Information Statement

This Information Statement describes the business and operations of the Federal National Mortgage Association ("Fannie Mae") as of March 30, 2000 and its financial condition as of December 31, 1999. It contains Fannie Mae's audited financial statements for the year ended December 31, 1999.

In connection with offerings of securities, Fannie Mae distributes Offering Circulars, Prospectuses, or other offering documents that describe securities offered, their selling arrangements and other information. Although typically incorporated by reference into such selling documents, the Information Statement does not offer any securities for sale. Any incorporation of this Information Statement by reference includes all supplements hereto. You may obtain copies of Fannie Mae's current Information Statement, any supplements and other available information from the office listed on page 2. Fannie Mae updates its Information Statement quarterly.

Fannie Mae is a federally chartered corporation. Its principal office is located at 3900 Wisconsin Avenue, NW, Washington, DC 20016 (202/752-7000). Its 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. At the close of business on February 28, 2000, approximately 1,011 million shares of Fannie Mae's common stock (without par value) were outstanding.

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

March 30, 2000

TABLE OF CONTENTS

Caption	Page
Documents Incorporated by Reference	2
Available Information	2
Business	3
General	3
Mortgage Loan Portfolio	3
Mortgage-Backed Securities	7
Affordable Housing Initiatives and Goals	8
Delinquencies and REO	9
Fee-Based Services	9
Competition	9
Facilities	11
Employees	11
Government Regulation and Charter Act	11
Legal Proceedings	14
Common and Preferred Stock	14
Forward-Looking Information	16
Selected Financial Information: 1995-1999	18
Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Index to Financial Statements	41
Management	75

DOCUMENTS INCORPORATED BY REFERENCE

Fannie Mae's Proxy Statement for the May 2000 Annual Meeting of Shareholders is incorporated by reference herein under ''Management—Additional Information.'' Any later proxy statement published by Fannie Mae prior to the publication of a new Information Statement is incorporated herein by this reference. Fannie Mae will supplement this Information Statement to reflect its quarterly financial results and other events and information as Fannie Mae determines. References to the ''Information Statement'' include any documents incorporated herein by reference and any applicable amendments or supplements. If Fannie Mae modifies or updates information in the Information Statement in a later supplement or in a document incorporated by reference in this Information Statement, the information as modified or updated replaces the information initially reported by Fannie Mae in this Information Statement.

AVAILABLE INFORMATION

Fannie Mae periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. You may obtain copies of this Information Statement and any supplements, as well as Fannie Mae's annual reports to stockholders, quarterly financial releases, the Federal National Mortgage Association Charter Act, Fannie Mae's bylaws and other information regarding Fannie Mae without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016 (telephone: (202/752-7115)). This Information Statement also is available by accessing Fannie Mae's World Wide Web site at http://www.fanniemae.com. You may inspect reports and other information concerning Fannie Mae at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Stock Exchange. Fannie Mae does not file reports or other information with the Securities and Exchange Commission.

BUSINESS

General

Fannie Mae is a federally chartered and stockholder-owned corporation, and is the largest investor in home mortgage loans in the United States. Fannie Mae was established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. It became a stockholder-owned and privately managed corporation by legislation enacted in 1968.

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

Fannie Mae also issues Mortgage-Backed Securities ("MBS"), receiving guaranty fees for its guarantee of timely payment of principal and interest on MBS certificates. Fannie Mae issues MBS primarily in exchange for pools of mortgage loans from lenders. The issuance of MBS enables Fannie Mae to further its statutory purpose of increasing the liquidity of residential mortgage loans.

In addition, Fannie Mae offers various services to lenders and others for a fee. These services include issuing certain types of MBS and credit enhancements and providing technology services for originating and underwriting loans. For information regarding Fannie Mae's mortgage loan, MBS and other activities in 1999, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In this document, both whole loans and participation interests in loans are referred to as "loans," "mortgage loans" and "mortgages." (Fannie Mae purchases participation interests that range from 50 to 99 percent.) The term "mortgage" also is used to refer to the deed of trust or other security instrument securing a loan rather than the loan itself. Mortgage loans secured by four or fewer dwelling units are referred to as "single-family" mortgage loans and mortgage loans secured by more than four dwelling units are referred to as "multifamily" mortgage loans.

Mortgage Loan Portfolio

Mortgage Loans Purchased

Fannie Mae purchases primarily single-family, conventional (i.e., not federally insured or guaranteed), fixed- or adjustable-rate ("ARMs"), first mortgage loans. It also purchases other types of residential mortgage loans for its portfolio, including mortgage loans insured by the Federal Housing Administration ("FHA"), mortgage loans guaranteed by the Department of Veterans Affairs ("VA") or the Rural Housing Service, multifamily mortgage loans and subordinate mortgage loans (i.e., loans secured by second liens, etc.). Fannie Mae's purchases have a variety of maturities and are designed to provide a secondary market for a variety of loans that may be attractive to homeowners. Fannie Mae's mortgage loan purchases for its portfolio include purchases of mortgage-backed securities.

The composition of Fannie Mae's loan portfolio at the end of each of the last five years is shown in the table in "Portfolio Composition." The composition of its purchases during the last three years is shown in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Mortgage Portfolio." Approximately 85 percent of the mortgage loans and mortgage-backed securities that Fannie Mae purchased in 1999 (measured by unpaid principal balance ("UPB")) were from investment banking companies, 5 percent were from mortgage banking companies, 4 percent were from commercial and mutual savings banks, 2 percent were from savings and loan associations and 4 percent were from other institutions.

Principal Balance Limits. Maximum principal balance limits apply to Fannie Mae's mortgage loan purchases. For 1999, Fannie Mae could not purchase conventional mortgage loans on single-family dwellings if the loan's original principal balance exceeded $240,000, except for loans secured by properties in Alaska, Hawaii and the Virgin Islands. Higher principal balance limits apply to loans secured by properties in those areas or secured by two- to four-family dwelling units. The maximum principal balance limits applicable to conventional mortgage loans secured by one- to four-family dwellings can be adjusted by Fannie Mae annually based on the national average price of a single-family dwelling as surveyed by the Federal Housing Finance Board. In January 2000, the maximum principal balance limit was increased to $252,700.

Mortgage loans insured by the FHA or guaranteed by the Rural Housing Service are subject to statutory maximum amount limitations. Fannie Mae will not purchase VA-guaranteed mortgage loans in excess of principal amounts that Fannie Mae specifies from time to time. There are no statutory limits on the maximum principal balance of multifamily mortgage loans that Fannie Mae purchases; however, most purchases are within limits established by Fannie Mae based on per unit dollar amounts set forth in the National Housing Act.

Maturity/Balloon Payments. Fannie Mae currently purchases conventional, single-family fixed- and adjustable-rate mortgage loans with original maturities of up to 30 years and 40 years, respectively. Only a small portion of ARMs purchased have maturities of more than 30 years. The multifamily mortgage loans that Fannie Mae currently purchases for its portfolio generally are conventional fixed-rate loans that have maturities of up to 30 years.

Substantially all fixed-rate mortgage loans purchased by Fannie Mae provide for level monthly installments of principal and interest. Some of these loans have balloon payments due 5, 7 or 10 years after origination, but with monthly payments based on longer (e.g. 30-year) amortization schedules. Many of the 7-year balloon single-family mortgage loans permit the borrower to refinance the balloon payment at maturity with a 23-year fixed-rate mortgage loan if certain requirements are satisfied. Many of the multifamily mortgage loans have balloon payments due 5, 7, 10 or 15 years after origination, but with payments based on 25- or 30-year amortization schedules.

Adjustable Rate. The interest rates on ARMs are determined by formulas providing for automatic adjustment, up or down, at specified intervals in accordance with changes in specified indices. Fixed-period ARMs have a stable interest rate for the first three to ten years, which then is adjusted at specified intervals thereafter. Substantially all ARMs provide for monthly installments of principal and/or interest with the total amount of monthly installments adjusted (up or down) after the interest rate on the loan is adjusted because of changes in the applicable index. Fannie Mae currently purchases single-family ARMs only if the ARMs have a cap on the amount the interest rate may change over the life of the loan. A substantial number of the ARMs purchased provide the mortgagor with the option, at specified times or during specified periods of time, to convert the ARM to a fixed-rate mortgage loan with the payment of a small fee.

Fannie Mae also purchases certain ARMs, called reverse mortgages, that provide for monthly installments of principal to be paid to the borrower. Over the life of the loan, interest and certain other fees accrue on the balance of the payments made to the borrower. Fannie Mae currently purchases reverse mortgages only if the reverse mortgages are subject to a cap on the amount the interest rate may change over the life of the loan. Generally, the loan is due when the borrower no longer occupies the property.

Prepayments

Substantially all of the single-family mortgage loans in Fannie Mae's portfolio are prepayable by the borrower without penalty. Therefore, Fannie Mae bears the risk that prepayments may increase when interest rates decline significantly or as a result of other factors. Fannie Mae manages this risk as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk Management." Most multifamily loans in

Fannie Mae's portfolio provide for defeasance of the loan or require a prepayment premium that is calculated under a formula intended to protect Fannie Mae from loss of yield on its investment in the mortgage loan being prepaid.

Portfolio Composition

The following table shows the composition of Fannie Mae's mortgage loan portfolio and the weighted-average yield (net of servicing) on the mortgage loan portfolio. The table includes mortgage loans that back MBS held in Fannie Mae's mortgage loan portfolio.

Mortgage Loan Portfolio Composition

(Dollars in millions)

	December 31,				
	1999	1998	1997	1996	1995
Single-family:					
Government insured or guaranteed	$ 41,029	$ 21,805	$ 19,478	$ 15,912	$ 13,102
Conventional:					
Long-term, fixed-rate	385,321	297,106	211,541	177,070	140,466
Intermediate-term, fixed-rate	69,019	71,560	61,571	66,284	68,752
Adjustable-rate	14,107	11,873	11,373	12,783	15,108
Second	176	206	268	323	423
Multifamily	14,289	11,965	12,447	14,680	15,660
Total UPB	$523,941	$414,515	$316,678	$287,052	$253,511
Yield	7.08%	7.12%	7.60%	7.69%	7.80%

Commitments

Fannie Mae issues commitments to purchase a specified dollar amount of mortgage loans during a specified term. Fannie Mae purchases mortgage loans through standard product commitments with posted yields and through negotiated commitments.

Most of the mortgage loans Fannie Mae purchases for its portfolio are acquired pursuant to mandatory delivery commitments. Under such commitments, lenders are obligated to sell loans to Fannie Mae at the commitment yield. Mandatory delivery commitments are available for standard product and negotiated transactions. If a lender is not able to deliver the mortgage loans required under a mandatory delivery commitment during its term, the lender may buy back the commitment at any time during the commitment term at a market price.

Fannie Mae issues master commitments to lenders to facilitate the delivery of mortgages into MBS pools or portfolio. In order to deliver under a master commitment, a lender must either deliver mortgages in exchange for MBS or enter into a mandatory delivery portfolio commitment with the yield established upon execution of the portfolio commitment.

Fannie Mae also issues to lenders negotiated standby commitments that commit Fannie Mae to purchase a designated dollar amount of single-family mortgage loans from the lenders if they convert their standby commitments to mandatory delivery portfolio commitments. Standby commitments do not obligate the lenders to sell the loans to Fannie Mae; they are obligated to do so only after such commitments are converted to mandatory delivery portfolio commitments. The yield on the mortgage loans is established at the time of conversion of the standby commitments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources."

Underwriting Guidelines

Fannie Mae has established certain underwriting guidelines for purchases of conventional mortgage loans to help reduce the risk of loss from mortgagor defaults. These guidelines are designed to assess the creditworthiness of the mortgagor, as well as the value of the mortgaged property relative

to the amount of the mortgage loan. Fannie Mae, in its discretion, accepts deviations from the guidelines. Fannie Mae also reviews and changes its guidelines from time to time. As part of its affordable housing initiatives, Fannie Mae continues to introduce new underwriting criteria that could make the mortgage finance system more accessible to minorities, low-and moderate-income families, underserved and rural residents and people with special housing needs. In addition, Fannie Mae is continuing its underwriting initiatives involving alternative methods of assessing the creditworthiness of potential borrowers, among other factors. See "Affordable Housing Initiatives and Goals."

Fannie Mae generally relies on lender representations to ensure that the mortgage loans it purchases conform to its underwriting guidelines. Fannie Mae also performs quality control reviews of selected loans to monitor compliance with the guidelines. In the event that a lender is found to have breached its representations with respect to a loan's compliance with the guidelines, Fannie Mae can demand that the lender repurchase the loan or indemnify Fannie Mae against any loss.

Over the last several years, Fannie Mae has enhanced Desktop Underwriter®, its automated underwriting system, to assist lenders in meeting its underwriting standards. Desktop Underwriter is designed to help lenders process mortgage applications in a more efficient and accurate manner and to apply Fannie Mae's underwriting criteria consistently, objectively and in a more customized manner, to all prospective borrowers. If Desktop Underwriter provides an "approve" recommendation to a loan application, Fannie Mae waives certain representations as long as the loan is originated in accordance with the information that was submitted to Desktop Underwriter.

Fannie Mae generally requires that the UPB of each conventional single-family first mortgage loan it purchases not be greater than 80 percent of the value of the mortgaged property unless at least the excess over the 80 percent level is insured by an insurance company acceptable to Fannie Mae. If mortgage insurance is required initially, Fannie Mae requires it to be maintained as long as the UPB is greater than 80 percent of the original value (or of the appraised value as determined by a subsequent appraisal). Fannie Mae, in its discretion, may accept other credit enhancement structures in lieu of or in addition to requiring mortgage insurance on conventional single-family loans with loan-to-value ("LTV") ratios greater than 80 percent. Fannie Mae also contracts for and manages credit enhancements at or subsequent to acquisition of loans in order to optimize credit risk management. Fannie Mae bears the risk that in some cases parties assuming credit enhancement obligations may be unable to meet their contractual obligations. Fannie Mae regularly monitors this risk and follows specific criteria in evaluating and accepting credit enhancement arrangements in order to minimize its exposure to credit loss.

Fannie Mae has required credit enhancement for a majority of the mortgage loans in its multifamily loan portfolio. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk Management—Multifamily."

Servicing

Fannie Mae does not service mortgage loans, except for some government-insured multifamily loans, which are serviced under a subservicing arrangement with a major servicing entity. Fannie Mae generally manages and markets properties acquired through foreclosure. Mortgage loans held in portfolio or backing MBS can be serviced only by a servicer approved by Fannie Mae, and must be serviced subject to Fannie Mae's guidelines. Usually lenders who sell single-family mortgage loans and conventional multifamily loans to Fannie Mae are approved servicers. Servicing includes the collection and remittance of principal and interest payments, administration of escrow accounts, evaluation of transfers of ownership interests, responding to requests for partial releases of security, granting of easements, handling proceeds from casualty losses, negotiating problem loan workouts and, if necessary, processing of foreclosures. In the case of multifamily loans, servicing also may include performing property inspections, evaluating the financial condition of owners, and administering various types of agreements (including agreements regarding replacement reserves, completion/ repair, and operations and maintenance). Fannie Mae compensates servicers in a number of ways,

including in many cases permitting them to retain a specified portion of each interest payment on a serviced mortgage loan. Fannie Mae reserves the right to remove servicing responsibility from a lender.

Mortgage-Backed Securities

MBS are mortgage pass-through trust certificates issued and guaranteed by Fannie Mae that represent beneficial interests in pools of mortgage loans or other MBS. Fannie Mae serves as trustee for each trust.

MBS are backed by loans from one of three sources: a single lender, multiple lenders, or Fannie Mae's portfolio. Single-lender MBS generally are issued through lender swap transactions in which a lender exchanges pools of mortgage loans for MBS. Multiple-lender MBS allow several lenders to pool mortgage loans together and, in return, receive MBS representing a proportionate share of a larger pool (called Fannie Majors®). MBS may back other securities, including Fannie Megas® (''Megas''), Stripped MBS (''SMBS''), real estate mortgage investment conduit securities (''REMICs''), and other mortgage securities utilizing a ''grantor trust'' structure.

MBS are not assets of Fannie Mae, except when acquired for investment purposes, nor are MBS recorded as liabilities. Fannie Mae, however, is liable under its guarantee to make timely payments to investors of principal and interest on the MBS, even if Fannie Mae has not received payments of principal or interest on the mortgage loans in the underlying pools. MBS enable Fannie Mae to further its statutory purpose of increasing the liquidity of residential mortgage loans and create a source of guaranty fee income without assuming any debt refinancing risk on the underlying pooled mortgages. Because Fannie Mae guarantees the timely payment of principal and interest, it assumes the ultimate credit risk of borrowers' defaults on all mortgage loans underlying MBS, as well as for portfolio mortgage loans. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk Management.''

Fannie Mae issues MBS backed by single-family or multifamily first or subordinate mortgage loans, with fixed or adjustable rates. Generally, the mortgage loans are either conventional mortgage loans, or FHA-, VA- or Rural Housing Service-guaranteed mortgage loans. The conventional mortgage loans are subject to the maximum principal balance limits applicable to Fannie Mae's purchases as described under ''Mortgage Loan Portfolio—Mortgage Loans Purchased—Principal Balance Limits.'' The mortgage loans also are subject to the underwriting guidelines applicable to Fannie Mae's purchases as described under ''Mortgage Loan Portfolio—Underwriting Guidelines.'' The majority of Fannie Mae's MBS outstanding represents beneficial interests in conventional fixed-rate first mortgage loans on single-family dwellings.

Fannie Mae issues and guarantees several forms of MBS that involve only a single class of certificates (principally its standard MBS and Fannie Majors), with each investor receiving a portion of the payments of principal and interest on the underlying mortgage loans equal to its undivided interest in the pool. With these standard MBS, an investor has an undivided interest in a pool of underlying mortgage loans that generally are provided either by one lender or by Fannie Mae out of its mortgage loan portfolio. Megas represent undivided interests in a pool of MBS, REMIC tranches, or Government National Mortgage Association (''Ginnie Mae'') guaranteed pass-through certificates (''Ginnie Mae certificates'') of the same type. In addition, Fannie Mae issues and guarantees MBS in the form of single-class ''grantor trust'' securities representing an undivided interest in a pool of MBS, Ginnie Mae certificates, other mortgage-backed securities, or mortgage loans.

Fannie Mae also issues and guarantees other mortgage-backed securities that involve more than one class of certificates and, therefore, require special allocations of cash flows. SMBS are issued in series, with one or more classes, each of which is entitled to different cash flows and may represent (a) an undivided interest solely in the principal payments, (b) an undivided interest solely in the interest payments or (c) different percentage interests in principal and interest payments, to be made on a pool of mortgage loans, MBS, REMICs, other SMBS and/or Ginnie Mae certificates. REMICs

represent beneficial interests in a trust having multiple classes of certificates entitled to different cash flows from the underlying mortgage loans, MBS, SMBS, Megas, Ginnie Mae certificates and/or certificates from other REMICs. Pursuant to the guaranty provided to REMICs and SMBS certificate holders, Fannie Mae is obligated to make timely distribution of required installments of principal and/or interest and, in the case of REMICs, to distribute the principal balance in full by a specified date, whether or not sufficient funds are available in the related REMIC trust. (Fannie Mae has issued a limited amount of subordinated REMIC classes that are not guaranteed by Fannie Mae.)

Fannie Mae receives guaranty fees for a significant portion of its MBS (principally its standard MBS and Fannie Majors). Such fees generally are paid monthly until the underlying mortgage loans have been repaid or otherwise liquidated from the pool (usually as a result of delinquency or prepayment). The aggregate amount of guaranty fees Fannie Mae receives depends upon the amount of MBS outstanding and on the guaranty fee rate. The amount of MBS outstanding is influenced by the rates at which the underlying mortgage loans are repaid or liquidated due to foreclosure, and by the rate at which Fannie Mae issues new MBS. In general, when the level of interest rates declines significantly below the interest rates on loans underlying MBS, the rate of single-family prepayments is likely to increase, as is the issuance of new MBS; conversely, when interest rates rise above the interest rates on loans underlying MBS, the rate of single-family prepayments and new MBS issuance is likely to slow down. In addition, the rate of principal prepayments is influenced by a variety of economic, demographic and other factors. Fannie Mae also generally receives one-time fees for swapping SMBS, REMICs, Megas, and grantor trust securities for MBS, mortgage loans, Ginnie Mae certificates, SMBS, REMIC certificates, or other mortgage-backed securities.

In many instances, the lender or lenders that originated the loans in an MBS pool created from Fannie Mae's portfolio or the lender or lenders that exchanged the loans for the MBS (in the case of a "swap" transaction) initially service the loans. Fannie Mae, however, reserves the right to remove the servicing responsibility from a lender at any time if it considers such removal to be in the best interest of MBS certificate holders. In such event, Fannie Mae finds a replacement lender that will service the loans. Generally, Fannie Mae ultimately is responsible to MBS holders for the administration and servicing of mortgage loans underlying MBS, including the collection and receipt of payments from lenders, and the remittance of distributions and certain reports to holders of MBS certificates.

Affordable Housing Initiatives and Goals

In 1994, Fannie Mae announced that, for the seven years from 1994 through the year 2000, Fannie Mae would commit $1 trillion to help finance over 10 million homes for families and communities most in need (the "Trillion Dollar Commitment"). As part of the Trillion Dollar Commitment, by the end of 1999, Fannie Mae (i) established 44 Partnership Offices around the country; (ii) integrated research on credit scoring and loan performance with Fannie Mae's automated underwriting tools; (iii) issued $10 billion of total commitments to specific underwriting initiatives intended to lower barriers to homeownership; (iv) designed products to meet home improvement financing needs and products for seniors, disabled people and their families, and Native Americans; (v) originated $51.5 billion in multifamily financing; (vi) identified potential savings of approximately $1,000 per mortgage related to the origination costs of mortgages through the use of Fannie Mae technology; (vii) approved more than $63 million of investments in community development financial institutions and provided financing to more than 1.4 million minority borrowers; (viii) together with 29 for-profit, nonprofit and governmental organizations, created the American Homeowner Education and Counseling Institute, an independent nonprofit organization committed to increase professionalism in homeowner counseling and identify more effective ways to finance home buyer education; (ix) exceeded its original commitment to increase giving to the Fannie Mae Foundation; (x) handled over 6.6 million consumers' requests for homeownership information; and (xi) provided nearly 1.7 million immigrants with home-buying information, using multilingual media and community organizations supportive of immigrants.

On March 15, 2000, Fannie Mae announced its "American Dream Commitment"—a pledge to invest $2 trillion over the next ten years to help finance housing for 18 million home buyers and renters, and join with housing partners to reverse decay in inner cities and older suburbs and expand the availability of livable, affordable rental housing. The new plan will place special emphasis on increasing homeownership among minorities, young families, families headed by women, new immigrants and others whose homeownership rates lag the general population.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the "1992 Act"), Fannie Mae has certain goals to promote affordable housing for moderate-, low- and very low-income families and to serve the housing needs of those in underserved areas. In 1999, Fannie Mae exceeded the applicable goals. The Secretary of the Department of Housing and Urban Development ("HUD") has recently proposed new goals for 2000 and thereafter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Housing Goals."

Delinquencies and REO

When a mortgage loan for which Fannie Mae bears the default risk is liquidated through foreclosure, Fannie Mae generally acquires the underlying property (such real estate owned is called "REO") and holds it for sale. The level of delinquencies and number of REO are affected by economic conditions, loss mitigation efforts (which include contacting delinquent borrowers to offer a repayment plan, loan modification, preforeclosure sale, or other options), and a variety of other factors. Fannie Mae manages the risk of delinquencies and REO as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk Management."

Fee-Based Services

Fannie Mae offers certain services to lenders and other customers in return for a fee. These include issuing REMICs, SMBS, Fannie Megas, and grantor trust securities, technology services for originating and underwriting loans, and the facilitation of securities transactions. Fannie Mae receives fee income from dealers in exchange for creating and issuing REMICs, SMBS, grantor trust securities, and Megas. In addition to issuing these securities, Fannie Mae is responsible for all tax reporting and administration costs associated with these securities.

Fannie Mae also receives fee income in return for providing technology related services such as Desktop Underwriter, Desktop Originator®, Desktop Trader®, and other on-line services. These services provide lenders the ability to underwrite mortgage loans electronically, communicate with third-party originators, access Fannie Mae loan pricing schedules, and enter into sale commitments with Fannie Mae on a real-time basis.

Fannie Mae also simultaneously purchases and sells MBS and certain other mortgage-related securities, such as Ginnie Mae certificates, with the intention of earning a spread on such trades or as a service to customers. In addition, Fannie Mae receives fee income through other activities, such as repurchase transactions, and by providing credit enhancements and other investment alternatives for customers.

