Supplement dated November 13, 2002 to
Information Statement dated April 1, 2002

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae") as of September 30, 2002, and contains Fannie Mae's unaudited financial information for the three months and nine months ended September 30, 2002. This Supplement is a supplement to, and should be read in conjunction with, our Information Statement dated April 1, 2002 (the "Information Statement") and the Supplements dated May 15, 2002 and August 9, 2002. The Information Statement describes our business and operations and contains financial data as of December 31, 2001. The Supplements dated May 15, 2002 and August 9, 2002 describe our financial condition as of March 31, 2002 and June 30, 2002, respectively, and contain unaudited financial information for the quarters and year-to-date periods then ended. We also make available monthly statistical information on our mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. You may obtain copies of the Information Statement, any supplements thereto, and other available information regarding Fannie Mae, including our Proxy Statement dated April 2, 2002, without charge from Fannie Mae's Office of Investor Relations, 3900 Wisconsin Avenue, NW, Washington, D.C. 20016 (202-752-7115) or by accessing our web site at http://www.fanniemae.com/ir.

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

Fannie Mae is a federally chartered corporation. Our principal office is located at 3900 Wisconsin Avenue, NW, Washington, D.C. 20016 (202-752-7000). Our Internal Revenue Service employer identification number is 52-0883107.

Fannie Mae's securities are not required to be registered under the Securities Act of 1933, and we currently are not required to file periodic reports under the Securities Exchange Act of 1934. At the close of business on October 31, 2002, approximately 989 million shares of Fannie Mae's common stock (without par value) were outstanding.

The delivery of this Supplement at any time shall not imply under any circumstances 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, 2002 and 2001 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Financial data for the periods ended September 30, 2002 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,	
	2002	2001	2002	2001
Income Statement Data:				
Interest income	$ 12,765	$ 12,447	$ 38,088	$ 36,660
Interest expense	10,174	10,368	30,534	30,974
Net interest income	2,591	2,079	7,554	5,686
Guaranty fee income	463	384	1,293	1,084
Fee and other income, net	91	48	137	100
Credit-related expenses	(13)	(15)	(59)	(62)
Administrative expenses	(315)	(272)	(906)	(766)
Purchased options expense(1)	(1,378)	(413)	(2,664)	(615)
Debt extinguishments	(138)	(207)	(534)	(433)
Income before federal income taxes and cumulative effect of change in accounting principle	1,301	1,604	4,821	4,994
Provision for federal income taxes	(307)	(375)	(1,154)	(1,237)
Income before cumulative effect of change in accounting principle	994	1,229	3,667	3,757
Cumulative effect of change in accounting principle, net of tax effect(2)	—	—	—	168
Net income	$ 994	$ 1,229	$ 3,667	$ 3,925
Preferred stock dividends	(21)	(35)	(79)	(103)
Net income available to common shareholders	$ 973	$ 1,194	$ 3,588	$ 3,822
Basic earnings per common share	$ .98	$ 1.19	$ 3.61	$ 3.82
Diluted earnings per common share	.98	1.19	3.59	3.80
Cash dividends per common share	.33	.30	.99	.90

Balance Sheet Data:	September 30, 2002	December 31, 2001	September 30, 2001
Mortgage portfolio, net	$757,931	$705,167	$686,801
Liquid assets	53,358	76,072	59,944
Total assets	837,711	799,791	766,650
Borrowings:			
Due within one year	345,786	343,492	340,439
Due after one year	454,469	419,975	386,553
Total liabilities	822,747	781,673	752,872
Stockholders' equity	14,964	18,118	13,778
Core capital(3)	26,485	25,182	23,777
Total capital(4)	27,282	25,976	24,579

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Operating Earnings Data:				
Operating net income(5)	$ 1,631	$ 1,377	$ 4,722	$ 3,929
Operating earnings per diluted common share	1.62	1.33	4.65	3.80
Total taxable-equivalent revenue(6)	2,987	2,591	8,798	7,315
Average net interest margin	1.16%	1.10%	1.16%	1.07%
Operating return on average realized common equity(7)	26.2	25.5	26.0	25.5
Other Data:				
Average effective guaranty fee rate	.190%	.192%	.186%	.191%
Credit loss ratio(8)	.003	.005	.004	.006
Dividend payout ratio	33.6	25.2	27.4	23.6
Ratio of earnings to combined fixed charges and preferred stock dividends(9)	1.13:1	1.17:1	1.15:1	1.17:1
Mortgage purchases	$ 74,227	$ 64,209	$222,090	$188,206
MBS issues acquired by others	112,592	94,596	322,305	241,885
Outstanding MBS at period-end(10)	990,393	816,724	990,393	816,724
Weighted-average diluted common shares outstanding	994	1,007	999	1,007

(1) Represents the change in the fair value of the time value of purchased options under FAS 133, *Accounting for Derivative Instruments and Hedging Activities.*
(2) Represents the after-tax effect of the adoption of FAS 133 on January 1, 2001.
(3) 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.
(4) Core capital plus the general allowance for losses.
(5) Operating net income is a non-GAAP (generally accepted accounting principles) measure developed by management in conjunction with the adoption of FAS 133 to evaluate and assess the quality of earnings from our principal business activities on a consistent basis. Operating net income excludes the transition gain from the adoption of FAS 133 and unrealized gains and losses on purchased options recorded under FAS 133, and includes purchased options premiums amortized on a straight-line basis over the original average expected life of the option.
(6) Includes revenues net of operating losses and amortization expense of purchased options premiums, plus taxable-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate.
(7) Annualized operating net income less preferred stock dividends divided by average realized common stockholders' equity (common stockholders' equity excluding accumulated other comprehensive income).
(8) Annualized charge-offs, net of recoveries, and foreclosed property expenses as a percentage of average portfolio and average outstanding MBS.
(9) "Earnings" consists of (a) income before federal income taxes and cumulative effect of accounting changes and (b) fixed charges. "Fixed charges" represent interest expense.
(10) 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, 2002

Results of Operations

We recorded net income for the third quarter of 2002 of $994 million and diluted earnings per share ("EPS") of $.98, compared with net income of $1.229 billion and EPS of $1.19 in the third quarter of 2001. Net income for the first nine months of 2002 decreased 7 percent from the first nine months of 2001 to $3.667 billion, while EPS decreased 6 percent to $3.59. Our reported results are based on generally accepted accounting principles ("GAAP"), which include the effects of our January 1, 2001 adoption of Financial Accounting Standard No. 133 ("FAS 133"), *Accounting for Derivative Instruments and Hedging Activities*. FAS 133 may create significant earnings volatility in our reported results because it requires us to record unrealized gains and losses on purchased options that we use to manage interest rate risk in our income statement, but it does not allow us to record similar changes in the fair value of options in our callable debt or mortgages. We expect purchased options expense to vary, often substantially, from period to period with changes in interest rates and expected interest rate volatility.

The decrease in our quarterly and year-to-date income is due primarily to increases in unrealized losses on purchased options. These losses occurred due to a change in interest rates that caused a shift under FAS 133 between the time value and the intrinsic value of our purchased options. This shift was unrelated to portfolio rebalancing actions we took during the quarter. Purchased options expense increased to $1.378 billion in the third quarter of 2002 from $413 million in the third quarter of 2001. Purchased options expense for the first nine months of 2002 totaled $2.664 billion, significantly higher than the $615 million expense recorded in the first nine months of 2001. Excluding the impact of purchased options expense, we experienced solid growth in all areas of our operations. Net interest income and guaranty fee income during the third quarter of 2002 increased 25 percent and 21 percent, respectively, over the prior year third quarter. Net interest income for the first nine months of 2002 grew 33 percent over the first nine months of 2001, and guaranty fee income for the first nine months of 2002 increased 19 percent over 2001. The increases in net interest income and guaranty fee income in both periods were due largely to strong growth in our book of business. Our net interest income also benefited from continued elevation of our net interest margin from actions taken during 2001 to lower our debt costs.

In conjunction with the adoption of FAS 133 in 2001, management also began tracking performance based on "operating net income," which is a non-GAAP measure we developed to evaluate and assess the quality of Fannie Mae's earnings from our principal business activities on a consistent basis. Our operating net income measure provides consistent accounting treatment for purchased options and the embedded option in callable debt—economically equivalent funding transactions that we use to protect against the prepayment option in mortgages—by allocating the cost of purchased options on a straight-line basis over the original expected life of the option. If we issue noncallable debt combined with the purchase of options to fund the purchase of mortgages and protect against the prepayment option in mortgages, we are required under FAS 133 to record the unrealized period-to-period fluctuations in the changes in time value of the purchased options in earnings. If instead, we issue callable debt to fund the purchase of the same mortgages, we would recognize the expense related to the option in our callable debt ratably over the life of the debt as part of interest expense. Although the two transactions have a similar economic effect, GAAP requires different accounting treatment for these two transactions. Operating net income is also useful because it reflects our strategy to hold options to maturity and not realize period-to-period fluctuations in option values.

