

OFFERING CIRCULAR SUPPLEMENT
(To Offering Circular dated January 22, 2002)

\$1,500,000,000



5.25% Subordinated Benchmark Notes® due 2012

This Offering Circular Supplement relates to the offer of \$1,500,000,000 5.25% Subordinated Notes due 2012 (the "Notes") of the Federal National Mortgage Association or "Fannie Mae." You should read it together with the Offering Circular dated January 22, 2002 (the "Offering Circular") relating to our Universal Debt Facility.

The Notes will mature on August 1, 2012. We may not redeem the Notes prior to maturity. The Notes will be unsecured subordinated obligations of Fannie Mae, ranking junior in right of payment to all of Fannie Mae's existing and future "Senior Liabilities."

The Notes will bear interest at a fixed rate of 5.25% per annum. We will pay interest on the Notes semi-annually on February 1 and August 1 of each year, beginning February 1, 2003. Upon the occurrence of certain events described under "Description of the Notes—Interest," we will defer the payment of interest on the Notes for periods not to exceed five years. The consequences of a deferral of interest are described in this Supplement. You should read "United States Taxation" in this Supplement for a discussion of selected United States federal tax considerations relevant to the Notes.

The Notes are being offered globally for sale in the United States, Europe, Asia and elsewhere where it is lawful to make such offers. Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes, 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.

An investment in the Notes may involve risks for some investors. It is important that you read the "Risk Factors" section beginning on page S-6 of this Supplement and page 7 of the Offering Circular.

	<u>Initial Public Offering Price (1)</u>	<u>Dealer Discount</u>	<u>Proceeds to Fannie Mae (1) (2)</u>
Per Note	99.829%	.300%	99.529%
Total	\$1,497,435,000	\$4,500,000	\$1,492,935,000

(1) Plus accrued interest from July 26, 2002.

(2) Before deducting estimated expenses of \$100,000.

The Notes will be issued in book-entry form on the book-entry system of the U.S. Federal Reserve Banks on July 26, 2002.

Joint Lead Managers

Lehman Brothers

Merrill Lynch & Co.

Morgan Stanley

Bear Stearns & Co. Inc.

Goldman, Sachs & Co.

JP Morgan

Salomon Smith Barney

UBS Warburg

The Williams Capital Group

The date of this Offering Circular Supplement is July 24, 2002

® "Benchmark Notes" is a registered service mark of Fannie Mae.

We are not required to register the Notes under the U.S. Securities Act of 1933, as amended. Accordingly, we have not filed a registration statement with the U.S. Securities and Exchange Commission (the “SEC”). The Notes are “exempted securities” within the meaning of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Neither the SEC nor any state securities commission or other regulatory body has approved or disapproved the Notes or determined if this Supplement or the Offering Circular is truthful or complete. Any representation to the contrary is a criminal offense.

The distribution of this Supplement and the Offering Circular and the offer, sale, and delivery of the Notes in certain jurisdictions may be restricted by law. Persons who come into possession of this Supplement and the Offering Circular must inform themselves about and observe any applicable restrictions.

This Supplement is not an offer to sell or a solicitation of an offer to buy any securities other than the Notes or an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction or in any other circumstance in which an offer or solicitation is unlawful or not authorized.

Because we are not subject to the periodic reporting requirements of the Exchange Act, we do not file reports or other information with the SEC. See “Recent Developments — Voluntary SEC Disclosure” on page S-11.

No person has been authorized to give any information or make any representations other than those contained in this Supplement and the Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this Supplement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of Fannie Mae since the date hereof, or in the case of facts set forth in the documents incorporated by reference herein, since the respective dates thereof or that the information contained herein or therein is correct as to any time subsequent thereto.

Unless defined in this Supplement, capitalized terms have the meanings we gave to them in the Offering Circular. Any statement contained in the Offering Circular shall be deemed to be modified or superseded to the extent that a statement contained in this Supplement modifies or supersedes such statement. Any such statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Supplement and the Offering Circular.

We are not preparing a Pricing Supplement for the Notes. We describe the specific terms of the Notes in this Supplement.

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SUMMARY OF THE OFFERING

This summary highlights information contained elsewhere in, or incorporated by reference in, this Supplement and the Offering Circular. It does not contain all of the information you should consider before investing in the Notes. You also should read the more detailed information contained elsewhere in this Supplement and the Offering Circular and in the documents incorporated herein by reference. See Appendix H to the Offering Circular for the location of terms used in this Supplement that are defined or explained in the Offering Circular.

Fannie Mae

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act. We are the largest investor in home mortgage loans in the United States. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Description of the Notes

Issuer	Fannie Mae
Securities Offered	\$1,500,000,000 of 5.25% Subordinated Notes due August 1, 2012.
Rating	The Notes are expected to be rated “Aa2” by Moody’s Investors Service, Inc., “AA-” by Standard & Poor’s Ratings Group, a Division of the McGraw-Hill Companies and “AA” by Fitch Ratings.
Additional Subordinated Debt Securities	We presently intend to issue additional subordinated Debt Securities in an amount such that, following a phase-in period ending December 31, 2003, the sum of our core capital, loss allowances and outstanding subordinated Debt Securities will equal or exceed four percent of on-balance sheet assets, after setting aside capital sufficient to support off-balance sheet mortgage-backed securities. We refer to the Notes and any other Debt Securities with similar subordination and interest deferral provisions as “Subordinated Debt Securities.” At June 30, 2002, we had outstanding Subordinated Debt Securities of \$6,000 million.
Status; Subordination	The Notes will be unsecured subordinated obligations of Fannie Mae issued under Section 304(e) of the Charter Act. The Subordinated Debt Securities will rank junior in priority of payment to our “Senior Liabilities.” “Senior Liabilities” means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and Fannie Mae’s 9% Subordinated Capital Debentures due 2019 and Zero Coupon Subordinated Capital Debentures due 2019 (together, the “Outstanding Capital Debentures”). At June 30, 2002, we had outstanding total liabilities of \$808,947 million, \$802,947 million of which constitute Senior Liabilities. Senior Liabilities also include any liabilities related to the \$945,100 million of outstanding

mortgage-backed securities (which excludes mortgage-backed securities held by us in portfolio) on which Fannie Mae guarantees timely payment of principal and interest.

Redemption The Notes will not be subject to redemption by us prior to maturity.

Interest The Notes will accrue interest from July 26, 2002 at a rate of 5.25% per annum. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest will be paid semi-annually in arrears on each February 1 and August 1, commencing February 1, 2003.

Deferral of Interest We will defer the payment of interest on the Notes and on all other outstanding Subordinated Debt Securities if, as of the fifth Business Day prior to an Interest Payment Date on the Notes or on any other Subordinated Debt Securities (each, a “Deferral Determination Date”):

- our “core capital” is below 125% of our “critical capital” requirement,

or

- (1) our “core capital” is below our “minimum capital” requirement and (2) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 304(c) of the Charter Act to purchase our debt obligations.

Based on the most recent Office of Federal Housing Enterprise Oversight (“OFHEO”) announcement regarding our capital levels, at March 31, 2002, Fannie Mae had core capital of \$25,500 million or 203.53% of our critical capital requirement of \$12,529 million and \$929 million above our minimum capital requirement of \$24,571 million as of that date.

We may not defer interest on the Notes for more than five consecutive years or beyond their Maturity Date.

Accrual of Interest on
 Deferral Amounts If we defer the payment of interest on the Notes, interest will continue to accrue on the Notes and compound at a rate of 5.25% per annum.

Resumption of Interest
 Payments We will pay all deferred interest, and interest thereon, on the Notes and all other Subordinated Debt Securities as soon as, after giving effect to such Subpayments, we no longer would be required to defer interest under the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury. We will make this payment in respect of the Notes and all other Subordinated Debt Securities on the next scheduled Interest Payment Date that occurs in respect of the Notes or any other Subordinated Debt Securities, unless we elect to make the payment earlier.

No Dividends during Deferral Periods	During periods when we defer the payment of interest on the Notes, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or our preferred stock.
No Acceleration Right	The Notes will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event.
Tax Status	The Notes will constitute debt for U.S. federal income tax purposes. The Notes and payments on the Notes generally will be subject to taxation by the United States and generally are not exempt from taxation by other U.S. or non-U.S. taxing jurisdictions. Non-U.S. Persons generally will be subject to U.S. income and withholding tax unless they provide required certifications or statements.
Form	The Notes will be issued as Fed Book-Entry Securities.
Denominations	We will issue the Notes in minimum denominations of U.S.\$1,000 and additional increments of U.S.\$1,000.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Notices	We will give prompt notice of any event that would require deferral of the payment of interest on the Notes. We will also give notice of the resumption of the payment of interest on the Notes. See “Description of the Notes—Notices.”
Eligibility for Stripping	The Notes are not eligible to be separated or “stripped” into their separate interest components and principal components.
Identification Numbers:	CUSIP: 31359MNU3 ISIN: US31359MNU35 Common Code: 15230843

RISK FACTORS

Prospective purchasers of the Notes should consider carefully the risk factors set forth below, as well as all other information contained or incorporated by reference in this Supplement and the Offering Circular, in evaluating an investment in the Notes. You should also read the “Risk Factors” section of the Offering Circular.

Fannie Mae’s Obligations under the Notes are Subordinated

Fannie Mae’s obligations under the Notes will be issued under Section 304(e) of the Charter Act and will be unsecured and subordinated and will rank junior in priority of payment to our existing and future Senior Liabilities. This means that we cannot make any payments of principal or interest on the Notes if we default on any payment due in respect of any Senior Liabilities. See “Description of the Notes—Subordination” beginning on page S-14. In the event of a liquidation or dissolution of Fannie Mae, our assets would be available to pay obligations under the Notes only after all payments had been made of amounts then due in respect of all Senior Liabilities.

At June 30, 2002, we had outstanding total liabilities of \$808,947 million, \$802,947 million of which constitute Senior Liabilities. Senior Liabilities also include any liabilities related to the \$945,100 million of outstanding mortgage-backed securities (which excludes mortgage-backed securities held by us in portfolio) at that date on which Fannie Mae guarantees timely payment of principal and interest. At June 30, 2002, we had outstanding Subordinated Debt Securities of \$6,000 million.

Under Certain Conditions Interest Payments Must be Deferred

If (1) our core capital is below 125% of our critical capital requirement, or (2) (a) our core capital is below our minimum capital requirement and (b) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority under Section 304(c) of the Charter Act to purchase our debt obligations, then we must defer the payment of interest on the Notes and on other Subordinated Debt Securities for periods not to exceed five years. (The U.S. Secretary of the Treasury has discretionary authority to purchase obligations of Fannie Mae up to a maximum of \$2.25 billion outstanding at any one time.) See “Description of the Notes—Interest” on page S-13.

We will pay all deferred interest, and interest on that deferred interest, on the Notes and all other Subordinated Debt Securities as soon as, after giving effect to such payments, we no longer would be required to defer interest under the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury as described above. We will make this payment in respect of the Notes on the next scheduled Interest Payment Date that occurs in respect of the Notes or any other issue of Subordinated Debt Securities, unless we elect to make the payment earlier.

If we have not resumed interest payments on the Notes by their Maturity Date or have deferred interest on the Notes for five consecutive years, then we must pay deferred interest, and interest thereon, on the Notes regardless of our capital levels or our repayment of debt obligations purchased by the U.S. Secretary of the Treasury. Even if we are required to make any payment on the Notes, because the Notes are subordinated, Holders of the Notes will be entitled to receive payments only after we have made payment in full of all amounts then due in respect of any Senior Liabilities. In no event will Holders of the Notes be able to accelerate the maturity of their Notes; such Holders will have claims only for amounts then due and payable on their Notes. After we have fully paid all deferred interest on the Notes and if the Notes remain outstanding, future interest payments on the Notes will be subject to further deferral as described above.

Upon the deferral of interest payments, you generally will be required to accrue income, for United States federal income tax purposes, in respect of the accrued but unpaid interest on Notes held by you, as further described below under “United States Taxation.” As a result, you generally will recognize income for United States federal income tax purposes in advance of the receipt of payment. Additionally, you will not receive the payment of that interest if you dispose of your Notes prior to the

record date for the payment of accrued interest. Even though any income with respect to deferred interest will constitute ordinary income, if you sell your Notes you generally will recognize a capital loss to the extent that the selling price (which may not reflect the full amount of deferred interest) is less than your adjusted tax basis. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for United States federal income tax purposes. See “United States Taxation.”

Any deferral of interest payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in Fannie Mae’s financial condition.

There Is No Existing Trading Market for the Notes

The Notes constitute a new issue of securities with no established trading market. Application has been made to list the Notes on the Luxembourg Stock Exchange. There can be no assurance that an active market for the Notes will develop or be sustained in the future. Although the Dealers have indicated to us that they intend to make a market in the Notes, they are not obligated to do so and may discontinue any such market-making at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

Additionally, the Notes may trade at prices that do not fully reflect the amount of accrued but unpaid interest or deferred interest.

FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. § 1716 *et seq.* (the “Charter Act”). See “Government Regulation and Charter Act” in the Information Statement and “Additional Information About Fannie Mae” in this Supplement. We are the largest investor in home mortgage loans in the United States. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Fannie Mae provides funds to the mortgage market by purchasing mortgage loans and MBS from lenders and dealers, thereby replenishing their funds for additional lending. We acquire funds to purchase these loans and MBS by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. In this manner, we are able to expand the total amount of funds available for housing.

Fannie Mae also issues mortgage-backed securities (“MBS”), receiving guaranty fees for our guarantee of timely payment of principal and interest on MBS certificates. We issue MBS primarily in exchange for pools of mortgage loans from lenders. The issuance of MBS enables us to further our statutory purpose of increasing the liquidity of residential mortgage loans.

In addition, Fannie Mae offers various services to lenders and others for a fee. These services include issuing certain types of MBS and credit enhancements and providing technology services for originating and underwriting loans. See “Business” in the Information Statement and “Additional Information About Fannie Mae” in this Supplement.

Fannie Mae’s principal office is located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7000).

RECENT DEVELOPMENTS

Fannie Mae reported operating net income for the second quarter of 2002 of \$1.573 billion, a 19.7 percent increase compared with the second quarter of 2001. Operating earnings per diluted common share (“Operating EPS”) of \$1.55 rose 22.0 percent above the same period in 2001. Our operating net income for the first six months of 2002 was \$3.091 billion, compared with \$2.553 billion for the same period in 2001. Operating EPS for the first six months of 2002 was \$3.03, or 22.7 percent above the first six months of 2001.

Operating net income and Operating EPS exclude the variability in earnings that results from including unrealized gains and losses from the change in the market value of purchased options under Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“FAS 133”). Also excluded is the one-time cumulative change in accounting principle from the adoption of FAS 133 on January 1, 2001. Operating net income and Operating EPS provide consistent accounting treatment for purchased options and the options embedded in callable debt and are the performance measures used by company management. Net income for the second quarter of 2002 including FAS 133 items was \$1.464 billion, an increase of 4.4 percent over the second quarter of 2001. Earnings per share including FAS 133 items were \$1.44, 5.9 percent above the same period last year. Net income and earnings per share for the six months ended June 30, 2002, including FAS 133 items, were \$2.672 billion and \$2.61, respectively.

Business Volume

Fannie Mae’s business volume—mortgages purchased for portfolio plus MBS issues acquired by other investors—totaled \$159.8 billion in the second quarter of 2002, compared with \$165.7 billion in the second quarter of 2001 and \$197.8 billion in the first quarter of 2002. Business volume for the first six months of 2002 was \$357.6 billion, a 31.8 percent increase from \$271.3 billion for the first six months of 2001. Business volume in the second quarter of 2002 consisted of \$56.9 billion in portfolio purchases and \$102.9 billion in MBS issues acquired by other investors, compared with \$65.3 billion and \$100.4 billion, respectively, in the second quarter of 2001. Retained commitments to purchase mortgages were \$59.9 billion in the second quarter of 2002, compared with \$65.6 billion in the second quarter of 2001.

Our combined book of business—the net mortgage portfolio and outstanding MBS held by other investors—grew at a compound annual rate of 14.9 percent during the second quarter of 2002, ending the period at \$1.686 trillion. This growth resulted from a 4.9 percent annualized growth rate in the net mortgage portfolio to \$741 billion and a 23.5 percent rate of growth in outstanding MBS to \$945 billion at June 30, 2002. For the first six months of 2002, the combined book of business grew at an annual rate of 16.2 percent.

Portfolio Investment Business Results

Fannie Mae’s portfolio investment business manages the interest rate risk of our mortgage portfolio and other investments. The results of this business are largely reflected in adjusted net interest income, which is net interest income less the amortization expense of purchased options. Adjusted net interest income for the second quarter of 2002 was \$2.202 billion, up 22.4 percent from \$1.799 billion in the second quarter of 2001. This increase was driven by a 13.9 percent rise in the average net investment balance and a 7 basis point increase in the average net interest margin. Adjusted net interest income for the first six months of 2002 was \$4.322 billion, up 25.5 percent from \$3.443 billion during the comparable period in 2001.

Our net investment balance—consisting of the net mortgage portfolio and our liquid investments—averaged \$802 billion during the second quarter of 2002, compared with \$704 billion during the second quarter of 2001. The net investment balance was \$806 billion at June 30, 2002.

Our net interest margin averaged 116 basis points in the second quarter of 2002, compared with 109 basis points in the second quarter of 2001 and 115 basis points in the first quarter of 2002. Fannie Mae's net interest margin has averaged 116 basis points for the six months ended June 30, 2002, up from 106 basis points for the first six months of 2001.

Our net mortgage portfolio grew at an annual rate of 4.9 percent during the second quarter of 2002, ending the quarter at \$741 billion. Portfolio growth in June fell to an annual rate of 0.8 percent, as mortgage purchases slowed in response to tighter mortgage-to-debt spreads and liquidation rates remained relatively high.

We realized losses from debt repurchases and debt calls for the second quarter of 2002 of \$224.7 million, compared with losses of \$142.5 million in the second quarter of 2001. This \$224.7 million loss is comprised of realized losses on debt repurchases of \$179.8 million and losses on debt calls of \$44.9 million. Debt repurchased and debt called in the second quarter of 2002 totaled \$3.5 billion and \$26.7 billion, respectively.

During the second quarter of 2002, we elected to adopt early the provision of Financial Accounting Standard No. 145 ("FAS 145") that permits the recording of gains and losses on the call or repurchase of debt as part of recurring operations rather than as an extraordinary item. Fannie Mae regularly calls or repurchases debt as part of its interest rate risk management program. Prior period financial results have been reclassified to conform to the current presentation.

Credit Guaranty Business Results

Fannie Mae's credit guaranty business manages its credit risk. The primary indicators of results of this business are guaranty fee income and credit-related losses. Guaranty fee income was \$423.5 million in the second quarter of 2002, an 18.6 percent increase when compared with the second quarter of 2001. The increase in guaranty fee income was driven by a 22.5 percent rise in average outstanding MBS, partially offset by a decline in the average effective guaranty fee rate compared with the previous year. The effective guaranty fee rate in the second quarter of 2002 was 18.3 basis points, compared with 18.9 basis points in the second quarter of 2001 and 18.6 basis points in the first quarter of 2002. Guaranty fee income for the first six months of 2002 was \$831.1 million, compared with \$700.2 million for the first six months of 2001.

Credit-related losses—foreclosed property expense plus charge-off recoveries—remained low, driven by a strong housing market and continued home price gains. Credit-related losses totaled \$17.3 million in the second quarter of 2002, compared with \$16.2 million in the second quarter of 2001. Foreclosed property expense was \$54.2 million in the second quarter of 2002, compared with \$47.4 million in the second quarter of 2001. Charge-off recoveries were \$36.9 million in the second quarter of 2002, compared with \$31.2 million in the second quarter of 2001. Our credit loss rate—credit-related losses as a percentage of the average combined book of business—was 0.4 basis points in the second quarter of 2002, down from 0.5 basis points during the second quarter of 2001. Our conventional at-risk single-family serious delinquency rate, an indicator of potential future loss activity, was .42 percent at May 31, 2002, down from the first quarter high point of .49 percent in January.

Credit-related expenses, which includes foreclosed property expense and the provision for losses and is the amount recorded on our income statement, totaled \$24.2 million in the second quarter of 2002, in line with credit-related losses. Our loss provision was a negative \$30.0 million in the second quarter of 2002, unchanged from the second quarter of 2001. Our allowance for loan losses stood at \$813 million at June 30, 2002, compared with \$806 million at March 31, 2002 and \$811 million at June 30, 2001.

Fee and Other Income

Fee and other income in the second quarter of 2002 totaled \$41.6 million, compared with \$24.5 million in the second quarter of 2001. The increase from the second quarter of 2001 was primarily due to gains on the sale of mortgages. Fee and other income for the first six months of 2002 was \$45.2 million, compared with \$51.8 million for the first six months of 2001.

Fee and other income includes technology fees, transaction fees, multifamily fees and other miscellaneous items, and is net of operating losses from certain tax-advantaged investments—primarily investments in affordable housing which qualify for the low income housing tax credit. Tax credits associated with housing tax credit investments are recorded in the federal income tax line.

Administrative Expenses

Administrative expenses totaled \$301.3 million in the second quarter of 2002, up 18.4 percent from the second quarter of 2001. This above-average growth in expenses is related to our reengineering of our core technology infrastructure to enhance our ability to process and manage the risk on mortgage assets. Our ratio of administrative expense to the average combined book of business in the second quarter of 2002 was .073 percent, unchanged from the second quarter of 2001. Our efficiency ratio—administrative expense divided by taxable-equivalent revenue—improved to 10.1 percent in the second quarter of 2002 from 10.4 percent in the second quarter of 2001.

Capital

Fannie Mae's core capital was \$26.4 billion at June 30, 2002 compared with \$25.5 billion at March 31, 2002 and \$23.0 billion at June 30, 2001.

We repurchased 3.3 million shares of common stock during the second quarter of 2002 and 10.8 million shares year-to-date. Common stock repurchases for 2001 totaled 6.0 million shares. Year-to-date repurchases included shares used to fund our \$300 million commitment to the Fannie Mae Foundation made in the fourth quarter of 2001. At June 30, 2002 we had 992.8 million shares of common stock outstanding compared with 995.5 million shares at March 31, 2002.

We had \$6,000 million of subordinated debt outstanding at June 30, 2002. Subordinated debt serves as an important supplement to our equity capital, although it is not a component of core capital. After providing for capital to support our off-balance sheet MBS, our capital and outstanding subordinated debt as a percent of on-balance sheet assets was 3.5 percent at June 30, 2002.

Derivatives and FAS 133

Fannie Mae primarily uses derivative instruments as substitutes for non-callable and callable debt issued in the cash markets to help match the cash flow characteristics of its debt with those of its mortgages and reduce the interest rate risk in its portfolio. We account for our derivatives under FAS 133, which was adopted on January 1, 2001. The implementation of FAS 133 resulted in significant accounting presentation changes to both our income statement and balance sheet.

FAS 133 requires that we mark to market on our income statement the changes in the time value of our purchased options—interest rate swaptions and interest rate caps—although it does not permit us to mark to market our options embedded in debt or mortgage investments. The mark to market of our purchased options during the second quarter of 2002 resulted in a net unrealized loss of \$498.2 million. Purchased options expense in the second quarter of 2002 includes \$330.4 million in amortization of the cost to purchase these options, which was included in net interest income prior to the adoption of FAS 133 and currently is included in adjusted net interest income and in operating earnings.

FAS 133 also requires that we record any change in the fair values of certain derivatives, primarily interest rate swaps we use as substitutes for noncallable debt, on the balance sheet in accumulated

other comprehensive income (AOCI), which is a separate component of stockholders' equity. For these types of transactions, FAS 133 does not require or permit noncallable debt to be marked to market. At June 30, 2002, the AOCI component of stockholders' equity included a reduction of \$9.5 billion, or 1.3 percent of the net mortgage balance, from the marking to market of these derivatives, up from a reduction of \$4.8 billion at March 31, 2002. Accumulated other comprehensive income is not a component of core capital.

At June 30, 2002, the notional balance of our purchased options totaled \$251 billion, compared with \$238 billion at March 31, 2002. We also had \$305 billion in interest rate swaps that were marked to market through accumulated other comprehensive income at June 30, 2002. We had \$290 billion in comparable swaps at March 31, 2002.

Our primary credit exposure on derivatives is that a counterparty might default on payments due, which could result in us having to replace the derivative with a different counterparty at a higher cost. Our exposure on derivative contracts (taking into account master settlement agreements that allow for netting of payments and excluding collateral received) was \$958 million at June 30, 2002. All of this exposure was to counterparties rated A-/A3 or higher. We held \$680 million of collateral through custodians for these instruments. Our exposure, net of collateral, was \$278 million at June 30, 2002 compared to \$200 million at March 31, 2002. The replacement cost at June 30, 2002 represents less than two weeks of annualized pre-tax operating earnings.

Voluntary SEC Disclosure

On July 12, 2002, Fannie Mae announced that it would voluntarily register its common stock with the SEC under the Exchange Act in 2003. This will result in Fannie Mae being subject to the periodic reporting requirements of registered companies under the Exchange Act. Our securities offerings, including equity, debt and MBS, will remain exempt from registration with the SEC, and there will be no effect on the status of our securities as "government securities" under the Exchange Act and the Investment Company Act of 1940, as amended.

USE OF PROCEEDS

We will use the net proceeds from the sale of the Notes to retire our outstanding debt securities or add the proceeds to our working capital and use them for general corporate purposes. We anticipate the need for additional financing from time to time, including financing through various types of debt securities. The amount and nature of the financings will depend upon a number of factors, including the volume of our maturing debt obligations, the volume of mortgage loan prepayments, the volume and type of mortgage loans and MBS we purchase, and general market conditions.

RATING

The Notes are expected to be rated "Aa2" by Moody's Investors Service, Inc., "AA-" by Standard & Poor's Ratings Group, a Division of the McGraw-Hill Companies and "AA" by Fitch Ratings. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or may be withdrawn at any time by the assigning rating organization.

CAPITAL REQUIREMENTS
(Dollars in millions)

	March 31,		December 31,				
	2002 (1)	2001	2001	2000	1999	1998	1997
Core Capital	\$25,500	\$21,482	\$25,182	\$20,827	\$17,876	\$15,465	\$13,793
Required Critical Capital	12,529	10,712	12,324	10,337	9,127	7,863	6,528
Core Capital as a Percentage of Required Critical Capital	203.53%	200.54%	204.33%	201.48%	195.86%	196.68%	211.29%
Required Minimum Capital	\$24,571	\$21,033	\$24,182	\$20,294	\$17,770	\$15,334	\$12,703

(1) Most recent levels verified by OFHEO.

“Core capital” is the sum of:

- the stated value of our outstanding common stock,
- the stated value of our non-cumulative perpetual preferred stock,
- paid in capital, and
- retained earnings.

“Critical capital” is the sum of:

- 1.25% of on-balance sheet assets,
- .25% of outstanding mortgage-backed securities, and
- .25% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

“Minimum capital” is the sum of:

- 2.50% of on-balance sheet assets,
- .45% of net outstanding mortgage-backed securities, and
- .45% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances (See 12 CFR § 1750.4 for existing adjustments made by the Director of OFHEO).

OFHEO currently reviews our core capital, critical capital and minimum capital levels and determines our capital classification on a quarterly basis. OFHEO may not announce our capital levels or our capital classification until up to approximately 90 days following a period-end due to the time required for Fannie Mae to prepare the required data, for OFHEO to review that data and for Fannie Mae to review OFHEO’s proposed capital levels and capital classification.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 sets forth the criteria for calculating Fannie Mae’s core capital level and our critical capital and minimum capital requirements. With respect to the calculations of our minimum and critical capital levels, the Director of OFHEO may adjust the percentage applicable to certain off-balance sheet obligations to reflect differences in the credit risk of those obligations in relation to the credit risk on our off-balance sheet mortgage-backed securities. The Director of OFHEO has made such an adjustment with respect to the calculation of our minimum capital requirement but not to our critical capital requirement. (See 12 CFR §1750.4). We, however, compute our critical capital level using the adjustments made by the Director of OFHEO with respect to minimum capital. The Director of OFHEO may in the future make further such adjustments to our minimum and critical capital requirements.

DESCRIPTION OF THE NOTES

General

Fannie Mae expects to issue Subordinated Debt Securities in an amount such that, following a phase-in period ending December 31, 2003, the sum of our core capital, loss allowances and outstanding Subordinated Debt Securities will equal or exceed four percent of on-balance sheet assets, after setting aside capital sufficient to support off-balance sheet mortgage-backed securities.

The Notes will be issued as Fed Book-Entry Securities in book-entry form on the book-entry system of the U.S. Federal Reserve Banks. The Notes may be held indirectly through the clearing systems operated by Euroclear and Clearstream. Fed Book-Entry Securities will not be exchangeable for definitive securities. The Notes are not eligible to be separated or “stripped” into their separate interest components and principal components.

The Notes are being offered globally for sale in the United States, Europe, Asia and elsewhere where it is lawful to make such offers. Application has been made to list the Notes on the Luxembourg Stock Exchange. The Specified Payment Currency for the Notes will be U.S. dollars.

The Maturity Date of the Notes will be August 1, 2012, and the Notes may not be redeemed prior to maturity. The Notes will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event.

We will pay 100% of the principal amount of the Notes on the Maturity Date (assuming we have paid in full all amounts then due in respect of any Senior Liabilities). See “—Subordination.”

Interest

The Notes will be Fixed Rate Securities and will accrue interest from July 26, 2002 at a rate of 5.25% per annum. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Interest Payment Dates will be February 1 and August 1 of each year, commencing February 1, 2003.

We will defer the payment of interest on the Notes and on all other outstanding Subordinated Debt Securities if, as of the fifth Business Day prior to a Deferral Determination Date:

- our “core capital” is below 125% of our “critical capital” requirement,
- or**
- (1) our “core capital” is below our “minimum capital” requirement and (2) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 304(c) of the Charter Act to purchase our debt obligations.

We will use the core, critical and minimum capital levels most recently announced by OFHEO, pursuant to its then current methodology for calculating those levels, prior to any such Deferral Determination Date to determine whether we must defer interest on the Notes and all other outstanding Subordinated Debt Securities.

If legislation is enacted that revises the definition of core, critical or minimum capital, or if OFHEO ceases to announce any of these capital levels, Fannie Mae will calculate any revised or no longer announced capital levels on a monthly basis in accordance with the current statutory definitions and the then-current OFHEO requirements. An independent third party will verify any capital levels that we are required to calculate. Upon such third party verification, we will publicly announce the results. See “Capital Requirements.”

