Introducing Fannie Mae
This brochure provides an introduction to Fannie Mae and is for general information purposes only. This brochure is neither an offer to sell nor a solicitation of an offer to buy any Fannie Mae security mentioned herein, or any other Fannie Mae securities. Fannie Mae securities are offered only by offering documents available through qualified securities dealers.

This document may not be passed on to any person in the United Kingdom, unless that person is of a kind described in Article 11(3) of the Financial Services Act of 1986 (Investments) (Exemptions) Order 1996 or is a person to whom this document may otherwise lawfully be issued or passed on.
Fannie Mae is America’s largest source of financing for conventional home mortgages, as well as the nation’s largest non-bank financial services company in terms of assets under management. After the U.S. Treasury, Fannie Mae is one of the largest issuers of debt in the United States.

Fannie Mae’s mission is to help make the dream of homeownership a reality for more American families. For more than 60 years, Fannie Mae has pursued its mission by providing financial products and services that increase the availability and affordability of mortgage credit for low-, moderate-, and middle-income Americans.
Importance of housing in the United States

The greatest aspiration of most Americans continues to be the ownership of their own homes. Considering the importance of housing in the United States, Fannie Mae's role is invaluable.

The importance of housing in the United States is deeply underscored by the support — both explicit and implicit — of the U.S. government.

In the United States, housing has been given favorable tax treatment. Traditionally, real estate taxes and mortgage interest payments have been tax deductible. Homeowners also have enjoyed special tax benefits on home sale profits if certain criteria are met. This favorable tax treatment has encouraged homeownership.

In addition, specialized entities were established whose sole mission is to provide funds for housing and to support housing through insurance and guaranty programs.

In a step aimed at increasing the corporation's role in addressing unmet housing needs, Fannie Mae created the National Housing Impact Division. This division is responsible for achieving aggressive housing impact goals that Fannie Mae has set and increasing the pace and volume of Fannie Mae's innovation of housing impact products.

In 1994, Fannie Mae announced a Trillion Dollar Commitment to provide $1 trillion to finance over ten million homes for families and communities most in need through the end of the decade. This targeted housing finance will serve:

* families with incomes below the median for their area
* minorities and new immigrants
* families who live in central cities and distressed communities
* people with special housing needs

As we approach the 21st century, Fannie Mae's Trillion Dollar Commitment is transforming the nation's housing finance system. Fannie Mae continues to reach out to renters in America to provide the information they need to buy a home; to break down arbitrary barriers to getting a home mortgage; and to focus its primary resources on eliminating lending discrimination in the housing finance industry.
Introducing Fannie Mae

Fannie Mae has been helping finance mortgages for more than 60 years and was created to bring stability to the U.S. housing market. In 1968, Fannie Mae became a privately owned and managed corporation listed on the New York Stock Exchange. By law, the company can only deal in home mortgages and Fannie Mae’s primary focus is on mortgages for low- and moderate-income families.

The corporation has an 18-member board of directors. Thirteen of its directors are elected by the shareholders, and the remaining five are appointed by the President of the United States.

In 1992, the President of the United States signed major legislation to modernize the regulatory framework applicable to the corporation. Regulatory responsibility was given to a newly-created Office of Federal Housing Enterprise Oversight (OFHEO) within the Department of Housing and Urban Development (HUD). The new law ushered in a new era of modernized capital standards and ambitious housing goals for Fannie Mae.

Fannie Mae’s home office is located in Washington, DC. Day-to-day contact with customers, who are primary mortgage lenders in the United States, is handled from five regional offices located in Atlanta, Chicago, Dallas, Pasadena, and Philadelphia. Overall, Fannie Mae employs approximately 3,900 people.

As part of Fannie Mae’s effort to develop and implement more effective partnerships with each city, local community groups, nonprofit housing organizations, and lenders, Fannie Mae has opened more than 33 Partnership Offices throughout the country and will have 44 by the end of 1999. These offices put Fannie Mae close to the communities and individuals it serves.

