

**Supplement dated February 1, 2002 to
Information Statement dated March 30, 2001**



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

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

Fannie Mae is a federally chartered corporation. Fannie Mae's securities are not required to be registered under the Securities Act of 1933. At the close of business on December 31, 2001, approximately 997 million shares of Fannie Mae's common stock (without par value) were outstanding. Fannie Mae's Internal Revenue Service employer identification number is 52-0883107.

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

TABLE OF CONTENTS

<u>Caption</u>	<u>Page</u>
Selected Financial Data	3
Other Financial Information	4
Capitalization	9

SELECTED FINANCIAL DATA

The following selected financial data for the three-month periods ended December 31, 2001 and 2000 and the year ended December 31, 2001 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Selected financial information for the year ended December 31, 2000 has been summarized or derived from the audited financial statements and other financial information in the Information Statement. Such information should be read in conjunction with the audited financial statements and notes to financial statements for the year ended December 31, 2000.

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

	Three Months Ended December 31,		Year Ended December 31,	
	2001	2000	2001	2000
Operating Data:				
Operating net income(1)	\$ 1,438	\$ 1,164	\$ 5,367	\$ 4,448
Operating earnings per diluted common share	1.40	1.12	5.20	4.29
Total taxable-equivalent revenue(2)	2,871	2,052	10,187	7,825
Average net interest margin	1.21%	.99%	1.11%	1.01%
Operating return on average realized common equity(3)	25.3	25.1	25.4	25.2
Average effective guaranty fee rate	.189	.193	.190	.195
Credit loss ratio(4)	.005	.007	.006	.007
Income Statement Data:				
Interest income	\$ 12,509	\$ 11,581	\$ 49,170	\$ 42,781
Interest expense	10,105	10,095	41,080	37,107
Net interest income	2,404	1,486	8,090	5,674
Guaranty fee income	398	339	1,482	1,351
Fee and other income (expense)	51	1	151	(44)
Special contribution	(300)	—	(300)	—
Credit-related expenses	(16)	(21)	(78)	(94)
Administrative expenses	(251)	(232)	(1,017)	(905)
Purchased options income (expense)(5)	578	—	(37)	—
Income before federal income taxes, extraordinary item and cumulative effect of change in accounting principle	2,864	1,573	8,291	5,982
Provision for federal income taxes	(836)	(406)	(2,224)	(1,566)
Income before extraordinary item and cumulative effect of change in accounting principle	2,028	1,167	6,067	4,416
Extraordinary item—(loss) gain on early extinguishment of debt, net of tax effect	(59)	(3)	(341)	32
Cumulative effect of change in accounting principle, net of tax effect(6)	—	—	168	—
Net income	<u>\$ 1,969</u>	<u>\$ 1,164</u>	<u>\$ 5,894</u>	<u>\$ 4,448</u>
Preferred stock dividends	(35)	(35)	(138)	(121)
Net income available to common shareholders	<u>\$ 1,934</u>	<u>\$ 1,129</u>	<u>\$ 5,756</u>	<u>\$ 4,327</u>
Basic earnings per common share	\$ 1.93	\$ 1.13	\$ 5.75	\$ 4.31
Diluted earnings per common share	1.92	1.12	5.72	4.29
Cash dividends per common share	.30	.28	1.20	1.12
	2001	2000		
Balance Sheet Data at December 31:				
Mortgage portfolio, net	\$705,167	\$607,399		
Liquid assets	76,072	55,585		
Total assets	799,791	675,072		
Borrowings:				
Due within one year	343,492	280,322		
Due after one year	419,975	362,360		
Total liabilities	781,673	654,234		
Stockholders' equity	18,118	20,838		
Core capital(7)	25,182	20,827		
	2001	2000		
			2001	2000
Other Data:				
Dividend payout ratio	15.5%	24.7%	20.9%	26.0%
Ratio of earnings to combined fixed charges and preferred stock dividends(8)	1.28:1	1.15:1	1.20:1	1.16:1
Mortgage purchases	\$ 82,378	\$ 52,959	\$270,584	\$154,231
MBS issues acquired by others	102,854	27,034	344,739	105,407
Outstanding MBS at period-end(9)	858,867	706,684	858,867	706,684
Weighted-average diluted common shares outstanding	1,005	1,005	1,006	1,009

(1) Excludes the cumulative after-tax gain of \$168 million from the change in accounting principle upon adoption of FAS 133 on January 1, 2001 and the after-tax gain of \$376 million recognized during the fourth quarter of 2001 and the after-tax loss of \$24 million recognized during the year 2001 for the change in fair value of time value of purchased options. Includes after-tax charges of \$155 million and \$383 million, respectively, for the amortization expense of purchased option premiums during the three-month period and year ended December 31, 2001.

