government-sponsored enterprise ("GSE") chartered by Congress. We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.

We operate in the secondary mortgage market. We support the liquidity and stability of the U.S. mortgage market primarily by securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. We also purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date.

Fannie obtains the funds to finance its mortgage purchases and other business activities by selling debt securities in the domestic and international capital markets.

Fannie Mae's Funding Philosophy

Fannie Mae takes a long-term approach to its funding strategy. We endeavor to structure debt products that balance the interests of the market with those of Fannie Mae. When contemplating the issuance of any new debt security, Fannie Mae works diligently with its dealers to gauge demand for various types of securities before it is brought to market.

Fannie Mae's Status as an Issuer

Fannie Mae's debt obligations are traded in the "U.S. agency" sector of the marketplace. This classification is due in part to the creation and existence of the corporation under federal law and the public mission that the corporation serves. Fannie Mae's debt securities are unsecured obligations of the corporation and are not backed by the full faith and credit of the U.S. Government.

Regulatory Treatment of Fannie Mae Debt Securities

Fannie Mae debt obligations receive favorable treatment from a regulatory perspective. Our incorporating document, the "charter act," is a federal statute. The charter act limits Fannie Mae's business to activities that provide support and stability to the secondary mortgage market, especially those activities that promote housing for low- and moderate-income families. Under the charter act, Fannie Mae securities are deemed to be exempt securities within the meaning of the laws administered by the U.S. Securities and Exchange Commission, to the same extent as U.S. Government obligations. Certain statutes and regulations also make it possible for deposit-taking institutions to invest in Fannie Mae debt more liberally than the securities of other private corporations.

Investors in Fannie Mae Debt Securities

The most active institutional investors in Fannie Mae debt securities include commercial bank portfolios and trust departments, investment fund managers, insurance companies, pension funds, state and local governments, and central banks. Fannie Mae offers debt structures to meet the needs of a broad segment of investors – and Fannie Mae has experienced strong participation in its funding program from investors both domestically and internationally.

Distribution Methods

Fannie Mae's debt securities are sold by a select group of securities dealers and dealer banks through a variety of negotiated and underwritten methods. The approved dealers for underwriting various types of Fannie Mae debt securities may differ by funding program.

Characteristics of Fannie Mae Debt Securities

Fannie Mae issues a variety of debt securities with maturities across the yield curve to fulfill its ongoing needs. Fannie Mae issues both short-term debt with maturities of a year or less and long-term debt with maturities of over a year and can either be callable or noncallable.

Fannie Mae Noncallable Debt

Some investors have found our noncallable or “bullet” securities attractive, presumably due to their liquidity, price transparency, as well as the typical additional spread they offer relative to comparable maturity U.S. Treasuries. Fannie Mae bullets, typically, have semiannual coupon payments, and principal is redeemed only at the stated final maturity date of the security.

Fannie Mae Callable Debt

Fannie Mae helped create the U.S. agency callable debt market in 1987. Callable debt allows Fannie Mae to diversify its investor base by targeting a segment of borrowers that prefer investing in callable debt over bullet debt, Fannie Mae is effectively buying a call option from investors and compensating these investors with additional yield above comparable maturity bullet securities.

The decision to redeem outstanding callable debt by Fannie Mae is a function of interest rate levels. We monitor our callable debt that is currently in its call period on a daily basis and determine whether it is economical to call outstanding issues and replace them with other funding vehicles at lower yields.

Features of Callable Debt

The three main structural characteristics of our callable debt securities are the maturity date, the lockout period, and the type of call feature.

The maturity date of a callable debt instrument is the latest possible date at which the security will be retired and principal will be redeemed. Fannie Mae issues callable debt instruments with a variety of maturity dates across the yield curve.

The lockout period refers to the amount of time for which a callable security cannot be called. For example, with a 10 non-call 3-year (“10nc3”) debt security, the security cannot be called for the first three years.