Operating net income excludes the transition gain from the adoption of FAS 133 and unrealized gains and losses on purchased options recorded under FAS 133, and includes purchased options

premiums amortized on a straight-line basis over the original expected life of the option. Operating net income does not exclude any other accounting effects related to the application of FAS 133. While operating net income is not a defined term within GAAP and may not be comparable to similarly titled measures reported by other companies, management believes it is a meaningful measure of Fannie Mae's performance and a valuable assessment tool because it reflects the underlying economics of our use of purchased options that are a substitute for callable debt in a manner consistent with our accounting treatment of callable debt.

Operating net income and operating EPS in the third quarter of 2002 grew 18 percent and 22 percent, respectively, over third quarter 2001 to $1.631 billion and $1.62. Operating net income and operating EPS in the first nine months of 2002 grew 20 percent and 22 percent, respectively, over the first nine months of 2001 to $4.722 billion and $4.65. The increase in operating net income was driven primarily by growth in Fannie Mae's portfolio, net interest margin, and guaranty fee income. The following table reconciles our reported GAAP net income to operating net income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
	(Dollars in millions)			
GAAP net income	$ 994	$1,229	$3,667	$3,925
Cumulative after-tax gain upon adoption of FAS 133	—	—	—	(168)
After-tax expense from the change in the fair value of the time value of purchased options	896	269	1,731	400
After-tax amortization expense of purchased options premiums	(259)	(121)	(676)	(228)
Operating net income	$1,631	$1,377	$4,722	$3,929

Highlights of Fannie Mae's third quarter 2002 performance versus third quarter 2001 include:

- *Record commitments to purchase mortgages of $128 billion,*
- *Growth in taxable-equivalent revenues of 15 percent,*
- *Growth in adjusted net interest income of 16 percent,*
- *An average net interest margin of 116 basis points compared with 110 basis points,*
- *Growth in guaranty fee income of 21 percent,*
- *A decline in credit-related losses to $14 million from $19 million, and*
- *Losses of $138 million from the call and repurchase of debt compared with $207 million.*

Taxable-equivalent revenue increased 15 percent and 20 percent over the third quarter and first nine months of 2001 to $2.987 billion and $8.798 billion, respectively, largely due to growth in adjusted net interest income. Taxable-equivalent revenue represents total revenue, less operating losses and amortization expense of purchased options premiums, adjusted to reflect the benefits of tax-exempt income and investment tax credits based on applicable federal income tax rates.

Following the adoption of FAS 133, we also began measuring net interest income on an adjusted basis and calculating our net interest margin based on taxable-equivalent adjusted net interest income. We believe adjusted net interest income provides a meaningful basis to measure Fannie Mae's performance because it reflects, in the same manner as our operating net income measure, consistent accounting for the costs we incur to structure our debt to hedge the prepayment option in mortgages. Adjusted net interest income is reported GAAP net interest income adjusted to include straight-line amortization expense of purchased options premiums. Adjusted net interest income is comparable to our reported GAAP net interest income prior to our adoption of FAS 133, which included the

amortization expense of purchased options premiums on a straight-line basis over the original expected life of the option. With the adoption of FAS 133, this expense is now included in the change in the fair value of the time value of purchased options that is reported in the income statement category "purchased options expense."

Adjusted net interest income for the third quarter of 2002 increased 16 percent to $2.192 billion and increased 22 percent to $6.514 billion for the first nine months of 2002 over the prior year periods. During the third quarter of 2002, we grew the average net mortgage portfolio by 10 percent and the average net interest margin by 6 basis points over the same prior year period. The average mortgage portfolio increased by 13 percent and the average net interest margin increased by 9 basis points in the first nine months of 2002. Our net interest margin for the first nine months of 2002 continued to benefit from an unusually steep yield curve and low short-term interest rates. A drop in mortgage interest rates to the lowest levels in 40 years during the third quarter of 2002 spurred a refinancing wave that increased the supply of mortgages in the secondary market and caused mortgage-to-debt spreads to widen. Because of attractive purchase opportunities, our retained commitments surged to a record $128.0 billion during the third quarter of 2002, up from $54.1 billion during the third quarter of 2001. We expect our average net interest margin to move lower over the remainder of 2002 and into 2003 if mortgage liquidations increase as expected. The results of our *Portfolio Investment business*, which manages the interest rate risk of Fannie Mae's mortgage portfolio and other nonmortgage investments, is largely reflected in adjusted net interest income.

The following table presents an analysis of our reported GAAP net interest income, adjusted net interest income, taxable-equivalent adjusted net interest income, net interest margin, and average balances for the three-month and nine-month periods ended September 30, 2002 and 2001.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
Interest income:				
Mortgage portfolio	$ 12,383	$ 11,836	$ 36,880	$ 34,466
Nonmortgage investments and cash equivalents	382	611	1,208	2,194
Total interest income	12,765	12,447	38,088	36,660
Interest expense:				
Short-term debt	624	1,345	2,085	4,923
Long-term debt	9,550	9,023	28,449	26,051
Total interest expense	10,174	10,368	30,534	30,974
GAAP net interest income	2,591	2,079	7,554	5,686
Amortization of purchased options premiums	(399)	(187)	(1,040)	(351)
Adjusted net interest income	2,192	1,892	6,514	5,335
Taxable-equivalent adjustment(1)	128	120	377	344
Taxable-equivalent adjusted net interest income	$ 2,320	$ 2,012	$ 6,891	$ 5,679
Average balances:				
Interest-earning assets(2):				
Mortgage portfolio, net	$738,812	$673,170	$729,071	$647,809
Nonmortgage investments and cash equivalents	64,584	57,586	66,312	56,690
Total interest-earning assets	$803,396	$730,756	$795,383	$704,499
Interest-bearing liabilities(3):				
Short-term debt	$122,056	$135,913	$127,454	$137,243
Long-term debt	658,948	571,709	644,409	543,767
Total interest-bearing liabilities	781,004	707,622	771,863	681,010
Interest-free funds	22,392	23,134	23,520	23,489
Total interest-bearing liabilities and interest-free funds	$803,396	$730,756	$795,383	$704,499
Average interest rates(1):				
Interest-earning assets:				
Mortgage portfolio, net	6.72%	7.09%	6.78%	7.14%
Nonmortgage investments and cash equivalents	2.40	4.31	2.46	5.22
Total interest-earning assets	6.37	6.87	6.42	6.99
Interest-bearing liabilities(3):				
Short-term debt	2.03	3.94	2.27	4.76
Long-term debt	6.02	6.44	6.07	6.48
Total interest-bearing liabilities	5.40	5.96	5.45	6.13
Investment spread(4)	.97	.91	.97	.86
Interest-free return(5)	.19	.19	.19	.21
Net interest margin(6)	1.16%	1.10%	1.16%	1.07%

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

(2) Includes average balance of nonperforming loans of $4.5 billion and $4.4 billion for the three- and nine-month periods ended September 30, 2002, respectively, compared with $2.6 billion and $2.4 billion for the three- and nine-month periods ended September 30, 2001.

(3) 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. The cost of debt includes expense for the amortization of purchased options premiums.

(4) 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.

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

(6) Based on taxable-equivalent adjusted net interest income as a percentage of average interest-earning assets.

The following rate/volume analysis shows the changes in GAAP net interest income attributable to changes in rates and volume of our mortgage assets, nonmortgage investments, and debt for the three- and nine-month periods ended September 30, 2002 and 2001.

Rate/Volume Analysis

(Dollars in millions)

Third Quarter 2002 vs. Third Quarter 2001	Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate
Interest income:			
Mortgage portfolio	$ 547	$1,118	$ (571)
Nonmortgage investments and cash equivalents	(229)	67	(296)
Total interest income	318	1,185	(867)
Interest expense(2):			
Short-term debt	(721)	(126)	(595)
Long-term debt	527	1,304	(777)
Total interest expense	(194)	1,178	(1,372)
GAAP net interest income	$ 512	$ 7	$ 505

First Nine Months 2002 vs. First Nine Months 2001	Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate
Interest income:			
Mortgage portfolio	$ 2,414	$4,171	$(1,757)
Nonmortgage investments and cash equivalents	(986)	325	(1,311)
Total interest income	1,428	4,496	(3,068)
Interest expense(2):			
Short-term debt	(2,838)	(329)	(2,509)
Long-term debt	2,398	4,556	(2,158)
Total interest expense	(440)	4,227	(4,667)
GAAP net interest income	$ 1,868	$ 269	$ 1,599

(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 that derivative financial instruments may have on our interest-bearing liabilities.

Guaranty fee income increased by $79 million, or 21 percent, to $463 million in the third quarter of 2002, compared with $384 million in the third quarter of 2001. This increase resulted from a 22 percent growth in average outstanding MBS, partially offset by a slight decline in the average effective guaranty fee rate to 19.0 basis points in the third quarter of 2002 from 19.2 basis points in the third quarter of 2001. For the first nine months of 2002, guaranty fee income increased by $209 million, or 19 percent, to $1,293 million compared with the first nine months of 2001. This increase was the result of a 22 percent increase in average outstanding MBS due to strong volumes stemming from increased refinancing activity, partially offset by a .5 basis point decrease in the average effective guaranty fee rate to 18.6 basis points. The average effective guaranty fee rate declined primarily due to the liquidation of higher-fee rate MBS. Our *Credit Guaranty business* manages Fannie Mae's credit risk. Results of this line of business are primarily reflected in guaranty

fee income and credit-related expenses. For the Credit Guaranty business, GAAP net income and operating net income are the same.