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

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

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

(5) The change in the fair value of the time value of purchased options, which includes \$239 million and \$590 million of amortization expense related to purchased option premiums in the fourth quarter of 2001 and year ended 2001, respectively.

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

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

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

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

Other Financial Information

Additional information regarding Fannie Mae's earnings and other specific measures of Fannie Mae's performance for the quarter and year ended December 31, 2001 is presented below.

Operating Net Income

Operating net income for the fourth quarter of 2001 was \$1.438 billion, compared with operating net income of \$1.164 billion for the fourth quarter of 2000. Operating net income for 2001 increased 21 percent to \$5.367 billion from \$4.448 billion in 2000. The increase in operating net income for the year was mainly attributable to increases in net interest income, guaranty fees, and fee and other income.

Fannie Mae's operating net income excludes the one-time, cumulative after-tax gain recorded January 1, 2001 upon the adoption of Financial Accounting Standard No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*, excludes the after-tax impact of the change in fair value of the time value of purchased options associated with FAS 133, and includes an after-tax charge for the amortization expense of purchased option premiums. Net income for the fourth quarter of 2001 without these adjustments was \$1.969 billion, compared with net income of \$1.164 billion in the fourth quarter of 2000. Net income for 2001 without these adjustments was \$5.894 billion, compared with net income of \$4.448 billion in 2000. The chart below reconciles net income to operating net income for the three month period and year ended December 31, 2001.

	<u>Three Months Ended</u> <u>December 31, 2001</u>	<u>Year Ended</u> <u>December 31, 2001</u>
	(Dollars in millions)	
Net income	\$1,969	\$5,894
Cumulative after-tax gain from adoption of FAS 133	—	(168)
After-tax (gain) loss from change in fair value of time value of purchased options	(376)	24
After-tax charge for amortization expense of purchased option premiums	(155)	(383)
Operating net income	<u>\$1,438</u>	<u>\$5,367</u>

Taxable-Equivalent Revenue

Fannie Mae's taxable-equivalent revenue totaled \$2.871 billion in the fourth quarter of 2001, compared with \$2.052 billion in the same prior year period. Fannie Mae generated \$10.187 billion in taxable-equivalent revenue for 2001, a 30 percent increase over 2000. Taxable-equivalent revenue is total revenue net of operating losses adjusted to include the full pre-tax value of tax-exempt income and investment tax credits based on applicable federal income tax rates. The growth in taxable-equivalent revenue in both periods was primarily attributable to increases in net interest income.

Mortgage and Investment Portfolios

Adjusted net interest income, which includes the amortization expense of purchased option premiums, increased 46 percent in the fourth quarter of 2001 over the same prior year period primarily due to a 16 percent increase in the average net investment balance and a 22 basis point increase in the average net interest margin. The average net interest margin was 121 basis points in the fourth quarter of 2001, compared with 99 basis points in the fourth quarter of 2000. Adjusted net interest income in 2001 increased 32 percent over 2000 to \$7.500 billion. The increase in net interest income for the year was a result of a 19 percent increase in the average net investment balance and a 10 basis point increase in the average net interest margin to 1.11 percent. Fannie Mae's adjusted net interest income is a more meaningful measure of portfolio revenue as it is comparable with reported

net interest income in prior periods. Prior to the adoption of FAS 133, reported net interest income included the amortization expense of purchased option premiums. With the adoption of FAS 133, this cost, which totaled \$239 million in the fourth quarter of 2001 and \$590 million for the year, is now included in the category “purchased option income (expense)” on the income statement as part of the change in the fair value of the time value of these options.