Competition

Fannie Mae competes, within the limits prescribed by its Charter Act, for the purchase of mortgage loans for portfolio and the issuance of mortgage-backed securities in the secondary mortgage market. For single-family products, Fannie Mae competes primarily with the Federal Home Loan Mortgage Corporation ("Freddie Mac"), another government-sponsored enterprise also regulated by HUD and the Office of Federal Housing Enterprise Oversight ("OFHEO") with a mission and authority that is virtually identical to that of Fannie Mae. Fannie Mae competes to a lesser extent with savings and loan associations, savings banks, commercial banks, other government-sponsored entities, and other companies that purchase for their own portfolio or pool single-family mortgage

loans for sale to investors as whole loans or mortgage-backed securities. A number of Federal Home Loan Banks (''FHLBs'') are participating in a pilot program, which was expanded in 1998 and 1999, for the financing and servicing of single-family mortgage loans. The pace of development of the pilot program has not positioned the FHLBs as significant competitors, but the structure of the program presents the potential for significant competition in the future.

Fannie Mae competes with the FHA insurance program, a HUD program, for the business of guaranteeing the credit performance of mortgage loans and, due to the eligibility of such FHA-insured loans for securitization by Ginnie Mae, with Ginnie Mae as well. The fiscal year 1999 federal budget increased the maximum principal balance for loans eligible for the FHA insurance program to 48 percent from 38 percent of Fannie Mae's loan limits. The loan limit for FHA-insured loans in high cost areas was increased from 75 percent, and now can be as high as 87 percent of Fannie Mae's limits. The higher FHA limits may result in increased competition for Fannie Mae's guaranty business. (For additional information on the maximum principal balances for loans purchased by Fannie Mae, see ''Mortgage Loan Portfolio—Mortgage Loans Purchased—Principal Balance Limits.'')

In the case of multifamily products, Fannie Mae generally competes with government housing programs, Freddie Mac, insurance companies, and the same kinds of entities it competes with in the single-family market. Competition for multifamily mortgage loans is intense from certain entities typically sponsored by investment banks which purchase such loans and pool them for sale to investors in the commercial mortgage-backed securities market. Such entities are referred to as ''conduits,'' and their role in the multifamily mortgage market increased significantly in 1997. In 1998, conduits continued to be a strong source of competition, but with the disruption in the fixed-income capital market in the latter part of the year, they became less of a factor due to decreased loan originations. However, Fannie Mae expects that they will provide increased competition as market conditions stabilize.

Competition is particularly intense for multifamily mortgage loans eligible for government subsidies, which have low-income rent and occupancy restrictions. As a prerequisite to expansion or merger plans, commercial banks must fund such loans to meet certain obligations under the Community Reinvestment Act, and they often are willing to do so at or below their own cost of funds. Fannie Mae competes for these same investment opportunities to meet its housing goals.

Fannie Mae competes primarily on the basis of price, products, structures, and services offered. Competition based on advances in technology-related and other fee-based services continues to increase, as do the types and nature of the products offered by Fannie Mae, Freddie Mac, and other market participants. Fannie Mae's market share of loans purchased for cash or swapped for MBS is affected by the volume of mortgage loans offered for sale in the secondary market by loan originators and other market participants and the amount purchased by other market participants that compete with Fannie Mae.

Competition also is a consideration in connection with the issuance of Fannie Mae's debt securities. Fannie Mae competes with Freddie Mac, the FHLB system, the Student Loan Marketing Association, and other government-sponsored entities for funds raised through the issuance of unsecured debt in the ''agency'' debt market. Increases in the issuance of unsecured debt by other government-sponsored entities generally, and in the issuance of callable debt in particular, may have an adverse effect on the issuance of Fannie Mae's unsecured debt, or result in the issuance of such debt at higher interest rates than would otherwise be the case. In addition, the availability and cost of funds raised through the issuance of certain types of unsecured debt may be adversely affected by regulatory initiatives that tend to reduce investments by certain depository institutions in unsecured debt with greater than normal volatility or interest-rate sensitivity.

Under the 1992 Act, the Secretary of HUD must approve any new Fannie Mae or Freddie Mac program that is significantly different from those approved or engaged in prior to that Act's enactment. The ability of Fannie Mae and Freddie Mac to compete with other competitors possibly could be affected by this requirement. See ''Government Regulation and Charter Act.''

Facilities

Fannie Mae owns its principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, offices at 3939 Wisconsin Avenue, NW and 4250 Connecticut Avenue, NW, Washington, DC, and two facilities in Herndon, Virginia. These owned facilities total 802,000 square feet. In addition, Fannie Mae leases approximately 379,000 square feet of office space at 4000 Wisconsin Avenue, NW, which is adjacent to Fannie Mae's principal office, and approximately 64,000 square feet of office space at 2115 Wisconsin Avenue, NW. The present lease for 4000 Wisconsin Avenue expires in 2003, but Fannie Mae has options to extend the lease for up to 15 additional years, in 5-year increments. The lease for 2115 Wisconsin expires in 2002. Fannie Mae also maintains regional offices in leased premises in Pasadena, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and Dallas, Texas. The regional offices negotiate mortgage loan and MBS business with lenders, assist in supervising the servicing of Fannie Mae's mortgage loan portfolio by lenders, assist in supervising or managing the handling and disposition of REO, and provide training to the staffs of lenders. In addition to the regional offices, Fannie Mae has 44 "Fannie Mae Partnership Offices" in leased premises around the country which work with cities, rural areas and other underserved communities. Fannie Mae also plans to establish five additional Partnership Offices in 2000. There currently are Fannie Mae Partnership Offices in Birmingham, Alabama; Phoenix, Arizona; Los Angeles, California; San Francisco, California; Denver, Colorado; Hartford, Connecticut; Washington, D.C.; Miami, Florida; Orlando, Florida; Atlanta, Georgia; Chicago, Illinois; Indianapolis, Indiana; Des Moines, Iowa; New Orleans, Louisiana; Baltimore, Maryland; Boston, Massachusetts; Detroit, Michigan; St. Paul, Minnesota; Jackson, Mississippi; Kansas City, Missouri; St. Louis, Missouri; Lincoln, Nebraska; Las Vegas, Nevada; Newark, New Jersey; Albuquerque, New Mexico; Buffalo, New York; New York, New York; Charlotte, North Carolina; Bismark, North Dakota; Oklahoma City, Oklahoma; Cleveland, Ohio; Columbus, Ohio; Portland, Oregon; Pittsburgh, Pennsylvania; Columbia, South Carolina; Sioux Falls, South Dakota; Nashville, Tennessee; Houston, Texas; San Antonio, Texas (two offices, one of which is responsible for border region issues); Salt Lake City, Utah; Seattle, Washington; Milwaukee, Wisconsin; and Cheyenne, Wyoming.

Employees

At December 31, 1999, Fannie Mae employed approximately 3,900 full-time personnel.

GOVERNMENT REGULATION AND CHARTER ACT

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. § 1716 *et seq.* (the "Charter Act") whose purpose is to (1) provide stability in the secondary market for residential mortgages, (2) respond appropriately to the private capital market, (3) provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing and (4) promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

Fannie Mae originally was incorporated in 1938 pursuant to Title III of the National Housing Act as a wholly owned government corporation and in 1954, under a revised Title III called the Federal National Mortgage Association Charter Act, became a mixed-ownership corporate instrumentality of the United States. From 1950 to 1968, it operated in the Housing and Home Finance Agency, which was succeeded by HUD. Pursuant to amendments to the Charter Act enacted in the Housing and Urban Development Act of 1968 (the "1968 Act"), the then Federal National Mortgage Association was divided into two separate institutions, the present Fannie Mae and the Government National

Mortgage Association, a wholly owned corporate instrumentality of the United States within HUD, which carried on certain special financing assistance and management and liquidation functions. Under the 1968 Act, Fannie Mae was constituted as a federally chartered corporation and the entire equity interest in Fannie Mae became stockholder-owned.

Although the 1968 Act eliminated all federal ownership interest in Fannie Mae, it did not terminate government regulation of Fannie Mae. Under the Charter Act, approval of the Secretary of the Treasury is required for Fannie Mae's issuance of its debt obligations and MBS. In addition, the 1992 Act established OFHEO, an independent office within HUD under the management of a Director (the "Director") who is responsible for ensuring that Fannie Mae is adequately capitalized and operating safely in accordance with the 1992 Act. The Director is authorized to levy, pursuant to annual Congressional appropriations, annual assessments on Fannie Mae and Freddie Mac to cover reasonable expenses of OFHEO. The 1992 Act established minimum capital, risk-based capital, and critical capital requirements for Fannie Mae and required the Director to establish, by regulation, a risk-based capital test to be used to determine the amount of total capital Fannie Mae must hold to meet the risk-based capital standard on a quarterly basis. OFHEO issued a final rule (the "Rule") in 1996 related to the minimum capital levels for Fannie Mae and Freddie Mac that sets forth how minimum capital requirements for both entities are to be calculated, reported, and classified on a quarterly basis. The Rule formalized the interim capital standards applied by OFHEO, with which Fannie Mae has been in compliance since their inception. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements."

In 1996, OFHEO also released for comment part one ("Part I") of the proposed regulations to establish the risk-based capital test. Part I specifies that "benchmark loss experience" will be combined with other yet to be determined assumptions and applied each quarter to Fannie Mae's book of business to establish credit losses under the risk-based capital standard for Fannie Mae. Part I also specifies the house price index that OFHEO will use in connection with the risk-based capital standard. Fannie Mae submitted comments to OFHEO in October 1996 stating that several aspects of the initial proposal require adjustments or amendment, because it does not accurately capture Fannie Mae's credit history and derives credit loss rates that are significantly worse than any reasonable representation of Fannie Mae's and Freddie Mac's loss experience. On April 13, 1999, OFHEO published for comment Part II of its proposed regulations to establish the risk-based capital test for Fannie Mae and Freddie Mac. Final comments on the proposal were due by March 10, 2000. Part II specifies, among other matters, remaining aspects of the test and how the test will be used to determine Fannie Mae's and Freddie Mac's risk-based capital requirements. The summary accompanying Part II noted that if Part II had been in effect as of June 30, 1997, Fannie Mae's required risk-based capital would have been $17.73 billion, as compared with $14.05 billion in actual capital at that time. OFHEO also noted that there were a variety of means, such as hedging, that Fannie Mae could have used to reduce required risk-based capital to the level of its actual capital. On March 10, 2000, Fannie Mae submitted comments to OFHEO on Part II of the proposed regulations. In its comments, Fannie Mae detailed three principal criteria that its management used to evaluate Part II of the proposed regulations: operational workability, the ability to accommodate innovation, and linking of capital to risk. Management concluded that OFHEO's proposed regulations failed to meet these three criteria and made suggestions for addressing these points. Fannie Mae currently is reviewing comments on the proposed regulations submitted by other parties. OFHEO will accept replies to these comments through April 14, 2000. Management believes that the final risk-based standard could be modified substantially from its current proposed form. The 1992 Act provides that the final regulations will be enforceable one year after issuance. Management expects that Fannie Mae will be able to meet any reasonable final test.

If Fannie Mae fails to meet one or more of the capital standards under the 1992 Act, the Director is required to take certain remedial measures and may take others, depending on the standards Fannie Mae fails to meet. The Director's enforcement powers include the power to impose temporary and

final cease-and-desist orders and civil penalties on Fannie Mae and on directors or executive officers of Fannie Mae. If the Director determines that Fannie Mae is engaging in conduct not approved by the Director that could result in a rapid depletion of core capital or that the value of the property subject to mortgages held or securitized by Fannie Mae has decreased significantly, the Director is authorized to treat Fannie Mae as not meeting one of the capital standards that it otherwise meets. In addition, Fannie Mae is required to submit a capital restoration plan if it fails to meet any of the capital standards. If the Director does not approve the plan or determines that Fannie Mae has failed to make reasonable efforts to comply with the plan, then the Director may treat Fannie Mae as not meeting one of the capital standards that it otherwise meets. Also, if Fannie Mae fails to meet or is treated by the Director as not meeting one of the capital standards and the Director has reasonable cause to believe that Fannie Mae or any executive officer or director of Fannie Mae is engaging in or about to engage in any conduct that threatens to result in a significant depletion of Fannie Mae's core capital, then the Director is authorized to commence proceedings pursuant to which, after a hearing, the Director could issue a cease and desist order prohibiting such conduct. The Director could issue such an order without a hearing, which would be effective until completion of the cease-and-desist proceedings, if the Director determined that the conduct in question was likely to cause a significant depletion of core capital. Prior approval of the Director is required for Fannie Mae to pay a dividend if the dividend would decrease Fannie Mae's capital below risk-based capital or minimum capital levels established under the 1992 Act. See "Common Stock."

The 1992 Act gives the Director the authority to conduct on-site examinations of Fannie Mae for purposes of ensuring Fannie Mae's financial safety and soundness. The Charter Act, as amended by the 1992 Act, also authorizes the General Accounting Office to audit the programs, activities, receipts, expenditures and financial transactions of Fannie Mae. Fannie Mae is required to submit annual and quarterly reports of the financial condition and operations of Fannie Mae to the Director. Fannie Mae also is required to submit an annual report to the House and Senate Banking Committees and the Secretary of HUD regarding Fannie Mae's performance in meeting housing goals established by the Secretary of HUD relating to the purchase of mortgages on housing for low- and moderate-income families, mortgages on rental and owner-occupied housing for low-income families in low-income areas or for very-low-income families, and mortgages on housing located in rural or other underserved areas. The Secretary of HUD has recently proposed new housing goals for Fannie Mae. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Housing Goals."

Under the 1992 Act, the Secretary of HUD retains general regulatory authority to promulgate rules and regulations to carry out the purposes of the Charter Act, excluding authority over matters granted exclusively to the Director of OFHEO in the 1992 Act. The Secretary of HUD also must approve any new conventional mortgage program that is significantly different from those approved or engaged in prior to the 1992 Act. The Secretary is required to approve any new program unless it is not authorized by the Charter Act of Fannie Mae or the Secretary finds that it is not in the public interest. However, until one year after the final regulations establishing the risk-based capital test are in effect, the Secretary must disapprove a new program if the Director determines that the program would risk significant deterioration of the financial condition of Fannie Mae. The Secretary has adopted regulations related to the program approval requirement.

Thirteen members of Fannie Mae's eighteen-member Board of Directors are elected by the holders of Fannie Mae's common stock, and the remaining five members are appointed by the President of the United States. The appointed directors must include one person from the home building industry, one person from the mortgage lending industry, and one person from the real estate industry. Under the 1992 Act, one appointed director also must be from an organization that has represented consumer or community interests for not less than two years or a person who has demonstrated a career commitment to the provision of housing for low-income households. Any member of the Board of Directors that is appointed by the President of the United States may be removed by the President for good cause.

In addition to placing Fannie Mae under federal regulation, the Charter Act also grants to Fannie Mae certain privileges. For instance, securities issued by Fannie Mae are deemed to be "exempt securities" under laws administered by the Securities and Exchange Commission ("SEC") to the same extent as securities that are obligations of, or guaranteed as to principal and interest by, the United States. Registration statements with respect to Fannie Mae's securities are not filed with the SEC. Fannie Mae also is not required to file periodic reports with the SEC.

The Secretary of the Treasury of the United States has discretionary authority to purchase obligations of Fannie Mae up to a maximum of $2.25 billion outstanding at any one time. This facility has not been used since Fannie Mae's transition from government ownership in 1968. Neither the United States nor any agency thereof is obligated to finance Fannie Mae's operations or to assist Fannie Mae in any other manner. The Federal Reserve Banks are authorized to act as depositories, custodians, and fiscal agents for Fannie Mae, for its own account, or as fiduciary.

Fannie Mae is exempt from all taxation by any state or by any county, municipality, or local taxing authority except for real property taxes. Fannie Mae is not exempt from payment of federal corporate income taxes. Also, Fannie Mae may conduct its business without regard to any qualifications or similar statute in any state of the United States or the District of Columbia.

LEGAL PROCEEDINGS

In the ordinary course of business, Fannie Mae is involved in legal proceedings that arise in connection with properties acquired either through foreclosure on properties securing delinquent mortgage loans owned by Fannie Mae or by receiving deeds to such properties in lieu of foreclosure. For example, claims related to possible tort liability and compliance with applicable environmental requirements arise from time to time, primarily in the case of single-family REO.

Fannie Mae is a party to legal proceedings from time to time arising from its relationships with its seller/servicers. Disputes with lenders concerning their loan origination or servicing obligations to Fannie Mae, or disputes concerning termination by Fannie Mae (for any of a variety of reasons) of a lender's authority to do business with Fannie Mae as a seller and/or servicer, can result in litigation. Also, loan servicing issues have resulted from time to time in claims against Fannie Mae brought as putative class actions for borrowers.

Fannie Mae also is a party to legal proceedings from time to time arising from other aspects of its business and administrative policies. Claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. However, in the case of the legal proceedings and claims that are currently pending against Fannie Mae, management believes that their outcome will not have a material adverse effect on Fannie Mae's financial condition or results of operations.

COMMON AND PREFERRED STOCK

Section 303(a) of the Charter Act provides that Fannie Mae shall have common stock, without par value. The common stock is vested with all voting rights. Each share of common stock is entitled to one vote at all elections of directors and on all other matters presented for common stockholder vote. The common stock has no conversion or pre-emptive rights or redemption or sinking fund provisions. The outstanding shares of common stock are fully paid and nonassessable. There is no prohibition against the purchase by Fannie Mae of its own common stock, holding such common stock in its treasury, and reselling such stock. In the event of liquidation of Fannie Mae, holders of common stock are entitled to share ratably, in accordance with their holdings, in the remaining assets of Fannie Mae after payment of all liabilities and amounts payable to the holders of preferred stock. The holders of the common stock elect thirteen directors, and the President of the United States appoints the remaining five directors. The Charter Act, Fannie Mae's governing instrument, cannot be amended by the stockholders, but only by an Act of Congress.

Fannie Mae also is authorized by the Charter Act to have preferred stock on such terms and conditions as the Board of Directors of Fannie Mae may prescribe. No common stockholder approval is required to issue preferred stock. Fannie Mae issued $1 billion of non-cumulative preferred stock in 1996, $150 million in 1998, $150 million in 1999 and $690 million to date in 2000 that is redeemable at Fannie Mae's option beginning in 2001, 1999, 2004 and 2002 respectively. Holders of these preferred stock issues are entitled to receive noncumulative, quarterly dividends when, and if, declared by Fannie Mae's Board of Directors. Payment of dividends on preferred stock is not mandatory, but has priority over payment of dividends on common stock. After the specified period, preferred stock is redeemable at its stated value at the option of Fannie Mae. See ''Notes to Financial Statements—Note 12'' for additional information on preferred stock.

The Charter Act contains no limitation on the amount of stock that may be issued except that, if Fannie Mae fails to meet certain minimum capital standards, the Director of OFHEO could require the right to approve Fannie Mae's issuance of stock or securities convertible into stock. At February 28, 2000, there were outstanding approximately 1,011 million shares of common stock, which were held by approximately 25,000 stockholders of record. Based on the number of requests for proxies and quarterly reports, Fannie Mae estimates that there are approximately 350,000 additional stockholders who held shares through banks, brokers and nominees.

Holders of the common stock are entitled to receive cash dividends if, as, and when declared by the Board of Directors. However, certain provisions of the 1992 Act may operate to restrict the ability of the Board of Directors to declare dividends in certain circumstances. The 1992 Act established risk-based capital, minimum capital and critical capital requirements for Fannie Mae. OFHEO has released proposed risk-based capital regulations for public review and comment. Until one year after the final regulations establishing the risk-based capital test are in effect, a dividend may be paid without the prior approval of the Director of OFHEO if Fannie Mae meets the minimum capital level and the dividend payment would not decrease Fannie Mae's base capital below such level. See ''Government Regulation and Charter Act.'' One year after final regulations establishing the risk-based capital test take effect, a dividend may be paid without the prior approval of the Director if Fannie Mae meets both the risk-based capital and minimum capital levels and the dividend payment would not decrease Fannie Mae's total capital below the risk-based capital level or its core capital below the minimum capital level. If Fannie Mae meets either the risk-based capital standard or the minimum capital standard, it may make a dividend payment without obtaining the approval of the Director only if the dividend payment would not cause Fannie Mae to fail to meet another capital standard. At any time when Fannie Mae does not meet the risk-based capital standard but meets the minimum capital standard, Fannie Mae is prohibited from making a dividend payment that would cause Fannie Mae to fail to meet the minimum capital standard. If Fannie Mae meets neither the risk-based capital standard nor the minimum capital standard but does meet the critical capital standard established under the 1992 Act, it may make a dividend payment only if Fannie Mae would not fail to meet the critical capital standard as a result of such payment and the Director approves the payment after finding that it satisfies certain statutory conditions. The Director has the authority to require Fannie Mae to submit a report to the Director regarding any capital distribution (including any dividend) declared by Fannie Mae before Fannie Mae makes the distribution. See ''Government Regulation and Charter Act'' and ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements'' regarding the capital standards applicable to Fannie Mae.

The payment of dividends on common stock also is subject to the payment of dividends on any preferred stock outstanding. No cash dividend may be declared or paid or set apart for payment on common stock unless cash dividends have been declared and paid or set apart (or ordered to be set apart) on preferred stock outstanding for the current dividend period.

Dividends on common stock have been declared and paid for each quarter during Fannie Mae's two most recent fiscal years. See ''Quarterly Results of Operations'' for quarterly dividends paid on common stock during 1999 and 1998.

This description is summarized from the Charter Act, the 1992 Act, the bylaws and certain resolutions of the Board of Directors and stockholders of Fannie Mae. This description does not purport to be complete, and is qualified in its entirety by reference to the Charter Act, the 1992 Act, the bylaws of Fannie Mae, and such resolutions. Copies of the Charter Act, the bylaws of Fannie Mae, and any applicable resolutions may be obtained from Fannie Mae.

Fannie Mae's common stock is publicly traded on the New York, Pacific and Chicago stock exchanges and is identified by the ticker symbol "FNM." The transfer agent and registrar for the common stock is First Chicago Trust Company of New York, P.O. Box 2598, Jersey City, New Jersey 07303. The following table shows, for the periods indicated, the high and low prices per share of Fannie Mae's common stock on the New York Stock Exchange Composite Transactions as reported in the Bloomberg Financial Markets service.

Quarterly Common Stock Data

	1999		1998	
Quarter	High	Low	High	Low
1st	$75.88	$65.50	$66.38	$56.06
2nd	73.81	62.44	67.19	55.75
3rd	71.63	58.56	68.31	55.56
4th	73.25	59.94	76.19	49.56

The closing price of Fannie Mae's common stock on March 29, 2000, as so reported, was $58.25.

FORWARD-LOOKING INFORMATION

From time to time, Fannie Mae may make forward-looking statements relating to matters such as Fannie Mae's anticipated financial performance, business prospects, future business plans, financial condition or other matters. For example, "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements, which are statements therein that are not historical facts or explanations of historical data. The words "believes," "anticipates," "expects," and similar expressions generally identify forward-looking statements.

Forward-looking statements reflect management's expectations based on various assumptions and management's estimates of trends and economic factors in the markets in which Fannie Mae is active, as well as Fannie Mae's business plans. As such, forward-looking statements are subject to risks and uncertainties, and Fannie Mae's actual results may differ (possibly significantly) from those indicated in such statements. Among the factors that may affect the performance, development or results of Fannie Mae's business, and thereby cause actual results to differ from management's expressed expectations, are the following:

- significant changes in borrower preferences for fixed- or adjustable-rate mortgages, originator preferences for selling mortgages in the secondary market, investor preferences for Fannie Mae's securities versus other investments, the availability of funding at attractive spreads in the financial markets (in particular from callable debt), and other factors affecting the overall mix of mortgage loans available for purchase, Fannie Mae's funding opportunities, or Fannie Mae's net interest margins;
- significant changes in employment rates, housing price appreciation, or other factors affecting delinquency or foreclosure levels and credit losses;
- significant changes in Fannie Mae's policies or strategies, such as its underwriting requirements or its interest rate risk management, credit loss mitigation, or investment strategies;

- regulatory or legislative changes affecting Fannie Mae, its competitors, or the markets in which Fannie Mae is active, including changes in taxes or capital requirements applicable to Fannie Mae or its activities (see "Government Regulation and Charter Act," and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements" regarding certain matters currently being considered by regulators, legislators or the Administration);
- competitive developments in the markets for mortgage loan purchases and for the sale of mortgage-backed and debt securities, or significant changes in the rate of growth in conforming residential mortgage debt;
- significant changes in the amount and rate of growth of Fannie Mae's expenses, and the costs (and effects) of legal or administrative proceedings (see "Legal Proceedings") or changes in accounting policies or practices;
- significant changes in general economic conditions, or the monetary or fiscal policy of the United States; and
- unanticipated, substantial changes in interest rates. While Fannie Mae has achieved 48 consecutive quarters of record operating earnings despite major fluctuations in interest rates during this period and employs a variety of interest rate risk management techniques, it is possible that sudden, severe swings in interest rates could have at least a short-term significant effect on Fannie Mae's results.

Fannie Mae does not undertake to update any forward-looking statement herein or that may be made from time to time on behalf of Fannie Mae.

