"I feel great about Fannie Mae because I'm proud of our mission and what we do. I'm proud of how we do it, and I'm proud of the results it brings."

Katrina Jones
Fannie Mae Employee

At Fannie Mae, we are in the American Dream business. Our Mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans. Because having a safe place to call home strengthens families, communities, and our nation as a whole.

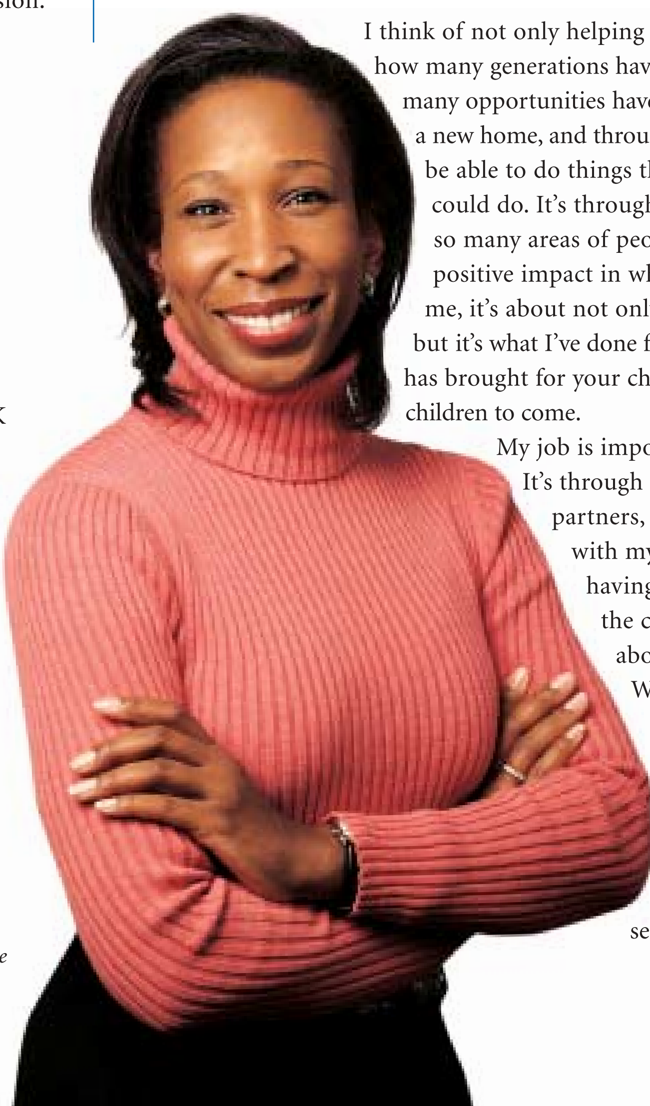
Table of Contents

"Our commitment is to help make the dream of homeownership a reality to those individuals that want to be homeowners. It's through homeownership that you're able to have sound communities, improved social consequences, and long-term benefits.

I think of not only helping people build wealth, I think of how many generations have I changed because of it, how many opportunities have I created because this family got a new home, and through this home, they are going to be able to do things they hadn't even imagined they could do. It's through the home that you can touch so many areas of people's lives. You can have such a positive impact in what they are able to do. So for me, it's about not only what I've done for you today, but it's what I've done for your family, what Fannie Mae has brought for your children and your children's children to come.

My job is important, but I can't do it alone. It's through my partnership with my business partners, it's through my partnership with my field representatives — it's having the same sense of values and the culture that tells us we're not about promoting Fannie Mae. We're about promoting what Fannie Mae can bring.

Everything I do ties back into our mission and everything about that mission gives me a great sense of purpose and a great sense of pride."



Katrina Jones
Fannie Mae Employee

Financial Highlights

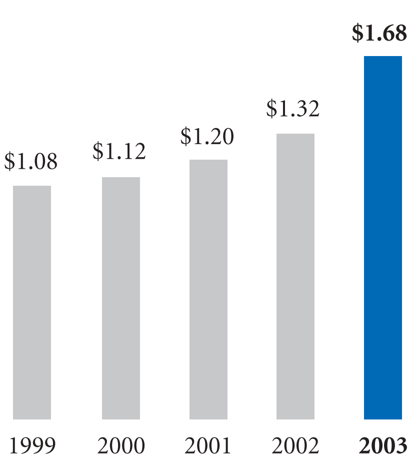
Dollars in millions, except per common share amounts	**2003**	2002	% Change
For the Year			
Net income	**$ 7,905**	$ 4,619	71
Diluted earnings per common share	**7.91**	4.52	75
Cash dividends per common share	**1.68**	1.32	27
Mortgage purchases	**572,852**	370,641	55
MBS issues acquired by others	**850,204**	478,260	78
At December 31,			
Mortgage portfolio, net	**$901,795**	$801,043	13
Total assets	**1,009,569**	887,515	14
Stockholders' equity	**22,373**	16,288	37
Core capital	**34,405**	28,079	23
Excess of core capital over minimum capital	**2,885**	877	229
Outstanding MBS[1]	**1,300,166**	1,029,456	26

Other Performance Measures

	Year Ended December 31,		
	2003	2002	% Change
Core business earnings[2]	**$ 7,306**	$ 6,394	14
Core business earnings per diluted common share[2]	**7.29**	6.30	16
Core taxable-equivalent revenues[2]	**14,794**	11,896	24
Net interest margin, taxable-equivalent basis[2]	**1.20%**	1.15%	4
Average effective guaranty fee rate	**.202**	.191	6
Credit loss ratio	**.006**	.005	20
Administrative expense ratio	**.072**	.072	–
Efficiency ratio	**9.9**	10.2	(3)
Core return on average realized common equity[2]	**26.0**	26.0	–

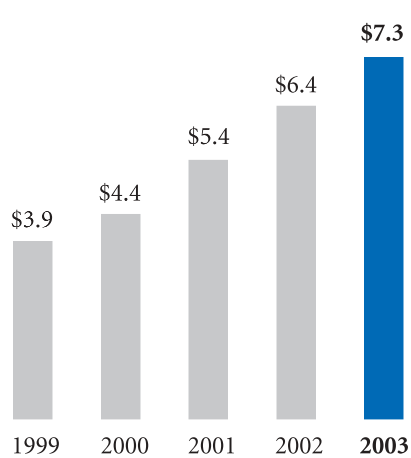
[1] Unpaid principal balance of MBS guaranteed by Fannie Mae and held by investors other than Fannie Mae.
[2] These measures are non-GAAP (generally accepted accounting principles) measures developed by management in conjunction with the adoption of FAS 133 to evaluate and assess the quality of Fannie Mae's earnings from its principal business activities on a consistent basis. Core business earnings is presented on a net of tax basis and excludes changes in the time value of purchased options recorded under FAS 133 and includes purchased options premiums amortized over the original estimated life of the option and any acceleration of expense related to options extinguished prior to exercise. See 2003 Form 10-K "Item 6—Selected Financial Data" and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Core Business Earnings and Business Segment Results" for additional information on these measures, including a reconciliation to comparable GAAP measures.

Dividends per Common Share



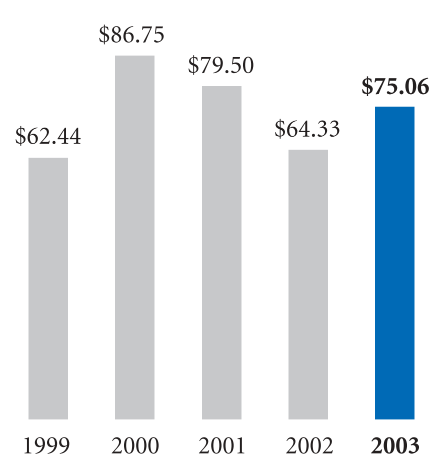
Core Business Earnings

($ in billions)



Stock Price per Common Share

December 31,



Letter to Shareholders

Dear Fellow Shareholder: 2003 was the best year ever for the American housing market and for the nation's number one source of mortgage funds to buy or refinance a home.

I want to review Fannie Mae's 2003 accomplishments with you, and also share with you how we go about delivering results — to you and to the American home buyer.

An outstanding year for Fannie Mae and its mission

Here are some of the highlights of Fannie Mae's core business results for 2003:[1]

- Total business volume grew by 68 percent for another new record of $1.423 trillion.
- Total book of business grew by over 20 percent to $2.199 trillion.
- Core taxable-equivalent revenue grew to $14.8 billion, up over 24 percent.
- Record core net interest income grew to $10.5 billion, up almost 20 percent.
- Record guaranty fee income grew to $2.4 billion, up nearly 33 percent.
- Core business earnings grew to $7.3 billion, up over 14 percent.
- Credit-related expenses totaled $112 million compared with $92 million in 2002.
- Core business diluted earnings per share grew by over 15 percent — our 17th consecutive year of double-digit growth.

As these numbers indicate, 2003 was a very good year for the financial bottom line at Fannie Mae. The strength of our financial results is especially gratifying given the extreme financial market volatility over the past year, with interest rates declining to 45-year lows in mid-June before rebounding sharply over the balance of the summer.

For Fannie Mae, however, our business success derives solely from our success in achieving our mission of expanding homeownership and affordable housing. By this measure as well, 2003 was an extraordinary year:

- We achieved the top-line goals for our ten-year American Dream Commitment plan by reaching over $2 trillion in financing to serve over 18 million underserved families since 2000. We also made significant progress on the wide range of goals within the plan.
- We provided $1.4 trillion in financing to help a record 10.4 million families, including over $246 billion to serve more than 1.6 million minority families. This brought us over 70 percent of the way toward our $700 billion commitment to the Bush Administration's Minority Homeownership Initiative.
- For the tenth consecutive year we met our affordable housing goals, as set by the U.S. Department of Housing and Urban Development (HUD), even though the record wave of home refinancing in America produced a high volume of business that included fewer underserved families.

The power of housing in the American economy

Our record-breaking business and mission performance was driven by the strongest housing and mortgage markets in U.S. history. Housing sales hit record levels; mortgage interest rates fell to 45-year lows, fueling a flurry of refinancing; and mortgage originations hit a stunning $3.7 trillion, more than a 40 percent increase from 2002. Thanks in great part to Fannie Mae's technology-driven innovations, our industry handled this unprecedented surge in business with aplomb and housing continued to be the star of the national economy.

Fannie Mae is at the center of a vital sector of the nation's economy, and the sector is growing. Thanks in large part to the growth of the secondary mortgage market over the past 20 years, housing has not only maintained its equilibrium through a series of economic downturns, it has become the economy's ballast.

During times of economic stress, such as the global credit crunch of 1998 and just after the terrorist attacks of September 11, 2001, Fannie Mae was able to boost the flow of capital, keeping the mortgage market going, and making housing finance a force for stability and liquidity.