Fannie Mae’s net investment balance—mortgage loans held, less unamortized discount and deferred price adjustments, plus other liquid assets—was \$781 billion at the end of 2001, compared with \$663 billion at the end of 2000. Fannie Mae’s net mortgage portfolio was \$705 billion at the end of 2001, compared with \$607 billion at the end of 2000.

Mortgage Purchases and Commitments

Fannie Mae purchased \$82 billion of mortgages in the fourth quarter of 2001, compared with \$53 billion in the fourth quarter of 2000. Purchases totaled \$271 billion of mortgages in 2001, compared with \$154 billion in 2000. In the fourth quarter of 2001, mortgage sales were \$4 billion, compared with \$1 billion in the fourth quarter of 2000. Mortgage sales were \$9 billion in 2001, compared with \$11 billion in 2000.

Mandatory commitments issued to purchase mortgages from lenders, net of commitments to sell, were \$100 billion in the fourth quarter of 2001, compared with \$50 billion in the fourth quarter of 2000. Mandatory commitments issued, net of commitments to sell mortgages, totaled \$296 billion in 2001, compared with \$152 billion in 2000.

Guaranty Fee Income and Outstanding MBS

Guaranty fee income was \$398 million in the fourth quarter of 2001, compared with \$339 million in the fourth quarter of 2000. In 2001, guaranty fee income was \$1.482 billion, compared with \$1.351 billion in 2000. The increase in guaranty fee income for the year primarily resulted from a 12 percent increase in average outstanding Mortgage-Backed Securities (“MBS”), which more than offset a .5 basis point decrease in the average effective guaranty fee rate to 19.0 basis points.

Fannie Mae MBS issues acquired by investors other than Fannie Mae totaled \$103 billion of MBS in the fourth quarter of 2001, compared with \$27 billion in the fourth quarter of 2000. MBS issues acquired by other investors totaled \$345 billion in 2001, compared with \$105 billion in 2000. At December 31, 2001 outstanding MBS held by investors other than Fannie Mae totaled \$859 billion, compared with \$707 billion at December 31, 2000.

Fee and Other Income (Expense)

Fee and other income (expense) totaled \$51 million of income in the fourth quarter of 2001, compared with \$1 million of income in the fourth quarter of 2000. In 2001, fee and other income (expense) totaled \$151 million of income, compared with \$44 million of expense in 2000. The increase in fee and other income during the fourth quarter and for the year was primarily because of higher technology and transaction fees. Fee and other income in 2000 was dampened by a hedging loss on a Benchmark Note issuance in April 2000. Fee and other income includes technology fees, transaction fees, multifamily fees, and other miscellaneous items, and is net of operating losses from certain tax-advantaged investments.

Special Contribution

Fannie Mae made a commitment during fourth quarter 2001 to contribute \$300 million of Fannie Mae common stock to the Fannie Mae Foundation.

Credit-Related Expenses

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$16 million in the fourth quarter of 2001, compared with \$21 million in the fourth quarter of 2000. Total credit-related expenses were \$78 million in 2001, compared with \$94 million in 2000.

Foreclosed property expenses totaled \$46 million in the fourth quarter of 2001, compared with \$51 million in the fourth quarter of 2000. Foreclosed property expenses were \$193 million in 2001, compared with \$214 million in 2000. Fannie Mae acquired 3,892 conventional single-family properties through foreclosure in the fourth quarter of 2001, compared with 3,398 properties in the fourth quarter of 2000. Single family property acquisitions were 14,486 in 2001, compared with 14,351 in 2000. The inventory of single-family acquired properties totaled 7,073 properties at December 31, 2001, compared with 6,414 at December 31, 2000. The provision for losses was a negative \$30 million in the fourth quarter of 2001, unchanged from the fourth quarter of 2000. In 2001, the provision for losses was a negative \$115 million, compared with a negative \$120 million in 2000. In the fourth quarter of 2001, charge-off recoveries were \$28 million, unchanged from the fourth quarter of 2000. Charge-off recoveries were \$112 million in 2001, compared with \$125 million in 2000. The allowance for losses was \$806 million at December 31, 2001, compared with \$809 million at December 31, 2000.

Administrative Expenses

Administrative expenses totaled \$251 million in the fourth quarter of 2001, compared with \$232 million in the fourth quarter of 2000. In 2001, administrative expenses were \$1.017 billion, compared with \$905 million in 2000.