The call feature refers to the type of call option embedded in a callable security. Fannie Mae callable debt issues incorporate one of the following call features:

- American-style callable debt has a continuous call feature after an initial lockout period. The investor is compensated for this type of call feature by receiving a higher yield in exchange for allowing Fannie Mae the flexibility to call the security at any time after the lockout period with the requisite amount of notice given to the investor.
- The Bermudan-style callable debt security is callable only on coupon payment or other specified dates after the conclusion of the initial lockout period. Investors benefit from the increased predictability of cash flows and full coupon payments resulting from this structure. The spread of a Bermudan-style callable will be less than that of an American-style callable with the same maturity and initial lockout period.
- Fannie Mae also issues callable debt with a one- time or European-style call feature. This call option can only be exercised by the issuer on a single day at the end of the initial lockout period. European-style callable securities provide the investor an opportunity to obtain a greater spread over a typical agency bullet of the same maturity while reducing the uncertainty of a continuous call. The spread of a European-style callable will be the lowest of all three call features.

Callable Debt Redemption Policy

When a Fannie Mae callable debt issue has reached its call or redemption date, Fannie Mae can call the issue in whole or in part. Fannie Mae generally calls its securities issues in whole.

In the case of an issue that is callable at Fannie Mae's option, when Fannie Mae determines that the issue should be called, Fannie Mae gives notice in the manner set forth in the terms of the securities. Additionally, Bloomberg generally posts notification information regarding called Fannie Mae debt securities that it receives from the wire services. All call notifications are also posted on our website.

The time between when notice of a call is given and when principal redemption is, typically, 10 calendar days.
It is Fannie Mae's general practice to redeem principal on a business day (as defined in the terms of the applicable securities). An exception is if the interest payment date is on a non-business day and a call date falls on this same day – then the bond may be called on that day. This follows standard industry practice. In such cases, the redemption payment is made on the next business day.

Interest on the principal amount redeemed is paid up until the date fixed for the redemption. If payment is delayed because the date fixed for redemption is not a business day, additional interest on the principal amount redeemed is not payable as a result of the delay. The terms of any particular issue of securities are governed by the applicable documents establishing such terms and may differ from the above information.

Strip eligibility

Some of our debt securities are eligible for stripping into principal and interest components through the Federal Reserve Book Entry System. All of our Benchmark Securities® are eligible for stripping. Investors often find strip eligibility attractive because of the flexibility it affords them in cash management.

Benchmark Notes® are strip eligible and have a minimum denomination of U.S. $2,000 and are available in increments of U.S. $1,000.

Structured notes

The majority of Fannie Mae's debt securities carry a fixed interest rate. However, various step-up and variable rate securities are available to investors. These structures typically have been issued on a reverse inquiry basis in response to specific investor demand.

Step-up notes

These are variations of standard fixed-rate callable debt securities. The interest rate increases or "steps up" to a specified rate on one or more predetermined dates. Fannie Mae step-ups generally become eligible for redemption by Fannie Mae at the time of the first step- up. Notes that have more than one increase are called "multi-step-ups."

Fannie Mae Funding Programs

Fannie Mae issues a variety of debt securities to meet investors' wide-ranging needs and are influenced by anticipated liquidity needs, and the size of our retained mortgage portfolio.

Fannie Mae provides disclosure documents for its debt securities such as offering circulars and pricing supplements. The Universal Debt Facility (UDF) offering circular includes detailed disclosures about Fannie Mae's funding programs. Pricing supplements are available for each long-term debt security issued. Pricing supplements provide additional details about a specific security issuance, including the CUSIP number, the offering price, settlement and maturity dates, principal amount, coupon or formula, frequency of interest payments, interest payment dates, and underwriters. There are no pricing supplements issued for our short- term securities.