SELECTED FINANCIAL INFORMATION: 1995-1999

The following selected financial data for the years 1995 through 1999 (which data are not covered by the independent auditors' report) have been summarized or derived from the audited financial statements and other financial information. These data should be read in conjunction with the audited financial statements and notes to the financial statements.

(Dollars in millions, except per common share amounts)

Income Statement Data for the year ended December 31:	1999	1998	1997	1996	1995
Interest income	$ 35,495	$ 29,995	$ 26,378	$ 23,772	$ 21,071
Interest expense	(30,601)	(25,885)	(22,429)	(20,180)	(18,024)
Net interest income	4,894	4,110	3,949	3,592	3,047
Guaranty fees	1,282	1,229	1,274	1,196	1,086
Fee and other income, net	191	275	125	86	93
Credit-related expenses	(127)	(261)	(375)	(409)	(335)
Administrative expenses	(800)	(708)	(636)	(560)	(546)
Special contribution	—	—	—	—	(350)
Income before federal income taxes and extraordinary item	5,440	4,645	4,337	3,905	2,995
Provision for federal income taxes	(1,519)	(1,201)	(1,269)	(1,151)	(840)
Income before extraordinary item	3,921	3,444	3,068	2,754	2,155
Extraordinary item—loss on early extinguishment of debt, net of tax effect	(9)	(26)	(12)	(29)	(11)
Net income	$ 3,912	$ 3,418	$ 3,056	$ 2,725	$ 2,144
Preferred stock dividends	(78)	(66)	(65)	(42)	—
Net income available to common shareholders	$ 3,834	$ 3,352	$ 2,991	$ 2,683	$ 2,144
Basic earnings per common share(1):					
Earnings before extraordinary item	$ 3.75	$ 3.28	$ 2.87	$ 2.53	$ 1.98
Extraordinary item	—	(.02)	(.02)	(.03)	(.01)
Net earnings	$ 3.75	$ 3.26	$ 2.85	$ 2.50	$ 1.97
Diluted earnings per common share(1):					
Earnings before extraordinary item	$ 3.73	$ 3.26	$ 2.84	$ 2.51	$ 1.96
Extraordinary item	(.01)	(.03)	(.01)	(.03)	(.01)
Net earnings	$ 3.72	$ 3.23	$ 2.83	$ 2.48	$ 1.95
Cash dividends per common share	$ 1.08	$ .96	$ .84	$ .76	$ .68
Balance Sheet Data at December 31:					
Mortgage portfolio, net	$522,780	$415,223	$316,316	$286,259	$252,588
Investments	39,751	58,515	64,596	56,606	57,273
Total assets	575,167	485,014	391,673	351,041	316,550
Borrowings:					
Due within one year	226,582	205,413	175,400	159,900	146,153
Due after one year	321,037	254,878	194,374	171,370	153,021
Total liabilities	557,538	469,561	377,880	338,268	305,591
Stockholders' equity	17,629	15,453	13,793	12,773	10,959
Capital(2)	18,430	16,244	14,575	13,520	11,703
Other Data for the year ended December 31:					
Average net interest margin	1.01%	1.03%	1.17%	1.18%	1.16%
Return on average common equity	25.2	25.2	24.6	24.1	20.9
Dividend payout ratio	28.8	29.5	29.4	30.4	34.6
Average effective guaranty fee rate	.193	.202	.227	.224	.220
Credit loss ratio	.011	.027	.041	.053	.050
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	1.17:1	1.18:1	1.19:1	1.19:1	1.17:1
Mortgage purchases	$195,210	$188,448	$ 70,465	$ 68,618	$ 56,598
MBS issued	300,689	326,148	149,429	149,869	110,456
MBS outstanding at year-end(4)	960,883	834,518	709,582	650,780	582,959
Weighted-average diluted common shares outstanding, in millions	1,031	1,037	1,056	1,080	1,098

(1) Earnings per common share amounts prior to 1997 have been restated to comply with Statement of Financial Accounting Standards No. 128, *Earnings per Share.*

(2) Stockholders' equity plus general allowance for losses.

(3) "Earnings" consists of (i) income before federal income taxes and extraordinary item and (ii) fixed charges. "Fixed charges" represents interest expense. There was no preferred stock outstanding in 1995.

(4) Includes $282 billion, $197 billion, $130 billion, $103 billion, and $70 billion of MBS in portfolio at December 31, 1999, 1998, 1997, 1996, and 1995, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion highlights significant factors influencing Fannie Mae's financial condition and results of operations. It should be read in conjunction with the financial statements and related notes. This discussion (and other sections of this annual report) includes certain forward-looking statements based on management's estimates of trends and economic factors in markets in which Fannie Mae is active, as well as the corporation's business plans. In light of securities law developments, including the "safe harbor' provisions of the Private Securities Litigation Reform Act of 1995, Fannie Mae notes that such forward-looking statements are subject to risks and uncertainties. Accordingly, the corporation's actual results may differ from those set forth in such statements. Significant changes in economic conditions; regulatory or legislative changes affecting Fannie Mae, its competitors, or the markets in which it is active; or changes in other factors may cause future results to vary from those expected by Fannie Mae. The "Forward-Looking Information" section in Fannie Mae's Information Statement discusses certain factors that may cause such differences to occur.

Overview

Fannie Mae generated earnings of $3.912 billion in 1999, its 13th consecutive year of record earnings. Earnings grew $494 million in 1999, 14 percent over 1998, principally because of growth in the retained mortgage portfolio, effective management of interest rate risk, and improved credit performance. Diluted earnings per common share increased 15 percent to $3.72 per share in 1999, putting Fannie Mae on track to meet its five-year goal of doubling earnings per share by 2003.

Fannie Mae produced total revenues of $6.367 billion in 1999, a 13 percent increase over 1998, and sustained its string of record earnings despite a decline in mortgage originations in the primary market, increases in interest rates, and strong competition for secondary mortgage market share. Fannie Mae purchased a record volume of mortgages in 1999 at solid mortgage-to-debt spreads and increased its average retained mortgage portfolio by 33 percent. Fannie Mae effectively managed the impact of a significant increase in interest rates on net interest income by rebalancing the assets and liabilities in its mortgage portfolio while posting only a 2 basis point decline in the average net interest margin for the year. Fannie Mae's credit losses were the lowest since 1984—when its total book of business (the retained mortgage portfolio and Fannie Mae guaranteed mortgage-backed securities held by third-party investors) was a tenth of its current size—because of successful risk management strategies and continued strength in the nation's economy and housing markets.

Fannie Mae also introduced three new funding products in 1999. These products are based on the success of Fannie Mae's Benchmark Notes[SM] and are structured to help increase the liquidity of the company's debt securities and reduce its borrowing cost by consolidating debt issuances from a large number of small, unscheduled issues to a smaller number of large, scheduled issues.

The first funding product, rolled out in the second quarter of 1999, was Callable Benchmark Notes[SM]. Callable Benchmark Notes are designed to provide enhanced liquidity and a broader investor base than has been observed previously in the callable agency market. Callable debt gives Fannie Mae the option to retire outstanding debt if interest rates decline. Fannie Mae issued $8 billion in Callable Benchmark Notes in 1999. The second funding product was Benchmark Bonds[SM], which are designed to increase the liquidity of Fannie Mae's 30-year, noncallable debt. Benchmark Bonds are intended to extend the yield curve of outstanding, noncallable Benchmark Securities[SM] and to be a viable investment alternative to longer-duration debt securities. Fannie Mae issued $4 billion in Benchmark Bonds in 1999. Finally, Fannie Mae created the first ever Internet auctions for Benchmark Bills[SM], which are expected to be the single source for Fannie Mae's three-month and six-month discount debt securities. Fannie Mae is auctioning Benchmark Bills on a weekly basis, and intends for Benchmark Bills to provide the market with enhanced liquidity in superior credit, short-term structures. Fannie Mae issued $42 billion in Benchmark Bills in 1999, with the program commencing on November 10, 1999.

The remainder of Management's Discussion and Analysis ("MD&A") includes detailed information on Fannie Mae's results of operations, risk management, balance sheet, mortgage-backed securities, and housing goals in 1999 compared with 1998, as well as the expected impact of a new accounting standard and a comparison of results of operations in 1998 with 1997.

Results of Operations

Net Interest Income

Net interest income increased $784 million to $4.894 billion in 1999, a 19 percent increase over 1998, as 33 percent growth in the average retained mortgage portfolio more than offset a 2 basis point decline in the average net interest margin. Retained mortgage portfolio growth was attributable to strong mortgage origination volumes in the first half of the year and attractive mortgage-to-debt spreads in nontraditional mortgage investments. Mortgage-to-debt spread is the difference between the yield on a mortgage and the cost of debt that funds it. The decline in the net interest margin was largely the result of the high level of refinancings of mortgages with wide spreads in the first half of the year and the repurchase of common shares. The repurchase of common shares produces a positive effect on earnings per share, but it reduces net interest income because the repurchase is primarily funded through the issuance of debt. Management expects that an increase in mortgage debt outstanding plus greater market penetration should produce continued growth in the retained mortgage portfolio and net interest income in 2000. The growth in net interest income should decrease somewhat in 2000 from its robust pace in 1999 as retained mortgage portfolio growth returns to more normalized levels.

Additional information on mortgage portfolio volumes and yields as well as the cost of debt is presented in MD&A under "Balance Sheet Analysis."

Guaranty Fee Income

Guaranty fee income increased $53 million in 1999 to $1.282 billion, up 4 percent over 1998. This gain was primarily due to a 9 percent increase in average net Fannie Mae MBS outstanding (exclusive of MBS held in Fannie Mae's mortgage portfolio), which more than offset a .9 basis point decline in the average effective guaranty fee rate. Guaranty fees compensate Fannie Mae for the assumption of credit risk associated with its guarantee of the timely payment of principal and interest to MBS investors. Guaranty fee income includes only fees received on MBS that Fannie Mae does not hold in portfolio. Net MBS outstanding increased because of strength in mortgage originations and a declining level of prepayments during the year. The average guaranty fee rate declined because of repayments of mortgages underlying MBS with higher fees, growth in the percentage of MBS outstanding with credit risk-sharing arrangements that decreased guaranty fees, increased credit quality of mortgages underlying MBS issuances, and competitive pricing for MBS guarantees. For 2000, management expects that guaranty fee income will increase because of growth in net MBS outstanding and a relatively stable effective guarantee fee rate. The following table presents the average effective guaranty fee rate for the past three years.

Guaranty Fee Data

	Year Ended December 31,		
	1999	1998	1997
	(Dollars in millions)		
Guaranty fee income	$ 1,282	$ 1,229	$ 1,274
Average balance of net MBS outstanding	664,672	609,513	561,079
Average effective guaranty fee rate	.193%	.202%	.227%

Additional information on Fannie Mae's MBS and guaranty fees is presented in MD&A under "Mortgage-Backed Securities."

Fee and Other Income

Fee and other income declined to $191 million in 1999 from $275 million in 1998. Fee and other income consists of transaction fees, technology fees, multifamily fees, as well as other miscellaneous items, and is net of operating losses from certain tax-advantaged investments. Fee and other income declined $84 million primarily because of a decline in multifamily fees and an increase in net operating losses from certain tax-advantaged investments, which more than offset an increase in technology fees. Multifamily fees were lower primarily because of lower prepayment fees as the level of refinancings declined. The increase in net operating losses from certain tax-advantaged investments was associated with a higher volume of equity investments in affordable housing projects. Affordable housing projects generate tax credits that reduce Fannie Mae's effective federal income tax rate, with the tax benefits recorded as a reduction in the provision for federal income taxes. Finally, increased usage of Fannie Mae's Desktop Underwriter® and Desktop Originator® systems produced an increase in technology fees. Management expects that fee and other income will be lower in 2000 because of increased equity investments in affordable housing projects and the resulting net operating losses, although the losses will be more than offset by increases in tax credits from this business.

Additional information about multifamily investments is presented in MD&A under "Risk Management—Credit Risk Management." Additional information about structured transactions is presented in MD&A under "Mortgage-Backed Securities."

Credit-Related Expenses

Credit-related expenses, which include foreclosed property expenses and the provision for losses, declined to $127 million in 1999 from $261 million in 1998. The $134 million decline resulted from improved credit performance in Fannie Mae's total book of business. Credit-related losses, which include foreclosed property expenses and charge-offs (net of recoveries), as a percentage of Fannie Mae's average book of business fell to 1.1 basis points in 1999 from 2.7 basis points in 1998.

The improved credit performance was a function of strength in the national economy and housing markets (particularly the California housing market), loss mitigation tools and technology, and greater amounts of mortgage insurance coverage on loans that entered foreclosure. Foreclosed property expenses decreased $64 million in 1999, or 21 percent compared with 1998, to $247 million as the number of foreclosed single-family property acquisitions declined to 16,806 in 1999 from 20,703 in 1998. The provision for losses decreased $70 million in 1999 to a negative provision for losses of $120 million, following Fannie Mae's current policy of recording a negative loss provision in line with recoveries on foreclosed properties. Fannie Mae expects credit performance to remain solid in 2000 with credit-related expenses not changing significantly from 1999 levels.

Additional information on credit-related expenses and credit-related losses is presented in MD&A under "Risk Management—Credit Risk Management."

Administrative Expenses

Administrative expenses grew 13 percent to $800 million in 1999, compared with $708 million in 1998, as a result of increased investment in technology and resources for the Portfolio Investment and Credit Guaranty business infrastructures and in housing and community development initiatives. The ratio of administrative expenses to the average book of business decreased to 7.1 basis points in 1999 from 7.4 basis points in 1998 primarily because growth in the total book of business outpaced growth in administrative expenses. The ratio of administrative expenses to total revenues remained stable at 12.6 percent in 1999. Compensation expense increased to $496 million in 1999 from $453 million in 1998 as part of the aforementioned infrastructure investments. Management expects that administrative expenses will grow at a somewhat slower pace than earnings in 2000.

Income Taxes

The provision for federal income taxes, net of the tax benefit from extraordinary losses, increased to $1.514 billion in 1999 from $1.187 billion in 1998. The effective federal income tax rate, net of the tax benefit from extraordinary losses, increased to 28 percent in 1999 from 26 percent in 1998. The effective federal income tax rate in 1998 reflected the implementation of improved systems and information that accelerated the timing of the recognition of the tax benefits associated with investments in affordable housing projects qualifying for low-income housing tax credits. Management expects the effective tax rate will decline in 2000 from its level in 1999 because of a projected increase in affordable housing investments.

Extraordinary Loss

For 1999, Fannie Mae recognized net extraordinary losses of $14 million ($9 million after tax), compared with $40 million ($26 million after tax) in 1998, attributable to the extinguishment of debt. Extraordinary losses declined in 1999 because of a decrease in the volume of debt repurchased or called.

Extraordinary gains or losses are recognized when debt and related interest rate swaps are repurchased or called. The repurchase and call of debt and related interest rate swaps are part of Fannie Mae's interest rate risk management strategy and are designed to benefit Fannie Mae's future cost of funds.

During 1999, Fannie Mae retired $42 billion in debt and notional principal of interest rate swaps carrying a weighted-average cost of 6.80 percent. The comparable amount in 1998 was $77 billion at 6.71 percent.

Risk Management

Fannie Mae is subject to three major areas of risk: interest rate risk, credit risk, and operations risk. Active management of these risks is an essential part of Fannie Mae's operations and a key determinant of its ability to maintain steady earnings growth. The following discussion highlights Fannie Mae's strategies to manage these three risks.

Interest Rate Risk Management

Fannie Mae is exposed to interest rate risk because changes in interest rates may affect mortgage portfolio cash flows in a way that will adversely impact earnings or long-term value. Fannie Mae's management of interest rate risk involves analyses and actions that position the company to meet its objective of consistent earnings growth in a wide range of interest rate environments. Fannie Mae's interest rate risk is concentrated primarily in the retained mortgage portfolio, where exposure to changes in interest rates is managed to achieve stable earnings growth and a competitive return on equity over time. Central elements of Fannie Mae's approach to managing interest rate risk include: (1) investing in assets and issuing liabilities that perform similarly in different interest rate environments, (2) assessing the sensitivity of portfolio profitability and risk to changes in interest rates, and (3) taking rebalancing actions in the context of a well-defined risk management process.

The first element of interest rate risk management is the funding of mortgage assets with liabilities that have similar cash flow patterns through time and across different interest rate paths. To achieve the desired liability durations, Fannie Mae issues debt across a broad spectrum of final maturities. Because the durations of mortgage assets change as interest rates change, callable debt and interest rate derivatives are frequently used to alter the durations of liabilities. The duration of callable debt, like that of a mortgage asset, shortens when interest rates decrease and lengthens when interest rates increase. Fannie Mae also uses off-balance-sheet derivative financial instruments, including interest rate swaps and other derivative instruments with embedded interest rate options, to

achieve its desired liability structure and to better match the prepayment risk of the mortgage portfolio. These instruments are close substitutes for callable debt.

Because the assets in Fannie Mae's mortgage portfolio are not perfectly matched with the liabilities funding those assets, the portfolio's projected performance changes with movements in interest rates. Accordingly, the second element of interest rate risk management involves regularly assessing the portfolio's risk using a diverse set of analyses and measures, including net interest income at risk, duration and convexity analysis, portfolio value analyses, and stress testing.

Portfolio net interest income is projected for a wide range of interest rate environments, including specific rising and falling interest rate paths, using stochastic interest rate simulations based on historical interest rate volatility. These analyses generally include assumptions about new business activity to provide a more realistic assessment of possible portfolio performance. Narrower assessments of Fannie Mae's interest rate risk involve analyzing the interest rate sensitivity of only the existing retained mortgage portfolio (assuming no new business).

The duration and convexity of the portfolio, along with portfolio value analyses, are the primary risk assessment tools used to analyze the existing portfolio. The portfolio duration gap—the difference between the durations of portfolio assets and liabilities—summarizes for management the extent to which asset and liability estimated cash flows are matched, on average, through time and across interest rate scenarios. The portfolio's convexity—or the difference between the duration sensitivities of the portfolio's assets and liabilities—provides management with information on how quickly and by how much the portfolio's duration gap will change in differing interest rate environments. Management regularly monitors the portfolio's duration and convexity under current market conditions and for a series of hypothetical interest rate shocks. In addition, management tracks the portfolio's long-term value and the amount of value that is at risk over a broad range of potential interest rate scenarios.

Net interest income at risk, duration, convexity, and portfolio value analyses all provide key information about risk across a wide range of interest rates. Because future events may not be consistent with recent experience, Fannie Mae has constructed a further series of tests using highly stressful assumptions. Fannie Mae examines the performance of the liquidating book under ''worst-case'' assumptions of dramatic changes in interest rates, combined with adverse changes in other factors.

Many of the projections of mortgage cash flows depend on prepayment models. Fannie Mae is highly confident in the quality of these models, but it is aware that they are based on historical patterns that may not continue in the future. Those models make many assumptions, including some regarding the refinanceability of mortgages and relocation rates. Other assumptions are implicit in the projections of interest rates and include projections of the shape of the yield curve and volatility. Fannie Mae constructs ''worst-case'' assumptions of dramatic changes in interest rates, combined with substantial adverse changes in prepayments, volatility, and the shape of the yield curve. The stress tests provide extreme measures of potential risk in highly improbable environments and contribute to the evaluation of risk strategies in the long term.

Fannie Mae's practice of employing a variety of risk measures and assumptions continued to prove beneficial during the sharp and persistent rise in interest rates during 1999. Risk measures and assumptions are regularly reevaluated and modeling tools are enhanced as management finds appropriate.

The third element of Fannie Mae's interest rate risk management is a framework that sets the parameters for rebalancing actions to help attain corporate objectives. The Board of Directors oversees interest rate risk management through the adoption of corporate goals and objectives and the review of regular reports on performance against them. Senior management is responsible for ensuring that appropriate long-term strategies are in place to achieve the goals and objectives. Management establishes reference points for the key performance measures that are used to signal material changes

in risk and to assist in determining whether adjustments in portfolio strategy are required to achieve long-term objectives. These measures and reference points are reported regularly to the Board of Directors. Comparing the performance measures with the reference points helps management decide about the necessity or desirability of portfolio rebalancing. Short-term strategies, including rebalancing actions, are formulated in weekly meetings of senior mortgage portfolio management on the basis of recent financial market information and the portfolio's standing relative to its long-term objectives.

Fannie Mae's performance in 1999 serves as continued evidence of management's ability to meet its interest rate risk objectives. During the year, the ten-year Treasury rate increased 200 basis points and the increase in the volatility of interest rates experienced in the fourth quarter of 1998 persisted. The mortgage portfolio's duration gap swung from negative at the end of 1998 to positive throughout 1999. A positive duration gap indicates more of an exposure to rising interest rates than to falling interest rates. The duration gap was slightly outside Fannie Mae's established reference points for a short period during the summer and reached its highest point in early August. Portfolio rebalancing activities resulted in the duration gap returning to a level just above management's preferred target range of plus or minus six months at year-end 1999. Management intends to bring the duration gap within management's preferred target range during the first quarter of 2000.

At December 31, 1999, the duration gap of Fannie Mae's mortgage portfolio was a positive seven months, compared with a negative three months at the end of 1998. A positive duration gap results when the duration of mortgage assets is longer than the duration of the related liabilities. Because the portfolio's income is well hedged over the near term, the projected net interest income of the portfolio has relatively little exposure to rising or falling interest rates for the next year. Actual portfolio net interest income performance may differ from projections because of specific interest rate movements, changing business conditions, changing prepayments, and management actions.

Interest Rate Sensitivity of Net Asset Value

Another indicator of the interest rate exposure of Fannie Mae's existing business is the sensitivity of the fair value of net assets (net asset value) to changes in interest rates. The following table presents Fannie Mae's estimated net asset value as of December 31, 1999 and two estimates of net asset value that are based on hypothetical plus and minus 100 basis point instantaneous shocks in interest rates.

Interest Rate Sensitivity of Net Asset Value

	Net Asset Value	December 31, 1999 Percentage of Net Asset Value
	(Dollars in millions)	
December 31, 1999	$20,525	—
Assuming a 100 basis point increase	17,581	86%
Assuming a 100 basis point decrease	20,903	102

The net asset value of Fannie Mae on December 31, 1999, as presented in the above table, is the same as that disclosed in the Notes to Financial Statements under Note 15, "Disclosures of Fair Value of Financial Instruments." The net asset values for the hypothetical interest rate scenarios were derived in a manner consistent with the estimation procedures described in that note. The interest rate sensitivities apply to Fannie Mae's year-end 1999 book of business only. The net asset value sensitivities do not necessarily represent the changes in Fannie Mae's net asset value that would actually occur for the given interest rate scenarios because the sensitivities neither reflect changes in the value of Fannie Mae as a going concern nor consider prospective asset/liability rebalancing or other hedging actions Fannie Mae might take in the future.

Changes in net asset value take into account several factors, including changes in the values of all mortgage assets and the debt funding these assets, changes in the value of net guaranty fee income from off-balance-sheet obligations, and changes in the value of interest rate derivatives. As shown in the previous table, the net asset value sensitivity of Fannie Mae as of December 31, 1999 shows a decline of 14 percent from the instantaneous 100 basis point increase in interest rates and an increase of 2 percent from the instantaneous 100 basis point decrease in interest rates. These sensitivities are consistent with the company's overall greater exposure to rising interest rates as reflected by the positive duration gap of seven months.

Additional information on interest rate risk management is presented in MD&A under "Balance Sheet Analysis—Financing Activities."

Credit Risk Management

Fannie Mae actively manages credit risk because it has a significant impact on financial performance. Fannie Mae's primary credit risk is the possibility that it will not recover amounts due from borrowers on mortgages in its retained portfolio or mortgages underlying guaranteed MBS. Fannie Mae's secondary credit risk is that counterparties in other transactions may be unable to meet their contractual obligations. The management of credit risk is integrated into Fannie Mae's business units through the establishment of standards and delegation of underwriting authority, approval of risks beyond the limits of delegated underwriting authority, and broad credit oversight for the business. Fannie Mae's overall objective in managing credit risk is to deliver constant profitability and target returns on capital for the risks it retains and manages. This objective is accomplished by managing credit risk from initial product acquisition, through default, and until liquidation for loans in its portfolio and loans underlying guaranteed MBS.

After acquisition and before default, Fannie Mae actively manages credit risk to ensure that it remains within set tolerance levels. Credit portfolio managers meet weekly with the Asset Liability Management Committee to review trends in credit risk and explore risk management options. Various analytical tools are used to measure credit risk exposures and evaluate risk management vehicles. Fannie Mae continually refines its methods of measuring credit risk, setting risk and return targets, and transferring risk to third parties. Accordingly, Fannie Mae uses various types of credit enhancements to rebalance the credit portfolio, including recourse to lenders, primary mortgage insurance, pool insurance policies, and structured transactions.

