

OFFERING CIRCULAR



20,000,000 SHARES 7.625% NON-CUMULATIVE PREFERRED STOCK SERIES R

Dividend Rate:	7.625% per annum
Payment Dates:	Quarterly; on each March 31, June 30, September 30, and December 31, beginning December 31, 2007, subject to the declaration of dividends by the Board of Directors in its discretion
Optional Redemption by Fannie Mae:	On or after November 21, 2012 at \$25 per share plus accrued dividends from the most recent payment date
Initial Public Offering Price:	\$25 per share plus accrued dividends (if any) from the Issue Date
Stated Value:	\$25 per share
Liquidation Preference:	\$25 per share plus accrued dividends from the most recent payment date
Issue Date:	November 21, 2007

We will apply to list the Preferred Stock on the New York Stock Exchange ("NYSE") under the symbol "FNMprR". If approved for listing, we expect trading on the NYSE to commence within a thirty-day period after the initial delivery of the Preferred Stock.

An investment in Preferred Stock involves risks for investors. It is important that you read the "Risk Factors" section beginning on page 6 of this Offering Circular, beginning on page 22 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and beginning on page 104 of our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007.

The obligations related to this Preferred Stock, including any dividend payments, are solely the obligation of Fannie Mae. The Preferred Stock is not guaranteed by, and is not a debt or obligation of, the United States or of any of its agencies or instrumentalities.

	Initial Public Offering Price(1)	Underwriting Discount	Proceeds to Fannie Mae(1)(2)
Per Share.....	\$25.00	\$0.25	\$24.75
Total(3).....	\$500,000,000	\$5,000,000	\$495,000,000

(1) Plus accrued dividends, if any, from November 21, 2007.

(2) Before deducting estimated expenses of \$ 500,000.

(3) Fannie Mae has granted the Underwriters a 30-day option to purchase up to an additional 3,000,000 shares of Preferred Stock at the Initial Public Offering Price less underwriting discounts for purposes of covering over-allotments, if any. If all such shares are purchased, the Initial Public Offering Price, Underwriting Discount and Proceeds to Fannie Mae will be \$575,000,000, \$5,750,000 and \$569,250,000, respectively. See "Underwriting".

The Underwriters expect to deliver the Preferred Stock in book-entry only form through the facilities of The Depository Trust Company against payment in New York, New York, on or about November 21, 2007.

Joint Book-Running Managers

LEHMAN BROTHERS

MORGAN STANLEY

Co-Managers

BEAR, STEARNS & CO. INC.

FTN FINANCIAL CAPITAL MARKETS

MORGAN KEEGAN & COMPANY, INC.

RBC CAPITAL MARKETS

SANDLER O'NEILL + PARTNERS, L.P.

VINING-SPARKS IBG, L.P.

The date of this Offering Circular is November 16, 2007

This Offering Circular relates to the offer of 20,000,000 shares (23,000,000 shares if the Underwriters exercise their over-allotment option in full) of the 7.625% Non-Cumulative Preferred Stock, Series R (the “Preferred Stock”) of the Federal National Mortgage Association (“Fannie Mae”).

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

In some jurisdictions it may be unlawful to distribute this Offering Circular or offer, sell, or deliver the Preferred Stock. Persons who distribute or receive this Offering Circular should know about and observe these restrictions.

Any dividends paid on the Preferred Stock will not be exempt from federal, state or local taxation. See “United States Taxation” beginning on page 25 of this Offering Circular.

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ADDITIONAL INFORMATION

You should read this Offering Circular (including the Certificate of Designation of Terms of 7.625% Non-Cumulative Preferred Stock, Series R, attached hereto as Exhibit A) together with:

- our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on August 16, 2007 (the “2006 10-K”);
- our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007, and September 30, 2007, filed with the SEC on November 9, 2007; and
- all proxy statements that we file with the SEC, and all documents that we file with the SEC pursuant to Section 13(a), 13(c) or 14 of the Exchange Act, after the date of this Offering Circular and prior to the termination of the offering of the Preferred Stock, excluding any information we “furnish” to the SEC on Form 8-K.

This Offering Circular incorporates these documents by reference, which means that we are disclosing information to you by referring to them rather than by providing you with separate copies. They are considered part of this Offering Circular and you should read them before you consider an investment in the Preferred Stock. We regularly update these disclosures, and you should rely only on the most up-to-date information.

Our common stock is registered with the SEC under the Exchange Act, and our SEC filings are available on our website at www.fanniemae.com and on the SEC’s website at www.sec.gov. We are referring these websites to you for your reference only, and we are not incorporating in this Offering Circular all of the information available on these websites. You should rely only on the information included or incorporated by reference or deemed to be incorporated by reference in this Offering Circular in deciding whether or not to invest in the Preferred Stock. We have not authorized anyone to provide you with any different or additional information.

You can obtain paper copies of this Offering Circular and the documents incorporated by reference herein without charge by contacting our Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington D.C. 20016, telephone: (202) 752-7115. You may also read and copy any document we file with or furnish to the SEC by visiting the SEC’s Public Reference Room at 100 F Street, NE, Washington D.C. 20549; telephone 1-800-SEC-0330 for further information. In addition, you may read our SEC filings at the offices of the New York Stock Exchange (“NYSE”), which is located at 20 Broad Street, New York, NY 10005.

SUMMARY OF THE OFFERING

This summary highlights select information about the Preferred Stock. You also should refer to the more detailed information contained elsewhere in this Offering Circular and in the documents incorporated by reference for information about us and the Preferred Stock.

Fannie Mae

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act. 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 Preferred Stock

Issuer	Fannie Mae
Securities Offered	20,000,000 shares (23,000,000 shares if the Underwriters exercise their over-allotment option in full) of 7.625% Non-Cumulative Preferred Stock, Series R, no par value, with a stated value of \$25 per share.
Dividends:	
Dividend Rate	7.625% per annum
Day Count Convention	30/360
Payment Dates	Quarterly; on each March 31, June 30, September 30, and December 31, beginning December 31, 2007, subject to the declaration of dividends by the Board of Directors in its sole discretion.
Calculation Agent	Fannie Mae
Preferences	The Preferred Stock will be entitled to a preference, both as to dividends and upon liquidation, over the common stock (and any other junior stock) of Fannie Mae. The Preferred Stock will rank equally, both as to dividends and upon liquidation, with all other currently outstanding series of Fannie Mae preferred stock.
Optional Redemption	On or after November 21, 2012, we may redeem the Preferred Stock, in whole or in part, at any time at our option at the redemption price of \$25 per share plus accrued dividends from the most recent Payment Date (whether or not declared but without accumulation of any undeclared dividends for prior periods). Holders of Preferred Stock will have no right to require the redemption of the Preferred Stock.

Liquidation Rights	In the event of any dissolution, liquidation or winding up of Fannie Mae, holders of the Preferred Stock will be entitled to receive, out of any assets available for distribution to preferred stockholders, \$25 per share plus accrued dividends from the most recent Payment Date (whether or not declared but without accumulation of any undeclared dividends for prior periods).
Voting Rights	None, except with respect to certain changes in the terms of the Preferred Stock.
Preemptive and Conversion Rights.....	None
Ratings	We expect that the Preferred Stock will be rated “AA–” (negative) by Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, “Aa3” (stable) by Moody’s Investors Service, Inc. and “AA–” by Fitch Ratings.
Use of Proceeds.....	To be added to the working capital of Fannie Mae and used for general corporate purposes.
Transfer Agent, Dividend Disbursing Agent and Registrar	Computershare Trust Company, N.A.
NYSE Listing.....	We will apply to list the Preferred Stock on the NYSE under the symbol “FNMprR”. If approved for listing, we expect trading on the NYSE to commence within a thirty-day period after the initial delivery of the Preferred Stock.
CUSIP Number	313586760

RISK FACTORS

Prospective investors in the Preferred Stock should carefully consider the risk factors set forth below, in our 2006 Form 10-K and in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 (the “Third Quarter 10-Q”), as well as all other information contained or incorporated by reference in this Offering Circular, in evaluating an investment in the Preferred Stock.

We Have Material Weaknesses and Other Control Deficiencies in Our Internal Controls

Management’s assessment of our internal control over financial reporting in our Third Quarter 10-Q identified two material weaknesses that require remediation. These material weaknesses could lead to errors in our reported financial results and could have a material adverse effect on our operations, investor confidence in our business and the trading prices of our securities. Past weaknesses and deficiencies prevented us from filing our periodic reports with the SEC in a timely fashion between November 2004 and November 2007. In the future, we may identify further material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date or that we believed had been remediated and would not reoccur. In addition, we cannot be certain that we will be able to maintain effective controls over our financial processes and reporting in the future.

Our Board May Be Restricted in Declaring or Decide Not to Declare Dividends

Dividends on the Preferred Stock are not mandatory. Our Charter Act restricts the ability of our Board of Directors to declare dividends in certain circumstances, depending on whether or not we meet or exceed certain capital standards set by the Office of Federal Housing Enterprise Oversight (“OFHEO”), our current federal safety and soundness regulator. In addition, our Board of Directors has the sole discretion to decide whether or not to declare dividends on our preferred or common stock notwithstanding our compliance with capital standards.