Based on the most recent OFHEO announcement regarding our capital levels, at March 31, 2002, Fannie Mae had core capital of \$25,500 million or 203.53% of our critical capital requirement of

\$12,529 million and \$929 million above our minimum capital requirement of \$24,571 million as of that date.

We may not defer interest on the Notes for more than five consecutive years or beyond their Maturity Date.

If we defer the payment of interest on the Notes, interest will continue to accrue on the Notes and will compound at a rate of 5.25% per annum.

We will pay all deferred interest, and interest on that deferred interest, on the Notes and all other Subordinated Debt Securities as soon as, after giving effect to such payments, we no longer would be required to defer interest under the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury as described above. We will make this payment in respect of the Notes on the next scheduled Interest Payment Date that occurs in respect of the Notes or any other issue of Subordinated Debt Securities, unless we elect to make the payment earlier.

If we have not resumed interest payments on the Notes by their Maturity Date, then we must pay deferred interest, and interest thereon, on the Notes regardless of our core capital levels or our repayment of all debt obligations purchased by the U.S. Secretary of the Treasury. Even if we are required to make any payment on the Notes, because the Notes are subordinated, Holders of the Notes will be entitled to receive payments only after we have made payment in full of all amounts then due in respect of Senior Liabilities. In no event will Holders of the Notes be able to accelerate the maturity of their Notes; such Holders will have claims only for amounts then due and payable on their Notes. After we have fully paid all deferred interest on the Notes and if the Notes remain outstanding, future interest payments on the Notes will be subject to further deferral as described above.

During periods when we defer the payment of interest on the Notes or other Subordinated Debt Securities, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or our preferred stock.

You should read “United States Taxation” in this Supplement for a discussion of selected United States federal income tax considerations in the event of a deferral of interest payments under the Notes.

Subordination

The Notes will be unsecured subordinated obligations of Fannie Mae issued under Section 304(e) of the Charter Act. The Notes will rank junior in priority of payment to our “Senior Liabilities.” “Senior Liabilities” means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and Fannie Mae’s Outstanding Capital Debentures.

In the event and during the continuation of any default in the payment of any amount due in respect of Senior Liabilities, beyond any applicable period of grace, then, unless and until such default shall have been cured or waived or shall have ceased to exist, we can pay no principal of or interest on the Notes unless we have made adequate provision for the payment in full of such amounts then due in respect of all Senior Liabilities.

Upon any distribution of assets of Fannie Mae resulting from any dissolution, winding up, total or partial liquidation or reorganization (whether in bankruptcy, insolvency, reorganization or receivership proceedings), or upon an assignment for the benefit of creditors or any other marshalling of assets and liabilities of Fannie Mae, payments on the Notes are subordinated to the extent provided in the Notes in right of payment to the prior payment of amounts then due in respect of Senior Liabilities, but the obligation of Fannie Mae to make payments on the Notes will not otherwise be affected. Because the Notes are subordinated in right of payment to Senior Liabilities, in the event of

a distribution of assets upon insolvency, holders of Senior Liabilities may recover more, ratably, than Holders of the Notes. Holders of the Notes will be subrogated to the rights of holders of Senior Liabilities to the extent of payments made on such Senior Liabilities upon any distribution of assets in any proceedings in respect of the Notes.

At June 30, 2002, we had outstanding total liabilities of \$808,947 million, \$802,947 million of which constitute Senior Liabilities. Senior Liabilities also include any liabilities related to the \$945,100 million of outstanding mortgage-backed securities (which excludes mortgage-backed securities held by us in portfolio) at that date on which Fannie Mae guarantees timely payment of principal and interest. At June 30, 2002, we had outstanding Subordinated Debt Securities of \$6,000 million.

Reopenings

We may increase the size of this issue of Notes from time to time without the consent of any Holder of a Note by issuing additional Notes with the same terms (other than the date of issuance, interest commencement date and offering price, which may vary). This type of offering often is referred to as a “reopening”. We may issue additional Notes in this manner from time to time and without the consent of any Holder of a Note.

Notices

We will give prompt notice of any event that would require deferral of the payment of interest on the Notes. We will also give notice of the resumption of the payment of interest on the Notes. We will give all notices by broadcast through the communications system of the U.S. Federal Reserve Banks. We also will give notices in a general circulation newspaper in the City of New York and, if and so long as the Notes are listed on the Luxembourg Stock Exchange, in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if publication in Luxembourg is not practical, elsewhere in Europe. Notice by publication will be considered given on the date of publication or, if published more than once, on the date of first publication.

LEGALITY OF INVESTMENT

National banks may purchase, hold and invest in the Notes for their own accounts without regard to limitations generally applicable to investment securities. Federal savings associations and federal savings banks may invest in the Notes without regard to limitations generally applicable to investments. Federally insured state-chartered banks, state-chartered savings banks and state-chartered savings and loan associations may invest in the Notes to the extent permitted by the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”) and by applicable state law, after complying with any procedures imposed by the state. On April 19, 2001, our Subordinated Debt Securities received a 20 percent risk weighting from the following U.S. federal banking regulators: The Board of Governors of the Federal Reserve System, The Office of Thrift Supervision, The Comptroller of the Currency and The Federal Deposit Insurance Corporation.

In addition to the specific authorizations discussed above, §106(a)(1) of SMMEA provides that any person, trust, corporation, partnership, association, business trust or business entity created pursuant to or existing under the laws of the United States or any state (including the District of Columbia and Puerto Rico) (an “investor”) is authorized to purchase, hold and invest in securities issued or guaranteed by Fannie Mae (including the Notes) to the same extent that such investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Prior to October 4, 1991, states were authorized by SMMEA to enact legislation that either prohibited or limited an investor’s authority to purchase, hold or invest in securities issued or guaranteed by Fannie Mae. To the best of our knowledge, 18 states currently have legislation limiting to varying extents the ability of certain entities (in most cases, insurance companies) to invest in securities issued or guaranteed by Fannie Mae, including the Notes.

Notwithstanding the above, investors should consult their legal advisors to determine whether and to what extent the Notes constitute legal investments for such investors or are eligible to be used as security for borrowings. The foregoing does not take into consideration the application of statutes, regulations, orders, guidelines or agreements generally governing investments made by a particular investor, including but not limited to “prudent investor” provisions, safety and soundness conditions and percentage-of-assets limits. The regulatory authorities that administer the legal provisions referred to above generally reserve discretion whether securities, such as the Notes, that are otherwise acceptable for investment may be purchased or pledged by the institutions subject to their jurisdiction. An institution under the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, or any other federal or state agency with similar authority should review any applicable regulations, policy statements and guidelines before purchasing the Notes.

UNITED STATES TAXATION

The Notes and payments thereon generally are subject to taxation. Therefore, you should consider the tax consequences of owning and receiving payments on a Note before acquiring one.

The following discussion supplements the discussion under the caption “United States Taxation” in the Offering Circular. We have engaged Arnold & Porter as special tax counsel to review these discussions. They have given us their opinion that, when read together, the two discussions correctly describe the principal U.S. federal income tax consequences applicable to beneficial owners of the Notes. These two discussions do not purport to deal with all U.S. federal tax consequences applicable to all categories of beneficial owners, some of which may be subject to special rules. In addition, these discussions may not apply to your particular circumstances for one of the reasons explained in the Offering Circular. You should consult your own tax advisors regarding the federal income tax consequences of purchasing, owning and disposing of Notes as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Tax Status of the Notes

The Notes will constitute debt for U.S. federal income tax purposes.

Qualified Stated Interest

Under the OID Regulations, a debt instrument will generally be treated as issued with OID if the stated interest on the debt instrument does not constitute “qualified stated interest.” Qualified stated interest is generally any one of a series of stated interest payments on a debt instrument that are unconditionally payable at least annually at a single fixed rate. In determining whether stated interest on a debt instrument is unconditionally payable and thus constitutes qualified stated interest, remote contingencies as to the timely payment of stated interest are ignored.

In the case of the Notes, we have concluded that the likelihood of a deferral of payments of interest pursuant to either of the events described under “Description of the Notes—Interest” is remote. Accordingly, we believe and will take the position that all stated interest on the Notes constitutes qualified stated interest. Based on these conclusions and except as set forth below, stated interest on a Note generally will be included in income by a beneficial owner of the Note that is a U.S. Person as ordinary income at the time it is paid or accrued in accordance with the beneficial owner’s regular method of accounting.

If the likelihood (as of time of the issuance of the Notes) of a deferral of any payment of interest was determined not to be remote or if any payment of interest on the Notes is actually deferred, the Notes would be treated as issued with OID at the time of issuance or at the time of such deferral, as the case may be, and all stated interest would thereafter be treated as OID as long as the Notes remained outstanding. In that event, all of a beneficial owner’s taxable interest income in respect of the Notes would constitute OID that generally would have to be included in income by a U.S. Person on a constant yield method before the receipt of the cash attributable to such income, regardless of the beneficial owner’s method of tax accounting, and actual distributions of stated interest would not be reported as taxable income. See “United States Taxation—U.S. Persons—Debt Securities Issued at a Discount” in the Offering Circular.

The portion of the OID Regulations referred to above has not been interpreted by any court decision or addressed in any ruling or other pronouncement of the IRS, and it is possible that the IRS could take a position contrary to the conclusions above.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the Dealer Agreement, Fannie Mae has agreed to sell to each of the Dealers named below, and each of the Dealers, for whom Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated are acting as joint lead managers (the “Lead Managers”), has severally agreed to purchase, the amount of Notes set forth opposite its name below:

<u>Dealer</u>	<u>Principal Amount</u>
Lehman Brothers Inc.	\$ 428,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	428,000,000
Morgan Stanley & Co. Incorporated	429,000,000
Bear Stearns & Co. Inc.	40,000,000
Goldman, Sachs & Co.	35,000,000
J.P. Morgan Securities Inc.	35,000,000
Salomon Smith Barney Inc.	35,000,000
UBS Warburg LLC	35,000,000
The Williams Capital Group, L.P.	35,000,000
Total	<u>\$1,500,000,000</u>

In the Dealer Agreement, the Dealers have severally agreed, subject to the terms and conditions set forth therein, to purchase all the Notes offered hereby if any are purchased.

The Lead Managers have advised Fannie Mae that the Dealers propose initially to offer the Notes to the public at the initial public offering price set forth on the cover page of this Supplement, and to certain Dealers at such price less a concession not in excess of .24% of the principal amount of the Notes. After the initial public offering, the public offering price and concession may be changed.

Prior to this offering, there has been no public market for the Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange. The Lead Managers have advised Fannie Mae that they intend to make a market in the Notes, but are not obligated to do so and may discontinue any such market making at any time without notice.

In the Dealer Agreement, Fannie Mae and the Dealers have agreed to indemnify each other against and contribute toward certain liabilities.

The Dealers and certain affiliates thereof engage in transactions with and perform services for Fannie Mae in the ordinary course of business.

The Dealers, through Morgan Stanley & Co. Incorporated, as stabilizing manager, may engage in certain transactions that stabilize the price of the Notes. These transactions may include entering stabilizing bids, which means the placing of a bid or the effecting of a purchase for the purpose of pegging, fixing or maintaining the price of the Notes. Neither we nor the Dealers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. The Dealers are not required to engage in any of these transactions. When so doing, the Dealers act on their own behalf and not as our representatives. Any such transactions, if commenced, may be discontinued at any time.

ACCOUNTANTS

The financial statements of Fannie Mae as of December 31, 2001 and 2000 and for each of the years in the three-year period ended December 31, 2001 incorporated by reference herein, have been included in reliance upon the report of KPMG LLP, independent certified public accountants. The audit report covering the December 31, 2001 financial statements refers to a change in the accounting for derivative financial instruments.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon for Fannie Mae by Sidley Austin Brown & Wood LLP, New York, New York, and for the Dealers by Sullivan & Cromwell, Washington, D.C. Certain U.S. federal income tax matters will be passed upon for Fannie Mae by Arnold & Porter, Washington, D.C.

ADDITIONAL INFORMATION ABOUT FANNIE MAE

This Supplement and the Offering Circular should be read only in conjunction with our Information Statement dated April 1, 2002 and the Supplement to the Information Statement dated May 15, 2002 (together, the "Information Statement"). Any Information Statement, supplement to it, or proxy statement published by us subsequent to the date of this Supplement and prior to the termination of the offering of the Notes shall be deemed to be incorporated herein by this reference. You should rely only on the information provided or incorporated by reference in this Supplement and the Offering Circular, and you should rely only on the most current information.

You can obtain copies of any or all documents incorporated in this Supplement and the Offering Circular by reference without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7115) or by accessing our World Wide Web site at www.fanniemae.com. The information on our website is not part of or incorporated by reference in this Supplement or the Offering Circular. In addition, copies of such documents can be obtained from any of the Dealers. You can read the Information Statement, proxy statements and other information concerning us at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. See "Additional Information About Fannie Mae" in the Offering Circular.

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OFFERING CIRCULAR DATED JANUARY 22, 2002

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OFFERING CIRCULAR



Universal Debt Facility Debt Securities with maturities of one day or longer

We, the Federal National Mortgage Association, or Fannie Mae, may issue an unlimited amount of Debt Securities from time to time under our Universal Debt Facility. We will designate some Debt Securities as Benchmark SecuritiesSM, which are U.S. dollar denominated, regularly scheduled issues in large principal amounts. Our current Benchmark Securities are:

- Benchmark BillsSM
- Benchmark Notes[®]
- Benchmark Bonds[®]
- Callable Benchmark NotesSM
- Subordinated Benchmark Notes[®]

We may issue other Debt Securities, denominated in U.S. dollars or other currencies, with maturities of one day or longer. The Debt Securities will have various terms, as described in this Offering Circular and any applicable pricing supplement. These Debt Securities will be:

- Short-Term Notes
- Notes
- Bonds

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.

An investment in Debt Securities may involve risks for some investors. It is important that you read the “Risk Factors” section beginning on page 7.

We may sell Debt Securities to or through one or more Dealers as principal or otherwise, or directly to institutional investors. We cannot assure you that there will be a secondary market for the Debt Securities or how liquid the market will be if one develops.

We have made an application to list Debt Securities issued under this Universal Debt Facility through January 22, 2003, on the Luxembourg Stock Exchange. We also may issue unlisted Debt Securities and Debt Securities listed on other stock exchanges.

This Offering Circular replaces and supersedes the Offering Circular, dated January 23, 2001, for issues settling upon original issuance on or after February 1, 2002.

The date of this Offering Circular is January 22, 2002.

“Benchmark Securities”, “Benchmark Bills” and “Callable Benchmark Notes” are service marks of Fannie Mae. “Benchmark Notes” and “Benchmark Bonds” are registered service marks of Fannie Mae.

Stabilization

In connection with any issue of Debt Securities, a Dealer identified as stabilizing manager in the applicable Pricing Supplement may, subject to applicable laws and regulations, overallocate or effect transactions which stabilize or maintain the market price of the Debt Securities of such issue at a level above that which might otherwise prevail in the open market. Such transactions may be effected on any exchange on which the Debt Securities may be listed, in an over-the-counter market or otherwise. Such stabilization, if commenced, may be discontinued at any time.

Selling Restrictions

We are not required to register the Debt Securities under the U.S. Securities Act of 1933, as amended. Accordingly, we have not filed a registration statement with the U.S. Securities and Exchange Commission. The Debt Securities are “exempt securities” within the meaning of the Securities Exchange Act of 1934, as amended. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these Debt Securities or determined if this Offering Circular, any Pricing Supplement or any other supplement or amendment is truthful or complete. Any representation to the contrary is a criminal offense.

We may not communicate this Offering Circular, any Pricing Supplement or any other supplement in the United Kingdom to any person unless that person falls within Article 19 or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, as amended, or is a person to whom we may otherwise lawfully communicate this Offering Circular, any Pricing Supplement or any other supplement. We have not registered the Debt Securities under the Securities and Exchange Law of Japan, and we may not make offers and sales, direct or indirect, of Debt Securities in Japan or to any resident of Japan or to any person for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan except in compliance with, or pursuant to an exemption from, the registration requirements of the Securities and Exchange Law available thereunder and in compliance with other relevant laws of Japan. For a further description of restrictions on offers, sales and deliveries of the Debt Securities and on the distribution of this Offering Circular, any Pricing Supplement or any other supplement hereto, see “Plan of Distribution—Selling Restrictions” and Appendix E.

The distribution of this Offering Circular, any Pricing Supplement or any other supplement and the offer, sale, and delivery of Debt Securities in certain jurisdictions may be restricted by law. Persons who come into possession of this Offering Circular, any Pricing Supplement or any other supplement must inform themselves about and observe any applicable restrictions.

This Offering Circular, any Pricing Supplement or any other supplement is not an offer to sell or a solicitation of an offer to buy any securities other than the Debt Securities or an offer to sell or a solicitation of an offer to buy Debt Securities in any jurisdiction or in any other circumstance in which an offer or solicitation is unlawful or not authorized.

Pricing Supplements Relating to Specific Debt Securities

When we offer Debt Securities other than Benchmark Bills or Short-Term Notes, we will provide you with a “Pricing Supplement” describing the terms of the specific issue of Debt Securities, including the offering price. The Pricing Supplement also may amend or supplement this Offering Circular with respect to a specific issue of Debt Securities. You should read the Pricing Supplement and any other applicable supplement together with this Offering Circular.

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* We use capitalized terms in this Offering Circular. See Appendix H for the page locations of the definitions of the principal capitalized terms.

SUMMARY

This summary highlights information contained elsewhere in this Offering Circular, including in the Appendices. It does not contain all of the information you should consider before investing in the Debt Securities. You also should read the more detailed information in this Offering Circular and any applicable supplement, including any Pricing Supplement for a particular issue of Debt Securities. This Offering Circular sets forth the general terms of the Debt Securities; the applicable Pricing Supplement or other supplement will describe the particular terms of any issue of Debt Securities (other than Benchmark Bills and Short-Term Notes), and the extent, if any, that any of the general terms will not apply to particular Debt Securities. You should read Appendix B for more specific information regarding Benchmark Bills and Short-Term Notes and Appendix C for more specific information regarding Subordinated Benchmark Notes and other Subordinated Debt Securities.

Fannie Mae

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act. We are the largest investor in home mortgage loans in the United States. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Description of the Debt Securities

Issuer	Fannie Mae
Benchmark Securities.....	We plan to issue Benchmark Securities, which are U.S. dollar denominated, regularly scheduled issues in large principal amounts, in the form of Benchmark Bills, Benchmark Notes, Callable Benchmark Notes, Benchmark Bonds and Subordinated Benchmark Notes. Issuances may consist of new issues of Benchmark Securities or the “reopening” of an existing issue.
Other Debt Securities	We plan to issue other Debt Securities from time to time denominated in U.S. dollars or other currencies with maturities of one day or longer. We will issue these Debt Securities as Short-Term Notes, Notes or Bonds.
Pricing Supplement.....	We will describe in a Pricing Supplement or other supplement specific terms, pricing information and other information for each issue of Debt Securities other than Benchmark Bills or Short-Term Notes.
Amount	We may issue an unlimited amount of Debt Securities.
Specified Currencies	Debt Securities may be denominated in, and principal and interest on Debt Securities may be paid in, U.S. dollars and other currencies or currency units that we determine. Government or monetary authorities may require that debt securities denominated in certain currencies or currency units have certain denominations or have minimum or maximum maturities.

Denomination	We will issue U.S. dollar denominated Debt Securities in minimum denominations of U.S. \$1,000 and additional increments of U.S. \$1,000. We will issue non-U.S. dollar denominated Short-Term Notes in the denominations listed in Appendix B. The applicable Pricing Supplement will indicate the denominations for other non-U.S. dollar denominated Debt Securities.
Principal Amount	The principal amount payable at maturity may be a fixed amount, which may be par or a specified amount above or below par. The principal amount payable at maturity also may be a variable amount determined by reference to one or more indices, such as interest or exchange rate indices, or other formulas. The principal may be amortized through periodic payments during the term of the Debt Securities.
Interest	Debt Securities may bear interest at fixed or variable rates (or a combination of fixed and variable rates), or may bear interest that is indexed by reference to an interest or currency exchange rate or in some other manner, or may not bear interest.
Offering Price	Debt Securities will be offered at fixed prices equal to par, or a discount to or premium over par, or at varying prices relating to prevailing market prices at the time of resale as determined by the applicable Dealer.
No Acceleration Rights	The Debt Securities will not contain any provisions permitting the Holders to accelerate the maturity of the Debt Securities if a default or other event occurs.
Form	We will issue Debt Securities in book-entry form either through the U.S. Federal Reserve Banks or through another depository. Except in the limited circumstances described in this Offering Circular, we will not issue Debt Securities in definitive form.
Eligibility for Stripping	The Pricing Supplement will indicate whether Fed Book-Entry Securities will be eligible to be separated (“stripped”) into their separate interest and principal components on the book-entry records of the Federal Reserve Bank of New York.
Status	The Debt Securities will be unsecured general obligations of Fannie Mae issued under Section 304(b) of the Charter Act or unsecured subordinated obligations of Fannie Mae issued under Section 304(e) of the Charter Act. 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.
Redemption	The Pricing Supplement for a particular issue of Debt Securities will specify whether the Debt Securities are subject to mandatory or optional redemption, in whole or in part, prior to maturity and, if redeemable, will describe terms applicable to the redemption. Benchmark Bills and Short-Term Notes will not be redeemable prior to maturity.

Governing Law Fed Book-Entry Securities (including rights and obligations) will be governed by, and construed in accordance with, regulations adopted by the U.S. Department of Housing and Urban Development or any other U.S. governmental body or agency that are applicable to the Fed Book-Entry Securities, and, to the extent that these regulations do not apply, the laws of the State of New York, U.S.A. Global Book-Entry Securities will be governed by, and construed in accordance with, the laws of the State of New York, U.S.A.

Tax Status The Debt Securities and payments thereon generally are subject to taxation by the United States and generally are not exempt from taxation by other U.S. or non-U.S. taxing jurisdictions. Non-U.S. Persons generally will be subject to U.S. income and withholding tax unless they provide required certifications or statements.

Listing The Pricing Supplement relating to each issue of Debt Securities will indicate the exchange, if any, on which we will list the Debt Securities. We have made an application for certain Debt Securities issued under this Universal Debt Facility to be listed on the Luxembourg Stock Exchange. The current minimum maturity for Debt Securities listed on the Luxembourg Stock Exchange is seven days. We also may issue unlisted Debt Securities, and Debt Securities listed on other or additional exchanges. We do not intend to list Benchmark Bills or Short-Term Notes on any exchange.

Clearance and Settlement

Clearance and Settlement Depending on the terms of an issue of Debt Securities and where those Debt Securities are to be offered, Debt Securities may clear and settle through one or more of the following:

- the U.S. Federal Reserve Banks
- DTC
- Euroclear
- Clearstream
- other designated clearing systems

We expect most issues of Debt Securities denominated and payable in U.S. dollars, including all Benchmark Securities, to clear and settle through the Fed Book-Entry System. These Debt Securities generally may be held indirectly through other clearing systems, such as the systems operated by Euroclear and Clearstream.

We expect issues of Debt Securities denominated or payable in a Specified Currency other than U.S. dollars (and Debt Securities denominated and payable in U.S. dollars not cleared and settled through the Fed Book-Entry System) to clear and settle through the systems operated by DTC, and indirectly through Euroclear and Clearstream. We expect issues of Debt Securities

distributed solely outside of the United States to clear and settle through the systems operated by Euroclear, Clearstream or other designated clearing systems and, in some cases, DTC, irrespective of the Specified Currency in which the Debt Securities are denominated or payable.

Fiscal and Global Agents

- Fiscal Agents The Federal Reserve Bank of New York will act as fiscal agent for Benchmark Bills and for Short-Term Notes that are Fed Book-Entry Securities. The U.S. Federal Reserve Banks will act as fiscal agent for other Fed Book-Entry Securities.
- Global Agent JPMorgan Chase Bank will act as global agent for Global Book-Entry Securities.

Distribution of Debt Securities

- Dealers The current Dealers under this Universal Debt Facility are named under “Plan of Distribution—Dealers.” We may add other securities dealers or banks from time to time in connection with the distribution of the Debt Securities or a particular issue of Debt Securities.
- Method of Distribution We generally will sell Debt Securities to Dealers acting as principal, whether individually or in a syndicate, for resale to investors either at a fixed price or at varying prices determined by the Dealers. Alternatively, Debt Securities may be sold through Dealers on a non-underwritten basis, or may be sold by us directly to institutional investors.
- Selling Restrictions Restrictions exist in certain jurisdictions on the Dealers’ offer, sale and delivery of Debt Securities and the distribution of offering materials relating to the Debt Securities.
- Secondary Market Information .. Dealers have agreed to provide, for Benchmark Securities, indicative pricing information for posting on a designated screen page.

RISK FACTORS

This section describes the principal risks with respect to the Debt Securities. There may be other risks not discussed below or discussed in a supplement to this Offering Circular that you should consider. These risks depend on a number of factors, including financial, economic and political events, that are beyond our control.

Not Every Debt Security is a Suitable Investment for Every Investor

As a potential investor in the Debt Securities, you must determine the suitability of that investment in light of your own circumstances.

- You should have sufficient knowledge and experience to make a meaningful evaluation of the Debt Securities, the merits and risks of investing in the Debt Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement.
- You should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the Debt Securities and the impact the Debt Securities will have on your overall investment portfolio.
- You should have sufficient financial resources and liquidity to bear all of the risks of an investment in the Debt Securities, including Debt Securities with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from your currency.
- You should understand thoroughly the terms of the Debt Securities and be familiar with the behavior of relevant indices and financial markets.
- You should be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

Some Debt Securities are complex financial instruments. Sophisticated institutional investors generally do not purchase complex Debt Securities as stand-alone investments. They purchase complex Debt Securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. You should not invest in complex Debt Securities unless you have the expertise (either alone or with a financial advisor) to evaluate how the Debt Securities will perform under changing conditions, the resulting effects on their value and the impact this investment will have on your overall investment portfolio.

Risks Related to the Structure of a Particular Issue of Debt Securities

Debt Securities Subject to Optional Redemption by Fannie Mae

An optional redemption feature of Debt Securities is likely to limit their market value. During any period when we may elect to redeem Debt Securities, the Debt Securities' market value generally will not rise substantially above the price at which we can redeem the Debt Securities. This also may be true prior to any redemption period.

We may be expected to redeem Debt Securities when our cost of borrowing is lower than the interest rate on the Debt Securities. At those times, you generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Debt Securities being redeemed. The reinvestment may be at a significantly lower rate. You should consider reinvestment risk in light of other investments available at that time.

Debt Securities with Principal or Interest Linked to an Index or Formula

We may issue Debt Securities with principal or interest determined by reference to one or more interest rate indices, currencies or currency units, or other indices or formulas (each, an “Applicable Index”). You should be aware that:

- the market price of a Debt Security may be very volatile,
- you may receive no interest,
- payment of principal may occur at a different time than you expect,
- you may lose all or a substantial portion of your principal,
- an Applicable Index may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices,
- if an Applicable Index is applied to Debt Securities in conjunction with a Multiplier greater than one or contains some other leverage factor, the effect of changes in the Applicable Index on principal or interest payable likely will be magnified, and
- the timing of changes in an Applicable Index may affect your actual yield, even if the average level is consistent with your expectations. In general, the earlier the change in the Applicable Index, the greater the effect on yield.

Fannie Mae’s Obligations under Subordinated Debt Securities are Subordinated

Fannie Mae’s obligations under Subordinated Debt Securities will be issued under Section 304(e) of the Charter Act. Subordinated Debt Securities will be unsecured and subordinated and will rank junior in priority of payment to our “Senior Liabilities”. “Senior Liabilities” means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and our 9% Subordinated Capital Debentures due 2019 and Zero Coupon Subordinated Capital Debentures due 2019 (together, the “Outstanding Capital Debentures”). We cannot make any payments of principal of or interest on the Subordinated Debt Securities if we default on any payment due in respect of Senior Liabilities. See “Description of the Debt Securities—Special Terms Relating to Subordinated Debt Securities” and Appendix C. In the event of a liquidation or dissolution of Fannie Mae, our assets would be available to pay obligations under the Subordinated Debt Securities only after all payments had been made of amounts then due in respect of all Senior Liabilities.

At December 31, 2001, we had outstanding total liabilities of \$781,673 million, \$776,673 million of which constitute Senior Liabilities. Senior Liabilities also include any liabilities related to the \$858,867 million of outstanding mortgage-backed securities (which excludes mortgage-backed securities held by us in portfolio) at that date on which Fannie Mae guarantees timely payment of principal and interest. At December 31, 2001, we had outstanding Subordinated Debt Securities of \$5,000 million.

Under Certain Conditions, Interest Payments under Subordinated Debt Securities Must be Deferred

If (1) our core capital is below 125% of our critical capital requirement, or (2) (a) our core capital is below our minimum capital requirement and (b) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority under Section 304(c) of the Charter Act to purchase our debt obligations, then we must defer the payment of interest on the Subordinated Debt Securities for periods not to exceed five years. (The U.S. Secretary of the Treasury has discretionary authority to purchase obligations of Fannie Mae up to a maximum of \$2.25 billion outstanding at any

one time). See “Description of the Debt Securities—Interest” and Appendix C of this Offering Circular.

We will pay all deferred interest, and interest on that deferred interest, on all Subordinated Debt Securities as soon as, after giving effect to such payments, we no longer would be required to defer interest under the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury as described above. We will make this payment in respect of all Subordinated Debt Securities on the next scheduled Interest Payment Date that occurs in respect of any issue of Subordinated Debt Securities, unless we elect to make the payment earlier.

If we have not resumed interest payments on an issue of Subordinated Debt Securities by their Maturity Date or have deferred interest on an issue of Subordinated Debt Securities for five consecutive years, then we must pay deferred interest, and interest on that deferred interest, on that issue of Subordinated Debt Securities regardless of our capital levels or our repayment of all debt obligations purchased by the U.S. Secretary of the Treasury. Even if we are required to make any payment on Subordinated Debt Securities, because Subordinated Debt Securities are subordinated, Holders of Subordinated Debt Securities will be entitled to receive payments only after we have made payment in full of all amounts then due in respect of any Senior Liabilities. In no event will Holders of Subordinated Debt Securities be able to accelerate the maturity of their Subordinated Debt Securities; such Holders will have claims only for amounts then due and payable on their Subordinated Debt Securities. After we have fully paid all deferred interest on any issue of Subordinated Debt Securities and if that issue of Subordinated Debt Securities remains outstanding, future interest payments on that issue of Subordinated Debt Securities will be subject to further deferral as described above.