The discussion that follows addresses how Fannie Mae specifically manages the risk that it will not recover amounts due from borrowers on conventional single-family and multifamily mortgages in its retained portfolio or underlying guaranteed MBS. Single-family mortgages are fixed-rate or adjustable-rate mortgages that finance the acquisition or improvement of one- to four-family residences or refinance these transactions. Multifamily loans provide financing for the purchase or development of properties with more than four residential rental units or the refinancing of these properties. Additional information on how Fannie Mae manages the risk that counterparties in other types of transactions may be unable to meet their contractual obligations is presented in MD&A under "Balance Sheet Analysis—Financing Activities" and in the Notes to Financial Statements under Note 13, "Financial Instruments with Off-Balance-Sheet Risk," and Note 14, "Concentrations of Credit Risk."

Single-Family

Fannie Mae actively manages credit risk from the point of acquisition until the termination of single-family mortgages to reduce the risk that it will not recover amounts due from borrowers. Fannie Mae implements sound underwriting policies to ensure that purchased and securitized mortgages meet its credit quality criteria. Fannie Mae employs various tools to prudently balance the risk and return on purchased and securitized mortgages. Fannie Mae then deploys portfolio management and loss mitigation strategies to control credit risk.

Fannie Mae has developed an automated underwriting tool, Desktop Underwriter, to help lenders consistently and objectively apply Fannie Mae's underwriting standards to all prospective borrowers. Desktop Underwriter provides a comprehensive analysis of the unique characteristics of a prospective borrower and mortgage, including such factors as a borrower's credit score and a property appraisal. Over 39 percent of mortgages sold to Fannie Mae went through Desktop Underwriter in 1999, up from 22 percent in 1998. Management expects usage of Desktop Underwriter to continue to increase in 2000.

Fannie Mae continues to explore new ways it can use Desktop Underwriter to carefully balance the risk and return of mortgage purchases and securitizations. For example, Fannie Mae has modified the features of Desktop Underwriter to evaluate mortgages from a broader range of mortgage market segments, such as Alternative A loans and A minus loans that serve borrowers on a lower level of the credit spectrum than our traditional mortgage market segments. Management plans to continue investing in research and technology to produce tools that help Fannie Mae and lenders manage credit risk and expand homeownership opportunities.

Once a loan is owned or securitized by Fannie Mae, servicers are required to follow Fannie Mae's guidelines for monitoring and servicing the loan. Fannie Mae regularly evaluates loan-level performance information to assess trends in servicing and credit risk. Fannie Mae assesses lenders by evaluating the payment performance of mortgages they originate that are purchased or guaranteed by Fannie Mae. Fannie Mae also monitors the quality of the lender's mortgage servicing performance. Fannie Mae tracks various trends in its total book of business to monitor credit risk, including delinquencies, geographical concentrations, loan-to-value ratios, mortgage product mix, and loan age. Fannie Mae uses primary mortgage insurance, pool insurance, and other credit risk-sharing arrangements to ensure that credit risk remains within acceptable tolerance levels in its total book of business. Overall, 39 percent of the $1 trillion credit portfolio had some level of credit enhancement at year-end 1999.

In the event mortgages do not perform, Fannie Mae employs several strategies to reduce its exposure to loss. Fannie Mae pursues early intervention in a delinquency through its mortgage servicers to keep borrowers in their homes and reduce credit-related losses. Borrowers typically are contacted early in a delinquency to determine whether a repayment plan, temporary forbearance, or modification of terms might resolve the delinquency. If a workout proves unsuccessful, the servicer may arrange a preforeclosure sale to reduce credit-related costs. The benefits of a preforeclosure sale include avoidance of the costs of foreclosure and a tendency for the property to sell at a better price because the home is usually occupied. If a preforeclosure sale is not possible, Fannie Mae's goal is to expeditiously handle the foreclosure process to minimize the time it retains a nonearning asset.

Many servicers employ Risk Profiler[SM], a default prediction model created by Fannie Mae, to enhance their loss mitigation efforts on loans in Fannie Mae's total book of business. Risk Profiler predicts the likelihood that a loan will default using credit risk indicators such as updated borrower credit data, current property values, and mortgage product characteristics. Servicers have integrated Risk Profiler into their loss mitigation activities, and, as a result, loan workouts increased in 1999 compared with the prior two years.

Another strategy involves placing Fannie Mae employees, referred to as servicing consultants, on-site with certain servicers to facilitate loss mitigation efforts. The servicing consultants work with servicers to improve the default management process and increase the number of loss mitigation workouts. At the end of 1999, Fannie Mae had servicing consultants working on-site periodically with nearly all of its major servicers. In addition to their role in the loss mitigation process, servicing consultants provide value-added benefits, including working with the servicer to improve operational processes and to implement best practices.

The application of various credit risk management strategies throughout a loan's life has contributed to continued reductions in credit-related losses. As shown in the following table, single-family credit-related losses dropped 53 percent in 1999, or $131 million, compared with 1998. Fannie

Mae's credit loss ratio on its average single-family book of business decreased to 1.1 basis points in 1999 from 2.7 basis points in 1998.

Single-Family Credit-Related Losses

	Year Ended December 31,		
	1999	1998	1997
	(Dollars in millions)		
(Recoveries) Charge-offs, net	$(126)	$(57)	$ 66
Foreclosed property expenses	244	306	279
Credit-related losses	$ 118	$249	$345
Credit loss ratio	.011%	.027%	.042%

Single-family credit-related losses fell significantly in 1999 compared with 1998 because of a decline in the number of acquired properties, an increase in recoveries, and a decrease in foreclosed property expenses. Fannie Mae's average credit-related loss per foreclosed single-family property acquisition fell to $4,800 in 1999 from $9,400 in 1998. The number of foreclosed single-family property acquisitions declined 19 percent to 16,806 in 1999 from 20,703 in 1998, primarily because of improving economic conditions nationwide. Recoveries on foreclosed properties increased $69 million in 1999, or 121 percent, because of the strength of housing markets nationwide and higher levels of mortgage insurance coverage on mortgages in foreclosure. Foreclosed property expenses decreased $62 million in 1999, or 20 percent, reflecting the decline in the number of acquired properties.

At year-end 1999 Fannie Mae's conventional single-family serious delinquency rate was .48 percent, compared with .58 percent at year-end 1998. This serious delinquency rate is based on the number of mortgages in Fannie Mae's retained portfolio or mortgages underlying MBS for which it retains the primary risk of loss and which are 90 or more days delinquent or in foreclosure. The following table summarizes the single-family serious delinquency rates by region.

Single-Family Serious Delinquency Rates

	December 31,		
	1999	1998	1997
Northeast	.67%	.83%	.89%
Southeast	.50	.57	.59
Midwest	.37	.41	.40
Southwest	.41	.46	.45
West	.46	.61	.71
Total	.48%	.58%	.62%

The risk profile for conventional single-family mortgages in Fannie Mae's portfolio and underlying MBS at the end of 1999 bodes well for credit performance in 2000. The average current loan-to-value ratio at year-end 1999 was stable compared with 1998 at approximately 60 percent. The level of equity in homes underlying mortgages is inversely correlated with the incidence and severity of default. Fannie Mae's conventional single-family book of business is predominantly composed of long-term and intermediate-term fixed-rate loans, which have a lower incidence of default compared with adjustable-rate mortgages. At year-end 1999, 94 percent of Fannie Mae's conventional single-family book of business was long-term or intermediate-term fixed-rate loans, compared with 93 percent at year-end 1998. Fannie Mae also carries mortgage insurance and pool insurance on selected portions of its portfolio. Fannie Mae used pool insurance policies to provide more than $1.5 billion in protection against credit losses at year-end 1999.

The following table provides a detailed overview of the distribution of Fannie Mae's conventional single-family mortgages by product type and loan-to-value ratios.

Distribution of Conventional Single-Family Loans by Product Type and Loan-to-Value Ratios

	Outstanding at December 31,		Percentage of Business Volumes		
	1999	1998	1999	1998	1997
Product:					
Long-term, fixed-rate	72%	69%	76%	77%	72%
Intermediate-term, fixed-rate(1)	22	24	19	19	17
Adjustable-rate	6	7	5	4	11
Total	100%	100%	100%	100%	100%
Original loan-to-value ratio:					
Greater than 90%	14%	12%	15%	10%	16%
81% to 90%	15	15	14	12	17
71% to 80%	40	40	42	43	40
61% to 70%	14	15	14	16	13
Less than 61%	17	18	15	19	14
Total	100%	100%	100%	100%	100%
Average original loan-to-value ratio	74%	74%	75%	74%	76%
Current loan-to-value ratio:					
Greater than 90	3%	2%			
81% to 90%	8	9			
71% to 80%	22	24			
61% to 70%	23	23			
Less than 61%	44	42			
Total	100%	100%			
Average current loan-to-value ratio	60%	61%			
Average loan amount (Maximum $240,000 in 1999)	$90,200	$85,800	$115,700	$112,800	$99,900

(1) Contractual maturities of 20 years or less at purchase for portfolio loans and 15 years or less at issue date for MBS issuances.

Multifamily

Fannie Mae also actively manages credit risk throughout the life cycle of its multifamily loans. Two primary risks are involved in the underwriting and management of a multifamily loan: (1) the risk that underlying property cash flows will be insufficient to service the loan and (2) the risk that proceeds from the sale or refinancing of a property will be insufficient to repay the loan at maturity.

Fannie Mae maintains rigorous loan-underwriting guidelines and extensive real estate due diligence examinations for the loans it acquires or guarantees. The loan-underwriting guidelines include specific occupancy rate, loan-to-value, and debt service coverage criteria. The due diligence examinations typically include property condition and property valuation reviews as well as investigations into the quality of property management. Because of the size of multifamily loans, management generally requires servicers to submit periodic operating information and property condition reviews to monitor the performance of individual loans. Fannie Mae uses the information to evaluate the

credit quality of the portfolio, identify potential problem loans, and initiate appropriate loss mitigation activities.

Fannie Mae has dedicated due diligence, portfolio monitoring, and loss mitigation teams to manage credit risk throughout the life of a multifamily loan. The due diligence team specializes in assessing transactions prior to purchase or securitization, particularly with large loans or structured transactions, and performs post-purchase reviews when the underwriting has been delegated to lenders. Under its DUS program Fannie Mae purchases or securitizes mortgages from specially approved lenders without prior review of the mortgages by Fannie Mae. The portfolio monitoring team performs detailed quarterly portfolio loss reviews, addresses borrower and geographic concentration risks, assesses lender qualifications, and evaluates counterparty risk. The loss mitigation team manages troubled assets from default through foreclosure and property disposition, if necessary.

Fannie Mae supplements its multifamily credit risk management efforts with various forms of credit enhancement on the majority of its loans. Fannie Mae has shared risk arrangements whereby lenders in its DUS program bear losses on the first five percent of UPB and share in remaining losses up to a prescribed limit. On structured transactions, Fannie Mae generally has full or partial recourse to lenders or third parties for loan losses. Letters of credit, investment agreements, or pledged collateral may secure the recourse. Third-party recourse providers for structured and other transactions include government and private mortgage insurers. The following table presents the credit risk-sharing profile, by UPB, of multifamily loans in portfolio and underlying MBS at December 31, 1999, 1998, and 1997.

Multifamily Credit Risk-Sharing Profile

	December 31,		
	1999	**1998**	**1997**
Fannie Mae risk	12%	11%	14%
Shared risk (1)	56	52	48
Recourse (2)	32	37	38
Total	100%	100%	100%

(1) Includes loans for which the lender initially bears losses of up to 5 percent of UPB and shares any remaining losses up to a prescribed limit.

(2) Includes loans not included in "shared risk" that have government mortgage insurance or full or partial recourse to lenders or third parties.

Multifamily credit performance was strong in 1999. Solid economic conditions, strong occupancy rates, and high multifamily property values resulted in a $6 million decline in credit-related losses in 1999 compared with 1998. Foreclosed property acquisitions decreased to 7 properties in 1999 from 12 properties in 1998. At year-end 1999, only one primary risk multifamily property was in Fannie Mae's inventory of foreclosed properties, down from nine at year-end 1998. The following table provides a detailed breakdown of credit-related losses and the ratio of credit-related losses to average UPB outstanding for multifamily loans in portfolio and underlying MBS.

Multifamily Credit-Related Losses

	Year Ended December 31,		
	1999	1998	1997
	(Dollars in millions)		
Charge-offs, net	$ 4	$ 8	$ 11
Foreclosed property expense (income), net	3	5	(4)
Credit-related losses	$ 7	$ 13	$ 7
Credit loss ratio	.015%	.036%	.020%

Multifamily serious delinquencies at year-end 1999 were .12 percent, down from .29 percent at year-end 1998. Multifamily serious delinquencies are those loans for which Fannie Mae has primary risk of loss (including those with shared risk) and that are delinquent 60 days or more. The multifamily serious delinquency percentage is based on the UPB of such loans in portfolio and underlying MBS.

Allowance for Losses

Fannie Mae establishes an allowance for losses on mortgages in the retained portfolio and mortgages underlying MBS outstanding. Management sets the allowance for losses at a level that it believes is adequate to cover estimated losses that are inherent in the total book of business. Fannie Mae considers the following factors in establishing the allowance for losses: delinquency levels; loss experience; economic conditions in areas of geographic concentration; and mortgage characteristics. The allowance for losses is established by recording an expense for the provision for losses. The allowance for losses is subsequently reduced through charge-offs on foreclosed properties, and it is increased through recoveries on foreclosed properties. Senior management reviews the adequacy of the allowance for losses on a quarterly basis.

Changes in the allowance for losses for the years 1995–1999 are presented in the following table.

Allowance for Losses

	Total
	(Dollars in millions)
Balance, January 1, 1995	$ 827
Provision	140
Net foreclosure losses charged off	(172)
Balance, December 31, 1995	795
Provision	195
Net foreclosure losses charged off	(210)
Balance, December 31, 1996	780
Provision	100
Net foreclosure losses charged off	(77)
Balance, December 31, 1997	803
Provision	(50)
Net recoveries	49
Balance, December 31, 1998	802
Provision	(120)
Net recoveries	122
Balance, December 31, 1999	$ 804

Operations Risk Management

Operations risk is the risk of potential loss resulting from a breakdown in established controls and procedures, examples of which include circumvention of internal controls, fraud, human error, and systems malfunction or failure. Fannie Mae has established extensive policies and procedures to decrease the potential likelihood of such occurrences. Fannie Mae's internal Office of Auditing tests the adequacy of and adherence to internal controls and established policies and procedures. Financial system data are regularly reconciled to source documents to ensure the accuracy of financial system outputs. In addition, Fannie Mae has a comprehensive disaster recovery plan that is designed to restore critical operations with minimal interruption in the event of a natural disaster.

The use of financial forecast models is another potential operations risk. To mitigate the risk associated with the use of financial models, Fannie Mae regularly reconciles forecasted results to actual results and makes adjustments to the models for differences affecting future periods.

Year 2000

Preparation for the Year 2000 date change has been a critically important operations risk management endeavor since 1996. Internally, Fannie Mae performed various enterprise tests on its mission-critical and non-mission-critical systems. Externally, Fannie Mae assessed the readiness of its loan servicing partners and other service providers. Fannie Mae also formulated a business continuity plan in the event of external Year 2000 problems. Fannie Mae spent $18 million in 1999 to manage the operations risks associated with the Year 2000. Fannie Mae spent a total of $56 million for its entire Year 2000 preparation.

Fannie Mae's Year 2000 preparation proved effective as the company experienced no operational problems associated with the Year 2000 date change.

Balance Sheet Analysis

Fannie Mae's primary balance sheet activities are purchasing mortgages and other investments with proceeds from debt issuances and from repayments of mortgages and other investments. Fannie Mae's liquidity and capital resources are critical to its activities and its regulatory capital requirements. The following analysis describes trends in these aspects of Fannie Mae's business activities.

Mortgage Portfolio

At December 31, 1999, Fannie Mae's retained mortgage portfolio, net totaled $523 billion, compared with $415 billion at December 31, 1998. The 26 percent growth in the retained mortgage portfolio was attributable to continued strength in mortgage origination volumes, particularly during the first half of 1999. The strength of mortgage originations increased the availability of mortgages for sale in the secondary market, and market volatility created attractive mortgage investment opportunities. Management believes portfolio growth will slow in 2000 as the level of mortgage originations declines, although this impact will be partially offset by a corresponding decline in mortgage prepayments.

Additional information on mortgage portfolio composition is presented in the Notes to Financial Statements under Note 2, "Mortgage Portfolio, Net."

The average yield on the retained mortgage portfolio declined to 7.04 percent during 1999 from 7.38 percent during 1998. The decline in yield largely resulted from the low interest rate environment in the early part of the year, which caused a high level of prepayments on higher yielding mortgages. The annual rate of total mortgage liquidations (excluding sales) fell to 11 percent in December 1999 from 28 percent in January 1999. Total mortgage liquidations decreased to $80 billion in 1999 from $89 billion in 1998 with the increase in interest rates. Management expects the yield on the retained portfolio will increase in 2000 as a result of higher interest rates on new originations and slower prepayment speeds.

The following table summarizes mortgage portfolio activity and average yields from 1997 through 1999.

Mortgage Portfolio Activity

	Purchases			Sales			Repayments (1)		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
	(Dollars in millions)								
Single-family:									
Government insured or guaranteed	$ 23,575	$ 6,016	$ 5,539	$ 360	$ —	$ —	$ 4,092	$ 3,729	$ 1,973
Conventional:									
Long-term, fixed-rate	146,679	147,615	55,925	5,779	1,383	563	52,707	60,718	20,995
Intermediate-term, fixed-rate	15,292	28,703	6,001	9	1	26	17,825	18,713	10,688
Adjustable-rate	6,073	3,507	1,977	—	—	476	3,829	2,965	2,807
Second	23	22	29	—	—	—	53	84	84
Total single-family	191,642	185,863	69,471	6,148	1,384	1,065	78,506	86,209	36,547
Multifamily	3,568	2,585	994	—	409	23	1,244	2,658	3,204
Total	$195,210	$188,448	$70,465	$6,148	$1,793	$1,088	$79,750	$88,867	$39,751
Average net yield	6.88%	6.61%	7.40%				7.39%	7.66%	7.70%
Repayments as a percentage of average mortgage portfolio							16.9%	25.0%	13.2%

(1) Includes mortgage loan prepayments, scheduled amortization, and foreclosures.

Investments

Fannie Mae's nonmortgage investment portfolio declined 32 percent to $40 billion at December 31, 1999, from $59 billion at December 31, 1998. The investment portfolio primarily consists of high-quality short-term investments, such as federal funds, commercial paper, repurchase agreements, and asset-backed securities.

The investment portfolio is used as a source of liquidity and an investment vehicle for Fannie Mae's surplus capital. In 1999 the investment portfolio declined in size as Fannie Mae invested in higher yielding mortgages for the retained mortgage portfolio and repurchased Fannie Mae common stock. The average yield on the investment portfolio declined to 5.52 percent in 1999 from 5.76 percent in 1998 because of a market decline in average short-term interest rates.

Additional information on the investment portfolio is presented in the Notes to Financial Statements under Note 4, "Investments."

Financing Activities

Fannie Mae's total debt outstanding increased 19 percent to $548 billion at year-end 1999 from $460 billion at year-end 1998. Fannie Mae's average cost of debt declined to 6.11 percent in 1999 from 6.31 percent in 1998. This decline resulted from Fannie Mae issuing a significant amount of effective long-term debt in the first half of 1999 when interest rates were lower, which more than offset the reduction in lower cost short-term debt associated with the decline in the size of the nonmortgage investment portfolio. Effective long-term debt represented 87 percent of the total debt outstanding at December 31, 1999, up from 76 percent at December 31, 1998, taking into consideration the effect of derivative instruments on the effective maturity of long-term and short-term debt. Fannie Mae's effective long-term debt as a percentage of its retained mortgage portfolio increased to 91 percent at year-end 1999 from 85 percent at year-end 1998. The weighted-average maturity of effective long-term, fixed-rate debt outstanding at December 31, 1999 was 80 months versus 68 months at December 31, 1998. Interest rate swaps effectively lengthened the final maturity of Fannie Mae's

liabilities by 28 months at December 31, 1999 and 13 months at December 31, 1998. The following table provides a summary of debt issuances and repayments during 1999 compared to the previous two years.

Short-Term and Long-Term Debt Activity

	1999	1998	1997
	(Dollars in millions)		
Issued during the year:			
Short-term(1):			
Amount	$1,136,001	$695,495	$755,281
Average cost	5.17%	5.42%	5.53%
Long-term(1):			
Amount	$ 139,020	$147,430	$ 86,325
Average cost	6.07%	5.81%	6.37%
Repaid during the year:			
Short-term(1):			
Amount	$1,125,748	$657,308	$738,552
Average cost	5.10%	5.51%	5.49%
Long-term(1):			
Amount	$ 61,790	$ 94,728	$ 63,690
Average cost	6.51%	6.40%	6.65%
Outstanding at year-end:			
Due within one year:			
Net amount	$ 226,582	$205,413	$175,400
Average cost(2)	5.80%	5.33%	5.76%
Due after one year:			
Net amount	$ 321,037	$254,878	$194,374
Average cost(2)	6.22%	6.25%	6.67%
Total debt:			
Net amount	$ 547,619	$460,291	$369,774
Average cost(3)	6.18%	6.10%	6.46%

(1) "Short-term" refers to the face amount of debt issued with an original term of one year or less. "Long-term" is the face amount of debt issued with an original term greater than one year.

(2) Average cost includes the amortization of premiums, discounts, issuance costs, hedging results, and the effects of currency and debt swaps.

(3) Average cost includes the amortization of premiums, discounts, issuance costs, hedging results, and the effects of currency, debt, and interest rate swaps.

Fannie Mae's Benchmark Securities^{SM} program continued to grow in 1999. The Benchmark Securities program encompasses large issues of callable and noncallable debt designed to provide liquidity and performance to investors while reducing Fannie Mae's cost of debt. The Benchmark Securities program has served to consolidate much of Fannie Mae's long-term debt issuances from a large number of small unscheduled issues to a smaller number of larger, more liquid scheduled issues. Beginning in 2000 Fannie Mae has committed to issuing Benchmark Notes^{SM} and Benchmark

Bonds[SM] with specific maturities in each month of the year. One result will be a regularly maintained and current noncallable Benchmark yield curve. During 1999 Fannie Mae issued $114 billion in debt under the Benchmark Securities program with maturities ranging from 3 months to 30 years, compared with $42 billion in 1998 with maturities ranging from 3 years to 10 years.

As described in the MD&A section entitled, ''Risk Management—Interest Rate Risk Management,'' Fannie Mae matches the durations of its mortgages with the durations of liabilities funding those mortgages. Fannie Mae uses debt instruments with varied maturities and embedded option characteristics, or hedges debt with interest rate swaps, caps, and swaptions to match durations. The total amount of option-embedded debt outstanding as a percentage of the retained mortgage portfolio increased to 47 percent at year-end 1999 from 42 percent at year-end 1998. The following table presents option-embedded debt instruments as a percentage of mortgage purchases and the retained mortgage portfolio for the past three years. Option-embedded debt instruments include derivative financial instruments.

Option-Embedded Debt Instruments

	1999	1998	1997
		(Dollars in billions)	
Issued during the year	$114	$113	$ 36
Percentage of total mortgage purchases	58%	60%	51%
Outstanding at year-end	$247	$174	$139
Percentage of total mortgage portfolio, net	47%	42%	44%

Fannie Mae employs derivative financial instruments as hedges of debt to increase the flexibility of its funding alternatives. Derivative financial instruments often can provide the specific cash flows or characteristics that the portfolio requires at a lower cost than the standard debt market. Fannie Mae does not speculate using derivatives and does not engage in derivatives trading.

Fannie Mae primarily uses four types of derivative instruments: (1) Swaps: Swaps provide for the exchange of fixed and variable interest payments based on contractual notional principal amounts. These swaps may include callable swaps, which give counterparties or Fannie Mae the right to terminate the interest rate swap agreement before its stated maturity, and foreign currency swaps, in which Fannie Mae and counterparties exchange different types of currencies. (2) Basis swaps: Fannie Mae exchanges variable payments that have maturities similar to hedged debt but based on different interest rate indices. (3) Swaptions: Fannie Mae has the option to enter into a swap at a future date, thereby mirroring the economic effect of callable debt. (4) Interest rate caps: Fannie Mae uses these instruments to effectively place ceilings on the interest rates on variable-rate debt.

The following table summarizes Fannie Mae's derivative activity for the years ended December 31, 1999 and 1998, together with the expected maturities and weighted-average interest rates to be received and paid on these derivative instruments. Fannie Mae's interest rate swaps had a weighted-average term of 112 months at December 31, 1999 versus 68 months at December 31, 1998.

