

Callable Debt Securities with Customized Call Schedules

July/August 2011

Fannie Mae provides flexibility to investors seeking customized structures via reverse inquiry.

©2011, Fannie Mae. No part of this document may be duplicated, reproduced, distributed or displayed in public in any manner or by any means without the written permission of Fannie Mae. This document is for the private information of dealers in Fannie Mae securities ("Dealers") and qualified sophisticated institutional investors. Fannie Mae does not intend to solicit and is not soliciting any action with respect to any Fannie Mae security based upon this document. This document does not constitute, and under no circumstances should it be used as, or considered to be, an offer to sell or a solicitation of an offer to buy the securities or other instruments mentioned herein or derived from such securities or instruments. Fannie Mae expects Dealers to make every effort to assist investors to consider and understand the risks of the securities or instruments mentioned herein. The securities or other instruments mentioned in this document may not be eligible for sale in certain jurisdictions or to certain persons and may not be suitable for all types of investors. Opinions and estimates expressed herein constitute our present judgment and are subject to change without notice. Such opinions or estimates should not be construed as either projections or predictions of value, performance or results; nor as legal, tax, financial, or accounting advice. (See back cover.)

As a flexible, responsive and efficient issuer of callable debt securities, Fannie Mae continues to attract a variety of investors who participate in the reverse-inquiry callable debt issuance process. Many of these investors appreciate the ease with which specific structures can be created to suit particular investor needs, market views, and specifications. Fannie Mae callable debt securities not only offer the potential for enhanced yields over comparable duration-matched Treasuries and noncallable securities, but also provide investors with the flexibility to tailor a callable structure to match their investment criteria and interest rate outlooks. Additionally, Fannie Mae offers callable debt securities with customized call schedules. This edition of *FundingNotes* describes customized call schedules; provides examples of how these call schedules may be structured; discusses investor interest in these structures; and reviews recent activity of callable securities with customized call schedules.

Customized Call Schedules

The distinctive characteristic of a customized call schedule is its two-part feature. The first part of the call schedule is typically Bermudan where the bond may be redeemed on the coupon payment dates after the initial lockout period. The second part of the call schedule is customizable with respect to call feature to the investor's preference. The terms of both segments of the call schedule are determined by the investor.

The customized call schedule may be selected with both traditional fixed-rate callables and step-up callable notes. Typically with step-up notes, the second part of the customized call schedules have exercisable call dates that fall upon one or more step-up dates. Fannie Mae provides flexibility regarding terms and lockout periods for callables. For instance, a lockout period can be as short as three months and a maturity term may range from two years out to twenty years.

Examples of Customized Call Schedules

One example of a customized call schedule security is one where the call options are a hybrid of a Bermudan call option and a European call option. Fannie Mae issued CUSIP 3136FRB77, which is a \$100 million, 15-year non-call 6-month step-up callable note, on July 7, 2011 with a settlement date of July 27, 2011. The coupon step-up dates occur on July 27, 2016 and July 27, 2021. The bond has a lockout period of six months with the first callable date on January 27, 2012. After the lockout period, the bond has Bermudan quarterly exercisable call dates for the next four years. Once the Bermudan call option has expired on July 27, 2016, the only remaining exercisable call date occurs five years later on July 27, 2021. If the bond is not called on the last remaining call date, the bond becomes noncallable and matures on its final maturity date of July 27,

2026. **Figure 1** illustrates the customized call schedule for this step-up callable note.

Another example of a customized call schedule is one where the call dates begin with a period of Bermudan options followed by two distinct exercisable call dates. Fannie Mae issued CUSIP 3136FRNY5, which is a \$50 million, 15-year non-call 6-month step-up callable note, on May 18, 2011 with a settlement date of June 16, 2011. The coupon step-up dates occur on the 16th of June in the following years: 2012, 2016, and 2021. The bond has a lockout period of six months with

the first callable date on December 16, 2011. After the lockout period, the bond has Bermudan quarterly exercisable call dates over the next six months. Once June 16, 2012 has passed and the bond has not yet been redeemed, there are two remaining exercisable call dates over the next nine years. If the bond is not called on the last remaining call date, the bond becomes noncallable and matures on its final maturity date of June 16, 2026. **Figure 2** demonstrates the customized call schedule for this step-up callable note.