Upon the deferral of interest payments, you generally will be required to accrue income, for United States federal income tax purposes, in respect of the accrued but unpaid interest on Subordinated Debt Securities held by you as further described under “United States Taxation” below. As a result, you generally will recognize income for United States federal income tax purposes in advance of the receipt of payment. Additionally, you will not receive payment of that interest if you dispose of your Subordinated Debt Securities prior to the record date for the payment of accrued interest. Even though any income with respect to deferred interest will constitute ordinary income, if you sell your Subordinated Debt Securities you generally will recognize a capital loss to the extent that the selling price (which may not reflect the full amount of deferred interest) is less than your adjusted tax basis. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for United States federal income tax purposes. See “United States Taxation”.

Any deferral of interest payments will likely have an adverse effect on the market price of the Subordinated Debt Securities. In addition, as a result of the interest deferral provision of the Subordinated Debt Securities, the market price of the Subordinated Debt Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in Fannie Mae’s financial condition.

Risks Related to Market, Liquidity and Yield

The Secondary Market Generally

Debt Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, you may not be able to sell your Debt Securities easily or at prices that will provide you with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Debt Securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Debt Securities generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Debt Securities.

Variable Rate Securities with a Multiplier or Other Leverage Factor

Variable Rate Securities can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features, their market values may be even more volatile than comparable securities that do not include those features.

Inverse Variable Rate Securities

Inverse Variable Rate Securities have an interest rate equal to a fixed rate minus a rate based upon an Applicable Index. The market values of inverse Variable Rate Securities typically are more volatile than market values of our conventional variable rate debt securities based on the same Applicable Index (and with otherwise comparable terms). Inverse Variable Rate Securities are more volatile because an increase in the Applicable Index not only decreases the interest rate of the Debt Security, but also reflects an increase in prevailing interest rates, which further adversely affects the market value of these Debt Securities.

Fixed/Variable Rate Securities

Fixed/Variable Rate Securities may bear interest at a rate that we may elect to convert from a fixed rate to a variable rate, or from a variable rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of the Debt Securities since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a variable rate, the Spread on the fixed/variable rate securities may be less favorable than then prevailing spreads on our comparable variable rate debt securities tied to the same Applicable Index. In addition, the new variable rate at any time may be lower than the rates on other Debt Securities. If we convert from a variable rate to a fixed rate, the fixed rate may be lower than then prevailing rates on our Debt Securities.

Debt Securities Eligible for Stripping

Some issues of Fixed Rate Securities and Step Rate Securities will be eligible to be separated (“stripped”) into Interest Components and Principal Components. The secondary market, if any, for the Components may be more limited and have less liquidity than the secondary market for Debt Securities of the same issue that have not been stripped. The liquidity of an issue of Debt Securities also may be reduced if a significant portion of the Debt Securities are stripped. See “Description of the Debt Securities—Eligibility for Stripping of Fed Book-Entry Securities” for more information on stripping.

Debt Securities Issued at a Substantial Discount or Premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities. The market values of Benchmark Bills, Short-Term Notes, Zero-Coupon Securities, Interest Components and some Principal Components would be expected to behave this way.

Exchange Rate Risks and Exchange Controls

As mentioned above, principal of or interest on Debt Securities may be determined by reference to one or more currencies or currency units (including exchange rates and swap indices between currencies or currency units). Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, you may receive less interest or principal than you expected, or no interest or principal.

We will pay principal and interest on the Debt Securities in the Specified Payment Currency. See “Description of the Debt Securities—Specified Currencies and Specified Payment Currencies.” This presents certain risks relating to currency conversions if your financial activities are denominated principally in a currency or currency unit (“Your Currency”) other than the Specified Payment Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Payment Currency or revaluation of Your Currency) and the risk that authorities with jurisdiction over Your Currency may impose or modify exchange controls. An appreciation in the value of Your Currency relative to the Specified Payment Currency would decrease (1) Your Currency-equivalent yield on the Debt Security, (2) Your Currency-equivalent value of the principal payable on the Debt Security, and (3) Your Currency-equivalent market value of the Debt Security.

As mentioned above, government or monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. Even if there are no actual exchange controls, it is possible that the Specified Payment Currency for a particular Debt Security may no longer be used by the government issuing the Specified Payment Currency or used for settlement of transactions by public institutions of or within the international banking community, or that the Specified Payment Currency may not be available for any other reason when payments on the Debt Security are due. If the government that previously issued the Specified Payment Currency has issued a new legal currency, we will make payments in that new legal currency. If there is no new legal currency or the Specified Payment Currency is unavailable due to circumstances beyond our control (such as exchange controls), we will make payments in U.S. dollars.

Legal Investment Considerations

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. You should consult your legal advisors to determine whether and to what extent (1) Debt Securities are legal investments for you, (2) Debt Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to your purchase or pledge of any Debt Security. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Debt Securities under any applicable risk-based capital or similar rules.

If you are subject to the jurisdiction of any of the following agencies of the United States or a governmental agency of the United States or any jurisdiction outside the United States with similar authority (for example, central banks), you should review and consider that regulator’s rules, guidelines, regulations and policy statements prior to purchasing or pledging Debt Securities:

- The Board of Governors of the Federal Reserve System
- The Comptroller of the Currency
- The Federal Deposit Insurance Corporation
- The National Credit Union Administration
- The Office of Thrift Supervision

Credit Ratings

One or more independent credit rating agencies may assign credit ratings to Debt Securities. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Debt Securities.

DESCRIPTION OF THE DEBT SECURITIES

The description set forth below contains general provisions that apply to all Debt Securities, except as otherwise specified in this Offering Circular or a supplement to it. You should read Appendix B for a detailed description of Benchmark Bills and Short-Term Notes and Appendix C for a detailed description of Subordinated Benchmark Notes and other Subordinated Debt Securities, in particular for those provisions that, as noted below, differ from the following provisions. We will not prepare a Pricing Supplement for Benchmark Bills and other Short-Term Notes.

General

We may issue an unlimited amount of Debt Securities from time to time under the Universal Debt Facility. The Debt Securities may be issued as:

- Benchmark Securities, which are U.S. dollar denominated, regularly scheduled issues in large principal amounts. See Appendix A for a general description of our Benchmark Securities program. Our current Benchmark Securities are:
 - Benchmark Bills—non-callable Debt Securities with maturities of 360 days or less and sold at a discount from their principal amount payable at maturity
 - Benchmark Notes—non-callable Debt Securities with maturities of one to ten years
 - Callable Benchmark Notes—callable Debt Securities with maturities of one to ten years
 - Benchmark Bonds—non-callable Debt Securities with maturities of more than ten years
 - Subordinated Benchmark Notes—non-callable Subordinated Debt Securities with maturities of one to ten years.

We may issue other Debt Securities, denominated in U.S. dollars or other currencies, with maturities of one day or longer. These Debt Securities will have various terms, as described in this Offering Circular and any applicable Pricing Supplement, and will be:

- Short-Term Notes—non-callable Debt Securities with maturities of 360 days or less and which may be sold at a discount from their principal amount payable at maturity or may be interest-bearing
- Notes—callable or non-callable Debt Securities with maturities of one to ten years
- Bonds—callable or non-callable Debt Securities with maturities of more than ten years.

We will sell Debt Securities in one or more issues consisting of Debt Securities having (as applicable) the same interest rate or formula, Interest Payment Dates, Maturity Date, redemption provisions, amortization provisions, denominations and other variable terms referred to below.

We will issue Debt Securities in book-entry form:

- on the book-entry system of the U.S. Federal Reserve Banks (“Fed Book-Entry Securities”) or
- in registered global form (“Global Book-Entry Securities”).

Except under the limited circumstances described under “Description of the Debt Securities—Exchange of Global Book-Entry Securities for Definitive Debt Securities,” Debt Securities will not be available in definitive form. We will establish terms of issues of Fed Book-Entry Securities pursuant to a “Statement of Terms.”

Fed Book-Entry Securities other than Benchmark Bills and Short-Term Notes will be issued under the Fiscal Agency Agreement dated as of April 23, 1974, as amended or supplemented, between us and the U.S. Federal Reserve Banks, collectively acting as the Fiscal Agent. Global Book-Entry Securities will be issued under the Global Agency Agreement, dated as of December 21, 1999, as it may be amended or supplemented, between us and JPMorgan Chase Bank, as Global Agent. Benchmark Bills and Short-Term Notes that are Fed Book-Entry Securities will be issued under the Short-Term Note Fiscal Agency Agreement dated as of January 2, 1969, as amended or supplemented, between us and the Federal Reserve Bank of New York. Statements under this heading and in Pricing Supplements are subject to the detailed provisions of (1) any applicable Statement of Terms or other document establishing the terms of an issue of Fed Book-Entry Securities and the applicable Fiscal Agency Agreement or (2) the Global Book-Entry Securities and the Global Agency Agreement.

You can review copies of any applicable Statement of Terms or other document establishing the terms of an issue of Fed Book-Entry Securities, the Fiscal Agency Agreement and the Short-Term Note Fiscal Agency Agreement at our principal office in Washington, D.C. You also can review a copy of the Fiscal Agency Agreement and the Short-Term Note Fiscal Agency Agreement at the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045. You can review a copy of the Global Agency Agreement at our principal office in Washington, D.C., the principal U.S. corporate trust office of the Global Agent at 450 West 33rd Street, 15th Floor, New York, New York 10001-2697, and at Dexia Banque Internationale à Luxembourg at 69, route d'Esch, L-2953 Luxembourg. You can review a copy of the terms of any Global Book-Entry Securities at the same corporate trust office of the Global Agent.

Specified Currencies and Specified Payment Currencies

Fed Book-Entry Securities will be denominated and payable only in U.S. dollars. Appendix B contains provisions relating to Short-Term Notes denominated and payable in a Specified Currency. We will set forth in the applicable Pricing Supplement any provisions relating to any non-U.S. dollar currency or currency unit (each a “Specified Currency”) in which any other Debt Security may be denominated or in which payments on such Debt Security may be made.

Except as described below, we will make interest payments in the Specified Currency designated for interest payments and principal payments in the Specified Currency designated for principal payments. (We refer to the specified interest currency and specified principal currency collectively in this Offering Circular as the “Specified Payment Currency.”) However, for Global Book-Entry Securities issued through DTC that are denominated and payable in a Specified Payment Currency other than U.S. dollars, we will make arrangements for the conversion of any payment in a non-U.S. dollar currency into U.S. dollars unless a Holder elects to receive payments in the Specified Payment Currency. We understand that Euroclear and Clearstream, unless specifically requested not to do so 15 days before the applicable Interest Payment Date or Principal Payment Date, will receive all payments of principal and interest for such Global Book-Entry Securities held through them in the applicable Specified Payment Currency if it is other than U.S. dollars. See “Description of the Debt Securities—Currency Conversions—Payment for Debt Securities.”

It is possible that the Specified Payment Currency for a particular Debt Security may no longer be used by the government issuing the Specified Payment Currency or used for settlement of transactions by public institutions of or within the international banking community, or that the Specified Payment Currency may not be available for any other reason, when payments on the Debt Security are due. If the government that previously issued the Specified Payment Currency has issued a new legal currency, we will make payments in that new legal currency. If there is no new legal currency or the Specified Payment Currency is unavailable due to circumstances beyond our control, such as exchange controls, we will make payments in U.S. dollars. In addition, in the circumstances and on the terms described in Appendix F, Debt Securities originally denominated in currencies that are replaced by the Euro may be redenominated to Euro.

Denomination

We will issue Debt Securities in minimum denominations of U.S. \$1,000 original principal amount and additional increments of U.S. \$1,000 original principal amount, or other denominations that we specify in the applicable Pricing Supplement (or, with respect to Benchmark Bills and Short-Term Notes, in Appendix B). We will express denominations of Zero-Coupon Securities in terms of the principal amount payable on the Maturity Date.

Debt Securities originally denominated in a currency that is issued by a member state of the European Union that adopts the Euro as its single currency may be redenominated to the Euro. Provisions relating to redenomination are set forth in Appendix F.

Reopenings

We may issue additional Debt Securities with the same terms as previously issued Debt Securities (other than the date of issuance, interest commencement date and offering price, which may vary) that will form a single issue with the previously issued Debt Securities. This type of offering often is referred to as a “reopening”. We may issue additional Debt Securities in this manner from time to time and without the consent of any Holder of a Debt Security.

Maturity

Each Debt Security will mature on a date (the “Maturity Date”) one day or longer from its issue date, unless redeemed prior to that date. The Maturity Date for any Benchmark Bill or Short-Term Note will be 360 days or less from the date of its issuance. We will specify the Maturity Date for other Debt Securities in the applicable Pricing Supplement.

The principal amount payable on the Maturity Date of a Debt Security will be either:

- a fixed principal repayment amount equal to 100% of the outstanding principal amount, or a specified amount above or below the principal amount; or
- a variable principal repayment amount determined by reference to one or more interest rate or exchange rate indices, or otherwise.

Interest

Benchmark Bills and most Short-Term Notes will not bear interest but will be issued at a discount to their principal amount payable at maturity. Other Debt Securities may bear interest at one or more fixed rates or variable rates or may not bear interest. We will specify in the applicable Pricing Supplement whether these other Debt Securities are Fixed Rate Securities, Step Rate Securities, Variable Rate Securities, Fixed/Variable Rate Securities or Zero-Coupon Securities.

- “Fixed Rate Securities” are Debt Securities that bear interest at a fixed rate.
- “Step Rate Securities” are Debt Securities that bear interest at specified fixed rates for specified periods.
- “Variable Rate Securities” are Debt Securities that bear interest at a variable rate determined by reference to one or more interest rate indices, or otherwise. A detailed discussion of how rates are calculated is set forth below under “—Variable Interest Rates.”
- “Fixed/Variable Rate Securities” are Debt Securities that bear interest at a fixed rate for one or more periods and at a variable rate for one or more other periods or Debt Securities that bear interest at a rate that we may elect to convert from a fixed rate to a variable rate or from a variable rate to a fixed rate.
- “Zero-Coupon Securities” are Debt Securities that do not bear interest and are issued at a discount to their principal amount payable at maturity.

You can obtain the current interest rate on Variable Rate Securities and Fixed/Variable Rate Securities from Fannie Mae by accessing our World Wide Web site at www.fanniemae.com or calling (800) 701-4791 (for international callers, (202) 752-5499). We may discontinue providing this information at any time without notice. If the rules of the Luxembourg Stock Exchange so require, the Calculation Agent will provide certain interest rate information on Variable Rate Securities listed on the exchange to the Luxembourg Stock Exchange within two Business Days of having determined the information.

Descriptions of interest rate indices that may be used with respect to Variable Rate Securities or Fixed/Variable Rate Securities are contained in Appendix D to this Offering Circular.

We will specify in the applicable Pricing Supplement when interest will be paid on the related Debt Securities. We will pay interest in arrears on the Interest Payment Dates specified for the Debt Securities (each an “Interest Payment Date”) and on the Principal Payment Date.

Each issue of interest-bearing Debt Securities will bear interest from and including the most recent Interest Payment Date or, if no interest has been paid or made available for payment on that issue of Debt Securities, from and including the issue date of the Debt Securities (or any other date we may specify for the Debt Securities) to but excluding the next applicable Interest Payment Date or the applicable Principal Payment Date. In this Offering Circular, we refer to each of these periods as an “Interest Period.”

In this Offering Circular, we refer to the Maturity Date or any earlier date of redemption or principal repayment of an issue of Debt Securities as the “Principal Payment Date” with respect to the principal repayable on that date. No interest on the principal repaid will accrue on or after the Principal Payment Date.

Interest on any Debt Security accrues on the then outstanding principal amount. Payments on Debt Securities will be rounded, in the case of U.S. dollars, to the nearest cent or, in the case of a Specified Payment Currency other than U.S. dollars, to the nearest smallest transferable unit (with one-half cent or unit rounded upwards).

The terms of our Subordinated Debt Securities will require interest to be deferred for periods of up to five years under certain circumstances. See Appendix C for more information about this interest deferral feature of our Subordinated Debt Securities.

If any jurisdiction imposes a withholding or other tax on a payment on any Debt Security, we will not be obligated to pay additional interest or other amounts, or to redeem the Debt Securities prior to maturity.

Interest rates or yields with respect to Debt Securities may differ depending upon, among other things, the principal amount of Debt Securities the applicable Dealer expects to sell to an investor in a single transaction and the price at which the Dealer purchases the Debt Securities from us (or, in connection with sales on a non-underwritten basis, the Dealer’s commission).

Variable Interest Rates

Debt Securities that have a variable interest rate component may bear interest at a variable rate determined by reference to one or more interest rate indices, or otherwise, (1) plus or minus a Spread, if any, or (2) multiplied by a Multiplier, if any. We will specify the applicable interest rate index and any Spread or Multiplier in the Pricing Supplement for an issue of Debt Securities with a variable interest rate component. Debt Securities also may bear interest in any other manner described in the applicable Pricing Supplement.

“Spread” means a constant or variable amount to be added to or subtracted from the relevant index. “Multiplier” means a constant or variable number (which may be greater or less than 1) by which the relevant index will be multiplied. “Index Maturity” means the period to maturity of the instrument or obligation as to which the relevant index will be calculated.

Debt Securities with a variable interest rate component also may have either or both of the following:

- a maximum interest rate limitation, or “cap,” on the rate at which interest may accrue during any Interest Reset Period
- a minimum interest rate limitation, or “floor,” on the rate at which interest may accrue during any Interest Reset Period.

In addition, in no event will the effective rate of interest (determined on the basis of the actual number of days in the period and in the year) exceed 24% per annum for any Interest Reset Period, regardless of the accrual method used to compute interest on the Debt Security.

We will specify in the applicable Pricing Supplement how frequently the rate of interest will reset, which may be daily, weekly, monthly, quarterly, semiannually, annually or any other frequency. We also will specify in the applicable Pricing Supplement the effective dates for new rates of interest, subject to the following sentence (each a “Reset Date”). If the interest rate will reset within an Interest Period, then:

- the interest rate in effect on the sixth Business Day preceding an Interest Payment Date or the Principal Payment Date will be the interest rate for the remainder of that Interest Period, and
- the first day of each Interest Period also will be a “Reset Date.” (Debt Securities may bear interest prior to the initial Reset Date at an initial interest rate specified in the applicable Pricing Supplement. If so, then the first day of the initial Interest Period will not be a Reset Date).

Each period beginning on the applicable Reset Date and ending on the day preceding the next Reset Date is an “Interest Reset Period.” During each Interest Reset Period:

- If the Federal Funds Rate (Weekly Average) is an applicable interest rate index for a Debt Security, the rate of interest for each day in an Interest Reset Period will be determined as of a date indicated in Appendix D under “Federal Funds Rates—Federal Funds Rate (Weekly Average).”
- If the Treasury Bill Rate is an applicable interest rate index for a Debt Security, the rate of interest for each day in an Interest Reset Period will be determined as of a date indicated in Appendix D under “Treasury Bill Rate.”
- For all other interest rate indices, the rate of interest for each day in an Interest Reset Period will be determined as of the applicable Determination Date. The “Determination Date” will be:
 - for LIBOR, the LIBOR Determination Date
 - for EURIBOR, the EURIBOR Determination Date
 - for the Federal Funds Rate (Daily), the Federal Funds Rate (Daily) Determination Date
 - for the Prime Rate, the Prime Rate Determination Date
 - for the CMT Rate (Weekly Average), the CMT Determination Date

If the rate of interest will reset within an Interest Period, accrued interest will be calculated by multiplying the principal amount of the Debt Security by an accrued interest factor. This accrued interest factor will be computed by totaling the interest factors calculated for all days in the Interest Period. The interest factor for each day will be computed by dividing the interest rate for that day by the number of days in the year referred to in the applicable accrual method.

Example. An interest rate of 3.12345% would be expressed in decimal format as .0312345. Assuming a year of 360 days, the applicable interest rate would be calculated by dividing .0312345 by 360 resulting in an interest factor of .0000868 for one day.

In calculating the interest rate, all numbers will be expressed as a decimal and rounded to the seventh digit after the decimal point. (If the eighth digit to the right of the decimal point is five or greater, the seventh digit will be rounded up by one.)

Example. 3.123445% would be expressed as 0.03123445, which would be rounded to 0.0312345 (which is equivalent to 3.12345%).

Numbers subject to this rounding convention include all value inputs into indexing formulas, intermediate calculations, numbers resulting from any calculation, interest rates, interest factors and accrued interest factors.

If the format of a page, screen, display, press release or other source related to an index to be used in determining the rate of interest on a Debt Security changes but, in the discretion of the Calculation Agent, the source continues to disclose the information necessary to determine the rate substantially as described in this section or in the applicable Pricing Supplement, then the procedure for obtaining information from the source shall be deemed to be amended as determined by the Calculation Agent.

We will specify the applicable interest rate index in the Pricing Supplement for an issue of Debt Securities. Only the provisions contained in Appendix D under the heading of the specified interest rate index will apply to the related Debt Securities.

The Calculation Agent's determination of the interest rate will be final and binding on all parties, absent manifest error. The "Calculation Agent" will be Fannie Mae or a bank or broker-dealer that we designate. We will be the initial Calculation Agent unless we specify otherwise in the applicable Pricing Supplement.

If the rules of the Luxembourg Stock Exchange so require, the Calculation Agent will provide to the exchange the interest rate, the amount of interest payable on the next Interest Payment Date and the dates of the current Interest Period with respect to Variable Rate Securities listed on such exchange, no later than the first day of each new Interest Period.

Amortizing Securities

We may issue Debt Securities on which there are periodic payments of principal during the term of the Debt Securities ("Amortizing Securities"). Amortizing Securities may bear interest at fixed or floating rates. We will describe in the Pricing Supplement for an Amortizing Note how interest will be calculated and how principal will be paid.

Indexed Securities

We may issue Debt Securities on which the amount of principal or interest (or both) payable will be determined by reference to the price or prices of specified commodities or stocks, to the exchange rate of one or more currencies or currency units (including swap indices between currencies or currency units) relative to one or more other currencies or currency units, to other prices or exchange rates, or in any other manner described in the Pricing Supplement ("Indexed Securities"). The Pricing Supplement will describe the method for determining the amount of principal and interest, if any, payable on Indexed Securities. In no event, however, will the effective rate of interest (determined on the basis of the actual number of days in the period and in the year) on an Indexed Security that bears interest at a floating rate exceed 24% per annum for any Interest Reset Period, regardless of the accrual method used to compute interest on the Indexed Security.

Accrual Methods

Each interest-bearing Debt Security will have an accrual method (*i.e.*, day count convention) for calculating interest or any other relevant accrual factor on the related Debt Securities, which may incorporate one or more of the following methods. The numbers in the denominators of each term refer to the number of days in a year or an assumed year, as applicable.

- “30/360” means a calculation on the basis of a 360-day year consisting of twelve 30-day months
- “Actual/360” means a calculation on the basis of the actual number of days elapsed divided by 360
- “Actual/365 (Fixed)” means a calculation on the basis of the actual number of days elapsed divided by 365, regardless of whether accrual or payment occurs during a leap year
- “Actual/Actual (Accrual Basis)” means a calculation on the basis of the actual number of days elapsed divided by 365, or 366 if the day for which interest is being calculated falls in a leap year
- “Actual/Actual (Payment Basis)” means a calculation on the basis of the actual number of days elapsed divided by 365, or 366 if the applicable Interest Payment Date falls in a leap year

The accrual method for Fixed-Rate Securities, Step Rate Securities and the fixed-rate component of Fixed/Variable Rate Securities will be “30/360” unless we specify otherwise in the applicable Pricing Supplement. We will specify the accrual method for other Debt Securities in the applicable Pricing Supplement.

Business Day Convention

If an Interest Payment Date or Principal Payment Date is not a Business Day, we will pay the interest or principal on the next Business Day. In that case, you will receive no interest on the delayed interest or principal payment for the period from and after the scheduled Interest Payment Date or Principal Payment Date to the actual date of payment.

For Fed Book-Entry Securities, “Business Day” means any day other than:

- a Saturday,
- a Sunday,
- a day on which the Federal Reserve Bank of New York is closed, or
- with respect to any required payment, a day on which the U.S. Federal Reserve Bank maintaining the book-entry account relating to the Fed Book-Entry Security is closed.

For Global Book-Entry Securities, “Business Day” means any day other than:

- a Saturday,
- a Sunday,
- a day on which banking institutions are closed in New York, New York,
- a day on which banking institutions are closed in the Principal Financial Center of the country issuing the Specified Payment Currency (in the case where the Specified Payment Currency is other than U.S. dollars or Euro), or
- a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (“TARGET”) System is not operating (in the case where the Specified Currency is Euro, whether or not pursuant to redenomination).

“Principal Financial Center” means the capital city of the country issuing the Specified Payment Currency, except that with respect to U.S. dollars, Australian dollars, British pounds sterling, Canadian dollars, Hong Kong dollars and Swiss francs, the Principal Financial Center will be The City of New York, Sydney, London, Toronto, Hong Kong, and Zurich, respectively.

No Rights of Acceleration

The Debt Securities will not contain any provisions permitting Holders to accelerate maturity of the Debt Securities upon the occurrence of any default or other event.

Book-Entry Systems

We will issue and maintain Debt Securities as either Fed Book-Entry Securities, which will be held only on the book-entry system of the U.S. Federal Reserve Banks (the “Fed Book-Entry System”), or Global Book-Entry Securities, which will be held through the facilities of one or more other depositories.

Fed Book-Entry System

The U.S. Federal Reserve Banks, as fiscal agents for Fannie Mae, will issue Fed Book-Entry Securities in book-entry form, maintain book-entry accounts with respect to the Fed Book-Entry Securities and make payments, on our behalf, of principal and interest on the Fed Book-Entry Securities in U.S. dollars on the applicable payment dates by crediting Holders’ accounts at the U.S. Federal Reserve Banks.

Regulations that currently govern the use of the Fed Book-Entry System for our securities issued in book-entry form and the pledging and transfer of interests in the securities have been adopted by the U.S. Department of Housing and Urban Development and are contained in 24 CFR Part 81, Subpart H (which regulations, as they may be amended from time to time or replaced or supplemented by regulations adopted by any other U.S. governmental body or agency, are referred to in this Offering Circular as the “HUD Book-Entry Regulations”). The HUD Book-Entry Regulations apply to all Fed Book-Entry Securities. The HUD Book-Entry Regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Holder of Fed Book-Entry Securities.

The accounts of Holders of Fed Book-Entry Securities also are governed by applicable operating circulars and letters of the U.S. Federal Reserve Banks.

Other Book-Entry Systems

We will issue Global Book-Entry Securities that are either registered in the name of a nominee of The Depository Trust Company (“DTC”) in New York, New York, or registered in the name of the common depository (or a nominee of the common depository) for one of the following:

- Euroclear Bank S.A./N.V. (“Euroclear Bank”), as operator of the Euroclear System (“Euroclear”)
- Clearstream Banking, société anonyme (“Clearstream”)
- another clearing system specified in the applicable Pricing Supplement

JPMorgan Chase Bank will act as the custodian for Global Book-Entry Securities held by DTC and as the “Common Depository” for Global Book-Entry Securities held by Euroclear and Clearstream. We will exchange Global Book-Entry Securities for definitive Debt Securities only under the limited circumstances described under “Description of the Debt Securities—Exchange of Global Book-Entry Securities for Definitive Debt Securities.”

Eligibility for Stripping of Fed Book-Entry Securities

We may designate specific issues of Fed Book-Entry Securities that are Fixed Rate Securities or Step Rate Securities (the “Eligible Securities”) as eligible to be separated (“stripped”) into their separate Interest Components and Principal Components on the book-entry records of the FRBNY. We may designate Fed Book-Entry Securities as Eligible Securities either at the time of original issuance or at any other time during the period in which the securities may be stripped. We have no obligation, however, to designate any issue of Fed Book-Entry Securities as eligible to be stripped into Components.

The “Components” of an Eligible Security are:

- each future interest payment due on or prior to the Maturity Date or, if the Eligible Security is subject to redemption or principal repayment prior to the Maturity Date, the first date on which the Eligible Security is subject to redemption or repayment (in either case, the “Cut-off Date”) (each an “Interest Component”)
- the principal payment plus any interest payments due after the Cut-off Date (the “Principal Component”)

After the last redemption date of an issue subject to redemption on one or more specified dates, if we do not redeem the issue, the Principal Component may be further stripped into Interest Components of each future interest payment due on or prior to the Maturity Date and a Principal Component of the principal payment due on the Maturity Date. The initial or final interest payment on a Fed Book-Entry Security will not be an Interest Component if the applicable Interest Period is shorter or longer than other Interest Periods, based on a 360-day year consisting of twelve 30-day months. In that case, the initial or final interest payment will remain with the Principal Component. Each Component will receive a CUSIP number.

To be stripped into Components, the principal amount of the Eligible Security must be in an amount that, based on the stated interest rate of the Eligible Security, will produce an interest payment of \$1,000 or an integral multiple thereof on each Interest Payment Date for the Fed Book-Entry Security. You currently may find out the minimum principal amount required to strip an Eligible Security by calling our Treasurer’s Office at (202) 752-7916. If a Fed Book-Entry Security is eligible to be stripped upon original issuance, we generally will disclose in the applicable Pricing Supplement the minimum principal amount required to strip the Fed Book-Entry Securities.

In some cases, Interest Components of two or more issues of Fed Book-Entry Securities may be due on the same day. These Interest Components may have the same or different CUSIP numbers. We currently expect that most Interest Components due on the same day (regardless of Fed Book-Entry Security issue) will have the same CUSIP number. However, we may designate them to receive different CUSIP numbers. We also may designate at any time that Interest Components of issues of Fed Book-Entry Securities originally issued on or after a specified time receive CUSIP numbers different than Interest Components of issues of Fed Book-Entry Securities originally issued prior to that time.

A Holder of an Eligible Security currently may request that the Fed Book-Entry Security be separated into its Components at any time from the date it becomes eligible to be stripped. The Holder must make a request for separation to the FRBNY and comply with any requirements and procedures, including payment of applicable fees, if any, of the FRBNY then in effect.

The Components may be maintained and transferred on the Fed Book-Entry System in integral multiples of \$1,000. Payments on Components will be made in U.S. dollars on the applicable payment dates (or the following Business Day if payment on the related Fed Book-Entry Security is or would be made on the following Business Day as described above in “Description of the Debt Securities—Business Day Convention” and below in “Description of the Debt Securities—Payments”) by credit to the account at a U.S. Federal Reserve Bank of the Holding Institutions whose names appear on the

book-entry records of the U.S. Federal Reserve Banks as the entities to whose account the Components have been deposited (“Component Holders”).