Current Market Trends May Continue to Adversely Affect Our Financial Condition, Results of Operations, and Market Share

As described in the Third Quarter 10-Q, our net income declined in the first nine months of 2007 due to derivatives fair value losses, a significant reduction in net interest income, significantly higher losses on certain guaranty contracts and a substantial increase in credit-related expenses. If some or all of the market trends that contributed to these results continue to negatively affect our net income, they will continue to cause a reduction in our retained earnings and, as a result, in the amount of our core capital. In order to maintain our statutory and OFHEO-directed minimum capital surplus, we may be required to take actions, or refrain from taking actions, to ensure that we maintain or increase our core capital. These actions have included, and in the future may include, selling assets at a time when we believe that it would be economically advantageous to continue to hold the assets and issuing additional equity securities, which in general is a more expensive method of funding our operations than issuing debt securities. Either of these actions may further reduce our net income. In addition, in order to remain in compliance with our regulatory capital requirements, we may be forced to limit or forego attractive opportunities to acquire assets, and we may lose market share as a result.

The Preferred Stock is Subordinated to Our Debt Securities

The Preferred Stock is subordinated to our debt securities. In particular, our outstanding subordinated debt securities provide that during any period where interest payments on those debt securities are deferred, dividend payments on our equity securities, including the Preferred Stock, may not be paid.

The Terms of the Preferred Stock will not be Adjusted for any Change to the Dividends-Received Deduction

No adjustment in respect of the amount of dividends payable on the Preferred Stock will be made in the event of a change to the dividends-received deduction under the Internal Revenue Code of 1986, as amended (the “Code”).

There May Be No Active Trading Market for the Preferred Stock

Prior to this issuance, there has been no trading market for the Preferred Stock, and there can be no assurance that an active market for the Preferred Stock will develop or be sustained in the future. We will apply to list the Preferred Stock on the NYSE, but there is no assurance that the Preferred Stock will be accepted for listing. If accepted for listing by the NYSE, we anticipate that trading will commence on the NYSE within a thirty-day period after the initial delivery of the Preferred Stock. We cannot assure you regarding the liquidity of, or trading market for, the Preferred Stock, and, if such a market does develop, the trading price of the Preferred Stock could widely fluctuate in response to variations in our operating results, general market conditions, interest rates, and other events or factors.

The Market Value of the Preferred Stock May Be Influenced By Unpredictable Factors

The market value of the Preferred Stock may fluctuate after the date of your purchase. Several factors, many of which are beyond the control of Fannie Mae, could influence the market value of the Preferred Stock. Some factors that may influence the market value of the Preferred Stock include: (i) our creditworthiness and rating of our securities; (ii) whether dividends are likely to be paid on the Preferred Stock from time to time; (iii) supply and demand of corporate issuances of preferred stock generally, and (iv) economic, financial, political, regulatory or judicial events that affect us or the financial markets or mortgage markets generally. Accordingly, if you sell your Preferred Stock in the secondary market, you may not be able to obtain a price equal to the price that you paid for the Preferred Stock.

Changes in General Market and Economic Conditions in the U.S. and Abroad May Adversely Affect Our Financial Condition and Results of Operations

Our financial condition and results of operations may be adversely affected by changes in general market and economic conditions in the U.S. and abroad. These conditions include short-term and long-term interest rates, the value of the U.S. dollar compared with the value of foreign currencies, fluctuations in both the debt and equity capital markets, employment growth and unemployment rates, and the strength of the U.S. national economy and local economies in the U.S. and economies of other countries with investors that hold our debt. These conditions are beyond our control, and may change suddenly and dramatically.

Changes in market and economic conditions could adversely affect us in many ways, including the following:

- fluctuations in the global debt and equity capital markets, including sudden and unexpected changes in short-term or long-term interest rates, could decrease the fair value of our mortgage assets, derivatives positions and other investments, negatively affect our ability to issue debt at attractive rates, and reduce our net interest income; and
- a recession or other economic downturn, or rising unemployment, in the U.S. as a whole or in specific regions of the country, could decrease homeowner demand for mortgage loans and increase the number of homeowners who become delinquent or default on their mortgage loans. An increase in delinquencies or defaults would likely result in a higher level of credit losses, which would reduce our earnings. Also, decreased homeowner demand for mortgage loans could reduce our guaranty fee income, net interest income and the fair value of our mortgage assets. A recession or other economic downturn could also increase the risk that our

counterparties will default on their obligations to us, resulting in an increase in our liabilities and a reduction in our earnings.

Recent Legislative and Regulatory Activity

As a federally chartered corporation, Fannie Mae is subject to Congressional legislation and oversight and regulation by various government agencies. We expect that the U.S. Congress will consider various bills in the House of Representatives and the Senate that address our business and regulatory environment. We cannot predict whether any legislation will be approved by Congress and signed into law by the President and, if so, the final form or effective date of such legislation or impact on us and our operations.

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 “Our Charter and Regulation of Our Activities” in our 2006 10-K for further information. We were established in 1938 as a United States government agency to provide stability and liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Our business operates within the U.S. residential mortgage market. The residential mortgage market comprises a major portion of the domestic capital markets and provides a vital source of financing for the housing segment of the U.S. economy, as well as one of the most important means for Americans to achieve their homeownership objectives. We operate an integrated business that contributes to providing liquidity to the U.S. residential mortgage market and increasing the availability and affordability of housing in the United States. See “Business” in our 2006 10-K for further information.

Our principal customers are lenders that operate within the primary mortgage market by originating mortgage loans for homebuyers and for current homeowners refinancing their existing mortgage loans. Lenders originating mortgages in the primary market often sell them in the secondary market in the form of loans or mortgage-related securities. We operate in the secondary market, where we securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities (“MBS”) and other mortgage-related securities and purchase mortgage loans (often referred to as “whole loans”) and mortgage related securities for our mortgage portfolio. By selling loans to us, lenders replenish their funds and, consequently, are able to make additional loans. Pursuant to the Charter Act, we do not lend money directly to consumers in the primary mortgage market.

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

USE OF PROCEEDS

We will add the net proceeds from the sale of the Preferred Stock 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 equity and debt securities. The amount and nature of such 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 mortgage-related securities we purchase, regulatory capital requirements, and general market conditions.

CAPITALIZATION

The following tables set forth our capitalization as of September 30, 2007, and our Stockholder's Equity table is adjusted to reflect the issuance of the Preferred Stock (before giving effect to the payment of estimated offering expenses and underwriting discount, and assuming that the Underwriters' over-allotment option is not exercised) and the issuance of our 6.75% Non-Cumulative Preferred Stock, Series Q in October 2007. This information should be read together with our unaudited condensed consolidated financial statements and other financial information set forth in the Third Quarter 10-Q.

As of September 30, 2007			
Maturities	Weighted Average Interest Rate(1)	Outstanding (Dollars in millions)	
Short-Term Borrowings			
Federal funds purchased and securities sold under agreements to repurchase.....	5.60%	\$	<u>1,645</u>
Fixed short-term debt:			
Discount notes	5.06%	\$	150,162
Foreign exchange discount notes	4.32		183
Other short-term debt.....	<u>5.15</u>		<u>2,124</u>
Total fixed short-term debt	5.06		152,469
Debt from consolidations.....	<u>5.35</u>		677
Total short-term debt	<u>5.06%</u>	\$	<u>153,146</u>
Long-Term Debt			
Senior fixed:			
Benchmark notes and bonds	2007-2030	5.11%	\$ 261,539
Medium-term notes.....	2007-2017	5.11	241,693
Foreign exchange notes and bonds	2007-2028	3.38	3,459
Other long-term debt.....	2007-2038	<u>6.01</u>	<u>68,655</u>
Total senior fixed.....	5.20		575,346
Senior floating:			
Medium-term notes.....	2007-2017	5.81	14,727
Other long-term debt	2022-2037	<u>6.80</u>	<u>924</u>
Total senior floating	5.87		15,651
Subordinated fixed:			
Medium-term notes.....	2008-2011	5.62	3,500
Other subordinated debt.....	2012-2019	<u>6.37</u>	<u>7,480</u>
Total subordinated fixed	6.13		10,980
Debt from consolidations.....	2007-2039	<u>5.84</u>	<u>6,642</u>
Total long-term debt(2).....	<u>5.25%</u>	\$	<u>608,619</u>
Other liabilities			36,330
Total liabilities			\$ <u>799,740</u>

(1) Includes discounts, premiums, and other cost basis adjustments.

(2) Reported amounts include a net premium and cost basis adjustment of \$12.4 billion as of September 30, 2007.