Figure 1

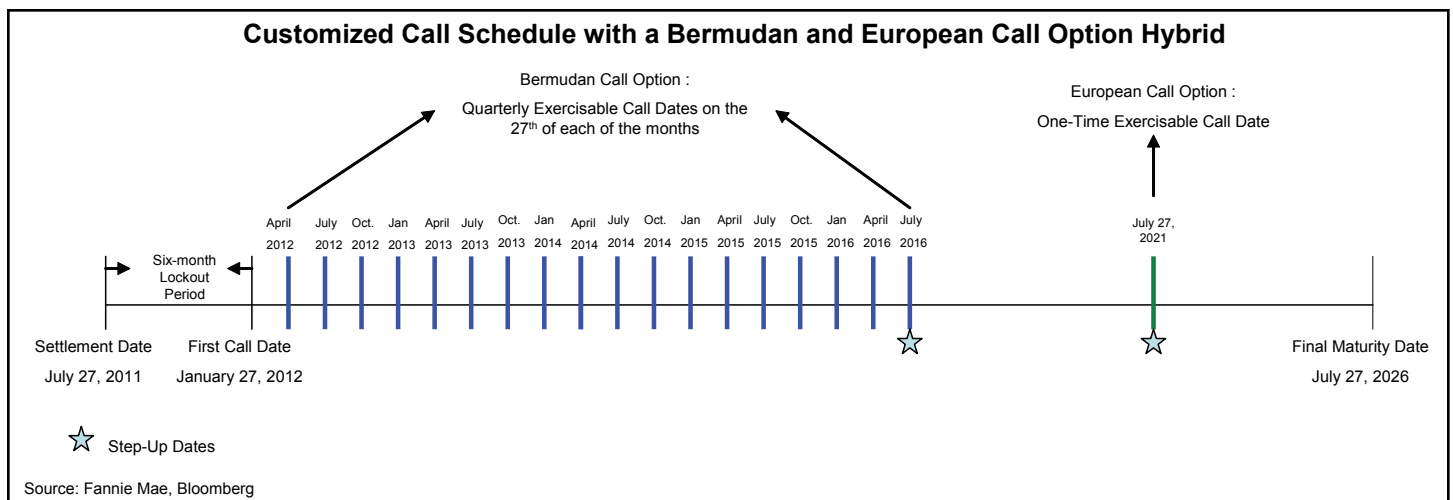
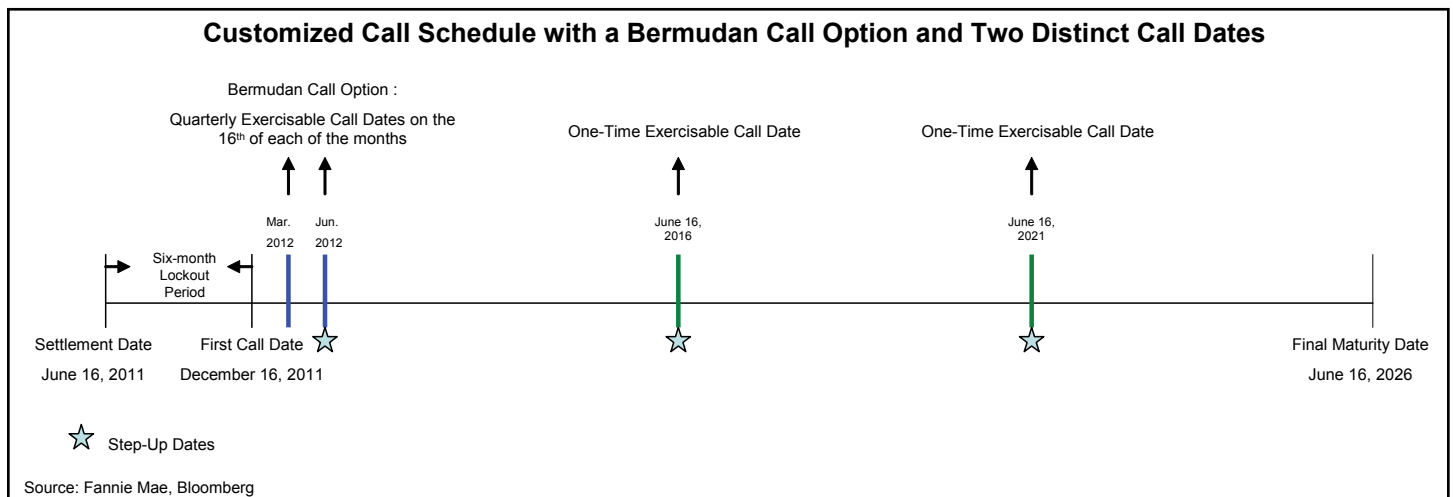