If any modification, amendment or supplement of the terms of an issue of Fed Book-Entry Securities requires any consent of Holders, the consent for Fed Book-Entry Securities that have been stripped will be provided by the Component Holders of Principal Components. Component Holders of Interest Components will have no right to give or withhold consent. See “Description of the Debt Securities—Modification and Amendment.”

Currently, at the request of a Component Holder holding a Principal Component and all applicable unmatured Interest Components, the FRBNY will restore (“reconstitute”) the Principal Components of a stripped Fed Book-Entry Security and the applicable unmatured Interest Components (all in appropriate amounts) to the Fed Book-Entry Security in fully constituted form. The FRBNY charges a fee to reconstitute Fed Book-Entry Securities. Generally, for purposes of reconstituting a Debt Security, the Principal Component of an issue of Fed Book-Entry Securities may be combined with either Interest Components of that issue or Interest Components, if any, with the same CUSIP numbers from other issues of Fed Book-Entry Securities. Component Holders wishing to reconstitute Components into a Fed Book-Entry Security also must comply with all applicable requirements and procedures of the FRBNY relating to the stripping and reconstitution of securities.

The preceding discussion is based on our understanding of the way the FRBNY currently strips and reconstitutes securities on the Fed Book-Entry System. The FRBNY may cease stripping or reconstituting Eligible Securities or may change the way this is done or the applicable requirements, procedures or charges at any time without notice.

Status

The Debt Securities will be unsecured general obligations of Fannie Mae issued under Section 304(b) of the Charter Act or unsecured subordinated obligations issued under Section 304(e) of the Charter Act. Subordinated Debt Securities will be issued under Section 304(e) of the Charter Act. All Short-Term Notes will be issued under Section 304(b) of the Charter Act. All other Debt Securities will be issued under Section 304(b) of the Charter Act unless we specify otherwise in the applicable Pricing Supplement. The Debt Securities will not limit other indebtedness or securities that we may incur or issue. The Debt Securities will not contain any financial or similar restrictions on us or any restrictions on our ability to secure other indebtedness.

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.

Debt Securities will not be issued under an indenture. There will be no trustee with respect to the Debt Securities.

Special Terms Relating to Subordinated Debt Securities

Fannie Mae expects to issue subordinated Debt Securities in an amount such that, following a phase-in period ending December 31, 2003, the sum of our core capital, loss allowances and outstanding subordinated Debt Securities will equal or exceed four percent of on-balance sheet assets, after setting aside capital sufficient to support off-balance sheet mortgage-backed securities. The terms of these subordinated Debt Securities also will require interest to be deferred for periods of up to five years under certain circumstances, as described in Appendix C. We refer in this Offering Circular to these subordinated Debt Securities and other Debt Securities with similar subordination and interest deferral provisions as “Subordinated Debt Securities.”

Subordinated Debt Securities will be unsecured subordinated obligations issued under Section 304(e) of the Charter Act. Subordinated Debt Securities will be unsecured and subordinated and will rank junior in priority of payment to our “Senior Liabilities”. “Senior Liabilities” means all

existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and Fannie Mae's Outstanding Capital Debentures.

In the event and during the continuation of any default in the payment of any amount due in respect of Senior Liabilities beyond any applicable period of grace, then, unless and until such default shall have been cured or waived or shall have ceased to exist, we can pay no principal of or interest on Subordinated Debt Securities unless we have made adequate provision for the payment in full of such amounts then due in respect of all Senior Liabilities. All statements herein relating to the payment of principal of and interest on Subordinated Debt Securities are qualified in their entirety by reference to such subordination.

At December 31, 2001, we had outstanding total liabilities of \$781,673 million, \$776,673 million of which constitute Senior Liabilities. Senior Liabilities also include any liabilities related to the \$858,867 million of outstanding mortgage-backed securities (which excludes mortgage-backed securities held by us in portfolio) at that date on which Fannie Mae guarantees timely payment of principal and interest. At December 31, 2001, we had outstanding Subordinated Debt Securities of \$5,000 million.

See Appendix C for more specific information about the Subordinated Debt Securities.

Redemption

We may not redeem Debt Securities prior to maturity, unless we specify otherwise in the applicable Pricing Supplement. We will not redeem Benchmark Bills or Short-Term Notes prior to maturity.

The most common form of redemption is redemption at our option. If we specify redemption at our option in the applicable Pricing Supplement, we may redeem all the Debt Securities or a portion of the Debt Securities from time to time. We may have the option to redeem the Debt Securities on one or more specified dates, at any time on or after a specified date, or during one or more specified periods of time. The applicable Pricing Supplement will contain the redemption price, or describe the method of determining the redemption price. Holders will receive accrued and unpaid interest on the principal amount redeemed to the date fixed for redemption.

If we elect to redeem an issue of Debt Securities, we will give notice to Holders of the Debt Securities not less than 10 days prior to the date of redemption in the manner described under "Description of the Debt Securities—Notices."

We may specify in the applicable Pricing Supplement that an issue of Debt Securities will be subject to mandatory redemption by us, in whole or in part, from time to time upon terms and at prices described in the Pricing Supplement. We will give no notice to Holders of a mandatory redemption.

If we redeem a portion of an issue of Fed Book-Entry Securities, we will redeem a pro rata portion of the then outstanding principal amount of each Fed Book-Entry Security of the issue. If we redeem a portion of an issue of Global Book-Entry Securities, the Global Agent will reduce the principal amount of one or more Global Book-Entry Securities by an aggregate amount equal to the amount of the redemption, ensuring that the principal amount of each Global Book-Entry Security of the issue remains in an authorized denomination. The actual impact of our redeeming a portion of an issue of Global Book-Entry Securities on the beneficial owners will depend on the procedures of the applicable clearing system. If the beneficial owner is not a participant with that clearing system, the effect also will depend on the procedures of the participant through which the beneficial owner owns its interest in the Global Book-Entry Security.

We also may issue Debt Securities that are redeemable at the option of the Holders upon terms and procedures described in the applicable Pricing Supplement.

Corrections

All value inputs into indexing formulas, intermediate calculations, numbers resulting from any calculation, interest rates, interest factors, accrued interest factors, principal amounts or components used to determine principal or interest payable on an issue of Debt Securities are subject to correction within 30 days from the applicable Interest Payment Date or Principal Payment Date. The source of a corrected value input must be the same page, screen, display, press release or other source from which the previously-used value input was to be obtained. A correction might result in an adjustment to an amount paid to a Holder.

Example. Assume that the applicable Pricing Supplement for a Variable Rate Security specifies LIBOR as the applicable interest rate index for determining the rate of interest payable on the Debt Security. If LIBOR for a Reset Date is obtained from the Reuters Screen LIBO Page in accordance with Appendix D, the rate may be superseded only by a corrected rate for that Reset Date obtained from the Reuters Screen LIBO Page. The corrected rate would be used to determine the rate of interest payable in respect of the Variable Rate Security as of the applicable Interest Payment Date.

Repurchases

We may purchase Debt Securities at any price or prices, in the open market or otherwise, at any time. We may hold, sell or cancel any Debt Securities that we repurchase.

Ownership of Debt Securities

Fed Book-Entry Securities

The Fed Book-Entry Securities may be held of record only by entities eligible to maintain book-entry accounts with a U.S. Federal Reserve Bank (the “Holding Institutions”). The entities whose names appear on the book-entry records of a U.S. Federal Reserve Bank as the entities to whose accounts Fed Book-Entry Securities have been deposited are referred to as “Holders” of the Fed Book-Entry Securities. A Holder is not necessarily the beneficial owner of the Fed Book-Entry Security. Beneficial owners ordinarily hold Fed Book-Entry Securities through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner, and each other financial intermediary holding one or more Fed Book-Entry Securities directly or indirectly on behalf of the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers.

Beneficial owners of Fed Book-Entry Securities may exercise their rights with respect to Fannie Mae and the U.S. Federal Reserve Banks only through the Holders of the Fed Book-Entry Securities. Fannie Mae and the U.S. Federal Reserve Banks will have no obligation to a beneficial owner of a Fed Book-Entry Security (unless the beneficial owner is also the Holder). The U.S. Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of interests in Fed Book-Entry Securities and will effect transfers of interests in Fed Book-Entry Securities only to Holding Institutions. Fannie Mae and the U.S. Federal Reserve Banks may treat the Holders as the absolute owners of Fed Book-Entry Securities for the purpose of making payments on the Fed Book-Entry Securities and for all other purposes, whether or not the Fed Book-Entry Securities are overdue and notwithstanding any notice to the contrary.

Global Book-Entry Securities

The person in whose name a Global Security is registered in the “Register” maintained by the Global Agent as registrar (in this capacity, the “Registrar”) will be the “Holder” of the Global

Security. We will register Global Book-Entry Securities to be held by DTC in the name of Cede & Co. and Global Book-Entry Securities to be held by the Common Depositary in the name of Chase Nominees Limited, or other nominee of DTC or the Common Depositary, as the case may be. Accordingly, Cede & Co. and Chase Nominees Limited will be the Holders of the related Global Book-Entry Securities. Beneficial interests in a Global Book-Entry Security will be represented, and transfers thereof will be effected, only through book-entry accounts of financial institutions acting on behalf of the beneficial owners of that Global Book-Entry Security, as a direct or indirect participant in the applicable clearing system for that Global Book-Entry Security.

We and the Global Agent may treat the Holders as the absolute owners of Global Book-Entry Securities for the purpose of making payments and for all other purposes. Owners of beneficial interests in a Global Book-Entry Security are not the owners or Holders of that Global Book-Entry Security and, except under limited circumstances described under “Description of the Debt Securities—Exchange of Global Book-Entry Securities for Definitive Debt Securities,” are not entitled to have Debt Securities registered in their names or to receive definitive Debt Securities. Accordingly, any beneficial owner must rely on the procedures of the applicable clearing system or on the procedures of the participant through which the beneficial owner owns its interest, to exercise any rights of a Holder of the Global Security.

We understand that, if we request any action of Holders or if beneficial owners desire to take any action that a Holder is entitled to take, DTC, Euroclear or Clearstream, or their respective nominees, as the Holder of the related Global Book-Entry Security, would authorize the participants through which the relevant beneficial interests are held to take the action. The participants in turn would authorize beneficial owners owning through the participants to take the relevant action, in each case in accordance with the rules and procedures of the applicable system.

DTC, Euroclear and Clearstream can act only on behalf of their respective participants, who in turn act on behalf of indirect participants. Therefore, the ability of a beneficial owner to pledge its interest in the Global Book-Entry Securities to persons or entities that do not participate in the applicable system, or otherwise take actions in respect of that interest, may be limited by the lack of a definitive certificate. If the laws of a jurisdiction require that certain purchasers of securities take physical delivery of their securities in definitive form, this also may impair your ability to transfer beneficial interests in a Global Book-Entry Security.

Payments

Fed Book-Entry Securities

We will make payments of principal and interest on Fed Book-Entry Securities in U.S. dollars on the applicable payment dates to Holders as of the end of the Business Day preceding the payment dates. See also “Description of Debt Securities—Business Day Convention.” Payments on Fed Book-Entry Securities will be made by credit of the payment amount to the Holders’ accounts at the U.S. Federal Reserve Banks. All payments to or upon the order of a Holder will be valid and effective to discharge the liability of Fannie Mae and the Fiscal Agent. The Holders and each other financial intermediary holding Fed Book-Entry Securities directly or indirectly on behalf of beneficial owners will have the responsibility of remitting payments for the accounts of their customers. All payments on the Fed Book-Entry Securities are subject to any applicable law or regulation.

Global Book-Entry Securities

We will make payments on the Global Book-Entry Securities to DTC, Euroclear, Clearstream, and any other applicable clearing system (or their nominees) as the Holders thereof. We will make payments in the Specified Payment Currency (except as described under “Description of the Debt Securities—Specified Currencies and Specified Payment Currencies” or as otherwise described in Appendix F). For certain currency conversion facilities with respect to Global Securities held by DTC see “Description of the Debt Securities—Currency Conversions—Payment on Debt Securities”. All

payments to or upon the order of the Holder of a Global Book-Entry Security will be valid and effective to discharge our liability in respect of that Global Book-Entry Security. Normal conventions observed by the system will determine ownership positions within each system. Neither we nor the Global Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Book-Entry Security or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

DTC has advised us that, when DTC receives any payment of principal of or interest on a Global Book-Entry Security held by it, it will credit its participants' accounts with payments proportionate to their respective beneficial interests in the principal amount of that Global Book-Entry Security. Payments by participants to owners of beneficial interests in that Global Book-Entry Security held through those participants are the responsibility of the participants, as is now the case with securities held for the accounts of customers registered in "street name." Euroclear and Clearstream also have advised us that payments on Global Book-Entry Securities held through them will be credited to Euroclear participants or Clearstream participants in accordance with the applicable system's rules and procedures.

We will pay interest on Global Book-Entry Securities on the applicable Interest Payment Date. We will make interest payments to the Holder of each Global Book-Entry Security at the close of business on the fifteenth day (whether or not a Business Day) (each, a "Record Date") preceding the Interest Payment Date. (Owners of beneficial interests in a Global Book-Entry Security should be aware that the applicable clearing system may apply a different record date for the payment of interest to its participants on an Interest Payment Date.) We will make the first payment of interest on any Global Book-Entry Security originally issued between a Record Date and the related Interest Payment Date on the Interest Payment Date following the next Record Date to the Holder on the next Record Date. We will owe the principal of each Global Book-Entry Security, together with accrued and unpaid interest thereon, on the Principal Payment Date for the Global Book-Entry Security (subject to the Holder's right on the related Record Date to receive interest due on an Interest Payment Date that is on or prior to the Principal Payment Date) and will pay the Holder when the Holder presents and surrenders the Global Book-Entry Security. See also "Description of the Debt Securities—Business Day Convention."

All payments on Global Book-Entry Securities are subject to any applicable law or regulation. If a payment outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions, we will make payments on the related Global Book-Entry Securities at the office of any paying agent in the United States.

All money paid by us to the Global Agent or to any paying agent for principal and interest payments on any Global Book-Entry Security that remains unclaimed or undistributed at the end of one year after the principal or interest is due and payable will be repaid to us, and the Holder of the Global Book-Entry Security thereafter may look only to us for payment.

Additional provisions related to payments on non-U.S. dollar denominated Debt Securities appear under "Description of the Debt Securities—Currency Conversions."

Modification and Amendment

Fed Book-Entry Securities

We may modify, amend or supplement the Statement of Terms which would modify, amend or supplement the terms of Fed Book-Entry Securities without the consent of Holders of any Fed Book-Entry Securities, in any manner that we determine will not adversely affect in any material way the interests of the Holders of Fed Book-Entry Securities, including:

- to cure, correct or supplement any ambiguous or defective provision in the Statement of Terms or to make any other provision with respect to the issue of Fed Book-Entry Securities that is not inconsistent with the provisions of the Statement of Terms,

- to conform the Statement of Terms to, or to cure any ambiguity or discrepancy due to changes in, the HUD Book-Entry Regulations or the Fiscal Agency Agreement or any regulation or document that the HUD Book-Entry Regulations or the Fiscal Agency Agreement make applicable to our book-entry securities, or
- to increase the amount of the issue of Fed Book-Entry Securities.

In addition, with either the written consent, or the affirmative vote at a meeting, of the Holders of at least a majority of the aggregate then outstanding principal amount of an issue of Fed Book-Entry Securities, we may modify, amend or supplement the Statement of Terms of such issue to add any provisions or change in any manner or eliminate any provisions of those Fed Book-Entry Securities or modify in any manner the rights of the Holders. However, without the written consent or affirmative vote of the Holder of the principal amount of that Fed Book-Entry Security, no modification, amendment or supplement may:

- change the Maturity Date of, or the due date of any installment of interest on, the Fed Book-Entry Security,
- materially modify any redemption provisions relating to the redemption price of, or any redemption date or period for, the Fed Book-Entry Security,
- reduce the principal amount of, or materially modify the rate of interest or the calculation of the rate of interest on, the Fed Book-Entry Security, or
- reduce the percentage of the then outstanding principal amount of the Fed Book-Entry Securities of which the Fed Book-Entry Security forms a part, the consent or affirmative vote of the Holders of which is necessary to modify, amend or supplement the related Statement of Terms.

Holders entitled to vote a majority of the then outstanding aggregate principal amount of an issue of Fed Book-Entry Securities will constitute a quorum at any meeting of Holders. Fed Book-Entry Securities that we own may not be counted toward establishing a quorum, or consenting to or voting for any matter presented to Holders.

Any instrument given by or on behalf of any Holder of a Fed Book-Entry Security in connection with any consent to a modification, amendment or supplement will be irrevocable once given and will be conclusive and binding on all subsequent Holders of that Fed Book-Entry Security. Except as set forth above, any modification, amendment or supplement of the terms of Fed Book-Entry Securities will be conclusive and binding on all Holders of Fed Book-Entry Securities, whether or not they have given consent or were present at any meeting.

Global Book-Entry Securities

We and the Global Agent may modify, amend or supplement the Global Agency Agreement and the terms of one or more issues of Global Book-Entry Securities without the consent of Holders of any Global Book-Entry Securities, in any manner that we and the Global Agent determine will not adversely affect in any material way the interests of the Holders, including:

- to cure, correct or supplement any ambiguous or defective provision in the Global Agency Agreement or to make any other provision with respect to the issue of Global Book-Entry Securities consistent with the provisions of the Global Book-Entry Securities,
- to increase the amount of the issue of Global Book-Entry Securities, or
- to redenominate the currency unit from the Original Specified Payment Currency to the Euro and to take all of the actions described in and contemplated by Appendix F, “Redenomination to the Euro.”

In addition, with the written consent, or the affirmative vote at a meeting, of the Holders of at least a majority of the aggregate then outstanding principal amount of Global Book-Entry Securities or an issue of Global Book-Entry Securities, we may modify, amend or supplement the Global Agency

Agreement or the terms of an issue of Global Book-Entry Securities, respectively, to add any provisions or change in any manner or eliminate any provisions of Global Book-Entry Securities or modify in any manner the rights of the Holders. However, without the written consent or affirmative vote of the Holder of a Global Book-Entry Security, no modification, amendment or supplement may:

- change the Maturity Date of, or the due date of any installment of interest on, the Global Book-Entry Security,
- materially modify any redemption provisions relating to the redemption price of, or any redemption date or period for, the Global Book-Entry Security,
- reduce the principal amount of, or materially modify the rate of interest or the calculation of the rate of interest on, the Global Book-Entry Security,
- change the Specified Payment Currency of the Global Book-Entry Security (except as described in Appendix F), or
- reduce the percentage of the then outstanding principal amount of the Global Book-Entry Securities of which the Global Book-Entry Security forms a part, the consent or affirmative vote of the Holders of which is necessary to modify, amend or supplement the Global Agency Agreement or the terms of the related Global Book-Entry Securities.

Holders entitled to vote a majority of the aggregate principal amount of the Global Book-Entry Securities or applicable issue of Global Book-Entry Securities at the time outstanding will constitute a quorum at any meeting of Holders, except that at any reconvened meeting adjourned for lack of a quorum, 25% in aggregate principal amount of the Global Book-Entry Securities or applicable issue of Global Book-Entry Securities entitled to vote shall constitute a quorum. Global Book-Entry Securities that we own may not be counted toward establishing a quorum, or consenting to or voting for any matter presented to any Holder.

Special rules for determining the “principal amount” of Global Book-Entry Securities in specific circumstances are described below.

The “principal amount,” for purposes of this section, for a Global Book-Entry Security that is a Zero-Coupon Security or was issued at an “issue price” of 80% or less of its principal amount will be calculated as provided in the Global Agency Agreement by adding the “issue price” of the Global Book-Entry Security, plus the “original issue discount” that has accrued since the issue date of the Global Book-Entry Security, minus any part of the “stated redemption price at maturity” of the Global Book-Entry Security that has been paid since the issue date of the Global Book-Entry Security. See “United States Taxation—U.S. Persons—Debt Securities Issued at a Discount” for an explanation of terms used in this paragraph.

The “principal amount,” for purposes of this section, of a Global Book-Entry Security whose Specified Principal Currency is other than U.S. dollars will be the U.S. dollar equivalent, determined on the issue date, of the principal amount of the Global Book-Entry Security.

The “principal amount” of a Global Book-Entry Security with principal determined by reference to an index, exchange rate or formula will be described in the applicable Pricing Supplement.

As provided in the Global Agency Agreement, we may establish a record date for the determination of Holders entitled to vote at any meeting of Holders of Global Book-Entry Securities, to grant any consent in respect of Global Book-Entry Securities and to receive notice with respect to any meeting or consent of Holders.

Any instrument given by or on behalf of any Holder of a Global Book-Entry Security in connection with any consent to a modification, amendment or supplement will be irrevocable once given and will be conclusive and binding on all subsequent Holders of the Global Book-Entry Security. Except as set forth above, any modification, amendment or supplement of the terms of Global Book-Entry Securities will be conclusive and binding on all Holders of Global Book-Entry Securities, whether or not they have given consent or were present at any meeting.

Notices

We will give notices to Holders of Fed Book-Entry Securities by broadcast through the communication system of the U.S. Federal Reserve Banks. Notice by broadcast will be considered given on the date of broadcast or, if broadcasted more than once, on the date of first broadcast. Instead of notice by broadcast, we may give notices to Holders in any reasonable manner that we determine. Notice by another manner will be considered given on the date of dissemination or, if disseminated more than once, on the date of first dissemination.

We, or the Global Agent, will give notices to Holders of Global Book-Entry Securities by mail to the addresses of the Holders as they appear in the Register. Notices by mail will be considered given on the date of mailing.

If an issue of Debt Securities is listed on the Luxembourg Stock Exchange and its rules so require, we also will give notices with respect to that issue of Debt Securities in a general circulation newspaper in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if publication in Luxembourg is not practical, elsewhere in Europe. Notice by publication will be considered given on the date of publication or, if published more than once, on the date of first publication.

Failure to give notice or a defect in a notice to one Holder will not affect the validity of notice to other Holders.

Exchange of Global Book-Entry Securities for Definitive Debt Securities

If we issue definitive Debt Securities in exchange for Global Book-Entry Securities as described below, the definitive Debt Securities will have the same terms as the Global Book-Entry Securities for which they were exchanged, except as described below.

Issuance of Definitive Debt Securities. A Holder can exchange beneficial interests in a Global Book-Entry Security for definitive Debt Securities only under the following circumstances:

- (1) the exchange is permitted by applicable law; and
- (2) • in the case of a Global Book-Entry Security held through DTC, DTC notifies us that it is no longer willing or able to act as a depository or ceases to be a “clearing agency” registered under the Securities Exchange Act of 1934, as amended, and we cannot find a successor within 90 days after we receive notice;
- in the case of Global Book-Entry Securities held through another depository, if all of the clearing systems for those Global Book-Entry Securities are closed for business for 14 consecutive days, or are permanently closed and we cannot find a successor within 90 days;
- a Holder has initiated a judicial proceeding to enforce the Holder’s rights under the Global Security in court, and counsel has advised the Holder that it is necessary to have a definitive Debt Security; or
- except in the case of 183 Day Notes (as defined in Appendix B), we, either at a Holder’s request and expense or otherwise, in our own discretion, decide to issue definitive securities.

In any of the above circumstances, we will execute and deliver definitive Debt Securities to the Global Agent for their delivery to the Holders as soon as practicable.

Title. The person in whose name a definitive Debt Security is registered in the Register will be the “Holder” of the definitive Debt Security. We and the Global Agent may treat the Holders as the absolute owners of definitive Debt Securities for the purpose of making payments and for all other purposes whether or not any payments on the definitive Debt Securities are overdue.

Payments. We will pay interest on a definitive Debt Security on each applicable Interest Payment Date. We will pay by check mailed to the Holder at the close of business on the Record Date

preceding the Interest Payment Date at the Holder's address appearing in the Register. We will pay the principal of each definitive Debt Security, together with accrued and unpaid interest, on the Principal Payment Date against presentation and surrender of the definitive Debt Security by check at the appropriate office of the Global Agent or other paying agent or mailed by the Global Agent to the Holder of the definitive Debt Security. We will use a United States bank for checks in U.S. dollars and a bank office located outside the United States for checks in other Specified Payment Currencies. If an issue of Debt Securities of which definitive Debt Securities form a part is listed on the Luxembourg Stock Exchange and the rules of that exchange so require, we will appoint and maintain a paying agent in Luxembourg with respect to that issue of Debt Securities. See "Description of the Debt Securities—Notices" for a description of how we will notify the Holders of definitive Debt Securities of the appointment and location of the paying agent.

The Holder of an aggregate principal amount of at least \$10,000,000 (or the equivalent in the Specified Currency) of an issue of Debt Securities of which definitive Debt Securities form a part may elect to receive payments by wire transfer of immediately available funds in the Specified Payment Currency to an account with a bank designated by the Holder that is acceptable to us. In order for the Holder to receive the payments, the Global Agent or other paying agent, if applicable, must receive the following by mail, hand or telex at its principal U.S. corporate trust office or its specified office, respectively:

- for interest payments, a written request by the close of business on the related Record Date
- for payments on the Principal Payment Date, a written request by the close of business 15 days prior to the Principal Payment Date and the definitive Debt Security two Business Days prior to the Principal Payment Date

All payments on definitive Debt Securities are subject to any applicable law or regulation. If a payment outside the United States is illegal or effectively precluded by exchange controls or similar restrictions, payments in respect of the related definitive Debt Securities may be made at the office of any paying agent in the United States.

Partial Redemption. If we redeem a portion of an issue of definitive Debt Securities, the Global Agent will select by lot, or in any other manner that the Global Agent deems fair and appropriate, those definitive Debt Securities to be redeemed, ensuring that the principal amount of each outstanding definitive Debt Security after the redemption is in an authorized denomination.

Transfer and Exchange. Holders may present definitive Debt Securities for transfer or exchange at the office of the Registrar or any other transfer agent, with transfer documentation completed and payment of any taxes and other governmental charges. If an issue of Debt Securities of which definitive Debt Securities form a part is listed on the Luxembourg Stock Exchange and the rules of that exchange so require, we will appoint and maintain a transfer agent in Luxembourg for that issue of Debt Securities.

Holders may transfer or exchange definitive Debt Securities in whole or in part only in the authorized denominations of the Global Book-Entry Securities for which they were exchanged. See "Description of the Debt Securities—Denomination." In the case of a transfer of a definitive Debt Security in part, the Registrar will issue a new definitive Debt Security for the balance not transferred.

Currency Conversions

Payment for Debt Securities

Purchasers of Debt Securities must pay for the Debt Securities in the applicable Specified Currency. Dealers to whom or through whom Debt Securities are sold may arrange for the conversion of the investor's currency into the Specified Currency to enable purchasers to pay for the Debt Securities if purchasers so request no later than the day determined by that Dealer. We will not be involved in any manner in, and will have no responsibility for, that conversion. Each Dealer will make

the conversion on terms and subject to any conditions, limitations and charges that the Dealer may establish. The purchasers of the Debt Securities will bear all costs of conversion.

Payment on Debt Securities

Except as described above, we must make payments of principal of and any interest on all Debt Securities in the Specified Payment Currency. At the present time, there are limited facilities in the United States for the conversion of foreign currencies or currency units into U.S. dollars, and commercial banks generally do not offer non-U.S. dollar checking or savings account facilities. Accordingly, in the case of Global Book-Entry Securities whose Specified Payment Currency is other than U.S. dollars, the currency exchange bank specified in the applicable Pricing Supplement (the “Currency Exchange Bank”), for the Holders of the Global Book-Entry Securities, will convert any amounts paid by us in the Specified Payment Currency into U.S. dollars, unless the Holders elect to receive payments in the Specified Payment Currency as hereinafter described. We will not be involved in any manner in, and will have no responsibility for, the conversion of the Specified Payment Currency for the Global Book-Entry Securities into U.S. dollars.

The U.S. dollar amount to be received by a Holder of a Global Book-Entry Security in respect of which payments are to be converted from the Specified Payment Currency into U.S. dollars will be determined by the Currency Exchange Bank in the morning of the day that would be considered the date for “spot” settlement of the Specified Payment Currency on the applicable payment date in accordance with market convention (generally two New York business days prior to the payment date) at the market rate determined by the Currency Exchange Bank to accomplish the conversion on the payment date of the aggregate amount of the Specified Payment Currency payable in respect of Global Book-Entry Securities scheduled to receive payments converted into U.S. dollars. All currency exchange costs will be borne by the Holders of the Global Book-Entry Securities (and, accordingly, by the related beneficial owners) by deductions from the payments. Holders of Global Book-Entry Securities are subject to the risk of market disruption and the risk that all or any portion of the Specified Payment Currency will not be convertible into U.S. dollars. In those cases, Holders of the Global Book-Entry Securities will receive payment in the Specified Payment Currency.

The Holder of a Global Book-Entry Security held through DTC to be paid in a Specified Payment Currency other than U.S. dollars will have the option to receive payments of the principal of and any interest on the Global Book-Entry Security in the Specified Payment Currency by notifying DTC no later than the third New York business day after the related Record Date, in the case of payments on an Interest Payment Date, or the date 12 days prior to the Principal Payment Date, in the case of payments on the Principal Payment Date. We understand that Euroclear and Clearstream, unless specifically requested not to do so by a participant prior to the 15th day preceding the applicable Interest Payment Date or Principal Payment Date, will elect to receive all payments of principal and interest in respect of Global Book-Entry Securities held through them in the applicable Specified Payment Currency if it is other than U.S. dollars.

Governing Law and Judgments

Fed Book-Entry Securities

The Fed Book-Entry Securities (including our rights and obligations with respect to the Fed Book-Entry Securities) will be governed by, and construed in accordance with, (1) regulations adopted by the U.S. Department of Housing and Urban Development or any other U.S. governmental body or agency, as from time to time in effect, that apply to our Fed Book-Entry Securities, currently the HUD Book-Entry Regulations, and (2) to the extent the regulations identified in clause (1) do not apply, the laws of the State of New York, U.S.A.

Global Book-Entry Securities

The Global Book-Entry Securities will be governed by, and construed in accordance with, the laws of the State of New York, U.S.A.

Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than U.S. dollars. New York law currently provides, however, that a judgment or decree based upon an obligation denominated in a currency other than U.S. dollars will be rendered in the foreign currency of the underlying obligation and converted into U.S. dollars at a rate of exchange prevailing on the date of the entry of the judgment or decree. As a result, the Holder of a Global Book-Entry Security would be subject to exchange rate fluctuations between the date of entry of the judgment or decree and the time the foreign currency judgment or decree is paid to the Holder in U.S. dollars (whether or not the Holder then converts any amounts paid into the Specified Payment Currency).