Stockholders' Equity

	Amount Issued and Outstanding as of September 30, 2007	As Adjusted	Annual Dividend Rate as of September 30, 2007	Redeemable on or After
	(Dollars in millions)			
Preferred Stock , 150,175,000 shares issued at September 30, 2007, 185,175,000 shares issued As Adjusted				
Series D, 3,000,000 shares issued September 30, 1998.....	\$ 150	\$ 150	5.250%	September 30, 1999
Series E, 3,000,000 shares issued April 15, 1999.....	150	150	5.100	April 15, 2004
Series F, 13,800,000 shares issued March 20, 2000.....	690	690	4.560 ⁽¹⁾	March 31, 2002 ⁽⁶⁾
Series G, 5,750,000 shares issued August 8, 2000.....	288	288	4.590 ⁽²⁾	September 30, 2002 ⁽⁶⁾
Series H, 8,000,000 shares issued April 6, 2001.....	400	400	5.810	April 6, 2006
Series I, 6,000,000 shares issued October 28, 2002.....	300	300	5.375	October 28, 2007
Series L, 6,900,000 shares issued April 29, 2003.....	345	345	5.125	April 29, 2008
Series M, 9,200,000 shares issued June 10, 2003.....	460	460	4.750	June 10, 2008
Series N, 4,500,000 shares issued September 25, 2003.....	225	225	5.500	September 25, 2008
Series O, 50,000,000 shares issued December 30, 2004.....	2,500	2,500	7.000 ⁽³⁾	December 31, 2007
Series 2004-1, 25,000 shares issued December 30, 2004....	2,500	2,500	5.375	January 5, 2008
Series P, 40,000,000 shares issued September 28, 2007.....	1,000	1,000	5.948 ⁽⁴⁾	September 30, 2012
Series Q, 15,000,000 shares issued October 4, 2007.....	—	375	6.75 ⁽⁵⁾	September 30, 2010
Series R, 20,000,000 shares issued November 21, 2007...	—	500	7.625 ⁽⁵⁾	November 21, 2012
Total	<u>\$ 9,008</u>	<u>\$ 9,883</u>		
Common Stock , 973,750,241 shares outstanding at September 30, 2007.....	\$ 593	\$ 593		
Additional paid-in capital	1,888	1,888		
Retained earnings.....	37,737	37,737		
Accumulated other comprehensive loss.....	(1,791)	(1,791)		
Treasury stock, at cost, 155,340,179 shares at September 30, 2007	<u>(7,513)</u>	<u>(7,513)</u>		
Total stockholders' equity	<u>\$ 39,922</u>	<u>\$ 40,797</u>		
Total liabilities and stockholders' equity	<u>\$ 839,783</u>	<u>\$ 840,658</u>		

- (1) Rate effective March 31, 2006. Variable dividend rate resets every two years at the two-year Constant Maturity U.S. Treasury Rate ("CMT") minus 0.16% with a cap of 11% per year. As of December 31, 2005, the annual dividend rate was 1.37%.
- (2) Rate effective September 30, 2006. Variable dividend rate resets every two years at the two-year CMT rate minus 0.18% with a cap of 11% per year. As of December 31, 2005, the annual dividend rate was 2.35%.
- (3) Rate effective December 31, 2006 and 2005. Variable dividend rate resets quarterly thereafter at the greater of 7.00% or the 10-year CMT rate plus 2.375%. As of September 30, 2007, the annual dividend rate was 7.00%.
- (4) Rate effective September 28, 2007 through December 31, 2007. Variable dividend rate resets quarterly thereafter at a per annum rate of 3-Month LIBOR plus 0.75%.
- (5) Reflects coupon rate at issuance.
- (6) Represents initial call date. Redeemable every two years thereafter.

We frequently issue debentures, notes, and other debt obligations, and from time to time we redeem such debt obligations. The amount of debentures, notes, other debt obligations outstanding, and stockholders' equity on any date subsequent to September 30, 2007 may differ from that shown in the table above.

SELECTED FINANCIAL INFORMATION

The following selected financial information has been summarized or derived from our audited financial statements from the 2006 Form 10-K and our unaudited condensed consolidated financial statements from the Third Quarter 10-Q and other financial information for such periods. The data should be read in conjunction with the audited financial statements and notes to financial statements contained in the 2006 10-K and the unaudited condensed consolidated financial statements and notes to financial statements contained in the Third Quarter 10-Q.

On any date after September 30, 2007, our financial information may differ from the data contained in this table. In conjunction with this financial information, you should also read the "Risk Factors" section of this Offering Circular, the 2006 10-K, and the Third Quarter 10-Q.

	For the Nine Months Ended		For the Year Ended		
	September 30, 2007	September 30, 2006	December 31, 2006	December 31, 2005	December 31, 2004
(Dollars and shares in millions, except per share amounts)					
<u>Income Statement Data:</u>					
Net interest income.....	\$ 3,445	\$ 5,407	\$ 6,752	\$ 11,505	\$ 18,081
Guaranty fee income(1).....	3,450	2,968	4,174	3,925	3,715
Derivative fair value losses, net.....	(891)	(854)	(1,522)	(4,196)	(12,256)
Other income (loss)(1)(2).....	449	(612)	(927)	(871)	(923)
Credit-related expenses(3).....	(2,039)	(457)	(783)	(428)	(363)
Income before extraordinary gains (losses).....	1,512	3,444	4,047	6,294	4,975
Extraordinary gains (losses), net of tax effect	(3)	11	12	53	(8)
Net income	1,509	3,455	4,059	6,347	4,967
Preferred stock dividends and issuance costs at redemption.....	(372)	(380)	(511)	(486)	(165)
Net income available to common stockholders.....	1,137	3,075	3,548	5,861	4,802
<u>Common Share Data:</u>					
Earnings per share:					
Basic	\$ 1.17	\$ 3.17	\$ 3.65	\$ 6.04	\$ 4.95
Diluted.....	1.17	3.16	3.65	6.01	4.94
Weighted-average common shares outstanding:					
Basic	973	971	971	970	970
Diluted.....	975	972	972	998	973
Cash dividends declared per common share	\$ 1.40	\$ 0.78	\$ 1.18	\$1.04	\$ 2.08
<u>New Business Acquisition Data:</u>					
Fannie Mae MBS issues acquired by third parties(4).....	\$ 407,962	\$ 308,371	\$ 417,471	\$ 465,632	\$ 462,542
Mortgage portfolio purchases(5)	134,407	150,340	185,507	146,640	262,647
New business acquisitions.....	<u>\$ 542,369</u>	<u>\$ 458,711</u>	<u>\$ 602,978</u>	<u>\$ 612,272</u>	<u>\$ 725,189</u>

	As of			
	September 30, 2007	December 31, 2006	December 31, 2005	December 31, 2004
	(Dollars in millions)			
Balance Sheet Data:				
Investments in securities:				
Trading.....	\$ 48,683	\$ 11,514	\$ 15,110	\$ 35,287
Available-for-sale	315,012	378,598	390,964	532,095
Mortgage loans:				
Loans held for sale	5,053	4,868	5,064	11,721
Loans held for investment, net of allowance	394,550	378,687	362,479	389,651
Total assets	839,783	843,936	834,168	1,020,934
Short-term debt	153,146	165,810	173,186	320,280
Long-term debt	608,619	601,236	590,824	632,831
Total liabilities	799,740	802,294	794,745	981,956
Preferred stock	9,008	9,108	9,108	9,108
Total stockholders' equity	39,922	41,506	39,302	38,902

	As of			
	September 30, 2007	December 31, 2006	December 31, 2005	December 31, 2004
	(Dollars in millions)			
Regulatory Capital Data:				
Core capital(6)	\$ 41,713	\$ 41,950	\$ 39,433	\$ 34,514
Total capital(7)	43,798	42,703	40,091	35,196

Mortgage Credit Book of Business Data:				
Mortgage portfolio(8)	\$ 728,578	\$ 728,932	\$ 737,889	\$ 917,209
Fannie Mae MBS held by third parties(9)	2,003,382	1,777,550	1,598,918	1,408,047
Other guarantees(10)	35,508	19,747	19,152	14,825
Mortgage credit book of business	<u>\$ 2,767,468</u>	<u>\$ 2,526,229</u>	<u>\$ 2,355,959</u>	<u>\$2,340,081</u>

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2007	2006	2006	2005	2004
Ratios:					
Return on assets ratio(11)*	0.18%	0.49%	0.42%	0.63%	0.47%
Return on equity ratio(12)*	4.8	13.1	11.3	19.5	16.6
Equity to assets ratio(13)*	4.8	4.8	4.8	4.2	3.5
Dividend payout ratio(14)*	120.4	24.7	32.4	17.2	42.1
Average effective guaranty fee rate (in basis points)(15)*	22.0 bp	20.9 bp	21.8 bp	21.8 bp	21.4 bp
Credit loss ratio (in basis points)(16)*	4.0 bp	1.8 bp	2.7 bp	1.9 bp	1.0 bp

- (1) Amounts for the nine months ended September 30, 2006 that previously were included as a component of "Fee and other income" have been reclassified to "Guaranty fee income" to conform to the current period presentation.
- (2) Consists of trust management income; investment gains (losses), net; debt extinguishment gains (losses), net; losses from partnership investments; and fee and other income.
- (3) Consists of provision for credit losses and foreclosed property expense.
- (4) Unpaid principal balance of Fannie Mae MBS issued and guaranteed by us and acquired by third party investors during the reporting period. Excludes securitizations of mortgage loans in our portfolio.
- (5) Unpaid principal balance of mortgage loans and mortgage-related securities we purchased for our investment portfolio during the reporting period. Includes advances to lenders and mortgage-related securities acquired through the extinguishment of debt.
- (6) The sum of (a) the stated value of outstanding common stock (common stock less treasury stock); (b) the stated value of outstanding non-cumulative perpetual preferred stock; (c) paid-in-capital; and (d) retained

earnings. Core capital excludes accumulated other comprehensive income (loss).

