Supplement dated May 15, 2001 to
Information Statement dated March 30, 2001

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae") as of March 31, 2001, and contains unaudited financial information with respect to Fannie Mae for the quarter ended March 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"). The Information Statement describes the business and operations of Fannie Mae and contains financial data as of December 31, 2000. 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 the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, D.C. 20016 (telephone: 202/752-7115). The Information Statement and any supplements can also be accessed on Fannie Mae's web site at http://www.fanniemae.com/investors.

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

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

Fannie Mae's securities are not required to be registered under the Securities Act of 1933. At the close of business on April 30, 2001, approximately 1,001 million shares of Fannie Mae's common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

The following selected financial data for the three months ended March 31, 2001 and 2000 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results expected for the entire year.

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

	2001	2000
Operating Data for the three months ended March 31:		
Operating net income(1)	$ 1,238	$ 1,062
Operating earnings per diluted common share	1.20	1.02
Total taxable-equivalent revenue(2)	2,276	1,892
Average net interest margin	1.03%	1.02%
Operating return on average realized common equity(3)	25.4	25.2
Average effective guaranty fee rate	.191	.194
Credit loss ratio(4)	.009	.009
Income Statement Data for the three months ended March 31:		
Interest income	$ 11,995	$ 9,973
Interest expense	(10,288)	(8,611)
Net interest income	1,707	1,362
Guaranty fee income	343	332
Fee and other income	27	1
Credit-related expenses	(29)	(31)
Administrative expenses	(239)	(217)
Purchased options expense(5)	(238)	—
Income before federal income taxes, extraordinary item and cumulative effect of change in accounting principle	1,571	1,447
Provision for federal income taxes	(391)	(385)
Income before extraordinary item and cumulative effect of change in accounting principle	1,180	1,062
Extraordinary item—loss on early extinguishment of debt, net of tax effect	(55)	—
Cumulative effect of change in accounting principle, net of tax effect(6)	168	—
Net income	$ 1,293	$ 1,062
Preferred stock dividends	(33)	(20)
Net income available to common stockholders	$ 1,260	$ 1,042
Basic earnings per common share	$ 1.26	$ 1.03
Diluted earnings per common share	1.25	1.02
Cash dividends per common share	0.30	0.28
Balance Sheet Data at March 31:		
Mortgage portfolio, net	$640,374	$536,992
Investments	44,102	38,325
Total assets	700,977	586,698
Borrowings:		
Due within one year	324,421	228,975
Due after one year	342,171	328,568
Total liabilities	684,891	568,327
Stockholders' equity	16,086	18,371
Core capital(7)	21,482	18,637
Other Data for the three months ended March 31:		
Dividend payout ratio	23.8%	27.3%
Ratio of earnings to combined fixed charges and preferred stock dividends(8)	1:15:1	1.17:1
Mortgage purchases	$ 58,727	$ 29,320
MBS issues acquired by others	46,850	21,467
Outstanding MBS at period-end(9)	725,685	684,684
Weighted-average diluted common shares outstanding, in millions	1,006	1,019

(1) Excludes the cumulative after-tax gain of $168 million from the change in accounting principle upon adoption of SFAS 133 on January 1, 2001 and the net of tax charge of $154 million recognized during the quarter for the change in fair value of the time value of purchased options. Includes an after-tax charge of $41 million for the amortization expense of purchased option premiums.

(2) Includes revenues net of operating losses and amortization expense of 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 fair value of the time value of purchased options. Includes amortization expense of $64 million related to option premiums.

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

(7) The sum of (a) the stated value of outstanding common stock, (b) the stated value of noncumulative 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 (ii) fixed charges. "Fixed charges" represents interest expense.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2001

Results of Operations

Fannie Mae generated record operating net income of $1.238 billion for the first quarter of 2001, a 17 percent increase over operating net income of $1.062 billion for the first quarter of 2000. Operating earnings per diluted common share (EPS) grew 18 percent to $1.20 per share in the first quarter of 2001 over the same period in 2000. Fannie Mae's operating net income for the first quarter of 2001 excludes the one-time cumulative after-tax gain of $168 million recorded January 1, 2001 upon the adoption of Financial Accounting Standard No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities,* excludes a net of tax charge of $154 million recognized during the quarter for the change in fair value of the time value of purchased options, and includes an after-tax charge of $41 million for the amortization expense of purchased option premiums. Net income for the first quarter of 2001 including these FAS 133 items was $1.293 billion and diluted EPS was $1.25 per share, compared with net income of $1.062 billion and diluted EPS of $1.02 in the first quarter of 2000.