Derivative Activity and Maturity Data

	Generic-Pay Fixed / Receive Variable Swaps (1)			Pay Variable /			
	Notional Amount (2)	Pay Rate (3)	Receive Rate (3)	Receive Fixed Swaps	Basis Swaps	Caps and Swaptions	Total
	(Dollars in millions)						
Balance on January 1, 1998	$ 96,713	6.77%	5.82%	$29,653	$22,383	$ —	$148,749
Additions	23,725	5.31	5.28	20,448	10,931	27,165	82,269
Maturities	24,424	6.25	5.72	20,631	16,395	—	61,450
Balance on December 31, 1998	96,014	6.53	5.30	29,470	16,919	27,165	169,568
Additions	55,532	6.76	5.52	21,859	19,445	25,700	122,536
Maturities	12,142	6.99	4.99	19,707	16,820	4,750	53,419
Balance on December 31, 1999	$139,404	6.55%	6.03%	$31,622	$19,544	$48,115	$238,685
Future Maturities (4)							
2000	$ 14,647	5.18%	5.88%	$20,375	$18,740	$ 7,250	$ 61,012
2001	11,025	6.12	5.84	3,943	150	10,450	25,568
2002	6,325	6.09	6.00	1,341	79	7,500	15,245
2003	6,134	5.85	6.04	550	200	10,615	17,499
2004	9,900	7.21	6.05	460	120	5,750	16,230
Thereafter	91,373	6.83	6.08	4,953	255	6,550	103,131
	$139,404	6.55%	6.03%	$31,622	$19,544	$48,115	$238,685

(1) Included in the notional amount are callable swaps of $47 billion and $26 billion with weighted-average pay rates of 5.08 percent and 4.93 percent and weighted-average receive rates of 6.06 percent and 5.44 percent at December 31, 1999 and December 31, 1998, respectively.

(2) The notional amount indicates only the amount on which swap payments are being calculated and does not represent the amount at risk of loss.

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

(4) Based on stated maturities. Assumes that variable interest rates remain constant at December 31, 1999 levels.

Fannie Mae also hedges against fluctuations in interest rates on planned debt issuances using derivative instruments that simulate the short sale of U.S. Treasury securities, interest rate swaps, and deferred rate-setting agreements. Gains and losses on these instruments are deferred and reflected as basis adjustments to the cost of the debt when issued. The hedging of anticipated debt issuances enables Fannie Mae to maintain an orderly and cost-effective debt issuance schedule so it can fund daily loan purchase commitments without significantly increasing its interest rate risk exposure.

The primary risk posed by Fannie Mae's derivative instruments is credit risk—the risk that a counterparty will fail to meet its contractual obligations on a transaction. Counterparty default could cause Fannie Mae to replace a derivative that carries a lower than market price with a derivative at a higher market price. Fannie Mae manages counterparty credit risk by contracting only with experienced counterparties that have high credit ratings. Fannie Mae enters into interest rate swap contracts under master agreements that require counterparties to post collateral if Fannie Mae is exposed to credit loss exceeding an agreed-upon threshold. Fannie Mae held $3.3 billion of collateral through custodians for derivative instruments at December 31, 1999. In addition, master agreements provide for netting of amounts due to Fannie Mae and amounts due to counterparties under those agreements. Fannie Mae regularly monitors credit exposures on its derivative instruments by determining the market value of positions via dealer quotes and internal pricing models. Fannie Mae's off-balance-sheet exposure on derivative instruments (taking into account master agreements that

allow for netting of payments) was $3.9 billion at December 31, 1999, compared with $46 million at December 31, 1998.

Additional information on interest rate swaps and other off-balance-sheet financial instruments are presented in the Notes to Financial Statements under Note 13, ''Financial Instruments with Off-Balance-Sheet Risk'' and Note 15, ''Disclosures of Fair Value of Financial Instruments.''

Liquidity and Capital Resources

Fannie Mae's statutory mission requires that it provide ongoing assistance to the secondary market for mortgages. Fannie Mae therefore must continually raise funds to support its mortgage purchase activity. The capital markets traditionally have treated Fannie Mae's obligations as ''federal agency'' debt, even though the U.S. government does not guarantee Fannie Mae's debt. As a result, Fannie Mae has had ready access to funding at relatively favorable spreads.

Fannie Mae's primary sources of cash are issuances of debt obligations, mortgage repayments, interest income, and MBS guaranty fees. Fannie Mae had cash and cash equivalents and short-term investments totaling $42 billion at year-end 1999. Primary uses of cash include the purchase of mortgages and other securities, repayment of debt, interest payments, administrative expenses, and taxes.

At December 31, 1999, Fannie Mae had $7 billion in outstanding mandatory commitments to purchase mortgages and $2 billion in outstanding optional commitments for delivery in 2000. At December 31, 1998, Fannie Mae had $11 billion in outstanding mandatory commitments to purchase mortgages and $2 billion in outstanding optional commitments for delivery in 1999.

Fannie Mae's capital base (stockholders' equity plus the general allowance for losses) grew to $18.4 billion at year-end 1999, compared with $16.2 billion at year-end 1998. At year-end 1999, 1.019 billion shares of common stock were outstanding, net of shares held in treasury. Common stock issuances totaled 4 million shares for employee and other stock compensation plans in 1999. During the second quarter of 1999 Fannie Mae issued 3 million shares of 5.10 percent noncumulative preferred stock, Series E, with a stated value of $50 per share. In January 2000 the Board of Directors approved a quarterly dividend for 2000 of $.28 per common share and dividends of $.80125 per Series A preferred share, $.81250 per Series B preferred share, $.80625 per Series C preferred share, $.65625 per Series D preferred share, and $.63750 per Series E preferred share for the period commencing December 31, 1999, up to, but excluding, March 31, 2000. In 1999 the quarterly dividend rate was $.27 per common share.

Pursuant to the Board's approval to repurchase up to an additional six percent of outstanding common shares as of December 27, 1995 (adjusted for a stock split), Fannie Mae continued its capital restructuring program and repurchased 10 million shares of common stock in 1999. In 1998 Fannie Mae repurchased 17 million shares of common stock. The stock repurchases were made to implement the capital restructuring program and to offset the dilutive effect of common shares issued in conjunction with various stock compensation plans.

Fannie Mae assesses capital adequacy using an internally developed stress test methodology. The stress test model calculates the amount of capital required under different economic scenarios. Fannie Mae uses this model to estimate the potential amount of capital needed to carry out the company's mission during a period of economic distress. Based on the results of this model and other factors, Fannie Mae makes decisions on the risk structure of its business.

Regulatory Capital Requirements

Fannie Mae is subject to minimum capital adequacy and risk-based capital standards established by the 1992 Act. The capital adequacy standards require that Fannie Mae's core capital equal or exceed a minimum capital standard and a critical capital standard. The following table shows Fannie Mae's core capital at year-end 1999 and 1998 compared with the requirements.

Capital Requirements

	December 31,	
	1999	1998
	(Dollars in millions)	
Core capital(1)	$17,876	$15,465
Required minimum capital(2)	17,770	15,334
Required critical capital(3)	9,127	7,863
Excess of core capital over minimum capital	$ 106	$ 131

(1) The sum of (a) the par value of outstanding common stock; (b) the par value of outstanding noncumulative perpetual preferred stock; (c) paid-in capital; and (d) retained earnings.

(2) The sum of (a) 2.50 percent of on-balance-sheet assets; (b) .45 percent of outstanding MBS; and (c) .45 percent of other off-balance-sheet obligations, except as adjusted by the Director of OFHEO.

(3) The sum of (a) 1.25 percent of on-balance-sheet assets; (b) .25 percent of outstanding MBS; and (c) .25 percent of other off-balance-sheet obligations, except as adjusted by the Director of OFHEO.

The Director of OFHEO has proposed a risk-based capital standard as required by the 1992 Act. The risk-based capital standard includes capital requirements for credit risk, interest rate risk, and management and operations risk. To meet the proposed capital standard, Fannie Mae would have to hold capital based on the occurrence of extreme credit and interest rate conditions over a ten-year horizon, plus an additional 30 percent of that amount for management and operations risk.

OFHEO released Part I of the proposed risk-based capital regulations for public comment in 1996. Part II of the proposed risk-based capital regulations was released for public comment in March 1999. Part I proposed benchmarks for credit stress testing and specified the housing price index that would be used in connection with this standard. Part II proposed the usage of a specific model to assess capital requirements for credit risk and interest rate risk. In October 1999, OFHEO extended the comment period deadline on Part II to March 10, 2000. Fannie Mae has submitted comments on Part II of the risk-based capital proposal to OFHEO. The 1992 Act provides that the final regulation will be enforceable one year after issuance of a final regulation.

Mortgage-Backed Securities

Total MBS outstanding grew to $961 billion at year-end 1999 from $835 billion at year-end 1998. MBS outstanding increased primarily because of a high level of MBS issuances driven by a strong origination market. MBS issuances totaled $301 billion in 1999, compared with 1998's record issuance level of $326 billion. MBS liquidations declined to $174 billion in 1999 from $201 billion in 1998 because of the increase in interest rates. The annual rate of MBS liquidations declined to 11 percent in December 1999 from 35 percent in January 1999.

Fannie Mae issues MBS that are backed by mortgage loans purchased from a single lender or from multiple lenders, or that are transferred from Fannie Mae's mortgage portfolio. Single-lender MBS are issued through lender swap transactions whereby a lender exchanges pools of mortgages for MBS. Multiple-lender MBS allow several lenders to pool mortgages and receive, in return, MBS (called Fannie Majors®) representing a proportionate share of a larger pool. These MBS are not assets of Fannie Mae except when acquired for investment purposes, nor are the MBS recorded as liabilities. In some instances Fannie Mae buys mortgage loans and concurrently enters into a forward sale commitment. These loans are designated as held for sale when acquired and sold from the portfolio as MBS.

Sellers of pools of mortgage loans may retain or transfer to one or more third parties the primary default risk on loans constituting the MBS pools, or they may elect to transfer this credit risk to Fannie Mae. Fannie Mae receives a guaranty fee for assuming the credit risk and guaranteeing timely payment of principal and interest to MBS investors in the event that borrowers default or prepay the mortgages underlying MBS. The guaranty fee paid by the lender varies, depending on the risk profile of the loans securitized as well as the level of credit risk Fannie Mae assumes. Fannie Mae accrues a liability on its balance sheet for its guarantee obligation based on the probability that mortgages underlying MBS will not perform per the contractual terms of the mortgages and the level of credit risk it has assumed.

The following table summarizes the risk distribution for MBS issued and outstanding for the years ended December 31, 1999, 1998, and 1997.

MBS Risk Distribution

	Issued (1)			Outstanding (1)		
	Lender or Shared Risk	Fannie Mae Risk	Total	Lender or Shared Risk (2)	Fannie Mae Risk	Total (3)
	(Dollars in millions)					
1999	$75,187	$225,502	$300,689	$209,190	$751,693	$960,883
1998	90,694	235,454	326,148	160,223	674,295	834,518
1997	35,740	113,689	149,429	94,262	615,320	709,582

(1) Based on primary default risk category. MBS outstanding includes MBS that have been pooled to back Fannie Megas, SMBS, or REMICs.

(2) Included in lender risk are $163 billion, $123 billion, and $57 billion at December 31, 1999, 1998, and 1997, respectively, on which the lender or a third party had agreed to bear default risk limited to a certain portion or percentage of the loans delivered and, in some cases, on which the lender had pledged collateral to secure that obligation.

(3) Included are $282 billion, $197 billion, and $130 billion at December 31, 1999, 1998, and 1997, respectively, of MBS in Fannie Mae's portfolio.

Fannie Mae also issues REMICs backed by MBS, SMBS, Ginnie Mae mortgage-backed securities, other REMIC securities, or whole loans. REMICs provide an additional source of fee income from issuances that does not subject the corporation to added credit risk, except for REMICs backed by whole loans. In 1999, REMIC issuances were $51 billion, compared with $76 billion in 1998. REMIC issuances declined because of increased competition from other issuers. The outstanding balance of REMICs at December 31, 1999 was $294 billion, compared with $311 billion at December 31, 1998. REMICs are not assets of Fannie Mae except when acquired for investment purposes, nor are the REMICs recorded as liabilities.

Housing Goals

The 1992 Act gives the Secretary of HUD authority to establish low- and moderate-income, underserved areas, and special affordable housing goals for Fannie Mae. In December 1995 the Secretary of HUD issued final regulations setting the housing goals for 1996 through 1999. Under the final regulation, Fannie Mae's goals for 1997 through 1999 were 42 percent of its conventional mortgage business in low- and moderate-income housing, 24 percent of its conventional mortgage business in underserved areas, and 14 percent of its conventional single-family and multifamily business in special affordable housing. All these goals are measured as a percentage of units financed by Fannie Mae. Within the special affordable housing goal Fannie Mae also must include mortgage purchases of multifamily units totaling no less than $1.3 billion (.8 percent of Fannie Mae's 1994 total dollar volume of such mortgage purchases).

Fannie Mae exceeded its low- and moderate-income housing goal in 1999 and 1998, with 46 percent and 44 percent, respectively, of its conventional mortgage business counting toward this goal. In 1999 Fannie Mae exceeded its goal for underserved areas, with 27 percent of its conventional mortgage business counting toward this goal. Fannie Mae exceeded the 1998 goal with over 26 percent of the conventional mortgage business serving families in underserved areas. In addition, Fannie Mae exceeded the 1999 special affordable housing goal with nearly 19 percent of the conventional single-family and multifamily business counting toward this goal and with approximately $4.1 billion of multifamily business counting toward the $1.3 billion multifamily requirement. In 1998 Fannie Mae exceeded the special affordable housing goal, with over 15 percent of single-family and multifamily business counting toward this goal and with special affordable multifamily purchases of $3.6 billion.

The current HUD regulations are scheduled for change in 2000 and beyond. In March 2000, HUD issued proposed new rules on the housing goals and requested comment on goals of 50 percent for low- and moderate-income housing, 31 percent for underserved areas, 20 percent for special affordable housing, and $3.7 billion for special affordable multifamily purchases for 2001 and each of the succeeding two years. HUD also proposed increasing the corresponding housing goals for 2000 to 48 percent, 29 percent, 18 percent, and $3.3 billion, respectively. Management will not be able to assess the possible impact of changes in these goals on Fannie Mae until the goals are finalized. The current rule remains in effect until superseded by a final rulemaking establishing different goals.

Fannie Mae has built a solid foundation in affordable housing through significant community partnership efforts, products directed at certain underserved groups, and the introduction of products with targeted underwriting flexibilities, including an initiative to purchase loans with lower down payments to help low-income households afford homes. In 1994 Fannie Mae announced a commitment to increase outreach and access to mortgage credit under its Trillion Dollar Commitment to serve 10 million households by the end of 2000. This significant targeted housing finance commitment serves families with incomes below the median for their areas, minorities and new immigrants, families who live in central cities and distressed communities, and people with special housing needs. With its announcement, Fannie Mae pledged to provide the innovation and leadership necessary to transform the housing finance industry into one without arbitrary barriers to individuals and families who have been shut out of the dream of homeownership or have not had ready access to decent, safe rental housing. Fannie Mae surpassed the commitment to serve 10 million households through the Trillion Dollar Commitment in August 1999, 16 months ahead of schedule. Fannie Mae anticipates reaching $1 trillion in financing during the spring of 2000.

New Accounting Standard

In June 1999, the Financial Accounting Standards Board extended the effective date of Financial Accounting Standard No. 133 ("FAS 133"), *Accounting for Derivative Instruments and Hedging Activities* by one year. As a result, FAS 133 will be effective for Fannie Mae on January 1, 2001. FAS 133 requires that all derivatives be recognized as either assets or liabilities on the balance sheet at fair value. Subject to certain qualifying conditions, a derivative may be designated as either a hedge of the fair value of a fixed-rate instrument ("fair value hedge") or a hedge of the cash flows of a variable-rate instrument or anticipated transaction ("cash flow hedge"). For a derivative qualifying as a fair value hedge, fair value gains or losses on the derivative would be reported in earnings along with offsetting fair value gains or losses on the hedged item attributable to the risk being hedged. For a derivative qualifying as a cash flow hedge, fair value gains or losses associated with the risk being hedged would be reported in a separate component of stockholders' equity (other comprehensive income) and then amortized into earnings in the period(s) in which the hedged item affects income. For a derivative not qualifying as a hedge, fair value gains and losses would be reported in earnings. Management is currently evaluating the impact that this standard will have on its internal operations. If Fannie Mae continues with its current business strategies, this standard is not expected to have a significant effect on net income, although it is likely to have a material effect on the other comprehensive income component of stockholders' equity.

Comparison of 1998 with 1997

The following discussion and analysis compares Fannie Mae's results of operations for the years ended December 31, 1998 and 1997.

Results of Operations

Net income increased to $3.418 billion in 1998 from $3.056 billion in 1997. Diluted earnings per common share were $3.23, up from $2.83 in 1997.

Total revenues grew 5 percent to $5.614 billion in 1998 from $5.348 billion in 1997. The growth was attributable to an increase in net interest income and fee and other income, which more than offset a decrease in guaranty fee income.

Net interest income increased $161 million to $4.110 billion in 1998 because of a $53 billion, or 18 percent, increase in the average mortgage portfolio balance, which was partially offset by a 14 basis point decrease in the average net interest margin. The decrease in the average net interest margin in 1998 stemmed from an increase in the refinancing of high-coupon mortgages, the recording of additional amortization of premiums on mortgages held in portfolio during the fourth quarter, an increase in tax-advantaged investments, and the repurchase of common shares.

Guaranty fee income decreased $45 million to $1.229 billion in 1998 from $1.274 billion in 1997. The decrease in guaranty fee income primarily resulted from a 2.5 basis point decrease in the average effective guaranty fee rate, which more than offset a $48 billion increase in average net Fannie Mae MBS outstanding.

Fee and other income increased $150 million to $275 million in 1998 from $125 million in 1997. The increase resulted largely from higher technology fees, multifamily fees, and other fees.

Credit-related expenses decreased $114 million to $261 million in 1998 from $375 million in 1997. A significant reduction in the provision for losses associated with a decline in the number of foreclosed properties contributed to the decrease in credit-related expenses. The decrease in credit-related expenses and foreclosed properties resulted from a stronger national housing market (especially in California), a significant degree of risk sharing on higher risk loans, and continued loss mitigation efforts.

Administrative expenses grew $72 million in 1998, or 11 percent, to $708 million from $636 million in 1997. The increase in administrative expenses resulted primarily from higher technology equipment costs and compensation costs, which included efforts to make Fannie Mae's computer systems Year 2000 compliant, and the effect of a higher common share price on certain stock-based compensation plans. Compensation expense was $453 million in 1998, compared with $394 million in 1997.

The provision for federal income taxes, net of the tax benefit from extraordinary losses, was $1.187 billion in 1998, compared with $1.262 billion in 1997. The effective federal income tax rate was 26 percent in 1998 versus 29 percent in 1997. The reduction in the effective federal income tax rate reflected the implementation of improved systems and information that accelerated the timing of the recognition of the tax benefits associated with investments qualifying for low-income housing tax credits.

During 1998, the amount of long-term debt called or repurchased and the notional principal of related interest rate swaps called was $77 billion, with a weighted-average cost of 6.71 percent. The comparable amount in 1997 was $31 billion, with a weighted-average cost of 7.22 percent. As a result of repurchase and call activity, Fannie Mae recognized net extraordinary losses of $40 million ($26 million after tax) in 1998, compared with $19 million ($12 million after tax) in 1997. The repurchase or call of high-coupon debt favorably affects Fannie Mae's future cost of funds.

FANNIE MAE

INDEX TO FINANCIAL STATEMENTS

	Page
Independent Auditors' Report	42
Statements of Income	43
Balance Sheets	44
Statements of Changes in Stockholders' Equity	45
Statements of Cash Flows	46
Notes to Financial Statements	47
Quarterly Results of Operations (Unaudited)	71
Net Interest Income and Average Balances (Unaudited)	73
Rate/Volume Analysis (Unaudited)	74

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have audited the accompanying balance sheets of Fannie Mae as of December 31, 1999 and 1998, and the related statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of Fannie Mae's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fannie Mae as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

We also have audited in accordance with generally accepted auditing standards the supplemental fair value balance sheets of Fannie Mae as of December 31, 1999 and 1998, included in Note 15 to the financial statements. As described in Note 15, the supplemental fair value balance sheets have been prepared by management to present relevant financial information that is not provided by the financial statements and is not intended to be a presentation in conformity with generally accepted accounting principles. In addition, the supplemental fair value balance sheets do not purport to present the net realizable, liquidation, or market value of Fannie Mae as a whole. Furthermore, amounts ultimately realized by Fannie Mae from the disposal of assets may vary significantly from the fair values presented. In our opinion, the supplemental fair value balance sheets included in Note 15 present fairly, in all material respects, the information set forth therein.

KPMG LLP

Washington, DC
January 13, 2000

FANNIE MAE

FINANCIAL STATEMENTS AND REPORTS

STATEMENTS OF INCOME

	Year Ended December 31,		
	1999	**1998**	**1997**
	(Dollars and shares in millions, except per common share amounts)		
Interest income:			
Mortgage portfolio	$32,672	$25,676	$22,716
Investments and cash equivalents	2,823	4,319	3,662
Total interest income	35,495	29,995	26,378
Interest expense:			
Short-term debt	3,952	4,809	3,659
Long-term debt	26,649	21,076	18,770
Total interest expense	30,601	25,885	22,429
Net interest income	4,894	4,110	3,949
Other income:			
Guaranty fees	1,282	1,229	1,274
Fee and other income, net	191	275	125
Total other income	1,473	1,504	1,399
Other expenses:			
Provision for losses	(120)	(50)	100
Foreclosed property	247	311	275
Administrative	800	708	636
Total other expenses	927	969	1,011
Income before federal income taxes and extraordinary item	5,440	4,645	4,337
Provision for federal income taxes	1,519	1,201	1,269
Income before extraordinary item	3,921	3,444	3,068
Extraordinary item—loss on early extinguishment of debt (net of tax effect of $5 million in 1999, $14 million in 1998, and $7 million in 1997)	9	26	12
Net income	$ 3,912	$ 3,418	$ 3,056
Preferred stock dividends	78	66	65
Net income available to common stockholders	$ 3,834	$ 3,352	$ 2,991
Basic earnings per common share:			
Earnings before extraordinary item	$ 3.75	$ 3.28	$ 2.87
Extraordinary loss	—	(.02)	(.02)
Net earnings	$ 3.75	$ 3.26	$ 2.85
Diluted earnings per common share:			
Earnings before extraordinary item	$ 3.73	$ 3.26	$ 2.84
Extraordinary loss	(.01)	(.03)	(.01)
Net earnings	$ 3.72	$ 3.23	$ 2.83
Cash dividends per common share	$ 1.08	$ .96	$ .84
Weighted-average shares outstanding:			
Basic	1,024	1,029	1,049
Diluted	1,031	1,037	1,056

See Notes to Financial Statements

FANNIE MAE

BALANCE SHEETS

Assets

	December 31, 1999	December 31, 1998
	(Dollars in millions, except share stated values)	
Mortgage portfolio, net	$522,780	$415,223
Investments:		
Held-to-maturity	21,660	42,299
Available-for-sale	18,091	16,216
Cash and cash equivalents	2,099	743
Accrued interest receivable	3,530	3,453
Acquired property and foreclosure claims, net	708	827
Other	6,299	6,253
Total assets	$575,167	$485,014

Liabilities and Stockholders' Equity

	1999	1998
Liabilities:		
Debentures, notes and bonds, net:		
Due within one year	$226,582	$205,413
Due after one year	321,037	254,878
Total	547,619	460,291
Accrued interest payable	6,784	5,262
Other	3,135	4,008
Total liabilities	557,538	469,561
Stockholders' Equity:		
Preferred stock, $50 stated value, 100 million shares authorized— 26 million shares outstanding in 1999 and 23 million shares outstanding in 1998	1,300	1,150
Common stock, $.525 stated value, no maximum authorization— 1,129 million shares outstanding	593	593
Additional paid-in capital	1,585	1,533
Retained earnings	18,417	15,689
Accumulated other comprehensive income	(246)	(13)
	21,649	18,952
Less: Treasury stock, at cost, 110 million shares in 1999 and 104 million shares in 1998	4,020	3,499
Total stockholders' equity	17,629	15,453
Total liabilities and stockholders' equity	$575,167	$485,014

See Notes to Financial Statements

FANNIE MAE

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Number of Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	(Dollars and shares in millions)							
Balance, January 1, 1997	1,061	$1,000	$593	$1,451	$11,215	$ (1)	$(1,485)	$12,773
Comprehensive Income:								
Net income	—	—	—	—	3,056	—	—	3,056
Other comprehensive income:								
Unrealized losses on available-for-sale securities, net of tax effect	—	—	—	—	—	—	—	—
Total comprehensive income								3,056
Dividends	—	—	—	—	(945)	—	—	(945)
Shares repurchased	(31)	—	—	—	—	—	(1,291)	(1,291)
Treasury stock issued for stock options and benefit plans	7	—	—	44	—	—	156	200
Balance, December 31, 1997	1,037	1,000	593	1,495	13,326	(1)	(2,620)	13,793
Comprehensive Income:								
Net income	—	—	—	—	3,418	—	—	3,418
Other comprehensive income: Unrealized losses on available-for-sale securities, net of tax effect	—	—	—	—	—	(12)	—	(12)
Total comprehensive income								3,406
Dividends	—	—	—	—	(1,055)	—	—	(1,055)
Shares repurchased	(17)	—	—	—	—	—	(1,051)	(1,051)
Preferred stock issued	—	150	—	—	—	—	—	150
Treasury stock issued for stock options and benefit plans	5	—	—	38	—	—	172	210
Balance, December 31, 1998	1,025	1,150	593	1,533	15,689	(13)	(3,499)	15,453
Comprehensive Income:								
Net income	—	—	—	—	3,912	—	—	3,912
Other comprehensive income:								
Unrealized losses on available-for-sale securities, net of tax effect	—	—	—	—	—	(233)	—	(233)
Total comprehensive income	—	—	—	—	—	—	—	3,679
Dividends	—	—	—	—	(1,184)	—	—	(1,184)
Shares repurchased	(10)	—	—	—	—	—	(653)	(653)
Preferred stock issued	—	150	—	(2)	—	—	—	148
Treasury stock issued for stock options and benefit plans	4	—	—	54	—	—	132	186
Balance, December 31, 1999	1,019	$1,300	$593	$1,585	$18,417	$(246)	$(4,020)	$17,629

See Notes to Financial Statements

FANNIE MAE

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1999	1998	1997
	(Dollars in millions)		
Cash flows from operating activities:			
Net income	$ 3,912	$ 3,418	$ 3,056
Adjustments to reconcile net income to net cash provided by operating activities:			
Discount amortization on short-term debt	6,929	5,828	5,012
Provision for losses	(120)	(50)	100
Loss on early extinguishment of debt	14	40	19
Other increases (decreases), net	1,120	(1,540)	(1,691)
Net cash provided by operating activities	11,855	7,696	6,496
Cash flows from investing activities:			
Purchases of mortgages	(193,434)	(189,721)	(70,768)
Proceeds from sales of mortgages	5,950	1,824	1,082
Mortgage principal repayments	77,789	86,918	37,714
Net proceeds from disposition of foreclosed properties	2,462	2,890	3,085
Net decrease (increase) in held-to-maturity investments	20,639	16,391	(5,584)
Net increase in available-for-sale investments	(1,875)	(10,310)	(2,406)
Net cash used in investing activities	(88,469)	(92,008)	(36,877)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	138,491	149,034	86,079
Payments to redeem long-term debt	(62,464)	(95,920)	(63,716)
Proceeds from issuance of short-term debt	1,129,246	682,524	737,054
Payments to redeem short-term debt	(1,125,754)	(650,961)	(725,584)
Net payments from stock activities	(1,549)	(1,827)	(2,097)
Net cash provided by financing activities	77,970	82,850	31,736
Net increase (decrease) in cash and cash equivalents	1,356	(1,462)	1,355
Cash and cash equivalents at beginning of year	743	2,205	850
Cash and cash equivalents at end of year	$ 2,099	$ 743	$ 2,205
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 28,447	$ 24,415	$ 21,622
Income taxes	1,276	555	1,240

See Notes to Financial Statements

FANNIE MAE

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Fannie Mae is a federally chartered and stockholder-owned corporation operating in the residential mortgage finance industry.

