Supplement dated November 14, 2001 to
Information Statement dated March 30, 2001

This Supplement describes the financial condition of the Federal National Mortgage Association (''Fannie Mae'') as of September 30, 2001, and contains unaudited financial information with respect to Fannie Mae for the quarter and nine months ended September 30, 2001. This Supplement is a supplement to, and should be read in conjunction with, Fannie Mae's Information Statement dated March 30, 2001 (the ''Information Statement'') and the Supplements dated May 15, 2001 and August 14, 2001 thereto (the ''Supplements''). The Information Statement describes the business and operations of Fannie Mae and contains financial data as of December 31, 2000. The Supplements describe the financial condition of Fannie Mae as of March 31, 2001 and June 30, 2001, respectively, and contain unaudited financial information with respect to Fannie Mae for the quarters and year-to-date periods then ended. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. You may obtain copies of Fannie Mae's current Information Statement, any supplements thereto and other available information regarding Fannie Mae, including Fannie Mae's Proxy Statement dated April 2, 2001, without charge from Fannie Mae's Office of Investor Relations. Fannie Mae's principal office is located at 3900 Wisconsin Avenue, NW, Washington, D.C. 20016 (202/752-7000). The Information Statement and supplements can also be accessed on Fannie Mae's web site at http://www.fanniemae.com/investors.

In connection with offerings of securities, Fannie Mae distributes offering circulars, prospectuses, or other offering documents that describe securities offered, their selling arrangements and other information. Fannie Mae may incorporate this Supplement by reference in one or more other offering documents. This Supplement does not offer any securities for sale.

Fannie Mae is a federally chartered corporation. Fannie Mae's securities are not required to be registered under the Securities Act of 1933. At the close of business on October 31, 2001, approximately 1,000 million shares of Fannie Mae's common stock (without par value) were outstanding. Fannie Mae's Internal Revenue Service employer identification number is 52-0883107.

The delivery of this Supplement at any time shall not under any circumstances create an implication that there has been no change in the affairs of Fannie Mae since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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SELECTED FINANCIAL DATA

The following selected financial data for the three-month and nine-month periods ended September 30, 2001 and 2000 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Operating results for the periods ended September 30, 2001 are not necessarily indicative of the results expected for the entire year.

(Dollars and shares in millions, except per common share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Operating Data:				
Operating net income(1)	$ 1,377	$ 1,124	$ 3,929	$ 3,283
Operating earnings per diluted common share	1.33	1.09	3.80	3.16
Total taxable-equivalent revenue(2)	2,591	1,984	7,315	5,773
Average net interest margin	1.10%	1.00%	1.07%	1.01%
Operating return on average realized common equity(3)	25.5	25.3	25.5	25.7
Average effective guaranty fee rate	.192	.195	.191	.195
Credit loss ratio(4)	.005	.006	.006	.007
Income Statement Data:				
Interest income	$ 12,447	$ 10,862	$ 36,660	$ 31,200
Interest expense	10,368	9,434	30,974	27,012
Net interest income	2,079	1,428	5,686	4,188
Guaranty fee income	384	341	1,084	1,012
Fee and other income (expense)	48	1	100	(44)
Credit-related expenses	(15)	(22)	(62)	(73)
Administrative expenses	(272)	(232)	(766)	(673)
Purchased options expense(5)	(413)	—	(615)	—
Income before federal income taxes, extraordinary item and cumulative effect of change in accounting principle	1,811	1,516	5,427	4,410
Provision for federal income taxes	(447)	(393)	(1,388)	(1,161)
Income before extraordinary item and cumulative effect of change in accounting principle	1,364	1,123	4,039	3,249
Extraordinary item, gain (loss) on early extinguishment of debt, net of tax effect	(135)	1	(282)	34
Cumulative effect of change in accounting principle, net of tax effect(6)	—	—	168	—
Net income	$ 1,229	$ 1,124	$ 3,925	$ 3,283
Preferred stock dividends	(35)	(33)	(103)	(85)
Net income available to common shareholders	$ 1,194	$ 1,091	$ 3,822	$ 3,198
Basic earnings per common share	$ 1.19	$ 1.09	$ 3.82	$ 3.18
Diluted earnings per common share	1.19	1.09	3.80	3.16
Cash dividends per common share	.30	.28	.90	.84

	2001	**2000**
Balance Sheet Data at September 30:		
Mortgage portfolio, net	$686,801	$571,404
Liquid assets	59,944	55,185
Total assets	766,650	638,147
Borrowings:		
Due within one year	340,439	251,038
Due after one year	386,553	356,001
Total liabilities	752,872	618,460
Stockholders' equity	13,778	19,687
Core capital(7)	23,777	19,870

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Other Data:				
Dividend payout ratio	25.2%	25.6%	23.6%	26.4%
Ratio of earnings to combined fixed charges and preferred stock dividends(8)	1.17:1	1.16:1	1.17:1	1.16:1
Mortgage purchases	$ 64,209	$ 39,981	$188,206	$101,272
MBS issues acquired by others	94,596	26,917	241,885	78,373
Outstanding MBS at period-end(9)	816,724	701,024	816,724	701,024
Weighted-average diluted common shares outstanding	1,007	1,003	1,007	1,011

(1) Excludes the cumulative after-tax gain of $168 million from the change in accounting principle upon adoption of SFAS 133 on January 1, 2001 and the after-tax loss of $269 million recognized during the third quarter of 2001 and the after-tax loss of $400 million recognized during the first nine months of 2001 for the change in fair value of time value of purchased options. Includes after-tax charges of $121 million and $228 million, respectively, for the amortization expense of purchased option premiums during the three- and nine-month periods ended September 30, 2001.

(2) Includes revenues net of operating losses and amortization expense of purchased option premiums, plus taxable-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate.

(3) Annualized operating net income divided by average realized common stockholders' equity (common stockholders' equity excluding accumulated other comprehensive income).

(4) Charge-offs, net of recoveries, and foreclosed property expenses as a percentage of average net portfolio and average net MBS outstanding (annualized).

(5) The change in the fair value of the time value of purchased options, which includes $187 million and $351 million of amortization expense related to purchased option premiums in the third quarter of 2001 and first nine months of 2001, respectively.

(6) To record the net of tax effect of the adoption of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities,* on January 1, 2001.

(7) The sum of (a) the stated value of outstanding common stock, (b) the stated value of non-cumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings.

(8) "Earnings" consists of (i) income before federal income taxes, extraordinary items and cumulative effect of accounting changes and (ii) fixed charges. "Fixed charges" represents interest expense.

(9) MBS held by investors other than Fannie Mae.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001

Results of Operations

Fannie Mae generated operating net income of $1.377 billion for the third quarter of 2001, a 23 percent increase over operating net income of $1.124 billion for the third quarter of 2000. Operating earnings per diluted common share (EPS) grew 22 percent to $1.33 in the third quarter of 2001 over the same period in 2000. For the first nine months of 2001, operating net income grew 20 percent to $3.929 billion versus the first nine months of 2000. Operating EPS increased 20 percent to $3.80 in the first nine months of 2001 compared with the same period in 2000. The increase in operating net income and operating EPS in both periods primarily resulted from significant growth in net interest income. Fannie Mae expects operating EPS growth for full year 2001 to approximate the 20 percent growth rate reported for the nine months ended September 30, 2001. For 2002, management expects operating EPS growth to be consistent with the mid-teens growth rates that it has experienced over the past several years.