The 17 percent increase in operating net income resulted primarily from significant growth in taxable-equivalent revenue. Fannie Mae's taxable-equivalent revenue grew 20 percent in the first quarter of 2001 over the first quarter of 2000 to $2.276 billion. Taxable-equivalent revenue is total revenue, net of operating losses and amortization expense of purchased option premiums, adjusted to include the full pre-tax value of tax-exempt income and investment tax credits based on applicable federal income tax rates. The increase in taxable-equivalent revenue was primarily attributable to growth in net interest income.

Fannie Mae's net interest income, adjusted to include the amortization expense of purchased option premiums, increased 21 percent in the first quarter of 2001 over the prior year period due to an 18 percent increase in the average investment portfolio and a one basis point increase in the net interest margin. 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 $64 million in the first quarter of 2001, is now included in the new category "purchased options expense" on the income statement as part of the change in the fair value of the time value of these options.

The following table presents an analysis of net interest income and average balances for the three months ended March 31, 2001 and 2000.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended March 31,	
	2001	**2000**
Interest income:		
Mortgage portfolio	$ 11,131	$ 9,291
Investments and cash equivalents	864	682
Total interest income	11,995	9,973
Interest expense(1):		
Short-term debt	1,815	910
Long-term debt	8,473	7,701
Total interest expense	10,288	8,611
Net interest income	1,707	1,362
Taxable-equivalent adjustment(2)	47	95
Net interest income taxable-equivalent basis	$ 1,754	$ 1,457
Average balances:		
Interest-earning assets(3):		
Mortgage portfolio, net	$622,764	$527,871
Investments and cash equivalents	55,721	44,835
Total interest-earning assets	$678,485	$572,706
Interest-bearing liabilities(1):		
Short-term debt	$129,957	$ 68,526
Long-term debt	524,433	484,659
Total interest-bearing liabilities	654,390	553,185
Interest-free funds	24,095	19,521
Total interest-bearing liabilities and interest-free funds	$678,485	$572,706
Average interest rates(2):		
Interest-earning assets:		
Mortgage portfolio, net	7.21%	7.09%
Investments and cash equivalents	6.27	6.11
Total interest-earning assets	7.13	7.01
Interest-bearing liabilities(1):		
Short-term debt	5.55	5.26
Long-term debt(4)	6.52	6.36
Total interest-bearing liabilities	6.32	6.22
Investment spread(5)	.81	.79
Interest-free return(6)	.22	.23
Net interest margin(7)	1.03%	1.02%

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

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

(3) Includes average balance of nonperforming loans of $2.2 billion and $2.5 billion for the three months ended March 31, 2001 and 2000, respectively.

(4) Includes the amortization expense of purchased option premiums of $64 million for the three months ended March 31, 2001.

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

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

(7) Consists of net interest income on a taxable-equivalent basis, less the amortization expense of purchased option premiums in the three months ended March 31, 2001, as a percentage of the average investment portfolio.

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three months ended March 31, 2001 and 2000.

Rate/Volume Analysis

(Dollars in millions)

First Quarter 2001 vs. First Quarter 2000	Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate
Interest income:			
Mortgage portfolio	$1,840	$1,694	$146
Investments and cash equivalents	182	169	13
Total interest income	2,022	1,863	159
Interest expense(2):			
Short-term debt	905	856	49
Long-term debt	772	641	131
Total interest expense	1,677	1,497	180
Net interest income	$ 345	$ 366	$(21)

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

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

Guaranty fee income increased by $11 million, or 3 percent, to $343 million, compared with $332 million in the first quarter of 2000. This increase resulted from 5 percent growth in average outstanding Mortgage-Backed Securities ("MBS"), partially offset by a decline in the effective guaranty fee rate to 19.1 basis points in the first quarter of 2001 from 19.4 basis points in the first quarter of 2000.

Fee and other income increased $26 million to $27 million in the first quarter of 2001 compared with the first quarter of 2000. The majority of the increase stemmed from growth in technology fees as loans processed through Fannie Mae's technology services in the first quarter of 2001 were more than double the number processed in the first quarter of 2000. Fee and other income includes technology fees, transaction fees, multifamily fees, as well as other miscellaneous items, and is net of operating losses from certain tax-advantaged investments.