Purchased Options Income (Expense)

Purchased options income (expense) totaled \$578 million of income in the fourth quarter of 2001 and \$37 million of expense for the year. Purchased options expense represents the change in the fair value of the time value of purchased options during the reporting period. Included in purchased options income (expense) is \$239 million and \$590 million in amortization expense of purchased option premiums for the three-month period and year ended December 31, 2001, respectively, that would have been reported in net interest income prior to the adoption of FAS 133. The change in the fair value of the time value of purchased options will vary from period to period; however, the net expense included in earnings from the purchase date until the exercise date of an option will equal the option premium paid.

Income Taxes

Federal income tax expense, net of the tax impact from extraordinary items, was \$804 million in the fourth quarter of 2001, compared with \$405 million in the fourth quarter of 2000. Federal income tax expense, net of the tax impact from extraordinary items and cumulative effect of change in accounting principle, was \$2.131 billion in 2001, compared with \$1.583 billion in 2000. The effective federal income tax rate on operating income was 26 percent for the fourth quarter of 2001 and full year 2001, unchanged from the fourth quarter of 2000 and full year 2000.

Extraordinary Gain (Loss)

Debt called or repurchased in the fourth quarter of 2001 totaled \$35 billion, compared with \$13 billion in the fourth quarter of 2000. Debt called or repurchased in 2001 totaled \$183 billion, compared with \$18 billion in 2000.

Fannie Mae recorded extraordinary losses of \$91 million (\$59 million after tax) on the call or repurchase of debt in the fourth quarter of 2001, compared with losses of \$4 million (\$3 million after tax) in the fourth quarter of 2000. Fannie Mae recorded extraordinary losses totaling \$524 million (\$341 million after tax) on the call or repurchase of debt in 2001, compared with net gains of \$49 million (\$32 million after tax) in 2000.

Risk Management

Fannie Mae discloses on a quarterly basis the sensitivity of its future credit losses to an immediate 5 percent decline in home prices as part of its voluntary safety and soundness initiatives. The present value of Fannie Mae’s net sensitivity of future credit losses to an immediate 5 percent decline in home prices, taking into account the beneficial effect of third-party credit enhancements, was \$467 million at September 30, 2001.

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

Fannie Mae’s net interest income at risk measures the sensitivity of Fannie Mae’s projected net interest income to an immediate 50 basis point increase or decrease in interest rates and an immediate 25 basis point increase or decrease in the slope of the yield curve. Fannie Mae’s net interest income at risk over a one-year and four-year period under each of the interest rate scenarios were as follows at December 31, 2001:

	Assuming a 50 basis point change in interest rates		Assuming a 25 basis point change in slope of yield curve	
	One-Year	Four-year	One-Year	Four-year
December 2001	5.1%	4.5%	2.4%	4.3%

Actual portfolio net interest income may differ from these estimates because of specific interest rate movements, changing business conditions, changing prepayments, and management actions.

The portfolio duration gap—the difference between the durations of portfolio assets and liabilities—summarizes for management the extent to which estimated cash flows for assets and liabilities are matched, on average, through time and across interest rate scenarios. Fannie Mae’s effective duration gap was positive five months at December 31, 2001, compared to negative three months at December 31, 2000.

Core Capital & Liquidity

Fannie Mae’s core capital (defined as the stated value of outstanding common stock, the stated value of outstanding noncumulative perpetual preferred stock, paid-in-capital, and retained earnings) increased to \$25.2 billion at December 31, 2001 from \$20.8 billion at December 31, 2000. Fannie Mae’s core capital, which excludes accumulated other comprehensive income (AOCI), is a more accurate reflection of its capital resources than total stockholders’ equity. AOCI is excluded from core capital because AOCI includes unrealized gains (losses) on derivatives and investment securities, but does not include the related unrealized losses (gains) on items hedged by these derivatives nor the liabilities that fund the acquisition of investment securities.