Fannie Mae's operating net income excludes the one-time, cumulative after-tax gain recorded January 1, 2001 upon the adoption of Financial Accounting Standard No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities,* excludes the after-tax impact of the change in fair value of the time value of purchased options associated with FAS 133, and includes an after-tax charge for the amortization expense of purchased option premiums. Net income for the third quarter of 2001 without these adjustments was $1.229 billion and diluted EPS was $1.19, compared with net income of $1.124 billion and diluted EPS of $1.09 in the third quarter of 2000. Net income for the first nine months of 2001 without these adjustments was $3.925 billion and diluted EPS was $3.80, compared with net income of $3.283 billion and diluted EPS of $3.16 in the first nine months of 2000. The chart below reconciles net income to operating net income for the three-month and nine-month periods ending September 30, 2001.

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
	(Dollars in millions)	
Net income	$1,229	$3,925
Cumulative after-tax gain from adoption of FAS 133	—	(168)
After-tax loss from change in fair value of time value of purchased options	269	400
After-tax charge for amortization expense of purchased option premiums	(121)	(228)
Operating net income	$1,377	$3,929

Fannie Mae's taxable-equivalent revenue grew 31 percent in the third quarter of 2001 over the third quarter of 2000 to $2.591 billion and increased 27 percent in the first nine months of 2001 over the corresponding period of 2000 to $7.315 billion largely due to growth in net interest income. Taxable-equivalent revenue is total revenue, net of operating losses and amortization expense of purchased option premiums, adjusted to include the full pre-tax value of tax-exempt income and investment tax credits based on applicable federal income tax rates.

Fannie Mae's adjusted net interest income, which includes the amortization expense of purchased option premiums, grew 33 percent in the third quarter of 2001 over the prior year period due to a 20 percent increase in the average net investment portfolio and a 10 basis point increase in the net interest margin. Adjusted net interest income for the first nine months of 2001 grew 27 percent over the prior year period because of a 19 percent increase in the average net investment portfolio and a 6 basis point increase in the net interest margin. The respective increases in the average net

investment portfolio and the net interest margin are primarily the result of more attractive mortgage-to-debt spreads during 2001 as compared with 2000. Mortgage-to-debt spreads improved due to a drop in short-term interest rates, which resulted in the call of debt without a corresponding increase in mortgage liquidations and attractive spreads on new mortgage purchases. Fannie Mae's adjusted net interest income is a more meaningful measure of portfolio revenue as it is comparable with reported net interest income in prior periods. Prior to the adoption of FAS 133, reported net interest income included the amortization expense of purchased option premiums. With the adoption of FAS 133, this cost, which totaled $187 million in the third quarter of 2001 and $351 million in the first nine months of 2001, is now included in the category ''purchased options expense'' on the income statement as part of the change in the fair value of the time value of these options.

Management expects that further reductions in short-term interest rates by the Federal Reserve, in response to the events of September 11, will cause the Company's short-term debt costs to continue to fall in the fourth quarter, leading to further increases in the net interest margin through the end of the year. The net interest margin is expected to begin to move back toward more normal levels during 2002 as the volume of mortgage liquidations grows over the next several months and much of the Company's low-cost, short-term debt that has been added since the first quarter of 2001 matures.

The following table presents an analysis of net interest income and average balances for the three-month and nine-month periods ended September 30, 2001 and 2000.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Interest income:				
Mortgage portfolio	$ 11,836	$ 9,985	$ 34,466	$ 28,845
Investments and cash equivalents	611	877	2,194	2,355
Total interest income	12,447	10,862	36,660	31,200
Interest expense(1):				
Short-term debt	1,345	1,046	4,923	2,912
Long-term debt	9,023	8,388	26,051	24,100
Total interest expense	10,368	9,434	30,974	27,012
Net interest income	2,079	1,428	5,686	4,188
Taxable-equivalent adjustment(2)	120	105	344	303
Net interest income taxable-equivalent basis	$ 2,199	$ 1,533	$ 6,030	$ 4,491
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	$673,170	$558,976	$647,809	$542,043
Investments and cash equivalents	57,586	51,597	56,690	48,601
Total interest-earning assets	$730,756	$610,573	$704,499	$590,644
Interest-bearing liabilities(1):				
Short-term debt	$135,913	$ 71,088	$137,243	$ 69,078
Long-term debt	571,709	519,199	543,767	501,510
Total interest-bearing liabilities	707,622	590,287	681,010	570,588
Interest-free funds	23,134	20,286	23,489	20,056
Total interest-bearing liabilities and interest-free funds	$730,756	$610,573	$704,499	$590,644
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.09%	7.18%	7.14%	7.13%
Investments and cash equivalents	4.31	6.82	5.22	6.49
Total interest-earning assets	6.87	7.15	6.99	7.08
Interest-bearing liabilities(1):				
Short-term debt	3.94	5.86	4.76	5.59
Long-term debt(4)	6.44	6.46	6.48	6.41
Total interest-bearing liabilities	5.96	6.39	6.13	6.31
Investment spread(5)	.91	.76	.86	.77
Interest-free return(6)	.19	.24	.21	.24
Net interest margin(7)	1.10%	1.00%	1.07%	1.01%

(1) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of derivative financial instruments.

(2) Reflects pro forma adjustments to permit comparison of yields on tax-advantaged and taxable assets.

(3) Includes average balance of nonperforming loans of $2.6 billion and $2.4 billion for the three- and nine-month periods ended September 30, 2001, and $2.0 billion and $2.2 billion for the three- and nine-month periods ended September 30, 2000, respectively.

(4) Includes the amortization expense of purchased option premiums of $187 million and $351 million for the three- and nine-month periods ended September 30, 2001, respectively.

(5) Consists primarily of the difference between the yield on interest-earning assets, adjusted for tax benefits of nontaxable income, and the effective cost of funds on interest-bearing liabilities.

(6) Consists primarily of the return on that portion of the investment portfolio funded by equity and non-interest-bearing liabilities.

(7) Consists of net interest income on a taxable-equivalent basis, less the amortization expense of purchased option premiums in the three- and nine-month periods ended September 30, 2001, as a percentage of the average investment portfolio.

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three- and nine-month periods ended September 30, 2001 and 2000.

Rate/Volume Analysis

(Dollars in millions)

Third Quarter 2001 vs. Third Quarter 2000	Increase (Decrease)	Attributable to Changes in (1) Volume	Rate
Interest income:			
Mortgage portfolio	$1,851	$2,010	$(159)
Investments and cash equivalents	(266)	93	(359)
Total interest income	1,585	2,103	(518)
Interest expense(2):			
Short-term debt	299	724	(425)
Long-term debt	635	832	(197)
Total interest expense	934	1,556	(622)
Net interest income	$ 651	$ 547	$ 104

First Nine Months 2001 vs. First Nine Months 2000	Increase (Decrease)	Attributable to Changes in (1) Volume	Rate
Interest income:			
Mortgage portfolio	$5,621	$5,627	$ (6)
Investments and cash equivalents	(161)	356	(517)
Total interest income	5,460	5,983	(523)
Interest expense(2):			
Short-term debt	2,011	2,501	(490)
Long-term debt	1,951	2,025	(74)
Total interest expense	3,962	4,526	(564)
Net interest income	$1,498	$1,457	$ 41

(1) Combined rate/volume variances, a third element of the calculation, are allocated to the rate and volume variances based on their relative size.