- (7) The sum of (a) core capital and (b) the total allowance for loan losses and reserve for guaranty losses, less (c) the specific loss allowance (that is, the allowance required on individually-impaired loans). Total capital has been provided as of June 30, 2007 (the most recent date for which the statutory risk-based capital measure is available).
- (8) Unpaid principal balance of mortgage loans and mortgage-related securities held in our portfolio.
- (9) Unpaid principal balance of Fannie Mae MBS held by third-party investors. The principal balance of securitized Fannie Mae MBS is included only once in the reported amount.
- (10) Includes single family and multifamily credit enhancements that we provide and that are not otherwise reflected in the table.
- (11) Annualized net income available to common stockholders divided by average total assets during the period.
- (12) Annualized net income available to common stockholders divided by average outstanding common equity during the period.
- (13) Average stockholders' equity divided by average total assets during the period.
- (14) Common dividend payments divided by net income available to common stockholders for the period.
- (15) Annualized guaranty fee income as a percentage of average outstanding Fannie Mae MBS and other guaranties during the period.
- (16) Annualized charge-offs, net of recoveries and annualized foreclosed property expense, as a percentage of the average total mortgage credit book of business during the period. Effective January 1, 2007, we have excluded any initial losses recorded pursuant to Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, on loans purchased from trusts from our credit losses when the purchase price of delinquent loans that we purchase from Fannie Mae MBS trusts exceeds the fair value of the loans at the time of purchase. We have revised our presentation of credit losses for the three and nine months ended September 30, 2006 to conform to the current period presentation. Refer to "Risk Management—Credit Risk Management—Mortgage Credit Risk Management—Credit Losses" in the Third Quarter 10-Q for more information regarding this change in presentation.

Note:

* Average balances for purposes of the ratio calculations are based on beginning and end of period balances, respectively.

PREVIOUS ISSUANCES OF PREFERRED STOCK

We are authorized by the Charter Act to have preferred stock on such terms and conditions as our Board of Directors may prescribe. Effective October 16, 2007, our Board of Directors amended our bylaws to authorize us to issue up to 700,000,000 shares of preferred stock. To date, we have issued the following:

- on March 1, 1996, 7,500,000 shares of 6.41% Non-Cumulative Preferred Stock, Series A (stated value \$50 per share) (the “Series A Preferred Stock”);
- on April 12, 1996, 7,500,000 shares of 6.50% Non-Cumulative Preferred Stock, Series B (stated value \$50 per share) (the “Series B Preferred Stock”);
- on September 20, 1996, 5,000,000 shares of 6.45% Non-Cumulative Preferred Stock, Series C (stated value \$50 per share) (the “Series C Preferred Stock”);
- on September 30, 1998, 3,000,000 shares of 5.25% Non-Cumulative Preferred Stock, Series D (stated value \$50 per share) (the “Series D Preferred Stock”);
- on April 15, 1999, 3,000,000 shares of 5.10% Non-Cumulative Preferred Stock, Series E (stated value \$50 per share) (the “Series E Preferred Stock”);
- on March 20, 2000, 13,800,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series F (stated value \$50 per share) (the “Series F Preferred Stock”);
- on August 8, 2000, 5,750,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series G (stated value \$50 per share) (the “Series G Preferred Stock”);
- on April 6, 2001, 8,000,000 shares of 5.81% Non-Cumulative Preferred Stock, Series H (stated value \$50 per share) (the “Series H Preferred Stock”);
- on October 28, 2002, 6,000,000 shares of 5.375% Non-Cumulative Preferred Stock, Series I (stated value \$50 per share) (the “Series I Preferred Stock”);
- on November 26, 2002, 14,000,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series J (stated value \$50 per share) (the “Series J Preferred Stock”);
- on March 18, 2003, 8,000,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series K (stated value \$50 per share) (the “Series K Preferred Stock”);
- on April 29, 2003, 6,900,000 shares of 5.125% Non-Cumulative Preferred Stock, Series L (stated value \$50 per share) (the “Series L Preferred Stock”);
- on June 10, 2003, 9,200,000 shares of 4.75% Non-Cumulative Preferred Stock, Series M (stated value \$50 per share) (the “Series M Preferred Stock”);
- on September 25, 2003, 4,500,000 shares of 5.50% Non-Cumulative Preferred Stock, Series N (stated value \$50 per share) (the “Series N Preferred Stock”);
- on December 30, 2004, 25,000 shares of Non-Cumulative Convertible Preferred Stock, Series 2004-1 (stated value \$100,000 per share) (the “Series 2004-1 Preferred Stock”);

- on December 30, 2004, 50,000,000 shares of Non-Cumulative Preferred Stock, Series O (stated value \$50 per share) (the “Series O Preferred Stock”);
- on September 28, 2007, 40,000,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series P (stated value \$25 per share) (the “Series P Preferred Stock”); and
- on October 4, 2007, 15,000,000 shares of 6.75% Non-Cumulative Preferred Stock, Series Q (stated value \$25 per share) (the “Series Q Preferred Stock”).

We redeemed all of our outstanding Series A Preferred Stock on March 1, 2001, all of our outstanding Series B Preferred Stock on February 28, 2002, all of our outstanding Series C Preferred Stock on July 31, 2002, all of our outstanding Series J Preferred Stock on February 28, 2007, and all of our outstanding Series K Preferred Stock on April 2, 2007. In this Offering Circular, we collectively refer to the Series D Preferred Stock through Series I Preferred Stock, the Series L Preferred Stock through the Series Q Preferred Stock and the 2004-1 Preferred Stock as the “Outstanding Preferred Stock.”

DESCRIPTION OF THE PREFERRED STOCK

General

The Preferred Stock will have the terms set forth in the Certificate of Designation of Terms of 7.625% Non-Cumulative Preferred Stock, Series R (the “Certificate of Designation”) attached as Exhibit A to this Offering Circular.

A duly authorized committee of our Board of Directors will authorize us to issue the Preferred Stock. Without the consent of the holders of the Preferred Stock, the Board may increase the authorized number of shares of Preferred Stock and “re-open” this series at any time by issuing additional shares of the Preferred Stock at prices to be determined at that time.

Computershare Trust Company, N.A., will be the transfer agent, dividend disbursing agent, and registrar for the shares of Preferred Stock.

The obligations of Fannie Mae under the terms of the Preferred Stock are obligations of Fannie Mae only and are not those of the United States or of any agency or instrumentality thereof.

Dividends

Dividends on shares of the Preferred Stock will not be mandatory. If you own shares of the Preferred Stock you will be entitled to receive non-cumulative, quarterly cash dividends that will accrue from and including November 21, 2007 and will be payable on March 31, June 30, September 30, and December 31 of each year (each a “Dividend Payment Date”), beginning December 31, 2007. Dividends on the shares of the Preferred Stock accrue at an annual rate of 7.625% per share. However, dividends are payable only if declared by our Board of Directors (or a designated committee of the Board) in its sole discretion, out of funds legally available for dividend payments. Dividends that are not declared for a Dividend Payment Date will not accrue on the Preferred Stock. The ability of the Board of Directors to declare dividends may be restricted by OFHEO.

If a Dividend Payment Date is not a Business Day, we will pay dividends (if declared) on the Preferred Stock on the next Business Day, without interest from that Dividend Payment Date to the date of actual payment. A “Business Day” is any day other than a Saturday, Sunday, or other day on which banking institutions in New York, New York are authorized or required by law to close. We will make dividend payments to holders of record on the record date established by our Board of Directors, which will be no earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date.

If declared, the initial dividend, which will be for the period from and including the original date of issuance to but excluding December 31, 2007, will be \$0.2118 per share and will be payable on December 31, 2007. Thereafter, the “Dividend Period” relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the related Dividend Payment Date. If declared, quarterly dividends for each full Dividend Period will be \$0.4766 per share. We will compute dividends payable on the Preferred Stock for any period less than a full Dividend Period on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Preferred Stock for each full Dividend Period will be computed by dividing the per annum dividend rate by four, and multiplying the result by the stated value per share of \$25, the product of which will be rounded to the fourth digit after the decimal point (if the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one).

No adjustment in respect of the amount of dividends payable on the Preferred Stock will be made in the event of a change to the dividends-received deduction under the Code.

Preferences and Limitations

The Preferred Stock will rank prior to our common stock with respect to the payment of dividends as set forth in the Certificate of Designation. As a result, unless dividends have been declared and paid or set apart on the Preferred Stock for the then-current quarterly Dividend Period, no dividend may be declared or paid or set apart for payment on our common stock (or on any other stock ranking junior to the Preferred Stock). The Preferred Stock will rank equally with respect to dividends with our Outstanding Preferred Stock.

Dividends on the Preferred Stock will not be cumulative. If we do not pay a dividend on the Preferred Stock, you will have no claim in respect of such non-payment so long as no dividend is paid on our common stock, any of our other stock ranking junior to the Preferred Stock or any of the Outstanding Preferred Stock for the then-current quarterly Dividend Period. When dividends are not paid in full upon the Preferred Stock and our Outstanding Preferred Stock and any other stock of equal priority as to the payment of dividends, all dividends declared upon shares of the Preferred Stock and our Outstanding Preferred Stock and any other stock of equal priority as to the payment of dividends will be declared pro rata so that the amount of dividends declared thereon will in all cases bear to each other the same ratio that accrued dividends per share of Preferred Stock (but without accumulation of any undeclared dividends for prior periods) and such other stock bear to each other.

Our Board of Directors may, in its discretion, choose to pay dividends on the Preferred Stock without the payment of any dividends on our common stock.

No dividends may be declared or paid or set apart for payment on any shares of the Preferred Stock if at the same time any default exists in the payment of dividends on any outstanding class or series of our stock ranking prior to the Preferred Stock with respect to the payment of dividends. There is currently no class or series of our stock which ranks prior to the Preferred Stock with respect to the payment of dividends. Additionally, during periods when we defer payment of interest on our subordinated debt securities, we are not permitted to declare or pay dividends, or redeem, purchase, or acquire, any shares of the Preferred Stock or any of the Outstanding Preferred Stock.