Administrative expenses in the first quarter of 2001 increased $22 million, or 10 percent, over the first quarter of 2000 to $239 million primarily due to increased compensation costs. Fannie Mae's efficiency ratio (ratio of administrative expenses to taxable-equivalent revenue) improved to 10.5 percent for the first quarter of 2001 from 11.5 percent for the first quarter of 2000. Fannie Mae's ratio of annualized administrative expenses to the average mortgage portfolio plus average MBS outstanding (combined book of business) remained constant at .072.

During the first quarter of 2001, Fannie Mae recorded $238 million in purchased options expense under FAS 133. Purchased options expense represents the change in the fair value of the time value of purchased options from January 1, 2001 to March 31, 2001. Included in purchased options expense is $64 million in amortization expense of purchased option premiums 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 quarter to quarter; however, the net expense included in earnings during the option exercise period until the exercise date will equal the option premium paid.

Federal income tax expense, including the tax impact from extraordinary items and the cumulative effect of the change in accounting principle from the adoption of FAS 133, increased $68 million to $453 million in the first quarter of 2001 from $385 million in the first quarter of 2000. The effective federal income tax rate for the first three months of 2001 decreased to 26 percent from 27 percent for the first three months of 2000.

Fannie Mae incurred extraordinary losses of $83 million ($55 million after-tax) from the call or repurchase of debt in the first quarter of 2001. Debt called or repurchased in the first quarter of 2001 totaled $79 billion, compared with $1 billion in the first quarter of 2000. Fannie Mae had no extraordinary gains or losses from the call or repurchase of debt in the first quarter of 2000.

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

Risk Management

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

Interest Rate Risk Management

Two primary measures of interest rate risk used by the company in managing its mortgage portfolio business are portfolio net interest income at risk and effective asset/liability portfolio duration gap.

Fannie Mae's portfolio net interest income at risk measure discloses the sensitivity of Fannie Mae's net interest income to an immediate 50 basis point increase or decrease in interest rates and an immediate 25 basis point increase or decrease in the slope of the yield curve. Yield curve slope sensitivity is calculated assuming a 25 basis point flattening or steepening between one and ten-year maturities, with the five-year yield/rate held constant. Over the company's monthly reporting period, a 50 basis point change in interest rates and a 25 basis point change in the slope of the yield curve encompass approximately 95 percent of the actual changes that are likely to occur.

Net interest income at risk expresses the percentage change in projected net interest income under the more adverse of the interest rate and yield curve scenarios. 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 March 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**
March 2001	3.8%	3.2%	3.1%	4.7%

The net interest income at risk results were within Fannie Mae's expected range of 1 percent to 5 percent. A positive number indicates the percent by which net interest income could be reduced by the increased rate shock. Actual portfolio net interest income may differ from these estimates because of specific interest rate movements, changing business conditions, changing prepayments, and management actions.

The portfolio duration gap—the difference between the durations of portfolio assets and liabilities—summarizes for management the extent to which estimated cash flows for assets and liabilities are matched, on average, through time and across interest rate scenarios. A positive duration gap indicates more of an exposure to rising interest rates, and a negative duration gap indicates more of an

exposure to declining interest rates. In computing duration gap, Fannie Mae uses a modified option-adjusted duration calculation. Fannie Mae's effective duration gap was positive one month at March 31, 2001, compared to negative three months at December 31, 2000 and positive five months at March 31, 2000. Fannie Mae's duration gap target range is plus or minus six months.

Credit Risk Management

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and underlying MBS, the number of conventional properties acquired, and total net charge-offs (recoveries) for the three months ended March 31, 2001 and 2000.

	Delinquency Rate(1)		Number of Properties Acquired		Net Charge-offs/ (Recoveries)	
	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000
					(Dollars in millions)	
Single-family . . .	.44%	.45%	3,593	3,953	$(26)	$(33)
Multifamily	.05	.18	1	1	—	—
Total					$(26)	$(33)

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

Total credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, increased only $1 million in the first quarter of 2001 to $29 million compared to the first quarter of 2000. Fannie Mae's credit loss ratio—credit-related losses as a percentage of the average combined book of business—remained at 0.9 basis points in the first quarter of 2001, the same level as the first quarter of 2000.