(2) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on the effective maturity or repricing date, taking into consideration the effect of derivative financial instruments.

Guaranty fee income grew 13 percent to $384 million in the third quarter of 2001 over the third quarter of 2000 because of 15 percent growth in average outstanding Mortgage-Backed Securities ("MBS"), which more than offset a decline in the average effective guaranty fee rate to 19.2 basis points from 19.5 basis points. For the first nine months of 2001, guaranty fee income increased 7 percent to $1,084 million compared with the first nine months of 2000 as the result of a 10 percent increase in average net MBS outstanding, which more than offset a decline in the average effective guaranty fee rate to 19.1 basis points from 19.5 basis points.

Fee and other income (expense) increased $47 million to $48 million of income in the third quarter of 2001, compared with $1 million of income in the third quarter of 2000. Fee and other income (expense) for the first nine months of 2001 grew $144 million to $100 million of income,

compared with $44 million of expense for the first nine months of 2000. Fee and other income (expense) increased in both the third quarter and first nine months of 2001 because of higher technology fees, transaction fees, and miscellaneous income. Fee and other income (expense) was dampened in the first nine months of 2000 by a hedging loss on a Benchmark Note issuance in April 2000. Fee and other income (expense) includes technology fees, transaction fees, multifamily fees, and other miscellaneous items, and is net of operating losses from certain tax-advantaged investments.

Administrative expenses in the third quarter of 2001 grew 17 percent over the comparable period in 2000 to $272 million primarily due to increased compensation costs; however, Fannie Mae's efficiency ratio (ratio of administrative expenses to taxable-equivalent revenue) improved to 10.5 percent for the third quarter of 2001 from 11.7 percent for the third quarter of 2000. Administrative expenses grew 14 percent in the first nine months of 2001 over the prior year period, yet Fannie Mae's efficiency ratio improved to 10.5 percent for the first nine months of 2001 from 11.7 percent for the first nine months of 2000. Fannie Mae's ratio of annualized administrative expenses to the average mortgage portfolio plus average MBS outstanding (combined book of business) remained stable at .074 percent and .073 percent for the three- and nine-month periods ended September 30, 2001, compared with the prior year periods.

During the three- and nine-month periods ended September 30, 2001, Fannie Mae recorded $413 million and $615 million in purchased options expense, respectively, under FAS 133. Purchased options expense represents the change in the fair value of the time value of purchased options during the reporting period. Included in purchased options expense is $187 million and $351 million in amortization expense of purchased option premiums for the three- and nine-month periods ended September 30, 2001, respectively, that would have been reported in net interest income prior to the adoption of FAS 133. The change in the fair value of the time value of purchased options will vary from period to period; however, the net expense included in earnings from the purchase date until the exercise date of an option will equal the option premium paid.

Federal income tax expense, including the tax impact from extraordinary items, decreased 5 percent to $375 million in the third quarter of 2001 from $393 million in the third quarter of 2000. Federal income tax expense, including the tax effect from extraordinary items and from the cumulative effect of change in accounting principles upon adoption of FAS 133, increased 13 percent to $1,328 million in the first nine months of 2001 from $1,179 million in the first nine months of 2000. The effective federal income tax rate on operating income decreased to 25 percent for the third quarter and first nine months of 2001 from 26 percent for the third quarter and first nine months of 2000. The effective federal income tax rate on operating income is federal income tax expense (including the tax impact from extraordinary items and the cumulative effect of change in accounting principles upon adoption of FAS 133) divided by operating income. Operating income is income before taxes, extraordinary items, and the cumulative effect of change in accounting principles upon adoption of FAS 133, excluding purchased options income (expense) and including the amortization expense of purchased option premiums.

Fannie Mae incurred extraordinary losses of $207 million ($135 million after-tax) from the call or repurchase of debt in the third quarter of 2001, compared with extraordinary gains of $2 million ($1 million after-tax) from the call or repurchase of debt in the third quarter of 2000. Debt called or repurchased in the third quarter of 2001 totaled $33 billion, compared with $2 billion in the third quarter of 2000 and $18 billion for all of 2000. Fannie Mae incurred extraordinary losses of $433 million ($282 million after-tax) from the call or repurchase of debt in the first nine months of 2001, compared with extraordinary gains of $52 million ($34 million after-tax) from the call or repurchase of debt in the first nine months of 2000. Fannie Mae called or repurchased $148 billion of debt in the first nine months of 2001, compared with $5 billion in the first nine months of 2000 because of a sharp decline in short- and intermediate-term debt costs associated with a general decline in interest rates.

Fannie Mae's adoption of FAS 133 resulted in cumulative pre-tax income of $258 million ($168 million after-tax) in the first quarter of 2001 from the change in accounting principle. The cumulative effect on earnings from the change in accounting principle is attributable to recording the fair value of the time value of purchased options that the company used as a substitute for callable debt at adoption of FAS 133 on January 1, 2001.

Risk Management

Fannie Mae is subject to several major areas of risk, including interest rate risk and credit risk, that are described and discussed in the Information Statement under "Recent Developments" and "MD&A — Risk Management."

Interest Rate Risk Management

Two primary measures of interest rate risk used by Fannie Mae to manage its mortgage portfolio business are net interest income at risk and portfolio duration gap.

Fannie Mae's net interest income at risk measures the sensitivity of Fannie Mae's projected net interest income to an immediate 50 basis point increase or decrease in interest rates and an immediate 25 basis point increase or decrease in the slope of the yield curve. Net interest income at risk expresses the percentage change in projected net interest income under the more adverse interest rate and yield curve scenarios. Yield curve slope sensitivity is calculated assuming a 25 basis point flattening or steepening between one and ten-year maturities, with the five-year yield held constant. Over the company's monthly reporting period, a 50 basis point change in interest rates and a 25 basis point change in the slope of the yield curve encompass approximately 95 percent of the actual changes that are likely to occur. Fannie Mae's net interest income at risk over a one-year and four-year period under each of the interest rate scenarios were as follows at September 30, 2001:

	Assuming a 50 basis point change in interest rates		Assuming a 25 basis point change in slope of yield curve	
	One-year	Four-year	One-year	Four-year
September 2001	2.4%	3.6%	2.8%	4.0%

Fannie Mae's expected range for net interest income at risk results is 1 percent to 5 percent. A positive number indicates the percent by which projected net interest income could be reduced by the increased rate shock. Actual portfolio net interest income may differ from these estimates because of specific interest rate movements, changing business conditions, changing prepayments, and management actions. As of October 31, 2001, net interest income at risk over a one-year and four-year period was 1.8 percent and 6.9 percent, respectively, assuming a 50 basis point change in interest rates and 3.8 percent and 6.0 percent, respectively, assuming a 25 basis point change in the slope of the yield curve.