As a holder of Preferred Stock, you will not be entitled to any dividends, whether payable in cash or property, other than as described above and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

See also “Regulatory Capital Matters” on page 21 of this Offering Circular for a description of certain regulatory restrictions on our payment of dividends.

Optional Redemption

The Preferred Stock will not be redeemable prior to November 21, 2012. At any time on or after that date, we may redeem the Preferred Stock, in whole or in part, out of legally available funds. The redemption price will be \$25 per share plus an amount equal to the dividend for the then-current quarterly Dividend Period (whether or not declared but without accumulation of any undeclared dividends for prior periods) accrued to but excluding the date of redemption. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point (if the fifth digit to the right of the decimal point is a five or greater, the fourth digit will be rounded up by one). If we redeem less than all of the outstanding shares of the Preferred Stock, we will select shares to be redeemed by lot or pro rata (as nearly as possible) or by any other method that we deem equitable.

We will give notice of any such redemption by written or electronic means to holders of Preferred Stock not less than 30 days before the redemption date. Each notice will state the number of shares of Preferred Stock to be redeemed, the redemption price, the redemption date and the place at which Preferred Stock certificates should be presented for redemption.

On and after the redemption date, dividends on the Preferred Stock called for redemption will cease to accrue and the Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the holders of those shares shall cease, except for the right to receive the redemption amount.

Holders of the Preferred Stock will have no right to require Fannie Mae to redeem the Preferred Stock.

Liquidation Rights

If we voluntarily or involuntarily dissolve, liquidate or wind-up our business, then, after payment or provision for our liabilities to creditors and the expenses of such dissolution, liquidation or winding up, the holders of the outstanding shares of the Preferred Stock will be entitled to receive, out of assets available for distribution to stockholders, the amount of \$25 per share plus an amount equal to the dividend for the then-current quarterly Dividend Period (whether or not declared but without accumulation of any undeclared dividends for prior periods) accrued to but excluding the liquidation date before any payment or distribution of assets is made to holders of our common stock or any of our other stock ranking junior to the Preferred Stock. If our assets available for distribution in such event are insufficient to pay in full all of the holders of the Preferred Stock and our Outstanding Preferred Stock and any other stock of equal priority upon liquidation, then the assets will be distributed pro rata, based on the respective preferential amounts of such preferred stock.

Notwithstanding the foregoing, holders of Preferred Stock will not be entitled to be paid any amount in respect of our dissolution, liquidation or winding up until holders of our debt securities and any class or series of our stock ranking prior to the Preferred Stock have been paid all amounts to which such classes or series are entitled. There is currently no class or series of our stock ranking prior to the Preferred Stock with respect to liquidation rights.

Neither the sale of all or substantially all of our property and assets, nor our merger, consolidation or business combination into or with any other entity, shall be deemed to be a dissolution, liquidation or winding up of Fannie Mae for the purposes of these provisions on liquidation rights.

Additional Preferred Stock

We have the right to issue additional shares of Preferred Stock and to issue additional classes or series of preferred stock that rank prior to, on parity with, or junior to the Preferred Stock with respect to dividends, liquidation rights, or otherwise, without the consent of the holders of the Preferred Stock.

No Voting Rights; Amendments

Except as described below, holders of Preferred Stock will not have voting rights.

Without the consent of the holders of the Preferred Stock, we will have the right to amend the Certificate of Designation to cure any ambiguity, correct or supplement any term which may be defective or inconsistent with any other term or to make any other provisions so long as the amendment does not materially and adversely affect the interest of the holders of the Preferred Stock. Increasing the authorized amount of the Preferred Stock or issuing a series of preferred stock ranking prior to, on parity with, or junior to the Preferred Stock will not be deemed to be materially and adversely affecting the interests of the holders of the Preferred Stock.

Otherwise, we may only amend the Certificate of Designation with the consent of the holders of at least two-thirds of the outstanding shares of the Preferred Stock, with each holder being entitled to one vote per share.

No Preemptive Rights and No Conversion

Holders of Preferred Stock will not have any preemptive rights to purchase or subscribe for any other shares, rights, options or other securities of Fannie Mae, and will not have the right to convert or exchange their shares of Preferred Stock into any other Fannie Mae securities.

New York Stock Exchange Listing

We will apply to list the Preferred Stock on the NYSE under the symbol “FNMprR”. If approved for listing, we expect trading of the Preferred Stock on the NYSE to commence within a thirty-day period after the initial delivery of the Preferred Stock.

REGULATORY CAPITAL MATTERS

General

We are subject to capital adequacy requirements established by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the “1992 Act”). OFHEO monitors our performance with respect to our regulatory capital standards by classifying our capital adequacy not less than quarterly.

The following are the relevant capital classification definitions and requirements:

Core Capital

“Core capital” is defined as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of our outstanding preferred stock, paid-in capital, and retained earnings. Core capital excludes accumulated other comprehensive income (loss).

Total Capital

“Total capital” is defined as the sum of our core capital and our total allowance for loan losses and reserve for guaranty losses, less the specific loan allowance (that is, the allowance required on individually-impaired loans).

Minimum Capital Requirements

OFHEO’s minimum capital standard ties our capital requirements to the size of our book of business. For purposes of the statutory minimum capital requirement, we are in compliance if our core capital equals or exceeds our minimum capital requirement.

Our statutory minimum capital requirement is generally equal to the sum of:

- 2.50% of on-balance sheet assets;
- 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and
- up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

Each quarter, as part of its capital classification announcement, OFHEO publishes our standing relative to the statutory minimum capital requirement and the OFHEO-directed minimum capital requirement, which is defined as a 30% surplus over the statutory minimum capital requirement.

Critical Capital Requirement

The critical capital standard requires us to hold an amount of core capital that is generally equal to the sum of (i) 1.25% of aggregate on-balance sheet assets, (ii) 0.25% of the sum of outstanding Fannie Mae MBS held by third parties, and (iii) up to 0.25% of other aggregate off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

Risk-Based Capital Requirement

OFHEO’s risk-based capital standard ties our capital requirements to the risk in our book of business, as measured by a stress test model. The stress test simulates our financial performance over a ten-year period of severe economic conditions characterized by both extreme interest rate movements and

high mortgage default rates. Simulation results indicate the amount of capital required to survive this prolonged period of economic stress without new business or active risk management action. In addition to this model-based amount, the risk-based capital requirement includes a 30% surcharge to cover unspecified management and operations risks. Our total capital base is used to meet our risk-based capital requirement.

Each quarter, OFHEO runs a detailed profile of our book of business through the stress test simulation model. The model generates cash flows and financial statements to evaluate our risk and measure our capital adequacy during the ten-year stress horizon. As part of its quarterly capital classification announcement, OFHEO makes these stress test results publicly available.

Classification and Dividends

The statutory capital framework incorporates two different assessments of capital- a minimum capital requirement and a risk based capital requirement. The 1992 Act requires us to maintain sufficient capital to meet both of these requirements in order to be classified as “adequately capitalized.” OFHEO is permitted or required to take remedial action if we fail to meet our capital requirements, depending on which requirement we fail to meet. Even if we meet our capital requirements, OFHEO has the ability to take certain actions if it determines that we are engaging in unapproved conduct that could result in a rapid depletion of our core capital, or if the value of the property securing mortgage loans we hold or have securitized has decreased significantly. In addition, under the OFHEO consent order, we are currently required to maintain a 30% capital surplus over our statutory minimum capital requirement. See “Capital Restoration Plan and OFHEO-Directed Minimum Capital Requirement” in our 2006 10-K.

We are subject to continuous examination by OFHEO to ensure that we are operating in a safe and sound manner. If we fail to meet the risk-based capital standard but meet the minimum capital standard, we cannot be classified higher than “undercapitalized.” If we fail to meet the risk-based capital standard and the minimum capital requirement, but exceed the critical capital requirement, we cannot be classified higher than “significantly undercapitalized.” If we fail to meet the risk-based capital standard and the critical capital standard, we must be classified as “critically undercapitalized.”

When we are classified as adequately capitalized, we generally can pay a dividend on our common or preferred stock or make other capital distributions (which includes common stock repurchases and preferred stock redemptions) without prior OFHEO approval, so long as the payment would not decrease total capital to an amount less than our risk-based capital requirement and would not decrease our core capital to an amount less than our minimum capital requirement. However, because we are currently subject to the OFHEO consent order, we are required to obtain OFHEO’s prior approval of certain capital transactions that could have the effect of reducing our capital surplus below an amount equal to 30% more than our statutory minimum capital requirement. Additionally, under the OFHEO consent order, we are required to submit a written report to OFHEO detailing the rationale and process for any proposed capital distribution prior to making such distribution.

If we were classified as undercapitalized, we would be prohibited from making a capital distribution that would result in our being reclassified as significantly undercapitalized or critically undercapitalized. We also would be required to submit a capital restoration plan for OFHEO approval, which could adversely affect our ability to make capital distributions.

If we were classified as significantly undercapitalized, we would be prohibited from making any capital distribution that would result in our being reclassified as critically undercapitalized. We would otherwise be able to make a capital distribution only if OFHEO determined that the distribution would: (a) enhance our ability to meet the risk-based capital standard and the minimum capital standard promptly; (b) contribute to our long-term financial safety and soundness; or (c) otherwise be in the public interest. Also under this classification, OFHEO could take action to limit our growth, require us to acquire new capital or restrict us from activities that create excessive risk. We also would be required to submit a

capital restoration plan for OFHEO approval, which could adversely affect our ability to make capital distributions.