The accounting and reporting policies of Fannie Mae conform with generally accepted accounting principles. Certain amounts in prior years' financial statements have been reclassified to conform with the current presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Mortgage Portfolio

Mortgages and mortgage-backed securities that Fannie Mae has the ability and positive intent to hold to maturity are classified as held for long-term investment and held-to-maturity, respectively, and are carried at their unpaid principal balance (''UPB'') adjusted for unamortized purchase discount or premium and deferred price adjustments. Mortgage loans held for sale are carried at the lower of cost or fair value, with any unrealized losses included in current period earnings. Mortgage-backed securities that Fannie Mae intends to hold for an undetermined period, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value, with any valuation adjustments reported as a component of other comprehensive income, net of deferred taxes, in stockholders' equity.

Fannie Mae uses actual principal prepayment experience and estimates of future principal prepayments in calculating the constant effective yield necessary to apply the interest method in the amortization of deferred price adjustments and purchase discount or premium. In evaluating prepayments, loans are aggregated by similar characteristics (e.g., loan type, acquisition date, and maturity). Factors used in determining estimates of future prepayments include historical prepayment data and expected prepayment performance under varying interest rate scenarios.

Interest income is not accrued on nonperforming loans. Conventional single-family and multifamily loans are classified as nonperforming and previously accrued interest is removed from income when the collection of interest payments is deemed less than probable.

Investments

Nonmortgage investments are classified as either available-for-sale or held-to-maturity. Investments that are classified as available-for-sale are carried at fair value as of the balance sheet date, with any valuation adjustments reported as a component of other comprehensive income, net of deferred taxes, in stockholders' equity. Investments that are classified as held-to-maturity are carried at historical cost, adjusted for unamortized discount or premium. Interest income is recognized on an accrual basis unless the collection of interest income is considered doubtful, in which case interest income is recognized on a cash basis.

Guaranteed Mortgage-Backed Securities

Fannie Mae guarantees the timely payment of principal and interest on most Fannie Mae Mortgage-Backed Securities ("MBS"). These securities represent beneficial interests in pools of mortgages or other MBS held in trust by Fannie Mae. The pools of mortgages or MBS are not assets of Fannie Mae, except when acquired for investment purposes, nor are the related outstanding securities liabilities; accordingly, neither are reflected on the accompanying balance sheets. Fannie Mae receives monthly guaranty fees for each MBS mortgage pool based on a percentage of the pool's outstanding balance. Adjustments to the guaranty fee rate effected through an upfront payment at securitization are deferred and amortized into guaranty fee income over the estimated life of the underlying loans using the interest method. For MBS pools held in Fannie Mae's portfolio, the guaranty fee is reflected as interest income.

Allowance for Losses

The allowance for losses is based on an analysis of portfolio loans and MBS outstanding and provides for known probable losses and losses inherent in the mortgage portfolio and MBS. Management's analysis considers current delinquency levels, historical loss experience, current economic conditions in areas of geographic concentration, and mortgage characteristics. The allowance for losses is established by recording an expense for the provision for losses. It is subsequently reduced through charge-offs on foreclosed properties and is increased through recoveries on foreclosed properties. In management's judgement, the allowance for losses is adequate to provide for expected losses.

Acquired Property

Foreclosed assets are carried at the lower of cost or fair value less estimated costs to sell. Cost is defined as fair value at foreclosure and represents the amount that a willing seller could reasonably expect from a willing buyer in an arm's-length transaction. The difference between estimated fair value of the collateral at foreclosure and the principal owed on the underlying loan is recorded as a charge-off against the allowance for losses. Foreclosure, holding, and disposition costs are charged directly to earnings.

Hedging Instruments

Fannie Mae uses certain financial instruments, such as interest rate swaps, swaptions, derivative instruments that simulate the short sale of Treasury securities, interest rate caps, deferred rate-setting agreements, and foreign currency swaps to achieve a specific financing or investment objective at a desired cost or yield. Fannie Mae does not engage in trading or other speculative use of these financial instruments. Specific criteria must be met for a financial instrument to qualify as a hedge on either an accrual or a deferred basis. Financial instruments not qualifying as hedges are marked to market through earnings. Financial instruments used to hedge the anticipated issuance of debt must maintain a high correlation between the hedging instrument and the item being hedged, both at inception and throughout the hedge period.

Interest rate swaps are contractual agreements between two parties for the exchange of periodic payments, generally based on a notional principal amount and agreed-upon fixed and variable rates. Fannie Mae has long-term interest rate swap agreements with various parties to extend the effective maturity of certain short-term debt obligations and to adjust the effective maturity of certain long-term debt obligations. Fannie Mae also has interest rate swap agreements that are linked to specific debt issues ("debt swaps") or specific investments ("asset swaps"). These swaps achieve a specific

financing or investment objective at a desired cost or yield. The costs and terms of the specific debt issues and yield of these specific investments, as presented in the financial statements, include the effects of these swaps. Interest rate swaps are accounted for on an accrual basis with the net payable or receivable recognized as an adjustment to interest income or expense on the hedged assets or liabilities. Gains or losses on terminated interest rate swaps are deferred and amortized over the shorter of the remaining life of the hedged items or the term of the original swap. The fair value of the interest rate swap agreements and changes in these fair values are not recognized in the financial statements.

Swaptions are derivative instruments that provide Fannie Mae with the option to enter into an interest rate swap at a future date, thereby mirroring the economic effect of callable debt. Swaptions are used to hedge planned debt issuances or existing debt instruments. The fair value of the swaptions and changes in these fair values are not recognized in the financial statements.

Derivative instruments that simulate short sales of Treasury securities are used to hedge interest rate risk on planned debt issuances. Gains and losses that result from the hedge positions are deferred and recognized as adjustments to debt cost over the life of the hedged debt issuance.

Interest rate caps are agreements with a counterparty to effectively cap Fannie Mae's exposure on a variable-rate debt instrument in a rising interest rate environment. In exchange for a premium paid to a counterparty for the cap, the counterparty agrees to pay Fannie Mae an amount equal to any interest on the notional amount in excess of the agreed-upon rate. Interest rate caps are used for upward rate protection on variable-rate debt. The fair value of the interest rate caps and changes in these fair values are not recognized in the financial statements.

Fannie Mae enters into deferred rate-setting agreements when fixed-rate debt is issued prior to the commitment for mortgages that the debt will support. Under these agreements, Fannie Mae is able to set the effective interest rate on the debt based on prevailing market conditions at one or more future dates. At settlement of all or a portion of a deferred rate-setting agreement, Fannie Mae pays or receives cash in an amount representing the present value of the interest rate differential between the fixed-rate debt and the prevailing rate. Gains and losses that result from the hedge position are deferred and recognized as adjustments to debt cost over the life of the debt issuance.

Fannie Mae issues debt securities in which principal, interest, or both are payable in a foreign currency or are determined by reference to an index that includes one or more foreign currencies. Concurrently, Fannie Mae enters into currency swaps that convert the proceeds of certain borrowings into dollars or provide for scheduled exchanges of the currencies to insulate Fannie Mae against foreign currency exchange risk. Foreign currency swaps are accounted for on an accrual basis with the net differential received or paid under such swaps recognized as an adjustment to interest income or expense on the related asset or liability. Foreign currency borrowings and the related net receivables and payables from currency swaps are translated at the market rates of exchange as of the balance sheet date.

Cash and Cash Equivalents

Fannie Mae considers highly liquid investment instruments, generally with an original maturity of three months or less, to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

Income Taxes

Deferred federal income tax assets and liabilities are established for temporary differences between financial and taxable income and are measured using the current marginal statutory tax rate. Investment and other tax credits are generally recognized when recorded on the tax return.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Fannie Mae adopted the requirements of Financial Accounting Standard No. 130 (“FAS 130”), *Reporting Comprehensive Income*, on January 1, 1998. The amount of other comprehensive income for the year ended December 31, 1997 has been restated to reflect the requirements of FAS 130.

2. Mortgage Portfolio, Net

The mortgage portfolio consisted of the following at December 31, 1999 and 1998.

	1999	1998
	(Dollars in millions)	
Single-family mortgages:		
Government insured or guaranteed	$ 41,029	$ 21,805
Conventional:		
Long-term, fixed-rate	385,321	297,106
Intermediate-term, fixed-rate(1)	69,019	71,560
Adjustable-rate	14,107	11,873
Second	176	206
	509,652	402,550
Multifamily mortgages:		
Government insured	4,345	3,607
Conventional	9,944	8,358
	14,289	11,965
Total unpaid principal balance	523,941	414,515
Less:		
Unamortized discount (premium) and deferred price adjustments, net	964	(919)
Allowance for losses	197	211
Net mortgage portfolio	$522,780	$415,223

(1) Intermediate-term consists of portfolio loans with contractual maturities at purchase equal to or less than 20 years and MBS held in portfolio with maturities of 15 years or less at issue date.

Included in the mortgage portfolio are $374 billion and $260 billion of MBS and other mortgage-related securities at December 31, 1999 and 1998, respectively, with fair values of $362 billion and $264 billion, respectively. MBS held in portfolio at December 31, 1999 and 1998 included $100 billion and $77 billion, respectively, of Real Estate Mortgage Investment Conduits (''REMICs'') and Stripped MBS (''SMBS''). REMICs and SMBS backed by MBS do not subject Fannie Mae to added credit risk but generally have different interest rate risks than MBS. At December 31, 1999, these securities had aggregate gross unrealized losses of $3,789 million and gross unrealized gains of $743 million. At December 31, 1998, the aggregate gross unrealized losses and gains were $444 million and $1,122 million, respectively.

Mortgage assets available for sale were $8.9 billion with unrealized losses of $377 million at December 31, 1999 and $8.9 billion with unrealized gains of $17 million at December 31, 1998.

The UPB of impaired loans at December 31, 1999 was $225 million, of which $64 million had a specific loss allowance, compared with $250 million and $120 million, respectively, at December 31, 1998. The average balance of impaired loans during 1999 and 1998 was $232 million and $310 million, respectively.

Nonperforming loans outstanding totaled $2.6 billion at the end of 1999, compared with $3.2 billion at the end of 1998. If these nonperforming loans had been fully performing, they would have contributed an additional $108 million to net interest income in 1999 and $68 million in 1998.

3. Allowance for Losses

Changes in the allowance for the years 1997 through 1999 are summarized below.

	Total
	(Dollars in millions)
Balance, January 1, 1997	$ 780
Provision	100
Net foreclosure losses charged off	(77)
Balance, December 31, 1997	803
Provision	(50)
Net recoveries	49
Balance, December 31, 1998	802
Provision	(120)
Net recoveries	122
Balance, December 31, 1999	$ 804

At December 31, 1999, $197 million of the allowance for losses is included in the balance sheet under ''Mortgage portfolio, net,'' which represents the allocation for portfolio loan losses; $604 million is included in liabilities under ''Other'' for estimated losses on MBS; and the remainder, or $3 million, which relates to unrecoverable losses on Federal Housing Administration loans, is included in ''Acquired property and foreclosure claims, net.'' The corresponding amounts at December 31, 1998 were $211 million, $588 million, and $3 million, respectively. Included in the allowance for losses at December 31, 1999, is $3 million of specific allowances for impaired loans, compared with $10 million at the end of 1998. During 1999, Fannie Mae established $4 million of specific allowances for these loans, compared with $3 million in 1998.

4. Investments

Presented below are the amortized cost and fair value of nonmortgage investments classified as held-to-maturity at December 31, 1999 and 1998.

	1999				1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)							
Held-to-maturity investments:								
Asset-backed securities	$ 8,974	$—	$19	$ 8,955	$12,188	$15	$—	$12,203
Federal funds	4,487	—	—	4,487	2,747	—	—	2,747
Repurchase agreements	2,574	—	—	2,574	7,556	—	—	7,556
Commercial paper	1,723	2	—	1,725	5,155	5	—	5,160
Auction rate preferred stock	1,042	—	—	1,042	933	—	—	933
Eurodollar time deposits	350	—	—	350	5,179	—	—	5,179
Other	2,510	—	20	2,490	8,541	22	—	8,563
Total	$21,660	$ 2	$39	$21,623	$42,299	$42	$—	$42,341

Presented below are the amortized cost and fair value of nonmortgage investments classified as available-for-sale at December 31, 1999 and 1998.

	1999				1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)							
Available-for-sale investments:								
Asset-backed securities	$10,240	$—	$ 7	$10,233	$ 8,831	$—	$26	$ 8,805
Other	7,852	6	—	7,858	7,415	—	4	7,411
Total	$18,092	$ 6	$ 7	$18,091	$16,246	$—	$30	$16,216

The following table shows the amortized cost, fair value, and yield of nonmortgage investments at December 31, 1999 and 1998 by remaining maturity.

	1999			1998		
	Amortized Cost	Fair Value	Yield	Amortized Cost	Fair Value	Yield
	(Dollars in millions)					
Due within one year	$12,660	$12,659	6.19%	$28,268	$28,280	5.81%
Due after one year through five years	8,033	8,022	6.37	9,258	9,269	5.66
	20,693	20,681	6.26	37,526	37,549	5.77
Asset-backed securities (1)	19,059	19,033	6.30	21,019	21,008	5.76
Total	$39,752	$39,714	6.28%	$58,545	$58,557	5.77%

(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.

5. Debentures, Notes, and Bonds, Net

Borrowings Due Within One Year

Borrowings due within one year at December 31, 1999 and 1998 are summarized below. Amounts are net of unamortized discount and premium.

	1999					1998				
	Outstanding at December 31		Average Outstanding During Year		Maximum Outstanding at Any Month-End	Outstanding at December 31		Average Outstanding During Year		Maximum Outstanding at Any Month-End
	Amount	Cost(1)	Amount	Cost(1)		Amount	Cost(1)	Amount	Cost(1)	
	(Dollars in millions)									
Short-term notes	$147,598	5.68%	$135,919	5.18%	$148,593	$136,400	5.18%	$107,344	5.47%	$136,400
Other short-term debt	37,455	6.01	33,798	5.19	37,455	38,192	5.25	39,625	5.49	43,601
Current portion of borrowings due after one year(2):										
Global debt	5,456	6.48				2,986	5.30			
Medium-term notes	31,697	5.68				22,171	5.67			
Other	4,376	8.14				5,664	8.31			
Total due within one year	$226,582	5.80%				$205,413	5.33%			

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.

(2) Information on average amount and cost of debt outstanding during the year and maximum amount outstanding at any month-end is not meaningful. See "Borrowings Due After One Year" for additional information.

Borrowings Due After One Year

Borrowings due after one year consisted of the following at December 31, 1999 and 1998.

		1999		1998	
	Maturity Date	Amount Outstanding	Average Cost(1)	Amount Outstanding	Average Cost(1)
		(Dollars in millions)			
Medium-term notes, net of $345 of discount for 1999 ($380 for 1998)	2000-2028	$176,364	6.24%	$165,993	6.21%
Benchmark notes, net of $1,037 of discount for 1999 ($113 for 1998)	2000-2029	113,426	6.02	42,137	5.63
Other global debt, net of $369 of discount for 1999 ($495 for 1998)	2000-2038	16,414	6.42	22,586	6.32
Long-term other, net of $15,307 of discount for 1999 ($13,784 for 1998)	2000-2022	15,249	7.36	24,741	7.50
		321,453	6.22%	255,457	6.25%
Adjustment for foreign currency translation		(416)		(579)	
Total due after one year		$321,037		$254,878	

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.

Debentures, notes, and bonds at December 31, 1999 included $167 billion of callable debt, which generally is redeemable, in whole or in part, at the option of Fannie Mae any time on or after a specified date. At December 31, 1999, debentures, notes, and bonds did not include any debt instruments that are subject to mandatory redemptions tied to certain indices or rates after an initial nonredemption period.

The following table summarizes the amounts and call periods of callable debt, the notional amount of callable swaps, other redeemable debt and swaps, and other option-embedded financial instruments, excluding $8 billion of callable debt that was swapped to variable-rate debt. Medium-

term notes and subordinated capital debentures that are redeemable at the company's option are also included in the table.

Call Date	Year of Maturity	Amount Outstanding	Average Cost
	(Dollars in millions)		
Callable debt and callable swaps:			
Currently callable	2000-2011	$ 38,609	6.04%
2000	2001-2026	71,401	6.17
2001	2002-2026	45,300	5.53
2002	2004-2027	19,426	6.03
2003	2006-2028	9,125	5.59
2004	2007-2014	20,480	6.73
2005 and later	2012-2029	2,820	7.09
		207,161	6.03%
Other option-embedded financial instruments		39,920	
Total option-embedded financial instruments		$247,081	

Principal amounts at December 31, 1999 of total debt payable in the years 2001-2005, assuming callable debt is paid at maturity and assuming callable debt is redeemed at the initial call date, were as follows:

	Total Debt by Year of Maturity (1)	Assuming Callable Debt Redeemed at Initial Call Date (1)
	(Dollars in millions)	
2001	$46,444	$54,613
2002	38,665	34,308
2003	49,160	25,190
2004	57,474	36,184
2005	12,340	5,419

(1) Excludes $8 billion of callable debt that was swapped to variable-rate debt.

In 1999 and 1998, Fannie Mae repurchased or called $42 billion of debt and swaps with an average cost of 6.80 percent and $77 billion with an average cost of 6.71 percent, respectively. Fannie Mae recorded extraordinary losses of $14 million ($9 million after tax) in 1999 and $40 million ($26 million after tax) in 1998 on the early extinguishment of debt.

Pursuant to Fannie Mae's Charter Act, approval of the Secretary of the Treasury is required for Fannie Mae's issuance of its debt obligations.

6. Income Taxes

Components of the provision for federal income taxes for the years ended December 31, 1999, 1998, and 1997 were as follows:

	1999	1998	1997
	(Dollars in millions)		
Current	$1,289	$ 692	$1,247
Deferred	230	509	22
	1,519	1,201	1,269
Tax benefit of extraordinary loss	(5)	(14)	(7)
Net federal income tax provision	$1,514	$1,187	$1,262

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998 consisted of the following:

	1999	1998
	(Dollars in millions)	
Deferred tax assets:		
MBS guaranty and REMIC fees	$ 592	$501
Provision for losses	335	331
Unrealized losses on available-for-sale securities	132	4
Other items, net	114	76
Deferred tax assets	1,173	912
Deferred tax liabilities:		
Purchase discount and deferred fees	351	424
Debt-related expenses	588	266
Benefits from tax-advantaged investments	115	93
Other items, net	44	16
Deferred tax liabilities	1,098	799
Net deferred tax assets	$ 75	$113

Management anticipates that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the entire balance of deferred tax assets.

Fannie Mae's effective tax rates differed from statutory federal rates for the years ended December 31, 1999, 1998, and 1997 as follows:

	1999	1998	1997
Statutory corporate rate	35%	35%	35%
Tax-exempt interest and dividends received deductions	(4)	(4)	(4)
Equity investments in affordable housing projects	(3)	(5)	(2)
Effective rate	28%	26%	29%

Fannie Mae is exempt from state and local taxes, except for real estate taxes.

7. Earnings per Common Share

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

	Year Ended December 31,					
	1999		1998		1997	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)					
Net income before extraordinary loss	$3,921	$3,921	$3,444	$3,444	$3,068	$3,068
Less: Extraordinary loss	(9)	(9)	(26)	(26)	(12)	(12)
Preferred stock dividend	(78)	(78)	(66)	(66)	(65)	(65)
Net income available to common stockholders	$3,834	$3,834	$3,352	$3,352	$2,991	$2,991
Weighted average common shares	1,024	1,024	1,029	1,029	1,049	1,049
Dilutive potential common shares(1)	—	7	—	8	—	7
Average number of common shares outstanding used to calculated earnings per common share	1,024	1,031	1,029	1,037	1,049	1,056
Earnings per common share before extraordinary item	$ 3.75	$ 3.73	$ 3.28	$ 3.26	$ 2.87	$ 2.84
Net earnings per common share	3.75	3.72	3.26	3.23	2.85	2.83

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

For additional disclosures regarding Fannie Mae's stock compensation plans and the outstanding preferred stock, refer to Notes 8 and 12, respectively.

8. Stock Compensation Plans

At December 31, 1999, Fannie Mae had five stock-based compensation plans, which are described below. Financial Accounting Standard No. 123 ("FAS 123"), *Accounting for Stock-Based Compensation*, gives companies the option of either recording an expense for all stock compensation awards based on fair value at grant date or continuing to follow Accounting Principles Board Opinion No. 25 (APB Opinion 25) with the additional requirement that they disclose, in a footnote, pro forma net income and earnings per share as if they had adopted the expense recognition provisions of FAS 123. Fannie Mae elected to apply APB Opinion 25 and related interpretations in accounting for its plans. As a result, no compensation expense has been recognized for the nonqualified stock options and Employee Stock Purchase Plan. If compensation expense had been recognized for benefits under all five plans, based on their fair value at grant date and consistent with FAS 123, Fannie Mae's net income and net earnings per common share would have been $3.840 billion and $3.65, $3.312 billion and $3.19, and $3.025 billion and $2.80 for the years ended December 31, 1999, 1998, and 1997, respectively.

Fannie Mae determined the fair value of benefits under its stock-based plans using a Black-Scholes pricing model. The following table summarizes the major assumptions used in the model.

	1999	1998	1997
Risk-free rate(1)	4.56 - 6.02%	4.04 - 5.79%	5.53 - 6.80%
Volatility	27 - 29	25 - 30	23 - 25
Forfeiture	15	15	15
Dividend(2)	$1.08	$.96	$.84
Expiration	1 - 10 yrs.	1 - 10 yrs.	1 - 10 yrs.

(1) The closing yield on the comparable average life U.S. Treasury on the day prior to grant.

(2) Dividend rate on common stock at date of grant. Dividend rate assumed to remain constant over the option life.