At December 31, 2001, AOCI totaled negative \$7.1 billion, compared with a positive balance of \$10 million at December 31, 2000. Upon adoption of FAS 133 on January 1, 2001, Fannie Mae recorded a \$3.9 billion reduction in AOCI, which was attributable primarily to recording derivatives, mostly interest rate swaps used as substitutes for non-callable debt, that qualify as cash flow hedges on the balance sheet at their fair values. The balance of the decline in AOCI was attributable to a decline in interest rates, which produced a decrease in the fair value of these derivatives but did not reflect any offsetting gains on hedged items. FAS 133 requires that entities mark-to-market derivatives that

qualify as cash flow hedges through AOCI to the extent they are effective, but not the hedged items. Subsequent changes in the fair value of derivatives in cash flow hedges will be offset in earnings by interest expense associated with the hedged items to the extent that the hedges are effective.

Fannie Mae repurchased 3.3 million shares of common stock in the fourth quarter of 2001 and 6.0 million shares for the year. Fannie Mae issued \$400 million of preferred stock in 2001 and repurchased \$375 million. As of December 31, 2001, Fannie Mae had approximately 997.2 million shares of common stock outstanding.

Fannie Mae issued \$1.0 billion of subordinated debt on December 7, 2001 that received a rating of Aa2 from Moody's Investors Service and AA- from Standard & Poor's. During 2001 Fannie Mae issued a total of \$5.0 billion of subordinated debt. All subordinated debt is currently rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's. Over the next three years, Fannie Mae intends to issue sufficient subordinated debt to bring the sum of total capital and outstanding subordinated debt to at least 4 percent of on-balance-sheet assets, after adjusting for capital required to support the off-balance-sheet mortgage securities business.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Balance Sheet Analysis—Regulatory Capital Requirements," Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of December 31, 2001, and management expects to continue to comply with the applicable standards.

As part of its voluntary adoption of measures to enhance disclosure, capital, and market discipline, Fannie Mae agreed to maintain more than three months worth of liquidity, assuming no access to the new issue debt markets, to reduce the possibility that the company's operations could be disrupted during a significant financial crisis. Fannie Mae has a contingency plan in place to ensure funding needs are met for three months without access to the agency debt markets. Fannie Mae also committed to maintain at least five percent of on-balance-sheet assets in a liquid, marketable portfolio of nonmortgage securities and to maintain additional highly liquid securities in unencumbered form to facilitate liquidity. Fannie Mae's ratio of liquid assets to total assets was 9.5 percent at December 31, 2001.

CAPITALIZATION

The following table sets forth the capitalization of Fannie Mae as of December 31, 2001.

	<u>Average Maturity</u>	<u>Average Cost (1)</u>	<u>Outstanding (Dollars in millions)</u>	
Debtures, notes, and bonds, net:				
Due within one year:				
Short-term notes	3 mos.	2.58%	\$256,905	
Universal Benchmark	6 mos.	5.31	21,987	
Universal Short-term other	8 mos.	2.02	23,934	
Universal Standard	9 mos.	3.67	34,413	
Other(2)		0.51	<u>6,253</u>	
Total due within one year			<u>343,492</u>	
Due after one year:				
Universal Benchmark	6 yrs. 5 mos.	5.88	251,448	
Universal Retail	9 yrs. 2 mos.	5.87	7,098	
Universal Standard	4 yrs. 5 mos.	4.85	156,738	
Other	15 yrs. 3 mos.	7.93	<u>4,691</u>	
Total due after one year			<u>419,975</u>	
Total debtures, notes, and bonds, net			<u><u>\$763,467</u></u>	
Stockholders' equity:				
Preferred stock, \$50.00 stated value, 100 million shares authorized— 46 million shares outstanding				\$ 2,303
Common stock, \$.525 stated value, no maximum authorization— 1,129 million shares outstanding				593
Additional paid-in capital				1,651
Retained earnings				26,175
Accumulated other comprehensive income (loss)				(7,065)
Less treasury stock, at cost— 132 million shares				<u>(5,539)</u>
Total stockholders' equity			<u><u>\$ 18,118</u></u>	

- (1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.
- (2) Average maturity is indeterminate because the outstanding amount includes investment agreements that have varying maturities.

Fannie Mae frequently issues debtures, notes and other debt obligations. The amount of debtures, notes, and bonds outstanding on any date subsequent to December 31, 2001 may differ from that shown in the table above.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