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[1] Our core business measures are non-GAAP (generally accepted accounting principles) financial measures we use to evaluate our performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Core Business Earnings and Business Segment Results" in the Form 10-K included in this report for more information about these measures.

Over the past few years, when workers faced massive layoffs, and the U.S. financial markets lost much of their value, housing not only survived the recession, it softened its effect. Housing construction stayed strong, offsetting job losses in other sectors. Families were able to access the wealth in their homes to see themselves through tough times, which boosted consumer spending and supported the economy.

Consumers were able to cut hundreds of dollars from their monthly payments and lock into the cheapest mortgage money we have seen in decades. They also readjusted their personal balance sheets by cashing out some of the home equity wealth they built up as the value of their homes increased to pay down other higher cost debt.

Since the beginning of 2000, the residential mortgage market (measured by total residential mortgage debt outstanding) has expanded by over 50 percent. At the same time, homeowners have gained $2.6 trillion in home equity wealth — a gain that helped to offset the $3.2 trillion equity loss in the stock market. In 2003 alone, homeowners tapped into about $130 billion of their home equity wealth. They plowed 60 percent of it — about $80 billion — back into the economy by fixing up their homes and spending on other goods and services.

What has made this massive refinance boom possible? The secondary mortgage market in America and its power to provide low-cost housing finance to consumers in all places, at all times, under all economic circumstances. Everyone involved in Fannie Mae's success — including you — should be justly proud of this accomplishment, helping put the power of housing to work for both homeowners and the American economy.

The First Principles of Fannie Mae and our mission

Given Fannie Mae's unique role in the U.S. housing sector, the mortgage industry, the financial markets, and in the plans of American home buyers, it is important for us to return from time to time to what I call the First Principles of Fannie Mae: to describe to the world who we are, what we do, how we do it, what are the results, and why they are important — to you and to the country.

This back-to-basics approach is particularly relevant and useful right now as Congress considers legislation to strengthen the financial regulator of Fannie Mae and our competitors, Freddie Mac and the Federal Home Loan Banks.

Fannie Mae has made clear that we support having a strong, credible, well-funded regulator because it is in the best interests of housing, home buyers, and our company. At this writing, Congress is still working on legislation. I believe any remaining issues regarding our new regulator are bridgeable. I also believe that the best way to build that bridge (and avoid harmful unintended consequences) is to make sure that all of us — investors, regulators, legislators, and employees — have a sound understanding of the fundamentals of the secondary mortgage market.

My goal is to give you, our investors, a greater understanding of the Fannie Mae investment proposition — and to give you a framework for understanding — and explaining — the Fannie Mae public policy proposition.

Principle I: Fannie Mae is a private company with a public mission

Fannie Mae is a purpose-driven company. All that we are, all that we do, and all that we seek to become revolves around an elementary proposition: that owning a home is a defining element of the American Dream.

Franklin D. Raines
Chairman and
Chief Executive Officer

Letter to Shareholders

Fannie Mae is an instrument of national policy

In 1968, the United States Congress reaffirmed its belief in homeownership by re-chartering the Federal National Mortgage Association as a private, shareholder-owned corporation with the ability to pull in private capital from all over the world to fulfill the public purpose of promoting affordable housing and homeownership here in America.

Expanding homeownership has been an important public policy goal for over three generations. The policy manifests itself in a variety of ways (e.g., the tax code and the HUD budget) and it rests on the knowledge that homeownership is good for families, communities, the economy and thus the nation, and should be supported and encouraged.

Fannie Mae's mission is to ensure that America has a strong mortgage market, one that makes funds widely available in all communities, in all economic conditions, for lenders to lend to home buyers. Through the hard work of our employees and the capital of investors like you, we do an outstanding job of accomplishing that mission, year in and year out.

Our people are mission-driven, diverse, and values oriented

Fannie Mae's mission of expanding homeownership and affordable housing to all Americans, especially to underserved Americans, is a powerful motivating force for the approximately 5,000 Fannie Mae employees. Our high employee motivation provides an important window into Fannie Mae's success. As one Fannie Mae employee recently put it: "Everyone at Fannie Mae believes in what we do and they have such passion in what they do and how they do it … We are very driven employees who truly believe in the mission and don't want anything to get in the way of achieving that mission."

We also realized many years ago that in addition to having mission-driven employees, we needed a diverse group of employees. For us diversity is not a political luxury, it's a practical necessity given the realities of 21st century America.

Over the next two decades, the Hispanic population is expected to grow by 75 percent, the African-American population by 28 percent, and the Asian-American population by 80 percent. In short, minority families will drive the housing market. The so-called "emerging markets" of today will be the surging markets of tomorrow. For us to succeed in an increasingly diverse economy, we need a diverse set of voices, values, and points of view to help us see and serve untapped markets.

Thanks to this longstanding, corporate-wide commitment to diversity, women now make up half our work force and nearly 39 percent of our officers. About 45 percent of our employees are minorities, and minorities represent over 25 percent of our officers. Every year, our efforts in this area are given high marks by outside observers.

"Best-in-class" corporate governance and disclosure

Another defining element of our company is that we are committed to "best-in-class" corporate governance and financial disclosure practices.

As a private company with a public mission, we have a two-fold obligation: We have to demonstrate our value and integrity both to the public we serve, and to the private investors that supply the capital we raise. Before they entrust us with their money, investors need to trust Fannie Mae.

Almost four years ago, Fannie Mae adopted a series of voluntary initiatives that opened the books on our business in ways that still are not matched by other financial companies. When we announced these initiatives, Moody's called them "a new standard … for the global financial market," and said our leadership "could prove difficult for other firms to ignore, and could usher in a wave of enhanced financial risk disclosure."

After problems came to light at Enron, we quickly adopted other leading best practices, including expensing our stock options, disclosing insider stock transactions in real time, and having our CEO and CFO certify our financial statements.

In 2003, we took further steps to strengthen our leadership on corporate governance and transparency:

- We became a Securities and Exchange Commission (SEC) registrant. By completing the landmark registration of our common stock with the SEC and filing the company's Form 10 and our first 10-K, we placed Fannie Mae under the agency's oversight and disclosure requirements permanently.
- We enhanced disclosures related to our issuances of our mortgage–backed securities.
- We also adopted a stronger code of conduct for our management, employees, and board of directors, and updated our board's corporate governance policies to reflect best practices and increase the board's independence from management.

Today, we meet or exceed the requirements of the Sarbanes-Oxley Act and the New York Stock Exchange. The Corporate Library — a tough judge of corporate governance — named our board of directors the best "stakeholder board," citing "its explicit commitment to setting the standard for outstanding corporate governance." We also asked Standard & Poor's to examine and grade us. They gave us a score of 9.0 out of 10, and said that our "corporate governance practices are judged … to be at a very strong level on a global basis of comparison" and that our degree of financial disclosure is "unavailable from other, similar financial institutions."

A good measure of a company's conscience and character can be found in how the company responds when it makes a mistake. In late 2003, we discovered a series of computational errors in our application of new accounting rules for mortgage purchase commitments found in our October quarterly earnings press release. Once we discovered the mistake, we promptly announced and corrected it. We are certainly not happy that the errors occurred, but I am proud of the way we handled the situation. Fannie Mae strives to make our accounting systems 100 percent error free and we continuously review and update our processes and procedures so that we can meet and exceed the high standards of transparency and accuracy that our investors expect and deserve.

* * *

So that's who we are: a private company with a public mission of expanding opportunities for homeownership and affordable housing — one that takes our mission and high standards of integrity very seriously. Which leads to the second question to be addressed: What does Fannie Mae do?

Principle II: Fannie Mae creates a market-based housing finance system

The second principle of Fannie Mae is that we help create a market-based, consumer-oriented housing finance system. This system arose as an alternative to the bank-based system that existed before our creation, and which still exists in most countries around the world.

Some historical background is in order.

Why the secondary mortgage market was created

In the mortgage market of the 1930s, most families borrowed from their local savings and loan to buy their homes. Lending institutions relied on bank deposits to fund mortgage lending. Loan terms were less than ten years and at the end of the term, a big balloon payment would come due that included the entire remaining principal owed. When the Great Depression hit, more than 1.5 million families lost their homes — even though many never missed a mortgage payment.

Thomas E. Donilon
Executive Vice President – Law and Policy and Secretary to the Board of Directors

Daniel H. Mudd
Vice Chairman and Chief Operating Officer

Timothy Howard
Vice Chairman and Chief Financial Officer

We are a private company with a public mission of expanding opportunities for homeownership and affordable housing — one that takes our mission and high standards of integrity very seriously.

When their mortgage term expired, many simply could not obtain another mortgage from their local bank — so the bank took the house.

In response, the federal government sought to solve these problems and spur homeownership by expanding the supply of reliable long-term mortgage financing.

One of the most important innovations was the introduction by the Federal Housing Administration of the long-term, fixed-rate, and fully-amortizing mortgage. And since many financial institutions couldn't — or wouldn't — originate these mortgages or keep them on their books, the government created Fannie Mae in 1938 to provide a secondary market for these mortgages.

The creation of this market-based — as opposed to bank-based — system of mortgage financing proved to be a winning strategy for the American homeowner, making the supply of mortgage financing more dependable, making mortgages more affordable, and spurring a dramatic rise in the national homeownership rate. The creation of Fannie Mae mortgage-backed securities in the early 1980s (where lenders bring pools of mortgages to us for packaging into a security) allowed banks to further spread the risk of mortgage financing and marked an important step forward in the sophistication and impact of the secondary mortgage market.

Advantages of a market-based, consumer-oriented system

Fannie Mae is still here to deliver the most popular mortgage in history — the 30-year, fixed-rate loan — and to help make it affordable. Banks were not designed for that role. Their appetite for holding mortgages varies dramatically according to the attractiveness of other investment options available to them. They rely primarily on short-term deposits to fund mortgages; consequently they prefer to invest in relatively short-term home loans or loans with an adjustable rate. The long-term, fixed-rate, prepayable mortgage product is a perfect fit for Fannie Mae, however. Here's why.

First, we raise capital nationwide and from all over the world, from a wide range of investors. This not only vastly expands the pool of mortgage funds available, it also frees housing from local and even national economic and business cycles. Every year, Fannie Mae moves billions of dollars from international capital markets into American housing. In fact, overseas investors buy 30 percent of our debt.

Second, because we can raise capital from a wide range of investors, we can raise it in a wide range of durations, including long-term funding. That makes it possible for us to fund long-term mortgages.

We can sell callable debt to help hedge our portfolio and keep it balanced in case interest rates change and home buyers refinance their mortgages. We can also purchase financial instruments called derivatives that, in effect, synthetically transform our variable-rate debt into fixed-rate debt, and our non-callable debt into callable debt.