Employee Stock Purchase Plan

Fannie Mae has an Employee Stock Purchase Plan that allows issuance of up to 41 million shares of common stock to qualified employees at a price equal to 85 percent of the fair market value on the grant date. In 1999, Fannie Mae granted each qualified employee, excluding certain officers and other highly compensated employees, the right to purchase up to 348 shares of common stock in January 2000. Under the 1999 offering, 9,566 shares were purchased at $60.99 per share, compared with 1,336,278 common shares purchased at $54.03 under the 1998 offering. The Board of Directors approved a 2000 offering under the plan, granting each qualified employee the right to purchase 419 common shares at $50.68 per share in January 2001.

Employee Stock Ownership Plan

Fannie Mae has an Employee Stock Ownership Plan (‘‘ESOP’’) for qualified employees. Fannie Mae may contribute to the ESOP an amount based on defined earnings goals, not to exceed 4 percent of the aggregate base salary for all participants. The contribution is made in the subsequent year either in shares of Fannie Mae common stock or in cash that is used to purchase such stock.

Performance Shares

Fannie Mae's Stock Compensation Plans authorize eligible employees to receive performance awards, generally issued with an award period that can range from three to five years. The performance awards become actual awards only if Fannie Mae attains the goals set for the award period. At the end of such time, the awards generally are payable in common stock, in either two or three installments over a period not longer than two years. The outstanding contingent grants made for the 2000-2002, 1999-2001, and 1998-2000 periods were 341,810 common shares, 315,518 common shares, and 329,053 common shares, respectively.

Nonqualified Stock Options

Stock options may be granted to eligible employees and nonmanagement members of the Board of Directors. The options generally do not become exercisable until at least one year after the grant date and generally expire ten years from the grant date. The exercise price of the common stock covered by each option is equal to the fair value of the stock on the date the option is granted.

The following table summarizes stock option activity for the years 1997-1999.

	1999		1998		1997	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(Options in thousands)					
Balance, January 1,	21,994	$34.55	22,777	$27.15	23,910	$22.24
Granted	3,224	71.20	3,381	67.63	3,373	50.16
Exercised	(2,499)	22.52	(3,712)	19.15	(4,065)	17.46
Forfeited	(370)	51.85	(452)	35.60	(441)	26.16
Balance, December 31,	22,349	$40.90	21,994	$34.55	22,777	$27.15
Options vested, December 31,	14,727	$29.26	13,729	$23.89	13,275	$20.30

The following table summarizes information about stock options outstanding at December 31, 1999.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
	(Options in thousands)				
$ 8.00 – $23.97	7,074	4.0 yrs	$18.06	7,074	$18.06
27.13 – 43.97	6,221	6.4	32.83	5,368	31.83
44.72 – 58.69	2,625	7.9	51.64	1,377	51.64
60.31 – 75.16	6,429	9.2	69.43	908	67.49
Total	22,349	6.6 yrs	$40.90	14,727	$29.26

Restricted Stock

In 1999, 140,460 shares of restricted stock were awarded, issued, and placed in escrow under the Stock Compensation Plans and Restricted Stock Plan for Directors (98,280 shares in 1998); 76,060 shares were released as vesting of participants occurred (100,600 shares in 1998).

9. Employee Retirement Benefits

Retirement Savings Plan

All regular employees of Fannie Mae scheduled to work 1,000 hours or more in a calendar year are eligible to participate in the company's Retirement Savings Plan, which includes a 401(k) option. In 1999, employees could contribute up to the lesser of 15 percent of their base salary or the current annual dollar cap established and revised annually by the Internal Revenue Service (''IRS''). Fannie Mae matches employee contributions up to 3 percent of base salary.

Postretirement Benefit Plans

All regular employees of Fannie Mae scheduled to work 1,000 hours or more in a calendar year are covered by a noncontributory corporate retirement plan or by the contributory Civil Service Retirement Law. Benefits payable under the corporate plan are based on years of service and compensation using the average pay during the 36 consecutive highest-paid months of the last 120 months of employment. Fannie Mae's policy is to contribute an amount no less than the minimum required employer contribution under the Employee Retirement Income Security Act of 1974. Contributions to

the corporate plan reflect benefits attributed to employees' service to date and compensation expected to be paid in the future. No contribution was made to the corporate plan in 1999. Corporate plan assets consist primarily of listed stocks, fixed-income securities, and other liquid assets.

At December 31, 1999 and 1998, the projected benefit obligations for services rendered were $200 million and $229 million, respectively, while the plan assets were $277 million and $238 million, respectively. The pension liability (included in liabilities under "Other") at December 31, 1999 and 1998 was $46 million and $38 million, respectively, while net periodic pension costs were $8 million and $9 million, respectively.

At December 31, 1999 and 1998, the weighted-average discount rates used in determining the actuarial present value of the projected benefit obligation were 8.00 percent and 6.75 percent, respectively; the average rate of increase in future compensation levels used in the calculation was 5.75 percent for both 1999 and 1998; and the expected long-term rates of return on assets were 9.50 percent and 9.00 percent, respectively. Fannie Mae uses the straight-line method of amortization for prior service costs.

Fannie Mae also has an Executive Pension Plan and a Supplemental Pension Plan, which supplement the benefits payable under the retirement plan for key senior officers. Estimated benefits under the supplementary plans are accrued as an expense over the period of employment. Accrued benefits under the Executive Pension Plan generally are funded through a Rabbi trust.

Fannie Mae sponsors a Postretirement Health Care Plan that covers substantially all full-time employees. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Participants become eligible for the subsidized benefits as follows: (1) for employees hired prior to January 1, 1998, if they retire from Fannie Mae after reaching age 55 with five or more years of service; or (2) for employees hired January 1, 1998, or later, if they retire from Fannie Mae after reaching age 55 with ten or more years of service. Employees hired January 1, 1998 or later who retire with less than ten years of service may purchase coverage by paying the full premium. The plan is contributory, with retiree contributions adjusted annually. The expected cost of these postretirement benefits is charged to expense during the years that employees render service. Cost-sharing percentages are based on length of service with Fannie Mae, eligibility for and date of retirement, and a defined dollar benefit cap. Fannie Mae does not fund this plan.

Fannie Mae's accrued postretirement health care cost liability for the years ending December 31, 1999 and 1998 was $40 million and $32 million, respectively. The net postretirement health care costs were $9 million in 1999 and $8 million in 1998. In determining the net postretirement health care cost for 1999, a 5.25 percent annual rate of increase in the per capita cost of covered health care claims was assumed for 1999; the rate was assumed to decrease gradually to 4.50 percent over three years and remain at that level thereafter. In determining the net postretirement health care cost for 1998, a 5.50 percent annual rate of increase in the per capita cost of covered health care claims was assumed for 1998; the rate was assumed to decrease gradually to 4.50 percent over four years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1999 by $7 million and the aggregate of the service and interest cost components of net postretirement health care cost for the year by $1 million.

The weighted-average discount rates used in determining the health care cost and the year-end accumulated postretirement benefit obligation were 8.00 percent at December 31, 1999 and 6.75 percent at December 31, 1998.

10. Line of Business Reporting

Management analyzes corporate performance on the basis of two lines of business: Portfolio Investment and Credit Guaranty.

The Portfolio Investment business includes the management of asset purchases and funding activities for Fannie Mae's mortgage and nonmortgage investment portfolios. Income is derived primarily from the difference, or spread, between the yield on mortgage loans and nonmortgage investments, and the borrowing costs related to those loans and investments.

The Credit Guaranty business involves guaranteeing the credit performance of both single-family and multifamily mortgage loans for a fee. Guaranty fees for MBS are based on a market rate of return for the credit risk assumed. For mortgages held in portfolio, the Credit Guaranty business charges the Portfolio Investment business a guaranty fee similar to what it would charge on an MBS. These "notional" guaranty fees are classified as net interest income for the Credit Guaranty business. Net interest income for the Credit Guaranty business also includes interest on capital invested in guaranty activities and income from temporary investment of principal and interest payments on guaranteed mortgages prior to remittance to investors, and is net of interest charges paid to the Portfolio Investment business for delinquent loans.

Fannie Mae assigns actual direct revenues and expenses among its lines of business and uses estimates to apportion overhead and other corporate items. For instance, administrative expenses are allocated on the basis of direct expenses for the line of business or, where not assignable to a particular associated business, are based on revenues, profits, or volumes, as applicable. Capital is allocated to the lines of business through an assessment of the interest rate and credit risk associated with each business.

The following table sets forth Fannie Mae's financial performance by line of business for the years ended December 31, 1999, 1998, and 1997.

	1999			1998(1)			1997		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)								
Net interest income	$4,317	$ 577	$ 4,894	$3,460	$ 650	$ 4,110	$3,483	$ 466	$ 3,949
Guaranty fees	(974)	2,256	1,282	(823)	2,052	1,229	(746)	2,020	1,274
Fee and other income, net	120	71	191	158	117	275	88	37	125
Credit-related expenses	—	(127)	(127)	—	(261)	(261)	—	(375)	(375)
Administrative expenses	(233)	(567)	(800)	(184)	(524)	(708)	(174)	(462)	(636)
Federal income taxes	(906)	(613)	(1,519)	(707)	(494)	(1,201)	(745)	(524)	(1,269)
Extraordinary item—loss on early extinguishment of debt	(9)	—	(9)	(26)	—	(26)	(12)	—	(12)
Net income	$2,315	$1,597	$ 3,912	$1,878	$1,540	$ 3,418	$1,894	$1,162	$ 3,056

(1) Results include the recognition of additional non-recurring tax benefits associated with investments qualifying for low-income housing tax credits, and additional amortization of premiums or discounts and deferred or prepaid guaranty fees that were recorded in the fourth quarter of 1998.

11. Dividend Restrictions

Fannie Mae's payment of dividends is subject to certain statutory restrictions, including approval by the Director of the Office of Federal Housing Enterprise Oversight of any dividend payment that would cause Fannie Mae's capital to fall below specified capital levels.

Fannie Mae has exceeded the applicable capital standard since the adoption of these restrictions in 1992 and, consequently, has been making dividend payments without the need for Director approval.

Payment of dividends on common stock is also subject to payment of dividends on preferred stock outstanding.

12. Preferred Stock

The following table presents the nonvoting preferred stock outstanding as of December 31, 1999 and 1998.

	Issue Date	Shares Issued and Outstanding	Stated Value per Share	Annual Dividend Rate	Redeemable On or After
Series A	March 1, 1996	7,500,000	$50	6.41%	March 1, 2001
Series B	April 12, 1996	7,500,000	50	6.50	April 12, 2001
Series C	September 20, 1996	5,000,000	50	6.45	September 20, 2001
Series D	September 30, 1998	3,000,000	50	5.25	September 30, 1999
Series E	April 15, 1999	3,000,000	50	5.10	April 15, 2004
Total		26,000,000			

Holders of preferred stock are entitled to receive noncumulative, quarterly dividends when, and if, declared by Fannie Mae's Board of Directors. Payment of dividends on preferred stock is not mandatory, but has priority over payment of dividends on common stock. After the specified period, preferred stock is redeemable at its stated value at the option of Fannie Mae.

13. Financial Instruments with Off-Balance-Sheet Risk

Fannie Mae is a party to transactions involving financial instruments with off-balance-sheet risk. Fannie Mae uses these instruments to fulfill its statutory purpose of meeting the financing needs of the secondary mortgage market and to reduce its own exposure to fluctuations in interest rates. These financial instruments include guaranteed MBS, commitments to purchase mortgages or to issue and guarantee MBS, credit enhancements, and certain hedge instruments. These instruments involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the balance sheet.

Guaranteed Mortgage-Backed Securities

As issuer and guarantor of MBS, Fannie Mae is obligated to disburse scheduled monthly installments of principal and interest (at the certificate rate) and the full UPB of any foreclosed mortgage to MBS investors, whether or not any such amounts have been received. Fannie Mae is also obligated to disburse unscheduled principal payments received from borrowers.

Fannie Mae's credit risk is mitigated to the extent that sellers of pools of mortgages elect to remain at risk for the loans sold to the company or other credit enhancement is provided to protect against the risk of loss from borrower default. Lenders have the option to retain the primary default risk, in whole or in part, in exchange for a lower guaranty fee. Fannie Mae, however, bears the ultimate risk of default.

Commitments

Fannie Mae enters into master delivery commitments with lenders on either a mandatory or an optional basis. Under a mandatory master commitment, a lender must either deliver loans under an MBS contract at a specified guaranty fee rate or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

Fannie Mae will also accept mandatory or lender-option delivery commitments not issued pursuant to a master commitment. These commitments may be for portfolio or MBS. The guaranty fee rate on MBS lender-option commitments is specified in the contract, while the yield for portfolio lender-option commitments is set at the date of conversion to a mandatory commitment.

The cost of funding future portfolio purchases generally is hedged upon issuance of, or conversion to, a mandatory commitment. Therefore, the interest rate risk relating to loans purchased pursuant to those commitments is largely mitigated.

Hedge Instruments

Fannie Mae typically uses derivative instruments that simulate short sales of Treasury securities, interest rate swaps, swaptions, interest rate caps, and deferred rate-setting agreements to hedge against interest rate movements. Changes in the value of these hedge instruments caused by fluctuations in interest rates are expected to offset changes in the value of the items hedged. Consequently, the primary risks associated with these hedging instruments are that (1) changes in the value of the item hedged will not substantially offset changes in the value of the hedge instrument, and (2) the counterparty to the agreement will be unable or unwilling to meet the terms of the agreement.

Credit risk on derivative instruments that simulate short sales of Treasury securities arises from the possible inability or unwillingness of the counterparty to pay any difference between the agreed-upon price and the current price for the referenced securities at settlement. This risk is reduced through evaluation of the creditworthiness of counterparties and continuous monitoring of hedge positions. The amount of deferrable net unrealized gains on open hedge positions was $46 million at December 31, 1999, compared with $34 million of net unrealized gains at December 31, 1998. Total deferred gains and losses on closed positions were $392 million and $541 million, respectively, at December 31, 1999, compared with $172 million and $473 million, respectively, at December 31, 1998.

Fannie Mae reduces counterparty risk on interest rate swaps, swaptions, and interest rate caps by dealing only with experienced counterparties of high credit quality, diversifying these derivative instruments across many counterparties, and ensuring that these derivative instruments generally are executed under master agreements that provide for netting of certain amounts payable by each party. In addition, counterparties are obligated to post collateral if Fannie Mae is exposed to credit loss on the related derivative instruments exceeding an agreed-upon threshold. The amount of required collateral is based on credit ratings and the level of credit exposure. Fannie Mae generally requires overcollateralization from counterparties whose credit ratings have dropped below predetermined levels. Fannie Mae regularly monitors the exposures on its derivative instruments by valuing the positions via dealer quotes and internal pricing models. At December 31, 1999, 97 percent of the notional amount of Fannie Mae's outstanding interest rate swaps, swaptions, and interest rate caps were with counterparties rated A or better (72 percent with counterparties rated AA or better), and 100 percent of the notional amount of outstanding swaps, swaptions, and interest rate caps were subject to collateral arrangements. At December 31, 1999, eight counterparties represented approximately 86 percent of the total notional amount of the outstanding interest rate swaps, swaptions, and interest rate caps. These eight counterparties are subject to posting collateral under master agreements.

Counterparty risk on deferred rate-setting arrangements is limited to the cash receivable, if any, due under the deferred rate-setting agreement. This risk is reduced through evaluating the creditworthiness of counterparties.

Credit Enhancements

Fannie Mae provides credit enhancement and, in some cases, liquidity support for certain financings involving taxable or tax-exempt housing bonds issued by state and local governmental entities to finance multifamily housing for low- and moderate-income families. In these transactions, Fannie Mae issues an MBS, pledges an interest in certain mortgages it owns, or otherwise provides contractual assurance of payment to a trustee for the bonds or another credit party in the transaction. Fannie Mae's direct credit enhancement in a multifamily housing bond transaction improves the rating on the bond, thus resulting in lower-cost financing for multifamily housing.

Credit Exposure for Off-Balance-Sheet Financial Instruments

The following table presents the contractual or notional amount of off-balance-sheet financial instruments at December 31, 1999 and 1998.

	1999	1998
	(Dollars in billions)	
Contractual amounts:		
MBS outstanding(1)	$ 960.3	$ 834.0
MBS in portfolio	(281.7)	(197.4)
Net MBS outstanding(1)	$ 678.6	$ 636.6
Master commitments:		
Mandatory	$ 46.5	$ 31.7
Optional	17.4	56.1
Portfolio commitments:		
Mandatory	6.6	11.1
Optional	1.7	1.6
Notional amounts(2):		
Interest rate swaps(3)	139.0	95.8
Debt swaps(4)	51.6	46.6
Interest rate caps	28.9	14.5
Treasury repurchase agreement options	20.0	—
Swaptions	19.2	12.7
Forward rate agreements	1.4	—
Simulated short sales of Treasury securities	1.2	3.6
Other	2.2	.4
Credit enhancements	7.2	6.6
Other guarantees	3.5	2.8

(1) Net of $604 million in allowance for losses in 1999 and $588 million in 1998. Includes $209.2 billion and $160.2 billion of MBS with lender or third-party recourse at December 31, 1999 and 1998, respectively.

(2) Notional amounts do not necessarily represent the market or credit risk of the derivative instrument position.

(3) The weighted-average interest rate being received under these swaps was 6.04 percent and the weighted-average interest rate being paid was 6.56 percent at December 31, 1999, compared with 5.32 percent and 6.53 percent, respectively, at December 31, 1998.

(4) The weighted-average interest rate being received under these swaps was 5.72 percent and the weighted-average interest rate being paid was 5.90 percent at December 31, 1999, compared with 5.48 percent and 5.18 percent, respectively, at December 31, 1998.

Contractual or notional amounts do not necessarily represent the market or credit risk of the derivative instrument positions. The notional amounts of the derivative instruments are used to calculate contractual cash flows to be exchanged. In addition, any measurement of risk is meaningful only to the extent that offsetting arrangements, such as master netting agreements and the value of related collateral, are included.

Fannie Mae's exposure to credit loss for derivative instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all those derivative instruments outstanding for which the company was in a gain position. Fannie Mae's net exposure (taking into account master netting agreements) was $3.9 billion at December 31, 1999 and $46 million at December 31, 1998. Fannie Mae expects the net credit exposure to fluctuate as interest rates change.

14. Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (e.g., borrowers, lenders, and mortgage insurers) engage in similar activities or are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations.

The following table presents UPB by primary default risk and the general geographic distribution of properties underlying mortgages in the portfolio or underlying MBS outstanding at December 31, 1999 and 1998.

		Geographic Distribution					
1999	**Gross UPB**	**Northeast**	**Southeast**	**Midwest**	**Southwest**	**West**	**Total**
	(Dollars in millions)						
Fannie Mae risk	$ 952,005	20%	20%	19%	15%	26%	100%
Lender or shared risk	251,105	15	20	23	16	26	100
Total	$1,203,110	19%	20%	19%	16%	26%	100%

		Geographic Distribution					
1998	**Gross UPB**	**Northeast**	**Southeast**	**Midwest**	**Southwest**	**West**	**Total**
	(Dollars in millions)						
Fannie Mae risk	$ 867,272	20%	20%	18%	15%	27%	100%
Lender or shared risk	184,386	15	19	21	16	29	100
Total	$1,051,658	19%	20%	19%	15%	27%	100%

No significant concentration existed at the state level at December 31, 1999, except for California, where 18 percent of the gross UPB of mortgages in portfolio and underlying MBS were located, compared with 20 percent at December 31, 1998.

To minimize credit risk, Fannie Mae requires primary mortgage insurance or other credit protection if the loan-to-value ("LTV") ratio of a single-family conventional mortgage loan (the UPB of the loan divided by the value of the mortgaged property) is greater than 80 percent when the loan is delivered to Fannie Mae.

At December 31, 1999, $282 billion in current UPB of single-family conventional mortgage loans in portfolio and underlying MBS outstanding was covered by primary mortgage insurance at acquisition. Fannie Mae accepts conventional loans delivered with mortgage insurance from 14 insurance organizations. Seven companies, all rated AA or higher, represented approximately 99 percent of that insurance coverage. Fannie Mae monitors the performance and financial strength of its mortgage insurers on a regular basis.

The following table presents the original LTV ratio distribution of single-family loans in portfolio or underlying MBS outstanding at December 31, 1999 and 1998.

1999	Gross UPB	Loan-to-Value Ratio 60% or Less	61–70%	71–75%	76–80%	81–90%	Over 90%	Total
	(Dollars in millions)							
Fannie Mae risk	$ 912,458	20%	16%	16%	24%	13%	11%	100%
Lender or shared risk	194,931	5	8	12	34	22	19	100
Total	$1,107,389	17%	15%	15%	26%	15%	12%	100%

1998	Gross UPB	Loan-to-Value Ratio 60% or Less	61–70%	71–75%	76–80%	81–90%	Over 90%	Total
	(Dollars in millions)							
Fannie Mae risk	$ 832,048	20%	16%	16%	23%	14%	11%	100%
Lender or shared risk	149,165	6	8	12	33	22	19	100
Total	$ 981,213	18%	15%	15%	25%	15%	12%	100%

The rate at which mortgage loans prepay tends to be sensitive to the level and direction of prevailing market interest rates. In a declining interest rate environment, higher-rate mortgage loans will pay off at a faster rate; conversely, in an increasing interest rate environment, lower-rate mortgage loans will prepay at a slower rate. The following table presents the distribution by note rate of fixed-rate, single-family loans in the mortgage portfolio or underlying MBS at December 31, 1999 and 1998.

Gross UPB at December 31,	Fixed-Rate Loans by Note Rate(1) Under 7.00%	7.00% to 7.99%	8.00% to 8.99%	9.00% to 9.99%	10.00% and over	Total
	(Dollars in billions)					
1999	$312	$530	$130	$22	$11	$1,005
Percent of total	31%	53%	13%	2%	1%	100%
1998	$201	$484	$155	$30	$14	$ 884
Percent of total	23%	55%	17%	3%	2%	100%

(1) Excludes housing revenue bonds and non-Fannie Mae securities.

15. Disclosures of Fair Value of Financial Instruments

The basic assumptions used and the estimates disclosed in the Fair Value Balance Sheets represent management's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to management as of December 31, 1999 and 1998. In certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors, and management's evaluation of those factors, change.

Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, these fair value estimates are not necessarily indicative of the amounts that the corporation would realize in a market transaction. The accompanying Fair Value Balance Sheets do not represent an estimate of the overall

market value of Fannie Mae as a going concern, which would take into account future business opportunities.

Fair Value Balance Sheets

Assets

	December 31, 1999		December 31, 1998	
	Cost	Fair Value	Cost	Fair Value
	(Dollars in millions)			
Mortgage portfolio, net	$522,780	$508,674	$415,223	$424,171
Investments	39,751	39,714	58,515	58,557
Cash and cash equivalents	2,099	2,099	743	743
Other assets	10,537	8,139	10,533	8,933
	575,167	558,626	485,014	492,404
Off-balance-sheet items:				
Guaranty fee income, net	—	6,609	—	3,698
Swaps in gain position, net	—	4,694	—	32
Other	—	50	—	34
Total assets	$575,167	$569,979	$485,014	$496,168

Liabilities and Net Assets

	December 31, 1999		December 31, 1998	
	Cost	Fair Value	Cost	Fair Value
Liabilities:				
Noncallable debt:				
Due within one year	$220,756	$219,413	$202,260	$202,957
Due after one year	159,929	157,663	123,396	131,268
Callable debt:				
Due within one year	5,826	5,202	3,153	3,144
Due after one year	161,108	156,728	131,482	131,774
	547,619	539,006	460,291	469,143
Other liabilities	9,919	10,439	9,270	7,844
Off-balance-sheet items:				
Swaps in loss position, net	—	9	—	4,296
Total liabilities	557,538	549,454	469,561	481,283
Net assets, net of tax effect	$ 17,629	$ 20,525	$ 15,453	$ 14,885

See accompanying Notes to Fair Value Balance Sheets.

Notes to Fair Value Balance Sheets

The following discussion summarizes the significant methodologies and assumptions used in estimating the fair values presented in the accompanying Fair Value Balance Sheets.

Mortgage Portfolio, Net

The fair value calculations of Fannie Mae's mortgage portfolio considered such variables as interest rates, credit quality, and loan collateral. Because an active market does not exist for a portion of mortgage loans in the portfolio, the portfolio's unsecuritized mortgages were aggregated into pools by product type, coupon, and maturity and converted into notional MBS. A normal guaranty fee that

Fannie Mae's securitization business would charge for a pool of loans with similar characteristics was subtracted from the weighted-average interest rate less servicing fees. The method for estimating this guaranty fee and the credit risk associated with the mortgage portfolio is described under "Guaranty Fee Income, Net."

Fannie Mae then employed an option-adjusted spread ("OAS") approach to estimate fair values for both notional MBS (the mortgage loan portfolio) and MBS held in portfolio. The OAS represents the risk premium or incremental interest spread over Treasury rates that is included in a security's yield to compensate an investor for the uncertain effects of embedded prepayment options on mortgages. The OAS was calculated using quoted market values for selected benchmark securities and provided a generally applicable return measure that considers the effect of prepayment risk and interest rate volatility.