Fannie Mae is committed to serving the housing industry. The corporation accomplishes this mission by operating in the secondary, rather than the primary, mortgage market. Limited by its charter to the residential mortgage market, Fannie Mae purchases mortgage loans from primary lenders such as mortgage companies, savings institutions, and commercial banks, thereby replenishing those institutions’ supply of mortgage funds. Fannie Mae purchases loans insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA), conventional mortgage loans, multifamily mortgage loans, and second mortgage loans. Fannie Mae either packages these loans into Mortgage-Backed Securities (MBS), which it then guarantees and sells to investors, or retains the mortgages in its portfolio.

Fannie Mae obtains the funds to finance its loan purchases and other business activities by borrowing in the capital markets — both in the United States and overseas. The corporation offers its products to a diverse group of investors, expanding the total amount of funds available for housing in the United States.

Fannie Mae has burgeoned into the nation’s largest investor in home mortgages today, providing home financing for more than 30 million American families. The corporation currently owns in its portfolio, or holds in trust for investors, one out of every five mortgages in the United States.

Fannie Mae’s mission is to help make the dream of homeownership a reality for more American families.
Residential mortgage loans are originated in transactions between home buyers and mortgage lenders in the primary mortgage market. Historically, savings institutions, mortgage companies, and commercial banks have been the primary providers of mortgage capital.

The money that savings institutions and commercial banks use to make mortgage loans comes largely from deposits and the secondary market. Mortgage companies, however, rely exclusively on outside sources of funds in originating mortgage loans.

From the 1930s until the 1970s, a typical mortgage loan originated in the primary market was a long-term (30-year), fixed-rate instrument that amortized the principal balance over the life of the loan. New mortgage instruments were introduced in the late 1970s to help home buyers in an environment of high inflation and fluctuating interest rates. These instruments usually have adjustable interest rates or graduated payment schedules, or a combination of these two features.

The secondary mortgage market plays a vital role in U.S. housing finance by providing support to primary mortgage lenders. Lenders who originate loans in the primary mortgage market may either hold these loans in their portfolios or sell them in the secondary mortgage market. By selling their loans into the secondary market, lenders obtain additional funds with which to make more loans to home buyers.

Several institutions in the secondary mortgage market are key players in helping to make housing available for all Americans. In addition to Fannie Mae, these institutions include the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

The secondary mortgage market helps to accomplish the following important housing objectives:
- correcting interregional imbalances of mortgage credit within the United States by making funds available to capital deficient areas of the country to finance new mortgage originations;
- allowing lenders to originate mortgages for sale rather than portfolio investment; and
- standardizing mortgage loans, thereby attracting investors who traditionally have not invested in the primary market, thus further strengthening this market.

Secondary market institutions can either hold the mortgages they buy from lenders, or they can package the loans into mortgage-backed securities (MBS). Increasingly, there is a trend toward securitization that is demonstrated by the growth of the MBS market since the early 1980s. At that time, the market stood at less than $100 billion MBS outstanding. This market continues to expand each year and is currently over $1 trillion MBS outstanding.

Fannie Mae provides financing for one out of every five mortgages in the United States.
Fannie Mae is a leader in the secondary market in terms of mortgages purchased for its portfolio and for securitization. Until 1981, Fannie Mae held in its portfolio most of the mortgages it purchased from primary lenders. To fund these purchases, Fannie Mae would issue debt directly in the capital markets.

In 1981, Fannie Mae began to issue and guarantee MBS. Since that time, Fannie Mae has become a leader in the complex and fast-changing mortgage markets by introducing many innovative mortgage products.

Traditionally, Fannie Mae purchased mostly fixed-rate mortgages. The company has since increased our purchases of longer-term mortgages, including adjustable-rate mortgages (ARMs), and intermediate-term, second, and multifamily mortgages. A portfolio of mortgages diversified by structure and geography has permitted Fannie Mae to reduce both interest rate and credit risk in its mortgage investments.

**Asset/liability management process**

To reduce the risks of fluctuating interest rates on financial performance, Fannie Mae has implemented an aggressive strategy of managing the maturities and repricing characteristics of the corporation's assets and liabilities. This has been achievable using a variety of asset and liability tools including the issuance of callable debt. The issuance of MBS also creates an income source without the debt refinancing risk that can occur with portfolio investing activities.