Fannie Mae does not trade or speculate in derivatives to make money, like many other financial firms do. As a leading expert on derivatives, Professor Christopher Culp of the University of Chicago, has written, "Not only does Fannie Mae successfully use derivatives to reduce the costs and risks of its portfolio business, but Fannie Mae also provides a textbook example for the conservative management …[and] proper disclosure of derivatives and risk management activities." In short, we use derivatives for one overriding purpose: to disperse the risk of interest rate changes so that we can fund long-term, fixed-rate mortgages that give the consumer the right to refinance at any time.

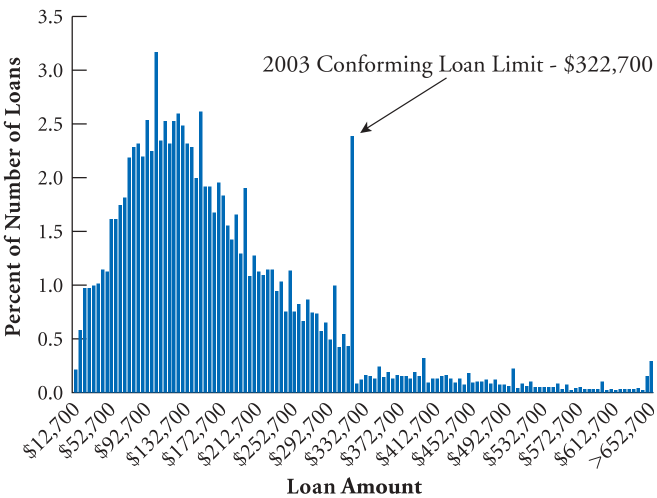
Banks, on the other hand, still typically prefer to finance short-term, floating-rate mortgages, which is why these mortgages make up over half of the jumbo market (for loans above our loan limit) but only 15 percent of our conforming market.

Seventy to 80 percent of American homeowners finance their homes with fixed-rate mortgages. Everything about our business — including the use of derivatives — is designed to handle these consumer-friendly mortgages and manage their risk.

The third advantage we provide is cost savings for consumers. The evidence can be found every week in the mortgage rate charts in most Saturday newspapers. You'll notice there that the conforming loans we finance typically cost from 25 to 50 basis points less than jumbo loans. In any given week, these savings typically run as much as $20,000 over the life of the mortgage. In 2003, it reached as high as $26,800. And in times of turmoil in the financial markets, it can go dramatically higher.

Consumers recognize the benefits we provide and act accordingly, as demonstrated by this graph:

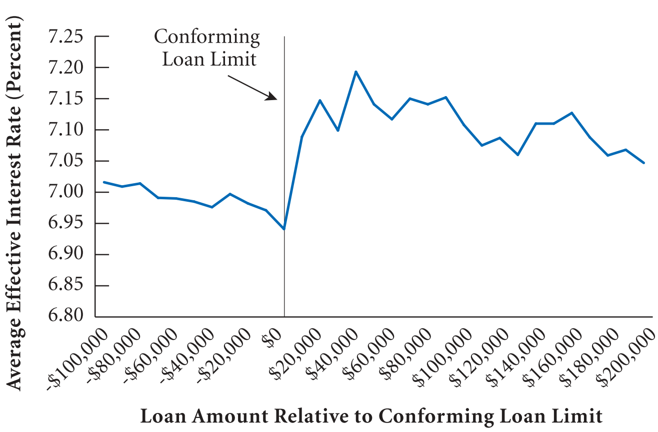
Distribution of Conventional Loans Closed for Purchase by Loan Amount in 2003



Source: Federal Housing Finance Board, *Monthly Interest Rate Survey*

This illustrates that mortgage originations rise and peak around average home prices and then fall, as homes get more expensive. But then, loan originations suddenly spike to nearly their highest levels right at our loan limit, and then fall off again right after our loan limit. Why is that? It is because buyers of more expensive homes are doing everything possible to come under the loan limit and benefit from the savings we deliver, even taking out a second smaller loan at a higher rate.

Average Annual Effective Interest Rates for 30-Year Fixed-Rate Mortgage Loans
by Loan Amount Relative to Conforming Loan Limit, 1999 – 2003



Source: Federal Housing Finance Board, *Monthly Interest Rate Survey*

How do we know that it is the loan limit and not other factors such as size or prepayment rates that make a difference? It is because the interest rate jump occurs right at the loan limit. And it always does. Each time the loan limit moves, the interest rate jump moves with it.

All of this strengthens the Fannie Mae investment proposition, because being the low-cost provider of the most popular, consumer-friendly mortgage product ever created means we can usually grow faster than the market, and we have.

How Fannie Mae lowers mortgage costs

It's clear that Fannie Mae lowers mortgage rates — but how? It starts — but does not end — with our charter.

First, our charter signifies that the government places a high value on our mission of expanding homeownership and affordable housing. In addition to having an independent financial regulator, we also have oversight from HUD, the Treasury Department, two Congressional subcommittees, and the SEC. Investors in our debt securities appreciate this oversight and charge us a little bit less for borrowing their money because of it.

Second, we can sell our debt and mortgage-backed securities in large volumes to a wide range of investors all over America and the world. That increases their value and lowers the yield we have to pay out.

Third, our charter matches our capital to our risks. While our minimum capital requirement differs from that of banks, our single asset — residential mortgages — is less risky than the wide range of assets held by banks, and our charter requires us to carry mortgage insurance on loans with less than 20 percent equity. At the same time, our risk-based capital rule insures that our capital requirement is aligned with our risk profile.

Then we take these charter benefits and add to them by keeping our credit ratings exceptionally high; our credit losses and overhead exceptionally low; our securities exceptionally liquid; our company exceptionally transparent; and our portfolio well-balanced and substantially hedged to handle interest rate changes.

All of this — our charter benefits boosted by our business practices — lowers our funding costs. So in turn, we can finance lower-cost mortgages, and still turn a profit, as our charter intends.

The international appeal of our model

The United States' market-based, consumer-oriented housing finance system is the envy of the world. Housing experts from Europe to Asia admire our ability to use private companies to attract private capital to finance homeownership.

They appreciate the advantages of affordable, consumer-friendly, long-term fixed-rate, prepayable mortgages — and how extremely rare these loans are outside of the United States.

In Canada, for example, borrowers typically receive a fixed rate only for the first one to five years, and they face a prepayment penalty equal to three months interest. In Spain only about 10 percent of the market is fixed rate.

A recent report on Britain's property market showed that more than half the homeowners surveyed would convert to a fixed-rate mortgage if the opportunity arose. Chancellor of the Exchequer Gordon Brown is reviewing whether variable-rate mortgages have contributed to housing booms and busts by exposing homeowners to interest rate swings that create sudden leaps in mortgage payments. He has a team investigating the creation of a market for long-term, fixed-rate mortgages.

At the same time, European mortgage lenders have proposed that the European Union create a new European Mortgage Finance Agency. A senior official of Japan's Government Housing Loan Corporation has stated his desire for his organization to "become more and more like Fannie Mae." And Egypt's Minister of Finance has written to us expressing his admiration of Fannie Mae as a "leader in developing the most efficient and liquid mortgage backed securities market in the world" and asking for our help in setting up a similar "mortgage securitization entity in Egypt."

I have met many such government officials and financial executives seeking to establish secondary markets in their own countries. They all ask me the same question: "How do you do it?" Let me tell you what I tell them.

Principle III: Fannie Mae uses private enterprise and private capital

The third principle of Fannie Mae is that we accomplish our mission through private enterprise and private capital. We have a fairly simple business model and we pursue a disciplined growth strategy. This allows us to deliver results to both home buyers and shareholders.

A simple business model — but complex accounting

Fannie Mae manages one principal asset, in one country, through two lines of business.

First, we have a mortgage portfolio investment business, a business we have been in since our founding in 1938. In this business, we sell debt securities to raise cash. We use that cash to purchase mortgages and mortgage-backed securities from lenders or in the open market from other investors. Then we make money from the spread. That is our net interest income.

Second, we have a mortgage credit guaranty business. In this business, lenders bring us a group of mortgages with similar characteristics, such as interest rate and loan term, having run the loans through our underwriting technology (or their own) to assess their risk of default. We package the loans into a security and guarantee the payment of the principal and interest if the loans should default. We then give the security back to the lender, which he can hold or sell on the open market at a better price because it has our guarantee. For providing our guaranty, we charge the lender a fee, which is priced principally in relation to the lifetime risk of the loans. This business produces our guaranty fee income.

The simplicity of our business model can be seen in our core business earnings, which is also simple.

We have only three revenue lines.

First, there is core net interest income from our portfolio investment business. You get this by multiplying the average investment balance by our net interest margin.

Second, there is guaranty fee income from our credit guaranty business. You get this by multiplying our average outstanding mortgage-backed securities by our average effective guaranty fee.

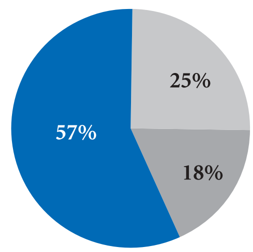
Third, there is a relatively small amount of fee and other income that we get from a variety of other services we provide, such as technology fees lenders pay us for using our automated underwriting system.

Add these three lines together, and you get our total revenue.

Our expenses are equally simple and straightforward. We have credit-related expenses — that is, the cost of managing defaulted loans and foreclosed properties. We have administrative expenses, such as salaries, buildings, processing costs, and the utility bill. On occasion, we have debt extinguishment — the cost of debt buybacks, which is part of our portfolio management.

Those are our expenses. And the difference between our revenue and our expenses is our pre-tax core business earnings.

DISTRIBUTION OF 2003 PRE-TAX CORE BUSINESS EARNINGS*



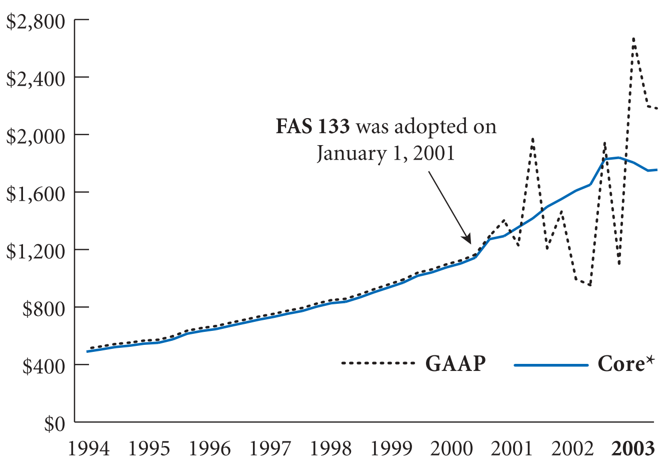
**The distribution of our reported pre-tax earnings of $10.7 billion under GAAP were: $2.8 billion (26 percent) federal income taxes; $1.8 billion (17 percent) in dividends and $6.1 billion (57 percent) in capital.*

Those pre-tax core business earnings go to three places. In 2003, for example, about 25 percent went to taxes. Over 56 percent went to increase our capital base. And the remaining 18 percent went to shareholders as dividends.