The portfolio duration gap—the difference between the durations of portfolio assets and liabilities—summarizes for management the extent to which estimated cash flows for assets and liabilities are matched, on average, through time and across interest rate scenarios. A positive duration gap indicates more of an exposure to rising interest rates, and a negative duration gap indicates more of an exposure to declining interest rates. In computing duration gap, Fannie Mae uses a modified option-adjusted duration calculation. Fannie Mae's effective duration gap was negative one month at September 30, 2001, compared to negative three months at December 31, 2000 and positive two months at September 30, 2000. Fannie Mae's effective duration gap was negative ten months at October 31, 2001. Fannie Mae's duration gap target range is plus or minus six months.

Credit Risk Management

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and underlying MBS, the number of conventional properties acquired, and total net charge-offs (recoveries) for the three- and nine-month periods ended September 30, 2001 and 2000.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs/(Recoveries) (Dollars in millions)			
			Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	September 30,									
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Single-family	.45%	.42%	3,435	3,351	10,594	10,953	$(26)	$(33)	$(83)	$(99)
Multifamily	.10	.03	—	1	1	2	—	1	—	2
Total							$(26)	$(32)	$(83)	$(97)

(1) Single-family serious delinquencies consist of those loans in the portfolio or underlying MBS for which Fannie Mae has the primary risk of loss that are 90 or more days delinquent or in foreclosure. Multifamily serious delinquencies are those loans in the portfolio or underlying MBS that are 60 days or more delinquent for which Fannie Mae has primary risk of loss. The single-family percentages are based on the number of such single-family loans and the multifamily percentages are based on the dollar amount of such multifamily loans in the portfolio and underlying MBS.

Total credit-related losses, which include loan charge-offs (net of recoveries) and foreclosed property expenses, decreased $1 million to $19 million in the third quarter of 2001 and decreased $2 million to $64 million in the first nine months of 2001 from the comparable prior year periods due to a decline in foreclosed property expenses. Fannie Mae's credit loss ratio (credit-related losses as a percentage of the average combined book of business) decreased .1 basis point to .5 basis points in the third quarter of 2001 and to .6 basis points in the first nine months of 2001 over the comparable periods in 2000. While credit-related losses might be at or near their low point, management expects that any near-term increases in credit-related losses likely would be small and have little perceptible effect on Fannie Mae's operating net income growth.

The inventory of single-family properties held by Fannie Mae declined to 6,515 as of September 30, 2001 from 6,578 as of September 30, 2000. The inventory of multifamily properties was 1 on September 30, 2001 and 3 on September 30, 2000.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, decreased $7 million to $15 million in the third quarter of 2001 and decreased $11 million to $62 million versus comparable prior year periods due to a decline in foreclosed property expenses.

The allowance for losses decreased to $807 million at September 30, 2001 from $809 million at December 31, 2000. The allowance for losses declined as a percentage of Fannie Mae's total book of business to .054 percent at September 30, 2001 from .062 percent at December 31, 2000. Nonperforming loans outstanding totaled $2.4 billion at September 30, 2001, compared with $1.9 billion at December 31, 2000.

The use of credit enhancement contracts is an important tool to provide protection against credit losses. These contracts include primary loan-level mortgage insurance, pool mortgage insurance, recourse arrangements with lenders, and customized contracts. Fannie Mae's credit risk in these contracts is that counterparties will not fulfill their contractual obligations to make payments due to Fannie Mae. At September 30, 2001, Fannie Mae was the beneficiary on primary mortgage insurance coverage of $315 billion for single-family loans in portfolio or underlying MBS. Seven mortgage insurance companies, all rated AA or higher by Standard & Poor's, provided 96 percent of this coverage. At September 30, 2001, Fannie Mae held an estimated $31 billion in total recourse to lenders

on single-family loans and 61 percent of Fannie Mae's single-family recourse exposure was to providers that were rated investment grade or higher (a rating of BBB-/Baa- or higher by Standard & Poor's and Moody's Investor Service, respectively). The recourse providers that were not investment grade or were not rated constituted 39 percent of Fannie Mae's single-family recourse exposure. Fannie Mae mitigates the risk associated with recourse transactions through various means, including requiring lenders to pledge collateral to secure their obligations.

Fannie Mae also has counterparty performance risk in its derivatives and liquidity investments. Credit risk information related to derivatives and liquidity investments is provided under "Balance Sheet Analysis—Financing and Other Activities" and "Balance Sheet Analysis—Investments," respectively.

Balance Sheet Analysis

Mortgage Portfolio

The net mortgage portfolio as of September 30, 2001 increased 20 percent over September 30, 2000 to $687 billion and had an average yield (before deducting the allowance for losses) of 7.07 percent. The net mortgage portfolio totaled $607 billion at December 31, 2000 with an average yield of 7.24 percent and $571 billion at September 30, 2000 with an average yield of 7.20 percent. Mortgage purchases increased in 2001 due to attractive mortgage-to-debt spreads, which offset mortgage liquidations and fueled portfolio growth in the first nine months of 2001. The decline in the net mortgage portfolio yield from December 31, 2000 to September 30, 2001 was primarily due to a decrease in interest rates as conventional mortgage yields fell on mortgage purchases and prepayments accelerated on higher yield mortgages.

Fannie Mae purchased $64 billion of mortgages at an average yield of 6.72 percent in the third quarter of 2001, up from $40 billion of mortgage purchases at an average yield of 7.70 percent in the third quarter of 2000. During the first nine months of 2001, mortgage purchases were $188 billion at an average yield of 6.78 percent, up from purchases of $101 billion at an average yield of 7.66 percent for the first nine months of 2000. The increase in mortgage purchases in both periods was primarily due to a lower interest rate environment and the increased availability of mortgages offered for sale in the secondary market. The decline in average yield on mortgage purchases in both periods was attributable to the lower interest rate environment.

Mortgage loan repayments increased during the third quarter of 2001 to $40 billion from $15 billion in the third quarter of 2000. During the first nine months of 2001, mortgage loan repayments increased to $104 billion from $41 billion in the first nine months of 2000. The increase in loan repayments was due to an increased level of refinance activity in a lower interest rate environment.

Mandatory commitments issued to purchase mortgages from lenders, net of commitments to sell mortgages, increased to $54 billion during the third quarter 2001 from $46 billion during the third quarter of 2000. At September 30, 2001, Fannie Mae's outstanding mandatory delivery commitments to purchase mortgages increased to $29 billion versus $16 billion at both December 31, 2000 and September 30, 2000. As the outstanding mandatory delivery commitments to purchase mortgages settle in the fourth quarter, mortgage portfolio growth is expected to accelerate from the 15 percent compounded growth rate attained in third quarter 2001 over second quarter 2001. All of the above factors contribute to management's expectation of high-teens mortgage portfolio growth in 2001.

Investments

Presented below are the amortized cost and fair value of the Liquid Investment Portfolio and other investments classified as held-to-maturity and available-for sale at September 30, 2001 and December 31, 2000.