Fannie Mae's major sources of income come from its two businesses — its mortgage portfolio investments and the guaranty fees on its MBS.

**Mortgage portfolio investments**

The corporation purchases mortgages throughout the United States from approved mortgage lenders. The income from this business is derived from the difference, or spread, between the yield on the mortgage loans and the borrowing costs to fund the investments.

**MBS guaranty fees**

Approved lending institutions also can assemble groups — or pools — of mortgage loans. Instead of purchasing mortgage loans for its portfolio, Fannie Mae reviews the quality of the loans and then issues securities backed by such loans. The corporation provides a 100 percent guaranty of timely payment of interest and principal to the purchaser of the MBS.

**Technology services**

Fannie Mae offers various services to lenders and others for a fee. These include issuing certain types of MBS and providing technology services for originating and underwriting mortgage loans.
Fannie Mae's securities

Fannie Mae issues a variety of securities: common and preferred stock, mortgage-backed securities, and debt securities.

Fannie Mae common stock
Fannie Mae is a privately managed corporation, owned by its shareholders and included in the Standard & Poor's 500 Index. Its stock is among the most actively traded on the New York Stock Exchange, and is listed on the Chicago and Pacific stock exchanges. Fannie Mae stock outstanding consists of a single class of common stock and four preferred issues. For additional information, please call 1-800-FNM-2YOU (1-800-366-2968).

Mortgage-backed securities (MBS)
Fannie Mae began issuing MBS in 1981. Fannie Mae issues a variety of MBS products. The corporation's mortgage-related products are described in the applicable prospectus or Prospectus Supplement relating thereto. Investors should review such disclosure documents before making any investment decisions. For additional information, please call 1-800-BESTMBS (1-800-237-8627).

- **Standard MBS** — Issued in book-entry form, standard MBS are pass-through securities backed by pools of fixed-rate mortgage loans from lenders. Fannie Mae passes through to investors on a timely basis payments of principal and interest at the applicable pass-through rate, whether or not the payments are received by the corporation, as well as any unscheduled principal payments known as prepayments. The market for standard MBS is very liquid. Large volumes of MBS trade, and investors enter into reverse repurchase agreements daily. Although standard MBS have stated maturities of 10 to 30 years, the average weighted life of these securities can be substantially shorter, taking into account prepayment speeds. Large pool sizes are available through Fannie Majors and Fannie Megas products.

- **Seven-Year Balloon MBS** — The Seven-Year Balloon MBS, issued in book-entry form, is backed by a pool of balloon mortgage loans that are amortized on a 30-year schedule, but carry a maximum term of seven years. The Fannie Mae Seven-Year Balloon Mortgage offers the homeowner an option to refinance the note at the end of the seven-year term. Fannie Mae guarantees timely payment of interest and full payment of principal by the end of seven years.

- **Fifteen-year MBS** — A fifteen-year MBS is backed by a pool of 15-year mortgage loans. A fifteen-year mortgage loan offers homeowners the opportunity to finance their home purchases in a shorter time frame and to build equity in their homes more quickly than with a 30-year mortgage loan.
• Twenty-year MBS — Twenty-year MBS are backed by a pool of 20-year mortgage loans. A 20-year mortgage loan is designed to provide borrowers with increased flexibility to tailor their mortgage loan to their particular needs.

• Thirty-year MBS — A thirty-year MBS is backed by a pool of 30-year mortgage loans. Traditionally, 30-year mortgage loans have provided many consumers the opportunity to own their own homes, either as a first time purchase or upgrading to a larger home.

• Adjustable-Rate Mortgage (ARM) MBS — Issued in book entry form, ARM MBS are pass-through securities backed by pools of mortgages that bear interest rates that adjust periodically at specified intervals. The monthly pass-through rate on an ARM MBS varies with the adjustments to the rates of an index on the loans in the underlying pool of mortgages.

A variety of indices are regularly used in Fannie Mae’s ARM MBS product line: Weekly Average One-, Three-, and Five-Year Constant Maturity U.S. Treasury (CMT) Securities, Federal Home Loan Bank 11th District Cost-of-Funds Index (COFI), and ARM securities indexed off of the six-month LIBOR.