Some people look at our books and say our business and results are much more complicated than that.

But it is not the business and the results that are complicated. It is the accounting that is complicated. Under new financial accounting standards such as Financial Accounting Standard ("FAS") No. 133 and Financial Accounting Standard No. 149, we have to assign a mark-to-market value to certain aspects of our business, but not others. This leads to large unrealized gains and losses in reported GAAP results.

Fannie Mae's GAAP Net Income and Core Business Earnings
($ in millions)



**Excludes certain effects of FAS 133. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Core Business Earnings and Business Segment Results" in the Form 10-K included in this report.*

The result as you can see above is to add unrealized volatility to our reported earnings. But that volatility still averages out over time to equal our core business earnings.

Disciplined growth

Fannie Mae places a high premium on strong and consistent financial performance under all market conditions. The fact that we have been able to deliver strong results in both of the past two years, despite a soft economy and historic levels of interest rate volatility is a testament to our disciplined growth model.

Fannie Mae's disciplined growth approach brings the interests of our shareholders and the interests of home buyers into perfect alignment. By growing our earnings and providing you with a good return, we can grow our capital — which allows us to grow our business and bring the benefits of the secondary market to more families.

Our disciplined approach to growth also means that we respond to market conditions. When mortgages are attractively priced, we speed up our portfolio acquisitions, either buying whole loans or MBS. When the market does not offer the return we seek — such as when high investor demand drives up mortgage prices — we may slow our portfolio growth. However, slower portfolio growth means faster growth in our outstanding MBS owned by others. This, too, delivers a steady flow of funds to the primary mortgage market and contributes to the growth of our overall book of business.

To strengthen our financial discipline even more, in July 2003 we announced a new series of objectives. They are:

(1) to maintain a stand-alone "risk-to-the-government" credit rating from Standard & Poor's of at least AA-, and a stand-alone "bank financial strength" credit rating from Moody's of at least A-, on a scale in which A is the highest;
(2) to sufficiently capitalize and hedge our mortgage portfolio and credit guaranty business so that each is able to withstand internal or external "stress tests" set to at least AA/Aa standard; and,
(3) to keep our mortgage prepayment and credit risk low enough that over time our core business earnings are less variable than the median of all AA/Aa and AAA/Aaa companies in the S&P 500.

In addition, in our portfolio investment business, we established a tighter portfolio duration gap policy between our assets and liabilities of plus or minus six months substantially all of the time (previously, it was two-thirds of the time). During one of the most volatile interest rate movements in history, our portfolio's duration gap remained within the target range throughout the year.

Principle IV: We lead the market in our mission and our business

Having explained who we are, what we do, and how we do it, it is fair to ask, "What are the end results of our efforts?"

We expect you, our investors, to receive a fair — and in most years very attractive — return for entrusting us with your capital.

The individual homeowner receives lower mortgage costs (as discussed earlier) but also more consumer-friendly mortgage choices.

Ten years ago, for example, the typical conforming mortgage required a down payment of 10 to 20 percent, and low-down payment mortgages were considered too risky. But then we helped to standardize the 3 to 5 percent down payment loan, brought it to global capital markets, and made it available to lenders and communities nationwide. Now low-down payment loans are commonplace. And we just adopted a new variance in our underwriting standards that will make the $500 down payment loan widely available as well.

Our market leadership in mortgage technology also brings real benefit to the consumer. For example, by standardizing our automated underwriting technology and making it available to lenders nationwide, we have cut the typical loan application approval process down to a few minutes and cut approximately $1,000 off the loan origination cost. That $1,000 savings is equivalent to a huge down payment assistance program. This technology also helps smaller lenders to offer big-bank mortgage services without the big-bank overhead, expanding competition in the mortgage industry.

Bringing capital to where it would not go by itself

One of the greatest benefits of America's secondary mortgage market is its ability to pull housing capital into underserved communities. By working with a wide range of lenders and housing partners, Fannie Mae helps bring low-cost, consumer-friendly financing to people and places where it would not go by itself.

In 1994, we pledged to provide $1 trillion in capital to ten million underserved families by the end of 2000. Thanks to our housing and industry partners, we met that goal early.

Then in 2000, we launched our American Dream Commitment, a pledge to provide $2 trillion in capital to 18 million underserved families by the year 2010, including $400 billion targeted specifically for minority families (later raised to $700 billion in response to President Bush's Minority Homeownership Initiative).

After four of the strongest years in housing and mortgage finance history, we've already surpassed the top-line goals of this commitment. But our work is far from complete.

So in January 2004, we announced our Expanded American Dream Commitment and pledged significant new resources to tackle America's toughest housing challenges. Our new commitment has three main goals.

First, we will expand access to homeownership for six million first-time home buyers in the next ten years, including 1.8 million minority first-time home buyers. We also will help raise the national minority homeownership rate from 49 percent to 55 percent, with the ultimate goal of closing it entirely.

Second, we will help new and long-term homeowners stay in their homes through a series of initiatives, and commit $15 billion to preserve affordable rental housing and $1.5 billion to support the revitalization of public housing communities.

Third, we will increase the supply of affordable housing and support community development activities in at least 1,000 neighborhoods across the country through our American Communities Fund, and through targeted investments like Low-Income Housing Tax Credits that help finance affordable rental housing.

It is because of initiatives like our Trillion Dollar Commitment and our American Dream Commitment that we have exceeded our HUD affordable housing goals for ten consecutive years. And we have increased our financing of mortgages to African Americans by over 400 percent and to Hispanic Americans by 470 percent in the past ten years, compared with a 205 percent increase in overall financing. Our Expanded American Dream Commitment will help us do even more.

That leads to the last question in this discussion: "Why is what Fannie Mae does still important?"

Principle V: As the American Dream grows, so do we

Some economists have questioned whether the American Dream needs to grow anymore. They suggest that our nation is over-invested in housing. And they ask whether Fannie Mae's role in expanding homeownership is needed anymore.

The fact is, the demand for housing capital continues to grow because this country continues to grow. Based on census data, we project there will be 30 million more Americans by the end of the decade, both immigrants and native-born. Applying headship rates — that is, the rate at which population creates households — those 30 million Americans will create 13 to 15 million new households that will need a place to

Fannie Mae's disciplined growth approach brings the interests of our shareholders and the interests of home buyers into perfect alignment. By growing our earnings and providing you with a good return, we can grow our capital — which allows us to grow our business and bring the benefits of the secondary market to more families.

live. Given this growth, the home builders project a need for 1.6 million new homes to be constructed each year.

Moreover, while the national homeownership rate is above 68 percent — and nearly 76 percent for white, non-Hispanic families — slightly less than 50 percent of minority families own their homes, so there is enormous demand expected here as well. Not to mention a terrible gap in equal opportunity to close.

If you factor in the projected growth in households, homeownership rates, home purchases and debt-to-equity, we project that the demand for housing capital will double this decade, growing by an average of 8-10 percent per year and reaching $11-$14 trillion compared to $7 trillion today. That is why it is so critical for the nation to avoid steps that could reduce the supply of housing capital.

It's these types of numbers that lead us to believe that housing is set for another strong year and another strong decade. And as the nation's chief supplier of funds for American families to buy homes, Fannie Mae's prospects are also bright.

Owning a home is the best — and most available — path to building long-term financial security. We estimate that a family that put $10,000 down on a $100,000 home in 1990 would clear almost $79,000 in equity wealth today if the home merely appreciated at the national rate over that period. Meanwhile, that same $10,000 invested in an S&P 500 stock index fund would have produced only $21,000 in capital gains, and less after taxes.

In addition, according to a recent study by the Consumer Federation of America, homeownership is the main path to wealth creation for lower-income and minority families. While home equity represented 42 percent of net wealth for homeowners in general, the percentage rises to 52 percent for African Americans, 63 percent for Hispanic Americans, and 80 percent for low-income families. Thus, closing the minority homeownership gap is the best way to help close the enormous wealth gap between white and minority Americans, which totals several trillion dollars.

Conclusion

I have covered a lot of ground in this letter. I hope I've furthered your understanding of your purpose-driven company by setting forth the first principles of Fannie Mae and a cohesive picture of how they work together. In summary:

First, Fannie Mae is an instrument of the national policy that promotes homeownership because it is good for families, communities, and the nation.

Second, Fannie Mae helps create a market-based, consumer-oriented housing finance system that is designed to deliver the consumer's favorite mortgage option at an affordable price.

Third, Fannie Mae expands homeownership through private enterprise and private capital.

Fourth, Fannie Mae leads the market to expand home-ownership.

Finally, as the American Dream grows, so does Fannie Mae.

You — the shareholder — are a vital link in the long chain that leads to more families realizing that Dream. We thank you for believing in the Dream, and in us.

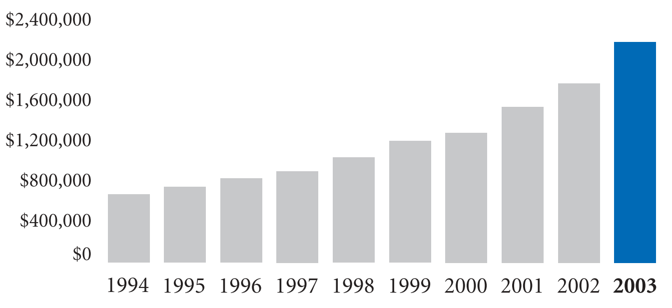
FRANKLIN D. RAINES
Chairman and Chief Executive Officer

Powered by the unprecedented demand for housing credit in America, Fannie Mae delivered exceptional growth and financial performance in 2003, while taking significant steps to further strengthen our financial and risk disciplines and to position our company for the future. Our 2003 financial results, and our performance during the past decade that you see reflected in the following exhibits, clearly demonstrate the disciplined approach to growth that continues to define our company.

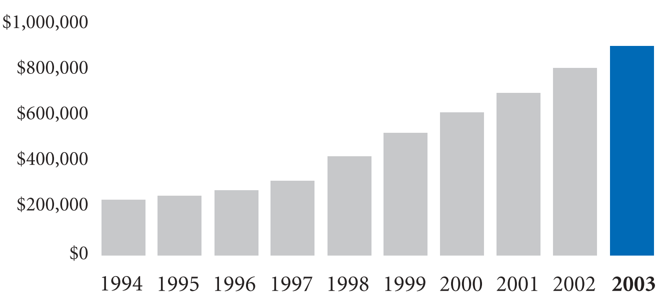
The Growth of Our Business

The tangible benefits that we deliver to the nation's homeowners have translated into strong and consistent growth in our book of business — gross mortgage portfolio plus outstanding mortgage-backed securities we guarantee that are held by other investors. During the past decade, our book of business has grown from $661 billion to nearly $2.2 trillion — representing a compound annual growth rate of approximately 13 percent. In 2003, our total book of business grew by 20.6 percent, as historically low mortgage rates spurred record refinancing activity.