Figure 2



Investor Interest in Customized Call Schedules

Although coupon streams between a customized call schedule bond and Bermudan callables are similar during the first part of the customized call schedule, investors may appreciate the decreased call risk during the second part of the customized call schedule. Additionally, new investors may view callables with customized call schedules as an entry point into the callable market because of the increased call protection provided over callables with a Bermudan call option and the enhanced yield over callables with a European call option. Fannie Mae has seen interest for callable securities with customized call schedules from various investor segments, including commercial banks, money managers, and state and local authorities who have unique cash flow needs.

Recent Issuance of Callable Bonds with a Customized Call Schedule

In response to investor demand in late 2010, Fannie Mae issued its first callable note with a customized call schedule as described in this *FundingNotes*. Year-to-date through August 10, 2011, Fannie Mae has issued nineteen callable securities with customized call schedules incorporating these characteristics. These callables have a total notional amount of approximately \$1.05 billion.

Conclusion

Fannie Mae provides flexibility to investors seeking customized structures via reverse inquiry. Fannie Mae remains committed to providing investors with a diverse selection of callable debt structures through its various initiatives on an ongoing basis. The company is dedicated to innovation in the market for callable debt and diligently incorporates investor demand with enhancements, such as customized call schedules, to its suite of callable debt securities.



FundingNotes is published by Fannie Mae's Fixed-Income Securities Marketing Group

John The Losen
Vice President and Editor

Helen McNally
Senior Product Manager
(202) 752-7704

Website: <http://www.fanniemae.com>
E-mail: fixedincome_marketing@fanniemae.com
Helpline: (888) BONDHLP

© 2011, Fannie Mae. This document is based upon information and assumptions (including financial, statistical or historical data and computations based upon such data) that we consider reliable and reasonable, but we do not represent that such information, assumptions, data or computations are accurate or complete, or appropriate or useful in any particular context, including the context of any investment decision, and it should not be relied upon as such. In addition, we do not undertake to update any information, data, or computations contained herein, or to communicate any change in the opinions and estimates expressed herein. No representation is made that any strategy, performance or result illustrated herein can or will be achieved or duplicated. The effect of factors other than those assumed, including factors not mentioned, considered or foreseen, by themselves or in conjunction with other factors, could produce dramatically different performance or results. Fannie Mae is the issuer of certain securities and instruments mentioned herein and Fannie Mae or its employees may from time to time have long or short positions in, and buy or sell or engage in other transactions, as principal, with respect to or relating to such securities or instruments. Fannie Mae securities are more fully described in applicable offering circulars, prospectuses, or supplements thereto (such as applicable offering circulars, prospectuses and supplements, the "Offering Documentation"), which discuss certain investment risks and contain a more complete description of such securities. All statements made herein are qualified in their entirety by reference to the Offering Documentation. An offering only may be made through delivery of the Offering Documentation. Investors considering purchasing a Fannie Mae security should consult their own financial and legal advisors for information about such security, the risks and investment considerations arising from an investment in such security, the appropriate tools to analyze such investment, and the suitability of such investment in each investor's particular circumstances. The Debt Securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae. On September 6, 2008, the Federal Housing Finance Agency, or FHFA, placed Fannie Mae into conservatorship. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer, or director of Fannie Mae with respect to Fannie Mae and the assets of Fannie Mae. On September 7, 2008, the U.S. Treasury entered into a Senior Preferred Stock Purchase Agreement (subsequently amended) with Fannie Mae. This Agreement contains covenants that significantly restrict our operations. Refer to our periodic reports filed with the SEC for additional information about Fannie Mae.