Short-term Debt Securities

The majority of Fannie Mae's short-term funding needs are met through the Discount Notes and Benchmark Bills® programs. These funding programs offer investors highly liquid, high credit quality instruments with maturities ranging from overnight to 360 days. Some of the advantages of Fannie Mae's short-term notes include:

- in typical environments, an incremental spread over U.S. Treasury bills of comparable maturity,
- broad distribution of a wide range of maturities,
- flexibility with respect to reverse inquiry,
- high credit quality, strong secondary market liquidity, and greater price transparency

DISCOUNT NOTES

Fannie Mae's Discount Notes are unsecured general obligations of Fannie Mae that are issued in book-entry form through the U.S. Federal Reserve Banks. Discount Notes have maturities ranging from overnight to 360 days from the date of issuance. Two-, three-, six-month, and one-year maturities are issued through the Benchmark Bills program, which is discussed in greater detail later in this document. There are no periodic payments of interest on Discount Notes. They are, typically, sold at a discount from the principal amount and mature at par. Discount Notes are offered each business day through a Selling Group of securities dealers and dealer banks.

Discount Notes are available on a cash-, regular-, or skip-day settlement basis. Fannie Mae publicly announces rates for its Discount Notes through various wire services. Fannie Mae will also accommodate reverse inquiry transactions for Discount Notes.

DEBT TRANSACTIONS APPLICATION (DTA)

DTA (Debt Transaction Application) is a proprietary electronic trading platform that is used to manage the daily issuance of Fannie Mae's U.S. dollar-denominated, non-interest bearing short-term notes. The DTA application streamlines the issuance process and allows Fannie Mae to provide greater liquidity to the debt markets.

BENCHMARK BILLS

Fannie Mae's Benchmark Bills program has transformed the company's short-term debt securities into a more organized, highly liquid product in the money market sector of the fixed income market. The disciplined and programmatic issuance of Benchmark Bills better meets the needs of investors and other market participants by providing enhanced liquidity and transparency in high credit quality short-term structures. Through this program, Fannie Mae has weekly debt auctions that are typically in two-, three-, six-month, or one-year maturities. While Benchmark Bills are a component of the regular Discount Notes program, they are issued via a Dutch auction process using Web-based technology. The auction process creates greater price transparency in the primary market for investors. This system has improved market efficiencies as results are posted on a variety of electronic information sources (our web site and Bloomberg) within a few minutes of the final outcome.

As with Discount Notes, the Benchmark Bills program is conducted through a group of dealers. Auction bids are obtained via the Internet, and the results of the auction are also announced through the Internet. Working with a designated group of dealers ensures an active secondary market for Benchmark Bills. Investors in Benchmark Bills receive the benefit of increased liquidity that a dealer group can provide. The size of the offerings will be announced on the same day in which the auctions occur. Auctions, generally on Wednesday, will be open for bidding between 9:00 a.m. and 9:45 a.m. Eastern time. Fannie Mae has the option of forgoing any scheduled Benchmark Bills auctions. If Fannie Mae elects not to issue a scheduled Benchmark offering, it will provide notice of its election either prior to or on the scheduled announcement date. Dealers submit bids either on behalf of investors or for their own accounts. Bids on behalf of investors may be competitive or noncompetitive, with noncompetitive bids allowed up to a maximum of 20 percent of a transaction. Settlement occurs on the date of the auction (cash settlement) or on the following business day (regular settlement) at the option of the investor. Benchmark Bills have the following minimum and incremental denominations unless otherwise specified by

Fannie Mae: Minimum: U.S. $50,000 and Incremental: U.S. $1,000. Information on the auction results are posted to our site as soon as practicable and on a number of market information sources.

Discount Notes and Benchmark Bills are typically considered acceptable collateral for margin deposits at various exchanges and clearing corporations. In certain instances, Discount Notes and Benchmark Bills are acceptable investments for escrow accounts associated with municipal bond offerings. In addition, Discount Notes and Benchmark Bills, like most other Fannie Mae debt products, are typically eligible as collateral in repurchase transactions entered into with the Federal Reserve Banks.