Book of Business
($ in millions)



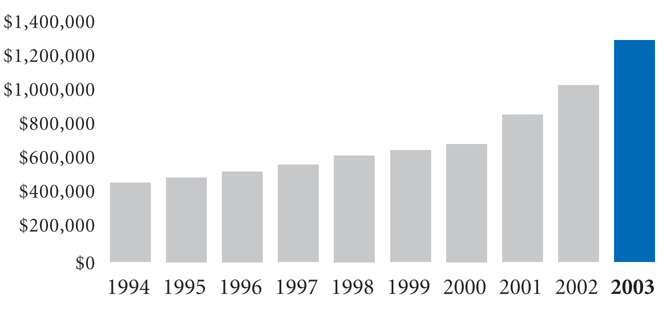
Gross Mortgage Portfolio
($ in millions)



Our gross mortgage portfolio has grown at an annualized rate of nearly 17 percent during the past decade, to approximately $898 billion at year-end 2003. We follow a disciplined approach to growing our portfolio — purchasing mortgage assets when supply is available in the market and when the spreads between mortgage yields and our funding costs are favorable. In 2003, our portfolio grew by 13.1 percent.

Our Outstanding Mortgage-Backed Securities (MBS) balance has grown at an annualized rate of nearly 11 percent during the past decade, to approximately $1.3 trillion at year-end 2003. In recent years, our balance of Outstanding MBS has grown rapidly as lower mortgage rates have spurred a tremendous wave of mortgage refinancings. In 2003, outstanding MBS grew by 26.3 percent.

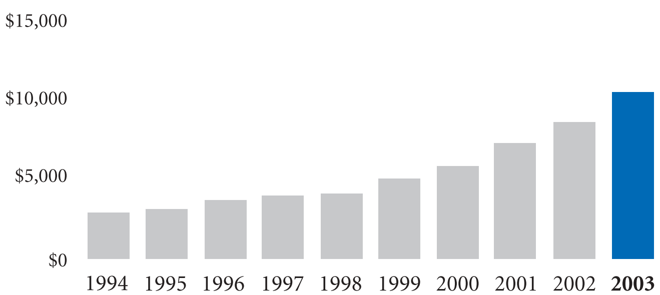
Outstanding MBS*
($ in millions)



**MBS held by investors other than Fannie Mae.*

The Drivers of Our Core Business Earnings*

Core Net Interest Income*
($ in millions)

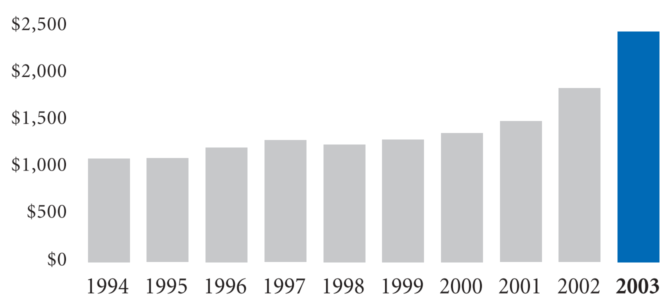


Our core net interest income has grown at an annualized rate of 15.3 percent during the past decade. In 2003, core net interest income grew by almost 20 percent to $10.5 billion. This increase was driven by a five basis point increase in Fannie Mae's net interest margin to 1.20 percent and a rise in the company's average net investment balance.

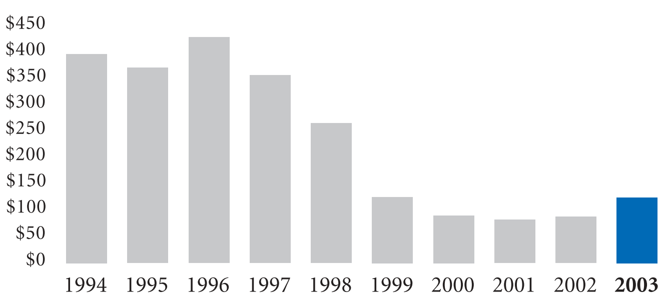
**Our core business measures are non-GAAP (generally accepted accounting principles) financial measures we use to evaluate our performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Core Business Earnings and Business Segment Results" in the Form 10-K included in this report for more information about these measures.*

Our guaranty fee income has grown at an annualized rate of 9.6 percent during the past decade. In 2003, guaranty fee income rose 32.8 percent to $2.4 billion. The increase was driven by a rise in the average effective guaranty rate and significant growth in average outstanding MBS. In 2003, Fannie Mae's average effective guaranty fee rate was 20.2 basis points.

Guaranty Fee Income
($ in millions)



Credit-related Losses
($ in millions)



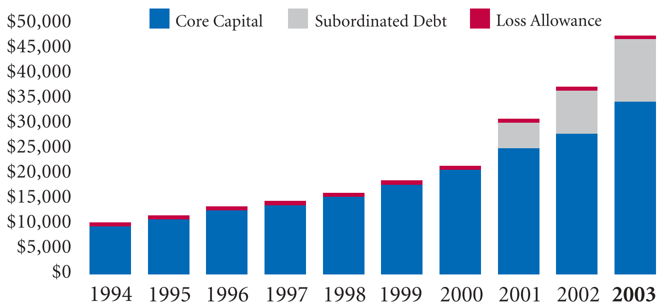
Credit-related losses remained at historically low levels in 2003, as interest rates remained low and U.S. economic growth improved. Losses in 2003 totaled $123 million, nearly one-half the total 10 years earlier thanks to the strength of the housing market, our efficient loss mitigation process, and extensive use of credit enhancements to share credit risk. As a percentage of the average mortgage credit book of business, credit-related losses were 0.6 basis points in 2003.

Our Strengthened Capital Position

Our strong capital position is a function of our core capital, allowance for losses, and outstanding subordinated debt. Core capital, which excludes the accumulated other comprehensive income component of stockholders' equity, rose to $34.4 billion at December 31, 2003. Core capital is the basis for the company's statutory minimum capital requirement. In 2003, Fannie Mae fulfilled its Voluntary Initiative to strengthen the company's capital adequacy and further assure investors that Fannie Mae is one of the best-capitalized financial institutions in the world relative to the risks we take, by completing the issuance of $12.5 billion of subordinated debt. Subordinated debt serves as an important supplement to Fannie Mae's equity capital, although it is not a component of core capital.

**Includes net unamortized outstanding subordinated debt associated with October 2000 Voluntary Initiative. Issuances prior to 2001 have been excluded.*

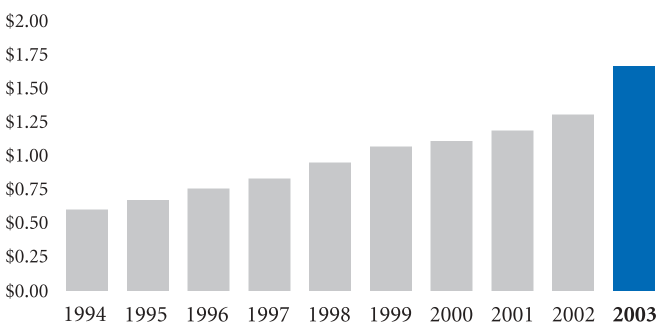
CORE CAPITAL PLUS SUBORDINATED DEBT AND LOSS ALLOWANCE*
($ in millions)



Fostering Shareholder Returns

Our first priority is to reinvest earnings so we can fulfill our mission to provide liquidity to the residential mortgage market. We also maintain a healthy cushion of capital above our minimum and risk-based capital requirements. Once those priorities are met we return capital to our shareholders through a combination of dividends and share repurchases.

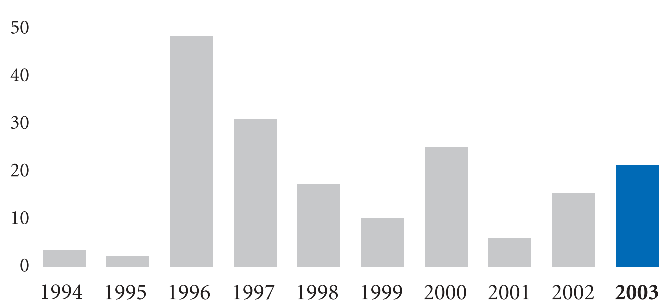
DIVIDENDS PER COMMON SHARE



Continuing our record of annual dividend increases, Fannie Mae increased the dividend on its common stock by 27.3 percent, from $1.32 in 2002 to $1.68 in 2003. This marks the 19th consecutive year in which we have increased our dividend and reflects the Board of Directors' confidence in the strength and sustainability of Fannie Mae's business performance.

Fannie Mae's Board of Directors authorized the repurchase of up to 5 percent of the total shares of common stock outstanding as of December 31, 2002. In 2003, we repurchased 21.3 million shares of common stock and expect to complete the balance of the repurchase authorization within the next two years.