(Dollars in millions)	September 30, 2001				December 31, 2000			
Held-to-maturity investments:	**Amortized Cost**	**Fair Value**	**Average Maturity in Months**	**% Rated A or Better**	**Amortized Cost**	**Fair Value**	**Average Maturity in Months**	**% Rated A or Better**
Asset-backed securities(1)	$ 6,377	$ 6,482	18.0	100.0%	$ 9,043	$ 9,066	22.6	100.0%
Federal funds	3,709	3,709	.5	100.0	3,493	3,493	2.1	100.0
Repurchase agreements	5,436	5,436	.5	100.0	2,722	2,722	.5	100.0
Commercial paper	2,062	2,060	.4	100.0	8,893	8,895	.7	90.1
Auction rate preferred stock	2,292	2,292	1.6	100.0	1,812	1,812	1.9	98.6
Eurodollar time deposits	2,650	2,650	.4	100.0	4,046	4,046	1.2	100.0
Other	1,956	2,051	22.4	100.0	3,823	3,852	17.6	100.0
Total	$24,482	$24,680	6.9	100.0%	$33,832	$33,886	8.7	97.3%

(Dollars in millions)	September 30, 2001				December 31, 2000			
Available-for-sale investments:	**Amortized Cost**	**Fair Value**	**Average Maturity in Months**	**% Rated A or Better**	**Amortized Cost**	**Fair Value**	**Average Maturity in Months**	**% Rated A or Better**
Asset-backed securities(2)	$14,107	$14,117	40.1	99.5%	$ 8,469	$ 8,469	49.6	100.0%
Floating rate notes(2)	13,488	13,480	17.3	95.4	12,237	12,224	18.5	99.7
Other	5,795	5,796	1.4	100.0	443	443	.6	100.0
Total	$33,390	$33,393	24.2	97.9%	$21,149	$21,136	30.6	99.8%

(1) Contractual maturity of asset-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to repay their obligations at any time.

(2) As of September 30, 2001, 100 percent of asset-backed securities and floating rate notes reprice at intervals of 90 days or less.

The primary credit risk associated with investment securities is that issuers will not repay Fannie Mae in accordance with contractual terms. The level of credit risk in the portfolio is low because these investments are primarily high-quality, short-term securities. At September 30, 2001, 99 percent of the Liquid Investment Portfolio and other investments had a credit rating of A or higher. At December 31, 2000, 98 percent of the Liquid Investment Portfolio and other investments had a credit rating of A or higher.

The following table shows the amortized cost, fair value, and yield of the Liquid Investment Portfolio and other investments at September 30, 2001 and December 31, 2000 by remaining maturity.

	September 30, 2001			December 31, 2000		
(Dollars in millions)	**Amortized Cost**	**Fair Value**	**Yield**	**Amortized Cost**	**Fair Value**	**Yield**
Due within 1 year	$26,142	$26,161	3.47%	$27,026	$27,010	6.85%
Due after one year through five years	11,246	11,313	4.35	10,443	10,477	7.12
	37,388	37,474	3.73	37,469	37,487	6.93
Asset-backed securities(1)	20,484	20,599	4.33	17,512	17,535	6.84
	$57,872	$58,073	3.95%	$54,981	$55,022	6.90%

(1) Contractual maturity of asset-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to repay their obligations at any time.

Financing and Other Activities

Fannie Mae's total debt outstanding increased 20 percent to $727 billion at September 30, 2001 from $607 billion at September 30, 2000. The cost of debt outstanding at September 30, 2001 decreased to 5.78 percent from 6.45 percent at September 30, 2000. Fannie Mae's financing activities for the first nine months of 2001 and 2000 are summarized below.

(Dollars in billions)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Debt issued	$ 555	$ 297	$1,459	$ 939
Average cost	3.69%	6.61%	4.49%	6.29%
Debt redeemed	$ 533	$ 268	$1,378	$ 879
Average cost	4.11%	6.42%	4.97%	6.04%

Fannie Mae called a large amount of higher cost debt in the first nine months of 2001 because of a sharp decline in short- and intermediate-term interest rates and replaced a portion of it with shorter term debt pending an anticipated rise in mortgage repayments. As a result, the amount of option-embedded debt instruments as a percentage of the net mortgage portfolio was lower at September 30, 2001 than the amount at September 30, 2000, as shown in the following table. Option-embedded debt instruments include the effect of derivative financial instruments.

(Dollars in billions)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Debt issued during the period	$ 58	$ 14	$191	$ 47
Debt issued as a percentage of total mortgage purchases	90%	35%	102%	46%
Option-embedded debt outstanding at end of period	$322	$280		
Option-embedded debt as a percentage of total net mortgage portfolio	47%	49%		

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the quarter ended September 30, 2001, the balances as of September 30, 2001 and 2000, and the expected maturities of the derivative instruments outstanding as of September 30, 2001.

Derivative Financial Instruments Table (1)

(Dollars in millions)

	Generic-Pay Fixed/ Receive Variable Swaps (2)			Pay Variable/ Receive Fixed Swaps	Basis Swaps	Caps and Swaptions (4)	Total
	Notional	Pay Rate (3)	Receive Rate (3)				
Balance at June 30, 2001	$199,194	6.39%	4.54%	$50,818	$29,774	$156,158	$435,944
Additions	16,725	5.65	3.59	5,148	13,860	28,000	63,733
Maturities	5,650	6.58	4.39	11,038	3,000	6,350	26,038
Balance at September 30, 2001	$210,269	6.33	3.75	$44,928	$40,634	$177,808	$473,639
Balance at September 30, 2000	$150,251	6.67%	6.81%	$41,484	$15,679	$ 77,465	$284,879
Future Maturities (5)							
2001	$ 4,475	6.05%	3.95%	$16,982	$ 4,000	$ 9,300	$ 34,757
2002	26,545	5.54	3.77	12,862	26,004	34,600	100,011
2003	23,150	5.30	3.64	4,081	10,050	33,908	71,189
2004	16,570	6.34	3.73	1,700	250	6,450	24,970
2005	15,425	6.56	3.81	1,000	—	4,900	21,325
Thereafter	124,104	6.67	3.75	8,303	330	88,650	221,387
	$210,269	6.33%	3.75%	$44,928	$40,634	$177,808	$473,639

(1) Dollars represent notional amounts that only indicate the amount on which payments are being calculated and do not represent the risk of loss.

(2) Included in the notional amounts are callable swaps of $32 billion, $31 billion, and $35 billion with weighted-average pay rates of 6.64 percent, 6.64 percent and 6.65 percent and weighted-average receive rates of 3.69 percent, 4.63 percent, and 6.84 percent at September 30, 2001, June 30, 2001 and September 30, 2000, respectively.

(3) The weighted-average rate payable and receivable is as of the date indicated. As the rates of the swaps may be floating, these rates may change as prevailing interest rates change.

(4) The notional amounts of caps and swaptions were $66 billion and $112 billion at September 30, 2001, respectively, and $28 billion and $49 billion at September 30, 2000, respectively.

(5) Based on stated maturities. Assumes that variable rates remain constant at September 30, 2001 levels.