The inventory of single-family properties held by Fannie Mae declined to 6,517 as of March 31, 2001 from 6,935 as of March 31, 2000. The inventory of multifamily properties was 5 as of March 31, 2001, compared with 2 as of March 31, 2000.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, decreased $2 million to $29 million in the first quarter of 2001 from the first quarter of 2000. A $7 million decrease in foreclosed property expenses more than offset a $5 million decline in the negative loss provision in the first quarter of 2001.

The allowance for losses increased to $810 million at March 31, 2001 from $809 million at December 31, 2000. The allowance for losses declined as a percentage of Fannie Mae's total book of business to .059 percent at March 31, 2001 from .062 percent at December 31, 2000. Nonperforming loans outstanding totaled $2.3 billion at March 31, 2001, compared with $1.9 billion at December 31, 2000.

The use of credit enhancement contracts is an important tool to provide protection against credit losses. These contracts include primary loan-level mortgage insurance, pool mortgage insurance, recourse arrangements with lenders, and customized contracts. Fannie Mae's credit risk in these contracts is that counterparties will not fulfill their contractual obligations to make payments due to Fannie Mae. At March 31, 2001, Fannie Mae was the beneficiary on primary mortgage insurance

coverage of $301 billion for single-family loans in portfolio or underlying MBS. Seven mortgage insurance companies, all rated AA or higher by Standard & Poor's, provided 96 percent of this coverage. At March 31, 2001, Fannie Mae held an estimated $39 billion in total recourse to lenders on single-family loans and 58 percent of the recourse providers were rated investment grade or higher (a rating of BBB-/Baa- or higher by Standard & Poor's and Moody's Investor Service, respectively). The recourse providers that were not investment grade or were not rated constituted 42 percent of Fannie Mae's single-family recourse exposure. Fannie Mae mitigates the risk associated with recourse transactions through various means, including requiring lenders to pledge collateral to secure their obligations.

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

Balance Sheet Analysis

Mortgage Portfolio

As of March 31, 2001, the net mortgage portfolio totaled $641 billion with an average yield (before deducting the allowance for losses) of 7.19 percent, compared with $607 billion at 7.24 percent as of December 31, 2000 and $537 billion at 7.10 percent as of March 31, 2000.

Fannie Mae purchased $59 billion of mortgages at an average yield of 6.86 percent in the first quarter of 2001, compared with $29 billion of mortgage purchases at an average yield of 7.66 percent in the first quarter of 2000. The increase in mortgage purchases was primarily due to a lower interest rate environment and the increased availability of mortgages offered for sale in the secondary market. The decline in the net mortgage portfolio yield from December 31, 2000 to March 31, 2001 was primarily due to a decrease in interest rates as conventional mortgage purchase yields fell and prepayments accelerated. Mortgage loan repayments accelerated during the first quarter of 2001 and totaled $23 billion, compared with $12 billion in the first quarter of 2000. The increase in loan repayments was primarily due to an increased level of refinance activity in a lower interest rate environment.

Mandatory commitments issued to purchase mortgages from lenders, net of commitments to sell mortgages, totaled $76 billion during the first quarter 2001, compared with $25 billion during the first quarter of 2000.

Investments

Presented below is a breakdown of the Liquid Investment Portfolio and other investments classified as held-to-maturity and available-for sale at March 31, 2001 and December 31, 2000.

Held-to-maturity investments:	March 31, 2001 Amortized Cost	December 31, 2000 Amortized Cost
Repurchase agreements	$ 7,677	$ 2,722
Asset-backed securities	5,865	9,043
Auction rate preferred stock	1,215	1,812
Federal funds	922	3,493
Eurodollar time deposits	250	4,046
Commercial paper	8	8,893
Other	2,940	3,823
Total	$18,877	$33,832

	March 31, 2001		December 31, 2000	
Available-for-sale investments:	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Asset-backed securities	$11,838	$11,838	$ 8,469	$ 8,469
Other	13,385	13,387	12,680	12,667
Total	$25,223	$25,225	$21,149	$21,136

The primary credit risk associated with investment securities is that counterparties will not repay Fannie Mae in accordance with contractual terms. The level of credit risk in the portfolio is low because these investments are primarily high-quality short-term securities. At both March 31, 2001 and December 31, 2000, 99 percent of the Liquid Investment Portfolio and other investments had a credit rating of A or higher and 100 percent had a credit rating of BBB or better.

The following table provides a breakdown of the Liquid Investment Portfolio and other investments by remaining maturity at March 31, 2001 and December 31, 2000.