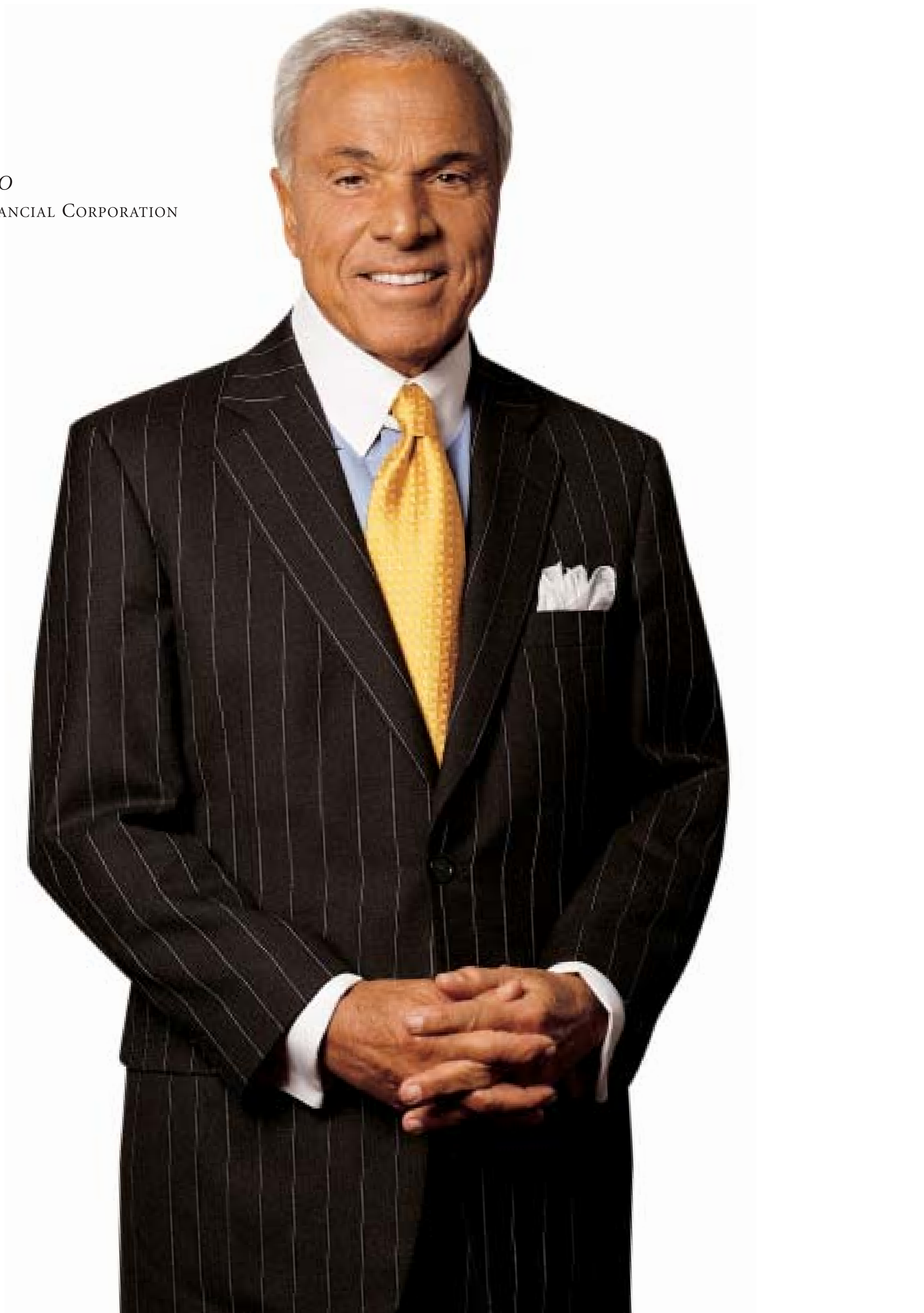
SHARE REPURCHASES
(Shares in millions)



Because of Fannie Mae's Mission.

Interviews Highlighting Our Vital Role in Housing and Homeownership

"Everybody wins if we can increase minority homeownership, so together we're taking on the challenge of getting more people into homes."



Angelo Mozilo
Chairman and CEO
Countrywide Financial Corporation

Because of Fannie Mae's Mission.

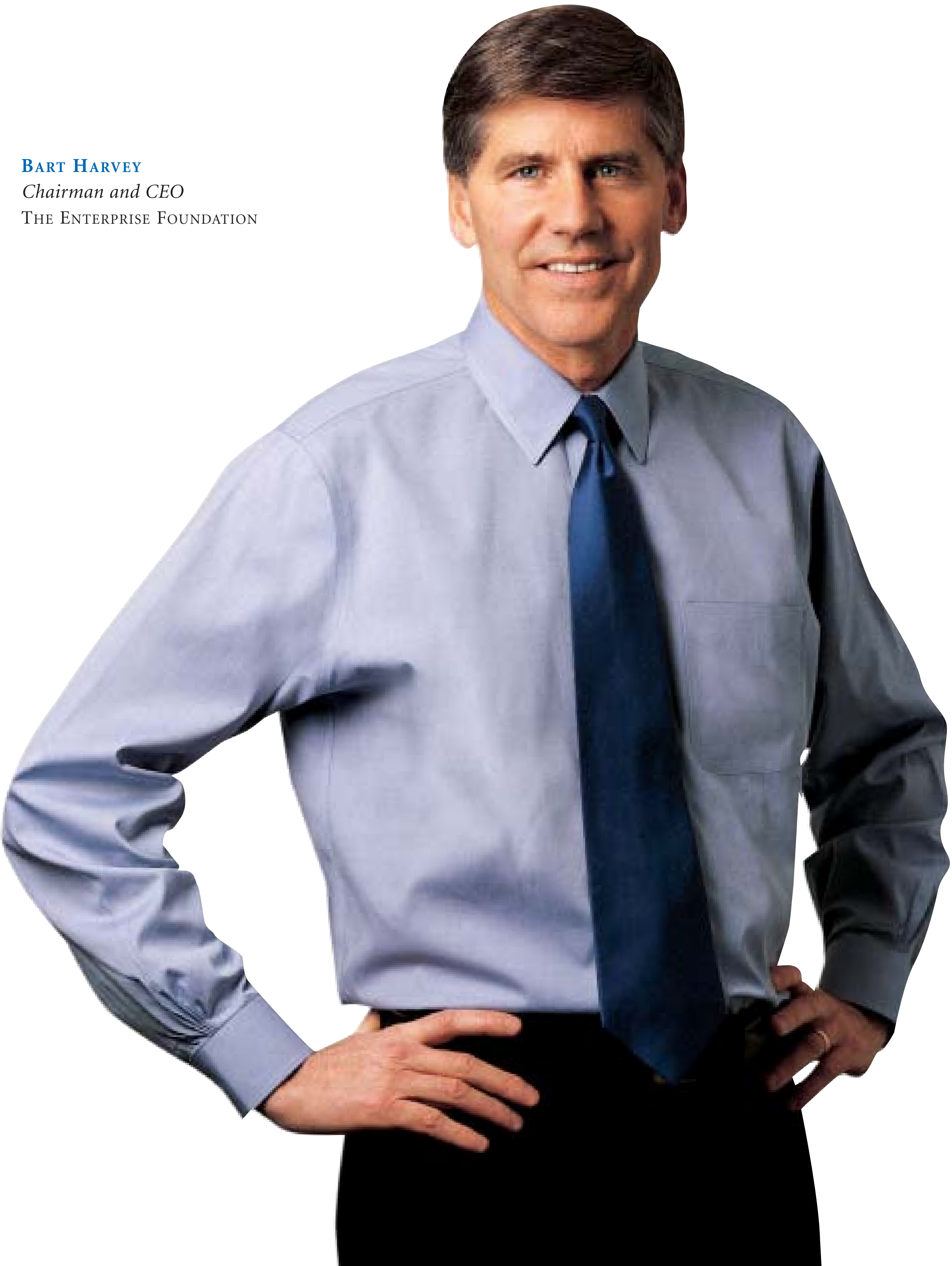
Since 1969, Countrywide has been focused on reducing the barriers to homeownership and lowering costs for borrowers. Fannie Mae shares this vision, and together we're working harder than ever before to make homeownership accessible to more Americans.

"When we started, we offered one product; today we offer 180, many designed with Fannie Mae, to make homeownership more obtainable for more people. Right now only 50 percent of minority families own homes. The task for companies like Countrywide is moving it from 50 percent to 80 percent. Fannie Mae is invaluable in helping to reach this goal. Our unifying mission is to close the gap in minority homeownership."

As Mozilo notes, "You can't quantify the emotional impact of homeownership in people's lives." So as long as there is a gap in minority and non-minority homeownership rates, Fannie Mae and Countrywide will continue to make sure all Americans have the chance to realize the dream of homeownership.

“Fannie Mae is critically important to us and to all kinds of organizations that create affordable housing.”

Bart Harvey
Chairman and CEO
The Enterprise Foundation



Because of Fannie Mae's Mission.

"The mission of the Enterprise Foundation is to help make affordable housing available for millions of Americans. There's a huge lack of affordable housing — on the order of over five million households with very low income levels alone. Add moderate- and middle-income people and it's not difficult to see the enormous strain.

That's why our partnership with Fannie Mae is so valuable. Fannie Mae goes way beyond the minimum requirements of what they have to do by saying this is a critical part of their mission and outreach — looking for every possible way and every possible partner to solve this issue of affordable housing in the country today. That is something special. It starts with Fannie Mae's leadership and with their mission.

Fannie Mae is flexible, creative, and most of all, has the willingness and commitment. Since our first partnership with Fannie Mae in 1987, together we have provided over a billion dollars in affordable rental housing to help reach those households with very low income levels.

It's a wonderful achievement — a real public/private partnership that has evolved over time, served the neediest in our country, and done in a way that everyone can be proud of. I think together, we're just beginning."

“Without Fannie Mae, we would be on the outside looking in.”

GREG ST. ETIENNE
Chief Operating Officer
LIBERTY BANK AND TRUST

Because of Fannie Mae's Mission.

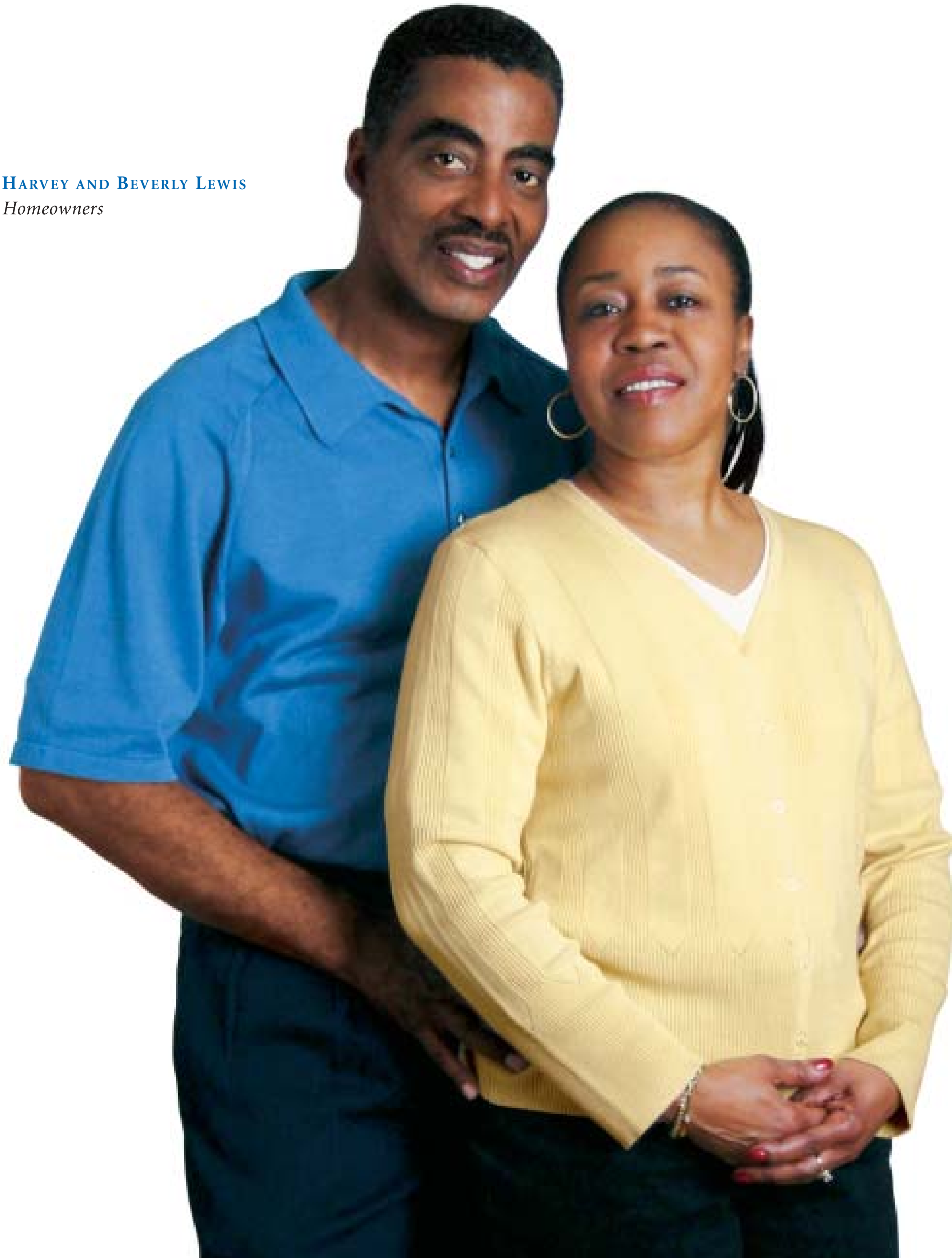
"Without Fannie Mae, we would have less credibility with our constituents because they would be getting their basic need of owning a home met by someone else. Our talk would ring hollow because we would be saying to them, we're here to help you build your economic capacity, we're here to give you support with your financial needs, yet we're not there for the largest component of your wealth building.