Fiscal Agent and Global Agent

Benchmark Bills and Short-Term Notes that are Fed Book-Entry Securities

As described in Appendix B, Benchmark Bills and Short-Term Notes that are Fed Book-Entry Securities will be issued under a fiscal agency agreement between Fannie Mae and FRBNY dated as of January 2, 1969, as amended or supplemented. The provisions of that agreement are substantially similar to the terms of the Fiscal Agency Agreement described below.

Other Fed Book-Entry Securities

The U.S. Federal Reserve Banks will be the fiscal agents for Fed Book-Entry Securities that are not Benchmark Bills or Short-Term Notes. The U.S. Federal Reserve Banks currently act as Fiscal Agent under the Fiscal Agency Agreement with Fannie Mae, dated as of April 23, 1974, as amended or supplemented. Fannie Mae and the U.S. Federal Reserve Banks may amend, modify or supplement in any respect, or may terminate, substitute or replace, the Fiscal Agency Agreement without the consent of any Holder of Fed Book-Entry Securities. Where we refer in this Offering Circular to the “Fiscal Agency Agreement,” we mean the agreement in effect from time to time under which the U.S. Federal Reserve Banks act as the Fiscal Agent for the Fed Book-Entry Securities. We have engaged in, and in the future may engage in, other business relationships with them.

In acting under the Fiscal Agency Agreement, the Fiscal Agent acts solely as our fiscal agent and does not assume any obligation or relationship of agency or trust for or with any Holder.

Global Book-Entry Securities

We have appointed JPMorgan Chase Bank as the global agent for the Global Book-Entry Securities. JPMorgan Chase Bank acts as Global Agent under an agreement with Fannie Mae, dated as of December 21, 1999, as it may be amended and supplemented. JPMorgan Chase Bank, which has its principal U.S. corporate trust office at 450 West 33rd Street, 15th Floor, New York, NY 10001-2697, is the fiscal agent under some of our debt securities and has other business relationships with us.

In acting under the Global Agency Agreement, the Global Agent acts solely as our fiscal agent and does not assume any obligation or relationship of agency or trust for or with any Holder of a Global Book-Entry Security, except that any moneys held by the Global Agent for payment on a Global Book-Entry Security will be held in trust for the Holder (as provided in the Global Agency Agreement).

We have appointed initially the Global Agent as Registrar, Transfer Agent and Paying Agent for the Global Book-Entry Securities. We may vary or terminate the appointment of the Global Agent as the Registrar, Transfer Agent or Paying Agent or appoint additional or other transfer agents or paying

agents or approve any change in the office through which the Registrar or any transfer agent or paying agent acts.

If any of the Debt Securities are listed on the Luxembourg Stock Exchange, and the rules of such exchange so require, notice of any such change in appointments shall be published for the information of the Holders of Debt Securities in a daily newspaper of general circulation in Luxembourg.

CLEARANCE AND SETTLEMENT

General

Debt Securities may be held through organizations participating in one or more international and domestic clearing systems, principally the systems operated by the U.S. Federal Reserve Banks and DTC, in the United States, and Euroclear and Clearstream, in Europe. Electronic securities and payment transfer, processing, depository and custodial arrangements among these systems and others, either directly or indirectly through custodians and depositories, may enable Debt Securities to be issued, held and transferred among the systems as described below. Special procedures among these systems allow clearance and settlement of certain Debt Securities traded across borders in the secondary market. Cross-market transfers of Debt Securities denominated in some Specified Currencies may be cleared and settled using these procedures. However, there can be no assurance that cross-market transfers of any Debt Securities will be possible at any particular point in the future.

Each relevant system has its own separate operating procedures and arrangements with participants or accountholders that govern the relationship between them and the system and in respect of which we are not and will not be a party. The clearing systems may impose fees for the maintenance and operation of the accounts in which beneficial interests in the Debt Securities are maintained.

We expect that:

- (1) most Debt Securities denominated and payable in U.S. dollars will clear and settle through the Fed Book-Entry System, and indirectly through other clearing systems, such as Euroclear or Clearstream,
- (2) Debt Securities denominated or payable in a Specified Currency other than U.S. dollars (and Debt Securities denominated and payable in U.S. dollars that are not cleared and settled in accordance with clause (1) above) will clear and settle through the system operated by DTC, and indirectly through other clearing systems, such as Euroclear or Clearstream, and
- (3) Debt Securities, irrespective of the Specified Currency in which they are denominated or payable, distributed solely outside of the United States will clear and settle through the systems operated by Euroclear, Clearstream or other clearing system indicated in the applicable Pricing Supplement and, in certain cases, DTC.

The Clearing Systems

Fed Book-Entry System. The U.S. Federal Reserve Banks operate a book-entry system, which provides book-entry holding and settlement for U.S. dollar denominated securities issued by the U.S. Government, some of its agencies and instrumentalities and international organizations of which the United States is a member. The system enables Holding Institutions to hold, make payments and transfer securities and funds through the U.S. Federal Reserve Banks' Fedwire system.

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, and is a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants.

Euroclear and Clearstream. Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear is operated by Euroclear Bank, and all Euroclear securities clearance and cash accounts are with Morgan Guaranty. They are governed by the Terms and Conditions governing use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law. Clearstream is incorporated under the laws of Luxembourg as a limited company. A participant's overall contractual relations with Clearstream are governed by the general Terms and Conditions, related operating rules and procedures and applicable Luxembourg law.

Clearstream and Euroclear each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Other. We will describe in the applicable Pricing Supplement or other supplement any other clearing system that is available for a particular issue of Debt Securities.

Clearance and Settlement Procedures—Primary Distribution

Upon original issuance, Debt Securities will be credited through one or more of the systems described above or any other system specified in the applicable Pricing Supplement. Payment from the applicable Dealer for Fed Book-Entry Securities will be on a delivery versus payment basis and for Global Book-Entry Securities will be on a delivery versus payment or free delivery basis, as agreed to by us. Clearance and settlement procedures may vary according to the Specified Currency in which the Debt Securities are denominated or payable. The customary clearance and settlement procedures of certain systems are described below.

U.S. Federal Reserve Banks. Fed Book-Entry Securities will be issued and settled through the Fed Book-Entry System in same-day funds and will be held by designated Holding Institutions. After initial issue, all Fed Book-Entry Securities will continue to be held by those Holding Institutions in the Fed Book-Entry System unless arrangements are made for the transfer thereof to another Holding Institution.

DTC. DTC participants acting on behalf of investors holding Global Book-Entry Securities through DTC will follow the delivery practices applicable to securities eligible for DTC's Same-Day Funds Settlement System. Global Book-Entry Securities held through DTC will be credited to DTC participants' securities accounts following confirmation of receipt of payment to us on the relevant issue date.

Euroclear and Clearstream. Investors holding Global Book-Entry Securities through Euroclear and Clearstream will follow the settlement procedures applicable to conventional eurobonds. These Global Book-Entry Securities will be credited to Euroclear and Clearstream participants' securities clearance accounts either on the relevant issue date or on the settlement day following the relevant issue date against payment in same-day funds, for value on the relevant issue date.

Clearance and Settlement Procedures—Secondary Market Transfers

Fed Book-Entry Securities. Transfers of Fed Book-Entry Securities can take place only in book-entry form on the Fed Book-Entry System. These transfers will occur between Holding Institutions in accordance with the rules of the Fed Book-Entry System.

Global Book-Entry Securities. Transfers of beneficial interests in Global Book-Entry Securities within the various systems that may be clearing and settling interests therein will be made in accordance with the usual rules and operating procedures of the relevant system applicable to the Specified Currency in which the Global Book-Entry Securities are denominated or payable and the nature of the transfer.

General. For issues of Debt Securities that are cleared and settled through more than one system, time zone differences may result in the securities account of an investor in one system being credited during the settlement processing day immediately following the settlement date of the other system and the cash account being credited for value on the settlement date but only being available as of the day following the settlement date.

Although the U.S. Federal Reserve Banks, DTC, Euroclear, Clearstream and other clearing systems have procedures to facilitate transfers of beneficial interests in Debt Securities among their respective Holding Institutions, participants and accountholders, they are under no obligation to perform or continue to perform those procedures, and those procedures may be modified or discontinued at any time. None of us, the Fiscal Agent, the Global Agent or any other agent will have any responsibility for the performance by any system (other than the Fiscal Agent with respect to the Fed Book-Entry System) or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

UNITED STATES TAXATION

The Debt Securities and payments thereon generally are subject to taxation. Therefore, you should consider the tax consequences of owning a Debt Security, Interest Component or Principal Component before acquiring one.

We have engaged Arnold & Porter as special tax counsel to review the following discussion. They have given us their opinion that the discussion correctly describes the principal U.S. federal income tax consequences to beneficial owners of Debt Securities.

The following discussion is general and may not apply to your particular circumstances for any of the following (or other) reasons:

- This summary is based on federal tax laws in effect as of the date of this Offering Circular. Changes to any of these laws after this date may affect the tax consequences described below.
- This summary discusses only Debt Securities acquired by beneficial owners at original issuance and held as capital assets (within the meaning of federal tax law). It does not discuss all of the tax consequences that may be relevant to beneficial owners subject to special rules, such as banks, thrift institutions, real estate investment trusts, regulated investment companies, tax-exempt organizations, brokers and dealers in securities or currencies, certain securities traders and certain other financial institutions. This discussion also does not discuss tax consequences that may be relevant to a beneficial owner in light of the beneficial owner's particular circumstances, such as a beneficial owner holding a Debt Security as a position in a straddle, hedging, conversion or other integrated investment or a beneficial owner whose functional currency is not the U.S. dollar.
- The tax consequences of owning any Debt Securities with special characteristics may be set forth in a Pricing Supplement.
- The Debt Securities also are subject to taxes imposed by states and possessions of the United States and by local taxing authorities. If you reside in a state of the United States that imposes intangible property or income taxes, you should consult your own tax advisors as to the consequences of such laws.

Because the following discussion may not apply to you, we advise you to consult your own tax advisors regarding the tax consequences of purchasing, owning and disposing of Debt Securities (or Interest Components or Principal Components), including the advisability of making any of the elections described below.

We sell many different types of Debt Securities. The federal income tax rules that will apply to a Debt Security will depend on the terms of that Debt Security and whether the beneficial owner is a U.S. Person. For purposes of the following discussion, a “U.S. Person” means:

- a citizen or individual resident of the United States,
- a corporation or partnership created or organized in or under the laws of the United States or any state thereof or the District of Columbia,
- an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source,
- a trust if a court within the United States is able to exercise primary supervision over its administration and at least one U.S. Person has the authority to control all substantial decisions of the trust, or
- certain trusts in existence on August 20, 1996, and treated as United States persons (within the meaning of section 7701(a)(30) of the federal income tax code) prior to such date, that elect to continue to be treated as United States persons, as provided in Treasury Regulations.

The first part of the following discussion is addressed to beneficial owners who are U.S. Persons, the second part is addressed to beneficial owners who are not U.S. Persons (“non-U.S. Persons”) and the last part addresses rules concerning information reporting to the U.S. Internal Revenue Service (the “IRS”) and backup withholding.

Special rules governing Debt Securities targeted to foreign markets are described in Appendix G.

U.S. Persons

The following discussion applies to you if you are a U.S. Person.

If you are a U.S. Person and own a Debt Security, income from that Debt Security is subject to U.S. federal income taxation, and if you own the Debt Security when you die, the Debt Security will be included in your estate subject to U.S. federal estate tax.

Tax Status of Debt Securities for Building and Loans, Savings Banks and REITs

The IRS has ruled that Fannie Mae is an instrumentality of the United States for purposes of section 7701(a)(19) of the federal income tax code. Therefore, domestic building and loan associations and savings banks may treat investments in our securities as part of the percentage of total assets they must invest in specified assets, which includes “stock or obligations of a corporation which is an instrumentality of the United States.” Further, the IRS permits real estate investment trusts (REITs) to treat holdings of Fannie Mae securities as “government securities” for purposes of the requirement that 75 percent of the value of their total assets consists of real estate assets, cash and cash items (including receivables), and government securities.

Reopenings of Debt Securities

Final tax regulations address whether additional debt instruments issued in a reopening will be considered part of the same issue as the original debt instruments for tax purposes. Unless otherwise specified in the applicable Pricing Supplement, a reopening of Debt Securities will comply with those regulations.

Payments of Interest

Interest paid on a Debt Security generally is taxable as ordinary interest income. You must report this income when it accrues or you receive it, depending on your method of accounting for U.S. federal

income tax purposes. You may have to follow special reporting rules, however, if your Debt Security has “original issue discount” (“OID”), as described in the following paragraphs.

Debt Securities Issued at a Discount

If you purchase a Debt Security at original issuance at a price below its principal amount, the federal income tax laws generally treat the difference between the amount you paid and the Debt Security’s principal amount as OID. In addition, if you purchase at original issuance a Debt Security that matures one year or less from its issuance date, that Debt Security has OID as described below under “United States Taxation—U.S. Persons—Debt Securities with a Term of One Year or Less.” Rules in the federal tax laws (the “OID Regulations”) define OID as the excess of the “stated redemption price at maturity” (defined below) of each such Debt Security over its “issue price” (defined below) if such excess equals or exceeds a *de minimis* threshold amount. If all of the principal to be paid on a Debt Security is to be paid in a single payment, the *de minimis* threshold amount is defined as one-quarter of one percent of such Debt Security’s stated redemption price at maturity multiplied by the number of complete years to its maturity. The “stated redemption price at maturity” of a Debt Security is the sum of all payments on the Debt Security other than interest based on a fixed rate (or, generally, a variable rate, unless an applicable Pricing Supplement states otherwise) and payable unconditionally at least annually. The “issue price” of a Debt Security is the first price at which a substantial amount of that issue of Debt Securities is sold to the public for cash (ignoring sales to bond houses, underwriters, placement agents and other wholesalers).

If you own a Debt Security with OID less than the *de minimis* threshold amount, you must include that OID in income, as capital gain, on a *pro rata* basis as principal payments are made on the Debt Security.

If your Debt Security has OID equal to or greater than the *de minimis* threshold amount, you must include the OID in income as it accrues, which may be before you receive cash attributable to such income. You must include OID in income using the yield to maturity of the Debt Security (as defined in the OID Regulations), which is computed based on a constant annual rate of interest and compounding at the end of each accrual period. The OID Regulations permit you to use accrual periods of any length from one day to one year to compute accruals of OID, provided each scheduled payment of principal or interest occurs either on the first or the last day of an accrual period. Under these rules, you must include in income increasingly greater amounts of OID in successive accrual periods, unless payments that are part of the stated redemption price at maturity of a Debt Security are made before its final maturity.

Subordinated Debt Securities

Under the OID Regulations, a debt instrument will generally be treated as issued with OID if the stated interest on the debt instrument does not constitute “qualified stated interest.” Qualified stated interest is generally any one of a series of stated interest payments on a debt instrument that are unconditionally payable at least annually at a single fixed rate. In determining whether stated interest on a debt instrument is unconditionally payable and thus constitutes qualified stated interest, remote contingencies as to the timely payment of stated interest are ignored.

In the case of a Subordinated Debt Security, we may be required to defer the payment of interest as described in Appendix C. Thus, interest on a Subordinated Debt Security would not be unconditionally payable at least annually for purposes of the OID Regulations, unless the likelihood of the deferral of interest payments was remote. Under the OID Regulations, this determination must be made at the time of issuance of each Subordinated Debt Security.

If the likelihood (as of the time of the issuance of a Subordinated Debt Security) of a deferral of any payment of interest was determined not to be remote or if any payment of interest on a Subordinated Debt Security was actually deferred, the Subordinated Debt Security would be treated as issued with OID at the time of issuance or at the time of such deferral, as the case may be, and all

stated interest would thereafter be treated as OID as long as the Subordinated Debt Security remained outstanding. In that event, all of a beneficial owner's taxable interest income in respect of the Subordinated Debt Security would constitute OID that generally would have to be included in income as described under "Debt Securities Issued at a Discount" above.

Debt Securities That We May Redeem Before Maturity

The OID Regulations contain additional rules that apply to Debt Securities that we may redeem ("call") prior to their final maturity date. Under these rules, we will be presumed to exercise a call right if doing so would lower the yield to maturity of the callable Debt Security. If this presumption applies, but we do not exercise the call right, the Debt Security will be deemed reissued at its adjusted issue price for purposes of determining subsequent accruals of interest and OID. The "adjusted issue price" of a Debt Security is defined as the sum of the issue price of the Debt Security and the aggregate amount of previously accrued OID, if any, less any prior payments of amounts included in its stated redemption price at maturity.

The rules concerning callable Debt Securities are especially important for determining the OID treatment of "Step-Up Debt Securities." Step-Up Debt Securities are Debt Securities that are issued at par, have an initial fixed interest rate that increases to a higher fixed rate on a specified date, and are redeemable at par on the date the rate changes (including Debt Securities that also may be redeemable prior to that date or that may increase to a higher fixed rate at a later date). Because the yield to maturity on Step-Up Debt Securities would be lower if they were called prior to an increase in the stated interest rate, each issue of Step-Up Debt Securities will be treated as maturing on the first permissible call date. If an issue of Step-Up Debt Securities is not in fact called on that date, or is called only in part, the Step-Up Debt Securities (to the extent of their remaining outstanding principal amount) will be deemed to be called and reissued at its adjusted issue price. The above rules also apply to any deemed reissued Debt Securities that would be a Step-Up Debt Security if issued on the deemed reissue date. As a result of these special rules, Step-Up Debt Securities do not have any OID solely as a result of the structure of their interest rates. Thus, if you own Step-Up Debt Securities you should take stated interest on such Debt Securities into account under your regular method of accounting.

Debt Securities with a Term of One Year or Less

All stated interest payments on a Debt Security that matures one year or less from the date it is issued (a "Short-Term Obligation") are included in the stated redemption price at maturity of the Debt Security and, therefore, are treated as OID.

Unless you either are required or elect (as described below) to include OID on a Short-Term Obligation in income currently, if you use the cash method of accounting, which most individual taxpayers do, you must with respect to OID on a Short-Term Obligation:

- include OID in income when received;
- include in ordinary income any gain realized upon the sale, exchange or retirement of a Short-Term Obligation to the extent of accrued OID (determined on a straight-line basis, unless you make an irrevocable election to determine such accrued OID on the basis of the Debt Security's yield to maturity and daily compounding); and
- defer deductions for interest expense on any indebtedness you incurred or continued to purchase or carry the Short-Term Obligation, in an amount not exceeding the deferred interest income, until you recognize the deferred interest income.

A beneficial owner of a Short-Term Obligation who uses the cash method and who is not otherwise required to account for interest or OID on a Short-Term Obligation as it accrues may elect to include in income OID as it accrues (as if the beneficial owner used the accrual method of accounting, under the rules described in the following paragraph). This election will apply to all debt

obligations having a maturity of one year or less that the beneficial owner holds in the taxable year of the election and in all subsequent years. A beneficial owner may revoke the election described in this paragraph only with the consent of the IRS.

If you use the accrual method of accounting, or if you are a bank, regulated investment company or are described in section 1281(b) of the federal income tax code, you are required to include OID on a Short-Term Obligation in income as it accrues on a straight-line basis, regardless of your method of accounting. Alternatively, you may make an irrevocable election to accrue such OID on the basis of the Debt Security's yield to maturity and daily compounding.

In addition, any beneficial owner may make the election described below under "United States Taxation—U.S. Persons—Accrual Method Election" for a Short-Term Obligation. That election is independent of the elections described in the preceding paragraphs.

In certain cases, Step-Up Debt Securities may provide for a fixed interest rate that increases to a higher fixed interest rate exactly one year (or less) after the date of issuance. In such cases, the Step-Up Debt Securities would not be characterized as Short-Term Obligations under the OID Regulations, even though it is presumed for purposes of computing accruals of interest and OID that we will call the Step-Up Debt Securities one year or less after they are issued.

The federal income tax laws are unclear concerning how to determine the amount of interest or OID income accruing on a variable rate Debt Security with a term of one year or less. One method would be to treat the stated interest on such a Debt Security as interest that is taxable as ordinary interest income. Alternatively, the stated interest on a variable rate Debt Security that is also a Short-Term Obligation could be treated as OID under the rules described above for Short-Term Obligations. Generally, the two methods will not produce materially different results.

Debt Securities Purchased at a Premium

If you purchase a Debt Security for an amount (net of accrued interest) in excess of its principal amount (or, in the case of a Debt Security with OID, its stated redemption price at maturity) you will have premium with respect to such Debt Security in the amount of such excess. A beneficial owner who purchases a Debt Security at a premium may elect to treat such premium as "amortizable bond premium." If you make this election, the amount of interest that you must include in income for each accrual period (where such Debt Security is not optionally redeemable prior to its Maturity Date) is reduced by the portion of the premium allocable to such period based on the Debt Security's yield to maturity. If the amortizable bond premium allocable to an accrual period exceeds the interest allocable to the accrual period, you treat the excess as a bond premium deduction for the accrual period. However, the amount treated as a bond premium deduction is limited to the amount by which your total interest income on the Debt Security in prior accrual periods exceeds the total amount treated by you as a bond premium deduction on the Debt Security in prior accrual periods. If a Debt Security may be called prior to maturity, but after you acquired it, you generally may not assume that the call will be exercised and must amortize premium to the Maturity Date. If the Debt Security is in fact called, you may deduct any unamortized premium in the year of the call. If you make the election described above, the election will apply to all debt instruments the interest on which is not excludible from gross income ("Fully Taxable Bonds") that you hold at the beginning of the first taxable year to which the election applies and to all Fully Taxable Bonds you later acquire. You may revoke this election only with the consent of the IRS.

If you do not make this election, you must include the full amount of each interest payment in income in accordance with your regular method of accounting and you will receive a tax benefit from the premium only in computing your gain or loss upon the sale or other disposition or retirement of the Debt Security. In the case of a Short-Term Obligation, the election is available only to those cash-method beneficial owners that neither are required nor have elected to account for interest or OID on the Short-Term Obligation as it accrues.

If you purchase a Debt Security with OID at a premium, you are not required to include in income any OID with respect to such Debt Security.

OID Debt Securities Purchased at an Acquisition Premium

If you purchase a Debt Security with OID for an amount in excess of its adjusted issue price (as defined below) but less than its stated redemption price at maturity, you will have acquisition premium with respect to such Debt Security in the amount of such excess. If you purchase a Debt Security with OID at an acquisition premium, the amount of OID you will include in income in each taxable year will be reduced by that portion of the acquisition premium properly allocable to such year. Unless you make the accrual method election described below in “United States Taxation—U.S. Persons—Accrual Method Election,” acquisition premium is allocated on a *pro rata* basis to each accrual of OID, so that you are allowed to reduce each accrual of OID by a constant fraction.

Debt Securities Purchased at a Market Discount

If you purchase a Debt Security (other than a Short-Term Obligation) at a price less than its stated redemption price at maturity (or, in the case of a Debt Security with OID, its adjusted issue price) you will have market discount with respect to such Debt Security in the amount of the shortfall. If you purchase a Debt Security with market discount you are required (unless such market discount is less than a *de minimis* amount) to treat any principal payments on, or any gain realized upon the disposition or retirement of such Debt Security, as interest income to the extent of the market discount that accrued while you held such Debt Security, unless you elect to include such market discount in income on a current basis. Market discount is considered to be *de minimis* if it is less than one-quarter of one percent of a Debt Security’s stated redemption price at maturity multiplied by the number of complete years to maturity after the beneficial owner acquired such Debt Security. If you dispose of a Debt Security with more than a *de minimis* amount of market discount in a nontaxable transaction (other than a nonrecognition transaction described in section 1276(d) of the federal income tax code), accrued market discount is includible as ordinary income as if you had sold the Debt Security at its then fair market value.

If you acquire a Debt Security at a market discount and you do not elect to include market discount in income on a current basis, you may be required to defer the deduction of a portion of the interest expense on any indebtedness you incurred or continued to purchase or carry the Debt Security until the deferred income is realized.

Accrual Method Election

You may elect to include in gross income your entire return on a Debt Security (*i.e.*, the excess of all remaining payments to be received on the Debt Security over the amount you paid for the Debt Security) based on the compounding of interest at a constant rate. Such an election for a Debt Security with amortizable bond premium (or market discount) will result in a deemed election for all your debt instruments with amortizable bond premium to amortize the premium (or currently include the market discount). You may revoke the accrual method election only with the permission of the IRS.

Disposition or Retirement of Debt Securities

When you sell, exchange or otherwise dispose of a Debt Security, or when we retire a Debt Security (including by redemption), you will recognize gain or loss equal to the difference, if any, between the amount you realize upon the disposition or retirement and your tax basis in the Debt Security. Your tax basis for determining gain or loss on the disposition or retirement of a Debt Security generally is your U.S. dollar cost of such Debt Security, increased by the amount of OID and any market discount includible in your gross income with respect to such Debt Security, and decreased

by the amount of any payments under the Debt Security that are part of its stated redemption price at maturity and by the portion of any premium previously taken into account.

Gain or loss you realize on a disposition or retirement of a Debt Security is capital gain or loss (except to the extent the gain represents accrued interest, OID or market discount on the Debt Security not previously included in gross income, to which extent such gain or loss would be treated as ordinary income). Any capital gain or loss is long-term capital gain or loss if at the time of disposition or retirement you held the Debt Security for more than one year. The deductibility of capital losses is subject to limitations. Tax rates on capital gain for individuals vary depending on the individual's income and the holding period for the Debt Security. Beneficial owners who are individuals should contact their own tax advisors for information regarding the capital gains tax applicable to an investment in a Debt Security.

If you own redeemable Debt Securities, such as Step-Up Debt Securities, and if a call right that is presumed exercised is not in fact exercised, the deemed reissuance of the Debt Securities for purposes of computing subsequent accruals of interest and OID will not result in a deemed disposition or retirement of the Step-Up Debt Securities.

Debt Securities with Payments Based on a Non-U.S. Currency

Special rules govern the taxation of Debt Securities whose interest and principal payments are made in a currency other than U.S. dollars (a "Non-U.S. Currency") or are determined by reference to a Non-U.S. Currency. This discussion addresses only Debt Securities whose interest or principal payments are made in or determined by reference to a single Non-U.S. Currency. Generally, a beneficial owner first will compute its interest or OID income on such a security in the Non-U.S. Currency and then will translate that income into U.S. dollars. The method and timing of the translation will depend on the beneficial owner's usual method of accounting and whether the Debt Security has OID.

Debt Securities without OID

If you are a cash method taxpayer and your interest payment is made in or determined by reference to a Non-U.S. Currency, the amount of income you recognize will be the U.S. dollar value of the interest payment you receive, based on the spot exchange rate on the date you receive it.

If you are an accrual method taxpayer, the amount of income you recognize will be based on the average exchange rate during the interest accrual period. When an accrual period includes parts of two taxable years, the exchange rate you will use to determine your income for that portion of the accrual period in each of the years will be the average exchange rate for the portion of the accrual period in that year.

Alternatively, an accrual method taxpayer may elect to use the exchange rate in effect on the last day of the accrual period to translate interest income into U.S. dollars. When an accrual period includes parts of two taxable years, you will determine your income for that portion of the accrual period in the first taxable year based on the exchange rate in effect at the end of the year, and you will use the exchange rate in effect at the end of the accrual period to determine your income for that portion of the accrual period in the second year. If the payment of interest is made or received within five business days of the last day of the accrual period or taxable year, that taxpayer instead may use the exchange rate in effect on the day the payment is received to translate such accrued interest into U.S. dollars. If you make this election, it will apply to all debt instruments you hold at the beginning of the first taxable year to which the election applies or thereafter acquired. You may revoke the election only with the consent of the IRS.

When you receive an interest payment denominated in or determined by reference to a Non-U.S. Currency (including a payment attributable to accrued but unpaid interest you receive when you sell a Debt Security or we retire it), you will recognize ordinary income or loss due to changes in exchange

rates, which will be measured by the difference between the amount of interest income accrued and the value of the interest payment received.

Debt Securities with OID

If a Debt Security whose payments are denominated in or determined by reference to a Non-U.S. Currency is issued with OID, a beneficial owner will compute the accruals of OID in that Non-U.S. Currency. The accruals then will be translated into U.S. dollars under the rules described above for accrual method beneficial owners. The rules in this paragraph apply to both cash method beneficial owners and accrual method beneficial owners.

Disposition or Retirement of Debt Securities

When you sell, exchange or otherwise dispose of a Debt Security, or when we retire a Debt Security (including by redemption), you will recognize gain or loss equal to the difference, if any, between the amount you realize upon the disposition or retirement and your tax basis in the Debt Security. The amount you realize on a disposition or retirement when you are paid an amount in a Non-U.S. Currency will be the U.S. dollar value of that amount either on the date of disposition or retirement or on the settlement date, the latter applying only in the case of a Debt Security traded on an established securities market and sold by a cash method taxpayer or an electing accrual method taxpayer. If you are paid in U.S. dollars upon the disposition or retirement of a Debt Security payable by its terms in a Non-U.S. Currency, that amount may not be the same as the amount you realize for tax purposes, which is described in the preceding sentence.

Your tax basis for determining gain or loss on the disposition or retirement of a Debt Security will be your U.S. dollar cost of such Debt Security, increased by the amount of OID and market discount includible in your gross income from the Debt Security, and decreased by the amount of any payments under the Debt Security that are part of its stated redemption price at maturity and by the portion of any premium previously taken into account. The U.S. dollar cost of Debt Securities purchased with Non-U.S. Currency generally will be the U.S. dollar value of the purchase price either on the date of purchase or on the settlement date for the purchase, the latter applying only in the case of Debt Securities traded on an established securities market and purchased by a cash method taxpayer or an electing accrual method taxpayer. If you purchase a Debt Security by converting U.S. dollars into the Non-U.S. Currency in which that Debt Security is payable, the U.S. dollar amount so converted may not be the same as the U.S. dollar value of the purchase price on the date of purchase or settlement, which, as described in the preceding sentence, is used to calculate your tax basis.

Gain or loss you realize on a disposition or retirement of a Debt Security will be capital gain or loss, with two exceptions: (1) to the extent the gain represents accrued interest, OID or market discount on the Debt Security not previously included in gross income or (2) to the extent the gain or loss is attributable to changes in exchange rates. To the extent gain or loss falls into these exceptions, such gain or loss would be ordinary income. More information about the treatment of capital gains and losses is described above under “U.S. Persons—Disposition or Retirement of Debt Securities.”