The notional amount of other derivative financial instruments, which includes foreign currency swaps, futures contracts, and derivative instruments that simulate short sales of U.S. Treasury and agency securities to provide a hedge against interest rate fluctuations, totaled $8 billion at September 30, 2001.

The primary credit risk posed by Fannie Mae's derivative transactions is that a counterparty might default on its payments to Fannie Mae, which could result in Fannie Mae having to replace derivatives with a different counterparty at a higher cost. Fannie Mae reduces credit risk on derivatives by dealing only with experienced counterparties of high credit quality, diversifying these derivative instruments across counterparties, ensuring that these derivative instruments generally are executed under master agreements that provide for netting of certain amounts payable by each party, and retaining collateral if credit loss exposure to a counterparty exceeds an agreed-upon threshold.

Fannie Mae regularly monitors the exposures on its derivative instruments by valuing the positions via dealer quotes and internal pricing models. The exposure to credit loss for derivative instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all those derivative instruments outstanding for which Fannie Mae was in a gain position. Fannie Mae's gross exposure (taking into account master settlement agreements, but not collateral received) was $73 million at September 30, 2001 and $182 million at December 31, 2000. Fannie Mae expects the credit exposure to fluctuate as interest rates change.

Counterparties are obligated to post collateral if Fannie Mae is exposed to credit loss on the related derivative instruments exceeding an agreed-upon threshold. The amount of required collateral is based on counterparty credit ratings and the level of credit exposure. Fannie Mae generally requires overcollateralization from counterparties whose credit ratings have dropped below predetermined levels. Fannie Mae held $31 million of collateral through custodians for derivative instruments at September 30, 2001 and $70 million at December 31, 2000.

At September 30, 2001, over 99 percent of the notional amount of Fannie Mae's outstanding derivative transactions were with counterparties rated A or better by Standard & Poor's. At September 30, 2001, 100 percent of Fannie Mae's exposure on derivatives in a gain position were with counterparties rated A or better by Standard & Poor's. At September 30, 2001, eight counterparties represented approximately 81 percent of the total notional amount of outstanding derivative transactions, and each had a credit rating of A or better. At September 30, 2001, four counterparties comprised 100 percent of gross exposure on derivatives in a gain position, and each had a credit rating of A or better.

Capital Resources & Liquidity

Fannie Mae's core capital (defined as the stated value of outstanding common stock, the stated value of outstanding noncumulative perpetual preferred stock, paid-in capital, and retained earnings) increased to $23.8 billion at September 30, 2001 from $20.8 billion at December 31, 2000 and $19.9 billion at September 30, 2000. Fannie Mae's core capital, which excludes accumulated other comprehensive income (AOCI), is a more accurate reflection of its capital resources than total stockholders' equity. AOCI is excluded from core capital because AOCI includes unrealized gains (losses) on derivatives and investment securities but does not include the related unrealized losses (gains) on items hedged by these derivatives nor the liabilities that fund the acquisition of investment securities.

At September 30, 2001, AOCI totaled negative $10 billion, compared with a positive balance of $10 million at December 31, 2000 and negative $184 million at September 30, 2000. Upon adoption of FAS 133 on January 1, 2001, Fannie Mae recorded a $3.9 billion reduction in AOCI. The $3.9 billion reduction in AOCI was attributable primarily to recording derivatives, mostly interest rate swaps used as substitutes for non-callable debt, that qualify as cash flow hedges on the balance sheet at their fair values. FAS 133 requires that entities mark-to-market derivatives that qualify as cash flow hedges through AOCI to the extent they are effective, but not the hedged items. Subsequent changes in the fair value of derivatives in cash flow hedges will be offset in earnings by interest expense associated with the hedged items to the extent that the hedges are effective.

Fannie Mae had approximately 1,000 million common shares outstanding as of September 30, 2001, compared with 999 million common shares outstanding as of December 31, 2000. Pursuant, in part, to the capital restructuring program described in the Information Statement under "MD&A—Balance Sheet Analysis—Liquidity and Capital Resources," Fannie Mae repurchased 1.7 million shares of common stock at a weighted average cost of $76.07 during the third quarter of 2001. Fannie Mae issued .6 million common shares for employee and other stock compensation plans during the third quarter of 2001.

On October 16, 2001, the Board of Directors approved a dividend for the quarter ended September 30, 2001 of $.30 per common share and dividends of $.81250 per Series B preferred share,

$.80625 per Series C preferred share, $.65625 per Series D preferred share, $.63750 per Series E preferred share, $.7869 per Series F preferred share, $.7529 per Series G preferred share, and $.7263 per Series H preferred share for the period from and including September 30, 2001, to but excluding December 31, 2001.

Fannie Mae issued $1 billion of subordinated debt on August 1, 2001 that received a rating of Aa2 from Moody's Investors Service and AA from Standard & Poor's. Subordinated debt serves as an important supplement to Fannie Mae's equity capital, although it is not a component of core capital. Over the next three years, Fannie Mae intends to issue sufficient subordinated debt to bring the sum of total capital and outstanding subordinated debt to at least 4 percent of on-balance-sheet assets, after adjusting for capital required to support the off-balance-sheet mortgage securities business.

As discussed in the Information Statement under ''Government Regulation and Charter Act'' and ''MD&A—Balance Sheet Analysis—Regulatory Environment,'' Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of September 30, 2001, and management expects to continue to comply with the applicable standards.

As part of its voluntary adoption of measures to enhance disclosure, capital, and market discipline, Fannie Mae agreed to maintain more than three months worth of liquidity, assuming no access to the new issue debt markets, to reduce the possibility that the company's operations could be disrupted during a significant financial crisis. Fannie Mae has a contingency plan in place to ensure funding needs are met for three months without access to the agency debt markets. Fannie Mae also committed to maintain at least five percent of on-balance-sheet assets in a liquid, marketable portfolio of nonmortgage securities and to maintain additional highly liquid securities in unencumbered form to facilitate liquidity. Fannie Mae's liquid investments were 7.8 percent of Fannie Mae's on-balance-sheet assets at September 30, 2001.

Mortgage-Backed Securities

Fannie Mae issued $139 billion of MBS during the third quarter of 2001, an increase from $57 billion issued in the third quarter of 2000. MBS issued for the first nine months of 2001 totaled $366 billion, up from $144 billion in the first nine months of 2000. The increase in MBS issued in both periods was due to a decrease in interest rates and an increase in mortgage originations. REMIC issuances were $26 billion in the third quarter of 2001 and $49 billion in the first nine months of 2001, compared with $8 billion and $23 billion, respectively, for the comparable periods of 2000.

The following table summarizes MBS activity for the three and nine-month periods ended September 30, 2001 and 2000.

Summary of MBS Activity

(Dollars in millions)

Three Months Ended September 30,	Issued (1)			Total MBS Outstanding (1)		
	Lender or Shared Risk	Fannie Mae Risk	Total	Lender or Shared Risk (2)	Fannie Mae Risk	Total (3)
2001	$10,341	$129,074	$139,415	$208,915	$1,019,216	$1,228,131
2000	7,804	48,885	56,689	219,057	801,771	1,020,828
Nine Months Ended September 30,						
2001	$26,717	$339,363	$366,080			
2000	19,603	124,639	144,242			

(1) Includes MBS held by Fannie Mae and investors other than Fannie Mae. This table classifies lender originated issued and total MBS based on primary default risk category; however, Fannie Mae bears the ultimate risk of default on all MBS. Total MBS includes MBS that have been pooled to back Megas, SMBS, or REMICs.