If we were classified as critically undercapitalized, OFHEO would be required to appoint a conservator for us, unless OFHEO made a written finding that such appointment could have certain serious adverse effects and the public interest would be better served with other enforcement actions and the Secretary of the Treasury concurred in that determination. We would be able to make a capital distribution only if OFHEO determined that the distribution would: (a) enhance our ability to meet the risk-based capital standard and the minimum capital standard promptly; (b) contribute to our long-term financial safety and soundness; or (c) otherwise be in the public interest.

Performance Against Capital Standards

To ensure compliance with each of our regulatory capital requirements, we maintain different levels of capital surplus for each capital requirement. Quarterly changes in economic conditions (such as interest rates, spreads and home prices) can materially impact the calculated risk-based capital requirement, as was the case in 2006. As a consequence, we generally seek to maintain a larger surplus over the risk-based capital requirement to ensure continued compliance.

While we are able to reasonably estimate the size of our book of business and therefore our minimum capital requirement, the amount of our reported core capital holdings at each period end is less certain. Changes in the fair value of our derivatives may result in significant fluctuations in our capital holdings from period to period. Accordingly, we target a surplus above the statutory minimum capital requirement and OFHEO-directed minimum capital requirement to accommodate a wide range of possible valuation changes that might adversely impact our core capital base.

The table below displays our regulatory capital classification measures as of September 30, 2007 and December 31, 2006.

	As of	
	September 30, 2007(1)	December 31, 2006
	(Dollars in millions)	
Core capital(2)	\$41,713	\$41,950
Statutory minimum capital(3)	30,303	29,359
Surplus of core capital over required minimum capital	<u>11,410</u>	<u>12,591</u>
Surplus of core capital percentage over required minimum capital(4)	37.7%	42.9%
Core capital(2)	\$41,713	\$41,950
OFHEO-directed minimum capital(5)	39,393	38,166
Surplus of core capital over OFHEO-directed minimum capital	<u>2,319</u>	<u>3,784</u>
Surplus of core capital percentage over OFHEO-directed minimum capital(6)	5.9%	9.9%
Total capital(7)	\$43,798	\$42,703
Statutory risk-based capital(8)	10,225	26,870
Surplus of total capital over required risk-based capital	<u>\$33,573</u>	<u>\$15,833</u>
Surplus of total capital percentage over required risk-based capital(9)	328.3%	58.9%
Core capital(2)	\$41,713	\$41,950
Statutory critical capital(10)	15,682	15,149
Surplus of core capital over required critical capital	<u>\$26,031</u>	<u>\$26,801</u>
Surplus of core capital percentage over required critical capital(11)	166.0%	176.9%

(1) Statutory risk-based capital and total capital measures have been provided as of June 30, 2007 (the most recent date for which the statutory risk-based capital measure is available) and December 31, 2006. The regulatory capital classification measures as of September 30, 2007 provided in this table represent amounts that have been submitted to OFHEO for their certification and are subject to their review and approval. They do not

represent OFHEO's announced capital classification measures.

- (2) The sum of (a) the stated value of our outstanding common stock (common stock less treasury stock); (b) the stated value of our outstanding non-cumulative perpetual preferred stock; (c) our paid-in capital; and (d) our retained earnings. Core capital excludes AOCI (loss).
- (3) Generally, the sum of (a) 2.50% of on-balance sheet assets; (b) 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (c) up to 0.45% 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).
- (4) Defined as the surplus of core capital over statutory minimum capital expressed as a percentage of statutory minimum capital.
- (5) This requirement was effective as of September 30, 2005, and is defined as a 30% surplus over the statutory minimum capital requirement. We are currently required to maintain this surplus under the OFHEO consent order until such time as the Director of OFHEO determines that the requirement should be modified or allowed to expire, taking into account factors such as the resolution of accounting and internal control issues.
- (6) Defined as the surplus of core capital over the OFHEO-directed minimum capital expressed as a percentage of the OFHEO-directed minimum capital.
- (7) The sum of (a) core capital and (b) the total allowance for loan losses and reserve for guaranty losses, less (c) the specific loss allowance (that is, the allowance required on individually-impaired loans). The specific loss allowance totaled \$51 million as of June 30, 2007 and \$106 million as of December 31, 2006.
- (8) Defined as the amount of total capital required to be held to absorb projected losses flowing from future adverse interest rate and credit risk conditions specified by statute (see 12 CFR 1750.13 for conditions), plus 30% mandated by statute to cover management and operations risk.
- (9) Defined as the surplus of total capital over statutory risk-based capital expressed as a percentage of statutory risk based capital.
- (10) Generally, the sum of (a) 1.25% of on-balance sheet assets; (b) 0.25% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (c) up to 0.25% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.
- (11) Defined as the surplus of core capital over statutory critical capital, expressed as a percentage of statutory critical capital.

For each quarter of 2005 and 2006, we have been classified by OFHEO as adequately capitalized. On September 27, 2007, OFHEO announced that we were classified as adequately capitalized as of June 30, 2007 (the most recent quarter for which OFHEO has published its capital classification). Because we have not yet prepared audited consolidated financial statements for any periods after December 31, 2006, OFHEO's capital classifications for periods after December 31, 2006 are based on our estimates of our financial condition as of those periods and remain subject to revision.

LEGALITY OF INVESTMENT

You should consult with your own legal advisors to determine whether the shares of Preferred Stock constitute legal investments for you, any investment limitations, and whether the Preferred Stock is eligible to be used as collateral for borrowings. In addition, financial institutions should consult their legal advisors or regulators in determining the appropriate treatment of the shares of Preferred Stock under risk-based capital or similar rules. 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 or pledging shares of the Preferred Stock.

UNITED STATES TAXATION

The Preferred Stock and payments thereon generally are subject to taxation. Therefore, you should consider the tax consequences of owning Preferred Stock before acquiring it.

In the opinion of Dewey & LeBoeuf LLP, our special tax counsel, the following discussion correctly describes the principal aspects of the U.S. federal income tax treatment of U.S. Persons (as defined below) that are beneficial holders of the Preferred Stock (“Shareholders”). This discussion does not address the U.S. federal income tax treatment of Shareholders that are not U.S. Persons. This discussion is based on the Code, its legislative history, existing and proposed Treasury regulations, revenue rulings and judicial decisions, changes to any of which subsequent to the date of this Offering Circular may affect, possibly on a retroactive basis, the tax consequences described herein.

The discussion contained under this heading was not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. This discussion was written to support the promotion or marketing of the transactions or matters addressed in this Offering Circular. You should seek advice based on your particular circumstances from an independent tax advisor.

This summary discusses only the Preferred Stock purchased in this offering and held as a capital asset (within the meaning of federal tax law). This discussion does not purport to address all of the U.S. federal income tax consequences that may be applicable to particular investors in light of their individual circumstances or to Shareholders subject to special rules, such as dealers in securities, tax-exempt organizations, life insurance companies, persons liable for alternative minimum tax, persons that hold the Preferred Stock as part of a straddle or a hedging or conversion transaction, certain financial institutions and certain securities traders. In addition, this discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction. In all cases, investors are advised to consult their own tax advisors regarding the U.S. federal tax consequences to them of holding, owning and disposing of Preferred Stock, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

For purposes of this discussion, “U.S. Person” generally means (1) a citizen or individual resident of the United States, (2) a corporation, partnership, or other entity treated as a corporation or partnership for United States federal income tax purposes organized in or under the laws of the United States, any State thereof or the District of Columbia (unless, in the case of a partnership, Treasury regulations provide otherwise), (3) an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source, or (4) 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.

Dividends

Dividends declared and paid on the Preferred Stock will be dividends for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined for federal income tax purposes, and, except as described below, will be taxable as ordinary income. Although we expect that our current and accumulated earnings and profits will be such that all dividends paid with respect to the Preferred Stock will qualify as dividends for federal income tax purposes, we cannot guarantee that result. Our accumulated earnings and profits and our current earnings and profits in future years will depend in significant part on our future profits or losses, which we cannot accurately predict. To the extent that the amount of any dividend paid on a share of Preferred Stock exceeds our current or accumulated earnings and profits for federal income tax purposes attributable to that share, the dividend will be treated first as a return of capital (rather than as ordinary income) and will be applied against and reduce the Shareholder’s adjusted tax basis in that share of Preferred Stock. The amount of any such dividend in excess of the Shareholder’s adjusted tax basis will then be taxed as capital gain. For purposes of the remainder of this discussion, it is assumed that dividends paid with respect to the Preferred Stock will constitute dividends for U.S. federal income tax purposes.

Dividends received by Shareholders that are corporations generally will be eligible for the 70-percent dividends-received deduction under section 243 of the Code. The 70-percent dividends-received deduction will not be available with respect to a dividend received on Preferred Stock that a Shareholder has held for 45 days or less (including the day of disposition, but excluding the day of acquisition) during the 90-day period beginning on the day which is 45 days before the date on which the Preferred Stock becomes ex-dividend. The length of time that a corporate Shareholder is deemed to have held stock for these purposes is reduced by periods during which the Shareholder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales or other similar transactions. The aggregate dividends-received deduction allowed a corporate Shareholder cannot exceed 70 percent of its taxable income (with certain adjustments). Moreover, the dividends-received deduction may be reduced if the stock is "debt financed." Stock is "debt financed" if a corporate Shareholder incurs indebtedness "directly attributable" to a "portfolio stock" investment in another company, which would include an investment in the Preferred Stock.