	March 31, 2001 Amortized Cost	December 31, 2000 Amortized Cost
Due within 1 year	$14,700	$27,026
Due after one year	11,697	10,443
	26,397	37,469
Asset-backed securities (1)	17,703	17,512
	$44,100	$54,981

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

Financing and Other Activities

Fannie Mae's total debt outstanding increased 20 percent to $667 billion at March 31, 2001 from $558 billion at March 31, 2000. The cost of debt outstanding at March 31, 2001 decreased to 6.19 percent from 6.47 percent at December 31, 2000 and 6.27 percent at March 31, 2000. Fannie Mae's financing activities for the first three months of 2001 and 2000 are summarized below.

	Three Months Ended March 31,	
(Dollars in billions)	2001	2000
Debt issued	$ 442	$ 351
Average cost	5.44%	5.87%
Debt redeemed	$ 418	$ 341
Average cost	6.08%	5.67%

As Fannie Mae replaced debt that was called during the quarter, option-embedded debt instruments as a percentage of mortgage purchases increased in the first quarter of 2001 versus the prior year's period. The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio at March 31, 2001 and March 31, 2000. Option-embedded debt instruments include the effect of derivative financial instruments.

	Three Months Ended March 31,	
(Dollars in billions)	2001	2000
Issued during the period	$ 57	$ 14
Percentage of total mortgage purchases	97%	47%
Outstanding at end of period	$252	$258
Percentage of total net mortgage portfolio	39%	48%

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the quarter ended March 31, 2001, the balances as of March 31, 2001 and 2000, and the expected maturities of the derivative instruments outstanding as of March 31, 2001.

Derivative Financial Instruments Table (1)

(Dollars in millions)

	Generic-Pay Fixed / Receive Variable Swaps (2)			Pay Variable / Receive Fixed Swaps	Basis Swaps	Caps and Swaptions (4)	Total
	Notional	Pay Rate (3)	Receive Rate (3)				
Balance at December 31, 2000	$153,737	6.74%	6.79%	$59,174	$14,559	$ 82,528	$309,998
Additions	15,925	5.36	5.50	8,033	5,775	30,250	59,983
Maturities	3,075	6.10	6.42	12,855	425	4,200	20,555
Balance at March 31, 2001	$166,587	6.62%	5.79%	$54,352	$19,909	$108,578	$349,426
Balance at March 31, 2000	$141,199	6.56%	6.15%	$38,663	$18,144	$ 58,615	$256,621
Future Maturities (5)							
2001	$ 10,700	6.21%	5.84%	$33,061	$12,650	$ 8,620	$ 65,031
2002	19,295	5.87	5.76	8,646	6,529	28,100	62,570
2003	13,350	5.98	5.78	2,731	—	23,858	39,939
2004	11,520	7.05	5.64	325	250	6,450	18,545
2005	14,725	6.61	5.82	700	—	5,200	20,625
Thereafter	96,997	6.85	5.80	8,889	480	36,350	142,716
	$166,587	6.62%	5.79%	$54,352	$19,909	$108,578	$349,426

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

(2) Included in the notional amounts are callable swaps of $34 billion, $35 billion, and $35 billion with weighted-average pay rates of 6.67 percent, 6.67 percent and 6.65 percent and weighted-average receive rates of 5.70 percent, 6.83 percent, and 6.21 percent at March 31, 2001, December 31, 2000 and March 31, 2000, respectively.

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

(4) The notional amounts of caps and swaptions were $53 billion and $55 billion at March 31, 2001, respectively, and $29 billion and $30 billion at March 31, 2000, respectively.

(5) Based on stated maturities. Assumes that variable rates remain constant at March 31, 2001 levels.

The notional amount of other derivative financial instruments, which includes foreign currency swaps, futures contracts, and derivative instruments that simulate short sales of U.S. Treasury and agency securities to provide a hedge against interest rate fluctuations, totaled $20 billion at March 31, 2001.

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

positions via dealer quotes and internal pricing models. The exposure to credit loss for derivative instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all those derivative instruments outstanding for which Fannie Mae was in a gain position. Fannie Mae's gross exposure (taking into account master settlement agreements) was $45 million at March 31, 2001 and $182 million at December 31, 2000. Fannie Mae expects the credit exposure to fluctuate as interest rates change.