Fannie Mae Funding Liabilities and Debt Outstanding 2008 through June 30, 2011

Funding Liabilities and Debt Outstanding (in millions)	12/31/08	12/31/09	12/31/10	6/30/11
Federal Fund Borrowings	\$ -	\$ -	\$ -	\$ -
Other Short Term Funding Liabilities ¹	77	-	52	-
Total Federal Funds Purchased and Securities Sold under Agreements to Repurchase	\$ 77	\$ -	\$ 52	\$ -
Average maturity (in days)	-	-	11	-
Discount Notes	\$ 324,479	\$ 200,116	\$ 151,627	\$ 161,752
FX Discount Notes	402	401	386	319
Other Short Term Debt ²	7,661	50	-	1
Total Short Term Debt³	\$ 332,542	\$ 200,567	\$ 152,013	\$ 162,072
Average maturity (in days)	102	82	88	94
Benchmark Notes & Bonds ⁴	\$ 251,315	\$ 280,245	\$ 300,639	\$ 273,639
Callable Benchmark Notes ⁴	-	-	-	-
Subordinated Benchmark Notes	7,398	7,398	7,398	4,898
Callable Fixed Rate MTNs ^{5,6}	190,950	206,310	217,179	167,758
Noncallable Fixed Rate MTNs ^{5,6}	50,131	45,032	41,579	53,883
Callable Floating Rate MTNs ^{5,6}	1,530	3,871	2,625	2,375
Noncallable Floating Rate MTNs ^{5,6}	45,470	39,005	69,823	68,546
Other Long Term Debt ⁷	3,763	3,347	2,622	2,520
Total Long Term Debt^{8,9}	\$ 550,557	\$ 585,208	\$ 641,865	\$ 573,619
Average maturity (in months)	66	60	51	50
Total Federal Funds Purchased and Securities Sold under Agreements to Repurchase and Debt Outstanding	\$ 883,176	\$ 785,775	\$ 793,930	\$ 735,691
Average maturity (in months)	42	45	42	40

Fannie Mae Funding Liabilities and Debt Issuance 2008 through June 30, 2011

Funding Liabilities and Debt Issuance (in millions)	2008	2009	2010	2011
Federal Fund Borrowings	\$ 5,617	\$ 1,000	\$ 6,450	\$ -
Other Short Term Funding Liabilities ¹	60,888	5,822	5,930	1,510
Total Federal Funds Purchased and Securities Sold under Agreements to Repurchase	\$ 66,505	\$ 6,822	\$ 12,380	\$ 1,510
Discount Notes	\$ 1,547,462	\$ 1,373,711	\$ 438,146	\$ 226,427
FX Discount Notes	2,583	1,060	615	312
Other Short Term Debt ¹⁰	8,661	50	-	2
Total Short Term Debt³	\$ 1,558,706	\$ 1,374,821	\$ 438,761	\$ 226,741
Benchmark Notes & Bonds	\$ 50,500	\$ 75,500	\$ 82,000	\$ 21,000
Subordinated Benchmark Notes	-	-	-	-
Callable Fixed Rate MTNs ⁶	150,255	187,983	306,560	-
Noncallable Fixed Rate MTNs ⁶	4,336	4,517	8,834	53,195
Callable Floating Rate MTNs ⁶	1,280	3,846	2,630	2,000
Noncallable Floating Rate MTNs ⁶	41,284	23,180	63,100	400
Other Long Term Debt ⁷	743	249	259	4,825
Total Long Term Debt⁸	\$ 248,399	\$ 295,275	\$ 463,383	\$ 81,666
Total Federal Funds Purchased and Securities Sold under Agreements to Repurchase and Debt Issued	\$ 1,873,610	\$ 1,676,918	\$ 914,524	\$ 309,917
Net Issuance Long Term Debt¹¹	\$ (18,363)	\$ 34,511	\$ 56,610	\$ (68,291)

Please see the Endnotes on the following page for more detail.