Fee and other income increased $43 million to $91 million in the third quarter of 2002, compared with $48 million in the third quarter of 2001. Fee and other income for the first nine months of 2002 increased $37 million to $137 million, compared with $100 million for the first nine months of 2001. The increases in fee and other income were primarily due to higher technology and transaction fees resulting from increased transaction volumes related to higher refinancing activities and realized gains recognized on the sale of available-for-sale securities. Fee and other income includes technology fees, transaction fees, multifamily fees, and other miscellaneous items, and is net of operating losses from certain tax-advantaged investments in affordable housing projects.

Administrative expenses in the third quarter of 2002 totaled $315 million, up 16 percent from the third quarter of 2001 primarily due to increased costs associated with reengineering the technology underlying Fannie Mae's core operating infrastructure and systems. However, our efficiency ratio (ratio of administrative expenses to taxable-equivalent revenue) remained stable at 10.5 percent for both the third quarter of 2002 and the third quarter of 2001. For the first nine months of 2002, administrative expenses grew 18 percent to $906 million, compared with the same period in 2001. Our efficiency ratio improved to 10.3 percent for the first nine months of 2002 from 10.5 percent for the first nine months of 2001. Our ratio of annualized administrative expenses to the average mortgage portfolio plus average outstanding MBS (average combined book of business) decreased slightly to .073 percent for the three-month period ended September 30, 2002 from .074 percent in the corresponding prior year period. This ratio remained stable at .073 percent for the nine-month period ended September 30, 2002 compared with the corresponding prior year period.

Purchased options expense totaled $1.378 billion and $2.664 billion, respectively, during the three- and nine-month periods ended September 30, 2002, and $413 million and $615 million, respectively, during the three- and nine-month periods ended September 30, 2001. Purchased options expense represents the change in the fair value of the time value of purchased options during the reporting period. Purchased options expense for the three- and nine-month periods ended September 30, 2002 and 2001 includes $399 million and $1.040 billion, and $187 million and $351 million, respectively, in amortization expense that would have been reported in net interest income prior to the adoption of FAS 133. The increase in purchased options expense was driven by the significant change in interest rates, which was partially offset by an increase in interest rate volatility. The unrealized loss in time value of our purchased options during the quarter was more than offset by an increase in intrinsic value that is not reflected in our reported GAAP income results. The change in the fair value of the time value of purchased options will vary from period to period with changes in interest rates and market views on interest rate volatility. The net expense included in earnings over the original average expected life of an option will equal the option premium paid. Prior to the adoption of FAS 133, we amortized premiums on purchased options into interest expense on a straight-line basis over the life of the option.

Debt extinguishments created losses of $138 million from the call or repurchase of debt in the third quarter of 2002, compared with losses of $207 million in the third quarter of 2001. We regularly call or repurchase debt as part of our interest rate risk management program. Debt called or repurchased in the third quarter of 2002 totaled $66 billion, compared with $33 billion in the third quarter of 2001. We incurred debt extinguishment losses of $534 million from the call or repurchase of debt in the first nine months of 2002, compared with debt extinguishment losses of $433 million in the first nine months of 2001. We called or repurchased $127 billion of debt in the first nine months of 2002, compared with $148 billion in the first nine months of 2001. We continued to call or repurchase debt in the first nine months of 2002 as a result of the sharp decline in interest rates that began in 2001. During the second quarter of 2002, we adopted Financial Accounting Standard No. 145 (FAS 145), *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, which eliminates extraordinary treatment of gains and losses on our debt

repurchases. For comparative purposes, we have reclassified all prior periods to reflect this revised reporting.

Federal income tax expense decreased $68 million to $307 million in the third quarter of 2002 from $375 million in the third quarter of 2001. Federal income tax expense, including the tax impact from the cumulative effect of the change in accounting principle from the adoption of FAS 133, decreased $173 million to $1.154 billion in the first nine months of 2002 from $1.327 billion in the first nine months of 2001. Fannie Mae's effective federal income tax rate was 24 percent for both the third quarter and first nine months of 2002, compared with 23 percent and 25 percent, respectively, for the third quarter and first nine months of 2001. Fannie Mae's effective federal income tax rate on operating income was 28 percent and 27 percent for the third quarter and first nine months of 2002, respectively, compared with 25 percent in each of the corresponding prior year periods. The increase in our effective tax rate on operating income was due primarily to lower tax credits from affordable housing investments.

Our results for the first nine months of 2001 include pre-tax income of $258 million ($168 million after-tax) in the first quarter of 2001 from the change in accounting principle recorded upon adoption of FAS 133 on January 1, 2001. The cumulative effect on earnings from the change in accounting principle is attributable to recording at adoption of FAS 133 on January 1, 2001, the fair value of the time value of purchased options used as a substitute for callable debt.

Performance Outlook

Our performance outlook for 2002 remains consistent with our previous guidance of growth in operating EPS above our long-term trend growth rate. We expect our net interest margin to move lower during the fourth quarter of 2002 and into 2003, particularly if mortgage prepayments increase as anticipated over the remainder of the year. However, we expect continued strong performance in 2003. Our anticipation of accelerated growth in our portfolio at wider than normal spreads and a substantial increase in liquidations of higher coupon mortgages make it difficult to provide precise earnings guidance for 2003 at this time. We anticipate a modest increase in credit losses in 2003 from the extreme low levels experienced thus far in 2002, although we expect our loss per foreclosure to remain at historic lows. We do not expect the high teens growth rate in administrative expenses during 2002 to continue in 2003. Growth in administrative expenses in 2003 should return to a rate more in line with the trend of the previous few years.

Risk Management

Fannie Mae is exposed to several major areas of risk, including interest rate risk and credit risk, that are described and discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operation (MD&A)—Risk Management."

Interest Rate Risk Management

Net interest income at risk and portfolio duration gap are the two principal measures we use to assess interest rate risk in our Portfolio Investment business.

Net interest income at risk is our primary ongoing business measure of interest rate risk as it is a comprehensive measure that incorporates the effect of new business. Net interest income at risk measures the sensitivity of our projected adjusted 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. 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 a one month 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.

Net interest income at risk expresses the percentage change in projected adjusted net interest income under the more adverse interest rate and yield curve scenarios. Our 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, 2002:

	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 2002	4.4%	3.9%	5.3%	6.4%

A positive number indicates the percent by which projected adjusted net interest income could be reduced by the rate shock. These calculations reflect management's assumptions of most likely market conditions. Actual portfolio adjusted net interest income may differ from these calculations because of specific interest rate movements, changing business conditions, changing prepayments, and management actions.

Unlike net interest income at risk, our duration gap measure does not reflect the effect of adding new business to the mortgage portfolio. The portfolio duration gap measures the difference between the durations of portfolio assets and liabilities and summarizes 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 an exposure to rising interest rates, and a negative duration gap indicates an exposure to declining interest rates. In computing duration gap, we use a modified option-adjusted duration calculation.

With the decline in interest rates during 2002 and the related expected surge in refinancings, the durations of our mortgages shortened by more than the durations of our debt, causing our duration gap to trend negative during the year. After falling to minus 14 months at the end of August 2002 from minus 4 months in June 2002, our duration gap improved to minus 10 months at the end of September 2002. At the end of 2001, our duration gap was positive 5 months. The duration gap has been outside of our preferred range of plus or minus six months for three of the nine month-end periods during 2002. In comparison, our duration gap was outside our preferred range twice during the same prior year period. The movement in the duration gap outside our preferred range during 2002 was not unexpected given the significant refinancing activity that has resulted from the plunge in mortgage interest rates to their lowest level in more than 40 years. Our duration gap was also outside our target range during each of the prior major refinancing waves in 2001, 1998, and 1993. Over the past decade, Fannie Mae's duration gap has been outside of our target range approximately one-third of the time.

Credit Risk Management

Fannie Mae's credit performance improved in the third quarter and first nine months of 2002 versus the prior year periods. Our credit loss ratio—annualized credit-related losses as a percentage of the average combined book of business—decreased to .3 basis points in the third quarter of 2002 from .5 basis points in the third quarter of 2001, and decreased to .4 basis points in the first nine months of 2002 from .6 basis points in the first nine months of 2001.

Credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, declined $5 million to $14 million in the third quarter of 2002 from the third quarter of 2001. Credit-related losses decreased $11 million to $53 million in the first nine months of 2002 from the first nine months of 2001. Our credit loss per case in the third quarter of 2002 was $2,300, down from $3,600 in the third quarter of 2001. The robust housing market and continued home price gains drove the decrease in credit-related losses. An increase in recoveries on charged-off properties more than offset the increase in foreclosure costs stemming from the rise in the number of properties acquired.

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, 2002 and 2001.

	Delinquency Rate(1)		Number of Properties Acquired				Net Charge-offs / (Recoveries) (Dollars in millions)			
	At September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Single-family	.44%	.45%	5,060	3,435	14,085	10,594	$(40)	$(26)	$(109)	$(83)
Multifamily	.09%	.10%	2	—	2	1	1	—	3	—
Total							$(39)	$(26)	$(106)	$(83)

(1) Single-family serious delinquencies consist of those conventional loans in the portfolio or underlying outstanding 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 delinquency rates are based on the number of such single-family loans and the multifamily delinquency rates are based on the dollar amount of such multifamily loans in the portfolio and underlying outstanding MBS.