In addition, counterparties are obligated to post collateral if Fannie Mae is exposed to credit loss on the related derivative instruments exceeding an agreed-upon threshold. The amount of required collateral is based on counterparty credit ratings and the level of credit exposure. Fannie Mae generally requires overcollateralization from counterparties whose credit ratings have dropped below predetermined levels. Fannie Mae held $7 million of collateral through custodians for derivative instruments at March 31, 2001.

At March 31, 2001, over 99 percent of both the notional amount of Fannie Mae's outstanding derivative transactions and Fannie Mae's exposure on derivatives in a gain position were with counterparties rated A or better by Standard & Poor's. At March 31, 2001, eight counterparties represented approximately 86 percent of the total notional amount of outstanding derivative transactions, and each had a credit rating of A or better. At March 31, 2001, four counterparties comprised approximately 99 percent of exposure on derivatives in a gain position, and each had a credit rating of A or better.

Capital Resources & Liquidity

Fannie Mae's core capital (defined as the stated value of outstanding common stock, the stated value of outstanding noncumulative perpetual preferred stock, paid-in capital, and retained earnings) increased to $21.5 billion at March 31, 2001 from $20.8 billion at December 31, 2000 and $18.6 billion at March 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.

Upon adoption of FAS 133 on January 1, 2001, Fannie Mae recorded a $3.9 billion reduction in AOCI. The $3.9 billion reduction in AOCI was attributable primarily to recording derivatives, mostly interest rate swaps used as substitutes for non-callable debt, that qualify as cash flow hedges on the balance sheet at their fair values. FAS 133 requires that entities mark-to-market derivatives that qualify as cash flow hedges through AOCI, 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 recorded a $1.7 billion reduction to AOCI during the first quarter of 2001 primarily related to a decline in the fair value of derivatives used as cash flow hedges.

Fannie Mae had approximately 1 billion common shares outstanding as of March 31, 2001, compared with 999 million common shares outstanding as of December 31, 2000. Pursuant, in part, to the capital restructuring program described in the Information Statement under "MD&A—Balance Sheet Analysis—Liquidity and Capital Resources," Fannie Mae repurchased 1.0 million common shares at a weighted-average cost of $75.10 and issued 2.6 million common shares for employee and other stock compensation plans. At March 31, 2001, preferred stock made up 8.9 percent of Fannie Mae's core capital. On April 6, 2001, Fannie Mae issued 8.0 million shares of 5.81 percent noncumulative preferred stock, Series H, with a stated value of $50 per share, redeemable on or after April 6, 2006.

On April 17, 2001, the Board of Directors approved a dividend for the quarter ended March 31, 2001 of $.30 per common share; dividends of $.81250 per Series B preferred share, $.80625 per Series C preferred share, $.65625 per Series D preferred share, $.63750 per Series E preferred share,

$.7869 per Series F preferred share, and $.7529 per Series G preferred share for the period from and including March 31, 2001, to but excluding June 30, 2001. A dividend of $.6778 per Series H preferred share was approved for the period from and including April 6, 2001, to but excluding June 30, 2001.

On May 8, 2001, Fannie Mae issued $1.5 billion of subordinated debt that received ratings of Aa2 from Moody's Investors Service and AA− from Standard & Poor's. Subordinated debt serves as an important supplement to Fannie Mae's equity capital, although it is not a component of core capital. Over the next three years, Fannie Mae intends to issue sufficient subordinated debt to bring the sum of total capital and outstanding subordinated debt to at least 4 percent of on-balance-sheet assets, after adjusting for capital required to support the off-balance-sheet mortgage securities business.

As discussed in the Information Statement under "Government Regulation and Charter Act" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Environment," Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of March 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 liquid investments were 6.3 percent of Fannie Mae's on-balance-sheet assets at March 31, 2001.

Mortgage-Backed Securities

Total MBS increased 13 percent to $1.099 billion at March 31, 2001 from $976 billion at March 31, 2000. Total lender originated MBS issues increased to $83 billion during the first three months of 2001 from $39 billion in the first three months of 2000 due to a decrease in interest rates and growth in mortgage originations. REMIC issuances were $9 billion in the first quarter of 2001, compared with $8 billion in the first quarter of 2000.

The following table summarizes MBS activity for the three months ended March 31, 2001 and 2000.