Endnotes

Footnotes for Tables 1 and 2

- ¹ Other Short Term Funding Liabilities includes Benchmark repos, contingency repo lending, and other short term funding liabilities.
- ² Other Short Term Debt includes coupon bearing short term notes.
- ³ Short term debt consists of borrowings with an original contractual maturity of one year or less.
- ⁴ Outstanding Benchmark Notes & Bonds with expired call options are reported as Benchmark Notes & Bonds.
- ⁵ Outstanding MTNs with expired call options are reported as Noncallable MTNs.
- ⁶ MTNs include all long term non-Benchmark Securities such as globals, zero coupon securities, medium term notes, Final Maturity Amortizing Notes, and other long term debt securities.
- ⁷ Other Long Term Debt consists of long term foreign currency debt, investment agreements and other long term securities.
- ⁸ Long term debt consists of borrowings with an original contractual maturity of greater than one year.
- ⁹ Unamortized discounts and issuance costs of long term zero coupon securities are approximately \$14.8 billion at December 31, 2008, \$14.9 billion at December 31, 2009, \$11.8 billion at December 31, 2010 and \$9.1 billion at June 30, 2011.
- ¹⁰ Other Short Term Debt includes coupon bearing short term notes.
- ¹¹ Net Issuance Long Term Debt amounts represent the difference between long term debt issued and long term debt repaid during the period. For any period, a positive value indicates that the amount of long term debt issued was greater than the amount of long term debt repaid, and a negative value indicates that the amount of long term debt repaid was greater than the amount of long term debt issued.

General

Reported amounts represent the unpaid principal balance as of each reporting period or, in the case of the long term zero coupon bonds, at maturity. Unpaid principal balance does not reflect the effect of debt basis adjustments, including unamortized discounts, premiums, issuance costs and fair value adjustments.

Numbers may not foot due to rounding.

Debt Securities Index Reports

	June % of BIG	June Total ROR	Last 3 mos Total ROR	Last 6 mos Total ROR	YTD Total ROR	Last 12 mos Total Return		June % of Agg	June Total ROR	Last 3 mos Total ROR	Last 6 mos Total ROR	YTD Total ROR	Last 12 mos Total Return
Citigroup Fannie Mae Index:	2.04	-0.11	1.52	1.75	1.75	2.59	Barclays Capital Fannie Mae Index:	2.24	-0.10	1.53	1.82	1.82	2.52
1-10 Years	1.92	0.03	1.49	1.67	1.67	2.56	1-10 Years	2.07	0.02	1.50	1.75	1.75	2.49
10+ Years	0.12	-1.93	2.06	2.83	2.83	2.54	10+ Years	0.17	-1.44	1.94	2.69	2.69	2.72
Callable	0.16	-0.07	0.93	1.01	1.01	1.25	Callable	0.53	0.03	1.23	1.43	1.43	1.62
Noncallable	1.88	-0.11	1.59	1.83	1.83	2.80	Noncallable	1.71	-0.14	1.64	1.97	1.97	2.94
Globals*	1.92	-0.12	1.49	1.71	1.71	2.51	Globals	1.81	-0.11	1.54	1.78	1.78	2.56
Agency:	5.25	-0.16	1.40	1.64	1.64	2.74	Agency:	6.25	-0.10	1.45	1.72	1.72	2.35
Callable	0.23	-0.06	0.92	1.03	1.03	1.34	Callable	1.23	0.02	1.13	1.35	1.35	1.48
Noncallable	5.02	-0.16	1.43	1.67	1.67	2.86	Noncallable	5.03	-0.13	1.53	1.81	1.81	2.58
Globals	4.35	-0.11	1.51	1.74	1.74	2.52	Globals****	4.51	-0.09	1.38	1.62	1.62	2.30
Citigroup Index**:	100.00	-0.28	2.29	2.66	2.66	3.66	Barclays Aggregate Index:	100.00	-0.29	2.29	2.72	2.72	3.90
U.S. Treasury	35.18	-0.34	2.34	2.14	2.14	2.19	U.S. Treasury	32.89	-0.34	2.39	2.22	2.22	2.24
GSE***	6.58	-0.15	1.52	1.82	1.82	2.89	Government-Related***	11.48	-0.13	2.23	2.81	2.81	3.72
Credit	24.61	-0.72	2.38	3.22	3.22	6.06	Corporate	19.80	-0.88	2.28	3.16	3.16	6.29
MBS	33.42	0.08	2.34	2.97	2.97	3.74	MBS	33.27	0.09	2.28	2.87	2.87	3.77
ABS	0.21	0.06	1.93	2.56	2.56	5.28	ABS	0.27	0.03	1.77	2.42	2.42	3.43

* In July 2009 the definition of Globals changed due to a change in index methodology. Previously, if a bond was classified as the Eurodollar Index, then it was "Global." Currently, if a bond is cleared in DTC, Euroclear/Clearstream and/or other clearances, then it is "Global."