(2) Included in lender or shared risk are $160 billion and $172 billion at September 30, 2001 and 2000, respectively, on which the lender or a third party agreed to bear default risk limited to a certain portion or percentage of the loans delivered and, in some cases, the lender has pledged collateral to secure that obligation.

(3) Included are $411 billion and $320 billion at September 30, 2001 and 2000, respectively, of Fannie Mae MBS held in portfolio.

The decline in the proportion of lender or shared risk on lender originated issues was primarily the result of a decline in the number of loans backing MBS that are covered by lender-acquired pool insurance.

RECENT REGULATORY DEVELOPMENTS

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the "1992 Act") established risk-based capital requirements for Fannie Mae and requires the Office of Federal Housing Enterprise Oversight ("OFHEO") to adopt regulations establishing a risk-based capital test. (See the "Information Statement dated March 31, 2001—Government Regulation and Charter Act.") On September 13, 2001, the risk-based capital rule was published in the Federal Register. Under the 1992 Act, the final regulations would be enforceable one year after publication in the Federal Register. OFHEO publicly has reversed its earlier announcement and stated that it will not announce any results based on fourth quarter 2001 data. OFHEO also has stated its intent to publish amendments to the rule before the end of 2001. Management is continuing its review and analysis of the rule.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of September 30, 2001 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and nine-month periods ended September 30, 2001 and 2000. These condensed financial statements are the responsibility of Fannie Mae's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Fannie Mae as of December 31, 2000 (presented herein in condensed form) and the related statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 11, 2001, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG LLP

Washington, D.C.
October 12, 2001

FANNIE MAE
INTERIM FINANCIAL STATEMENTS
CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(Dollars in millions, except per common share amounts)			
Interest income	$12,447	$10,862	$36,660	$31,200
Interest expense	10,368	9,434	30,974	27,012
Net interest income	2,079	1,428	5,686	4,188
Guaranty fee income	384	341	1,084	1,012
Fee and other income (expense)	48	1	100	(44)
Credit-related expenses	(15)	(22)	(62)	(73)
Administrative expenses	(272)	(232)	(766)	(673)
Purchased options expense	(413)	—	(615)	—
Income before federal income taxes, extraordinary item and cumulative effect of change in accounting principle	1,811	1,516	5,427	4,410
Provision for federal income taxes	(447)	(393)	(1,388)	(1,161)
Income before extraordinary item and cumulative effect of change in accounting principle	1,364	1,123	4,039	3,249
Extraordinary item— gain (loss) on early extinguishment of debt, net of tax effect	(135)	1	(282)	34
Cumulative effect of change in accounting principle, net of tax effect	—	—	168	—
Net income	$ 1,229	$ 1,124	$ 3,925	$ 3,283
Preferred stock dividends	(35)	(33)	(103)	(85)
Net income available to common stockholders	$ 1,194	$ 1,091	$ 3,822	$ 3,198
Basic earnings per common share:				
Earnings before extraordinary item and cumulative effect of change in accounting principle	$ 1.33	$ 1.09	$ 3.93	$ 3.15
Extraordinary gain (loss)	(.14)	—	(.28)	.03
Cumulative effect of change in accounting principle	—	—	.17	—
Net earnings	$ 1.19	$ 1.09	$ 3.82	$ 3.18
Diluted earnings per common share:				
Earnings before extraordinary item and cumulative effect of change in accounting principle	$ 1.32	$ 1.09	$ 3.91	$ 3.13
Extraordinary gain (loss)	(.13)	—	(.28)	.03
Cumulative effect of change in accounting principle	—	—	.17	—
Net earnings	$ 1.19	$ 1.09	$ 3.80	$ 3.16

CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2001	December 31, 2000
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$686,801	$607,399
Investments	57,875	54,968
Other assets	20,857	12,705
Derivatives in gain positions	1,117	—
Total assets	$766,650	$675,072
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	$340,439	$280,322
Due after one year	386,553	362,360
Other liabilities	13,678	11,552
Derivatives in loss positions	12,202	—
Total liabilities	752,872	654,234
Stockholders' equity		
Accumulated other comprehensive income (loss)	(9,999)	10
Core capital	23,777	20,828
Total stockholders' equity	13,778	20,838
Total liabilities and stockholders' equity	$766,650	$675,072

See Notes to Interim Financial Statements

FANNIE MAE
INTERIM FINANCIAL STATEMENTS
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(Dollars in millions)			
Balance, beginning of period	$19,431	$18,791	$20,838	$17,629
Comprehensive income:				
Net income	1,229	1,124	3,925	3,283
Other comprehensive income (loss), net of tax effect:				
Transition adjustment from the adoption of FAS 133	—	—	(3,973)	—
Unrealized gain on securities transferred to available-for-sale upon adoption of FAS 133	—	—	86	—
Cash flow hedging losses, net	(6,934)	—	(6,661)	—
Unrealized gains on securities, net	482	69	539	62
Total comprehensive income (loss)	(5,223)	1,193	(6,084)	3,345
Dividends	(335)	(313)	(1,003)	(931)
Shares repurchased	(127)	(287)	(204)	(1,406)
Preferred stock issued	—	285	20	968
Treasury stock issued for stock options and benefit plans	32	18	211	82
Balance, end of period	$13,778	$19,687	$13,778	$19,687

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(Dollars in millions)			
Net cash provided by operating activities	$ 5,732	$ 3,146	$ 11,595	$ 9,203
Cash flows from investing activities:				
Purchases of mortgages	(64,103)	(39,385)	(187,877)	(99,232)
Proceeds from sales of mortgages	598	2,383	4,559	9,279
Mortgage principal repayments	39,558	15,868	105,000	42,182
Net decrease (increase) in investments	384	(7,576)	(2,907)	(15,220)
Net cash used in investing activities	(23,563)	(28,710)	(81,225)	(62,991)
Cash flows from financing activities:				
Proceeds from issuance of debt	552,860	294,353	1,450,759	930,324
Payments to redeem debt	(533,375)	(268,337)	(1,378,732)	(877,152)
Other	(409)	(268)	(945)	(1,270)
Net cash provided by financing activities	19,076	25,748	71,082	51,902
Net increase (decrease) in cash and cash equivalents	1,245	184	1,452	(1,886)
Cash and cash equivalents at beginning of period	824	29	617	2,099
Cash and cash equivalents at end of period	$ 2,069	$ 213	$ 2,069	$ 213

See Notes to Interim Financial Statements

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in 2000 have been reclassified to conform with the current presentation. Operating results for the three- and nine-month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Information Statement dated March 30, 2001.