Investments

Fair values of Fannie Mae's investment portfolio were based on actual quoted prices or prices quoted for similar financial instruments.

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents was used as a reasonable estimate of their fair value.

Other Assets

Other assets include accrued interest receivable, net currency swap receivables, and several other smaller asset categories. The fair value of other assets, excluding certain deferred items that have no fair value, approximates their carrying amount. Net currency swap receivables, which are included in other assets at cost, are reclassified as a component of the fair value of the related foreign-denominated debt.

Guaranty Fee Income, Net

MBS are not assets owned by Fannie Mae, except when acquired for investment purposes, nor are MBS recorded as liabilities of Fannie Mae. On MBS outstanding, the company receives a guaranty fee calculated on the outstanding principal balance of the related mortgages. The guaranty fee represents a future income stream for the company. Under generally accepted accounting principles, this guaranty fee is recognized as income over the life of the securities. The Fair Value Balance Sheets reflect the present value of guaranty fees, net of estimated future administrative costs and credit losses, and taking into account estimated prepayments.

Fannie Mae estimates the credit loss exposure attached to the notional MBS, MBS held in portfolio, and off-balance-sheet MBS where Fannie Mae has the primary risk of default. Fannie Mae deducts estimated credit losses from the projected guaranty fee cash flows to arrive at the fair value. Estimated credit losses are calculated with an internal forecasting model based on actual historical loss experience for the company. The net guaranty fee cash flows are then valued through an OAS method similar to that described under "Mortgage Portfolio, Net."

Swap Obligations, Net

Fannie Mae enters into interest rate swaps, including callable swaps, that in general extend or adjust the effective maturity of certain debt obligations. Under these swaps, Fannie Mae generally

pays a fixed rate and receives a floating rate based on a notional amount. Fannie Mae also enters into interest rate swaps that are linked to specific investments (''asset swaps'') or specific debt issues (''debt swaps''). The fair value of interest rate swaps is estimated based on either the expected cash flows or quoted market values of these instruments. The effect of netting under master agreements is included in determining swap obligations in a gain position or loss position.

In addition, Fannie Mae enters into swaptions and interest rate caps. Under a swaption, Fannie Mae has the option to enter into a swap, as described above, at a future date. Fannie Mae uses interest rate caps to effectively manage its interest expense in a period of rising interest rates by entering into an agreement whereby a counterparty makes payments to the company for interest rates above a specified rate. The fair values of these derivative instruments are estimated based on either the expected cash flows or the quoted market values of these instruments.

Noncallable and Callable Debt

The fair value of Fannie Mae's noncallable debt was estimated by using quotes for selected debt securities of the company with similar terms. Similar to the valuation of the mortgage portfolio, the fair value of callable debt was estimated with an OAS model.

Other Liabilities

Other liabilities include accrued interest payable, amounts payable to MBS holders, estimated losses on MBS, net currency swap payables, and several other smaller liability categories. The fair value of other liabilities, excluding certain deferred items that have no fair value, approximates their carrying amount, except for net currency swap payables, which are included as a component of the fair value of the related foreign-denominated debt, and credit loss exposure for MBS, which is included as a component of the net MBS guaranty fee.

The fair value amount also includes the estimated effect on deferred income taxes of providing for federal income taxes, at the statutory corporate tax rate of 35 percent, for the difference between net assets at fair value and at cost.

FANNIE MAE

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following unaudited results of operations include, in the opinion of management, all adjustments necessary for a fair presentation of the results of operations for such periods.

	1999 Quarter Ended			
	December	September	June	March
	(Dollars in millions, except per common share amounts)			
Interest income	$9,569	$9,079	$8,564	$8,283
Interest expense	8,263	7,838	7,376	7,124
Net interest income	1,306	1,241	1,188	1,159
Guaranty fees	325	320	320	317
Fee and other income, net	45	34	54	58
Provision for losses	35	40	25	20
Foreclosed property expenses	(54)	(61)	(65)	(67)
Administrative expenses	(206)	(203)	(199)	(192)
Income before federal income taxes and extraordinary item	1,451	1,371	1,323	1,295
Provision for federal income taxes	(413)	(380)	(365)	(361)
Income before extraordinary item	1,038	991	958	934
Extraordinary item—loss on early extinguishment of debt, net of tax effect	—	—	—	(9)
Net income	$1,038	$ 991	$ 958	$ 925
Preferred stock dividends	(20)	(20)	(20)	(18)
Net income available to common stockholders	$1,018	$ 971	$ 938	$ 907
Basic earnings per common share(1):				
Earnings before extraordinary item	$ 1.00	$ .95	$ .92	$ .89
Extraordinary loss	—	—	—	(.01)
Net earnings	$ 1.00	$ .95	$ .92	$ .88
Diluted earnings per common share(1):				
Earnings before extraordinary item	$ .99	$ .94	$ .91	$ .88
Extraordinary loss	—	—	—	—
Net earnings	$ .99	$ .94	$ .91	$ .88
Cash dividends per common share	$ .27	$ .27	$ .27	$ .27

(1) The total of the four quarters may not equal the amount for the year because the amount for each period is calculated independently based on the weighted-average number of common shares outstanding during the period.

FANNIE MAE

QUARTERLY RESULTS OF OPERATIONS (Unaudited) — (Continued)

	1998 Quarter Ended			
	December	September	June	March
	(Dollars in millions, except per common share amounts)			
Interest income	$7,895	$7,724	$7,351	$7,025
Interest expense	6,919	6,657	6,320	5,989
Net interest income	976	1,067	1,031	1,036
Guaranty fees	261	324	323	321
Fee and other income, net	71	69	79	56
Provision for losses	20	15	10	5
Foreclosed property expenses	(70)	(80)	(79)	(82)
Administrative expenses	(185)	(179)	(174)	(170)
Income before federal income taxes and extraordinary item	1,073	1,216	1,190	1,166
Provision for federal income taxes	(174)	(354)	(339)	(334)
Income before extraordinary item	899	862	851	832
Extraordinary item—loss on early extinguishment of debt, net of tax effect	(10)	(5)	(3)	(8)
Net income	$ 889	$ 857	$ 848	$ 824
Preferred stock dividends	(18)	(16)	(16)	(16)
Net income available to common stockholders	$ 871	$ 841	$ 832	$ 808
Basic earnings per common share(1):				
Earnings before extraordinary item	$ .86	$ .83	$ .81	$ .79
Extraordinary loss	(.01)	(.01)	—	(.01)
Net earnings	$ .85	$ .82	$ .81	$ .78
Diluted earnings per common share(1):				
Earnings before extraordinary item	$ .85	$ .82	$ .80	$ .78
Extraordinary loss	(.01)	(.01)	—	(.01)
Net earnings	$ .84	$ .81	$ .80	$ .77
Cash dividends per common share	$ .24	$ .24	$ .24	$ .24

(1) The total of the four quarters may not equal the amount for the year because the amount for each period is calculated independently based on the weighted-average number of common shares outstanding during the period.

FANNIE MAE

NET INTEREST INCOME AND AVERAGE BALANCES (Unaudited)

	1999	1998	1997
	(Dollars in millions)		
Interest income:			
Mortgage portfolio	$ 32,672	$ 25,676	$ 22,716
Investments and cash equivalents	2,823	4,319	3,662
Total interest income	35,495	29,995	26,378
Interest expense(1):			
Short-term debt	3,952	4,809	3,659
Long-term debt	26,649	21,076	18,770
Total interest expense	30,601	25,885	22,429
Net interest income	4,894	4,110	3,949
Tax equivalent adjustment(2)	341	304	283
Net interest income tax equivalent basis	$ 5,235	$ 4,414	$ 4,232
Average balances:			
Interest-earning assets(3):			
Mortgage portfolio, net	$468,320	$352,169	$298,698
Investments and cash equivalents	51,459	75,369	63,441
Total interest-earning assets	$519,779	$427,538	$362,139
Interest-bearing liabilities(1):			
Short-term debt	$ 81,028	$ 89,890	$ 68,691
Long-term debt	419,538	319,638	277,129
Total interest-bearing liabilities	500,566	409,528	345,820
Interest-free funds	19,213	18,010	16,319
Total interest-bearing liabilities and interest-free funds	$519,779	$427,538	$362,139
Average interest rates(2):			
Interest-earning assets:			
Mortgage portfolio, net	7.04%	7.38%	7.67%
Investments and cash equivalents	5.52	5.76	5.82
Total interest-earning assets	6.89	7.09	7.34
Interest-bearing liabilities(1):			
Short-term debt	4.84	5.29	5.29
Long-term debt	6.35	6.60	6.77
Total interest-bearing liabilities	6.11	6.31	6.48
Investment spread(4)	.78	.78	.86
Interest-free return(5)	.23	.25	.31
Net interest margin(6)	1.01%	1.03%	1.17%

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

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

(3) Includes average balance of nonperforming loans of $3.1 billion in 1999, $2.6 billion in 1998, and $2.2 billion in 1997.

(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) Net interest income, on a tax equivalent basis, as a percentage of the average investment portfolio.

FANNIE MAE

RATE/VOLUME ANALYSIS (Unaudited)

	Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate
	(Dollars in millions)		
1999 vs. 1998			
Interest income:			
Mortgage portfolio	$ 6,996	$ 8,145	$(1,149)
Investments and cash equivalents	(1,496)	(1,319)	(177)
Total interest income	5,500	6,826	(1,326)
Interest expense(2):			
Short-term debt	(857)	(452)	(405)
Long-term debt	5,573	6,371	(798)
Total interest expense	4,716	5,919	(1,203)
Net interest income	$ 784	$ 907	$ (123)
1998 vs. 1997			
Interest income:			
Mortgage portfolio	$ 2,960	$ 3,930	$ (970)
Investments and cash equivalents	657	684	(27)
Total interest income	3,617	4,614	(997)
Interest expense(2):			
Short-term debt	1,150	1,134	16
Long-term debt	2,306	2,814	(508)
Total interest expense	3,456	3,948	(492)
Net interest income	$ 161	$ 666	$ (505)

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

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

MANAGEMENT

Directors

The age and background, as of March 27, 2000, of each of the members of the Board of Directors of Fannie Mae are as follows:

Name and Age	Principal Occupation and Business Experience	First Became Director	Other Directorships (1)
Stephen B. Ashley, 60	Chairman and Chief Executive Officer, The Ashley Group, a group of commercial and multifamily real estate, brokerage and investment companies, since January 1997; Chairman and Chief Executive Officer, Sibley Mortgage Corporation, a mortgage banking company, from 1985 to 1996; Chairman and Chief Executive Officer, Sibley Real Estate Services, Inc., a property management company, 1985 to 1996.	1995	Exeter Fund, Inc.; The Genesee Corporation; Hahn Automotive Warehouse, Inc.; Manning & Napiers Insurance Fund, Inc.
Roger E. Birk, 69	Former President and Chief Operating Officer of Fannie Mae from November 1987 until his retirement in January 1992.	1985	Golden Bear Golf Inc.; Penske Corp.; WellPoint Health Networks Inc.
Kenneth M. Duberstein, 55	Chairman and Chief Executive Officer, The Duberstein Group, an independent strategic planning and consulting company, since July 1989; Chief of Staff to the President of the United States from 1988 to 1989.	1998	The Boeing Company; Cinergy Corporation; Global Vacation Group; St. Paul Companies, Inc.
Stephen Friedman, 62	Senior Principal, Marsh McLennan Risk Capital Corp., an insurance brokerage, money management and consulting firm, since March 1998; Limited Partner since 1994, Senior Chairman from 1994 to 1998, and Co-Chairman or Chairman from 1990 to 1994, Goldman, Sachs & Co., an investment banking firm.	1996	Wal-Mart Stores, Inc.
Thomas P. Gerrity, 58	Professor of Management and Director, Wharton e-commerce Forum since July 1999; Dean of The Wharton School of the University of Pennsylvania from 1990 to 1999; President of CSC Consulting and Vice President of Computer Sciences Corporation from 1989 to 1990; Chairman and Chief Executive Officer, Index Group, a technology-oriented consulting company, from 1969 to 1989.	1991	CVS Corporation; Reliance Group Holdings, Inc.; Sunoco, Inc.; Knight-Ridder, Inc.; Internet Capital Group, Inc.
Jamie S. Gorelick, 49	Vice Chair of Fannie Mae since May 1997; Deputy Attorney General of the United States from 1994 to 1997; General Counsel to the U.S. Department of Defense from 1993 to 1994; Partner, Miller, Cassidy, Larroca & Lewin, a law firm, from 1981 to 1993.	1997	United Technologies Corp.
Vincent A. Mai, 59	Chairman since 1999, Chairman and Chief Executive Officer from 1998 to 1999 and President and Chief Executive Officer from 1989 to 1998 of AEA Investors Inc., a private investment company; Managing Director, Shearson Lehman Brothers, Inc., an investment banking firm, from 1974 to 1989.	1991	Dal-Tile International, Inc.

Name and Age	Principal Occupation and Business Experience	First Became Director	Other Directorships (1)
Gary Mauro, Esq. (2), 52	Attorney in private practice in Austin, Texas, since January 1999; Commissioner of the Texas General Land Office from 1983 to 1999.	1999	
Ann McLaughlin, 58	Chairman since October 1996, Vice Chairman from 1993 to 1996, The Aspen Institute, a non-profit organization; President, Federal City Council, from 1990 to 1995; President and Chief Executive Officer, New American Schools Development Corporation, from 1992 to 1993; Visiting Fellow, Urban Institute, from 1989 to 1992; Chairman, President's Commission on Aviation Security and Terrorism, from 1989 to 1990; U.S. Secretary of Labor from 1987 to 1989.	1994	AMR Corporation (and its subsidiary, American Airlines); Donna Karan International Inc.; General Motors Corporation; Harman International Industries, Inc.; Host Marriott Corporation; Kellogg Company; Microsoft Corporation; Nordstrom Inc.; Vulcan Materials Company.
Daniel H. Mudd, 41	Vice Chairman and Chief Operating Officer of Fannie Mae since February, 2000; President and Chief Executive Officer of GE Capital, Japan from 1999 to 2000. He was with GE Capital, a diversified financial services company and subsidiary of General Electric Company, since 1991 in a variety of positions including President and Chief Executive Officer of GE Capital, Asia Pacific from 1996 to 1999.	2000	
Joe K. Pickett, 54	Chairman and Chief Executive Officer, Homeside International, Inc. since February 1996; and Chairman and Chief Executive Officer of its subsidiary, HomeSide Lending, Inc. (successor entity to BancBoston Mortgage Corporation), a mortgage banking company, since 1990.	1996	
Jack Quinn (2), 50	Co-Chairman, Quinn Gillespie & Associates LLC, a strategic consulting firm, since January 2000; Partner, Arnold & Porter, a law firm, from 1982 to 1992 and from 1997 to 2000; Counsel to the President of the United States from 1995 to 1997; Chief of Staff and Counsel to the Vice President of the United States from 1993 to 1995.	1998	
Franklin D. Raines, 51	Chairman of the Board of Directors and Chief Executive Officer of Fannie Mae since January 1999; Chairman of the Board and Chief Executive Officer-Designate, from May 1998 to December 1998; Director, U.S. Office of Management and Budget, from 1996 to 1998; Vice Chairman of Fannie Mae, from 1991 to 1996.	1991	America Online, Inc.; Pfizer Inc.; Pepsico, Inc.
Eli J. Segal (2), 57	President and Chief Executive Officer of The Welfare to Work Partnership, a non-profit organization, since February 1997; Assistant to the President of the United States and CEO of the Corporation for National Service (AmeriCorp) from 1993 to 1996.	1997	Tower Air Inc.
H. Patrick Swygert, 57	President of Howard University since 1995. President of the State University of New York at Albany from 1995 to 1999.	1999	The Hartford Financial Services Group, Inc.

Name and Age	Principal Occupation and Business Experience	First Became Director	Other Directorships (1)
Karen Hastie Williams (3), 54	Partner, Crowell & Moring, a law firm practicing in the District of Columbia, 1982 to present.	1988	Continental Airlines, Inc.; Crestar Financial Corporation; Gannett Co., Inc.; Washington Gas Company

(1) Companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of that Act or any company registered as an investment company under the Investment Company Act of 1940. Certain directorships of other companies also are noted in the principal occupation column.

(2) Appointed by the President of the United States, who has authority to appoint five directors.

(3) Ann M. Mulcahy was elected to the Board, effective April 2000, to replace Karen Hastie Williams upon her resignation. Ann M. Mulcahy, 47, has been Executive Vice President, General Markets Operations, for the Xerox Corporation, a global company serving document processing markets, since January 1999. She has been with Xerox since 1976 in a variety of positions including Senior Vice President and Chief Staff Officer.

The term of each director will end on the date of the May 2000 annual meeting of stockholders, except that the President of the United States may remove any director that the President appointed for good cause.

Executive Officers

The age and business experience, as of March 27, 2000, of each of the executive officers of Fannie Mae, are as follows:

Franklin D. Raines, 51, has been the Chairman of the Board of Directors and Chief Executive Officer since January 1999. Mr. Raines was Chairman of the Board and Chief Executive Officer-Designate from May 1998 to December 1998. Mr. Raines was Director, Office of Management and Budget from September 1996 to May 1998, and Vice Chairman of Fannie Mae from September 1991 to August 1996.

Daniel H. Mudd, 41, has been Vice Chairman and Chief Operating Officer of Fannie Mae since February 2000. Mr. Mudd was with GE Capital from 1991 to 2000 in a variety of positions including, most recently, President and Chief Executive Officer of GE Capital, Japan from 1999 to 2000 and of GE Capital, Asia Pacific, from 1996 to 1999.

Jamie S. Gorelick, 49, has been Vice Chair since May 1997. Ms. Gorelick was Deputy Attorney General of the United States from March 1994 to April 1997. Ms. Gorelick served as General Counsel to the United States Department of Defense from May 1993 to March 1994 and was a Partner with Miller, Cassidy, Larroca & Lewin, a law firm, from January 1981 to April 1993.

J. Timothy Howard, 51, has been Executive Vice President and Chief Financial Officer since February 1990.

William E. Kelvie, 52, has been Executive Vice President and Chief Information Officer since November 1992.

Robert J. Levin, 44, has been Executive Vice President—Housing and Community Development since June 1998. Mr. Levin was Executive Vice President—Marketing from June 1990 to June 1998.

Ann D. Logan, 45, has been Executive Vice President—Single-Family Mortgage Business since June 1998. Ms. Logan was Executive Vice President and Chief Credit Officer from May 1993 to June 1998.

Adolfo Marzol, 39, has been Executive Vice President and Chief Credit Officer since July 1998. Mr. Marzol was Senior Vice President—Single-Family Business Management from July 1996 to July 1998. Mr. Marzol was Senior Vice President—Capital Markets from February 1996 to July 1996. Mr. Marzol was Executive Vice President and Chief Financial Officer of Chase Manhattan Mortgage Corporation, a mortgage company, from July 1993 to January 1996.

Glenn T. Austin, Jr., 51, has been Senior Vice President—Southeastern Regional Office since May 1985.

Kenneth J. Bacon, 45, has been Senior Vice President—American Communities Fund since September 1998. Mr. Bacon was Senior Vice President—Northeastern Regional Office from April 1993 to September 1998.

John Buckley, 43, has been Senior Vice President—Communications since November 1991.

Thomas E. Donilon, 44, has been Senior Vice President, General Counsel and Secretary since September 1999. Mr. Donilon was a partner with the law firm of O'Melveny & Myers from 1996 to 1999. From 1993 to 1996 he was Assistant Secretary of State for Public Affairs and Chief of Staff to the Secretary of State.

William G. Ehrhorn, 51, has been Senior Vice President—Operations and Corporate Services since February 1998. Mr. Ehrhorn was Senior Vice President—Mortgage Operations from May 1993 to February 1998.

Elizabeth S. Harshfield, 46, has been Senior Vice President—Midwestern Regional Office since February 1999. Ms. Harshfield was Senior Vice President—Western Regional Office from February 1996 to February 1999. Ms. Harshfield was Senior Vice President—Investor Relations from April 1994 to February 1996.

Lynda C. Horvath, 47, has been Senior Vice President—Financial and Structured Transactions since September 1999. She was Senior Vice President—Capital Markets from July 1996 to September 1999, and Senior Vice President—Corporate Development from May 1993 to July 1996.

Louis W. Hoyes, 51, has been Senior Vice President—Multifamily Lending and Investment since July 1995. Prior to his employment with Fannie Mae, Mr. Hoyes was Managing Director of the residential segment of Citicorp's Real Estate business in North America, where he held a number of other positions after joining Citicorp/Citibank in 1973.

Linda K. Knight, 50, has been Senior Vice President and Treasurer since February 1993.

Thomas A. Lawler, 47, has been Senior Vice President—Portfolio Management since November 1989.

Thomas A. Lund, 41, has been Senior Vice President—Southwestern Regional Office since July 1996. Mr. Lund was Vice President—Marketing in the Southwestern Regional Office from January 1995 to July 1996. Prior to his employment with Fannie Mae, Mr. Lund was Senior Vice President and General Manager for Negotiated Transactions for the GE Capital Mortgage Corporation from 1990 to 1994.

William R. Maloni, 55, has been Senior Vice President—Government and Industry Relations since November 1995. Mr. Maloni was Senior Vice President—Policy and Public Affairs from March 1989 to November 1995.

Peter Niculescu, 40, has been Senior Vice President—Portfolio Strategy since March 1999. Prior to his employment with Fannie Mae, Mr. Niculescu was a Managing Director and Co-Head of Fixed Income Research for Goldman Sachs. He joined Goldman Sachs in 1990 and held a variety of positions including Managing Director—Mortgage Research, Vice President—Mortgage Research and Corporate Bond Strategist.

Thomas R. Nides, 39, has been Senior Vice President—Human Resources since November 1997 and was Vice President—Human Resources from May 1997 to November 1997. Mr. Nides was a Principal with Morgan Stanley from April 1996 to April 1997. Mr. Nides was Fannie Mae's Vice President—Housing Impact from January 1995 to April 1996. He was Chief of Staff to the United States Trade Representative from May 1993 to December 1994 and Executive Assistant to the Speaker of the House from May 1989 to May 1993.

Zach Oppenheimer, 40, has been Senior Vice President—Northeastern Regional Office since November 1998. Mr. Oppenheimer was Vice President—Marketing in the Northeastern Regional Office from April 1991 through November 1998.

Michael A. Quinn, 45, has been Senior Vice President—Single Family Mortgage Business since June 1998. He was Senior Vice President—Credit Loss Management from April 1994 to June 1998. Mr. Quinn was Senior Vice President and Controller from March 1991 to April 1994.

Jayne J. Shontell, 45, has been Senior Vice President — Corporate Development and Investor Relations since November 1999. She was Senior Vice President—Investor Relations from February 1996 to November 1999. Ms. Shontell was Senior Vice President—Financial and Information Services from November 1992 to February 1996.

Leanne Spencer, 44, has been Senior Vice President and Controller since November 1998. Ms. Spencer was Vice President—Financial Reporting from June 1993 to November 1998.

Julie St. John, 48, has been Senior Vice President—Mortgage Business Technology (previously Senior Vice President of Guaranty and Franchise Technologies and Senior Vice President of Transaction Processing and Management Systems) since June 1993. She has been with Fannie Mae since December 1990.

Ann Marie Wheelock, 36, has been Senior Vice President, Western Regional Office, since October 1999. Ms. Wheelock was President and CEO of the Fannie Mae Foundation from 1998 to 1999 and Executive Vice President and COO of the Foundation from 1997 to 1998. Prior to that, she was Executive Assistant to the Chairman of Fannie Mae and Vice President for Housing Impact in Fannie Mae's Western Regional Office.

Michael J. Williams, 42, has been Senior Vice President—e-commerce since February 2000. He was Senior Vice President—Customer Technology Services from February 1996 to February 2000. Mr. Williams was Senior Vice President—Customer Applications and Technology Integration from November 1993 to January 1996.

Barry Zigas, 48, has been Senior Vice President and Executive Director—National Housing Impact Division since February 1996. Mr. Zigas was Senior Vice President—Housing Impact Policy from November 1995 to January 1996, and Vice President—Housing Impact from June 1993 to October 1995.

Additional Information

For information concerning executive compensation, stock ownership of management and directors, certain transactions of executive officers, and any person or group owning more than five percent of the voting stock of Fannie Mae, reference is made to the proxy statement for Fannie Mae's 2000 annual meeting of stockholders and any later proxy statement published prior to Fannie Mae's publication of a new Information Statement, which are incorporated herein by this reference. The proxy statement for Fannie Mae's 2000 annual meeting of stockholders will be available in April 2000.

Fannie Mae will provide without charge a copy of Fannie Mae's most recent proxy statement to each person to whom this Information Statement has been delivered, upon the written or oral request of such person. Requests for such copies should be directed to the office specified on page 2 of this Information Statement.

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