Summary of MBS Activity

(Dollars in millions)

	Lender Originated Issues (1)			Total MBS (1)		
Three Months Ended March 31,	**Lender or Shared Risk**	**Fannie Mae Risk**	**Total**	**Lender or Shared Risk (2)**	**Fannie Mae Risk**	**Total (3)**
2001	$4,281	$78,777	$83,058	$217,782	$881,267	$1,099,049
2000	5,253	33,510	38,763	210,686	765,129	975,815

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

(2) Included in lender or shared risk are $169 billion and $165 billion at March 31, 2001 and 2000, respectively, on which the lender or a third party agreed to bear default risk limited to a certain portion or percentage of the loans delivered and, in some cases, the lender has pledged collateral to secure that obligation.

(3) Included are $373 billion and $291 billion at March 31, 2001 and 2000, respectively, of Fannie Mae MBS held in portfolio.

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

RECENT LEGISLATIVE DEVELOPMENTS

In April 2001, U.S. Representative Richard Baker (R-La) introduced a bill, H.R. 1409, that contains many of the same provisions proposed in H.R. 3703 introduced by Representative Baker in March 2000. Among other things, the bill proposes transferring regulatory authority over Fannie Mae and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) to the Board of Governors of the Federal Reserve System, requiring prior approval of an expanded range of new activities and eliminating the exemption of Fannie Mae and Freddie Mac from the registration and reporting provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. Management does not believe that final action will occur on the bill in its current form.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of March 31, 2001 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three-months ended March 31, 2001 and 2000. These condensed financial statements are the responsibility of Fannie Mae's management.

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

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

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

KPMG LLP

Washington, D.C.
April 16, 2001

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

	Three Months Ended March 31,	
	2001	2000
	(Dollars in millions, except per common share amounts)	
Interest income	$ 11,995	$ 9,973
Interest expense	(10,288)	(8,611)
Net interest income	1,707	1,362
Guaranty fee income	343	332
Fee and other income	27	1
Credit-related expenses	(29)	(31)
Administrative expenses	(239)	(217)
Purchased options expense	(238)	—
Income before federal income taxes, extraordinary item and cumulative effect of change in accounting principle	1,571	1,447
Provision for federal income taxes	(391)	(385)
Income before extraordinary item and cumulative effect of accounting change	1,180	1,062
Extraordinary item—loss on early extinguishment of debt, net of tax effect	(55)	—
Cumulative effect of change in accounting principle, net of tax effect	168	—
Net income	$ 1,293	$ 1,062
Preferred stock dividends	(33)	(20)
Net income available to common stockholders	$ 1,260	$ 1,042
Basic earnings per common share:		
Earnings before extraordinary item and cumulative effect of change in accounting principle	$ 1.15	$ 1.03
Extraordinary loss	(.06)	—
Cumulative effect of change in accounting principle	.17	—
Net earnings	$ 1.26	$ 1.03
Diluted earnings per common share:		
Earnings before extraordinary item and cumulative effect of change in accounting principle	$ 1.14	$ 1.02
Extraordinary loss	(.06)	—
Cumulative effect of change in accounting principle	.17	—
Net earnings	$ 1.25	$ 1.02

CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 2001	December 31, 2000
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$640,734	$607,399
Investments	44,102	54,968
Other assets	15,622	12,705
Derivatives in gain positions	519	—
Total assets	$700,977	$675,072
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	$324,421	$280,322
Due after one year	342,171	362,360
Other liabilities	11,223	11,552
Derivatives in loss positions	7,076	—
Total liabilities	684,891	654,234
Stockholders' equity		
Accumulated other comprehensive income (loss)	(5,396)	10
Core capital	21,482	20,828
Total stockholders' equity	16,086	20,838
Total liabilities and stockholders' equity	$700,977	$675,072

See Notes to Interim Financial Statements

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

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
	(Dollars in millions)	
Balance, beginning of period	$20,838	$17,629
Comprehensive income:		
Net income	1,293	1,062
Other comprehensive income, net of tax effect:		
Transition adjustment from the adoption of FAS 133	(3,973)	—
Unrealized gain on securities transferred to available-for-sale upon adoption of FAS 133	86	—
Cash flow hedging losses	(1,726)	—
Unrealized gains (losses) on securities	207	(20)
Total comprehensive income	(4,113)	1,042
Dividends	(333)	(304)
Shares repurchased	(77)	(716)
Preferred stock (redeemed)issued	(375)	683
Treasury stock issued for stock options and benefit plans	146	37
Balance, end of period	$16,086	$18,371