Accounting Change

Effective January 1, 2001, Fannie Mae adopted Financial Accounting Standard No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended by FAS 138. FAS 133 requires that all derivatives be recognized as either assets or liabilities on the balance sheet at their fair value. Subject to certain qualifying conditions, a derivative may be designated as either a hedge of the fair value of a fixed-rate instrument (fair value hedge) or a hedge of the cash flows of a variable-rate instrument or anticipated transaction (cash flow hedge). For a derivative qualifying as a fair value hedge, fair value gains or losses on the derivative are recognized in earnings along with the fair value losses or gains on the hedged item attributable to the risk being hedged. For a derivative qualifying as a cash flow hedge, fair value gains or losses on the derivative associated with the risk being hedged are recorded in a separate component of stockholders' equity (other comprehensive income) to the extent they are effective and then recognized into earnings during the period(s) in which the hedged item affects income. For a derivative not qualifying as a hedge, or components of a derivative which are excluded from any hedge effectiveness assessment, fair value gains and losses on the derivative are reported in earnings.

Fannie Mae primarily uses cash flow hedges to hedge its exposure to the variability in cash flows related to anticipated debt issuances and the issuance of its Discount Notes. At September 30, 2001, Fannie Mae was not hedging any anticipated debt issuances. Changes in the fair value of derivatives designated as and qualifying as cash flow hedges are deferred in other comprehensive income to the extent they are effective. These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest payments on the hedged debt obligations occur. Derivative instruments used as cash flow hedges include, but are not limited to, pay-fixed interest rate swaps and swaptions, caps, simulated short sales of US Treasury securities, and futures contracts. Only changes in the intrinsic value of the options contracts used as cash flow hedges (i.e., pay-fixed swaptions and caps) are deferred in other comprehensive income. Changes in the time value of the option contracts are marked-to-market through current earnings as purchased options expense.

Fannie Mae primarily uses fair value hedges to hedge its exposure to changes in fair value related to its long-term fixed-rate debt obligations. Changes in the fair value of the derivatives designated as and qualifying as fair value hedges are recognized in earnings along with any offsetting gain or loss from the hedged debt relative to the risk being hedged. Derivative instruments used as fair value hedges include, but are not limited to, receive-fixed interest rate swaps and swaptions. Only changes in the intrinsic value of the options contracts used as fair value hedges (i.e., receive-fixed swaptions) are marked-to-market through earnings with an offset from the mark-to-market on the hedged debt relative to the risk being hedged. Changes in the time value of the option contracts are marked-to-market through current earnings as purchased options expense.

Upon adoption of FAS 133, Fannie Mae transferred investment securities and MBS with an amortized cost of approximately $20 billion from held-to-maturity to available-for-sale.

Line of Business Reporting

The following table sets forth Fannie Mae's operating net income, which excludes the effect of FAS 133 items, by line of business for the three- and nine-month periods ended September 30, 2001 and 2000. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

Three Months Ended September 30,	2001			2000		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	$1,893	$ 186	$2,079	$1,272	$ 156	$1,428
Guaranty fee income	(278)	662	384	(254)	595	341
Fee and other income (expense)	79	(31)	48	17	(16)	1
Credit-related expenses	—	(15)	(15)	—	(22)	(22)
Administrative expenses	(85)	(187)	(272)	(66)	(166)	(232)
Purchased options expense	(187)	—	(187)	—	—	—
Federal income taxes	(416)	(109)	(525)	(266)	(127)	(393)
Extraordinary item—gain (loss) on early extinguishment of debt (net of tax effect)	(135)	—	(135)	1	—	1
Operating net income	$ 871	$ 506	$1,377	$ 704	$ 420	$1,124

Nine Months Ended September 30,	2001			2000		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	$ 5,129	$ 557	$ 5,686	$3,749	$ 439	$ 4,188
Guaranty fee income	(811)	1,895	1,084	(776)	1,788	1,012
Fee and other income (expense)	151	(51)	100	(2)	(42)	(44)
Credit-related expenses	—	(62)	(62)	—	(73)	(73)
Administrative expenses	(234)	(532)	(766)	(191)	(482)	(673)
Purchased options expense	(351)	—	(351)	—	—	—
Federal income taxes	(1,120)	(360)	(1,480)	(775)	(386)	(1,161)
Extraordinary item—gain (loss) on early extinguishment of debt (net of tax effect)	(282)	—	(282)	34	—	34
Operating net income	$ 2,482	$1,447	$ 3,929	$2,039	$1,244	$ 3,283

(1) Certain amounts for 2000 have been reclassified to conform with the allocation method used for 2001.

The Portfolio Investment line of business represented $753 billion, or 98 percent of total assets, at September 30, 2001 and $627 billion, or 98 percent of total assets, at September 30, 2000.

Commitments and Contingencies

Fannie Mae had outstanding commitments to purchase mortgages, to issue MBS, and to make other investments as shown below:

	September 30, 2001
	(Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 29
Lender option(1)	2
Average net yield on mandatory delivery	6.51%
Master commitments:	
Mandatory delivery(2)	$ 31
Lender option	16
Other investments	2

(1) Excludes commitments attached to master commitments, which are included in the total for master commitments.

(2) Under a mandatory master commitment, a lender must either deliver under an MBS contract at a specified guaranty fee or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

Fannie Mae also guarantees timely payment of principal and interest on outstanding MBS and provides credit enhancements or other guarantees as summarized below:

	September 30, 2001
	(Dollars in billions)
Total MBS(1)	$1,228
Amount for which Fannie Mae has primary foreclosure loss risk(2)	1,019
Credit enhancements	10
Other guarantees	6

(1) Includes $411 billion of MBS held in portfolio and is net of $603 million in allowance for losses.

(2) Fannie Mae, however, assumes the ultimate risk of loss on all MBS.

Computation of Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2001		2000		2001		2000	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)							
Net income before extraordinary gain (loss) and cumulative effect of change in accounting principle	$1,364	$1,364	$1,123	$1,123	$4,039	$4,039	$3,250	$3,250
Extraordinary gain (loss)	(135)	(135)	1	1	(282)	(282)	34	34
Cumulative effect of change in accounting principle	—	—	—	—	168	168	—	—
Preferred stock dividends	(35)	(35)	(33)	(33)	(103)	(103)	(86)	(86)
Net income available to common stockholders	$1,194	$1,194	$1,091	$1,091	$3,822	$3,822	$3,198	$3,198
Weighted average common shares	1,001	1,001	998	998	1,001	1,001	1,005	1,005
Dilutive potential common shares(1)	—	6	—	5	—	6	—	6
Average number of common shares outstanding used to calculate earnings per common share	1,001	1,007	998	1,003	1,001	1,007	1,005	1,011
Earnings per common share before extraordinary item and cumulative effect of change in accounting principle	$ 1.33	$ 1.32	$ 1.09	$ 1.09	$ 3.93	$ 3.91	$ 3.15	$ 3.13
Net earnings per common share	1.19	1.19	1.09	1.09	3.82	3.80	3.18	3.16

(1) Dilutive potential common shares consist primarily of the dilutive effect from employee stock options and other stock compensation plans.

MANAGEMENT

The President of the United States has the authority to appoint five directors. In October 2001, the President appointed Manuel J. Justiz to Fannie Mae's Board of Directors for a term expiring on the date of the May 2002 annual meeting of stockholders. Mr. Justiz, 52, has been Dean of the College of Education at the University of Texas at Austin since 1990. He is a board member of Wackenhut Corporation.

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