• Stripped MBS (SMBS) — MBS pass-throughs serve as the foundation for several securities with innovative structures, including Stripped Mortgage-Backed Securities (SMBS). Introduced by Fannie Mae in July 1986, SMBS are securities in which interest and principal payments on a pool of mortgages are divided and restructured into separately traded securities. With SMBS, investors can tailor their investment in MBS to their own portfolio strategies.

In 1987, Fannie Mae pioneered an interest-only/principal-only (IO/PO) variation of SMBS. These securities completely strip mortgage loan interest and principal payment streams into separate securities.

• Prepayment Penalty MBS — Prepayment penalty mortgages allow a borrower to receive a reduced interest rate and/or lower closing points on a loan for a certain period of time in exchange for forgoing the right to prepay the loan through refinancing for a certain period of time. In the event of early repayment, a penalty fee is collected from the borrower. Prepayment penalty MBS are backed by conforming prepayment penalty mortgage loans.

• Multifamily MBS — Multifamily mortgage-backed securities offer highly competitive yields, liquidity, safety and quality. Mortgages eligible for multifamily MBS include fixed rate mortgages with 5-, 7-, 10-, 15-, and 18-year balloon maturities, along with fully amortizing 25- and 30-year loans. Eligible properties include income producing multifamily rental or cooperatives with a minimum of five units.

• REMICs — Real Estate Mortgage Investment Conduits (REMICS) are multiple-class securities backed by standard MBS, mortgage loans, previously issued REMIC classes, or SMBS. Each class is issued at a specific fixed or adjustable interest rate and has a final distribution date. Generally, interest is paid or accrues on all classes except principal-only classes. In a common structure, payments of principal are applied to the classes in an order of priority established prior to issuance.
Fannie Mae’s debt securities

Fannie Mae issues short-term and long-term debt with non-callable (bullet) and callable features. Fannie Mae’s short-term debt generally encompasses Discount Notes. Issuance in long-term debt utilizes two highly successful programs, Benchmark Notes and Bonds for bullet securities and Callable Benchmark Notes. In addition, Fannie Mae issues non-dollar securities through its Global Debt Facility.

These debt instruments are described in applicable Offering Circulars and supplements thereto; brief descriptions of the major instruments follow. Investors should review the applicable disclosure documents for each debt security before making any investment decision. Debt securities described herein generally are sold through securities dealers and dealer banks. For additional information on these securities, please call 1-888-BONDHELP (1-888-266-3457) or 202-752-7889.

- **Short-Term Notes** — These credit instruments are short-term unsecured general obligations issued at a discount from their principal amount with maturities of 360 days or less. There are no interest payments; the original discounted principal is returned at 100 percent at maturity.

- **Benchmark Notes** — Fannie Mae Benchmark Notes offer large issues of intermediate maturity noncallable notes on a regular basis. Each new issue is between $2 and $5 billion in size and may be reopened based on investor demand to further enhance liquidity. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market.

- **Benchmark Bonds** — Fannie Mae’s motivation in issuing Benchmark Bonds is to extend and provide more meaningful definition to the noncallable Benchmark securities yield curve. Benchmark Bonds are issued with maturities of 30-years to provide market participants with a high credit quality, liquid instrument to meet portfolio allocations in the longest duration cells.

- **Callable Benchmark Notes** — Callable Benchmark Notes were initiated to provide enhanced liquidity in superior credit quality callable structures. Callable Benchmark Notes promote a more organized and programmatic issuance of Fannie Mae’s key callable securities, one that is sensitive to market conditions, with issuance of each new transaction conducted through a full syndicate, providing continued secondary market support. Fannie Mae Callable Benchmark Notes include 5- and 10-year maturities with a 2-, 3-, or 5-year continuous call option.
• **Medium-Term Notes (MTNs)** — MTNs may be fixed-rate, floating-rate, zero-coupon, indexed, or amortizing notes with maturities of one day or longer. Interest and principal are payable in U.S. dollars.