Our inventory of single-family properties held as a result of foreclosure increased to 9,129 as of September 30, 2002 from 7,073 at December 31, 2001, primarily due to the economic slowdown. We had two multifamily properties in our inventory at September 30, 2002. We did not have any multifamily properties in our inventory at December 31, 2001.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, decreased $2 million to $13 million in the third quarter of 2002 from the third quarter of 2001. Total credit-related expenses decreased $3 million to $59 million in the first nine months of 2002 from the first nine months of 2001. The decrease in credit related expenses during both periods was due to an increase in the negative provision for losses that more than offset an increase in foreclosed property expense.

The allowance for losses increased to $812 million at September 30, 2002 from $806 million at December 31, 2001. The allowance for losses declined as a percentage of Fannie Mae's total book of business to .047 percent at September 30, 2002 from .052 percent at December 31, 2001. Nonperforming loans outstanding totaled $4.6 billion at September 30, 2002, compared with $3.7 billion at December 31, 2001.

The use of credit enhancement contracts is an important tool to provide protection against credit losses, and they covered a larger amount of single-family credit losses in both the third quarter and first nine months of 2002 versus the prior year periods. The following table shows the extent to which credit enhancements reduced our single-family credit losses in each period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in millions	2002	2001	2002	2001
Gross single-family credit losses	$ 89	$ 72	$ 279	$ 232
Credit enhancement reimbursement	(76)	(55)	(229)	(170)
Single-family credit losses	$ 13	$ 17	$ 50	$ 62
Percent of loss absorbed by counterparties	85%	76%	82%	73%
Problem loans repurchased by counterparties	$ 63	$ 51	$ 181	$ 156

Credit enhancement contracts include primary loan-level mortgage insurance, pool mortgage insurance, recourse arrangements with lenders, and other customized contracts, which together absorbed $76 million, or 85 percent, of $89 million in gross single-family losses on loans in the mortgage portfolio and underlying outstanding MBS in the third quarter of 2002. In addition, counterparties repurchased $63 million of problem loans during the quarter. In comparison, credit enhancements absorbed $55 million, or 76 percent, of $72 million in gross single-family credit losses, and counterparties repurchased $51 million of problem loans during the third quarter of 2001. Credit enhancement contracts absorbed $229 million, or 82 percent, of $279 million in gross single-family losses on loans in portfolio and underlying outstanding MBS in the first nine months of 2002 compared with $170 million, or 73 percent, of $232 million during the first nine months of 2001. Counterparties repurchased $181 million in problem loans during the first nine months of 2002, versus $156 million in the first nine months of 2001.

Although credit enhancements reduce our losses, they increase our exposure to counterparty risk. Our primary credit risk on credit enhancements is that counterparties will not fulfill their contractual obligations to make payments due to Fannie Mae. At September 30, 2002, Fannie Mae was the beneficiary on primary mortgage insurance coverage on $323 billion of unpaid principal balance (UPB) of single-family loans in portfolio or underlying MBS. Seven mortgage insurance companies, all rated AA or higher by Standard & Poor's, provided 99 percent of this coverage. At September 30, 2002, the UPB of single-family loans where we had recourse to lenders for losses totaled an estimated $44 billion, with 54 percent of the $44 billion covered by recourse agreements with investment grade counterparties with a rating of BBB−/Baa3 or higher by Standard & Poor's and Moody's Investor Service, respectively. We held $268 million in collateral directly or through custodians on single-family recourse transactions at September 30, 2002. We also retain the right to terminate a lender's contractual status as a Fannie Mae seller/servicer as a result of a lender's nonperformance, to sell the rights to service Fannie Mae loans, and to retain sale proceeds. Lenders with recourse obligations had servicing rights on $1.417 trillion of UPB of mortgages at September 30, 2002.

We also have counterparty performance risk in our derivatives and liquidity investments. Credit risk information related to derivatives and liquidity investments is provided under "Balance Sheet Analysis—Derivative Instruments" and "Balance Sheet Analysis—Investments," respectively.

We disclose on a quarterly basis the sensitivity of our future single-family credit losses to an immediate 5 percent decline in home prices as part of our voluntary safety and soundness initiatives. At June 30, 2002, the present value of Fannie Mae's sensitivity of net future credit losses to an immediate 5 percent decline in home prices was $465 million, taking into account the beneficial effect of third-party credit enhancements. This amount reflects a gross credit loss sensitivity of $1,361 million before the effect of credit enhancements and is net of projected credit risk-sharing proceeds of $896 million. Comparative amounts at December 31, 2001 were $487 million, $1,332 million, and $845 million. The sensitivity of future credit losses is calculated based on the present value of the difference between credit losses in a baseline scenario and credit losses assuming an immediate 5 percent decline in home prices, followed by an increase in home prices at the rate projected by our internal credit pricing models.

Balance Sheet Analysis

Mortgage Portfolio

As of September 30, 2002, the net mortgage portfolio totaled $758 billion with an average yield of 6.64 percent, compared with $705 billion with an average yield of 6.95 percent as of December 31, 2001 and $687 billion with an average yield of 7.07 percent as of September 30, 2001. The decline in the net mortgage portfolio yield was primarily due to a decrease in interest rates as conventional mortgage purchase yields on new purchases fell and prepayments on mortgages with higher yields increased.

We purchased $74 billion of mortgages at an average yield of 5.94 percent in the third quarter of 2002, compared with $64 billion of mortgage purchases at an average yield of 6.72 percent in the third quarter of 2001. The increase in mortgage purchases between the third quarter of 2002 and 2001 primarily resulted from increased availability of mortgages in the secondary market, which contributed to wider mortgage-to-debt spreads. During the first nine months of 2002, mortgage purchases were $222 billion at an average yield of 6.21 percent, compared with purchases of $188 billion at an average yield of 6.78 percent for the first nine months of 2001.

Mortgage loan repayments increased during the third quarter of 2002 to $62 billion from $40 billion in the third quarter of 2001. During the first nine months of 2002, mortgage loan repayments increased to $168 billion from $104 billion in the first nine months of 2001. The increase in loan repayments was primarily due to an increased level of refinance activity in a lower interest rate environment.

At September 30, 2002, our outstanding mandatory commitments to purchase mortgages increased to $84 billion versus $55 billion of such commitments at December 31, 2001 and $29 billion at September 30, 2001. The increase in commitments was primarily due to increased supply from refinancings and more attractive mortgage-to-debt spreads. Mandatory commitments issued to purchase mortgages, net of commitments to sell mortgages, increased to $128 billion during the third quarter of 2002 from $54 billion during the third quarter of 2001.

On September 13, 2002, concurrent with the implementation of new risk-based capital rule issued by our regulator, Office of Federal Housing Enterprise Oversight (OFHEO), we reclassified $135 billion of securities in our mortgage and nonmortgage investment portfolios from held-to-maturity to available-for-sale in a noncash transfer in accordance with FAS 115. The transferred amounts included $124 billion of securities in our mortgage portfolio with unrealized gains of $5.364 billion and unrealized losses of $53 million at the time of the transfer and $11 billion of securities in our nonmortgage investment portfolio with unrealized gains of $139 million and unrealized losses of $6 million at the time of the transfer.

Unrelated to this transfer, we sold $1.436 billion of available-for-sale securities from our mortgage portfolio during the third quarter of 2002. We recognized gross realized gains of $34 million and gross realized losses of $1 million on the sale of these securities.

Our mortgage portfolio includes approximately $10 billion of mortgage-related securities secured by manufactured housing. Several of these securities were downgraded during the year because of weakness in the manufactured housing sector and the deteriorating financial condition of Conseco Finance Corp., which services 70 percent of our manufactured housing securities. All of the securities, however, continue to have investment grade ratings, with the vast majority rated AA- or higher. Based on the current ratings of these securities and the current market values, potential impairment that might be recorded in the future is expected to be immaterial to Fannie Mae's financial statements.

Nonmortgage Investments

Presented below are the amortized cost and fair value of the Liquid Investment Portfolio and other nonmortgage investments classified as held-to-maturity at September 30, 2002 and December 31, 2001.

	September 30, 2002						December 31, 2001					
Dollars in millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Maturity in Months	% Rated A or Better	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Maturity in Months	% Rated A or Better
Held-to-maturity investments:												
Repurchase agreements	$ 7,522	$—	$—	$ 7,522	3.6	100.0%	$ 9,380	$ —	$—	$ 9,380	.5	100.0%
Eurodollar time deposits	4,668	—	—	4,668	1.7	100.0	11,185	—	—	11,185	.3	100.0
Federal funds	1,100	—	—	1,100	2.0	100.0	4,904	—	—	4,904	.4	100.0
Auction rate preferred stock	927	—	—	927	1.2	100.0	2,127	—	—	2,127	1.7	100.0
Commercial paper	100	—	—	100	3.8	100.0	2,844	1	—	2,845	.6	100.0
Asset-backed securities(1)	—	—	—	—	—	—	6,065	88	—	6,153	10.6	100.0
Other	258	1	—	259	39.8	100.0	2,166	73	—	2,239	16.7	56.4
Total	$14,575	$ 1	$—	$14,576	3.4	100.0%	$38,671	$162	$—	$38,833	3.0	97.5%

(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.