Individual U.S. Shareholders generally are subject to a reduced maximum tax rate of 15 percent on dividends received in taxable years beginning on or before December 31, 2010, after which date the rate applicable to dividends is scheduled to return to the rate generally applicable to ordinary income. The rate reduction does not apply to dividends received to the extent that the individual U.S. holder elects to treat the dividends as "investment income," which may be offset against investment expense. Furthermore, the rate reduction does not apply to dividends that are paid to Shareholders with respect to Preferred Stock that is held by the Shareholder for 60 days or less during the 120-day period beginning on the date which is 60 days before the date on which the Preferred Stock becomes ex-dividend. The length of time that a Shareholder is deemed to have held stock for these purposes is reduced by periods during which the Shareholder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales or other similar transactions. Investors are advised to consult their own tax advisors regarding the implications of these rules in light of their particular circumstances.

Dispositions, Including Redemptions

Any sale, exchange, redemption (except as discussed below) or other disposition of the Preferred Stock generally will result in taxable gain or loss equal to the difference between the amount realized upon the disposition and the Shareholder's adjusted tax basis in the Preferred Stock. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period for the Preferred Stock exceeds one year. Tax rates on capital gain for individual Shareholders vary depending on each Shareholder's income and holding period for the Preferred Stock. Individual U.S. Shareholders are subject to a reduced maximum tax rate of 15 percent on long term capital gain realized in taxable years beginning on or before December 31, 2010, after which date the maximum rate is scheduled to return to the rate generally applicable to long term capital gains. Shareholders that are individuals should contact their own tax advisors for more information or for the capital gains tax rate applicable to specific shares of Preferred Stock. The deduction of capital losses is subject to certain limitations.

A redemption of Preferred Stock may be treated as a dividend, rather than as payment in exchange for the Preferred Stock, unless (i) the redemption is "not essentially equivalent to a dividend" with respect to the Shareholder within the meaning of section 302(b)(1) of the Code; or (ii) "is in complete redemption of all of the stock" of Fannie Mae held by the Shareholder as described in section 302(b)(3) of the Code; or (iii) otherwise meets the requirements of one of the other exceptions from dividend treatment provided in section 302(b) of the Code. In applying these rules, the Shareholder must take into account not only the Preferred Stock and our other stock that it owns directly, but also the Preferred Stock and our other stock that it constructively owns within the meaning of section 318 of the Code. Because of the complex nature of these rules, each Shareholder should consult its tax advisor to determine whether a redemption of Preferred Stock will be treated as a dividend or as payment in exchange for the Preferred Stock. If the redemption payment is treated as a dividend, the rules discussed above under "Dividends" apply.

Information Reporting and Backup Withholding

Payments of dividends on shares of Preferred Stock and payments of proceeds upon the sale or redemption of Preferred Stock generally are required to be reported to the Internal Revenue Service except in the case of a beneficial holder that is an “exempt recipient.” Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Backup withholding of U.S. federal income tax may apply to payments made with respect to shares of Preferred Stock, as well as to payments of proceeds from the sale of shares of Preferred Stock, to Shareholders that are not exempt recipients and that fail to provide certain identifying information (such as the taxpayer identification number of the Shareholder) in the manner required.

The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Shareholder’s particular situation. Each Shareholder should consult its own tax advisor with respect to the tax consequences to it of the ownership and disposition of the Preferred Stock, including the tax consequences under the tax laws of the United States, states, localities, countries other than the United States and any other taxing jurisdiction and the possible effects of changes in such tax laws.

UNDERWRITING

Under the terms set forth in the underwriting agreement (the “Underwriting Agreement”), we have agreed to sell to each of the underwriters named below and the underwriters, for whom Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated (the “Representatives”) are acting as representatives, have severally agreed to purchase, the number of shares of Preferred Stock set forth below:

<u>Underwriter</u>	<u>Number of Shares</u>
Lehman Brothers Inc.....	8,800,000
Morgan Stanley & Co. Incorporated.....	8,800,000
Bear, Stearns & Co. Inc.....	400,000
First Tennessee Bank National Association.....	400,000
Morgan Keegan & Company, Inc.	400,000
RBC Dain Rauscher Inc.	400,000
Sandler O’Neill & Partners, L.P.....	400,000
Vining-Sparks IBG, L.P.	400,000
Total	<u>20,000,000</u>

The Underwriting Agreement requires the Underwriters to purchase all the Preferred Stock offered hereby if any is purchased.

The Underwriters propose to offer the Preferred Stock to the public at the initial public offering price set forth on the cover page of this Offering Circular, and may reoffer the Preferred Stock to certain dealers at such price less a concession of not more than \$0.15 per share. The Underwriters may allow, and the dealers may reallow, a discount not in excess of \$0.075 per share on sales to certain other dealers. After the initial offering, the public offering price, concession and discount may be changed.

We have granted the Underwriters an option exercisable for 30 days after the date of this Offering Circular to purchase up to an aggregate of 3,000,000 additional shares of Preferred Stock to cover any over-allotments. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, to purchase approximately the same percentage of shares of Preferred Stock as they did in the initial offering.

Prior to this offering, there has been no public market for the Preferred Stock. We will apply to list the Preferred Stock on the NYSE under the symbol “FNMprR.” If accepted for listing, we expect that trading of the Preferred Stock on the NYSE will commence within a thirty-day period after the initial delivery of the Preferred Stock. The Representatives have advised us that they intend to make a market in the Preferred Stock prior to the commencement of trading on the NYSE, but they are not obligated to do so and may discontinue any such market making at any time without notice. There is no assurance that the Preferred Stock will be accepted for listing on the NYSE.

In the Underwriting Agreement, we and the Underwriters have agreed to indemnify each other against and contribute toward certain liabilities.

The Underwriters and certain affiliates thereof engage in transactions with and perform services for us in the ordinary course of business.

The Underwriters may engage in certain transactions that stabilize the price of the Preferred Stock. 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 Preferred Stock. Neither we nor the Underwriters 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 Preferred Stock. The Underwriters are not required to engage in any of these transactions. When so doing, the Underwriters act

on their own behalf and not as our representatives. Any such transactions, if commenced, may be discontinued at any time.

The expenses of the offering that are payable by us are estimated to be approximately \$500,000 (exclusive of any underwriting discount).

RATING

We expect that Moody's will assign the Preferred Stock a rating of Aa3 and a rating outlook of stable. An issue which is rated "Aa" is considered by Moody's to be "of high quality" and "subject to very low credit risk." The numerical modifier "3" indicates that the issue ranks in the lower end of the generic rating category of "Aa." According to Moody's a "rating outlook is an opinion regarding the likely direction of a rating over the medium term."

We expect that S&P will assign the Preferred Stock a rating of "AA-" and a rating outlook of negative. An issue which is rated "AA" is considered by S&P to differ "from the highest-rated obligations only to a small degree." According to S&P, "the obligor's capacity to meet its financial commitment on the obligation is very strong." The modifier "-" indicates that the issue ranks in the lower end of the generic rating category "AA." According to S&P, a "rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years)."

We expect that Fitch will assign the Preferred Stock a rating of "AA-". An issue which is rated "AA" is considered by Fitch to be of "very high credit quality." According to Fitch, this rating indicates a "very strong capacity for payment of financial commitments." The modifier "-" indicates that the issue ranks in the lower end of the generic rating category "AA."

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements of Fannie Mae and consolidated entities as reported on Form 10-K for the year ended December 31, 2006, and management's report on the effectiveness of internal control over financial reporting as of December 31, 2006, incorporated by reference in this offering circular, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein.

VALIDITY OF THE PREFERRED STOCK

The validity of the Preferred Stock will be passed upon for us by Sidley Austin LLP, New York, New York, and for the Underwriters by Sullivan & Cromwell LLP, Washington, D.C. Certain U.S. federal income tax matters will be passed upon for us by Dewey & LeBoeuf LLP, Washington, D.C.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements, which are statements about matters that are not historical facts. In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "would," "should," "could," "may," or similar words.

Forward-looking statements reflect our management's expectations or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our

actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including those factors described in the “Risk Factors” section of this Offering Circular, the 2006 10-K, and the Third Quarter 10-Q.

Factors that could cause actual conditions, events or results to differ materially from those expressed in any forward-looking statements include, among others:

- our expectation that housing market weakness will continue in 2007 and 2008;
- our projections for mortgage originations and mortgage debt outstanding (“MDO”) growth for 2007 and 2008;
- our estimates regarding our 2007 business results and market share;
- our expectations that our single-family guaranty book of business will grow at a faster rate than overall MDO growth, and our guaranty fee income will continue to increase;
- our expectation that our net interest yield will remain relatively stable for the remainder of 2007;
- our expectation that our accounting for changes in the fair value of our derivatives and our trading securities will continue to be a major driver of volatility in our earnings, in our stockholders’ equity and in our regulatory capital;
- our expectation that our losses on certain guaranty contracts will increase significantly for 2007 as compared with 2006;
- our expectation that other-than-temporary impairment on investment securities will be significantly lower in 2007 as compared with 2006;
- our expectation that we will reduce our administrative expenses by more than \$200 million in 2007;
- our expectation that our ongoing operations costs will be reduced to approximately \$2 billion in 2008;
- our expectation that our credit-related expenses and credit losses will significantly increase for 2007 and 2008;
- our expectation that our credit loss ratio will be within our normal historical range of 4 to 6 basis points in 2007, and will increase above this range in 2008;
- our belief that our delinquencies and foreclosures will increase for the remainder of 2007 and in 2008;
- our belief that our sources of liquidity will remain adequate to meet both our short-term and long-term funding needs;
- our estimate of the effect of hypothetical declines in home prices on our credit losses;
- our estimate of the effect of hypothetical changes in interest rates on the fair value of our financial instruments; and

- our belief that our remaining material weaknesses will be remediated by December 31, 2007 and that we will have effective disclosure controls and procedures by December 31, 2007.