Exchanges of Non-U.S. Currency

Non-U.S. Currency you receive as interest on a Debt Security or on the disposition or retirement of a Debt Security will have a tax basis equal to its U.S. dollar value at the time you receive the interest or at the time of the disposition or retirement. Non-U.S. Currency you purchase generally will have a tax basis equal to the U.S. dollar value of such Non-U.S. Currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a Non-U.S. Currency (for example, if you use it to purchase Debt Securities or exchange it for U.S. dollars) will be ordinary income or loss.

Conversion to the Euro

A conversion of an amount payable on a Debt Security from a national currency of a participating member state of the European Union (“legacy currencies”) to the Euro will not be treated as an event giving rise to the recognition of gain or loss for federal income tax purposes. Similarly, the conversion of an amount paid on a Debt Security from a legacy currency into Euro will not be a recognition event.

Interest and Principal Components of Eligible Securities

Beneficial Owners of Interest and Principal Components

Under federal income tax law, each time an Interest or Principal Component of an Eligible Debt Security is bought, that Component will be treated as if it had been issued to the new beneficial owner on the date of the ownership change for an issue price equal to the purchase price paid by the new beneficial owner for the Component. Accordingly, the tax consequences to a beneficial owner of an Interest or Principal Component are determined as if the Component were a Debt Security issued on the date of acquisition or, in the case of a Component maturing one year or less from the date of acquisition, a Short-Term Obligation issued on that date. The stated redemption price at maturity of an Interest or Principal Component is the amount payable on that Component (or the sum of all amounts payable, in the case of certain Principal Components calling for more than one payment).

Special rules apply to Principal Components of Eligible Debt Securities, such as Step-Up Debt Securities, that we may redeem before they mature (“Callable Principal Components”). As described above in “United States Taxation—U.S. Persons—Debt Securities That We May Redeem Before Maturity,” if a debt instrument may be called prior to its maturity, a presumption is made that the call will be exercised if the yield to the call date is less than the yield to maturity. In applying this rule to a Callable Principal Component, it is not clear whether this determination is to be made separately for the Callable Principal Component or with respect to the underlying Eligible Debt Securities. If the call is presumed to be exercised, but is not exercised in fact, the Callable Principal Component is treated, solely for purposes of accruing OID, as if the call had been exercised and a new Eligible Debt Security issued on the presumed exercise date for an amount equal to the call price. In such event, the interest payments on the new Debt Security should be treated as interest in accordance with the beneficial owner’s normal method of accounting. If, conversely, the call is presumed not exercised and in fact is exercised, then the Callable Principal Component is considered to have been redeemed prior to maturity.

Tax Consequences of Stripping an Eligible Debt Security

A beneficial owner of an Eligible Debt Security is taxed on income from the Debt Security as if the ability to “strip” the Debt Security did not exist, unless and until both the Eligible Debt Security is stripped and the beneficial owner disposes of some or all of the resulting Components. The mere exchange of an Eligible Debt Security for Interest and Principal Components, without the disposition of any of those Components, should not be treated as a taxable event. If you exchange an Eligible Debt Security for Interest and Principal Components and dispose of all of those Components, you effectively will be treated as if you had disposed of the Eligible Debt Security. See “United States Taxation—U.S. Persons—Disposition or Retirement of Debt Securities.” If you dispose of less than all the Components resulting from the stripping transaction, you will be required to take the following steps:

- include as income all interest and market discount accrued on the Eligible Debt Security not previously included as income,
- increase your basis in the Debt Security by the same amount,
- allocate your adjusted basis in the Debt Security among the Components in proportion to the respective fair market values of those Components, and

- recognize gain or loss with respect to each disposition of a Component equal to the difference between the amount realized and the basis allocated to that Component.

Generally, any gain or loss on the disposition of an Interest or Principal Component is capital gain or loss.

You will be taxed on each retained Component as if you had purchased the retained Component for an amount equal to the basis allocated to that Component.

Ownership of Pro Rata Share of Outstanding Interest and Principal Components

If you purchase the same *pro rata* share of Principal Components and the related unmatured Interest Components, while the matter is not free from doubt, it appears that you should treat each Component separately, rather than as a combined Eligible Debt Security. You may purchase the same *pro rata* share of Principal Components and the related Interest Components and request the FRBNY to reconstitute such Components as an Eligible Debt Security. While the matter again is not free from doubt, it appears that you should not treat the reconstitution as a taxable exchange and you should continue to treat each Component separately. The IRS could assert, however, that combined treatment as an Eligible Debt Security should apply to an investor owning a *pro rata* share of all outstanding Components or that combined treatment applies once there has been a reconstitution.

Non-U.S. Persons

The following discussion applies to you if you are a non-U.S. person.

Interest and OID

If you own a Debt Security and are a non-U.S. Person, each payment of interest (including OID, if any) on the Debt Security generally will be subject to a 30 percent U.S. withholding tax, unless

- you meet the general exemption for non-U.S. Persons described below,
- you meet the requirements for a reduced rate of withholding under a treaty, or
- the interest is “effectively connected” to a business you conduct in the United States, in each case as further described below.

In certain circumstances, you may be able to claim amounts that are withheld as a refund or as a credit against your U.S. federal income tax.

General Exemption for Non-U.S. Persons. Payments of interest on a Debt Security to any non-U.S. Person generally are exempt from U.S. withholding taxes if you satisfy the following conditions:

- (1) the appropriate payor in the chain of payment (the “Withholding Agent”) has received prior to payment in the year in which such payment occurs, or in either of the two preceding years, a statement signed by you under penalties of perjury that certifies that you are not a U.S. Person and provides your name, address and taxpayer identification number, if any;
- (2) the Withholding Agent and all intermediaries between you and the Withholding Agent do not know or have reason to know that your non-U.S. beneficial ownership statement is false; and
- (3) you are not (a) a bank that receives payments on the Debt Securities that are described in section 881(c)(3)(A) of the federal income tax code, (b) a 10 percent shareholder of Fannie Mae within the meaning of section 871(h)(3)(B) of the federal income tax code, or (c) a “controlled foreign corporation” related to Fannie Mae within the meaning of section 881(c)(3)(C) of the federal income tax code.

You may make the non-U.S. beneficial ownership statement on an IRS Form W-8BEN or a substantially similar substitute form. You must inform the Withholding Agent (or the last intermedi-

ary in the chain between you and the Withholding Agent) of any change in the information on the statement within 30 days of the change. If you hold a Debt Security through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent on your behalf. In such case, however, the signed statement must be accompanied by a copy of a Form W-8BEN or substitute form provided by you to the organization or institution. The U.S. Treasury Department is empowered to publish a determination that a beneficial ownership statement from any person or class of persons will not be sufficient to preclude the imposition of U.S. federal withholding tax with respect to payments of interest made at least one month after the publication of such determination.

Exemption or Reduced Withholding Rate for Non-U.S. Persons Entitled to the Benefits of a Treaty. If you are entitled to the benefit of an income tax treaty to which the United States is a party you can obtain an exemption from or reduction of income and withholding tax (depending on the terms of the treaty) by providing to the Withholding Agent a properly completed IRS Form W-8BEN, or any successor form, before interest is paid. However, neither exemption nor reduced withholding will be available if the Withholding Agent has actual knowledge or reason to know that the form is false.

Exemption for Non-U.S. Persons with Effectively Connected Income. If the interest you earn on a Debt Security is “effectively connected” to a business you conduct in the United States, you can obtain an exemption from withholding tax by providing to the Withholding Agent a properly completed IRS Form W-8ECI, or any successor form, prior to the payment of interest, unless the Withholding Agent has actual knowledge or reason to know that the form is false. Payments of interest on a Debt Security exempt from the withholding tax as effectively-connected income nevertheless may be subject to graduated U.S. federal income tax as if such amounts were earned by a U.S. Person.

Short-Term Notes. Special rules may apply to certain Short-Term Notes payable in full within 183 days after the date of original issue which are sold under arrangements reasonably designed to ensure that they will be sold only to persons who are not U.S. persons. See Appendix B, “Benchmark Bills and Short-Term Notes—United States Taxation.”

Partnerships and Other Pass-through Entities. A payment to a foreign partnership is treated, with some exceptions, as a payment directly to the partners, so that the partners are required to provide any required certifications. If you hold a Debt Security through a partnership or other pass-through entity, you should consult your own tax advisors regarding the application of these rules to your situation.

Disposition or Retirement of Debt Securities

Except as provided below in “United States Taxation—Information Reporting and Backup Withholding,” a non-U.S. Person (other than certain nonresident alien individuals present in the United States for a total of 183 days or more during his or her taxable year) will not be subject to U.S. federal income tax, and no withholding of such tax will be required, with respect to any gain that is realized on the disposition or retirement of a Debt Security, provided that the gain is not effectively connected with the conduct by the non-U.S. Person of a U.S. trade or business.

Federal Estate Tax

If you are a non-U.S. Person and are not domiciled in the United States, the Debt Securities will not be includible in your estate if interest paid (including OID, if any) on the Debt Securities to you at the time of your death would have been exempt from U.S. federal income and withholding tax as described above under “United States Taxation—Non-U.S. Persons—Interest and OID—General Exemption for Non-U.S. Persons” (without regard to the requirement that a non-U.S. beneficial ownership statement be received).

Information Reporting and Backup Withholding

Payments of principal of and interest (including OID, if any) on Debt Securities held by U.S. Persons other than corporations and other exempt holders are required to be reported to the IRS.

Backup withholding of U.S. federal income tax may apply to payments made in respect of the Debt Securities, as well as payments of proceeds from the sale of Debt Securities. Backup withholding will apply on such payments to holders or beneficial owners that are not “exempt recipients” and that fail to provide certain identifying information (such as their taxpayer identification numbers) in the manner required. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

If a Debt Security is sold before its Maturity Date to (or through) a broker, the broker may be required to withhold a portion of the sale price. The broker will not withhold if either the broker determines that the seller is a corporation or other exempt recipient or the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. Person, certifies that such seller is a non-U.S. Person (and certain other conditions are met). The broker must report such a sale to the IRS unless the broker determines that the seller is an exempt recipient or the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner’s non-U.S. status normally would be made on IRS Form W-8BEN under penalties of perjury, although in certain cases it may be possible to submit certain other signed forms. For these purposes, the term “broker” includes all persons who, in the ordinary course of business, stand ready to effect sales made by others. This information reporting requirement generally will apply to a U.S. office of a broker and to a foreign office of a U.S. broker, as well as to a foreign office of a foreign broker (i) that is a “controlled foreign corporation” within the meaning of section 957(a) of the federal income tax code, (ii) 50 percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States, or (iii) that is a foreign partnership with certain connections to the United States, unless such foreign office has both documentary evidence that the seller is a non-U.S. Person and no actual knowledge, or reason to know, that such evidence is false.

A payment to a foreign partnership is treated, with some exceptions, for backup withholding purposes as a payment directly to the partners, so that the partners are required to provide any required certifications. If you hold a Debt Security through a partnership or other pass-through entity, you should consult your own tax advisors regarding the application of these rules to your situation.

A beneficial owner may claim any amounts withheld under the backup withholding rules as a refund or a credit against the beneficial owner’s U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, the IRS may impose certain penalties on a holder or beneficial owner who is required to supply information but who does not do so in the proper manner.

Payments of interest (including payments of OID, if any) on a Debt Security that is beneficially owned by a non-U.S. Person will be reported annually on IRS Form 1042-S, which the Withholding Agent must file with the IRS and furnish to the beneficial owner.

General Information

The U.S. federal tax discussion set forth above is included for your general information only and may not apply in your particular situation. You should consult your own tax advisors with respect to the tax consequences of your purchase, ownership and disposition of the Debt Securities, including the tax consequences under the tax laws of the United States, states, localities, countries other than the United States and any other taxing jurisdictions and the possible effects of changes in such tax laws.

PLAN OF DISTRIBUTION

We will offer the Debt Securities to or through the Dealers under the terms and conditions set forth in a Dealer Agreement, dated as of December 21, 1999 (the “Dealer Agreement”) among us and the Dealers listed on page 48. Under the terms of the Dealer Agreement, we may add other securities dealers or banks in connection with the distribution of the Debt Securities or any particular issue of Debt Securities. Those securities dealers or banks, together with the Dealers named herein, are referred to in this Offering Circular collectively as the “Dealers.”

Benchmark Bills and Short-Term Notes

We will offer and sell Benchmark Bills and Short-Term Notes through the Dealers as described under “Distribution of Benchmark Bills and Short-Term Notes” in Appendix B.

Other Benchmark Securities and Debt Securities

Sales to Dealers as Principal

We will sell Debt Securities primarily to Dealers as principal, either individually or as part of a syndicate. We may sell Debt Securities to Dealers by auction or other methods. Dealers will resell Debt Securities to investors at a fixed offering price or at variable offering prices related to market prices prevailing at the time of resale. Except in certain circumstances, Dealers may sell the Debt Securities to other securities dealers at a concession, in the form of a discount, to be received by the other Dealers. The concession may be all or a portion of the underwriting compensation. Dealers will advise us whether an offering is on a fixed price or variable price basis and of any concessions or reallowances that will be provided to other dealers. We will include that information, as provided by the Dealers, in the applicable Pricing Supplement. After an initial offering of Debt Securities, the offering price (in the case of a fixed price offering), the concession and the reallowance may change.

Sales Through Dealers to Customers

We may authorize Dealers to solicit customer offers to purchase Debt Securities on a non-underwritten basis on terms we determine. Dealers have agreed to use their best efforts when soliciting non-underwritten sales. Dealers also may approach us on behalf of investors and other purchasers with offers to purchase Debt Securities on a non-underwritten basis. We will sell Debt Securities on a non-underwritten basis at 100% of the principal amount, unless we specify otherwise in the applicable Pricing Supplement. We will pay the Dealers through whom a Debt Security is sold a commission in an amount specified in the applicable Pricing Supplement. The commission will be expressed as a percentage of the principal amount of the Debt Securities (or the initial offering price for Zero-Coupon Debt Securities and certain other Debt Securities sold at a discount). We will have the sole right to accept offers to purchase Debt Securities and may reject all or a portion of any offer. Each Dealer will have the right, using reasonable discretion, to reject all or a portion of any offer to purchase Debt Securities solicited on a non-underwritten basis.

Sales Directly to Investors

We also may sell Debt Securities directly to institutional investors on our own behalf. We will not pay a commission to any Dealer on direct sales.

Trading Markets and Secondary Market Information

We have applied for certain Debt Securities issued under this Universal Debt Facility to be listed on the Luxembourg Stock Exchange. We also may issue unlisted Debt Securities and Debt Securities listed on other exchanges. The Pricing Supplement will identify any exchange to which an initial listing application will be made.

There may be no established trading market for Debt Securities when issued. Dealers have agreed to use their best efforts to facilitate secondary market transactions in each issue of Debt Securities for which they were a participating Dealer, but a secondary market may not develop. If a secondary market develops, it may not be very liquid. See “Risk Factors—Risks Related to Market, Liquidity and Yield.”

Dealers have agreed to provide certain indicative pricing information to Bloomberg L.P. or another information service designated by us for Benchmark Securities. Dealers will be solely responsible for the indicative information so provided, which is indicative of, but may not reflect actual, secondary market prices.

Market Transactions

When Dealers purchase Debt Securities as principal for resale on a fixed price basis they may engage in certain transactions that stabilize the price of the Debt Securities. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Debt Securities. Such transactions with respect to the Debt Securities may also include over-allotment transactions and purchases to cover short positions created by the Dealers in connection with an offering.

If the Dealers create a short position in the Debt Securities in connection with an offering, *i.e.*, if they sell a greater aggregate principal amount of the Debt Securities than is set forth in the applicable Pricing Supplement, the Dealers must reduce that short position by purchasing Debt Securities in the open market. A short position is more likely to be created if the Dealers are concerned that there may be downward pressure in the price of the Debt Securities in the open market after pricing that could adversely affect investors who purchase Debt Securities in an offering. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

In connection with any particular issue of Debt Securities, we may enter into swaps, other hedging transactions or reverse repurchase transactions with, or arranged by, the applicable Dealer or an affiliate of the Dealer. The Dealer or other parties may receive compensation, trading gain, temporary funding or other benefits from these transactions. We also may from time to time engage in other hedging activities or reverse repurchase transactions involving Debt Securities, in the open market or otherwise. We are not required to engage in any of these transactions. If we commence these transactions, we may discontinue them at any time. Counterparties to these hedging activities also may engage in market transactions involving Debt Securities.

Neither we nor the Dealers make any representation or prediction as to the direction or magnitude of any effect that the transactions described in the three preceding paragraphs may have on the price of Debt Securities.

Additional Information

Neither we nor the Dealers have authorized anyone to give you any information or to make any representation not contained in this Offering Circular or an applicable Pricing Supplement or other applicable supplement. Neither delivery of this Offering Circular, any Pricing Supplement or any other supplement nor any sale of Debt Securities shall imply that there has been no change in our affairs since the dates of those documents. Information in those documents may not be correct as of any time subsequent to the date of the information.

The purchase price of Debt Securities must be paid to us in immediately available funds. Your payment will be effective only upon our receipt of the funds. In a non-underwritten sale, the Dealer will act on behalf of the purchaser of Debt Securities in transmitting the purchaser’s funds to us.

We and the Dealers have agreed to indemnify each other against, and contribute toward, certain liabilities.

Purchasers of Debt Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase. We do not, and any Dealer does not, represent that the Debt Securities may be sold lawfully at any time in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an available exemption, nor do we or any Dealer assume any responsibility for facilitating those sales.

From time to time, Fannie Mae may request, and the Dealers may disclose to Fannie Mae, the identity of the purchasers of Debt Securities and volume and pricing information for secondary market transactions, including repurchase transactions. Fannie Mae will use the information for internal purposes only, and make no further disclosure of it.

The Dealers and their affiliates engage in transactions with us and perform services for us in the ordinary course of business.

Dealers

The following securities dealers and banks currently may act as Dealers under the Universal Debt Facility. Other securities dealers and banks may be added from time to time in connection with the distribution of the Debt Securities or any particular issue of Debt Securities. As noted above, any applicable Pricing Supplement will identify any applicable Dealer or Dealers for an issue of Debt Securities.

ABN AMRO Incorporated	Lehman Brothers Inc.
Banc of America Securities LLC	Merrill Lynch Government Securities, Inc.
Banc One Capital Markets, Inc.	Merrill Lynch, Pierce, Fenner & Smith
Barclays Capital Inc.	Incorporated
Bear, Stearns & Co. Inc.	Morgan Keegan & Co., Inc.
Blaylock & Partners, L.P.	J.P. Morgan Securities, Inc.
BNP Paribas Securities Corp.	Morgan Stanley & Co. Incorporated
Commerzbank Capital Markets Corporation	Myerberg & Company, L.P.
Countrywide Securities Corporation	Ormes Capital Markets, Inc.
Credit Suisse First Boston Corporation	Pryor, Counts & Co., Inc.
Deutsche Bank Securities Inc.	Redwood Securities Group, Inc.
Donaldson, Lufkin & Jenrette Securities Corporation	Robert Van Securities, Inc.
First Tennessee Bank National Association	Salomon Smith Barney Inc.
First Union Securities, Inc.	SBK-Brooks Investment Corporation
Fuji Securities Inc.	Siebert Brandford Shank & Co., L.L.C.
Gardner Rich & Co.	Tokyo-Mitsubishi International plc
Goldman, Sachs & Co.	Utendahl Capital Partners, L.P.
HSBC Securities (USA) Inc.	Vining-Sparks IBG, Limited Partnership
Jackson Securities Incorporated	Walton Johnson & Company
LaSalle National Bank	UBS Warburg LLC
	The Williams Capital Group, L.P.

Selling Restrictions

The Debt Securities may be offered or sold only where it is legal to do so. The Dealers have represented and agreed that they will comply with all applicable laws and regulations in each jurisdiction in which they may purchase, offer, sell or deliver Debt Securities or distribute this Offering Circular, any Pricing Supplement or any other offering material. The Dealers also have agreed to comply with certain selling restrictions relating to certain countries. A description of some of those restrictions, as in effect as of the date of this Offering Circular, is set forth in Appendix E. We and the Dealers may modify selling restrictions at any time.

VALIDITY OF THE DEBT SECURITIES

Sidley Austin Brown & Wood LLP, New York, New York, will pass upon the validity of the Debt Securities for Fannie Mae. Sullivan & Cromwell, Washington, D.C., will pass upon the validity of the Debt Securities for the Dealers. Arnold & Porter, Washington, D.C., will pass upon U.S. federal income tax matters for Fannie Mae.

GENERAL INFORMATION

Application has been made for Debt Securities issued under this Universal Debt Facility through January 22, 2003 to be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated the number 9170 to the Universal Debt Facility for listing purposes. As of the date of this Offering Circular, Debt Securities with maturities of less than seven days may not be listed on the Luxembourg Stock Exchange. In connection with the listing, our Charter Act and bylaws and a legal notice relating to the issuance of Debt Securities have been deposited with the Chief Registrar of the District Court of Luxembourg, where copies may be inspected or obtained upon request. Holders also may obtain, free of charge, the documents incorporated in this Offering Circular by reference from the Luxembourg Listing Agent. Copies of the Fiscal Agency Agreement and the Global Agency Agreement will be available for inspection by Holders at the office of the Luxembourg Listing Agent during the term of the Debt Securities.

So long as Debt Securities are listed on the Luxembourg Stock Exchange, we will maintain in Luxembourg an intermediary to respond to inquiries from Holders of Debt Securities. Dexia Banque Internationale à Luxembourg initially has been appointed as the intermediary.

Our issuance of the Debt Securities is authorized pursuant to the actions of our Board of Directors on February 19, 1980 and November 19, 1985. In August 1996, the U.S. Treasury Department approved our issuance of an unlimited amount of Debt Securities.

As of the date of this Offering Circular, we have no litigation, actual or pending, that is material in the context of the issuance of the Debt Securities.

As of the date of this Offering Circular, there has been no material adverse change in our financial position since December 31, 2001.

We have given an undertaking in connection with the listing of the Debt Securities on the Luxembourg Stock Exchange to the effect that, so long as any Debt Securities remain outstanding and listed on the Exchange, in the event of any material adverse change in our business or our financial position that is not reflected in the Information Statement as then amended or supplemented, we will prepare an amendment or supplement to the Information Statement or publish a new Information Statement for use in connection with any subsequent offering and listing by us of the Debt Securities.

FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. §1716 *et seq.* (the “Charter Act”). See “Government Regulation and Charter Act” in the Information Statement. We are the largest investor in home mortgage loans in the United States. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Fannie Mae provides funds to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. We acquire funds to purchase these loans by issuing debt securities to capital market investors, many of whom ordinarily would not invest in mortgages. In this manner, we are able to expand the total amount of funds available for housing.

Fannie Mae also issues mortgage-backed securities (“MBS”), receiving guaranty fees for our guarantee of timely payment of principal and interest on MBS certificates. We issue MBS primarily in exchange for pools of mortgage loans from lenders. The issuance of MBS enables us to further our statutory purpose of increasing the liquidity of residential mortgage loans.

In addition, Fannie Mae offers various services to lenders and others for a fee. These services include issuing certain types of MBS and credit enhancements and providing technology services for originating and underwriting loans. See “Business” in the Information Statement.

Fannie Mae’s principal office is located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7000).

Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Ratio of earnings to fixed charges	1.20:1	1.16:1	1.17:1	1.18:1	1.19:1

For the purpose of calculating the ratio of earnings to fixed charges, “earnings” consist of income (before federal income taxes and extraordinary items) and fixed charges. “Fixed charges” represents interest expense.

USE OF PROCEEDS

We will use the net proceeds from the sale of the Debt Securities to retire our outstanding debt securities or add the proceeds to our working capital and use them for general corporate purposes. We anticipate the need for additional financing from time to time, including financing through various types of debt securities. The amount and nature of the financing will be dependent upon a number of factors, including the volume of our maturing debt obligations, the volume of mortgage loan prepayments, the volume and type of mortgage loans we purchase, and general market conditions.

SELECTED FINANCIAL INFORMATION

The following selected financial data for the years 1997 through 2001 (which data are not covered by the independent auditors' report) have been summarized or derived from our audited financial statements for 1997 through 2000 and from our unaudited financial statements for the year ended December 31, 2001 and other financial information for such periods. These data are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. These data should be read in conjunction with the audited financial statements and notes to the financial statements contained in the Information Statement incorporated herein by reference.

(Dollars in millions, except per common share amounts)

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Operating Data:					
Operating net income(1)	\$ 5,367	\$ 4,448	\$ 3,912	\$ 3,418	\$ 3,056
Operating earnings per diluted common share	5.20	4.29	3.72	3.23	2.83
Income Statement Data:					
Interest income	\$49,170	\$ 42,781	\$ 35,495	\$ 29,995	\$ 26,378
Interest expense	(41,080)	(37,107)	(30,601)	(25,885)	(22,429)
Net interest income	8,090	5,674	4,894	4,110	3,949
Guaranty fee income	1,482	1,351	1,282	1,229	1,274
Fee and other income (expense)	151	(44)	191	275	125
Credit-related expenses	(78)	(94)	(127)	(261)	(375)
Administrative expenses	(1,017)	(905)	(800)	(708)	(636)
Special contribution	(300)	—	—	—	—
Purchased options expense	(37)	—	—	—	—
Income before federal income taxes, extraordinary item and cumulative effect of change in accounting principle	8,291	5,982	5,440	4,645	4,337
Provision for federal income taxes	(2,224)	(1,566)	(1,519)	(1,201)	(1,269)
Income before extraordinary item and cumulative effect of change in accounting principle	6,067	4,416	3,921	3,444	3,068
Extraordinary item — gain (loss) net of tax effect	(341)	32	(9)	(26)	(12)
Cumulative effect of change in accounting principle, net of tax effect	168	—	—	—	—
Net income	<u>\$ 5,894</u>	<u>\$ 4,448</u>	<u>\$ 3,912</u>	<u>\$ 3,418</u>	<u>\$ 3,056</u>
Preferred stock dividends	(138)	(121)	(78)	(66)	(65)
Net income available to common shareholders	<u>\$ 5,756</u>	<u>\$ 4,327</u>	<u>\$ 3,834</u>	<u>\$ 3,352</u>	<u>\$ 2,991</u>
Basic earnings per common share(1):					
Earnings before extraordinary item	\$ 5.92	\$ 4.28	\$ 3.75	\$ 3.28	\$ 2.87
Extraordinary item	(.34)	.03	—	(.02)	(.02)
Cumulative effect of change in accounting principle .....	.17	—	—	—	—
Net earnings	<u>\$ 5.75</u>	<u>\$ 4.31</u>	<u>\$ 3.75</u>	<u>\$ 3.26</u>	<u>\$ 2.85</u>
Diluted earnings per common share:					
Earnings before extraordinary item	\$ 5.89	\$ 4.26	\$ 3.73	\$ 3.26	\$ 2.84
Extraordinary item	(.34)	.03	(.01)	(.03)	(.01)
Cumulative effect of change in accounting principle .....	.17	—	—	—	—
Net earnings	<u>\$ 5.72</u>	<u>\$ 4.29</u>	<u>\$ 3.72</u>	<u>\$ 3.23</u>	<u>\$ 2.83</u>
Cash dividends per common share:	\$ 1.20	\$ 1.12	\$ 1.08	\$.96	\$.84

	December 31,				
	2001	2000	1999	1998	1997
Balance Sheet Data:					
Mortgage portfolio, net	\$ 705,167	\$ 607,399	\$522,780	\$415,223	\$316,316
Liquid assets	76,072	55,585	41,850	59,258	66,801
Investments	74,554	54,968	39,751	58,515	64,596
Total assets	799,791	675,072	575,167	485,014	391,673
Borrowings:					
Due within one year	343,492	280,322	226,582	205,413	175,400
Due after one year	419,975	362,360	321,037	254,878	194,374
Total liabilities	781,673	654,234	557,538	469,561	377,880
Stockholders' equity	18,118	20,838	17,629	15,453	13,793
Core capital (2)	25,182	20,827	17,876	15,465	13,793

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Other Data:					
Total taxable-equivalent revenue(3)	\$ 10,187	\$ 7,825	\$ 6,975	\$ 6,272	\$ 5,735
Average net interest margin	1.11%	1.01%	1.01%	1.03%	1.17%
Operating return on realized common equity	25.4	25.2	25.0	25.2	24.6
Dividend payout ratio	20.9	26.0	28.8	29.5	29.4
Average effective guaranty fee rate .....	.190	.195	.193	.202	.227
Credit loss ratio .....	.006	.007	.011	.027	.041
Ratio of earnings to fixed charges(4)	1.20:1	1.16:1	1.17:1	1.18:1	1.19:1
Mortgage purchases	\$ 270,584	\$ 154,231	\$195,210	\$188,448	\$ 70,465
MBS issues acquired by others	344,739	105,407	174,850	220,723	108,120
MBS outstanding at period end(5)	1,290,351	1,057,750	960,883	834,518	709,582
Weighted-average diluted common shares outstanding, in millions	1,006	1,009	1,031	1,037	1,056

- (1) Excludes the cumulative after-tax gain of \$168 million from the change in accounting principle upon adoption of Statement of Financial Accounting Standard No. 133 on January 1, 2001, and the after tax loss of \$24 million recognized during 2001 for the change in fair value of purchased options. Includes after-tax charges of \$384 million for the amortization expense of purchased option premiums during 2001.
- (2) The sum of (a) the stated value of outstanding common stock, (b) the stated value of outstanding non-cumulative perpetual preferred stock, (c) paid-in-capital, and (d) retained earnings.
- (3) Includes revenues net of operating losses plus taxable-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate.
- (4) "Earnings" consists of (a) income before federal income taxes and extraordinary item and (b) fixed charges. "Fixed charges" represents interest expense.
- (5) Includes MBS in portfolio of \$431 billion at December 31, 2001 and \$351 billion, \$282 billion, \$197 billion and \$130 billion at December 31, 2000, 1999, 1998, and 1997, respectively.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2001.