Presented below are the amortized cost and fair value of the Liquid Investment Portfolio and other nonmortgage investments classified as available-for-sale at September 30, 2002 and December 31, 2001.

	September 30, 2002						December 31, 2001					
Dollars in millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Maturity in Months	% Rated A or Better	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Average Maturity in Months	% Rated A or Better
Available-for-sale investments:												
Asset-backed securities(1)	$20,910	$ 78	$—	$20,988	27.9	100.0%	$14,876	$—	$ 4	$14,872	26.2	99.9%
Floating rate notes(1)	11,888	—	46	11,842	13.2	87.6	12,114	—	33	12,081	18.2	84.3
Taxable auction notes	1,416	—	—	1,416	0.3	100.0	—	—	—	—	—	—
Corporate bonds	1,329	42	—	1,371	14.0	33.0	—	—	—	—	—	—
Auction rate preferred stock	210	—	5	205	2.3	69.8	—	—	—	—	—	—
Commercial paper	174	—	—	174	3.0	100.0	8,879	1	—	8,880	.9	100.0
Other	650	—	—	650	2.7	100.0	50	—	—	50	9.5	100.0
Total	$36,577	$120	$51	$36,646	20.9	93.4%	$35,919	$ 1	$37	$35,883	17.2	94.7%

(1) As of September 30, 2002, 100 percent of asset-backed securities and floating rate notes reprice at intervals of 90 days or less.

We recorded the following gross realized gains and losses from the sale of nonmortgage investments classified as available-for-sale during the three and nine month periods ended September 30, 2002 and 2001.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Gross realized gains	$2.9	$1.0	$4.2	$7.2
Gross realized losses	.2	—	1.7	2.2

The following table shows the amortized cost, fair value, and yield of the Liquid Investment Portfolio and other nonmortgage investments at September 30, 2002 and December 31, 2001 by remaining maturity.

	September 30, 2002			December 31, 2001		
Dollars in millions	**Amortized Cost**	**Fair Value**	**Yield**	**Amortized Cost**	**Fair Value**	**Yield**
Due within one year	$23,093	$23,085	2.35%	$42,190	$42,210	2.41%
Due after one year through five years	7,115	7,115	2.65	11,459	11,481	3.01
Due after five years	34	34	4.86	—	—	—
	30,242	30,234	2.42	53,649	53,691	2.54
Asset-backed securities (1)	20,910	20,988	2.64	20,941	21,025	3.07
Total	$51,152	$51,222	2.51%	$74,590	$74,716	2.69%

(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.

The primary credit risk associated with the Liquid Investment Portfolio 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 investments. The majority of asset-backed securities in the Liquid Investment Portfolio are rated AAA by Standard & Poor's. Unsecured investments in the portfolio are generally rated A or higher by Standard & Poor's. At September 30, 2002, 95 percent of the Liquid Investment Portfolio had a credit rating of A or higher, compared with 96 percent at December 31, 2001.

Financing and Other Activities

Fannie Mae's total debt outstanding increased to $800 billion at September 30, 2002 from $763 billion at December 31, 2001 and $727 billion at September 30, 2001. The cost of debt outstanding at September 30, 2002 decreased to 5.18 percent from 5.49 percent at December 31, 2001 and 5.78 percent at September 30, 2001. Our financing activities for the three and nine month periods ended September 30, 2002 and 2001 are summarized below.

Dollars in billions	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Debt issued	$ 472	$ 555	$1,385	$1,459
Average cost	2.33%	3.69%	2.24%	4.49%
Debt redeemed	$ 467	$ 533	$1,357	$1,378
Average cost	2.48%	4.11%	2.35%	4.97%

To offset the increased prepayment risk in our mortgage portfolio resulting from the significant decline in interest rates during the quarter, we increased option-embedded debt instruments as a percentage of the total net mortgage portfolio to 68 percent at the end of the third quarter of 2002 from 47 percent at the end of the third quarter of 2001. The following table compares the amount of option-embedded debt instruments as a percentage of our net mortgage portfolio at September 30, 2002 and September 30, 2001. Option-based debt instruments include the effect of derivative financial instruments.

Dollars in billions	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Issued during the period	$121	$ 58	$239	$191
Outstanding at end of period	514	322		
Percentage of total net mortgage portfolio	68%	47%		

The following table shows callable and noncallable option-embedded financial instruments at September 30, 2002. The table summarizes the amounts and call periods of callable debt, callable swaps, and receive-fixed swaptions, excluding $16 billion of callable debt that was swapped to variable-rate debt, and includes the notional amount of pay-fixed swaptions and caps. We also include in the table debt securities (*i.e.,* callable debt securities) that are redeemable at our option.

Dollars in millions	Call Date	Year of Maturity	Amount Outstanding	Average Cost
Callable debt, callable swaps, and receive-fixed swaptions:				
	Currently callable	2004-2009	$ 716	4.89%
	2002	2002-2021	37,582	4.83
	2003	2003-2031	125,302	5.05
	2004	2004-2022	71,363	6.04
	2005	2007-2030	24,862	6.18
	2006	2010-2031	22,284	6.25
	2007	2011-2032	16,633	6.43
	2008 and later	2012-2030	16,336	6.71
			315,078	5.57%
Pay-fixed swaptions			94,850	
Interest-rate caps			104,493	
Total option-embedded financial instruments			$514,421	

Derivative Instruments

Derivative instruments are important tools that we use to manage interest rate risk. We primarily use derivatives as a substitute for notes and bonds that we issue. The ability to either issue debt or modify debt through the derivatives markets increases our funding flexibility and reduces our overall funding costs. The funding flexibility created by derivatives also helps us to match more closely the duration of our debt with the duration of our mortgage assets, which helps reduce the interest rate risk of prepayments in the mortgage portfolio. We act as an end user of derivatives, and we do not speculate in them. We use only the most straightforward types of derivative instruments, such as interest-rate swaps, basis swaps, swaptions, and caps.

The following table summarizes by derivative type our derivatives activity for the quarter and nine months ended September 30, 2002 and year ended December 31, 2001, the fair values at September 30, 2002, and the expected maturities of the derivative instruments outstanding as of September 30, 2002.

Derivative Activity and Maturity Data

(Dollars in millions)

	Pay-Fixed / Receive Variable Swaps (2)							
	Amount	Pay Rate (3)	Receive Rate (3)	Pay Variable / Receive-Fixed Swaps	Basis Swaps	Caps and Swaptions	Other (4)	Total
Notional Amounts: (1)								
Notional balance at January 1, 2001	$153,737	6.74%	6.79%	$59,174	$14,559	$ 82,528	$14,742	$324,740
Additions	90,787	5.39	3.95	33,230	46,150	168,350	100	338,617
Maturities (5)	30,844	6.41	4.20	53,335	13,655	30,935	1,449	130,218
Notional balance at December 31, 2001	213,680	6.21	2.47	39,069	47,054	219,943	13,393	533,139
Additions	25,952	5.52	1.94	25,968	6,040	49,325	409	107,694
Maturities (5)	2,875	6.38	2.36	14,796	6,684	18,200	3,785	46,340
Notional balance at June 30, 2002	236,757	6.12	1.99	50,241	46,410	251,068	10,017	594,493
Additions	4,185	4.65	1.92	19,331	3,350	88,650	3,827	119,343
Maturities (5)	47,940	6.08	1.86	11,337	9,455	15,150	1,345	85,227
Notional balance at September 30, 2002	$193,002	6.09%	1.89%	$58,235	$40,305	$324,568	$12,499	$628,609
Fair value at September 30, 2002 (6)	$(20,465)			$ 3,147	$ 12	$ 13,526	$ (973)	$ (4,753)
Future Maturities of Notional Amounts: (7)								
2002	$ 16,870	5.49%	1.91%	$ 7,750	$17,715	$ 25,200	$ 3,800	$ 71,335
2003	26,230	5.03	1.88	19,072	16,690	92,593	497	155,082
2004	16,250	5.68	1.87	6,430	4,675	29,750	1,200	58,305
2005	12,350	6.28	1.92	6,455	175	9,250	620	28,850
2006	13,350	6.13	1.86	3,255	100	4,750	0	21,455
Thereafter	107,952	6.48	1.90	15,273	950	163,025	6,382	293,582
Total	$193,002	6.09%	1.89%	$58,235	$40,305	$324,568	$12,499	$628,609

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

(2) Included in the notional amounts are callable swaps of $35 billion, $35 billion, and $32 billion with weighted-average pay rates of 6.75 percent, 6.75 percent, and 6.64 percent and weighted-average receive rates of 1.87 percent, 2.00 percent, and 3.69 percent at September 30, 2002, June 30, 2002, and September 30, 2001, respectively.

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

(4) Includes foreign currency swaps, futures contracts, forward starting swaps, asset swaps, and other derivative instruments that provide a hedge against interest rate fluctuations.