• **Global Debt Facility** — In January 1995, Fannie Mae established a Global Debt Facility which has become one of the largest global funding programs in the world. Under the Facility, the corporation may issue a variety of debt securities, including fixed-rate, step-rate, variable-rate, or zero-coupon securities. Debt Securities issued under the Facility are unsecured general obligations of the corporation with maturities of one day or longer. The Debt Securities may be denominated in one or more of 19 different currencies or currency units, including all of the world’s major reserve currencies and the Euro. Depending on the terms of the Debt Securities of any particular issue and where such Debt Securities are to be offered, such Debt Securities may clear and settle through one or more of the following: the U.S. Federal Reserve Banks, The Depository Trust Company (DTC), Euroclear, Cedel, or other designated clearing systems. The Debt Securities may be offered outside or within the United States, or simultaneously outside of and within the United States. Fannie Mae was the first agency to issueglobals in Deutschemarks, Yen, Sterling, New Zealand Dollars, Australian Dollars, and Hong Kong Dollars.

• **Callable Debt Securities** — Any of the debt securities described above, other than Short-Term Notes, may be subject to redemption, mandatory or optional, in whole or in part, on or after a specified date prior to maturity. Callable debt securities have higher yields than traditional non-callable debt securities. Fannie Mae callable debt securities offer a variety of call features, including American (continuous), European (one-time) and Bermuda (coupon payment date) calls.

---

**Denominations**
Generally, Medium-Term Notes, Benchmark Notes and Bonds, Callable Benchmark Notes, and debt securities issued through the Global Debt Facility are available in minimum denominations of $1,000 and additional increments of $1,000. Medium-Term Notes and Global Debt Securities may have different denominations. Short-Term Notes are available in minimum denominations of $1,000 and additional increments of $1,000. Debentures, Short-term Notes, and Medium-Term Notes are only issued in book-entry form through the Federal Reserve banks.

**Distribution**
The corporation's debt securities are sold by a select group of securities dealers and dealer banks, many of which also sell U.S. Treasury obligations, through a variety of negotiated and underwritten methods. Fannie Mae MBS are offered through major U.S. securities dealers.

---

Fannie Mae

*was the first U.S. agency to issue globals*

*in Deutschemarks,*

*Yen, Sterling,*

*New Zealand Dollars,*

*Australian Dollars,* and

*Hong Kong Dollars*
Agency status

Fannie Mae’s obligations are treated as “U.S. agency” securities in the marketplace, in part due to the creation and existence of the corporation pursuant to a federal law and the public mission that it serves.

Fannie Mae was created and exists pursuant to a federal law, the Federal National Mortgage Association Charter Act (the Charter Act), which provides that Fannie Mae will serve the important public mission of providing funds for housing Americans. The Charter Act provides for oversight of Fannie Mae by the Department of Housing and Urban Development (HUD), Office of Federal Housing Enterprise Oversight (OFHEO), and the Department of Treasury. Fannie Mae’s securities are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.

Some of the more significant statutory provisions affecting Fannie Mae are as follows:

- The Secretary of the Treasury has discretionary authority to purchase up to $2.25 billion of the corporation’s obligations. This Treasury authority has never been used.
- The President of the United States appoints 5 of Fannie Mae’s 18 directors.
- Fannie Mae securities are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers.
- The Open Market Committee of the Federal Reserve System is authorized to buy and sell Fannie Mae securities in its day-to-day implementation of monetary policy.
- Like Treasury securities, U.S. national banks and state-chartered banks that are members of the Federal Reserve System may deal in, purchase, and hold for their own accounts Fannie Mae securities subject to applicable regulation.
- Fannie Mae securities are eligible as security for advances to depository institutions by the U.S. Federal Reserve banks.
- Fannie Mae securities are exempt from SEC registration requirements. Nevertheless, Fannie Mae substantially conforms to SEC accounting and disclosure guidelines and requirements in its prospectuses, offering circulars, and its annual and quarterly reports.
- For purposes of the Investment Company Act of 1940, Fannie Mae debt securities are “government securities” that are not subject to diversification requirements applicable to money market funds or other mutual funds.
Fannie Mae debt and MBS securities generally have the status of securities issued as “U.S. agency securities” under U.S. risk-based capital regulatory guidelines that were adopted following the Basel Accord. The treatment of Fannie Mae securities in other countries is established by local regulatory authorities.