	<u>Average Maturity</u>	<u>Average Cost (1)</u>	<u>Outstanding (Dollars in millions)</u>
Debtures, notes and bonds, net			
Due within one year:			
Short-term notes	3 mos.	2.58%	\$256,905
Universal Benchmark	6 mos.	5.31	21,987
Universal Short-term other	8 mos.	2.02	23,934
Universal Standard	9 mos.	3.67	34,413
Other(2)	—	0.51	6,253
Total due within one year			<u>343,492</u>
Due after one year:			
Universal Benchmark	6 yrs. 5 mos.	5.88%	251,448
Universal Retail	9 yrs. 2 mos.	5.87	7,098
Universal Standard	4 yrs. 5 mos.	4.85	156,738
Other	15 yrs. 3 mos.	7.93	4,691
Total due after one year			<u>419,975</u>
Total debtures, notes and bonds, net			<u><u>\$763,467</u></u>
Stockholders' equity:			
Preferred stock, \$50 stated value;			
100,000,000 shares authorized—			
46,050,000 shares issued			
Series A, 7,500,000 shares issued(3)			\$ —
Series B, 7,500,000 shares issued			375
Series C, 5,000,000 shares issued			250
Series D, 3,000,000 shares issued			150
Series E, 3,000,000 shares issued			150
Series F, 13,800,000 shares issued			690
Series G, 5,750,000 shares issued			288
Series H, 8,000,000 shares issued			400
Common stock, \$.525 stated value,			
no maximum authorization—			
1,129 million shares issued			
			593
Additional paid-in capital			
			1,651
Retained earnings			
			26,175
Accumulated other comprehensive loss			
			(7,065)
			<u>23,657</u>
Less treasury stock, at cost—			
132 million shares			
			(5,539)
Total stockholders' equity			<u>\$ 18,118</u>
Core capital			<u>\$ 25,182</u>

- (1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.
- (2) Average maturity is indeterminate because the outstanding amount includes investment agreements that have varying maturities.
- (3) Fannie Mae redeemed all of the outstanding shares of its 6.41% Non-Cumulative Preferred Stock, Series A, on March 1, 2001 at \$50.53 per share. The redemption price included dividends of \$.53417 per share for the period commencing December 31, 2000, up to but excluding March 1, 2001.

We frequently issue debtures, notes and other debt obligations. The amount of debtures, notes, and other debt obligations outstanding, and stockholders' equity on any date subsequent to December 31, 2001 may differ from that shown in the table above.

ADDITIONAL INFORMATION ABOUT FANNIE MAE

We are incorporating by reference in this Offering Circular documents listed below that we publish from time to time. This means that we are disclosing information to you by referring you to those documents. Those documents are considered part of this Offering Circular, so you should read this Offering Circular, and any applicable supplements or amendments, together with those documents.

You should rely only on the information provided or incorporated by reference in this Offering Circular and any applicable supplement, and you should rely only on the most current information.

The following documents are incorporated by reference in this Offering Circular:

- the Information Statement dated March 30, 2001
- the Supplements dated May 15, 2001, August 14, 2001 and November 14, 2001 to that Information Statement
- any later supplements to the current Information Statement, any subsequent Information Statement and supplements and any proxy statement published prior to the termination of the offering of the Debt Securities

The Information Statement contains important financial and other information about Fannie Mae. We publish the Information Statement annually and update it from time to time to reflect quarterly and annual financial results and as we otherwise determine. The term “Information Statement” as used in this Offering Circular means the most recent Information Statement published while offers are being made under this Offering Circular, together with any supplements to that Information Statement.

You can read the Information Statement, proxy statements and other information about Fannie Mae at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. Since we are not subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, we do not file reports or other information with the U.S. Securities and Exchange Commission.

You can obtain copies of the Information Statement, this Offering Circular, pricing supplements and other supplements or amendments to this Offering Circular and all documents incorporated in this Offering Circular by reference without charge from our Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7115) and, if and so long as any Debt Securities are listed on the Luxembourg Stock Exchange, from Dexia Banque Internationale à Luxembourg, 69, route d’Esch, L-2953 Luxembourg (telephone: (352) 45 90 1).

You can obtain copies of this Offering Circular and any supplements or amendments from the Dealers where lawful to do so. In connection with the initial distribution of an issue of Debt Securities other than Benchmark Bills and Short-Term Notes, you also should obtain the applicable Pricing Supplement from the Dealers for the issue.

The following information is available from Fannie Mae by accessing our World Wide Web site at www.fanniemae.com or calling us at (800) 701-4791 (for international callers, (202) 752-5499).

- This Offering Circular
- The Information Statement
- Pricing Supplements
- The current interest rate on variable rate Debt Securities

Other than the documents specifically incorporated by reference above, the information on our website is not part of or incorporated by reference in this Offering Circular.

We supply this material only for informational purposes. We may discontinue providing it at any time without notice. You should contact a Dealer or other appropriate securities dealer or bank to obtain the appropriate Offering Circular, Pricing Supplement and other information.

BENCHMARK SECURITIES

Set forth below, only for informational purposes, is a general description of our Benchmark Securities program. We may change the details of the program from time to time, and any changes may not be reflected in an amendment or supplement to the Offering Circular. The specific terms of Benchmark Securities are contained in the Offering Circular of which this Appendix forms a part, and any applicable Pricing Supplements or other supplements to the Offering Circular.

We currently issue Benchmark Securities in the following forms:

- Benchmark Bills—non-callable Debt Securities with maturities of 360 days or less and sold at a discount from their principal amount payable at maturity
- Benchmark Notes—non-callable Debt Securities with maturities of one to ten years
- Callable Benchmark Notes—callable Debt Securities with maturities of one to ten years
- Subordinated Benchmark Notes—non-callable Subordinated Debt Securities with maturities of one to ten years
- Benchmark Bonds—non-callable Debt Securities with maturities of more than ten years

We plan to issue Benchmark Securities in large issues on a regularly scheduled basis. All Benchmark Securities are U.S. dollar denominated. Fannie Mae has announced its plans for issuance of certain Benchmark Securities in year 2002, which includes:

- Three-month and six-month Benchmark Bill issuances on a weekly basis
- One-year Benchmark Bill issuances on a bi-weekly basis
- Two- or three-year Benchmark Note issuances in February, April, June, August, October and December
- Five-year Benchmark Note issuances in January, March, May, July, September and November
- Ten-year Benchmark Note issuances in March, June, September and December
- Thirty-year Benchmark Bond issuances in April, July and October
- Subordinated Benchmark Note issuances on at least a semi-annual basis

Issuances may be new issues or reopenings of existing issues. The schedule of anticipated Benchmark Securities issuances, as well as more recently announced updates of our financing plans, are available on our World Wide Web site, www.fanniemae.com.

Settlement of Benchmark Securities issues is made through the Fed Book-Entry System, on the same basis as for other Fed Book-Entry Securities. See “Clearance and Settlement” in the Offering Circular.

Benchmark Notes, Callable Benchmark Notes and Benchmark Bonds may be strip-eligible. See “Description of the Debt Securities—Eligibility for Stripping of Fed Book-Entry Securities” in the Offering Circular.

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BENCHMARK BILLS AND SHORT-TERM NOTES

Set forth below is information about our Benchmark Bills and Short-Term Notes. (See also Appendix A for a more general description of our Benchmark Securities program). Except as set forth in this Appendix, the general description of Debt Securities set forth in the Offering Circular applies to Benchmark Bills and Short-Term Notes. Unless otherwise specified, cross-references are to sections in the Offering Circular of which this Appendix forms a part and capitalized terms are used as defined in the Offering Circular. This Appendix is hereby incorporated in and made a part of the Offering Circular. Pricing Supplements will not be prepared for Benchmark Bills or Short-Term Notes.

Summary Description of Benchmark Bills and Short-Term Notes

Specified Currencies	Benchmark Bills will be denominated only in U.S. dollars. Short-Term Notes may be denominated in U.S. dollars or non-U.S. dollar currencies.
Denomination	<p>Benchmark Bills and Short-Term Notes other than 183 Day Notes (as defined under “United States Taxation” in this Appendix B) denominated in U.S. dollars generally will have minimum denominations of \$1,000 and additional increments of \$1,000.</p> <p>We will establish denominations for Short-Term Notes denominated in British pounds sterling, Canadian dollars, Euros, yen or other non-U.S. dollar currencies at the time we issue those Short-Term Notes.</p> <p>183 Day Notes will have minimum denominations of \$500,000 or, in the case of non-U.S. dollar denominated 183 Day Notes, the foreign currency equivalent (determined using the spot rate on the date of issuance).</p>
Maturity	360 days or less
Principal Amount	The amount payable at maturity of Benchmark Bills and Short-Term Notes will be their face amount. See also “Description of the Debt Securities—Payments.”
Interest	Benchmark Bills and most Short-Term Notes will not bear interest but will be sold at a discount from their principal amount at maturity. We also may issue interest-bearing Short-Term Notes, the terms of which we will establish at the time of issuance.
Business Day Convention	<p>For Fed Book-Entry Securities, “Business Day” means any day other than a Saturday, a Sunday, a day on which the Federal Reserve Bank of New York is closed, or, with respect to any required payment, a day on which the U.S. Federal Reserve Bank maintaining the book-entry account relating to the Fed Book-Entry Security is closed.</p> <p>For Global Book-Entry Securities, “Business Day” means any day other than a Saturday, a Sunday, a day on which banking institutions are closed in New York, New York, a day on which banking institutions are closed in the Principal Financial Center of the country issuing the Specified Payment Currency (in the case where the Specified Payment Currency is other than U.S.</p>

dollars or Euro), or a day on which banking institutions are required or permitted by law to close in the place of payment to the Holder (in the case where the Specified Payment Currency is Euro, whether or not pursuant to redenomination).

If an Interest Payment Date or Principal Payment Date is not a Business Day, we will pay the interest or principal on the next Business Day. In that case, you will receive no interest on the delayed interest or principal payment for the period from and after the scheduled Interest Payment Date or Principal Payment Date to the actual date of payment.

Form..... We will issue Benchmark Bills and most U.S. dollar-denominated Short-Term Notes as Fed Book-Entry Securities. We will issue other Short-Term Notes as Global Book-Entry Securities through DTC, Euroclear, Clearstream or other book-entry systems. See “Description of the Debt Securities—Book-Entry Systems” and “—Ownership of Debt Securities in Book-Entry Form.”

We will issue 183 Day Notes as Global Book-Entry Securities.

Redemption..... Benchmark Bills and Short-Term Notes will not be redeemable prior to maturity.

Tax Matters Benchmark Bills and Short-Term Notes and payments thereon generally are subject to taxation by the United States and generally are not exempt from taxation by other U.S. or non-U.S. taxing jurisdictions. Non-U.S. Persons generally will be subject to U.S. income and withholding tax unless they provide required certifications or statements. See “United States Taxation” below and in the Offering Circular for additional information.

Listing We do not intend to list Benchmark Bills and Short-Term Notes on any exchange.

Offering Price Benchmark Bills and non-interest bearing Short-Term Notes will be offered at a discount to par. See “Distribution of Benchmark Bills and Short-Term Notes” below for additional information.

Clearance and Settlement Depending on the terms of an issue of Benchmark Bills or Short-Term Notes and where they are to be offered, Benchmark Bills or Short-Term Notes may clear and settle through one or more of the following:

- the U.S. Federal Reserve Banks
- DTC
- Euroclear
- Clearstream
- other designated clearing systems

We expect issues of Benchmark Bills and most Short-Term Notes denominated and payable in U.S. dollars, to clear and settle through the Fed Book-Entry System. These Debt Securities generally may be held indirectly through other clearing systems, such as the systems operated by Euroclear and Clearstream.

We expect issues of Short-Term Notes denominated and payable in U.S. dollars not cleared and settled through the Fed Book-Entry System to clear and settle through the systems operated by DTC, and indirectly through Euroclear and Clearstream. We expect issues of Short-Term Notes denominated or payable in a specified currency other than U.S. dollars to clear and settle through the systems operated by Euroclear, Clearstream or other designated clearing systems.

- Governing Law Benchmark Bills and Short-Term Notes issued as Fed Book-Entry Securities (including rights and obligations) will be governed by, and construed in accordance with, regulations adopted by the U.S. Department of Housing and Urban Development or any other U.S. governmental body or agency that are applicable to the Fed Book-Entry Securities, and, to the extent that these regulations do not apply, the laws of the State of New York, U.S.A. Benchmark Bills and Short-Term Notes issued as Global Book-Entry Securities will be governed by, and construed in accordance with, the laws of the State of New York, U.S.A.
- Fiscal and Global Agents The Federal Reserve Bank of New York will act as fiscal agent for Benchmark Bills and Short-Term Notes issued as Fed Book-Entry Securities, under a Fiscal Agency Agreement effective as of January 2, 1969, between Fannie Mae and the Federal Reserve Bank of New York. JPMorgan Chase Bank will act as global agent for Global Book-Entry Securities. See “Description of the Debt Securities—Fiscal Agent and Global Agent.”
- Selling Restrictions Restrictions exist in certain jurisdictions on the Dealers’ offer, sale and delivery of Benchmark Bills and Short-Term Notes and the distribution of offering materials relating to Benchmark Bills and Short-Term Notes. See “Distribution of Benchmark Bills and Short-Term Notes—183 Day Notes Selling Restriction” below and Appendix E to the Offering Circular for a description of these restrictions.

United States Taxation

The principal aspects of U.S. federal income tax treatment of Benchmark Bills and Short-Term Notes are set forth in the Offering Circular. However, some Short-Term Notes having a maturity of 183 days or less will be sold under arrangements reasonably designed to ensure that they will be sold (or resold in connection with their original issuance) only to persons who are not U.S. Persons (“183 Day Notes”). This section provides a discussion of the U.S. federal income tax treatment of 183 Day Notes held by non-U.S. Persons.

Payments of principal of, and interest (including original issue discount) on, a 183 Day Note to any person who is not a U.S. Person will not be subject to United States federal withholding or income tax.

Backup withholding and information reporting will not apply to payments on 183 Day Notes provided, in each case, that we, our paying agent and certain intermediaries in the chain of payment do not have actual knowledge or reason to know that the payee is a U.S. Person and certain other requirements are met. Accordingly, payments on 183 Day Notes will be made only outside the United States or its possessions. In addition, 183 Day Notes will be registered in the name of an exempt recipient, generally Euroclear or Clearstream, and 183 Day Notes will bear the following legend: “By accepting this obligation, the holder represents and warrants that it is not a United States person (other than an exempt recipient described in section 6049(b)(4) of the Internal Revenue Code and the regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in section 6049(b)(4) of the Internal Revenue Code and the regulations thereunder).”

Distribution of Benchmark Bills and Short-Term Notes

General

Benchmark Bills and Short-Term Notes typically will be offered initially at fixed prices representing a discount from the principal amount payable at maturity, with the amount of the discount based, in part, on the maturity of the Benchmark Bills or Short-Term Notes. We may sell Debt Securities to Dealers acting as principal or through Dealers on a non-underwritten basis. We also may sell Debt Securities directly to institutional investors. Benchmark Bills and Short-Term Notes sold to Dealers as principal may be resold to investors at a fixed offering price or at varying prices related to market prices prevailing at the time of resale or otherwise as determined by the applicable Dealer. Offering prices may be established through the posting of rates, negotiations with dealers, auctions (which may include standard electronic auctions, Dutch auctions and other formats) or otherwise.

We will post discount rates for Short-Term Notes, and the range of maturities offered, on market information screens. We generally will offer Short-Term Notes each business day through the Dealers, and there may be more than one sale on a given day.

In order to facilitate overnight confirmation of sales to investors abroad, Short-Term Notes also generally are sold before and after our business hours (except holidays and weekends) to one or more of the Dealers as principal. The Dealers may resell the Short-Term Notes to investors or to other dealers we may authorize from time to time.

Dealers will receive compensation (in the form of a discount or commission) on the Short-Term Notes confirmed and delivered to them equal to .02% per annum of the principal amount due at maturity.

In transactions where they are acting as principal, the Dealers will purchase the Short-Term Notes from us at a discount from the principal amount due at maturity. In these transactions, their compensation will be equal to the difference between the price at which they sell the Short-Term Notes and their purchase price. Subject to certain limitations, Dealers may reallocate a portion of the

discount they receive to other securities dealers or banks. With respect to non-underwritten sales, the Dealers' compensation will take the form of a commission.

Trading Markets and Secondary Market Information

We do not intend to list Benchmark Bills or Short-Term Notes on any exchange. There may be no established trading market for Benchmark Bills and Short-Term Notes when issued. Dealers have agreed to use their best efforts to facilitate secondary market transactions in each issue of Benchmark Bills and Short-Term Notes for which they were an applicable Dealer, but a secondary market may not develop. If a secondary market develops, it may not be very liquid. See "Risk Factors—Risks Related to Market, Liquidity and Yield" in the Offering Circular.

Dealers may provide indicative pricing information to Bloomberg L.P. or another information service designated by us for Benchmark Bills and Short-Term Notes. Dealers will be solely responsible for the indicative information so provided, which may not reflect actual secondary market prices.

Market Transactions

When Dealers purchase Benchmark Bills and Short-Term Notes as principal for resale on a fixed price basis they may engage in certain transactions that stabilize the price of the Benchmark Bills and Short-Term Notes. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Benchmark Bills and Short-Term Notes. Such transactions with respect to the Benchmark Bills and Short-Term Notes may also include over-allotment transactions and purchases to cover short positions created by the Dealers in connection with an offering.

If the Dealers create a short position in the Benchmark Bills and Short-Term Notes in connection with an offering, the Dealers must reduce that short position by purchasing Debt Securities in the open market. A short position is more likely to be created if the Dealers are concerned that there may be downward pressure in the price of the Benchmark Bills and Short-Term Notes in the open market after pricing that could adversely affect investors who purchase Benchmark Bills and Short-Term Notes in an offering. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

In connection with any particular issue of Benchmark Bills and Short-Term Notes, we may enter into swaps, other hedging transactions or reverse repurchase transactions with, or arranged by, the applicable Dealer or an affiliate. The Dealer or other parties may receive compensation, trading gain, temporary funding or other benefits from these transactions. We also may from time to time engage in other hedging activities or reverse repurchase transactions that involve Benchmark Bills and Short-Term Notes, in the open market or otherwise. We are not required to engage in any of these transactions. If we commence these transactions, we may discontinue them at any time. Counterparties to these hedging activities may also engage in market transactions involving Benchmark Bills and Short-Term Notes.

183 Day Notes Selling Restriction

Each Dealer who will sell 183 Day Notes has represented and agreed that, except to the extent permitted by relevant United States tax law, it has not offered or sold, and will not offer or sell, the 183 Day Notes to a person who is within the United States or its possessions or to a U.S. Person during the "restricted period," as defined in U.S. tax regulations, and it has not delivered and will not deliver 183 Day Notes within the United States or its possessions in connection with sales of the 183 Day Notes during such restricted period. The Dealer will also represent that it has and will continue to have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling 183 Day Notes are aware that the 183 Day Notes may not be offered or sold to a person who is within the United States or its possessions or to a U.S. Person during the restricted period, except as permitted by relevant United States federal tax law. If the Dealer is a U.S. Person, it

must represent that it is acquiring the 183 Day Notes for purposes of resale in connection with their original issuance and, if it retains any 183 Day Notes for its own account, it will do so only in accordance with the requirements of relevant United States federal tax law. Each Dealer has also represented and agreed that any affiliate that acquires the 183 Day Notes from it or another affiliate for purposes of offering or selling the 183 Day Notes during the restricted period will make the same representations.

Dealers

The securities dealers and banks listed in the Offering Circular under “Plan of Distribution-Dealers” also may act as Short-Term Note Dealers under the Universal Debt Facility. Other securities dealers and banks may be added from time to time in connection with the distribution of Benchmark Bills and Short-Term Notes or any particular issue of such securities.

See also “Plan of Distribution—Additional Information” in the Offering Circular for further information about the distribution of Debt Securities, including Benchmark Bills and Short-Term Notes.

**SUBORDINATED BENCHMARK NOTES AND
OTHER SUBORDINATED DEBT SECURITIES**

Fannie Mae expects to issue Subordinated Debt Securities in an amount such that, following a phase-in period ending December 31, 2003, the sum of our core capital, loss allowances and outstanding Subordinated Debt Securities will equal or exceed four percent of on-balance sheet assets, after setting aside capital sufficient to support off-balance sheet mortgage-backed securities. Set forth below is information about our Subordinated Benchmark Notes and other Subordinated Debt Securities. Except as set forth in this Appendix, the general description of Debt Securities set forth in this Offering Circular applies to Subordinated Debt Securities, which may have terms related to specified currencies, denominations, business day conventions, and clearance and settlement similar to other Debt Securities. This Appendix is hereby incorporated in and made a part of the Offering Circular.

Status; Subordination The Subordinated Debt Securities will be unsecured subordinated obligations of Fannie Mae issued under Section 304(e) of the Charter Act. The Subordinated Debt Securities will rank junior in priority of payment to our “Senior Liabilities”. “Senior Liabilities” means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and Fannie Mae’s Outstanding Capital Debentures. The Subordinated 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.

At December 31, 2001, we had outstanding total liabilities of \$781,673 million, \$776,673 million of which constitute Senior Liabilities. Senior Liabilities also include any liabilities related to the \$858,867 million of outstanding mortgage-backed securities (which excludes mortgage-backed securities held by us in portfolio) at that date on which Fannie Mae guarantees timely payment of principal and interest. At December 31, 2001, we had outstanding Subordinated Debt Securities of \$5,000 million.

Redemption Unless otherwise specified in an applicable Pricing Supplement, the Subordinated Debt Securities will not be subject to redemption by us prior to maturity.

Interest:

Deferral of Interest We will defer the payment of interest on all outstanding Subordinated Debt Securities if, as of the fifth Business Day prior to an Interest Payment Date on any Subordinated Debt Securities (each, a “Deferral Determination Date”):

- our “core capital” is below 125% of our “critical capital” requirement,

or

- (1) our “core capital” is below our “minimum capital” requirement and (2) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 304(c) of the Charter Act to purchase our debt obligations.

We will use the core, critical and minimum capital levels most recently announced by the Office of Federal Housing Enterprise Oversight (“OFHEO”), pursuant to its then current methodology for calculating those levels, prior to any such Deferral Determination Date to determine whether we must defer interest on all outstanding Subordinated Debt Securities.

If legislation is enacted that revises the definition of core, critical or minimum capital, or if OFHEO ceases to announce any of these capital levels, Fannie Mae will calculate any revised or no longer announced capital levels on a monthly basis in accordance with the current statutory definitions and the then-current OFHEO requirements. An independent third party will verify any capital levels that we are required to calculate. Upon such third party verification, we will publicly announce the results.

Based on the most recent OFHEO announcement regarding our capital levels, at September 30, 2001, Fannie Mae had core capital of \$23,778 million or 201.8% of our critical capital requirement of \$11,785 million and \$648 million above our minimum capital requirement of \$23,130 million as of that date.

“Core capital” is the sum of:

- the stated value of our outstanding common stock,
- the stated value of our non-cumulative perpetual preferred stock,
- paid in capital, and
- retained earnings.

“Critical capital” is the sum of:

- 1.25% of on-balance sheet assets,
- .25% of outstanding mortgage-backed securities, and
- .25% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

“Minimum capital” is the sum of:

- 2.50% of on-balance sheet assets,
- .45% of net outstanding mortgage-backed securities, and
- .45% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances. (See 12 CFR §1750.4 for existing adjustments made by the Director of OFHEO.)

We may not defer interest on any Subordinated Debt Securities for more than five consecutive years nor beyond their Maturity Date.

Accrual of Interest on Deferred Amounts

If we defer the payment of interest on the Subordinated Debt Securities, interest will continue to accrue on the Subordinated Debt Securities and compound at the stated coupon rates of such Subordinated Debt Securities.

Resumption of Interest Payments

We will pay all deferred interest, and interest on that deferred interest, on all Subordinated Debt Securities as soon as, after giving effect to such payments, we no longer would be required to defer interest under the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury as described above. We will make this payment in respect of all Subordinated Debt Securities on the next scheduled Interest Payment Date that occurs in respect of any issue of Subordinated Debt Securities, unless we elect to make the payment earlier.

If we have not resumed interest payments on an issue of Subordinated Debt Securities by its Maturity Date or have deferred interest on an issue of Subordinated Debt Securities for five consecutive years, then we must pay deferred interest, and interest thereon, on that issue of Subordinated Debt Securities regardless of our core capital levels or our repayment of all debt obligations purchased by the U.S. Secretary of the Treasury. Even if we are required to make any payment on Subordinated Debt Securities, because Subordinated Debt Securities are subordinated, Holders of Subordinated Debt Securities will be entitled to receive payments only after we have made payment in full of all amounts then due in respect of Senior Liabilities. In no event will Holders of Subordinated Debt Securities be able to accelerate the maturity of their Subordinated Debt Securities; such Holders will have claims only for amounts then due and payable on their Subordinated Debt Securities. After we have fully paid all deferred interest on any issue of Subordinated Debt Securities and if that issue of Subordinated Debt Securities remains outstanding, future interest payments on that issue of Subordinated Debt Securities will be subject to further deferral as described above.

No Dividends during Deferral Periods

During periods when we defer the payment of interest on the Subordinated Debt Securities, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or our preferred stock.

No Acceleration Right

The Subordinated Debt Securities will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event.

Form	Subordinated Benchmark Notes will be issued as Fed Book-Entry Securities. Other Subordinated Debt Securities may be issued as Fed Book-Entry Securities or Global Book-Entry Securities.
Notices	We will give prompt notice of any event that would require deferral of the payment of interest on the Subordinated Debt Securities. We will also give notice of the resumption of the payment of interest on the Subordinated Debt Securities. See “Description of the Debt Securities — Notices” in the Offering Circular.
Listing	We will apply to list Subordinated Benchmark Notes on the Luxembourg Stock Exchange. We may apply to list other Subordinated Debt Securities on the Luxembourg Stock Exchange or other exchanges.

INDEX DESCRIPTIONS

This Appendix is incorporated in and made a part of the Offering Circular.

General

The Pricing Supplement for any Debt Securities will indicate which index, as described below, applies to the Debt Securities, or may designate a different index, which will be described in the Pricing Supplement.

Several sources for indices are pages or screens provided by Bridge Telerate Information Services, Inc. (“Bridge Telerate”) and Reuters Monitor Money Rates Service (“Reuters”). If a page or screen, or its provider, is replaced, the Calculation Agent will select the appropriate successor page, screen or provider, if any.

LIBOR

If we specify LIBOR as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

“LIBOR” means, with respect to any Reset Date:

(1) the rate that appears, at 11:00 a.m. (London time) on the LIBOR Determination Date, on Telerate Page 3750 for Deposits in the Index Currency having the Index Maturity;

(2) if a rate does not so appear, then LIBOR will be the rate that appears, at 11:00 a.m. (London time) on the LIBOR Determination Date, on the Reuters Screen LIBO Page for Deposits in the Index Currency having the Index Maturity;

(3) if a rate does not so appear, then the Calculation Agent will request the principal London offices of five leading banks in the London interbank market selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to prime banks in the London interbank market for Deposits in the Index Currency having the Index Maturity as of 11:00 a.m. (London time) on the LIBOR Determination Date and in a Representative Amount. If at least three quotations are provided, then LIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(4) if fewer than three quotations are so provided, then the Calculation Agent will request five major banks in the applicable Principal Financial Center selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to leading European banks for loans, commencing on the applicable Reset Date, in the Index Currency having the Index Maturity as of approximately 11:00 a.m. (London time) in the applicable Principal Financial Center on the LIBOR Determination Date and in a Representative Amount. If at least three quotations are provided, then LIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(5) if fewer than three quotations are so provided, then LIBOR will be LIBOR determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then LIBOR will be the rate for deposits in the Index Currency having the Index Maturity that appeared, as of 11:00 a.m. (London time) on the most recent London Banking Day preceding the

LIBOR Determination Date for which the rate was displayed, on either Telerate Page 3750 or Reuters Screen LIBO Page with respect to deposits commencing on the second London Banking Day following that date (and, if the rate appears on both screens on that London Banking Day, using Telerate Page 3750).

The following definitions apply only to the preceding description of LIBOR (additional definitions on page D-3 also apply).

- “Reuters Screen LIBO Page” means the display designated as page “LIBO” on Reuters.
- “Telerate Page 3750” means the display designated as “Page 3750” provided by Bridge Telerate.
- “LIBOR Determination Date” means the second London Banking Day preceding the applicable Reset Date unless the Index Currency is (i) Sterling, in which case it means the applicable Reset Date or (ii) Euro, in which case it means the second TARGET Business Day preceding the applicable Reset Date (unless LIBOR is determined in accordance with paragraph (3) above, in which case it means the applicable Reset Date).
- “London Banking Day” means any day on which commercial banks are open for business (including dealings in foreign exchange and deposits in the Index Currency) in London.
- “Index Currency” means the currency or currency unit specified in the applicable Pricing Supplement with respect to which LIBOR will be calculated. If we do not specify a currency or currency unit in the applicable Pricing Supplement, the Index Currency will be U.S. dollars.
- “Principal Financial Center” means the capital city of the country issuing the Specified Payment Currency, or solely with respect to the calculation of LIBOR, the Index Currency, as the case may be, except that with respect to U.S. dollars, Australian dollars, British pounds sterling, Canadian dollars, Hong Kong dollars and Swiss francs, the Principal Financial Center will be The City of New York, Sydney, London, Toronto, Hong Kong and Zurich respectively, provided however, that with respect to Euro, the Principal Financial Center will be determined by the Calculation Agent (after consultation with Fannie Mae).
- “Representative Amount” means a principal amount of not less than U.S. \$1,000,000 (or, if the Index Currency is other than U.S. dollars, a principal amount not less than the equivalent in the Index Currency).

EURIBOR

If we specify EURIBOR as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

“EURIBOR” means, with respect to any Reset Date:

(1) the rate that appears at 11:00 a.m. (Brussels time) on the EURIBOR Determination Date, on Telerate Page 248 under the caption “EURIBOR” for Deposits in Euro having the Index Maturity;

(2) if a rate does not so appear, then the Calculation Agent will request five major banks in the Euro-Zone selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to prime banks in the Euro-Zone interbank market for Deposits in Euro having the Index Maturity as of 11:00 a.m. (Brussels time) on the EURIBOR Determination Date and in a Representative Amount. If at least three quotations are provided, then EURIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(3) if fewer than three quotations are so provided, then the Calculation Agent will request five major banks in the Euro-Zone selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks' offered quotations to leading European banks for loans, commencing on the applicable Reset Date, in Euro having the Index Maturity as of approximately 11:00 a.m. (Brussels time) on the EURIBOR Determination Date and in a Representative Amount. If at least three quotations are provided, then EURIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(4) if fewer than three quotations are so provided, then EURIBOR will be EURIBOR determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then EURIBOR will be the rate for deposits in Euro having the Index Maturity that appeared, as of 11:00 a.m. (Brussels time) on the most recent TARGET Business Day preceding the EURIBOR Determination Date for which the rate was displayed, on Telerate Page 248 under the caption "EURIBOR" with respect to deposits commencing on the second TARGET Business Day following that date.