Fannie Mae levels the playing field and allows us to compete with larger lenders. Because of Fannie Mae we are able to help more customers with the biggest purchase of their lives. They offered technology that allowed us to be more efficient so we can handle more capacity with fewer resources.

Before Fannie Mae, using manual underwriting, we would only be able to approve 60 percent of mortgage loan applications — that was it. Today, with the aid of Fannie Mae's Desktop Underwriter, we are able to approve 80 percent of applications. DU also helps us provide borrowers with a roadmap that gives a list of things to work on, if at first we can't approve them.

At Liberty Bank, we're here to facilitate the accumulation of wealth for our customers. Fannie Mae furthers that mission because wealth building is homeownership, and that makes our job that much easier."

“The American Dream is about owning a home. Fannie Mae and our local bank helped make it possible for us.”



Harvey and Beverly Lewis
Homeowners

Because of Fannie Mae's Mission.

"We always wanted to be homeowners but were worried about the home-buying process. We didn't think we'd ever own a home. We didn't have good credit, but it wasn't real bad. Through our lender, we got a Fannie Mae product that was perfect for us. We made a low down payment and, after two years of making payments on time, we were told our interest rate would go down. And they stood by their word, because that's what happened to us."

"When we finally had the keys to our new home in our hands, Beverly started jumping up and down. Tears were coming out of her eyes. She was so happy. And I cried a little bit too," stated Harvey Lewis. "It was a dream come true. It's a wonderful feeling."

"We couldn't wait to move in," Beverly Lewis said. "In fact, we moved in the same day, even before all of our furniture was delivered, and slept on the floor that first night."

"Owning your own home — it's a feeling of accomplishment. Fannie Mae gives hope to people who want to attain the American Dream of homeownership. We're truly thankful."

“I look forward to coming to work every day because I know we make a difference.”

Edna Figueroa
Fannie Mae Employee

Because of Fannie Mae's Mission.

"I really enjoy the diversity at Fannie Mae. I think we strive to look like America — to look like the people that we serve. I see it in our workforce who are really diverse and really engaged in accomplishing our mission. I see it in the work being done with our lender partners to make sure that we create solutions that work for all different kinds of potential homeowners.

People here are very in tune with the mission, because our mission is very clear. Our mission is to develop solutions that are available to all Americans — those that are underserved, those who have been overlooked and overcharged. As an immigrant myself, I see that happening every day. It's about extending homeownership opportunities for the underserved segment — minorities, immigrants, for those that if Fannie Mae were not there, would not be able to get into a home. Without Fannie Mae, a lot of people would not have access to homeownership. For a lot of immigrants, it wouldn't feel like complete citizenship without owning a home.

It doesn't stop there. There are so many benefits associated with homeownership and that's why we work very hard in making it a reality. It is the impact that it has to our families, our communities, and to the country as a whole. So, it's not just getting into a home that's important, but all of the benefits that come along with it."

“What I do counts in helping people to get into homes of their own.”

Bill Cragg
Fannie Mae Employee

Because of Fannie Mae's Mission.

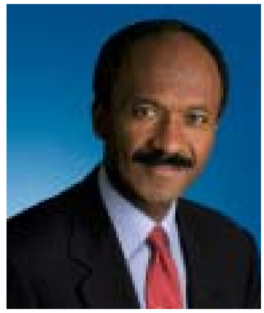
"Our mission is to help put people into homes of their own wherever they live throughout the country. We are all here as a team working to benefit people regardless of race, gender, creed, age, sexual orientation — none of that matters when you're purchasing a home. And it doesn't matter when you're working here at Fannie Mae.

Why is the work important? We feel that anybody who wants to own a home should have that opportunity. And whatever way Fannie Mae can help do that, we try. We put liquidity into the mortgage market so lenders can do their job of lending money to potential homeowners. We could not do what we do without our lender partners. They are essential to us.

Our technology has helped to streamline the entire mortgage process. What used to take weeks takes minutes now. This saves our lenders money that then lowers the cost for the borrower. One of the goals of our expanded American Dream Commitment is to help lenders reduce the cost of originating a mortgage by an additional $500 and enhancing the mortgage process to be more efficient, more effective, and more transparent for all borrowers.

If there were no Fannie Mae, there would be a lot less homeownership. It would be a privilege of the few instead of a right of us all. I'm proud of what I do because I know I am contributing to helping people get into homes."

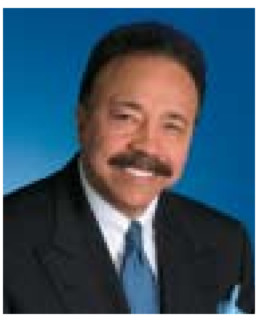
Board of Directors



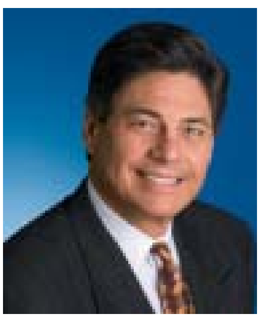
Franklin D. Raines
Chairman of the Board and
Chief Executive Officer
Fannie Mae

Daniel H. Mudd
Vice Chairman and
Chief Operating Officer
Fannie Mae

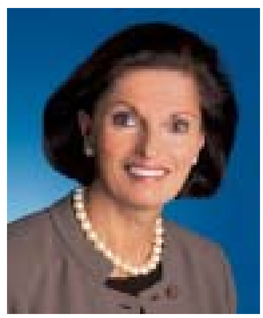
Timothy Howard
Vice Chairman and
Chief Financial Officer
Fannie Mae



William R. Harvey*
President
Hampton University
An educational institution
Hampton, Virginia

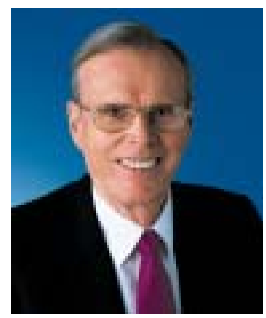


Manuel J. Justiz*
Dean, College of Education
University of Texas at Austin
An educational institution
Austin, Texas



Ann McLaughlin Korologos
Chairman Emeritus
The Aspen Institute
A nonprofit organization
Washington, D.C.

Frederic V. Malek
Chairman
Thayer Capital Partners
A private equity
investment firm
Washington, D.C.



Donald B. Marron
Chairman and
Chief Executive Officer
Lightyear Capital
A private equity
investment firm
New York, New York

Senior Management (as of March 19, 2004)

Franklin D. Raines
Chairman of the Board and
Chief Executive Officer

Daniel H. Mudd
Vice Chairman and
Chief Operating Officer

Timothy Howard
Vice Chairman and
Chief Financial Officer

Thomas E. Donilon
Executive Vice President
Law and Policy

Louis W. Hoyes
Executive Vice President
Single-Family Mortgage
Business

Robert J. Levin
Executive Vice President
Housing and Community
Development

Adolfo Marzol
Executive Vice President
Finance and Credit

Peter S. Niculescu
Executive Vice President
Mortgage Portfolio
Business

Julie St. John
Executive Vice President
and Chief Technology
Officer

Michael J. Williams
President
Fannie Mae eBusiness

Kenneth J. Bacon
Senior Vice President
Multifamily Lending
and Investment

Duane S. Duncan
Senior Vice President
Government and
Industry Relations

Robert J. Engelstad
Senior Vice President
Policy and Standards

William F. Farrell
Senior Vice President
Core Infrastructure Project

David Flaxman
Senior Vice President
eSolutions Products
and Services

J. Brian Graham
Senior Vice President
Regional Management
and Housing Partnerships

Charles V. Greener
Senior Vice President
Communications

Renie Yoshida Grohl
Senior Vice President and
Deputy General Counsel

Jeffery R. Hayward
Senior Vice President
Single-Family
Mortgage Business —
National Business Center

Vada Hill
Senior Vice President and
Chief Marketing Officer

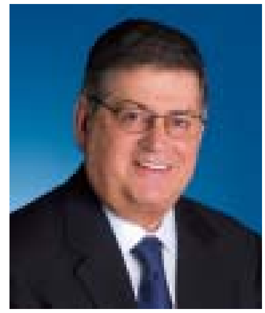
Mercy Jimenez
Senior Vice President
Strategy and
Competitive Analysis

Pamela Johnson
Senior Vice President and
Single-Family Credit Officer

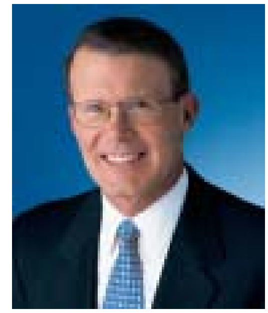
Victor H. Ashe*
Resident Fellow
Institute of Politics
Kennedy School
of Government
Harvard University
An educational institution
Cambridge, Massachusetts

Stephen B. Ashley
Chairman and Chief
Executive Officer
The Ashley Group
A group of commercial
and multifamily real
estate companies
Rochester, New York

Molly H. Bordonaro*
Principal
The Gallatin Group
A strategic consulting
and public affairs firm
Portland, Oregon



Kenneth M. Duberstein
Chairman and Chief
Executive Officer
The Duberstein Group, Inc.
An independent strategic
planning and consulting
company
Washington, D.C.