Investment quality mortgages
Fannie Mae follows strict credit standards when acquiring mortgages. The corporation has made improving credit quality a major priority since it adopted tighter underwriting standards in 1985. Each mortgage lender or servicer must undergo a careful approval process before they can do business with Fannie Mae. Loans purchased by Fannie Mae are reviewed to ensure they meet the corporation’s investment standards, and continue to be subject to review throughout the life of the loans.

For loans to be included in Fannie Mae pools or held as an asset of the corporation, Fannie Mae requires that each conventional mortgage that exceeds 80 percent loan-to-value ratio be insured by an approved mortgage insurance corporation or state insurer or be subject to other credit protection required by Fannie Mae. Similarly, an FHA or VA loan included in a Fannie Mae pool must show evidence that the loan is backed by FHA mortgage insurance or a VA guaranty. Fannie Mae also requires that other underwriting criteria, such as income ratios and property appraisals, be met on each mortgage.

PoolTalk
PoolTalk, an information service, offers investors fingertip access to complete and current information on fixed-rate and adjustable-rate Mortgage-Backed Securities, REMICs, and Stripped MBS. Callers can either download data directly to their computer or have PoolTalk “read” the data to them over the phone.

Agency market trading
Fannie Mae debt securities are traded in the United States “agency” market, which also includes the obligations of other government-sponsored issuers. Some rating agencies have rated certain senior Fannie Mae debt securities and MBS issues AAA, taking into account, among other things, Fannie Mae’s federal charter and public purpose.

Fixed Income Securities Information
- On Bloomberg:
  - Type FNM <GO> for general information on all Fannie Mae securities
  - Type FNM <GO> for daily pricing information on Benchmark Notes and Bonds
  - Type FNMI <GO> for daily pricing information on Callable Benchmark Notes

Debt offering documentation
Debt offering documentation may be retrieved through the internet, www.fanniemae.com or by calling the investor toll-free Helpline at 1-888-BOND-HLP.
International activities

Through its consulting activities,
International Housing Finance Services
shares Fannie Mae’s vast knowledge and experience
to help develop efficient housing finance systems throughout the world

Over the past several years, Fannie Mae has expanded greatly its efforts to attract international capital to the U.S. mortgage markets in general and to Fannie Mae's securities in particular. The corporation’s securities, including debt, equity, and MBS, have been placed with sophisticated international investors.

Fannie Mae has successfully sourced international markets as a result of the corporation’s strong credit standing, the outstanding liquidity of its securities, and overseas investors' confidence in America’s economy and financial markets.

Natural investors in traditional Fannie Mae debt include those institutions that invest in the U.S. Treasury market. The corporation also has issued a variety of debt securities through targeted transactions in the international capital markets, both in U.S. dollars and other major currencies. Large international institutional investors also have purchased shares of the corporation's stock.

Fannie Mae International Housing Finance Services
The Fannie Mae International Housing Finance Services Office advises international organizations and other countries in all areas of housing finance. Through its consulting activities, International Housing Finance Services shares Fannie Mae’s vast knowledge and experience to help develop efficient housing finance systems throughout the world.

Conclusion

For nearly 60 years, Fannie Mae has served as an essential link in the American home finance market by providing lenders with access to the U.S. and international capital markets. Investors, in turn, have been provided access to top quality, highly liquid investments at competitive yields.

In the future, as technology continues to develop, investors can expect to see a closer integration of the world capital markets. As a leading participant in the U.S. financial markets, Fannie Mae is well positioned to operate successfully in an increasingly integrated marketplace.

The corporation employs qualified professionals who work to meet investor needs and interests. Fannie Mae’s management is honored to present you with information on the corporation and its financing activities.

For additional information, please call Fannie Mae’s Treasurer’s Office at (202) 752-7889 or 1-888-BONDFIN (1-888-266-3467).