** Components of Broad (BIG) Index: Treasury, GSE, Corporate, Mortgage

*** Includes US agencies

**** Includes World Bank global issues

This data has been compiled from reports supplied by Citigroup and Barclays Capital 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 2011 Debt Issuances

Includes all settled callable debt issues with maturities greater than one year.

Fannie Mae Callable Debt

<i>Maturity/Call (Year)</i>	<i>June 2011 Par Amount (in thousands)</i>	<i># Issues</i>	<i>YTD 2011 Par Amount (in thousands)</i>	<i># Issues</i>	<i>Maturity/Call (Year)</i>	<i>June 2011 Par Amount (in thousands)</i>	<i># Issues</i>	<i>YTD 2011 Par Amount (in thousands)</i>	<i># Issues</i>
2.00 NC 0.50			2,060,000,000	10	5.00 NC 1.50	25,000,000	1	25,000,000	1
2.25 NC 0.50			400,000,000	4	5.00 NC 2.00	255,000,000	9	590,000,000	15
2.49 NC 0.49			50,000,000	1	5.25 NC 1.00	30,000,000	1	30,000,000	1
2.50 NC 0.50	50,000,000	1	315,000,000	6	5.50 NC 0.50	335,000,000	12	1,085,000,000	25
2.50 NC 1.00			50,000,000	1	5.50 NC 0.75			75,000,000	2
2.67 NC 0.33			75,000,000	2	5.50 NC 1.00	430,000,000	14	580,000,000	17
2.73 NC 0.39			75,000,000	2	5.50 NC 1.50			50,000,000	1
2.75 NC 0.50			250,000,000	3	5.50 NC 2.00	200,000,000	8	200,000,000	8
2.92 NC 0.42			425,000,000	11	5.51 NC 0.50			225,000,000	7
3.00 NC 0.24			50,000,000	1	5.51 NC 1.00			325,000,000	3
3.00 NC 0.50	1,450,000,000	19	6,475,000,000	49	5.75 NC 0.50			50,000,000	1
3.00 NC 0.75	50,000,000	2	100,000,000	3	6.00 NC 0.50			125,000,000	4
3.00 NC 1.00	725,000,000	8	6,865,000,000	56	6.00 NC 1.00	75,000,000	3	305,000,000	8
3.00 NC 2.00			100,000,000	1	6.00 NC 2.00			50,000,000	1
3.01 NC 1.00			250,000,000	1	6.50 NC 0.50	25,000,000	1	25,000,000	1
3.24 NC 0.50			75,000,000	1	6.50 NC 1.00			160,000,000	5
3.25 NC 0.50	25,000,000	1	275,000,000	2	6.51 NC 1.00			25,000,000	1
3.25 NC 1.00			130,000,000	4	6.92 NC 0.42			100,000,000	1
3.42 NC 0.42			25,000,000	1	7.00 NC 0.50	25,000,000	1	175,000,000	4
3.50 NC 0.25			125,000,000	1	7.00 NC 1.00			50,000,000	2
3.50 NC 0.50	50,000,000	2	1,030,000,000	17	7.00 NC 2.00	104,000,000	1	129,000,000	2
3.50 NC 0.75	275,000,000	8	525,000,000	10	7.50 NC 0.50	50,000,000	2	100,000,000	3
3.50 NC 1.00	265,000,000	10	565,000,000	17	7.50 NC 1.00	50,000,000	2	75,000,000	3
3.50 NC 2.00	25,000,000	1	25,000,000	1	8.00 NC 0.50	25,000,000	1	25,000,000	1
3.52 NC 0.52	25,000,000	1	25,000,000	1	8.00 NC 1.00	50,000,000	2	50,000,000	2
3.67 NC 0.50			50,000,000	1	8.50 NC 0.50			25,000,000	1
3.75 NC 0.50	125,000,000	4	290,000,000	7	8.50 NC 1.00			25,000,000	1
3.75 NC 0.75	25,000,000	1	175,000,000	4	10.00 NC 0.25			25,000,000	1
3.75 NC 1.00	50,000,000	2	50,000,000	2	10.00 NC 0.50	800,000,000	28	3,515,000,000	90
3.99 NC 1.00			25,000,000	1	10.00 NC 1.00	300,000,000	12	1,315,000,000	38
3.99 NC 1.99			50,000,000	1	10.00 NC 1.50			50,000,000	1
4.00 NC 0.50	125,000,000	5	1,007,000,000	22	10.00 NC 2.00	25,000,000	1	75,000,000	2
4.00 NC 0.75			50,000,000	1	11.00 NC 0.50	55,000,000	2	55,000,000	2
4.00 NC 1.00	260,000,000	7	940,000,000	25	12.00 NC 0.50	350,000,000	13	1,160,000,000	35
4.00 NC 1.50			75,000,000	2	12.00 NC 1.00	50,000,000	2	175,000,000	6
4.00 NC 2.00			200,000,000	3	12.00 NC 3.50	25,000,000	1	25,000,000	1
4.25 NC 1.00			100,000,000	3	12.50 NC 1.00	175,000,000	7	225,000,000	9
4.50 NC 0.50	50,000,000	2	225,000,000	7	13.00 NC 1.00	50,000,000	2	50,000,000	2
4.50 NC 1.00	55,000,000	2	255,000,000	7	13.50 NC 1.00	80,000,000	3	80,000,000	3
4.75 NC 1.00	50,000,000	2	50,000,000	2	15.00 NC 0.50	1,522,500,000	40	5,412,500,000	112
4.76 NC 1.00			50,000,000	1	15.00 NC 0.51			75,000,000	3
4.95 NC 1.20	25,000,000	1	25,000,000	1	15.00 NC 1.00	75,000,000	2	702,655,000	16
5.00 NC 0.50	1,220,000,000	35	6,048,000,000	125	15.00 NC 3.00	25,000,000	1	150,000,000	2
5.00 NC 1.00	1,190,000,000	31	4,520,000,000	104	15.00 NC 4.00			50,000,000	1
5.00 NC 1.17	25,000,000	1	25,000,000	1	20.00 NC 1.00	100,000,000	4	1,225,000,000	17
					TOTAL	\$11,451,500,000	322	\$53,594,155,000	988