(5) Includes matured, called, exercised, and terminated amounts.

(6) Based on fair value at September 30, 2002, estimated by calculating the cost, on a net present value basis, to settle at current market rates all outstanding derivative contracts.

(7) Based on stated maturities. Assumes that variable interest rates remain constant at September 30, 2002 levels.

Over 99 percent of the notional amount of our outstanding derivative transactions were with counterparties rated A or better by Standard & Poor's at September 30, 2002. Our derivative instruments were diversified among 22 counterparties at September 30, 2002. At September 30, 2002,

7 counterparties represented approximately 72 percent of the total notional amount of outstanding derivatives transactions, and each had a credit rating of A or better.

Although notional principal is a commonly used measure of volume in the derivatives market, it is not a meaningful measure of market or credit risk because the notional amount typically does not change hands. The notional amounts of derivative instruments are used to calculate contractual cash flows to be exchanged and are significantly greater than the potential market or credit loss that could result from such transactions. Our primary credit exposure on a derivative transaction is that a counterparty might default on payments due to Fannie Mae, which could result in having to replace the derivative with a different counterparty at a higher cost. We believe the fair value of derivatives in a gain position after offsetting arrangements, such as master netting agreements and the value of related collateral, is the appropriate measure of Fannie Mae's exposure to counterparty default and the actual credit risk of derivative contracts.

Our derivative credit loss exposure, net of collateral held, was $401 million at September 30, 2002, compared with $110 million at December 31, 2001. We expect the credit exposure on derivative contracts to fluctuate as interest rates change. Our derivative credit loss exposure, net of collateral held, at September 30, 2002 represented approximately three weeks of annualized pre-tax operating earnings. We estimate the exposure to credit loss on derivative instruments by calculating the cost, on a present value basis, to replace at current market rates all outstanding derivative contracts in a gain position.

Our exposure on derivative contracts (after taking into account master settlement agreements that allow for netting of payments, but before consideration of collateral held) was $2.723 billion at September 30, 2002, compared with $766 million at December 31, 2001. We held $2.322 billion of collateral through custodians for derivative instruments at September 30, 2002 and $656 million of collateral at December 31, 2001.

The following table provides a summary of counterparty credit ratings for the exposure on derivatives in a gain position at September 30, 2002 and December 31, 2001.

Derivative Credit Loss Exposure (1)

(Dollars in millions)

	September 30, 2002				December 31, 2001			
		Credit Rating				Credit Rating		
Dollars in millions	AAA	AA	A	Total	AAA	AA	A	Total
Less than 1 year	$ —	$ 23	$ 5	$ 28	$ —	$ —	$ —	$ —
1 to 5 years	—	71	16	87	—	43	43	86
Over 5 years	20	1,582	2,026	3,628	136	671	826	1,633
Subtotal	20	1,676	2,047	3,743	136	714	869	1,719
Maturity Distribution Netting (2)	(20)	(474)	(526)	(1,020)	(136)	(528)	(289)	(953)
Exposure	—	1,202	1,521	2,723	—	186	580	766
Collateral Held	—	981	1,341	2,322	—	95	561	656
Exposure Net of Collateral	$ —	$ 221	$ 180	$ 401	$ —	$ 91	$ 19	$ 110

(1) Represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position. Reported on a net-by-counterparty basis where a legal right of offset exists under an enforceable master settlement agreement. Derivative gains and losses with the same counterparty in the same maturity category are presented net within the maturity category.

(2) Represents impact of netting of derivatives in a gain position and derivatives in a loss position for the same counterparty across maturity categories.

At September 30, 2002 and December 31, 2001, 100 percent of our credit loss exposure on derivatives before and after consideration of collateral held was with counterparties rated A or better by Standard & Poor's. Forty-four percent of our exposure before consideration of collateral held was with counterparties rated AA or better by Standard & Poor's, compared with 24 percent at the end of

2001. Counterparties rated AA or better by Standard & Poor's accounted for 55 percent of our exposure, net of collateral held, at September 30, 2002 and 83 percent at December 31, 2001. The percentage of our exposure with counterparties rated AA or better declined during the quarter due to the credit downgrade of two of our counterparties. Six counterparties with a credit rating of A or better accounted for approximately 97 percent of exposure on derivatives before consideration of collateral held, while seven counterparties with a credit rating of A or better accounted for approximately 97 percent of exposure after consideration of collateral held at September 30, 2002.

We minimize derivative credit risk by dealing only with very high credit quality and experienced counterparties, maintaining a conservative collateral management policy, and regularly monitoring counterparties. Our counterparties consist of large banks, broker-dealers, and other financial institutions, and their highly-rated subsidiaries, that have a significant presence in the derivatives market, most of whom are based in the United States. We have never experienced a loss on a derivative transaction due to credit default by a counterparty. Derivative counterparties are obligated to post specific types of collateral when Fannie Mae is exposed to credit losses exceeding agreed-upon thresholds that are based on counterparty credit ratings. We mark our collateral position daily against our exposure and require transfer of required collateral amounts within two business days. We further reduce our net exposure on derivatives by generally requiring overcollateralization from counterparties whose credit ratings have dropped below predetermined credit rating levels. Each type of collateral is given a specific valuation percentage based on its relative risk. For example, counterparties receive a 100 percent valuation for cash but may receive only a 98 percent valuation percentage for certain U.S. Treasury instruments. All of the collateral posted by our counterparties at September 30, 2002 was in the form of cash or U.S. Treasury securities and was held by a New York based third-party custodian, which monitors the value of posted collateral on a daily basis.

Additional information on derivative instruments is presented in the Notes to Financial Statements.

Capital Resources and Liquidity

Fannie Mae's core capital (defined by our regulator OFHEO 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 $26.5 billion at September 30, 2002 from $25.2 billion at December 31, 2001. Core capital excludes accumulated other comprehensive income (AOCI) because AOCI includes unrealized gains (losses) on derivatives and certain investment securities, but not the related unrealized losses (gains) on other investments or liabilities used to fund the purchase of these investments.

Upon adoption of FAS 133 on January 1, 2001, we recorded a $3.9 billion reduction in AOCI. The $3.9 billion reduction in AOCI was attributable primarily to recording derivatives (mostly pay-fixed interest rate swaps used as substitutes for non-callable debt) that qualify as cash flow hedges on the balance sheet at fair value. FAS 133 requires that entities mark to market derivatives that qualify as cash flow hedges through AOCI to the extent they are effective hedges, but not the hedged items. We recorded net decreases to AOCI of $2.9 billion during the third quarter of 2002 and $4.5 billion for the first nine months of 2002 primarily related to a decrease in the fair value of derivatives used as cash flow hedges that resulted from a decline in interest rates. In conjunction with the September 13, 2002 implementation of our new risk-based capital rule issued by OFHEO, we reclassified $135 billion in mortgage and nonmortgage investment securities from held-to-maturity to available-for-sale. This noncash transfer resulted in a $3.5 billion increase in AOCI.

Fannie Mae had approximately 989 million common shares outstanding as of September 30, 2002, compared with 997 million common shares outstanding as of December 31, 2001. Pursuant, in part, to the capital restructuring program described in the Information Statement under "MD&A—Balance Sheet Analysis—Liquidity and Capital Resources," we repurchased 4.3 million common shares at a weighted-average cost of $71.17 and issued .3 million common shares for

employee and other stock compensation plans during the third quarter of 2002. During the first nine months of 2002, Fannie Mae repurchased 15.0 million common shares at a weighted-average cost of $76.20 and issued 6.5 million common shares for employee and other stock compensation plans and to fund its 2001 commitment of $300 million to the Fannie Mae Foundation.

On July 31, 2002, we redeemed all of the outstanding shares of Fannie Mae's 6.45 percent Series C preferred stock at $50.27771 per share. The redemption price includes dividends of $.27771 per share. At September 30, 2002, preferred stock made up 6.3 percent of Fannie Mae's core capital.

On July 26, 2002, we issued $1.5 billion of subordinated debt that received ratings of Aa2 from Moody's Investors Service, AA− from Standard & Poor's, and AA by Fitch Ratings. Our subordinated debt serves as an important supplement to Fannie Mae's equity capital, although it is not a component of core capital. By the end of 2003, we intend 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 providing adequate capital to support off-balance-sheet MBS. Subordinated debt totaled $7.5 billion at September 30, 2002. Total capital and subordinated debt represented 3.6 percent of on-balance sheet assets at September 30, 2002 versus 3.4 percent at year-end 2001.

Also see "Subsequent Events—Capital Resources and Liquidity" on page 21.

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 regulatory capital standards. We met the applicable core capital standard as of September 30, 2002. Fannie Mae is also subject to a risk-based capital standard. OFHEO announced on September 13, 2002 that the results of this standard would be published in December 2002. On September 30, 2002, OFHEO announced that Fannie Mae's total capital at June 30, 2002 exceeded the amount that would have been required by the risk-based capital standard by $5.075 billion, or 19 percent of our total capital.

As part of our voluntary adoption of measures to enhance disclosure, capital, and market discipline, we 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. We have a contingency plan in place to ensure funding needs are met for three months without access to the agency debt markets. We are 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. Our liquid investments were 6.4 percent of on-balance sheet assets at September 30, 2002.