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
	(Dollars in millions)	
Net cash provided by operating activities	$ 2,837	$ 2,941
Cash flows from investing activities:		
Purchases of mortgages	(58,705)	(28,576)
Proceeds from sales of mortgages	2,573	2,718
Mortgage principal repayments	23,569	11,840
Net decrease in investments	10,866	1,426
Net cash used in investing activities	(21,697)	(12,592)
Cash flows from financing activities:		
Proceeds from issuance of debt	438,420	349,280
Payments to redeem debt	(418,713)	(341,304)
Other	(655)	(302)
Net cash provided by financing activities	19,052	7,674
Net (decrease) increase in cash and cash equivalents	192	(1,977)
Cash and cash equivalents at beginning of period	617	2,099
Cash and cash equivalents at end of period	$ 809	$ 122

See Notes to Interim Financial Statements

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation

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

Accounting Change

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

Fannie Mae uses cash flow hedges to hedge its exposure to the variability in cash flows related to anticipated debt issuances and the issuance of its Discount Notes. At March 31, 2001, the maximum length of time that Fannie Mae was hedging anticipatory issuances of fixed-rate debt was 53 days. Changes in the fair value of derivatives designated as and qualifying as cash flow hedges are deferred in other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the hedged debt obligations take place. Derivative instruments used as cash flow hedges include, but are not limited to, pay-fixed interest rate swaps and swaptions, caps, simulated short sales of US Treasury securities, and futures contracts. Only changes in the intrinsic value of the options contracts (i.e., pay-fixed swaptions and caps) are deferred in other comprehensive income. Changes in the time value of the option contracts are marked-to-market through current earnings as purchased options expense.

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

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

Line of Business Reporting

The following table sets forth Fannie Mae's operating net income, which excludes the effect of FAS 133 items, by line of business for the three months ended March 31, 2001 and 2000. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

Three Months Ended March 31,	2001 Portfolio Investment	2001 Credit Guaranty	2001 Total	2000(1) Portfolio Investment	2000(1) Credit Guaranty	2000(1) Total
	(Dollars in millions)					
Net interest income	$1,534	$ 173	$1,707	$1,234	$ 128	$1,362
Guaranty fee income	(264)	607	343	(244)	576	332
Fee and other income (expense)	35	(8)	27	19	(18)	1
Credit-related expenses	—	(29)	(29)	—	(31)	(31)
Administrative expenses	(72)	(167)	(239)	(62)	(155)	(217)
Purchased options expense	(64)	—	(64)	—	—	—
Federal income taxes	(335)	(117)	(452)	(271)	(114)	(385)
Extraordinary item—loss on early extinguishment of debt (net of tax effect)	(55)	—	(55)	—	—	—
Operating net income	$ 779	$ 459	$1,238	$ 676	$ 386	$1,062

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

The Portfolio Investment line of business represented $689 billion, or 98 percent of total assets, at March 31, 2001 and $576 billion, or 98 percent of total assets, at March 31, 2000.

Commitments and Contingencies

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

	March 31, 2001
	(Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 36
Lender option(1)	2
Average net yield on mandatory delivery	6.77%
Master commitments:	
Mandatory delivery(2)	$ 17
Lender option	7
Other investments	2

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

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

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

	March 31, 2001
	(Dollars in billions)
Total MBS(1)	$1,098
Amount for which Fannie Mae has primary foreclosure loss risk(2)	881
Credit enhancements	9
Other guarantees	5

(1) Includes $373 billion of MBS held in portfolio and is net of $607 million in allowance for losses.

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

Computation of Earnings per Common Share

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

	Three Months Ended March 31,			
	2001		2000	
	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)			
Net income before extraordinary loss and cumulative effect of change in accounting principle	$1,180	$1,180	$1,062	$1,062
Less: Extraordinary loss	(55)	(55)	—	—
Cumulative effect of change in accounting principle	168	168	—	—
Preferred stock dividends	(33)	(33)	(20)	(20)
Net income available to common stockholders	$1,260	$1,260	$1,042	$1,042
Weighted average common shares	1,000	1,000	1,013	1,013
Dilutive potential common shares(1)	—	6	—	6
Average number of common shares outstanding used to calculate earnings per common share	1,000	1,006	1,013	1,019
Earnings per common share before extraordinary item and cumulative effect of change in accounting principle	$ 1.15	$ 1.14	$ 1.03	$ 1.03
Net earnings per common share	1.26	1.25	1.02	1.02

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

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