Investors are cautioned not to place undue reliance on forward-looking statements in this Offering Circular or that we make from time to time, and to consider carefully the factors discussed in the “Risk Factors” section of this Offering Circular, the 2006 10-K and the Third Quarter 10-Q in evaluating these forward-looking statements. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise except as required under the federal securities laws.

**Certificate of Designation of Terms of
7.625% Non-cumulative Preferred Stock, Series R**

CUSIP: 313586760

1. Designation, Par Value and Number of Shares.

The designation of the series of preferred stock of the Federal National Mortgage Association (“Fannie Mae”) created by this resolution shall be “7.625% Non-Cumulative Preferred Stock, Series R” (the “Series R Preferred Stock”), and the number of shares initially constituting the Series R Preferred Stock is 20,000,000*, which number of shares may be increased by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in accordance with Section 7 below. Shares of Series R Preferred Stock will have no par value and a stated value of \$25 per share. Shares of Series R Preferred Stock will have no stated maturity date, and, subject to Section 3 below, will be perpetual. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series R Preferred Stock, provided such reduction is not below the number of shares of Series R Preferred Stock then outstanding.

2. Dividends.

(a) Holders of record of Series R Preferred Stock (each individually a “Holder”, or collectively the “Holders”) will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non cumulative quarterly dividends which will accrue from and including the date of issuance and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a “Dividend Payment Date”), commencing December 31, 2007, at the annual rate of 7.625% of the stated value of \$25 per share. If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A “Business Day” shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized or required by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which will be no earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date.

If declared, the initial dividend, which will be for the period from and including the date of issuance to but excluding December 31, 2007, will be \$0.2118 per share and will be payable on December 31, 2007. Thereafter, if declared, quarterly dividends will be \$0.4766 per share. The “Dividend Period” relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date (or, in the case of the initial dividend, November 21, 2007) to but excluding such Dividend Payment Date. Dividends payable on the Series R Preferred Stock for any period less than a full Dividend Period will be computed on the basis of a 360 day year consisting of twelve 30 day months, with the dividend for such partial Dividend Period computed by dividing the per annum dividend rate by 360, and multiplying that amount by the number of days in such partial Dividend Period (using the 30 day month, 360 day year convention) and the stated value of \$25 per share, the product of which will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.) Dividends payable on the Preferred Stock for each full

* Plus up to 3,000,000 additional shares pursuant to the Underwriters’ over-allotment option.

Dividend Period will be computed by dividing the per annum dividend rate by four, and multiplying the result by the stated value per share of \$25, the product of which will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.) If Fannie Mae redeems the Series R Preferred Stock, the dividend that would otherwise be payable for the then current quarterly Dividend Period will be included in the redemption price of the shares redeemed and will not be separately payable.

(b) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series R Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae's common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series R Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series R Preferred Stock for the then-current quarterly Dividend Period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series R Preferred Stock in the event that dividends have not been declared or paid or set apart (or ordered to be set apart) on the Series R Preferred Stock in respect of any prior Dividend Period. If the full dividend on the Series R Preferred Stock is not paid for any quarterly Dividend Period (including a dividend that is not paid because regulatory approval is not granted), the Holders of Series R Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series R Preferred Stock) for such Dividend Period.

(c) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series R Preferred Stock without the payment of any dividends on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series R Preferred Stock).

(d) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series R Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series R Preferred Stock for the then-current quarterly Dividend Period. When dividends are not paid in full upon the Series R Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series R Preferred Stock, all dividends declared upon shares of Series R Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series R Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series R Preferred Stock (but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior Dividend Periods) and such other stock bear to each other.

(e) No dividends may be declared or paid or set apart for payment on any shares of Series R Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series R Preferred Stock.

(f) Holders of Series R Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

3. Optional Redemption.

(a) The Series R Preferred Stock shall not be redeemable prior to November 21, 2012. On and after that date, subject to (x) the notice provisions set forth in Section 3(b) below, (y) the receipt of any required regulatory approvals and (z) any further limitations which may be imposed by law, Fannie Mae may redeem the Series R Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of \$25 per share plus an amount equal to the amount of the dividend (whether or not declared) for the then-current quarterly Dividend Period accrued to but excluding the date of such redemption, but without accumulation of unpaid dividends on the Series R Preferred Stock for prior Dividend Periods. The amount of dividends per share payable at redemption will be calculated in accordance with Section 2(a) above. If less than all of the outstanding shares of Series R Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series R Preferred Stock as aforesaid, Fannie Mae will give written or electronic notice of any such redemption to Holders of Series R Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series R Preferred Stock to be redeemed and, if fewer than all of the shares of Series R Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series R Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to any Holder of Series R Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series R Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series R Preferred Stock called for redemption shall cease to accrue and such Series R Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series R Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series R Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series R Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series R Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series R Preferred Stock will have no right to require redemption of any shares of Series R Preferred Stock.

4. Liquidation Rights.

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series R Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae's common

stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series R Preferred Stock), the amount of \$25 per share plus an amount, determined in accordance with Section 2 above, equal to the dividend (whether or not declared) for the then-current quarterly Dividend Period accrued to but excluding the date of such liquidation payment, but without accumulation of unpaid dividends on the Series R Preferred Stock for prior Dividend Periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series R Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series R Preferred Stock, the assets will be distributed to the Holders of Series R Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior Dividend Periods).

(c) Notwithstanding the foregoing, Holders of Series R Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series R Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other entity or the merger, consolidation or combination of any other entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series R Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

5. No Conversion or Exchange Rights.

The Holders of shares of Series R Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

6. No Pre-Emptive Rights.

No Holder of Series R Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

7. Voting Rights; Amendments.

(a) Except as provided below, the Holders of Series R Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series R Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series R Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series R Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series R Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series R Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series R Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series R Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series R Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the shares of Series R Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series R Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series R Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series R Preferred Stock are listed at the time (if so listed).

8. Additional Classes or Series of Stock.

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series R Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

9. Priority.

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series R Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series R Preferred Stock.

(b) On a parity with shares of Series R Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series R Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series R Preferred Stock.

(c) Junior to shares of Series R Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series R Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”), “5.10% Non-Cumulative Preferred Stock, Series E” (the “Series E Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series F” (the “Series F Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series G” (the “Series G Preferred Stock”), “5.81% Non-Cumulative Preferred Stock, Series H” (the “Series H Preferred Stock”), “5.375% Non-Cumulative Preferred Stock, Series I” (the “Series I Preferred Stock”), “5.125% Non-Cumulative Preferred Stock, Series L” (the “Series L Preferred Stock”), “4.75% Non-Cumulative Preferred Stock, Series M” (the “Series M Preferred Stock”), “5.50% Non-Cumulative Preferred Stock, Series N” (the “Series N Preferred Stock”), “Non-Cumulative Preferred Stock, Series O” (the “Series O Preferred Stock”), “Non-Cumulative Convertible Series 2004-1 Preferred Stock” (the “Series 2004-1 Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series P” (the “Series P Preferred Stock”), and “6.75% Non-Cumulative Preferred Stock, Series Q” (the “Series Q Preferred Stock”), shall be deemed to rank on a parity with shares of Series R Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock, the holders of record of Series G Preferred Stock, the holders of record of Series H Preferred Stock, the holders of record of Series I Preferred Stock, the holders of record of Series L Preferred Stock, the holders of record of Series M Preferred Stock, the holders of record of Series N Preferred Stock, the holders of record of Series 2004-1 Preferred Stock, the holders of record of Series O Preferred Stock, the holders of record of Series P Preferred Stock, the holders of record of Series Q Preferred Stock, and the Holders of Series R Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

10. Transfer Agent, Dividend Disbursing Agent and Registrar.

Fannie Mae hereby appoints Computershare Trust Company, N.A., as its initial transfer agent, dividend disbursing agent and registrar for the Series R Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series R Preferred Stock.

11. Notices.

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series R Preferred Stock by Fannie Mae shall be made by first-class mail,

postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae or by other written or electronic means to designated accounts of such Holders. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail or electronic transmission to a designated account of the Holder. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae's judgment, to give notice by mail, or if Fannie Mae has reason to believe other notification means would be ineffective, then such notification may be made, in Fannie Mae's discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

Receipt and acceptance of a share or shares of the Series R Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).



20,000,000 Shares

**7.625% Non-Cumulative
Preferred Stock, Series R
(stated value \$25 per share)**

OFFERING CIRCULAR

**Lehman Brothers
Morgan Stanley**

**Bear, Stearns & Co. Inc.
FTN Financial Capital Markets
Morgan Keegan & Company, Inc.
RBC Capital Markets
Sandler O'Neill + Partners, L.P.
Vining-Sparks IBG, L.P.**

November 16, 2007