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The Wharton School
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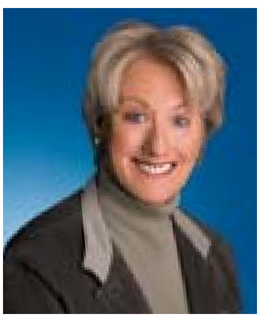

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Executive Officer
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A global document
solutions company
Stamford, Connecticut

Joe K. Pickett
Former Chairman and
Chief Executive Officer
HomeSide International Inc.
A mortgage banking company
Jacksonville, Florida

Leslie Rahl
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A financial advisory firm
New York, New York

Taylor C. Segue, III*
Howard and Howard
A law firm
Bloomfield Hills, Michigan

H. Patrick Swygert
President
Howard University
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Washington, D.C.

** Appointed by the President of the United States.*

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and General Counsel

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Richard S. Lawch
Senior Vice President
Multifamily Business
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Strategies

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Senior Vice President
Single-Family Mortgage
Business — Western
Business Center

Barry Zigas
Senior Vice President
National Community
Lending Center

Glossary

Book of business: Includes gross mortgage portfolio and outstanding MBS.

Business volume: Mortgages and mortgage-backed securities purchased for portfolio plus MBS issues acquired by other investors.

Callable debt: A debt security whose issuer has the right to redeem the security at a specified price on or after a specified date, prior to its stated final maturity.

Charge-off: The write-off of the portion of principal, interest, and selling cost due on a loan that is determined to be uncollectible.

Common stock: A security that represents ownership in a company but gives no legal claim to a definite dividend or to a return of capital.

Conventional mortgage: A mortgage loan that is not insured or guaranteed by the federal government.

Core capital: Total stockholders' equity excluding accumulated other comprehensive income (AOCI). Represents a regulatory measure of capital.

Core taxable-equivalent revenues: Total revenues adjusted to reflect the benefits of tax-exempt income and investment tax credits based on applicable federal income tax rates and the amortization of purchased options expense.

Credit loss ratio: The ratio of credit-related losses to the average mortgage credit book of business.

Credit-related expenses: The sum of foreclosed property income or expense plus the provision for losses.

Credit-related losses: The sum of foreclosed property income or expense plus charge-offs.

Debt security: A security in which the issuing company agrees to repay the principal (typically, the original amount borrowed) and make interest payments according to an agreed-upon schedule.

Default: The failure of a borrower to comply with the terms of a note or the provisions of a mortgage or contract.

Delinquency: An instance in which payment on a mortgage loan has not been made by the due date.

Derivative: A financial instrument which derives its value from an underlying index and a notional amount of principal.

Duration: The weighted-average life of the present value of a security's future cash flows. It measures the sensitivity of a security's value to interest rate changes.

Efficiency ratio: Total administrative expenses divided by total core taxable-equivalent revenues. A common method of expressing a corporation's operating efficiency.

Forbearance: The lender's postponement of legal action when a borrower is delinquent in payment. It is usually granted when a borrower makes satisfactory arrangements to bring overdue mortgage payments up to date.

Foreclosure: The legal process by which property that is mortgaged as security for a loan may be sold to pay a defaulting borrower's loan.

Gross mortgage portfolio: Unpaid principal balance of mortgages held in portfolio, excluding the effect of unrealized gains or losses on available-for-sale securities, deferred balances, and the allowance for loan losses.

Guaranty fee income: Compensation paid by a lender to Fannie Mae for the guarantee of timely payments of principal and interest to MBS security holders.

Interest rate swap: A derivative transaction between two parties in which each agrees to exchange payments tied to different interest rates or indices for a specified period of time, generally based on a notional amount of principal.

Loan servicing: The tasks a lender performs to protect a mortgage investment, including collecting monthly payments from borrowers and dealing with delinquencies.

Loan-to-value (LTV) ratio: The relationship between the dollar amount of a borrower's mortgage loan divided by the value of the property.

Loss mitigation: Activities designed to reduce either the likelihood of the corporation suffering financial losses on a loan or the final dollar value of those losses in the event of a borrower default.

Mandatory delivery commitment: An agreement that a lender will deliver loans or securities by a certain date at agreed-upon terms.

Mortgage-backed security (MBS): A Fannie Mae security that we issue and guarantee as to the timely payment of the principal and interest and represents an undivided interest in a group of mortgages. Interest payments and principal repayments from the individual mortgage loans are grouped and paid out to the MBS holders.

Mortgage-related securities: Beneficial interests in pools of mortgage loans or in other mortgage-related securities. These securities may be issued by Fannie Mae or by others.

MBS issues acquired by other investors: Lender-originated MBS issues less MBS purchased by Fannie Mae's mortgage portfolio. Also referred to as MBS issues (Formerly referred to as net MBS issues). Does not include Fannie Mae-originated MBS, which generally are immaterial and disclosed in a footnote.

Mortgage credit book of business: Mortgages and MBS we own, outstanding MBS, and other contractual arrangements or guarantees.

Multifamily housing: A building with more than four residential rental units or a group of such buildings constituting a single property.

Nonperforming asset: An asset such as a mortgage that is not currently accruing interest.

Notional principal amount: The hypothetical amount on which derivative transactions are based. The notional principal amount in a derivative transaction generally is not paid or received by either party but is the amount on which interest payments are calculated.

Option-embedded debt: Callable debt or debt instruments linked with derivatives that create effectively callable debt.

Outstanding MBS: MBS held by investors other than Fannie Mae.

Preferred stock: Stock that takes priority over common stock with regard to dividends and liquidation rights. Preferred stockholders typically have no voting rights.

Real Estate Mortgage Investment Conduit (REMIC): A security that represents a beneficial interest in a trust having multiple classes of securities. The securities of each class entitle investors to cash flows structured differently from the payments on the underlying mortgages.

Risk-based capital: The amount of capital required to absorb losses throughout a hypothetical ten-year period marked by severely adverse credit and interest rate conditions, plus an additional amount for management and operations risk.

Secondary mortgage market: The market in which residential mortgages or mortgage securities are bought and sold.

Security: A financial instrument showing ownership of equity (such as common stock), indebtedness (such as a debt security), a group of mortgages (such as MBS), or potential ownership (such as an option).

Serious delinquency: A single-family mortgage that is 90 days or more past due, or a multifamily mortgage that is two months or more past due.

Stockholders' equity: The sum of proceeds from the issuance of stock, accumulated other comprehensive income (net of tax), and retained earnings less amounts paid to repurchase common or preferred shares.

Total capital: Core capital plus the total allowance for loan losses and guaranty liability for MBS, less any specific loss allowances. Represents a regulatory measure of capital.

Underwriting: The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's ability and willingness to repay the debt, and of the value of the property.

UPB: Unpaid principal balance.

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Montana Partnership Office
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Common Stock Information (Unaudited)

About Fannie Mae Common Stock

Fannie Mae common stock (FNM) is publicly traded on the New York, Chicago, and Pacific stock exchanges.

At December 31, 2003, approximately 970 million shares were outstanding. At December 31, 2003, Fannie Mae had approximately 25,000 common shareholders of record. Based on the number of requests for proxies and quarterly reports, the corporation estimates that approximately 385,000 additional shareholders held shares through banks, brokers, and nominees.

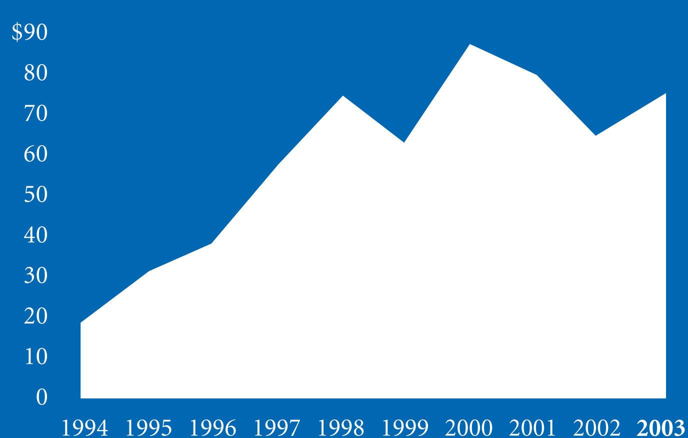
Common Stock Performance

(New York Stock Exchange Composite Price)

Quarterly stock performance data for 2003 and 2002 are provided in the following table.

	2003		2002	
Quarter	High	Low	High	Low
1st	$70.40	$58.40	$83.75	$75.08
2nd	75.84	65.30	84.10	72.00
3rd	72.07	60.11	77.55	58.85
4th	75.95	68.47	72.12	61.45

Ten-Year Common Stock Performance



Dividends

Fannie Mae considers a number of factors when reviewing its dividend policy, including available capital under applicable capital requirements, reinvestment opportunities, market expectations, and the dividend policies of other large companies with similar growth prospects. Since 1994, Fannie Mae has increased its dividend annually.

Shareholder Information

Investors can learn more about Fannie Mae by visiting *www.fanniemae.com/ir* where both current and historical financial information such as annual reports, and quarterly and monthly financials is available. The Web site includes a section for investors who are interested in Fannie Mae's current issues, Fannie Mae's executive speeches, and direct investment in Fannie Mae stock.

Another section of the site enables investors to access "Fannie Mae at a Glance," which is a presentation that provides an overview of Fannie Mae's business and our industry.

Investor questions about Fannie Mae can be e-mailed to Fannie Mae's investor relations department at *investor_relations1@fanniemae.com*. For written correspondence, contact Jayne Shontell, Senior Vice President, Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016. You also may call 202-752-7000 for more information.

Fannie Mae will provide, without charge, copies of its most recent Annual Report on Form 10-K upon request. Call 1-800-FNM-2-YOU (1-800-366-2968) for a hard copy of investor-related material.

Direct Stock Purchase Program

The DirectSERVICE™ Investment Program for Fannie Mae provides an easy and affordable alternative for current shareholders and first-time investors to invest in Fannie Mae stock.

To request program materials, visit our Web site at: *www.fanniemae.com/ir/direct*, or call 1-888-BUY-FANNIE. The DirectSERVICE Investment Program is offered and administered by Equiserve Trust Company N.A.

Transfer Agent and Registrar

Equiserve Trust Company, N.A. serves as our transfer agent and registrar. Questions from registered shareholders on dividends, lost or stolen certificates, address changes, and other account matters should be directed to Equiserve at 1-800-910-8277 or Fannie Mae Shareholder Services, c/o Equiserve Trust Company, N.A., P.O. Box 43069, Providence, RI 02940-3069.

Notice of Annual Meeting

The 2004 Annual Meeting of Fannie Mae shareholders will take place at the Park Hyatt Chicago, 800 N. Michigan Avenue, Chicago, Illinois. The meeting is scheduled for Tuesday, May 25, beginning at 10:00 a.m. (local time).

3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

*This annual report was printed in the U.S.A.
on recycled paper and is recyclable.*

FannieMae
www.fanniemae.com

Design: Schum & Associates, www.schum.com Photography: Adam Auel, Jock McDonald, Michael Grasso