Mortgage-Backed Securities

We issued $161 billion of MBS during the third quarter of 2002, an increase from $139 billion issued in the third quarter of 2001. MBS issued for the first nine months of 2002 totaled $472 billion, up from $366 billion in the first nine months of 2001. The increase in MBS issued in the first nine months of 2002 was due to a decrease in interest rates and an increase in mortgage originations. REMIC issuances were $36 billion in the third quarter of 2002 and $94 billion in the first nine months of 2002, compared with $26 billion and $49 billion, respectively, for the comparable periods of 2001.

The following table summarizes MBS activity for the three- and nine-month periods ended September 30, 2002 and 2001.

Summary of MBS Activity

(Dollars in millions)

	MBS Issued			Outstanding (1)			
Three Months Ended September 30,	Lender Originated Issues	MBS Purchased for Fannie Mae's Portfolio	MBS Issues Acquired by Others	Fannie Mae Risk	Lender or Shared Risk (2)	Total (3)	Outstanding MBS Held by Other Investors
2002	$156,861	$44,269	$112,592	$1,235,296	$223,649	$1,458,945	$990,393
2001	138,812	44,216	94,596	1,019,216	208,915	1,228,131	816,724
Nine Months Ended September 30,							
2002	$462,819	$140,514	$322,305				
2001	364,150	122,265	241,885				

(1) Based on primary default risk category. Includes MBS held by Fannie Mae and investors other than Fannie Mae. This table classifies lender originated issues 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 $169 billion and $160 billion of MBS at September 30, 2002 and 2001, 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) Includes $469 billion and $411 billion at September 30, 2002 and 2001, respectively, of MBS held by Fannie Mae.

Subsequent Events

Accounting for Stock-Based Compensation

We have elected to adopt the expense recognition provisions of Financial Accounting Standard No. 123 ("FAS 123"), *Accounting for Stock-Based Compensation*, effective January 1, 2003. In accordance with FAS 123, we will recognize the fair value of stock-based compensation at grant date over the service period of the employee as an administrative expense in our income statement. We are continuing to evaluate the effect on our 2003 net income and EPS of adopting the expense recognition provisions of FAS 123.

Capital Resources and Liquidity

On October 28, 2002, we issued $300 million of 5.375 percent Non-Cumulative Preferred Stock, Series I, which is callable on or after October 28, 2007.

On October 15, 2002, the Board of Directors approved a dividend for the quarter ended September 30, 2002 of $.33 per common share; and dividends of $.65625 per Series D preferred share, $.6375 per Series E preferred share, $.4425 per Series F preferred share, $.2288 per Series G preferred share (reflecting the dividend rate adjustment effective as of September 30, 2002), and $.7263 per Series H preferred share for the period from and including September 30, 2002, to but excluding December 31, 2002.

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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, 2002 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and nine-month periods ended September 30, 2002 and 2001. 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, 2001 (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 10, 2002, 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, 2001, 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 10, 2002

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Dollars in millions, except per common share amounts)			
Interest income	$12,765	$12,447	$38,088	$36,660
Interest expense	10,174	10,368	30,534	30,974
Net interest income	2,591	2,079	7,554	5,686
Guaranty fee income	463	384	1,293	1,084
Fee and other income, net	91	48	137	100
Credit-related expenses	(13)	(15)	(59)	(62)
Administrative expenses	(315)	(272)	(906)	(766)
Purchased options expense	(1,378)	(413)	(2,664)	(615)
Debt extinguishments	(138)	(207)	(534)	(433)
Income before federal income taxes and cumulative effect of change in accounting principle	1,301	1,604	4,821	4,994
Provision for federal income taxes	(307)	(375)	(1,154)	(1,237)
Income before cumulative effect of change in accounting principle	994	1,229	3,667	3,757
Cumulative effect of change in accounting principle, net of tax effect	—	—	—	168
Net income	$ 994	$ 1,229	$ 3,667	$ 3,925
Preferred stock dividends	(21)	(35)	(79)	(103)
Net income available to common stockholders	$ 973	$ 1,194	$ 3,588	$ 3,822
Basic earnings per common share:				
Earnings before cumulative effect of change in accounting principle	$ .98	$ 1.19	$ 3.61	$ 3.65
Cumulative effect of change in accounting principle	—	—	—	.17
Net earnings	$ .98	$ 1.19	$ 3.61	$ 3.82
Diluted earnings per common share:				
Earnings before cumulative effect of change in accounting principle	$ .98	$ 1.19	$ 3.59	$ 3.63
Cumulative effect of change in accounting principle	—	—	—	.17
Net earnings	$ .98	$ 1.19	$ 3.59	$ 3.80

CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2002	December 31, 2001
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$757,931	$705,167
Nonmortgage investments	51,221	74,554
Derivatives in gain positions	3,062	954
Other assets	25,497	19,116
Total assets	$837,711	$799,791
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	$345,786	$343,492
Due after one year	454,469	419,975
Derivatives in loss positions	7,815	5,069
Other liabilities	14,677	13,137
Total liabilities	822,747	781,673
Stockholders' equity		
Accumulated other comprehensive loss	(11,521)	(7,065)
Core capital	26,485	25,183
Total stockholders' equity	14,964	18,118
Total liabilities and stockholders' equity	$837,711	$799,791

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,	
	2002	2001	2002	2001
	(Dollars in millions)			
Balance, beginning of period	$17,730	$19,431	$18,118	$20,838
Comprehensive income:				
Net income	994	1,229	3,667	3,925
Other comprehensive income, 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
Upon implementation of risk-based capital standard	3,539	—	3,539	—
Cash flow hedging losses, net	(6,982)	(6,934)	(9,136)	(6,661)
Unrealized gains on securities, net	574	482	1,141	539
Total comprehensive loss	(1,875)	(5,223)	(789)	(6,084)
Dividends	(348)	(335)	(1,063)	(1,003)
Shares repurchased	(305)	(127)	(1,146)	(204)
Preferred stock issued	—	—	—	20
Preferred stock redeemed	(250)	—	(625)	—
Treasury stock issued for stock options, benefit plans, and special contribution	12	32	469	211
Balance, end of period	$14,964	$13,778	$14,964	$13,778

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Dollars in millions)			
Net cash provided by operating activities	$ 1,882	$ 5,345	$ 8,741	$ 12,495
Cash flows from investing activities:				
Purchases of mortgages	(74,625)	(64,103)	(223,624)	(187,877)
Proceeds from sales of mortgages	1,489	598	8,272	4,559
Mortgage principal repayments	61,560	40,302	168,532	105,974
Net (increase) decrease in nonmortgage investments	12,863	384	23,438	(2,891)
Net cash from (used in) investing activities	1,287	(22,819)	(23,382)	(80,235)
Cash flows from financing activities:				
Proceeds from issuance of debt	471,044	552,860	1,381,312	1,450,759
Payments to redeem debt	(466,297)	(533,064)	(1,356,466)	(1,378,096)
Other	(6,653)	(1,077)	(9,587)	(3,471)
Net cash (used in) provided by financing activities	(1,906)	18,719	15,259	69,192
Net increase in cash and cash equivalents	1,263	1,245	618	1,452
Cash and cash equivalents at beginning of period	873	824	1,518	617
Cash and cash equivalents at end of period	$ 2,136	$ 2,069	$ 2,136	$ 2,069

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 2001 have been reclassified to conform with the current presentation. Results for the three- and nine-month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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 April 1, 2002.

During the second quarter of 2002, we adopted Financial Accounting Standard No. 145 (FAS 145), *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, which eliminates the extraordinary treatment of the gains and losses on our debt repurchases. For comparative purposes, we have reclassified all prior periods presented to reflect this revised reporting.

During the third quarter of 2002, in conjunction with the implementation of new risk-based capital rules, we reclassified securities with an amortized cost of $135 billion from held-to-maturity to available-for-sale in a noncash transfer in accordance with FAS 115. The transferred amounts included $124 billion of securities in our mortgage portfolio with unrealized gains of $5.364 billion and unrealized losses of $53 million at the time of the transfer and $11 billion of securities in our nonmortgage investment portfolio with unrealized gains of $139 million and unrealized losses of $6 million at the time of the transfer.

Derivative Instruments and Hedging Activities

We issue various types of debt securities to finance the acquisition of mortgages. We typically use derivative instruments, such as interest rate swaps, swaptions, and interest rate caps, to hedge against the impact of interest rate movements on our debt costs to preserve our mortgage-to-debt interest spreads. We do not engage in the speculative use of derivative instruments.

On January 1, 2001, we adopted Financial Accounting Standard No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities,* as amended by Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. The adoption of FAS 133 resulted in a cumulative after-tax increase to income of $168 million and an after-tax reduction in accumulated other comprehensive income (AOCI) of $3.9 billion. 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 cash flows of a variable-rate instrument or anticipated transaction (cash flow hedge) or a hedge of the fair value of a fixed-rate instrument (fair value hedge). For a derivative qualifying as a cash flow hedge, fair value gains or losses are reported in a separate component of AOCI, net of deferred taxes, in stockholders' equity to the extent the hedge is perfectly effective and then recognized in earnings during the period(s) in which the hedged item affects earnings. For a derivative qualifying as a fair value hedge, fair value gains or losses on the derivative are reported in earnings along with fair value gains or losses on the hedged item attributable to the risk being hedged. For a derivative not qualifying as a hedge, or components of a derivative that are excluded from any hedge effectiveness assessment, fair value gains and losses are reported in earnings.