The following definitions apply only to the preceding description of EURIBOR.

- "EURIBOR Determination Date" means the second TARGET Business Day preceding the applicable Reset Date, unless EURIBOR is determined in accordance with paragraph (3) above, in which case it means the applicable Reset Date.
- "Telerate Page 248" means the display designated as "Page 248" provided by Bridge Telerate.
- "Euro-Zone" means the region consisting of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

Additional Definitions Related to LIBOR and EURIBOR Descriptions

With respect to the preceding descriptions of LIBOR and EURIBOR:

- "TARGET Business Day" means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer ("TARGET") System is operating;
- "Representative Amount" means a principal amount of not less than the equivalent of U.S. \$1,000,000 in Euro;
- "Deposits" means deposits commencing on the applicable Reset Date;
- "Index Maturity" means the maturity specified in the applicable Pricing Supplement with respect to which LIBOR or EURIBOR, as the case may be, will be calculated; and
- all rates will be obtained from sources expressed as a percentage rate per annum.

Federal Funds Rates

Federal Funds Rate (Daily)

If we specify Federal Funds Rate (Daily) as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The "Federal Funds Rate (Daily)" means, with respect to any Reset Date:

(1) the rate that appears, at 11:00 a.m. on the Federal Funds Rate (Daily) Determination Date, on Telerate Page 120 under the caption "FED FUNDS EFFECTIVE" and the column

heading “EFF” for the Business Day preceding the Federal Funds Rate (Daily) Determination Date;

(2) if a rate does not so appear, then the Federal Funds Rate (Daily) will be the rate that appears, at 11:00 a.m. on the Federal Funds Rate (Daily) Determination Date, on Reuters NYAA Page for the Business Day preceding the Federal Funds Rate (Daily) Determination Date;

(3) if a rate does not so appear, the Calculation Agent will request five leading brokers of federal funds transactions in The City of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those brokers’ effective rate for transactions in overnight federal funds arranged by the broker settling on the Business Day preceding the Federal Funds Rate (Daily) Determination Date. If at least three quotations are provided, then the Federal Funds Rate (Daily) will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(4) if fewer than three quotations are so provided, then the Calculation Agent will request five leading brokers of federal funds transactions in The City of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those brokers’ rate for the last transaction in overnight federal funds arranged by the broker as of 11:00 a.m. on the Business Day preceding the Federal Funds Rate (Daily) Determination Date. If at least three quotations are provided, then the Federal Funds Rate (Daily) will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(5) if fewer than three quotations are so provided, then the Federal Funds Rate (Daily) will be the Federal Funds Rate (Daily) determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Federal Funds Rate (Daily) will be the daily federal funds rate that appeared, at 11:00 a.m. on the most recent Business Day preceding the Reset Date for which the rate was displayed, on either Telerate Page 120 under the caption “FED FUNDS EFFECTIVE” and the column heading “EFF” or Reuters Screen NYAA Page (and, if the rate appears on both screens on that Business Day, using Telerate Page 120).

Federal Funds Rate (Weekly Average)

If we specify Federal Funds Rate (Weekly Average) as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “Federal Funds Rate (Weekly Average)” means, with respect to any Reset Date:

(1) the rate published in the latest H.15(519) available at 11:00 a.m. on the Reset Date, opposite the caption “Federal funds (effective)” and under the caption “Week Ending” for the Friday immediately preceding the Reset Date. (As described in the footnotes to the H.15(519), the rate shown for the week ending on a Friday preceding a Reset Date actually will be the rate for the week ending on (and including) the Wednesday preceding the Reset Date (the “Seven-Day Period”).);

(2) if a rate is not so published, then the Federal Funds Rate (Weekly Average) will be the arithmetic mean determined by the Calculation Agent of the rate, determined in the manner described in subclauses (y) and (z) below (as applicable), for each day in the Seven-Day Period (each a “Day Rate”), provided that the Calculation Agent determines a Day Rate for each day in the Seven-Day Period;

(y) The Day Rate for a Business Day will be the rate that appears, at 11:00 a.m. on the Reset Date, on Telerate Page 120 under the caption “FED FUNDS EFFECTIVE” and the column heading “EFF” for that Business Day. If a rate for that Business Day does not appear on Telerate Page 120 at 11:00 a.m. on the Reset Date, the Calculation Agent will request five leading brokers of federal funds transactions in The City of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those brokers’ rate for the last transaction in overnight federal funds arranged by the broker as of 11:00 a.m. on that Business Day. If at least three quotations are provided, then the Day Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(z) The Day Rate for a day other than a Business Day will be the rate for the preceding Business Day, whether or not the Business Day falls within the relevant Seven-Day Period, determined in accordance with the provisions of subclause (y) above; and

(3) if the Day Rate for each day in the Seven Day Period is not so determined, then the Federal Funds Rate (Weekly Average) will be the Federal Funds Rate (Weekly Average) determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Federal Funds Rate (Weekly Average) will be the rate published in the latest H.15(519) available at 11:00 a.m. on the Reset Date, opposite the caption “Federal funds (effective)” and under the caption “Week Ending” for the Friday most recently preceding the Reset Date.

Please note that the Federal Funds Rate (Weekly Average) as published in the H.15(519) is a weekly average, while the Federal Funds Rate (Weekly Average) as calculated under clause (2) is based on an average of daily rates.

Additional Federal Funds Rate Definitions

- “Federal Funds Rate (Daily) Determination Date” means the applicable Reset Date; provided, however, that if the Reset Date is not a Business Day, then the Federal Funds Rate (Daily) Determination Date means the Business Day immediately following the applicable Reset Date.
- “H.15(519)” means the official weekly statistical release designated as the H.15(519), published by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). We understand that the Federal Reserve Board’s current method of official publication is by hard copy release, although the Federal Reserve Board does provide unofficial rates through its World Wide Web site and possibly other means.
- “Reuters NYAA Page” means the display designated as page “NYAA” on Reuters.
- “Telerate Page 120” means the display designated as “Page 120” provided by Bridge Telerate.
- All times in the Federal Funds Rate descriptions refer to New York City time.

Prime Rate

If we specify Prime Rate as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “Prime Rate” means, with respect to any Reset Date:

(1) the arithmetic mean determined by the Calculation Agent of the rates (after eliminating certain rates, as described below in this clause (1)) that appear, at 11:00 a.m. on the Prime Rate

Determination Date, on Telerate Page 38 as the U.S. dollar prime rate or base lending rate of each bank appearing thereon, provided that at least three rates appear. In determining the arithmetic mean:

- if 20 or more rates appear, the highest five rates (or in the event of equality, five of the highest) and the lowest five rates (or in the event of equality, five of the lowest) will be eliminated,
- if fewer than 20 but 10 or more rates appear, the highest two rates (or in the event of equality, two of the highest) and the lowest two rates (or in the event of equality, two of the lowest) will be eliminated, or
- if fewer than 10 but five or more rates appear, the highest rate (or in the event of equality, one of the highest) and the lowest rate (or in the event of equality, one of the lowest) will be eliminated;

(2) if fewer than three rates so appear, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the rates (after eliminating certain rates, as described below in this clause (2)) that appear, at 11:00 a.m. on the Prime Rate Determination Date, on Reuters USPRIME 1 Page as the U.S. dollar prime rate or base lending rate of each bank appearing thereon, provided that at least three rates appear. In determining the arithmetic mean:

- if 20 or more rates appear, the highest five rates (or in the event of equality, five of the highest) and the lowest five rates (or in the event of equality, five of the lowest) will be eliminated,
- if fewer than 20 but 10 or more rates appear, the highest two rates (or in the event of equality, two of the highest) and the lowest two rates (or in the event of equality, two of the lowest) will be eliminated, or
- if fewer than 10 but five or more rates appear, the highest rate (or in the event of equality, one of the highest) and the lowest rate (or in the event of equality, one of the lowest) will be eliminated;

(3) if fewer than three rates so appear, then the Calculation Agent will request five major banks in The City of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those banks' U.S. dollar prime rate or base lending rate on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. If at least three quotations are provided, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(4) if fewer than three quotations are so provided, the Calculation Agent will request five banks or trust companies organized and doing business under the laws of the United States or any state thereof, each having total equity capital of at least U.S. \$500,000,000 and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent), to provide a quotation of those banks' or trust companies' U.S. dollar prime rate or base lending rate on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. (In making the selection of five banks or trust companies, the Calculation Agent will include each bank, if any, that provided a quotation as requested in clause (3) above and exclude each bank that failed to provide a quotation as requested in clause (3).) If at least three quotations are provided, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are

provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(5) if fewer than three quotations are so provided, then the Prime Rate will be the Prime Rate determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Prime Rate will be the rate calculated pursuant to clause (1) or (2) for the most recent New York Banking Day preceding the Reset Date for which at least three rates appeared at 11:00 a.m. on either Telerate Page 38 or Reuters USPRIME1 Page (and, if rates appear on both screens on that New York Banking Day, using Telerate Page 38).

Prime Rate Definitions

- “New York Banking Day” means any day other than (a) a Saturday, (b) a Sunday, (c) a day on which banking institutions in The City of New York are required or permitted by law or executive order to close or (d) a day on which the Federal Reserve Bank of New York is closed.
- “Prime Rate Determination Date” means the New York Banking Day preceding the applicable Reset Date.
- “Reuters USPRIME1 Page” means the display designated as page “USPRIME1” on Reuters.
- “Telerate Page 38” means the display designated as “Page 38” provided by Bridge Telerate.
- All times in the Prime Rate description refer to New York City time.

Treasury Bill Rate

If we specify Treasury Bill Rate as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “Treasury Bill Rate” means, with respect to any Reset Date:

(1) the auction average rate for direct obligations of the United States (“Treasury Bills”) having the Index Maturity obtained from the most recent auction of Treasury Bills prior to the Reset Date (the “Reference T-Bill Auction”) as announced by the United States Department of the Treasury in the form of a press release under the heading “Investment Rate” by 3:00 p.m. on the Reset Date;

(2) if the rate is not so announced, then the Treasury Bill Rate will be the auction average rate for Treasury Bills having the Index Maturity obtained from the Reference T-Bill Auction as otherwise announced by the United States Department of the Treasury by 3:00 p.m. on the Reset Date as determined by the Calculation Agent;

(3) if the rate is not so announced, the Calculation Agent will request five leading primary United States government securities dealers in The City of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those dealers’ secondary market bid yield, as of 3:00 p.m. on that Reset Date, for Treasury Bills with a remaining maturity closest to the Index Maturity (or, in the event that the remaining maturity is equally close, the longer remaining maturity). If at least three quotations are provided, then the Treasury Bill Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)); and

(4) if fewer than three quotations are so provided, the Treasury Bill Rate will be the Treasury Bill Rate for the immediately preceding Reset Date. If the applicable Reset Date is the

first Reset Date, the Treasury Bill Rate will be the auction average rate for Treasury Bills having the Index Maturity from the most recent auction of Treasury Bills prior to the Reset Date for which the rate was announced by the United States Department of the Treasury in the form of a press release under the heading “Investment Rate”.

The auction average rate for Treasury Bills and the secondary market bid yield for Treasury Bills will be obtained expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable (or, if not so expressed, will be converted by the Calculation Agent to a bond equivalent yield).

All times in the Treasury Bill description refer to New York City time.

CMT Rate (Weekly Average)

If we specify CMT Rate (Weekly Average) as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “CMT Rate (Weekly Average)” means, with respect to any Reset Date:

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

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

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

(4) if fewer than three dealers selected by the Calculation Agent are quoting as described in clause (3), the CMT Rate (Weekly Average) will be calculated by the Calculation Agent and will be a yield to maturity (expressed as a bond equivalent and as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on the applicable CMT Determination Date of three leading primary United States government securities dealers in The City of New York selected by the Calculation Agent (from five such dealers

and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for Treasury Notes with an original maturity of approximately ten years and a remaining term to maturity closest to two years. If three or four (and not five) of such dealers are quoting as described in this clause (4), then the CMT Rate (Weekly Average) will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated.

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

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

CMT Rate (Weekly Average) Definitions

“H.15(519)” means the official weekly statistical release designated as the H.15(519), as published by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). We understand that the Federal Reserve Board’s method of official publication is by hard copy release, although the Federal Reserve Board does provide unofficial rates through its World Wide Web site and possibly other means.

“CMT Determination Date” means the second Business Day preceding the applicable Reset Date.

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SELLING RESTRICTIONS

This Appendix is incorporated in and made a part of the Offering Circular.

General

The Debt Securities may be offered or sold only where it is legal to do so. The Dealers have represented and agreed that they will comply with all applicable laws and regulations in each jurisdiction in which they may purchase, offer, sell or deliver Debt Securities or distribute this Offering Circular, any Pricing Supplement or any other offering material. The Dealers also have agreed to comply with selling restrictions relating to specific countries. We and the Dealers may modify selling restrictions at any time. Some of the restrictions that may be applicable to the offer and sale of Debt Securities are set forth below.

Australia

Each Dealer acknowledges that no prospectus or other disclosure document in relation to the Debt Securities has been lodged with the Australian Securities and Investments Commission. Each Dealer has represented and agreed that it must not:

- (A) (1) offer a Debt Security for issue, or invite applications for the issue of a Debt Security; and
- (2) offer a Debt Security for sale, or invite offers to purchase a Debt Security, to a person that receives the offer or invitation in Australia; and
- (B) distribute or publish the Offering Circular or any offering material or advertisement relating to any Debt Securities in Australia unless:
 - (i) the offer or invitation, is an offer or invitation which does not need to be disclosed to investors under Chapter 6D of the Corporations Act because section 708 of the Corporations Act says otherwise; and
 - (ii) the offer or invitation, and all advertising and published statements in relation to the offer or invitation, are each made in compliance with the Corporations Law, the Corporations Regulations and all other applicable laws and regulations.

For purposes of this paragraph:

“Corporations Act” means the Corporations Act 2001 of the Commonwealth of Australia;

“Corporations Regulations” means the Corporations Regulations of the Commonwealth of Australia; and

“Debt Security” includes a legal or equitable right or interest in, or an option to acquire, a Debt Security.

Belgium

The Dealers have represented, warranted and agreed that the Offering will not be a public offering in Belgium. The Offering Circular may not be distributed to the public in Belgium and the Debt Securities referred to herein may not be publicly offered for sale in Belgium and no steps may be taken which would constitute or result in a public offering in Belgium. Any Subscription to the Debt Securities within Belgium should be (i) for a minimum amount of BEF 10,000,000 (EUR 250,000) each or (ii) made in the name and for the account of institutional Investors mentioned in article 3°, 2 of the Royal Decree of 7 July 1999.

Canada (Ontario)

The Dealers have represented and agreed that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell Debt Securities in Ontario (i) by means of any document other than this Offering Circular, as supplemented, or (ii) to any person or company other than an “accredited investor”, as defined in Ontario Securities Commission Rule 45-501, purchasing as principal. Securities legislation in Ontario provides a purchaser of Debt Securities with remedies for rescission or damages if this Offering Circular, as supplemented, contains a misrepresentation as defined in securities legislation in Ontario. Purchasers should refer to such legislation for particulars of these rights or consult with a legal adviser.

China

The Dealers acknowledge that the Debt Securities have not been and will not be registered under the relevant laws of the People’s Republic of China. Accordingly, the Dealers represent, warrant and agree to and with Fannie Mae that they have not made, and will not make, any offer, promotion, solicitation for sales or sale of or for, as the case may be, any Debt Securities in the People’s Republic of China, except where permitted by the China Securities Regulatory Commission or where the activity otherwise is permitted under the laws of the People’s Republic of China.

France

We and each Dealer have represented and agreed that the Debt Securities are being issued outside of France, and that we have not offered or sold, and will not offer or sell Debt Securities in France, and have not distributed and will not distribute or cause to be distributed in France this Offering Circular or any other offering material relating to the Debt Securities except (1) to qualified investors (*investisseurs qualifiés*) and/or (2) within a restricted circle of investors (*cercle restreint d’investisseurs*), all as defined in and in accordance with Articles L. 411-1 and L. 411-2 of the French “Code Monétaire et financier” and Decree no. 98-880 dated 1st October, 1998.

Germany

In connection with the initial placement of the Debt Securities in Germany, the Dealers have represented and agreed that they will offer and sell Debt Securities (i) only for an aggregate purchase price per purchaser of at least DM 80,000 (or the foreign currency equivalent) or any other amount which may be stipulated from time to time by applicable German law and (ii) otherwise in accordance with the provisions of the German Securities Prospectus Act of 13th December, 1990, as amended, or any other laws applicable in Germany governing the issue, offering and sale of securities.

Hong Kong

The Dealers have represented and agreed that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in Hong Kong, by means of any document, any Debt Securities other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong. The Dealers have further represented and agreed that, unless they are persons who are permitted to do so under the securities laws of Hong Kong, they have not issued, or had in their possession for the purpose of issuing, and they will not issue, or have in their possession for the purposes of issuing, any advertisement, invitation or document relating to the Debt Securities other than with respect to Debt Securities intended to be disposed of to persons outside Hong Kong or to persons in Hong Kong whose business involves the acquisition, disposal or holding of securities, whether as principal or as agent.

Italy

The Dealers have represented, warranted and agreed to and with Fannie Mae that the Debt Securities will be issued outside Italy and that such Dealer and its Affiliates have not offered or sold, and will not offer or sell, directly or indirectly, any Debt Securities to the public in Italy, and the Offering Circular or any other offering material relating to such Debt Securities will not be distributed or caused to be distributed to the public in Italy. Each Dealer agrees that no offer, sale or solicitation will be made in Italy without prior notification to and clearance from the Bank of Italy or, if required, the Italian Commission for Companies and Exchange.

Japan

The Dealers have represented and agreed that they will not offer or sell any Debt Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except in compliance with or pursuant to an exemption from, the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other applicable laws and regulations of Japan.

Netherlands

The Dealers have represented and agreed that they (i) have not offered or sold, and will not offer or sell, Debt Securities and (ii) have not distributed, and will not distribute, this Offering Circular, in each case to any person or entity in the Netherlands other than natural persons and/or legal entities which trade or invest in securities in the course of their profession or business (which includes banks, investment banks, pension funds, insurance companies, securities firms, investment institutions and other entities, including, without limitation, treasuries and finance companies of large enterprises which trade or invest in securities). The foregoing restrictions will not apply to any offer or sale of Debt Securities in the Netherlands in respect of which (i) the denomination is in excess of Dutch Guilders 100,000 or the equivalent thereof in other currencies or currency units, (ii) another exemption specified in the Securities Transactions Supervision Act or any of its implementing regulations applies and the requirements applicable to that exemption are complied with or (iii) the prohibition contained in Article 3 sub-section 1 of the Securities Transactions Supervision Act does not apply.

New Zealand

The Dealers have represented, warranted and agreed to and with Fannie Mae that they (i) have not offered or sold, and will not offer or sell, directly or indirectly, any Debt Securities and (ii) have not distributed and will not distribute, directly or indirectly, any offering materials or advertisement in relation to any offer of Debt Securities, in each case in New Zealand other than (x) to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money or who in all the circumstances can properly be regarded as having been selected otherwise than as members of the public or (y) in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand (or any statutory modification or re-enactment of, or statutory substitution for, the Securities Act 1978 of New Zealand).

Portugal

The Dealers have represented and agreed that offers and sales, direct or indirect, of Debt Securities have not been and will not be made in Portugal except pursuant to an exemption from the registration requirements of the Portuguese Stock Exchange Law available thereunder, and in compliance with other relevant laws of Portugal.

Singapore

The Dealers have acknowledged that this Offering Circular has not been registered as a prospectus with the Registrar of Companies in Singapore. Accordingly, the Dealers have represented and agreed that they have not offered or sold, and will not offer or sell, any Debt Securities, nor will they circulate or distribute this Offering Circular or any other offering document or material relating to the Debt Securities, directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50 of Singapore, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Companies Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Companies Act.

Spain

The Dealers have acknowledged that this Offering Circular has not been registered with the *Comisión Nacional del Mercado de Valores*. Accordingly, the Dealers have represented and agreed that this Offering Circular has not been and will not be distributed in the Kingdom of Spain to any person. The Dealers also have represented and agreed that they have not offered or sold and will not offer or sell any Debt Securities to the public in Spain, and have not made and will not make any kind of advertisement of the Debt Securities to the public in Spain, except according to Spanish regulations regarding public offerings and issuance of securities (*Ofertas publicas de ventas y suscripciones de valores*). The Dealers also have acknowledged that the issuance of Debt Securities denominated in Spanish pesetas by a non-Spanish resident issuer requires prior notice to the *Dirección General del Tesoro y Política Financiera*.

Sweden

The Dealers have represented, warranted and agreed to and with Fannie Mae that such Dealer and its Affiliates have not offered or sold and will not offer or sell any Debt Securities to any investor in Sweden unless the minimum purchase by such investor is to be at least Swedish kronor 300,000 in aggregate principal amount of such Debt Securities, or the equivalent thereof in another currency.

Switzerland

The Dealers have represented, warranted and agreed to and with Fannie Mae that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in Switzerland, by means of any document, any Swiss franc denominated or Swiss franc related Debt Securities other than in compliance with the guidelines of the Swiss National Bank regarding the issue of Swiss franc denominated or Swiss franc related debt securities; such guidelines currently require the involvement of a bank domiciled in Switzerland that is regulated under the Federal Act on Banks of 1934 (as amended) or a securities dealer domiciled in Switzerland that is regulated under the Swiss Stock Exchange Act of 1997, acting as lead manager of the Swiss franc or Swiss franc related issue.

Taiwan

The Dealers have acknowledged that the Debt Securities have not and will not be registered under the Securities and Exchange Law of the Republic of China. Accordingly, the Dealers have represented and agreed that they have not made, and will not make, any offers, promotion, solicitation for sales and sales of any Debt Securities in Taiwan.

United Kingdom

The Dealers have represented and agreed as follows:

- (i) in relation to Debt Securities which have a maturity of one year or more, they have not offered or sold and, prior to six months after the issue date of such Debt Securities, will not offer

or sell any such Debt Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;

(ii) in relation to any Debt Securities which must be redeemed before the first anniversary of the date of their issue, (a) they are a person whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business and (b) they have not offered or sold and will not offer or sell any Debt Securities other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Debt Securities would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by Fannie Mae;

(iii) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of any Debt Securities in circumstances in which Section 21(1) of the FSMA does not apply to Fannie Mae; and

(iv) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to such Debt Securities in, from or otherwise involving the United Kingdom.

United States

Please see “Distribution of Benchmark Bills and Short-Term Notes—183 Day Notes Selling Restriction” in Appendix B to the Offering Circular for the selling restriction that applies to 183 Day Notes and “Targeted Registered Debt Securities—Selling Restrictions” in Appendix G to the Offering Circular for the selling restrictions that apply to Targeted Registered Securities.

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REDENOMINATION TO THE EURO

This Appendix is incorporated in and made a part of the Offering Circular.

The following provisions govern redenomination to the Euro of Debt Securities originally denominated in currencies expected to be replaced by the Euro, the new currency of the European economic and monetary union.

Definitions

The following definitions refer to terms used in this Appendix:

- “cent” means the sub-unit of the Euro (which is equal to 1/100 of a Euro).
- “Euro(s)” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.
- “Fixed Conversion Rate” means the fixed rate for the conversion of the Specified Payment Currency into Euro established by the Treaty.
- “Original Specified Payment Currency” means the original national currency unit of a Participating Member State in which a Debt Security is denominated and payable.
- “Participating Member State” means a member state of the European Union that adopts the Euro as its single currency in accordance with the Treaty.
- “Redenomination Notice” means the notice we will give to Holders and the applicable clearing system of our intention to redenominate an Original Specified Payment Currency to Euro.
- “Selected Redenomination Date” means the Interest Payment Date that is specified in a Redenomination Notice as the date on which redenomination of Debt Securities will occur.
- “Treaty” means the Treaty establishing the European Community, as amended.

Redenomination

With respect to any Debt Security originally denominated in an Original Specified Payment Currency, on the Selected Redenomination Date, we may change the currency unit in which these applicable Debt Securities (the “Applicable Debt Securities”) are denominated and payable from the Original Specified Payment Currency to the Euro. In order to change the currency unit, we must give the Holders of the Applicable Debt Securities and the applicable clearing system at least 30 days’ prior notice by sending the Redenomination Notice. We also will notify the Global Agent in writing of our intention to change the currency unit at least 45 days prior to the Selected Redenomination Date. We may change the currency unit, however, without the consent of the Holders or beneficial owners of the Applicable Debt Securities, the Global Agent, or the applicable clearing system.

The Redenomination Notice given by us will state the Selected Redenomination Date and describe the manner in which the redenomination will be effected. The Redenomination Notice also will describe the rounding convention to be used by us when redenominating the Applicable Debt Securities and the effect of that rounding convention. See “Description of the Debt Securities—Notices” for certain other general provisions regarding notices to Holders of Debt Securities.

If we elect to redenominate an issue of Applicable Debt Securities into Euro, we will redenominate all, not just a part, of the outstanding issue of Applicable Debt Securities. We will effect redenomination by converting the aggregate outstanding principal amount of the Applicable Debt Securities, as stated in the Original Specified Payment Currency, into Euro by using the Fixed Conversion Rate and

by rounding in compliance with rules regarding rounding set forth in applicable European Community regulations. However, if we determine, in consultation with the Global Agent, that the manner of the redenomination and/or rounding is not consistent with existing or anticipated market practice for the redenomination into Euro of debt obligations issued in the euromarket (regardless of the original currency in which the debt obligations were denominated) and held in any international clearing system, or is not practicable given the manner in which the Applicable Debt Securities are held and cleared through the applicable clearing system, we may, in consultation with the Global Agent, adopt another method which is, or we reasonably believe will be, so consistent or practicable.

Immediately after redenomination on the Selected Redenomination Date, Euro will be deemed the new Specified Payment Currency in which we will make payments of any amounts on the Applicable Debt Securities after the Selected Redenomination Date. On the Selected Redenomination Date, however, we may pay any interest or principal then due on the Debt Securities either in the Original Specified Payment Currency or in Euro, as we may decide in our sole discretion and as we will describe in the Redenomination Notice.

In the event that we do not redenominate Debt Securities denominated in an Original Specified Payment Currency prior to the end of the relevant transitional period, if any, the Treaty provides that references in the Debt Securities to the Original Specified Payment Currency will be deemed references to the Euro unit, according to the relevant Fixed Conversion Rate. The Redenomination Date may be after the end of the relevant transitional period, if any.

In connection with the redenomination that occurs on the Selected Redenomination Date, we may determine, in consultation with the Global Agent, that additional changes to the terms of the Applicable Debt Securities are advisable in order to conform the Applicable Debt Securities to conventions then applicable to the issue or trading of instruments denominated or payable in Euro (“Additional Conforming Changes”). The Additional Conforming Changes may include changes to Minimum Denominations and Additional Increments of the Applicable Debt Securities, accrual methods, the definition of “Business Day”, and/or certain other terms of the Applicable Debt Securities. We may amend and/or replace any related Applicable Debt Securities, definitive Debt Securities, and/or the Global Agency Agreement in order to reflect the changes described in the Redenomination Notice and all Additional Conforming Changes.

Any Additional Conforming Changes will not take effect until we have given at least 30 days prior notice to the Holders of the Applicable Debt Securities and the applicable clearing system and at least 45 days prior notice to the Global Agent (unless we and the Global Agent mutually agree to a shorter time for notice to the Global Agent).

Notwithstanding any provisions contained in this Offering Circular under “Description of the Debt Securities—Modification and Amendment”, we will be able to take all of the actions described in and contemplated by this section without the consent of any Holders or beneficial owners of the Applicable Debt Securities.

There is a discussion of the tax consequences of redenominating a Debt Security to Euro in this Offering Circular under “United States Taxation—U.S. Persons—Debt Securities with Payments Based on a Non-U.S. Currency—Conversion to the Euro.”

TARGETED REGISTERED DEBT SECURITIES

This Appendix is incorporated in and made a part of the Offering Circular. Except as set forth in this Appendix, the general description of Debt Securities set forth in the Offering Circular (and, if applicable, Appendix B) applies to Targeted Registered Securities.

Certain issues of Debt Securities (“Targeted Registered Securities”) may be “targeted to foreign markets” under U.S. tax regulations. These regulations generally do not allow Targeted Registered Securities, in connection with their original issuance, to be offered or sold to persons who are within the United States or its territories or possessions or to or for the account of U.S. Persons (as defined under “United States Taxation—U.S. Persons—In General”). Such regulations also require Holders, and in certain cases beneficial owners, of Targeted Registered Securities to comply with certain periodic certification requirements, including certification of non-U.S. beneficial ownership. In addition, these regulations generally prohibit the delivery of Debt Securities representing Targeted Registered Securities within the United States or its territories or possessions. Only the Dealers named in the Offering Circular (and those Dealers identified in an applicable Pricing Supplement to the Offering Circular relating to Targeted Registered Securities (the “Targeted Registered Supplement”) that have represented and warranted as to those matters summarized below and certain other matters) may offer or sell Targeted Registered Securities.

If we issue Targeted Registered Securities, special provisions applicable to such Targeted Registered Securities, including form, selling and transfer restrictions and tax considerations and certifications, will be described in the Targeted Registered Supplement and, in certain cases, any applicable Pricing Supplement. The combined offering document (as defined in the Targeted Registered Supplement) generally may not be distributed in the United States or to U.S. Persons. Targeted Registered Securities will only be issued as Global Book-Entry Securities.

Distribution of Targeted Registered Securities

No Dealer participating in the distribution of Targeted Registered Securities (whether as principal or agent) may allow any person (including an affiliate) to participate in the distribution of Targeted Registered Securities without our prior written consent and such person having entered into an agreement with us.

Selling Restrictions

If we issue Targeted Registered Securities, the Targeted Registered Supplement will describe the selling restrictions that apply to the Targeted Registered Securities. Each Dealer named in the Offering Circular has represented and agreed, and each Dealer identified in the Targeted Registered Supplement will have represented and agreed, as follows:

(1) that each Dealer will not offer or sell Targeted Registered Securities during a “restricted period,” as defined in U.S. tax regulations, to persons who are within the United States or its territories or possessions (with certain exceptions) or to or for the account of U.S. Persons (with certain exceptions) and

(2) that each Dealer has in effect procedures reasonably designed to ensure that its employees and agents who will be directly engaged in offering or selling the Targeted Registered Securities are aware of these selling restrictions.

You also should review the selling restrictions set forth in Appendix E to the Offering Circular.

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LOCATION OF DEFINED TERMS

Each term listed below is defined or explained in the Offering Circular or one of its Appendices on the page indicated.

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