2011 Debt Redemptions

Callable Debt Redeemed (in billions)

January	\$	14.2
February	\$	11.3
March	\$	14.8
April	\$	10.9
May	\$	9.9
June	\$	30.0
TOTAL	\$	91.1

Summary Breakdown of 2011 Benchmark Notes Issuance

Fannie Mae Noncallable Benchmark Notes

Maturity	June 11		YTD 2011	
	Par Amount	# Issues	Par Amount	# Issues
2 Years	3,000,000,000	1	8,000,000,000	2
3 Years			9,000,000,000	2
5 Years			4,000,000,000	1
TOTAL NEW				
ISSUANCE	3,000,000,000	1	21,000,000,000	5

Recent Benchmark Notes Transaction

Benchmark Securities	Size/Cusip	Lead-Managers	Co-Managers	Pricing Date and Spread	Geographic Distribution	Investor Type Distribution
2 year 0.500% 8/9/2014	\$3 billion 3135G0BR3	Barclays Capital Inc.; Credit Suisse (USA) LLC; UBS Securities LLC	Blaylock Robert Van, LLC; BNP Paribas; Deutsche Bank Securities Inc.; FTN Financial Capital Markets; Goldman Sachs & Co.; Williams Capital Group L.P.	June 15, 2011 +17 basis points 0.500% 5/31/2013 U.S. Treasury	U.S. 85.9% Asia 6.4% Europe 1.4% Other 6.3%	Fund Manager 73.3% Comm. Banks 0.4% Insurance Companies 4.3% Central Banks 10.9% State & Local Gov't 11.1%