The following table reflects the hedge classification of the notional balances of outstanding derivatives by type at September 30, 2002 and December 31, 2001.

	September 30, 2002			December 31, 2001		
	Cash Flow Hedges	Fair Value Hedges	Total	Cash Flow Hedges	Fair Value Hedges	Total
			(Dollars in millions)			
Interest rate swaps:						
Pay-fixed	$177,889	$ 15,113	$193,002	$206,617	$ 7,063	$213,680
Receive-fixed and basis	71,733	26,807	98,540	75,134	10,989	86,123
Interest rate caps	104,493	—	104,493	75,893	—	75,893
Swaptions:						
Pay-fixed	94,850	—	94,850	69,650	—	69,650
Receive-fixed	31,725	93,500	125,225	—	74,400	74,400
Other(1)	8,350	4,149	12,499	4,550	8,843	13,393
Total	$489,040	$139,569	$628,609	$431,844	$101,295	$533,139

(1) Includes foreign currency swaps, futures contracts, forward starting swaps, asset swaps, and other derivative instruments that provide a hedge against interest rate fluctuations.

The reconciliation below reflects the change in AOCI, net of taxes, associated with FAS 133 from December 31, 2001 through September 30, 2002:

Dollars in millions	
Balance at December 31, 2001	$ (7,359)
Losses on cash flow hedges, net	(4,882)
Reclassifications to earnings, net	2,728
Balance at June 30, 2002	(9,513)
Losses on cash flow hedges, net	(8,391)
Reclassifications to earnings, net	1,409
Balance at September 30, 2002	$(16,495)

We terminated approximately $39.2 billion in notional balance of interest rate swaps during the third quarter as part of our portfolio rebalancing efforts. At September 30, 2002, we had no open hedge positions on the anticipatory issuance of debt.

Line of Business Reporting

The following table reconciles our line of business operating net income results to our reported GAAP net income results for the three- and nine-month periods ended September 30, 2002 and 2001. Certain amounts for 2001 have been reclassified to conform with the allocation method used for 2002.

Three Months Ended September 30,	2002			2001		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	$2,409	$ 182	$2,591	$1,893	$ 186	$2,079
Guaranty fee income	(342)	805	463	(278)	662	384
Fee and other income (expense)	111	(20)	91	79	(31)	48
Credit-related expenses	—	(13)	(13)	—	(15)	(15)
Administrative expenses	(93)	(222)	(315)	(85)	(187)	(272)
Purchased options expense	(399)	—	(399)	(187)	—	(187)
Debt extinguishments	(138)	—	(138)	(207)	—	(207)
Provision for federal income taxes	(455)	(194)	(649)	(344)	(109)	(453)
Operating net income	1,093	538	1,631	871	506	1,377
FAS 133 adjustments:						
After-tax purchased options expense	(896)	—	(896)	(269)	—	(269)
After-tax purchased options amortization expense	259	—	259	121	—	121
GAAP net income	$ 456	$ 538	$ 994	$ 723	$ 506	$1,229

Nine Months Ended September 30,	2002			2001		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	$ 7,056	$ 498	$ 7,554	$5,129	$ 557	$ 5,686
Guaranty fee income	(997)	2,290	1,293	(811)	1,895	1,084
Fee and other income (expense)	254	(117)	137	151	(51)	100
Credit-related expenses	—	(59)	(59)	—	(62)	(62)
Administrative expenses	(269)	(637)	(906)	(234)	(532)	(766)
Purchased options expense	(1,040)	—	(1,040)	(351)	—	(351)
Debt extinguishments	(534)	—	(534)	(433)	—	(433)
Provision for federal income taxes	(1,313)	(410)	(1,723)	(969)	(360)	(1,329)
Operating net income	3,157	1,565	4,722	2,482	1,447	3,929
FAS 133 adjustments:						
Cumulative after-tax gain upon adoption of FAS 133	—	—	—	168	—	168
After-tax purchased options expense	(1,731)	—	(1,731)	(400)	—	(400)
After-tax purchased options amortization expense	676	—	676	228	—	228
GAAP net income	$ 2,102	$1,565	$ 3,667	$2,478	$1,447	$ 3,925

Operating net income and GAAP net income results are the same for the Credit Guaranty business. The Portfolio Investment business represented $821 billion, or 98 percent of total assets, at September 30, 2002 and $753 billion, or 98 percent of total assets, at September 30, 2001.

Commitments and Contingencies

We had the following outstanding commitments to purchase mortgages and securities, to issue MBS, and to make other investments at September 30, 2002:

	September 30, 2002
	(Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 84
Lender option(1)	3
Average net yield on mandatory delivery	5.55%
Master commitments:	
Mandatory delivery(2)	$ 44
Lender option	19
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.

We also guarantee timely payment of principal and interest on outstanding MBS and provide credit enhancements or other guarantees as summarized below:

	September 30, 2002
	(Dollars in billions)
Total MBS outstanding(1)	$1,458
Amount for which Fannie Mae has primary foreclosure loss risk(2)	1,235
Credit enhancements	4
Other guarantees	8

(1) Includes $469 billion of MBS held by Fannie Mae, net of $588 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 shows the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2002		2001		2002		2001	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)							
Net income before cumulative effect of change in accounting principle	$994	$994	$1,229	$1,229	$3,667	$3,667	$3,757	$3,757
Less:								
Cumulative effect of change in accounting principle	—	—	—	—	—	—	168	168
Preferred stock dividends	(21)	(21)	(35)	(35)	(79)	(79)	(103)	(103)
Net income available to common stockholders	$973	$973	$1,194	$1,194	$3,588	$3,588	$3,822	$3,822
Weighted average common shares	990	990	1,001	1,001	994	994	1,001	1,001
Dilutive potential common shares(1)	—	4	—	6	—	5	—	6
Average number of common shares outstanding used to calculate earnings per common share	990	994	1,001	1,007	994	999	1,001	1,007
Earnings per common share before cumulative effect of change in accounting principle	$ .98	$ .98	$ 1.19	$ 1.19	$ 3.61	$ 3.59	$ 3.65	$ 3.63
Net earnings per common share	.98	.98	1.19	1.19	3.61	3.59	3.82	3.80

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

Other Information

Controls and Procedures

Within 90 days prior to the date of this Supplement, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

In addition, based on this most recent evaluation, we have concluded that there were no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Certification of Chief Executive Officer

I, Franklin D. Raines, certify that:

1. I have reviewed this quarterly Supplement of Fannie Mae;

2. Based on my knowledge, this Supplement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Supplement;

3. Based on my knowledge, the financial statements, and other financial information included in this Supplement, fairly present in all material respects the financial condition, results of operations and cash flows of Fannie Mae as of, and for, the periods presented in this Supplement;

4. The Chief Financial Officer and I are responsible for establishing and maintaining disclosure controls and procedures for Fannie Mae and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to Fannie Mae is made known to us by others within Fannie Mae, particularly during the period in which this Supplement is being prepared;

   b) evaluated the effectiveness of Fannie Mae's disclosure controls and procedures as of a date within 90 days prior to the date of this Supplement (the "Evaluation Date"); and

   c) presented in this Supplement our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Chief Financial Officer and I have disclosed, based on our most recent evaluation, to Fannie Mae's auditors and the audit committee of Fannie Mae's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect Fannie Mae's ability to record, process, summarize and report financial data and have identified for Fannie Mae's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in Fannie Mae's internal controls; and

6. The Chief Financial Officer and I have indicated in this Supplement whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ FRANKLIN D. RAINES

Chairman of the Board and Chief Executive Officer

Certification of Chief Financial Officer

I, Timothy Howard, certify that:

1. I have reviewed this quarterly Supplement of Fannie Mae;

2. Based on my knowledge, this Supplement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Supplement;

3. Based on my knowledge, the financial statements, and other financial information included in this Supplement, fairly present in all material respects the financial condition, results of operations and cash flows of Fannie Mae as of, and for, the periods presented in this Supplement;

4. The Chief Executive Officer and I are responsible for establishing and maintaining disclosure controls and procedures for Fannie Mae and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to Fannie Mae is made known to us by others within Fannie Mae, particularly during the period in which this Supplement is being prepared;

    b) evaluated the effectiveness of Fannie Mae's disclosure controls and procedures as of a date within 90 days prior to the date of this Supplement (the ''Evaluation Date''); and

    c) presented in this Supplement our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Chief Executive Officer and I have disclosed, based on our most recent evaluation, to Fannie Mae's auditors and the audit committee of Fannie Mae's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect Fannie Mae's ability to record, process, summarize and report financial data and have identified for Fannie Mae's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in Fannie Mae's internal controls; and

6. The Chief Executive Officer and I have indicated in this Supplement whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ TIMOTHY HOWARD

Executive Vice President
and Chief Financial Officer

FannieMae