Fannie Mae believes that a flexible underwriting group further enhances both the primary and secondary market liquidity in Discount Notes and Benchmark Bills.

FANNIE MAE AUCTION SYSTEM TECHNOLOGY (FAST)

Fannie Mae's Benchmark Bills are issued to approved securities dealers through a Dutch auction process executed over the Internet using Fannie Mae Auction System Technology (FAST). Fannie Mae uses this technology for Benchmark Bills in place of the traditional syndicated underwriting method to accommodate the greater frequency of issuance. Benchmark Bills are issued in two-, three month, six month, or one year maturities. The results are posted to our web site within minutes of the auction. Fannie Mae also periodically issues Benchmark Notes using the auction system. The link below directs you to the Fannie Mae Auction System Technology Calendar page. To log in to Fannie Mae Auction System Technology, select the "login" link in the top right corner of the Calendar.

https://debt.efanniemae.com/fast/calendarRedirect.do?UniqueID=1511100523

Long-term Debt Securities

Fannie Mae issues long-term debt securities with maturities of greater than one year. Fannie Mae offers a variety of long-term debt securities to meet investors' needs.

NONCALLABLE BENCHMARK SECURITIES PROGRAM

Overview

Noncallable Benchmark Notes are large size bullet issues which provide increased efficiency, liquidity, and tradability to the market. Fannie Mae may look to maximize liquidity of each issue by increasing its size through reopenings, which are generally driven by increased investor demand.

Noncallable Benchmark Notes are securities with maturities of 2-, 3-, 5- and 10-years. A diverse and broad-based group of investors participate in noncallable Benchmark Securities because of their liquidity, attractive spreads, and their credit quality. Fannie Mae's noncallable Benchmark Notes serve as high quality investment vehicles as well as viable trading instrument and hedging tools for investors.

Issuance Calendar

Fannie Mae's noncallable Benchmark Notes are issued according to an issuance calendar that is published annually. The calendar sets forth the announcement dates during the course of the year. The calendar allows market participants an opportunity to plan how best to incorporate Benchmark Notes into their investment strategies.

Forthcoming noncallable Benchmark Securities transactions are published in a calendar on the website, through each transaction's dealer group and via press release which appears on newswire services and the company's website. There are no designated maturity sectors specified on the calendar for Benchmark Notes issuance. Fannie Mae will state the maturity it will issue on the defined announcement date. Fannie Mae may elect to forego any scheduled Benchmark Notes issuance. This flexibility allows Fannie Mae to better gauge investor needs and demand for specific maturities at the time of issuance while continuing to provide clear guidance on its Benchmark Notes issuance. If Fannie Mae elects not to issue on a scheduled date, it will provide a notice of its election either prior to or on the scheduled announcement date.

Fannie Mae uses a dealer syndicate format for new issues of its noncallable Benchmark Notes. Benchmark Securities are issued off of Fannie Mae's Universal Debt Facility (UDF). Settlement for Benchmark Securities is available directly through the Federal Reserve Book Entry System and indirectly through Euroclear and Clearstream. Interest is calculated on a 30/360-day count.

Benchmark Repo Facility Overview

The goal of Fannie Mae's Repo Facility is to enhance liquidity and trading activity in our Benchmark Securities in the cash overnight repo market.

Features of Fannie Mae's Benchmark Repo Facility:

- The facility applies to Fannie Mae noncallable senior Benchmark Notes with original maturities from two to 10 years.
- For Benchmark Notes, Fannie Mae will issue to its own account an additional 25 percent of each new issue brought to market.
- Fannie Mae only makes a portion of these securities available each day. Fannie Mae may repo out the total amount held in its account minus the amount transacted on the previous day with a maximum of 12.5 percent of the total outstanding issue amount of a specific noncallable Benchmark Security at one time. Holding the remaining 12.5 percent in reserve will allow Fannie Mae to repo out collateral daily, thereby strengthening our ability to have collateral available every day. For example:
    - If Fannie Mae brings to market $5 billion of a new issue 10-year Benchmark Note in accordance with its scheduled Benchmark Securities calendar, Fannie Mae would retain an additional $1.25 billion for the Benchmark Repo Facility. In this case, the official total outstanding issue size of the Benchmark Note is $5 billion. A maximum of $625 million of the Benchmark Security would be allowed to be transacted under the parameters of the Benchmark Repo Facility.
    - If the 10-year Benchmark Note is later reopened, an additional 25 percent of the total reopening amount will be retained by Fannie Mae for the Facility.
- Bids are accepted for new issues of Benchmark Securities beginning the next business day after settlement.
- Benchmark Securities are available each business day to approved dealers through a multiple price auction process
- Commencing at 10:00 a.m. ET each business day, the system will be open for bids by approved dealers. The auction will conclude at 10:30 a.m. with results disclosed to winning dealers as soon as possible thereafter. Auction results will be posted soon after the auction ends on Fannie Mae's Web site.
- Every day we will set a minimum bid and a maximum bid based on the current market level.
- The minimum bid by approved dealers is $1 million with bids increasing by increments of $1 million.
- At each auction, a single dealer is allowed to win up to a maximum of 35 percent of Fannie Mae's lendable supply of Benchmark Notes.
- The term for repo transactions via the Facility is overnight for cash settlement only. Failure to deliver bonds back to Fannie Mae on the maturity date of the repo will result in the dealer being assessed a penalty fee per TMPG guidelines.

- The Benchmark Securities retained by Fannie Mae for the Benchmark Repo Facility will be held in a sub account at the Federal Reserve Bank of New York.
    - Fannie Mae will evaluate the continuation of the program on a periodic basis.

Benchmark Repo Facility

Fannie Mae uses the Benchmark Repo Facility within the Fannie Mae Auction System Technology (FAST) application to repo out its Benchmark Securities. The Facility is available each business day to the approved Benchmark Securities dealers through a multiple price auction process. Fannie Mae introduced the Benchmark Repo Facility in October 2001 in order to increase the liquidity in the repo market for overnight transactions. The Facility applies to all new issue Benchmark Notes and Bills.

For technical support and customer service issues related to the FAST application, send an e-mail to: ecommerce_treasury@fanniemae.com or call the hotline at 202-752-8054.

New Issuance

Fannie Mae brings each noncallable Benchmark Notes transaction to market using a traditional underwriting syndicate structure. For each Benchmark Notes transaction, the dealers are chosen to underwrite that specific transaction. In addition to the leads, a designated co-manager group is selected. The company's Benchmark Securities dealer group is responsible for providing timely information on potential demand and pricing levels so that we can determine the size of an upcoming transaction.

Following the announcement of a new issue a period of marketing and book building starts. Fannie Mae generally expects to price each new issue the day after the announcement date and will generally settle within two days after pricing of the issue.

Reopenings

In some instances, Fannie Mae will reopen an existing debt issue. The decision to reopen an issue is based on investor demand and ability to further enhance the liquidity of a particular security. A Benchmark Notes reopening is publicly announced according to the Benchmark Securities calendar. Fannie Mae's objective is to not disadvantage current holders of its securities. Any of Fannie Mae's long-term debt securities can be reopened, and a re-opening may be conducted in conjunction with another new issue.

BENCHMARK AUTOMATED SYNDICATION SYSTEM (BASS)

Fannie Mae uses the Benchmark Automated Syndication System® (BASS) to capture and disseminate information on each Benchmark Securities issuance to the market in a more efficient and effective manner.

The BASS system collects each syndicate dealer's order, aggregating the information as it is received. This provides Fannie Mae with a quicker assessment of each transaction's progress and the ability to accurately size each transaction to promote strong secondary market performance. The system also provides reports showing investor type and geographic location distribution for each transaction.